

AC 2010-98: MANAGING MONEY

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MANAGING MONEY

Abstract

Most college students in a two year college have no knowledge of Managing Money. Frequently they apply for admission, fill out financial aid forms, and apply for TAP and Pell grants. Then they rush to spend any excess funds that appear in their account. They spend their money recklessly by purchasing designer sneakers and iPods and then have difficulty paying for transportation to the college. They frequently ask “Why don’t I have any Money?”

Managing money can be challenging for adults but is frequently overwhelming for college students. The starting point is to examine how much money you earn and then to look at how much money you spend. If the amount that you earn is more than the amount that you spend you will always have money. However, if the amount that you earn is less than the amount that you spend you will always be broke.

Having students explore how they spend their money enables them to understand how to manage their money. There are always choices to be made. Students have to learn how to control the impulse to acquire an item when they want it, rather than when they need it.

Presenting the life time earnings of students with AAS degrees and contrasting that with BS degrees can motivate students to continue their education. This topic of Managing Money has been presented in workshops on our campus. The students are eager to learn the values of managing their money and it empowers them to meet the challenges of life.

Introduction

I teach Physics, Data Bases and Management of Technology at TCI the College of Technology a two year college located in New York City. Our 4000 + students are 50 % inner city and 50% foreign. It is one of the most diverse populations in NYC with over 100 different languages spoken. The only place more diverse than TCI is the United Nations.

Over the years students have complained about finances. I started an entrepreneurship club that examines the challenges of building a business. The students were always talking about not having enough money. I realized that there was something more basic that I had to impart to my students. It was then that I gave a seminar on Managing Money.

At the beginning of the seminar I said there were two questions that I wanted to ask, the first question was how many of you think you have enough money. The second question was why don’t you have enough Money? Then I said

Let E be the amount you earn

Let S be the amount you spend

If what you earn is greater than what you spend, you will always have money!

EARN 30K	\$30,000
SPEND 20K	\$20,000
SAVE 10K	\$10,000

Chart 1

In Chart I let's assume that you earn \$30,000 per year and that you spend \$20,000 per year. Then you will always have money

$E > S$ always have money

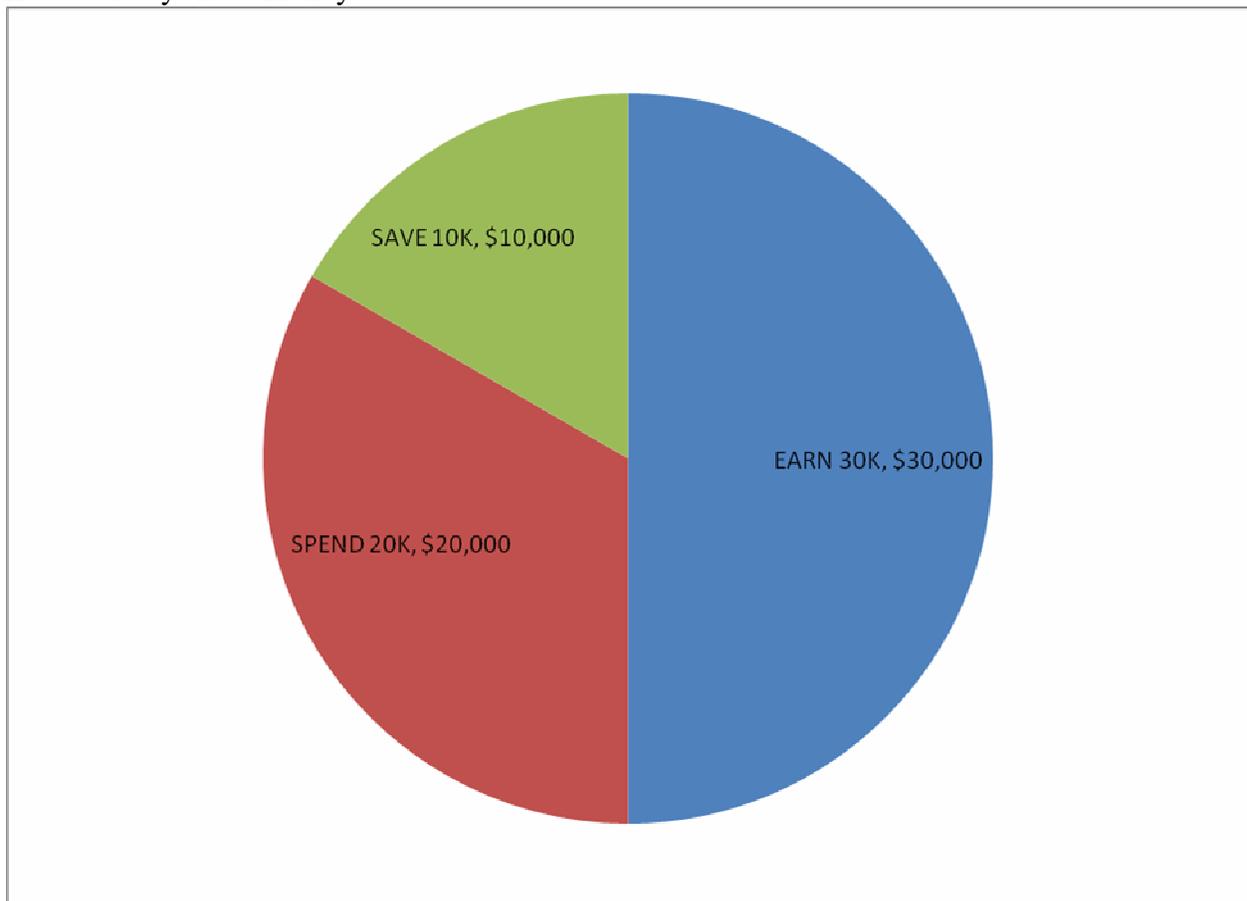


Figure 1 Saving Money

Figure 1 is a graphical picture of Chart 1

If what you earn is less than what you spend, you will always be broke!

EARN 30K	\$30,000
SPEND 40K	\$40,000
DEBT (-10K)	(\$10,000)

Chart 2

Let's assume that you earn \$30,000 per year and that you spend \$40,000 per year. Then you will always be broke!

$E < S$ always be broke

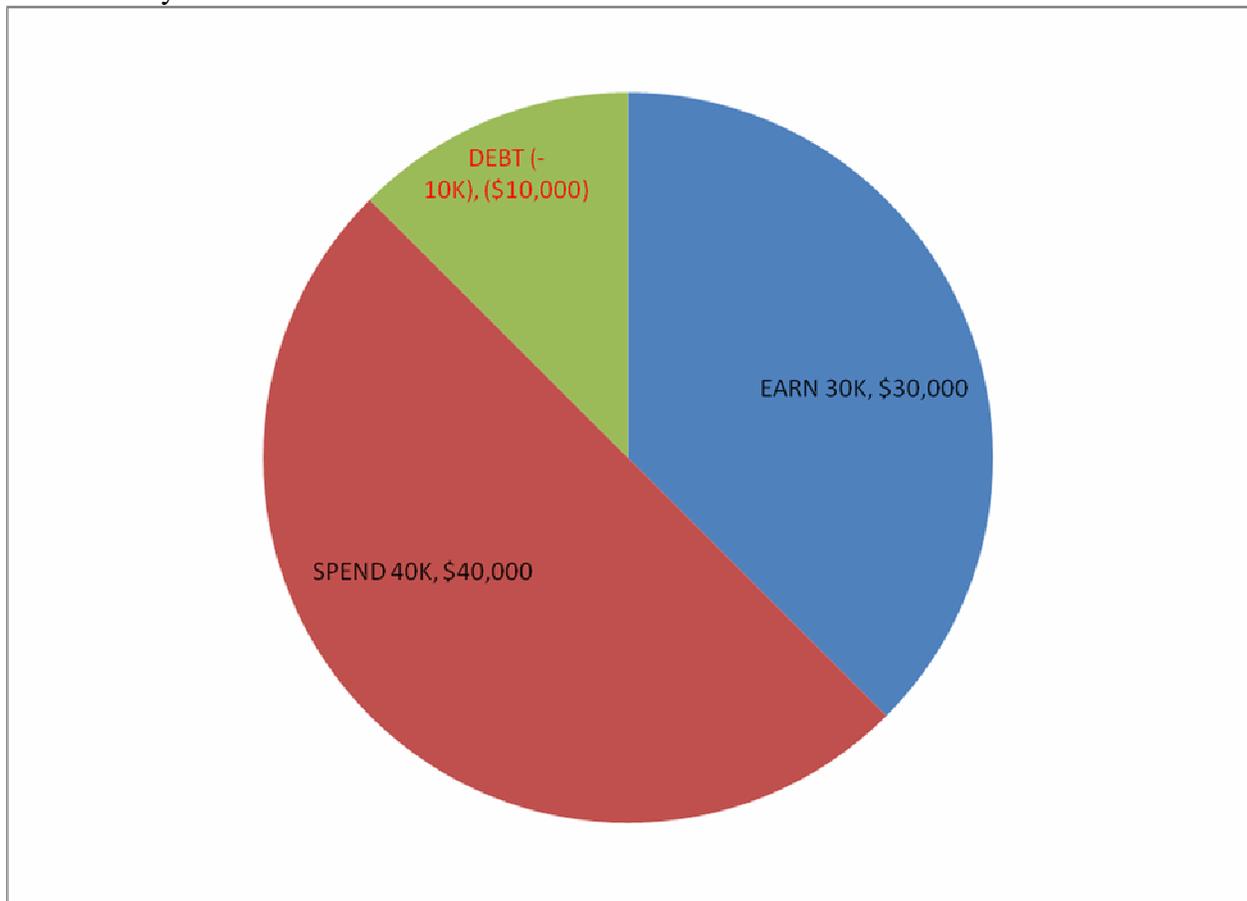


Figure 2 Digging into Debt

At this point it is important present objectives for students

- 1 Develop a plan to build your wealth
- 2 Prepare a Budget
- 3 Try to save \$10 per week
- 4 Do not purchase anything on credit that you cannot pay for at the end of the month
- 5 If you don't have enough earnings than limit you're spending

If you are able to save \$10 per week then in one year you will have \$520 and in ten years \$5200!

How can you limit your spending? When you shop for food in a store ask if they have a card to save money. Here are some examples of stores that have discount cards: Stop & Shop, Waldbaum's, Duane Reade, Pathmark, Winn Dixie to name a few. If they do, fill out an application and use the card when making purchases. When you go into the store, ask if there is a circular and read it before you purchase any item. Look for the items that are on sale and try to spend your money on sale items.

As an example on a shopping trip to Waldbaums

Total	\$23.48
Savings	\$ 7.72
Purchase	\$15.76

The \$7.72 represents a 33% saving! That is a savings that is available simply by using the discount card. If you do not have the card you would have paid \$23.48.

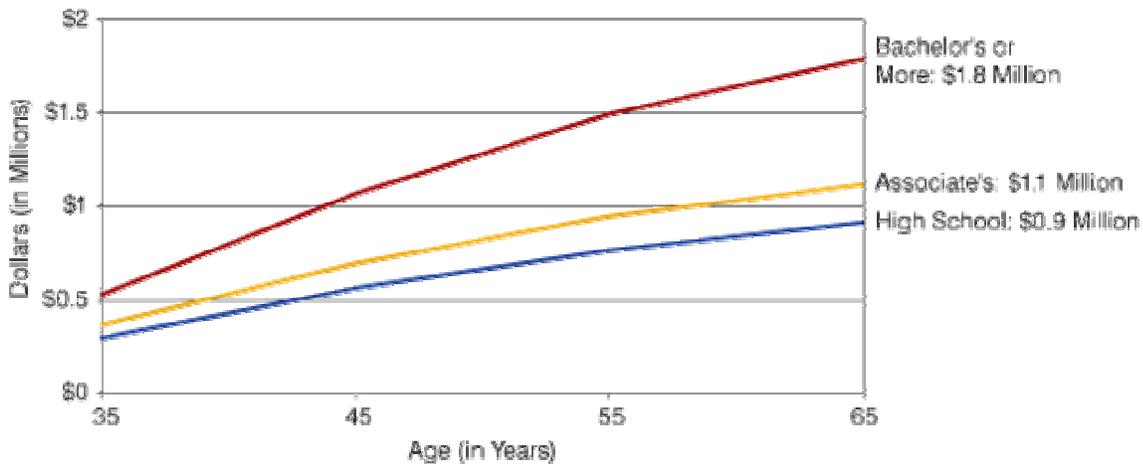
To continue to save let's look on what you might spend on lunch. Let's say you go to McDonalds and spend \$4 per day on lunch. In one week you spend \$20 and for the year \$1040! What happens if you bring your lunch to school? It may not be cool to bring your lunch, but it saves money. As an alternative you can bring an apple, tuna fish sandwich and a drink which will costs you less than \$1.50 when you make the lunch at home. I can certainly afford to purchase lunch and dinner when I am at my college, however, I bring my lunch and dinner to the college.

Bank Accounts

After you begin to save money open a Bank Account. Many banks have programs designed especially for students. Both Bank of America and Citibank offer student accounts with a minimum deposit of \$25! These accounts provide for online banking. I recommend that students open two accounts a checking account and a savings account. Whenever you receive any money put it into the bank. Try to take 10% from your checking account and transfer that to your savings account. If you do this each time you make a deposit your savings will grow significantly.

Your education may be financed by TAP and Pell. These sources of finance are dependent on your completion of taking and passing twelve credits.

The website <http://www.incontext.indiana.edu/2009/mar-apr/article1.asp>⁽¹⁾ shows a comparison of the earnings of college students



Note: This chart uses census data based on the average wages of 10-year cohorts by degree level. Figures use 2006 dollars and future earnings have been discounted at 3 percent.
Source: IBRC, using U.S. Census Bureau income data

Figure 3: Estimated Cumulative Lifetime Earnings by Sex in the United States

Age	35	65
High School Diploma	295K	910K
Associate Degree	361K	1.1M
Bachelor Degree	524K	1.8 M

Figure 4

The chart Figure 4 compares the earning potential of students with a High School Diploma, an Associate Degree and a Bachelor Degree. It is a very motivating chart for students.

If you are able to save 10 % of your earnings with an Associate's degree then in 10 years you would have saved \$36,100, plus interest!

Compound Interest

How many years does it take for money to double? The calculation in Figure 5 is very basic, take the number 72 and divide it by the interest rate

Interest Rate Percent	Years
2	36
3	24
4	18
5	14.4
6	12

Figure 5
Savings Starts Today

Save Money on food by shopping with a saving card from a store and buy items on sale. Bring your lunch to school.

When you need furniture, look around your neighborhoods and look for the people who are moving. You can purchase beds, chairs, tables, lamps as well as pots and pans which are good quality and at a fraction of the price that you would pay in a Department store.

Transportation

New York City has a metro card for the subways. If you purchased a metro card you receive a discount on the cost of the train ride. Purchase a metro card for \$10 and received an additional ride at no extra cost.

Transits checks are tax savings plans that allow you to purchase transportation on the railroads and on the subways with pre taxed dollars. Meaning, you ride the train and pay less for your ride than the person sitting next to you!

Retirement Plans

401K plans allow you to save money by reducing your taxable income. If you invested 5% of your earnings into a 401 K plan your take home pay is very close to the amount you would have taken home before investing in the plan. This is because you have lowered your taxable income and so the amount deducted for Federal and State Taxes, Social Security and Medicare are all reduced. Some employers match your contributions on a rate of 3 % when you save 6 %. That is equivalent to 50% return on your savings!

Until this point my paper has focused on saving money and some readers might think that you can never have any enjoyment while concentrating on saving. My wife and I entertained approximately 40 people for lunch last spring. Invitations with graphic designs were made on the computer rather than purchasing those that were ready made saving us a considerable amount

of money. My wife checked the sales circulars in advance of the luncheon to minimize the food costs. All in all a banquet was presented that every one enjoyed. We also purchased a new car for cash. All this is accomplished by focusing on spending less than you earn.

Students are buying into the program and starting to manage their money more efficiently. We plan on running these seminars at least once each semester. We had an overflow crowd and extremely positive feedback.

Bibliography

1. website <http://www.incontext.indiana.edu/2009/mar-apr/article1.asp>

Author

Dr Bert Pariser is a faculty member in the Electronic Engineering Technology and the Computer Software Technology Departments at Technical Career Institutes. His primary responsibility is developing curriculum and teaching methodology for Physics, Thermodynamics, Electromagnetic Field Theory, Computers and Databases. Bert prepared grant proposals to the National Science Foundation, which produced the funding for a Fiber Optics Laboratory. He served as faculty advisor to the IEEE and faculty advisor to Tau Alpha Pi National Honor Society. Bert was instrumental in merging Tau Alpha Pi National Honor Society into the ASEE. In addition, Dr. Pariser Co-Founded 5 venture companies, and as a management consultant successfully catalyzed over \$100 million of new shareholder value in client businesses. Bert led cross-functional client teams in projects to find and capture value-creating profit and growth opportunities. Bert received a PhD, MS from Columbia University and a BS from MIT in Electrical Engineering. bert.pariser@tcicollege.edu