Financial Fitness for Work

COUNCIL FOR
Economic
Education

Teaching Opportunity®

www.councilforeconed.org

Acknowledgment

Much of the material in *Financial Fitness for Work* is drawn from or inspired by Council for Economic Education resources, particularly the award winning *Financial Fitness for Life*, *Learning, Earning and Investing,* the Gen i Revolution online game (www.genirevolution.org), and lessons on EconEdLink (www.econedlink.org).

Printed in the United States of America

Table of Contents

Earning Your Money and Reading Your Paystub

LESSON DESCRIPTION AND BACKGROUND

This lesson focuses on the relationship between education and income and the importance of getting a job to achieve economic success. While obtaining a job can be a challenge, there are widely accepted practices that make the process less difficult. This lesson provides an overview of six steps to finding a job.

Young people are sometimes surprised to learn that the pay they earn is not the same as the pay they take home. This lesson also introduces students to the concepts of gross pay, net pay, and deductions.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Income
- Job application
- Job interview
- Gross pay
- Net pay

OBJECTIVES

At the end of this lesson, the student will be able to:

- Explain the relationship between education and **income**
- Identify the key steps in the job application process
- Understand the components of a paystub

TIME REQUIRED

One hour

MATERIALS

- Handouts of Exercises 1.1, 1.2, and 1.3

PROCEDURE

1. Introduce the lesson by telling students that they need to "think money." Life is about money – earning it, spending it and keeping some for later.
2. **Part 1: Earning Power.** Talk to the students about earning power. Staying in school means a better job and more opportunity to be independent.
    a. Give each student a copy of Exercise 1.1. Ask the students to read the exercise and answer the questions at the end.
    b. Have students examine the table in the exercise. Describe the relationship between education and income from work:
        i. In 2015, how much more would a high school graduate expect to earn per year, compared to an 11th-grade dropout? ($31,076 - $22,616 = $8,460 more.)
        ii. Assuming a 40-year work life and no pay increases, how much more might a high school graduate expect to earn over a lifetime, compared to an 11th-grade dropout? ($8,460 x 40 years = $338,400 more.)
        iii. Does it pay to stay in school one more year and graduate? Why? (Yes. For a high school graduate, income for each year of work is ordinarily higher than income earned by a worker without a high school diploma.)
        iv. In 2015, how much more would a college graduate expect to earn per year, compared to a high school graduate? ($52,028 - $31,076 = $20,952 more.)
        v. Assuming a 40-year work life and no pay increases, how much more might a college graduate expect to earn over a lifetime, com- pared to a high school graduate? ($20,952 x 40 years = $838,080 more.)
        vi. Is education a good investment? (Yes. Most people with higher levels of education will earn higher incomes than their less-educated peers.)

3. **Part 2: Getting a Job**
    a. Discuss the importance of getting a job. Include the following talking points:
        i. Employers want people who are responsible. Understanding the importance of saving and planning ahead tells them a person will be a serious worker: they'll show up, work hard and make better decisions because they understand how important it is to earn a living.
        ii. Employers also know that people who manage their own money can be trusted not to steal and to treat customers better. If they see you understand these things you're more likely to get hired, and they know you're more likely to stay.
        iii. Employers don't like to replace people. It costs them money and takes time. They'd want to hire people they believe will stay.
    b. Ask students to write down a few things they are (1) good at, (2) enjoy, and (3) have accomplished. Ask them to share some of the items they have written and how they would apply those items to looking for a job. Remind students that employers pay for skills and results, not just enthusiasm.
    c. Give each student a copy of Exercise 1.2. Ask the students to read the exercise and answer the questions. When they have finished, discuss the answers.

Sample answers include the following:

i. What are the six primary steps in the **job application** process? (Look for job openings, write a letter of application, prepare a resume, complete the application, participate in a **job interview**, and write a thank you letter.)
ii. What are two suggestions for finding a job? (Check the CareerOneStop [www.careeronestop.org] website offered by the U.S. Department of Labor to find state and private job banks. You may also consult Monster.com, Careerbuilder.com, and other job search websites. Consider ways to network with family, friends, and organizations like the local Chamber of Commerce. Also, check with teachers, guidance counselors, local employment agencies, newspaper classified advertisements, and businesses.)
iii. What are two tips for writing a letter of application? (A letter of application should be a standard business letter. A typical letter expresses your interest in a particular job; links your experience, interest, or training to the job; and explains how you can be reached for an interview.)
iv. What information is ordinarily included on a resume? (Your name, telephone number, street address, email address, career objective, education, work experience, abilities, and other information that might include interests, awards, offices held in organizations, extracurricular activities, and names of references.)
v. There are many suggestions for how best to conduct yourself at a job interview. Which suggestions do you think are most important, and why? (Answers may include know the company, arrive on time, go alone, dress appropriately, be poised and confident, have a firm handshake, establish eye contact, communicate clearly, be ready for some open-ended questions, emphasize your strong points, ask questions, and be positive.)
vi. Why is it important to send a follow-up thank you letter? (It is good manners to thank people for their time and any feedback they may have provided; it provides you with an opportunity to let the prospective employer know why you believe you would be a good fit for the job; and it provides another opportunity for you to remind the prospective employer of your strengths.)

4. **Part 3: Uncle Same Takes A Bite**
    a. Ask: How many people here have had a job? Do you know the money you get paid doesn't all come to you?
    b. Give each student a copy of Exercise 1.3. Ask the students to read the exercise and answer the questions. Discuss the answers.
        i. What is **gross pay**? (Gross pay is the total amount of money an employee earns before any deductions are made).

ii. What is **net pay**? (Net pay is the amount left after all deductions for taxes and benefits payments are taken out of the gross pay. Net pay is sometimes called take-home pay.)
iii. Is the amount of money shown on your paycheck equal to the total number of hours worked times your rate of pay? (No. Mandatory deductions for taxes and benefits payments are taken out of your paycheck.)
iv. Name at least three mandatory deductions that are taken out of gross pay. (The deductions include federal income tax, state income tax, Social Security tax, Medicare tax, local income tax.)
v. Name three other deductions. (Other deductions may include life insurance, disability insurance, medical insurance, dental insurance, retirement savings plan, and contributions to charity.)

5. **Closure**
   a. Review key points of this lesson by asking the students to identify the six steps in the job-seeking process. (Finding job openings, writing a letter of application, preparing a resume, completing an application, participating in an interview, and writing a thankyou letter.)
   b. Ask the students to visit the Occupational Outlook Handbook at www.bls.gov/OCO/ and use it to research three jobs of interest to them. They should prepare a report that identifies the occupations they have selected and explain the nature of the work, working conditions, employment opportunities, training, and other qualifications, plus opportunities for advancement, job outlook, earnings, and related occupations.

Earning Power

The U.S. Census Bureau reports on the relationship between levels of formal education and income. Please examine the table below and respond to the questions that follow.

Level of Formal Education and Income	
Level of Education	**Average Median Income of Males and Females Aged 25 and Over, 2015**
Less than 9th grade	$21,583
9th grade to 12th grade, no diploma	$22,616
High school graduate (includes GED)	$31,076
Some college, no degree	$35,203
Associate's degree	$38,953
Bachelor's degree	$52,028
Master's degree	$64,627
Professional degree	$98,306
Doctoral degree	$82,445

Source: U.S. Census Bureau, Pinc-03 Educational attainment—people 25 years old and over, by total money earnings in 2015.

Questions:

1. In 2015, how much more would a high school graduate expect to earn per year, compared to an 11th-grade dropout?
2. Assuming a 40-year work life and no pay increases, how much more might a high school graduate expect to earn over a lifetime, compared to an 11th-grade dropout?
3. Does it pay to stay in school one more year and graduate? Why?
4. In 2015, how much more would a college graduate expect to earn per year, compared to a high school graduate?
5. Assuming a 40-year work life and no pay increases, how much more might a college graduate expect to earn over a lifetime, compared to a high school graduate?
6. Is education a good investment?

Application Process

The Job Application Process

Employers in recent years have been experimenting with new ways to attract employees. But most employers still tend to follow similar procedures for recruiting and hiring new workers. People who are familiar with these procedures have advantages in the job-seeking process. A good job-application process can involve as many as six steps. These steps are all very important in finding a job.

STEP 1: Looking for Job Openings

There are several sources of information about job opportunities. One important source to consider is CareerOneStop: www.careeronestop.org/. It is the most extensive service available. CareerOneStop is sponsored by the U.S Department of Labor in partnership with state-operated employment services. It is a computerized network that links state employment-services offices to provide job seekers with a pool of active job opportunities. Job seekers can search for job openings and submit resumes for employers to examine. Job seekers may research jobs within 25 miles of their homes, within counties, states, and throughout the United States. The job openings and resumes found in CareerOneStop are available on the Internet in many public libraries, colleges, universities, high schools, shopping malls, transition offices on military bases, and elsewhere. Some other internet job sites include Monster.com and Careerbuilder.com.

Individuals increasingly are using networking as a less formal way of finding out about career opportunities. How might you uncover job opportunities using your personal network? Consider communicating by telephone or e-mail with friends and family members who, in turn, might be able to connect you to a potential employer. Consider business networking sites like LinkedIn.com. Make efforts to contact people who might know other people. Contact organizations that might help. For example, local employers may be members of a local Chamber of Commerce. These employers are often seeking new workers. Your local Chamber of Commerce will usually have information about how you can contact local employers through formal and informal channels. Other networking ideas include joining organizations and clubs, attending business luncheon meetings, and taking classes or seminars where you might come into contact with potential employers.

There are many other sources of information about jobs. Teachers and guidance counselors may know of local sources of employment. Many high schools offer co-operative or work-experience programs. Most post-secondary education institutions, such as technical schools, colleges, and universities, have career placement offices. These offices often post job openings; they may also offer workshops on job-seeking skills and may arrange for recruiters to interview students on campus.

Many communities have public and private employment agencies whose business is to help you find jobs for which you are qualified. Don't forget to check out the classified "Help Wanted" notices in your local newspaper. Finally, businesses and government organizations often circulate job openings. These job openings might be posted on bulletin boards which you can read by visiting the employment office of the business or government organization.

STEP 2: The Letter of Application

Job applicants often send a letter of application and a resume to a potential employer. The letter of application introduces you to the employer and allows you to tell the employer what you have to offer. A letter of application includes the normal characteristics of a business letter (typed, centered on page, and standard English). A typical letter expresses your interest in a particular job, links your experience, interest, or training to the job, and explains how you can be reached for an interview.

STEP 3: The Resume

A resume is a summary of your work-related experiences. It presents your name, telephone number, street address, e-mail address, career objective, education, GPA, work experience, abilities, and other information, such as awards, extracurricular activities (club, sports, etc.), offices held in organizations, and any special interests.

Make sure your e-mail address is your name or a professional alias rather than a funny, cute, or inappropriate alias. A resume should give the employer a sense of who you are in a neat, concise, and accurate way. If you wish, you can list references (names and contact information) on the resume. References are people who can tell a prospective employer about your work habits, character, and skills. Be sure to ask permission before listing someone as a reference.

STEP 4: The Application

Employers ordinarily ask you to complete an employment application when you inquire about a job. When possible, you should type the application and return it to the employer. Note that many firms now allow you to fill out your application online. Many times, however, employers want you to complete the information on the spot. In this case, here are a few tips:

- Be sure to bring basic information such as your Social Security number, driver's license, and copies of necessary licenses or permits. Also, be sure to bring your resume and, if possible, a school transcript.
- Print clearly in the spaces provided. Use a good quality black or blue pen.
- Fill in all the blanks on the form. Write N/A for not available or does not apply, when appropriate, so the employer knows that you did not skip parts of the form.
- Be truthful. Give complete answers.
- Be sure there is no personal or inappropriate information on your social networking sites. Potential employers are checking these sites for information about you.

STEP 5: The Interview

It is typical for an interested employer to contact you and arrange for a job interview. The job interview is a procedure in which you may be questioned about the statements you made in your application. The interview also allows the employer to gather other job-related information from you. Here are a few tips to consider as you prepare for a job interview:

- Find out detailed information about the company or agency. Often, companies have internet sites or brochures that provide information on their mission and organization.
- Make a list of questions to ask about information that you want to obtain, such as work schedules, benefits, and pay.
- Arrive on time or a little early. Never be late. Go alone.
- Be neat and clean. Dress modestly and conservatively.
- Use minimal jewelry or fragrance.
- Do not smoke or chew gum.
- Be poised and confident. It is normal to be nervous, but try your best to appear relaxed.
- Do not appear overconfident or arrogant.
- Greet the interviewer with a firm handshake.
- Establish eye contact.
- Concentrate on clear communication. Speak clearly. Avoid slang or improper language. Listen carefully. Don't interrupt. Be responsive and truthful.
- Be ready for some open-ended questions. "Tell me about your qualifications for this job" or "Describe the ideal candidate for this position" are two possibilities.
- Emphasize your strong points. Be ready to be asked about your strengths as well as weaknesses.
- Be positive, upbeat, and enthusiastic.

STEP 6: The Thank You Letter

Make sure you follow up with a letter thanking the person/people who interviewed you. Let them know you appreciated their time, and you look forward to hearing from them. In a thank you letter you can also re-emphasize any skills, strengths, or other qualities you possess that are important to the position. And you can convey additional information you forgot to mention, or address any concerns that were brought up, during the interview.

Questions:

1. What are the six primary steps in the job application process?

2. What are two suggestions for finding a job?

3. What are two tips for writing a letter of application?

4. What information is ordinarily included on a resume?

5. There are many suggestions for how best to conduct yourself during a job interview. Which ones do you think are the most important, and why?

6. Why is it important to send a follow-up thank you letter?

What Are All These Deductions from My Paycheck?

It's exciting to receive your first paycheck. But for many young people, that first rush of excitement soon yields to disappointment. They quickly realize the money they earned is not the same as the money they received. Uncle Sam and a lot of others have taken a bite out of that paycheck.

GROSS PAY

Gross pay is the total amount of money a worker earns before any deductions are made. For example, many employees are paid at an hourly rate. In the case of an hourly employee, the record of hours worked is multiplied by the employee's hourly rate of pay. This results in the employee's gross pay.

40 hours x $10 an hour = $400

Gross pay = $400

Similar calculations are made to determine the gross pay of employees who receive a bi-weekly, monthly, or an annual salary.

NET PAY

The amount left after all deductions are taken out of the gross pay is the net pay. This is the actual amount of an employee's paycheck. Net pay is often called take-home pay because it is the amount of money an employee actually receives on payday.

Gross pay

- Deductions

= Net pay

REQUIRED (MANDATORY) DEDUCTIONS

Federal income tax, state income tax, local taxes, and FICA are among the required deductions taken from an employee's paycheck. FICA is the abbreviation for the Federal Insurance Contributions Act. FICA provides for a federal system of old-age, survivors, disability, and hospital insurance. The old-age, survivors, and disability portion is paid by the Social Security tax. The hospital insurance portion is paid by the Medicare tax. The actual amount deducted from a paycheck for federal, state, and local income taxes is determined by reference to tax tables provided by the various levels of government.

Employers use the information provided by the tax tables and combine it with information from employees to determine how much to take out of an employee's pay- check. Employees complete the W-4 Form (Employee's Withholding Allowance Certificate) when they are hired. This form tells the employer the number of allowances the employee wishes to claim. For example, an employee is able to claim allowances for himself or herself, a spouse, and children under 21 years of age whom the employee supports. The more allowances an employee claims, the less money withheld from the employee's paycheck.

Mandatory Deductions from Your Paycheck		
Deduction	**What do you get?**	**Who pays?**
Federal income tax	This tax helps pay for services provided by the federal government, such as defense, human services, and the monitoring and regulation of trade.	Employee
State income tax	This tax helps pay for services provided by state government, such as roads, safety, and health. Not all states levy an income tax.	Employee
Local income tax	This tax helps pay for services provided by the city or other local government, such as schools, police, and fire protection. Very few local areas levy an income tax.	Employee
FICA: Social Security tax	This tax provides for old-age, survivors, and disability insurance.	Employee and employer
FICA: Medicare tax	This tax provides for hospital insurance for the elderly.	Employee and employer

In addition to required deductions, employers may take money directly out of employees' paychecks to pay for various employee benefits. Benefits vary by industry, by business, and by the status of the employee in the firm. Benefits may include such things as life insurance, disability insurance, medical insurance, dental insurance, retirement savings plans, and profit-sharing.

Other Deductions from Your Paycheck		
Deduction	**What do you get?**	**Who pays?**
Life Insurance	Pays a beneficiary in the event that an employee dies.	Employer or employee, or shared
Long-term disability insurance	Provides benefits in the event that an employee is completely disabled.	Employer or employee, or shared
Medical insurance	Provides employee and family insurance coverage for medical care expenses including hospitalization, physician services, surgery, and major medical expenses.	Employer or employee, or shared
Dental insurance	Provides employee and family insurance coverage for dental care expenses, including preventive diagnostic, basic, major, and orthodontic services.	Employer or employee, or shared

Other Deductions		
Deduction	**What do you get?**	**Who pays?**
Retirement savings plan	A tax-deferred savings plan for retirement.	Employer or employee (Employer may match percentage.)
Charity	A donation to a specific charity.	Employee (Employer may match a percentage of employee contribution.)

Questions:

a) What is gross pay?

b) What is net pay?

c) Is the amount of money shown on your paycheck equal to the total of the number of hours worked times the rate of pay?

d) Name at least three mandatory deductions that are taken out of gross pay.

e) Name three other deductions.

Getting Your Money

LESSON DESCRIPTION AND BACKGROUND
This lesson provides an overview of financial institutions and compares their relative advantages and disadvantages. It looks at mainstream financial institutions, such as banks or credit unions, as well as introducing alternative financial institutions like payday loan companies.

ECONOMIC AND PERSONAL FINANCE CONCEPTS
- Financial Institution
- Bank
- Bank Account
- Financial Technology (or Fin Tech)
- Mobile Payment Service

OBJECTIVES
At the end of this lesson, the student will be able to:
- Differentiate between various types of **financial institutions** and understand the advantages and disadvantages of each
- Understand the role a **bank account** can play in his/her life, and how to set up and manage one
- Describe the various methods for putting money into and take taking money out of a checking account
- Explain how **mobile payment services** work

TIME REQUIRED
One hour

MATERIALS
- Handouts of Exercises 2.1, 2.2, and 2.3

PROCEDURE
1. Tell the students that they are going to explore and better understand a variety of financial institutions – services that can help them to manage their money – both traditional and alternative.
2. Hand out Exercise 2.1 and ask students to review the various financial institutions.
3. Tell each student to circle the advantages and disadvantages that are most important to them (some students may find convenience to be an important advantage to them while others may care most about lower cost options).

4. As a class discuss students' responses. At the conclusion of the discussion point out a key differentiator of mainstream and alternative financial institutions – while alternative institutions may be more convenient and provide their services more quickly and with less scrutiny, they also provide less security at a significantly higher financial cost.
5. Ask students whether they have any relationship with a traditional financial institution, such as a **bank**. Note in particular whether anyone has a checking account.
6. Point out that checking accounts are useful financial tools to manage both money that comes to you – through a paycheck or a gift, for example – and money that you spend.
7. Distribute Exercise 2.2. Have students take turns reading aloud the narrative in the first half of the exercise and take time to explain any terms that students do not understand.
8. Use this discussion of managing one's money as an opportunity to introduce students to the rapidly growing **financial technology**, or "fin tech," world. Explain to students that fin tech has arisen as a way to harness technology to both expand and simplify the options that people have for managing their finances. Point out that, like the traditional and alternative institutions you explored at the beginning of the lesson, fin tech has certain advantages and disadvantages, among them:

   Advantages
   - Provides access to financial services that were previously more difficult for the average consumer to access
   - Provides a wide range of financial services including those previously mentioned in Exercise 2.1, as well as insurance, mortgages, and others
   - Can make monitoring transactions easier
   - Can simplify the payment process

   Disadvantages
   - Can be less personalized
   - Their simplicity can result in consumers being less attentive to their spending habits
9. Review with students the fin tech services that they may use to manage their money (i.e Venmo, PayPal, etc.) and ask them to identify advantages and disadvantages (either those previously discussed or others) that, in their experience, are relevant with these fin tech tools.
10. Tell students that, regardless of the method(s) they use to manage the money they receive and money they spend, they are ultimately responsible for keeping track of transactions and ensuring that there are sufficient funds available. Hand out to each student a copy of Exercise 2.3. Note that this transaction record is for a checking account, but that mobile payment services will provide similar records that they will be responsible for monitoring. If necessary complete the first entry as a class and then have students complete the transaction record individually. When all students have completed their transaction record compare their answers to the answer key provided. Have they spent more than they made?

Financial Institutions

Institution	Type	Services	Advantages	Disadvantages
Check-Cashing Store	Alternative	• Check cashing • Money orders • Wire transfers	• Cash the check immediately • It is easy o Store is nearby o Identification is the only requirement • Use the cash however you wish	• Pay a fee • Risk losing the cash • No record of the money • Failure to establish a financial history with a bank
Payday Loan Company	Alternative	• Lends small amounts of money for short terms	• Obtain the loan immediately • It is easy o Loan provider is nearby o Identification and proof of employment are the only requirements	• Pay a higher interest rate • Risk being short again by the next payday • Risk falling further and further behind
Bank	Mainstream	• Deposits • Loans • Home mortgages • Stocks • Bonds • Credit cards	• Checking account services and loans at lower cost • Develop financial history • Money is safe and secure • Encourage saving • Keep records	• Won't cash checks without an account • May not make small, short-term loans • Higher scrutiny on loan requests • Not as convenient
Credit Union	Mainstream	• Loans to members • Credit cards to members	• Encourages saving • Develop financial history • Money is safe and secure • Keep records • Loans at lower rates	• Services for members only • Not as convenient

About Checking Accounts

A checking account provides certain benefits:

- Using checks or a debit card is safer than carrying cash or mailing cash.
- It makes day-to-day money transactions easier to handle.
- It can be less expensive than using money orders or check-cashing services.
- It provides a good record of purchases or expenditures. Copies of paid checks serve as proof of payment. Monthly statements track where money was spent.
- It helps people establish a good financial record with a financial institution.
- Online banking is a convenient way to pay bills.

Money can go into a checking account in a few different ways:

- You can bring cash or a check in your name to the bank and make a deposit in person.
- You can deposit checks or cash using an Automated Teller Machine (ATM), a machine that performs banking services automatically when accessed by customers using a plastic card called a debit card that is coded with personal identification numbers (PINs).
- You can use a bank's mobile application to deposit a check.
- You can set up "direct deposit" with your employer, which will result in your paycheck being put directly into your account.

Money can come out of a checking account in a few different ways:

- You can write someone a check for a specified amount of money.
- You can withdraw cash from an ATM.
- You can use a debit card to make a purchase, either in person at a store or online.
- You can use your debit card to establish a recurring payment for expenses that you incur on a regular basis, such as your monthly phone bill.
- You can link your checking account to a mobile payment service, such as Venmo or PayPal.

Checking accounts come with certain features and costs. Be sure to ask the following questions:

- Does the account pay interest? If so, what balance is required to earn interest?
- Are there monthly service charges and/or per-check or debit card use charges?
- What are the fees for such items as printed checks, use of the ATM and debit cards, overdrafts (check written without sufficient funds in account), and stop payment services (requests by a depositor for the bank not to pay a check that he or she has written)?
- Is there a "free checking" account? What are the requirements for such an account?

If you open a checking account, you take on certain responsibilities. It is your responsibility to:

- Protect your checkbook, debit card, or ATM card to guard against theft.
- Write checks correctly to prevent tampering or forgery.
- Keep a running total and balance your account and review monthly to avoid overdrafts.

Money In and Money Out

Suppose that you have a checking account. Imagine that you are using your debit/ATM card, writing checks, and depositing money in the checking account. Also imagine that your Venmo account is linked to this checking account. Correctly enter all transactions into the transaction record below.

March 1	$250 starting monthly balance
March 7	Venmo payment: $10 to your best friend to pay for your share of lunch
March 8	Debit card: $50 for sweater purchased at A. J. Vitullo Company
March 10	Check #994: Paid $45.10 to the Acme Bicycle Shop for repairs to bicycle
March 12	Debit card payment of $10.00 to Happy Pets Store for pet supplies
March 14	Mobile deposit of $50 birthday check from your grandparents
March 15	Direct deposit of your $112.48 paycheck
March 16	Check #0995: Paid $16 to Lawson High School for two tickets to basketball game
March 18	Transfer $75 to Venmo for expected payments to friends while on class trip
March 18	ATM withdrawal of $50 for spending money

PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT

CHECK #	DATE	TRANSACTION DESCRIPTION	WITHDRAWAL/ TRANSACTIONS		T	FEE IF ANY	DEPOSIT/ ADDITIONS		BALANCE	

Answers to Exercise 2.3

PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT										
CHECK #	DATE	TRANSACTION DESCRIPTION	WITHDRAWAL/ TRANSACTIONS		T	FEE IF ANY	DEPOSIT/ ADDITIONS		BALANCE	
	3/1	Opening Balance							250	00
	3/7	Venmo	10	00					240	00
	3/8	A.J. Vitullo Co.	50	00					190	00
994	3/10	Acme Bicycle Shop	45	10					144	90
	3/12	Happy Pets Store	10	00					134	90
	3/14	Deposit					50	00	184	90
	3/15	Deposit (paycheck)					112	48	297	38
995	3/16	Lawson High School	16	00					281	38
	3/18	Venmo	75	00					206	38
	3/18	ATM Withdrawal	50	00					156	38

Managing your Money

LESSON DESCRIPTION AND BACKGROUND

This lesson introduces budgeting and the elements contained in a typical personal or family budget. To practice making budgeting decisions, the students review and provide recommendations for a young family's budget. Students are also introduced to preparing for retirement through an employee retirement program and the employee "match."

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Budget
- Disposable income
- Fixed expenses
- Variable expenses
- Short-term goal, medium-term goal and long-term goal
- Retirement accounts

OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify and explain the meaning of key terms such as **budget**, **disposable income**, **fixed expenses**, and **variable expenses**
- Identify the elements of a typical monthly family budget including income, expenses, and savings
- Make spending recommendations for a fictional young family, taking account of the costs and benefits involved
- Explain the potential impact of saving early for retirement, and how an employee match in a **retirement account** can help accelerate saving toward retirement goals

TIME REQUIRED

One hour

MATERIALS

Handouts of Exercises 3.1 and 3.2, Compound Interest Calculator

PROCEDURE

1. Explain to students that the purpose of this lesson is to help them understand some key aspects of planning for their financial future. Stress the idea that decisions about how to use income are similar to other decisions. There are advantages and disadvantages to various choices. Remind the students that financial sacrifices can be difficult to make when the costs must be paid in the present and most of the benefits occur in the future.
2. Ask: What is disposable income? (Disposable income is the money you have left to spend or save as you wish after all required deductions [e.g., taxes, Social Security,

retirement-plan contributions] have been taken out of your gross pay.) Note that disposable income is another term for net pay, which was introduced in Lesson 1.

3. Discuss with the students how they typically spend their disposable income. Which of their expenses are a set amount each month that they must pay (e.g. mobile phone bill) and which change from month to month depending on their wants. How might their spending habits change once they finish high school? (Answers will vary depending on how students see their immediate futures; some may focus on having more money – and thus the ability to spend more – due to being able to work more, others may focus on additional fixed expenses, like rent.)
4. Define for students fixed expenses and variable expenses, referencing the expenses they typically incur and those they may incur after graduation. (Fixed expenses are expenditures that stay the same from week to week or month to month; variable expenses change from week to week or month to month.)
5. Ask students if they plan their spending in advance, i.e. if they have a budget. For those that do, ask them what items are in their budget. (A budget should include a listing of income, expenses, and savings. Some students may note that savings can be included as part of expenses. This is one way to make sure that an individual or family makes a commitment to saving) Do any of them practice the "pay yourself first" principle of saving some of their disposable income every month?
6. Point out to students that while they currently may not have a significant amount of disposable income and expenses to manage every month, this will change as they get older and take on more financial responsibilities. Introduce them to the fictional couple John and Mary by distributing Exercise 3.1. Read the background information about John and Marcia either as a class or individually. Ask the class:
    a. Who are John and Marcia? (A young, married couple working to support one child.)
    b. What is their lifestyle? (They live in a comfortable apartment, enjoy some small luxuries, and keep up with all their bills.)
    c. What is their immediate financial goal? (To save enough money for a down payment on a second car.)
7. Review as a class the fixed and variable expenses in Marcia and John's budget. Answer any questions students have about any particular line items. Also, use this opportunity to briefly describe retirement accounts such as a 401(k) (an investment tool that allows individuals to save money toward retirement on a tax-deferred basis), one of the items in their budget, and tell students they will be discussing this concept later in the lesson.
8. Give students time to individually answer the questions that follow after Marcia and John's budget. Discuss the answers as a group:
    a. What are some examples of John and Marcia's fixed expenses? (Housing, life and disability insurance, renter's insurance, automobile insurance, student loan, etc.)
    b. What are some examples of John and Marcia's variable expenses? (Meals, utilities, automobile fuel, medical care, child care, clothing, etc.)
    c. John and Marcia have decided to practice the "pay yourself first" approach. How do they pay themselves first? (They have the amount that they want to save

taken out of their pay automatically - $175 in the before scenario and $400 after – as if they were paying off a fixed expense.)

   d. Examine John and Marcia's monthly spending plan. What sacrifices do you think John and Marcia should make in their variable expenses to meet their goal? Note: at-home food expenses can't be reduced below $220. (Answers will vary. Accept any reasonable answers.)
   e. What are the benefits and costs of your recommended decisions for John and Marcia? (The benefit is that the combination of choices will allow John and Marcia to save enough for the down payment on the second car they wish to buy. The cost is giving up some of the things they would like to do and have right now.)

9. Point out to students that John and Marcia's decision to save for a second car is an example of saving for a **short-term goal**, which is a financial goal achievable in less than a year. Goals can also be **medium term** (1-5 years, perhaps saving for a down payment on a home), and **long-term** (more than five years, perhaps saving for retirement). Ask students if there are any medium-term or long-term savings goals they can identify in John and Marcia's budget. (Long-term goal, through their 401(k), for retirement)
10. Remind students of the definition of a 401(k) (noted above) and point out to them that many employers offer 401(k) plans as a way for employers to save for retirement. Ask students to identify some advantages and disadvantages of a 401(k). (Advantages: sets aside money for retirement, is tax deferred; disadvantages: defers spending to a later date.)
11. Ask students: how much of their paychecks were John and Marcia setting aside for their retirement ($80). Then ask them to guess how much money they will have saved by the age of 65 if they started saving at age 20. (Responses will vary.)
12. Hand out Exercise 3.2 to each student and ask them to fill in the sheet as you progress together through the next several steps.
13. Go to the compound interest calculator and enter the following values: monthly savings: $80; starting age: 20; interest rate 8% (note to students that 8% is the historical rate of return of the stock market and is used for illustrative purposes in this exercise). Once all values have been entered, press "calculate" to see how much their investment will be at age 65 ($421,908). Who came the closest in your class?
14. Ask students to calculate how much money John and Marcia invested to realize $420,000 in savings. ($80/month times 12 months times 45 years equals $43,200.)
15. Ask students how their saving would look if John and Marcia had not started investing until they were 30 (responses will vary). Adjust the starting age on the compound interest calculator to 30 and again press "calculate" ($183,442). How much money did they invested to realize $183,000 in savings? ($80/month times 12 months times 35 years equals $33,600.)
16. Ask students to calculate the difference in savings in these two scenarios. ($421,908 minus $183,442 equals $238,466 more by starting at 20 instead of 30.) Now ask students to calculate how much money John and Marcia contributed to realize these additional savings ($43,200 minus $33,600 equals $9,600). By starting early and deferring less than $10,000 in spending in their 20's John and Marcia were able to realize an additional $225,000+ in savings. Does it pay to starting investing early? Most

students will likely agree that it pays to defer some spending and contribute to a 401(k) as early as possible.

17. Conclude the lesson by introducing the notion of a 401(k) "match." Note to students that many companies will match with the company's resources a portion of their employees' contributions to their 401(k). In John and Marcia's budget ask students to consider what their savings would be if their companies provided a 100% match up to $100 in employee contribution (i.e. they contribute $1 for every $1 the employee contributes, up to $100). How much would John and Marcia's total monthly contribution be? ($160) How much would their 401(k) be worth at age 65 if they began saving at age 20? ($843,793).

John and Marcia's Monthly Spending Plan

John and Marcia are a young married couple. They have a two-year-old child named Ashley and a goldfish named Shark. John manages a local shoe store. Marcia recently graduated from college and is a manager-trainee at a local bank. Their combined monthly income is $5,200. They want to have a successful marriage, and they want to be financially successful.

John and Marcia have enough income to provide an adequate lifestyle. Their apartment is comfortable but not lavish. They take care of themselves, Ashley, and Shark with sensible diets, exercise, and medical care. They view maintaining health, life, disability, and renter's insurance as essential. They pay for child care at Terrific Tots Day Care so that both of them can work. They keep up with all their financial commitments, such as making payments on Marcia's college loan. They regard saving for retirement as important. Like other individuals, they are locked into their fixed expenses, but they have more flexibility with the variable expenses.

Marcia and John know that they want a second car. It is difficult to manage their complex schedules—work, day care, grocery shopping, and trips to the doctor—with only one car. They recently set a goal to save up enough money in one year for the down payment on a second car.

John and Marcia are regular savers. They practice the idea of "paying yourself first." They currently have $175 withheld each month from their paychecks to provide a fund for emergencies, which they have decided to increase to $400 each month for the next year to enable them to make a $2,700 down payment on the second car.

Listed below are the expenses "Before" and "After" they increase their monthly savings. Look at John and Marcia's variable expenses and figure out where they can draw the additional money for savings from their variable expenses. Also, answer the questions at the end of this exercise.

Monthly Budget	**Before**	**After**
Total Income (both spouses work)	**$5,200**	**$5,200**
Fixed Expenses		
Housing	750	750
Life and disability insurance	325	325
Renter's insurance	15	15
Automobile insurance	80	80
Student loan	100	100
Savings withheld	175	400
Federal and State taxes	630	630
Social Security	400	400
401(k) withheld	80	80
Total Fixed Expenses	**$2,555**	**$2,780**

Variable Expenses	**Before**	**After**
Meals (at home)	300	
Meals (away from home)	250	
Utilities	315	
Automobile fuel, maintenance	290	
Medical care	230	
Child care	205	
Clothing	195	
Gifts and contributions	60	
Magazines and newspapers	10	
Home furnishings and appliances	200	
Personal Care	50	
Entertainment	260	
Vacation	120	
Credit Card	100	
Miscellaneous/personal	60	
Total variable expenses	**$2,645**	
Total expenses	**$5,200**	**$5,200**

Questions:

1. What are some examples of John and Marcia's fixed expenses?

2. What are some examples of John and Marcia's variable expenses?

3. John and Marcia have decided to practice the "pay yourself first" approach to saving for a second car. How do they pay themselves first?

4. Examine John and Marcia's monthly spending plan above. What sacrifices do you think John and Marcia should make in their variable expenses to meet their goal? Note: At-home food expenses can't be reduced below $220.

5. What are the benefits and costs of your recommended decisions for John and Marcia?

Does It Pay to Have a 401(k)?

In John and Marcia's monthly budget they have chosen to contribute $80 each month to their 401(k), an investment tool that allows individuals to save money toward retirement on a tax-deferred basis. What might their investment look like by the time they retire?

1. If they start saving $80/month starting at age 20 (with an 8% rate of return):
   a. When they turn 65 their 401(k) will be worth $ __________
   b. The amount of money they will have contributed will be $ __________
2. If they start saving $80/month starting at age 30 (with an 8% rate of return):
   a. When they turn 65 their 401(k) will be worth $ __________
   b. The amount of money they will have contributed will be $ __________
3. How much more did their investment grow by starting at age 20? $ __________
4. How much more money did they contribute by starting at 20 instead of 30? $ __________
5. How much would the monthly contribution to their 401(k) be if their employer matched their contribution 100% up to $100/month? __________
6. How much would their "matched" 401(k) be worth at age 65? __________

Managing Credit

LESSON DESCRIPTION AND BACKGROUND

This lesson introduces the concept of credit. It begins with a review of common types of credit including home mortgages, car loans, college loans, personal loans, and credit cards, and explores the advantages and disadvantages of each. Students review a real-life purchasing scenario and choose between a variety of options for making the purchase. Finally, the lesson introduces credit scores and how one's handling of credit influences ones credit score.

Decisions about credit loom large in the lives of adults as they consider buying big-ticket items— a home or a new car, for example. Young people often use credit, too – to buy goods and services, for example, or taking out loans to pay for college expenses – and the decisions they make in these cases can have important consequences.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Credit
- Interest
- Credit card
- Credit score

OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify and explain the meaning of key terms such as **credit**, **interest**, risk, and **credit score**.
- Identify common types of credit and the advantages and disadvantages of each.
- Describe credit score and explain how one's use of credit affects one's credit score

TIME REQUIRED

One hour

MATERIALS

Handouts of Exercises 4.1 and 4.2, Credit Score video

PROCEDURE

1. Explain that this lesson focuses on the concept of credit. It raises a basic question: When does it make sense to use credit? Stress the point that decisions about using credit are similar to other decisions people make. Therefore, it is important to understand both the advantages and disadvantages of using credit.
2. Ask your students: What is credit? (The opportunity to borrow money or to receive goods or services in return for a promise to pay later). To obtain credit, you must convince someone else (usually a financial institution like a bank, credit union, or **credit card** company) to provide a loan to you in return for your promise to pay the loan back later, plus an additional charge for the privilege of borrowing money, called interest.
3. To solidify students' understanding of credit, remind them of what they learned in Lesson 2 about checking accounts and particularly debit cards: when using these tools the user is <u>drawing from money he or she already has</u>. In contrast, when using credit the user is <u>borrowing money</u> from somebody else, with the expectation that the borrower will pay it back.
4. Give each student a copy of Exercise 4.1. Select individual students to read aloud to the class each type of credit, its advantages and disadvantages. When finished ask the students to answer individually the questions at the end of Exercise 4.1 and, as a group, discuss their responses:
   a. What are the advantages of a home mortgage and college loans compared to credit card and personal loans? (Home and college loans usually help people acquire assets that increase in value. Interest rates on these loans are usually comparatively lower.)
   b. What are the disadvantages of credit cards and college loans? (Sometimes young people borrow more than they should for college loans. Upon graduation, new graduates may have difficulty repaying the money they have borrowed. Sometimes young people overuse their credit cards. Credit card loans have relatively high interest rates, making large credit card balances burdensome for long periods of time.)
   c. How are a home mortgage and a loan from a pawn shop similar? (In both cases the lender has an item of value – called collateral – that the lender can sell if the borrower fails to pay off the loan at the agreed terms.)
5. Summarize Exercise 4.1 by reinforcing with students that regardless of the type of credit, in all cases the borrower is acquiring something before he or she has the available financial resources to own it outright. And in all cases the borrower is paying a cost above and beyond the actual cost of the item itself for this privilege.
6. Ask students: if you needed to acquire a computer and needed to use credit to do so, which options might be available to you? (Answers will include a personal loan, credit card, rent-to-own store, or pawn shop.) What might be the advantages and disadvantages of the various options? (Answers will include convenience and cost.)
7. Give each student a copy of Exercise 4.2. Ask one student to read the scenario aloud to the entire class.
8. In small groups or individually, ask students to read the available options and choose the one that they think makes the most sense, and provide reasons for their selection. Once

all students have made a selection ask several students to read aloud their selections and justifications.

9. As a class or individually, review the costs and times for each option (Option 1: $2,396.77, 151 months; Option 2: $1,091.62, 11 months; Option 3: $1,200, 10 months; Option 4: $1,478.40, 15 months; Option 5: $1,627, 6 months) and answer the questions that follow (Answers: Option 1 both costs the most month and would take the longest to pay off; after six months Maggie would either turn ownership of the jewelry over to the pawn shop or take out an additional loan, with additional interest charges, to extend the payoff period; the monthly interest rate makes it seems like a better deal – 10% compared to 18% for the credit card – but if you turn the monthly rate into an annual rate you see that the pawn shop is charging 120% annually). Ask: with this information, would anyone change their preference?
10. Conclude the lesson by connecting use of credit to one's credit report and credit score. Define credit report as a report about a person's credit history, including his or her ability and willingness to repay debts, based on how reliably he or she has repaid debts in the past.
11. Show students the two-minute Credit Score video.
12. Ask students:
    a. What types of reasons might they have to borrow money in the near future? (Answers may include student loans, car loans, or even mortgages.)
    b. Based on the video they just watched, how can use of credit can influence their ability to get a loan in the future? (A poor credit report and low credit score can result in having to pay a higher interest rate, or even mean you are not able to get a loan.)
    c. What risks do they need to be aware of and avoid when making use of credit? (Answers may include paying bills on time and not having too many credit cards.)

Common Types of Credit

Types of Credit	Advantages	Disadvantages
Home Mortgage	• Homes can increase in value. • Interest rates for mortgage are relatively low. • The interest paid is tax-deductible.	• Mortgages are usually long-term commitments. • Obtaining a home loan involves extensive credit checks.
Car Loans	• Cars can make it easier to work and earn an income.	• Cars lose their value relatively quickly – the car you purchase on credit may have little value when the last payment is made.
College Loans	• A college education is usually a good investment in one's human capital.	• Students sometimes borrow more than is necessary. • New graduates can face difficulty in repaying large loans.
Personal Loans	• Personal loans allow individuals to purchase today that boat or vacation they want.	• Personal loans have relatively high interest rates. • Some people may borrow more than their income should allow.
Credit Cards	• Credit cards are convenient to use • Credits cards can be useful in an emergency. • Using credit to buy an item on sale can save money compared to waiting until you have the money available to buy the item at full price. • Credit cards provide a record of charges.	• Credit cards may have relatively high interest rates. • Some card holders may borrow more than their income should allow.
Payday Loan	• Obtain the loan immediately. • It is easy. • Loan provider is nearby. • Identification and proof of employment are the only requirements.	• Pay a higher interest rate • Risk being short again by the next payday. • Risk falling further and further behind.

Types of Credit	Advantages	Disadvantages
Rent-to-Own Store	• Obtain the product immediately. • Return it at any time. • It is easy. o Rental store is nearby • Signing forms is all that is required.	• Pay a much higher price than at ordinary stores.
Pawn Shop	• Obtain the loan immediately, if you have an item of value that the broker is willing to hold on to as collateral. • Default risks are less long-term – if you do not repay the loan the shop takes possession of the item instead of sending you to collection and reporting a default to credit reporting agencies.	• If you do not repay the loan at the agreed terms you will lose the item you pawned – which is worth much more than the loan. • Pay a higher interest rate.

Questions:

1. What are the advantages of a home mortgage and college loans compared to credit card and personal loans?

2. What are the disadvantages of credit cards and college loans?

3. How are a home mortgage and a loan from a pawn shop similar?

How Much Do I Really Pay?

Maggie Perez's six-year-old laptop has finally conked out. Unfortunately, the school work goes on, so she has to get a replacement as soon as possible. She just depleted her savings account on a spring trip with her school choir, so she doesn't have cash on hand to just go and buy a new laptop.

But the local electronics store is having a sale – their $1,200 laptop is going for $1,000 for this month only. She also saw an interesting ad for a rent-to-own company, which had a wide selection of laptops available. She checked into a personal loan at her local bank but they will not provide personal loans for amount less than $2,500.

What should she do? Review the options below and select the one that you think makes the most sense.

Option 1: Put it on her credit card. Because she wants to have cash available for other possible expenses she'll just pay the minimum balance due every month, which is 2% of the monthly balance. Her credit card has an annual interest rate of 18%.

Option 2: Wait to save the money. She can set aside $100/month of what she makes at her part time job toward this purchase. In the meantime she can do all of her work in the school library.

Option 3: Go to EZ Rental, the local rent-to-own company. She can get a laptop for $98.56 per month, with 15 monthly payments.

Option 4: Put it on her credit card. She'll give up some other things to pay it off more quickly, making $100 payments each month until it is paid off. Her credit card has an annual interest rate of 18%.

Option 5: Get a loan through the Here Today, Pawn Tomorrow Pawn Shop. She has a bunch of jewelry that her grandma left her in her will that she could put down as collateral. The pawn broker said he could give her a six-month loan with monthly interest of 10% and $27 in fees.

Which option do you think Maggie should choose? Why did you choose this option for her?

Match the amounts and time periods to the statements below and answer the questions that follow.

$1,091.62	151 months	$1,200.00	15 months	$1,478.40
6 months	$1,627.00	11 months	$2,396.77	1 months

Option 1 will cost Maggie $ ________ and ____ months to pay off.

Option 2 will cost Maggie $ ________ and ____ months to save for.

Option 3 will cost Maggie $ ________ and ____ months to pay off.

Option 4 will cost Maggie $ ________ and ____ months to pay off.

Option 5 will cost Maggie $ ________ and ____ months to pay off.

Questions:

1. Which option costs Maggie the most money?
2. Which option takes the longest to pay off?
3. What would happen if she chose option 5 but could not pay the pawn broker back in six months?
4. What is the advantage for the pawn shop in advertising a monthly interest?

Protecting Yourself

LESSON DESCRIPTION AND BACKGROUND

As people begin to earn an income and acquire assets, they begin to think about how to protect what they have against the risk of financial loss. Toward this end, many people buy insurance. This lesson explains how insurance works and provides an overview of different types of insurance.

While most credit transactions are completely legal, there are some that are not. This lesson introduces scams and schemes, including identify theft, loan scams, and credit-repair loans. The lesson also identifies legal but high-cost credit practices, such as payday loans and rent- to-own plans.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Risk
- Insurance

OBJECTIVES

At the end of this lesson, the student will be able to:

- Analyze **insurance** as a way of reducing **risk**
- Explain that insurance is a way of spreading risk among people in an insurance "pool"
- Identify key types of insurance such as health, auto, homeowner's, renter's, life, and disability
- Explain the costs and benefits associated with choices regarding the purchase of insurance
- Identify and describe various fraudulent practices related to consumer credit
- Identify and describe high-cost credit practices

TIME REQUIRED

One hour

MATERIALS

- Handouts of Exercises 5.1, 5.2, and 5.3

PROCEDURE

Part 1: Understanding Risk

1. Tell the students that the purpose of this lesson is to help them understand the concept of risk and ways to mitigate or reduce risk. Insurance is usually not regarded as a hot topic, but that may be changing. Ongoing debates about how best to provide health insurance to American families illustrate the importance of this topic.
2. Explain that understanding insurance begins with understanding risk. Life is filled with risk. Virtually every decision involves risk – some more than others, of course. Listening to music on a streaming service is quite a low-risk choice, but it is not necessarily a risk-free choice. A hearing loss could result from sustained listening to music played at a very high volume. Use the following questions to explore other possibilities of risk:
    a. What are some low-risk choices that people make? (Low-risk choices are many and varied, including, e.g., drinking pasteurized milk, eating a sandwich, turning on a light, making a telephone call, taking a walk.)
    b. What are some high-risk choices that people make? (Here, too, examples are many and varied, including motorcycling, smoking, drinking, using drugs, sport parachuting, and hang gliding.)
3. Give each student a copy of Exercise 5.1 and either read the text aloud or have students read the text to themselves. When all students have finished reading ask and discuss the following questions:
    a. What are the four ways to manage risk? (Accept, reduce, share, avoid.)
    b. What are some risks you accept in your life? (Answers will vary.)
    c. How do you reduce risk in your life? (Answers will vary.)
    d. Why might a student find spending $.50 for locker insurance to be a good investment? (It is a relatively small amount of money to spend to protect against a potentially much larger loss.)

Part 2: Insurance

4. Explain that there are a wide range of insurance options offered for many different kinds of risk, and the decisions to buy insurance depend on individual judgments about the future.
5. Give each student a copy of Exercise 5.2 and explain that the exercise provides overviews of the most common types of insurance. Select students to read aloud each type of insurance, its purpose and examples of coverage. Explain any terms that students don't understand. Have students complete the questions and review their answers as a class.
    a. What does each type of insurance typically provide?
        i. Auto: Provides financial protection to the owner, operator, and occupants of an automobile in case of accidents or damages.
        ii. Health: Protects against financial loss caused by illness or accident.
        iii. Renter's: Protects the renter from loss caused by damage to, or theft of, personal possessions; also protects against liability claims from guests who are injured while visiting your rented dwelling.

iv. Homeowner's: Protects the homeowner from loss caused by damage from fire, theft, storms, and so forth; also protects against liability claims from guests who are injured while visiting your home.
v. Life: Provides, on the death of a policy holder, financial protection to beneficiaries of the policy holder.
vi. Disability: Provides income over a specified period when a person is ill and unable to work.

b. What is a premium? (The fee paid by the customer for insurance protection.)
c. In the case of auto insurance, what is the difference between collision and liability coverage? (Collision coverage provides for the repair or replacement of the policyholder's car if it is damaged in an accident. Liability protection covers the cost of property damage and injuries to others as a result of an accident.)

6. Conclude the section on insurance by noting that many companies provide some insurance coverage to employees as a benefit. In some cases the employee might pay for the entire premium for an employee's insurance and in other cases they may share the cost with the employee. Note that there is no specific rule of thumb regarding which type of insurance employees provide and pay for and which they do not. Ask: why would employers provide insurance coverage? (To make their company more attractive to potential employees.)
7. Have students review the types of insurance in Exercise 5.2 and try to identify the most common types of insurance that are provided by employers (Answers may include health, disability, and life.)

Part 3: Common Scams and Schemes

3. Tell the students that each year millions of consumers lose money by getting involved in credit scams and schemes. Another way to mitigate against risk is to be able to recognize and avoid these scams and schemes.
4. Give each student a copy of Exercise 5.3. Ask the students to read the exercise and complete the chart in which they match definitions to the name of the scam or scheme. Discuss their answers in class.

Scam or Scheme	Definition
Rent-to-own	***G***
Credit-repair scheme	***A***
College financial aid scam	***B***
Pyramid scheme	***F***
Payday loan	***E***
Identity theft	***C***
Loan scam	***D***

5. Discuss with student strategies for avoiding scams and schemes. Strategies include:
   a. Regularly review your bank and credit card statements.

b. Don’t use simple passwords or the same password in multiple places -- bad guys expect that and count on it when they rip people off. Use a strong password and change it every three months. Make your password at least eight characters, with letters and numbers and symbols. DO NOT use “12345678” or “password” or the name of your pet or child. Do not leave passwords lying around and, if you write them down on a piece of paper, put it in a safe place or shred it.
c. Remind students that there is “no such thing as a free lunch.” If what the company is offering sounds too good to be true it probably is.
d. Be careful of phone calls. If someone says they are calling from VISA or your bank, say you will call them back. Then use the phone number on the back of your credit or bank card, call the company and see if there is a problem.
e. If you receive an email message from someone you do not know, NEVER respond to it. Never click where it says “click here.”
f. Be very careful in giving out your Social Security Number (SSN). A good general rule is do not give out your SSN on a phone call that you did not initiate.
g. Calls from the IRS are NEVER legitimate. The IRS never calls, they send snail mail.

Risk Is All Around Us

All choices involve risk – some more than others, of course. Let's consider driving a car. Everyone knows that when you drive a car you risk having an accident. You could cause an accident yourself or another driver could cause an accident that involves you. How can you manage the risk associated with having an automobile accident? You have four choices.

First, you could do nothing, or **accept** risk, knowing that you might have a big bill on your hand if things don't go your way. At the other extreme you could **avoid** risk – you could choose to stop driving to ensure that you are not in a car accident. Third, you could **reduce** risk. For example, you could become a safer driver by taking a course in defensive driving; studying the state's road safety manual; paying attention in driver's ed. class; or avoiding driving during rush hour. Finally, you could **share** risk. You could purchase insurance to protect you from financial loss for money spent on car repairs, medical care, or lawsuits that result from an accident. With insurance you might still have a wreck, but the consequences would not be as bad financially as they would have been if you did not have insurance.

You have similar choices in other situations. Usually your best way to reduce risk is to take certain actions yourself. For example, to reduce health problems, you could resolve to eat right, get plenty of exercise, get enough sleep, and so forth. Buying health insurance provides a way to share the risk of financial loss from healthcare costs. To reduce the chances of loss from theft, you could install good locks on your doors, stop mail and newspaper deliveries when you are away, and keep areas around your house or apartment well lit. Buying homeowner's or renter's insurance provides a way to share the risk of financial loss from theft.

Insurance spreads financial risk out over many people – each person pays a small amount of money, which in turn provides the money necessary to pay out to those who are negatively affected by a related incident. Let's consider an example. Imagine that the student council in a high school of 1,000 students decides to establish a locker insurance company to protect students from the theft of personal possessions from school lockers.

Suppose that students in this school have an average of $50 worth of personal stuff in each locker. Suppose further that, on average, 10 in every 1,000 lockers are broken into each year. In a typical year, students in the school lose a total of $500 ($50 of stuff x 10 locker break-ins) to locker theft. If all 1,000 students wish to buy insurance, it would cost:

$$\frac{\$500 \text{ Loss}}{1000 \text{ students}} = \$.50 \text{ charge for each student for locker insurance}$$

If every student bought $.50 worth of locker insurance, all of them would be covered against losses they might incur from locker break-ins, and the locker insurance company would have enough money to cover the losses incurred by the ten students affected by break-ins. This is fundamentally how insurance companies work. Insurance companies charge a fee (a premium) paid by customers to provide protection against certain types of loss. The fee or premium covers the losses and also the costs of operating the business and earning a profit.

Common Types of Insurance

The table on the following page shows types of insurance you can buy to manage different types of risk. Study the table and answer the questions that follow.

Type of Insurance	Purpose	Examples of Coverage
AUTO	Provides financial protection against losses caused by an auto accident or other damage to a car	**Collision:** Provides for the repair or replacement of the policy owner's car damaged in an accident. **Liability:** Covers the cost of property damage or injuries to others caused by the policy owner. **Comprehensive:** Covers the cost of damage to an automobile as a result of fire, theft, or storms. **Uninsured and underinsured motorist:** Covers the cost of property damage or injuries to the policy holder when the driver at fault is uninsured or doesn't have sufficient coverage to pay for all the expenses related to the accident.
HEALTH	Provides payment for certain health-care costs including coverage for dental and vision care	**Traditional health insurance:** Provides reimbursement for hospital, surgical, medical, and other expenses; plans can include deductible and co-payments of 20 percent or more. **HMOs:** Cover hospital, surgical, and medical services through a group of physicians; fees based on a monthly charge whether or not services are used. **High deductible health care:** Covers hospital, surgical, and medical services through either an HMO or traditional health care plan; consumers pay much higher deductibles in exchange for lower premiums; these policies are often used to insure against catastrophic health events. **Health savings accounts (HSAs):** Provide a tax-sheltered account where consumers can save for their medical expenses.
RENTER'S	Provides financial protection in case of loss of personal possessions in a rental unit, as well as injury to others on the property	Reimburses the policy owner for loss of possessions in a rental unit caused by fire, theft, water damage, etc. Also provides liability protection for bodily injuries occurring in the rental unit.

Type of Insurance	Purpose	Examples of Coverage
HOMEOWNER'S	Protects against financial loss from damage to your home or its contents, as well as injury to others on the property	**Physical damage:** reimburses for fire or water damage to the house, its contents, or other structures on the property. **Loss or theft:** Reimburses for personal property damaged of stolen. **Liability:** Protects against loss from a lawsuit or injuries to invited or uninvited guests.
LIFE	Provides financial protection to dependents of policy owner when policy owner dies (to cover such expenses as income re-placement, debt repayment, funeral expenses, and education expenses)	**Term life:** Offers protection for a specified period of time; the policy must be renewed if coverage is desired for another period of time. **Cash value life:** Combines protection and savings or investment. Cash value life insurance can cost many times more than term life insurance because of the investment feature. However, there are usually many better investment opportunities than cash value insurance. Common types of cash value insurance policies include: • **Whole life:** Provides cash value and protection during the lifetime of the policy holder. • **Universal life:** Provides term policy protection with an investment feature of a whole life policy; the face value of the policy can change during the time of the policy. • **Variable life:** Similar to universal life, but allows the policyholder some choice in the investments for the cash-value portion of the policy.
DISABILITY	Provides income over a specified period when a person is ill and unable to work; most disability policies end at retirement age of 65-70	Policy owner selects a replacement income for lost wages if an illness or accident prevents the person from working. Disability is paid for a specified time after a waiting period. Disability insurance is more important for a young, single person than life insurance. The likelihood that a person in his or her 20s will become disabled is seven times greater than his or her chance of dying.

Questions:

1. What does each type of insurance typically provide?
    a. Auto:
    b. Health:
    c. Renter's:
    d. Homeowner's:
    e. Life:
    f. Disability:
2. What is a premium?
3. In the case of auto insurance, what is the difference between collision and liability coverage?

Scams and Schemes

Millions of credit transactions are completed each day. In the vast majority of cases, both parties to these transactions benefit. But the world is not a perfect place. The credit industry, like any other industry, has a few people who operate on the edge. Some are flat-out thieves. Others operate businesses that, while completely legal, can put people who are already in financial trouble into positions from which they will find it even more difficult to recover.

Not all financial scams and schemes involve credit. Some deal with investments. They appeal to your desire to make a bundle of cash overnight. But, if any sales pitch sounds too good to be true, it probably is.

Here are some of the more common scams and schemes.

Identity Theft
Can you be electronically kidnapped? Yes. Scam artists get your name, Social Security Number, credit card number, or some other piece of personal information. They use this information to open a new credit card account using your name, date of birth, and Social Security Number. When they use the credit card and don't pay the bills, the failure to pay is reported on your credit report. The scammers also may call your credit card issuer and, pretending to be you, change the mailing address on your credit card account. Then they will make charges on your account. Because your bills are being sent to a new address, you may not realize there's a problem.

Scam artists can do all sorts of other damage. They might open cellular phone service in your name. They might open a checking account in your name and write bad checks. Identity theft is illegal.

How do these thieves get your information? They might steal your wallet or mail or even your trash! If you have thrown out (and not torn up) credit card offers, bills, bank statements, and receipts, thieves may recover what you have dumped and use the information from your trash to open new accounts. Skimming occurs when your debit or credit card numbers are stolen while you are using your card. Phishing is the scam whereby thieves pretending to represent banks or other companies send you printed materials or pop-up messages that ask you for account information. Pretexting occurs when thieves request your information from financial institutions, phone companies or other sources, under false pretenses. Hackers set up free WiFi sites in public places so that they can gain access to your computer while you are on unsecured connections.

How do you find out that you are a victim of identity theft? Often it is after some damage has already occurred. You may receive bills for accounts you never opened. You may apply for a loan and be denied. When you view your credit report, you may see overdue debts that aren't yours.

How can you repair the damage done by ID theft? Four steps must be taken after your identity is stolen.

- Review your credit reports and place a fraud alert on your credit report so that you will be contacted before any new accounts are opened in your name. Any of the credit-reporting agencies can help place the fraud account with all three agencies.
- Close the accounts that have been altered or opened fraudulently.
- File a complaint with the Federal Trade Commission. They will work with other agencies and law enforcement officers to try to find the thieves.
- File a report with your local police or the community where the theft took place. You may need a copy of this report to help you dispute things like fraudulent charges to your old accounts or new accounts opened with your information.

For more information on identity theft, go to the Federal Trade Commission’s website, www.ftc.gov.

Loan Scam
An advertiser runs an ad offering a personal-debt consolidation loan, taking all your credit payments and rolling them into one. Rarely is a company name or street address given. Instead, the “lender” has an 800 or 900 telephone number for consumers to call. When you call, the company representative asks only for minimal information about the loan you want and about your financial history. He or she explains that you will be called back to indicate whether or not the loan has been approved. As part of the scam, all the loans are approved. The consumer is then instructed to send in a fee in return for the promised loan. The loan, of course, never arrives. A loan scam is illegal.

Credit-Repair Scheme
A company advertises that it can erase your bad credit history or remove bankruptcy from your credit records. The company requests that a fee be paid up-front for which the company promises to “repair” the consumer’s credit report. However, there is little, if anything, such a business can do to “repair” a customer’s poor credit record. There are no quick or easy ways to repair a poor credit history. A credit repair scheme is illegal.

College Financial Aid Scam
A company advertises that millions of dollars in scholarships go unclaimed every year. The company promises that it will do the research needed to find you a scholarship. The company requests that a fee be paid up-front, usually $200-$400. The company promises that if it can’t find a $2,000 scholarship, it will return the fee. What will you get in return if you pay the fee? Probably some scholarship information that is available from public sources at no cost to anyone who wishes to look. Guidance counselors and college financial aid officers are good sources of reliable scholarship information, available at no charge to you. The college financial aid scam is illegal.

Pyramid Scheme
A pyramid scheme comes disguised as a system for selling goods. Participants are recruited by advertisements offering big profits to people who pay a fee for agency rights—that is, rights to sell goods as representatives of the pyramid company. Each recruited agent then recruits others

to join, with each new participant also paying a fee. The key to the scheme is that early participants receive commissions on any sales they make, plus payment for recruiting additional members. The problem is that there will not be enough new members to keep the pyramids growing steadily for even a few months. When the flow of new members dries up, the pyramid collapses. Pyramid schemes can take several forms. They can be disguised as games, buying clubs, chain letters, mail-order operations, or multi-level business opportunities. A pyramid scheme is illegal.

Payday Loan

A payday loan allows a person to get cash for use until his or her next payday, with no credit background check. It is a legal loan, and it can help some people in an emergency. An applicant for a payday loan typically provides paycheck stubs, savings account numbers, and checking account numbers to the lender. Upon receiving the loan, the applicant also writes a postdated check and gives it to the lender. This check is written for more money than the amount of the loan. It is postdated so that it can be cashed later – generally two weeks after the loan is made. The lender cashes the check after the date on the check. In this way, the lender is repaid for the loan issued, with interest. Typically, the interest rate (APR) is quite high. The APR may be 300 percent or higher. Why would anybody borrow money at an interest rate of 300 percent? Probably because the borrower in question has an urgent need for money. Also, the borrower probably believes that the high interest rate won't matter much because the loan will be paid off quickly. But it is easy for people in financial trouble to fall behind in paying off a payday loan. They sometimes wind up taking out another payday loan, and then another. Soon the finance and interest payments add up to more than the amount of money they borrowed. Payday establishments are found across the country. They are legal.

Rent-to-Own Company

Rent-to-own companies rent and sell appliances, furniture, and electronic products to consumers. Typically, a consumer agrees to rent something for a short period – one week or a month. If the consumer rents the product for a specified period of time (often 18 months), she or he will become the owner of the product – either automatically or by making an additional payment. Rent-to-own is a legal business. It affords consumers some advantages, such as returning an appliance or furniture item after a short period of time. How might this business practice become a scheme? Purchasing merchandise from a rent-to-own company usually costs two to five times as much as purchasing the same goods from a department store or appliance store. If the difference in the total payments and a fair price for the product were expressed as an interest rate, the rate would commonly be over 100 percent.

Exercise 5.3

Directions: Match the name of the scam/scheme in the column on the left to one of the definitions below.

Scam or Scheme	Definition
Rent-to-own	
Credit-repair scheme	
College financial-aid scam	
Pyramid scheme	
Payday loan	
Identify theft	
Loan scam	

1. A fraudulent company offers to erase a consumer's bad credit history or remove bankruptcy information from the consumer's credit records. It collects an upfront fee, and it can in fact do nothing to "repair" a consumer's poor credit record.
2. A fraudulent company offers to find a student a scholarship. It collects an upfront fee and fails to provide the scholarship.
3. Scam artists get your name, Social Security Number, credit card number, or some other piece of your personal information and use this information to open a new credit card account, cellular phone account, or checking account.
4. A fraudulent company offers a personal debt consolidation loan, collects an upfront fee, and never provides the loan.
5. A legal loan that allows a person to get cash until payday, with no credit background check. Typically, the interest rate (APR) is quite high.
6. A fraudulent company in which the first participants receive payment for recruiting additional members.
7. A legal scheme offered by some businesses whereby the consumer pays a very high price for appliances, furniture, and electronics products because the consumer first rents an item and then buys it.