PFL Academy

Teacher Guide: Chapter 13.1 — Strategies for Managing High Levels of Debt

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Basic Credit and Debt Concepts

LESSON FLOW

5 min — **THE CHALLENGE**

- Read Emily's debt scenario aloud. Note the variety of debt types.
- Ask: "What makes some debts more dangerous than others?"
- Brainstorm what factors would influence the best strategy choice.

10 min — **CORE CONCEPTS**

- Walk through each debt management strategy with examples.
- Emphasize that bankruptcy is a last resort, not a first option.
- Explain tax implications of forgiven debt (often overlooked).
- Quick check: Have students match scenarios to strategies.

25 min — **APPLY IT**

- **Part A (8 min):** Strategy comparison. Discuss which factors make each strategy appropriate.
- **Part B (10 min):** Debt prioritization. Compare avalanche vs. snowball methods.
- **Part C (7 min):** Credit rebuilding plan. Focus on practical steps post-crisis.

10 min — **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Review Q3 calculation—tax implications of debt forgiveness are often surprising.
- Q5 reflection encourages empathetic, nuanced thinking.

DIFFERENTIATION

Support

- Create a flowchart for choosing debt management strategies.
- Provide a glossary card with all debt-related terms.
- Walk through Emily's prioritization as a class exercise.
- Use simplified numbers for tax calculation practice.

Extension

- Research nonprofit vs. for-profit debt settlement companies.
- Calculate total interest paid under different repayment strategies.
- Compare bankruptcy exemptions across different states.
- Create a 36-month credit rebuilding timeline with milestones.

ANSWER KEY

Part A & B: Strategy and Prioritization

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Q1 Recommended Strategy for Emily:
Debt Management Plan (DMP) is best because:
- $35,500 total debt is manageable with $800/month discretionary
- Credit score of 580 makes consolidation loans difficult
- She has steady income ($3,200/month)
- Her debt is mostly unsecured (credit cards fit DMP well)
- Medical bills in collections may be negotiable separately

Debt Prioritization (Avalanche Method):
1. Credit Card A (22% APR) - highest interest
2. Credit Card B (19.5% APR) - second highest
3. Personal Loan (12% APR) - third
4. Car Loan (6.5% APR) - keep current (secured, lower rate)
5. Medical Bills (0%) - negotiate payment plan last

Q2: Avalanche saves more money on interest long-term.
Snowball provides quicker wins (pay off smaller balances first).
Emily should use avalanche given her high-interest credit cards.
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Part C & Check Your Understanding

Q3 Credit rebuilding strategies: Any FOUR of: Get secured credit card, become authorized user on family member's account, apply for credit-builder loan, monitor credit report for errors, create budget to avoid future debt, build emergency fund, pay all bills on time, keep credit utilization low.

CYU 1: B (Chapter 7 liquidates assets to discharge debt; Chapter 13 creates a repayment plan while keeping assets)

CYU 2: Forgiven debt over $600 is considered taxable income by the IRS. If you settle $30,000 for $18,000, the $12,000 forgiven is added to your taxable income for that year.

CYU 3: Forgiven amount: $30,000 - $18,000 = $12,000. Tax at 22%: $12,000 x 0.22 = **$2,640**

CYU 4: A secured credit card requires a cash deposit (e.g., $500) that becomes your credit limit. It helps rebuild credit because the card issuer reports your payment history to credit bureaus, demonstrating responsible use.

CYU 5: Good questions include: What's your total debt? What types of debt? What's your income? Have you tried negotiating with creditors? Do you have assets you'd lose in bankruptcy? Have you consulted a nonprofit credit counselor? What caused the debt? Would bankruptcy affect your job?

COMMON MISCONCEPTIONS

Misconception	Clarification
"Bankruptcy erases all debt and lets you start completely fresh."	Bankruptcy doesn't discharge student loans, child support, alimony, most taxes, or recent purchases. It also stays on your credit report for 7-10 years.
"Debt settlement companies always get you the best deal."	Many are for-profit and charge high fees. Nonprofit credit counseling agencies often get similar or better results without fees. Some settlement companies are outright scams.

"After bankruptcy, you can never get credit again."	While bankruptcy severely impacts credit, rebuilding is possible. Many people receive credit card offers within a year, though with high rates. Full recovery typically takes 3-7 years of responsible credit use.