

# Module #1: Introduction to Personal Finance

## Objectives:

- Participants will define personal finance.
- Participants will acknowledge personal spending value.
- Participants will evaluate personal financial lifestyle.
- Participants will acknowledge the financial planning process.

## Context



Having a well established financial plan is very important as we face new economic challenges, which deeply affect our lives. Therefore, having the ability to prioritize and examine our lifestyles is necessary in order to reduce our stress levels associated with financial instability.

## Handouts & Resources Needed:

- Handout 1.1: Personal Finance
- Handout 1.2: What Is Important to You
- Handout 1.3A: What is Your Ideal Life Style
- Handout 1.3B What Would the Future Look Like
- Handout 1.4: Financial Planning
- Sheet of paper- one for each participant
- Pens/pencils
- Journals – one per students
- Crayons/color markers
- Flip chart/blackboard

## Activity #1: Defining Personal Finance (55 min)

### Procedure:

- Icebreaker
- Ask participants to define personal finance. Have participants write down at least 10 money or finance topics that they will think of when they see the phrase *personal finance*. (e.g. budgets, savings, investment, stocks, bonds, annuities, budgeting income to meet expenses, paying of college debt, etc.).
- Ask participants to work in a group of 3-4 people to share their answers with each other.
- Ask participants to write down all the different answers offered by the group.
- Ask each participant to write down his/her definition of personal finance based on what they shared in the group.
- Provide participants with Handout 1.1: Personal Finance.
- Ask participants to read the definition of personal finance.

- Ask participant use one sentence to define personal finance as a summary for the reading. Point out that “the emphasis in personal finance is on the first word, personal, which means it’s all about what you do with your money.” “Personal finance is learning how to manage your money wisely.” “The payoff for learning personal finance is that it can make you wealthier through making educated choices.”
- Debriefing

### Activity #2: Recognizing Spending Value (55 min)

#### Procedure:

- Icebreaker
- Start the activity by asking “Why do you spend your money the way you do? If ten people were given a \$100 bill, they would most likely spend it in entirely different ways. Why?” (Because different people value different things. The deep-rooted beliefs you have about what is desirable and good are known as values. Values grow from personal experiences. You make choices based on your values. Values are not necessarily right or wrong; they express what is important to you. You need to know what are important to you to determine the direction you take with your finances).
- Use Handout 1.2: What Is Important to You to help participants to identify their spending values.
- Debriefing

### Activity #3: Identifying Ideal Life Style (55 min)

#### Procedure:

- Icebreaker
- Distribute Handout 1.3A: What is Your Ideal Life Style and Handout 1.3B: What Would the Future Look Like to participants.
- Ask participants to think about their ideal life style.
- Ask participants to describe their dream about their ideal life style regarding important aspects in their life.
- Ask participants to describe their ideal life style to a partner regarding every aspect listed in the handouts.
- Ask participants to work in pairs using Handout 1.3A and Handout 1.3B to estimate the money needed for their ideal life style.
- Ask participants to share their ideal life style with the class.
- Debriefing

Activity #4: Acknowledge Financial Planning Process (55 min)

Procedure:

- Icebreaker
- Guide participants to discuss the importance of personal finance and money management by asking:
  - What's your financial goal for your ideal life style?
  - What do you need to do to achieve your financial goal? (money management)
  - How do you think personal finance would help you to achievement your financial goal?
- Use Handout 1.4: Financial Planning Process to help participants acknowledge the importance of money management and the process of financial planning. Go over the steps of financial planning process with participants.
- Encourage participants to discuss how they think the process of financial planning would help them to manage their money.
- Debriefing

## PERSONAL FINANCE<sup>1</sup>

If the phrase personal finance makes you think of long and serious (and oftentimes boring) discussions about stocks, bonds, annuities, and interest rates, well, your impression is partially correct — all those subjects do have their place in the vast world of money and finance. In most ways, however, the emphasis in personal finance is on the first word, personal, which means it's all about what you do with your money.

Exactly what is personal finance?

Simply put, personal finance is every aspect of your life that deals with money — everything from buying a ticket to the movies, to finding an affordable apartment, to leasing that new Beetle you've had your eye on, to putting money into a retirement plan. Your personal finances affect your relationships, your lifestyle, and very possibly, your perception of yourself.

Personal finance includes every aspect of your life that deals with money. The emphasis of the phrase is definitely on the word "personal."

Personal finance is planning and implementing financial goals. It's putting away some money each week for that Jeep you've been looking at. It's whether you shop at Sam's Club or the gourmet specialty shop, and it's whether your vacation is one week or two. How well you accomplish your personal financial determines whether you buy a house or keep renting the condo, and eventually it will influence where your kids will go to school and the quality of your retirement.

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<sup>1</sup> From: The Complete Idiot's Guide to Personal Finance in Your 20s & 30s.

## WHAT IS IMPORTANT TO YOU?

People set goals based on their values. You need to think about what things are important to you and your family. The values you identify will help you to determine the direction you take with your finances. The following list identifies some things that are important to people. Pick out the things that are most important to you and your family and place a 1 beside them. Place a 2 by the things that are sort of important. Place a 3 beside the things that aren't very important.

- \_\_\_\_\_ religion
- \_\_\_\_\_ education
- \_\_\_\_\_ food recreation
- \_\_\_\_\_ insurance
- \_\_\_\_\_ friends
- \_\_\_\_\_ prestige family vacation
- \_\_\_\_\_ making lots of money
- \_\_\_\_\_ starting a new business
- \_\_\_\_\_ family activities
- \_\_\_\_\_ paying off debts
- \_\_\_\_\_ health
- \_\_\_\_\_ culture (theater, movies, dance recitals)
- \_\_\_\_\_ household furnishings
- \_\_\_\_\_ personal appearance (clothes, shoes, hair)
- \_\_\_\_\_ job success
- \_\_\_\_\_ entertainment
- \_\_\_\_\_ new home or condominium
- \_\_\_\_\_ transportation (car, boat, fishing equip., truck)
- \_\_\_\_\_ other: \_\_\_\_\_

Now compare your list with your checkbook or spending receipts. Are you spending money on things that are really important to you and your family?

### WHAT IS YOUR IDEAL LIFT STYLE?

	What do you like for ...?	How much you need to pay? (Every day? Every week? Every month? Every year?)
<b>Food</b>		
<b>Clothes</b>		
<b>Housing</b>		
<b>Transportation (Car)</b>		
<b>Education</b>		
<b>Marriage</b>		
<b>Children</b>		
<b>Retirement Life</b>		

## WHAT WOULD THE FUTURE LOOK LIKE?

<b>What will the future look like?</b>		
By the time I am 18, I will be...	To get there I need to:	The money I need would be:
By the time I am 21, I will be...	To get there I need to:	The money I need would be:
By the time I am 30, I will be...	To get there I need to:	The money I need would be:
By the time I am 40, I will be...	To get there I need to:	The money I need would be:
By the time I am 50, I will be...	To get there I need to:	The money I need would be:
By the time I am 60, I will be...	To get there I need to:	The money I need would be:
By the time I am 70, I will be...	To get there I need to:	The money I need would be:

## THE FINANCIAL PLANNING PROCESS<sup>2</sup>

The financial planning process is a dynamic process that requires regular monitoring and reevaluation. In general, it has five steps:

1. **Assessing your situation** is usually done by compiling several lists. To understand how your personal net worth, you compile what is called a personal cash flow statement. This lists your income, and your expenses. By subtracting your expenses from your income, you obtain your net cash flow for the period. If your net cash flow is positive, your personal net worth will increase. Most people grossly underestimate how much they spend each year.

2. **Setting goals.** This gives your life a financial direction. Examples of financial goals are: "To retire at age 50 with a personal net worth of \$800,000", or "To buy a house in 3 years paying a monthly mortgage servicing cost that is no more than 25% of my gross income". It is not uncommon to have several goals, some short term, and some long term.

3. **Crafting a plan.** The financial plan details how you will accomplish your goals. It could include for example, reducing unnecessary expenses, increasing your employment income, or investing in pork belly futures. However you plan to do it, detailed calculations have to be made for each period (usually yearly). The effects of taxation and inflation must be considered.

4. **Taking Action.** When you have decided on the best plan for your goals and circumstances, you **implement it**. This involves taking specific actions. It often requires discipline and perseverance. Many people obtain assistance from professionals such as accountants, financial planners, investment advisors, and lawyers.

5. **Monitoring your progress.** As time passes, it is important to monitor your progress. If it looks like you will not obtain your goal, you can either alter your plan or adjust your goal.

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<sup>2</sup> Adapted from: Wikipedia, the free encyclopedia (2006). Personal finance.  
[http://en.wikipedia.org/wiki/Personal\\_finance](http://en.wikipedia.org/wiki/Personal_finance)