

Financial Literacy Test Review



Standard 1 Decision Making & Goals

Standard 2 Income and Careers

Standard 3 Money Management

Standard 4 Savings, Investing and Retirement Planning

Standard 5 Consumer Safeguards and Risk Management



Decision Making

The Decision-Making Process

- **Identify the problem**
- **Gather information and list possible alternatives**
- **Consider consequences of each alternative**
- **Select the best course of action**
- **Evaluate the results**

Factors that can Influence a Decision

A. **Values**

- What is important to your family, others in your culture?

B. **Peers**

- People you know
- Pressure for positive or negative behaviors

C. **Habits**

- You are accustomed to doing it this way

D. **Feelings** (love, anger, frustration, ambivalence, rejection)

- If you do make a certain decision
- If you don't make a certain decision

Factors that can Influence a Decision

E. Family

- Your family's preference
- Decisions other family members have made

F. Risks and consequences

- What (or how much) you stand to win
- What (or how much) you stand to lose

G. Age

- Minor
- Adult

T-Chart

Pros	Cons

Using a T-chart to list pros and cons related to decisions can help make the decision making process simple.

Choosing Brand Name Jeans Over No-Name Jeans

Pros	Cons
Better Fit	Cost More
Popular people will notice me. Feel better about myself.	I will look just like everyone else.
	I can only afford one pair.

Forms of Peer Pressure as it Relates to Purchasing Decisions

- Friends
- Newspapers
- Magazines
- Telephone Directories
- Direct Mail
- Commercials
- Catalogs
- Radio Advertisements



Emotional Factors Related to Peer Pressure

- ◉ Gossip
- ◉ Acceptance
- ◉ Disapproval
- ◉ Insecurities
- ◉ Boyfriend/Girlfriend
- ◉ Sarcasm
- ◉ Fear
- ◉ Clubs
- ◉ Athletics
- ◉ Cliques
- ◉ Rich/Poor



Examples of Marketing, Advertising & Sales Strategies

- Clearance Sales
- Holiday Sales
- Coupons
- Rebates
- Sweepstakes
- Contests
- Sales People
- Attractive Décor
- Background Music
- Items purchased most often are in back of store (bread/milk)
- Most profitable items are given prominent positions.

Financial Planning

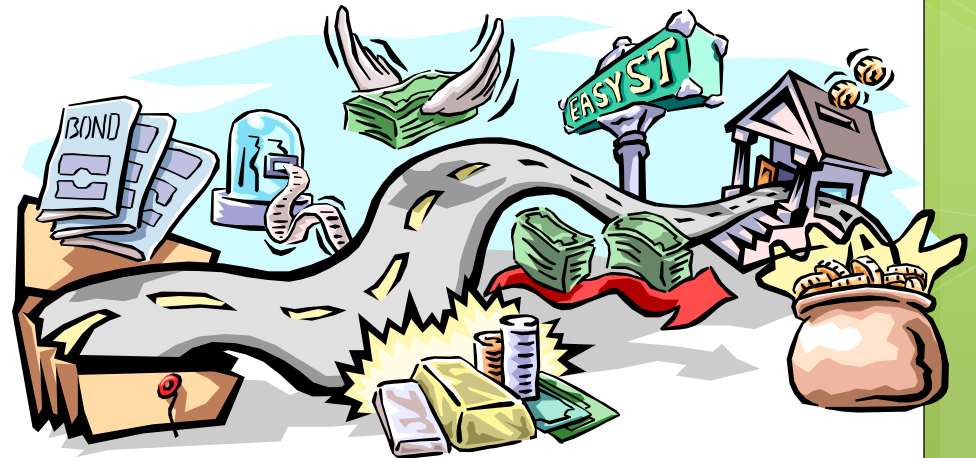


Financial Planning



- More than budgeting
- More than investing
- Financial planning is a thinking process that helps achieve goals.
- A blueprint or plan for managing all components of a person's money.
- Arranging to spend, save, and invest money to live comfortably, have financial security, and achieve goals.

- Goals
- Net Worth Statement
- Budget
- Insurance Plan
- Savings Plan
- Investment Plan



Benefits of Having a Financial Plan

- You have more money and financial security.
- You know where to use money to achieve your goals.
- You have less chance of going into debt you cannot handle.

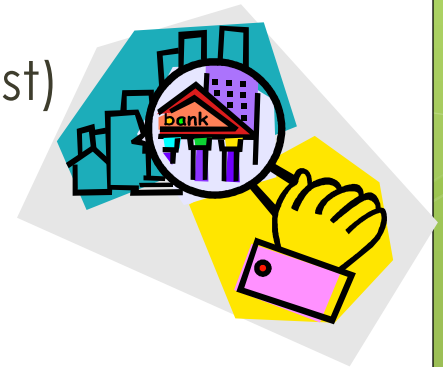


How do I make a Financial Plan?

1. **Determine your current financial situation.**

Make a list of items that relate to your finances:

- Savings/Investments
- Monthly Income
 - (Job Earnings, Allowance, Gifts, Interest)
- Monthly Expenses
- Debts



How do I make a Financial Plan?

2. Develop your financial goals.

Consider your attitude toward money.

Ask yourself the following:

- How do I determine if it is more important to spend money now, or save it for the future?
- How do your personal values affect your financial decisions?

How do I make a Financial Plan?

3. Identify your options.

- Continue the same course of action.
- Expand the current situation.
- Change the current situation.
- Start something new.

How do I make a Financial Plan?

4. Evaluate your alternatives.

*Consider the **risks** and **consequences** of each decision you make.*

- Be aware of all sources of financial information.
- Evaluate consequences of choices, both good and bad.
- Understand risks involved with choices.

How do I make a Financial Plan?

- 5. Create and use your financial plan of action.**

Just DO it!

How do I make a Financial Plan?

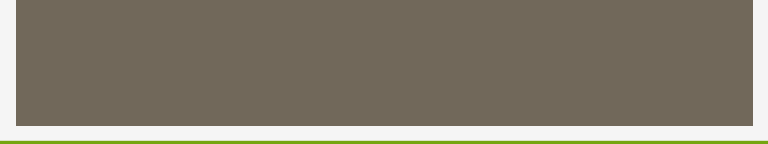
6. **Review and revise your plan.**

*As we get older and our circumstances, our finances, needs, and wants will change, therefore, **our financial plan must be flexible** as well.*





Values, Wants and Needs



Values strongly influence our spending habits. We don't usually spend our money on things we do not feel are important. Typically, the more important something is, the more we are willing to spend on it.

Values

- The beliefs and practices in your life that are very important to you.
- Family
- Friends
- Work
- Honesty
- Self Reliance
- Independence
- Religion



Scarcity

“**Scarcity** is an economic principle stating that because of **limited resources**, an economic system cannot possibly produce all the goods and services that people want; therefore, **choices must be made** about how the limited resources will be used.”

-*Consumer Economics & Education*, Glencoe, 2003

NEEDS vs WANTS

- NEEDS

- Essentials...the basics of life
- Food
- Clothing
- Shelter



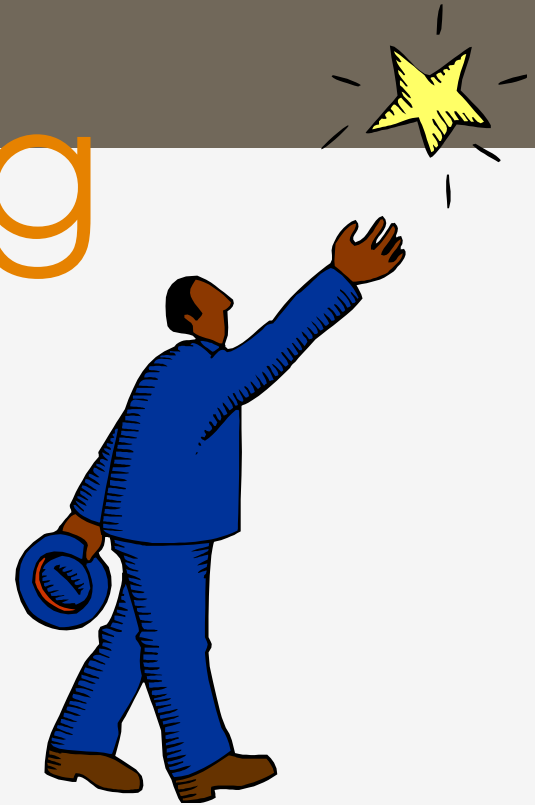
NEEDS vs WANTS

- WANTS

- Simply increase the quality of living



Goal Setting



What is a goal?

- A written statement of something a person wants or needs to accomplish.
 - Examples
 - Graduate from high school
 - Earn a college degree
 - Buy a car
 - Get a job
 - Lose 15 pounds

SMART Goals

Specific..... *“Pay for lodging, transportation, meals for a 5-day trip to Washington, D.C.”*

Measurable *“\$300 through fundraising, \$50 from birthday money, save \$25 a week.”*

Attainable.... *“If I stick to my plan, I’ ll have the money when I need it.”*

Realistic..... *“I still have enough money to live on while I work toward this goal.”*

Time-Limited.. *“I need to have all the money by 6 months from now.”*

Source: NEFE PowerPoint available online

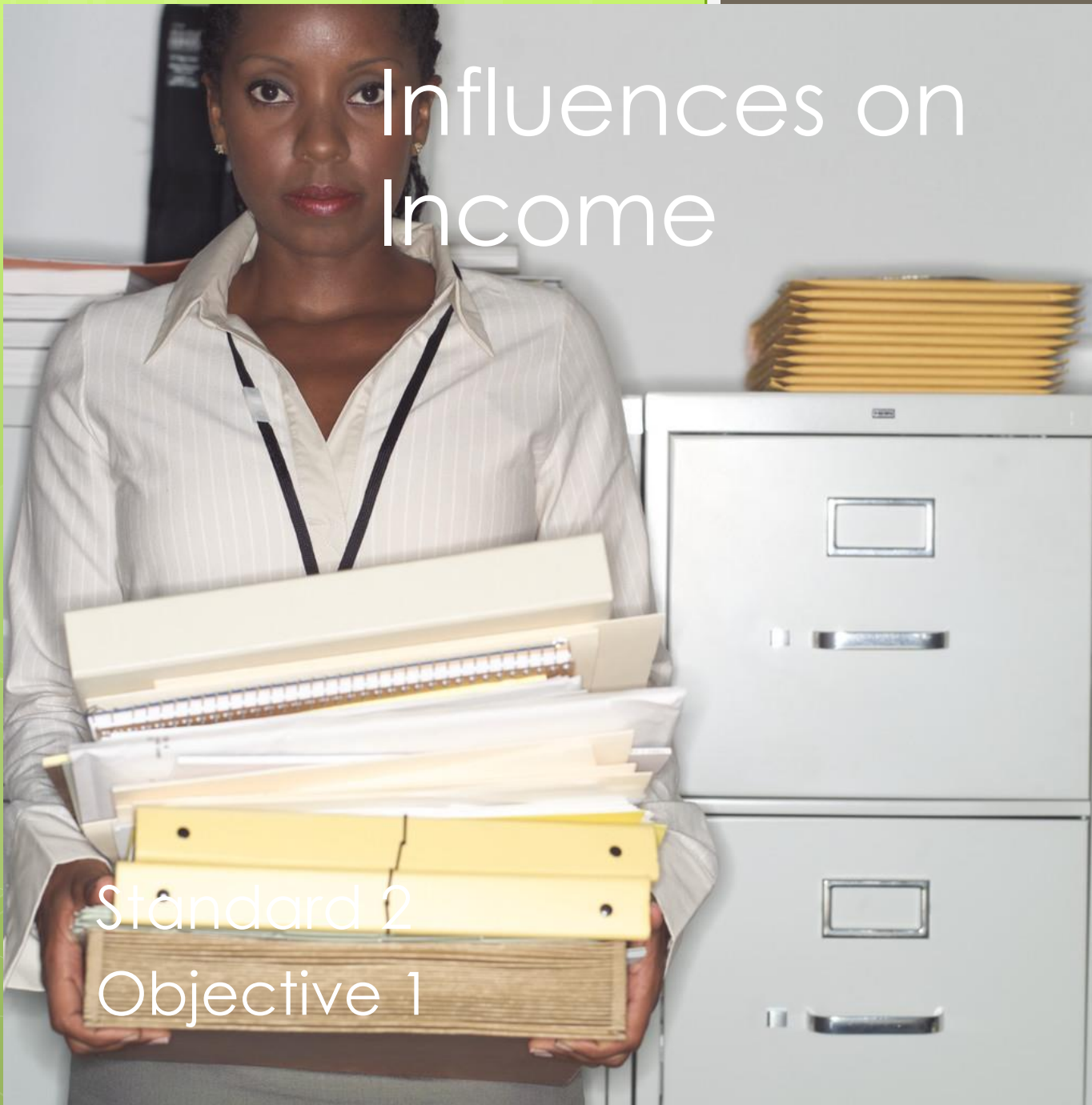
Time-bound Goals

- ◉ Short Term Goals
 - ◉ Present to 6 months
- ◉ Long Term Goals
 - ◉ 6 month and longer
- ◉ THIS WILL VARY AMONG
- ◉ RESOURCES



Influences on Income

Standard 2
Objective 1

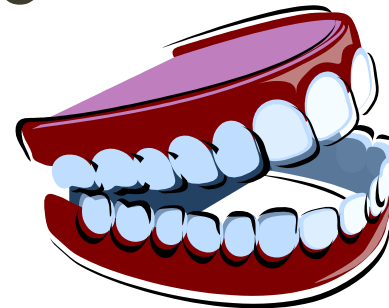
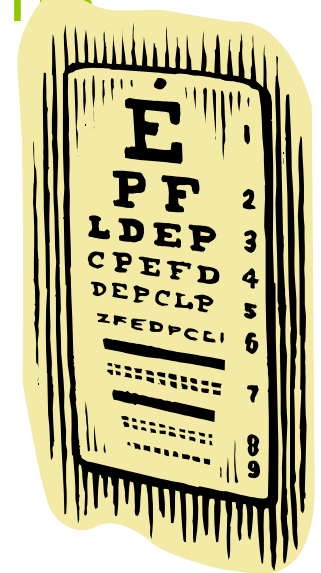


Sources of Income

- ◉ Wages and Salaries/Allowances
- ◉ Investment Income
- ◉ Self-employment
- ◉ Inheritance
- ◉ Gifts
- ◉ Awards
- ◉ Lottery!

Common Employee Benefits

- Paid Vacation Holidays
- Paid Sick Days
- Health Insurance
- Disability Income Insurance
- Life Insurance
- Dental/Vision Insurance
- Profit Sharing



Factors that Affect Income

- ◉ the level of education, training, and experience that is required to do a particular job
- ◉ the level of demand that exists for the type of labor you are skilled/trained/educated to provide
- ◉ the number of others who have similar or better skills who can compete for the job
- ◉ how good you are at what you do
- ◉ how long you have been working — your experience, your seniority
- ◉ your work habits, reliability
- ◉ the state of the economy

Tax Forms & Deductions



Net Income vs. Gross Income

- **Gross income** is the total amount a worker is paid before any required or voluntary deductions are made.
- **Net income**, also called “take home pay,” is the amount a person receives when he cashes or deposits his check. It is the remaining amount after deductions are made.



Gross Income

Deductions

Net Income

Required Payroll Deductions

- By law, employers must pay taxes deducted from employee paychecks. The most common taxes are federal and state, and sometimes cities have their own local taxes. In addition, employees have to pay a Social Security Tax (FICA), and Medicare tax contribution with each paycheck.

Voluntary Payroll Deductions

- Health Insurance
- Retirement Savings
- Union Dues
- Charitable Contributions

What are taxes?

- Taxes are required contributions to state revenue, levied by the government on personal income and business profits or added to the cost of some goods, services, and transactions.

State & Federal Income Tax

Form 1040	Department of the Treasury—Internal Revenue Service (99)	2011	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning , 2011, ending , 20			See separate instructions.	
Your first name and initial		Last name		Your social security number : : : : : :
If a joint return, spouse's first name and initial		Last name		Spouse's social security number : : : : : :
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).			Presidential Election Campaign	
Foreign country name		Foreign province/county	Foreign postal code	Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
Filing Status Check only one box.	1 <input type="checkbox"/> Single		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ►	
	2 <input type="checkbox"/> Married filing jointly (even if only one had income)		5 <input type="checkbox"/> Qualifying widow(er) with dependent child	
Exemptions	3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ►			
	6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a		Boxes checked on 6a and 6b	
	b <input type="checkbox"/> Spouse		No. of children on 6c who: • lived with you • did not live with you due to divorce or separation	
c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
(1) First name Last name		: : : : : :	: : : : : :	<input type="checkbox"/>

Social Security

The Social Security tax is also called the FICA tax.

(Federal Insurance Contributions Act)

Social Security taxes provide the following benefits for employees and their dependents:

- retirement benefits
- benefits for the dependents of retired workers
- benefits for the disabled and their dependents



Medicare

- The **Medicare tax** is used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Other Taxes

- Property tax
- Sales tax
- Gasoline tax
- Local/City taxes



What is tax money used for?

- Bridges
- Road maintenance
- Research
- Education
- Armed services, national defense, veterans, and foreign affairs
- Retirement income for elderly
- Social programs
- Physical, human, and community development
- Law enforcement
- Interest on the national debt

Tax Forms

- Federal Tax

- W-4

- I-9

- W-2

- 1040EZ

- Utah State Tax Form
 - TC-40

W4

- You use W-4 Employee's Withholding Allowance Certificate Form to establish your withholding allowances for Federal income taxes.

Cut here and give Form W-4 to your employer. Keep the top part for your records.			
Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.	
1 Type or print your first name and middle initial.		2 Your social security number	
Last name		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
Home address (number and street or rural route)		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>	
City or town, state, and ZIP code		5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)	
6 Additional amount, if any, you want withheld from each paycheck		6 \$	
7 I claim exemption from withholding for 2011, and I certify that I meet both of the following conditions for exemption. <ul style="list-style-type: none"> • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here. ▶		7	
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.			
Employee's signature (This form is not valid unless you sign it.) ▶			
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	
10 Employer identification number (EIN)		Date ▶	
For Privacy Act and Paperwork Reduction Act Notice, see page 2.			
Cat. No. 10220Q		Form W-4 (2011)	

19

- An I-9 Form is the Employment Eligibility Verification Form required by the Immigration and Naturalization Services (INS) to verify your identity and your eligibility to work.
- All employees must complete this form and provide valid original identifications.
- You are not eligible for pay until Payroll Services receives a satisfactory I-9.

W-2

- Form W-2 reflects all taxable wages you received during the calendar year and all taxes withheld from those wages.
- The form serves as an annual report that enables you to file your personal income tax return with the Internal Revenue Service.

22222		Void <input type="checkbox"/>	a Employee's social security number		For Official Use Only OMB No. 1545-0008	
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Control number			9		10 Dependent care benefits	
e Employee's first name and initial		Last name	Suff.	11 Nonqualified plans		12a See instructions for box 12
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
				12c		
				12d		
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

W-2 Wage and Tax Statement 2011

Form **W-2** Wage and Tax Statement 2011

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.
Cat. No. 10134D

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page

Similar to the 1040 income tax form, 1040EZ is a faster and easier way to file your taxes. This form is only eligible for people with income less than \$50,000 and interest income of \$400 or less.

Career Impact on Income

Earning Power

- Earning power is the ability to earn money in exchange for work. How much you earn depends on the value of your skills in the marketplace.
- An individual's value as a worker – the wage or salary received for a specific job – is related to the skill level and education of the worker, the demand for that work in society, and the availability of qualified workers.

Earning Power

- Generally, in our society, people with higher education and more skills earn more money on the job than those with less education and fewer skills.

Value of Education

High school dropout, no degree	\$19,226
High school diploma	\$28,950
Two-year college associate's degree	\$36,395
Four-year college graduate with bachelor's degree	\$51,568
Post-graduate degree (six plus years)	\$67,073

Source: U.S. Census Bureau, Current Population Survey, 2005 Annual Social and Economic Supplement

These figures show that for the average person, finishing high school is worth about \$10,000 more (compared with dropping out). And finishing college nearly doubles the worth of that number to \$22,000 more!

Entrepreneurship

- Entrepreneur

- Willing to take risks
- A person who creates a business from scratch.
- Self employed
- Strong sense of discipline
- Be your own boss
- Beat the competition



Entrepreneurship

● RISKS

- No guarantees
- No regular paycheck
- No boss
- Long hours
- Assume debt of business

● REWARDS

- Be your own boss
- Keep profits
- Control
- Satisfaction
- Pursue talent and creativity



Spending Plans

What is a spending plan?

- A tool used to record and track projected and actual income and expenses over a period of time.
- Also called a budget.

Benefits of Spending Plans

A spending plan can help you:

- Put aside money for savings goals
- Prepare for regular expenses
- Prepare for unexpected expenses
- Control how you spend money
- Reduce stress and increase confidence
- Provide an excuse to calm excessive spending

Before creating a spending plan...

- Track your spending.
 - Before making a budget, spend a couple of weeks writing down every penny you spend.
 - This will help you have a better idea of where your dollar amounts should be when making a budget.

How do I make a spending plan?

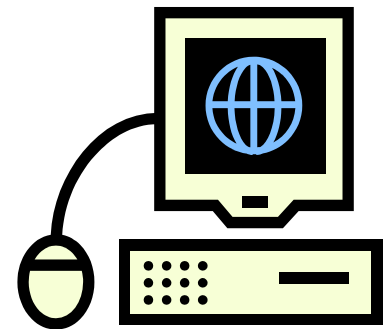
1. Assess your personal financial situation (needs, values, life situation).
2. Set personal and financial goals.
3. Create a budget for fixed and variable expenses based on projected income.
4. Monitor current spending (saving, investing) patterns.
5. Compare your budget to what you actually spent.
6. Review financial progress and revise budget amounts.

Checking Account & Debit Cards



What is a Checking Account?

- Common financial service used by many consumers
- Funds are easily accessed
 - Check
 - ATM (automated teller machine)
 - Debit card
 - Telephone
 - Internet
- Services and fees vary depending upon the financial institution



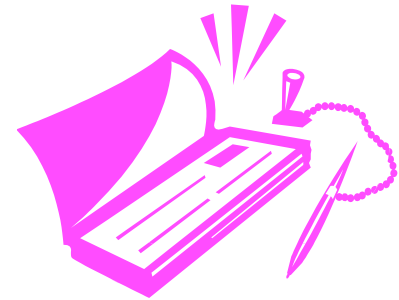
Why Do People Use Checking Accounts?

- Reduces the need to carry large amounts of cash
- Convenience – useful for paying bills
- Spending Plan Tool
 - Keeps a record of where money is spent
- Safety – using checks is safer than carrying cash



What is a Check?

- Used at the time of purchase as the form of payment
- Piece of paper pre-printed with the account holder's:
 - Name
 - Address
 - Financial institution
 - Identification numbers



Bouncing a Check

- Check written for an amount over the current balance held in the account
 - **'Bounces'** due to insufficient funds, or not enough money in the account to cover the check written
- A fee will be charged to the account holder
- Harm future opportunities for credit



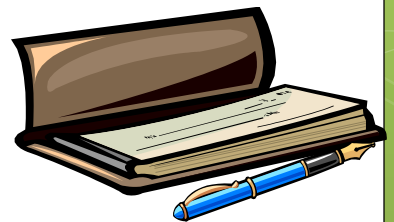
Other Checking Components

- **Checking Account Register**

- Place to immediately record all monetary transactions for a checking account
 - Written checks, ATM withdrawals, debit card purchases, deposits and additional bank fees

- **Checkbook**

- Contains the checks and the register to track monetary transactions



ATM



- **Automated teller machine**, or a cash machine
- Can be used to withdraw cash and make deposits
- Additional fees may be assessed if the ATM used is not provided by the financial institution sponsoring the card

Debit Card

- ◉ Plastic card that looks like a credit card
- ◉ Electronically connected to a bank account
- ◉ Money is automatically taken from the bank account when purchases are made
- ◉ Requires a PIN (personal identification number)
 - ◉ Confirms the user is authorized to access the account

Pros and Cons - Debit Cards

Pros

- Convenient
- Small
- Can be used like a credit card
- Allows a person to carry less cash
- Does not allow overspending

Cons

- Can lose track of balance if transactions are not written down
- Opens checking account up to credit fraud
- Others can gain access to the account if the card is lost and PIN is known

Banking Services & Credit

Financial Services, Credit Scores, Cost of Credit

Financial Institutions

- Banks
- Credit Unions
- Investment brokers
- Loan Agencies

Financial Institution Services

- Checking Accounts
- Debit Cards
- Savings Accounts
- Loans
- Internet Banking
- Online Bill Pay

Online Banking Services

- Direct Deposit – earnings (or government payments) automatically deposited into bank accounts, saving time, effort and money.
- Automated Payments – utility companies, loan payments, and other businesses use an automatic payment system with bills paid through direct withdrawal from an account.

Online Banking Services

- Automatic Teller Machines – allow customers to obtain cash and conduct banking transactions; some ATMs sell bus passes, postage stamps, gift certificates, and mutual funds.
- Point of Sale Transactions – acceptance of ATM/check cards at retail stores and restaurants for payment of goods and services.
- Stored Value Cards – Prepaid cards for telephone service, transit fares, highway tolls, laundry service, library fee, and school lunches.

Online Banking Services

- Electronic Cash – companies are developing electronic replicas of all existing payment systems – cash, check, credit cards, and coins.
- Cyberbanking – banking through online services. Financial institutions with Web site “cyber” branches allow customers to check balances, pay bills, transfer funds, compare savings plans, and apply for loans on the Internet.

Online Banking Services

- Smart Cards – are sometimes called “electronic wallets” , and look like ATM cards; however, they also include a microchip. This minicomputer stores prepaid amounts for buying goods and services. It can also store data about a person’ s account balances, transaction records, insurance information, and medical history.

Credit Rating

- A measure of a person's ability and willingness to make credit payments on time.

Three C's of Credit

Capital
Character
Capacity

Personal items of
value

The ability to be
trusted

The ability to
repay a loan

Info Found on Credit Report

A Consumer Credit Report (CCR) details, in depth information about your credit history, and will also include:

- Your full name
- Any alias' s that you have used
- Social Security Number
- Current address
- Previous addresses

Your credit report **may also** contain:

Your phone number

Age/date of birth

Your employer' s details

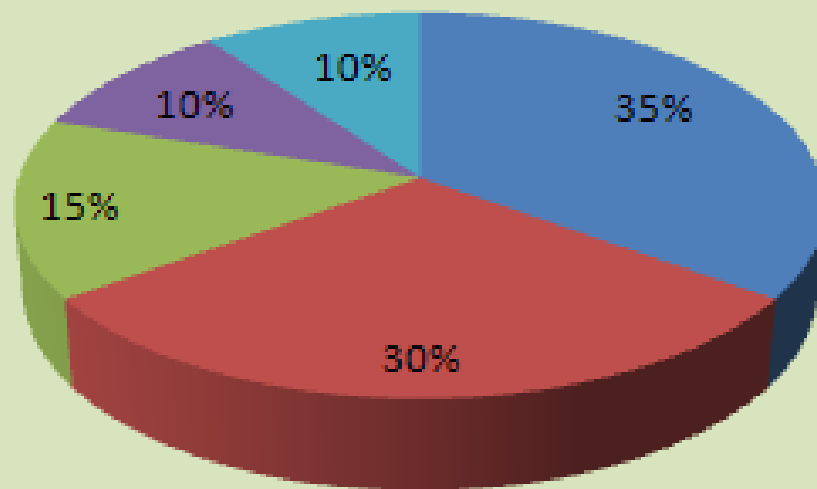
Info NOT Found on Credit Report

- Race
- Color
- Sex
- National origin
- Marital status
- Political persuasion
- Medical Bill Details (Lender Reports)

What is a Credit Score? (FICO)

- **Snapshot** of a person's financial standing at a particular point in time
- The one most widely used is the "**FICO**" score (Fair Isaac Corporation)
- The FICO score, a three-digit number between **300 and 850**

What Determines Your Credit Score



■ Payment History

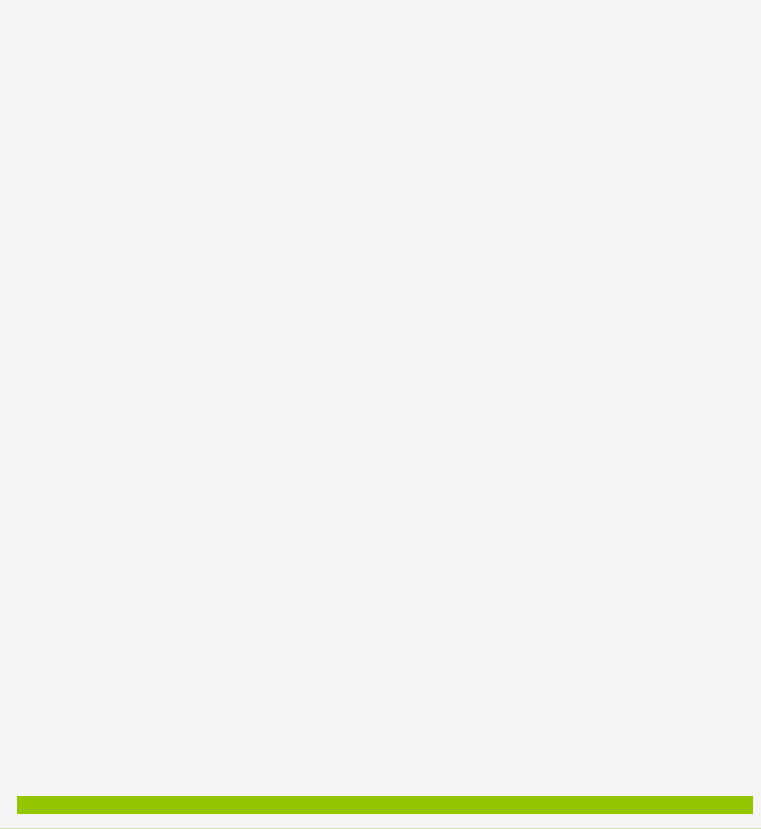
■ How Much You Owe

■ Length of Credit History

■ Types of Credit Used

■ New History

Benefits of Using Credit



Convenience of Purchase

- Buying on credit can be more convenient than using cash. Using credit makes the initial purchase very easy.

Less Risk of Losing Cash at the Time of Purchase

- When using cash, you have to worry about someone stealing it. One who loses a credit card has a limited or no liability for unauthorized charges if the card company is notified.

Strategies for maintaining positive credit include:

- ◉ Practicing good banking techniques, such as not bouncing checks
- ◉ Paying bills on time and consistently
- ◉ Avoiding bankruptcy
- ◉ Not having a criminal record
- ◉ Having a low number of credit/store cards
- ◉ Removing errors from credit report
- ◉ Maintaining reasonable amounts of unused credit

Credit Reporting Agencies

- EquiFax
 - 1.800.685.1111 www.equifax.com
- Experian
 - 1.888.397.3742 www.experian.com
- TransUnion
 - 1.800.860.7289 www.transunion.com
- www.annualcreditreport.com

Good Debt vs. Bad Debt

GOOD

- A **reasonable** Mortgage Loan
- A **reasonable** Auto Loan
- Student Loans
- Business Loans
- Small Credit Load

These “GOOD” debts may be needed, but you can over-leverage yourself. In that case, it could be considered a bad debt.

Who Looks at Your Credit?

- Lenders

- Credit Cards
- Store Cards
- Auto Loans
- Mortgages
- Personal Loans
- Furniture Loans
- Computer Loans

- Utility Companies

- Cell Phone Companies
- Insurance Carrier
- Employers
- Military (Security Clearance)
- Rental agents
- Bank
 - (checking/savings accts)

Which Accounts Build Credit?

YES

- Credit Cards
- Store Cards
- Auto Loans
- Mortgages
- Personal Loans
- Furniture Loans
- Computer Loans

NO

- Checking/Savings Accts
- Cell Phone
- Utilities
- Insurance
- Rental Agents (Housing)
- Employers
- Payday Loans
- Title Loan Companies

Credit Scores Affect Financial Options

● HIGH SCORES

- Low interest rate on loans
- Ability to receive loans/credit
- Reflects borrower is a low risk to lender
- Ability to acquire conveniences such as cell phones and credit cards

● LOW SCORES

- High interest rate on loans
- Inability to receive loans/credit
- Reflects borrower is high risk for lenders
- Inability to acquire conveniences

How do I build credit if I have never had it?

- *Open a line of Credit: Credit Card*
 - Buy things you would normally buy, pay off at the end of each month
 - If you don't qualify, consider a secured card
 - Take caution when asking for a co-signer
 - Buy things you would normally buy during the month
 - Pay the account off in full at the end of each month



Bankruptcy



Bankruptcy

- A legal process to get out of debt when you can no longer make all your required payment.

Reasons for Bankruptcy

- Natural Disaster
- Medical Expenses
- Job Loss
- Business Losses
- Credit Card Debt

Debt

- The entire amount of money a person owes to lenders.



Inflation

- An increase in the price of goods and services. A dollar in the future won't buy as much as a dollar today.
- Did you know...
 - Inflation usually averages between 3% and 4% each year.
 - Inflation has influenced our economy for decades ranging from .5% to 18%.
 - In 1971 a first class stamp cost 8 cents.

Bankruptcy Basics

- **Chapter 7**

- LIQUIDATION

- wipes out all allowable debts and allows certain personal property exemptions.

- **Chapter 13**

- REORGANIZATION

- is a court-approved repayment plan.

Alternatives to Bankruptcy

- Out of court settlement
- Reduction of payments
- Attaining help from consumer credit counseling
- Payment of debts by selling or borrowing on property.

Things to Consider BEFORE Filing

- A bankruptcy filing could determine whether or not you get a job.
- Your insurance rates could rise.
- You may find it difficult to rent an apartment or qualify for a home loan.
- Bankruptcies stay on your credit report for 10 years.
- Bankruptcy can lower your credit score.

Savings vs. Investing



Savings

Savings is the portion of current income not spent on consumption.

Investments

Investing is the purchase of assets with the goal of increasing future income.

Risk, Return, and Liquidity

- **Risk**

- The chance that the value of an investment will decrease.

- **Return**

- The profit or yield from an investment.

- **Liquidity**

- The ability of an investment to be converted into cash quickly without loss of value.

Risk, Return, and Liquidity

○ Savings

- Low risk
- Low return
- High liquidity

○ Investments

- High risk
- High return
- Low liquidity

Time Value of Money

- The time value of money refers to the fact that a dollar in hand today is worth more than a dollar promised at some future time.

Future Value

- Refers to the amount of money to which an investment will grow over a finite period of time at a given interest rate.
- Put another way, future value is the cash value of an investment at a particular time in the future.



Types of Investments



Types of Investments

- Stocks
- Bonds
- Mutual Funds
- Real Estate
- Savings/Certificates of Deposit
- Collectibles

Stocks

- An investment that represents ownership in a company or corporation.



How Well the Stock
Market is Doing Overall

3 Basic Indicators

- ◉ Dow Jones Industrial Average (“DOW”)
 - ◉ Lists the 30 leading industrial blue chip stocks
- ◉ Standard and Poor’ s 500 Composite Index
 - ◉ Covers market activity for 500 stocks
 - ◉ More accurate than DOW because it evaluates a greater variety of stock
- ◉ National Association of Security Dealers Automated Quotations (“NASDAQ”)
 - ◉ Monitors fast moving technology companies
 - ◉ Speculative stocks, show dramatic ups and downs

Ups and Downs

- The term bull market means the market is doing well because investors are optimistic about the economy and are purchasing stocks
- The term bear market means the market is doing poorly and investors are not purchasing stocks or selling stocks already owned



Brokers

- A Broker is a person who is licensed to buy and sell stocks, provide investment advice, and collect a commission on each purchase or sale
 - Purchases stocks on an organized exchange (stock market)
 - Over $\frac{3}{4}$ of all stocks are bought and sold on an organized exchange

New York Stock Exchange

- New York Stock Exchange (NYSE)
 - Oldest and largest, began in 1792
 - 1,366 seats available
 - 2,800 companies
 - Average stock price is \$33.00
 - Strict requirements

American Stock Exchange

- American Stock Exchange
 - Began in 1849
 - 2nd largest exchange
 - It's requirements are not as strict as NYSE allowing younger, smaller companies to list
 - Average stock price is \$24.00

NASDAQ

- ◉ National Association of Securities Dealers Automated Quotations
 - ◉ Stocks are traded in an over the counter electronic market
 - ◉ 4,000 small companies
 - ◉ Company requirements are not as strict
 - ◉ More volatile because companies are young and new
 - ◉ Average stock price is \$11.00

Bonds

- A security representing a loan of money from a lender to a borrower for a set time period, which pays a fixed rate of interest.

Mutual Funds

- An investment that pools money from several investors to buy a particular type of investment, such as stocks.

Real Estate

- An investor buys pieces of property, such as land or a building, in hopes of generating a profit.

Savings/Certificates of Deposits

- A deposit that earns a fixed interest rate for a specified length of time.
 - The longer the time period the greater the rate of return.
 - There is a substantial penalty for early withdrawal.

Collectibles

- Unique items that are relatively rare or highly valued.
 - Art work
 - Baseball trading cards
 - Coins
 - Automobiles
 - Antiques



Identity Theft & Consumer Protection

Consumer Rights & Responsibilities

RIGHTS	RESPONSIBILITIES
To Safety	To Use Products Safely
To Be Informed	To Seek Information and Use it to make Decisions
To Choose	To Choose Goods and Services Carefully
To Be Heard	To Speak Up and Let Likes and Dislikes Be Known

Consumer Bill of Rights (State of the Union Address of 1962, President John F. Kennedy)

Source: Thomson South-Western, *Economic Education for Consumers*, USOE Adult Roles & Responsibilities

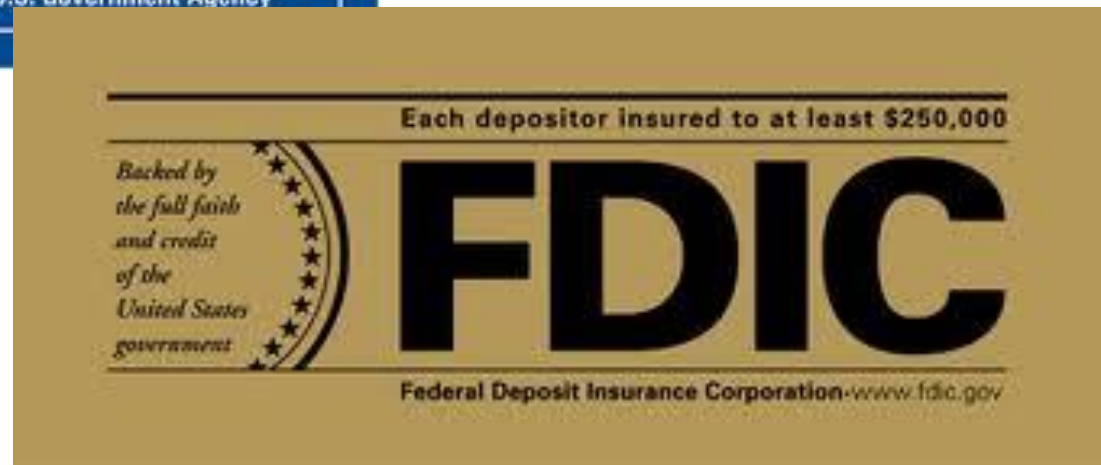
Agencies & Sources of Assistance

Food & Drug Administration (FDA)	<u>www.fda.gov</u>
Consumer Product Safety Commission (CPSC)	<u>www.cpsc.gov</u>
Federal Trade Commission (FTC)	<u>www.ftc.gov</u>
Better Business Bureau (BBB)	<u>www.bbb.org</u>
Bureau of Consumer Protection (BCP)	<u>www.ftc.gov</u>
Consumer Unions (Consumer Product-Testing Organizations)	Consumer Report Consumer Research Changing Times

Who Protects Savers?



Credit Unions



Banks

Fraud

- A deliberate deception, designed to secure unfair or unlawful gain.
 - (“Cheating the Consumer”)

Identity Theft

“True-name Fraud”

- Someone wrongfully acquires and uses a consumer's personal identification, credit, or account information without your permission.
- This information may include:
 - Social Security Numbers
 - Name
 - Address
 - Date of Birth
 - Mother's Maiden Name
 - Passwords
 - PINs

Ways to Avoid Identity Theft

- Monitor your credit report.
- Don't give out personal information to unknown people or companies.
- Protect your credit and debit cards.
- Protect your mailbox.
- Protect your wallet.
- Use passwords and PINs that cannot be easily guessed.
- Use anti-virus software on your computer.
- Notify your bank when you change your address or phone number.

Insurance & Risk Management



Risk Management

- “In exchange for a relatively small payment, which is the premium, you’ re protected against the chance of a big financial setback, a large loss.”

Risk Management

- Means you use various ways to deal with potential personal or financial losses.

Insurance



- Protection against large-scale financial loss

Insurance Premium

- The payment you make to an insurance company in exchange for its promise of protection and help.
- Can be monthly, quarterly, semi-annually, or annually.

Deductible

- The amount of the loss you must pay out of your own pocket before the insurance company begins to reimburse you.
- Range from \$100-\$1,000+
- SHOP AROUND for best rates



Automobile



Health

**Types of
Insurance**

Disability



Life



Homeowners/Renters

Auto Insurance

- Liability Coverage
- Medical Payments
- Uninsured Motorist
- Underinsured Motorist
- Collision



Auto Policies

The following factors can influence the cost of the policy.

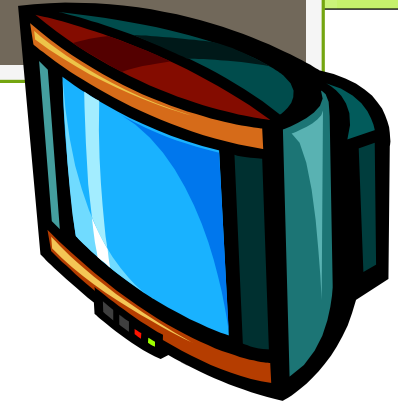
- ◉ Age
- ◉ Gender
- ◉ Marital Status
- ◉ Type of Car
- ◉ Cost of Repairs
- ◉ Mileage
- ◉ Location
- ◉ Law Enforcement
- ◉ Driving Record

Health Insurance

- Pays the medical bills in case you or your family members, become sick or injured.
- Most will cover you until age 19. If you are in college, they may extend until 23.



Property Insurance



- Protects your material possessions in case they are damaged by fire, flood, or theft.
- Homeowner's insurance vs Renter's Insurance

Life Insurance



- Anytime someone else depends on your income to help pay bills, you need life insurance.
- Protects people who depend on you financially in the event of your untimely death.
- Term Life vs Whole Life

Future Insurance Needs

- Health Insurance
- Property Insurance
- Life Insurance
- Disability Insurance
- Liability Insurance



Estate Planning

- Estate planning is preparing a plan for transferring property during one's lifetime and at one's death.
- Goal should be to minimize taxes on the estate, make known how you want your possessions distributed, and to provide for a smooth transfer of your possessions to loved ones after death.

Tools for Estate Planning

- Will
- Trust
- Joint Ownership of Assets

Will

- A legal document that tells how you want your estate to be distributed after your death.

Power of Attorney

- A legal instrument authorizing one to act as another's attorney or agent.

Trust

- A legal document in which an individual gives someone else control of property, for ultimate distribution to another person.

Retirement Planning



Sources of retirement income:

Pension plans

- 401(k), 403(b)
- Traditional IRA
- Roth IRA
- Keogh plan
- Social Security

Planning for retirement is your responsibility!

- Traditional employer-funded retirement plans are disappearing.
- Social Security benefits may not insure a comfortable lifestyle.
- Without a retirement plan, you could face a future of financial uncertainties and hardships.

Compound Interest

- Interest which is calculated not only on the initial principal, but also the accumulated interest of prior periods.



Rule of 72

- Tells you how long it takes your money to double in value.
- Divide 72 by the interest rate to determine number of years to double.
- Divide 72 by years to determine rate needed to double your money in a given time period.