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NEW CAREER PROJECT

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Good time management is essential for achieving a healthy lifestyle that includes plenty of rest and exercise while allowing for productivity and success on the job and at school. Without time-management skills, it is difficult to reach many goals in life. Identifying priorities will help with time allocation. Developing good nutritional habits and getting enough exercise provide benefits that will last for, and even prolong, your lifetime.

**Time Management**

Time management is a valuable life skill that will allow you to get the most out of each day. We all have many things we need and want to accomplish. Some goals can be achieved quickly, while others take months and even years. Whether you want to learn a foreign language, get promoted in your job, or just clean out your closet, without good time-management skills, you might not make it happen! Wise time management helps you make daily or at least weekly progress toward your goals.

Start by keeping a diary of how you spend your time. You might be surprised at where it goes! Once you see how you spend your time, you can make adjustments that will help you reach your goals. Putting a limit on the time you are willing to spend on any one task might force you to be more focused and efficient and therefore complete it more quickly. You will find that some activities are more flexible from a scheduling standpoint, while others are not. For instance, if you work a traditional 8 AM–5 PM day and want to further your education, you may have to limit yourself to one evening class each quarter.

You may begin to see creative ways to “multitask,” or get more than one thing done at the same time. Time management means making a conscious decision to fit certain things into your routine and figuring out how you will accomplish that routine. Even something as basic as your method of transportation can impact how you organize your time. Riding the bus to work or to school might provide a few extra minutes for studying or reading. However, driving your own car allows you greater flexibility and might get you to and from your destination more quickly.

**Living a Balanced Life**

Different factors of our lives may take more dominant roles at times. In the teenage years, a person’s primary focus is usually on completing his or her education. As you progress into early adulthood, you may pour most of your energy into building a successful career. Many people think of their retirement years as a time to pursue hobbies and travel more freely. But just as a diet of only meat or fruit would cause you to be deficient in certain

**Main Idea**

Knowing how much time you have and planning how you spend it will help you achieve your goals. Good time management will help you do your best at work and at school. A healthy lifestyle, including good eating habits and enough exercise, has both long-term and short-term health benefits. A balanced lifestyle will pay off by increasing your productivity, elevating your mood, and minimizing your stress.

**After completing this lesson you will be able to:**

- manage your time wisely so that you can do many of the things you need to do and want to do
- understand why it is important to get enough sleep
- choose foods that make you healthy and keep you feeling good
- recognize when you are under stress and know how to relax
- strike a balance in your life with work, education, play, and rest

**Key Terms**

- Basic Needs
- Everyday Living
- Goals
- Health
- Moderation
- Nutrition
- Opportunity Cost
- Sedentary
- Stress
- Time as an Investment
- Time Management
- Values
vitamins and minerals, a life of all work and no relaxation can compromise your health in other ways.

People need a sense of purpose; we need to feel useful and productive. Our jobs and our schooling challenge and stimulate our minds. We also need to allow ourselves mental rest and refreshment, whether that comes through playing a sport, being active at church or volunteering, reading a spell-binding mystery, or attending a concert. However, if we do not plan for these different activities, we may find our time is gone and we have nothing to show for it. Good time management means that you can include a variety of activities that will make your life more interesting and productive. You are able to accomplish the things that are necessary, such as earning a living and also pursuing goals that are important to you.

Getting Enough Sleep and Relaxation

It may seem like there are not enough hours in a day to accomplish all that we need to do or want to do. Often what is sacrificed is sleep. “If I stay up until 2 AM, I can finish that report that my boss needs tomorrow morning.” Staying up can’t hurt…can it? But being deprived of sufficient sleep over a period of time can lead to the following:

- Increased chance for a motor vehicle accident
- Inability to pay attention and retain information
- Increased risk for diabetes, heart trouble, or depression
- Slower reaction time

In addition to actual sleep, we need physical and mental relaxation time to refresh both body and mind. Developing hobbies we enjoy is a good form of relaxation. Spending time doing things we love makes us feel good, and we can return to our jobs with greater enthusiasm.

Time Management and Stress

Everyone deals with stress in their lives at one time or another. Have you ever had a stomachache when you were really upset or in a hurry? Ever had trouble sleeping? Stress can raise your blood pressure to an unhealthy level, interfere with your digestion, or give you insomnia. Studies have shown that over time, stress will suppress your ability to fight off colds and infections.

Poor time management is one cause of stress. Planning ahead to avoid running out of time will help you avoid the stress caused by being too busy. If you are balancing school and a job, you need to be careful to allow time for productive studying. If you plan to study at the end of the day, you may be too tired to retain much information.

Finally, maintaining a balanced life will allow you to pursue those leisure activities that help relieve stress.

Getting Enough Exercise

Our society is more technologically advanced than ever before. Computers allow us in many cases to perform our jobs, communicate with our friends, and learn what is going on in the world without even leaving our
desks. As a result, we have become a sedentary society. Instead of having sore muscles from working, we have eye strain and shoulder pain from sitting for long periods of time at our keyboards. How can we combat this lack of physical activity?

Here is where time management comes into play. If physical activity is not necessary for your job, you need to find creative ways to add it to your routine. Use your lunch hour to take a walk through the city or go to the gym to work out. Most schools have a recreation center available for students’ use. If you have an extra hour between two of your classes, set aside that time for exercise a couple of times a week.

Studies have shown that regular exercise helps people cope with stress and also increases their productivity. Thirty minutes of exercise each day is a good goal to set. Or, like the example in Part B of the computer exercise, you can purchase a treadmill or some weights and exercise at home whenever you have a few free minutes.

**Nutrition and Good Eating Habits**

You have probably heard the expression, “An apple a day keeps the doctor away.” Eating a healthy and balanced diet does boost your immunity and does lessen your chances of getting certain diseases. If you are practicing good time management skills, you will be able to cook healthy meals for yourself for at least part of the week and will not need to rely on the convenience of “fast food” (which is often high in calories and fat). If you know the different

Use the Food Pyramid to help you make smart choices from every food group, including fats, oils, sweets, dairy, meat, poultry, fish, nuts, beans, vegetables, fruits, bread, cereal, rice, and pasta.
food groups and how many servings from each group make a balanced diet, you will be able to make wise choices while grocery shopping and even when eating out.

Use the basic food pyramid chart as a guide. The bottom of the pyramid represents the food group that you should be getting the most servings from—breads, cereals, rice, and pasta. As you travel up the pyramid and it becomes narrower, you need fewer servings from these food groups.

**Investing Your Time and Lifestyle Decisions**

Most people think of investing as it relates to money. Investing in stock means buying it with the hope that it will increase in value and be sold later for a profit. But the things you have read about in this chapter are ways to invest your time that will add value to your life, both now and in the future. Spending the time to complete your education will qualify you for better jobs. Following an exercise program and developing good eating habits will save time and money at the doctor’s office.

Are you going to work hard to achieve your goals? Can you find a job that allows you to work towards a college degree part-time? Are you going to follow a nutritious diet balanced with frequent exercise? Will you find a hobby that you can pursue for enjoyment and stress relief? These are lifestyle decisions that can only be accomplished with good time management.

**The Economics of Healthy Living**

You have already read about some of the economic benefits of healthy living. Better health means less time spent sick, missing work or school and possibly losing pay. In the computer exercise, one of your goals is to remain healthy so that you don’t use too many sick days and get fired. Better health also means less time and money spent on doctors’ bills. It is easier to purchase life insurance if you are healthy because you are a lower risk than a person who, for instance, is a smoker or is overweight. Cutting down on your sugar intake may mean less expensive trips to the dentist.

Good nutrition is often cheaper as well. Some of the best bargains at the grocery store are in the fruits and vegetables section. Compare that with the cost of fast food, which is often nutritionally lacking and high in calories and fat.

**Summary**

Good time management can help you achieve a healthy lifestyle that includes plenty of rest and exercise while allowing you to be productive in your job or at school. Time-management skills are essential if you want to reach your goals in life. Setting priorities will help you allocate time for the most important things in your life. Developing good nutritional habits will provide benefits that will last for, and even prolong, your lifetime.
Key Terms

**Basic Needs**
These are the things people cannot live without, such as food, clothing, and shelter.

**Everyday Living**
What you experience on a typical day—whatever is a part of your routine, such as going to your job, attending church, cooking dinner, or walking your dog. Time management helps you make the most of everyday living.

**Goals**
Things you hope to achieve in your life and work toward, getting a good job, completing your college degree, getting married, owning your own home, or running in a marathon.

**Health**
The condition of your body and mind. A person can be in good health or in bad health, both physically and emotionally.

**Moderation**
Not too much or too little of something; not going to an extreme in your pursuit of a goal.

**Nutrition**
Obtained from food and used by our bodies for growth and maintaining good health.

**Opportunity Cost**
What is lost by choosing one option instead of another. For example, the opportunity cost of choosing to take an afternoon nap might be a lost trip to the gym.

**Sedentary**
A sedentary lifestyle is one that involves a lot of sitting around and not enough physical activity.

**Stress**
Stress is a mental or physical tension caused by worry over problems we may be experiencing in life. Stress is a negative emotion.

**Time as an Investment**
The idea that spending time on a positive activity such as exercise, pursuit of a hobby, or volunteering will pay off in the long run with better physical and mental health.

**Time Management**
Organizing and using your time in a way that allows you to meet your daily needs as well as your short- and long-term goals with as little stress as possible.

**Values**
What individuals or cultures think of as important in life, as having meaning, or as being desirable.
1. Give some examples of wisely investing your time.

2. What does it mean to lead a balanced life?

3. Explain what is meant by a sedentary lifestyle. What are some ways to fit more exercise into your schedule?

4. Carson always feels like he is too rushed. What steps could he take to better organize his time?
GOAL: Your goal in this computer exercise is to develop a schedule that gets you to work on time while keeping you healthy.

YOUR SITUATION: You have a job and an apartment. You work weekdays and weekends. Your form of transportation is the bus.

GOOD NEWS: You have plenty of money in a checking account. Pay for food and bus tokens using your debit card. Your rent and electric bills are automatically paid for you.

Part A
1) Review the Schedule, Health, Education, Student Loans, and Shop For Goods sections of the tutorial.
2) Open the Time Management and Health lesson.
3) Click Actions->Living->Schedule to view your daily schedule.
4) Use the Schedule window to schedule essential activities: eating, exercising, relaxing, and possibly additional sleep. Use the same schedule for weekdays and weekends.

HINT: You will need to eat twice a day, several hours apart. Eating for more than a half hour at a time lets you consume more food but will not improve nutrition.

5) Click the Health button to monitor your health. Using Options->Run To, run the simulation to May 1, 2010, while remaining healthy. If you miss too many days of work and lose your job, restart the lesson.

HINT: Buy food and bus tokens as you go. Keep the Health and Snapshot windows open while you play to keep a close eye on your health status.
6) When you successfully reach May 1, 2010, stop your simulation and save it.

**QUESTION 1:** When did you sleep, eat, exercise, and relax?

**Part B**

Continue where you left off in Part A. Your new goal is to enroll in and successfully attend classes for an Associates Degree from 6PM–9PM on weekdays.

7) Browse around the university buildings to find the Associates Degree program and enroll in and successfully attend classes for an Associates Degree from 6PM–9PM on weekdays. You will have to clear your schedule for the 6PM–9PM timeslot on weekdays before you can enroll in this class. Use the student loan to pay for your education.

8) Now try to adjust your schedule so that you can perform your work and attend the class without getting sick. Using **Options->Run To**, run the simulation to September 1, 2010 simulated time.

**HINT:** Click on one of the department stores and purchase a treadmill, couch and TV. These will let you exercise and relax more efficiently, freeing up time for going to school.

9) If you miss too many days of work or classes and get fired or flunk out, reopen your saved sim from Part A and try again.

**QUESTION 2:** What did you have to change in your schedule to make it possible to attend school?
Career Versus Job

“Oh, no—Monday morning again!” Have you ever heard this before? It sounds like someone is cranking away at a job that she or he doesn’t like! You know you don’t want a dead-end job. But what is a career? The difference between a career and a job is subtle, but the impact can be dramatic. A job is a set of tasks performed in exchange for payment, and it may or may not be fulfilling. It is a means to an end, the end generally being to make money to pay the bills. A career is an occupation or the life work you plan or toward which you strive. It is generally thought to be fulfilling and uses your abilities in a way that is meaningful to you and to society.

It’s not easy deciding the direction in which you want to go or whether you are willing to put in the work necessary to begin a journey toward a fulfilling career. Here are a few questions you can answer to start you on your way:

- What are your passions, or the things for which you have strong feelings?
- What are your talents? In which areas do you have an aptitude or an easy grasp?
- Which adults do you admire, not only for who they are, but also for what they do every day?

Ask yourself what is important to you, and the answer may hold the key to a fulfilling career for your future. Career aptitude tests can be helpful as well, such as the popular Myers-Briggs Type Indicator® (MBTI) that many schools offer for free.

Training and Education

You may believe that you know what you want to do, and you may believe that you’d be very good at it. Unfortunately, you can’t just go to the president of a company and say that you are the right person for the job. That would be way too easy! Embarking on a career takes specialized knowledge. To prove that you possess that knowledge, you will likely need to earn a degree, whether the degree is two-year, four-year, or advanced.

Many careers are closed to people who have not obtained a degree or training in the field. Once you’ve decided in what direction you’d like your career to go, then find out what level of education is required to get there. In the computer exercise at the end of this chapter, you will discover how having a degree makes a big difference in the types of jobs (and, therefore, the salaries) for which you qualify.

An associate’s degree generally takes two years of study and is awarded by a community, junior, or business college. You can earn this
A bachelor’s degree takes four years to earn, at a college or a university, and provides more knowledge. All that study on your part increases your chances of getting the job you want with the pay you want.

A master’s degree requires two additional years beyond a bachelor’s degree, thus specializing your knowledge—and your marketability—even further. Finally, a Ph.D. usually takes four years or more after college and will earn you great respect in the academic and career world. However, you don’t have to obtain a Ph.D. to be happy and respected in your career choice! Still, pursuing some type of degree is a good decision when planning for your future.

Education is expensive, but financial aid—in the form of grants, loans, and scholarships—makes earning a degree possible for those willing to pursue these options. Schools have counselors who can help you plan how to finance a degree. Remember, a degree offers the opportunity for a more fulfilling career with better pay so that your standard of living can be higher.

Your résumé contains information that helps prospective employers understand what kind of employee you will be, including your level of education, job experience, activities and skills, and any honors and awards you have won.
Résumé and Cover Letter

So you’ve successfully obtained a degree, but now how do you introduce yourself to the employment world? At this stage, you write a résumé. A résumé is a document that lists your skills, work experience, and educational background. It highlights for potential employers what you have to offer them in relation to the task. A résumé is usually one page and begins with a clear career objective. In one to two sentences, state the job type and organization type you are seeking. Following that, list your experience, skills, and abilities. List experience that is most relevant to the job you are seeking or find most interesting.

Next, list any special skills that you feel would be a good addition because, having just graduated, you probably haven’t accumulated much experience. You can find templates for a résumé on most computer programs, and you can fill in the blanks. Make sure you have someone read your résumé with an objective eye; punctuation and grammar mistakes are easy to make and will give employers the impression that you are sloppy.

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September 18, 2007

Ms. Sonia Watkins
Editorial Director
Sunbright Press
444 Her Street
New York, NY 12345

Dear Ms. Watkins:

I am responding to your advertisement in The New York Times listing an open position for assistant editor at Sunbright Press. I believe that I meet the qualifications for this position and that I would be an asset to your company.

As you can see from my enclosed résumé, I have experience in writing for several local publications (see enclosed writing samples) and experience in editing from my work on a college newspaper, The Oak.

Thank you for your consideration. I look forward to the prospect of speaking with you further about this position.

Sincerely,

Janet Jobseeker
555 My Street
Columbus, OH 54321
Enclosures

A cover letter is a letter that you send with your résumé that introduces you and says more about you. It contains a heading, introduction, argument, and closing.
A cover letter is a letter that you send with your résumé that introduces you and says more about you. It contains a heading, introduction, argument, and closing. In the heading, list the contact person and the address of the company. In the introduction, state the position for which you are applying. In the argument, describe why you are suited for the job. Finally, in the closing, thank the reader for considering you.

Now you’re armed with a fabulous résumé, and you know how to create a cover letter. Where do you find a job? The computer exercise at the end of the chapter will guide you through a mock job search, and it will teach you the value of paying attention to benefits a company offers, such as health insurance. Without health insurance, a routine checkup at a doctor’s office, at around $200, can cost you as much as an iPod! There are many ways to discover what companies have available jobs. The Internet is a very valuable job-seeking tool. Web sites such as Monster.com and CareerBuilder.com provide job seekers with information on an incredible variety of jobs available all over the country. On these Web sites, you can enter terms to limit your search (location, type of job, etc.). Your local newspaper advertises jobs in the classifieds section, and you can always make “cold calls” to companies that you are interested in working for, introduce yourself, and ask what they have available.

The Job Interview

You got the call! The company is considering hiring you and wants to meet you! Research the company and the position you are interviewing for carefully so that you can sound knowledgeable and prepared. The Internet can be a helpful research tool—just do a keyword search on the company. Make sure your appearance is neat, clean, and conservative. Now is not the time to express your wardrobe creativity. These people don’t know you, and first impressions can make a huge impact on their hiring decision.

Don’t talk too much—listening is important, too! Be prepared for the classic question: What are your strengths and weaknesses? Prepare your answer in advance, and choose a weakness that can be seen as a strength, such as, “I’m much too critical of my own performance sometimes!” Choose a strength that directly relates to the job for which you are interviewing. Come across as confident but never arrogant, and finally, don’t inquire about the salary too soon. Yes, it is an important factor, but wait until the interviewer brings up the subject, if possible.

Success in the Workplace

Congratulations! You got the job—that new suit and that great résumé, combined with your knowledge and your confident-but-not-too-confident attitude, must’ve done the trick! Now that you’ve officially entered the workforce, follow the guidelines here to help ensure your continuing success.

Maintain a good work ethic at your new job. You have been hired to do a job, so do it to the best of your ability. Keep a positive attitude. There will always be the “wet blankets” who want to drag everyone down. Rise above that. Refrain from gossip, because it may very well come back to bite you!
Don’t say anything you wouldn’t want repeated, and use this same caution with e-mails. Try to be flexible and cooperative, but set some boundaries and don’t allow yourself to be mistreated. If you have a problem with someone, try talking with that person about it face-to-face. Always remember: We create ourselves, on a daily basis, by how we act and react.

Summary

Your future standard of living depends on the preparations you make, including choosing a training path and creating a résumé. There are numerous ways to hunt for jobs, including using the Internet and reviewing the newspaper classifieds. The job interview is a crucial time to present yourself well, and once you secure the job, a positive attitude can take you far!

Each job you accept is a learning experience and helps to build your résumé. Likely, the first job you take will not be the last, so don’t be discouraged if your first job doesn’t live up to all of your expectations. Learn, grow, discover who you are, and build that résumé until you are a force to be reckoned with—and then nothing can stop you from living your dreams!

<table>
<thead>
<tr>
<th>Key Terms</th>
</tr>
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<tbody>
<tr>
<td><strong>Abilities</strong></td>
</tr>
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</table>
Natural or acquired skills or talents.

| **Advancement** |
In terms of a career, an effort one makes (or a milestone one achieves) in bettering one’s career.

| **Aptitude** |
An inherent ability or talent.

| **Benefits** |
Entitlements, such as health or life insurance, available in accordance with a wage agreement, insurance policy, or program.

| **Career** |
A chosen pursuit, profession, or occupation.

| **Career Path** |
A planned progression of jobs within one or more professions throughout one’s working life.

| **Cost of Living** |
The average cost of life’s basic necessities, such as shelter, food, and clothing.

| **Cover Letter** |
A letter you send with your résumé to provide more information about you.

| **Education** |
The process of acquiring knowledge and developing skills, often through formal education resulting in a specialized degree.

| **Entry Level** |
Indicates a job accessible to a person who is inexperienced in a particular field.

| **Job** |
A regular activity performed in exchange for payment.

| **Résumé** |
A brief account of one’s work experience and qualifications.

| **Salary** |
A fixed compensation paid regularly for services.

| **Skills** |
Proficiency acquired through training or experience.

| **Standard of Living** |
A level of material comfort as measured by goods, services, and luxuries.
1. List a few of your talents and/or interests and next to each one, list a career choice that could potentially make use of this talent or interest. Use the Internet, if necessary, to research different careers, doing a keyword search that combines your talent or interest with the word “career.”

2. Sonia has health insurance and Julia does not. Sonia’s health insurance costs her $2,400 per year. Both Sonia and Julia have two routine checkups per year, costing Sonia $20 each time and Julia $70 each time. Sonia and Julia both broke their arms last year and had to visit the emergency room. Julia was billed $8,094 with no insurance, and Sonia was billed $309. Calculate what each person spent last year on medical expenses, remembering to include what Sonia pays yearly for insurance.

3. Choose an imaginary position for which you would like to interview. List a strength you have that would contribute to your effectiveness in this position and a weakness that could be perceived as a strength. Practice verbalizing the strength and the weakness, confidently elaborating aloud to a friend or to the mirror.
Lesson 2  Finding a Job

Student Name ___________________________________________ Date ___ / ___ / ___

GOAL: Your goal in this computer exercise is to find the highest paying job that you qualify for based on your education and experience.

YOUR SITUATION: You have an apartment but no job. You do not have access to a car.

GOOD NEWS: You do not have to worry about food or paying rent or electricity bills. These bills are paid automatically and you have plenty of food.

Part A
1) Run the Work, Applying for a Job, Résumé, Getting Paid, Transportation, and Health Insurance sections of the tutorial.
2) Open the Finding a Job lesson.
3) Switch to the City View. Browse over the buildings. Fill in Worksheet 1 with all available jobs with hours from 8AM to 4PM on weekdays. You should find eight different job titles.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Gross Pay Per Week</th>
<th>Benefits Included</th>
<th>Education Required</th>
<th>Requires A Car</th>
<th>Experience Required</th>
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4) Click Reports -> Résumé and review your résumé.

QUESTION 1: Based on your résumé, which three jobs do you qualify for?

5) Apply for one of the jobs that you qualify for, using John Doe as your name. Choose “direct deposit” for method of payment. Leave the W4 as is. Choose “foot” as your method of travel. Using Options->Run To, run the simulation to January 9, 2010.

6) Click Reports -> Pay & Tax Records and make sure “pay stub” is selected. Fill out Worksheet 2.

7) Reopen the lesson and repeat steps 5 and 6, choosing a different job each time, until you have filled out the entire worksheet.

Continued
WORKSHEET 2

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Gross Pay Per Week</th>
<th>Net Pay Per Week</th>
<th>Deductions as a % of gross</th>
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**Part B**

8) Click Actions -> Insurance -> Health and sign up for health insurance with a $25 copay. Answer questions 2 through 4.

**QUESTION 2:** How much will health insurance cost you per month?

**QUESTION 3:** Which of the three jobs you qualify for provides health insurance?

**QUESTION 4:** After compensating for the cost of health care, which job pays the most per week?
Budgeting and Saving

You work hard for your money, so it’s imperative to learn how to manage it. Knowing how to budget and save is an integral part of effective money management. Before you set up your budget, you must estimate your income and expenses. A good budget will help you control expenses and achieve your financial goals. Unexpected expenses will almost surely arise, so you should be sure to set aside enough money each month to prepare for them.

Managing Your Money

You’ve been working hard all week, but Friday is finally here and the day you’ve waited for has arrived: payday! And it just so happens, that there’s a great new pair of shoes you’ve been dying to get your hands on. So you clock out with your paycheck in hand and head straight for the bank. You plan to cash your check, head to the mall, and buy those shoes with your hard-earned cash. But wait! Before you make that purchase, have you checked to make sure there is enough money in your budget? Have you thought about saving that money instead of spending it? Budgeting and saving are the fundamentals of effective money management, and becoming familiar with these concepts will lead to a more secure financial future—a future that could even include a pair of new shoes.

So what is money management? It is all about how you direct, control, and handle your money. It may sound complicated, but it is actually quite simple. First, figure out what you’re working with. In order to manage your money, you need to know how much you currently have, where it comes from, where it goes, and how much more you expect to receive in the future. This allows you to make decisions about how to spend and save it, which leads to the second step: making smart decisions. Anything that can be managed can be mismanaged. How many times have you encountered stories about fabulously wealthy celebrities going bankrupt and asked yourself, how did that happen? How can a person with millions of dollars lose it all? It comes down to one simple reason: bad decisions. You see, it doesn’t matter if you have five hundred dollars or five million dollars; if you make bad decisions regarding your money, you’ll soon find yourself without any. The good news is that successful money management is a skill anyone can learn.

Estimating Income and Expenses

In the computer exercise for this chapter you will be asked to calculate take-home pay and expenses, which ties into the first component of managing your money: understanding your financial situation, which is basically estimating your income and expenses. Your income is money that
you receive. Your expenses are money spent. When calculating your income you must consider every source: paycheck, gifts, irregular income from odd jobs, etc. Old pay stubs can tell you how much money you get from your job, but it’s important to make sure you base your estimate on your net income or take-home pay. This is money that you receive after all adjustments and deductions are made, including tax deductions. If you have a bank account, you can check the deposit history on your monthly statement. This will help you keep track of money you receive each month that may be irregular, like gifts or money from occasional jobs. Once you gather this information, do your best to calculate an income amount that you can reasonably expect to receive each month. Good estimates are important. You want the most precise information, but it is always better to underestimate your income than to overestimate. Overestimating can leave you without enough money to take care of your expenses.

Estimating expenses can be a bit more complicated than estimating income because they tend to fluctuate more from month to month. The best way to get an accurate picture of all your expenditures is to write them down. Keep a record of how much you spend for a one-month period by saving all receipts and recording all purchases. This includes rent, utilities, and other monthly bills, as well as small purchases, such as a cup of coffee or a pack of gum. When looking at your monthly expenses, you will notice that some stay the same from month to month while others vary. Those that stay the same are called fixed expenses, and those that vary are called flexible expenses. Some examples of a fixed expense are rent, car payments, and insurance. Some examples of a flexible expense are food, gas, and entertainment. Again, good estimates are important, but a little overestimating of expenses is better than underestimating. If you underestimate you can end up with a deficit, which means your income is less than your expenses. Constantly having a deficit can lead to unmanageable debt.

Reaching Your Financial Goals

Another important aspect of effective money management is goal setting. Knowing that you will need a specific amount of money in advance helps you to plan a budget, which will be necessary for reaching your financial goals. A budget also allows you to deal with day-to-day expenses while still planning for the future. Personal financial goals should be realistic, specific, measurable, and defined within a time frame. Can you think of a financial goal that you have? Maybe it’s saving enough money to travel abroad for one month. That’s a realistic goal, but it needs to be a little more specific. First, you need to calculate how much money you’ll need to make the trip. To do that you need to estimate all the costs, such as an airplane ticket, room and board, and any other transportation expenses. Once you have a good estimate of the total cost of the trip you can figure out how long it will take you to save enough money. If you do a good job of estimating your income and expenses, you can easily see where to cut back on spending so that you can save more money for your financial goals.
Preparing a Budget

An important tool that was mentioned before is a budget. A budget is an itemized summary of probable expenditures and income for a given period. Your budget will include everything we just talked about: monthly net income, monthly fixed expenses, and monthly flexible expenses. In the computer exercise portion of this lesson you will be asked to develop a budget that will allow you to save some money for the future. Take a look at this sample one.

<table>
<thead>
<tr>
<th>TOTALS</th>
<th>Budgeted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>900.00</td>
<td>950.00</td>
</tr>
<tr>
<td>Expenses</td>
<td>800.00</td>
<td>775.00</td>
</tr>
<tr>
<td>Income Less Expenses</td>
<td>100.00</td>
<td>175.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INCOME</th>
<th>Budgeted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job (take-home pay)</td>
<td>900.00</td>
<td>900.00</td>
</tr>
<tr>
<td>Gifts</td>
<td>00.00</td>
<td>00.00</td>
</tr>
<tr>
<td>Other</td>
<td>00.00</td>
<td>50.00</td>
</tr>
<tr>
<td><strong>Total Net Income</strong></td>
<td><strong>900.00</strong></td>
<td><strong>950.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FIXED EXPENSES</th>
<th>Budgeted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>360.00</td>
<td>360.00</td>
</tr>
<tr>
<td>Charitable Donations</td>
<td>15.00</td>
<td>15.00</td>
</tr>
<tr>
<td>Renters Insurance</td>
<td>50.00</td>
<td>50.00</td>
</tr>
<tr>
<td>Bus Fare</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Telephone</td>
<td>30.00</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total Fixed Expenses</strong></td>
<td><strong>475.00</strong></td>
<td><strong>475.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FLEXIBLE EXPENSES</th>
<th>Budgeted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household</td>
<td>30.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Groceries</td>
<td>150.00</td>
<td>175.00</td>
</tr>
<tr>
<td>Clothing</td>
<td>35.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Medical/Prescriptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment</td>
<td>75.00</td>
<td>50.00</td>
</tr>
<tr>
<td>Dining Out</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Gifts</td>
<td>10.00</td>
<td>00.00</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Flexible Expenses</strong></td>
<td><strong>325.00</strong></td>
<td><strong>300.00</strong></td>
</tr>
</tbody>
</table>

If you look at the top in the row labeled Income Less Expenses, you’ll see that the total is a positive $175.00. In this instance there is a surplus. This is money left over after all the expenses have been subtracted from the income. It is a smart idea to put this money in a savings account. You can add to the account each month and put it toward an important purchase.
or use it for unexpected expenses like car repairs or an emergency health-related expenditure, but we’ll talk about that in a minute. Just remember, budgeting is a continuous process, and you’ll need to review and modify your budget on a regular basis.

**Saving for the Unexpected**

Of course, no one is able to predict the future, and unforeseen events always come into play. The same is true in your financial life. You will at some point have to deal with unexpected expenses. Some of these expenses may be positive, like a last-minute weekend getaway; and others will be negative, like a health-related expense that isn’t covered by insurance. When such instances occur, hopefully you will be able to rely on the surplus income that you saved. It is very tempting to spend all the money you receive in each paycheck because, after all, you’ve worked hard for it. However, part of managing your money intelligently is being responsible enough to set some aside for unexpected expenses. Some people call it an “emergency fund.”

For the computer exercise you will be asked to implement your budget a second time while experiencing an unexpected health-related expense. So, how much money should you save for such an event? Some financial advisors suggest setting aside 10% of your income per month until you have saved the equivalent of three months of regular income. Unfortunately, there is no magic number for everyone. You really have to look at what you can afford. If you are having trouble saving money it is best to take a look at your flexible expenses and see where you can cut back. Most people splurge on entertainment and dining out. Try cutting back in these areas and see how much you can save.

**Saving for the Future**

It is important to keep your money in a savings account. The days of stuffing your piggy bank until it’s full are over! It is also not a good idea to keep your savings stuffed under your mattress or in a dresser drawer. Why? First, because it could be stolen; second, if it’s not in a savings account, then it isn’t earning any interest. Interest is what the bank pays you each month for trusting them with your money. It is calculated based on your daily balance; interest rates range from 0.2% up to 5%. The more money you have in the account, the more interest you earn. Some banks charge a monthly fee for a savings account if you do not maintain a minimum balance, so it is important to ask this question when setting up your account. Many banks waive their monthly fee for savers under 18 years of age. A savings account works best when you put money in every month and do not take any out except for emergency situations or when you have saved enough to cash in on a financial goal. Think of the money you put into your savings account as an investment in your future and your financial goals. Each time you put money in your savings account, you are paying yourself.

**What you should look for in a basic savings account:**

- No or low monthly fee
- Competitive interest rate
- Free online banking
- Reasonable minimum balance
Summary

You work hard for your money, so it’s imperative to learn how to manage it. Knowing how to budget and save is an integral part of effective money management. Before you set up your budget, you must estimate your income and expenses. A good budget will help you control expenses and achieve your financial goals. Unexpected expenses will almost surely arise, so you should be sure to set aside enough money each month to prepare for them.

Key Terms

<table>
<thead>
<tr>
<th>Budget</th>
<th>An itemized summary of probable expenditures and income for a given period.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit</td>
<td>The amount by which expenditures exceed income.</td>
</tr>
<tr>
<td>Expenditure</td>
<td>An amount of money spent.</td>
</tr>
<tr>
<td>Fixed expense</td>
<td>An unchanging expenditure.</td>
</tr>
<tr>
<td>Flexible expense</td>
<td>An expenditure that varies.</td>
</tr>
<tr>
<td>Income</td>
<td>Money received.</td>
</tr>
<tr>
<td>Savings</td>
<td>Money that is not spent.</td>
</tr>
<tr>
<td>Surplus</td>
<td>An amount of money remaining after all expenses have been met.</td>
</tr>
<tr>
<td>Take-home pay</td>
<td>Money received after all adjustments and deductions are made.</td>
</tr>
<tr>
<td>Unexpected expense</td>
<td>An unforeseen cost.</td>
</tr>
</tbody>
</table>
1. Why do you think it’s possible for a millionaire to go bankrupt?

2. Give advice to your friend on how to begin estimating expenses.

3. Outline a financial goal. Be sure it is realistic, specific, measurable, and has a time frame.

4. Name a possible unexpected expense. What is the best way to prepare for such unforeseen costs?
GOAL: Your goal in this computer exercise is to prepare a budget and determine if you will be able to save any money.

YOUR SITUATION: You have an apartment and a job. You take the bus to work. You pay for rent, electricity, and renters insurance each month. You also need to buy food and bus tokens.

Part A

1) Review the Pay & Tax Records, Pay Bills, Buy Bus Tokens, Shop for Food and Bank Statements sections of the tutorial.

2) Open the Budgeting and Saving lesson.

3) Your current job as a fast-food cashier pays $7.25 per hour and you work 40 hours per week. Assume your monthly deductions are 18% of your gross income and you are paid four times during the month. Use this information to fill in the income portion of Worksheet 1.

4) Click on Actions->Money Management->Pay Bills. Look at your bills for rent, electricity, and renters insurance for the month. Fill in those expenses on Worksheet 1.

5) You need to eat two meals per day and you need two bus tokens for every day that you go to work. Assuming 30 days in a month, fill in the food and transportation expenses for a month on your worksheet.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Monthly Budget</th>
<th>Budgeted Amount</th>
<th>Actual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Gross Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less 18% Deductions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Net Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renters Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Flexible Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bus Tokens</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Surplus/Deficit</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION 1:** Do you estimate a surplus or deficit in your monthly budget?

HINT: To find the cost of food, go to the City View and click on the supermarket. To find the cost of bus tokens, go to the City View and click on the bus stop. Click the Legend button to see what each building represents.
6) Using Options->Run To, run the simulation to March 1, 2010. Be sure to buy food and bus tokens along the way as needed. Pay your rent, electricity, and renters insurance bills with your debit card.

7) Click Reports->Pay & Tax Records and view your last pay stub. Fill in your actual income on Worksheet 1. Click Reports->Bank Statements and view the statement for your checking account ending 2/28/2010. Fill in the actual amounts spent on Worksheet 1 and calculate the difference between the beginning and ending balance.

<table>
<thead>
<tr>
<th>Description</th>
<th>Debits</th>
<th>Credits</th>
<th>Date</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>SuperMarket, Inc.</td>
<td>370.00</td>
<td></td>
<td>3/2</td>
<td>5,121.56</td>
</tr>
<tr>
<td>Wages Direct Deposit</td>
<td>60.00</td>
<td>237.74</td>
<td>3/6</td>
<td>5,359.30</td>
</tr>
<tr>
<td>City Bus</td>
<td>95.00</td>
<td>237.74</td>
<td>3/6</td>
<td>5,299.30</td>
</tr>
<tr>
<td>Wages Direct Deposit</td>
<td>552.00</td>
<td>237.74</td>
<td>3/13</td>
<td>5,537.04</td>
</tr>
<tr>
<td>City Property Mgt</td>
<td></td>
<td></td>
<td>3/19</td>
<td>4,985.04</td>
</tr>
<tr>
<td>NRG Electric</td>
<td>36.00</td>
<td></td>
<td>3/19</td>
<td>4,889.04</td>
</tr>
<tr>
<td>80% Insurance</td>
<td></td>
<td></td>
<td>3/19</td>
<td>4,854.04</td>
</tr>
<tr>
<td>Wages Direct Deposit</td>
<td>237.74</td>
<td>237.74</td>
<td>3/20</td>
<td>5,091.78</td>
</tr>
<tr>
<td>Wages Direct Deposit</td>
<td>237.74</td>
<td>237.74</td>
<td>3/27</td>
<td>5,329.53</td>
</tr>
</tbody>
</table>

**Part B**

8) Click on a bank in the City View and open a savings account at HSN Bank. Use an initial deposit of $300 to avoid fees.

9) Using Options->Run To, run the simulation to January 1, 2011. Each month, transfer any amount over $5,000 in your checking account into your savings account. Pay all bills that you receive and don’t forget to buy food and bus tokens. For this lesson, pay by debit card.

**QUESTION 2:** Did your actual amounts match your budgeted amounts? If no, what caused the difference?

**QUESTION 3:** Did you encounter any surprises during the year? How did this affect your savings?

**QUESTION 4:** Why might someone want to have an “emergency fund”?

**QUESTION 5:** How much were you able to save, above your initial $300 deposit, in your savings account by the end of the year?
Someday you will be on your own with a full-time job and ready to live independently from your parents. Choosing an apartment is an exciting step in your life, but you must not let your emotions cloud your decision-making. Choosing the right apartment is an important financial decision. Some expenses, like rent, are obvious and others you may not anticipate or expect. And if you are just starting out in a job, you may not have much money saved to help you get established in your new home.

Here are some things to consider:

- **Salary:** How much money do you bring home every month? How much of that can you allocate for paying rent?
- **Start-up costs:** What will you need to buy initially for your apartment? How much additional money is required for a deposit? For renters insurance?
- **Ongoing costs:** Will you have enough left each month after paying the rent to cover utilities? Groceries? Transportation?

Choosing an Apartment

Just as you are a unique individual, there are many different types of apartments. Some are flats, all on one floor. Others, called townhouses, have an upstairs and a downstairs. They may have one, two, or three bedrooms, a garage, a carport, or simply a parking lot. Some will allow pets, many will not. Many apartments have swimming pools or workout centers for the people living there to enjoy. Some apartments even come furnished and ready to occupy.

**Main Idea**
Choosing and living in an apartment is a big financial commitment and you need to understand all the different costs involved in order to make a wise selection.

**After completing this lesson you will be able to:**
- determine the most you are able to spend on an apartment
- choose wisely between different apartment options
- understand and sign a lease
- choose an insurance policy that meets your needs as a renter

**Key Terms**
- Landlord
- Lease
- Location
- Notice
- Rent
- Security Deposit
- Tenant
- Term
- Unit
- Utilities
You will need to find the one that best suits your wants and needs. But the most important consideration is financial. You may find the perfect apartment, but it does not matter if you cannot afford to live there.

**Where to Look for an Apartment**

As you begin to search for an apartment, start with the classified section of your local newspaper. Look for the heading “Apartments for Rent.” This is one good source of information. In many cases, if the city is large enough, the listings will be organized geographically.

The yellow pages of the phonebook will also have many listings under “Apartments.” Most likely, both the phonebook and the newspaper will have an online classified section available as well. In fact, the Internet has many good Web sites such as www.Rent.com, www.ApartmentGuide.com, or www.Craigslist.org, which have free listings of apartments for rent.

If you are moving to a new city that is unfamiliar, you may be able to get some assistance from a local realtor. Your new employer might be willing to offer some suggestions as well. And many cities have free publications at their libraries, grocery stores, or drugstores that have listings for apartments.

**Location, Location, Location**

How do you choose a location for your apartment that is right for you? There are many factors to consider. Is the apartment in a safe part of town? Will you as a single person feel comfortable and secure coming home alone in the evening? Is the location convenient to your job? Ideally, you should try to keep your drive to work fairly short. This will save you time and money. You will need to buy less gas and you will have less wear and tear on your car. If you can find an apartment close to other amenities such as shopping areas, that will be to your advantage.

Perhaps you do not own a car. In this case it is crucial to have reliable public transportation within walking distance. You will need to figure out the cost of such transportation in order to know if this apartment is the best choice for you. In the computer exercise you will have to choose between a more expensive apartment within walking distance to your job and a less expensive one that requires you to pay for the bus. To select the right apartment you need to list as many expenses as you can for each choice and total them to make a fair comparison.

**How Much Should an Apartment Cost?**

The cost of an apartment will vary based on its size and the amenities it offers, such as garage space, a swimming pool, furnishings, etc. Some apartments will be more expensive because the rent includes the cost of all or some utilities such as electricity, phone, or heat. Apartments in more upscale areas of the city, as well as newer apartments, will also be more expensive. As you begin looking for the apartment that is right for you, you will need to know about how much you will be comfortable spending each month for rent. A good rule is to spend no more than 30% of your monthly earnings on your base rent, not including utilities.
Utilities and Unexpected Costs

As you begin to read through the ads for apartments and talk to the rental agents, be sure that you are considering all the expenses that you will have to pay, not just the monthly rent. Find out which utilities are covered in your rent, and which you will be billed for directly. In the computer exercise associated with this chapter, you must remember to pay both your rent and your electric bill.

For example, Apartment A might rent for $430 per month, which includes all utilities. Apartment B rents for $385 per month but you have to pay your own gas and electric bills. You will have to ask what typical gas and electric bills cost for a similar apartment before you can decide which is the more economical place to live. If the gas and electric bills combined cost more than $45, you should rent Apartment A.

Usually when you first rent an apartment, you are required to put down a deposit. Sometimes called a security deposit, this is a sum of money that the landlord holds until you move out of the apartment. If at the time you leave there is any damage to the apartment that needs to be repaired, the deposit money will be used to take care of the repairs. If you are careful to leave the apartment in good shape, you should receive your deposit back. The deposit can be as much as a one month’s rent, so you need to be sure you have enough money in the beginning to cover this.

Finally, do not forget about the things you will need to live in your apartment—furniture, dishes, cleaning supplies, and other household items. Shopping for your first apartment can be fun…but it can be expensive, too!

Signing a Lease

When you finally decide on the apartment that is best for you, both you and your landlord will sign a document called a lease. This legally binding document describes the terms that you both have agreed upon, and by signing it you are promising to fulfill your side of the agreement. The length of time you wish to rent the apartment, called the term, will be stated in the lease. Usually when you sign a lease you are promising to stay for a period of one year. The lease also tells the amount of rent you must pay each month, when it is due, and how much notice you must give the landlord if you decide to leave.

Here is a portion of a standard lease. Notice that the rent is listed as $500 and is due on the 15th of each month. There is an additional security deposit of $300 also required.

1. TERMS: TENANT agrees to pay in advance $500 per month on the 15th day of each month. This agreement shall commence on May 1, 2004 and continue until April 30, 2005, as a leasehold. If TENANT should move from the premises prior to the expiration of this time period, he or she shall be liable for all rent due until such time that the Residence is occupied by an OWNER-approved paying TENANT and/or expiration of said time period, whichever is sooner.

2. PAYMENTS: Rent and/or other charges are to be paid at such place or method designated by the OWNER as follows: by mail or in
person at the rental office. All payments are to be made by check or
money order and cash shall be acceptable. OWNER acknowledges
receipt of the First Month’s rent of $500, and a Security Deposit
of $300, for a total payment of $800. All payments are to be
made payable to Greenwood Gables Apartments.

Your lease will state which utilities you are responsible for paying,
whether or not you are permitted to have pets, and exactly who is allowed
to live in the apartment. If you decide to have a roommate, the roommate’s
name must be on the lease as well as your own.

If you break your lease by leaving in the middle of the term, there is
also a penalty which is stated in the lease. In the lease example just shown,
the tenant must continue to pay rent until the year is up or the landlord
finds another person to rent the apartment. So think carefully about your
decision before signing anything.

If you are unsure that you will keep a particular job or stay in an area
for at least a year, it might be wise to look for an apartment that rents by
the month. These are less common and are usually owned by individuals
instead of a large rental company.

Renters Insurance

Have you ever thought about what would happen if there were a fire in
your apartment and you had to replace all your furniture, linens, and other
household items? Renters insurance is a good thing to have and in some
cases is required by your landlord. There are two basic areas of coverage:

- Liability – this pays for any damage you might do to the
  building. For instance, you accidentally set a hot pan on
  the kitchen counter, leaving a large burn mark, requiring
  the countertop to be replaced. Liability also protects you if
  someone visiting you trips over something left on your floor,
  breaks an arm, and tries to sue you.

- Contents – this covers your belongings and will pay to
  replace them or repair them in case they are stolen or
  damaged by fire or a leaky pipe.

The cost of renters insurance will vary depending on where you live and
the value you place on your belongings or contents. Although you might be
tempted to save the money and not purchase this insurance, ask yourself
this: “Am I willing to take the chance that I won’t need it? Can I afford to pay
for new items if I have to?” You will probably find that the answer to both
questions is “NO!” Most insurance companies offer policies for tenants. Call
at least three different companies to get the best rate for your policy. You will
find insurance companies listed in the yellow pages of your phone book.

Tenants’ Rights

No one can refuse to rent you an apartment based on your age, sex,
race, national origin, religion, physical disability, or other discriminatory
reasons—this is against Federal Law.
You have the right to live in a safe apartment. This means you can and should insist that faulty wiring, chipping or flaking paint, holes in floors or ceilings, and mouse populations be dealt with immediately!

You also have the right to privacy. Even though the landlord owns the building you are living in, he or she cannot come into your apartment without your permission unless it is a dire emergency such as a fire. Also, if your landlord has to send a repair person into your unit to do some work, you must be told ahead of time.

The landlord cannot raise your rent during the term of the lease without your consent. Once you have moved out, the landlord must return your deposit to you within a certain period of time. If part of your deposit is used to make repairs because of damage caused by you, the landlord must tell you exactly how the money was spent.

Summary

Choosing an apartment and paying your rent each month is one of the biggest financial responsibilities you will face as a young adult. There are several factors that come into play in deciding which apartment is best for you. Although you might love to have a cat or dog, and an extra bedroom for storing all your stuff, the bottom line is to choose what will function well for you that is also affordable. Read the lease carefully so you understand your rights and obligations as a renter. And don’t forget to count the extra costs such as renters insurance, utilities not covered in your rent, and a deposit. Finally, shop for and purchase an insurance policy to protect you and your belongings in case of an unexpected disaster.

Key Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Landlord</strong></td>
<td>The company or individual that owns an apartment.</td>
</tr>
<tr>
<td><strong>Lease</strong></td>
<td>A legal document signed by both the tenant and the landlord that contains the terms of the agreement, such as the names of the tenant(s), the rent amount, and the responsibilities of the landlord and the tenant.</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>The location of your apartment is an important safety consideration and also determines your ease of getting to work, buying groceries, etc.</td>
</tr>
<tr>
<td><strong>Notice</strong></td>
<td>An amount of time required in advance if either the landlord or the tenant wishes to discontinue the rental agreement. This courtesy allows both parties time to make other arrangements.</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td>The payment, usually monthly, that the tenant pays to the landlord.</td>
</tr>
<tr>
<td><strong>Security Deposit</strong></td>
<td>A sum of money usually equal to one month’s rent, held by the landlord to cover any damage to the apartment caused by a tenant.</td>
</tr>
<tr>
<td><strong>Tenant</strong></td>
<td>The person renting the apartment.</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>The length of a rental agreement, usually a period of one year.</td>
</tr>
<tr>
<td><strong>Unit</strong></td>
<td>One individual apartment. A large apartment building may contain 20 or more units.</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>Items and services needed to make a house or apartment functional such as hot water, electricity, natural gas, phone service, and cable service.</td>
</tr>
</tbody>
</table>
1. Name some different utilities that might or might not be covered in a person’s rent payment. How would you know whether these expenses are paid by the landlord or the tenant?

2. Maria makes $1,740 each month and is eager to move out of her parents’ home and get a place of her own. She has found an apartment she really likes with a base rent of $650 per month. Is this a wise choice for Maria? Why or why not?

3. Write an ad for an apartment you might like to rent. What information should you include?

4. Apartment A rents for $515 per month and the tenant pays gas and electric bills. An average gas bill is about $52 per month and electricity costs about $27 per month. Apartment B rents for $595 per month and includes all utilities except for water which runs about $18 per month. Which apartment is more economical to rent?
GOAL: Your goal in this computer exercise is to find the lowest cost apartment that will allow you to get to your classes, job, and back home on time.

YOUR SITUATION: You are attending classes during the day and have an evening job. But there is a problem. You can’t get to class or back home on time by walking or taking the bus, and you cannot get a car.

1) Review the Apartments for Rent, Schedule, Transportation, and Buying Bus Tokens sections of the tutorial.

2) Open the Finding an Apartment lesson

3) Click on the Schedule button and see how the estimated travel times overlap with other parts of your schedule.

4) Switch to the City View.

5) Click on an apartment that you think will solve your scheduling problem and choose “Rent Apartment”. Click “Yes” when asked if you want to move. Once you have rented the apartment, click “Schedule” and see if you can reach all your activities on time. Click “Change Travel Mode” and see if you can reach all activities on time by walking so you can save money on bus tokens.
6) Reopen the lesson and repeat the above step until you find the cheapest place to live. When figuring costs, be sure to include rent AND the cost of bus tokens for a month (if bus transportation is required).

**QUESTION 2:** Where was the cheapest apartment that you could rent that would solve your scheduling problem? Circle this apartment on the graphic below. How much was the rent?
A Car Means Convenience

It’s Wednesday morning and you are sleeping soundly, dreaming about that Hawaiian vacation you’d like to take. Suddenly you hear, instead of ocean waves, a loud buzz. You’ve overslept—and you’ve only got ten minutes to make it to the bus and get to work on time. While you dash for the bathroom to brush your teeth (no time for a shower today), you think how nice it would be to have your own car. Then you could get to work faster and save time in your morning routine. Now that you’ve got a job and an apartment, a car could really make your life easier.

But convenience comes with added responsibility. Insurance, gas, and repairs can put a strain on your wallet and test your patience if you end up with the wrong car.

Which Car is Right for You?

The type of car you choose should reflect how you intend to use it. If you have to drive across town every day to work, you will want to look for something with good gas mileage. Maybe a smaller car would be best for you. On the other hand, if you move frequently or carry many passengers, you might want to look for something with more room. Later on we will review different types of cars, but before we get to that, you should understand a little more about financing and loans.

Most car buyers have to take out a loan, that is, borrow money from a bank or other institution with the agreement to pay it back (plus interest) over a certain period of time. All loans come with finance charges, which include all the costs of borrowing—in other words, everything you will have to pay beyond the amount needed for the car. These charges can be high for teens, who usually don’t have much credit history. The annual percentage rate (APR), also called an interest rate, calculates your finance charges as a yearly rate. This rate will help you compare loan offers.

Many lenders will not make loans for cars that are more than five years old, but insurance for new cars can be more expensive. If you get a lease, you could have lower payments each month, but it might be more expensive if you want to keep the car after the lease is up. At the end of this lesson, the computer exercise will help you determine how long you need to drive a car before owning becomes less expensive than leasing. We will talk about all these issues in more detail as we continue. Just remember that once you find a car, you will run in to additional costs to finance, insure, operate, and maintain it.

Make sure you have considered all these costs before you go out for a test drive, because the type of car you get should be decided by what you can afford. Many first-time car buyers purchase a used car, but new cars...
don’t always cost more and can sometimes be more reliable. Take time to consider which one is right for you.

New or Used?

New cars look impressive, but can cost a lot more without offering much greater value. Over the first two years, a new car loses at least 30% of its resale value. Many buyers on a limited budget can’t afford that loss of value, so they look for “gently used” vehicles that have already depreciated in value. Those deals can be hard to find, but the savings can be well worth the time you spend looking for them.

After the savings, many used-car buyers find cars that break down right after they’re purchased and other problems that they didn’t know about before buying. Recently, many dealerships have begun offering certified pre-owned programs to combat this problem and ensure the quality of their used cars. The potential trouble of a used car is enough to convince some who can afford it to buy new. New cars come with a warranty and a certain peace of mind that used cars can’t always offer. Buying a new car offers more variety because you can choose among makes and models that you might not be able to find used. You can also customize your colors and options, such as an upgraded stereo system or leather interior, to get exactly what you want. All those options come with a price, though, so before you get carried away, figure out what you can afford.

What Can I Afford?

A leather interior might sound nice until the salesperson hands you the bill. Most people getting their first car have to decide what features they need and what they can live without. Insurance is the one thing you must have. It can be more expensive for teens but is required by law, so it’s an important factor in deciding how much car you can afford. We will get to insurance in a moment; now let’s review some different styles of cars.

If you just have to drive yourself back and forth to work, it might be most economical to get a coupe. A coupe is a small car with two doors and two main seats; it can save a lot on gas compared to a larger vehicle. Sport utility vehicles (SUVs) have multiple rows of seating, an increased hauling capacity, and can usually drive off-road. If you need even more room, a minivan might be for you. It has the biggest interior space, but it does not have the towing or hauling capacity of an SUV. The sedan is one of the most popular styles because it offers two rows of seats, both big enough for adults to sit comfortably, and a spacious trunk. Bigger cars usually cost more, but you can find all of these styles in economy and luxury models.

Just as there are different types of cars, there are different types of car insurance. Deciding which policy is right for you is just as important as picking the right car. Some people who consider themselves safe drivers choose to carry only liability insurance. This covers the cost of any damages you cause to other drivers, but does not pay to fix your car if the accident is your fault. The law requires you to have at least this coverage if you own a car. Collision insurance pays to fix the damages to your own car if the accident is your fault. This coverage is usually optional. In some states you have the choice of no-fault auto insurance. This kind of coverage does not
follow standard rules of liability insurance. With a no-fault policy, the driver’s insurance will pay to fix the damage of his or her car even if the driver wasn’t faulted for the accident. When an accident occurs under the no-fault system, both parties use their own insurance to fix the damages, regardless of whose fault it was. Not all states have this system, so make sure you understand what type of insurance your state requires.

Once you understand how much you must pay for insurance each year, divide it by twelve to figure out what it will cost each month. Then keep that figure in mind while you consider how much you can spend for the car itself. You can determine this by taking a look at your monthly expenses and income. Your bank statement will help you calculate how much money you earn and spend. From that, determine how much you have left over after all your expenses are paid. You can use up to half of that amount toward car expenses. If you spend money every week on bus tokens or on taxi cabs, you can add that money toward your car expenses, because you won’t have to spend it once you’ve got your own transportation. But no car will run without fuel and regular maintenance. Just don’t forget the costs.

Lots of Lots: Where to Go to Find a Car

Now that you know what you can afford, how do you find a car to buy? Advertisements for cars fill the classifieds section of the newspaper. Car lots big and small are packed with new and used cars bearing bright signs to grab your attention. Before you take your first trip to see a car in person, make sure you have done your research at home.

Magazines like Consumer Reports, Car and Driver, and Road and Track offer expert opinions and test-drive reviews. If you are looking for a used car the Kelley Blue Book will help you determine the value of a particular make and model and offer advice on how to deduct for any damages caused by the previous owner. Many used car buyers don’t feel comfortable buying a car from a private seller because they worry the car has problems that the seller won’t disclose. For some, a dealership offers more security. The certified pre-owned programs that we talked about before have convinced many who always bought new cars that a used car can be just as reliable.

Buying from a dealer does have some drawbacks. You will probably pay more than you would have from a private seller, and you might still run into problems with the car after you’ve purchased it. Be wary of nondealership lots. These are much smaller and do not affiliate with any of the major car manufacturers. Sometimes you can find a deal there, but usually the cars are older and harder to finance. Most nondealership lots offer their own financing, but under difficult terms—and you will run a greater risk of repossession.

Owning Versus Leasing

If you want a new car and you plan on driving it only for a couple of years, leasing might be a good option for you. The benefit of a lease is that you can get a car with little or no money down. If you are able to put money down, you may have to pay less each month. That means you will have more money left over to spend the way you want. It also means that at the end of the lease you will have to give the car back, since a lease only allows the use of a car for a specified period of time. A lease can also help you get a more expensive
car than you might otherwise be able to afford. In the computer exercise at the end of this chapter you will get a chance to see the difference in monthly payments between buying and leasing. You will be able to determine which one would be best after you have driven the car for a few years.

When buying a car, a 20% down payment is recommended. The down payment will help protect your loan from going “upside down.” This happens when a car owner owes more on the loan than the car is worth. The major benefit of buying over leasing is that you will probably pay off the loan before the car stops working. Then you will be free of your monthly payments. At the end of your lease you may have an option to buy the car, but often you will end up paying more than you would have if you had just taken out a loan on the car from the beginning.

To make a good decision on whether leasing is better than buying, you have to compare the details of the loan and lease terms. Take your time and make sure you understand everything in the agreement you will be signing. Often a salesperson will get you interested with a great deal, then slip in something at the last minute that will increase the price you pay; don’t accept any last-minute changes to the deal. Sometimes a salesperson gets a bonus for persuading you to lease or to buy on the spot. Dealerships are full of highly trained salespeople who make more money when they get you to spend more. Don’t be afraid to ask questions and to get all details in writing.

What do lenders look for?

• **Steady income:** Lenders require a certain level of income each month to qualify.

• **Established residence:** Lenders feel more comfortable giving money to someone who has lived at their current address for more than six months.

• **Established employment:** Lenders prefer someone who has been at their current job for more than six months.

• **Credit history:** Lenders use credit scores as a quick way to judge whether you will pay the money back.

**Operation and Maintenance**

You got a good deal on a used car, but now you have to pay to fill up the gas tank. The size of your car will greatly affect how much you have to spend on gas. Since the price of fuel is constantly changing, estimating how much it will cost can be tricky. A good way to start is to figure out how many miles you have to drive in a week. Then calculate an average price for fuel based on prices over the past couple of months. That should allow you to make an estimate of your gas costs. If you have a long commute each morning, you will probably want to look for a car that is fuel efficient, or maybe even a hybrid (a car that can run partially on electricity).

Gas isn’t the only operating cost you’ll face: parking, oil changes, and repairs can add up to a lot more than you expect. If you haven’t factored these into the cost of your car, you won’t get very far. You should plan on having to replace your tires once every two to three years. At more than one hundred dollars a tire, that can be expensive, and wheel balancing
and alignment can send the bill even higher. Unexpected repairs can be damaging to a tight budget, so it is best to include an extra $200–$500 in your estimate to pay for at least one medium-sized repair each year. By factoring this into your operation and maintenance costs, you will be ready if anything should unexpectedly go wrong.

Summary

Having a car of your own can be more convenient than using public transportation. Being able to drive yourself to work or the grocery store can save time, but cars come with expenses that some teens may not have calculated. Insurance, repairs, and gas all add to the amount you will have to spend each month on car expenses. Account for these costs, so you won’t purchase a car that you can’t afford to maintain.

Once you have found the car you want, you will have to decide between getting a loan and taking out a lease. Both of these options have benefits and drawbacks; you should determine which is best for your situation. Getting the right car comes with many important choices. Take your time, and don’t let high-pressure salespeople talk you into something that is not right for you.

Key Terms

**APR**
This stands for annual percentage rate, which is a number calculated by taking into account the total cost of the loan, including what the borrower will pay in interest; this makes it easier to compare different loan offers.

**Coupe**
A car with two front seats and a smaller backseat for occasional passengers. It usually has two doors but sometimes has four.

**Collision Insurance**
This covers the car of the insured person and pays for repairs after an accident or cash compensation if the car can’t be repaired. This type of coverage is usually optional.

**Lease**
An agreement that gives one party the use of a commodity for a specified period of time and for a specified price.

**Liability Insurance**
This compensates an injured party up to a certain amount outlined in the policy statement. This type of insurance ensures you will be able to pay for any damages you cause.

**Loan**
An amount of money given to the borrower for a set period of time. After the set time has passed, the money must be paid back plus the lending fee, called interest. Payments are normally made over a series of months.

**Minivan**
A car that is designed for maximum passenger space. It has multiple rows of seats, but often doesn’t offer significant towing power or off-road capability.

**No-Fault Auto Insurance**
A system under which drivers must have coverage for their own protection. It also limits the damages for which an injured party can sue. Under this system, after an accident both parties would be covered by their own insurance policies. Only some states use this system.

**Sedan**
A common type of car that has two rows of seats and a trunk. It can have two doors or four doors, but the backseat should be able to seat adults comfortably.

**SUV (Sport Utility Vehicle)**
A car designed to have multiple rows of seats and significant towing power. Most also have the ability to drive off-road.
1. Write a short advertisement for the car (real or imaginary) of your dreams.

2. Briefly explain how you can use APR to find the best loan.

3. Why might it be better to buy a used car from a dealership instead of a private seller?

4. A gallon of gas costs $3.15. Your car goes twenty miles for every gallon. Each week you will drive to and from work five times, a seven-mile round trip. You will drive an extra twenty-five miles for non-work related activities. How much will you need to spend on gas in a month?
Lesson 5  Buying a Car

GOAL: Your goal is to buy the best car that you can afford and to figure out whether leasing or an outright purchase is more economical.

YOUR SITUATION: You have an apartment and a job that provides a steady income.

Part A
1) Review the Shop for a Car and Bank Statements sections of the tutorial.
2) Open the Buying a Car lesson.
3) Click Reports->Bank Statements and look at your last bank statement.

4) Calculate your ending balance minus your initial deposit ($3,000) plus your spending on bus tokens. Divide by three to find your monthly surplus of income over expenses (excluding transportation).

5) Click Actions->Spending, Credit & Debt->Shop for Car. Begin by checking off the least expensive car and clicking “Checkout & Pay”. Without changing the down payment, write down on Worksheet 1 the monthly payment if you buy the car and the monthly payment if you lease the car.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Name of Car</th>
<th>Monthly Loan Payment</th>
<th>Monthly Lease Cost</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

6) Repeat this process for every car you can purchase.

Continued
**QUESTION 5**: What is the most expensive car you can afford? Can you lease a more expensive car than you can buy?

A car with high mileage will be cheaper, but will cost more in maintenance, repair, and lost time at work.

A luxury car might help build your self esteem, but might not be any more dependable than a cheaper, less fancy model.

---

**Part B**

7) Consult your worksheet and compare leasing and buying a particular car.

**QUESTION 6**: What is the cost to lease the Coarser? What is the cost to buy the Coarser?

**QUESTION 7**: Ignoring maintenance cost, which has the lower monthly payment lease or purchase?

**QUESTION 8**: Assuming you renew your lease after two years for the same amount, how much would it cost you to lease the Coarser for 4 years?

**QUESTION 9**: Assuming the Coarser still runs after 3 years, how much would it cost you to own the Coarser for 4 years if you bought it? (Be sure to add in the down payment.) Hint: Your loan payments end after 3 years.

**QUESTION 10**: Repeat the last two steps to figure the cost of operating the Coarser over 5 years. How long does the car need to last before owning becomes cheaper than leasing?
Why Do We Shop?

Most of us don’t have cows in our backyard, but we still want milk. Much of what we need to survive, we can’t produce ourselves—we have to buy it. But when looking on the store shelves, you will see more than just basic necessities. Shopping can be fun, but it can also be one of your most important survival skills. Smart shopping can help you make the most of limited resources. After all, expensive shoes, video games, and makeup may be more fun to buy than a gallon of milk or a loaf of bread, but the shoes won’t help keep your bones strong and video games don’t make a very tasty sandwich.

To be a smart shopper, you need to understand the difference between needs and wants. It might help for you to think about the reasons why you buy what you do. Does something ever catch your eye that you simply must have? What is it that attracts you and makes you want to spend your hard-earned cash? Perhaps you want to express your personality? Or maybe you’re just having fun with your friends. Right now your parents probably do most of the household shopping, but it is important to remember that someone had to pay for that soda you are drinking and the steak you had for dinner last night. In your own apartment, no one will be buying your groceries if you don’t have the money. Although you might not recognize it now, providing for primary needs, like food, shelter, and clothing, is the main reason we shop.

After you’ve found an affordable place to live and have some money to spare, you can start to think about other needs that aren’t as immediate as food and shelter. A car, a computer, or a television can make an important contribution to your well-being. The car and computer might help you get a better job, or the television could help you unwind after a stressful day. Thinking of these purchases as secondary needs will help you keep everything in perspective. Each person has his or her own priorities. Considering the urgency of your needs will help you to make the most of tight funds.

Now, what about that new video game or dress you’re dying to have? If you can’t use it to benefit your everyday well-being, you should consider it a want. Be realistic when you examine your wants and needs. A new video game will make you happier while you sit down to play, but how can it improve your health? Or help you get a better job? The want category should include everything not essential for survival; but it does relate to those things you would normally consider needs. In the computer exercise at the end of the chapter you will have to make purchases on a limited budget. During this simulation, you will have to consider the effect your purchase will have on your standard of living. Standard of living describes the necessities and comforts you need to maintain your daily life. It also includes those necessities and comforts you aspire to have. By the end of the simulation you will see how luxury items compare to the basics.
So Many Options, How Do You Choose?

Once you know what you need and want, how do you decide what to buy? Marketing and advertising executives try their best to make us desire what they’re selling, but their campaigns aren’t the only factor in our final decision. For most of us the biggest pressure is economic; that is, how much we can spend for whatever we need or want. Chances are you have felt some economic pressure if you don’t have a lot of your own money, or your parents aren’t eager to hand over much of theirs.

For many, economics can’t outweigh personal and social factors. Think about how you chose what clothes you would wear today. What made you choose the shirt you are wearing over the one you left hanging on the rack? Wanting to express yourself as an individual can be a big part of the choices you make; the clothes you wear and the accessories you carry can say a lot about who you are to a person you’ve just met. Making choices to express your individuality demonstrates personal influences. In other instances, social influences can take a larger role. Then you might want to express yourself as a member of a group, and you might make different choices that will tell the world, “Hey, I’m with them!” The balance of all three of these influences will be different for everyone, and you will get a chance to test your own as you make purchases in the computer simulation. The balance of these influences will probably change from day to day, because most people see themselves as unique individuals, but also identify with some group trends. Understanding the importance of each factor will help you make tough choices and also to avoid impulsive decision making.

Research Your Purchase, Not Just Your Paper

The best way to avoid impulsive buying is always to do research before you make a purchase. Don’t worry; you won’t need a works cited page. In fact, getting to see all your possibilities can be one of the most fun parts of shopping.

One great way to research a product is by comparison shopping, but we will talk more about that later. Another is to look for expert and customer reviews. Everyone has an opinion! And getting a wide range of opinions can really help you narrow down what you want from your intended purchase. Consumer Reports and other magazines offer reviews of almost anything you could think to buy. Many of them have editions online that are more easily searchable, but often you have to subscribe, so don’t purchase impulsively. Copies are frequently available for free at the library, and the computer at the library may be able to offer you free access to material that is for subscribers only. You can also find product reviews from customers and experts on many store Web sites, but do keep in mind that the information is coming from a biased source. It is best to do some research online before going out to see the product for yourself. But make sure to get your hands on it before you order, if you can. Most apparel needs to be tried on to find the right size, and it is good to examine everything with your own eyes. As you know, pictures can be deceiving.
Become a Comparison Shopper

Whether you are researching online or in the store, make sure you consider all your options before making your choice. At the start, examine a range of prices. Then, see if you can tell why one costs more than another. Ask yourself how the purchase will affect your life. That should help you personally decide the purchase’s value. The value should relate to the needs that we talked about before. Use this value judgment to guide you while comparison shopping. After you have examined all the possibilities, narrow them down to four different options. Then you can try to evaluate their benefits and drawbacks objectively. During the computer simulation you will have a chance to practice comparing prices. Keep in mind that most stores run sales periodically. Once you have your choices narrowed down, a store associate can be helpful. They spend a lot of time dealing with the product you would like to purchase, and they often have their own opinions about them. Since they may work on commission, be careful not to let them talk you into anything too expensive; but if you are honest with them about your budget they will usually try to help you find the best deal. The most important thing to remember about comparison shopping is to take your time.

Agencies that Protect Consumers

What if you’ve already made your choice and the product unexpectedly breaks? Sometimes it is as simple as returning it to the store, but if not, there are government agencies that can help you warn others about dangerous products. They can also protect you from being taken advantage of. The Federal Trade Commission (FTC) develops and enforces rules that protect consumers through the Bureau of Consumer Protection. It also educates consumers and businesses about their rights and responsibilities. We will talk about those in more detail in a moment. Any complaints of fraud or identity theft should be reported to the FTC. Another organization, the Consumer Product Safety Commission, also helps protect the public from dangerous products by regulating safety standards and issuing recalls of products found to be unsafe. Their Web site provides a place to report complaints about dangerous products, and a listing of all products that have been recalled.

One organization you might be more familiar with is the Food and Drug Administration. They make sure the medicine we take and the food we eat is safe for our consumption. They also oversee cosmetics and any product that gives off radiation. These three are the main government organizations that protect consumers. In addition to these, there are several government-sponsored Web sites that also deal with the consumer issues covered by the main agencies. The Federal Consumer Information Center is the most comprehensive site. It includes a Consumer Information Catalogue that you can search online. A thorough listing of government agencies and web sites can be found at www.Consumer.gov. The Better Business Bureau is another great resource for information or to report problems. It is a nonprofit organization seeking to build trust among buyers and sellers and has divisions in each state.
Before You Go Shopping, Know Your Rights

Being aware of your rights and responsibilities as a consumer can keep you from being lured into a bad deal. Before we get to those, it is important to have a basic understanding about contracts. Contracts are agreements between buyers and sellers. Both oral and written contracts are legally binding, but a written document can save a lot of trouble if disagreement arises. Purchases over $500 require written contracts in most cases. Each time you buy something, even if it is a cup of coffee, you are making an agreement with the seller. Often these day-to-day contracts don’t leave room for negotiation, but they still give you the same basic rights as the contract you make when buying a car. A written contract should outline your rights in detail, but there are a few basic rights that can guide you. First, you don’t have to pay if you don’t receive the item. Second, you get to inspect goods prior to paying for them. If you hire someone to inspect them for you, you must pay the inspection fee. Third, you have the right to return defective or unsuitable purchases within a reasonable time frame. Most stores have very specific return and exchange policies. These are part of the agreement you are making with the seller when you complete your transaction, so make

November 13, 2008

Angela Smith
123 Home Rd.
Townville, MD 55505
Acct #: 5000000500005000

Credit Plus
Billing Inquiries
456 Business Blvd.
Townville, MD 55505

Dear Sir or Madam:

I am writing to dispute a billing error in the amount of $319.50 on my account. The amount is inaccurate because the merchandise I ordered was not delivered. I ordered the merchandise on September 3, 2008. The merchant promised to deliver the merchandise to me on September 10, 2008, and the merchandise was not delivered.

I am requesting that the error be corrected, that any finance and other charges related to the disputed amount be credited to my account, and that I receive an accurate statement.

Enclosed is a copy of the letter I sent on September 12, 2008, informing the seller that I did not receive the goods in the agreed-upon time and to cancel the order. Please correct the billing error promptly.

Sincerely,

Angela Smith
Enclosures: letter to seller
sure you read and understand them. If you receive a charge for merchandise you never received, you have the right to dispute it. The sample letter on the previous page shows the best way to get the dispute documented.

With rights come responsibilities: one of your most important responsibilities is to read and understand the warranty. The warranty is the manufacturer’s agreement to fix or replace your product if something goes wrong. It might only cover certain parts for a limited period of time, or be canceled if the product is used incorrectly. That is why you must read your warranty statement very carefully. It is also your responsibility to keep all papers that come with your purchase; this includes contracts, sales receipts, canceled checks, owner’s manuals, and warranty documents. Make sure that you get a receipt for every purchase, and keep it in a safe place in case you need it later. Knowledge is power, and if you know your rights and responsibilities you can protect yourself from high-pressure sales tactics.

Summary

Shopping is a part of life. Separating your needs from your wants can keep you from overspending and ruining your budget. Research and comparison shopping can help you become an informed consumer.

You have rights as a consumer that come from your contract with the seller. This also gives you some responsibilities; be aware of both so you can protect yourself. If you have problems with a dangerous product, report it. Government Web sites have many resources to help you stay informed.

Key Terms

**Comparison Shopping**
Looking for the same product in multiple stores to find the best price, or to find the best product.

**Contract**
An agreement between a buyer and a seller.

**Primary Need**
Something that you must have to live from day to day, like food, shelter, and clothing.

**Recall**
The voluntary or involuntary removal of a dangerous product from the market.

**Secondary Need**
Something that can help you improve your day to day life, like a computer, car, or television.

**Value**
What you think the purchase is worth to you personally, taking into consideration how it will help to improve your life.

**Want**
Something that won’t help you live from day-to-day, like jewelry, video games, and soda. Once you have met your primary and secondary needs, you can try to make room for some of these things in your budget.

**Warranty**
The seller’s promise to fix or replace the product if something goes wrong.
1. Try to remember all the purchases you have made with your own money in the last week. Write them down and note which ones are needs and which are wants.

2. You are about to buy two pairs of shoes. You have the option of getting a 40% discount on the second pair of shoes or getting a $20.00 mail-in rebate on the second pair. Which is the better option? The second pair of shoes costs $60.00.

3. Name two places at which you can check recall notices and report defective products.

4. What guarantees your rights as a consumer?
GOAL: Your goal is to buy things that will improve your health—as you can afford them, at the lowest price you can find. Specifically, you want your health levels all “green” by April 1, 2010.

YOUR SITUATION: There are some products you could really use to improve your life. You will also need to buy bus tokens and food as you go. Pay with your debit card.

GOOD NEWS: Even though your health is “yellow,” you won’t actually get sick. Your rent and electric bills will be paid automatically. $323.50 will be taken from your checking account (on the 2nd of every month). You can monitor the balance in your checking account by clicking the “Wealth” button.

Part A

1) Review the Shop for Goods, Shop for Food, Buy Bus Tokens, Schedule, and Pay Bills sections of the tutorial.
2) Open the Shopping lesson.
3) Load Sim1.
4) Click on the “Health” button.

5) Click on each of the department stores in town. Fill in the first three columns of Worksheet 1.

WORKSHEET 1

<table>
<thead>
<tr>
<th></th>
<th>Anne’s</th>
<th>Lawrence’s</th>
<th>Francis’s</th>
<th>Actual Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bed (Easy Sleeping Bed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treadmill</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Living Room Set (Basic Gray)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

QUESTION 1: How is your health? Does it need improving?

HINT: Some product purchases may help you improve your health. A bed will help sleep; a treadmill will help exercise; a living room set and TV will help relaxation. Unfortunately your budget is very tight.

QUESTION 2: Does it make sense to purchase everything at the same store? Why?

6) The department stores run periodic sales that are announced in your message window. Run the simulation trying to buy a bed, a treadmill, a TV, and a living room set at the lowest prices possible before April 1, 2010. Pay with your debit card. Fill in your actual purchase amount on Worksheet 1.
It makes sense to wait for a sale if you can. When you are on a tight budget, every dollar counts.

**Part B**

7) Load the **Shopping** lesson and choose Sim2. You now have some extra money and good health. You also have a lot of food and bus tokens.

8) Go out and buy a fancy designer bed using your debit card. Try altering your schedule to spend two hours less time sleeping on weekdays and weekends. Run the sim out another week.

9) Check your health.

**QUESTION 3:** Did it make sense to wait for a sale before purchasing? How much did you save?

**QUESTION 4:** What was your total spent on the items in the worksheet? Were you able to get your health factors all green?

**QUESTION 5:** Is sleep still green? Why?
Marquis looked up in the sky to see the signs the planes were towing. It was his first day on campus as a freshman at State U. All around him students were walking toward the big welcome party on the oval. Now he could read the signs: “Free Checking–Earn Rewards.” Another one said “EZ Check Cashing.”

He could smell burgers being grilled. Walking up to the booth, he found a very pretty young woman handing out a free lunch to everyone who applied for a credit card. Marquis was just 18 and a student. He wondered, why were so many companies trying to give him credit and banking services?

**Here’s what to look for when shopping for a checking account.**

- **Minimum balance:** Find out what minimum balance the account must have, and what happens if your account falls below that minimum balance.
- **Fees:** Does the account cost a monthly fee? A cost per check? A cost per online transaction?
- **Overdraft Fees:** How much does the bank charge, per check, for overdrawn balance?
- **Interest:** Does the checking account pay you interest on your balance?
- **Location:** Is there a branch and an ATM close to you?

**Banking ABCs**

Banks provide traditional banking services such as checking accounts, student loans, and ATMs. Banks will cash checks for no fee if you are a customer. In the computer exercise of the lesson, you will see that check cashing services charge money for this. Will you pay a fee to get money from an ATM not owned by your bank? Check it out before you open your account.

While you can’t get your own checking account or credit card until you are 18, you can get these from a bank if you get a joint account with a parent. Once you are 18, the parent can be removed from the account, and you will hold it on your own.

Often banks where you and your family have other accounts will give you a better deal. For example, if you need to cash a paycheck for $300 and you only have $200 currently in your account, you can only draw $200. But if your family has money deposited beyond what you want to cash, the teller can waive, or disregard, that rule.

**Main Idea**

Your checking account is the way you pay bills and save money. It is essential to plan ahead for money needs. Don’t get stuck in a payday loan trap!

**After completing this lesson you will be able to:**

- fill out a checking account application
- write a check
- record a check and a debit in a checking account register
- figure out the real cost of short-term loans

**Key Terms**

- ATM
- Balancing a Checking Account
- Bank
- Bank Statement
- Basic Checking Account
- Check
- Check Cashing Service
- Check Register
- Debit Card
- Direct Deposit
- Fees
- Interest-Bearing Checking Account
- Overdrafts
- Payday Loan
What Is a Credit Union?

A bank is different from a credit union in that a bank is open to the public, while a credit union takes customers only from member groups. Your parents’ workplaces, charity group affiliation, or even your college may entitle you to credit union membership. Generally, credit unions perform the same functions as banks.

Checking Accounts for Newbies

You’ve gotten your first checking account. You earn 5% on your balance as long as you stay above $200. You are excited to have gotten such a good deal. Now you are at the university bookstore buying your textbooks. You make it to the front of the line, and you have your checkbook out. Suddenly you realize you have no idea how to write a check.

The cashier helps you. She has you write the date on the “Date” line, and the business name, University Bookstore, on the “Pay to the order of” line. She tells you to write the amount of the check in dollars and cents inside the little box. “Always squeeze the numbers to the left of the box so the number is right next to the dollar sign,” she says.

The long line with “Dollars” written next to it, what could that be for? The cashier helps you out again. “Spell out the numbers in the amount on the line, and use the word ‘hundredths’ after the amount of cents,” she says. “Don’t forget to sign your name on the line in the bottom right corner.”

Points, Rewards, and Free Stuff

The spending habits you make now will be with you your whole life. Banks and credit card companies know this, and they want to get you hooked on the thrill of buying new stuff.

If you get a “Rewards” credit or debit card that gives you points based on dollars spent or transactions made, you are likely to feel you are getting something for nothing every time you swipe your card. That little buzz could get you hooked into a revolving credit lifestyle!

Instead, pay yourself “points” by saving your money every time you
hear yourself think, “I’ll buy this to earn more rewards.”

**How Do I Open a Checking Account?**

Opening a checking account is as easy as going into a bank with money. Usually, a bank officer will sit across the desk from you and type in your information to open the account. They will need your address, both to be printed on your checks and for shipping your checks once they are printed. They will need your Social Security Number and money to deposit. You can use your first paycheck to open your account, or your parents can write you a check to open the account. Opening amounts vary, but can be as little as $50.

**Checking Account Options**

Checking accounts can come with or without interest paid on the balance by the bank. Checking accounts may or may not have a monthly fee. They may have an overdraft fee, and there may be an option of overdraft protection on the account. Overdraft protection is like a credit card that you don’t use until your checking account gets a negative balance. There can be a monthly or annual cost to have overdraft protection, in addition to the interest charged to you for all money borrowed this way.

You will have to watch your own usage to find out the best deal for you. If you always keep your checking account balance above a certain level that is comfortable for you, then interest-bearing or free checking is probably right for you. If you seem to skate close to the bottom of your account, it would probably be worth it to apply for overdraft protection.

**Balancing Your Checkbook**

Every month, it is essential to balance your checkbook when you get your statement in the mail from your bank. Why? Banks can make mistakes. A teller can mistype numbers in the amount of a deposit, and an automatic check reader can misread a number in a check you wrote. The only way to find these errors is to check off each check you wrote against the corresponding amount on the bank statement. Then do the same thing for every deposit you made, and again for each ATM withdrawal.

The bank statement will have items that are not in your check register, and you should write these down. Such items as bank fees, overdraft charges, and interest charges should be written in the register column where you write your check amounts. Interest paid to you should be written in the register column where you write deposits.

To balance your checkbook, take the Ending Account Balance from your bank statement, usually at the top. You will subtract any checks in your check register that have not been marked as cleared. Add any deposits that have not been marked as cleared. This amount, then, should match your balance for the end of the month in your check register. If there’s a difference, it should be the adjustments for the items that were on the bank statement (and not in your check register) such as interest and bank charges. If you correct for these and the balance still does not match up, you can always get help from your bank branch. They will reconcile your statement for you,
when you have a checking account you will receive a bank statement at the end of every month. your bank statement is a record of all the activity in your checking account such as deposits, withdrawals, debit card transactions, and fees.

and if they have made an error, they will fix it right away.

the end of the world (or, i bounced a check—now what?)

bouncing a check is an inconvenience, and a costly one. not only do you have to pay an overdraft charge for every overdrawn item, but your bank also has the choice to either honor or reject a check that sends your account into negative territory. if they bounce the check, you will probably have to pay a fee to the business to whom you originally wrote the check, and have them resubmit the check for payment. make sure you have enough money in your account to cover the resubmitted check, or you could end up paying the overdraft charge twice for the same check! no fun.

atm cards and electronic banking

most checking accounts come with the option of having either an atm check card or an atm debit card. an atm check card can be used only to withdraw money from your account using an atm. an atm debit card, in addition to allowing atm withdrawals and deposits, will allow you to purchase items in a store with the purchase amount being from your account.

the risk of an atm debit card is that a bank will allow you to overdraw your account. you may think your account is fine because a transaction went through, when actually your account is overdrawn, and every transaction is costing you a new overdraft charge! an atm check card will not allow you to withdraw more money than is in your account.
Electronic banking means you can check your account balance online, as well as any cleared transactions. You can also see images of checks that have cleared. Banks used to send you the actual check you wrote with your monthly statement, but now they simply scan the image of the check and make it available online for you to view. This feature allows you to read any check you may have forgotten to note in your checking account register.

Summary

Banks and credit card companies want young people as customers because it is likely they will stay with that bank for a lifetime. Opportunities are everywhere to spend money, but saving it can be more of a challenge and takes real ingenuity. One way to save money is not to spend it on service fees and overdraft charges. Another way is only to buy what you actually need, and never buy something just to earn “points” or “rewards” on your purchases.

Balancing a checkbook is an important monthly task, and it is also a good idea to check your balance online weekly. Bouncing a check has happened to everyone at one time or another, but it should be a wake-up call to take steps never to let it happen again. Even planning ahead by having your paycheck directly deposited and avoiding check cashing services for a fee can help you save money.

Key Terms

**ATM**
Automatic Teller Machine—a bank machine that gives out cash from your account and accepts deposits around the clock.

**Balancing a Checking Account**
Calculations that are made to determine the difference between the payments from, and the deposits to, a checking account.

**Bank**
Financial institution at which you can get a checking account or savings account.

**Bank Statement**
Monthly printout from your bank that shows all transactions in your accounts.

**Basic Checking Account**
A no-frills checking account that offers a low minimum opening deposit and reduced fees for students.

**Check**
A debit against your checking account written on a paper form.

**Check Cashing Service**
Business that charges a fee to cash a check such as a paycheck. Banks will provide this service for free to their customers.

**Check Register**
The book in which you keep records of checks, deposits, debit card transactions, and ATM withdrawals.

**Debit Card**
Like a credit card, but directly attached to a checking account, and can be used with a PIN to pay for items at a store.

**Direct Deposit**
An automatic deposit of a paycheck without having to take a physical check to the bank.

**Fees**
Service fees for use of the checking account, built into the service agreement.

**Interest-Bearing Checking Account**
A checking account that pays interest on the balance.

**Overdrafts**
Amounts withdrawn from your account beyond the money the account held.

**Payday Loan**
A loan where a borrower gets a cash advanced based on his paycheck. These loans generally must be repaid on the next payday.
WRITTEN EXERCISES: 

Choosing and Balancing a Checking Account

1. Emeril is looking at two checking accounts. Checking account A charges $4 per ATM transaction on the ATM closest to where Emeril will be buying his lunch at the Student Union. Checking account B does not charge any ATM fees, but charges $.10 per check, plus a $.10 per check printing fee. Tell the plusses and minuses of each account, and say which one you would choose. Estimate how many times you would write checks, and how many times you would use the ATM.

2. Lily would need $200 to pay off her credit card for the month. She is considering borrowing money from a payday loan company, which will cost her $15 for each $100 she borrows, to be paid back in two weeks, when she gets her paycheck. Or, she can pay her minimum payment of $20 to the credit card company, but have to pay interest on the remaining balance. Her interest rate would be 17.5% APR (annual percentage rate). She knows she must divide the APR by 12 to get the percentage the credit card company will charge for interest for the month. Which option would cost Lily more money?

3. If a payday loan company charges $15 per $100 every two weeks, how would this compare to a credit card APR?

4. Collect information on checking accounts available to students who are at least 18 years old from three banks you know. Make a poster comparing the checking accounts.
GOAL: Your goal is to find the best checking account in town, then to balance your checkbook after making several transactions.

YOUR SITUATION: You’ve got an apartment and a job. You walk to work. You’re being paid by check each Friday.

GOOD NEWS: It’s Saturday and you just got paid on Friday!

Part A

1) Review the Open Checking Account, Change Method of Payment, Check Register, Shop for Food, Pay and Tax Records, Pay Bills, Bank Statements, and Deposit Funds sections of the tutorial.

2) Open the Choosing and Balancing a Checking Account lesson.

3) In the Apartment View, look on your desk and click on the small object. (It’s a paycheck from your job.) Click on the check.

4) Click “GO” to cash the check.

5) Switch to the City View, and browse over each bank. Use the information about each checking account to fill out Worksheet 1 comparing account offerings.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Monthly Fee</th>
<th>Daily Balance to Waive Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

QUESTION 1: How much were you charged to cash your check without a checking account?

6) Click on the bank with the best checking account and open an account, depositing all your cash ($1,174.92).

The check register gives you a place to record checks, debit card transactions, deposits, and more. It is very important to check your register against your bank statement at the end of every month.
7) Click the “Schedule” button and click the green “Work” box. Click “Payment” and choose “Direct Deposit”. This will deposit your pay directly into your checking account. Close the Schedule Window.

**Part B**

8) Now you will “balance your checking account.” Click Reports->Check Register and enter the amount of your initial deposit under DEPOSIT/CREDIT and BALANCE. Close the screen when you are done.

9) You have food for 16 meals now, so purchase 42 meals by clicking Actions->Spending & Credit->Shop for Food. Pay with your debit card. This will get you through about a month.

10) Click Reports->Check Register and enter the amount of your debit card purchase on a new line under PAYMENT/DEBIT. Compute the new balance and enter it in BALANCE.

11) Run the sim one week at a time, stopping on Saturdays. On each Saturday, click Reports->Check Register and enter in your weekly take-home pay in your check register under DEPOSIT/CREDIT. To find your weekly take home pay, check Reports->Pay & Tax Records for your pay stub. Enter new balances as you go.

12) Stop the sim on January 28 and click Actions->Money Management->Pay Bills and pay all your bills by CHECK.

13) Record all your checks in your check register and compute and enter balances after each entry.

14) Run the sim to February 1, and click Reports->Bank Statements. Use Worksheet 2 to reconcile your checkbook and your recent account statement.

**Worksheet 2**

<table>
<thead>
<tr>
<th>Bank Reconciliation Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date __________________________</td>
</tr>
<tr>
<td>Closing balance shown on statement $__________</td>
</tr>
<tr>
<td>Add deposits not credited $__________</td>
</tr>
<tr>
<td>TOTAL DEPOSITS NOT CREDITED $__________</td>
</tr>
<tr>
<td>Subtotal $__________</td>
</tr>
<tr>
<td>Subtract outstanding checks</td>
</tr>
<tr>
<td>Check No. $__________</td>
</tr>
<tr>
<td>Check No. $__________</td>
</tr>
<tr>
<td>TOTAL OUTSTANDING CHECKS $__________</td>
</tr>
<tr>
<td>Adjusted balance per bank statement $__________</td>
</tr>
<tr>
<td>Balance shown in checkbook $__________</td>
</tr>
</tbody>
</table>

**NOTE:** Any time you make an entry in the check register, be sure to include the date and a description of the transaction.
What Is Credit?

You just found the perfect jacket at your favorite clothing store. It looks great on you, so you’d like to buy it and wear it right now. Unfortunately, the jacket costs $99.95, and you have only $48 to cover all your expenses until your next payday.

You could wait until you have more cash and hope the jacket is still available. You could also use credit: buy the jacket now and pay for it later. That sounds perfect! But wait; it’s not that simple.

When you buy on credit, someone—the store or maybe a bank—loans you money. You become a borrower, or debtor, and the business or bank becomes the lender, or creditor. The creditor will expect you to pay the principal—in this case, $99.95 for the jacket. Plus, you will need to pay interest—a preset percent of the purchase amount—as the monetary price for the use of the money.

What Is a Credit Card?

For creditors, a credit card is a convenient way to loan money for everyday consumer purchases, such as clothing, gasoline, or restaurant meals. For consumers, “plastic” is also very convenient: just swipe the card at a checkout line, and pay for everything on one monthly bill.

Credit or Debit—What’s the Difference?

Credit cards and debit cards often look the same. Both can carry the familiar Visa, MasterCard, or similar logos. You can use both of them in the same way when making a purchase. So does it really matter which type of card you use?

Despite their similar appearance, credit cards and debit cards work in very different ways. When you use a credit card, you are borrowing money to
make your purchase. You’ll receive a bill later, and if you can’t pay the full amount of your purchase by the due date, you’ll be charged interest on the loan.

A debit card provides a way to use your checking account. It’s like writing a check, only faster. When you use a debit card, your bank will debit, or subtract, the purchase amount from your account. (To confuse matters, sometimes your debit card company will encourage you to press the “Credit” button instead of “Debit” after you swipe the card. The card itself is what’s important, not the button.)

Are you buying a new laptop computer? If you pay for it with your debit card, the purchase price will be deducted immediately, so be certain you have funds in your checking account to cover the full purchase price. You might use a credit card instead to give yourself more flexibility. On the other hand, you might prefer to “pay as you go” with a debit card for purchases such as pizza. Otherwise, you’d be using credit to pay for something that would be gone before the bill arrives!

Credit cards and debit cards may be nearly identical, but they behave very differently. Both can be useful tools if you understand how they work.

What Are the Pros and Cons of Using Credit?

Credit cards let you buy things you can’t otherwise afford. That can be fun for a while, but not when you realize you’re deep in debt. So why do most people carry credit cards?

• Credit can be a big help in an emergency. If you’re facing a large, unexpected expense that is more than you can cover with your checking or savings accounts, a credit card can give you more time to pay.

• Credit cards are useful for making purchases online or over the phone.

• Responsible use of a credit card helps you establish a good credit history, which can help you in many ways in the future, such as in getting a job you want or a good deal on a car loan.

• If you pay your credit card bill in full every month, you can avoid finance charges. In effect, you can borrow money (if only for a short time) for free!

• Most importantly, credit cards are convenient. You can buy what you want without the need to carry around large amounts of cash.

Convenience can sometimes carry a price, however. Using credit has disadvantages, such as:

• It’s easy—really easy—to buy more than you can afford.

• Interest rates on credit cards are usually high, especially for young people who haven’t yet established a good credit history. If you don’t pay your bill in full each month, then you actually have a high-interest loan.
• Credit card companies allow you to make a small minimum payment each month, but beware! If you regularly make only the minimum payment, your balance can continue to grow, even if you don’t put any new charges on the bill. Using a credit card and making only minimum payments is like digging yourself into a very deep financial hole. Later you’ll be able to work through the computer exercise to see how this can happen.

How Do I Get a Credit Card?

Applications for credit cards are easy to find. Most people get plenty of them in the mail every week. Be smart and know that important information about the cards is buried in the fine print, and the terms may not be the best for you. You’ll do better if you learn the differences between credit card offers and think about how you plan to use your card. Then, go shopping for a card that meets your needs.

Credit cards are available from banks, credit unions, and many businesses. Magazines such as *Consumer Reports* list cards and compare their terms and features. Information is also available at Web sites such as www.CardWeb.com, where you can narrow your search, for example, to cards with low interest rates or no annual fees.

Do Credit Card Offers Differ?

Whenever you apply for credit, make sure you understand the terms. Fortunately, the federal government requires credit card companies to disclose their terms in a box somewhere on the application. One of the most important terms is how much interest you’ll be expected to pay. The interest rate on a credit card is expressed as APR, or Annual Percentage Rate. You can use this APR information to compare credit card offers.

Many cards are advertised with a very low APR—but read the disclosure box before you apply. That low rate is probably an “introductory rate” that is in effect for just a few months or even less. After the introductory period, the APR will increase. The disclosure box will tell you how long the introductory rate will be in effect and what the rate will be afterward.

APR is important, but a low APR may not be what is most important to you. For example, if you’re certain that you will avoid finance charges by paying off your bill in full every month, you might want to consider only cards that don’t assess an annual fee on your bill, even if the APR is higher.

What Happens if I Don’t Pay Off My Balance?

Your monthly credit card statement will look something like the one on the following page. It will include all the purchases you charged to the card during the month, as well as any fees or finance charges. The bill will show the total amount you owe, plus the minimum payment you must make that month to remain in good standing with the creditor.

In the computer simulation, you’ll go on a spending spree with your credit card and make only the minimum monthly payment. You’ll be
able to see just how quickly your bill gets out of control—and you’ll better understand a common way that many people get into financial trouble!

What Should I Do if My Credit Card Is Stolen?

If you can’t find your credit card, call the card issuer right away; the phone number should be on your monthly statement. Keep a record of important dates and times, such as when you first noticed your card was missing and when you reported it.

To keep thieves from using your card, the company will cancel it and send you a new one. After you report your card missing or stolen, you will

![Credit Card Statement](image)

When you have a credit card, you receive a monthly statement that includes all your purchases for the month. It also lists your previous balance, new balance, credit limit, available credit, and minimum payment due.
need to check your next statement carefully for unauthorized charges on your account. If you find any, report them promptly to the card issuer. You will probably be asked to fill out a written report for each charge that you did not authorize.

If a thief has gone on a shopping spree with your card, don’t worry. By law, you cannot be held responsible for more than $50 worth of unauthorized charges, and many credit card companies will remove all of the fraudulent charges from your bill. That protection is one of the advantages of using a credit card!

**Summary**

A credit card gives you a convenient and safe way to make purchases. When you use it, you are borrowing money. You must pay the monthly bill, which may include finance charges, fees, and purchases. If you use credit cards to buy more than you can really afford, the debt can grow larger than you can manage. Understand the terms used in credit card offers so that you can get a credit card that meets your needs. Then use it responsibly by charging only what you know you can pay.

---

**Key Terms**

<table>
<thead>
<tr>
<th>APR</th>
<th>Annual Percentage Rate, or the interest rate that the user of a credit card will pay. The APR advertised by creditors varies and should be used to compare different credit card offers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Making purchases now and paying for them later (also known as borrowing!).</td>
</tr>
<tr>
<td>Credit Card</td>
<td>A plastic card used to make purchases now and pay for them later.</td>
</tr>
<tr>
<td>Creditor</td>
<td>Any bank or business that extends credit to others; a lender.</td>
</tr>
<tr>
<td>Debtor</td>
<td>Anyone who owes money; a borrower.</td>
</tr>
<tr>
<td>Finance Charge</td>
<td>A fee for borrowing money, added to a monthly credit card bill.</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>The fee, expressed as a percentage, a borrower owes for the use of a creditor’s money. At an interest rate of 10%, a borrower would pay $110 for $100 borrowed.</td>
</tr>
<tr>
<td>Introductory Rate</td>
<td>A temporary interest rate, advertised as a low APR to entice customers to apply for a credit card. After the introductory period, the interest rate will increase to the regular APR.</td>
</tr>
<tr>
<td>Late Fees</td>
<td>Additional fees that can be added to a credit card bill if the card holder fails to make at least the minimum payment by the due date.</td>
</tr>
<tr>
<td>Minimum Payment</td>
<td>The smallest required payment that a credit card holder can pay on a monthly bill and still remain in good standing with the lender.</td>
</tr>
<tr>
<td>Principal</td>
<td>The amount of money borrowed. On a credit card bill, the principal is the purchase price of all items bought with the card.</td>
</tr>
</tbody>
</table>
1. Define the following terms: creditor, debtor, interest, and principal.

2. Make a poster that shows how a debit card and a credit card are the same and how they are different.

3. Explain why you might not choose a credit card offering the lowest APR.

4. Your sister just got her first credit card. She wants to use it to buy a $400 designer dress, figuring she can afford it by making just the minimum payment every month. How could you convince her that this is not the best idea?
Lesson 8
Getting a Credit Card

GOAL: Your goal is to select the best credit card offer and to discover how your payment habits affect the fees and finance charges you incur.

YOUR SITUATION: You have an apartment and a steady job, but you could sure use some stuff for your apartment.

GOOD NEWS: You have all the food you need. Your rent and electric bills will be paid automatically.

1) Review the Credit Cards, Credit Card Statements, and Pay Bills sections of the tutorial.

2) Open the Getting a Credit Card lesson.

3) In the City View, click on each of the three banks and select “Apply for Credit Card”. Use the information to fill in Worksheet 1. Click “No” before accepting any offer.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>APR</th>
<th>Credit Limit</th>
<th>Late Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

QUESTION 1: Compare the three offers. Which is the best and why?

Your credit card statement will tell you your credit limit, available credit, and minimum payment due.

All activity for the month will be listed on your credit card statement including purchases, late fees, and finance charges.

Continued
4) Click on the bank with the best offer and accept the credit card.

5) In the City View, click on the department store closest to the top of the screen and purchase the Easy sleeping bed for $688. Pay with your new credit card.

6) Using Options->Run To, run the simulation to February 2, 2010. Click Actions->Money Management-> Pay Bills. Find your credit card bill. Pay off the entire current balance using a check. IMPORTANT: Be sure to change the check amount from $6.88 to the full payment of $687.91.

7) Now, use Options->Run To to run the sim to March 2, 2010. Click Actions->Money Management->Pay Bills. Find your credit card bill. You do not need to pay this bill because the balance is zero.

**QUESTION 2:**

What is your credit limit?

The minimum payment?

Finance charges for the month?

Any fees for the month?

Your current credit card balance?

8) Now you’re going to go on a spending spree. (Don’t try this at home!) Click on a department store and spend as much as you can with your current credit card.

9) Using Options->Run To, run the simulation to April 2, 2010. Click Actions->Money Management->Pay Bills. Find your credit card bill. Find the minimum payment and pay this amount by check.

10) Using Options-> Run To, run the simulation to May 2, 2010. Click Actions->Money Management->Pay Bills. Find your credit card bill.

**QUESTION 3:** What were the finance charges for the month?

**QUESTION 4:** Compare the previous balance with the new balance. Did your balance go down or up?


**QUESTION 5:** What were the finance charges for the month? Were there any fees for the month?

**QUESTION 6:** Discuss how credit card debt can grow even without making new charges on the card.
Someday (maybe even today) you will want a car. Like almost everyone else, you will need a loan to pay for it, and you will need insurance to protect the car in case of an accident. Did you know that the interest rate of your loan, and even the amount you pay for insurance, will depend on your credit history? Well, how are you supposed to have a credit history if you can’t even get a credit card until you are 18 years old?

Here’s how you can build up a credit history.

- **Social security number:** If you do not already have one, apply right away. Contact the Social Security Administration online at www.ssa.gov.

- **Savings account:** Do you have a savings account with your local bank? Open one, and be sure to use your Social Security Number.

- **Paycheck:** Whether it’s a newspaper route or a part-time job at a dog grooming business, a regular paycheck can establish that you are a good credit risk.

All of this information is typed into computers, saved, filed, shared, and finally combined into your credit report.
What is a Credit Report?

A credit report is a summary of all of your money history, from savings accounts to loans to credit card payments. If you’re like most teens, your credit report is pretty empty. Maybe you have a savings account, but you probably have no history of anyone ever lending you money or giving you a credit card.

Even so, it is probably a good idea for you to order your credit report once a year. The three credit reporting companies, Experian, Equifax, and TransUnion, with each provide you with a free credit report once a year that you should order to protect yourself from identity theft. But we’ll talk more about that later. Meanwhile, what does a credit report look like?

Sample Credit Report

Angel P Teen
Your report number is: 1234567890
Report date: 7/20/2007

POTENTIALLY NEGATIVE ITEMS
None

CREDIT ITEMS

Bank of the East
1123 East Street, East, Pennsylvania 20000
Status: Paid Date Opened: 4/2006 Type: Installment
Credit Limit: $425 Reported Since: 5/2006 Terms: 12 Months
High Balance: NA Date of Status: 6/2007 Monthly Payment: $0
Recent Balance: $0 as of 6/2007

Wild West Credit Bank
159 Rock Place Little Rock, AR 30000
Account Number: 
Date Opened: 4/2000 Type: Credit Card Credit Limit: $1000
Account History:
60 days as of 6/2000
30 days as of 5/2000
Accounts in Good Standing

REQUESTS FOR YOUR CREDIT HISTORY

Wild West Credit Bank Date of Request: 3/2000
159 Rock Place Little Rock, AR 30000

Bank of the East Date of Request: 3/2006
1123 East Street East, Pennsylvania 20000

Personal Information
Names: Angel P Teen
Address: 123 West Street, East, Pennsylvania
Type of Residence: Single family
Social Security number variations: 111-11-1111
Year of birth: 1990

Most banks have savings accounts for people of any age. Many have checking accounts for people under 18 years old that are linked to a parent or guardian’s account.
In the computer exercise at the end of this chapter, you will begin with two bills that are in collections. Items that have been sent to a collection agency are usually more than 30 days past their due date. Late payments can stay visible on your credit report for years.

Angel P. Teen is a typical young adult, but to spice it up we gave him an installment loan last year that he paid off on time. That’s what an installment loan is—a loan that has equal payments to be paid off over a short period of time, like a year. Angel doesn’t have a savings account.

You can see that Angel’s report shows an uncollected debt. This debt is not his debt, but we added it to his report to show how to get incorrect information off your credit report. Here’s how Angel got the debt (that was not his) removed from his report:

July 25, 2006

Equifax Information Services, LLC
PO Box 740256
Atlanta, GA 30374

Dear Customer Service Representative,

I am writing to dispute the credit card debt of $686.42 listed on my Equifax credit report. I do not have a credit card of any kind, and I have never applied for one. I have contacted the Wild West Credit Bank through certified mail. They agree that this account was not set up by me. I have enclosed a copy of their letter. Please remove this credit card debt from my Equifax credit report.

Sincerely yours,

Angel P. Teen

Enclosures: letter from bank

Too many credit accounts can work against you. Open only one or two accounts, and pay them on time. The longer you pay your bills on time, the better your credit score.
Getting a Credit Report for FREE!

The first place to go for your free credit report is the Web site www.annualcreditreport.com. At that site you can apply online for your report from each of the credit reporting companies, Equifax, Experian, and TransUnion. This lets you know what credit companies see when they decide whether to loan money to you.

Your Credit Score (FICO™ score)

When you apply for your auto loan, it is handy to know your credit score before you sit across the desk from the car loan officer. When you know you’re going to apply for a car loan soon, order the score (for a fee) from www.myFICO.com.

You may be wondering, what is a FICO score? It’s a number from 300 to 850 that tells creditors how good a risk you are. Someone with a FICO score (named after Fair Isaac Corporation, who came up with the scoring system of 725 has a 5% chance of being more than 90 days late on a payment over the next three years. Someone with a FICO score of 550 has a 70% chance of getting 90 days behind on payments. When you think about it, who would you rather loan your money to?

Why is Having a Good Credit Score Important?

Test scores in school are important to you, your parents, and maybe to a college or a potential employer. But why should you care about your FICO score?

Your credit score will show companies whether to lend you money, and even how much to charge you in interest for a loan you need. From our earlier example, the person with the FICO score of 725 applies for an auto loan and gets an interest rate of 5.518%, while the person with the score of 550 gets a rate of 16.939%. That can amount to paying more than $500 extra over the life of the loan.

How do I build up a better credit score?

• Get a savings account at your local bank. Keep a steady or increasing amount of money.

• Get a debit card at the same bank. Even if a parent has to co-sign (be financially responsible in case you mess up) it still helps you build up credit. Always keep a safe cushion of money, at least $200, in the account.

• If you are over 18, talk to your local bank about opening a credit card. Your local bank knows you and your family, and they will take that information into consideration even if you do not have enough history to have a credit score yet.
Summary

A credit history is an essential item in today’s world. A credit history can be created by having a social security number, bank accounts, and a paycheck. Credit reports tell the history of your financial savings, borrowing, and repayment of debts. FICO scores are used to determine your creditworthiness. People with higher FICO scores are more likely to get loans and better interest rates. FICO scores can be raised by having a history of timely payments on existing accounts, opening new credit accounts within your personal financial means and paying them regularly, and only opening credit accounts that you will use.

Key Terms

**Bankruptcy**
When a debtor’s assets are sold to settle unpaid debts and the debtor is no longer responsible for further debt beyond what was recovered.

**Certified Mail**
Mail that gives the sender proof of receipt from the U.S. Postal Service.

**Credit History**
A summary of a person’s borrowing and repayment history.

**Credit Report**
A report on a person’s creditworthiness that includes identifying information, credit cards, late payments, bankruptcies, and savings balances.

**Fair Credit Reporting Act (FCRA)**
Federal law giving consumers the right to view and correct their credit information.

**FICO Expansion Score**
A creditworthiness score that, like the regular FICO score, has a scale of 300–850, but is based on nontraditional accounts and financial information sources and is designed for young persons, new immigrants, or others without a traditional credit history.

**FICO Score**
Credit score from 300–850 that rates how likely a person is to fall 90 days behind in a payment.

**Foreclosure**
When a bank takes back a property and auctions it off to recover the unpaid loan amount.

**Installment Loan**
Loan with equal number of payments of the same amount over a fixed period of time.

**Lien**
A promise to reclaim an item bought with loaned money if the loan is not repaid.
WRITTEN EXERCISES:

LESSON 9

Fixing Your Credit

1. Madeline is 15 years old with no social security number and no credit history. Explain how she can begin to build up a credit history.

2. Make a poster or chart that shows ways your credit is both positively and negatively affected.

3. Your credit report shows an open account at Garment Guru with a balance of $672.50. You do not have an account at Garment Guru. What steps should you take to clear this item from your credit report?

4. Two people apply for a car loan to be paid off in three years. The person with a score of 725 gets a rate of 5.5% and will pay $452.94 a month. The person with a score of 550 gets a rate of 16.9% and has a $534.04 monthly payment. How much money in total will the lower, poorer credit score end up costing the second person?
Lesson 9
Fixing Your Credit

GOAL: Your goal is to raise your credit score by 110 points.

YOUR SITUATION: You have a poor credit score due to bad payment habits in the past and a lack of credit history.

GOOD NEWS: You have a decent balance in your checking account to help dig your way out of credit trouble.

1) Review the Credit Score, Credit Report, Shop For a Car, Shop for Food, and Pay Bills sections of the tutorial.

2) Open the Fixing Your Credit Lesson.

3) Click Reports -> Credit Score.

4) Click Reports -> Credit Report.

**QUESTION 1:** What is your current credit score? Is this a good or bad score?

**QUESTION 2:** What two problems can you find on your credit report?

Your credit report contains personal information including name, address, and social security number.

If you miss payments or make a late payment on loans, credit cards, or bills, it will be listed on your credit report. This information will affect your credit score as well as your ability to get loans.
5) In the City View, find and click on the car lot. Select “Shop for Car” and select the Coarser. Click “Checkout & Pay”.

**QUESTION 3:** Were you able to get a car loan? Did you have enough in your bank account to pay for the car in full?

6) Cancel out of trying to buy the car. In the City View, click on the apartment building with the H above it. This is your apartment. Follow these instructions to improve your credit score.

- Click on the stack of bills on your desk in the bedroom. Pay off all the bills in full using your debit card.
- Go to the City View. Click on Herald Bank, the bank farthest to the left in the city. Choose “Apply for Credit Card”. Accept this credit card.
- Go back to your apartment and click on the refrigerator. Purchase six bags of groceries (check all three boxes). Pay with your new credit card.
- Using **Options->Run To**, run the simulation to May 28, 2010.
- Click the new pile of bills on your desk. Pay all in full by check, including the credit card bill. Be sure to adjust the amount of the check for the credit card bill up from the minimum payment.
- Purchase six more bags of groceries. Pay with your new credit card.
- Continue the process of paying and purchasing each month until July 28.

7) Once you have paid all your bills on July 28, go to the “Reports” menu and select “Credit Report”.

**QUESTION 4:** Have you solved your two problems? Where on your credit report is your new credit card listed?

8) Go to the “Reports” menu and select “Credit Score”.

**QUESTION 5:** What is your current credit score? What is the difference between this and your original score?

9) Go to City View and click on the car lot again. Select “Shop for Car” and choose Coarser. Select “Checkout & Pay”.

**QUESTION 6:** Can you get a car loan now? What interest rate are you being offered? How do you think this interest rate might change if you had an even better credit score?
John and his friends had 48 hours to make a movie for The Shootout, the annual moviemaking contest. John read the rules to everyone. “It has to be a musical, it has to use a prop of a remote control, and someone has to say, ‘Oh my gosh, I can’t find the remote!’” John’s writers got busy working out a script, and all around the auditorium, the other eight teams were frantically doing the same thing.

They made up a story, they made up songs, filmed it, and less than 48 hours later, they were making the final edit to the film when the computer crashed. Oh, no! By the time they fixed the computer and prepared the DVD to turn in, it was three minutes after the deadline!

John’s movie didn’t get to win The Shootout, but his professor thought it was so good, he should send it in to the MTV Best Film on Campus contest. And John’s film won, beating out graduate students from a top film school. John and his top writer were awarded summer internships at MTV Films.

Here’s how to tackle setting career goals.

- **Interests and abilities:** Figure out what you love to do.
- **Career path:** Map out your way to your chosen career, and figure out the earning potential for your career.
- **Get help:** See a career counselor or consult some of the references discussed in this chapter to find possible careers.
- **Write down goals:** Give yourself a reasonable amount of time to complete these goals, and check yourself periodically to see how you’re doing.
Planning Your Career

What if you had to get a job to support yourself starting tomorrow? You would probably take the first job you could find in order to start making money. Now step back. What if you had to start supporting yourself in six months? You might start looking for advice on what jobs you could train for in only six months. Of those jobs, you would pick the one you liked best and that paid you enough to live on.

Take another step back. What if you had to pay your own way starting in two years? Now more options are open. With two years’ training, you could complete a certificate program and move into a support or medical field. With two years to carry out a plan, you could be building toward your goal of that first entry-level position.

By now you get the idea. The farther ahead you plan, the better your choices at the end. Whether you expect your next job in ten years or tomorrow, planning will help you get there.

What Are Your Interests, Aptitudes, and Abilities?

Do you like helping people? Does it make your day to solve a tough puzzle? Do you most look forward to days when you will be giving a presentation in class, or would you rather be part of a group sent to fix a problem? These are your interests.

Your interests will help point you to a career. What about how good you are at the things you love?

Maybe you took a career test that pointed you toward being an airline pilot. Only the test didn’t ask if you had a fear of flying! You might have an aptitude to be a pilot, but no interest in that career.

Have you been playing the violin for seven years? Your ability to play the violin might point you to a career that you would find rewarding.

If you are clueless about a career path, then having a teacher or counselor help you find your aptitude for different fields might be just what you need…to get a clue.

Setting Goals and Priorities

Perhaps you do not have a career goal in mind. One book many counselors recommend is What Color Is Your Parachute by Richard Nelson Bolles. You will use it to explore your interests, likes and dislikes, and the type of work that appeals to you.

Once you set goals, you will look at your priorities in life. How important is your goal to you? Should you plan your coursework around it? Is it worth using your precious free time to explore? If you set your priorities so you can meet your goals, each step will take you closer to what you want.

Each step toward your ultimate goal could be another rung up the career ladder as you move from entry-level job to your career goal. You will explore this in a hands-on way in the computer exercise of the lesson.
Going to College

College. For most people, it's part exploration and part career foundation. Often, young people are living away from their parents for the first time. The courses you take in college will likely open you up to careers you never knew existed. Your goals and priorities may change as you find out more.

The best advice about college is to take a course of interest during freshman year and work to develop that into a four-year pursuit. It might be the beginning of engineering. It could be the science of how proteins are made, or even learning how to make an inexpensive pump for a well in an impoverished community. A seminar or group project such as this could grow into a four-year project, or a passion for your whole life. College is just the beginning.

Non-College Job Training

Among the fastest-growing occupations for which college is not a prerequisite, emergency medical technicians (EMTs) and medical secretaries are two health-care professions in the greatest demand. The median pay for an EMT is $28,000 a year.

Welders can train for a few weeks of school or a five-year apprentice program, earning a half-salary during the day and taking coursework in the evenings. The median pay for a welder is $32,880 per year.

Technicians who care for heating, ventilation, and air conditioning (HVAC) systems will always be in demand. Growth areas of the country like the Southwest need air conditioning as a basic requirement. Every business environment needs computers, and computers start to fail at high temperatures. Apprenticeships are available in this field. For more information contact an organization called the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry, at www.ua.org.

These are only a few of the many opportunities for a challenging career that do not require college.

Internships, Apprenticeships, and Cooperative Education

More than 87% of college seniors in 2003 had taken part in an internship by the time they graduated. Internships, whether paid or unpaid, can be the first step in obtaining your career goal. Books such as The Internship Bible list thousands of internships and how to apply for them. There are internships just for high school science students (the two-week U.S. Department of Energy High School Student Research Honors Program) and internships at every major sports team. The possibilities are endless.

Apprenticeships have been around for thousands of years, with the young people of every generation learning a trade in return for several years of service with the artisan. Modern apprenticeships help people start careers in such fields as plumbing, pipefitting, HVAC repair, and welding. See www.ua.org for more information.

Cooperative education involves college students, often in engineering, spending part of their school year at a company work site where they get a
salary and work on projects with more and more similarity to what their work will be once they graduate. Astronaut Janice Voss got her start as a co-op student at the NASA Johnson Space Center.

Potential co-op students will learn about opportunities and interview with co-op companies usually in the sophomore year of college.

Paying for Your Education or Training

If you want to earn scholarship money, you don’t need to wait until you are in college. Scholarships are awarded through essay contests and other competitions.

Did you know there is money available for residents of every state, all religious affiliations, and any academic interest? A good guide to check out from the library is Peterson’s Scholarships, Grants, & Prizes.

Once you are applying to a college or training program, the administration will help you apply for grants and scholarships directly from the institution. Any money not covered by scholarships or grants and beyond what a family can pay will be covered by student loans.

Families can also take out student loans from their own bank or credit union, but the loans may be more expensive than those obtained from the institution. Is the interest deferred until after graduation, or does it start growing from the time the money is borrowed? What are the interest rates? These are questions you should ask before taking out any loan.

You may qualify for federal loan programs such as the Stafford or Perkins loans. These generally have lower interest rates and are a better deal for students. The interest rate is set by the government, and you may be eligible if your family has a low income.

Loan providers like the SallieMae corporation may give you a student loan and then later be the company to which you repay your loan. It can be beneficial to take out all of your student loans from one corporation, since they will bundle your loans into one payment for you to make.

Other ways of paying for college include Coverdell Education Savings Accounts that can be invested for you long before you start college. These savings accounts can earn tax-free returns to pay for education. Your family can put $2,000 per year into this account up until you turn 18 years old. Then the account must be used for your education before you turn 30.

Your home state may have an education savings plan. These plans come in many different forms. Some allow you to purchase tuition credits at today’s prices for use in the future at any in-state institution. These plans benefit the state by keeping students at state colleges and universities. Other programs, such as state 529 plans, can be used to earn money that is tax free at the state and federal level. These 529 plans can be used for education expenses in any state.

Note that in the long run, the amount of money you will earn will outstrip the amount you have to pay for college or training. You will study this further in the computer exercise of the lesson. In fact, graduating from college can boost your income 60% compared to high school graduates. This can mean a lifetime increase in income of one million dollars.
Summary

Setting goals is key to accomplishing what you want. Goals are not about what someone else wants for you, but what you yourself want to do with your life and your career. The best goals have dates by which you will accomplish them. Goals will help you set priorities in your life so that you put yourself first.

Whether your goals take you to college, an apprenticeship, or a training program, following through on your plan will give you a sense of accomplishment. You are not alone in paying for training or college. Grants, scholarships, and loans will help you move toward the career you want.

Key Terms

**Apprenticeship**
A learning period of up to five years including on the job training (with pay) and additional coursework at night. See www.ua.org.

**Associate’s Degree**
A degree that generally takes two years of study and is awarded by a community, junior, or business college.

**Bachelor’s Degree**
An academic degree which usually takes four years to earn and is awarded by a college or university.

**Career Ladder**
Upward movement from an entry-level job to the job that is a final goal.

**College**
A four-year institution of learning where students earn an undergraduate degree (BA or BS degree).

**Community College**
A two-year college that emphasizes career training, or a less expensive way to complete the first two years of college before transferring to a four-year college.

**Cooperative Education**
When a degree program is combined with an internship in a company as part of practical education in the field.

**Grants and Scholarships**
Money to pay for college that does not need to be paid back.

**Internship**
Time spent working for a company in an industry of interest. Can be paid or unpaid, and can last typically from six weeks to a year.

**Occupational Training Programs**
These range from a half-day weekly during high school to two-year, full-time programs spent learning a trade such as firefighting, medical technology, or IT network management.

**Student Loan**
Money borrowed to pay for education. This money must be paid back. The best loans have deferred interest. That means interest does not start building until the education period is complete.

**University**
An organization of advanced education, that makes the appropriate amenities available for instruction and study and has the necessary certification to award graduate or undergraduate degrees.
1. A student loan was for $10,000 at 8% per year, and the interest started being charged right away, even though the first payment wasn’t due until the student received a BA degree in four years. If the percentage is charged on the whole amount annually (four times for the four years), how much will the loan be for once the student graduates?

2. Make a poster showing yourself with at least five possible career options.

3. Interview a friend about his or her interests and what careers those interests might lead to. Have your friend interview you.
GOAL: Your goal is to get a higher paying job by completing a course that is required for that job.

YOUR SITUATION: You are working as a cashier but want to advance in your career. You travel by bus. You will have to buy bus tokens and food from time to time.

GOOD NEWS: Your rent and electric bills are paid automatically.

Part A

1) Review the Education, Shop For Food, Buy Bus Tokens, Schedule, Work, Pay & Tax Records, Loan Statements, and Apply For Job sections of the tutorial.

2) Open the Education and Advancement lesson.

3) In the City View, browse the office buildings to find an opening for a Data Entry Specialist.

4) Browse the university buildings to find the required class offered on weekends and enroll. Take the student loan. Attend the class until you have completed it. During this time your rent and electric bills are paid automatically but you will have to buy food and bus tokens from time to time. Pay with your debit card.

NOTE: A diploma will show up on your apartment wall once you have completed your course. You will also get a message in the Message Center.

HINT: If you want to know how much time you have left before your education is done, follow your person to class, click “Stop”, and click on your person.
5) Once you have completed the course, apply for and get the job as a Data Entry Specialist working weekdays from 8AM to 4PM. Use the name John Doe on your application. You must quit your job as a Cashier before you can get a new job. To do this go to the schedule, click the green “Work” box, and click “Stop Doing This Activity.”

6) Work for one full 40-hour week. Answer the following questions. To find your take-home pay for your new job, click Reports -> Pay & Tax Records. Click the “Back” button to get pay stubs for the cashier job. To find the amount of your student loan, click Reports->Loan Statements.

**QUESTION 2:**
What is the take-home pay for your new job?

What is the take-home pay for your old job?

How much did your education cost?

**QUESTION 3:** Using the following formula, estimate how long it will take for your investment in education to “pay back.”

\[
\frac{\text{cost of education}}{(\text{new pay per week} - \text{old pay per week})} = \text{weeks to pay back education}
\]

**QUESTION 4:** If you were to get additional education and take the IT Management course, you would be able to climb the ladder to IT Supervisor. The cost of the course is $4,975.00. Your new weekly pay would be $580.70. Use the formula from Question 3 to estimate how long it will take for your investment in education to “payback.” **NOTE:** Use $402.34 as your old pay.
One More Way to Use the Internet

Between Facebook, MySpace, instant messaging, and online gaming, people are becoming very comfortable online. It makes sense then that they can also be comfortable with banking on the Web, and it can be less intimidating than going to a bank branch.

The two things you need for online banking are Internet access and online access to your checking account. Some people get a cable modem for Internet use through their cable company. Others get a DSL modem from their telephone provider. Either way, that access will probably cost around $30 per month if it is bundled with your other cable or telephone service, or around $45 per month by itself. That amount can be out of reach if you are living on your own for the first time. That is why many people use dial-up Internet access, which is a little slower but costs around $10 per month. If you have a laptop with a wireless network card, you can do your online banking at any Wi-Fi hot spot. This can increase your security risk, because someone may watch your username and password as you type, or they may even intercept your wireless connection. It is best to have a secure wireless connection when possible. Many public libraries have free wireless, and so do book stores and coffee shops. Many libraries even have terminals available to use the Internet, though they may have age requirements to use these terminals, so talk to your librarian before you log in!

Pros and Cons of Online Banking

If you write only three or four checks a month, and you don’t have any automatic payments pulled from your account, then maybe it is not so crucial for you to do online banking. If this is you, then online banking can wait. Most banks have telephone services to answer balance questions 24 hours a day. You will still need to carefully read over your bank statement every month. It is important to make sure the bank charged the correct amount for each check and deposited the correct amount for any checks you deposited.

Online banking really is useful when you have more than three or four automatic payments per month or if you have automatic deposit of your paychecks. You need to know when your paycheck clears so you can pay your bills without fear of an overdraft fee.

What Can I Do with Online Banking?

Transferring money from savings to checking is simple with online banking. Even paying bills is easier, since online payments can be made on the due date, while mailed payments need to be postmarked at least seven
days before the due date to make sure they are not late. For those who usually drive somewhere to pay utility bills on the due date, online bill pay can give an immediate savings in gas money.

In the computer simulation, you will explore online banking features by signing up for Internet access, setting up online bill pay, examining your account online, and transferring money between accounts.

Once you have significant expenses and are aware of the tax benefits, a huge advantage of online banking is being able to download your bank statements to a program like Quicken® or Microsoft® Money. These easily track expenses and answer questions that you can use to help reduce your taxes, like “How much did I spend on charity last year?” But if you are like most teens, that is a long way off!

Protecting Yourself Online

Mei-Li typed in her bank’s Web site as usual. The Web site looked different. Oh well, she supposed, the bank could have redesigned its Web site. She typed in her username and password, but instead of bringing up her account, a new Web page came up. It told Mei-Li all her money would be lost unless she typed in her social security number, her mother’s maiden name, and her date of birth. No way! Mei-Li printed the page and took it right over to her bank’s local branch. The bank immediately reset her username and password, and her account was safe. What if she had typed in her personal information to that phishing site?

Here are some clues to identify a phishing Web site:

- **Misspelled Web Address:** The address of the Web site could be misspelled by one letter, or have a different ending, like www.MyBank.net instead of MyBank.com.

- **Address Bar Not There:** A phishing Web site can be designed to hide the address bar or even display a fake address bar on the screen to convince you it’s the real deal.

- **No HTTPS:** The secure “https://” in front of the Web site name where you log in is missing.

- **Misspelled Text:** A Web site with misspelled words is a red flag.

Be familiar with your online banking Web site, and if something looks fishy, don’t type in your username, password, or any other personal information. It could be phishy!

**How Do I Create a Good Password?**

- Avoid retyping your username, using your birthdate, or using your social security number.

- Use a combination of letters and numbers.

- Think of a word that is meaningful to you, and add a memorable number in between some letters, such as shop1776ping, ring2000tone, or laught3r.

- Avoid using the same password for online banking that you use for something else.
Summary

Online banking is the most convenient way to keep track of your money and avoid overdraft fees. Monitoring your checking account takes effort, but since most teens are online anyway, it is just a quick look every day to make sure the checks and deposits are the correct ones.

Phishing, or using fake Web sites or e-mail to intimidate someone into giving away personal information, is a growing problem of which teens need to be aware. Transferring money between a checking and savings account is simple online, and paying bills online can be done on the due date, or scheduled in advance for the due date.

Key Terms

**Account Transfer**
Making an online transfer of money; for example, from a savings account to a checking account.

**Fraud**
When a criminal uses trickery to convince someone to give up valuable information or items of value.

**Identity Theft**
When a criminal opens a credit card with another person’s name and social security number, charges merchandise, and leaves the victim with the unpaid bill. This can be multiplied as identities can be fraudulently sold, and others can continue to use someone’s good credit to get further credit cards and loans.

**Internet**
The worldwide electronic network including Web pages, chat rooms, and online forums.

**Internet Access**
Service that connects a computer to the Internet. Can be done through a cable modem, through DSL or dial-up service over a phone line, or over Wi-Fi in coffee shops and on many college campuses.

**Online Banking**
Using the Internet and a bank’s website to keep track of bank accounts, moving money from one account to another, and paying bills.

**Password**
Secret word used, with the username, to access online banking. Banks usually have rules for passwords, such as they must be 6 to 12 characters long and have both numbers and letters.

**Personal Information**
Important identifying data that lets your online bank know you are who you say you are, such as date of birth, social security number, and mother’s maiden name. Never give out this information unless you are certain it is to your own bank and not a fraudulent Web site.

**Phishing**
When a criminal sends an e-mail using a scheme to get you to divulge your personal information. Contact your bank immediately if an e-mail says you will lose your account unless you provide your user name and password or any other personal information. It is important not to reply to these e-mails.

**PIN (Personal Identification Number)**
A number used to access your account when used with a money card or debit card.

**Recurring Payments**
Automatic payments a customer can set up, such as to pay for car insurance or cell phone service. These payments can happen every month, even though they are set up only once.

**Username**
Account name used to access online banking.
1. Write a song about phishing. Include details of what happens to someone who falls for a phishing e-mail and what happens to the money in their account and then later to their credit rating.

2. Make a list of three good passwords, and write down ways to remember them. Include numbers and letters, and if you use a word, try to spell it differently from its dictionary spelling.

3. Claude’s bank charges $30 per bounced check for overdrafts. Claude’s balance is $30. His cell phone company makes an automatic withdrawal of $40 from his account, then a check is paid for $5 for his gym, and later in the day he deposits his paycheck of $125. How much money is in his account, after the bank charges his overdraft fees?

4. Name some tip-offs that alert you when a Web site is not the bank you think it is.
GOAL: Your goal is to use online banking to check bank balances, schedule automatic payment of bills, and transfer money from one account to another.

YOUR SITUATION: You have an apartment, a job, a checking account, and a savings account.

GOOD NEWS: You have a lot of food, so you don’t need to buy any more.

1) Review the Pay Bills, Shop for Goods, Bank Statements, Internet Access, and Online Banking sections of the tutorial.

2) Open the Using Online Banking lesson.

3) You have some bills that need to be paid. Click Actions->Money Management->Pay Bills. Pay your rent and electric bills by check.

4) Using Options->Run To, run the simulation to March 1, 2010. Click Reports - > Bank Statements and print out a copy of the statement for your checking account with statement date 2/28/2010. Circle the payments by check.

5) In the City View, click on Donna’s Department Store and buy a notebook computer using your debit card. Click on the Internet access provider and subscribe to Internet access.

6) Click on your apartment. From within the Apartment View, click on the computer to open online banking.

7) Using online banking, set up recurring payments to pay your rent and electrical bills. Find the amounts to pay from the bank statement you printed out previously. Set “Day of Month to Pay” to the 5th of each month.

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QUESTION 1: Find and write down your current balances in your checking and savings accounts.

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Once you have a notebook computer and Internet access, you can use online banking to automatically pay your monthly bills.
8) Using Options -> Run To, run the simulation to April 1, 2010. Click Reports -> Bank Statements and print out a copy of the statement for your checking account. Circle your online payments.

9) Using online banking, transfer $100 from your checking account to your savings account.

QUESTION 2: Find and write down the new current balances in your checking and savings accounts.
Paying Your Taxes

Tashia was shocked. She had been looking forward to her very first paycheck from her job after school at the pet store. She had worked 10 hours, and she kept thinking about what she would do with her $60 paycheck. She looked again at the paycheck in her hand. It was for only $50.54. Just wait until she talked with her supervisor the next day! Whoever had taken her money from her was sure going to hear from Tashia.

You have probably had this experience. Tashia’s paycheck was less than she expected. Taxes had been deducted. Her employer collects those taxes and sends the money to the appropriate federal or state agency. Tashia’s paycheck paid for FICA ($4.59), state withholding ($2.34), and federal withholding ($2.53).

Here’s what you need to file your taxes:

- **W2**: Every job you had in the past year will send you a W2 form reporting your income.
- **1099INT**: Your savings account interest report. Your bank will send you this form reporting your interest income.
- **Charity and deduction receipts**: Charity donations reduce the amount of income on which your taxes are based for itemized deductions.
- **Business receipts**: No matter what small business you run, from dog walking to babysitting, you will have expenses. Use these receipts to figure the net income on which you should pay taxes.

What Is Income Tax?

The federal government collects tax from each income earner. Some taxes, called payroll taxes, are taken directly from a paycheck. The main payroll tax, listed as FICA on the pay stub, for Federal Insurance Contributions Act, pays for Social Security and Medicare. When taxes are filed on April 15, taxpayers pay taxes up to the level of their tax bracket. These taxes cover income of all sorts (not just salary, but also income on interest and stock sales). In order to even out this annual giant payment, the federal and state taxation agencies withhold part of each paycheck to cover the income tax. Then most earners get some of this withholding back as a refund, once they file their taxes.

Who Is the Federal Government?

From your mail carrier to the person who sends you a copy of your birth certificate when you apply for a social security card, the federal government is made up of the people and programs that serve our country.
Federal programs fund building and maintaining interstate highways. The federal government keeps our ports safe and runs our National Parks and the military.

**What Do They Use Taxes For?**

When you look at your pay stub, it does not say exactly what your tax dollars are paying for. A large part goes to the military. The chart here shows that we spend as much on the military as on Social Security. Net interest is the interest paid on the national debt. When you take out a loan, you pay interest. And the federal government does the same thing by selling Treasury Bills and Treasury Bonds, on which it then pays interest.

![Pie chart showing tax dollars distribution]

*The above pie chart shows the breakdown of how your tax dollars are spent. A large portion goes to national defense and social security. Nine percent of the total budget goes to paying the interest on money the government has borrowed.*

**How and When Do I Pay My Taxes?**

Taxes are due every year on April 15. However, if you are going to get a refund, it is best to file as soon as possible. You must wait until you receive a W2 form from each employer. These should come by about the third week in January. If you earned any interest income, you need to wait for your 1099INT to come.

**What Forms Do I Use?**

Most teens use the 1040EZ, either on paper or online. Even if you are going to hire someone to do your taxes, it is best to sit down with the 1040EZ form to make sure you have every single document you need. These papers will include W2s, 1099s, 1099INTs, and any charitable donation receipts. If
you ran your own business and made over $600 in the year, you will need to have every business receipt. It is best if you list these items in a spreadsheet like Excel, or a program like Quicken or Microsoft Money. Then it is easy to get the total, and easy to check each receipt. You will attach the appropriate copy of your W2 (it will say right on the form if it is the state, federal, or your copy) directly to your 1040EZ if you are mailing in your return.

**What Happens if I Don’t Pay My Taxes or Misreport Income?**

If you broke a lamp and your mom saw you do it, would you lie and say someone else did it? What if she didn’t see it happen?

When you earn money and get a paycheck, that money is reported to the IRS (the Internal Revenue Service). If you pretend you don’t have to file a tax return, the IRS will know, and they will send you a notice of failure to file, along with a penalty dollar amount you owe. If the IRS calculates that you owe money, they will start calculating interest you owe starting from April 15.

If you have your own business and make less than $600 a year, you do not need to file. Once your business starts to earn more than $600 a year, you do need to file. It is a little like breaking a lamp without your mother seeing. Would you still own up to it? Paying taxes you owe does give you benefits. You can start saving money in an IRA (Individual Retirement Account) that either reduces the amount of your taxes (how the traditional IRA works) or else will be available tax-free when you retire (the Roth IRA method).

Obviously, retirement is not at the top of every teen’s list for what to do with money. However, consider this fact: the greatest tool for wealth creation is saving money. That’s right, if you want to be wealthy some day, start saving now.

**Should I Do My Own Taxes?**

If your life is simple, and you have only a W2 and maybe a 1099INT to handle, you can probably do your taxes yourself, with a parent’s help. Most teens who need to file taxes have their parents file for them, at least until they are out living on their own. Why? Parents claim you as a dependent on their tax form, and you may not claim yourself as a dependent on your own form.

Realistically, most people file their own returns only after they are out of college or otherwise working full-time at their first full-time job. Once you start to get more complicated with your money, it is time to have someone do your taxes for you.

**Filing Your Taxes Online**

Filing your taxes online is a new and growing trend. As long as you have all of your important documents with you (and a parent to help you), you can enter the correct number in the online tax filing system. You will have to come up with a secret Personal Identification Number (PIN). You should keep this number safe and not forget it. You will need to use it whenever you file online in the future.
Will I Get a Tax Refund?

You will probably get a refund, unless you do not have income tax withholding from your paycheck. If you have income from sources other than a paycheck, like selling stocks or running your own business, then you may well have to pay taxes; but this is not the case for most teens.

Summary

Taxes are part of earning a paycheck. These taxes help keep older people healthy, give poor people health care, and help pay for everything our government does. The federal government includes the military, the Interstate roads, and port safety. About nine cents of every tax dollar goes to interest on the national debt, and another twenty-one cents goes to the military.

The 1040EZ form can be filled out online or on paper, but it must be sent in before the government will return your withholding deduction in a refund check. If you have no charitable deductions, or if your deductions total less than the standard deduction, then the standard deduction should be taken. Not paying taxes can result in extra fees, interest, or even jail. Paying taxes can give the benefit of saving tax-free for retirement.
Key Terms

**1040EZ**
The quick tax form most often used, in paper or online, for those with uncomplicated tax situations.

**1099INT**
Report on interest income sent from the bank to both the IRS and the taxpayer for savings account interest.

**1099MISC**
Report of income made to the IRS and the taxpayer for any money paid by the job, instead of as a salaried employee.

**FICA**
Short for Federal Insurance Contributions Act, the name given on the paycheck stub for Social Security and Medicare taxes. The employee pays some of the FICA tax, and the employer pays some of this tax for each employee. Social Security pays benefits for older people, people with disabilities, and minor children and surviving spouses of deceased workers. Medicare pays for hospital insurance for those over 65.

**Gross Income**
The total income, before deductions, made in a year.

**Income Tax**
Tax paid to the state, federal, and local governments based on income earned over the past year.

**Standard Deduction**
The amount of deduction given for those not claimed as a dependent on a parent’s taxes.

**Tax Audit**
A review of a tax return by the IRS in which the taxpayer must show proof of all deductions, expenses, and income.

**Tax Deduction**
A donation or expense that reduces the taxable income amount.

**Tax Exemption**
A number that includes the taxpayer and any dependents. Because most teens are listed as dependents on their parents’ taxes, their tax exemption is 0.

**Tax Refund**
A check returning the taxpayer’s money to the taxpayer after tax returns are filed and the overpaid tax is determined.

**Tax Table**
The table in the 1040EZ booklet showing levels of income on one side and the tax owed on the other side.

**W2**
Report sent from the employer to both the IRS and the employee, showing gross income, total taxes paid, and total voluntary deductions.

**W4**
The withholding form each new employee fills out, stating the number of exemptions. The more exemptions listed, the less withholding tax will be taken from the paycheck.
1. John receives a paycheck and notices a deduction for the United Way of $4.27. His company lets John donate an amount to the United Way charities at their annual pledge drive, and John pledged to donate $100 over the course of the year. John is paid twice a month. If his company deducts $4.27 from each of the 24 paychecks, how much will John donate to the United Way by the end of the year?

2. Lucy is a beginning accountant with the federal government. Her starting pay is $25,500 per year. She’s single and has no dependents. Being in the field, she knows how to fill out her 1040EZ tax form. First she fills in her name, address, and social security number. On line 1, she puts her income (she’ll find it on box 1 of her W2). She has no 1099s for interest (so zero goes on line 2). The sum of lines 1 and 2 go on line 4 ($25,500). Because she’s not a dependent, she enters on line 5 the amount shown on the form for a single person; that year, it was $8,450. She then subtracts line 5 from line 4, and enters that amount on line 6 ($17,050). Looking at the number in line 6, she sees that the tax booklet for that year says that she was responsible for $2,184 in taxes. Her withholdings for the year were $3,096. What does Lucy do next?

3. Joey decides to take his taxes to the EZ Returns Company. They say his refund will be $200, but he can have $150 right now if he signs over the refund to the EZ Returns company. Thinking about this as a loan, where \( R = \frac{I}{P} \) if the loan amount is $150 (P) and the interest amount is $50 (I), what interest rate (R) will Joey pay?

4. Andre makes $50 a week babysitting as his own Parents’ Night Out babysitting business. He spends $15 a week on snacks and movie rentals to entertain the children. Show Andre’s gross income and net income after 50 weeks. Tell why Andre should keep careful track of his receipts to file with his taxes.
GOAL: Your goal is to correctly fill out a 1040EZ federal tax return and collect your refund.

YOUR SITUATION: It’s the last day of December. You’ve got an apartment, a checking account, and a savings account, and have been working at two jobs for the year.

GOOD NEWS: You have plenty of food. Your rent and electric bills will be automatically paid.

1) Review the Pay & Tax Records, Taxes, and Deposit Funds sections of the tutorial.

2) Open the Paying Your Taxes lesson.

3) Using Options->Run To, run the simulation to January 1, 2011. In the message center note the message about taxes.

4) Click Reports->Pay & Tax Records and choose to Show W2s. You will have to click back one year to see 2010. Print out both of your W2s. Choose to Show 1099s and view your 1099INT form for 2010. Print it out.

Your W2 contains important information such as your wages and withholding for the year. You will need this information to fill out your form.
5) Click **Actions->Income->Taxes**. Fill out your 1040EZ:

- Add up the amounts in Box 1 on your two W2s. Round the answer to the nearest dollar. Enter this on Line 1 of the 1040EZ. NOTE: Do not use commas to separate thousands.
- Enter the amount from Box 1 on your 1099INT (rounded to the nearest dollar) on Line 2 of your 1040EZ.
- Add Lines 1 and 2 on the 1040EZ and enter the result on Line 4. Assume Line 3 is zero.
- Enter $8,450 on Line 5 of the 1040EZ.
- Subtract Line 5 from Line 4 on the 1040EZ and enter the result on Line 6.
- Add up the amounts in Box 2 on your two W2s. Round the answer to the nearest dollar. Enter this on Line 7 of the 1040EZ.
- Click Tax Table on Line 11 and figure your tax based on the amount on Line 6. Enter the result on Line 11.
- Assume Lines 8a, 8b, and 9 are zero and subtract the amount on Line 11 from the amount on Line 7 and enter the result on Line 12. This is the amount of your refund.
- Since Line 10 is larger than Line 11, you are getting a refund and don’t have to fill in Line 13.
- What is the amount of your refund?
- Print your tax return.
- Click “File Tax Return”.

6) Run the sim for several months until you get a message on May 1st From the Internal Revenue Service about your tax refund.

7) Find the check on your desk, click it, and deposit it into your savings account!

**QUESTION 1:** Was your refund what you expected?
Claudia had been saving money since she opened her savings account three years ago with birthday money. But she never really looked at the monthly statements from her bank. Well, that was going to change, now that she wanted to start saving for a computer.

Her statement listed an ending balance of $330.55, and a beginning balance for the month of $330.00.

Hold on a minute, Claudia thought this account was supposed to pay 2% interest. Why had she only earned $.55 in interest for over $300? That was a lot less than 2% interest, certainly.

At the bank branch, the teller explained that 2% was the amount of interest paid per year. The monthly interest rate was 2% divided by 12 months, or 0.17%—which came to $.55. Claudia suddenly understood that a savings account has little growth potential over the long term.

To save money, you should stick to the following plan.

- **Financial goal:** Make a financial goal.
- **Available income:** Figure out how much you can save per month.
- **Time horizon:** Determine how long it will take to reach your goal.
- **Avoid spending traps:** Stick to your financial goal by not spending money on items that are quickly gone. Make your financial goal come faster by saving instead.

The power of reaching your financial goal will teach you the rewards of saving.

### Setting Financial Goals

Whether you want to save money for a snowboard or for your first apartment, you will need to set a financial goal. For example, if a snowboard costs $350, and your main income is $50 a month from a newspaper delivery route, how long will it take to save up the money? It depends. Of your $50 income, how much can you realistically save each month?

If you have no expenses, then you can save up $350 in seven months. However, if you are like most people, there are certain items you end up spending money on without really being aware of it. Three songs on iTunes, a ringtone, and a fast food lunch can eat up $10 zip-quick. By learning to save and invest, you will have the money you want later to buy things that are worth saving for.
Savings Basics

As you save money for your financial goal, you will want your money to increase. How can money grow? Through interest, such as from a savings account at a bank. Money market accounts also give interest, generally at higher rates than savings accounts.

Some investments are not interest-based; for example, stocks and mutual funds have no guaranteed return. Owning individual stocks is like owning a small share of a company. Owning a mutual fund is like owning parts of many different companies. Saving money by buying mutual funds or stocks is more risky than having a savings account or money market fund.

For example, just because you paid $23.35 for a share of stock does not mean that amount is what the stock will cost tomorrow. Stocks can rise or fall. A stock-based mutual fund is less risky than owning a small number of individual stocks. But these mutual funds can still rise and fall, and their rate of return is not guaranteed.

FDIC-Insured or Not?

The FDIC is a government agency set up in the years after the stock market crash of 1929. It is insurance, and FDIC member institutions pay for this insurance. In return, customers know the FDIC stamp on the bank door means their investment is safe.

The FDIC, or Federal Deposit Insurance Corporation, protects individual account holders in banks and savings companies. FDIC coverage currently protects each account holder up to $100,000. This protection means that if a bank fails, the FDIC will pay each account holder the total amount of his or her deposit (up to that $100,000 limit).

How do banks and savings institutions get this protection? They pay a certain percentage of their total deposits to the FDIC.

Are stocks or mutual funds FDIC-insured? No, their value can double or go down to pennies, and no insurance will step in and protect your original investment.

Inflation and Your Rate of Return

Inflation, or the general rise in the cost of goods, makes the money in your pocket worth less over time. When inflation is high, you need to have a very good rate of return just to have the same buying power as before.

Imagine there is 3% inflation. You have your money in a passbook savings account earning 5% interest. What is your real rate of return, including the cost of inflation? It is 5% – 3%, or 2%. What if your savings account only paid 2% interest, like Claudia at the start of this lesson? Then your actual rate of return would be 2% – 3%, or a negative 1% return! Even though you are earning 2% interest in the savings account, you actually have 1% less buying power.
Do you still have to account for inflation if your money is invested in stocks or mutual funds? Think about it. Imagine your goal is to buy a car, and you get close to your original financial goal after three years of saving and investing in a stock-based mutual fund. But the car you have been planning on buying now costs 10% more than before. Your buying power was knocked down by inflation.

**Is My Money Growing?**

If you have investments in a mutual fund or own stocks through a brokerage house (such as Merrill Lynch or E*Trade), you will receive a monthly report. This report will tell what you own and what it is worth. It will also tell what the value was at the last statement for comparison.

If you have a savings account, you may receive a monthly statement telling you your balance and your interest rate. By comparing the “current balance” on the statement with the “last statement balance,” you will be able to watch your money grow. If the current balance is less than the last statement balance, your account value has gone down. If the current balance is more than the last statement, then your account value has grown. Note that in a savings account, your account value should only rise in value and not lose value. If the value is down, check for any withdrawals you might have made. Did the bank charge you a fee of some kind? You should make it your job to read your bank statement every month so you know the general amount of your savings account balance.

**Calculating Your Rate of Return**

In the computer exercise of the lesson, you will try out different ways of saving and work out the rate of return after running a simulation. To better prepare you for this activity, in this section you will learn how to calculate your rate of return for different investments.

The rate of return on a savings account is simply the annual interest rate. The annual rate of return on stock is the amount the stock is worth today (including dividends for the past 12 months) compared to what it was worth one year ago. Use the following formula.

\[
\text{Annual Rate of Return} = \frac{(\text{Sales Price} + \text{Dividends}) - (\text{Purchase Price})}{\text{Purchase Price}} \times 100\%
\]

If your sales price plus dividends is less than your purchase price, then you have a negative return for the year.
How Do Commissions Affect Rate of Return?

We calculated the rate of return as if there were no cost to buy or sell. In the real world, each transaction costs a commission paid to the brokerage house. For example, if you buy a stock and later sell the stock, that is two commission fees paid. Commissions vary depending on the brokerage and how many shares you are buying or selling. The fee can be $5 to $15 and up per trade. That fee increases the purchase price, and it thus reduces the sale price.

What Is a Money Market Account?

You might not have thought of it this way, but banks are in the business of making money. How do they make money if they pay you money (interest) just for depositing your cash? The answer is that they loan that money out to other people and businesses at a higher interest rate.

Think about the numbers. Bank A pays you 3% per year on a savings account. Bank A turns around and loans that money to your new neighbor in a mortgage for 8% a year. That loan is 5% profit to the bank.

Savings accounts are safe investments, but they do not pay very high interest rates. Banks also have money market accounts. These accounts pay higher interest rates, but sometimes such accounts have minimum balance requirements. So check with your bank.

How do money market accounts generate money for the bank? The bank pays a variable interest rate to you. It earns that interest by loaning the money on a short-term basis to other banks and businesses. These overnight loans keep the economy running. And the higher interest rate paid to money market funds helps attract new deposits.

If you have enough money to open a money market account, you should consider this safe investment option. However, money market accounts are generally not FDIC-insured.

What Are Mutual Funds?

A mutual fund is a pool of stocks, bonds, and other securities managed by an investment company. Individuals can buy shares of the fund and profit from its investment gains. Stock-based mutual funds own many different stocks. The mutual fund companies pool investors’ money and buy a broad range of stocks. These stocks can be based on a published list, such as the Standard & Poor’s 500 (S & P 500). Mutual fund companies can also research different stocks to put together what they see as a strong portfolio. These managed funds may or may not do better than funds that stick to a published list. When you purchase a mutual fund, you own a little bit of all those different stocks, so your risk is lower.
What Are Fund Expenses and Why Are They Important?

How do mutual fund companies make money? There are many fees that mutual fund companies charge their customers. Some mutual funds charge a front end load, which is a lump sum of money paid into the fund when first buying. Your rate of return will have to take this load into account, so you may be holding the fund for a long time before your return goes from negative to positive.

Other mutual funds charge a back end load, which is a lump sum of money paid into the fund when cashing out.

Mutual funds can also charge annual expenses on the account. These expenses are disclosed in the prospectus, or description booklet, of the mutual fund. These fees are given as an expense ratio, or percentage of expenses spent from your investment. If a mutual fund has a 2.0% expense ratio, and a similar fund with another company has a 1.5% expense ratio, then the second company has 0.5% more money going into making money for the customer—not for the mutual fund company.

What do expense fees cover? First, fees cover the cost of the researchers who manage the funds. Other expenses, called 12b-1 fees, pay to promote the fund to outside investors. These 12b-1 fees can also pay brokers a fee for selling that particular mutual fund. Does that fee really help investors? You be the judge.

Can I Avoid Mutual Fund Fees?

The best way to avoid mutual fund fees is to know exactly what fees are going to be charged before you invest in the fund. Search for “100% no-load” or “true no-load” funds.

Scams to Avoid

The FBI has issued a fraud alert for scams that are easy to avoid once you are aware of them. Here are some scams.

- You are informed you have won a lottery, such as Canadian, Australian, El Gordo, or El Mundo, that you did not enter.
- You are instructed to “wire,” “send,” or “ship” money as soon as possible to a large U.S. city or some other country, such as Canada, England, or Nigeria.
- You are asked to receive pay or commission for letting money transfers come through your account.
- You are asked to confirm, update, or provide your account information.

All of these are warning signs of a scam, and you should bring them to the attention of your bank branch immediately.
Summary

Saving money is as much a job as earning it in the first place. It helps to have the right incentive, such as something you want to buy later. Then you can turn down easy spending in favor of looking forward to the goal you want to save for. Savings accounts are a good place to start saving money. Then, once you have saved enough for the minimum requirement, you can get a higher interest rate by moving your savings into a money market account or mutual fund.

Saving money by investing in individual stocks or stock-based mutual funds is a good way to build savings for the long term. Stocks can be purchased from a broker, but the commission fee should be weighed carefully before choosing a brokerage house. Mutual funds can be purchased from the mutual fund companies themselves. Investors should always read the mutual fund prospectus before buying any mutual fund. The prospectus will inform potential investors of front end loads, back end loads, expense ratios, and 12b-1 fees that sap money from your investment. No-load funds are often a good way to go for mutual fund investments.
### Key Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tr>
<td><strong>Back End Load</strong></td>
<td>Fees paid to the mutual fund company when selling a mutual fund.</td>
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<tr>
<td><strong>Dividends</strong></td>
<td>Quarterly payout of profits by a company to all shareholders.</td>
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<td><strong>Expense Ratios</strong></td>
<td>For a mutual fund, an annual percentage the fund takes as payment. Expense ratios of different funds can be compared to find the best value.</td>
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<tr>
<td><strong>FDIC Insured</strong></td>
<td>The FDIC (Federal Deposit Insurance Corporation) is a government agency that insures depositors’ money. Banks and savings and loan companies that are FDIC-insured pay a percentage of their deposits to the FDIC to pay for the insurance.</td>
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<tr>
<td><strong>Front End Load</strong></td>
<td>Fees paid to the mutual fund company as an entry requirement into certain mutual funds.</td>
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<td><strong>Inflation</strong></td>
<td>Rise in prices that effectively makes cash have less buying power.</td>
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<tr>
<td><strong>Savings Account</strong></td>
<td>A safe, low-return investment available from banks. There is generally no minimum deposit for this type of account, making it perfect for kids and teens just starting out.</td>
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<tr>
<td><strong>Year to Date Return (YTD)</strong></td>
<td>On a mutual fund statement, a comparison of how the fund has done compared to its value on the first of the year.</td>
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<tr>
<td><strong>Yield</strong></td>
<td>For a savings account, the percentage of interest earned annually. For a stock, the annual dividend divided by the share price.</td>
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</table>
1. If the inflation rate is 4%, and your year-end mutual fund statement says that your investment is up 8%, what is the rate of return after taking inflation into account?

2. Using an online financial calculator, such as the one at http://www.dinkytown.net/java/Millionaire.html, figure out how much you would have to save each month, starting at age 18, to have one million dollars by age 40. Assume that there will be zero inflation. Also assume you are starting out without any savings. Assume you will earn 9% on your money invested.

3. Using the same financial calculator as before, calculate how much you will have to save per month to have $1 million by age 50.

4. Using the same financial calculator as before, calculate how much you will have to save per month to have $1 million by age 60.
GOAL: Your goal is to compare returns from a savings account and a money market account, and then to choose the best money market account based on yield and fees.

YOUR SITUATION: You have an apartment and a checking account.

GOOD NEWS: You have a pile of cash to invest! Your rent and electric bills are paid automatically and you have plenty of food.

Part A
1) Review the Research Funds, View Portfolio, Bank Statements, Open Savings Account, and Buy Shares sections of the tutorial.
2) Open the Intro to Investing lesson.
3) Browse the City View to find the banks. Check out the savings accounts at each bank. Pick the one you feel is best and open that savings account. Put in your cash pile of $1,000 as an initial investment.

QUESTION 1: Which account did you pick and why did you pick it?

4) Using Options->Run To, run the simulation to January 1, 2011.

NOTE: The simulation is set to run at “turbo speed” for this investing exercise. Time will pass very quickly. Your person may appear to jump around the apartment but will be doing all they need to do.

5) On January 1, 2011, click Reports->Bank Statements and choose your savings account.

QUESTION 2: How much is in the account? Given that you invested $1,000 initially, how much did you make during the year? What was your return as a percentage?

Money market funds do better as an investment than savings accounts. But remember that they are not FDIC-insured like savings accounts at a bank.
Part B


**QUESTION 3:** What is the current yield and expense ratio for the fund? Are there any front end or back end loads?

7) Click “Buy Shares”. For Amount, enter $1,000 and select “Cash” under “Withdraw Money From.”

**QUESTION 4:** What is the initial value of your investment? Why is it less than $1,000?

8) Using **Options->Run To**, run the simulation to January 1, 2011. Click **Actions->Investing->View Portfolio**.

**QUESTION 5:** What is the value of your investment? How much did you earn given your initial investment of $1,000? Was it more or less than you earned in the savings account in Part A?

9) Click the link “Oak Money Market Fund” under “Fund Name”.

**QUESTION 6:** What is the yield on this fund now? Do money market yields stay constant?

Part C

10) Reload the lesson. This time you will try to pick an even better money market mutual fund.

11) Click **Actions->Investing->Research Funds**. Under “Fund Category,” select “Money Markets.” Browse the available funds, trying to find one with a higher yield, lower expense ratio, and little or no loads.

**QUESTION 7:** What fund did you pick? What was the yield and expense ratio? Are there any loads?

12) Click “Buy Shares.” For “Amount,” enter $1,000 and select “Cash” under “Withdraw Money From.”

**QUESTION 8:** What is the initial value of your investment? Why is it greater than in Part B?

13) Using **Options->Run To**, run the simulation to January 1, 2011. Click **Actions->Investing->View Portfolio**.

**QUESTION 9:** What is the value of your investment? How much did you earn given your initial investment of $1,000? Was it more or less than you earned in Part B?
Main Idea
Savings are the first step to investing. The stock market’s average annual return through history is 11.3%, which is more than most savings accounts pay. However, in some years, stocks will lose value, and in some years they will gain value. Investors willing to take some risk can often earn higher long-term average returns than investors willing to take no risk.

After completing this lesson you will be able to:

• determine the risk of an investment
• find a stock value at a certain date
• research investment opportunities
• purchase stocks and set up dividend reinvestment programs

Key Terms
• Asset Class
• Capital Gain
• Capital Loss
• Common Stock
• Dividend
• Money Market
• Mutual Fund
• Private Corporation
• Public Corporation
• Rate of Return
• Return
• Risk

Juan’s grandmother told Juan and his sister Julietta that instead of Christmas presents this year, she was setting up a college fund for each of them. What did Juan and Julietta want to invest $1,000 in? Juan was 13 years old. He thought of products he saw every day. His school had Apple computers everywhere, and everyone he knew either had or wanted an Apple iPod. At the current price of Apple stock, Juan could buy about five shares plus pay for the commission on the purchase. Should he put all his money in one stock?

Julietta, 15 years old, decided to purchase $1,000 worth of a fund that held stock representing the total stock market.

They each watched their investments for a month. Julietta’s mutual fund was now worth 2% more than before, and Juan’s single stock was worth 5% more than before. Was Juan’s investment more risky? How much would his investment be worth in five years when he would go to college?

Here’s how to figure out your risk tolerance.

• Ups and downs: Imagine that the value of your investment was up 20% over the year. Would you want to sell right away? What about if it was down 20%? Would you have trouble sleeping at night?

• Your experience: Have you ever owned a stock, bond, money market, or global investment before? If so, you may have more risk tolerance.

• Your investment goals: Do you worry most about losing money? Or do you care more about how much you can make? When do you need the money? How much is your goal?

If you would be a wreck if your investment lost 20% of its value while the entire stock market also lost 20%, you are probably not ready to have a high-risk portfolio. If you are more concerned with the goal of making money than you are about losing money, then maybe a higher risk portfolio will be a comfortable holding for you.

What Is the Stock Market?
Once upon a time, every share of stock bought or sold was traded by traders in an indoor area called a trading floor. Nowadays, almost all stock trading is done by computer. Still, buying and selling stocks is still thought of as the stock market.

The Dow Rose 13 Points Today. Is That Good?
The Dow Jones Industrial Average (DJIA) is a collection of thirty major U.S. stocks. The financial newspaper The Wall Street Journal put these
stocks together as a measure of the health of the economy. If the Dow is up, it means that, in general, people were willing to pay more for U.S. stocks today than yesterday. If the Dow is down, sellers have to accept lower prices to get cash for their stocks.

**What Is Risk?**

If you put your money in a savings account at the bank, you can be very sure you will get a certain amount of interest, typically 2% per year. You also know you will get all of your money back when you need it. Two percent may not be much of a return, but your investment is very low risk.

If you take your savings and buy a stock, there is no guarantee that someone will want to pay more to buy that stock in the future. Perhaps when you decide to sell the stock, buyers are only willing to pay three-quarters of what you paid for it. (That means you had a loss of 25% on your investment.) When you buy a stock, you take the risk that it will be worth more later. But you also take the risk that will be worth less.

While the U.S. stock market seems nearly endless in variety, it is also important to consider global funds. An international mutual fund invests in stocks in other countries. Such an international mutual fund can specialize in a world region, such as Europe or East Asia. Or it can focus on a single country, such as Japan or Italy. These funds can be more risky than buying stocks in the United States. On the other hand, they can help spread out the risk of investing only in the U.S. economy.

Another way to build global diversity in a portfolio is to choose a single stock that does a majority of its business overseas. Coca-Cola may seem like mainly a U.S. company, but it actually makes more money abroad than in the United States.

**How Does Risk Relate to Return?**

In general, a more risky investment will have the potential to give a higher return. Owning stocks is more risky than having your money in a savings account. On average, the annual return on stocks is 11.3%. This average means that some years stocks gain value, and some years they lose value. But over a long period of time, like ten years or more, stocks will generally rise in value about 11%.

Because higher return investments can come with more risk, you also need to think about when you will need your money. If you need the money to pay for college within one year, it would be better to invest in safer, less risky investments.

On the other hand, if you do not expect to need the money in the next year, it is a good idea to use your time wisely and accept more risky options. Time is truly on your side. Your investment can go down, but your long time horizon gives you plenty of time for it to rise back up.

**Stock Basics**

When you buy a share of stock, you and all the other stockholders are now the owners of the company. Once a year, at the shareholders’ meeting, you can vote on who will be on the board of directors, that leads...
the company. You will also receive an annual report from the company, telling you where the money went and what the company accomplished.

Did the company come out with a new product? From the annual report, can you tell who is buying the product? Using your own conclusions, do you think people will want to buy the product in the years to come?

These sorts of questions can be a good guide to whether you should buy, sell, or hold a stock. Believe it or not, one of the worst reasons to invest in a stock is because “I just know it’s going to go up.”

What Is a DRIP?

Almost all stocks pay dividends. The best way to make your investment grow is to automatically buy more of the stock with your dividends, rather than taking the cash. Many companies have Dividend Reinvestment Programs (DRIPs). Often these programs are set up with small investors in mind and charge no commission or fee to buy in. But in the end, reinvesting dividends is a great way to grow your money.

Bond Basics

When you buy a bond, you are actually loaning money to the seller, and the seller agrees to pay you back at a certain time, with interest besides. Bonds come from many sources, such as U.S. Treasury bonds, U.S. Savings bonds, municipal bonds, and corporate bonds. Bonds from the U.S. government are extremely safe investments, because the federal government is not going to go bankrupt any time soon.

U.S. Savings bonds are a favorite gift from grandparents. U.S. Savings bonds are bought for half of the face value (the face value is the amount written on the front of the U.S. Savings bond). By the time of maturity, the U.S. Savings bond is then worth full face value.

Corporate bonds are issued by companies. Corporate bonds usually have higher rates of return than U.S. Treasury bonds, but they are a little more risky.

Municipal bonds are issued by state and local governments to fund the workings of a city or state, like a water supply aqueduct or a new subway line. Municipal bonds can be more or less risky than corporate bonds. The risk will depend on the financial health of the municipality.

Spreading Your Risk with Mutual Funds

Say you have $1,000 to invest. You want to spread your risk by owning a diverse group of stocks, but at prices like $184 a share for Apple and $40 for General Electric, it is hard to buy 20 stocks for your investment. However, you can purchase a mutual fund, which is a group of stocks held and managed by an investment company. Mutual funds can be sold in any amount of money you wish to purchase and are discussed further in the lesson on savings. Mutual funds can focus on a single asset class, like large cap stocks (meaning a company is worth at least $5 billion). Mutual funds can also invest by sector, like manufacturing or mining. Mutual fund companies often have special custodial accounts for teens with minimum purchase amounts as low as $250 and automatic deposits from a checking
or savings account as low as $20 per month. The investments can come
without a brokerage fee paid on each transaction. That strategy really builds
your investment.

**Managed Mutual Funds or Index Funds?**

The lowest expense ratios for mutual funds can be found in index
funds. These funds match a published list of stocks, like the Russell 2000
or the S&P 500. Therefore they do not need a highly paid fund manager
to research stocks worth your investment. A managed mutual fund has
someone researching the best stocks to invest in. You will have to use your
own research to decide if the returns from the managed fund are worth the
greater expense ratio.

**How Do I Research Investment Opportunities?**

Look for major Web sites like Yahoo’s finance site (http://finance.yahoo.
.com), CBS Marketwatch (http://www.marketwatch.com), and Bloomberg’s
site (http://bloomberg.com). These sites are meant for adults, so it may be
challenging reading. A site for families and teens to find financial information
is the Motley Fool (http://www.fool.com/familyfool).

How can you avoid Internet misinformation? First, never buy a stock
because of an e-mail stock tip. Next, never buy a stock that is not listed
on one of the major stock exchanges. Finally, avoid so-called penny stocks,
which are worth less than a dollar a share. Just because they are priced so
low does not mean they are a bargain.

For mutual funds, read ratings by such companies as Morningstar and
Bloomberg. You can (and should) always request a prospectus (a list of the
mutual fund’s holdings and investment strategy) before purchasing. You can
request a free prospectus from a mutual fund company online, or by calling
the company itself.

**How Do I Purchase Stocks, Bonds, Money Market
Funds, and Mutual Funds?**

Stocks can be purchased either in a brokerage account (an account
held by a brokerage company like Charles Schwab or A.G. Edwards) or
directly from a company by investing in a DRIP account. Companies that
have these dividend reinvestment programs often have low minimum dollar
amounts that young investors can buy in with.

Most large companies have DRIP accounts. For more information, see
the DRIP Advisor Web site (http://www.dripadvisor.com).

To purchase individual bonds, stop by your local bank branch. To
purchase bond funds, look to a mutual fund company that has a bond fund
in which you are interested.

Buying money market funds can be done at most local banks, and
with most brokerage firms.

Buying mutual funds can be done through a brokerage account, but
this method usually costs money in terms of a commission. Mutual funds
can generally be purchased without a commission directly from the mutual
fund company.
How Should My Portfolio Change with My Age?

As a young person, your time horizon could be 10, 20, 30, or even 40 years. That horizon is a very long time to let compounding work its magic for you. You should have nearly all of your portfolio in stocks and stock funds. That strategy is because all the growth you gain will build on itself over the long years ahead of you that you have to invest.

But doesn’t that strategy open you up to risk? Yes, it does. But because you have such a long time horizon, you have a lot of opportunity to make up for a market tumble. Remember, the stock market has historically increased an average of 11.3%, but it has done so by tumbling 20% one year, gaining 43% another year, and crawling slowly along at 5% still another year. Unfortunately, you don’t get to pick which year you are investing in.

As you get older, it is wise to shift more of your portfolio to less risky investments. This is because as you get closer to retirement, you will need to use that money, and a downturn could seriously impact your ability to pay life’s expenses. After retirement, an even higher percentage of bonds and interest bearing accounts are recommended, so that you have a steady stream of income.

U.S. Investments Versus Global Investments

The global economy can be more risky to invest in than U.S. companies, because U.S. laws for reporting financial information are very much stricter than anywhere else. However, investing globally can be a hedge against a downturn in the U.S. economy or even a drop in the value of the U.S. dollar compared to other currencies.

Summary

The four main asset classes—money markets, bonds, stocks, and mutual funds—are all important investment possibilities. Riskier investments can yield higher rewards, but can also have steeper downturns. Finding out as much as possible about a stock or mutual fund is crucial before investing.

Dividend reinvestment can be the most cost-effective way for people to invest in the stock market. Special DRIP accounts set up by individual companies allow for a small initial investment with a low cost to get started. Global investing can also be helpful in diversifying your investments should the economy in the U.S. suffer compared to other parts of the world.
1. If the inflation rate is 5% and a savings account pays 2.5% interest, how much value is gained or lost after one year?

2. If the inflation rate is 5% and a mutual fund investment of $1,000 was sold for $1,200 one year later, what value was lost or gained? Calculate the percentage gained or lost first, then subtract the inflation rate.
**GOAL:** Your goal is to increase your investment returns by taking on somewhat more risk in your investments.

**YOUR SITUATION:** You’ve got a nice apartment and are looking to invest some money.

**GOOD NEWS:** You have a bunch of money in your checking account! Your food, rent, and electric bills are paid automatically.

1) Review the Research Funds, Buy Shares, View Portfolio, and Investment Statements sections of the tutorial.

2) Open the Risk vs. Return lesson.

3) Click Actions->Investing->Research Funds. Select “Unity Money Market Fund” and then click “Buy Shares”. Purchase $1,000 worth with money being withdrawn from your checking account. Click “OK”. Click “OK” to close the View Portfolio screen.

4) From the Research Funds screen, select “Unity US Stock Fund” and then click “Buy Shares”. Purchase $1,000 worth with money being withdrawn from your checking account. Click “OK.” Close the Research Funds screen.

**NOTE:** The simulation is set to run at “turbo speed” for this exercise. Your person may appear to jump around but will be doing all they need to do.

5) Using Options->Run To, run the simulation to January 1, 2011.

6) Click Reports->Investment Statements and record the value of each investment at the end of each month. For each month record whether your investment went up or down. Fill in Worksheet 1.

**WORKSHEET 1**

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<tr>
<th>Statement</th>
<th>Unity Money Market Fund</th>
<th>Unity US Stock Fund</th>
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<td></td>
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<tr>
<td>Statement 12</td>
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7) Calculate the total return for the year. Take the ending value divided by 1,000, subtract 1, and multiply by 100.
QUESTION 1: Which fund had the greatest total return? Which fund lost value during some months? Which fund had the greatest risk?

QUESTION 2: How do risk and return seem to be related?
Jack looked at his grandmother’s investment statement from her retirement account. “Grandma, why do you have all your money in these bond funds? In business class, I’m learning about diversification. Your portfolio is all the same investment.” “Jack, child, your Grandma is old. What do I want to own a bunch of stocks for? This is my retirement. Those bond funds give me income, and that really helps, especially when I want to take my favorite grandson shopping.”

“But Grandma, if you diversified, your money would be safer, because you’d spread your risk.” Jack’s grandmother planted a big kiss on his forehead. “You know all about that money, don’t you? Draw me up a plan, and we’ll take it in to my financial planner and see what she says.”

To **diversify your investments, follow these important steps.**
- **Your Own Style:** Assess your own risk tolerance and financial awareness.
- **Research:** Learn about investment opportunities of which you can take advantage.
- **Time Horizon:** Figure out how long you have to invest before you will need your money.
- **Practice:** Use financial modeling software to buy stocks and bonds and watch what happens—before it’s your own hard-earned cash on the line. You will soon learn the power of diversification for long-term growth.

What Is an Investment Portfolio?

If you are like most teens, your investment portfolio consists of a savings account at a bank and some U.S. Savings bonds given to you by your aunts and uncles when you were a baby. Not a lot of money to manage. So why start worrying about diversification now?

Soon enough, if it hasn’t already happened, you will get a job that gives you the option of putting some money away for retirement. Retirement may seem like a long way off, but think of today as a golden opportunity to start building wealth for yourself. In any case, get an idea right now about how to invest in a diversified portfolio—knowing how will come in handy when you have a bunch of investment options to choose from and you have to make a decision.

What Is Diversification?

Let’s say your grandmother gave you 100 shares of IBM stock when you were born (lucky you!). Do you still have 100 shares? Actually, the stock split 2-for-1, or gave every investor two shares for every one share he or
she owned. It split two times in the past ten years. The original 100 shares became 200 shares, and then became 400 shares. Now that nice little nest egg is worth $45,836. But over the past ten years, the 100 shares has been worth as little as $4,956, and as much as $52,000. That difference is a lot of variability. Think about it. What if you had a bank account in which you were saving money, and depending on what day you went in, you could have one-tenth the amount that used to be there?

That situation is where diversification comes in. By selling some of your IBM shares and purchasing a mutual fund that gives you a greater spread of risk, you can keep your exposure to the upside of the market while limiting the downside.

**What Are the Benefits of Diversification?**

By diversifying your investments, can you get rid of your risk? No, there is always risk in investing. Even keeping money in your piggy bank has risk—the risk that inflation will sap away your buying power.

Diversification will help you weather the more challenging bear markets. A bear market is a time when stocks seem to stay at about the same level or lose ground. During a bear market, bonds and interest-bearing investments are very attractive compared to the stock market. By diversifying from the start, you will already have a balance of bonds or bond funds, stocks, and a money market fund. Some people even look at a bear market as a golden opportunity to buy shares of stock in companies that are still perfectly sound but that people do not value as highly as before.

Diversification will also help you weather the bull markets. A bull market is a time when everyone seems to be snapping up stocks, and stock prices seem to keep roaring upward. By having a diversified group of investments, you will be able to take advantage of a bull market.

**What Are the Different Avenues of Diversification?**

By this time, you are probably aware of stocks, bonds, money market funds, and savings accounts. There is more to diversification than these asset classes alone.

You could own all large-cap stocks, such as the stocks that make up the Dow Jones Industrial Average. Large-cap stocks have a market capitalization (total money of all outstanding shares, times the stock price) of $10 billion to $200 billion. Yes, billion with a “b.” These companies are all ones you have heard of, such as IBM, General Electric, and WalMart.

You could have some money in small-cap stocks. These companies are often successful ones, having a market capitalization of between $300 million and $2 billion. These stocks may have a lot of growth potential. It may take a little more work from you to find out about these companies. Your research can discover: are they a leader in their own market? Have they been growing? Are they located in one region, or do they have offices or factories in many regions? Because small-cap stocks are less of a household name, you have to do your financial homework. A mutual fund specializing in small-cap stocks can be an excellent way to capture the potential growth of this market.
Should I Use a Financial Planner?

If you have money to invest, it may be worth your while to speak to a financial planner. These investment advisors can be helpful in letting you define and reach your financial goals. Financial planners must file a business form called the “Form ADV” that you can request to learn about their rates, business services, and strategies. Be aware that some financial planners work for a specific group of investments, and it is their job to convince clients to invest in those funds. For example, a bank can have an investment advisor at the bank branch. That investment advisor may advise everyone to invest in a portfolio of mutual funds that are managed by the bank itself. This advice may be a good and diversified portfolio, but the investment advisor is working for his or her employer, not for you.

How Much Do Financial Planners Cost?

Financial planners who are brokers will generally not charge you for planning. However, they may not do much planning beyond telling you what would be a good idea to buy today for a balanced portfolio. Financial planners who will plan your investments for you may charge a percentage of the amount you have to invest, or a flat hourly rate.

Researching Investments with Financial Publications

Whether it is The Wall Street Journal, Investor’s Business Daily, or some other financial newspaper, you should regularly read daily business news. You will quickly learn about the financial problems one region may be facing, and the opportunities that other investors are finding. You can learn a lot from a business weekly magazine like Barron’s, such as information about up-and-coming industries, investment strategies, and even tips on tax strategies for the investor. A foreign financial weekly, such as The Economist from England, can give you a lot of insight on how our markets are viewed overseas. Increasing your investment knowledge is always a good idea.

Researching Investments Online

The Internet is a great place to find financial information. For example, if you want to keep track of five mutual funds you are thinking about owning some time in the future, you can set that up at such sites as http://finance.yahoo.com. You can also use these sites to look up what a stock was worth on a certain date. These data can be important in researching how much a certain stock has been worth over time.

Spam Attack!

Opening a financial Web site membership can open you up to a boatload of spam. Spam is unsolicited e-mail. Set up a “junk e-mail” account that you only use for this purpose. Then you won’t have to wade through spam in your regular e-mail account.
Summary

Diversification is the key to limiting risk while increasing the growth potential of your investment. The last thing you want to do in investing is have all of your eggs in one basket. A single asset class focus can leave you out of growth in another asset class. Also, focusing your investment on only large-cap stocks or small-cap stocks can cause you to miss out on big advances in the other market.

Diversification is also important in terms of investing in both the U.S. economy and the global economy. A good financial plan will take into account your age, financial comfort level with risk, the time horizon when you will need the money, and your financial goals. With planning and discipline come the successful attainment of the goals you have for your financial future.

Key Terms

**Bear Market**
A time with generally falling stock prices.

**Blue Chip Stock**
Stocks issued by solid and reliable companies with long records of growth and stability. These stocks usually pay small but reliable dividends and maintain a steady stock price.

**Bonds**
Money loaned to the government, corporations, or municipalities that pays the investor interest. Different types of bonds can be more or less risky, and bonds can have high yields or low yields (interest rates).

**Bull Market**
A time with generally rising stock prices.

**Defensive Stock**
Stocks of companies that produce such staples as food, beverages, and pharmaceuticals, and insurance companies. These businesses may not grow enormously fast, but they should keep their value relatively constant.

**Diversification**
Owning a collection of investments such as stocks from different industries and small and large companies, bonds, and money market funds for cash, in order to spread risk and have a safer investment overall.

**Growth Stock**
Stocks of companies that generally do not pay dividends or pay only very small dividends. These companies plow their profits back into growing the business. They can be new and entrepreneurial companies, and can experience high growth or financial failure.

**Investment Portfolio**
The collection of investments you personally hold, including stocks, bonds, money market accounts, and savings accounts.

**Large-Cap Stock**
Stocks of very large companies such as WalMart, General Electric, and IBM, that have a market capitalization of between $10 billion and $200 billion.

**Personal Investing Plan**
A collection of investments tailored to your investment risk tolerance and time horizon. Any plan only works as well as your ability to stick with it, including sometimes selling “winners” to keep your overall spread of investments to where you want it to be.

**Small-Cap Stock**
Stocks of largely unknown companies with smaller market capitalization, that is, dollar value of total stock ownership. Small-cap stocks generally have a market capitalization of between $300 million and $2 billion.
1. If Stock A has been as low as $30 and as high as $50 in the past ten years, and is now at $45 a share, what is the most someone could have increased their investment? What is the most someone could have decreased their investment?

2. Imagine you purchased 30 shares of Stock B at $25 per share. Then the stock split 2-for-1, doubling the number of shares you owned. After that, you sold all your shares for $20 per share. How much money did you make or lose? Do not include fees or commissions.

3. You put half of your investment money into a company bond that pays 15% per year, and it is called (the company pays you back your investment plus interest earned to date) after only 6 months. The other half of your investment money is in a mutual fund that you bought at $45 per share, and one year later is worth $46 per share. If your original investment was $2,000, how much money is your investment worth at the end of the year?

4. You want to see how Stock A has done over the past five years. Using a financial Web site, you learn that Stock A was worth $50.36 five years ago. The stock is now worth $60 a share, and has paid quarterly dividends of 20 cents a share. Based on a purchase of 100 shares, what is the return on investment of Stock A over the last five years?
GOAL: Your goal is to increase investment returns by investing in international stock funds, but without taking on too much risk.

YOUR SITUATION: You have $2,000 to invest. You really want a good return on your money but don’t want outrageous risk.

GOOD NEWS: You don’t need to worry about food or paying rent and electric bills.

1) Review the Research Funds, Buy Shares, and Investment Statements sections of the tutorial.

2) Open the Diversification lesson.

3) Click Actions->Investing->Research Funds and select “Intl Stocks.” Choose the Unity fund. Click Buy Shares and invest $1,000 from your checking account. Click OK. Click OK again to close the View Portfolio screen.

4) Select the “Vanyard Intl Stock Fund.” Click Buy Shares and invest $1,000 from your checking account. Close out of the investment screens.

5) Using Options->Run To, run the simulation to July 1, 2010.

6) Click Reports->Investment Statements. Use the month-ending values of each account to fill in Worksheet 1.

7) Compute the percent change for each month by taking the ending value and dividing it by the ending value for the previous month. Subtract 1 and multiply by 100 to get your percentage return. Fill in the column called “Total” for each month by adding up the values of the two funds. Calculate the % change for the total for each month.

WORKSHEET 1

<table>
<thead>
<tr>
<th></th>
<th>Unity International Stock Fund</th>
<th>Vanyard International Stock Fund</th>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Statement 1</td>
<td>Value</td>
<td>% Change</td>
<td>Value</td>
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<td>Statement 2</td>
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<td>Statement 6</td>
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QUESTION 1: What was the worst return month for each of the individual investments? What was the worst return month in the “Total” column?

QUESTION 2: Was the whole portfolio more or less risky than the pieces?

QUESTION 3: Do you think percentage gains would get more varied or less varied if you added funds to your portfolio?

NOTE: The simulation is set to run at “turbo speed” for this exercise. Your person may appear to jump around but will be doing all they need to do.

IMPORTANT: Use $1,000 as the beginning value when computing percent change for this first row.
What Is Retirement?

Many of us look forward to the day when we can kick off our work boots for good, lie back, and relax. Or, maybe you’re hoping to travel the world. You may even dream of the day when you can commit yourself full-time to a charitable cause. Whatever your plans may be, you’ll certainly need to make sufficient financial preparations for the day when you retire. But what does retirement mean? When you retire you permanently withdraw from your position or occupation; you are no longer a part of the workforce and therefore you must depend on your retirement savings (money you have saved specifically for this purpose) to support yourself. The full retirement age in the United States for people born after 1960 is 67 years old. The government designates this age as “full retirement age” because at 67 you become eligible to receive all of your social security benefits, which we will talk about later. It is possible to retire before age 67 or to delay retirement if you wish to keep working. Choosing when to retire is an important decision, but you certainly don’t have to decide that right now. However, it is important to learn all you can about retirement and how to plan for it, because the decisions you make today can affect what kind of retirement you have. In the computer exercise of this lesson you will get the chance to make some of those decisions and see the outcome.

What Is Social Security?

According to the government’s Web site, 96 percent of American workers are covered under social security, so chances are it will be part of your retirement plan. But what is it, and how does it work? Social security is a payroll tax that is deducted automatically from your paycheck. The deduction appears as FICA (Federal Insurance Contributions Act). You become eligible to receive social security retirement benefits after you’ve worked and paid into the system for 10 years. Throughout your career the government will keep track of your earnings. The amount of the monthly benefit to which you are entitled depends upon how much you earn during your working career. If your lifetime earnings are high, your benefits will be high; but if your earnings are low or you have lapses in your work history, your benefits will be lower.

The age at which you retire will also affect how much you receive. The earliest possible retirement age to receive social security benefits is 62, but full retirement age isn’t until 67 for all people born after 1960. If you retire at age 67 or later you will receive the full amount of benefits to which you are entitled. However, if you choose to retire before age 67, your benefits will be permanently reduced. You can also choose to continue working past age 67 and delay your retirement. This will mean an increase in your
benefits because you will be adding more earnings to your social security record. The government will also add 8% per year to your benefits for each year that you delay signing up for social security beyond age 67 until you reach age 70. That’s a lot of numbers to keep track of, but it’s important to keep these considerations in mind when deciding the right time to retire. Financial advisors say you will need 70–80% of your pre-retirement income to have a financially secure retirement. However, not all of this income will come from Social Security; it replaces only about 40% of pre-retirement income for the average worker.

What Is a Pension?

Another source of post-retirement income could come from a pension. With this type of arrangement, your employer will continue to provide you income even after you retire. During your time with the company, your employer saves money for you, manages it, and pays you the guaranteed amount when you retire. A pension is called a defined benefit plan because you are guaranteed a certain amount of money. The amount of your pension depends on two variables: how long you’ve worked for the company and how much money you’ve earned there. Usually, you have to take part in the program for a certain number of years before you have the legal right to the money. You will normally start to receive your benefits as soon as you reach retirement age and stop working. The great thing about pensions is that you continue to receive your benefits for as long as you live. Most pensions are paid to you monthly. Very few companies give you the choice to receive one lump sum. If you are married, you will have to decide whether or not to have your pension cover your spouse, which means your spouse has the right to receive the pension after you die. If you decide against covering your spouse, you will have a higher payout each month; however, your spouse must agree to this arrangement in writing.

What Are Employer-Sponsored Retirement Plans?

In the computer exercise of this lesson you will be asked to compare investing on your own for your retirement against your employer’s 401(k) plan, which is an employer-sponsored retirement plan. These types of retirement plans are a great way to get the most out of the money you save for retirement. If your employer offers such a program, you should definitely participate and take full advantage of the benefits. But before you sign up be sure to read all the materials provided to you about the plan and ask your human resources representative any questions. Not all employer-sponsored retirement plans are identical, but most offer similar key features.

- The money you contribute to the plan is automatically deducted from your paycheck. This is helpful because if you never see the money, chances are you won’t miss it. You also control how much of your salary you contribute, and most employers allow you to change the amount on certain dates throughout the year.
- Your contributions are not taxed. You also will not pay taxes on investment earnings in your account until you withdraw the money.
- It is possible that your employer will match all or some of your
contribution. For instance, if you contribute 6% of your salary, your employer may match 3% of that.

- You may be able to borrow some of your vested balance without having to pay a high interest rate or penalties.
- Your money is safe from creditors trying to collect on your debts.

As you can see, employer-sponsored plans offer many advantages. For this reason you should try to contribute as much as you can.

The 401(k)

The most popular employer-sponsored retirement plan is the 401(k). The name refers to a section of the U.S. Internal Revenue Code, but don’t let the name scare you; the way it works is pretty straightforward. You decide how much of your pre-tax salary you wish to pay into your account and your employer automatically deducts that amount from your paycheck. A 401(k) plan is a defined contribution plan because the amount of your benefit depends on how much you contribute to it. You are not guaranteed a specific amount when you retire. If your 401(k) plan is participant-directed, that means you choose where to invest your money. Most employers allow you to change your investments throughout the year. The majority of 401(k) plans are participant-directed. The other type is called a trustee-directed 401(k) plan, because the employer appoints trustees who control the investing.

As mentioned before, a great benefit of 401(k) plans is the tax deferment they provide. You will be able to experience this firsthand in the computer exercise of this lesson. You do not pay income taxes on the money contributed to the account or any growth it experiences until you withdraw the funds. However, there are limits on how much you can contribute on a pre-tax basis. The limit is currently $15,500 per year. Another benefit that may be available to you with a 401(k) plan is a contribution match by your employer. With this benefit comes the term “vested.” This refers to the amount of your employer’s contribution that you are entitled to should you leave the company. If you are 100% vested, that means you are entitled to all of the money; if you are 50% vested you are entitled to half of their contribution, and so on. The only real drawbacks to the 401(k) plan are the strict penalties that are assessed for withdrawing funds before the age of 59 years and six months. These penalties are over and above the regular income tax you will pay.

Most people change jobs at least once in their lifetime, so what do they do with their 401(k)? You have several options from which to choose. You can take a lump-sum distribution, but then you will have to pay income taxes and maybe a penalty. Another option is to keep your money in your old plan. This may work for you if you’re satisfied with the plan’s investments. Or, you can “roll over” your funds to a new employer’s plan or to an IRA, which we’ll talk about next.

What Are Individual Retirement Accounts (IRAs)?

An Individual Retirement Account is commonly referred to as an IRA. It is a retirement plan that is not necessarily employer sponsored, but still provides some tax advantages. There are two main types of IRAs: traditional and Roth. The maximum you can contribute to any IRA is $4,000 a year (if you are under 50 years old). If you have more than one IRA the limit stays the same.
You can set up a traditional IRA as long as you receive taxable income and are under the age of 70, regardless of whether you have another retirement plan with your employer. There are no income restrictions to setting up a traditional IRA. You can begin withdrawing from it at age 59, but there is a 10% penalty on early withdrawals (some exceptions exist). You can set up a traditional IRA through a bank or other financial institution or even your life insurance company. The advantages of a traditional IRA are that some or all of your contributions are tax deductible, and your earnings are not taxed until they are withdrawn.

A Roth IRA works in basically the same way as a traditional IRA except that contributions are not tax deductible. However, you can withdraw your principal investment (not the earnings) at any time without paying penalties. When you reach retirement age, all withdrawals are 100% tax-free. Most people would benefit more from a Roth IRA, but not everyone qualifies to set one up. You can set up a Roth IRA if your income does not exceed $95,000 and you are a single filer. If you are married and file jointly, the income restriction is $150,000 annually. If you want to set your IRA as a Roth IRA, you must state that at the time you open it.

What If I’m Self-Employed?

Being self-employed or owning a small business does not mean your retirement savings are doomed to lag behind. A Keogh plan is specifically designed for self-employed professionals or owners of small businesses and its employees. Keogh plans may also be referred to as self-employed pension plans. There are two types of Keogh plans: a defined benefit or a defined contribution plan. Do you remember what these two terms mean? A defined benefit plan is one that guarantees a specific benefit amount upon retirement, whereas a defined contribution plan does not. With a defined contribution plan, you decide how much to contribute.

Keogh plans enjoy the same tax advantages as 401(k) plans. Your contributions are tax deductible and you do not pay income tax on any earnings until you withdraw the money. Another advantage of a Keogh plan is that you can generally contribute more than to an IRA. It is important to keep in mind that the same early withdrawal penalties apply to this plan as with the other plans we talked about. If you are the owner of a small business and wish to set up a Keogh plan, you must include your employees in the plan, but their contributions are also tax deductible.

Retirement Annuities

Most financial advisors agree that IRAs and employer-sponsored retirement plans like a 401(k) are the preferred way to save for retirement. However, if you have contributed up to the legal limit to both of these plans and you still want to save more, retirement annuities could work for you. Here is how a retirement annuity generally works.

• It is a tax-deferred investment contract. You do not pay taxes on the earnings as long as they remain in the annuity.
• Your money is invested with a life insurance company (the annuity issuer) that sells annuities. You can either give them one lump sum or payments over a period of time.
• The annuity issuer pledges to make payments to you or your beneficiary at some point in the future. You can receive a lump sum payment or choose to receive payments during a defined period of time or for your entire lifetime.

The type of annuity you want will depend on how soon you want your payments to start and how you want your money invested. With an immediate annuity you will begin receiving payments shortly after you purchase the annuity. But if retirement is a long way off, then you can go with a deferred annuity. A fixed annuity guarantees that you will earn a particular interest rate that is set by the annuity issuer. A variable annuity gives you the option of deciding how to invest your money. You have the potential to earn more money this way; however, you take the risk of losing money as well. You can purchase an immediate-fixed, immediate-variable, deferred-fixed, or deferred-variable annuity.

Summary

Everyone hopes for an enjoyable retirement, one in which they have more time to pursue their passions and to spend with their family. However, social security benefits alone cannot provide this for you. Fortunately, there are retirement plans available to everyone that allow you to save for the future. Many of these plans also provide you with tax deductions and tax deferments. The best plan for you will depend on what kind of job you have and how much you can afford to save. They all have some characteristics in common, like penalties for taking money out early. But no matter what plan you choose, it is vital to fund it as much as possible in order to ensure you’ll have the retirement for which you’ve worked your whole life.

Key Terms

**401(k) plan**
A type of employer-sponsored retirement plan in which money is contributed on a pre-tax basis and all earnings are tax deferred.

**Annuity**
An investment contract made with the issuer (e.g., insurance company); types: immediate, deferred, fixed, variable.

**Defined-benefit plan**
A type of retirement plan, usually a pension, in which the payment amount is guaranteed.

**Defined-contribution plan**
A type of retirement plan in which the amount invested in the plan is controlled by the employee, with no guarantee of benefits.

**Employer-sponsored retirement plan**
A savings plan for retirement that is offered through a company’s benefits package; contributions are usually matched by the company.

**IRA (Individual Retirement Account)**
A type of retirement-savings plan that is not usually done through an employer; traditional IRAs are tax deductible and earnings are tax deferred.

**Keogh plan**
A retirement savings plan for self-employed professionals or owners of small businesses; it affords the same tax benefits as a 401(k).

**Pension**
A fixed sum paid regularly by an employer to an employee after retirement.

**Retirement**
Permanent withdrawal from the workforce.

**Roth IRA**
This type of Individual Retirement Account is not tax deductible, but may not be subject to income tax upon withdrawal.

**Social Security**
A United States government program established in 1935 that includes a retirement benefit for citizens; it is funded by payroll tax.
LESSON 16
Investing for Retirement

1. How much do financial advisors say you need for retirement?

2. What do you think would be the best retirement plan for you? Why?

3. Name two tax benefits of the 401(k) plan.

4. What is the difference between a traditional IRA and a Roth IRA?
GOAL: Your goal is to invest so you can live comfortably in retirement, using any advantages the government or your employer will give you.

YOUR SITUATION: You have an apartment and a job that offers an optional 401(k) plan. You are not currently enrolled in your company’s 401(k) retirement plan.

GOOD NEWS: You don’t need to worry about food, paying rent or electric bills.

Part A

1) Review the View Portfolio, Taxes, Retirement Portfolio, Buy Shares, Change Retirement Contribution, and View Retirement Portfolio sections of the tutorial.

2) Open the Investing for Retirement lesson.

3) Run the sim for one year. You will be investing quarterly (four times during the year). On the last day of March, June, September, and December, invest $585 in the Select U.S. Stock Fund by clicking Actions->Investing->View Portfolio and choosing Buy Shares. Select the first fund and enter 585 for the amount. Pay from your checking account. Click OK.

NOTE: The simulation is set to run at “turbo speed” for this investing exercise. Time will pass very quickly. Your person may appear to jump around the apartment but will be doing all they need to do.

4) Stop the sim on January 1, 2011. Click Actions->Investing->View Portfolio.

QUESTION 1: What is the value of your investment?

5) Click Actions->Income->Taxes.

QUESTION 2: Based on your tax professional’s report, how much wage income did you have? How much dividend income did you have? What was your refund?

6) Click Close. You do not have to file the return.

Part B

7) Reopen the lesson. Click the Schedule button and click the Work activity. Click 401K and choose 10% for the percent of pay to withhold. Under “Investment Allocation,” enter 100% next to “Select US Stock Fund.” (This amount will equal your investments for the year in Part A.) Note that the company will match your contributions up to 2% of your salary.

8) Using Options->Run To, run the simulation to January 1, 2011. Note that all the investing is done automatically for you!
9) Stop the sim on January 1, 2011. Click **Actions->Investing->View Retirement Portfolio**.

**QUESTION 3**: What is the value of your investment? How does it compare to the value in Part A? Why is it higher?

10) Click **Actions->Income->Taxes**.

**QUESTION 4**:
Based on your tax professional’s report, how much wage income did you have?

How much dividend income did you have?

Compare your taxable wage income and dividend income in Part A and Part B.

What was your refund? Compare this to your refund in Part A.

11) Click **Close**. You do not have to file the return.

**NOTE**: You still owe taxes on the 401(k) investment but you won’t have to pay them until you retire, at which point you may be in a lower tax bracket.
Owning Versus Renting

If you are like most people starting out on your own, you will probably rent your living space. Renting is the most economical approach in the short term. You haven’t had the opportunity to save enough money for purchasing a home yet. However, the money you spend on rent is not buying you anything in the long run. You are not building up any value or equity. When you are done renting, your money is gone and you have nothing to show for it.

Owning your home means that the money you pay every month is going towards something—namely, the home you are living in! If you ever have to sell your home, you should get back some of that money. In other words, a home is an investment—possibly the single largest investment you may make in your lifetime. And for the most part, your home is a safe investment because it should grow in value over time provided you take good care of it.

Housing Choices

There are many different housing options to meet the needs of a variety of people. A single family home is a stand-alone structure that is meant to house one family. The owner is responsible for maintaining the home as well as the property on which it is located.

In contrast, condominiums are built such that several units may be connected together, and usually there is a small green space for each unit. You own the interior space of your unit. Generally (but not always) condos are smaller and less expensive than single family homes, but there is a monthly fee to cover maintenance of common areas such as elevators, lobbies, or recreational facilities. As a condo owner you do not need to worry about things like mowing the grass or repairing your roof. But you may also have some restrictions that a single family homeowner would not, such as what type of pet you may have.

Another option is a duplex or a double. These look like single family homes but are really two homes connected in the middle by a common wall. Each side has a private entrance. Some people choose to buy a duplex and live in one half while renting out the other half. The money they collect in rent helps pay for the mortgage.
How Do I Find a Home?

There are many different ways to find the right home for you. The easiest and often the quickest way is to work with a real estate agent. This person will ask you a lot of questions about what you need and want in a home, such as what part of town you want to live in, what size home you need, and what other amenities are important to you. Your agent will compile a list of homes for you to consider, and arrange for you to see the homes at a time convenient for both you and the seller. Usually your real estate agent will handle your paperwork when you do purchase a home and will earn a commission from the seller based on the selling price of the home. In some states an attorney is required to handle the closing even when an agent is present.

Some people will list their homes “For Sale By Owner,” meaning that they will try to sell their home themselves and avoid paying commission to an agent. This can mean their price will be slightly lower. But generally you should be cautious when buying a home directly from the owner because the owner will not be qualified as a closing agent and therefore will not be as helpful to you as a buyer. In this instance you will need to hire a lawyer to assist you at closing.

You can also find many homes listed in the paper, on the Internet, or even on television. Two of many Internet sources listing homes for sale are www.Zillow.com and www.Realtor.com. The Multiple Listings Service (MLS) is a publication as well as an online tool that lists homes for sale in an area with pictures and pertinent information such as total square footage, taxes, and lot size. Often on weekends, homes for sale will have open houses and anyone can tour them without an appointment or an agent representing them.

How Much Home Can I Afford?

There are two important things to ask yourself when considering buying a home. First of all, how much money is coming in? Second, how much money do you owe? The two key factors that will help you decide how much you can afford in a home are your earnings and your debt. It seems obvious, doesn’t it? Here are a couple of simple formulas to help you set some spending limits.

As a general rule, you should not spend more than 28% of your monthly pre-tax income on housing costs. Housing costs are considered to be the sum of your principle and interest payment, real estate taxes, and insurance each month. And you should try to limit your debt to 36% of gross monthly income. Don’t forget to count loans unrelated to housing, such as school loans, car loans, or credit card debt when figuring out the total debt you owe. Remember, though, that these are guidelines to indicate the most you should spend; only you can decide how much is wise.

It is a wise idea to know how much house you can afford before you begin searching. Choosing a home can be an emotional decision, and if you do not have a good idea of what your limits are initially, you might be
tempted to take on too much debt. Do not be trapped by a well-meaning friend or an enthusiastic real estate agent telling you “it won’t hurt to look” at a home that is wonderful but out of your price range.

What’s a Mortgage?

Buying a home is a huge financial commitment. Few people have the cash to purchase a home outright. A mortgage is a way of borrowing money to buy a home and paying it back over a long period of time. A mortgage is a legal agreement between you, the borrower, and a lender, usually a bank. You agree to repay the amount of the loan, with interest, by making monthly payments over a period of time. You must provide the lender with information about your personal finances, income and savings when you apply for a mortgage. If you default on the loan, which means you stop making payments, the lender will take possession of the home from you.

Once your mortgage application is approved, the lender will provide you with a payment booklet full of coupons. Each month, when you write your check, you will send a coupon along with it. You can choose to pay additional money if you like—this enables you to pay off the loan more quickly. Note also that there is a penalty if your payment is late.

You will want to shop around for the best interest rates before you choose a mortgage. Mortgage companies and banks are competing for your business and will not all offer the same deals. Check with several different lenders before making a selection. Be sure to consider all the different factors—the interest rate, the length of the loan, the points owed at closing, etc. When you apply for a mortgage you must provide the lender your personal financial information in order to be approved for the loan.

Mortgage Basics

As you begin to think about buying a home you will need to learn many new concepts. One of the first things you need to decide is how much money you have available for your down payment. The down payment is the initial sum of money that you pay toward your house. The amount you will need to borrow is equal to the selling price minus the down payment. The larger the down payment, the smaller the loan will be. Sometimes there is a minimum amount you must have for a down payment, such as 5% of the cost of the home.

When you take out a loan, whether for a home, a car, or for college, you always need to pay back the amount of the loan plus interest. Interest is what it costs you to be able to use someone else’s money. So each month when you make your mortgage payment, part of the payment will go toward paying back the principle, or amount of the loan, and the rest of the payment will be interest. Interest is always calculated as a percentage of the outstanding loan amount.

At closing, when you complete the paperwork to buy your home and sign that first check, there will be other costs besides the down payment. These added fees, paid by the borrower, are called closing costs. The cost of obtaining a credit report, the cost of doing a title search on your home,
the appraisal fee, and the purchase of title insurance are all examples of closing costs. Points are also examples of closing costs. Origination points are added fees to cover various processing expenses for the loan. Discount points are like interest paid up front to reduce the amount of the monthly mortgage payments. A point is calculated as 1% of the loan amount.

Another cost you may incur as a borrower is called Private Mortgage Insurance, or PMI. Private mortgage insurance protects the lender in case you, the borrower, cannot make your loan payments. Typically the borrower must purchase PMI if the amount of the loan is very close to the value of the home. In the computer exercise you will see how increasing your down payment lowers the cost of PMI because you are borrowing less money and there is less risk for the lender.

Different Types of Mortgages

There are a few basic types of mortgages, and several variations of these. First is the fixed rate mortgage. Although the length of the loan can vary, the interest rate will not change for the life of the loan. In other words, your payment will be exactly the same each month. Most fixed rate mortgages will be for either 15 or 30 years. A 15-year mortgage will have a higher payment than a 30-year mortgage for the same amount, because you will be paying off the loan in less time. But, as you will see in the computer exercise, you will pay much less in interest over the life of a 15-year loan.

The second type of mortgage is called an adjustable rate mortgage, or ARM. There are many different types of ARMs. Generally, though, the interest rate is fixed for an initial period of time, say 5, 7, or 10 years; then it can fluctuate up or down based on a national index such as the U.S. Treasury bill rate. With an ARM you can often start out with a fairly low interest rate, but the risk is that when it becomes eligible for adjustment, the interest rate may increase significantly.

A balloon mortgage starts out like a fixed rate mortgage but the balance of the loan, or balloon, is due in one large payment after a short period of time, say 5 or 7 years. Usually someone who chooses this type of mortgage doesn’t plan to be in their home for very long. Otherwise, most people need to refinance or get a new mortgage when the balloon payment is due. Refinancing simply means replacing your existing loan with a new loan, often to take advantage of lower interest rates.

In order to choose the mortgage that best suits your needs, ask yourself these questions:

- How long do I plan to live in this house?
- Would I rather pay a slightly higher monthly payment and know it will not increase in the future?
- Is it likely that interest rates will come down in the future and my payment could be lowered?
- Am I willing to refinance in a few years?

The answers will tell you whether a fixed rate or adjustable rate mortgage is right for you, and whether a longer or shorter term mortgage will work the best.
Location, Location, Location

Choosing a home in a good location is very important, mainly because at some point in the future you will probably want or need to sell it. Some important considerations are safety and civic issues. Does the neighborhood have good police and fire protection? What school district do the residents belong to? Is the home conveniently located near shopping? A library? A park? Are there sidewalks? Well-lit streets? Having some of these amenities adds value to any neighborhood.

Certain qualities that might make a home look like a bargain when you are buying may also make it more challenging to sell at a later date. For instance, suppose there are railroad tracks running somewhere close to a property. The presence of these tracks could mean a slightly lower price for you as a buyer. And perhaps you find the sound of a train at night rather quaint. But another person might strongly object to hearing the train at all, and would not consider this a desirable home.

The value of a home is also influenced by its surroundings. You do not want to own the biggest or fanciest home on the street. Why? Because its value will be limited by the value of the smaller, simpler homes surrounding it. Most people would rather buy a fancy home if it is surrounded by other fancy homes.

How Much of My Home Do I Really Own?

Suppose you want to know how much real ownership you have in your home. As long as you are making mortgage payments, part of your home still belongs to the bank. Here’s a formula to calculate the ownership, or equity you have in your home:

\[
\text{Equity} = \text{fair market value} - \text{outstanding loan balance}
\]

First, you need to determine the fair market value of your home. That is, what could you realistically sell your home for today? If you have made a wise investment, your home will have appreciated and the market value will be more than what you paid for it originally. You might look at other comparable homes nearby that have sold recently to see what price they sold for, or get your home appraised to determine its fair market value.

Second, you need to calculate the amount of principle still owed on your loan. This amount should be stated on each payment coupon that you send in with your check. If you subtract the amount still owed on your loan from the fair market value, that will be the amount of equity you have in your home. The longer you live in your home, generally the more equity you build up because you have paid off more of your loan.

Here is an example. When Stuart purchased his home five years ago he took out a loan for $130,000. Stuart thinks he could sell his home today for $152,000. He has paid off $5,000 of the loan, so the outstanding loan balance is $125,000. His equity in the home is $152,000 – 125,000 = $27,000.
Summary

There are many resources available to help you find a home. Before you begin your search, have a clear idea of what you can afford to spend, both for the down payment and on a monthly basis. Choose a home in a location that will appreciate in value and be easy to sell when the time comes. Examine the different mortgage options to get the best interest rate and a payment that fits your budget. Build up equity in your home by working to pay off your loan.
<table>
<thead>
<tr>
<th>Key Terms</th>
</tr>
</thead>
</table>
| **Adjustable Rate Mortgage**  
In this type of mortgage the interest rate can vary at certain points in the life of the mortgage. Usually the interest rate is tied to an index such as the U.S. Treasury bill rate. An adjustable rate mortgage is sometimes called a variable rate mortgage. |
| **Fixed Rate Mortgage**  
In this type of mortgage the interest rate remains the same throughout the life of the mortgage; it will not increase or decrease. Your payment due will be the same each month. |
| **Closing Costs**  
These are additional costs paid by the borrower when buying or refinancing a home. For example, fees paid for a title search, an appraisal, a loan origination fee, title insurance, taxes, or the cost of a credit report. |
| **Mortgage**  
A legal document that uses property to secure a loan. Often the loan itself is referred to as a mortgage. |
| **Condominium**  
A dwelling in which you own your individual unit, and a group or association owns the common areas such as green space, recreation facilities, etc. |
| **Points**  
A point is equal to 1% of the amount of the loan. Sometimes by paying more points at closing you can reduce the interest rate on your loan. |
| **Down Payment**  
A sum of money that you pay at closing. The selling price of the home less the amount of your down payment is the amount you will need to finance, or borrow. |
| **PMI (Private Mortgage Insurance)**  
Insurance that protects the lender in case the borrower defaults and is unable to repay the loan. Generally a borrower must pay PMI if their equity is less than 20% of the home's value. |
| **Equity**  
The monetary value of your ownership. To determine your equity in your home, subtract the amount you still owe on the home from its fair market value, or the price it would sell for. |
| **Single Family Home**  
A free-standing residential building meant for one family to occupy, usually found outside of cities and in neighborhoods with other single family homes. Most single family homes have a yard as well. |
WRITTEN EXERCISES:  

LESSON 17  

Buying a Home

Student Name ______________________________ Date ___ / ___ / ___

1. Sean has just purchased a home for $133,800. He has made a down payment of $18,800 and is financing the remaining $115,000 of the purchase price with a 30-year fixed rate mortgage. If his mortgage payment each month is $689, how much will he actually pay for the home at the end of the 30 year loan?

2. Anton’s gross salary every two weeks is $1,650. He pays $90 each month on a school loan and $145 on a car loan. He estimates insurance and taxes will cost about $200 per month. How much can he afford to spend in monthly mortgage payments?

3. Margot wants to figure out how much equity she has in her home. She knows its real estate market value is $185,000. She has paid off half of her initial loan amount of $147,000. Show what equation you would use and calculate her equity.

4. Go to www.Realtor.com. Look up some homes that are for sale in your city or town. What kind of information is listed for each specific home?
GOAL: Your goal is to buy the nicest condo you can afford.

YOUR SITUATION: You’re living in an apartment with a steady job as an IT Supervisor. You’re also paying back a car loan.

GOOD NEWS: You have a lot of food, and your rent and electric bills are automatically paid.

Part A

1) Review the Pay & Tax Records, Loan Statements, and Condos for Sale sections of the tutorial.

2) Open the Buying a Home lesson.

3) First you need to figure out how much you can afford. Click Reports->Pay & Tax Records and Reports->Loan Statements to find key figures and fill out Worksheet 1. For “Gross Monthly Income” use “Gross Pay This Period.”

WORKSHEET 1

<table>
<thead>
<tr>
<th>Gross Monthly Income</th>
<th>Allowable Housing Expense</th>
<th>Allowable Total Debt Expense</th>
<th>Total Mortgage Payment You Can Afford</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Weekly Income x 4.33 =</td>
<td>Gross Monthly Income x .28 = (A)</td>
<td>Gross Monthly Income x .36 = Minus other debt payments Equals expense available for housing (B)</td>
<td>Whenever is less, line A or line B</td>
</tr>
</tbody>
</table>

QUESTION 1: What is the most you can afford for a total monthly payment?

4) Browse the City View to find the most expensive condo that you can afford. To do this click on condos and select Buy Condo. Look at the Total Monthly Payment. Do not change any settings on the screen. If the Total Monthly Payment is less than what you can afford, note that condo. If it is more, ignore that condo. Repeat until you’ve found the most expensive condo you can afford.

WHY: To figure out an “affordable” home price, the exercise follows the typical guidelines of most lenders, assuming a housing payment-to-income ratio of 28% and allowing a total debt-to-income ratio of no more than 36%.
5) Go back to the most expensive condo that you can afford and click “Buy Condo.” Try adjusting the down payment up and down.

**QUESTION 3:** How does this affect your monthly principal and interest? If your down payment goes above 20%, how does this affect PMI?

6) Try changing the points you’ll pay.

**QUESTION 4:** How does this affect the interest rate and your monthly payment?

7) Try changing from a 30-year mortgage to a 15-year mortgage.

**QUESTION 5:**

How does this affect your monthly payment?

How does it affect your total payments over the life of the loan?

Why might someone prefer a 30-year mortgage?

Why might someone prefer a 15-year mortgage?

8) Choose a down payment, points, and mortgage term that makes sense to you and click OK. If you do not get the mortgage, adjust your choices until you do. DO NOT move into the condo when asked.

**Part B**

9) Using Options->Run To, run the simulation to April 1, 2011. All your bills EXCEPT your mortgage bill will be paid automatically. Be sure to pay the mortgage bill by check or debit card.

10) Browse over your condo and click Sell Condo.

**QUESTION 6:** What is the value of your condo? Is this higher or lower than what you originally paid?

11) Click No and click Reports->Loan Statements. Select your mortgage under “Account.”

**QUESTION 7:**

What is the payoff amount?

What is your equity in the condo (value minus your payoff amount)?
In life, bad things happen. Unpleasant as it may seem, something life threatening or financially devastating could happen to you right now. Someone could steal your MP3 player or your car. You could be injured while riding your bike, or you could develop a serious illness. You may even experience a natural disaster such as a fire, tornado, or hurricane. So what can you do to protect yourself from unforeseen events that can ruin your finances, your property, and your health?

Insurance is one important way that you can protect yourself from being financially harmed by an unexpected situation. Insurance is what you get when you pay a company to protect you against a particular loss or cover a legal responsibility. An example of a loss could be the theft of personal property, whereas a legal responsibility could be paying someone else’s medical bills if you caused an automobile accident. By purchasing insurance, you can have your stolen property replaced or pay for costly medical bills without going bankrupt.

Because there are many kinds of losses or legal responsibilities you can experience, there are many kinds of insurance available to you.

**Some common kinds of insurance are:**
- Automobile
- Life
- Disability
- Home
- Health
- Property

However, there are also many kinds of specialty insurance including identity theft, motorcycle, boat, and travel.

**How Do I Purchase Insurance?**

Because there are so many kinds of insurance, it can be confusing to decide which kind you need. However, a good place to begin is by asking yourself a few questions about what you would like to protect in your life. Here are a few questions that can help you begin thinking about the kinds of insurance you might want to buy:
- What property do you want to protect from theft or damage? Household items? Collectibles? Electronics? Clothes?
- Do you have a vehicle? Is it a car? A motorcycle?
- What major property do you own that needs to be covered? A house? A boat?
- What financial or legal responsibilities do you have? What kinds of insurance does your state require? Do you have children or parents that need care?
- What geographic location do you live in, and what special problems does it pose? Are there floods? Earthquakes?

Once you have a basic idea about what you want to protect, you will want to contact an insurance company to purchase an insurance policy.
Insurance is most often sold through insurance agents, but is also sold by companies via phone, mail, or over the Internet. Insurance may also be offered to employees as part of their benefits—the most common type offered is health insurance, but may also include auto, home, and life.

To find an insurance company, you can start by looking in the yellow pages of your local phonebook and by asking your friends and relatives for the names of the insurance agents and companies they use. You can also find companies by contacting your state insurance department or a consumer organization such as the Insurance Information Institute.

The Cost of Insurance

You’ve decided that you need insurance and you know where to buy it. But how much will it cost? There are several factors that contribute to the overall cost of the insurance you want to buy. Factors include:

• **Age:** In some cases, such as auto insurance, the younger you are the more expensive your insurance will be. This is because insurance companies know that inexperienced drivers tend to have more accidents. It is the opposite with life insurance. If you are young, you are expected to live longer, which means you will pay less.

• **Behavior:** Insurance companies view your past behavior as an indication of how you will act in the future. This means that if you have had accidents or speeding tickets, your insurance will be more expensive.

• **Financial stability:** Insurance companies also look at large credit card debts or other financial issues as a way to predict future insurance losses. If you are not financially stable, your insurance company will charge you more for less coverage.

• **Geography:** Where you live can greatly affect the cost of insurance. For example, if you live in a city you will often pay more for insurance because crime is a bigger problem than in rural areas. The same is true with auto insurance—you will pay more if you live in or near a major city because there are more drivers (and potentially more accidents) on the road.

• **Deductible:** The amount of the deductible that you choose with your policy will also affect how much you pay for insurance. A deductible is the amount of money you pay when you file a claim. The larger the deductible you decide to have, the lower premium you will pay on your policy.

• **Other Factors:** When you are purchasing insurance for something, a good rule is that the more expensive the item, the more expensive the insurance. For example, the cost to insure a $1 million home will be greater than the cost to insure a $100,000 home. Other factors come into play based on the risk—or likelihood that the insurance company will have to pay a claim—of an item. For example, it costs more to insure a sports car than a minivan because the insurance company knows it is more likely to have to pay a claim on a sports car due to theft, accident, or injury.
What Is a Deductible?

A deductible is the amount of money you pay when you file a claim. This can be either a specified dollar amount, or a percentage of the claim amount. For example, if you have an auto accident that causes $2,500 in damage and your deductible is $500, then you have to pay $500 before the insurance company will pay the rest of the amount.

The larger the deductible you have, the lower cost (premium) you will pay on your policy. For example, if you have a $250 deductible, then your insurance premium might be $75 a month. If you increase your deductible to $500, then your insurance premium might drop to $50 a month.

Deductibles might be different for different parts of your insurance policy. In your auto policy, for instance, your deductible for theft might be one amount, while your deductible for collision might be another.

Auto Insurance

Suppose you are driving to work one day and you have an accident that totals your car and seriously injures another person. The cost of replacing your car and treating the injuries can quickly add up. This is why you purchase auto insurance—to protect you against the financial loss that you can suffer if you are in an accident.

Auto insurance provides you with:

- Property coverage that pays for damage to or the theft of your car.
- Liability coverage that pays for the bodily injury of others or property damage you cause.
- Medical coverage that pays for the cost of treating your own or others’ injuries, and sometimes lost wages and funeral expenses.

Some type of auto insurance is required in most states, and most auto policies are for six months to a year. If you are purchasing a car, the lender may require you to purchase certain types of coverage.

Renters Insurance

Imagine coming home after a nice dinner with friends to find your apartment building on fire! Or suppose you come home to find your apartment was broken into and your laptop was stolen. Chances are, your landlord won’t pay for your damages—after all, they aren’t his items, they’re yours.

By purchasing renters insurance, you will be able to replace or repair what has been damaged or stolen. This type of insurance covers your possessions if they are lost or damaged through theft, fire and smoke, vandalism, lightning, or water damage caused by plumbing problems. In addition, if you have to live somewhere else temporarily because of a disaster such as a fire or severe storm, your renters insurance will cover some living expenses such as hotel bills, temporary rentals, and meals. In addition, your renters insurance also covers your legal responsibilities to other people injured in your residence by you, your relatives, or your pets.

However, certain disasters such as earthquakes and floods are not covered by renters insurance. These types of insurance can be purchased in separate policies.
Homeowners Insurance

Your house will be one of the biggest investments you will make. It will also be the place where you spend the most time, raise your family, and make memories. But all of that can disappear in an instant, if disaster strikes.

You can protect all that your home means through homeowners insurance. This type of insurance provides you with financial protection against disasters such as fire, storms, or theft. Standard policies cover the home itself and your possessions inside.

Similar to renters insurance, homeowners insurance covers both damage to your property and your legal responsibilities to people injured or property damaged in your residence by you, your relatives, or your pets. However, your homeowners insurance will not cover maintenance-related problems, because they are the homeowner’s responsibility.

And while homeowners insurance will cover damage to your home caused by certain disasters, it will not cover that caused by floods or earthquakes. You can, however, buy separate policies to cover those special emergencies. If you live in a coastal region, you will also want to make sure that you are covered for hurricane damage.

Health Insurance

Whether you decide to purchase health insurance on your own or you take advantage of a plan offered by your employer, health insurance is important to have because medical costs can quickly add up. A single trip to the emergency room can leave you with a bill totaling thousands of dollars by the time you add doctor fees, ambulance fees, x-ray costs, medication, and other costs together. Health insurance can help you keep health care affordable, whether you have a major illness or just a case of the sniffles.

There are two basic kinds of health insurance:

• Fee-for-service: This kind of health insurance is based on health professionals receiving a fee for the services provided to the patient. With this insurance, you can see the doctor of your choice and a claim is submitted to the insurance company by either the health-care provider or the patient.

• Managed care: This type of health insurance provides comprehensive health services and offers financial incentives, such as low co-pays, to patients who use providers that are part of the plan. There is a variety of managed care plans—all of which work slightly differently—that can be called health maintenance organizations (HMOs), preferred provider organizations (PPOs), or point-of-service (POS) plans.

Although fee-for-service and managed care health insurance differ in many respects, both cover a range of medical, surgical, and hospital expenses. Most of these plans also cover prescription medicine, and some offer dental and vision coverage.
Disability Insurance

Imagine that you’ve been in an auto accident or had a work-related injury that requires a long recovery time. And while you are getting better through rehabilitation services, you aren’t well enough to work, which is a big problem. If you can’t go to work, you can’t earn the money you need to pay your rent and utilities or to buy food and medicine. What would you do in this situation?

Disability insurance is the way you can protect yourself against this type of situation. Disability insurance replaces the income you lose if you are unable to work because of an injury or illness. The money you receive from disability insurance pays for your living expenses, just as your normal income would. This means you can pay your bills and buy groceries and the other essentials you need to live.

There are three common ways for you to replace your income:

- **Employer-paid disability insurance**: In most states, businesses are required to provide some type of disability insurance. Most employers offer some type of short-term sick leave, and many larger employers provide both long- and short-term coverage.

- **Individual disability insurance policies**: Even if you have employer-paid disability insurance, you may want to purchase an additional individual policy to cover your income. Some employers that offer disability insurance also provide employees with the option of purchasing more coverage through their plan. In addition, if you are injured in an auto accident, you may be covered for disability.

- **Other benefits**: Other limited benefits can be available to you in certain circumstances. You might qualify for benefits from workers’ compensation if your injury or illness is job related, or benefits might be available through Social Security or the U.S. Department of Veterans Affairs.

Disability insurance is available in two forms:

- **Short-term disability**: This type is designed for covering disability during short time periods. Benefits begin sometime in the first 14 days of the disability and last no longer than two years.

- **Long-term disability**: This kind of coverage is designed for long time periods. Benefits usually start several weeks or months after the disability, and can last a few years or for the rest of your life.

It is important to note that insurance companies will not pay to replace your full income, because they want you to go back to work. Employer-paid insurance typically pays no more than 60 percent of your total income, while private disability insurance pays 50 to 70 percent of your income.

Life Insurance

If you were to die suddenly, what would happen to your debts? How would your funeral be paid for? Would your spouse or children be able to live without your income? And while you may not want to think about your own death, you do need to think about these questions. Your family is responsible for your debts such as car loans, medical bills, and credit
cards. Someone has to pay for your burial or cremation and funeral. Your dependents—your spouse and children—might not work or be old enough to support themselves.

You can protect your family’s finances in the event you die with life insurance. Life insurance pays a sum of money to a person or group of people when you die to take care of things such as your bills, funeral, and family’s income. By purchasing life insurance you can:

- **Replace income for your family:** If people depend on you for income, life insurance can replace it. This is most common for parents of young children, but it could be necessary if your spouse doesn’t work or if other adults such as your parents, siblings, or adult children rely on you.

- **Pay your final expenses:** You can provide for your funeral and burial costs, and for court costs related to your will, debts, and medical debts with life insurance.

- **Create an inheritance:** If you do not have assets to pass to your heirs, you can create a legacy by buying life insurance and naming them as beneficiaries of the policy.

- **Pay final taxes:** The federal and state governments tax your estate, which are the assets you’ve left after death. You can plan to pay those taxes through your life insurance, so that heirs will not have to.

You can also use life insurance as a financial planning tool. For example, if you want to leave a significant donation to a particular charity, you can name it as the beneficiary of your life insurance. Another example is using your life insurance as a source of savings. There are some types of life insurance policies that create a cash value that can be borrowed or withdrawn, providing that it has not been paid out.

**There are two main types of life insurance:**

- **Term:** Term life insurance pays a benefit if you die during the term of the policy, usually between 1 and 30 years.

- **Whole Life:** Also known as permanent life insurance, this type of insurance pays a benefit whenever you die, no matter your age.

Each of these types of insurance has variations to meet the needs of individuals, no matter their situation. A life insurance agent or specialist will be able to explain each and provide suggestions to meet your needs.

**Summary**

Making sure that you can maintain the standard of living you have gained with hard work depends in part on the kinds and amounts of insurance that you have. By purchasing insurance, you can protect yourself, your family, and your finances against unexpected situations. There are many kinds of insurance that you can use. They range from common types such as auto, home, and life, to types that are more specialized, such as identity theft and travel.

The key to successfully buying insurance starts with knowing what you want to protect and understanding which kind of insurance will best protect
you. It’s also important to understand the considerations that increase the cost of your insurance, because you can reduce your costs by eliminating these key risk factors. After all, if you spend a lot of time getting the things you want and securing your financial wealth, you don’t want to lose them to something unexpected!

### Key Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automobile Insurance</strong></td>
<td>A type of insurance that covers property damage or legal liabilities in the event of an auto accident, or property damage in the event of theft.</td>
</tr>
<tr>
<td><strong>Beneficiary</strong></td>
<td>The individual or group of individuals named to receive the benefit of a life insurance policy.</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>The things that are protected—or “covered”—in an insurance policy.</td>
</tr>
<tr>
<td><strong>Deductible</strong></td>
<td>The amount of the loss you pay when you file an insurance claim.</td>
</tr>
<tr>
<td><strong>Dependents</strong></td>
<td>The persons who depend on someone for their livelihood. Most often these are minor children and the spouse, but can be adult siblings, adult children, and elderly parents.</td>
</tr>
<tr>
<td><strong>Disability Insurance</strong></td>
<td>A type of insurance that replaces the income of the insured individual if he or she cannot work due to injury or illness.</td>
</tr>
<tr>
<td><strong>Health Insurance</strong></td>
<td>A type of insurance that covers the cost of both planned and unexpected health services.</td>
</tr>
<tr>
<td><strong>Homeowners Insurance</strong></td>
<td>A type of insurance that replaces the insured’s home and personal property if they are damaged due to events such as theft, fire and smoke, and storms. Also covers legal liabilities of injuries suffered by other individuals in the insured person’s residence. Does not cover earthquake or flood damage.</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>An agreement in which an individual pays a company to protect him or her from possible loss or damage. Can be a property or financial loss.</td>
</tr>
<tr>
<td><strong>Life Insurance</strong></td>
<td>An insurance that pays a sum of money to a beneficiary when the insured individual dies.</td>
</tr>
<tr>
<td><strong>Policy</strong></td>
<td>The agreement or contract between an individual and an insurance company.</td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>The cost of an insurance policy.</td>
</tr>
<tr>
<td><strong>Renters Insurance</strong></td>
<td>A type of insurance that replaces personal property if it is damaged due to events such as theft, fire and smoke, and vandalism in a rental residence. Also covers legal liabilities of injuries suffered by other individuals in the insured person’s residence. Does not cover earthquake or flood damage.</td>
</tr>
<tr>
<td><strong>Term Life Insurance</strong></td>
<td>A type of life insurance that pays a benefit only when a person dies during the term—or time period—of the policy.</td>
</tr>
<tr>
<td><strong>Whole Life Insurance</strong></td>
<td>A type of life insurance that pays a benefit no matter when the person dies.</td>
</tr>
</tbody>
</table>
1. If you could not work because you were injured or ill, how much money would you need for living expenses? Make a list of all the things you have used to live your normal life today. Be sure to include things like food, clothes, transportation, cell phones, computers, and the place you live. Estimate what each of those costs per week, per month, and per year.

2. Jenna owns a car and carries insurance that covers property damage and liability. Her monthly premium is $150, and her deductible is $475. In the last year she had two accidents. One caused $1,500 in damage, and the other caused $7,000 in damage. How much did Jenna pay for the damage, and how much did her insurance company pay?

3. Imagine yourself in the future having a family, a good job, a nice house, and aging parents that depend on you for some financial support. Taking what you have just learned about life insurance, what would you want to make sure of if you died suddenly? List the provisions you’d want. Next to each item on the list, explain how you could make this happen.
Lesson 18

Insurance

GOAL: Your goal is to use insurance to prevent a serious financial loss.

YOUR SITUATION: You have an apartment and lots of cool stuff, but you’re aware that there is crime in the city.

GOOD NEWS: You have plenty of food, and rent and electricity bills are paid automatically for you.

1) Review the Shop for Goods, Renters Insurance and Deposit Funds sections of the tutorial.

2) Open the Insurance lesson.

3) Look around your apartment and make a list of your belongings. Figure out their approximate value. For simplicity, use the price at David’s Department Store for your estimates. Use the information to fill in Worksheet 1.

WORKSHEET 1

<table>
<thead>
<tr>
<th>Belongings</th>
<th>Estimated Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

TOTAL ESTIMATED VALUE =

4) Using Options->Run To, run the simulation forward for one week.

QUESTION 1: What happened? How much did you lose?

Your apartment contains items of value. You can use renters insurance to protect yourself financially in case you are robbed.

Continued
5) Reopen the lesson and click **Actions->Insurance->Renters**. Set the amount of coverage to $5,000. Adjust the deductible up and down.

**QUESTION 2:** How does this affect your monthly premium?

6) Choose a deductible of $500.
7) Adjust the coverage amount up and down.

**QUESTION 3:** How does this affect your monthly premium?

8) Choose $9,000 for a coverage amount. Leave the deductible at $500 and click **OK**. Using **Options->Run To**, run the simulation forward one week.

9) Click on the insurance check on your desk.

**QUESTION 4:** What was your net loss after the robbery now that you have insurance?

**QUESTION 5:** Based on the amount of the insurance check and your monthly premium, how likely does the insurance company think a robbery is? Once a month, once every year, once every 3 years, or even less often? **Hint:** The insurance company plans to make a profit on the policy!

**QUESTION 6:** Look around the simulation. What other types of insurance are available? What do you think each protects against?
Computert Exercise:
New Career Project

Student Name __________________________ Date __ / __ / __

Level 1
In Level 1, you are just entering a new city. You have no work experience. You are a high school graduate but have no education beyond that. You have $5,000 in cash. You must rent an apartment before taking other actions. However, you can browse the city to find the location of jobs, bus lines, classes, etc. Surprises include layoffs, robberies, and car breakdowns.

Goal
Net worth of $25,000 to get to Level 2.

Assignment
1) Review the entire Actions section of the tutorial.
2) Start Virtual Business - Personal Finance and choose New Career Project.
3) Click Standard City.
4) Browse the city to find apartments, jobs, bus lines, classes, etc.
5) Before making any decisions answer Question 1 and fill in the estimated column of Worksheet 1.
6) Once you have run your sim about one simulated year you will receive the information necessary to do your taxes. Once complete, print your tax return. Also print out your résumé and wealth statement.

Question 1: What financial goals do you have for your person? What will you do and how long do you think it will take to achieve your goals?

Level 1 Hints
– Remember to monitor the Message Center and your Health report.
– Don’t forget to buy food & eat!
– Your bills will arrive on the 28th of each month. You must pay them before the 28th of the next month.
– Having some basic household items can help you sleep, relax, and exercise more efficiently.
– Walking to work or class can count as exercise.
– If you’ve decided to take the bus but walking would be faster because of the location of the bus line, your person will automatically walk.
– If you buy or lease a car, don’t forget about car maintenance.
– Opening a credit card account will help to increase your credit score as long as you pay your bills on time.
– After you’ve gone through one year of the simulation, don’t forget to file your taxes before April 15th to avoid IRS penalties.
– Jobs around the city can change their rate of pay, so look around and consider switching.
– Consider using insurance to decrease the risk of large financial losses.
– In this level you cannot purchase condos, use online banking, or invest. These options will become available in higher levels.
### WORKSHEET 1

<table>
<thead>
<tr>
<th>Monthly Budget</th>
<th>Estimated Amount</th>
<th>Actual Amount</th>
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<tbody>
<tr>
<td>Monthly Income</td>
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<td><strong>TOTAL</strong></td>
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<td>Fixed Expenses</td>
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<td>Flexible Expenses</td>
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<tr>
<td><strong>Total Expenses</strong></td>
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<td>Surplus/Deficit</td>
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**LEVEL 2 HINTS**

- Use online banking to schedule recurring payments of regular bills so you can concentrate on building wealth.

- Use Investing under Actions to invest and grow your money. Although these investments may be riskier than a savings account, your money will likely grow faster.

- You may want to switch jobs because some jobs now offer 401K retirement plans and health insurance.

- Your taxes will now be done by a tax professional! When she sends your tax return summary in January, be sure to file it.

- Remember to host or attend a party about once a month to keep your social life “in the green” on your Health report. To be invited to parties, you must host parties!

**Level 2**

In Level 2, some of the jobs in the city will add 401K retirement plans and health benefits! You will also be able to use online banking to simplify your life. You now have one additional health factor to consider. You must maintain an active social life by hosting and attending gatherings with your friends! You also have the opportunity to invest in four different types of mutual funds: money markets, bonds, US stocks, and global stocks. Additional surprises include unexpected health problems and car accidents.

**GOAL**

Net worth of $100,000 to get to Level 3.

**ASSIGNMENT**

1) Continue on with what you were doing in Level 1.
2) Try to build wealth through a 401K and investing.
3) Once you have run your sim about one simulated year you will receive tax information from your tax professional. Print your tax return along with your résumé and wealth statement.

Continued
Level 3
In Level 3, your objective is to continue to build your wealth. You can now purchase condominiums (real estate). You can live in these or just purchase them as investments.

GOAL
To maximize your net worth!

LEVEL 3 HINTS
– Consider buying a condo to live in instead of renting. Your payments will be building equity.
– Try investing in real estate. Buy several condos and watch their price change as time goes by. Sell them if you think the real estate market is near its peak.
– Keep investing in the mutual funds. Take on reasonable risk; it will be rewarded by higher long-term growth!