Using Deliberative Techniques to Teach Financial Literacy

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Contents

Introduction

International Debate Education Association (IDEA) believes that free and open discussion is essential to the establishment and preservation of open, democratic societies, and its work supports initiatives promoting excellence and innovation in formal and informal education. IDEA cooperates and maintains contact with educational institutions in over 40 countries. It has extensive experience in conducting teacher training at all levels as well as organizing public speaking and debate events for secondary school students through workshops, competitions, and educational institutes. To complement these activities, IDEA has consistently produced quality curricula and educational resources.

Responding to the needs of secondary school teachers in many countries, IDEA has developed deliberative methodology (or deliberative education), which uses interactive teaching and learning approaches—role plays, simulations, debates, speeches, presentations, and so forth—to facilitate learning and create a new form of relationship between you and your class.

Deliberative education methodologies assist teachers in achieving a number of educational goals:

- Fostering interactive instruction, democratic dialogue, student-teacher partnerships, and cooperative learning
- Promoting student ownership of learning and application of knowledge
- Developing students' listening and communication skills
- Developing students' critical thinking and argumentation skills
- Developing students' research (traditional and computer) and critical reading and evaluation skills

In an attempt to better prepare our youth for their independence as young adults, it is imperative that teachers and schools prepare students to be financially literate and understand the importance of establishing a personal financial plan. This book presents lessons for teachers to provide their students basic competencies in financial planning, regardless of their present understanding of how to earn, save, and spend money wisely. The lessons are a foundation for a basic yet sound understanding of financial literacy. Many states are incorporating the subject of financial literacy into their core high school curriculum, and this manual can serve as a helpful tool to teachers looking to provide sound, practical, and experience-rich units to teach the subject.

Defining the Need for Financial Literacy

Financial literacy is the ability of individuals to make appropriate decisions in managing their personal finances. People have always been responsible for managing their personal day-to-day finances—making sure they have enough to pay the rent each month, the electricity bill; saving up for that trip to the Caribbean; paying for a new fridge when the old one conks out; and bigger considerations like putting aside enough for a child's education or even setting up a trust fund. Financial education is increasingly important—and not just for investors. It is becoming increasingly essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education, and ensure an income when the parents retire, because financial literacy allows them to make educated and informed decisions.

Additionally, poorly informed financial decisions by individuals who generally believe that they are far more financially literate than is really the case have become an increasing concern for U.S. federal and state governments for a number of reasons. The most apparent is the increasing use of credit cards, which in 2003 led to an increase in personal bankruptcies of almost one in ten U.S. households filing for bankruptcy.

In 2007, the number of bank foreclosures on mortgages that people could no longer pay pushed the economy toward recession and led to a sharp plunge on Wall Street. It is easy to see how people's financial illiteracy affects everyone—not just themselves and their families.

Why is financial literacy now so important? Well, according to the OECD's 2006 policy brief "The Importance of Financial Education":

> the growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions that will have a major impact on an individual's future life, notably pensions, are being shifted increasingly to workers and away from government and employers. As life expectancy is increasing, the pension question is particularly important as individuals will be enjoying longer periods of retirement.
>
> Individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. But if individuals do become financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth.[1]

The good news is that research shows that workers increase their participation in 401(k) retirement savings plans when employers offer financial education programs, whether in the form of brochures or seminars. Mortgage counseling before people take on a loan has been found to be effective in reducing the risk of mortgage delinquency. Consumers who attend one-on-one counseling sessions on their personal finances have lower debt and fewer delinquencies. Financial education helps people learn how to properly budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud. And this helps everyone to become more financially secure.

So, whether your school district requires teachers to provide financial literacy courses or you simply want to add some practical lessons to your economics curriculum, we encourage you to use this book as a stepping stone to incorporating financial literacy into the lessons you teach. While this book is written for grades 9–12 teachers, you can adapt the les-

[1] OECD, "The Importance of Financial Education." 2006.http://www.oecd.org/dataoecd/8/32/37087833.pdf (accessed July 20, 2008).

son plans to any grade or ability level. Additionally, this guide offers some great Web sites that can provide you with a vast array of Financial Literacy resources and lesson plans.

IDEA is proud to present *Using Deliberative Techniques to Teach Financial Literacy*, the second volume in its series, Deliberating Across the Curriculum. Many of the lesson plans in this manual have been inspired by the sharing of ideas and experiences of teachers co-operating with IDEA in many countries. The author is grateful for all suggestions given and valuable input received.

How to Use This Manual

Integrating this material into the curriculum

Using Deliberative Techniques to Teach Financial Literacy is not a curriculum. It is a compilation of hands-on instructional approaches that helps you to teach curriculum in an exciting and thought-provoking way. Deliberative methodology provides an innovative way for you to bring subjects alive in the classroom. You can use the lesson plans as they are presented or you can modify them to fit your needs.

Goals

The goals of this manual are to teach the use deliberative techniques to advance students in the following areas:

1. Basic principles of money management
2. Responsible credit and debt management
3. Savings, investment, and retirement planning

Organization

Using Deliberative Techniques to Teach Financial Literacy is divided into four chapters:

- Chapter 1 defines deliberative techniques and discusses their uses and benefits in teaching financial literacy. The chapter presents the various components of the methodology—speeches and presentations, debate, role plays and simulations—and describes how you can use them in your existing curricula.

- Chapter 2 offers six lesson plans focusing on the principles of basic money management, including what constitutes a financial plan, financial planning, budgeting, payroll taxes, and the basics of checking and savings accounts.

- Chapter 3 offers nine lesson plans focusing on credit and debt management, including the types of credit, student loans, credit card basics, contracts, and identity theft.

- Chapter 4 offers five lesson plans focusing on savings, investment, and retirement planning, including risk management, types of assets, and savings and investing, and how these components tie together into a sound financial plan.

The book concludes with a glossary and a list of resources you can use to learn more about deliberative technologies and IDEA.

How Do I Find Out More about Deliberative Methodology?

Head straight to Chapter 1 and read on. Here you can find research that backs up deliberative methodology and how it is best used to teach new concepts. You can present this to your school's instructional leaders to prepare them for all the exciting things that are about to start taking place in your classroom.

How Do I Integrate This Material into the Curriculum I Have to Teach?

Deliberative methodology is a compilation of hands-on instructional approaches—not a curriculum. It encourages teachers to teach required curriculum in an exciting and thought-provoking way. The focus on financial literacy is an aspect of economics, mathematics, and life skills. By using deliberative methodology to teach the necessary skills and content of financial literacy, you are teaching students to utilize this new content and skills in a way that facilitates learning. They are actually using the skills and content rather than simply learning about them. Most students think that they don't have enough money to worry about savings, investing, credit, etc. But actually, this is the perfect time for them to learn so that they have the foundations of financial literacy as they mature.

Lesson Organization

Lesson plans follow a standard format:

Title
Instructional objectives
Description
Time
Materials
Preparation (optional)
Class layout and grouping of students
Procedure
Assessment
Extensions and modifications (optional)

This detailed organization helps you plan your lessons and forgo the guesswork typically associated with putting them together. Note the extensions and modifications section is for teachers who want to build on a successful lesson or would like a variation of the original lesson plan.

So, if you are ready to get started, head to Chapters 2, 3, and 4 and start browsing for a lesson plan. Once you teach using deliberative methodology, you will bring the excitement of learning back to life for your students!

Chapter 1
Deliberative Education

Deliberative Education Defined

Deliberative education is a set of methodologies that employ speech, communication, discussion, and debate to maximize students' participation in the learning process. Through redefining the role of a teacher in the educational process and confronting students with new tasks, deliberative methodologies engage students in the subject matter by providing an incentive to learn, assisting them in the process of application of knowledge, developing an array of skills, and providing them with a greater ability to adapt to the fast changing realities of the modern world.

Deliberative education includes a number of educational tools: educational debates, role plays and simulations, discussions, and individual presentations. It is a modern and innovative approach in education that effectively meets a number of educational goals. Deliberative education aims at the following:

1. Engaging students in the subject matter by creating an atmosphere conducive to active learning. The traditional educational methodologies are based on a formulaic, top-down method in which students are passive recipients of knowledge passed to them from teachers. Deliberative education is based on democratic dialogues between a teacher and the students as well as between students. This methodology opens students up to new ways of thinking; allows independent study, problem solving, and free expression of ideas; and encourages student creativity. By emphasizing personal investigation and respectful confrontation of different and often opposing ideas in the public but safe setting of a classroom, deliberative education constitutes an educational antidote to the development of passivity and authority dependence in students.

2. Offering a holistic and complex approach to learning. Traditional instructional methods are based on a consumer approach to learning in which knowledge is only measured within the parameters of exam requirements, but students are often not interested in pursuing the depth and complexity of the studied issues. Deliberative education encourages examining and analyzing complex issues in depth, researching a variety of sources, and reflecting on other areas of knowledge. Deliberative education provides students with an incentive to critically analyze, evaluate, and respond to a variety of issues in their adult lives and assists them in becoming engaged and informed citizens.

3. Encouraging application of attained knowledge. Students engaged in deliberative education become adept at applying knowledge they have gained in realistic discussions and debates. Traditional educational methodologies call on students to display their retention of knowledge through formal exams or tests to simply prove that they retained the information, whether it is useful or not. Deliberative education methodolo-

gies encourage students to reorganize their knowledge and apply it in different patterns depending on the context of the learning situation. Deliberative education has its roots in experiential learning, which involves a hands-on approach to teaching and learning. In deliberative education, learners often develop knowledge through a series of experiential discoveries that they themselves direct through practical experience, which increasingly progresses in difficulty and thus increases knowledge. Deliberative methodologies prepare students for a variety of roles that they will be expected to assume during their adult lives, and provide them with an array of skills necessary in many spheres in modern society, including private, social, and professional.

4. Encouraging cooperation and teamwork. It shifts teaching and learning from teacher-centered to learner-centered activities. It raises the quality and the frequency of participation among students and encourages cooperation and sharing of the responsibilities for learning and its outcomes. This approach reflects the demands of the "real world," where individuals most often must work with each other to achieve their common goals.

5. Building on different learning styles. By confronting students with different tasks, deliberative education meets each student's varying needs, abilities, and learning styles. Deliberative education responds to the needs of those students who focus on feelings and experiences. It responds to the needs of students who value observation and analysis, as well as students who are "doers" and focus on making links between concepts and their practical applications.

The innovative character of deliberative education is uniquely useful in the teaching of financial literacy, which traditionally relies on lecturing about economic concepts. Deliberative education will help you teach financial literacy in a participatory way that engages students and helps them realize the potential of their future with a proper plan in place.

Deliberative methodologies

The most prominent methodologies include debate and discussion, simulation and role play, and individual or group presentation. You can use these methodologies independently or in conjunction with each other. For example, a debate can lead to a role play or individual or group presentations. You can adapt each of these methodologies to different topics, group sizes, and educational goals. You may want to use a simulation exercise to introduce a unit and a role play to test students' knowledge at the end of the section. The options are numerous.

Educational debate

Educational debate is a formal contest of argumentation between two teams during which one team supports, while the other team opposes, a given proposition. A debate begins with a resolution, a simple statement about a topic that both teams subject to critical analysis. The team supporting the resolution speaks first and is referred to as an affirmative team (since it affirms a given resolution). The opposing or negative team must then refute the arguments offered by the affirming team and present arguments against adopting the resolution. Each team must not only outline their positions (the so-called cases) but also respond directly to its opponent's arguments. A neutral judge (either an individual or a group of individuals) listens carefully to the arguments of both sides and decides which team is most persuasive.

Debate is not only an educational methodology; it has been an intrinsic part of democratic institutions since the time of Ancient Greece. The study and practice of debate furthers the development of skills essential for living in a democratic society. Because of its importance, academic debate is included in many educational systems (for example, in the United States, Great Britain, Australia), and thousands of secondary school students all over the world engage in debate activities in the classroom and in extra-curricular programs.

Debate is a flexible learning tool that meets a number of educational goals. It develops communication and speaking skills by providing students with an opportunity to deliver prepared presentations as well as to practice impromptu speeches in response to the arguments of others. Debate offers structure and imposes limits on speaking order and time, thus introducing an element of control that provides a framework for an organized exchange of ideas and that also serves as a reassuring support for beginners. It develops critical thinking and research skills and requires cooperation. Debate is also an excellent conflict resolution tool that emphasizes peaceful and tolerant communication and respect for the opinions of others.

Debate is best conducted over a number of lessons that focus on the individual processes involved—brainstorming and analyzing arguments, researching arguments in depth, preparing cases, debating the topic, and debriefing the debate—during which students evaluate their performance, consider the outcomes of the debate, and offer feedback to each other.

As a teacher, your role is best described as a coach and a facilitator. You should provide the students with a topic that engages their interest and has quality arguments on both sides of the issue. You should recommend or provide resources for researching the topic and offer guidance during the teams' preparation. You should also judge a debate and offer feedback after the debate is finished.

Although there may be only a small number of students engaged in the formal debate, the activity can involve the whole class. All students can research the topic, and those not on the teams can act as judges, assessing the debate and offering feedback to their peers.

Although debate is best used to assess what students have learned at the end of a unit, you can use it during any other stage of the educational process, including at the beginning of a unit to determine what students already know about a topic.

Role play

Role play is a technique in which students act out roles in a scenario depicting a problem, particularly one involving social life, for educational purposes. It is a planned interaction that involves realistic behavior under artificial or imagined conditions. It is an excellent tool for introducing students to different social roles.

The goal of this methodology is not only to practice competencies but also to stimulate a discussion that allows students to identify effective and ineffective behavior under given circumstances. The technique has many variations—spontaneous role plays, dramatic skits, etc.—and involves any number of students. Role plays often involve fictitious characters, but you can also develop role plays involving current or historical figures.

Similar to other deliberative methodologies, role plays develop the following:

1. Communication skills: Role plays provide a practical illustration of what happens when people communicate, either verbally or non-verbally. They give students an opportunity to receive and provide feedback and help students develop active listening skills.

2. Research skills: Role plays help students develop their research skills by asking them to understand and support the views of their characters. Role plays enhance students' ability to critically evaluate sources through assessing information that other students present.

3. Problem-solving and critical-thinking skills: Role plays require students to generate ideas, respond to each other's views, propose alternative solutions, defend their views, and critique the views of others.

Role plays are highly engaging activities that increase students' participation both in the preparation process and during the activity itself. Role playing relies heavily on the experiences of participants in ways that increase their ownership of learning. Students are engaged in all stages of the role play, from planning through debriefing, and, as a result, are highly motivated to participate in the process of learning. This technique is very interactive and shifts teaching and learning from teacher centered to student centered. During the role play, you should exercise a minimum of control and intervene only to assure the smooth running of the lesson.

Role playing is also extremely flexible. You can change the role play while it is being conducted and fit the material to particular situations. Role playing can be brief or extended, although 45-minute role plays are most common. Similar to debate, a role play can be used during different stages of a particular unit. At the beginning of a unit, it can serve as an excellent introduction and illustration of a certain educational point or objective; at the end of a unit, a more complex role play serves as a closure or assessment of students' skills and knowledge.

Simulations

Simulations emphasize the big picture of experiencing group processes rather than focusing on the playing of an individual role of a certain character (although very often simulations are based on students playing certain roles). The difference between the role play and simulation is also in the authenticity of the roles the students take. In a simulation exercise a student is more likely to play natural roles—that is, roles that they sometimes have in real life. While in a role play, they would more often assume roles of fictitious characters.

Simulations develop the same skills as role plays and also provide students with an opportunity to do the following:

1. Increase their awareness of how their perceptions of others' motivations and cultural heritage can affect their interactions. Very often, good simulations will lead students to rethink their behavior and attitudes toward others.

2. Examine their own biases and focus on how their perceptions of differences can impact their interpersonal relations.

3. Understand how stereotypes develop, how barriers are created, and how misunderstandings among people are magnified. Students will also be able to observe, develop, and adopt appropriate mechanisms for successfully interacting with others.

Simulations are excellent teaching tools because they require active participation from students and develop strong motivation to learn. Simulation exercises also increase students' empathy and teach the rules of social interaction.

A well-developed simulation is conducive to acquiring certain knowledge-based content, since it allows the participants to learn from personal experiences rather than from a lecture or even a discussion. For example, a cultural diversity simulation will make the participants much more sensitive to how cultural differences generate stereotypical perception and thinking than a lecture on the same subject. Many simulations also encourage the development of critical-thinking and problem-solving skills.

The drawback of this method, however, is that developing good simulations is labor intensive. A good simulation requires a well-conceived story line, plot challenges, and support materials for each stage of the simulation. The challenge in writing quality simulations is (1) in understanding that students will likely reach different conclusions and plans of action for each stage of the simulation and (2) in developing materials in advance to support the range of possibilities. In light of this, teachers new to simulation may be better off using already existing simulations and adapting them for their needs rather than developing them from scratch.

Presentations

Each of the methodologies discussed above involves student presentations, but you may want to include other types of oral presentations—readings, impromptu and prepared speeches, etc.—in your classroom as well. Deliberative education emphasizes developing presentation skills because students will need these throughout their lives and because presentations are helpful in achieving a variety of pedagogical objectives.

Chapter 2
Basic Principles of Money Management

This chapter outlines the basic fundamentals of managing personal finances for students at the high school level. Here teachers can find lesson plans that lay out the basic components of a financial plan—yes, even a teenager needs a financial plan. Components include setting financial goals and using those goals to make financial decisions in the long-term and short-term budgeting; what all those deductions on their paycheck are; the basics of opening a checking and savings account; and how to responsibly maintain a checking account.

1. Components of a Financial Plan

Instructional objectives
Students will be able to
- Discuss the aspects of financial literacy
- Understand the basic components of a financial plan
- Understand the importance of setting SMART goals

Description
Students will list what they know and would like to learn about personal finance. They will then be introduced to the basic components of a financial plan. Finally, they will learn the proper way to set financial goals.

Time
45–60 minutes

Materials
Components of a Financial Plan resource sheet (copy for each student)
SMART Goals resource sheet (copy for each student)
My SMART Goals activity sheet (copy for each student)

Class layout and grouping of students
The students sit at their desks facing the front for the first part of the lesson and then work in pairs.

Procedure
Introduction

1. Write the term financial literacy on the board. Underneath, write a K/W/L chart.

K	W	L
What I know	What I want to know	What I learned

Ask your students to take out a sheet of paper and draw the chart at the top. If the class is familiar with K/W/L charts, continue to step 2. If not, explain that these charts allow them to record what they already know about a topic, what they want to learn about that topic, and then afterward, detail what they have learned.

2. Ask the students to brainstorm the K column (What I know), writing in any items, topics, or phrases that they already know and understand about financial literacy. Remind them that they need write only a key word or phrase. Give them 5–7 minutes to jot down their lists.

3. After the students have finished, ask them to call out items from their lists. Jot down all the items on a separate part of the board without stopping to explain any terms. When the topics have been exhausted, tell the students to look at the master list and see if it now contains any items they may not know but would like to learn about. Ask them to write these in the W column (What I want to know) of their table and add any other terms they may want to familiarize themselves with. Give them 5–7 minutes to complete the second column.

4. Then tell them to write their name on the top of the paper and turn it in. Explain that they will see the sheets again at the end of the course so that they can determine if they've achieved their goals.

5. Save the sheets to redistribute later.

Components of a Financial Plan

1. Define financial literacy and facilitate a discussion of why it is important.

   Financial literacy is the ability to understand the implications of key financial decisions and to manage money through budgeting, saving, investing, and protecting assets.

2. Explain to students that the first step in achieving financial literacy is to understand the basic components of a sound financial plan. List the following terms on the board:

   Savings
   Credit
   Investment
   Risk Management

   Ask the students why each of these is important in a financial plan.

3. Distribute Components of a Financial Plan resource sheet and review. Explain that while their financial plans will change as they grow older and have different needs, such as planning for retirement, the components they will learn about in the course will always remain important.

Setting Goals

1. Explain to the class that they cannot implement a financial plan unless they determine what their short-term, intermediate-term (one to three years), and long-term goals (more than three years) are. Financial planning is like taking a trip. You plan where you ultimately want to be and the stops along the way.

2. Tell the class that most financial advisers emphasize the importance of setting SMART goals. Distribute SMART Goals resource sheet and review.

3. Write each of these scenarios on the board:
   - I want to go bungee jumping in New Zealand this summer.
   - I can use my expected Christmas bonus to buy a new computer.
   - I'll get a job to pay for an HDTV.
   - I'll save all the money I make this summer. That should pay for tuition.

   Ask the class to analyze each statement and determine what component of a SMART goal is missing. Ask them how to rewrite each scenario as a SMART goal.

4. Organize the class into pairs. Distribute My SMART Goals worksheet and ask the students to write one of their short, intermediate, and long-term financial goals in the SMART format. Once the students have completed their goals, tell them to exchange sheets with a partner and analyze the partner's goals. Are they presented as SMART goals? If not, make suggestions for putting the goals in the SMART format.

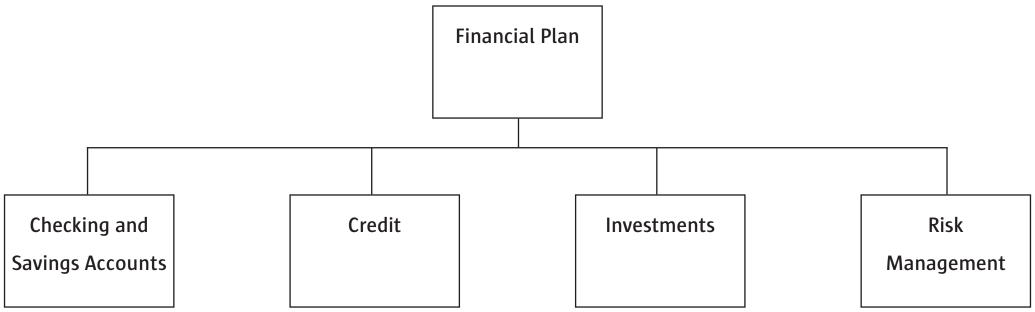
5. When the students have completed the assignment, facilitate a discussion of why financial advisers think the SMART format is so important.

Assessment

Review the submitted K/W/L to determine your students' level of understanding of financial literacy. Keep these sheets in a safe place so that students can complete them at the end of the course. You can assess the students' understanding of setting SMART goals during the class discussion of scenarios and the analysis of the SMART format. You should also collect the individual goal sheets for assessment.

Components of a Financial Plan

A good financial plan includes four elements:



Checking and Savings Accounts: Checking accounts are bank accounts that enable the holder to write checks against funds on deposit or to withdraw funds using an ATM or debit card. A checking account is where you put money you will use to pay bills. A savings account is an account with a bank or other financial institution that pays interest on money deposited. You use savings accounts to accumulate funds to be used in case of an emergency or to achieve a short-term goal such as buying a computer.

Credit: Credit involves borrowing money in the short or long term. You use credit to finance purchases you may not be able to afford from your savings, such as a home or a car. Credit is a critical part of a financial plan not only because it helps you make large purchases but also because the proper use of credit shows that you are financially responsible. Landlords, insurance companies, mortgage companies and other lenders, and even employers will look at your credit records to investigate your personal spending habits and your payment history before they rent you an apartment, loan you money, or even hire you for a job.

Investments: Investments are assets held to procure income, increase wealth, or meet long-term goals such as retirement. Investments include stocks, bonds, mutual funds, real estate, and even collectibles such as baseball cards.

Risk Management: Risk management involves financially planning for a crisis or problem through the use of insurance: health insurance (for sickness), home and auto insurance (for accidents or replacement), and life insurance (for death). Financial planning in this area allows you to focus on coping with the tragedy while insurance relieves you of some of the monetary concerns involved.

Resource Sheet

SMART Goals

Most financial advisers emphasize the importance of setting SMART goals. Goals must be:
S = Specific
M = Measurable
A = Attainable
R = Realistic
T = Time bound

	SMART	NOT
Specific	I want to spend two weeks in Scotland in August.	I want to go to Europe this summer.
Measurable	Hotel and airfare will be $2,000.	I can stay in a youth hostel, and there are always airfare sales in the spring.
Attainable	I can get a job tutoring math for $20 per hour. If I tutor four hours a week from September to March I can pay for the trip and have about $800 in spending money.	I can make that money caddying once golf season starts.
Realistic	I set aside all the money I make from tutoring for the trip.	If I ask nicely, my sister will probably lend me the money.
Time bound	I want to save the money by the end of March.	I'll save the money by the summer.

Activity Sheet

My SMART Goals

Instructions: In the table list one of your short-term, intermediate-term, and long-term goals and enter the SMART criteria for each. Once you have completed your goals, exchange them with your partner. Then analyze your partner's goals. Are they SMART goals? If not, how can they be made so?

	Specific	Measurable	Attainable	Realistic	Time bound
Short-term					
Intermediate-term					
Long-term					

2. Goals, Decision Making, and Planning

Instructional objectives

Students will be able to

- Understand how goals, decision making, and planning affect personal financial choices
- Analyze trade-offs involved in making spending decisions
- Make financial decisions based on information given in a case study

Description

Students will analyze a case study of a fictional character who is working and trying to save for various purchases, one of which is a college education. Working in groups, they will create a savings plan and determine which purchases to make.

Time

45–60 minutes

Materials

Case Study: Jack Howard activity sheet (copy for each student)

Preparation

Print out one case study for each student and organize the copies by part. You will be handing out the case study one part at a time.

Class layout and grouping of students

Students will work in groups of three or four.

Procedure

1. Tell the class that they will work in groups to analyze a case study of a student who must make some important financial decisions. Explain that a case study is a story about someone that has been broken into parts. After reviewing each part, the groups will analyze the situation and discuss the financial options available.
2. Organize students into groups of no more than four and distribute Part 1 of the case study to each student. Tell students to read it individually, and when all members of the group are finished, discuss the four questions presented below the text with the other members of their group. Explain that they have 7 minutes to complete this portion of the assignment. Answer any questions they may have and ask them to begin.

3. After 7 minutes hold a whole-class discussion about the text and the questions presented. Make sure that representatives from each group have a chance to respond and assess how well students understand the situation presented.
4. Once all students are ready, distribute Part 2 and ask the students to repeat this procedure. They now have 10 minutes to complete this portion of the assignment. Then hold a class discussion of this section.
5. Distribute Part 3 and follow the same procedure, giving the students 15 minutes to complete the assignment.
6. Following your discussion of Part 3, hold a general class discussion and ask the class how they would proceed in Jack or Dan's situation. Why? Have students discuss parallels to their own situations. Include questions such as these: What are they planning to do after high school? Were they aware of the costs of a college education? How will they plan for this expense?
7. Engage the students in a discussion about setting financial goals and have them explain the rationales behind the goals they set.

Assessment

1. During each of the four whole-class discussions, assess student understanding through the responses they give and the questions they ask. Ensure that they fully understand the choices and options available to Jack and Dan.
2. Walk around the room during the group discussions and evaluate the students' responses to the case study questions. As you engage each group, draw out student responses to assess understanding.

Extensions and modifications

1. Have students research salaries for various occupations and determine required college degrees for various positions.
2. According to the 2007 College Board study "Education Pays: The Benefits of Higher Education for Individuals and Society," someone with a bachelor's degree earns over 73 percent more than someone with only a high school diploma. Give students a list of average salaries for jobs that do not require an undergraduate degree. Using this statistic, discuss how much more money a person could earn at another job if she had a college degree. On average, a person with a college degree earns $1,000,000 more than the average non-degreed person over a lifetime.[2] Compare the high costs of a college education to this figure.

[2] College Board, "Education Pays 2004," http://www.collegeboard.com/prod_downloads/press/cost04/EducationPays2004.pdf (accessed June 30, 2008).

Activity Sheet

Case Study: Jack Howard

Part 1

Instructions: Read the following and discuss the four questions below with the other members of your group. You have 7 minutes to complete this portion of the assignment. Be prepared to discuss the situation with the whole class after your group exchange.

Jack Howard is a high school senior. It is October and two of his friends recently dropped out of school—Dan was offered a sales job at the local HotBuys store. He is currently making $15 an hour and even gets paid vacations. His other friend, Jim, plays in a band that lately has been getting a lot of attention, and Jim didn't want to pass up the opportunity. Besides, both of them said they couldn't see how trigonometry and world history would really help them in the long run. Both of them said that it just made sense for them to drop out.

Jack's mom is freaking out that he might do the same, and he has to admit that he has been thinking about it. His dad owns and runs a die-and-mold shop, where Jack is expected to work after graduation, either full time or part time if he attends college. He doesn't need a high school diploma to work there, but his heart isn't in the business. Nevertheless, it is a guaranteed job with flexible hours, if necessary. His girlfriend works at the local fast food restaurant, but she is always changing jobs—she gets bored easily and the money hasn't been very good at any of her jobs. Jack really wants to work in a garage—he loves cars but doesn't have one of his own yet. He knows there is an opening at Moran's Garage; maybe he should take it. But then his mom is really pushing for him to go to college. Jack isn't sure what to do.

1. What are Jack's choices?
2. Using the data from the table below, analyze the choices that Dan and Jim made. How might their decision to drop out of school affect them in the long run?
3. What would you advise Jack to do?
4. What would you do in Jack's situation?

Average annual earnings by education level

Professional Degree	$109,600
Doctoral Degree	$89,400
Master's Degree	$62,300
High school graduate	$30,400
Bachelor's Degree	$52,200
Associate's Degree	$38,200
Some college	$36,800

Source: U.S. Census Bureau, Current Population Surveys, March 1998, 1999, and 2000. *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings*, Figure 1. Tabulations reflect the average annual earnings of full-time, year-round workers 25 to 64 years old.

Case Study: Jack Howard

Part 2

Instructions: Read the following and discuss the questions below with the other members of your group. You have 10 minutes to complete this portion of the assignment. Be prepared to discuss Part 2 with the whole class after your group discussion.

Jack is graduating from high school in June—only four months away. He decided to stick it out and is actually glad that he did. Dan lost his job last week when HotBuys announced it was going out of business. He can't get another full-time job because employers keep telling him that they require workers to have a high school diploma, even for loading dock jobs. He missed too many days of school to simply start back up where he left off. He would have to repeat an entire year and he said there is NO way he'll do that. He is now living in his mom's basement, playing X-Box all day and continually asking Jack about all the "losers" at school. Jim's band is pretty good, but they are still playing only occasionally for school dances because they are not getting the gigs they expected. He seems okay with his decision to quit school, but he is always broke.

Jack applied to several colleges—much to his mother's delight. He doesn't know what he wants to study, but he put down engineering as his major because it seemed to be the choice that was closest to cars. He figured he can always change it later. He works part time at his dad's place and makes decent money. He thinks he doesn't want to take out loans for college. He will also need to get a car if he plans to go to school close to home—that's another few hundred dollars. Or he could go to the school that he liked that's 400 miles away. It would cost more because he would have to pay for room and board, but he wouldn't have to pay for a car. But then again—he really wants a car. His girlfriend is really pushing him to attend the school where she is going. It's about 100 miles away, and Jack does really like her, but the school is just average. His parents said they could help him a bit but not a lot.

1. How did Jim and Dan fare in their decision to quit school?
2. What are their options?
3. What are Jack's choices for college?
4. What are the factors that are driving Jack's decision making?

Case Study: Jack Howard

PART 3

Instructions: Jack is accepted at a private university, a public university, and a two-year public college. Read the scenarios below and the chart on college costs and room-and-board fees. Then, with the other members of your group, respond to the questions that follow. You have 15 minutes to complete this portion of the assignment. Be prepared to discuss Part 3 with the whole class after your group discussion.

Scenario 1: *Jack chooses the private university that is nearest to his home, because he can work at his dad's place part time and go to school full time. He can also attend school full time and organize his work schedule around his classes. He makes $9 an hour at his dad's place and plans to work 20 hours a week. He will live at home for now—which he is not too excited about—but it will save him some money. He wants to pay about $500 for a car, which he plans to fix up himself. He will try to take out some loans for the tuition costs but not for the whole amount. He wants to pay as much of his college expenses as he can with the money he is making. He currently has no savings.*

Scenario 2: *Jack chooses the public university that is 400 miles away from home. It is one of the best engineering schools in the country, and besides he just wants to try being on his own for a while. He will look for a job that will help him with pocket money and he will take out loans to cover the cost of tuition, fees, books, and room and board. He'll worry about paying back the loans after he graduates and has a good paying job. He currently has no savings.*

Scenario 3: *Jack chooses the two-year public college that is about 90-minute drive from home. His girlfriend is also going to the same school, and she really pressured him to go. He figures he can still live at home to save money for a car. Because he will rely on his car so heavily, he plans to spend about $5,000 on a decent car that will require the minimum amount of work and he thinks he can do the oil changes and basic maintenance. He can also work for his dad—maybe about 10 hours a week—and his dad will be flexible with his work hours. He will try to take out a loan to cover the cost of the car, the tuition, books, and fees and use some of the money from his job to pay some college costs as well. After two years, he knows that he has to transfer his credits (some of which may not be accepted) to a four-year university so that he can finish his bachelor's degree. He'll worry about that later. He currently has no savings.*

Current cost for 1 year of full-time education and fees at a **4-year private university**/college	Current cost for 1 year of full-time education and fees at a **4-year private university**/college with room and board	Current cost for 1 year of full-time education and fees at a **4-year public university**/college with room and board	Current cost for 1 year of full-time education and fees at a **4-year public university**/college	Current cost for 1 year of full-time education and fees at a **2-year public university**
$23,712	$32,307	$13,589	$6,185	$2,361

Source: College Board. "Trends in College Pricing 2007," from http://www.careercornerstone.org/pdf/universities/tuition07.pdf. (accessed December 17, 2007).

1. Analyze Jack's three choices. Decide which is the best for Jack and share it with your group. Remember to explain your choice, listing the factors that influenced your decision.
2. How does your choice meet Jack's goals?
3. How could Jack have better planned financially for college?
4. Think five years into the future. Based on the choice you made for Jack, predict where he will be in terms of his education, his financial situation, his love life, his car, his career, and his life in general. Justify your prediction.

3. Budgeting

Instructional objectives
Students will be able to
- Understand the importance of a budget for achieving financial goals
- Understand the components of a budget
- Create and analyze a budget

Description
Students will learn about the importance and benefits of budgeting and analyze the components of a budget and the budgeting process. Working in groups, they will create budget and budget recommendations to achieve a short-term goal.

Time
45–60 minutes

Materials
Budgeting Basics resource sheet (copy for each student)
Bill's Budget activity sheet (copy for each student)

Class layout and grouping of students
Students will work in groups of four or five.

Procedure
1. Ask the students to define "budget." They will probably come up with definitions that have a negative connotation. Tell them that a budget is nothing more than a plan for spending and saving money—and they make the rules. Remind them that a budget shows them how they want to spend their money so that they reach their goals.

2. Ask the class to brainstorm the benefits of budgeting. These include the following:
   - helps you control your money instead of your money controlling you
   - helps you set financial priorities
   - helps you set and work toward financial goals
   - lets you know if you are living within your means
   - helps you keep out of debt
   - helps you build a financial safety net
   - helps you find money and free up cash for the things you want
   - helps you distinguish between wants and needs

3. Ask the students what would happen if they didn't have a spending plan.

4. Distribute Budgeting Basics and review. Make sure that the students understand the difference between fixed, periodic, and variable expenses.

5. Facilitate a discussion of the first rule of budgeting: Pay Yourself First. Ask the students why experts think it's important. Do they think it's realistic?

6. Review each step in the budgeting process.

7. Organize the class into groups of four or five and pass out Bill's Budget. Tell the students that they are to work in groups to create a budget and recommendations for Bill using the information on the sheet. Give the class 15 minutes to develop the budget.

8. Once the groups have completed the assignment, ask each group to present its budget and recommendations to the class. Facilitate a class discussion on the recommendations. Make sure that students have included savings in the budget and noted the need to establish an emergency fund.

Assessment

You can assess the students in their groups as they prepare and present the budget and during the final class discussion.

Extensions and modifications

Ask the students to keep a record of their income and spending for a month and then prepare their own budgets.

Budgeting Basics

What is a budget?

A budget is nothing more than a plan for spending and saving money—and you make the rules! It shows you how you are spending your money and what you need to do to manage it. A budget summarizes how you want to use your money to reach your goals.

Components of a budget

1. **Income:** the money you receive. It can be your take-home pay (your earnings minus taxes and other deductions), an allowance, gift, etc.
2. **Fixed expenses:** expenses that you must pay regularly and do not vary, such as rent.
3. **Periodic expenses:** expenses that you do not pay every month. These can be either fixed, such as car insurance, or discretionary, such as car repair.
4. **Variable expenses:** regular expenses that fluctuate, for example, food. You can predict the monthly range of these expenses by tracking them over time. You have some control over what these expenses will be. You can reduce, increase, or eliminate them depending on how you want to spend your money.

Pay Yourself First

The first rule of budgeting is to pay yourself first. Whenever you receive money, you should put a portion (experts suggest 10%) into an account in order to first build up an emergency fund to cover six months of fixed expenses in case you lose your income and then set aside money toward your long-term goal. Paying yourself first ensures that however you spend the rest of your money, you will be working toward your financial goals.

Sample Budget

Nancy's Monthly Budget	
Income	
Take home pay	$ 1,000
Allowance	$ 1,400
Total	$ 2,400
Expenses	
Fixed	
Savings	$ 240
Room & board	$ 1,400
Cable	$ $20
Car payment	$ 200
Periodic	
Car insurance $720/12	$ 60
Variable	
Clothing	$ 200
Entertainment	$ 150
Cell phone	$ 140
Gas	$ $50
Total Expenses	$ 2,400
Total income	$ 2,400
-Total expenses	$ 2,400

Building a Budget

You need to take only five simple steps to build a budget:

1. **Set goals.** Knowing what your short-term and long-term goals are will help you allocate your money. For example, if you want to buy a new computer in six months and know how much it will cost, you will know how much you have to save each month and what variable expenses you have to cut to achieve your goal.

2. **Analyze the information.** Determine how much income you receive and how you spend your money. Don't guess how you spend! Keep a spending journal for a week or a month so you can see on what you actually spend your money. You may be surprised.
3. **Create a plan.**

- Determine if you want to build a weekly or a monthly budget.
- List all your income. Break down your income into its components: work, gifts, allowance.
- List your expenses. Break them down into the three expense types—fixed, periodic, variable—and make categories for each. For example, under variable expenses, you might have a category for clothes or eating out. REMEMBER: PAY YOURSELF FIRST.
- Determine if you are living within your means. Subtract your expenses from your income for the same period. For example, if you are creating a monthly budget, you would subtract your monthly expenses from your monthly income. Your expenses must be lower than or equal to your income.
- Adjust your figures. If your total expenses are higher than your income, you will have to lower your variable expenses. If your expenses are lower than your income, you can allocate the extra money as you wish. You may want to put more into savings to reach your long-term goals more quickly.

4. **Implement the Plan.** Use your budget for a period of time to see if it works for you.

5. **Modify the Plan.** Periodically make changes to your plan if your income, expenses, or goals change.

Activity Sheet

Bill’s Budget

Instructions: Bill knows that you have just finished a lesson on budgeting, and so he has come to you for help. Bill wants to buy a new computer, and he saw one he really likes for \$2,000. He’s saved \$500 so far and wants to buy it in the next three months. He wants to know if he can afford it and what he has to do to reach his goal. Working in your groups, develop a budget for Bill using the information below. Is his goal realistic? What would Bill have to do to buy a new computer? Present your budget and recommendations to the class. Be prepared to defend your recommendations.

Bill is in his first year of college. He has a part-time job that pays him \$1,800 a month, from which 25% must be deducted in taxes. His parents send him \$2,000 a month, which covers his tuition and room and board. His cell phone bill is \$200 per month. He has a car payment of \$250 per month and pays \$720 per year in car insurance. Expenses for the car repair and upkeep average \$40 per month. His gas averages \$15 per week. Eating out and entertaining cost him about \$400 per month. He spends \$600 annually on clothing and \$600 every semester on books. Bill’s hobby is repairing a vintage motorcycle, and he spends \$100 on this project monthly.

Bill’s Monthly Budget	
Income	
Expenses	
Total expenses	
Total income	
-Total expenses	

Recommendations:

4. Payroll Taxes and Deductions

Instructional objectives
Students will be able to understand
- The purpose of a W-4
- What withholdings are and how to calculate them
- What may be deducted from their paychecks and why
- How taxes and deductions affect their net pay
- The benefits of deductions

Description
Students will learn about the mechanics of analyzing typical mandatory and voluntary paycheck deductions. They will then debate the benefits of deductions.

Time
45 minutes

Materials
W-4 forms (copy for each student)
Matt's Paycheck resource sheet (for each student)
Deductions Pro and Con activity sheet (copy for each group)

Preparation
Download the W-4 forms from http://www.irs.gov/pub/irs-pdf/fw4.pdf and copy for each student.

Class layout and grouping of students
Students will work in groups of four to develop their presentations.

Procedure
Withholdings
1. Explain to the students that today's lesson will focus on the government paperwork they must complete in order to get paid and how to interpret the deductions listed on a paycheck. Organize the class into groups of four.

2. Distribute the W-4 forms and explain that when they start a job, they must fill out the form to calculate the right amount of federal (and state, if any) income tax to have

withheld from their paychecks. The greater the number of allowances they claim, the less money the government takes out of their paychecks. Students living with their parents cannot claim allowances, but if they are paying for their own food and shelter, they could claim 1 allowance. Explain that as they get older—as they buy a home or marry and have children—the number of allowances will increase. Have the students fill in their W-4 forms.

3. Tell the students that many people do not claim allowances even if they are eligible for them, because they hope they will be overpaying their taxes and get a big refund at tax time. Facilitate a discussion of whether this is the best action to take.

Deductions

1. Distribute the paycheck sample and review. Tell the students that when they receive their paychecks they will see that various amounts have been deducted from their gross pay. Explain the difference between gross pay (the total amount the employee earned) and net pay (the total amount earned minus various taxes and deductions).

2. Tell the students that some of the deductions are mandatory—the government requires them for general taxes or to fund programs such as Social Security. Facilitate a discussion of the purpose of each.

3. Explain that other deductions are voluntary. They are connected to benefits the company offers its employees, but the employees don't have to take these benefits. Facilitate a discussion of the purpose of each.

4. Distribute Deductions Pro and Con to each group. Explain that government payroll deductions are controversial: some people believe that the government should not deduct for programs such as Social Security. Explain that some people, particularly young people, think they would rather have the money than pay for benefits. Tell the students that working in their groups, they are to brainstorm the pluses and minuses of deductions. Give them 10 minutes to do so.

5. Tell the groups to choose a spokesperson to present their findings to the entire class. Write a master list of pros and cons on the board. Ask the class if they came to some consensus about the benefits of each deduction.

Assessment

Evaluate students' comprehension of paycheck deductions and taxes in general through assessment of the discussions held. Assess the students' line of questioning and their responses based on content presented.

Extensions and modifications

- Have the students work in pairs on computers with Internet access. Direct students to a Web site with a paycheck calculator function such as http://www.paycheckcity.com/NetPayCalc/netpaycalculator.asp. Write three wage/salary scenarios on the board such as the following:

	Worker 1	Worker 2	Worker 3
Annual/hourly	Annual	Hourly	Hourly
Salary/wage	$60,000	$7.75/hour	$25/hour
Withholding allowances	4	1	0
Pay frequency	Bi-weekly	Weekly	Weekly
Voluntary deductions			
Health insurance	$300	$75	$0
Dental	$27	$6	$0
401K	$200	$0	$0

Have students input data into the calculator to determine paycheck deductions for each. Then facilitate a discussion of the cost of voluntary deductions against their benefits.

RESOURCE SHEET

Matt's Paycheck

Tyler, Matthew
DOB: October 1, 1995
Dependents Claimed: 0

Earnings	Rate	Hours	This Period
Regular	$16	58	$ 928.00
Overtime	$24	3.5	$ 84.00
Holiday pay	$32	8	$ 256.00
Gross Pay			**$ 1,268.00**

Pay Deductions: Mandatory	Amount
Federal withholding tax	$ 160.55
Social Security tax	$ 78.62
Medicare	$ 18.39
State withholding tax	$ 38.04
Total taxes withheld	$ **295.60**

Employee-directed Pre-tax Deductions:	Amount
Employer's 401k savings plan	$ 100.00
Dental insurance	$ 13.00
Medical insurance	$ 178.00
Total additional withholdings	$ **291.00**

Net Pay	$ **681.40**

(= Gross pay – Mandatory deductions – Employee-directed pre-tax deductions)

Deductions Pro and Con

Instructions: Although they may be controversial, some payroll deductions are mandatory. Others, such as those for employer-sponsored programs, are voluntary and some people chose to opt out. Working in your group, brainstorm the pros and cons of the following deductions.

Mandatory

Social Security is a federally mandated program that uses money deducted from the paychecks of people who are working to fund benefits for people who are retired or disabled.

Resolution: Money should be deducted from my paycheck to fund Social Security.

Pro	Con

Voluntary

Medical Insurance and Dental Insurance are programs that some companies offer their employees to help cover the cost of all or part of employee health care bills. Sometimes the employer pays for all of the cost of the insurance, but more frequently the employee is asked to pay part of the insurance cost.

Resolution: Money should be deducted from my paycheck for medical and dental insurance.

Pro	Con

401k plans are retirement plans that allow employees to make contributions of pre-tax dollars to a company pool that is then invested in stocks, bonds, and/or other investments. These plans allow employees to save for retirement while deferring income taxes on the saved money and accrued earnings until withdrawal. Except for a limited number of circumstances, you can't remove money from these accounts without paying taxes on the funds withdrawn and paying a penalty until you are at least fifty-nine and a half. Many companies match the funds an employee contributes to a 401k up to a certain figure or percentage.

Resolution: Money should be deducted from my paycheck for a 401k plan.

Pro	Con

5. Checking and Savings Account Basics

Instructional objectives
Students will be able to
- Understand the basics of using checking and savings accounts
- Be able to compare the advantages and disadvantages of various types of accounts

Description
Students will learn the importance of savings and checking accounts and analyze which types of accounts would be best in various situations.

Time
45 minutes

Materials
Checking Account Brochure activity sheet (copy for each student)
Savings Account CD Brochure activity sheet (copy for each student)
Three Banking Scenarios activity sheet (copy for each student)

Preparation
Staple the sheets of each brochure together.

Class layout and grouping of students
Students will work in groups of three or four to complete the activity

Procedure
1. Remind the students that checking and savings accounts are one of the basic elements of a financial plan and reiterate the importance of each.

2. Explain that today's lesson will focus on the basics of checking and savings accounts. Remind the students of the different purposes of each type of account.
   - Checking accounts are usually used to pay for everyday personal expenses like rent, groceries, etc.
   - Savings accounts are used to save up for an emergency or a specific purchase.

3. Discuss the benefits of a checking account. Among these are the following:
   - Keeps money safe from loss and theft
   - Highly liquid; allows account owner immediate access to funds that have cleared
   - Convenient for paying bills, particularly given the ease of automatic deductions for recurring bills
   - Safer than carrying cash
   - Provides proof of payment for tax purposes or in case of a dispute
   - All accounts holding $100,000 or less are insured by the federal government

4. Discuss the benefits of a savings account: Among these are the following:
   - Highly liquid; allows account owner immediate access to funds that have cleared
   - Pays interest on balance
   - All accounts under $100,000 are insured by the federal government

5. Tell the students that there are many different kinds of checking and savings accounts with different features, depending on how much money they put into the account and how much liquidity they need. Explain that liquidity is the ability to get to cash quickly and without excessive fees. The less interest they earn on the account, the more liquid their money is. They can earn higher interest on balances if they keep a certain amount of money in the account or are willing to pay fees if their account goes below a minimum figure.

6. Tell the students that for the rest of the class they will be bankers in training. They have just joined a new bank and have to learn the checking and savings account options the bank offers. Organize the class into groups of four or five and distribute the Checking Account Brochure to all students. Ask the class to read the information on the various accounts, and working with the other members of their group, complete the chart on page 3 of the brochure using the account descriptions. Once the groups have finished, answer any questions they may have. Then follow the same procedure for the Savings Account CD Brochure.

7. Explain that one of their jobs as new bank officers will be to make recommendations to potential customers about what accounts are best for them. Before they meet real customers individually, they will practice making recommendations in a group setting. Distribute Three Banking Scenarios and tell the groups to read each and together come up with a recommendation or recommendations.

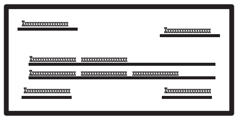
8. Once the "bankers" have completed their task, ask the groups to share their recommendations with the class and justify each.

Assessment

Assess student understanding by their questions and responses during the discussions about accounts as well as the way they complete the comparison charts.

Extensions and modifications

1. Have students list their requirements for savings and checking accounts and research the checking and savings accounts available. Have them choose accounts and ask them to justify their choices.
2. Invite a banker to talk to the class about what is involved in opening an account, particularly if the students are not yet 18.



Checking Account Brochure

Welcome to DM Savings Bank! We offer you 5 types of checking accounts so you can bank the way you want. A bank representative would be happy to assist you—just ask!

Student Checking

- No daily minimum balance requirement
- No monthly service fee
- Free Check Card
- Unlimited use of DM Savings ATMs; 4 free transactions from other ATMs if your checking account is linked to your parents' DM Savings checking account
- Free incoming domestic wire transfers—your parents can electronically send you money at no cost to you
- Unlimited check writing
- Savings account with no monthly service fee
- One free overdraft

Free Checking

- Only $100 to open an account
- No minimum balance requirement
- No monthly service fee
- Free Check Card
- Unlimited use of DM Savings ATMs; $2 fee per transaction at non-DM Savings ATMs
- Automatic savings. Link a DM savings account and save. Each time you do your everyday banking, we will transfer $2 from your checking to your savings account. You can also schedule automatic transfers
- Five free checks per month
- Free online banking with PaymentPlus, automatic payment, and online statements

50+ Best Checking

If you're over 50, you'll appreciate the money-saving features of 50+ Best Checking.

- Only $100 to open an account
- No monthly service fee
- No minimum balance requirement
- Free Check Card
- Unlimited check writing
- Unlimited use of DM Savings ATMs; $2 fee per transaction at non-DM Savings ATMs
- Discounted checks
- Free online banking with PaymentPlus, automatic payment, and online statements

Gold Access Banking

Gold Access Banking offers you top-tier benefits—like no monthly service fee when you maintain the required balance.

- No monthly service fee when you maintain the required balance ($1,500 in checking or $2,500 in checking, savings, and/or money market accounts with DM). Otherwise, a $15 monthly service fee applies
- Free Check Card
- Free online banking with PaymentPlus, automatic payment, and online statements
- Unlimited use of DM Savings ATMs; 2 free transactions per statement cycle at other ATMs
- Unlimited check writing
- Free checks
- Automatic savings. Whenever you conduct your everyday banking, $2 will be transferred from your checking account to your DM Savings account. You can also schedule other automatic transfers

Premier Banking

Our premier interest-earning checking package offers these benefits and more:

- Variable interest on account (currently 0.05%). Interest compounded daily. Interest rate may change after account opening
- No monthly service fee with required balance ($5,000 in DM Savings checking, savings, and/or money market accounts). Otherwise, a $20 monthly service fee will apply
- Free savings or money market account
- Free Gold Check Card
- Unlimited check writing
- Free online banking with PaymentPlus, automatic payment, mobile banking, and online statements
- Free or discounted checks
- Unlimited use of DM Savings ATMs; 2 free transactions per statement cycle at other ATMs
- Free money orders, certified checks, and traveler's checks

CHECKING ACCOUNT COMPARISON TABLE

Complete this chart to analyze the benefits each account offers.

Checking account name	Minimum opening deposit	Daily minimum balance	Monthly service fee	ATM or check fees charged	Interest earning	Other benefits

Savings Accounts/CD Brochure

Welcome to DM Savings Bank! We offer you 4 options for helping to make your money work for you. A bank representative will be happy to assist you—just ask!

Bank Savings Account

- $10 monthly service fee; fee waived if opened with a DM Savings checking account
- No minimum balance
- Maximum of 8 transactions per month
- 2.0% interest with daily minimum balance of $1,000 if you pay bills online from your DM Savings checking account
- Free online statements

Savings Plus

- No monthly service fee
- No minimum balance
- Maximum of 8 transactions per month
- 1.75% interest with daily minimum balance of $1,000
- Free online statements

Money Market Account

- $1,000 opening balance
- No fees, if you maintain a minimum monthly balance of $10,000. Otherwise a $20 monthly service fee will apply
- Maximum of 3 no-fee checks per statement cycle
- Earn 1.75% interest on balance above $20,000
- Earn 2% interest on balances above $40,000
- Earn 2.5% interest on balances above $65,000
- Free online statements

Certificate of Deposit (CD)

- No monthly maintenance fee
- Interest can be paid monthly to CD, checking, or savings account

- Fixed interest rate dependent on term and amount deposited
- Current rates are as follows:

	Annual Percentage Yield
1 year	2.40
3 years	2.25
5 years	3.00

- Penalties apply to early withdrawal

SAVINGS ACCOUNT/CD COMPARISON TABLE

Complete this chart to analyze the benefits each account offers.

Account name	Minimum opening deposit	Minimum monthly balance	Monthly service fee	Checking account required	nterest earning	Other benefits/ limitations

Activity Sheet

Three Banking Scenarios

I.

Cynthia Smith is a 55-year-old freelance computer programmer who pays 6 to 10 bills a month. Because she is a freelancer, the balances in her checking account can fluctuate throughout the month. She does not know what her average daily balance has been, but that doesn't matter because she can never be sure when her clients will pay her. She has $5,000 to put into a savings account. Because she frequently has to borrow from her savings to pay routine expenses, Cynthia can't afford to tie up her money. Nevertheless, she wants the highest interest rate she can get.

Account Recommendation: ___________________________________

II.

Scott Brown is a student who keeps very little money in his checking account because he has very little money. He is always asking his parents for money to cover his bills and his checks sometimes bounce. He often forgets to pay his bills until the day before they are due, and he can never find the monthly statement his bank sends him, so he rarely balances his checkbook. Scott wants to set up a savings account so that he can purchase a car in three years.

Account Recommendation: ___________________________________

III.

Sandy Morton is a successful executive who wants to make sure her money works for her. Because she travels a lot, she wants to make banking as convenient as possible. Her financial adviser told her to set up a savings account as a financial safety net. He told her that she should save enough money for three to six months of daily expenses. Her monthly expenses are $5,000 and she has already put $20,000 in the account.

Account Recommendation: ___________________________________

6. Maintaining a Checking Account

Instructional objectives

Students will be able to

- Understand the processes associated with having a checking account
- Understand the necessity of balancing a checking account regularly

Description

Students will work with checking account forms to understand the processes involved in maintaining a checking account responsibly. They will then analyze a monthly statement.

Time

60 minutes

Materials

Checking Account Packet activity sheet (copy for each student)
John's Banking Problems activity sheet (copy for each student)
calculator (for each student)

Preparation

Staple the Checking Account packets together.

Class layout and grouping of students

The students will work in pairs.

Procedure

Checkbook Basics

1. Organize the students into pairs and explain that they will learn about the processes involved in maintaining a checking account.

2. Distribute the Checking Account packets. Tell the students that when they open a checking account, they typically receive blank checks and deposit slips with their name and address printed on them as well as a check register for recording transactions.

3. Take a few minutes to explain how to properly write a check. Highlight the following:
   - Ensure that the dollar amount written in numbers matches the amount written in words. Print the dollar amount clearly.

- Never write a check with a pencil or an erasable pen.
- Date the check properly. Many banks will only honor or cash a check that has been written in the last six months.
- Remember to sign the check. An unsigned check is not valid and cannot be cashed.
- Use the “for” or “memo” line to note the reason for the payment.

4. Have students write a check to their partner. They can make up the amount and what the check is for.

5. Explain that they need to keep track of the checks they write so that they always have enough money in their account to cover those checks. Direct students to the blank check register in their packets and explain each column and line. Tell the students that before they give anyone a check, they must enter the appropriate information. Ask them to do so and hand the check to their partner.

6. Explain the process for depositing a check. Give each student a check and direct them to endorse the check they just received, write the deposit in their check register, and complete the deposit slip. Collect the checks and deposit slips.

7. Explain the concept of float. Remind the students that funds they deposit are not immediately available for use and that a check can take several days to clear. Warn them that in the meantime, they cannot write checks against the funds or their checks will bounce.

Reconciling a checkbook

1. Explain the importance of balancing a checkbook regularly to spot mistakes and to avoid bouncing checks and being charged overdraft fees.

2. Tell the students that maintaining a checking account responsibly is easy because they can usually access their account online or by phone. So, they can check their account balance and determine what checks have not yet cleared whenever necessary. Point out that the bank will also send them a monthly statement of the action in their account. They can use that statement to balance their account.

3. Instruct the students about how to balance a checkbook using Sydney’s statement and check register and the blank balance worksheet.

4. Once the students understand the basic concept of balancing a checkbook, distribute John’s Banking Problems. Tell them that for the rest of the lesson they are to role play a situation in which a banker is helping John, a customer, reconcile his checkbook. Working in pairs, they are first to choose roles and then analyze the account. The “banker” will direct the process of reconciling the account while the customer will report on the reasons behind any problems they found. Tell the teams that they have 10 minutes to reconcile the accounts.

5. Once the teams have finished, lead a general discussion of the problems with the account and what they tell you about handling a checkbook responsibly.

Assessment

Students are assessed frequently throughout the lesson, as they go through the “basics” and balance the checkbooks. As students work to reconcile John’s checkbook register, walk around the room to see how well they understand the concepts presented in the lesson.

ACTIVITY SHEET

Checking Account Packet

Blank Checks

104

DATE ________________

PAY TO THE ORDER OF ______________________________ $ ____________

____ DOLLARS

FEDERAL SAVINGS BANK

FOR ____

50354372 3827964811 0104

Deposit Slips

FEDERAL SAVINGS BANK

ACCOUNT NUMBER *

83680-0204

Subject to the terms and conditions of this bank's collection agreement now in effect.

Date
Member #

Name
Address

Check
Check
Check
Check
Total Form
Other Side
$

Deposit

DEPOSITS MAY NOT BE AVIABLE FOR INMEDIATE WITHDRAWL

USE OTHER SIDE FOR ADDITIONAL LISTING

|:314074269|: 09

FEDERAL SAVINGS BANK

ACCOUNT NUMBER *

83680-0204

Subject to the terms and conditions of this bank's collection agreement now in effect.

Date
Member #

Name
Address

Check
Check
Check
Check
Total Form
Other Side
$

Deposit

DEPOSITS MAY NOT BE AVIABLE FOR INMEDIATE WITHDRAWL

USE OTHER SIDE FOR ADDITIONAL LISTING

|:314074269|: 09

Blank Check Register

Check Number	Date	Check Paid To	Check/Deposit Amount	Balance

Check Number	Date	Check Paid To	Check/Deposit Amount	Balance

$ Second Third Bank

123 Patterson Ave.

Chicago, IL 60634

1-800-BIG-BUCKS

Checking Account Statement

pg 1 of 1

Statement period

6/01/08 - 7/01/08

Account Number

987654321

Sydney Smith

12 S. Ontario Ave.

Berlin, IL 60610

Date	Description	Check No./Ref	Withdrawals (-)	Deposits (+)	Balance
June 5	Previous balance				450
June 8	ATT	Check 1000	235		215
June 8	Deposit- Sam's Gym			240	455
June 10	ATM withdrawal - 511. Buffalo, IL	65774	50		405
June 10	ATM fees		2		403
June 12	Deposit			200	603
June 20	Harry's Hair Salon	1001	40		563
June 22	Prime Food Market	1002	50		513
June 26	Account fee		10		503
				Final balance	**503**

Totals	347	440

Sydney's Check Register

Check number	Date	Check Paid To	Check/deposit amount	Balance
		balance carried forward		450
1000	June 8	ATT-cell phone	-235	-235 215
	June 8	Deposit-pay	240	240 450
	June 10	ATM	-52	-52 403
	June 12	Deposit-birthday gift from Mom &Dad	200	200 603
1001	June 20	Harry's Hair Salon	-40	-40 563
1002	June 22	Prime Food Market	-50	-50 513
	June 26	Monthly fee	-10	-10 503
1003	June 28	Berlin Botanic Garden	-50	-50 453
	June 30	Mrs. Smith-babysitting	100	100 553

Follow the instructions on the worksheet to balance Sydney's checkbook.

THIS FORM IS PROVIDED TO HELP YOU RECONCILE THIS STATEMENT BALANCE TO YOUR CHECKBOOK BALANCE.

Checks outstanding

(Those written which have not been charged to your account)

CHECK #	AMOUNT
TOTAL	$

BANK BALANCE

(1) BALANCE THIS STATEMENT (SHOWN ON FRONT PAGE) $____________

(2) ADD DEPOSITS NOT SHOWN ON THIS STATEMENT (IF ANY) +____________

(3) SUBTOTAL $____________

(4) SUBTRACT TOTAL OF CHECKS OUTSTANDING (IF ANY) - ____________

(5) ADJUSTED BANK BALANCE $____________

YOUR BALANCE

(6) CHECK REGISTER BALANCE $____________

(7) ADD CREDITS WHICH APPEAR ON THIS STATEMENT THAT HAVE NOT BEEN RECORDED IN YOUR REGISTER (IF ANY) +____________

(8) ADD INTEREST CREDITED TO YOUR ACCOUNT (IF ANY) +____________

(9) SUBTRACT OTHER CHARGES (IF ANY) - ____________

(10) ADJUSTED CHECK REGISTER BALANCE $____________

*Be sure to record in your check register

Line 5 and Line 10 should now agree. If not, check the following item in you registers:

Activity Sheet

John's Banking Problems

Instructions: Working with your partner, you are to role play a situation in which one of you is a banker who is helping the other—John, a customer—reconcile his checkbook. Choose your role and then analyze the account. The "banker" will direct the process of reconciling the account while the customer will report on the reasons behind any problems you found. You have 10 minutes to reconcile the accounts.

JOHN'S BANK STATEMENT

$ Second Third Bank

123 Patterson Ave.	Checking Account Statement
Chicago, IL 60634	pg 1 of 1
1-800-BIG-BUCKS	
	Statement period
John Doe	6/01/08 - 7/01/08
1212 S. Michigan Ave.	Account Number
Chicago, IL 60610	123456789

Date	Description	Check No./Ref	Withdrawals (-)	Deposits (+)	Balance
May 5	Previous balance				100.52
May 8	MasterCard payment	check 101	456.62		-356.1
May 8	Payroll - Mickey D's			398.12	42.02
May 10	ATM withdrawal- 711. Elgin, IL	65774	50		-7.98
May 10	ATM fees		1.5		-9.48
May 10	Fees – Overdraft		5		-14.48
May 12	Payroll- Mickey D's	65774		257.87	243.39
May 16	ATM withdrawal - Bank of FL, Melbourne	75666	120		123.39
May 16	ATM fees		2.75		120.64
May 20	Check #211 deposit			85	205.64
May 22	Check #101	102	199.82		5.82
May 26	Account fees - Monthly		5		0.82
				Final balance	**0.82**

Totals	835.69	740.99

John's Check Register

Check number	Date	Check Paid To	Check/deposit amount	Balance
		Balance carried forward		100.52
	May 8	Payroll	398.12	398.12 498.64
101	May 8	Mastercard Payment	-456.62	-456.62 42.02
	May 8	ATM	-50	50 92.02
	May 8	Payroll	257.87	275.87 367.89
	May 16	ATM	-120	-120 247.89
	May 20	Deposit—Pete	85	85 332.89
102	May 22	Trader Joe's-VCR	-199.82	-199.82 133.07

Chapter 3

Credit and Debt Management

This chapter outlines the fundamental concepts high school students need to know about credit and managing debt. Students at this level are being courted for credit cards and must-have items like cell phones at the same time they must learn the mechanics of the student grant and loan system to help finance their college education. It can be a costly time for teens, so it makes sense to equip them with the knowledge needed to use credit wisely, to apply for student loans, and to understand consumer contracts.

7. Five Types of Credit

Instructional objectives

Students will be able to

- Understand credit uses
- List basic types of credit and when they are used
- Describe the risks and responsibilities associated with using credit

Description

Students will learn about the five basic types of credit and the costs associated with the use of each type.

Time

45 minutes

Materials

Five Types of Credit resource sheet (copy for each student)
Credit Quiz

Class layout and grouping of students

Students will work in groups of four or five.

Procedure

1. Begin the discussion by asking students for their definition of credit. Write pertinent phrases—such as "borrowing money," "debt"—on the board. Explain that we live in a country that relies heavily on credit—Americans buy more things on credit than people in other countries. Emphasize that using credit involves both pluses and minuses.

2. Lead a discussion of the advantages of using credit, including the following:
   - Buying large items, such as houses and cars, that the average person can't afford
   - Using purchases while paying for them
   - Providing the convenience of not having to carry large sums of cash
   - Delaying spending your own cash for a few weeks
   - Possibly providing an emergency fund for those who don't have savings

3. Discuss the disadvantages. These include the following:
   - Increasing impulse to buy
   - Paying a high cost to borrow money thanks to high interest rates and fees

- Saving less money overall since charging things makes you think you have money in the bank when you have actually already committed it to credit
- Creating financial difficulties that take time and commitment to solve

4. Distribute the Five Types of Credit resource sheet and discuss each type. Make sure you provide examples and explain the advantages and disadvantages of each.

5. Organize the students into groups of four or five. Explain that they will take part in a quick quiz activity to assess how well they understand the five types of credit. First the groups must tear a piece of paper into five even strips and write one of the five types of credit on each.

6. Explain that you will offer a scenario and they must hold up the piece of paper indicating which type of credit they would use in the situation. The group can work together to reach an answer and to defend it when called on. Remind them that in some cases more than one type of credit would be appropriate and explain why.

7. When the students are ready, ask them the questions on Credit Quiz or use others of your choice.

Assessment

Assess student understanding of the types of credit by seeing how they respond to your prompts on the types of credit. Use this information to determine if you need to re-teach the material.

Extensions and Modifications

Hold a debate on the resolution: The average American's reliance on credit will jeopardize his/her future.

Five Types of Credit

Revolving credit: Allows you to charge items to an account and then pay all or part of your debt balance on a regular basis. You can use this type of credit over and over again, although the lending institution usually sets an upper limit on the amount you can borrow. Credit cards are an example of revolving credit. Because you do not pledge something of value, such as a car, which the lender can legally take if you do not repay the loan, institutions who issue credit cards usually impose a high interest rate when you do not repay the total balance due each month.

Advantages	Disadvantages
• Easy and convenient to carry and use • Safe; no need to carry cash, which is easily lost • Proper use builds a good credit rating, which is essential in securing a loan to buy a home or car • Creates a record of purchases • Consolidates bills into one payment • Many offer benefits like frequent flier miles, points toward gifts, and cash rebates • Permits you to borrow cash	• Easy to overspend • Can be stolen or used to steal identity • High interest rates, which are variable • High penalties for late payments • Poor management of credit card results in poor credit history and jeopardizes ability to buy a home or car • Very expensive way to borrow cash

Installment credit: Here, you are borrowing a specific amount for a specific purpose and paying the loan back in agreed-upon amounts over a specific time period. Typically, when you finance the purchase of a car or use loans to pay for your education, you are using installment credit.

Advantages	Disadvantages
• Pay back loan at a fixed rate • Pay a set number of fixed monthly payments • Use the item you are buying before you actually own it	• You have to wait until you have paid the loan in full before you own the asset outright. For example, if you want to sell a car that isn't yet paid off, you must first pay off the loan for that car • The annual percentage rate at which you pay off the loan amount could be high

Open-charge credit is a credit option that small businesses extend for 30 days. When you see a commercial that advertises, "30 days same as cash," that store is offering open-charge credit. If you go to that store and you qualify for its credit, you can shop, sign a sales slip, and go home with your purchases the same day. At the end of 30 days, the business sends you a bill, which is due immediately and must be paid in full.

Advantages	Disadvantages
• Allows you to use the item(s) now and pay later	• You must pay in full after the credit period is over • Finance charges will accrue if you do not pay when the payment is due • You might have to return the item if you don't pay

Utility credit is a credit option extended to users of telephone, gas, electricity, and water services.

Advantages	Disadvantages
• Convenient to pay for what you use on a monthly basis • No interest if bill is paid in full • People on a budget often can take part in a payment plan that averages the estimated annual cost over 12 months	• Failure to pay results in loss of utility until full amount is paid off • Typically you must show that you had a good payment record at your previous address. Failure to produce such a record can delay establishing an account or will place stricter time demands on payment

Mortgage credit is used to buy property. It typically involves borrowing a large sum of money that takes many years to pay off. Mortgage credit is more complex than the other types of credit and approval may take several months. This type of credit usually comes with certain special conditions, for example, requiring the borrower to insure the property until she owns it in full and to submit her property taxes in monthly installments to the bank that granted the mortgage.

Advantages	Disadvantages
• Allows consumers to buy a home that they could not afford to pay for all at once • Lenders are willing to negotiate certain fees • If the borrower doesn't have the ready cash to pay the closing costs associated with purchasing the house, lenders could allow buyers to include those costs in the mortgage	• You typically need a down payment as a condition of the mortgage loan. The down payment can be as high as 20%, if you want to avoid having to purchase special insurance on the loan • Types of mortgages and interest rates vary tremendously, and it is often difficult for the consumer to determine which is best for her • Banks have not always been forthright about long-term costs • The approval process can be so time consuming that the buyer will lose out on the sale because she could not obtain a mortgage in a timely manner

CREDIT QUIZ

- I want to buy a piece of land. What type of credit do I need?
- I want to buy dinner at the new restaurant. What type of credit do I need?
- I want to get an extra phone line. What type of credit do I need?
- I want to buy a couch on special. What type of credit do I need?
- I want to buy a used car. What type of credit do I need?
- Which type of credit allows you to use the item before you pay for it?
- Which type of credit must you use when you move into a new home?
- Which type of credit must you pay in full after the credit period is over?
- Which type of credit typically has very high interest rates?
- Which type of credit typically requires a long, complex approval process?
- Which type of credit allows you to average estimated annual costs over the year?
- Poor management of which type of credit can ruin your credit score?
- Which type of credit may offer other benefits?
- Which type of credit requires you to pay back the loan in full before you own the asset?
- I need a cash advance. Which type of credit do I need?

8. Credit Costs

Instructional objectives
Students will be able to
- Calculate the costs associated with the two types of credit they are most likely to use.

Description
Students will work in pairs to analyze two credit scenarios and respond to questions about each situation.

Time
45 minutes

Materials
Credit Worksheet activity sheet (for each student)
computers (Internet access optional)
calculators

Preparation
Reserve the computer room. You may download the interest calculator found at http://www.vertex42.com/ExcelTemplates/simple-amortization.html on to the computers, or if the computers have Internet access, students may use the calculator online.

Class layout and grouping of students
Students will work in pairs at the computers.

Procedure
1. Explain that the two types of credit students will most likely use are installment and revolving credit. Review these from the previous lesson. Explain that in this lesson students will work in pairs to learn about the cost of each.

2. Organize the class into pairs around the computers and distribute Credit Worksheet. Review the worksheet and make sure that the students understand the meaning of all terms. Allow them 25 minutes to work on the scenarios.

3. After 25 minutes, call students' attention to the front and review each scenario. As you do, encourage students to explain how they got their answers. On the board, work out any questions that may be confusing or need your response and then collect the worksheets for assessment.

4. Conclude the lesson by facilitating a discussion of the key points to remember about using each type of credit. Emphasize the fact that using credit costs money, and that the more responsible students are in using credit, and the quicker they pay off their loans (we're omitting the element of opportunity cost—the cost of passing up the next best choice—here), the more money they can save.

Assessment

Walk around the room as the class works in pairs. Monitor how well students understand the material and provide assistance as needed. Assess their understanding by reading through the responses given on the worksheets.

ACTIVITY SHEET

Credit Worksheet

USING CREDIT

Instructions: Working in pairs, examine the scenarios below and answer the questions.

TWO SCENARIOS

1. Installment Credit

You will need an interest calculator for this exercise. If one is not on your computer, you can go to http://www.vertex42.com/ExcelTemplates/simple-amortization.html. Under Simple Interest Amortization in Excel, click on Online Version.

Matt bought a car for $6,000. He paid for part of the car with $675 from his savings and financed the rest with a five-year loan of $5,325 with an APR of 6%.

1. How much are Matt's monthly payments?

2. How much did Matt end up paying over the five years?

3. How much of this was interest?

Let's say that Matt gets a big bonus at work exactly three years after he bought the car. He wants to buy a flat screen TV, but his dad says he should pay off his car, since Matt could save a lot of money by doing so.

4. How much does Matt still owe after three years of making monthly car payments?

5. If he were to pay off the remainder of the loan, how much would he have to pay?

6. How much money would he save by paying it off now?

Matt could have taken out a three-year loan at 6.2%. Would he have saved money by doing so?

2. Revolving Credit

You will need to use calculators for this exercise.

Jim got an offer for a pre-approved credit card before leaving for college. He was excited to get the card and so didn't read that the APR on the card was a whopping 26%, with late fees of $100 per month. In one week in August, he racked up $967 in purchases on various things for his dorm room. Once at college, he used the credit card to buy dinner, snacks, movie tickets, a bike, and some other stuff. In September, he charged $450. In October, he charged $387 and in November, he charged $401. He did not make ANY payments on the card. He tried to use it to buy some CDs in December and his card was rejected. How embarrassing.

1. How much did Jim charge to his card in total?
2. How much does Jim owe in late fees?
3. How much interest was he charged for the amount he spent in August?
4. How much compound interest was he charged for the amount spent in September AND the amount that was outstanding from August?
5. How much compound interest was he charged for the amount spent in October AND the amounts that were outstanding from August and September?
6. How much compound interest was he charged for the amount spent in November AND the amount that was outstanding from August, September, and October?
7. Of this total bill, how much is the actual principal?
8. What should Jim do?
9. What happens if he does not pay off this credit card?
10. Do you think this will affect him if he tries to get another credit card?

Definitions

Annual Percentage Rate (APR)—the true cost of credit or a loan expressed as an annual rate. This is the rate used to determine how much interest you pay on your loan or credit card annually. When looking for a loan, you want the lowest APR. Note that sometimes the APR can include more than just the interest cost of a loan. When securing a car loan, for example, the APR might include special insurance.

Interest—the fee you pay for the money that you borrow. Interest is usually stated as a percentage of the money you are loaned.

- **Simple interest**—interest calculated only on the money borrowed, or on that portion of the borrowed money that remains unpaid. If you borrow $100 at 10% interest, you must pay back $110.
- **Compound interest**—interest charged not only on the amount borrowed (the principal) but also on any unpaid interest charged in a preceding period. The more often interest is compounded (daily, weekly, monthly, annually), the quicker this type of interest grows. If you borrow $100 at 10% interest that is compounded monthly and you don't pay one month after you borrowed the money, you owe the borrowed amount and 10% of that amount— $110. If you don't pay the second month, you owe the borrowed amount ($100), plus the 10% interest ($10), AND 10% of the $110 you still owe ($11), for a new total of $121 and so on.

Late fees—fees imposed by lenders to ensure that bills are paid on time. Late fees are generally calculated on a per day, per item basis. The late fee is included when the lender calculates the interest owed on the principal. Example: I borrow $100 at 10% but miss the first payment or pay it late, so now I owe $100 + $20 late fee at 10% = $132.

Principal—the original amount of debt or money on which interest is calculated. If you charge $100 to a credit card with no existing balance, the principle is $100.

9. Student Loans

Instructional objectives

Students will be able to

- Understand the different types of student financial aid
- Learn the terms used in aid applications to prepare for their application submission
- Begin to investigate sources of student financial need

Description

Students will learn about the many options available for student financial aid and work in small groups to research financial aid packages. They will then learn about applying for financial aid.

Time

Day 1: 45 minutes
Day 2: 45 minutes
Day 3: 45 minutes

Materials

Researching Money for College resource sheet (copy for each student)
Student Financial Aid resource sheet (copy for each student)
computers with Internet access (for each group)

Class layout and grouping of students

Day 1: Students will work in 4 groups
Day 2–3: Students will work in groups of four or five

Procedure

Day 1

1. Explain to students that today's lesson will focus on a type of credit that most of them will use: student financial aid. Distribute Researching Money for College and briefly review the various ways of financing a college education listed on the sheet.

2. Organize the class into 4 groups. Assign each group a type of aid: loans, grants, savings plans, scholarships. Tell them to use the resource sheet and the Internet to investigate each type of aid and prepare a short explanation of each aid for the class. Give them 20 minutes to develop their reports.

3. Have each group present their findings.

Day 2

1. Organize the class into groups based on the types of colleges to which they are thinking of applying—public colleges in their state, two-year colleges, private colleges in neighboring areas, etc. The types of groups will depend on the goals of the students. If a student is not sure where or if she wants to apply, ask her to pick a group that appeals to her. Students should organize by first choice. If a group becomes too big, ask the students to join their second-choice group or divide a large group.

2. Tell students to work together, using the Internet to research the financial aid available for members of their group and prepare a report of their findings.

Day 3

1. Have the groups present their research findings.

2. Tell the students that the next step in getting aid is to fill out the standard aid application. Distribute Student Financial Aid and discuss.

Assessment

Determine how much they already know as a baseline and continue assessment for understanding throughout the lesson.

Extensions and modifications

Ask the students to develop their individual aid plans.

Researching Money for College

You have numerous resources to help you fund your college education. Below are the types of aid you can use to help you pay for college. Completing the CSS/Profile is the first step in applying for aid.

CSS/Profile is the financial aid application service of the College Board accessed by 600 colleges, universities, and scholarship programs. There is a registration fee of $9 and a $16 fee for each college or university you want information sent to. Check to see if the school you want to attend is part of the group that accesses CSS/Profile. If so, submit an application online at https://profileonline.collegeboard.com/index.jsp.

Scholarships are available from a wide variety of sources. Many people think that scholarships are only for students with exceptional academic or athletic ability, but this is not the case. Some grants and scholarships are based on financial need; others are awarded based on religious affiliation, ethnicity, memberships, hobbies, or special interests. There are thousands of scholarships available and the requirements and guidelines change often. Check out the following Web sites: College Answer, FastWeb and The College Board.

Grants are packages of money awarded by the federal government and other partners. These do not need to be repaid. Grants that are awarded include the following:

- Federal Pell Grant is the largest federal grant program for undergraduate students. Grants are given out based on financial need. There is no minimum grade-point average or other academic requirements, but you must maintain satisfactory academic progress as well as attend an eligible school.
- Federal Supplementary Educational Opportunity Grant (FSEOG) is given by schools who distribute the grant based on need. Your Expected Financial Contribution (EFC) helps to decide your need.
- Academic Competitiveness Grant (ACG) provides up to $750 for the first year of undergraduate study and up to $1,300 for the second year of undergraduate work to full-time students who are U.S. citizens, and are also eligible for a Federal Pell Grant. Additionally, applicants must also have successfully completed a rigorous high school program, as determined by the state education department and recognized by the secretary of education. Students must maintain a cumulative GPA of at least 3.0.
- National SMART (Science and Mathematics Access to Retain Talent) Grant provides up to $4,000 for each of the third and fourth years of undergraduate study for full-time students who are U.S. citizens, eligible for a Federal Pell Grant, and majoring in physical, life, or computer sciences, mathematics, technology, or engineering, or

in a foreign language determined critical to national security. Students must also maintain a cumulative GPA of 3.0 in courses required for the major.[3]

- Leveraging Educational Assistance Partnership (LEAP) provides grants to states to assist them in providing need-based grants and community service work-study assistance to eligible postsecondary students.

Education Savings Plans are ways to start saving for college. These plans vary in how they allow the account holder to save money, and include state-sponsored savings plans and prepaid tuition plans. Here is some more detail:

- The Coverdell ESA is a trust or custodial account set up to pay the educational expenses of the beneficiary. It can be used to save for any level of education, from elementary school through graduate school. If your family's income is too high, you may not be eligible to apply.
- 529 Plans allow account holders to lock in the price of college education at today's rate and contribute money toward funding a beneficiary's college education. They are offered in each state and the benefits vary by state. Anyone can contribute to a beneficiary's 529 Plan, and there is no income restriction to contribute.
- UPromise® is a free service that gives you money back for college on your eligible purchases of participating products and services. The premise is that you can contribute money directly to the fund but you can also contribute by shopping at selected retailers that reward your business by contributing money to a college savings plan account you set up online.
- Uniform Gifts for Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) allow parents to transfer securities to their children to pay for college.
- Savings bonds are issued by the U.S. Treasury and most important they are backed by the U.S. government. The bonds offer tax-deferred growth.
- Loans must be paid back with interest. They are available from the federal government as well as private lenders. Federal loans have more favorable terms. There are many different kinds of federal loans—search the Internet for applications and eligibility requirements. If necessary, you can access private loans through the school you want to attend or a financial broker. Be careful when following school recommendations. Investigators have found that many colleges have established "preferred lender" lists. Colleges will direct you to certain lending institutions because the schools share revenues from the loans with the lenders. You may not be getting the lowest possible rate, so compare their suggested lenders with others.

[3] Sallie Mae, "Grants," *College Answer: The Planning for College Destination*, http://www.collegeanswer.com/paying/content/pay_grants.jsp (accessed December 20, 2007)..

Other

- **Federal Work-Study (FWS) Program** is a federal program that enables students who qualify to work in an approved job, such as in food service at the college/university, for a federal wage, which must be at least the federal minimum wage, and use the money to pay for school. Students can receive FWS funds at approximately 3,400 participating postsecondary institutions, whose financial aid administrators have substantial flexibility in determining the amount of FWS awards.
- **Military service** either before or after college can earn students up to $50,000 toward a college education if they serve a certain number of years.

Student Financial Aid

Student financial aid is the funding needed to help students pay their educational expenses in college or university. The aid can be used for tuition and fees, room and board, books and supplies, etc. There are many types of student financial aid, each of which has specific eligibility requirements. But regardless of your family's background, you should look into available aid and see if there is money to help you get a college education. Here is a breakdown of the steps to apply for student financial aid:

1. **Eligibility**

You need the following to apply for financial aid:

- High school diploma or GED certificate
- Social Security number
- Proof of enrollment in a degree program at a university or college
- Proof of U.S. citizenship or non-citizen eligibility (for legal non-US students attending an American high school)
- Proof of satisfactory achievement in school
- Proof of financial need
- Certification that federal student aid will be used only for educational purposes
- Certification that you are not in default on a federal student loan and that you do not owe money on a federal student grant
- Proof of compliance with Selective Service registration, if required
- Clean legal record, with no convictions under federal or state law on selling or possessing illegal drugs

2. **Identification of Dependency Status**

You must determine your dependency status as a part of the process. If you rely on your parents for food, shelter, or the most of your expenses, you are considered dependent. This also means that your parents are expected to help you with your education expenses. A parent cannot simply say that they won't support you—they are expected to help in some way. If you are dependent, then that is your status.

There are specific guidelines that determine whether you are considered independent for the purposes of student financial aid. As of 2008–9, to be considered independent, at least one of these conditions must apply:

- You must be at least 24 years old by December 31 of the award year
- You are married as of the date the Free Application for Federal Student Aid (FAFSA) is submitted
- You are or will be enrolled in a master's or doctoral program (beyond a bachelor's degree) during the award year

- You have at least one child who receives more than half her support from you
- You have dependents (other than your children or spouse) who live with you and who receive more than half their support from you and will continue to receive more than half their support from you through June 30, 2008
- You are an orphan or ward of the court (or were a ward of the court until age 18) or
- You are a veteran of the U.S. armed forces. ("Veteran" includes students who attended a U.S. service academy and were released under a condition other than dishonorable.)[4]

3. **Free Application for Federal Student Aid (FAFSA) Form**

All students applying for most kinds of student financial aid must first complete the FAFSA form and submit it to the U.S. Department of Education. The form is very long and complex, requiring extensive information about your family's income and income taxes from the previous year, assets, family size, and the number of family members attending college. While the form is a federal form, most states also refer to the information you submit on the FAFSA to determine aid.

- Submit the FAFSA as soon as possible after January 1 of the year for which you are requesting aid.
- Applications submitted prior to January 1 or without a Social Security number will simply not be processed.
- Note that your state's financial aid deadlines may be different than the federal deadline. Check to make sure you don't miss those deadlines.
- FAFSA is the backbone of your financial aid plan, as it determines your need and your contribution levels, which are then shared with colleges, universities, and lending agencies to which you might apply. Note that the school you wish to attend may have different financial aid deadlines that are often even earlier than the state and federal deadlines. Check with the financial aid office at the university or college you plan to attend and make sure you file with it on time.
- You can apply in one of two ways: in paper form or on the Web. There are no fees involved to submit the form.
- Forms are available in English and Spanish.
- If you submit online, it is fast and easy and you can be sure it reaches the agency quickly. The Web site http://www.fafsa.ed.gov offers detailed online help screens, online chat with a customer service representative, built-in error detectors that reduce the number of rejected applications, verification that the application was transmitted successfully, and application processing time of three to five days.
- You can pick up a paper FAFSA form at a public library, the guidance office at most high schools, colleges, and universities, and from the federal government by calling 800-4-FED-AID (TTY: 800-730-8913) and having a form sent to you.
- If you submit the paper form, make sure you complete the form in full, make a

[4] Sallie Mae, "Student Financial Aid," *College Answer: The Planning for College Destination,* http://www.collegeanswer.com/paying/content/pay_aid_dependency.jsp (accessed December 19, 2007).

copy for your records, and mail it on time. Your FAFSA will be processed in two to four weeks.

- Each year, you will have to submit a Renewal FAFSA form with new financial data and non-financial information. In some instances, you must submit a complete new FAFSA.
- You should always indicate on the form that you are interested in taking out student loans, even if you're not sure. It's better to have options later for more money if you need it.

4. **Student Aid Report (SAR)**

If you filed your FAFSA online, you can expect to receive a report called the Student Aid Report (SAR) within a few days. If you mailed your paper form, expect your SAR in three to four weeks. Your personalized SAR summarizes the data you indicated on your FAFSA and gives you your official Expected Family Contribution (EFC).

As discussed earlier, you and your family are expected to contribute to your college education. This calculation determines how much you and your family can afford to pay. Typically, the lower your EFC, the more financial aid you can receive.

- The U.S. Department of Education calculates this figure and reports it to you and the schools you listed on the SAR. Your school's financial aid office uses your EFC to determine your financial need and how much it can give you.
- There are different methods for determining how much student financial assistance you need. But in principle, they are similar in that they subtract your EFC from the cost to attend the college or university of your choice. This is your financial need.
- Because schools have different tuition rates, you will get different financial need amounts depending on the school.

You should ensure that the data indicated on your SAR are accurate. If there are mistakes, simply indicate the correct answers on the Information Review Form included in the SAR envelope and submit to the address indicated and to your college or university. This is important because your EFC determines how much you must pay. Report mistakes immediately.

Sometimes the government or your college or university will indicate that they need more information to process your EFC and it will indicate that your application has been "**Selected for Verification**." This message is usually accompanied by a message on the SAR that states, "You will be asked by your school(s) to provide copies of certain financial documents." Read through the SAR to see what documents are needed and provide this information to your school.

10. Loan Officer Simulation

Instructional objectives
Students will be able to
- Understand the criteria involved in receiving credit
- Understand the ways that a loan officer approves a loan
- View a consumer credit report
- Understand how their credit choices affect them

Description
In groups, students will receive information on credit. Each group will then receive a completed student loan application and credit report and determine whether or not to approve the loan.

Time
60 minutes

Materials
Loans R Us activity sheet (copy for each student)
Loan Application activity sheet (copy for each student)

Preparation
You will need to staple the Loan Officer Training Manual.

Class layout and grouping of students
Students will work in groups of two or three.

Procedure
1. Tell the students that now that they know the basics of credit, they will learn how a person is evaluated for a loan. They will work in groups as new loan officers. They will receive training on how to evaluate a loan application and put their training to work by determining whether to approve loans. The groups must be prepared to justify their decision.

2. Organize the students into groups of two or three and distribute the training manual. Briefly walk them through the manual and answer any questions they may have. Give them about 20 minutes to complete their training.

3. When the groups have finished, hold a general discussion to ensure that students understand the material they have just read. Ask general questions about debt-to-income ratio, the 20/10 Rule, and the 3Cs. When you think the students are ready to proceed, distribute the Loan Officer activity sheet.

4. Explain that the groups must use their training to analyze the information on Sam's student loan application and his credit report. The groups should determine Sam's debt-to-income ratio and apply the 20/10 Rule and the 3Cs of credit. As a group, they must then determine whether to approve or deny Sam's loan request and state their rationale. Tell them that they have 20 minutes to process Sam's application.

5. After 20 minutes, discuss their experience evaluating the application. You might want to ask the following questions:
   - Were there any problems you encountered in processing the information?
   - How was the credit report helpful?
   - Was the information consistent across the three crediting agencies?
   - If there were inconsistencies, what did this signal to you?
   - What was the deciding factor in whether or not to approve the loan?
   - As consumers themselves, what did they learn about credit and how to manage it?

6. Now ask each group to stand in turn and state whether their group approved or rejected Sam's application. Hold a general assessment discussion about why the groups decided as they did.

Assessment

Assess students in their groups as they discuss the application. Assess the points they raise in the class discussion and how well they understood the objectives.

Activity Sheet

Loans R Us

Loan Officer Training Manual

Welcome to the exciting world of lending! You are about to embark on an exciting career of helping people make their dreams come true. With your help and a lot of work on their part, your clients will buy their dream cars, send their children to Harvard, pay for that dream safari vacation in Kenya, or add that spare bedroom for that new baby.

These dreams happen for those who are financially responsible, and your job is to determine who those folks are! This manual will teach how to make an informed decision. Financial institutions use many methods to assess a loan application. This manual will teach you three of the most important. All three focus on an applicant's debt load (how much debt or credit the applicant currently has). An applicant's debt load gives lots of information about the credit worthiness of the person—how much debt he carries or carried, how much money he earns to pay off that debt, and how responsible he has been in paying off his debt. Let's get started.

Method 1: Debt-to-Income Ratio

Calculating an applicant's debt-to-income ratio is the simplest and most common way to compare the applicant's after-tax income (net income) with her debt (not including mortgage or rent payments). This method tells us what percentage of her net income she is using to pay for non-mortgage-related debt—basically money that the bank cannot expect she will use to repay the loan.

Finding the debt-to-income ratio is a three-step process:

1. **Determine Net Income.** Net income is an individual's income after taxes and deductions. Net income can come from salary, sales commissions, a company bonus, alimony, child support, tips, interest, dividends, Social Security, other government assistance, pensions, and gifts. To determine net income, use one of these methods:
   - If the applicant is paid weekly:
     1. Multiply her weekly net income by 52
     2. Divide that amount by 12
   - If the applicant is paid biweekly:
     1. Multiply her two-week net income by 26
     2. Divide that amount by 12
   - If the applicant is paid monthly: use that net amount.
   - If the applicant is paid a regular salary AND gets additional income that varies monthly:
     1. Add her net annual income AND the additional income she has received over the last 12 months
     2. Divide that amount by 12

2. **Assess Monthly Debt Payment.** Monthly debt payment is the amount the applicant owes to creditors each month. This amount does NOT include mortgage payments, rent, utilities, or taxes. Monthly debt payment includes the following:
   - Credit card payments
   - Student loan payments
   - Car or other vehicle loan payments
   - Bank or credit union loan payments
   - Medical or dental bills payments
   - Consumer loan payments (furniture, appliance, computer, etc.)

3. **Calculate the Debt-to-Income Ratio.** Using the information you gathered from steps 1 and 2, divide the total monthly debt payment by total monthly net income. For example:
   - Alex earns $48,000 net income per year
   - Divide his income by 12 = $4,000 per month
   - He owes a total of $2,200 per month in credit card payments and student loan payments
   - His debt-to-income ratio is 0.55

OK, so now what?

Great—you now have a percentage, the score, but are not quite sure what this means and how it helps you make your decision. Here's a guide to interpreting a score.

10% or less

If the applicant's debt-to-income ratio is less than 10%, she is considered Level 1. Level 1 is the best rank and indicates that the applicant is financially sound. She is fairly guaranteed an approved loan, depending on the amount requested.

11–20%

These applicants are considered Level 2. Level 2 is still a decent rank, and the applicant stands a decent chance of being approved at this level.

21–34%

These applicants are Level 3. Approval is problematic, and you will need to ask if the applicant is able to provide a co-signer to help her get the loan she requests. She is not likely to secure a loan at this level without a viable co-signer.

35% and above

If the applicant's debt-to-income ratio is greater than 35%, they are considered Level 4. Level 4 is the worst rating, and applicants at this level are a high credit risk. The applicant's net income is not sufficient to support his current monthly debt payments. There is no feasible way for him to pay back a new loan, and so you should reject his application.

Discuss the section above with your group members and ensure that all members understand the process of calculating debt-to-income ratio.

Method 2: The 20/10 Rule

The 20/10 Rule is another way of looking at ratio of debt to income. The "20" refers to the fact that the applicant should never borrow more than 20% of his annual net income (excluding mortgage payments). The "10" refers to the fact that the applicant's total monthly debt payments (again, excluding their mortgage payments) should not exceed 10% of their monthly net income.

Let's say that an applicant nets $30,000 a year. To determine the "20," multiply $30,000 by 20%. Thus the applicant should never have more than $6,000 of debt outstanding.

The "10" part simply breaks the maximum debt allowed into monthly limits and multiplies that by 10%. Remember that the applicant's annual net income is $30,000. You simply divide that amount by 12 to get $2,500. Finally, multiply that amount by 10% to get $250. Thus, the applicant's total monthly debt should NOT exceed $250.

What's the difference? Well, you might buy a car and get a car loan for a total of $4,000 with a monthly payment amount of $200 a month for the next 24 months. You have stayed within the 20% of your yearly net income and your monthly payment does not exceed 10% of your monthly net income.

If an applicant exceeds the 20/10 Rule, he is considered a poor credit risk.

Discuss the section above with your group members and ensure that all members understand the process of applying the 20/10 Rule.

Method 3: Considerations of Credit

The first two methods are purely mathematical. The third method involves common sense as well as number crunching. Among loan officers, common sense means applying the 3Cs of credit—capacity, character, and collateral—to an application.

- **Capacity** is the consideration of whether the applicant has enough income to repay the loan. Capacity is determined by analyzing the applicant's debt-to-income ratio or the outcome of applying the 20/10 Rule.

- **Character** is a sometimes subjective way of determining if the applicant will be responsible enough to repay the loan. One way of determining an applicant's character is by examining her credit report to see how she handled credit in the past. Three agencies, Equifax, TransUnion, and Experian, generate credit reports. You must analyze reports from all three, since no one has ALL of the information you need. By analyzing the applicant's credit reports, you can not only review the applicant's credit history but also determine how stable she is in terms of length of time at a job or even at a residence. Stability is important because it means the individual has a steady source of income to cover the loan repayment.

- **Collateral** is an asset like a house, car, or savings that an applicant can use to secure a loan. If the applicant fails to repay the loan, the bank can take the asset to pay off the amount owed.

OK, so now you know what you need to get out there and start reviewing loan applications. Remember that Loans R Us is in the business of loaning money—the interest on loans pays your salary and ours and keeps this business in business. Nevertheless, we cannot tolerate bad lending. Failure to correctly assess an applicant's ability to repay can jeopardize your future with this company, but we believe you will make loans wisely. So get on out there and make some money!

STOP

Discuss the section above with your group members and ensure that all members understand the 3Cs of credit.

Activity Sheet

Loan Application

Instructions: Once everyone in your group understands the three methods of analyzing a loan application, review Sam de Silva's student loan application. Examine his application and credit report; apply one of the rules you learned above; and determine as a group whether Loans R Us should grant him a loan. Be prepared to defend your decision.

Loans R Us Loan Application

Full name: Sam de Silva
Date of birth: October 10, 1989
Street address: 57 Saronga Blvd,
City/State/Zip: Chicago, IL 60612
Years at present address: 1
Phone: (877) 555-3678
E-mail address: sam.desilva@yahou.com
Social Security #: 123-45-XXXX
Driver's license #: D4Q-76-WXZY
State issued: New York
Date issued: October 10, 2005

Previous address if lived at above address less than two years:
Street address: 2 Dediya Rd.
City/State/Zip: Wala, NY 20002
Phone: 246-555-9870

Loan amount requested: $2,500.00
School you plan to attend: Illinois School of Management
Date of first attendance: September 2008

Personal references (List no less than three):

Name	Address	Phone	Relationship to student
Dan Ullah	62 Green Rd. Colombia, IL 11111	847-555-7866	Boss
Shawn Tooh	102/1 Sri Dheer Ave. Maha, IA 22222	319-555-7667	Aunt
Sara Gunasena	72 Galle Rd. Waska, DE 33333	302-555-8977	Grandmother

Status

If applicant is independent, complete the information highlighted below in gray. If applicant is a dependent, enter the information for the parents' employment below:

Parents' names: I am independent.
Parents' phone #: ______________________________

Employer: Dan's Grocery Barn
Employer street address: 12334 Good East Rd.
City/State/Zip: Colombia, IL 60077
Work phone: 847-DAN-BARN

Savings account information
Bank name: Second Third Bank
Bank address: 123 Patterson Ave., Chicago, IL 60634
Account number: 456-789-01

Checking account information
Bank name: Second Third Bank
Bank address: 123 Patterson Ave., Chicago, IL 60634
Account number: 456-789-02

Monthly Income
Total gross income: $2,000.00
Total net income: $1,593.75

Monthly Expenses
Rent/Mortgage $600 per month
Other loans: car—$175 per month for another 24 months
Current credit card debt: $2,100.00

Assets

List any assets you may have such as securities, an automobile, or other item of value greater than $1,000: A 1986 Honda Civic—almost paid off

Terms and conditions:

- I certify that the information listed on this form is accurate and true.
- I authorize IDEA Credit to investigate my credit background to the extent it deems necessary.
- Based on my FAFSA report, I can be approved for a loan amount of up to $2,195.
- I understand that I must begin paying back the loan at the prime rate within 30 days of graduation or discontinuing my education.
- By signing this application, I agree to the terms and conditions stated above.

Sam de Silva

Applicant signature

Credit Report

Consumer Credit Report
Date of report: 12/20/2007

Consumer Information

	Experian	TransUnion	Equifax
Name	Sam de Silva	Sam de Silva	Sam de Silva
Current Address	57 Saronga Blvd. Chicago, IL 53432	57 Saronga Blvd. Chicago, IL 53432	2 Dediya Rd. Wala, NY
Previous Address	2 Dediya Rd. Wala, NY 10654	2 Dediya Rd. Wala, NY 10654	2 Dediya Rd. Wala, NY 10654
Current Employer	Red Cross	Red Cross	Unemployed

Consumer Statement

Summary Information

Real estate accounts	Experian	TransUnion	Equifax
Count	0	0	0
Balance ($)	0	0	0
Payment ($)	0	0	0
Current	0	0	0
Delinquent	0	0	0
Derogatory	0	0	0
Unknown	0	0	0
Revolving Accounts	**Experian**	**TransUnion**	**Equifax**
Count	4	3	4
Balance ($)	3,000	2,100	2,100

Account History
Information

Bank 1 MasterCard	Experian	TransUnion	Equifax
Account Number	1234	1234	1234
Type	Revolving	Revolving	Revolving
Condition	Open	Open	Open
Responsibility	Individual	Individual	Individual
Pay Status	30 days late	30 days late	60 days late
Date Opened	2/16/2007	2/16/2007	2/16/2007
Date Reported	12/20/2007	12/20/2007	12/20/2007
Balance and Limit	Balance of $3,000	Balance of $2,100	Balance of $2,100
Payment and Terms	$50 for 360 months	$50 for 360 months	$50 for 360 months
High Balance	$5,000	$5,000	$5,000
Past Due	$0	$0	$0
Remarks			

Seven Year Payment History

	Experian	TransUnion	Equifax
30 days late	1	1	1
60 days late	0	1	1
90 days late	0	1	0

Our determination of this loan:

____

11. Credit Cards 101

Instructional objectives

Students will be able to understand

- The advantages and disadvantages of using credit cards
- The risks and responsibilities associated with using credit cards
- The components of a credit card statement

Description

Students will work in groups to understand the basic responsibilities of having a credit card and the financial implications of using a credit card.

Time

45–60 minutes

Materials

Credit Card Basics resource sheet (copy for each student)
computers with Internet access

Preparation

Reserve computers with Internet access for your class for a 45–60 minute block.

Class layout and grouping of students

Students will work in groups for the last part of the lesson.

Procedure

1. Write a K/W/L graphic organizer on the board. Ask the class to define what a credit card is. Stress that it is a loan between a consumer and an institution and that the institution is out to make money from the loan.

2. Ask the students what they know about credit cards and jot down what the students say in the K column. Then ask them what they want to know about credit cards. Jot these answers in the W column. Point to the L column and explain that they will complete that column once they have learned the credit card basics.

3. Distribute Credit Card Basics. Ask the class to read Part I: Advantages and Disadvantages of Credit Cards. Once they have finished reading the material, ask if they have anything

else to add to the list. Then facilitate a discussion of whether the disadvantages outweigh the advantages of using credit cards.

4. Remind the students that credit card companies want to make as much money as possible from their cards, and tell them to read Part II: Costs Associated with Credit Cards. Once they have finished reading, ask if they can avoid fees. If so, how?

5. Ask the class to look at the K/W/L chart on the board and determine if any questions remain unanswered. If so, organize the class into groups and assign each an unanswered question. Tell them to research the question on the Internet and report back their findings.

6. Ask each group to report back its findings to the class.

Assessment

Assess student understanding during the debate and discussion and in the group presentations.

You could also wrap up the discussion with evaluative questions to determine if students understand the advantages and disadvantages of using credit cards and the risks and responsibilities associated with using them.

Resource Sheet

Credit Card Basics

What is a credit card?

Essentially, a credit card is an ongoing loan between you and the institution that issued it. Each time you make a purchase at a store using your credit card, your signature acknowledges that you owe the bank the amount of the purchase. This loan comes with many conditions, most of which state that you must repay the amount charged plus interest or finance charges on any items you do not completely repay the bank within a certain period of time, usually about 30 days. For example, if you charge $200 to your credit card, you then owe your bank $200. If you do not pay that money in full within the time limit, the credit card company will charge you interest and perhaps other fees.

PART I: Advantages and Disadvantages of Credit Cards

Credit cards are a great have—if they are used wisely and treated with the respect that your money deserves. Some advantages and disadvantages of a credit card include the following:

Advantages

1. Are handy and safe. You don't need to carry a lot of cash, which may be lost or stolen.
2. Allow you to pay for something that you need immediately or in an emergency situation when you simply don't have the necessary cash on hand.
3. Permit you to borrow cash. If you think there is an error on your statement, you can dispute the charge. While the bank investigates, you do not have to pay for the item(s) in dispute but you still must pay the charges you are not contesting. Note that if the credit card company investigates the disputed charge and later finds the charge to be valid, you must then pay that charge.
4. Offer you recourse if you buy defective merchandise. If you buy defective merchandise and the store won't refund you the money, the credit card company has the ability to demand a refund for inferior goods or services.
5. Help with record keeping and bill paying. Credit card statements create a record of purchases and charging purchases to one card makes bill paying easy—there's just one payment.
6. Many offer benefits like frequent flier miles, points toward gifts, and cash rebates.
7. When you manage your credit card account wisely and pay your balances off on time, you build up a credit history that tells the financial community that you can handle money responsibility. Having excellent or good credit history is necessary when you apply for a loan. A good credit rating also allows you to get other credit cards with more attractive features.

Disadvantages

1. You can easily buy on impulse and spend more money than you have.
2. If your payment is late—even if it's not your fault—you may have to pay a late fee and possibly finance charges that can be high.

3. If you pay only the minimum balance on your statement each month, the actual cost of what you bought rises significantly as finance charges and fees add up quickly.
4. Credit cards typically charge high interest rates, and credit card companies can change the rates at will. These changes apply to any balance you have on your card at the time of the change. So if you charged $200 on your card at a rate of 13% and paid the company $50, you might think that the bank is charging you 13% on the remaining $150. But the bank could change its rate to 20% and you would then be paying that rate on the $150.
5. Poor management of credit card results in poor credit history and jeopardizes your ability to buy a home or car.

A little of both

If your credit card is stolen you are not responsible for charges the thief has made once you report the theft. And even if the thief uses the card before you can alert the credit card company, federal law limits your liability to $50.

OK, so you think you know the good, the bad, and the ugly about credit cards. In looking to find a credit card, there are many different options.

PART II: Costs Associated with Credit Cards

There are many costs associated with using credit cards, including the following:

1. Interest. Interest is the main component in finance charges. It is the cost you incur for NOT paying off your bill in full each month. The cost depends on the interest rate, how often the interest is compounded, and the amount of your balance. You will be informed of all these factors when you sign up for the card and it is also clearly written on every statement you receive. Interest rates are very high: many cards have a rate of 18.9% but many are much higher. This interest is compounded (charged) on a daily basis against the balance that you carry. Note that if you pay off your bill in full each month, you don't have to worry about a high interest rate.

2. Interest is how credit card issuers make money and how you can get into trouble if you don't pay off your balance. Think back to when you charged $200 on your card. You are expected to pay at least the minimum amount due. But let's say that you decide not to pay the balance on the bill when you receive it. The credit card company then charges you interest on the $200 you owe. The interest continues to grow on a daily basis for every day that you don't pay the balance off. Over time, that $200 could grow to $300 or $400—all because of finance charges.

3. Annual fees. This is the fee you pay every year to have the credit card. Not all banks or credit card companies charge an annual fee, but those that don't may end up charging higher interest rates to make up for the lost revenue.

4. Cash advancement fees. This fee is applicable only if you use your credit card to borrow cash. These fees are generally high, sometimes over 24%, and any money you borrowed is added to your credit card balance, which accumulates interest until you pay it off. You do not get any interest-free days from receipt of your bill to pay off the cash advance, so pay it off as soon as you can to avoid high fees and interest.

5. Transaction fees. This term is used to describe a variety of fees that credit card companies charge. You may be charged a transaction fee for changing the due date on a credit card statement or even using your card overseas. These fees vary from credit card company to company.

6. Late fees. If your payment arrives at the credit card company or bank AFTER the specified due date, you are charged a late fee. This fee is added to your account, and if you don't pay off your balance each month—you guessed it—you have to pay interest on that as well. Late fees are generally high, so try to get your check in the mail in enough time for it to reach your credit card company on time. A better way to make sure that your payment arrives on time is to pay by phone or online.

7. Over-limit fees. When a bank issues you your credit card, it puts a limit on how much you can charge. Typically, when you charge something that will cause you to exceed your limit, the bank will not authorize the purchase. However, some cards allow you to exceed the limit slightly but will charge you for your over-indulgence. Again, the fee is quite high, and some banks require you to pay the minimum balance AND the amount that exceeds your limit before you can use the card again.

12. Reading a Credit Card Statement

Instructional objectives

Students will be able to
- Identify the basic elements of a credit card statement
- Define the purpose of each element
- Understand how they can use a credit card statement to manage credit responsibly

Description

Students will work in groups to identify the components of a credit card statement, understand the importance of each component, and learn how a credit card statement can help them use the card wisely.

Time

45–60 minutes

Materials

Credit Card Statements activity sheet (copy for each student)
calculators (for each pair)

Class layout and grouping of students

The class will work in pairs to analyze the statement.

Procedure

1. Organize the class into pairs and brainstorm the kinds of information the class would like to have on their statements to ensure that they can use a credit card wisely. Create a master list of what they want to know.

2. Distribute Credit Card Statement. Tell the class that although a credit card statement may look confusing, it gives them the information they need to handle the card wisely. Briefly discuss categories of information on the sheet and associate them with the master list.

3. Tell the students to look at the sample credit card statement on page 2 of their handout and find each of the elements discussed in Part 1 of the handout. Ask them to work together to label each element on the copy of the statement and answer the questions at the bottom of the sheet.

4. Once the class has finished the assignment, ask random pairs to report and justify their findings.

5. Facilitate a discussion about how a credit card statement helps a consumer use the card wisely.

Assessment

Assess student understanding by listening to their comments in their groups and determining the accuracy of labeling the various elements.

Credit Card Statements

PART I: Reading a Credit Card Statement

OK, so you got the card, you shopped until you dropped, and now you have received the dreaded statement. While the bill may be intimidating at first, everything contained in the statement was explained when you signed up for the card and it does all make sense. Really. While all credit companies and banks have different items they feature on their monthly statements, there are 18 basic areas that all credit card companies include.

1. **Credit card customer service information:** the credit card company's customer service address, Web site and phone number.
2. **Credit card account number and name:** your name and the number of your account.
3. **Date of statement:** the date the statement was sent. The statement also specifies the beginning and ending date of the billing cycle.
4. **Payment due date:** the date by which the credit card company must receive your payment if you are to avoid late fees. Most credit card companies have a billing cycle of 29 to 31 days and give you a due date that is 20 to 30 days from when your credit card bill was printed.
5. **Credit line:** the maximum amount the institution will let you charge on your card. The bank can revise your credit limit based on your payment track record. If you go over the credit line limit, your card can be rejected when you try to purchase something.
6. **Credit available:** the amount you can currently spend on your card. It is the difference between your credit line and the balance on the card.
7. **New balance:** the total amount you owe after payments, credits, and adjustments have been deducted and purchases, cash advances, fees, and finance charges have been added to your previous balance.
8. **Minimum payment:** the amount that the credit card company requires that you pay toward the outstanding balance. Sometimes a credit card statement tells you that you do not have to make a minimum payment that month, but beware—when you do not send them any money for that statement, they will charge you interest on the entire balance. So, this is far from any kind of freebie—it's more like more free money for the credit card company. Minimum payments usually range from 2% to 4% of the outstanding balance. So if you owe $2,500, your minimum payment could range from $50 to $100. If you cannot pay off your bill every month, always pay more than the minimum to avoid mounting finance charges.
9. **Cash credit line:** the amount of your credit line that you can withdraw as cash. Remember, you do not get any interest-free days from receipt of your bill to pay off the cash advance, so pay it off as soon as you can to avoid high fees and interest.
10. **Available cash line:** the amount currently available for withdrawal as cash. It is the difference between your cash credit line and your cash advances.
11. **Reference number:** a number some banks assign for each transaction. If your bank uses reference numbers, you will need to quote this number in case of dispute on any of the charges listed in that particular credit card statement.

12. **Transaction date:** the date of your purchase.
13. **Posted date:** the date the transaction was entered into the bank's system.
14. **Activity:** lists all the transactions you have made since the last statement. These include purchases, returns, payments, and interest. When you first get your statement, make sure you can account for all the vendors listed, that you were not overcharged, and that no unauthorized charges appear on the bill.
15. **Grace period:** the time you are given before the credit card company charges you interest on the outstanding balance. Some cards don't give you a grace period—the balance is due when you receive the statement. Before you sign up, look at the terms and conditions to see what the grace period is.
16. **Balance calculation:** how the company calculates your current balance. It includes the following:
    a. **Previous balance:** the amount that you still owe on your credit card when the current billing cycle began. This previous balance is the amount on which you pay interest and possibly late fees.
    b. **Payments and credits:** a summary of payments and credits to your account. Always make sure that the amount you paid on your credit card in the previous billing cycle is correct and that you receive credit for any returns.
    c. **Cash advances:** the total amount of cash you borrowed against your credit card limit.
    d. **Finance charges:** the charges that are applied to unpaid balances. If you pay off your credit card bill on time each month, you will not have finance charges. These are the charges that get people into the most trouble. If you don't pay off your card monthly, these fees can really add up. For some people only a small portion of their bill may be the cost of purchases. Most of the bill may be finance charges—pure profit for those credit card companies.
    e. **Late fees:** a fee charged for your payment arriving late.
17. **Payment information:** the current balance, if there is a balance remaining from the last statement; amount past due, if you have not paid at least the minimum due from your previous statement; amount over your credit line; and minimum payment due this statement period. Check this section carefully. The bank may not have received a payment you sent. And if you are over your credit line, your charging privileges are usually suspended until you pay down your balance.
18. **Finance charge summary:** the interest rates the bank is currently charging. These include the following:
    a. **Periodic rate:** the interest rate the card holder pays in a given billing cycle. Periodic rate equals APR divided by the number of billing periods.
    b. **APR or annual percentage rate:** the rate used to calculate the finance charges that you owe on previously unpaid balances or cash advances.

PART II: Analyzing a Sample Statement

Instructions: Below is a sample credit card statement. Work with your partner to find each of the parts mentioned above and label each using the number attached to the part. Then answer the following questions:

John's Credit Card Statement

Claxton Bank

SEND PAYMENT TO
Box 1234
Anytown, USA

CREDIT CARD STATEMENT

ACCOUNT NUMBER	NAME	STATEMENT DATE	PAYMENT DUE DATE
4125-239-412	John Doe	2/13/01	3/09/01
CREDIT LINE	**CREDIT AVAILABLE**	**NEW BALANCE**	**MINIMUM PAYMENT DUE**
$1,200.00	$1,074.76	$125.24	$20.00

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT
483GE7382		1/25	Payment Received	-168.80
32F349ER3	1/12	1/15	Nathalie's Records Chicago, IL	14.83
89102DIS2	1/13	1/15	House of Gisela Libertyville, IL	30.55
NX34FJD32	1/18	1/18	King Richard Amusement Pk Lisle, IL	27.50
84RT3293A	1/20	1/21	Ray's House of Blues	12.26
873DWS321	2/09	2/09	Comics by Marcel Chgo, IL	40.10

Grace Period		**days** 30	**Other Fees**	0.00
Previous Balance	(+)	168.80	Current Amount Due	125.24
Purchases	(+)	125.24	Amount Past Due	
Cash Advances	(+)		Amount Over Credit Line	
Payments	(-)	168.80	Minimum Payment Due	20.00
Credits	(-)			
FINANCE CHARGES	(+)			
Late Charges	(+)			
NEW BALANCE	(=)	125.24		

FINANCE CHARGE SUMMARY	PURCHASES	ADVANCES
Periodic Rate	1.65%	0.54%
Annual Percentage Rate	19.80%	6.48%

For Customer Service Call:
1-800-xxx-xxxx
For Lost or Stolen Card, Call:
1-800-xxx-xxxx
24-Hour Telephone Numbers

Please make check or money order payable to Claxton Bank. Include account number on fornt.

Questions:

1. Did John pay off his previous balance in full?

2. Was John charged any fees during this statement period?

3. How much can John currently charge to his credit card?

4. How much can he take out as a cash advance?

5. If John were to charge nothing else until he paid off the card and if he paid only the minimum balance each month, how long would it take him to pay off the card, assuming that the bank does not change the interest rate? How much interest would he have paid on his $125 balance?

6. If John were to use his card for a $300 cash advance, what would be his interest rate? If he took the advance on June 1 and paid it back on June 30, how much interest would he pay on the advance?

13. Choices, Choices

Instructional objectives

Students will be able to

- Analyze various credit card offers and determine the best offer based on various criteria

Description

After analyzing the types of various credit cards, students will use the Internet to research different cards and select the card that best fits their needs.

Time

45–60 minutes

Materials

Types of Credit Cards resource sheet (copy for each student)
Shopping for a Credit Card activity sheet (copy for each student)
computers with Internet access for each group

Preparation

Reserve computers with Internet access for your class for a 45–60 minute block.

Class layout and grouping of students

Students will work in pairs or groups around the computers.

Procedure

1. Distribute Types of Credit Cards and review each type of credit card.
2. Explain to students that they will research and analyze the three major types of credit cards and use the data they gather to shop for a credit card to meet their needs.
3. Organize the class around the available computers. When they are ready to begin, distribute Shopping for a Credit Card.
4. Review the instructions on the worksheet and tell the class that they have 25–30 minutes to complete the assignment and to choose the card that they think is best for them. Remind them to provide a rationale for their choice.
5. After the class has finished their worksheets, hold a discussion about the activity. Ask students if any of the material on the sites was confusing and why. Ask them which card pro-

vides the lowest APR, the lowest finance charges, the greatest benefits, and the greatest disadvantages. Finally, ask students to tell the class the card they chose and why.

6. Collect the worksheets for evaluation.

Assessment

Assess the students' understanding of the activity through the class discussion. Look for students to ask intelligent questions and provide answers to questions about the material they have read.

Use the responses on the worksheets to analyze the students' understanding of credit cards.

Extensions and modifications

Have the students work out the monthly finance charges using various unpaid balances and APRs. Have students calculate various rates and fees to get the most favorable card options.

Types of Credit Cards

MASTERCARD/VISA

- The most popular credit cards, which are also accepted worldwide, are MasterCard and Visa. Hundreds of different banks issue this type of credit, often in conjunction with other businesses. These cards are a revolving open line of credit, which means that you do not have to pay the full amount owed within 30 days. Now that sounds great, but that just means that if you choose not to pay right away, the credit card company will begin to charge your account interest, finance charges, and possibly late fees. This is where credit card companies make their money and where it is easy to get into trouble. The credit card allows you to continue to charge up to a predetermined level, while also making minimum payments on your revolving balance.

LIMITED PURPOSE

- Limited purpose credit cards operate like MasterCard and Visa cards, but you can use them only in the store that issued the card. Like MasterCard and VISA cards, department store cards allow you to make minimum monthly payments while adding new purchases to the account, as long as payments are made and you stay within the credit limit they store granted. Card holders typically get deeper discounts and special deals as an incentive to hold the card. Department store or gas credit cards are examples of this type.

TRAVEL/ENTERTAINMENT

- Travel or entertainment cards include American Express and Diners Club, but there are many others. These are not revolving charge accounts, which means you are expected to pay them off in full each month when you get the bill.

OTHER TYPES OF CREDIT CARDS

The following are options for people without a credit history or those whose credit is not good.

- SECURED CREDIT CARDS. To use a secured credit card, you deposit a sum of money into a savings or CD account with the bank that issues the card to you. This sum of money is the bank's insurance policy if you choose not to make the agreed payments on your card. If you don't make the agreed payments each month, the money you deposited is used to pay the balance on the card. You are unable to make further charges without making further deposits. This card looks like a regular credit card but is very different in that you don't borrow any money—you simply prepay your bills.

- PREPAID CREDIT CARDS require a cardholder to put money on the card before it can be used. You then draw down the balance as you make purchases. You can purchase only up to the amount left on your card before you have to load the card again. These cards do not have finance charges or minimum payments since the balance is withdrawn from the amount on the card. Prepaid cards are similar to debit cards but are not tied to a checking account.

Activity Sheet

Shopping for a Credit Card

Instructions: At your computer stations, choose one of the sites from each category below and check out some of the many options available for each type of card. Follow the instructions for each card type and use the information you gather online to complete the chart and answer the questions below.

MASTERCARD/VISA

MasterCard and Visa are very similar and hundreds of banks offer these types of cards. Browse the Web sites below and choose two of the offers for analysis. Write your choices and provide the information about the cards requested in Section A. Provide additional information about special offers, card member rewards, and bonuses in Section B. Then, proceed to the next card type.

1. http://www.creditcards.com/Mastercard.php
2. http://www.creditcards.com/Visa.php

LIMITED PURPOSE

Browse the Web sites below and choose two of these cards for analysis. Write your choices and provide the information about the card requested in Section A. Provide additional information about special offers, card member rewards, and bonuses in Section B. Proceed to the next card type.

1. https://www.citicards.com/cards/wv/cardDetail.do?screenID=938
2. http://www.kohlscorporation.com/ChargeCard/Charge01.htm

TRAVEL/ENTERTAINMENT:

Browse the Web sites below and choose two of these cards for analysis. Write your choices of this type of card and provide the information about the card requested in Section A. Provide additional information about special offers, card member rewards, and bonuses in Section B. Proceed to Section C and provide your choice and rationale.

1. https://www143.americanexpress.com/cards/home.do
2. http://www.dinersclubus.com/dce_content/personalcards/cardcomparisonmatrix

SECTION A: COMPARATIVE INFORMATION

	MC/VISA	MC/VISA	LIMITED PURPOSE	LIMITED PURPOSE	TRAVEL/ENT	TRAVEL/ENT
Name of credit card						
Annual fee						
Annual percentage rate (APR)						
Frequency of compounding interest						
Grace period?						
Late payment fee amount						
Other fees that can be incurred						
Over-the-credit limit						
Cash advance fees or interest rate						
Transaction fees						

Section B: Analysis

1. Are there any special offers that are being offered to new card members? If so, list them below.

    MasterCard/Visa:

    Limited Purpose:

    Travel/Entertainment:

2. Are there any rewards that are being offered to card members? If so, list them below.

    MasterCard/Visa:

    Limited Purpose:

    Travel/Entertainment:

3. Are there any bonuses that are being offered to card members? If so, list them below.

    MasterCard/Visa:

    Limited Purpose:

    Travel/Entertainment:

Section C: Choise

Review your information and decide on ONE card that is best for each of the following people. State your choice and your rationale below.

Rachael is just buying a house and wants to furnish it quickly. She doesn't know how much she will have to spend each month to do so.

John shops as Sears and Kohl's a lot and thinks that he may be better off using their credit cards than a regular MasterCard or Visa because of the discounts he sometimes receives.

Chris wants to pay off his balance every month.

14. Terms and Conditions May Apply

Instructional objectives

Students will be able to

- Understand basic service contract terminology
- Analyze a common subscription contract and determine responsibilities and rights for the company and the consumer

Description

Students will be expected to read and interpret the terms and conditions for a specific service provider. They will learn new terms and understand how to read and interpret a Terms and Conditions document.

Time

45 minutes

Materials

Splash activity sheet (copy for each student)
Inoka Internet Terms and Conditions (copy for each student)
Customer Service Please activity sheet (copy for each student)

Class layout and grouping of students

Students will work in groups of three or four to answer customer queries

Procedure

1. Explain that a contract is an agreement between two or more people that is enforceable by law. Consumer contracts are comprised of terms and conditions that outline the responsibilities of both the merchant or service provider and the consumer, but most consumers do not read them and so are unaware of their rights and obligations. Tell the class that understanding these agreements is very important, and that this lesson will teach them how to do so by using the example of a contract for an Internet service provider.

2. Distribute Splash activity sheet and explain that the sheet introduces some of the terms they will read about in a few minutes.

3. Distribute Inoka Internet Terms and Conditions and ask the students to read it.

4. Now refer back to the Splash sheet and ask the students for a definition of each term based on their reading. They may refer back to Terms and Agreements in order to complete this part of the assignment. Clarify the students' definitions if necessary.

5. Organize the students into groups of three or four and distribute Customer Service Please. Tell them that for the rest of the period they will be Inoka customer service representatives working together to answer the five customer questions using the Terms and Conditions agreement. Ask them to write their answers on the sheets and report their answers back to the class.

6. Conclude the activity by facilitating a general discussion of the importance of understanding service agreements.

Assessment

Assess the students' understanding of the Inoka Internet Terms and Conditions through their answers to the customer questions. Assess their awareness of the importance of service agreements through the general discussion at the end of the lesson.

Extensions and modifications

Ask students to bring in contracts for services they use such as cell phones, DSL, and music download subscriptions and have them analyze the contracts for customer service and ease of use.

Activity Sheet

Splash

Installation fee

Return policy

Cancellation policy

Termination fee

MINIMUM TERM

DISCLAIMER

Penalties

Liable

Violation of terms and conditions

Early termination of term accounts

Binding contract

Offer subject to change

annual contract

Late fees

Inoka Internet Terms and Conditions

ACCEPTABLE USE

No spam.

Inoka Internet does not condone the practice of spamming (the sending of unwanted email). If we find anyone utilizing our network to send SPAM (which includes collecting information in order to send SPAM, sending out SPAM that includes an Inoka mailbox or Inoka-hosted mailserver, or sending out SPAM that advertises a site hosted on the Inoka network), they agree to and will be billed $5.00 per email sent in addition to a $10,000 per incident fine. In addition, we will, to the fullest extent allowed by law, seek legal action on any individual(s), organization(s), and or company(s) that violate this policy. Please report any violations to Inoka Internet's Abuse Dept.: abuse@inoka.net.

No building porn sites.

You may not provide hosting services for any adult material. (Please note: On Inoka, you may always download and view whatever you wish. The restriction is against using your connection as a point of distribution.)

Accounts terminated for violation of these rules are subject to a $200 termination fee.

For additional service/pricing information, please contact 123-456-7890

DSL TERMS

Free Modem and One-Year Contract: Please note that free Self-Install Kit (DSL Modem) is available with a binding one-year contract. Binding means you have to pay even if you don't stay a full year. If you terminate your service agreement within 12 months of your DSL activation date, you will be billed up to a $200 termination fee. Limit of one free modem per DSL line. Modem remains property of Inoka Internet. Offer subject to change without notice. Annual contract does not mean the same thing as annual payment discount.

Annual Payment Discount: This means that you pay one time per year and get 12 months for the price of 10. Please note that if you pay monthly, you do not get the annual discount. If you sign up and pay by the year but cancel after less than one year, any refund will be calculated based on the monthly rate. Annual payment in advance automatically qualifies for free Self-Install Kit in addition to the discount.

Transfer Fee: Please note that there is a $35 fee to move accounts from one speed category to another, in addition to any fee which Ma Bell may charge.

Installation Charges: Inoka charges no installation or setup fee. Ma Bell is currently charging a setup fee of $60 for orders placed after 04/01/2008.

Hardware You Need to Buy: Ethernet Card. Your computer must be 10BaseT Ethernet capable. Nearly all prepackaged PCs are and all Macs made in the last five years are. If your computer does not support 10BaseT, it is usually not difficult to add this capacity. If you are planning on setting up a local area network, you'll need a few relatively inexpensive items that we'd be happy to talk to you about.

Payment of Fees: This service will be charged by Inoka Internet only. You will have to pay the whole fee (for Internet connection and Line charge) on one bill to Inoka Internet. However, if you do not want to sign up for one year (for instance, if you already have a DSL modem), then you will be charged by two separate companies. You will need to pay Inoka Internet for your access to the Internet and you will need to pay Ma Bell for the line connecting your home or office to Inoka.

Domain Name Hosting: For Business customers who wish to host their own sites, Domain Name Service is available. PLEASE NOTE: DNS DOES NOT INCLUDE HOSTING. If you'd like to have a Web site hosted by Inoka, this service is available for $25 per month or for a reduced one-time fee of $250 per year. Additional Domain Name Service is available at $50 per domain.

Dial-up Backup: Inoka offers an optional Dial-up account with all DSL accounts, for $2/month (or $20 for the whole year).

Installation of Your DSL Modem: Inoka Internet will mail you a Self-Install Kit that includes the DSL modem. Instructions will be provided on how to configure your computer to make use of it. If you've ever set up a dial-up account, you will find this extremely simple. If you are also setting up static IPs or a local area network, please be aware that no on-site service is included with our $0 installation fee. On-site service can be arranged for our usual hourly rate of $100 per hour.

Inoka DSL Modem Warranty/Return Policy: We want you to be happy with your Inoka modem, and if you get it from us and there's a problem, we will sort it out for you at no cost. We will take care of it within the first year! But, there are some things you need to do if you want to take advantage of our service. We try to make responsibilities clear, so here are the rules. These rules also apply if you return a modem at the end of your service contract. For a modem to be returned, it must be complete, including all manuals, packing materials, line filters, power supply, and the modem itself.

The value of a modem is $199. From this amount the following deductions would be made:

- modem in bad condition (scratched or used looking) $99
- no power supply $125
- no manual $25
- no box $25
- no filters $50
- no crossover cable $50

Thus a modem returned with no box, no filters, and no manual would be worth only $99 in exchange. If you wanted a replacement you would have to pay the difference. If you didn't have the box but had everything else the exchange would cost you only $25.

If you anticipate you might want to exchange or return a modem you should keep the box and also return the filters and so on. A modem returned in incomplete state isn't much use to us, so we ask that all modems be returned complete.

Inoka DSL Contract Terms and Cancellation Policy: Dial-up accounts have a minimum term of one month. DSL and T1 accounts have a minimum term of one year. In special situations a customer may receive a different term; however, in many cases an additional charge will be required, to cover local landline phone company charges. The one-year terms apply unless the customer asks for and receives a written agreement to some other term. Monthly accounts renew until cancelled by the customer. Accounts billed annually also renew until cancelled by the customer. All accounts simply renew until cancelled.

DSL Cancellation and Minimum Charges (ABC/Ma Bell) Inoka is generally pretty easygoing about terms for service. While we do not try to get rich off any particular customer, we must require all customer transactions to be at least breakeven if we wish to stay in business. When it comes to DSL and T1 lines the telephone company charges us setup fees. If a customer terminates early, Inoka has the right to recharge and pass on telephone company setup and termination charges where the amount the customer pays is less than the local landline phone company charges. For DSL this will usually be about $100. This applies even if the customer has a month-to-month deal. For example, if a customer were to use the service only one month, the customer would be liable for roughly $100 plus the line charge.

In order to avoid this charge, a customer must either cancel service at least one week before local landline phone company installation, so that the local landline phone company charges may be avoided, or the customer must stay long enough that the customer charges exceed the local landline phone company setup and line charges. If telephone company installation or early termination fees are incurred, they will be passed on. A customer that stays at least one year need not worry about this. T1 installation charges and early termination fees are significant and may represent several months of fees.

IP Addresses for Business Plan Users: You will receive two static IP addresses. Additional IP addresses are available at the following rates:

Total IPs

2	No charge beyond monthly rate above
3	$2 more per month
4	$4 more per month

5–8	$5 more per month
9–16	$15 per month
Each additional 8	$5 more per month for each block of 8

Note: Monthly Platinum accounts include one block of 8. A block of 8 is included with any annual plan except Bronze Plus. Prepaid annual Platinum accounts include 32 IPs.

Quantity Discount: Quantities of any service above 10 are entitled to a 20% discount. This does not apply to local landline phone company charges.

Private Network Addresses and Firewall Services: Inoka offers free firewall service using “10.0.0.0” style private IP addresses. What this means is that your network address is safe from outsiders who might want to reach your computer through our router. Of course, where there’s a will, there’s a way, so we cannot make any guarantees, but having a firewall with private network addresses is considered one of the best forms of network security. Private addresses are standard for Individual Plan customers. They are available on request for Premium Plan customers.

Internet Security: When your computer is connected to the Internet, your computer is connected to every other computer on the Internet and is subject to attack from hackers, including mail viruses and worms. Security is the responsibility of every user. You may wish to install a firewall or other security devices. The only way to be completely secure is to turn your computer off; but a firewall will reduce the risk substantially. Inoka will generally try to be helpful but cannot take any responsibility for the security of your computer. To secure your computer, please consult with a computer security professional and/or install appropriate security software.

Disclaimer: Business or residential DSL Internet access may not be commercially available in all areas or at the rates, speeds, or bandwidth set forth herein. The actual data transfer speed or throughput that you will experience will be lower than speeds indicated after accounting for processing overhead and other factors, including the distance between your business and the central office serving you, the condition of your telephone line and wiring inside your home or office, network or Internet congestion of server and router speeds for the Web sites you are accessing. As a condition of service, the customer agrees that the total value of any service or damages related to any service in any period is limited to the amount paid by user for services during that period, regardless of any other limitations. Because DSL is a technologically advanced service and because of limitations on the service provided by the Telephone Company, Inoka cannot guarantee that your DSL service will be uninterrupted or error-free or guarantee the speeds of the service.

Closing Accounts: If you wish to close an account, you absolutely must do so in writing, for your protection and for ours. This is easy. You may close any account by e-mailing billing@inoka.net, or by writing to the address listed on our Web site. DSL customers will also need to return, or pay for, the DSL modem, and account billing will continue until the modem is received. All accessories and material must be included (original box, modem, AC adapter, telephone cord, crossover Ethernet cable, splitter, and three [3] filters). Missing items must be paid for before account is closed. Inoka does not accept requests to close accounts by telephone because of the potential for misunderstanding. Inoka does not under any circumstances offer cash refunds to customers. Failure to notify Inoka in writing, by e-mail, or by fax that you wish to close an account leaves you liable to pay for it.

Early Termination of Term Accounts: There is no right to refund for early termination on prepaid services, regardless of the reason for closing the account. In general, a term account closed early will incur the same charges as if it had not been closed at the discretion of Inoka.

Termination for Violations of Terms and Conditions: All usage must comply with Inoka posted terms and conditions. Accounts may be terminated at any time at the whim of management with or without cause. Spam, illegal activities, or inappropriate behavior, threats of any kind, including threats of legal action, or abusive or disruptive behavior toward Inoka users or staff will result in immediate termination of your account without right to refund for any unused services. Inoka also reserves the right to charge a $200 involuntary account closing fee for accounts closed for failure to pay or for violation of the basic terms and conditions of service. See our Billing and Cancellation Policies for more information.

Penalties and Late Fees: Inoka reserves the right to charge monthly late fees for any payment 30 days overdue, of $25 or 15% of the late amount, whichever is greater, to cover our cost of repeated billing reminders and collections expenses. This is not an interest charge and is separate and cumulative to any interest fees. At Inoka we're here to help customers, not to hassle them about bills. Prompt, timely payment is greatly appreciated and allows us to focus our energies on providing excellent service.[5]

[5] Brandx, "Fine Print," http://www.brandx.net/fineprint.shtml (accessed December 28, 2007).

Activity Sheet

Customer Service Please

Instructions: You are now customer service representatives of Inoka Internet. Working with the other members of the group, use the Terms and Conditions agreement to answer the following customer questions. Write your answers below and be prepared to explain them to the entire class.

1. I got charged for a modem that doesn't work. What do I do?

2. I hate this service. I signed up only three weeks ago. Can I get out of the contract?

3. I signed up for Inoka Internet almost one year ago and want to continue the service. How do I continue?

4. I can't get this thing to work. Am I missing something?

5. Someone's hacking into my computer. Do something!

15. Identity Theft

Instructional objectives

Students will be able to understand

- What identity theft is and how it can affect them and their futures
- How to prevent identity theft
- What to do if they become a victim of identity theft

Description

Students will be introduced to the concept of identity theft, how it can damage their credit, and what it means for their financial futures.

Time

45 minutes

Materials

Students and Identity Theft resource sheet (copy for each student)
computers with Internet connection

Class layout and grouping of students

Students will work in groups of five or six.

Procedure

1. Explain to students that while they now know how to use credit responsibly, they must guard their credit records against identity theft. Ask them if they have ever heard of the term and if they can define it.

   Identity theft is the crime of stealing personal and/or financial information with the intent to commit fraud. When a person steals your identity, they are using your name and reputation for her own personal gain.

2. Explain that even though they are students and think they have very few assets, they are high-risk targets for identity theft because of their behaviors and lifestyles. Distribute Students and Identity Theft and discuss.

3. Organize the students into groups of five or six and explain that they will use the rest of the period to help other students understand and deal with identity theft. Using the Internet, they are to develop three informational posters outlining the following:
   a. how identity theft happens
   b. what to do if you are a victim of identity theft
   c. how to prevent identity theft

The following Internet sites can be extremely helpful:
- Privacy Rights Clearinghouse at http://www.privacyrights.org/fs/fs17-it.htm
- U.S. Justice Department at http://www.usdoj.gov/criminal/fraud/websites/idtheft.html
  Note these on the board for student reference.

4. Once the groups have finished their posters, ask them to report their suggestions and have the class develop master scripts for the posters.

Assessment
Use the discussions to assess student understanding of the importance of identity theft. Evaluate the poster suggestions.

Extensions and modifications
1. Have students look at their individual habits and make a list of behaviors they will have to change to minimize identity theft.
2. Have students order their free credit reports using the online order form at www.annualcreditreport.com. They will need their Social Security number to access the form. When the credit reports arrive, instruct students how to read the report, look for fraudulent activity, and report inconsistencies or false information to the credit agencies.

Resource Sheet

Students and Identity Theft

Even though you are a student, you can still be a victim of identity theft. Here's a report from the Office of the Inspector General that explains how.

Being a student does not safeguard you against identity theft, one of the fastest growing consumer crimes in the nation. Identity thieves don't steal your money; they steal your name and reputation and use them for their own financial gain. They attempt to steal your future! Identity theft literally steals who you are, and it can seriously jeopardize your financial future.

Imagine having thousands of dollars of unauthorized debt and a wrecked credit rating because of identity theft. Also, the unfortunate reality of identity theft is that it is you, the victim, who is responsible for cleaning up the mess and reestablishing your good name and credit. Thousands of identity theft victims can attest that the frustrating experience of correcting the damage often requires months and even years.

Students may be even more vulnerable to identity theft because of the availability of their personal data and the way many students handle this data. A recent national survey of college students found the following:

- Almost half of all college students receive credit card applications on a daily or weekly basis. Many of these students throw out card applications without destroying them.
- Nearly a third of students rarely, if ever, reconcile their credit card and checking account balances.
- Almost 50 % of students have had grades posted by Social Security number.

All of these factors make students potential identity theft victims. In addition, as a student, you may be surprised to learn how many of your daily activities expose you to this crime. For example:

- Do you use your personal computer for online banking transactions?
- Do you use your personal computer to buy merchandise or purchase tickets for travel, concerts, or other services?
- Do you receive credit card offers in the mail? Do you discard these documents before you shred them?
- Do you store personal information in your computer?
- Do you use a cell phone?
- Do you use your Social Security number for identification?
- Do you have a student loan?

You probably answered yes to at least one of these questions about daily transactions that you routinely perform. Each of these routine actions places you at risk of being a victim of identity theft because each requires you to share personal information such as your bank and credit card account numbers, your Social Security number, or your name, address, and phone number. This is the same personal information that identity thieves use to commit fraud.

Source: U.S. Department of Education, Office of the Inspector General, "Identity Theft," http://www.ed.gov/about/offices/list/oig/misused/idtheft.html (accessed July 20, 2008).

Chapter 4
Risk Management, Savings, and Investing

This chapter outlines several more of the key elements strategic financial planning and shows students how to make and protect their savings and investments as they work toward their goals. Students compare returns on savings and investments, study types of assets, and then put all the parts of a financial plan together.

16. Managing Risk

Instructional objectives
Students will be able to
- Understand the concept of insurance
- Understand the importance of insurance
- Differentiate between types of insurance
- Explain the various types of insurance policies

Description
Students will learn about the importance of insurance in a financial plan and will study auto, health, property, and life insurance in depth. They will then work in groups to assess their understanding of insurance types and policies.

Time
45–60 minutes

Materials
Auto Insurance resource sheet (copy for each student)
Health Insurance resource sheet (copy for each student)
Property Insurance resource sheet (copy for each student)
Life Insurance resource sheet (copy for each student)
N & A Insurance Agency activity sheet ((copy for each student)
Insurance Terminology Crossword Puzzle (copy for each student) (optional)

Class layout and grouping of students
Students will work in groups of four or five.

Procedure
1. Begin the class by asking, What risks do you and your family face in your daily life? List the students' answers on the board.

2. Ask the class how they would manage these risks. Explain there are four ways of managing risk:
   avoid it—if you are afraid of a car accident, you can take the bus
   reduce it—you can reduce the risk of being hurt in a car accident by wearing a seatbelt

accept the risk—if something is very unlikely to happen, like getting hit by a meteorite, you don't take steps to avoid or reduce it
share it—if there is a risk that you can't avoid, reduce or accept, you can spread the risk over a large number of people

Explain that sharing risk is what insurance is about. People pay a small amount of money (a premium) into a fund and are, in turn, reimbursed from the fund when they suffer a loss. The amount they are reimbursed is usually much larger than the amount they contributed in premiums. Insurance works because not all individuals contributing to the fund will suffer a loss.

3. Explain that a person can insure a wide variety of things from a pet to a cruise or even a wedding. This lesson will focus on four types of insurance that are basic to a financial plan: auto insurance, health insurance, property owners insurance, and life insurance.

4. Distribute Auto Insurance resource sheet and review. As you discuss this type of insurance, emphasize the following:
   - Almost all states mandate auto insurance—you have to have it.
   - You may think that you are a safe driver, but the other person on the road may not be. The average driver will have a near auto accident one or two times per month and will be in some type of collision on average every six years.
   - Crashes are the leading cause of death for ages three to thirty-three.[6]

5. Distribute Health Insurance resource sheet and review. As you discuss this type of insurance, emphasize that even healthy young people must have it. Tell them that not having health care coverage can threaten their financial future and ask them how they would pay a $25,000 bill if they were injured and had to spend a long period in the hospital? Point out that health care bills are the leading cause of bankruptcy in the United States.

6. Distribute Property Insurance resource sheet and review. To explain to the students why they need this type of insurance, even at their age, ask them to jot down what valuable property they own—TV, computer, jewelry, etc.—and estimate the value. Ask the students how they would replace these items if they were stolen. Point out that property insurance would help them.

7. Distribute Life Insurance resource sheet and review. Tell the students that they may not need this type of insurance now, but when they marry and start families, they will want to provide for them.

8. Divide the class into groups of four or five and distribute N & A Insurance Agency. Tell the class that for the rest of the session they will role play being insurance agents working together to answer questions from clients.

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[6] National Center of Statistics and Analysis, " Crashes Are the Heading Cause of Death in the U.S. for Ages 3–33," http://www.nhtsa.dot.gov/people/Crash/LCOD/index.htm. (accessed June 30, 2008).

9. Once the groups have completed the exercise, ask each to report their answers to the class.

Assessment
You can assess the students in their groups as they answer client questions.

Extensions and modifications
1. Hold a debate on universal health care coverage or on whether no-fault auto insurance is a good idea.
2. Have students complete the Insurance Terminology Crossword Puzzle.

Auto Insurance

The Basics

Auto insurance is a contract between you and an insurance company in which the company promises to pay for specific car-related financial losses during the period of coverage in return for you paying a premium. Most states require some type of auto insurance. Only New Hampshire and Wisconsin don't have compulsory insurance.

Twelve U.S. states and the District of Columbia have a "no-fault" auto insurance system that requires drivers to carry insurance for their own protection, and that places limitations on their ability to sue other drivers for damages. In these states, your auto insurance company will pay for your damages (up to your policy limits), regardless of who was at fault for the accident. Any other drivers involved will be covered by their auto insurance policies. The states that have a no-fault system are Florida, Hawaii, Kansas, Kentucky, Massachusetts, Minnesota, Missouri, New Jersey, New York, North Dakota, Pennsylvania, and Utah.

The Premium and Deductible

The annual amount you pay for your insurance, the premium, is determined by how the company views you as a risk. Low-risk customers pay lower premiums than high-risk ones. The company assesses your risk based on the following:

- Age—young people have more accidents than older ones.
- Gender—young men have more accidents than young women.
- Vehicle Type—some vehicles are more likely to be stolen than others.
- Driving Record—if you have never received a ticket or been in an accident, your premium will be lower than if you have.
- Geographic Location—in some areas car theft is more prevalent than in others.

An auto insurance requires a deductible, the amount of money you pay when filing a claim before the company begins to pay. Common deductibles are $250, $500, and $1,000. The higher the deductible you choose, the lower your premiums are.

Types of Coverage

Auto insurance policies differ from policy to policy and company to company, so you can choose the coverage you want. But be warned, some states mandate certain types of coverage. Your insurance agent will be able to explain what you need. Generally, insurance companies offer the following types of coverage:

Bodily injury liability provides coverage for injury or death claims against you in a car accident. This coverage also provides you with legal defense costs.

Collision pays for car damage caused by impact with another car or object or an overturn, regardless of whose fault it is. Coverage comes with a deductible.

Comprehensive pays for vehicle damage caused by events other than a collision or overturn such as vandalism or fire. Each policy specifics which damages are covered.

Most states require drivers to have collision and comprehensive insurance.

Medical payments pays for medical or funeral expenses resulting from a car accident for you and your passengers, regardless of who was at fault for the accident.

Property damage liability provides coverage for damage to your car or others' cars that were involved in an accident that was at fault.

Uninsured motorists (UM) provides coverage for injuries to an insured driver, resident members of your family, and passengers up to what your policy allows when involved in an accident caused by the owner of an uninsured vehicle. The policyholder and family members are also covered if they are pedestrians and struck by a UM vehicle.

Resource Sheet

Health Insurance

The Basics

Health insurance is a contract between you and an insurance company in which the company promises to pay for specific health-related costs during the period of coverage in return for you paying a premium. Given the enormous cost of health care, even healthy young people should have this type of insurance. A ruptured appendix or a serious fall could cost you $50,000 or more.

There are two basic types of health insurance plans: group and individual. Group plans cover everyone in the group. Most Americans receive their health insurance through their employer, who purchases this insurance for all his employees, but other organizations can also purchase group plans. Employers offer medical insurance as a benefit to their employees, but because of the rising costs of this type of insurance, many employers have dropped this benefit or require their employees to pay a greater part of the cost of the premium.

Individual plans enable the self-employed or people whose employer does not offer health insurance to purchase coverage. These plans are usually more expensive than group plans. If you have a preexisting medical condition that results in high medical costs, insurance companies may not be willing to issue you a policy, they may not cover the costs of treating the condition, or they may charge you more for coverage.

Premiums and deductibles

If you have an individual plan, the annual amount you pay for your insurance, the premium, is determined by how the company views you as a risk. Low-risk customers pay lower premiums than high-risk customers. The company assesses your risk based on the following:

Age—the younger you are, the lower your risk of having serious, and expensive, health care costs.

Health—if you are healthy, you will not incur the costs of someone who is not.

Occupation—some occupations are riskier than others. An accountant is less likely to have an accident than a firefighter.

Habits—some habits can be dangerous to your health and could eventually require expensive medical treatment. If you smoke, for example, your premium will be higher than that of a nonsmoker.

Lifestyle—if your lifestyle is healthy—you don't drink or smoke and you eat well and exercise regularly—your premium will be lower than someone whose life-style is not healthy.

Types of Coverage

Insurance companies offer various types of policies depending on how much you want to pay for your coverage and the type of coverage you prefer. If you are in a group plan, you often cannot choose the type of coverage available. Your employer determines what options you have. These are three of the most common types of policies:

- **Major medical policies** usually have a deductible and have a lifetime maximum limit. Major medical policies cover medically necessary doctor visits and hospitalizations and necessary therapies or surgeries.
- **HMO policies** are policies from Health Maintenance Organizations that offer coverage very similar to that of major medical policies. You typically have to make a co-payment when you visit a doctor but this is a small amount—maybe $10 or $20 per visit. In an HMO, you choose your primary care doctor from their list of approved doctors. Your primary care doctor then must give you a referral for any other medical visit or services you need, such as to see a specialist like a cardiologist or to get occupational therapy. These other doctors or services must also be in the HMO network.
- **PPO policies** are policies issued by Preferred Provider Organizations that allow you to visit any doctor you like, but if you choose a doctor within their network, you pay less. PPOs have many different payment structures.

Health insurers can also offer you supplementary insurance that enables you to fill in any gaps you may have in coverage and allows you to shop for insurance that meets your needs (for example, you might buy cancer insurance). They also offer short-term disability insurance, which does not pay for any medical costs but pays you a percentage (50%, 60%, or 66%) of your salary if you are unable to work for 13–26 weeks.

Resource Sheet

Property Insurance

The Basics:

Homeowners insurance is a contract between the insurance company and the insured to protect the insured, his family, and anyone else named in the policy, their home, and their belongings if damaged or destroyed. Generally, policies exclude certain unique items such as art or jewelry unless the insured pays an additional premium for them. Policies also usually do not cover damage from natural disasters in areas that are prone to them. For example, a policy will generally not insure a house against flood damage if it is built on a flood plain. Insurers can, however, buy special insurance to cover these circumstances, although that insurance may not be readily available and can be very expensive.

What's Covered?

Property: Homeowners insurance covers the home and personal property from loss caused by fires, lightning, windstorm, theft, and other specifically stated events. Renters insurance covers the insured's personal contents in a rental property. Condominium insurance also covers contents as well as any additions and alterations to the original condo unit.

Liability: This is a broad type of coverage that includes the following:

- Protection if you are being sued
- Medical expenses occurring accidental injuries to people that have been injured on your property or from an accident that you caused away from your home
- Damage caused accidentally by you or your family to another person's property
- Behavior of household pets

Loss of use: If your home or apartment is no longer inhabitable such as from a fire or flooding that is an insured event, your expenses to live elsewhere (motel, meals) can be covered for a certain period of time or up to a certain dollar amount.

Resource Sheet

Life Insurance

The Basics

Life insurance is a contract between the policy owner and the insurer, where the insurer pays a sum of money to a beneficiary when the policy owner dies.

People buy life insurance to pay off the cost of a funeral, pay off the insured's debt, and provide funds for the survivors to maintain their lifestyle.

The Premium

The premium you will pay depends on how the insurance company assesses you as a risk. Factors they will consider include the following:

- **Present health**—Simply stated, if you are in good health you are less likely to die than if you are ill.
- **Medical history**—If you have a history of serious medical conditions, such as cancer, you are more at risk of death. In the case of cancer, for example, an individual may be in remission when applying for life insurance, but there is always the chance that his cancer may occur.
- **Family medical history**—Some people who are currently healthy may be genetically disposed toward a life-threatening disease. Huntington's disease, for example, is a life-threatening disease that appears only later in life. People may not know that they have it.
- **Lifestyle**—People who lead a healthy lifestyle—don't smoke or drink and eat well and exercise, are likely to live longer than those who don't.
- **Occupation**—Some occupations are more dangerous than others. A school teacher is less likely to die from conditions on the job than a steel worker.

Types of Coverage

There are many types of life insurance but here are two of the most common:

1. **Permanent life insurance** remains in force until the death of the individual (or up to 100), rather than for a specific number of years, and provides an element of savings by building cash value. The policyholder can borrow against the policy or can cancel the policy and receive the policy's cash value. There are two common types of permanent life insurance:
   - Whole life—offers a fixed guaranteed rate of return and guaranteed cash value. It requires regular payments, usually annually, but the amount of the premium never rises. Holder can borrow against the cash value of the policy but must pay interest on the amount borrowed. This is the most common type of permanent life insurance.
   - Universal life—offers flexibility on the amount and when premiums are paid. It allows holders to permanently withdraw cash without the interest.
2. **Term life insurance** provides coverage for a specified term of years (usually 1, 5, 10, 15, 20, or 25) for a specified premium that does not change. It is the simplest type and usu-

ally the least expensive, but it does not accumulate cash value and terminates at the end of the term. If an individual dies after the term ends, the insurance company does not pay a benefit. A person choosing term insurance will have to look for new insurance at the end of the term, and will generally pay a higher premium because she is older.

Activity Sheet

N & A Insurance Agency

Instructions: You are insurance agents working for the N & A Insurance Agency. It is a Monday morning and you and your partners are flooded with calls from clients and potential clients. Working with your partners in the group, develop responses to each of the following calls. Remember that you will have to explain your answers when you return the calls.

- Someone broke into my apartment and stole my stereo. What do I do?
- My dog ate my neighbor’s sofa.
- My bathtub overflowed and ruined my downstairs neighbor’s ceiling.
- I have a car loan and want to buy a house. I can’t afford high life insurance premiums. But I need life insurance. What can I do?
- I want a life insurance policy that can help me save for retirement.
- I don’t want my life insurance premiums to go up—ever!
- Someone stole my hubcaps while I was in school.
- I swerved to avoid a chipmunk and smashed my car into a fire hydrant.
- I backed into the principal’s car. Luckily, neither she nor I was hurt.
- I’m young and healthy and I want to use my money to enjoy my life. Why do I need health insurance?

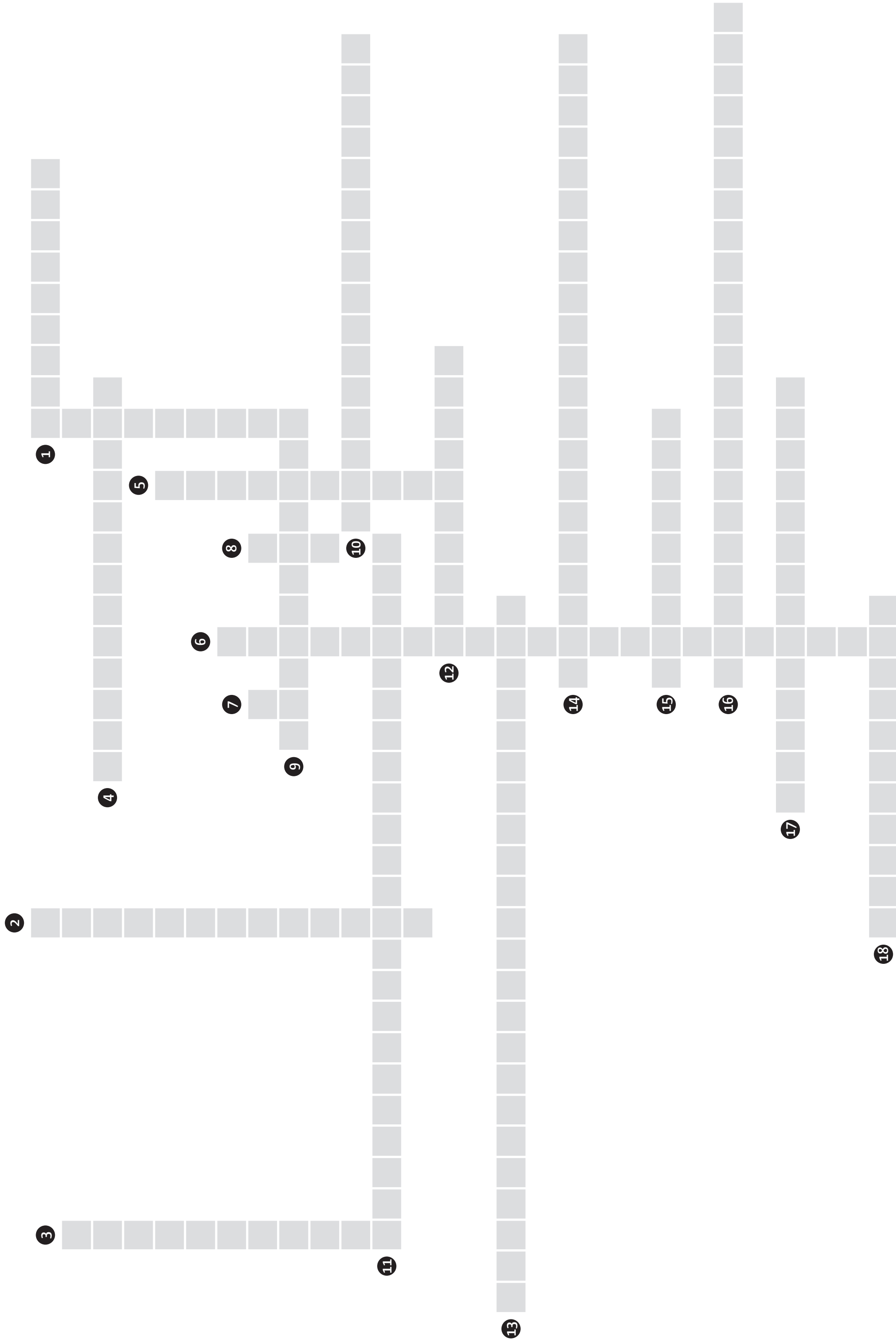
Insurance Terminology Crossword Puzzle

Across

1. covers damage to your car from impact with an object or a turnover
4. coverage for theft, vandalism, fire, etc.
9. Health Maintenance Organizations, which require you to see a doctor from a specific list
10. protection if you are sued by someone who claims she was injured on your property
11. provides payment for attorney's fees and costs resulting from a lawsuit
12. specifies what is not covered in the policy
13. coverage for injury or death claims against you resulting from a car accident
14. coverage for damage to auto or property of others
15. coverage if your home becomes inhabitable
16. coverage for people who were injured on your property
17. pays for medical or funeral expenses resulting from a car accident
18. Preferred Provider Organizations—a health insurance

Down

1. details what your insurance will pay for
2. personalization of your policy
3. insurance for people who own or rent their homes
5. states what must be complied with by company and policyholder
6. reimbursement for other things caused by an event
7. injury coverage to insured driver, resident family members, and passengers when the driver of the other vehicle has no insurance
8. injury coverage to insured driver, resident family members, and passengers when the driver of the other vehicle doesn't have enough insurance coverage



17. Savings, Investing, and the Time Value of Money

Instructional objectives
Students will be able to
- Understand the difference between savings and investment and the importance of each
- Understand the time value of money

Description
Students will work together in groups to understand the different purposes, characteristics, risks, and advantages of saving and investing. They will then analyze the importance of beginning savings and investing early through exercises that show them how time is money.

Time
60 minutes

Materials
Savings vs. Investing resource sheet (copy for each student)
Time Value of Money resource sheet (copy for each student)
Time Is Money activity sheet (copy for each student)
poster board
markers, colored pens

Class layout and grouping of students
Students will work in groups of four or five.

Procedure
Savings vs. Investing

1. Organize the class into groups of four or five. Tell the class that financial planning involves planning for both short-term and long-term goals, that when you are working for a short-term goal, you save, but when you work toward a long-term goal, you invest. Ask the class if they can distinguish between the two.

2. Explain that savings and investing have different purposes, benefits, and risks. Distribute Savings vs. Investing. Review the information on the sheet.

3. Tell the class to work in their groups to create three scenarios that illustrate the difference between savings and investing. Give the students 15 minutes to complete the assignment. Then ask each group to present its scenarios and facilitate a discussion of the material.

Time Cost of Money

1. Ask the class if $1,000 today is the same as $1,000 next year.

2. Distribute Time Value of Money and review. Make sure that the students understand compound interest and how it can make a dramatic difference in their financial future.

3. Distribute Time Is Money activity sheet and give the student 15 to complete the assignment. Then review the answers to the questions and facilitate a discussion of how students can begin saving and investing early.

Assessment

You can assess the students as they work in their groups and in their presentations to the class.

Extensions and modifications

Hold a debate on the topic Time Is Money.

RESOURCE SHEET

Savings vs. Investing

SAVINGS AND INVESTING HAVE DIFFERENT PURPOSES

You **save** in order to

- Keep money safe
- Earn interest on money while preserving principle
- Meet specific short-term goals
- Have money available in case of emergency

When you save, you trade return (income) for liquidity (ease of access). The interest you receive from a savings account is low because you can access your money easily. When you save, you want your interest rate to be better than inflation so that you do not lose the purchasing power of your money, but this is not usually possible. So you do not keep large amounts of money in savings instruments such as savings accounts or certificates of deposit for a long time.

You **invest** in order to

- Increase your net worth
- Generate extra income
- Meet long-term goals

When you invest, you set aside money for long-term goals such as buying a home or retirement, to increase your net worth (the amount of money you are worth), or to generate extra income. When you invest you put your money at risk, because investments are volatile—they rise and fall over time. If you are forced to sell them when their price is below what you paid, you obviously will lose money. Nevertheless, over a long period they grow faster than savings. Thus, experts recommend that you invest with the understanding that you will not need the money for at least five years. You should never invest until after you have adequate savings (at least three to six months of income to cover living expenses).

Savings and Investing Have Different Characteristics

	Savings	Investing
Use	Short-term goals 3 years or less	Long-term goals
Accessibility	Easily accessible	Can be sold but may result in loss
Risk	Safe	Involves risk. Many lose principle if the investment must be sold at a lower price than it was purchased at
Return	Low	Potentially high

Time Value of Money

It is important to start investing early because of what is known as "the time value of money." This is the relationship between time, money, and interest rate. The value of money changes dramatically depending on when you get it and what you do with it.

Let's look at the following example. If your parents give you a check for $1,000 and you forget to cash it for a year, at the end of the year you will still have $1,000 (assuming the bank will cash a check that old!). But if you deposit the money in a one-year CD paying you 5% interest, at the end of the year you will have $1,050 without doing any work! That's the power of interest. And if you left the money in the CD at a fixed rate for five years, you would have $1,276.28.

You earned $276.28 because the interest was compounded. You earned interest on the interest you earned.

Let's use our example. The first year, your $1,000 earned $50 in interest. The next year the bank paid 5% interest on the $1050, so that at the end of the second year you had $1,102.50. The third year the bank paid you interest on the $1,102.50 and so on.

Year 1	Year 2	Year 3	Year 4	Year 5
$1,050	$1,102.50	$1,157.63	$1,157.63	$1,276.28

Calculating Compound Interest

To calculate compound interest, you can use the following formula. But you will need a scientific or business calculator that can handle exponents.

$$FV = PV\,(1 + i)^n$$

FV = future value
PV = present value
i = interest rate
n = number of compounding periods (for example, if the interest was compounded annually over 5 years, n would equal 5.)

The Benefit of Starting Early

Because of compounding when you start saving can make a big difference for your financial future. Suppose at age 18 you started saving $2,000 annually for 10 years at an interest rate of 7% and then stopped, while your brother also invested $2,000 annually at 7% but began at 31 and continued until he was 65. The chart below shows the power of compounding.

	You	Your Brother
Age invested	18–27	31–65
Total years investing	10	35
Total investment	$20,000	$70,000
Total at age 65	$361,418	$276,474

ACTIVITY SHEET

Time Is Money

PART I:

Using what you know about the power of starting to invest early, work in your group to answer the following questions. Be sure to show the math behind your answers.

1. Congratulations! You just won $20 million in the lottery. Lottery officials say they will give you the money in equal payments over 20 years, or you can have half the money now. Ignoring taxes—which you can't ignore in real life—which option would you choose?

2. Your boss offers you $50 a week for a 5-day a week part-time position that runs for 10 weeks, or he says he will give you 1 cent on the first day and double your wages each additional day. Which should you choose?

3. Sam waited 10 years to invest $100 annually at a rate of 5%. How much money did he lose?

PART II:

Work with your group to create a poster illustrating TIME IS MONEY!!!

18. Types of Assets

Instructional objectives

Students will be able to

- Identify, describe, and distinguish between various types of investments
- Understand that different types of investments have different goals
- Understand the risks and benefits of various investments

Description

Students will learn about various asset classes and their place in a financial plan. They will work together to investigate different types of stocks and bonds and the risks and benefits of each.

Time

45–60 minutes

Materials

Asset Types resource sheet (copy for each student)
Comparing Types of Stocks and Bonds activity sheet (copy for each student)
computers with Internet access

Preparation

Reserve computers with Internet access for your class for a 45–60 minute block.

Class layout and grouping of students

Students will work in 1 of 4 groups.

Procedure

1. Explain to the class that there are many types of investments and that the goals, risks, and benefits of each differ. Ask the students if they can suggest some types of investments, and write each on the board. Ask the students what they know about each and its purpose. Note this on the board.

2. Distribute Asset Types and present and discuss the material under Types of Assets. Facilitate a discussion about the difference between asset types and make sure to correct any erroneous ideas students may have about various assets.

3. Present and discuss the information on mutual funds. Make sure that the class understands the purpose and the risks and benefits of each and that the students comprehend the difference between growth, income, and balanced municipal funds.

4. Divide the class into four groups. Explain that not all stocks and bonds are the same. There are two types of stocks: common and preferred; and two general types of bonds: corporate and government (state, municipal, treasury, etc.). Assign one of the four types of assets to each group and ask them to use the Internet to develop a short report defining the asset, its risks and benefits, and its place in a portfolio. Give them 20 minutes to do so.

5. Once the groups have completed the assignment, distribute Comparing Types of Stocks and Bonds and ask each group to report. Tell the class to take notes on their copy of the worksheet and to save the worksheet and the Asset Types reference sheet for the following lesson.

Assessment

Assess student understanding of the types of assets during the class discussions and as the groups present their reports.

Resource Sheet

Asset Types

TYPES OF ASSETS

Stocks

Stocks are shares, or equity, in a corporation. When you purchase stocks, you are actually becoming a part owner of the company. This ownership means that you will receive any profits that the company gives to its owners—although not every company pays out profits to stockholders. These profits are called dividends. If your stock doesn't pay you dividends, you make money only if the stock increases in value and you sell it at a price higher than what you paid for it.

When you buy a stock, you generally buy it from someone who is selling her shares. Shares are traded daily, and the price of shares fluctuates depending on a wide variety of factors, including the health of the company and the health of the economy. Investing in stocks offers the potential for high profits, but it also involves risks because you aren't guaranteed a specific return. You could lose some or all of your investment. The amount of risk involved depends on the corporation you invest in. Stocks of a large corporation with a history of stable earnings and/or dividend growth and a reputation for good management and/or quality products (sometimes called blue chip stocks) are generally less risky than speculative stocks, which lack a proven record of success and whose earnings are therefore uncertain. Historically, over the long term, stocks have made more money than certificates of deposit and bonds. Stocks are liquid—you can usually sell them whenever you need to—but you are not guaranteed that you will make money. Investors use stocks for financial growth.

Bonds

A bond is a formal agreement between an investor and a corporation or government by which the investor agrees to loan money for a set period of time at a set rate of interest. When the period is over (when the bond matures), the borrower repays the money lent by the investor.

For example, if you pay $1,000 for a bond with a face value of $1,000, an interest rate (yield) of 8%, and a maturity of 10 years, you can expect to receive a total of $80 ($1,000 x 8%) in interest annually for 10 years. When the bond matures after 10 years, you get your $1,000 back.

The price of your bond will fluctuate over its life depending on prevailing interest rates. If interest rates go below the interest rate of your bond, the price of your bond will increase because it is more valuable—investors can earn more money from your bond than from other bonds. If interest rates go above the rate of your bond, its price will go down. So if you sell it before its maturity date, you could lose money—or make money. Nevertheless, regardless of the price of the bond, your interest rate does not change.

Bonds are considered safer than stocks because companies are required to pay debt before they pay shareholders, but there is some risk involved because companies may default (not be able to pay you back) if their financial picture deteriorates. Bonds are ranked (rated) based on the degree of risk associated with timely payment of interest and principle. The highest quality bonds, called gilt-edged bonds, are ranked AAA and are considered safe investments. The lowest quality bonds, called junk or high-yield bonds, are ranked C and are considered speculative. While investment quality bonds are safe, your money will not grow. Investors use bonds to generate income.

Difference between Stocks and Bonds

Stocks	**Bonds**
Equity	Debt instruments
Higher return for higher risk	Less risk than stocks, although risk depends on the bond
Owners in a company	Creditors
Growth and earnings	Earnings

Real estate

You invest in real estate when you purchase a home, but you can also buy land or buildings in the hope that their value will increase. Real estate is considered a risky investment because it is not liquid. You have to put the property on sale and then wait, often a long time, for someone to buy it. And you may not get the purchase price you asked for.

Collectibles

Collectibles are items that are relatively rare, such as diamonds or art—and even baseball cards. Investors buy them hoping that their value will rise but that they don't make (or lose) money until the investors sell them. They are considered very high-risk investments because the market for them is small and people may not find the collectible valuable when you want to sell it—10 years from now they may not want baseball cards!

MUTUAL FUNDS

You can buy individual stocks and bonds, but you can also invest in mutual funds. Mutual funds pool the resources of many investors to buy a variety of securities and use them to achieve the objective of the fund. This may be growth, income, or a combination of both. Mutual funds may invest in stocks, bonds, or both (called a balanced fund), but they can also invest in other assets such as mortgages or real estate. The type of assets they invest in depends on the fund's goal. Mutual funds are excellent for small investors for two reasons. First, they spread risk over a large number of securities. Thus, if one stock in the fund does poorly, you won't lose as much money as you would if that were the only stock you owned. Second, these funds are managed by professionals who devote their time to studying the market and making investment decisions, something the average individual cannot do. Depending on their goals, mutual funds can be risky or safe. An aggressive growth fund that puts money in a number of small, start-up companies in the hopes that they will grow dramatically will be riskier than one that invests in well-established companies looking for a modest return, or than a money market fund that invests in short-term CDs.

Activity Sheet

Comparing Types of Stocks and Bonds

Instructions: Use the back of this sheet to take notes from your classmates' presentations on types of assets. Then use this organizer to compare and contrast the benefits and risks of each asset.

	Benefits	Risks
Common stocks		
Preferred stocks		
Corporate bonds		
Government bonds		

19. Risk, Return, and Diversification

Instructional objectives
Students will be able to
- Understand how risk is related to return
- Understand the importance of diversification

Description
Students learn how risk is related to return and they work together to illustrate the principle. They then investigate how risk can be limited through diversification, and work in groups to analyze and develop savings and investment plans based on various goals.

Time
45–60 minutes

Materials
Risk, Return, and Diversification resource sheet (copy for each student)
Risk vs. Return activity sheet (copy for each student)
Investment Scenarios activity sheet (copy for each student)

Preparation
Remind the students to bring their Asset Types and completed Comparing Types of Stocks and Bonds sheets from lesson 18 to class.

Class layout and grouping of students
Students will work in groups of three or four.

Procedure
Risk vs. Return
1. Remind the class that some assets are riskier than others. Distribute Risk, Return, and Diversification and discuss some of the factors that contribute to risk.

2. Ask the class to rank the general risk of the asset types they have learned about from low risk to high risk and to devise a diagram illustrating the level of risk and reward. (For example, they may develop a pyramid with the lowest risk assets such as savings accounts on the base and highest risk assets such as collectibles on the pinnacle.) They can use Types of Assets in lesson 18 for reference. The class should work as a unit with

you as the facilitator to develop the diagram. The students should then copy the diagram on to the Risk vs. Return activity sheet.

3. Point out that the major way to minimize risk is to diversify. Review the material on diversification on the resource sheet and then ask the class to suggest ways to diversify a $100,000 portfolio. Write the suggestions on the board and have the class analyze each.

Investment Scenarios

1. Organize the class into groups of three or four. Tell the students that they are now financial advisers who must utilize all the information they have learned in the course about savings and investing to analyze client portfolios and help people invest for their goals.

2. Distribute Investment Scenarios and give the class 20 minutes to complete the assignment.

3. When the groups have completed the assignment, ask for volunteers to discuss their findings. Students may forget the importance of savings first, so make sure they include a savings component for the clients who do not have an emergency fund or for those who have a short-term goal.

Assessment

Assess students' understanding of the terms risk, return, and diversification by their use of the terms as they work in their groups to answer client questions.

Extensions and modifications

1. Have the students create balanced portfolios using real assets for clients who want growth, income, or a combination.
2. Have students determine their own goals and create their own portfolios.

Risk, Return, and Diversification

RISK VS. RATE OF RETURN

Risk is the possibility that you may lose your investment or that the actual return on your investment may be less than you expected. All investments, even the safest, involve some amount of risk because the future is uncertain. Some factors that affect your risk are the following:

- **Inflation**: Inflation is the rise in cost of goods and services over time. You may put your money in a CD at 4% only to discover that the average rate of inflation over the time of the CD is 5%, so you have actually lost money because the purchasing power of your money has declined.
- **Business failure**: You could put money in a company stock, and the company goes bankrupt. In this case you lose your entire investment.
- **Economic conditions:** The country could go into a recession and most stocks lose value in a recession.
- **Interest rate changes**: You may invest in a corporate bond that pays you 5% interest, but if interest rates rise, the value of the bond will decline. You could sell it at a loss or wait until the bond matures to get your investment back.

Generally, risk and return are related: the greater the risk, the greater the potential return on your investment. If you chose greater risk, the company in which you invest is compensating you for your willingness to invest in something whose future is very unpredictable.

Understanding Investment Return

The return on an investment is not always as easy to calculate as it is on a savings account. When you invest your money in a savings account you know what your return will be—the interest the account pays. The **total return** on an investment is a combination of current income—the dividends or interest you receive—plus the change in value of the investment since you purchased it.

DIVERSIFICATION

To reduce investment risk, people put their money in several different types of investments. That way you average your risk. If one of your stocks loses money, that loss is averaged with the stocks that made money.

You can diversify in several ways:

- **Choose a variety of asset types**—stocks, bonds, money market funds
- **Choose a variety of assets within a category**—stocks in small and large companies, stocks from different sectors—technology, financial, etc.
- **When investing in bonds, choose various maturity dates**—one year, five years and so on.

Activity Sheet

Risk vs. Return

Instructions: Create a diagram illustrating the relationship between risk and return for the savings and investment assets you have studied. Your diagram should include the following:

Common stocks (blue chip)
Common stocks (speculative)
Preferred stocks
Government bonds
Corporate bonds (gilt edged)
Corporate bonds (junk)
Collectibles
Real estate
Growth mutual funds
Income mutual funds
Balanced mutual funds
Savings/checking accounts
Certificates of deposit savings accounts
U.S. savings bonds
Money market mutual funds

Activity Sheet

Investment Scenarios

Instructions: Congratulations! The N & AC Investment Group has hired you as an investment counselor. Your first task is to work with a group of other new hires to review a series of portfolios and report your analysis and recommendations.

Scenario 1

John and Mary are going to be married soon and so would like to know where they stand on their investments. John's portfolio includes a balanced mutual fund (20%), a growth mutual fund (60%), and collectibles (20%). Mary has invested equally in a money market mutual fund, high-grade preferred stock, and blue chip common stock.
Which has the lower risk investment program?
Which has the greater potential for higher earnings?
What is John's highest risk investment? Lowest?
What is Mary's highest risk investment? Lowest?

Scenario 2

Chris has an emergency fund in a savings account. She is 21 and wants to invest for retirement, but she is not comfortable with a lot of risk and also wants to buy a house in five years. She needs to save $20,000 to make the down payment. She has $100,000 to invest. How would you recommend she allocate her money?

Scenario 3

Emma is concerned that her portfolio is not diversified. Most of her retirement savings is in the stock of the company for which she works. She wants to stay in the stock market, but she doesn't want to put her money in high-risk assets. How can she diversify her portfolio?

20. Putting It All Together

Instructional objectives
Students will
- Assess their financial literacy
- Create their own financial plan

Description
Students will revisit the K/W/L charts they began in the first lesson to determine if they have met their goals for the course. They will then use what they have learned to develop their own financial plans.

Time
60 minutes

Materials
Creating My Financial Plan activity sheet (copy for each student)

Preparation
Review the students' K/W/L charts from lesson 1 to prepare yourself to respond to any unanswered questions. Remember to bring the K/W/L charts to class.

Class layout and grouping of students
The students sit at their desks facing the front for this lesson.

Procedure
K/W/L Assessment
1. Explain to the students that this lesson will focus on their future. They will first assess what they have learned about financial planning and then apply what they have learned to their own situation.

2. Distribute the students' K/W/L charts and ask the students to complete the last column.

3. Once the students have completed their sheets, ask if there were any big questions that remained unanswered. Ask the students to offer answers or respond to the questions yourself.

4. Facilitate a discussion of what they think is the most important lesson they should take away from the course on
   - Planning
   - Budgeting
   - Savings
   - Credit
   - Risk Management
   - Investment

Ask the students to develop a #1 rule for each. The #1 rule means the one thing that they must remember when considering this type of investment, risk, or financial component. For example, in budgeting, the #1 rule is to pay yourself first.

Creating Financial Plans

1. Distribute a Creating My Financial Plan activity sheet to each student and tell the class that they will now use what they have learned to create their own financial plans. Ask the class to review the activity sheet and answer any questions they may have about the assignment. Tell them that they have the rest of the period to work on the sheet, but that they will complete it as a homework assignment.

2. The following day, collect the plans for assessment. Review and return to the students with comments.

Assessment

You can assess the students as they develop rules for each element of financial planning. If you wish, you can collect and review the K/W/L sheets to compare what students hoped to clear with what they have learned in the course. You will also be able to assess student understanding by reviewing the individual financial plans

Activity Sheet

Creating My Financial Plan

Goals:

List at least one goal in each category using the SMART criteria.

	Specific	Measurable	Attainable	Realistic	Time bound
Short-term					
Intermediate-term					
Long-term					

Budget:

Create a budget to achieve your goals. Include fixed, periodic, and variable expenses. Review period ically and revise if necessary. Remember, Pay Yourself First.

Income	
Expenses	
Total expenses	
Total income	
-Total expenses	

Checking and Savings:

If you do not already have a checking and savings account, research where you would open these and what type of account you should open. Explain the reasons for your choice.

Bank or Financial Institution: ___________________________

Reasons for choice: ___________________________________

Type of Checking Account: ______________________________

Reasons for choice: ___________________________________

Type of Savings Account: _______________________________

Reasons for choice: ___________________________________

Credit:

Assume that you will need a credit card in the near future. Determine what features you want from a credit card and research a card. List the card you have chosen.

Features:

____

____

____

____

____

Card chosen:______________________________

Investment Program

Describe your investment goals and determine how you would develop a portfolio to achieve these goals.

Investment Goals:

____

____

____

Portfolio:

____

____

____

____

____

____

Glossary

401k Plan
Retirement plan that allows employees to make contributions of pretax dollars to a company pool that is invested in stocks, bonds, or other investments.

Annual Fee
A charge levied each year for using a credit card.

Annual Percentage Rate (APR)
The true cost of credit or a loan expressed as an annual rate.

Asset
An item of economic value.

Blue Chip Stocks
Stocks of a large corporation with a history of stable earnings and/or dividend growth and a reputation for good management and/or quality products.

Bond
A formal agreement between an investor and a corporation or government in which the investor agrees to loan money for a set period of time at a set rate of interest.

Budget
A plan for spending and saving money.

Certificate of Deposit (CD)
Short- or medium-term interest-bearing deposit offered by banks and savings and loans institutions that requires the investor to keep the deposit with the institution for a specific period of time.

Checking Account
A bank account that enables the holder to write checks against funds on deposit or to withdraw funds using an ATM or debit card. The purpose is to store money for paying bills.

Common Stock
A security that represents ownership in a corporation, provides voting rights in that corporation, and entitles the holder to a share of the company's profits through dividends and/or capital appreciation.

Compound Interest
Interest charged not only on the amount borrowed (the principal) but also on any unpaid interest charged in a preceding period.

Coverage
Total amount and type of insurance carried.

Credit
An agreement in which a borrower receives money now and agrees to repay the lender at some later date. The borrowing capacity of an individual or company.

Debt-to-Income Ratio
The ratio of total monthly debt to total monthly income.

Deductible
The amount of money a policyholder agrees to pay when filing an insurance claim before the company begins to pay for a loss.

Diversification
Spreading funds over a wide variety of investments.

Financial Literacy
The ability to understand the implications of key financial decisions and to manage money through budgeting, saving, investing, and protecting assets.

Fixed Expenses
Expenses that do not vary and must be paid regularly.

Float
Time lapse between when an individual issues a check and when it is debited from his checking account or when a check is deposited and credited to the depositor's account.

Gilt-Edged Bonds
High-quality bonds rated AAA.

Identity Theft
The crime of stealing personal and/or financial information with the intent to commit fraud.

Income
The amount of earned or unearned money received over a given period of time.

Insurance
A form of risk management that provides compensation for specific losses in exchange for a periodic payment.

Interest
The fee paid for money borrowed.

Investment
An asset held to procure income, increase wealth, or meet long-term goals such as retirement.

Late Fees
Fees imposed by lenders to ensure that bills are paid on time. Late fees are generally calculated on a per day, per item basis.

Liability
An obligation that legally binds an individual or company.

Mortgage
A loan to finance the purchase of real estate. The real estate is used as collateral against the loan.

Mutual Fund
An investment company that pools the resources of many investors to buy a variety of securities and use them to achieve a specific objective.

Over-limit Fee
The fee a credit card company charges users for going over their assigned credit limit.

Payroll Deduction
A specified amount of money withdrawn from an employee's paycheck by his/her employer and used as payment toward taxes, insurance premiums, retirement accounts, etc.

Periodic Expenses
Expenses, either fixed or discretionary, that are not paid monthly.

Periodic Rate
The interest rate a credit card holder pays in a given billing cycle. Periodic rate equals APR divided by the number of billing periods.

Permanent Life Insurance
Life insurance that remains in force until the death of the individual, rather than for a specific number of years, and provides an element of savings by building cash value.

Preferred Stock
A stock that has a higher claim on the assets and earnings than common stock.

Premium
The sum paid to keep an insurance policy in force.

Principal
The amount borrowed or the amount still owed on a loan excluding interest.

Return
Income generated by an investment, expressed usually as a percentage of the amount invested.

Revolving Credit
A type of credit that allows the borrower to charge items to an account and then pay all or part of the debt balance on a regular basis. In contrast to installment credit, this type of credit does not have a fixed number of payments.

Risk
The possibility that an investment may be lost or that the actual return on the investment may be less than expected.

Risk Management
Financially planning for a crisis or problem through the use of insurance.

Savings
Money put aside as a reserve that can be used later.

Savings Account
An account with a bank or other financial institution that pays interest on money deposited.

Simple Interest
Interest calculated on the principal balance outstanding.

Social Security Tax
A federal tax collected from every taxpayer that goes into a fund to pay retirees and the disabled a regular amount each month.

Stock
A share, or equity, in a corporation.

Student Financial Aid
The funding needed to help students pay their educational expenses in college or university.

Term Life Insurance
A type of life insurance that provides coverage for a specified term of years for a specified premium.

Time Value of Money
The relationship between time, money, and a specified interest rate.

Total Return
The combination of current income and the change in value of an investment since purchase.

Transaction Fee
A charge for assorted credit related activities.

Variable Expenses
Regular expenses that fluctuate, for example, food.

Withholding
A percentage of an employee's wages or salary held back by the employer as partial payment of the employee's annual income tax.

Resources

If you want to find out more about Deliberative Methodology and Financial Literacy, check out the following web sites:

Deliberative Methodology information
International Debate Education Association
http://www.idebate.org

National Forensic League
http://www.nflonline.org/AboutNFL.AboutNFL

Financial Literacy
101 Financial Lessons
http://www.101financiallessons.com

AICPA (American Institute of Certified Public Accounts)
http://www.360financialliteracy.org

American Century Investments
http://www.tipsforkids.com

Bank High School
http://www.bankhs.com

Bank Junior
http://www.bankjr.com

Banking On Our Future
http://www.bankingonourfuture.org

Consumer Jungle
http://www.consumerjungle.org

Cost of Paying Minimum Balance Calculator
http://www.bankrate.com/brm/calc/minPayment.asp

Dog & Pony Shows, LLC
http://www.dogandponyshows.com

Dollar Camp Financial Survival Training
http://www.dollarcampsystem.com

EdWise
http://www.edwise.org

Financial Peace for the Next Generation
http://www.daveramsey.com/hope/youth/

Fleet Kids
http://www.fleetkids.com

ING Direct
http://www.orangekids.com

Innovative Teaching
http://surfaquarium.com/newsletter/bank.htm

Institute for Financial Literacy
http://www.financiallit.org

Institute of Consumer Financial Education
http://www.financial-education-icfe.org/children_and_money/index.asp

Internal Revenue Service
http://www.irs.gov

Investing for Women
http://www.womensinvest.about.com/cs/teachingteens/

Investing in KIDS Corp.
http://www.investinginkids.org

It's a Habit! Inc.
http://www.itsahabit.com

Jump Start Coalition
http://www.jumpstart.org

Junior Achievement
http://studentcenter.ja.org/aspx/PlanFinances/

Kids Bank
http://www.kidsbank.com

Kidnexions
http://www.kidnexions.com

KidsFinance
http://www.kidsfinance.com

Kiplinger Personal Finance
http://www.kiplinger.com/personalfinance/

Lavamind
http://www.lavamind.com/index.html

Learn to Save
http://www.learntosave.com

Maryland Public Television- Sense & Dollars
http://senseanddollars.thinkport.org

Merrill Lynch's Investing Pays Off (IPO) Program
http://philanthropy.ml.com/index.asp?id=66319_67034_67417

The Mint
http://www.themint.org

Money Math: Lessons for Life
http://www.publicdebt.treas.gov/mar/marmoneymath.htm

Money Savvy Generation
http://www.msgen.com/assembled/home.html

Money Smarts
http://www.girlscouts.org/moneysmarts/

My Money
http://www.mymoney.gov

National Council on Economic Education
http://www.italladdsup.org

National Endowment for Financial Education Teen Resource Bureau
http://hsfpp.nefe.org/students/index2.cfm?deptid=15

National SMS (Stock Market Simulation)
http://www.nationalsms.com

Native Financial Education Coalition
http://www.nfec.info

PBS Newshour
http://www.pbs.org/newshour/on2/budget.html

Prosperity4Kids, Inc.
http://www.prosperity4kids.com/index.shtml

Sallie Mae
http://www.salliemae.com

Salomon Smith Barney
http://www.smithbarney.com/yin/

Schwab MoneyWise
http://www.schwabmoneywise.com

Securities & Exchange Commission for Students & Teachers
http://www.sec.gov/investor/teachers.shtml

Social Security Administration
http://www.ssa.gov/kids/

StreetSage
http://www.streetsage.com

Student Credit
http://www.studentcredit.com

Teen Analyst
http://www.teenanalyst.com

The Stock Market Game™
http://www.smgww.org

U.S. Treasury
http://www.treas.gov/kids/

VISA's Practical Money Skills for Life
http://www.practicalmoneyskills.com/english/index.php

Wall Street Journal Classroom Edition
http://classroomedition.com/cre/

Wells Fargo's Hands On Banking
http://www.handsonbanking.org

Young Biz
http://www.youngbiz.com

Young Investor Fund
http://www.younginvestorfund.com

Young Money
http://www.youngmoney.com