ABSTRACT: Personal Financial Management ● Ziplock & Pizza BUDGETING Workshop

1. Key premises

a. Most people who work for a living get paid wages to play a productive role in their employer's overall mission. This is an inherent element in the economic concept of **Trade.** Workers typically exchange their human skills 30-40 hours a week for a paycheck.

b. Whether this is a fair trade or not is a question most people never consider – but should. Being underpaid for that *irretrievable* time spent at work, may be acceptable if it's because of non-financial benefits that a person values more than money. On the other hand, if they are overpaid for their job compared to similar jobs in other companies, that employer may end up with financial problems in which case the job go away. This illustrates the economic concept of **Productivity.** In the absence of critical thinking a person may "feel lucky" having a great paying job. But getting paid more money than the job is worth is the flip side of the productivity equation which says that you're not producing much for the money you're making.

c. There is extreme competition by all the companies you see advertising on TV. They all want to see that the consumer's spend part of that paycheck for their product or service. When consumers decide to spend money on item "A" there may not be enough money to also buy item "B". That's the economic concept of **Trade-Offs** a.k.a. **Opportunity Costs.** There are choices that must be made. For a lot of people credit cards make it easy to ignore the necessity for making choices. This is perhaps the most glaring violation of economics that gets people into financial trouble

   i. We must decide between present vs future consumption

   ii. We must decide between self vs family

   iii. We must decide between quality of life vs quantity in life

d. Another economic concept that's related to opportunity costs is **Scarcity**. Credit cards and easy borrowing, however, have obfuscated the significance of this concept. In the context of either money or time, the risk of ignoring it could be catastrophic.

e. The proper mechanism for making decisions with due consideration of the concepts above is the 5 step PACED system: 1.state the **P**roblem → 2.identify **A**lternatives → 3.select **C**riteria → 4.**E**valuate alternatives → 5.make **D**ecision

   i. There are two other economic concepts that hinder any effort by consumers to consider the four economic concepts discussed above in their financial decisions. And they are related to the two economic principles discussed below.

f. Public and private institutions are relentlessly competing for those wages. The concept of **Economic Systems** is the collection of institutions, laws, activities, controlling values and human motivations that globally provide a framework for economic decision-making. Our system is a market economy of decentralized decision-making in which individuals can act as consumers, producers, workers, savers and/or investors. Because of economic and financial illiteracy, people often make decision based on emotional thinking without proper consideration for the relevant economic concepts. Sadly, most institutions base their relationship with consumers on the *caveat emptor* (buyer beware) concept. Given the sophistication of current technology and the recently recognized role of behavioral economics, consumers today are not always making good decisions with respect to those public and private institutions whose products and services they need.

g. The final economic principle to consider is **Incentives**. It is incentives that institutions use to attract consumers to "trade" with them; to do business with them; to buy their products or services. Modern research in Behavioral Finance has given institutions enormously powerful tools that they use in manipulating consumers' decisions. The line between needs and wants is very blurred.

2. Learning Objectives

a. Goal of this workshop is to educate participants in proper decision making with their finances. The course is designed as a blend of lecture (30 percent) and experiential (70 percent) content. It capitalizes on concepts of behavioral finance to help participants break bad financial habits and help them adopt financial skills that will empower them to make good decisions.

b. Budgeting skills can have the most impact on the early years of young families where there is a confluence of the following opportunities and issues:

   i. Long term time horizon to take advantage of compounding and tolerate investment risk

   ii. Costs of raising and educating their children

   iii. The early/lower stage of career earnings

   iv. Absence of guaranteed pensions (requiring optimal use of 401k)

   v. Stress resulting from competing demands on time

   Because of the above issues, this workshop is of optimal value to parents of elementary school students. It is intended that it be marketed through the school district to those parents.

c. Parents who register to attend are invited to bring their children with them, after work for the 2-hour workshop each Thursday evening over an 8-week schedule.

d. Workshop is from 6 – 8:30 p.m. A light meal is available 6:00-6:30 p.m. for parents and children. At 6:30 p.m. children are taken to another room to spend the next two hours under the supervision of a schoolteacher in a program that involves activities relating to economic literacy for elementary school students. Cygnet Institute will arrange with Michigan Council on Economic Education for this program.

3. Workshop activities:

a. Although building new habits is a difficult process, *Habitual Cues* can help. These cues fit into five categories: *location, time, emotional state, other people, and immediately preceding action*. Each night, at the end of each weekly session, participants will be given a small piece of paper to jot the first 3-5 words that come to mind to privately describe their emotional state from the immediately preceding activity. This is then placed in an envelope for participants to look at later and think about what they wrote. The hope is that this will assist in positive behavior changes.

b. In the first session participants are given the rationale for long term financial planning and an overview of a cash flow projection tool that will help them assess the long-term consequences of their current income and spending pattern. We collect information about their goals and circumstances and create a personalized, confidential report, certified by a CFP® or CRC® that we bring back to them in session #2 and guide them to review as a group. We call this a Financial Lifestyle Check-Up℠ (FLC℠). It creates the motivation for the work involved in documenting their spending over the 8-week workshop

c. Near the end of the first session and after the group review of the FLC℠ we hand out a Ziplock quart-bag and instruct them to place all receipts of all expenses they have for the next seven days and bring to the next class.

d. When they come to the next class, they are given a 4-page Spending Diary containing about 80 of the more common items people spend money on. We ask them to dump out the Ziplock bag and with a pencil, write the amount that was spent this past week next to the description of that expense. This is repeated in weeks 3, 4, and 5. In week #5 we have them review their spending for the previous 4 weeks and give them a form to separate all their expenses into three categories: Fixed, Variable and Optional.

e. Armed with specific data about their spending, participants are given a new set of forms to build their budget for the rest of the workshop – weeks 5,6,7,8. Since they already have their actual spending for week 5, we walk them through the exercise of writing their spending on the form and get the experience of comparing their spending to their target.

f. At this point we give participants an FLC℠ *changes form* to request changes to their assumptions and goals so that we can bring back to them a revised Financial Lifestyle Checkup℠ report to hopefully see improvements their future finances. We bring the revised report back to them in week #8.

g. Five presentations will also be incorporated in the 8-week period to give guidance regarding the five areas described below:

   i. Investment Planning, 401k, IRA, 403b, 457

   ii. Estate Planning, Will, Trusts, Power-of-Attorney, Insurance

   iii. College Costs Planning, FASFA, Loan Strategies

   iv. Home Ownership and Debt Management

   v. Retirement. Social Security, Medicare, Long Term Care

   vi. To the extent possible the presenters of these topics will be arranged with five organizations in the community/school district who agree to abide by the fiduciary standard and sign an agreement with Cygnet Institute to provide the content of the relevant topics for sole benefit of the workshop participants and under the terms specified by Cygnet. Though they will be allowed to bring brochures about their organization and their products/services, no solicitation is permitted.

4. Post workshop issues

a. Participants will be encouraged to:

   i. Formalize a weekly or monthly bookkeeping session in their home

   ii. Explore web based or smart phone budget apps

   iii. Recommend that the adults/participants budget for an extravagant reward once every three months to celebrate their budgeting habit. Put a little bit of money into a Ziplock "bank" every time they get paid and do a review of their cash flow in their budget document.

