<u>ABSTRACT: Personal Financial Management ● Ziplock & Pizza Workshop (PZW)</u>

<u>Our 8-week financial literacy workshop has been thoughtfully designed to help young families build financial stability.</u>

1. **<u>Key Premises</u>**

   a. Most working people get paid wages to play a productive role in their employer's overall mission. This is an inherent element in the economic concept of **<u>Trade.</u>** 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 they should. Being underpaid for *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, the employer may end up with financial problems, in which case the job goes away. This illustrates the economic concept of **<u>Productivity.</u>** In the absence of critical thinking, a person may "feel lucky" to have a great paying job. But getting paid more money than a job is worth is the flip side of the productivity equation and means they're not producing what they should for the money they're making.

   c. There is extreme competition between companies advertising on TV and social media platforms. The companies all want to see consumers spend part of their paychecks for *their* products or services. However, 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 **<u>Trade-Offs</u>** a.k.a. **<u>Opportunity Costs.</u>** There are choices that must be made. For a lot of people credit cards make it easy to ignore the necessity for making choices between needs and wants. 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 **<u>Scarcity</u>**. However, credit cards and easy borrowing have confused the significance of this concept. In the context of either money or time, the risk of ignoring **scarcity** could be catastrophic.

   e. Research shows that the best way for people to make good economic decisions is by using the 5-step PACED system: 1. State the **<u>P</u>**roblem → 2. Identify **<u>A</u>**lternatives → 3. Select **<u>C</u>**riteria → 4. **<u>E</u>**valuate alternatives → 5. Make a **<u>D</u>**ecision

      i. Unfortunately, when making financial decisions, two economic concepts hinder consumers from considering the four economic concepts discussed above. These two ideas, Economic Systems and Incentives, are described below.

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

g. The final economic principle to consider is **Incentives**. Institutions use incentives to attract consumers to "trade" with them, i.e., do business with them and/or buy their products or services. Modern research in Behavioral Finance has given institutions enormously powerful tools to purposefully manipulate consumers' decisions and blur the line between needs and wants.

2. Learning Objectives

a. The goal of this 8-week 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 better decisions.

b. Budgeting skills can have the most impact on the early years of young families, who face unique opportunities and challenges. These include:

   i. A long-term time horizon to take advantage of compounding and tolerate investment risk

   ii. The cost of raising and educating 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 issues above, this workshop is of optimal value to parents with children in school. It's designed to provide financial education to both the parent(s) and their young children.

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

d. The workshop runs from 6:00 – 8:30 p.m. with a light meal available the first half hour for parents and children. At 6:30 p.m. children are escorted to another room to spend the next two hours under the supervision of a professional teacher in a program that involves lessons and activities relating to economic literacy. This will be a blended curriculum using the K-12 MoneySmart financial education program from FDIC.

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*. At the end of each weekly session, participants will be given a small piece of paper to jot the first three to five 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 consider later. 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 patterns. 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 understanding their spending over the 8-week workshop.

c. Near the end of the first session and after participants have completed the form with the information needed to produce 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 inside the bag and bring the bag to the next class.

d. When they come to the next class (session #2), we spend some time reviewing the FLC℠ report which generally shows that the way people are managing their money today will result in an unacceptable lifestyle when they stop working. This is a shock that helps drive participants to do the work required in this workshop. They are then 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 receipts in the Ziplock bag and write the amount that was spent the previous week (week #1) next to the description of each expense. This is repeated each week until the end of the workshop.

e. In week #5 we have them review their spending for the previous four weeks and give them a form to separate all their expenses into three categories: Fixed, Variable and Optional. This is done in class.

f. Participants are then asked to review the Fixed, Variable and Optional numbers and make appropriate adjustments to come up with a plan "B" weekly spending pattern. The resulting numbers will now serve as the weekly budget for the rest of the workshop for participants to use and compare with their actual spending.

g. At this point at the end of session #5, we also give participants an FLC℠ *Changes form* to request changes to their assumptions and goals. We redo the math and return the first revision of their Financial Lifestyle Checkup℠ report to hopefully show improvements in their future finances. We bring this revised report back to them in session #6.

h. In session #6 they record their spending and compare it with the plan "B" weekly average they built in week #5. We then hand out the revised FLC℠ report. Participants are then given another opportunity to adjust their goals and get a second revision delivered in session #7.

i. In session #7 they record their spending and compare it to the weekly plan "B" they built in week #5. We then hand out the revised FLC℠ report. Participants once more are given an opportunity to adjust their goals again and get a third revision that will be delivered in session #8.

j. At least five presentations utilizing content and exercises from the FDIC's MoneySmart for Adults program will also be incorporated into the 8-week workshop to guide discussion in the five areas:

    i. Time management and goal setting

    ii. Budgeting basics

    iii. The power of compounding

    iv. Investing 101

    v. Retirement 101

4. Post-Workshop

a. Participants will be encouraged to:

i. Continue the tracking of their spending so they can accumulate 12 weeks' worth of data. This will help improve the accuracy of the information and allow them to build a more accurate budget.

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

iii. Build a spreadsheet or explore web based or smart phone budget apps.

iv. Budget for an extravagant reward once every three months to celebrate their new financial habits. They will do this by putting a little bit of money into a Ziplock "bank" every time they get paid and reviewing their cash flow in their budget document.

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