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The Credit Card Trap

L4.2.2 · REVOLVING DEBT

I CAN

model a revolving balance and show why minimum payments are designed to persist

THE BALANCE THAT WILL NOT MOVE

\$4,100 at 24.9% APR. Minimum payment 2% of balance.

First month interest

First month minimum payment

Amount that reduced the balance

Months to clear at minimums

PAYMENT STRATEGY	MONTHS TO CLEAR	TOTAL INTEREST	TOTAL PAID
Minimum only			
\$150/month fixed			
\$300/month fixed			
Balance transfer at 0% for 18mo			

Answers and talking points

What a good answer looks like, and one question to ask when the pencils go down.

K-2 Need or Want?

Needs: food on the table, a warm coat, a place to sleep, clean water. **Wants:** a new game, ice cream.

Ask: "Is a coat always a need? What about a fifth coat?" The same thing can be both, and that's the lesson.

3-5 50 / 30 / 20

$\$10 \rightarrow \$5 / \$3 / \$2 \cdot \$20 \rightarrow \$10 / \$6 / \$4 \cdot \$50 \rightarrow \$25 / \$15 / \10 .

Ask: "Which slice would you change, and what would you give up to do it?" Any answer with a reason is a good one.

6-8 Where Did \$177 Go?

Gross pay \$1,200. Social Security \$74.40. Medicare \$17.40. The remaining \$85.20 is federal and state income tax withheld. Net pay \$1,023.

Ask: "Who gets each deduction, and what does it buy Miller?" A student who can name where the money goes stops reading a pay stub as theft.

9-12 The Credit Card Trap

First month's interest is about \$85. The minimum payment is about \$82, so the balance grows and never clears. At \$150 a month it takes about 41 months and roughly \$2,000 in interest. At \$300 a month, about 17 months and roughly \$770. A 0% balance transfer clears it in 18 months at about \$228 a month, plus the transfer fee.

Ask: "Why would a card company set the minimum below the interest?"

Want the rest of the unit?

Each of these comes from a full Financial Foundations™ unit of 10 to 12 lessons, with teacher scripts, family letters and a unit checkpoint. For a free five-day money game your students can play in a browser, try **The \$100 Week™**. Everything is at wealthwisekids.org.