

2018-2019 PERSONAL FINANCE CURRICULUM OUTLINE

Introduction: What is the course or unit about and what are the benefits of being financially literate

TOPICS:

① MONEY

- Role of U.S. money and what gives it value (**NOT** backed by gold. U.S. money has value based on the full faith and confidence in the U.S. government, i.e. fiat money)
- Role of the U.S. Department of the Treasury
 - **OPTIONAL:** Printing, minting currency through the Bureau of Engraving and the U.S. Mint
 - Federal taxes collected by or paid to the Internal Revenue Service
- Sources of income—how money enters our lives
 - Employment, investments, self-employment (being an entrepreneur and operating your own business), rental income, interest income, profits on the sale of goods or services, overtime pay
 - Windfall income (gambling, lottery, inheritance, gift, etc.)
 - **OPTIONAL:** Difference between earned and unearned income
- Factors influencing income
 - Capacity to earn, knowledge, skills, level of education
 - Employment/job opportunities and need for workers
 - Employment benefits (monetary and non-monetary)
 - Inflation and deflation
 - Characteristics of each and the impact of each on income, purchasing power
 - Who benefits or suffers the most financially during inflation
 - Recession and Depression and impact on employment
- Taxation
 - What is a tax, its purpose, impact on personal income, example of taxes
 - Taxes can be assessed to influence a change in behavior (cigarettes, alcohol etc.)
 - Who has the power to assess taxes
 - How does the progressive tax system work
 - Required annual filing of income tax returns with the IRS
 - **What forms of income must be reported to the government for tax purposes (wages, rental income, interest, dividends, lottery, gambling, etc.)**
- Paycheck
 - Gross wage (gross income) (hours x hourly wage vs. an annual salary) vs. net pay (net income)
 - Paycheck
 - Process and advantage of direct deposit and review of employer statement to employee
 - How to cash a paper paycheck (comes with a paystub)
 - Payroll Deductions
 - Mandatory vs. **OPTIONAL:** payroll deductions
 - Mandatory taxes include Federal, State, (in some locations there is a city or local tax), Social Security (FICA) and Medicare
 - Court mandated deductions are child support and garnishments
 - **OPTIONAL:** deductions include **automatic savings**, contributions to 401(k) plans that are taken out of gross pay, and life insurance
 - Employees often pay for some of their health insurance which is deducted from gross pay as a separate deduction

- Employee Benefits: Benefits that are sometimes given to employees by employers
 - Importance of knowing the value of which **benefits employer** provides when accepting a job
 - E.g., vacation, sick days, tuition reimbursement, matching pension contributions, health insurance (is it fully paid by the employer or partially paid by the employer? Most employers require employees to contribute to health plans)
- Loan on Future Paycheck
 - Payday Loans: How do they work? Why taken and who provides these loans?
 - Disadvantage: Expensive and are prohibited in 18 states!!!
- **NEW!** Entrepreneurship
 - How does being self-employed different from being an employee
 - Benefits and risks of being an entrepreneur
 - How entrepreneurs fund their business and the need for a business plan
 - The need and methods for people and business owners to maintain records

🕒 **BUDGETING/SPENDING PLAN**

- Financial goals
 - Reasons to have goals
 - Characteristics:
 - **SMART**- Specific, Measurable, Action-oriented or Achievable or Attainable, Realistic with a Time frame
 - Goal timeframes—long term, intermediate, or short-term
- Purpose/value of a budget
 - Track income & expenses for one or two months in order to prepare a “realistic” budget
 - Create a budget/spending plan with categories for income, fixed expenses, variable expenses, investments and savings. (variable vs. fixed expense)
 - When and why might a budget need to be changed?
- Budget factors
 - Limited resources
 - How to budget for expenses that are paid once a year (e.g. insurance)
 - Needs vs. wants
 - Opportunity cost
 - Analyzing income vs. fixed and variable expenses
 - Charitable giving to improve the human condition
 - Variables – inflation, acts of God, unemployment
- Savings
 - Emergency Fund:
 - Budget to include savings with the first goal of having an EMERGENCY ACCOUNT with three to six months of income (increases to one year fund as responsibilities, e.g. starting a family, increase) (Advantage is that savings helps to achieve goals and the money is **liquid** which means cash is accessible)
 - Have an emergency fund **BEFORE** starting to invest
 - Habit of Savings
 - How and why to “pay yourself first”
- Balance a budget
 - **Reduce spending leaks (expenses such as gourmet coffee, manicures, impulse purchases, etc.)**
 - Use the 3 R’s—reality, responsibility, and restraint
 - Determine surplus (also known as discretionary income) or deficit and what to do
 - Evaluate the budget—with strategies to reduce a budget, have discretionary income (luxuries), and spend less than is earned
 - Strategies to balance a budget -- comparison shopping, negotiation, coupons, catalog, internet, etc.
 - Be aware of the influence of advertising and peer pressure on spending
 - What to do to balance a budget if you overspend one month on a variable expense

③ COST OF MONEY

- Interest rates
 - the cost of borrowing or taking a loan
 - the impact of interest rates increasing or decreasing
 - the benefit of earning interest on savings or bonds
- Role of the Federal Reserve in influencing interest rates and stimulating the economy
- Concepts
 - Time value of money--Explain why “A dollar today is worth more than a dollar tomorrow”
 - Rule of 72 (the number of years it takes to double money = 72 divided by the interest rate)
 - The benefit of earning interest on a savings account principal
 - Simple interest vs. compounding interest
 - Benefit and cost of daily compounded interest over weekly; monthly, or quarterly compounding, etc.

④ BANKING

- Types of institutions for this topic: (**similarities, differences, and common services/products**)
 - Banks (for profit) and Credit Unions (nonprofit)
 - Comparison shop when opening an account or borrowing
- Savings
 - **Opening an account**
 - Information and required ID enables the bank to report interest earned to the IRS and to have proof of true identity.
 - They generally ask for a valid photo ID, proof of age and identity
 - E.g., driver’s license, state issued or military ID, alien registration number, utility bill, apartment lease
 - Most banks require a Social Security (FICA) number
 - Some banks do not require proof of citizenship or a Social Security card but they all ask for some form of identification.
 - **Ways to make a deposit.**
 - Why starting EARLY to save is a big advantage
 - Make money grow: putting money to work through savings that earn interest (**time value of money**)
 - Advantages of bank or credit union for savings (insured, interest, access via ATM or Debit card etc.)
 - Liquidity vs. non-liquidity
 - Savings accounts vs. **money market accounts** vs. Certificate of Deposit (CDs) (predictable income)
 - **Taxes on interest earned**
 - **Some banks require a minimum balance. Research since minimums vary by institution**
- Safety in banking
 - Value of insurance protection (savings and checking accounts as well as Certificates of Deposit) through the Federal Deposit Insurance Corp. (FDIC) **for banks** or the National Credit Union Administration (NCUA) **for credit unions**
- Other banking products/services
 - ATM cards
 - How do they work and what are they used for? What are the advantages? What are PIN numbers, and where to keep the number? When are fees charged?
 - Debit cards
 - Automatic/direct withdrawal from checking, savings or money market accounts (**cannot have a debit card only tied to savings because only 6 withdrawals from savings allowed each month**)
 - Loss and liability (up to \$50 if reported within 2 business days)
 - PREPAID cards
 - Prepaid Debit card – need to purchase this card. It is not linked to a bank account.

- Prepaid Cash or Store Card or Store Gift Card can be purchased at a bank or store. They may, or may not, be replenished, e.g., Starbucks (does not have the same protection as a debit card). Prepaid cash cards generally have an activation fee.
- Instruments that are treated as good as cash
 - Bank check or official bank check (buy at a bank (sometimes for a fee) and may be the bank's cashier check)
 - Cashier check is a check **guaranteed** by the bank and drawn on the bank's own funds. These checks are **guaranteed funds** because the bank rather than the person who purchased the check is responsible to pay the amount. They are frequently required for expensive transactions i.e., real estate, cars, etc. Unlike a money order or personal check, a cashier check is **extremely difficult to cancel**.
 - Money orders often purchased at a **post office** for a fee
- Checking
 - Regular checking account
 - Potential fees
 - Accounts with a minimum balance (result when account goes below minimum)
 - Free checking
 - How to write a check, parts of a check and monitoring account
 - Check number, checking account number, date, amounts: numerical and word
 - Reason to avoid writing checks made payable to "Cash"
 - Check register, reconciling a checking account and bank statements
 - Endorsement (blank, restricted) (why important, give examples, what to avoid)
 - Stop payment order
 - When and why a person asks the bank to place a **stop payment** on a check, an action which results in a bank fee for the service
 - Cashing checks, money orders, etc. FREE for depositors or if the check is drawn on the bank (**explain time needed for checks deposited to clear before funds are available**)
 - Check cashers (why and DISADVANTAGES)
- **Electronic Funds Transfer via the Bank Website or Mobile App**
 - Automatic transfer from checking to savings (forced savings).
 - Online bill payments and credit payments (its value and how it works).
 - Deposit checks using a cell phone app.
 - **Paying others through cell app (PayPal, Venmo, etc.)**
 - Direct deposit of paycheck
 - How it works, value to employee, **availability of money on payday**, employee's responsibility to verify that the paycheck was deposited
- Monitor bank account(s) via online access service
- Income-producing products
 - Certificates of Deposit (CD) vs. savings accounts
 - CD's generally have higher interest, predictable income, penalties, less liquidity, and require higher deposit
- Loans/Credit
 - What is a loan, why are they needed, and why banks give loans?
 - Overview: common loans offered (**student loans**, personal loans, car loans, mortgages)
 - **Influences on the cost of the loan:**
 - **Secured (collateralized) vs. unsecured** (uncollateralized) --Using savings vs. taking a personal loan (cost comparison) or buying a car that is collateral for an auto loan
 - Credit (see next topic)
- Factors to consider when shopping for a bank
 - Interest rates and fees (investigate banks and credit unions)
 - Availability of products and services

- E.g., free checking, savings without a minimum balance or a very low balance, online banking, ATM availability, hours that the bank is open, safe deposit boxes, drive-up window, weekend or evening hours, the interest rate on Certificate of Deposits (CDs), mortgages, personal or business loans
 - Questions to ask (e.g. long does it take before you have access to the funds from a check deposited)
- **Disadvantage of using pawnshops, check cashing centers**
- Abuses; Remedies and Prevention—how to avoid being a victim of:
 - Money order scams/counterfeiting
 - Check fraud
 - Loans to a friend, relative who does not repay the loan (need for a signed Promissory Note)
- **Identity theft**
 - Forms of identity theft (give examples) and who to notify
 - Tips for prevention
 - Avoid carrying a Social Security card
 - Shred documents with personal information
 - Avoid giving friends/relatives ATM, debit or credit card
 - Do not give a blank check
 - Strong passwords on accounts

⑥ CREDIT

- Define credit (using someone else's money (taking a loan) for a price), explain how credit works and when it should be used
- Type of financial institutions for this topic
 - Sources of credit
 - Banks and credit unions
 - **Finance company/Consumer Finance Company**
 - Their typical borrower and why they generally charge an extremely high interest rate for consumers with low credit scores
 - Credit card company (purchases and cash advances)
 - Mortgage brokers or lenders
 - Auto-finance company
 - Retailers, e.g., furniture stores
 - Payday Lenders
 - Tend to be employers and now banks with pay advances that give loans (using the next paycheck as collateral for the loan—resulting in a cycle of borrowing that is difficult to get out of. ILLEGAL IN SOME STATES)
 - Pawnshops
 - Tax preparers via tax-refund loans
 - Government agencies
 - Colleges, bank or government give student loans
 - Family and friends
 - Postponing payment until after graduation or paying while in school by having a part time job
 - Comparison shopping
 - Responsibility to repay the loan – consider deferment rather than default
 - Consider costs related to local vs. private college or post-secondary school
 - Managing debt and notifying lender if there is a change in address
- Costs
 - Interest (APR – Annual Percentage Rate)
 - When used
 - Variable vs. fixed interest rate (eg. mortgages)
 - Truth in Lending Act
 - Finance charges and fees
 - Annual fees, late fees, fees for awards programs

- Benefits of credit
 - Access to money for a price to buy something today and pay in the future
 - Ability to borrow to buy a large item such as a house
 - Awards
- Types of credit/loans
 - Credit cards – purchases with a credit card is a LOAN from the credit card company
 - **Student loans (need to start to repay after leaving school with a 6 month grace period)**
 - Value of applying for financial aid -- FAFSA
 - Government loans (Perkins, Stafford vs. private bank or college loans)
 - Information asked for when applying (family income, # of family members, cost of tuition, home address, savings/assets, SS# etc.)
 - Real estate loans i.e., mortgages loans to buy property (house, building, land)
 - Car loans
 - Installment loans
 - Personal loans
 - **OPTIONAL: How business loans support entrepreneurs -- allows business to leverage assets for operations and/or future expansion**
- Qualifying for Loans
 - Factors affecting credit
 - How to establish a credit history and why important (renting an apartment, loans, etc.)
 - Five C's of credit (to determine credit worthiness of potential borrowers)
 - Character (integrity)
 - Capacity (sufficient money to pay for obligations)
 - Collateral (assets to secure the debt)
 - Capital (net worth)
 - Conditions (of the borrower and the overall economy)
 - Credit score (FICO)
 - What is FICO (Fair Isaac Corp) and why is it important? (note: factors considered for the FICO score is being revised)
Note: Banks check the FICO credit score for loans (not the score from Equifax, Transunion, and Experian) which consumers can get for a fee from FICO.com
 - Importance of a credit score and factors considered in the score
 - Credit score range - What is a low vs. high credit score and impact on credit interest rate
 - How to access one's credit score
 - Steps to improve one's credit score
 - Factors that can hurt (have a **NEGATIVE** impact on) a person's credit score
 - applying for loans or additional credit cards
 - paying bills late
 - filing for Chapter 13 personal bankruptcy
 - Amount of outstanding debt and ability to pay monthly bills in full and on time
 - **high debt to credit ratio**
 - Right of lender to deny loans based on credit history, credit score, inadequate income and/or assets in relation to the amount of loan requested (Cannot deny credit because of age, gender, race, handicap, or sexual orientation)
 - Loans
 - Application to creditor
 - Down payment, if required, and impact on monthly payments (eg. Mortgages)
 - The higher the down payment the lower the cost of monthly payments
 - Length of loan
 - The shorter the loan, the cheaper the price of the product purchased on credit (because less interest is being paid) and the inverse
 - Interest rate

- Understand the total cost of the item (amount borrowed plus the interest)
 - The higher the interest rate, the more a consumer pays for the product purchased on credit and the inverse when interest rates are lower, i.e., the effect of interest rate on the cost of the price
 - Collateral vs. no collateral
 - Types of typical loans with collateral e.g., mortgage or car loan and impact on interest rate
 - Student loans are unsecured
 - **Consumer considerations when applying for a loan**
 - Can the consumer afford the monthly payments (buying over your head)
 - Needs vs. wants
 - Fees, costs, lender reliability
 - Debt-to-credit ratio
 - Need for a co-signor
- Credit Cards
 - How credit cards work and advantages of having a credit card
 - Convenience of not having to carry cash
 - Ease in buying on the internet
 - Payment for emergencies
 - Short-term financing –buy today and pay when the bill arrives
 - Needed to pay for hotel/rental cars, used as ID
 - Responsible use can improve credit score
 - Ability to earn discounts through award programs
 - Difference between a credit card and debit card (Note: most credit or debit cards provide both features)
 - Use of credit cards
 - Annual Fee or no annual fee
 - Charging a Purchase
 - Credit Limit (line of credit)—amount card holder is permitted to charge
 - Recommend that students start with a low limit, so as to establish a credit history and monitor spending
 - College students can also apply for prepaid credit cards (acts like a debit card)
 - Cash advances
 - Associated costs and disadvantages (including higher interest rate than credit charges, transaction fees, interest compounding daily)
 - Credit card bills
 - Grace period
 - The time between the date on the credit card bill and the date payment is due
 - Minimum Amount Due
 - Results in higher cost of items purchased payments are extended over a long period of time. **Generally, the longer the period of time for the loan, the GREATER the total cost of the loan and the price of the product or service purchased on credit.**
 - Finance charge (on unpaid balances)
 - Late fee
 - Result of credit card company not receiving and posting the payment on the date due.
 - A record of late payments may trigger a higher interest rate on balance due or new credit purchases **after giving the cardholder 45 days notice**
 - Reading and understanding credit card bills/statements
 - Good practices
 - Pay bill in full each month to avoid finance charges
 - do not lend the card to friends

- pay early to avoid late fees
- Comparing card offers
- Disadvantages
 - Thinking that it's "free"
 - Promotional Rates: Need to carefully review terms after rate ends
 - Potential hidden fees and surcharges
 - Potential damage to credit rating
 - Potentially high interest rates (e.g. store credit cards)
 - Potential to create overwhelming debt that one cannot afford to repay
 - Need to carefully review invoices
 - Need to make payments on time and in full if possible
 - Garnishment (a court order requiring an employer to pay part of an employee's wages to the creditor)
- Credit Card Guidelines or Rules
 - Credit Card Companies
 - must mail or deliver the bill **at least 21 days before the expiration of the grace period date** (when payment is due) to avoid finance charges
 - cannot charge an over-limit fee **unless the cardholder opted in**. Otherwise, charges over the limit are rejected if the transaction causes the card to exceed limit.
 - can raise interest rates on existing balances under limited conditions, such as when a promotional rate (cannot be less than 6 months) ends, there is a variable rate or if the cardholder makes a late payment.
 - **Cannot change terms without giving 45 days' advance notice.**
 - cannot issue credit cards to anyone under 21 without an adult co-signer unless they show proof they have enough income to repay the card debt.
 - must stay at least 1,000 feet from college campuses if they are offering incentives/gifts to entice students to apply for credit cards.
 - cannot raise the APR automatically when the cardholder fails to make a payment on another card.
 - need to disclose due dates, year-to-date totals on interest and fees and the implication of minimum payments on monthly card bills.
 - can close accounts & lower **credit limits** abruptly, without notice.
- ***NOTE:** www.creditcards.com/credit-card-news/help/what-the-new-credit-card-rules-mean-6000.php
- Have students review and evaluate a credit card offers
- Credit reports, Problems & Resolutions
 - Credit Reports
 - Role of credit reporting agencies
 - The three major agencies (Equifax, Transunion, Experian)
 - Information on credit reports and where information comes from (creditors and landlords)
 - Value of credit reports to the consumer
 - Consumer's responsibility to check and process to correct errors on credit reports
 - Why it is important to correct errors
 - Right to obtain a **free credit report** at annualcreditreport.com (NOT freecreditreport.com)
 - Once a year from each of the three major credit reporting agencies
 - Or within 60 days of denial of consumer credit, or 6 months of denial of employment
 - Access to credit reports given to landlords, lenders (and to employers in **some** states)
 - How long does a paid loan remain on a credit report (seven years)
 - How long **NEGATIVE** information remains on the credit report (seven years)

- Credit Problems and associated risks
 - High cost, or addiction to spending
 - Borrowing more money than a person can afford to repay
 - Gambling (poker, etc.) on the internet using one's credit card and getting into serious debt
 - Overpaying for loans by failing to compare costs
 - Taking unnecessary loans (e.g., tax-anticipation/refund anticipation loan) that include extremely high charges
 - Paying late and/or having payment problems
 - **Defaulting on a loan and the Consequences**
 - **Repossession, eviction, lien, foreclosure—**
 - **Lost or stolen credit card – When and how much cardholder is responsible for**
 - High level of personal bankruptcy filings among young people – on credit report for 7 years
 - Difficult to save when consumer is constantly spending and owing
 - Failing to research interest rates, etc.
 - Identity theft and impact on credit score
- Resolutions
 - Know your rights—Truth in Lending Act of 1968
 - Strategies and best practices
 - Adhere to a budget
 - Call creditors, pay on time, pay in full, close unnecessary credit card accounts, **notify credit card company immediately when faced with payment problems**
 - Seek assistance through a formal complaint and government/community agencies to help resolve problems
 - How to close a credit card account
 - Credit repair through credit counseling services— Consumer Credit Counseling Services (CCCS) charge a fee for setting up and administering a debt repayment plan that can destroy a credit score.
 - Bankruptcy (why and when used by consumers as a LAST option; what impact does it have on credit?)
 - **Chapters 13 (personal bankruptcy) and Chapter 7**
 - Effect of bankruptcy on credit and a person's credit report and score
 - **Options instead of filing bankruptcy (contacting lenders)**
 - Student loans and taxes are **NOT** forgiven (canceled) through bankruptcy
- Installment loans—equal monthly payments
 - E.g., mortgages, student loans, auto loans, furniture loans
 - The effect of prepaying (if allowed) an installment loan reducing the length and cost of the loan
- **Layaway plan**
- **OPTIONAL: Ownership/title**
 - When does a person own items purchased on a **secured (collateralized) loan, installment loan and credit card?**
- Abuses, Prevention and Rights
 - Harassment (over zealous debt collector)
 - Protection of personal identification number (PIN)
 - **Easy Access Loans**
 - Payday loans or Pay Advance loans
 - Tax Anticipation or Refund Anticipation loans
 - Pawn Shop loans
 - Predatory lending
 - Phishing (internet scams, spoof or hoax)

- Customer/consumer responsibilities
 - Saving credit card receipts to check against credit card monthly statements and to use for returns
 - Understanding responsibilities associated with a spouse on a credit card or co-signer for credit
 - Who is responsible for payment of debt?
 - **OPTIONAL:** What happens to card debt in event of divorce or death?
 - **READING** and understanding financial agreements/contracts and evaluating credit deals
 - E.g., zero interest, low payment schedule, transferring balances from one card to another

⑥ **INSURANCE**

- Financial institution for this topic: an insurance company
- Risk
 - What is risk, examples of risk and methods of dealing with risk (accept the risk or transfer the risk to an insurance company who provide protection for a price)
 - Show how sharing the risk with other policy holders reduces the cost of coverage
 - How consumers weigh the cost and benefits of insurance
 - How the degree of risk influences the cost of insurance premiums
 - **Option:** Examples of interesting/weird insurance coverage (singer insuring voice, dancer insuring legs, insurance on a pope making a trip to the U.S., hand models insuring their hands, coffee taster insures his tongue, a surgeon insures his hands, etc.)
- Terminology
 - Premium, coverage, deductible, claim (use examples)
- Types of insurance—what it protects, why it is needed, what is covered, and how each type of insurance works
 - Automobile
 - Purpose, need and why mandated by most states
 - Factors affecting cost (premium)
 - Age, gender, marital status, type of car, cost of repairs, mileage, location, driving record (tickets, accidents, DUI's etc.)
 - Comparison shopping for the best rates
 - **OPTIONAL:** Bodily injury, Liability, and Comprehensive insurance coverage
 - Collision insurance coverage: reason and its impact on the cost of car insurance
 - Assigned risk pool
 - Premium cost for females vs. males
 - Reporting an accident, making a claim and impact of the deductible
 - Consequence of not having auto insurance
 - Strategies to reduce the cost of car insurance
 - increase the deductible
 - cancel collision insurance or reduce homeowners insurance
 - evaluate the right amount of insurance (underinsured vs. over-insured)
 - garage the car
 - install security alarm
 - maintain a good driving record
 - avoid submitting small claims
 - driver education course
 - driving record without moving violations, accidents or tickets
 - Health
 - Purpose and need
 - Required for all adults
 - Non-HMO/network vs. HMO/network policy—and a combination of these two
 - **Note:** Health insurance today is rarely paid in full by the employer. Most often the employee pays for a percentage of health insurance. The portion paid by the employee is deducted from his/her pay.

- Co-pays and how the co-payments work at the doctor's office
- Annual deductible: How it works and how the amount/level of the deductible influences the cost of the premium
- Pre-existing conditions (insurance companies must cover)
- Lower cost for consumers with good health, who exercise and are non-smokers
- Life
 - Purpose and need
 - Term life – characters and why less money
 - The difference between term life, and whole life insurance (cost, period of coverage)
 - Death benefit/face value
 - Cash value—how does it work
 - Factors to consider in determining the amount of life insurance coverage needed
 - Value upon cancellation of policy
- Property Insurance (Renters, homeowners, and mortgage insurance)
 - Purpose, need and what it covers (include the need for liability coverage)
 - Type
 - How a person determines how much insurance coverage is needed
 - Deductible
 - Claim
 - **Replacement value feature:** Why this coverage is more expensive and how a policy with “replacement value” pays a claim
- Disability Insurance – Purpose and need – most important next to health, what it covers
- Long Term Care Insurance – Purpose and need Buying insurance with an insurance broker or salesperson
- Determine insurance needs, stage of life influence, what is affordable, and comparison shop
- **OPTIONAL:** Self-Insure – when does a person or company self insure
- **What happens when a person does NOT have insurance**

7 **INVESTING (Putting money to work earning more money for the future)**

- Financial institution for this topic: brokerage (securities) firms and investment banks
- Purpose of investing – increase assets and produce wealth
- Where do funds for investing come from
- Long term value of investing: building wealth and achieving goals
- Historical results: stocks have historically outperformed other investments over an extended period of time
- **OPTIONAL:** Brokers (salespeople also known as financial consultants or wealth advisors) **vs. online investment services**
 - Commission charge and impact on cost of buying and selling securities
- **OPTIONAL:** Difference between a broker and a financial planner
- Markets
 - Market for buying and selling stocks and bonds (also known as securities)
 - Stock Exchanges (e.g., NYSE (ICE), NASDAQ) and what they are
 - Major indices (S&P 500, Dow, and Russell 2000)
 - Bear, bull, and volatile markets
- Investment products
 - Stocks
 - Mutual funds (pooling investor deposits to purchase a basket of securities)
 - Bonds (Corporate, Municipal and Government)
 - Real estate
 - Collectibles (antiques, coins, sport cards, comic books, etc.)
- Securities—Investment products/choices
 - Stocks

- Known as equities, securities, or common stock –highest growth and **risk potential**
- Definition (publicly held companies), examples, and stockholders rights
- Why companies issue stocks and become a public corporation
 - Need for money to grow or expand
 - **Shares outstanding**
- How to find and read the stock market table
 - Stock symbol, high, low, open, close price, net change, volume of trading
 - **OPTIONAL: PE ratio**
- Sale of stock and determining/understanding capital gains/losses
 - $(\text{selling price} - \text{purchase price}) \times \text{shares of stock} = \text{capital gains or losses}$
- Required reporting of capital gains or losses to the IRS, **and how taxes affect the rate of return (OPTIONAL: keeping securities for more than a year reduces taxes)**
- Factors that influence stock prices (e.g., news, economy, new product, bankruptcy, etc.)
- Investor risk tolerance (determines the type of investor and investment choices)
- Risk and return – the higher the risk, the higher the potential return and the higher the potential loss
- Investment portfolio
- Dividends on Stock
 - Purpose, who declares, calculating what investor receives (shares \times \$dividends)
 - Dividend listed on stock table
 - **OPTIONAL: The value of dividends to older investors**
 - **OPTIONAL: Reinvesting dividends to grow your portfolio**
 - **OPTIONAL: What else can public corporations do with profits – reinvest in business**
- Classifications
 - Blue chip stocks
 - Growth stocks
 - Income (stock with dividends)
 - Speculative (characteristics and examples of a speculative vs. safe investment)
 - **OPTIONAL: Preferred (pay a dividend)**
- Mutual Funds
 - What is a mutual fund?
 - Purpose of mutual funds and the reason investors purchase mutual funds
 - Diversification, moderate risk, and investors like that funds are managed by professionals
 - **OPTIONAL: How are mutual funds packaged (e.g., stock & bond funds, sector mutual funds)**
 - Where can an investor purchase mutual funds (broker or directly)?
- Bonds
 - What are they, purpose of these loans
 - Reason they are issued by a government agency
 - Components: principal, the price you pay for the bond, coupon or interest rates, what the bond pays to the lender, face value, maturity, etc.
 - Risk: the price of the bond changes, the full face value is only guaranteed if the investor holds on to the bond to maturity. Second risk is default by the issuer.
 - Difference between bonds and stocks
 - Types of bonds
 - Treasury Bills, Notes and bonds
 - Municipal, and corporate bonds
 - Reason consumers/investors buy each type of bond and **why considered safe (backed by full faith and credit of the U.S. government).**
 - Tax consequences on interest earned

- **(OPTIONAL) Exchange Traded Funds (ETF)**
- **OPTIONAL:** Primary vs. secondary markets – Difference and who benefits from shares sold
- Monitoring groups and regulatory agencies
 - Includes the Securities Exchange Commission (SEC) which protects the public by monitoring stock markets and brokers and enforces the laws concerning the buying and selling of stocks
- Investment strategies
 - When to avoid securities (stocks and bonds)
 - there is a need for liquidity or has no emergency fund
 - investor cannot afford to lose the (money)capital, i.e., needs the money to live on
 - the investor is retired and needs to have low risk
 - the investor has a low **tolerance for risk**
 - Research a specific stock, bond, or mutual fund before purchasing
 - Economic conditions and factors affecting the market value of stock and investments
 - Financial priorities for each stage-in-life: going to school, being single, marriage, children, divorce, retirement, career change
 - Reasons investors may buy or sell their investments: eg. changes in goals, spending needs, starting a new business, college education, retirement, etc.
 - Build a diversified portfolio
 - Buy low, sell high, **Dollar cost averaging, Diversification** to lower risk (do not put all your eggs in one basket) etc.
- Investor Responsibility
 - Review investment portfolio and monthly statements

⑧ MONEY MANAGEMENT/FINANCIAL PLANNING

- Determine personal **net worth** (how much a person is worth)
 - Subtract liabilities from assets
 - Assets (things owned with monetary value i.e., cash, jewelry) – liabilities (money owed) = net worth (What a person owns minus what they owe equals what they are worth)
 - Debt reduces net worth
- How life cycle/stages of life influence money management
 - Budgets, spending, insurance needs, etc.
- Financial Plans and Choices
 - What is financial planning; purpose (roadmap to help one achieve goals)
 - Considerations for the plan
 - Financial goals
 - Investment and insurance needs
 - Net worth
 - Savings
 - Education
 - Major purchases
 - Emergencies
 - Caretaking
 - Selecting investments to meet objectives of personal financial plan
- Wills
 - The purpose and importance of a Will
 - Beneficiaries (people who get your assets)
 - Preparing a will
 - **OPTIONAL** What is a living will (durable power of attorney for health care)
- Taxes
 - **Purpose and use of tax revenue, who assesses and collects taxes**
 - Different kind of taxes (some states charge sales tax, tax on earnings, interest, dividends, profits and capital gains, for a home there is real estate (property) taxes, etc.)

- Filing an annual tax return
- Tax refund
- **Disadvantage Anticipated Tax Refund Loans or Tax Refund Advance**
- Being a Smart Consumer
 - Keeping records (having a system):
 - to manage money effectively
 - To keep important documents (wills, receipts, insurance policies, etc.)
 - Evaluating product warranties to determine need and value
 - Seeking financial advice from a variety of sources (professional financial advisors, books, internet, accountants)
 - Evaluating the need and cost for product insurance
 - Often purchased for cell phones, computers, etc.
 - Importance of comparison shopping and reading customer reports on products
 - Evaluate Quality vs. cost in making a decision
 - Problems of getting involved with games of chance (**gambling**)
 - Understand impact of advertising that influences spending and increases the cost of products
 - Avoid influence of role models and peer pressure on spending patterns
 - Ask for a money order or bank check or cash when selling expensive items
 - Verifying sales receipts for accuracy including calculations, sales tax and/or fees
- Housing
 - Renting vs. owning
 - Owning—tax deductibility of mortgage interest and building equity
 - Renting—fewer responsibilities, does not build equity, learn about the community
 - Costs associated with renting vs. owning
 - Real estate agent fee, rent, security deposit, insurance, repairs, utilities/oil & heat, moving
 - Owning-down payment, mortgage, repairs, insurance, water, heat, property taxes
 - Rights related to security deposits
 - **OPTIONAL:** When does a homeowner have title (full ownership) of his or her home?
 - Benefits related to a single family home vs. a two family home
 - Real estate as an investment
 - Financing ownership
 - Applying for a mortgage
 - Elements: down payment, interest rate, length of the mortgage, amount borrowed
 - Calculating the mortgage loan needed based on a given down payment
 - Fixed vs. variable mortgages; length of loan and rate of interest
 - The relationship between the amount of down payment and the amount of the monthly mortgage payment (the higher the down payment, the lower the mortgage and the lower the mortgage payments)
 - **OPTIONAL:** What does a lending institution consider to determine creditworthiness for a mortgage?
 - Homeowners Insurance
- College Planning
 - Factors that influence college choice
 1. Career goals, reputation, course offerings
 2. Geographic location & size
 3. 2-year vs. 4-year college
 4. Cost
 - a. Tuition – public vs. private
 - i. Public – more affordable, partial funding from government

- ii. Private – more expensive
 - b. Books & fees
 - c. Housing – room & board
 - d. Travel costs
- Financing College
 1. Family & Savings
 - a. College savings
 - b. Determine financial gap between total cost and money saved
 - c. Identify potential financial resources to meet the gap
 2. Financial Aid
 - a. Requires completing a FAFSA (Free Application for Student Aid Form)
 3. Scholarships & Grants
 - a. Can be merit-based or need-based
 - b. Given by the government, school or private organization
 - c. “Free money” (may need to repay in the case that student does not complete the semester)
 4. Understand Financial Aid Package
 - a. Review attached sample
 - b. Common Terms – Expected Family Contributions (EFC), Total Cost of Attendance, Need, Direct Costs, Indirect Costs, Grants/Scholarships, Loans, Work-Study, Gap, Financial Responsibility, Work Study
 5. Make wise decisions
 - a. Determine estimated financial gap between the aid given and total cost of college being considered
 - b. Before taking out loans, search job market to find out average salary for intended career and calculate affordable debt
 - c. Consider choices and decisions based on different scenarios
 6. Loans
 - a. Government Loans
 - i. Subsidized loans - up to a certain amount of money and interest does not accrue until student is out of school
 - ii. Unsubsidized loans - do accrue interest from the day it is given
 - iii. PLUS Loans – direct loans borrowed by student or parent of student
 - b. Private Loans
 - i. Necessary if there is still a gap between total cost and funds available
 - ii. Offered by banks or other non-government agencies
- Managing Student Debt
 1. When repayment begins and consequences of non-payment
 2. Repayment options - Standard, Income-Based, Pay As You Earn, Income-Contingent
 3. Research strategies/opportunities to reduce repayment costs
 - a. Loan Forgiveness - Teacher Forgiveness, Public Service, etc.
 - b. Loan Consolidation – refinance multiple loans at a lower interest rate
- Retirement
 - A high percentage of Americans are unprepared for retirement in the U.S.
 - Importance of taking responsibility to have sufficient money for retirement
 - Potential sources of income: government (FICA), employer (Pension or 401k), individual savings (IRA) and personal investment accounts
 - Why critically important and consequences of insufficient retirement funds

- Social Security Tax for Income in retirement:
 - eligibility for collecting
 - how the amount paid to a retiree is determined (average during 35 years earned the most)
 - Pensions and Retirement Plans
 - Definition
 - Value of having and/or contributing to a pension and starting EARLY
 - **OPTIONAL:** Meaning of tax deferred (taxes are due on pension funds when received/withdrawn)
 - 401(k) Retirement Plan
 - Where to get a 401(k) and how they work to benefit employees
 - Employers may make a contribution to the plan and employees always have the OPTION of making contributions that can be automatically deducted from their paycheck and deposited to their 401(k) account,
 - Benefits of an employee making contributions from each paycheck
 - Reduces taxable income
 - Effective way to save for retirement
 - What happens to employer and employee 401(k) contributions when employee leaves employer?
 - 401K plans can be transferred. Employees can rollover their retirement money into an IRA or another 401(k). If pension retirement funds (contributions) are withdrawn when leaving a company and not deposited in a 401k or IRA account, contributions are taxable.
 - If employee retires, taxes are due on money when withdrawn from plan.
 - **OPTIONAL:** Employee is entitled to the dollars contributed by his/her employer (after being vested) and to the dollars the employee contributed to the 401(k) pension account.
 - **OPTIONAL:** Cost of living considerations e.g. geographical differences in consumption needs and in the price of goods and services as well as housing costs
 - Traditional vs. Roth IRA (Retirement Account)
 - How each works (one factor is that contributions cannot exceed the legal limit)
 - Where to go to open an IRA account (bank or investment firm for a stock broker/financial advisor)
 - Benefits or advantages
 - Penalty for early withdrawal
 - When are taxes payable (Annually for Roth IRA or upon withdrawal for Traditional IRA)
- Creating Wealth/Financial Well-being: Products and strategies
 - Topics for discussion
 - Interpretations of wealth and financial wellness
 - Assets greater than debt
 - Barrier to financial wellbeing (health, lack of knowledge, behaviors and skills, attitude, etc.)
 - Start saving early – the more time a person has the more the savings or investments are likely to grow
 - Eliminate unnecessary debt
 - Earn capital gains
 - Make profits on the sale of goods and/or services
 - Regular investing in stocks, bonds and property
 - Spend less than you earn
 - Borrow to invest (buy a home, loan for college education)

⑨ **REGULATORY AGENCIES: Role and how they protect consumers and/or investors**

- Federal Deposit Insurance Corporation (FDIC)—insures deposits and can take over failed banks
- Securities Exchange Commission (SEC)
- Federal Reserve System (FED)
- Internal Revenue Service (IRS)
- **Consumer Financial Protection Bureau (CFPB)**
- Financial Industry Regulatory Authority (FINRA)
- Securities Investor Protection Corporation (SIPC)

CAREERS (integrate throughout)

- At institutions in the financial services industry (exchanges, banks, insurance, securities, financial planning, real estate) and related financial firms (accounting, credit counseling, finance companies, etc.)
- Commission vs. salary
- How to best prepare for potential careers in finance (take a course, internship, interviews, read)
- Requirements for becoming a stock broker and financial planner, banker
- Entrepreneurship

ETHICS AND VALUES (integrate throughout)

- Identify social and ethical issues and their influence on managing personal finances
- Discuss consequences of unethical practices or behavior (financial institutions and consumers)
- **How individuals and corporations “Give back” to enhance career and personal satisfaction and help improve the human condition (donations, volunteering, giving grants to nonprofits, etc.)**

READING FINANCIAL DOCUMENTS (integrate throughout)

- | | | |
|----------------------------|------------------------------|--------------------------------|
| *Credit Report | *Credit Application | *Credit Statement |
| *Stock Market Table | *Loan Statements | *Checking Acct. Bank Statement |
| *Savings Account Statement | *Savings Account Application | *Investment Account Statement |

SCAMS, MISLEADING OR ILLEGAL TACTICS

- tax scams
- tax cheating
- loaded mutual funds
- promise to outperform the stock market
- vacation timeshares
- scams targeted at senior citizens, elder abuse and fraud
- lotteries
- apartment / room rental scams
- for-profit diploma mills
- false phone calls from the IRS or the Department of the Treasury

COMMON FINANCIAL ADVICE

Don't put all your eggs in one basket

Pay yourself first

A penny saved is a penny earned

If it sounds too good to be true, it is (too good to be true)

Buy low, sell high

Neither a borrower nor a lender be; for loan oft loses both itself and friend and borrowing dulls the edge of husbandry

There are more fools among buyers than sellers

The best time to plant a tree is 20 years ago...the second best time is now

Nothing is free--Everything has a price

A \$1 today is worth more than a \$1 tomorrow
 The higher the risk, the higher the return
 Just because you have the money to buy something, it doesn't mean you can afford it
 Something worth having is worth saving for
 You never know when it is going to rain

OTHER COMMON SAYINGS

I owe, I owe, so off to work I go
 Penny wise, pound foolish
 A bird in the hand is worth two in the bush
 Idle hands is the devils workshop
 Robbing Peter to pay Paul

FL TEST BLUEPRINT	% of Questions	Questions
I. Money, Budgeting, Cost of Money, Money Management/ Personal Financial Planning, Regulatory Agencies	30-35%	15-18
II. Banks and Banking	20-25%	10-13
III. Credit	15-20%	8-10
IV. Insurance/Investing	20-25%	10-13

Career related questions can appear in any of the four segments of the Blueprint. There will be NO questions on OPTIONAL topics.

FINANCIAL DECISION MAKING

Good decision(s) to make when interest rates are low or high
 Starting a small business – does it make sense since many small businesses fail
 Renting vs. owning

FINANCIAL TERMS, RULES, AGENCIES

Money

Barter (optional)	Garnishment	Profit
Cash card/gift card	Human capital	Purchasing power
Cashless society	Gift card	Rental income
Check	Income tax deductions	Social Security tax (FICA)
Credit card	Inflation	State taxes
Debit card	Inheritance	Store card
Dependents	IRS (Internal Revenue Service)	Store cash card
Earnings	Life cycle	Supply and demand
Electronic transfer	Local taxes	Tax refund
Employment benefits	Money	United States Treasury Dept.
Exemption/Allowance	Money order	Upward mobility
Federal taxes	Net pay	Windfall income
Fringe benefits	Paycheck	Wages
Gross wages	Paycheck stub or earnings statement	
Income	Payroll deductions	

Budgeting

Balanced budget	Fixed expense	Needs
Budget	Short term goal	Opportunity costs
Deficit	Income	Pay yourself first (the rule)
Discretionary income	Intermediary goal	Personal income
Disposable income	Long-term goal	Short-term goal
Emergency Fund		Spending plan

Surplus
Trade offs

Variable expense
Wants

Cost of Money

Annual Percentage Rate (APR)
Buying power
Compound interest
Federal Reserve Bank

Interest
Interest rates
Principal

Rule of 72
Simple interest
Time value of money

Banking

ABA number/check routing number
ATM card
Automatic bill payment services
Account balance
Bank
Bank Statement
Bounced check
Car loan
Cash loan
Cashier's check
Certificate of Deposit (CD)
Certified check
Check cashing centers
Check cashing fee
Check fraud
Check number
Check register
Check stub
Check

Checking account number
Collateralized loan
Commercial bank
Credit
Credit card
Credit Union
Debit card
Depositor
Direct deposit
Endorse
Endorsement
FDIC
Finance companies
Financial intermediaries
Free checking
Insufficient funds
Line of credit
Liquidity
Minimum balance required

Money market account
Money order
Online access
Overdraft protection
Pawn shops
Penalty
PIN number
Predatory lending
Promissory Note
Reconcile
Reconciliation of check register
Redlining
Safe deposit box
Savings account
Savings bank
Securities Investor Protection Corp
U.S. Savings bond

Credit

3 C's of credit (capacity, character & collateral)
APR (Annual Percentage Rate)
Auto finance companies
Balance owed
Bank
Bankruptcy
Bankruptcy: Chapters 13
Cash advances
Charge cards
Collateral
Consolidation loans
Consumer Credit Counseling Services (CCCS)
Consumer debt
Co-signed loans
Credit card companies
Credit cards
Credit history
Credit rating

Credit report
Credit reporting agency
Credit score
Credit risk
Debtors anonymous
Default
Due date
Finance charge
Fixed interest rate
Fixed rate of interest
Foreclosure
Garnishment
Grace period
Home equity loans
Identity theft
Installment loans/credit
Interest [APR]
Late fee
Lien
Credit limit

Line of credit
Liquidation
Low credit rating
Minimum amount due
Minimum payment
Mortgage
Mortgage brokers/lenders
Overspending
Ownership
Pawn shops
Pawn ticket
Payday loans
Penalty
PIN
Predatory lending
Prepayment
Promotional Rate
Repossession
Revolving credit
Secured Credit card

Secured loans
Unsecured loans
Tax preparers

Title for goods
Truth in Lending Act of 1968
Usury

Variable interest
Variable rate

Insurance

Annual deductible
Assigned risk pool
Automobile insurance
Beneficiary
Benefit period
Cash value
Claim
Collision insurance
Comparison shopping
Co-pay
Death benefit
Deductible
Disability insurance
Face value

Homeowners insurance
Insurance
Comprehensive
Insurance Benefit
Insured
Long-term care insurance
Managed care health insurance
Mortgage insurance
No-fault insurance
Non-managed care health insurance
Over insured
Premium
Property damage liability insurance
Renter's insurance

Risk
Term life insurance
Under-insured
Unemployment insurance
Universal variable life insurance
Whole life insurance
Dependent

Investing

American Stock Exchange
Antiques
Bear market
Big Board
Blue chip stock
Bond
Bond fund
Bond principal
Brokers
Bull market
Capital gain
Capital loss
Collectibles
Common stock
Diversification
Diversified portfolio
Dividends
Do not put all your eggs in one basket
Dow Jones Industrial Average
Equities
Face value
Financial consultants

Growth stock
Income (stock with dividends)
Insured bonds
Investing
Investment
Liquidity
Money market account
Mutual Fund
NASDAQ Market
Financial Industry Regulatory Authority
(FINRA)
New York Stock Exchange
Portfolio
Preferred stock
Primary market
Rate of return
Risk
Risk tolerance
S&P 500
Secondary market
Securities
Securities Exchange Commission (SEC)

Speculative
Speculator
Stock exchanges
Stock fund
Stock market
Stock portfolio
Stock symbol
Stockholder
Stockholders' rights
Stocks
Treasury bill
Treasury note
Volatility
Dollar Cost Averaging

Money Management

401(k)
Accountants
Asset
Balance Sheet
Bank mortgage
Better Business Bureau

Building equity
Consumer Price Index
Creditworthiness
Down payment
Employee contributions
Finance company mortgage

Financial planners
Financial plans
Financing ownership
Fixed mortgage
Identity theft
Impulse buying

Income tax
Income tax return
Landlord
Liability
Monthly mortgage payment
Mortgage interest
Net worth
Ownership
Pension

Phishing
Property taxes (Real estate taxes)
Real estate
Renting
Retirement planning
Roth IRA
Sales tax
Security deposit
Social Security income

Stages in life
Tax deferred
Tenant
Title
Traditional IRA
Utility expenses
Variable mortgages
Will

Careers

Accountant
Banker
Broker
Credit counselor
Financial consultant

Financial planner
Financial writer
Financial analyst
Insurance agent
Insurance sales person

Investment analyst
Mortgage banker
Real estate sales person
Stock analyst
Underwriter

SAMPLE FINANCIAL LITERACY CERTIFICATION TEST QUESTIONS

1. A person who wants to cash his paycheck is advised to go to his bank rather than to a check cashing store because check cashing stores
 1. typically charge high fees for their services.
 2. require the person to have a co-signer in order to cash a check.
 3. have a 48-hour waiting period before they cash a check.
 4. will not cash checks written for more than \$100.
2. Which should be the first financial goal for a recent college graduate who is single and has a full-time job?
 1. Buy a house.
 2. Buy a life insurance policy.
 3. Have a three-to-six month emergency fund.
 4. Create a stock portfolio.
3. A person who owns stocks may decide to buy bonds and mutual funds in order to
 1. diversify her investment portfolio.
 2. avoid paying taxes on capital gains.
 3. reduce her variable expenses.
 4. eliminate the need for retirement planning.
4. A person with homeowner's insurance had electronic equipment currently worth \$2,000 stolen from her apartment. The insurance company approved her \$2,000 claim and paid her \$1,500. The most likely reason for the insurance company's paying her less than the \$2,000 claim is that her insurance policy had a \$500
 1. co-insurance clause.
 2. deductible.
 3. finance charge.
 4. premium.
5. A person who is following the advice to "pay yourself first"
 1. did not receive a salary increase to keep up with the cost of living.
 2. will have more money available for savings this year.
 3. will be able to buy more goods and services this year.
 4. puts aside money for saving before spending money on entertainment.
6. If a person receives a salary raise of 3% and the rate of inflation is 5%, which statement is true?
 1. The salary raise is not enough to allow the person to buy as much as she did in the previous year.
 2. The rate of inflation did not keep up with salary increases.
 3. The person who received the salary increase will not be affected by an increase in prices.
 4. The rate of inflation is lower than it was the previous year.