



Week 3: Looking at the Present



Topic: Identifying priorities and learning about budget approaches.

Intent: What will we focus on at this session?

1. Understand more about what we are actually spending and why.
2. Recognize the opportunity costs and tradeoffs we make.
3. Learn about budgeting.

Facilitator resources

Budgeting Plans and Reality

Understanding Behaviors Around Spending and Saving

Risky Businesses: Barriers to Reaching Goals

Parent handouts

Budget Ideas

I Want Everything!

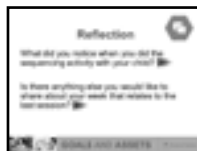
Needs and Wants

Facilitation notes

Opening

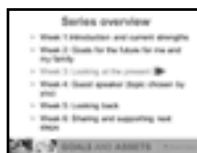
15 minutes

1. **Connect** with participants by greeting them as they enter. Invite them to share something from their experiences during the past week or earlier in the series.
2. **Reflect** on participants' experiences with the parent-child activity or the information. Remind the group about the sequencing icons that we will be using to indicate whether we are thinking about the past, the present, or the future.
3. **Activate** the group during the sharing time. (Example: "Thinking about your goals, what have you noticed about yourself since the last session?")





4. **Agree** on what will happen during the session. Ask for a volunteer to describe the group agreement from the previous sessions for anyone who might be new to the series.
5. **Recap** the series using the overview slide and remind participants about the topics that were covered in previous weeks. Explain what you will talk about today.



“Opportunity cost” inclusion activity

- > An **opportunity cost** is the thing you gave up in order to make another choice. Another way to think of this might be as a normal **tradeoff**.
- > Example: “What did you give up to be here today?”
- > Keep in mind that only one thing can be the opportunity cost for any one parent. This is because there is no way they could be in more than one place at a time. The **ONE** most highly valued opportunity they gave up to be with this group is the opportunity cost.

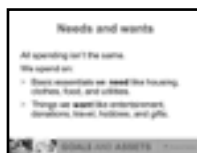


Knowledge sharing

30 minutes

You as a consumer of things

- > “All spending is not the same.”
- > “We spend on:”
 1. “Basic essentials we **need** like housing, clothes, food, and utilities. These **essential** expenses do not change very much from month to month.”
 2. “Things we **want** like entertainment, donations, travel, hobbies, and gifts. These are called **discretionary** expenses. That means they can change from month to month if we make different choices.”



Facilitation notes

As a facilitator, you can also make suggestions for adding to the group agreement.

What, why, how?

Participants may have given up free time, sacrificed work hours, or missed a fun event to attend this session today.

This concept will come up again when participants think about their budgets. This activity primes them to understand it better when it arises in another context later on.

Keep in mind that a person’s financial status plays a role in financial choices. For instance, some participants may have never had a bank account or investment products because they cannot afford fees associated with the maintenance.

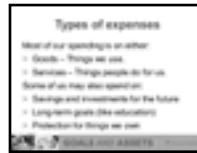
Be cautious of your personal views.

Some basic essentials can be “upgraded” beyond the necessary level, like buying a bigger and better house or car.



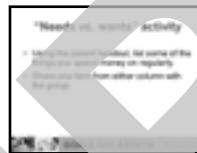
Terms to know

- > Most of our spending is on either:
 1. Goods – Things we use.
 2. Services – Things people do for us.
- > Some of us may also spend on:
 1. Savings and investments for the future.
 2. Long-term goals (like education or home repairs).
 3. Protecting our homes, cars, and other things we own through insurance.



“Needs vs. wants” activity

- > “When you are aware of your needs versus your wants, you can better prioritize and work toward reaching your goals.”
- > “Using the chart on the parent handout *Needs and Wants*, list some of the things you regularly spend money on.”
- > Invite participants to share their needs and wants. Keep in mind that people may categorize needs versus wants differently.
- > “Are there any items on the list that were in the other column on your list? If so, give an example and please explain why.”



Budgeting plans

- > “A budget is an itemized list of likely income and expenses over a period of time.”
- > “There is no right way to budget.”
- > “Because you can only spend money once, on one thing, there is an opportunity cost. If you budget money for one thing, you are giving up something else. This is the same concept we talked about earlier.”



Facilitation notes

Give examples of goods like groceries, clothing, toys.

Give examples of services like haircut, dining out, car repairs.

Offer an example from your own life to help the group understand how to do the activity.

While the group works, prepare chart paper or a whiteboard. Label one column “Needs” and a second column “Wants.”

Alternative: Ask for volunteers to come up and write one need and one want (that they are comfortable sharing) in the respective column.

Be prepared to end the discussion using prompts like, “You’ve offered good examples for this activity. Now let’s shift our attention to budgeting.”



- > “The parent handout *Budget Ideas* lists several possibilities for budgeting.”
 1. **Zero-based budgeting** – This tries to balance out income and expenses each month so they always total zero.
 2. **Envelope budgeting** – This is helpful when overspending occurs. You place an exact amount in envelopes marked with their purpose. Once the envelope is empty, there is no more spending in that category.
 3. **Snowball approach** – This is useful for people dealing with debt. Each month, whatever money is left over in the budget goes toward paying off the smallest debt first.
 4. **Pay yourself first** – This is a good match for aggressive savers. Make sure a specific amount from each paycheck goes into a savings account with a goal, like saving for college or a new car.
 5. **Spend/save/share/invest** – This approach allows families to choose how much to set aside for each category. Then they build out their monthly budget from the perspective of what is available rather than what is needed.
- > “A common mistake people make when setting up a budget is expecting too much from themselves. Instead of writing down how they actually spend their money and then modifying it, they set up a wish list. Goals are good to have, but you stand a better chance of sticking to your budget if it is realistic.”
- > “Experts agree there is no one best way to budget. Do whatever works best for you and your family.”

Budgeting tools (optional)

- > If the group expresses interest, share ideas for budgeting too. For example: Money apps, comparing online shopping sites, having separate bank accounts (one for saving, one for spending).

Facilitation notes

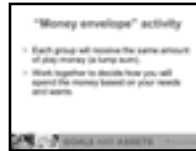
Discuss each idea for budgeting. Share your observations and invite participants to share theirs, especially if they have personal experience with any of the strategies.

If the tone becomes negative around any of the ideas, be sure to point out its benefits as well. Keep in mind that group members who use one of these strategies may be impacted negatively if the rest of the group is critical.



“Money envelope” activity

- > Equally group the participants, randomly or by table.
- > Give each group the same amount of play money (a lump sum).
- > Allow the group time to work together to decide how they will spend their money based on their needs and wants.
- > It may be helpful to give parameters, such as saying the money is for needs only or wants only.
- > We each have our own ideas and criteria for making decisions, and that’s OK, especially in a group setting. But sometimes in a household, we need to compromise and work with others.



Facilitation notes

Alternatively, you can choose another budget strategy for this activity.

Consider facilitation strategies that encourage new groupings of participants, such as having them sort themselves around birthday months.

Notice whether participants count the money first or just start sorting it into envelopes.



Reflection

- > Invite participants to share about their groups’ experiences and how they spent their play money. “Would any volunteers like to share about their experience?”
- > “What categories did you write on your envelope?”
- > “Is this a strategy you would use with yourself? With your children?”



Depending on the dynamics of the group, you might ask, “Is this how you would prioritize in a real-life situation today?” and “If so, why?”

Be mindful of the sensitive nature of priorities, as they will vary from participant to participant.

Barriers and pitfalls

- > “Some consumers may spend a lot of money on fees. These might be for overdrafts or other penalties.”
- > “People might also face other challenges. They may not have a good financial record. This could leave them with few options for services and make them more likely to turn to places like payday lenders.”



Be especially mindful of the non-judgement rule – this section can be very sensitive for some participants.



- > “When negative experiences build up over time, it can create emotional barriers like mistrust. These can affect people’s current and future behavior.”
- > “Other reasons people feel challenged by finances might be:”
 1. How quickly they need money.
 2. The time of year (holidays, birthdays, and so on).
 3. The psychology of deprivation, or the feeling that we never have enough (often related to childhood experiences).
 4. Emotions like hope or hopelessness.
 5. Peer pressure.

Scenario (optional)

- > Introduce participants to a potential real-life scenario, such as choosing to borrow a high-interest short-term loan. Facilitate a discussion about the pros and cons of taking out such a loan.
- > Ask participants to reflect on the opportunity cost of taking out a high-interest short-term loan.

Parent-child activity

5 minutes

“I want everything” activity

- > “Each week, we will share an activity that you can take home to do with your child. Repeat it as many times as you like, because just as children learn best through relationships with loved ones, they also learn through repetition.”
- > “Young children are developing early versions of the same skills adults use for budgeting.”
- > “Understanding limits like the size of a big toy fitting into a small box helps your child understand financial concepts later on.”
- > “Which of these do you notice in your child already?”

Facilitation notes

Depending on the level of trust the group has built, you may decide not to use specific prompts for discussion in this section but instead to let the group steer the conversation toward their own experiences and perspectives.

Offer examples from the first section of the parent handout.

Encourage participants to notice more about their child during the coming week.

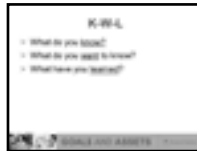


Closing

10 minutes

Sharing the experience

1. **Review** the shared knowledge. Use the K-W-L slide to prompt participants to share what they know, what they want to learn, and what they learned.
2. **Revisit** actions parents can take.
(Example: "Continue to think about your current spending on wants and needs" or "Think about the different strategies for setting up a budget. What might work for you?")
3. **Evaluate** the session together. Share reflections. Affirm participants' experiences. (Example: "Share one thing you took away from this session" or "Is there anything you would like to follow up on from today? If so, what?")
4. **Look ahead** to the next session.
(Example: "Next week we will have a guest speaker from _____. They will be talking about the topics you showed an interest in.")



Reassure participants that the speaker was chosen based on their input. Explain how the session will work.

Facilitation notes



Parents as Teachers®

FACILITATOR RESOURCE

Budgeting Plans and Reality

Having an intentional budget can help parents feel more in control of their lives. It can help them pay down debt and build assets by helping prevent overspending. A well-designed budget also provides flexibility when plans change.

A **budget** is an itemized list of likely income and expenses over a period of time. Thoughtfully constructed and put to use, it can help families identify where their money goes, consciously manage expenses, and reach financial goals.

Some people hear the word budget and cringe. The idea may feel restrictive or like an exercise in self-denial. Maybe they have tried using a budget and were unsuccessful. Having a budget does not mean eliminating all spending. It doesn't mean taking the fun and spontaneity out of life. However, it does require planning and some discipline. The rewards are control of family finances, peace of mind, and a path to financial goals that match parents' priorities ("Five reasons ...," 2012).

There is very little research available on household budgeting practices. Typically, financial educators encourage consumers to pay bills on time, to make written budgets, and to regularly compare actual expenditures with planned expenditures (Hilgert, Hogarth, & Beverly, 2003). However, while research shows that about 88 percent of families pay their bills on time (Hilgert, Hogarth, & Beverly, 2003), surveys show that only about 1 in 3 American households has a written budget (Jacobe, 2013).

Like many financial practices, the best approach to budgeting varies. It depends upon personal priorities and the family's immediate financial situation. No two family budgets are alike, and it may be presumptuous to assume there are best practices to suit everyone. However, financial advisors agree that a budget gives consumers a helpful view of how much they are actually spending on many categories of expenses. Once spending details are in plain view, it becomes easier to change habits (Hodges, 2017).

Budgeting tools abound. They are available online, as spreadsheets, and as mobile apps. They can be jotted down with paper and pencil. Whatever approach consumers select, the best choice is the one they will actually use. Budgets frequently fail simply because they are seen as a hassle. (Williams, 2015).

Because advice on budgeting seems to come from everyone and from everywhere, the most useful approach may to treat it all as a buffet. Consumers may be most successful if they simply pick the apps, tips, and tactics that appeal to them (White, 2012).

Income and expenses: The budget essentials

No matter how consumers manage their budgets, the plan always begins with two facts: income and expenses.

As the facilitator resource [*Financial Terms, Products, and Services*](#) explained, income may be fixed and reliable (from a job or from government assistance programs) or it may be hard to predict (for example, from freelance work).

Regardless of income predictability, budgeting begins with an estimate of the money that is available to be spent each month. Families can look back over the past 12 months and use their past year's income record to predict income going forward. If they can reasonably expect a change in income due to a job ending, a bonus coming up, an inheritance, or other income variance, they can plan for this in their budget, too.

One budgeting fact that turns people off is that it forces a reality check on spending. Budgeting is logical. Spending, very often, is based on emotions (Williams, 2015). The facilitator resource [*Understanding Behaviors Around Spending*](#)



[and Saving](#) includes more information on this. While the income side of the budget is calculated with evidence from the past year's paychecks, expenses frequently are not as easy to pin down.

Consumers often have a mental picture of how much they think they spend. However, when analyzed more closely, that general idea of expenses may turn out to be fiction. As one financial advisor noted, "People write out budgets all the time without knowing where their money is really going. What they have created is a wish list of how they'd like to spend their money, but it's not realistic" (Schwartz, 2015, "Secrets to Creating a Budget," para. 4). (The facilitator resource [Experiences Shape Behaviors Around Money](#) in Week 5 provides more information on how assumptions people grow up with can impact the way they handle money.)

Budgeting for expenses requires more research than identifying income. Some expense categories are subjective. For example, some families might add "children" as a line-item in their budgets. This category might include babysitting, diapers, day care, toys, clothing, and bigger ticket purchases like a crib, high chair, or stroller. Other families may put day care into the "education" category, place babysitting and toys under "entertainment," and count the crib, high chair, and stroller as "miscellaneous."

Goals and savings belong in the family budget, too. What would make Mom and Dad feel great? Maybe paying off a line of credit or taking a dream vacation with the children. Visualizing an improved financial future or a specific goal helps shift budget planning from a to-do list of rational savings practices to a focus on detailed, positive outcomes that are worth reaching. Real progress happens when focus shifts from the short-term, not-so-glamorous discipline, to the long-term goal (White, 2012). If children are old enough, they can help set some goals and create the plan for how to meet them. When the whole family is behind the goal, it's more likely to happen (Gage, 2012).

Budget surprises and opportunities

If knowledge is power, then the information budgets uncover might make mom and dad superheroes. Regular budget reviews can uncover opportunities for important family discussions (Gage, 2012). For example:

- > **Surprise!** Who knew that \$150 a month was going out the door to pizza deliveries and snack runs to the convenience store?
- > **Opportunity!** Cut back to just \$50 per month and what can happen with that extra \$100?
- > **Opportunity!** What if that entire expense gets cut? Now there is \$150 available every month to pay down a debt or save toward a more important goal.

When budgeting reveals expenses that can be easily curtailed or cut out, it's usually good news. However, these conversations may be difficult for parents who operate from conflicting money scripts.

The facilitator resource [Experiences Shape Behaviors Around Money](#) in Week 5 addresses this topic in more detail.

The right way to break out budget expenses is whatever way makes the most sense to parents. They might logically group vacations as part of their "entertainment" budget. However, if it helps to make "vacation" its own expense category to distinguish it from month-to-month entertainment like dining out, magazine subscriptions, and hosting parties, then that is the way to go (Gage, 2012).

In business, these individual expense categories are referred to as accounts. It may help some families to think of them this way if they own a business or have experience with accounting or



bookkeeping. But ultimately, it doesn't matter how families break out their expenses. They can name their accounts in whatever way works for them. What matters is that every expense is accounted for and that the same expense doesn't show up more than once within the budget.

Categories of spending can be flexible in many ways:

- > A single account can cover many expenses. For example, "transportation" can include everything from car payments, bus passes, taxi fares, and bicycles, to insurance, licensing/registration, gas, maintenance, parking fees, tolls, and speeding tickets.
- > One family's "entertainment" may be another family's "transportation." A bicycle purchase or maintenance can go into either of these accounts.
- > If sports, music, or hobbies are a big part of family activities, separate accounts like "team travel," "lessons," or "camping" can help track these expenses closely.
- > Accounts can come and go as the need arises. The "debt repayment" account is only needed as long as there are debts to repay.
- > The "emergency savings" account can be funded regularly until its goal is met. At that point, it does not disappear, but it also does not need additional funding unless it gets tapped for an emergency and falls below its target amount.
- > Big, temporary projects, like a wedding or a move to a new residence, can have their own accounts. When the event is over and paid for, the account can be removed from the budget.

To identify helpful categories for an individual family budget, personal finance experts recommend that families review receipts and credit card statements from recent months to estimate their expenses (Five reasons you need a budget, 2012). Some recommend writing down everything

spent in a notebook for one month to get a true picture of spending. Many financial institutions offer this feature as part of their online banking service.

Doing this exercise can help families determine the spending categories that will work the best for their budget. It can also shed light on places where families are spending a lot more (or less) than they thought (Gage, 2012)

Approaches to budgeting

Once families have identified their income sources and their expenses, it's time to make spending decisions and stick to the budget. What works is highly subjective. Bookstores, websites, and motivational speakers are full of "top ten" and "best ever" budget ideas. Like the buffet mentioned previously, parents may try what appeals to them, keeping what they like and discarding what doesn't work. These approaches are some of the most common and some have mobile apps that support them.

Zero-based budgeting

This monthly budget approach is a simple equation: $\text{Income} - \text{Expenses} = \text{Zero}$

It is useful for families who spend all of their money every month but don't know exactly where it is going or why they haven't saved anything. One financial advisor implements this approach by giving every dollar a specific job to do (Johnson, 2016). If the end of the month arrives and there is \$100 left over, that money needs a specified destination. That money could pay down credit card debt, or build up savings, or pay down the mortgage, or grow wealth (as an investment). The zero-sum approach assumes that income without a destination will be spent – possibly carelessly.

Envelope budgeting

This technique is particularly helpful for managing accounts where over-spending occurs the most – like groceries, entertainment, transportation,



clothes, and miscellaneous. Families who respond well to carrot and stick motivators may be the most successful at envelope budgeting. Strict adherence means paying cash for everything. The consumer places exactly the budgeted amount for each account, in cash, into a physical envelope. He can spend up to, but never more than, the amount in the envelope each month for that expense category. When the gas money is gone, it is time to take a bicycle. When grocery money runs out, it is time for leftovers.

This approach is very effective at imposing budget limits and helping families nudge their spending habits toward the reality they want to create. It is similar to the mental accounting concept that Nobel Prize-winning economist Richard Thaler describes in his work (Sommer, 2017). He talks about putting money into jars by category like “entertainment,” “rent,” and “food.”

A variant of this approach allows “stealing” from other account envelopes that still have money in them. However, this can undermine the budgeting discipline that the method is meant to foster.

At the end of the month, whatever money is left can go toward whatever parents choose.

The snowball approach

For families struggling with a lot of debt, this method applies to the debt portion of their budget. Calculate the total amount owed. Identify the smallest of these debts. Allocate income for the month's regular must-pay expenses (rent, utilities, etc.). Be sure to include the minimum payment on all debts except for the smallest one.

Use the balance of income remaining to pay off the smallest debt. When it is paid off, move on to the next smallest debt and pay it off (Muniz, 2013). When the smallest debt is paid off, the money that used to go toward paying it off now goes toward paying off the next smallest debt ... and so on, until every debt is paid. Notice that each debt paid off frees up more money to pay down the larger debts.

Pay yourself first

This adage is specific to the savings portion of the family budget. It's an approach for aggressive savers. They may put less emphasis on other budgeting details, but they make certain a specified portion of their income moves into savings or investment every month.

By itself, this approach won't provide details to help cut expenses or re-evaluate how families spend their income the way a complete budget can. However, it is better than doing nothing to advance family assets. Sometimes this approach is called “reverse budgeting” (Muniz, 2013).

The 50/30/20 rule

More of an allocation rule-of-thumb, this approach helps families determine how much to allot to different accounts (Anderson, 2016). It suggests that:

- > 50 percent of income goes toward needs
- > 30 percent goes toward wants
- > 20 percent goes toward savings including short-term and long-term goals

These allocation goals may not be practical for families with major medical expenses or limited income, but the numbers can be adjusted to reflect family priorities.

Spend/save/share/invest

For some families, it helps to think in terms of broad categories to allocate their income within a budget. They might put 80 percent toward spending, 5 percent toward saving, 5 percent toward sharing or charities, and 10 percent toward investing. The allocation is their choice (Gage, 2012). Specific budgeting accounts are still useful in this model, but the extra layer of thoughtful allocation helps families think about their priorities in a slightly different way.



Different banks for different purposes

Some families have difficulty managing commingled funds. When the emergency fund, the vacation fund, and other goal-directed savings are all in the same bank account, parents may start to view the money as a big pool to dip into as needed.

A budget will help manage this view on paper, but practically speaking, if families are still confused about how the money in a single bank account translates into separate budget items, they may want to consider using different banks to hold accounts for different savings goals. Extra bank accounts may mean more paperwork and more expense if the banks charge monthly fees, so this is a choice to consider carefully.

Making a budget work means getting a new groove

Sticking to the plan is the toughest part of budgeting. At every income level, families have difficulty resisting temptation [to spend] (Hilgert, Hogarth, and Beverly, 2003). Research shows that people tend to discount the value of delayed benefits and punishments in the face of choices that are immediately available (Madden & Bickel, 2010).

For example, saving money in the bank this month may have long-term benefits for peace of mind and building assets, but a terrific deal on children's shoes may be available right now. A cigarette or a doughnut right now might be comforting, but it might shorten life in the long-term. Many noted psychological biases can distort reality and make it difficult to make good financial decisions (Housel, 2013). Adding to nature's financial headwinds is the discovery that there is a genetic basis to good financial decision

making. Fewer than 1 in 5 people have the gene variant that is helpful with financial decisions (O'Hara, 2014).

With biology stacked against good financial decisions for most of us, we will need to work that much harder to utilize education and conscious practice to change money habits. Education provides the "why" and the "how," but research shows that financial education alone usually is not enough to change behavior permanently (Yates & Ward, 2011).

Changing habits is so difficult that it can even trigger fight, flight, or freeze responses – a reaction that explains a great deal of the procrastination around saving and investing (Detweiler, 2017).

Why are habits so hard to break? Habits are learned over time as the human brain creates literal pathways. As humans learn to walk and speak and do arithmetic, their neurons – the individual cells within the nervous system – become more efficient. Neurons learn to synchronize their firing to support specific, practiced behaviors.

These behaviors take a lot of conscious effort at first. But gradually, the neurons become well-coordinated for specific tasks and lead to expertise. Adults can look at the problem $9 + 11 = \underline{\quad}$ and immediately know the answer. For children just beginning to learn how numbers work, the answer takes more time.

Think of long-practiced skills and habits as wearing a "groove" into the brain. It is challenging to give up old grooves that are deeply entrenched, like eating out a lot or grabbing groceries at the most convenient store instead of at the least expensive store. Creating new financial grooves is challenging, too, for example learning to make

.....
"A budget is telling your money where to go, instead of wondering where it went."
– John C. Maxwell, motivational speaker



regular savings deposits and keeping track of a budget (O'Hara, 2014).

Many techniques, some rooted in behavioral psychology, can help change habits around money. Step-by-step methods can help families ease into a new budget. Each step can be a milestone to mark progress. For example, if the family is not taking advantage of an employer's 401(k) plan, signing up could be the first milestone to tackle (O'Hara, 2014). In fact, any kind of savings program that uses automatic deposit to move money into a savings or investment account is a friend to serious budgeters. It takes away the decision about whether to add to the account this month by doing it automatically (Jackson, 2014). If direct deposit is not an option, research shows that regular electronic reminders to make savings contributions increases savings rates (Karlan, Ratan, & Zinman, 2014).

Help from a friend or social network willing to play coach can be a big plus because it is hard for people to change by themselves (O'Hara, 2014). When deposits toward financial goals get tough and budget line items threaten to go above their limits, a coach demands accountability and acts as a cheerleader to keep the goals in focus. Apps can also send alerts if a budgeted item is getting near its limit.

Families can also be a good resource to get behind a new spending behavior. If the budget

calls for the family to eat out less often, together they can gradually introduce new home-cooked recipes into the menu rotation. For families that need to develop a habit of saving receipts to account for expenses, a regular family meeting may help along with a prominent container to collect receipts.

If impulse purchases are a problem, carry only cash (no credit or debit cards) and carry larger bills rather than ones and fives. Consumers take more time to think about a purchase when they pay cash and are less likely to spend money if they have to break a bill with a larger denomination (Raghubir & Srivastava, 2009).

Budgeting may be among the biggest challenges for families that want to get control of their personal finances. It can take months of attempts to bring a budget in line with priorities. Even with a workable balance of income and expenses, budgets require ongoing maintenance to remain useful and relevant.

However, when parents are ready to address hard facts about spending and commit their dollars to their priorities, a budget can be a powerful tool. In fact, when the budget includes regular savings deposits it can help grow savings at the same time that debts are paid down. A deliberate budget, and the ability to manage it, is what slowly helps families decrease their liabilities, grow their assets, and meet their financial goals.

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Parents as Teachers®

FACILITATOR RESOURCE

Risky Businesses: Barriers to Reaching Goals

What keeps families from achieving financial stability? While personal money habits and lack of knowledge can be barriers, it's important to understand the external hurdles as well. These include businesses that operate legally but attract customers by making deceptively attractive promises.

When effective, convenient, and low-cost financial choices are readily available, it's easier for families to build wealth. In some communities, traditional full-service banks and credit unions may not have a presence. Even a basic service like direct deposit may be unavailable causing families to wait days for checks to clear (Pew Charitable Trusts, 2016). Studies show that where traditional bank services are lacking, alternative financial service providers (AFSPs) will fill the void with convenient but more expensive financial services (Prager, 2009).

Check-cashing stores, rent-to-own stores, pawn shops, mortgage stores, and refund anticipation loan offices are all examples of AFSPs. (More information about them is provided in the facilitator resource [Financial Terms, Products, and Services](#) in Week 1.)

Reliance on AFSPs can eat away at family financial resources if those businesses become the primary or sole source for banking services. High fees and interest rates charged by AFSPs have been known to drive families into deep debt and even bankruptcy (U.S. Department of Housing and Urban Development, 2000; Skiba & Tobacman, 2009). However, it is legal to charge high fees and interest rates for financial services, up to any limits allowed by law.

The perils of predatory lending

There is no universally accepted or legal definition of predatory lending, in part because it covers such a wide range of abusive practices. However, activists and legislators frequently say they know it when they see it (Warren & Tyagi, 2016).

A report from the U.S. Department of Housing and Urban Development (2000, p. 17) states that, "in a predatory lending situation, the party that initiates the loan often provides misinformation, manipulates the borrower through aggressive sales tactics, and/or takes unfair advantage of the borrower's lack of information about the loan terms and their consequences. The results are loans with onerous terms and conditions that the borrower often cannot repay, leading to foreclosure or bankruptcy."

The Federal Deposit Insurance Corporation (FDIC) identifies several characteristics of predatory lending to guide its regulators noting, "signs of predatory lending include the lack of a fair exchange of value or loan pricing that reaches beyond the risk that a borrower represents or other customary standards" ("FDIC's Supervisory Policy," n.d., para. 4). Predatory lending involves at least one (possibly more) of these elements:

For families where addictions or other barriers get in the way of money management conversations, a referral to address the underlying stressor may be more beneficial than financial education.



- > “Making unaffordable loans based on the assets of the borrower rather than on the borrower’s ability to repay an obligation.
- > “Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (“loan flipping”).
- > “Engaging in fraud or deception to conceal the true nature of the loan obligation, or ancillary products, from an unsuspecting or unsophisticated borrower.”

FDIC standards apply to banks who are FDIC members. This provides protection for consumers who borrow money from FDIC-insured banks. However, AFSP lenders are not bound by FDIC regulations. There are regulations and laws governing non-bank lenders, but these vary by state and by specific loan types (auto, consumer, mortgage, mortgage re-finance, payday, etc.).

In general, banks, credit unions, and AFSPs are governed and regulated by combinations of federal law, state law, government regulatory bodies, rules and regulations of the professional or industry groups they choose to join, and ultimately, the morals of their owners and employees.

Multiple federal laws protect consumers from predatory lenders. Among them, the Truth in Lending Act of 1968 is one of the best known. It protects against unfair credit billing and credit card practices and it requires lenders to disclose the complete cost of any loan.

Predatory lending practices are not limited to the fine print on loan paperwork. While some predatory lending behavior is not illegal, there are signals consumers can look for to help determine if a lender is taking advantage of them. Practices of predatory lenders include (National Community Reinvestment Coalition, n.d.):

> **Marketing**

- > Aggressive advertising in targeted (often low-income) neighborhoods.

- > Home improvement scams often packaged with mortgage re-financing or a second mortgage.

> **Sales**

- > Loans with payments the borrower cannot afford.
- > Unsecured (usually credit card) debt that is shifted into mortgages.
- > Changes to loan terms at closing.

> **Within the loan itself**

- > High annual interest rates.
- > High points or padded closing costs.
- > Balloon payments.
- > Required credit insurance.

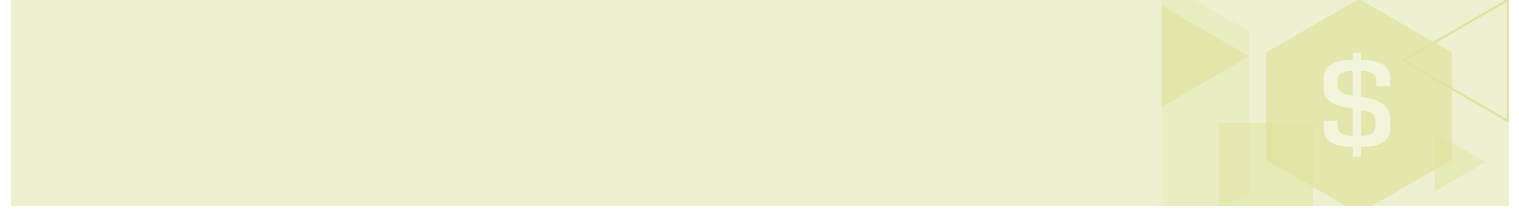
> **After closing**

- > Daily interest if payments are late.
- > Abusive collection practices.
- > Flipping (repeated refinancing, often after a high-pressure sales pitch).

While many of these practices are legal, they may signal potentially misleading or even illegal lending practices. Consumers who believe they have experienced predatory lending practices can contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/complaint to file a complaint. Some states also have predatory loan help hotlines to assist citizens.

Alternative financial service providers and other expensive promises

With low- and middle-income communities targeted by AFSPs (Prager, 2009), residents living near these services naturally may view them as the normal way to conduct financial business. After all, if their neighbors and family use these services, this must be the best way to deal with money. To understand families who may be on auto-pilot for regular expensive AFSP transactions,



it's worth understanding in greater detail how these businesses operate by reading the facilitator resource [Financial Terms, Products, and Services](#).

When families bring up these types of providers, facilitators can offer less expensive alternatives. Suggestions include:

- > **Check-cashing services** – Use free direct deposit for payroll checks after establishing a checking account with a bank or credit union that does not charge check-cashing fees.
- > **Anticipation loans and tax prep services** – It usually takes the IRS only two weeks to turn around a refund. Do-it-yourself tax preparation sounds daunting, but it is a cost-effective option, especially for low- and middle-income families with uncomplicated income and deductions.

For filers who prefer assistance, the IRS offers its free [Volunteer Income Tax Assistance \(VITA\) program](#). VITA provides free tax preparation for people making less than about \$54,000 or whose disability or limited English skills make it difficult for them to complete tax forms on their own. Taxpayers can have their refund direct deposited into as many as three different accounts of their choice. IRS Form 8888, sent along with normal tax filing documents, makes it happen.

- > **Payday loans, title loans, and pawn shops** – Building up an emergency account to cover unexpected expenses before they occur is the best practice, but this is not a reality for every family. Options include taking more withholdings on the W-4 form at work to increase take-home pay. (This can affect the family tax situation at the end of the year.)

If available, families can access cash through equity in life insurance or from a home equity line of credit through a reputable bank or credit union. A credit card may also be a more cost-effective alternative. If it is practical, a family

member can take on a temporary/part-time extra job to help make ends meet.

- > **Prepaid cards** – A debit card or personal check drawn on a bank or credit union account or a credit card IF it has no annual fee and the borrower pays it off in full every month.
- > **In-house financing and rent-to-own stores** – The desire for quick gratification can make it hard to save up to pay cash for non-essential and non-emergency purchases. If financing is needed, families can shop for a loan before the purchase, starting with banks and credit unions, which provide more favorable interest rates than buy-here-pay-here and rent-to-own stores and dealerships. For homeowners, a line of home equity credit through a reputable bank or credit union can provide access to cash at a far lower interest rate.

By definition, the primary purpose of a for-profit school, college, or university is to make money for its owners. For-profit schools are businesses. Students may learn some useful skills, but regardless of what recruiters say, the credibility of a degree from these schools may be dubious.

Tuition at for-profit schools often is pegged to the maximum annual federal student loan limit (rather than the school's actual costs) so the school can pull in the maximum possible tuition by way of its students' loans (Cottom, 2017). Aggressive sales techniques are often part of these schools' recruitment tactics. Veterans with access to student loans through the GI Bill are popular targets for recruitment (Golden, 2011). Students who graduate (and many do not) are often left with high debt.

To protect themselves, families considering a for-profit school are advised to:

- > **Never enroll on the first visit.** Legitimate schools publish their application deadlines on their websites and applicants can plan accordingly. Legitimate educational programs also will encourage prospective students to



read more about them and research their programs of study online. High-pressure tactics to enroll immediately indicate a program that is pushing for enrollment, not a school that is eager to educate.

- > **Investigate the school's accreditation.** Ask if the school is accredited and if the specific program of study is accredited. If so, who is the accrediting organization? Follow up by researching the accrediting body.
- > **Find out who owns the school.** Ask questions about the owner(s). Who are they? Do they own other schools? How are those schools and their graduates performing?
- > **Go online to find out if the school is financially stable.** Students and employees, including recruiters, are usually the last to know.
- > **Look beyond the admissions office and the school's website for information.** Go online to see what is being said about the school by alumni and outsiders.
- > **Talk with people employed in the target career or industry.** Where did they get their educations? Have they heard of the school?

The U.S. Department of Education provides a [free online database of accredited schools and programs](#) nationally and by state. It is important to read database results carefully, because some schools that are listed as accredited also may be flagged by the database as being under investigation.

When talking about expensive promises, lotteries top the list. Technically speaking, lotteries are not financial management strategies. However, a lottery purchase is an investment, and many people mentally position a lottery win as a possible solution to their financial concerns. Among the many things more likely to occur than a major lottery win: getting struck by lightning; becoming a movie star; and death by asteroid strike (Chan, 2016).

An alternative with a guaranteed payout is redirecting money from lottery tickets to fund a savings account, IRA, or 529 plan. If weekly or monthly direct deposit is set up through a bank or employer, it happens automatically.



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Parents as Teachers®

FACILITATOR RESOURCE

Understanding Behaviors Around Spending and Saving

There are practical and emotional reasons for consumer actions like spending and saving. Understanding what influences their behaviors and developing conscious habits helps parents build patterns of stability.

Adults expend a lot of energy around money. They work to earn it, they may feel stressed about whether they save enough, and they may be concerned about losing what they have. A focus on the money skills and knowledge that parents already have can help them build confidence in their ability to make good financial choices.

Research has found that 41 percent of Americans say they spend more money than they make each month (Markowicz, 2016). In a culture that provides easy access to credit, this is not surprising.

In a recent poll, 51 percent of those earning less than \$50,000 say they live paycheck to paycheck (Gibson, 2016). But earning a larger income doesn't mean people automatically manage their money more successfully. The same research shows that 23 percent of those earning between \$50,000 and \$99,000 per year also describe themselves as living paycheck to paycheck. Among those earning \$100,000 or more each year, 9 percent say they live paycheck to paycheck.

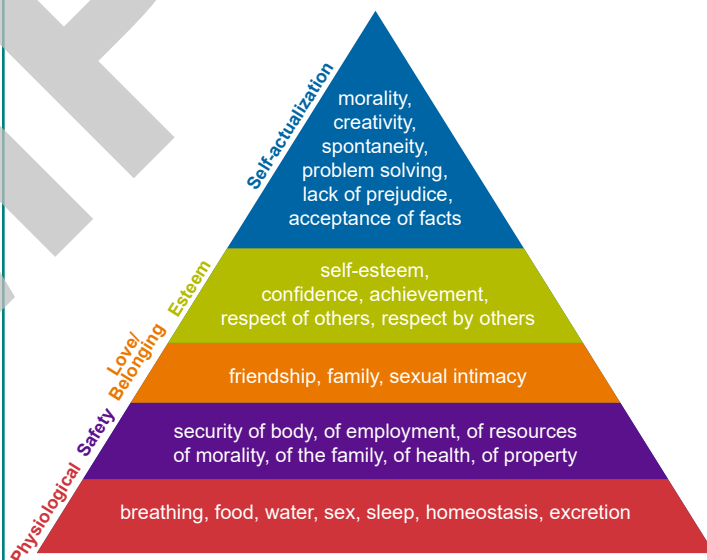
Whatever their income, it is very easy for people to spend money as it comes in and stop spending or cut back only when it begins to run out (Johnson, 2014). When there is no budget, then "spend everything" can become the default plan. (Information about budgets is included in the facilitator resource [Budgeting Plans and Reality](#).)

Spending facts and feelings

Consumer spending is a normal part of a functional family – and of a robust national economy. In the United States, consumer spending accounts for almost 70 percent of the economy (Amadeo, 2017). Housing, utilities, groceries, transportation, health care, and clothing represent **essential expenses**.

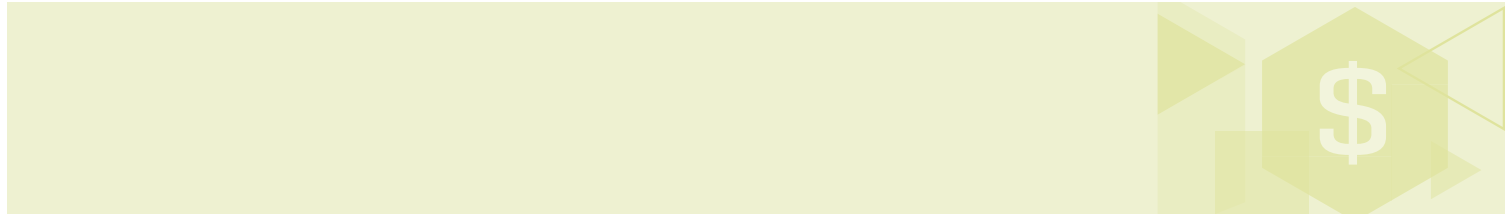
Maslow's hierarchy of needs

The premise of Maslow's hierarchy of needs is that basic needs (those listed toward the bottom of the chart) must be met before a higher order of needs can be pursued (Maslow, 1943). Created in the 1940s, Maslow's hierarchy of needs is still commonly referenced in the fields of education, psychology, biology, and economics.



Discretionary expenses are what is left over after paying for essentials. They include vacations, dining out, entertainment, gifts, charitable contributions, pets, memberships, hobbies, cable and internet services, jewelry, décor, and accessories, and anything else that is not essential to family health and safety ("How to Budget," 2014).

Families may have personal, cultural, or religious reasons to move items from the discretionary to the essential category (or vice versa). However,



psychologists and behavioral economists often refer to Maslow's hierarchy of needs to categorize wants versus needs and to understand, describe, and predict how people spend money.

Consumer spending falls into two major categories:

1. **Functional shopping**, which includes purchasing the services and things consumers must have to meet their families' needs.
2. **Symbolic/experiential shopping**, which includes shopping as entertainment or stimulation and shopping to enhance self-image and to obtain social rewards.

Research shows that functional shoppers go shopping less often than symbolic/experiential shoppers and only when they need a product or need information to help them make a future purchase (Attaway & Singley, 2014). Consumers who shop for symbolic/experiential reasons fulfill needs such as affiliation with others, power and prestige experiences, sensory and cognitive stimulation, and recreation. They shop more frequently than functional shoppers.

Shopping is not the same as spending, but time spent in retail shopping venues (online or in stores) presents opportunities to spend that are not available in non-retail environments.

As with some other behaviors, shopping can become a compulsion. Compulsive buying is described as "a preoccupation with buying and shopping, frequent buying episodes, or overpowering urges to buy that are experienced as irresistible and senseless" (Müller & Mitchell, 2015, p. 132). Depression, anxiety, hoarding, and/or binge eating also may be present in some

compulsive buyers. Research also points out that symbolic/experiential shoppers who become compulsive buyers have a tendency to not manage their credit and to believe that their purchases somehow will transform their lives (Donnelly, Ksendzova, & Howell, 2013).

Some people feel guilty after they make a purchase. This feeling is usually associated with large, expensive purchases, but guilt can also follow small purchases that the buyer feels are somehow selfish or indulgent. Sometimes called "buyer's remorse," this feeling may come from a sense that somehow the buyer did not make the best choice, that he should have done more research, waited for a better price, or been less impulsive.

However, research distinguishes between guilt, which can be good, and shame, which can foster feelings of hopelessness and futility. Feelings of guilt can lead consumers to reflect on what led to their purchases. It can help them analyze choices and spending, and it puts them in control of behaviors they can change. When consumers feel shame, they may think of themselves as stupid, lazy, or worthless.

Shaming can make people feel that their money problems are a result of personal shortcomings that are insurmountable. Such feelings can come from "money scripts," the unconscious beliefs people have that drive their behavior around money (Loudenback, 2016). Money scripts are discussed in the facilitator resource [*Experiences Shape Behaviors Around Money*](#) in Week 5.

Some consumers dread spending their money – and this behavior can be a problem, too. Frugality or thriftiness are generally seen as positive traits.

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Mary Todd Lincoln, the wife of President Abraham Lincoln, was a compulsive shopper. She ran up and concealed large bills (on credit) and reportedly had a delightful time doing it. She would cycle into depression when she faced the results of her spending sprees (Goodwin, 2006).



However, when zealousness to avoid spending money negatively impacts relationships or quality of life, it may be turning into hoarding behavior. As with excessive spending, this behavior may be linked back to a money script that was learned in childhood. There are therapies and treatment that can help manage this behavior around money (Crouch, 2011).

The science behind saving

Research into savings reveals that in the United States, income is not necessarily a predictor of who can successfully save money. In one study of people who had amassed more than a million dollars, many of them had small or below-average incomes (Stanley & Danko, 2010). “They became wealthy by saving week after week,

month after month, over long periods of time and letting their savings grow. Saving money was a part of their lifestyle” (Dholakia, 2016, “Is Saving Money,” para. 1).

In keeping with the idea of the savings mentality as a lifestyle, consumers who are more future-oriented are likely to have more savings and to participate in savings programs than those who are focused more on present needs and concerns (the “present-oriented”). Future-oriented consumers are also less likely to borrow and have debt than those who are present-oriented (Rutledge & Deshpande, 2013).

Households are often advised to pay off high-interest debt (like credit card balances) before starting to save or building up an emergency fund.

Scarcity mindset

When we feel that we don’t have enough of important resources – whether that’s time or attention or food or money – our emotions and behaviors change (Greenberg, 2014). Anxiety, anger, obsession, impulsivity, and stress are some of the byproducts. Making decisions during times of extremely limited resources is more difficult than when resources are plentiful.

Our brains deal with deprivation by naturally going into a scarcity mindset (Mullainathan & Shafir, 2014). We tend to make short-term decisions or avoid problems – but this often deepens and prolongs the deprivation, leading to mental fatigue and cognitive overload.

Missed deadlines, crash diets, and overdue bills have a lot in common (Mullainathan & Shafir, 2014). When we focus attention on whatever is scarce, it takes on greater significance in our brains. The scarcity mindset can linger after the crisis is over. For example, children who

experience emotional deprivation can have feelings of insecurity about relationships into adulthood (Greenberg, 2014).

When we recognize what is happening, we can take steps to overcome scarcity mindset. These include (Greenberg, 2014):

- > Consciously focusing on what is sufficient in our lives.
- > Avoiding comparisons with others.
- > Noting our own strengths, especially those that have grown as a result of past difficulties.
- > Addressing the mental scripts we have learned through past experiences. (Read more about money scripts in the facilitator resource [Experiences Shape Behaviors Around Money](#) in Week 5.)
- > Planning ahead for carefully managing the assets and resources that you do have.
- > Helping others rather than competing for resources.



However, the reality around this behavior is more complex – and it affects millions of families.

Almost half of U.S. households would struggle to cover an emergency expense of \$400 (Board of Governors, 2017). But having assets that are available quickly – like cash on hand – predicts a lower risk of having a hardship like falling behind on rent or bills, not being able to afford food, or having to forgo medical care (Gallagher & Sabat, 2017).

Put another way, a family that sets aside liquid assets like cash while it works toward paying off credit card bills is making good decision from a family well-being perspective.

Sometimes a specific amount set as a savings goal is enough to encourage consumers to save. However, studies show that having a specific reason to save is more motivational. A saver whose goal is \$1,000 to put toward a wedding or a car is more likely to be successful than a saver who wants to save \$1,000 for an unspecified use (Ülkümen & Cheema, 2011).

Consumers concerned about the safety and accessibility of their money sometimes elect to save cash at home in addition to, or instead of, keeping it in a bank or credit union. A bit of cash on

hand may be a good idea, but using the proverbial mattress (or piggy bank or loose floorboard or chest buried in the ground) to store large amounts of cash is very risky. Hazards include fire, flood, tornado, theft (by family, acquaintances, and contractors), hungry animals, and forgetfulness.

Importantly, cash that is tucked away at home is not gaining interest. That means it has no chance of growing. (Refer to the facilitator resource [Financial Terms, Products, and Services](#) for more about the power of compounding interest.)

Fortunately, banks and credits unions provide excellent security for savings. They also pay interest on customers' deposits so savings can grow. The Federal Deposit Insurance Corporation (FDIC) insures state-chartered banks that are not members of the Federal Reserve System. Accounts are FDIC insured for up to \$250,000 in the event of bank failure. The National Credit Union Association (NCUA) insures Federal and state-chartered credit unions for up to \$250,000. Even if the local institution that holds a depositor's money should fail, the FDIC or NCUA will step in and reimburse the depositor's losses, up to \$250,000.

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One thing financial experts agree about is that there is no single best way to budget. Find the setup that works best for you. Give it a try. If it doesn't work, adjust until it does.

Budget Ideas

Budgets are lists that contain two things: income and expenses. They predict how those two things will match up in the future. Because they are so simple, there are many ways you can create one.

Many experts encourage people to be logical when they set up a budget. But spending is often based on emotions. Knowing that can help you be more flexible as you decide how your budget will look.

The income side of a budget is usually easy to figure out. It includes payments that come in from work or other sources.

The expense side is more complicated. It contains goods and services that you buy regularly. It also should include needs and wants. These can be hard to categorize. Experts might recommend certain strategies for organizing expenses, but if the categories don't make sense to the ones using the budget, they are more likely to make mistakes or to quit using it completely.

For example, think about an expense like buying a bicycle. Is it for "recreation" or "fitness"? Another example might be music lessons for children. Are they a "hobby" or "education"? Thinking through questions like this will help you decide on categories for expenses.

Another complication is that the amounts of some expenses change each month. Big payments for a car or mortgage usually stay about the same. But payments for utilities go up and down depending on the weather. Transportation costs can be unpredictable if the price of gas goes way up or way down.

Finally, there are two other types of expenses that are sometimes included in budgets: savings and long-term costs or projects (like major home repairs). Whether you include these or not is up to you.

Examples of budget plans

- > **Zero-based budgeting** – This tries to balance out income and expenses each month so that they always total zero.
- > **Envelope budgeting** – This is helpful when overspending occurs. You place an exact amount in envelopes marked with their purpose. Once the envelope is empty, you cannot spend more in that category.
- > **Snowball approach** – This is useful for people dealing with debt. Each month, whatever money is left over in the budget goes toward paying off the smallest debt first.
- > **Pay yourself first** – This is a good match for aggressive savers. Make sure a specific amount from each paycheck goes into an account with a goal, like saving for college or a new car.
- > **Spend/save/share/invest** – This approach allows families to choose how much to set aside for each category. Then they build out their monthly budget from the perspective of what is available rather than what is needed.



Reflection

Take time to think about different types of budget plans.

Have you used any of the budget plans from this list? How did it work for you?

Is there a budget plan you would like to try? Why does it appeal to you?



A common mistake people make when setting up a budget is expecting too much from themselves. Instead of writing down how they actually spend their money and then modifying it, they set up a wish list. Goals are good to have, but you are more likely to stick to your budget if it is realistic.



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I Want Everything!

Children begin to compare quantities and make choices early in life. Even as a baby, your child had to figure out how to hold every object she wanted using only her two hands! She made choices about what to pick up first and what to put down.

When your child plays, she explores some of the same concepts that you use for making a budget. She understands when:

- > There aren't enough toys for everyone. The concept of **scarcity** makes sense to young children. But the concept of sharing resources so everyone has a turn is not as easy for them! This understanding doesn't develop until they are preschoolers.
- > There is an **opportunity cost** (the next best thing you give up when you have to make a choice). If she has to stop playing and have a diaper change, she may be frustrated about the lost opportunity for fun.
- > Things don't fit together. No matter how much she tries, it's impossible to put a large object into a small container. Just like it's not possible to fit a big expense into a small spot in your budget.
- > Something is all gone. Whether it is food in her bowl or water in the bath, your child knows when there is no more left.

Talking with your child about these concepts won't prevent her from throwing a temper tantrum in the store the next time you say no to candy in the checkout aisle! But it will help her learn about money in the long run.

What you can do with babies and young toddlers	What your child learns
Talk about the choices your child is making. If she picks up one toy and puts down another one, she has made a choice.	This gives her a sense that she has control over her surroundings.
Offer your child chances to fit objects into openings. For example, she can put balls into muffin tins or plastic lids into slots cut into the top of a box.	This helps her understand size comparisons.
Offer your child choices between two options. For example, ask if she wants the blue ball or the red ball. Emphasize the word "want."	A "want" is something your child would like to have. A "need" is more important. Understanding this gives your child information for her decision-making process.



What you can do with older toddlers and preschoolers	What your child learns
Count the members of your family. Talk about how many adults and children there are.	This helps your child understand quantities.
Pretend to go shopping. One of you can be the seller and the other can be the buyer. Talk about how much things might cost. It doesn't matter if the amounts are realistic.	The goal is for your child to recognize that items cost money.
Offer your child a shoebox or large plastic container. (Make sure it is small enough that some of her toys will not fit into it.) Tell her she can play with any toy that fits.	Your child learns to take problem-solving steps when she chooses which toys she wants to try, sees if they will fit, and makes decisions based on what she learned.



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It's possible to go shopping without spending any money. But being in a retail environment (online or in a store) gives people new opportunities to spend money. This can make it harder to stick to a budget or to save money.

Needs and Wants

All spending isn't the same. Some is for basic essentials like food, housing, clothing, health care, transportation, and utilities. After those bills are paid, money left over can be spent on things like eating out, entertainment, gifts, hobbies, charitable giving, and vacations.

As consumers, we spend in two ways: on things we need or things we want.

When we go shopping for basic essentials, researchers call it **functional shopping**. It serves a purpose to meet a person's or a family's needs. People buying for this reason tend to go shopping less often – usually only when they need something.

Going shopping for things we want is different. This type of behavior is called **symbolic or experiential shopping**. People usually stay out longer for this. They do it for reasons like sensory stimulation, social connection with others, power, prestige, or recreation.

Needs	Wants



Reflection

Take time to think about the items in the “needs and wants” chart.

Can you put the “needs” items in order from most important to least important? Why or why not?

What about the items in the “wants” column?

Do other family members share your thoughts about what is a “need” and what is a “want?” If not, what differences have you noticed between your perspectives?