



# Personal Finance Handbook

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# Your Fiscal Fitness: An Introduction

*No pain, no gain. It applies as much to fiscal fitness as it does to physical fitness.*



**SS.912.E.1.16** Construct a one-year budget plan for a specific career.

## Think Long-term

If you start investing \$40 a week at a 5 percent rate of return, in 20 years you will have accumulated \$17,800. If you get a higher return, say 7 percent, then by the time you retire in 45 years, you would have \$163,688.

*"Whoa! Slow down! 20 years? Retirement? I'm still living at home! I don't even own my first car yet! Who do you think you are—my parents?"*

If that's your reaction, you're not alone. A great many high school students do not think much about their financial future. They also don't like to get stern lectures from Mom or Dad—whether it's about financial planning or about those 5,000 extra text messages that appeared on last month's cellphone bill.

But let's face it: free room and board doesn't last forever. And often, it comes to an end soon after you get handed a diploma. At some point in the not too distant future, the bills in the mail will be yours.

The fact is that responsible financial citizens were not born that way. Even your parents had to learn how to comparison shop, avoid impulse buying, and put money aside that they would much rather spend on fun. Chances are they made mistakes along the way. And they wish you could avoid all the same pitfalls.

## Take a Checkup

Start by taking a good look at your own money habits. Are you a big spender? Moderate saver? Do you save anything at all? The answer is pretty easy to figure out. If you have an unexpected windfall, a bigger than expected birthday check, or an opportunity to earn overtime money, what do you do with the money? Save it all? Save half? Look to see what you can buy now?

You don't have time to waste. Mess up your credit rating now and you could be paying the price until you're in your thirties. You might find yourself living at home after college and beyond. (And which sounds cooler to you—writing a check for your own apartment, or paying rent for the same bedroom you had in the sixth grade?)

### GO FIGURE

**\$269,040**

**The estimated cost of raising a child born in 2007 through age 17.**

SOURCE: United States Department of Agriculture. "Expenditures on Children by Families, 2007"

## Skip the Fats, Go for the Protein!

It comes down to fiscal fitness. Developing a solid, fiscal muscle also involves training or budgeting, short and long-term goal setting, and most of all patience. Personal finance, like athletics, requires discipline.

## ON TRACK TO FINANCIAL CITIZENSHIP

**Discipline is one of the qualities that defines a winner. If you want to come out on top, learn the rules of good financial citizenship and put them into action.**



Keep a budget in order to live within your means.



Understand credit uses and costs.



Shop wisely and know your rights as a consumer.





Preparing for a long race often involves delayed gratification. An athlete will sacrifice fast-food because it's bad for his health, but healthy eating will pay off in the long run. The same is true of investing in your future. It may mean putting off purchases today for financial security sometime later on.

That's easy to say but hard to do, especially if you want to keep up with your peers. You and your dollars are the target of marketers and advertisers. According to a national survey, teenagers are rabid consumers of high-tech products. About 75 percent of U.S. teenagers own a cellphone, 60 percent have an MP3 player, and 43 percent have a car.

## The Long Race

The spirit is willing but the flesh is weak. The impulse to get what we want now is far stronger than the motivation to save for something that is months or even years down the road. You may have to trick yourself into saving by promising yourself a reward when you have met certain goals.

### Obstacles

What could slow down your progress? One outstanding speed bump is credit card abuse. You don't want to join the ranks of those who struggle to pay their credit card balance in full every month. They let matters slide—failing to balance their checkbooks, check their credit card statements, or keep an eye on bank fees and

**Savvy Savers** Today's teens spend more than previous generations of teens. This 2007 survey, however, shows that many teens do understand the importance of saving and have begun to develop good saving habits.

#### What percentage of your income, from a job or your allowance, do you save?

Response	Percentage
I save at least 75% of my income every month.	15.6
I save 25–75% of my income every month.	51.4
I save less than 25% of my income every month.	21.9
I do not save any of my income.	11.2

Note: 1,512 teens between the ages of 13 and 18 were surveyed  
SOURCE: Junior Achievement Personal Finance 2007: Executive Summary

interest rates. You want to develop the fiscal awareness that will keep you out of trouble.

## Grow Your Money

Despite the difficulty of thinking long-term, 65 percent of teens actually admit that they want to learn how to grow their money. This is good news. Even better, 84 percent of teens have savings, with an average amount of \$1,044. Fueling those savings is their attitude that the future is now. Savings could translate into a car and college in the short run and a secure life and retirement in the years to come. With the right attitude, you're ready for basic training.

In no time at all, the following words will be part of your conversation. *Budgeting*—how to spend your income in such a way that there's something left over to invest. *Compounding*—how saving a little now can translate into big money later on in life. *Investing*—why the stock market can be both friend and foe. (Over the last 50 years or more, the stock market has averaged a higher return than bank accounts or bonds.)

Ready, set, grow.

### Are You Ready?

1. How can your own spending habits help or hinder you?
2. What are some key steps to staying on a good financial track?

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)



Develop short- and long-term financial goals.

# Wise Choices for Your Money

*Learning how to live within your means will help you make the most of what you have and to plan for a more secure future.*

## Budgeting 101

A **budget** is simply a plan for spending and saving. The word may conjure up images of driving a junk car or eating canned spaghetti every night. But the reality can be just the opposite. In fact, most millionaires use a budget to manage their money. And most of them started early.

### Spending Awareness

Surveys show that almost one half of Americans between the ages of 13 and 18 know how to budget their money. That's the good news. The bad news is more than half don't. Which group do you fall into? Take this quick quiz:

1. How much money did you spend on beverages—from coffee or water to energy drinks—last week?
2. How much money will you spend on gas next week?
3. How long will it take you to save up for the most expensive thing you'd like to buy?

If you could answer these questions without much trouble, you've already taken the first steps to good money management. If you didn't have a clue, maybe it's time to think about making a budget.

### Good Habits Start Early

Now here's another question. Did you ever ask for money to spend on concert tickets—or a piece of jewelry, or a ski trip—only to hear “*You don't need it, and we can't afford it*”? Odds are you didn't think of it as an economics lesson. But according to surveys, students who learned about money management at home scored higher than those who learned about it only in school.

## A Balancing Act

Budgeting is a balancing act between income and expenses. It also means weighing your needs against your wants.

### Income and Expenses

To begin creating a budget, follow these steps.

1. Make a list of your earnings per month from all sources. Add these up to calculate your expected monthly income.
2. For one month, keep a record of everything you spend, from chewing gum to car

payments. Collect receipts or write everything in a notebook. Make sure you don't leave anything out. (And that includes savings!)

3. At the end of the month, organize your spending into categories such as food, entertainment, and car payments. Total the amount in each category.
4. On a sheet of paper, list your income and expenses.

If your total expenses are less than your total income, you're doing fine. If not, you need to take a hard look at where your money is going.

### GO FIGURE

\$948,611

The amount you might earn over 40 years if you skip paying \$5 a day for a latte and muffin.\*

SOURCE: [www.finishrich.com](http://www.finishrich.com)  
\*Assumes \$150 per month invested at a rate of 10 percent annual return







**MA.912.A.2.2** Interpret a graph representing a real-world situation.

## Needs and Wants

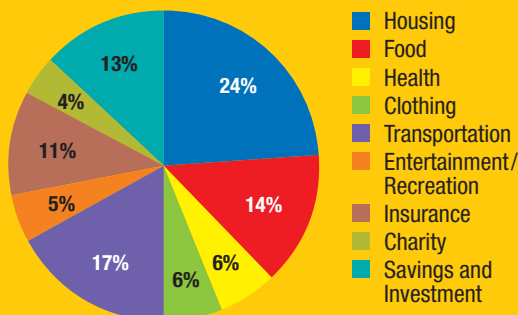
Right now, many of your basic needs are probably part of the household budget. Still, some of your personal funds may be going toward needs such as car insurance, lunches, or college savings. The rest goes toward buying things you want. So, if you are looking to cut down expenses, you should focus first on the wants.

Consider the example of Michelle, a high school senior. She works 20 hours a week at a department store, where she earns \$10.00 an hour. Her net income—that is, her take-home pay after taxes—is \$150. Her monthly necessities include \$40 for her cellphone bill, \$60 on average for gas, and \$65 a month on car insurance. Michelle has already set aside \$300 for her prom and hopes to have \$500 by the time prom rolls around. To stay within her budget, she gives up her daily soda habit, saving almost \$30 a month. She and her friends also decide to rent movies rather than go out. This trade-off will allow them to rent a limousine to go to their prom.

## Budget Boosters

1. Keep a spending journal for one week: Include every latte, vending-machine snack and music download.
2. Identify needs: bills, car payment, etc.
3. Downsize or eliminate impulse buys such as coffee and soda.
4. Make saving a priority and a habit.
5. Add to your savings weekly, even if just a small amount.
6. Identify a long-term want and start saving for it. (You'll be surprised how fast those fast-food outings diminish when you set your mind on something.)
7. Prioritize and pay down any outstanding debt—including that \$5 you owe your sister.
8. Use cash for daily spending.
9. During vacations or the summer, pick up some extra hours at work.
10. Live within your means. Spend less than you make.

**What's in Your Budget?** This budget shows the typical spending for a single earner, living alone. Budgets change according to lifestyle and income. What doesn't change is the need to save and pay for essentials, such as housing and food.



SOURCE: [www.personalfinancebudgeting.com](http://www.personalfinancebudgeting.com); National Foundation for Consumer Credit

Michelle has planned for a long-term goal and budgeted correctly. She has drawn a fine line between needs and wants.

If you find you have a difficult time staying within your budget, enlist a friend or family member to review your expenditures each week to help keep on track. Try not to rationalize impulse buys. Consider them your sworn budget enemies!

## Long-Term Rewards

Err on the side of thrift and responsibility. Live within your means and try to save a set percentage of your income. Some budget counselors suggest allotting 80 percent for needs, 10 percent for wants, and 10 percent for savings. Do that and you might find yourself with a tidy savings within a few short years.

Spend without a plan and you might end up like many Americans: deep in debt. In fact, U.S. consumer debt topped an estimated \$2.5 trillion dollars in 2008, or \$8,300 per American. In that same year, studies showed that one in seven American families was dealing with a debt collector. Learning to budget now may spare you from being part of this grim statistic later.

## Are You Ready?

1. What are the steps for creating a budget?
2. Using the steps under "Income and Expenses" construct a one-year budget for your first year after graduation, based on your career path.



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Checking Up on Checking Accounts

*Park your cash where it counts, and put your bank to work for you.*

## The Right Bank

Banks are everywhere. Often they face each other at busy intersections in a community or are tucked in the corner of a supermarket. Every bank is vying for your business. How do you choose among them?

## The Basic Requirement

You want to use a bank that is insured by the **Federal Deposit Insurance Corporation (FDIC)**. The FDIC protects your money and the interest it has earned—up to the insurance limit—in the event that your bank fails. For an account held by a single individual, the limit was raised to \$250,000 in 2008. Banks are generally considered to be financially sound, but failures do occur.

## How to Write a Check

**All bank checks have the same basic layout and require the same information. To avoid problems with checks:**

1. Write clearly.
2. Do not cross out or write over a mistake.
3. Tear a check with errors into small pieces, and write "Void" next to the check number in your check register.
4. NEVER write a check for more than your account balance.

## Endless Variety

It may be impossible for you to believe, but not so very long ago even the biggest cities offered only ten different television stations. That was it for choices. The services offered by banks have grown in a similar way to the expansion of TV entertainment options. Although banks may look very similar, their services are not one-size-fits all. The bank that is most convenient for you may not have the services that best meet your needs. First, you have to figure out what you want and then figure out where to get it.

### GO FIGURE

500  
million

The number of checks forged annually in the United States, with losses totaling more than \$10 billion.

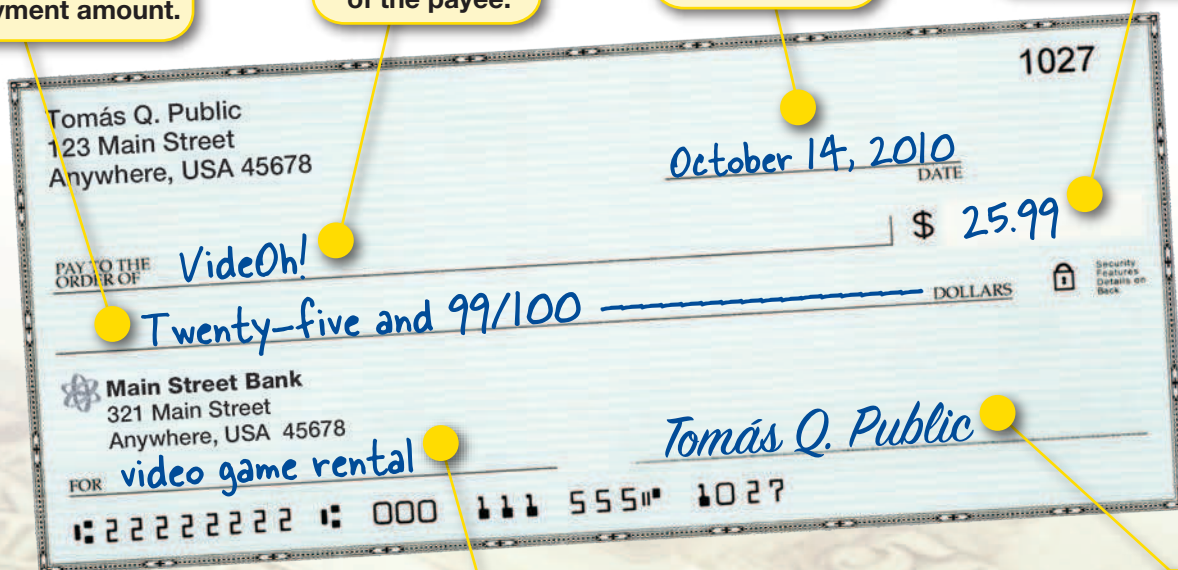
SOURCE: Ernst & Young

Use words to write the payment amount.

Write the name of the payee.

Write the current date.

Use numerals to enter the payment amount.



Write additional information about the payment or payee, such as a reason or an account number.

Sign your check.





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

## The Right Services

One universal need is convenient and safe access to your money. Checking accounts and debit cards have made both readily available.

### Checking Accounts

To open a checking account you will need identification, such as a birth certificate or a driver's license and a Social Security number. You will also need money to deposit.

Which checking account meets your needs?

**Basic checking:** Best bet for customers who use a checking account to pay some bills and use a debit card for some daily expenses.

**Drawback:** Monthly maintenance fees may apply unless you retain a minimum balance or enroll in direct deposit. Some banks may limit the number of checks you can write each month and charge you a per item fee if you exceed the limit.

**Free checking:** The operative word here is "free," meaning a no-strings attached account with no monthly service charges or per-item fees, regardless of the balance or activity.

**Drawback:** These are harder to find and the "free" part may be an introductory offer that expires in six months or a year.

**Checking with overdraft protection:** In effect, if you write checks for more than the balance of your deposits, the bank will honor the check by lending you the money you need, up to a preset limit.

**Drawback:** This service comes with hefty fees.

### The Debit Card

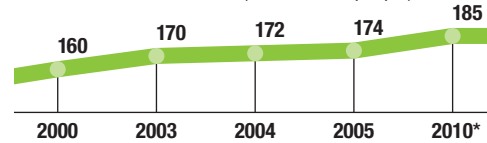
Most banks offer you a debit card with a checking account. With a credit card logo, it has the look and feel of a credit card, but there is a major difference. The money you spend is deducted from your checking account balance. Debit cards are also used to withdraw money from ATMs, giving you access to your money 24/7. If you use an ATM from a bank other than your own, you will likely be charged a fee. You could pay \$2 to get access to your own \$20. Convenience comes with a price.

### Direct Deposit

Banks and employers encourage people to take advantage of direct deposit. A win-win for you and the environment, the paperless transaction enlists your

**Debit Card Nation** It's hard to beat convenience and the rise in debit card usage confirms it. More than likely, you are one of 185 million Americans who are using a debit card to access their checking accounts.

U.S. Debit Card Holders (in millions of people)



\*Projected SOURCE: Statistical Abstract of the United States

employer to deposit your paycheck directly into your bank account. An employer may ask for your social security number, a voided check containing your bank's routing number, and your account number. Direct deposit saves you a trip to the bank and protects you from lost or stolen funds.

## Keeping Track

When you open a checking account, you will receive a checkbook that includes sequentially numbered checks and a check register, or a booklet in which you'll record your account transactions. Every time you write a check, make a deposit, or use an ATM, you should take a few seconds to write it down. It is also important to hold onto your ATM receipts. They are the only proof that you withdrew \$40, not \$400.

Each month the bank will send you a statement of the activity on your account. It lists deposits, withdrawals, ATM transactions, interest paid, and fees charged. You will get a photocopy of any checks that were cashed during that month. Check your statement as soon as it arrives, comparing the transactions on the bank statement to your own records to make sure they agree.

By taking a little time to be a good record keeper, you will make life a lot easier and protect yourself from mistakes and fraud.

For more banking tips, check out [fdic.gov](http://fdic.gov)

### Are You Ready?

1. How should you choose a checking account?
2. What are some of the fees that banks place on checking accounts?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Banking Online

*You shop online. You chat online. You game online.  
So why not bank online?*

## Modern Banking

Once upon a time, people had to go to the bank to deposit money, to transfer money from one account to another, or to withdraw money from an account. They had to write a check or use cash to pay bills. This has become ancient history. The online bank is growing fast in popularity. An online bank can be a virtual extension of a brick-and-mortar bank or can exist solely in cyberspace. As long as a bank is insured by the FDIC, deposits are safe up to \$250,000.

## Online Benefits

As one of today's online banking customers, you can access your accounts, pay your bills, and transfer funds from one account to another twenty-four hours a day. Internet banks also offer the environmentally friendly option to stop paper records, allowing you to access your statements, canceled checks, and notices online only. You can even arrange **automatic bill payment**. Although you receive a bill in the mail or in your e-mail, the amount you owe is automatically deducted from your bank account on a predetermined date.

You save time, postage, and the possibility of missing a payment and incurring late fees.

There can be other financial advantages to using online banks. Internet bank fees can be as much as 80 percent less than those charged by traditional banks. They may also offer checking, savings, or money market and CD accounts that yield higher interest rates than those offered by traditional banks.

A major benefit to the consumer is the ability to find these good deals by comparison shopping online. In the wise words of Benjamin Franklin, "A penny saved is a penny earned." By getting in the habit of looking for the lowest interest rates on loans and the highest interest rates on savings, the wise consumer will slowly pull ahead of the pack. Add a little compound interest into the mix and the pace of progress will pick up.

## GO FIGURE

67.9  
million

The number of U.S. households that banked online in 2008, up from 27.3 million in 2002.

SOURCE: "2008 Consumer Banking and Bill Payment" survey by FIServ

## Online Banking Tips

Online transactions offer layers of encrypted protection to safeguard your transaction and privacy.

- Make sure your computer is protected with the latest versions of antivirus and antispyware software.
- When banking online, ALWAYS double-check the Web site.
- When creating a password, avoid the obvious, including first names, birthdays, anniversaries, or Social Security numbers.
- Change passwords on a routine basis.
- Make sure all other browser windows are closed during your transaction.
- Exit a banking site after completing your online transactions and empty your computer's cache.
- Use Paypal. If your bank doesn't offer online bill pay, this online escrow service distributes your money fee-free to registered clients.
- Visit the U.S. government's site [onguardonline.gov](http://onguardonline.gov) for further tips to protect yourself against online fraud.





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

## Be Responsible

Even though you may choose to bank online, every month you will get a statement in the mail from your financial institution. It is your responsibility to check this against your online transactions and report any discrepancies to your bank. Laws regulating an **Electronic Funds Transfer (EFT)**, a system for transferring money from one bank to another, protect you in the case of fraud. You, however, have to do your part. In order to be protected by the law, you must report any errors in transactions within 60 days of the receipt of your bank statement. No matter how careful banks are not to make errors, no one is perfect.

If you use automatic bill pay, it is your responsibility to have sufficient funds in the account to cover the transaction. Some procedures of online banking are still affected by the business hours of the bank. If you are transferring funds to cover your bills, the money may not show up in your account unless you have made the transfer the previous day before a specific cutoff time. A deposit made at 1 A.M. may not show up on your account until the next business day. Plan your transactions accordingly, particularly if you wait until the last moment to pay your bills.

## Gone Phishing

**Phishing** is a scam in which a fraudulent web site is used to gain personal and financial data to commit fraud. There are several steps you can take to protect yourself.

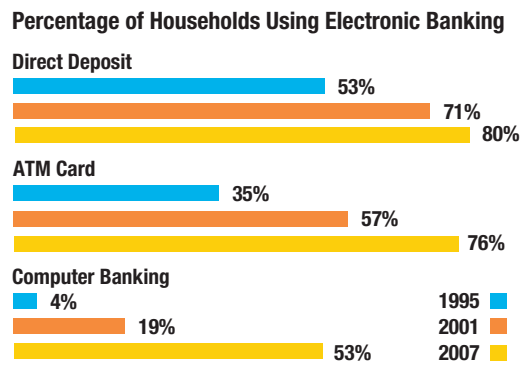
- ▶ Online banking transactions should be done through the bank's Web site only.
- ▶ Never respond to e-mails from your "alleged" bank that request sensitive personal or financial information.
- ▶ If you suspect fraud, contact your bank by phone to determine if it's a legitimate communication from the bank. If not, alert them to the scam.

If you think you can't be fooled, think again. Phishing techniques can be highly elaborate. Many even set up mirror Web pages intended to look like your financial institution's Web site to earn your trust.

## Traditional Banking

In the balance, why would anyone still use a brick-and-mortar bank? There are a number of reasons that make some consumers reluctant to drop traditional banking altogether.

**Online Revolution** In 1995, Wells Fargo became the first financial institution to offer online statements. By 2012, it is estimated that 82 million Americans will be banking online. This chart shows trends in some methods of e-banking.



SOURCE: Board of Governors of the Federal Reserve System; Federal Reserve Bulletin, July 2009, and unpublished data.

## Convenience Factor

While Internet-only banks receive high marks for convenience, they also can be inconvenient.

- ▶ To fund an account, you will have to mail in a check, arrange for direct deposit or make a transfer from another bank. This is not a problem, of course, with banks that also operate a physical branch.
- ▶ Not having the option of being able to speak with someone face-to-face is another inconvenience. Some customers prefer to interact with people who know them personally. Making a phone call or communicating by e-mail is not to everyone's liking.
- ▶ Another drawback is the difficulty of finding fee-free ATMs, although online banks often have ATM networks for their customers to use at minimal cost.
- ▶ Lack of paper checks is a fourth issue. Instead, Internet-only banks offer a bill-pay service. But payments have to be scheduled ahead of time and take several days to process. As a result, you have to keep close tabs on your account to ensure that you have money to cover the payments.

## Are You Ready?

1. What are the advantages of online banking?
2. How can you protect yourself against phishing scams?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Investing With Dollars and \$ense

*Inside, everyone is a millionaire just waiting to happen. You can tap your potential with basic investments.*

## Self-Made Success

Look in the mirror and the face of a future millionaire may be staring back at you. More than 80 percent of millionaires are self-made, first-generation rich. But forget the lottery and other get-rich-quick schemes. You have to set your own goals and work toward them.

## Pay Yourself First

In order to get started on your road to wealth, you have to remember one simple rule: Pay yourself first. A good rule of thumb is to set aside 10 to 15 percent of your income. We will talk later about how to achieve this goal, but for the time being, accept the fact. The lifestyle you choose to live now will determine the lifestyle you will be able to have in the future.

## Get Help From Interest

Let's assume that you have made the decision to save. The positive news is that your savings will work for you. Banks pay you interest for using your money. Interest rates are expressed as percentages and indicate how much money an account will earn on funds deposited for a full year. Interest is compounded when it is added to your principal and you earn interest on both amounts. In effect, compound interest is interest on interest.

Most first-generation millionaires acquire their wealth over a lifetime. Their road to riches has more to do with budgeting, compound interest, and careful investing than with salary and inheritances.

## Basic Investing

Putting money in a savings account is very safe. The only danger to money in a savings account is that the rate of inflation will be greater than the interest rate. Over time, the money in your savings account could lose value—it will buy less and less. But you will never lose your principal, the amount of money you put in the account.

Investing money is not the same as “saving” money. Investors take more risk—even possibly losing money—in the hopes of getting a higher return on their money.

### GO FIGURE



$\frac{2}{3}$

The ratio of millionaires who are self-employed.

SOURCE: “The Millionaire Next Door” by Thomas Stanley and William Danko



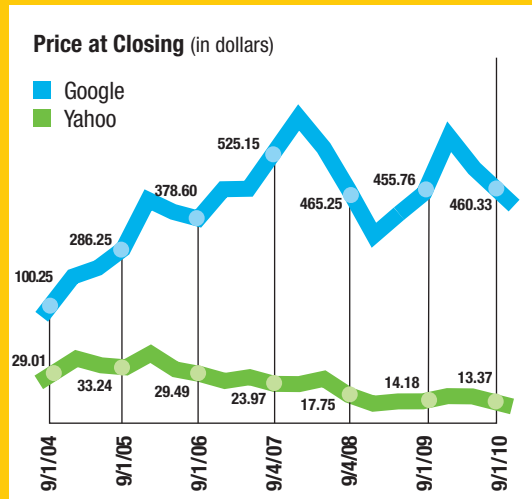


Investing your money can give your dollars a greater opportunity to grow. Bonds, stocks, and mutual funds are among the many investment choices that you have. Of course, with the possibility of greater growth comes the possibility of greater loss. If you invest in a corporate bond, stock, or mutual fund, you stand the risk of losing some or all of the money you invested. This risk is offset by the possibility of greater gain, allowing your money to grow at a faster rate than the rate of inflation.

### The Name Is Bond

A **bond** is an IOU issued by a corporation or by some level of government. When you buy a bond, you are lending money in return for a guaranteed payout at some later date. The safest bonds to buy are government-issued bonds because it is unlikely that a government will go bankrupt. You can get U.S. government bonds through your bank, and they can be bought in small denominations. Many corporate bonds carry a low-to-moderate risk to investors and take anywhere from 5 to 30 years to mature.

**Tale of Two Search Engines** Since 2004, Google's stock has soared to over \$650 a share. Meanwhile, Yahoo! stock has fallen. As much as they try, it is not always possible for investors to predict a sure thing.



SOURCE: Yahoo Finance

The value of some bonds varies. For example, if you buy a bond when interest rates are 6 percent but you want to sell it before it matures, then the bond's value will be affected by current interest rates. If rates have

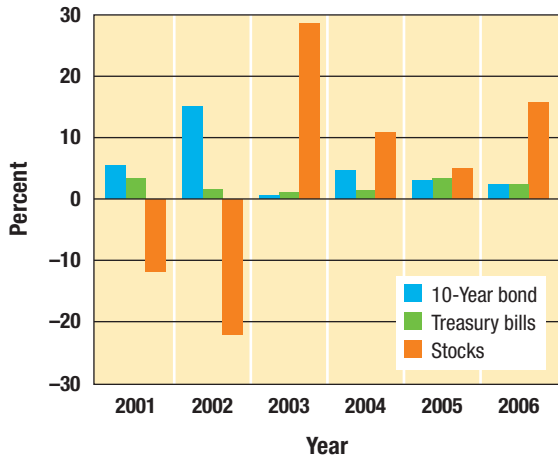


*“Only buy something that you’d be perfectly happy to hold if the (stock) market shut down for 10 years.”*

—Warren Buffet, billionaire investor

### Five-Year Rate of Return

The rate of return (profit and loss) on investments changes over time. Historically, stocks have provided investors with the greatest potential for profit. But data also show that they're riskier than other types of investments.



SOURCE: The 2008 Statistical Abstract of the United States

gone up since you bought the bond, then you will have to discount the price to sell it. Why else would anyone want it, if they could get a higher rate of interest elsewhere? But, if interest rates have gone down, then that 6 percent rate will seem much more inviting. In this case, you could sell the bond for more than you paid for it.

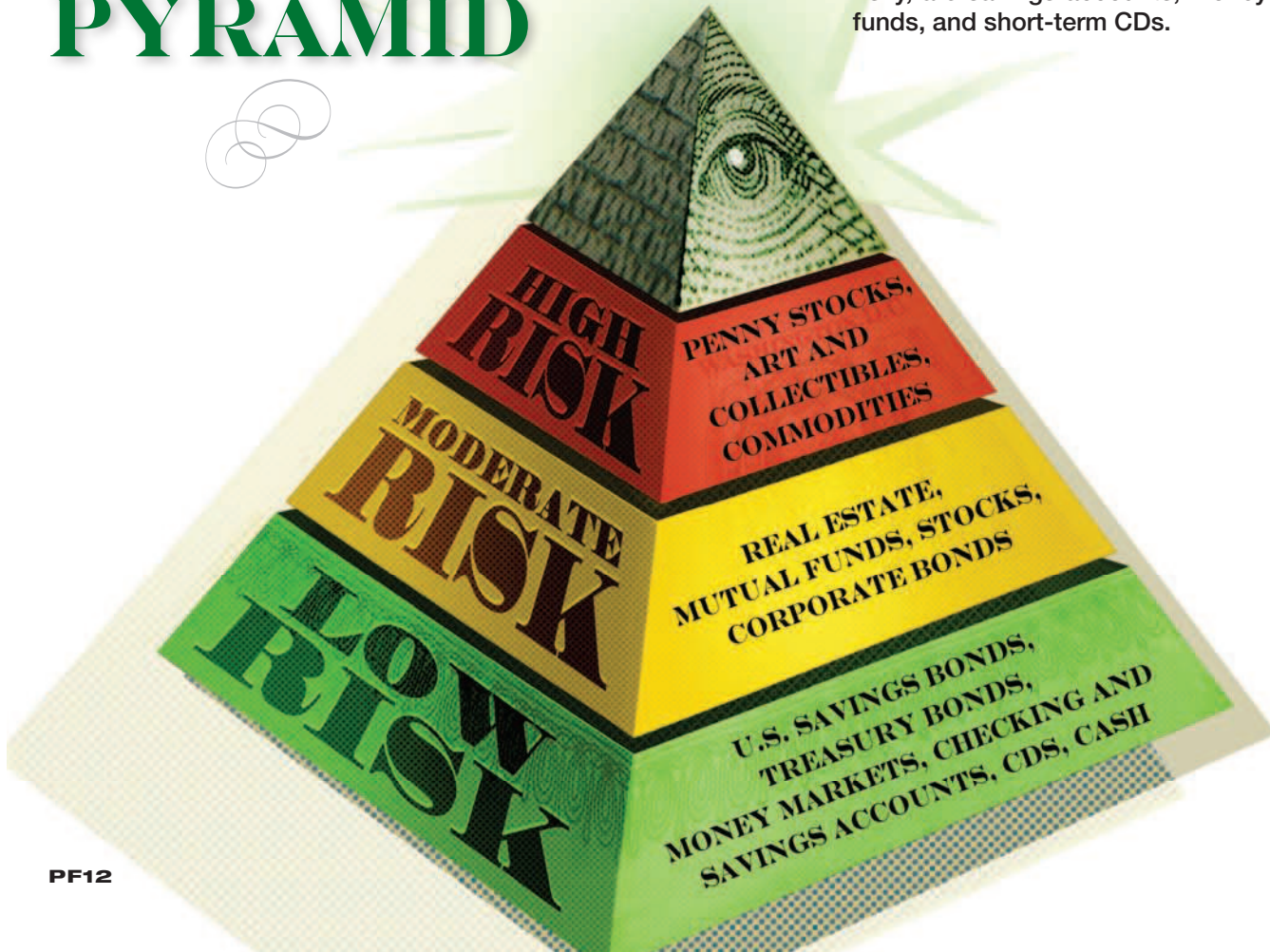
Because the value of bonds is relatively stable, they are a good investment for people who cannot tolerate much risk. Families saving to send children to college may find bonds attractive because they generally earn higher interest than a savings account, and aren't likely to fall sharply in value the way stocks can.

### Stock Up

**Stocks** represent ownership in a public company. If you buy shares in a corporation, you become a part owner. You will make money if the price of the stock goes up and if you receive dividends, which are a portion of the profits paid to the owners. There are two kinds of stock, preferred stock and common stock. Preferred stock holders get a set dividend and are paid from the corporate profits before the common stock holders.

# THE RISK PYRAMID

"Risk" means the danger that an investment will disappoint you. A pyramid is sometimes used to demonstrate the riskiness of various investments. At the top are very risky investments like futures in precious metals. At the bottom, and least risky, are savings accounts, money market funds, and short-term CDs.





Stocks are generally a riskier investment than bonds. Historically, however, stocks have rewarded their owners with higher returns than bonds or savings accounts.

## What About Mutual Funds?

A mutual fund is an investment in a company that buys and sells stocks and bonds in other companies. By combining your money with that of other investors, the managers of the mutual fund can buy a wide variety of stocks and bonds. When you buy a mutual fund, you are buying a part ownership of the stocks or bonds owned by the investment company. The biggest advantage of investing in this way is that you instantly have a diversified portfolio. Your risk is spread out.

Three kinds of mutual funds have three levels of risk.

- ▶ Money market funds, which are not the same as money market accounts, are short-term, low-risk investments. The money you invest is used to make short-term loans to businesses or governments.
- ▶ Bond funds are investments in bonds. Though riskier than money market funds, they have a higher potential return.
- ▶ Stock funds are made up of a variety of stocks. Over the long term, they have provided higher returns than either market funds or bond funds.

Mutual fund companies are required by law to register reports and statements with the SEC. You can check up on them through the SECs database at [www.sec.gov/edgar/searchedgar/mutualsearch.htm](http://www.sec.gov/edgar/searchedgar/mutualsearch.htm). Morningstar and Standard and Poors are two companies that rate mutual funds, stocks, bonds, and other investments.

## Investment Strategy

Many first-time investors think that the way to make money is to buy low and sell high. But, trying to time the stock market has proven elusive to even the most savvy investor. When all is said and done, it's best to use common sense. Dollar cost averaging is one simple investment strategy that rewards the patient investor.

### Dollar Cost Averaging

**Dollar cost averaging** is the strategy of investing on a regular schedule over a period of time. In this way, you capture both the lower and higher prices as prices rise and fall. In the long run, you hope to get a better average price for the purchase or sale of stocks and mutual funds. People use dollar cost averaging because they know they can't predict the market. It is especially useful for common stocks, which can be very volatile—that is, the price can swing far above and below the average price. Dollar cost averaging is an attempt to hedge against the ups and downs of the stock market. It does not guarantee gains or eliminate all possible losses, but it improves your odds of coming out ahead.

### The Case for Dollar Cost Averaging

Let's say that you put \$500 a month into a mutual fund for five months. The price of a share has gone from \$10 to \$10. You own 308.3 shares, worth \$3,083. You invested only \$2,500 (five times \$500). You made \$583 because the average price per share was \$8.40.

Month	Price per Share	Shares You Buy
January	\$10	50
February	8	62.5
March	6	83.3
April	8	62.5
May	10	50
<b>TOTAL</b>		<b>308.3</b>

### Other Options

The risk and payout on investments covers a range from the most secure to the really, really risky. Junk bonds didn't get their name because they were a secure place to park money. Some people invest in collectibles—fine art, baseball cards, Civil War memorabilia. If the market remains strong, people who can part with what they have bought stand to make a lot of money. But, if no one is interested in your stamp collection, you may end up using it for postage.

What you choose depends on the risk you are willing to accept. You also need to consider the length of your investments and any tax burdens the investment may carry. If your scheme is to count on "sure things" or use tips from the cousin of your neighbor's son-in-law, you are likely to be very disappointed.

### The Final Word

The federal government encourages investment. Even though the government taxes interest and dividends at the same rate as earned income, the profits from the sale of stocks or property are capital gains. In recent years, the taxes on long-term capital gains have been lower than the tax rate on the interest from bonds and savings accounts. As an added bonus, interest earned on U.S. government bonds is exempt from state and local taxes. What it comes down to in the end is that informed decisions and careful planning are your best strategies for successful investment.

### Are You Ready?

1. What is the difference between saving and investing money?
2. How can dollar cost averaging protect your investments?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Building Your Portfolio

*An 'investment portfolio' may seem currently out of your realm, but learning about them can't come a moment too soon.*

## Your Assets

An investment **portfolio** is made up of different investment assets. These include the basics: stocks, bonds, mutual funds, CDs, and a 401(k). A healthy portfolio depends on a variety of factors. No two are alike because every investment plan is designed according to individual needs and goals.

## Diversify

As you have learned, all investments carry different levels of risk. Stocks, for example, carry much more risk of losing value than, say, a money market account. To protect your investment you need to diversify. In the uncertain world of financial markets, a properly diversified investment portfolio is better equipped to survive the ups and downs of stock prices. If your portfolio consisted only of stocks in companies that made gumballs, its value could take a nose dive if stores

stopped ordering gumballs. If your portfolio was properly diversified, only the investments tied to gumball makers would suffer.

## Life Stages

Investing should be seen as a lifelong process, and your investment portfolio should change over time. The way it changes will depend on your income and needs. For example, you probably won't need an investment to supplement the money you make from a full-time job, if you're 22 years old and single. By the time you're 40, however, you might already be married with children. In this case, you might need income

### GO FIGURE

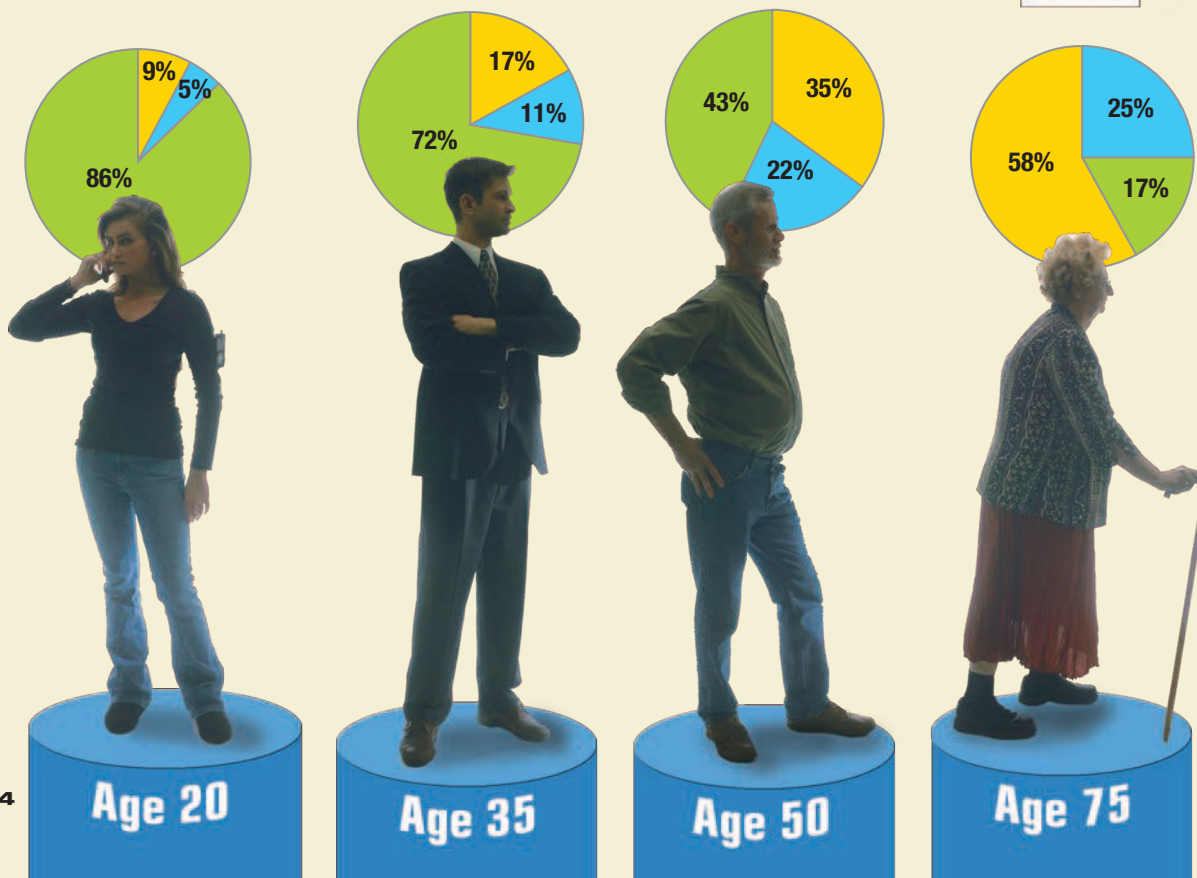
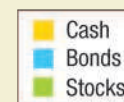
**2**  
million

The number of young investors in the U.S., between grades 8 and 12, who actively trade stocks and bonds.

SOURCE: www.doughnet.com

## Portfolios: Where do you stand?

No government agency provides a standard model for how you should invest your money. Experience suggests a good strategy is focused on a mix of assets that includes stocks, bonds, and cash. The allocations should change as a person ages. This is one widely accepted model of such allocations.\*





from investments to help pay for a child's first year at college. Those income-producing investments probably will be more conservative because your needs have changed. Generally speaking, the younger you are the greater risk you can tolerate.

Investments can lose a significant amount of their value over the short-term. Over the long-term, however, those same investments could well recover their initial value and, even, gain much value. That is why it would be unwise for a 75-year-old investor to have the same aggressive investments as a 20-year-old.

## Lisa's Story

With a new promotion under her belt, Lisa at age 25 decided she was ready to invest. Already participating in her company's 401(k), Lisa wanted to take her own investments to the next level: A professionally managed portfolio outside of her company.

### Choose a Guru

Lisa wanted to manage her assets on her own. Who should she choose? Financial planner? Financial consultant? Financial Broker? If Lisa's main goal is to get financial advice, she might seek out the Certified Financial Planner (CFP).

### Background Check

Lisa can perform a background check on her CFP through the CFP Board of Standards Web site. Financial planners and consultants are required by law to act in the best interest of the client, whereas brokers and brokerage firms make commissions off their sales. The Central Registration Depository (CRD) database provides background data on brokers. The Financial Industry Regulatory Authority's Broker Check Web site [www.finra.org](http://www.finra.org) provides information from the CRD.

### Commissions and Fees

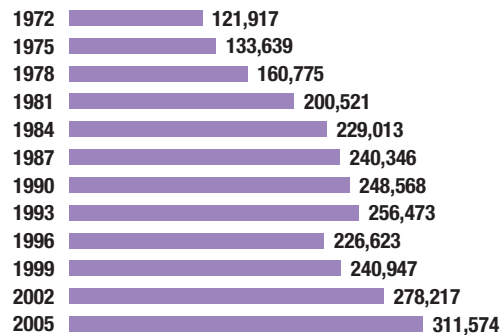
When Lisa narrows down her list, she will find out if the advisers operate on commission, hourly fees, or a percentage of assets or some combination. She will ask for a complete breakdown of the fee structures. A reputable adviser or broker will give her information on their fees as well as documents outlining the risks of each investment.

## How Much Risk?

Since Lisa is just starting out, her financial planner is likely to steer her toward stocks and bonds. Lisa is

**Mind Your Business** Managing people's money typically requires training in finance. It is one of the fields contributing to the popularity of majors in business at U.S. colleges. In 2005, twenty-two percent of all bachelor's degrees were in business.

### Bachelor's Degrees Earned by Business Majors



SOURCE: The 2008 Statistical Abstract of the United States

conservative and wants to limit her risk, sticking to CDs and bonds. But since Lisa is young and single, she should consider taking a higher level of risk for aggressive growth. She knows that she also needs to keep some money available for an emergency. Life happens, and she could face an unexpected expense.

### Rule of 72

Thanks to the **Rule of 72**, Lisa easily can calculate how long it will take to double her investment at any given interest rate of return. The Rule of 72 is a mathematical shortcut in which an investor can divide the number "72" by the expected rate of return to estimate the number of years it will take for an investment to double in value. This assumes that the interest is compounded every year. For example, if Lisa invests \$500 into an account that earns a 6 percent return, it will take 12 years for that account value to become \$1,000, because 72 divided by 6 equals 12. Her account value will double, even if she doesn't invest another penny in it. If Lisa has an investment that earns 10 percent interest, then it will take 7.2 years to double.

### Are You Ready?

1. Estimate how much of Lisa's portfolio should consist of stocks.
2. Use the Rule of 72 to find how long it will take for \$1,500 to double at 4 percent interest.

**WebQuest**  
online

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# Saving for the Long Haul

*Saving is one habit that pays. And the earlier you start, the bigger the payoff will be.*

## Pay Yourself First

You already know about the advantages of making a budget. Spending less than you earn is a critical step to financial freedom. But it's only the beginning.

## A Hole in the Budget

Meet Ricky. Ricky is a recent college graduate with a decent entry-level job. He's developed good financial habits. He got through college without building up a huge credit card debt. He budgets carefully—so much for rent, so much for food, so much for car insurance. Only after he has paid all his necessary expenses does Ricky use what's leftover to pay for the things he enjoys, such as a weekend trip or a new jacket. This may seem like a good plan—*UNTIL*

- ▶ he decides to buy a house.
- ▶ he starts a family.
- ▶ he loses his job.
- ▶ he gets hit with a long-term illness.
- ▶ he retires.

Ricky's habit of living within his budget month to month does not allow for life changes and emergencies. On his list of

people to pay, Ricky has left someone out. He has forgotten to pay himself.

## Get in the Habit

What does it mean to pay yourself first? It simply means to make personal savings a regular part of your budget, just like rent and food. Everyone has the potential to save, even if it means sacrificing a few immediate wants. You'd be surprised where the savings can come from. Cut out the daily \$2.00 for soft drinks at the vending machine, and you've just saved \$14 a week. Multiply that by 52, and you've pocketed a tidy sum in just one year.

Saving is a habit and takes discipline. You can get into the habit of saving money every month by taking a percentage of your monthly income and then paying yourself first. For example, you can have your employer automatically deposit a certain amount into your savings account. But don't touch

## GO FIGURE

**\$140.6**  
trillion

The 2008 value of the \$24 worth of trinkets that colonists paid to the Manhattoes tribe for Manhattan in 1626, with 8 percent interest compounded annually.

# TALE OF TWO SAVERS

The age you start saving can make a big difference in the amount you have at retirement. In the case of the two savers shown here, the difference is more than \$1 million! Both savers start with \$200 and put way \$200 a month. Both earn 8 percent interest compounded annually. Saver 1 starts at age 18. Saver 2 starts at age 36.



AGE  
**18**

AGE  
**36**





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

it! People who have trouble saving manage their money in reverse. They spend first, and then save what is left. But what if there's nothing left? Then there's nothing left to save. Saving doesn't mean you don't get to spend your money. It means you get to spend it later.

## Why Save?

Not many young people think about saving for retirement. ("Retirement? I haven't even started working!") Yet, when it comes to saving, time is money. There are at least three big benefits to thinking *now* about the day you finally stop working. The biggest benefit is compound interest.

## The Magic of Compound Interest

The earlier you start saving, the faster your money will grow. The reason: compound interest. **Compound interest** is interest you earn, not only on the money you put into an account, but also on all the interest you have previously built up. Today's interest earnings will start earning interest tomorrow. The more you save today, the more interest you will gain tomorrow. And that savings will add up at a faster rate. For every

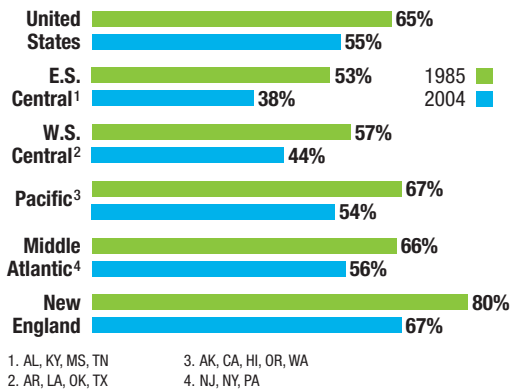
**\$1,384,000**

**\$322,000**

**AGE  
67**

**Save Yourselves** Economists warned years ago that Americans faced financial burdens not seen by previous generations. Data show that the decline in savings accounts is a national trend.

### U. S. Regions With Large Declines in Percentage of Americans with Savings Accounts.



SOURCE: "Savings and Asset Accumulation Among Americans, 25–34" by Christopher Thornberg and Jon Haveman. October 13, 2006.

year that you put off saving, you could lose thousands of dollars in the long haul.

## Other Benefits

There are also big tax benefits when you stash money away for retirement. If you put funds into an **Individual Retirement Account (IRA)**, the money may escape taxation until you retire—or at least until you reach age 59 1/2. That cuts your tax bill NOW. Even better, when you withdraw your money from a special IRA (called a Roth IRA), the money you make—the appreciation—may not be taxed at all.

Finally, putting money away now allows you to have a cushion in case of emergencies. There are even circumstances in which—despite the government's restrictions—you can dip into a retirement fund to pay for other expenses. For example, you can access some retirement accounts to buy your first house or to cover high medical expenses.

Whether your dream is a comfortable retirement, a nice home, or foreign travel, you're going to need a savings plan to make it come true. As you'll see, there are many options to choose from. But it all starts with developing the saving habit—with paying yourself first.

## Are You Ready?

1. What are the reasons teens should save?
2. What are three things you can sacrifice in order to save money?

**WebQuest  
online**

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Get Personal With Your Savings Plan

*You know why you need to save, and save early. But which savings plan is right for you?*

## Three Savers

Okay, so you've decided to take a portion of your income every week and put it towards your financial future. Your goal is to achieve financial freedom, meet emergencies, and have a comfortable retirement—maybe even to 'get rich.' But not all paths are equal.

### Different "Plans"

Let's look at three young adults: Amanda, Tyler, and A.J. Each of them is making about the same amount of money. Each of them decides to take \$10 per week and dedicate it to their financial future.

Amanda takes her \$10 and puts it in a shoebox under her bed.

Tyler takes his \$10 and puts it in a simple savings account paying 3.6 percent interest.

A.J. takes his \$10 and invests in lottery tickets in the hopes of winning a million dollars.

### Different Results

Each of the three keeps this up regularly for 20 years. Each of them would say, "I'm paying myself first." But see how different the results are:

- ▶ Amanda has paid herself a total of \$10,400. She now has \$10,400.
- ▶ Tyler has paid himself a total of \$10,400. He now has \$15,392.
- ▶ A.J. has paid himself a total of \$10,400. He now has \$0.

The fact is, the odds of winning a state lottery are something like one in 18 million. So what sounds better to you? A 100 percent chance of increasing your savings by nearly \$5,000 ... or a 99.99999995 percent chance of losing it all? That's a no-brainer. Tyler's savings account is also clearly more profitable than Amanda's shoebox. But even the savings account may not be the best option of all.

## Park Your Savings

In making a personal savings plan, the first question you have to ask yourself is: How much can I save? You've seen how putting aside even a small amount can build up as long as you do it regularly. The amount you save per week should be one that you can reasonably commit to for a year. The key to success is that you must do this even if you cannot afford it. Then, pay your other bills as usual.

## Savings Account

Usually, saving starts with setting up a basic savings account carrying no monthly fee. But when choosing a place to park your savings, *shop around*. Make sure the bank is FDIC insured. Some banks will charge you excessive fees just for the privilege of having your money. Web sites such as [bankrate.com](http://bankrate.com) show you what interest different banks are currently paying for checking accounts.

### CDs

Once you start making more money, think about moving some cash into a **certificate of deposit**, or CD. Like a savings account, a CD is insured and therefore very low-risk. But CDs generally offer higher interest than a savings account. The catch is, once you put your money in, you can't take it out for a fixed period of time. Depending on the length of the CD, you would have to part company with your money for as little as three months or as long as five years. There are penalty fees for early withdrawal.

As with savings accounts, you can compare CD rates online. You might even opt for an online bank that offers even higher interest rates than traditional brick and mortar banks. Here are the details for one available CD:

**Initial Deposit:** \$1,000  
**Length of CD:** 1 year, 6 months (18 months)  
**Interest Rate:** 4% compounded daily  
**Annual Percentage Yield (APY):** 4.081%  
**Ending Balance:** \$1,061.83

## Money Markets

What if you want higher yield than a regular savings account without tying up your money? You might open a **money market account**. This is a type of savings account with a high yield that allows you to write checks as long as you maintain a high balance in the account.

So which is the best plan? It all depends on how much you can afford to put aside, and whether high yield is more important to you than easy access to your money. Your early savings plan may involve a combination of options. As you get nearer to retirement, your options change and multiply.

### GO FIGURE

39%

The percentage of Americans who say they have enough money to cover 3 months of living expenses.

SOURCE: "Most Americans Fail the Emergency Test", [www.bankrate.com](http://www.bankrate.com)



# SAFETY IN NUMBERS

**Rainy day fund.  
Emergency fund.  
Back-up plan.**

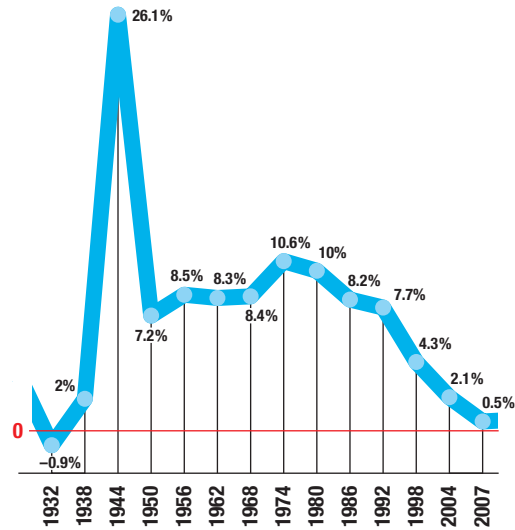
The name of the game is emergency money to turn to when life throws a curve ball. This requires a separate “must-pay” account—just like a bill. Job loss is just one situation that warrants easy-access, liquid cash.

Other cases of emergency include illness, car repairs, and appliance repairs. The recommended emergency safety net ranges between three and six months of income. Here are six ways to jump-start your fund.

- 1 Funding bill:** Set up an automatic payment into a savings account.
- 2 Cash stash:** Relative sent you a Ben Franklin? Put a portion toward emergency savings.
- 3 Loose change:** Deposit all your coins into a jar. Repeat daily.
- 4 Small sacrifices, big savings:** Cut down on impulse buys. Spin that cash toward your fund.
- 5 Back to the basics:** Consolidate and resolve outstanding debt.
- 6 Uncle Sam’s store:** Purchase a U.S. Savings Bond.  
(SOURCES: [www.bankrate.com](http://www.bankrate.com), [www.marketwatch.com](http://www.marketwatch.com))

**Depressing Savings** In 2005, the U.S. government reported that the personal savings rate briefly fell into negative territory for the first time since the Great Depression. Americans spent more than they earned.

Personal Savings Rate: 1932–2007



SOURCE: Bureau of Economic Analysis: National Income and Product Accounts Table (2.1) (May 29, 2008)

## Are You Ready?

1. Why is the ‘pay yourself first’ principle a good savings technique?
2. How can you build an emergency fund?

**WebQuest  
online**

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Retirement Planning: Me? Now? *Why?*

*Believe it or not, it is never too early to start planning for retirement. Here's why.*

## Retire in Style

Prom, graduation, car, college. With so much on your mind now, why would you even think about retirement? The answer is simple. You will have to live later with the consequences of your decisions now. Most people on the brink of retirement today will tell you that they wished they had known then what they know now.

## Wait at Your Own Risk

It is never too early to plan for retirement. The longer you wait to save, the less time your money has to work for you. If you have a job now, you're already putting some money away for retirement. The government takes money from your paycheck to save for your future in the form of the FICA tax, or Social Security tax. But experts generally agree that Social Security payments alone will not fund a comfortable retirement.

## How Much Will You Need?

How much money will you need in retirement? That depends on mountains of variables—your health, your lifestyle, where you live. Everybody has different needs. Let's look at some current, general estimates.

Many financial advisers estimate that you will need 70 percent of your pre-retirement income in order to retire comfortably.

By comfortably they mean you will be able to keep up your pre-retirement lifestyle. Your needs are lower because you do not have to buy clothes for work, pay for commuting, and eating out. You also won't have to put as much money into your retirement investments. It is time for them to pay you. No one is average, however. Some people spend more money when they first retire because they have more time for travel and entertainment. As they age, they travel less, and those costs go down. But, in many cases the cost of healthcare goes up.

## GO FIGURE

0

**The amount that 1 in 3 U.S. workers born in 1990 will have in a 401(k) plan at retirement.**

SOURCE: U.S. Government Accountability Office report, November 29, 2007

## Where Does the Money Come From?

The first source is Social Security. You might also have a defined pension, a set amount of money paid by your employer based on your wages and length of employment. Defined pensions, however, are disappearing in private industry. The rest of your retirement income depends on you: a 401(k), Individual Retirement Accounts (IRAs), investments, and savings.

## Launch Your Plans for Retirement

According to statistics, you are going to live a longer life than your grandparents. What you have to do now is develop habits that will help you live with the choices you make. When you ride off into the sunset, you want to do it in style.





## Social Security

Each year the Social Security Administration sets the minimum amount of earnings you need to have to be entitled to Social Security benefits. You can begin to collect reduced benefits at age 62 and full benefits at age 67 for people born after 1959. As the population ages, the point will come when Social Security will pay out more in benefits than it collects each year in payroll taxes. There is a lively debate in progress about how long Social Security will last and what it will provide in the future. The message here is that you have to prepare to take care of yourself.

## 401(k)

This leads us to the 401(k). You want to pay attention to this retirement plan. The law allows you to set aside a portion of your pay before taxes are withheld. Rent, credit cards, and student loans may limit what you can contribute to your 401(k), but the returns are worth the sacrifice. Some employers match every dollar you save up to three percent of your salary. Others may choose to contribute 50 cents per dollar you save, up to six percent of your salary. Either way, you get an immediate return on your money and you don't pay taxes on any of it until you withdraw it years later.

Employers have come to realize that many people do not have a clue how to invest the money in their 401(k) accounts. More and more employers are providing sources of investment advice to their employees to help them make the most of their money.

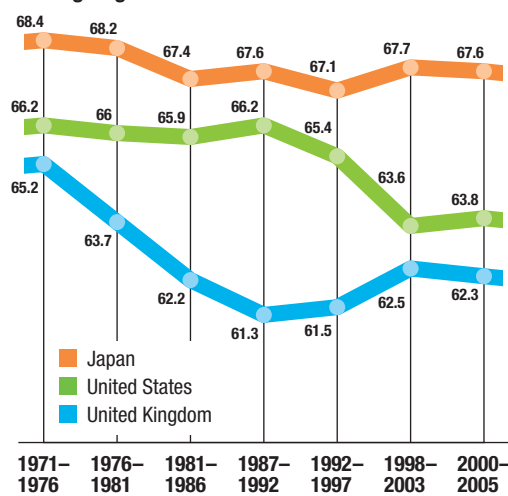
## Other Accounts

The federal government also encourages you to save for retirement by providing special tax advantages for other retirement accounts.

- ▶ You can open up a traditional Individual Retirement Account (IRA) at a bank and contribute \$5,000 per year. Depending on your income, this money may be tax deductible. You have to be ready to leave this

**Retiring Nations** Although the average age of retirement among American workers has risen in the past decade, it's still about four years less than in Japan. As people live longer, the retirement age is likely to rise even more.

Average Age of Retirement in Select Countries



SOURCE: Organization for Economic Cooperation and Development, 2006 data

money alone. Tapping an IRA prior to age 59 1/2 will cost you dual penalties. You will forfeit 10 percent of your interest, plus pay taxes on what you have withdrawn as though it were added income. The 10 percent penalty is waived if the money is used for higher education or first-time home ownership.

- ▶ In a **ROTH IRA**, contributions are taxed prior to investing but withdrawals after age 59 1/2 are tax free, meaning you never pay taxes on the interest or dividends that have accumulated over the years. Roth IRA money may be withdrawn for first-time homeowners or higher education on the condition that the account has been open for 5 years. Early withdrawals will be subject to the 10 percent penalty.

Federal regulations regarding these kinds of accounts are subject to change by Congress. In recent years, the Congress has raised the savings limits to encourage people to save more for retirement.

## Are You Ready?

1. What factors influence how much you will need to retire?
2. Describe two ways you can save for retirement.

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Fundamentals of Good Credit

*Are you credit worthy? It matters more than you think.*

## Making the Grade

Congratulations! You got great grades. You're one step closer to the college of your choice and maybe even lower car insurance costs—all for being responsible. Believe it or not, your credit history will have a similar impact.

## Establishing Your Credit

As a first-time borrower, you may find it tough to get a credit card or a car loan on your own. Without a credit history to check, lenders often will require a co-signer to guarantee that the loan will be repaid if you fail to repay. This person could be your parent or another relative with a good credit history.

The rest is up to you. How can you prove to future lenders that you are a good credit risk? The most important step is simple: Pay your bills on time. Every late or missed payment will end up on your credit report.

## Your Credit Report

Your **credit report** is your financial report card. In addition to your payment history, it includes the details of your bank and credit card accounts. Lenders can see how much debt you are already carrying. They can also see if you have had any bankruptcies or judgments against you, or if you owe back taxes.

National credit reporting agencies create a **FICO score** based on your credit history. The score falls in a range from about 300 to 900. Usually, a score of at least 700 gives you access to reasonable credit. (The chart on the next page shows how your credit score is calculated.) For a fee, you can find out your credit score at MyFico.com.

## GO FIGURE

**\$1,585**

**The average credit card debt of a U.S. college freshman.**

SOURCE: 2005 Sallie Mae report "Undergraduate Students and Credit Cards"

## ADVENTURES IN CREDIT

*Whether or not you are judged to be a good credit risk depends on the three C's.*



### CAPACITY

Your expenses, your job, and how long you have had it

### CHARACTER

Financial history and payment record

### CAPITAL

What assets you have to back up a loan, like a savings account, property, investments





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

A bad credit report can sink more than a loan. It also affects your chances of getting insurance, an apartment, a mortgage—even a job. Like lenders, many landlords and employers check credit histories. They see on-time bill paying as an indication of whether you will be a responsible tenant or worker. The **Fair Credit Reporting Act** sets the terms by which credit information about you can be gathered and used.

## Protecting Your Credit

Suppose there are mistakes in your credit report or you have made poor credit choices. What can you do?

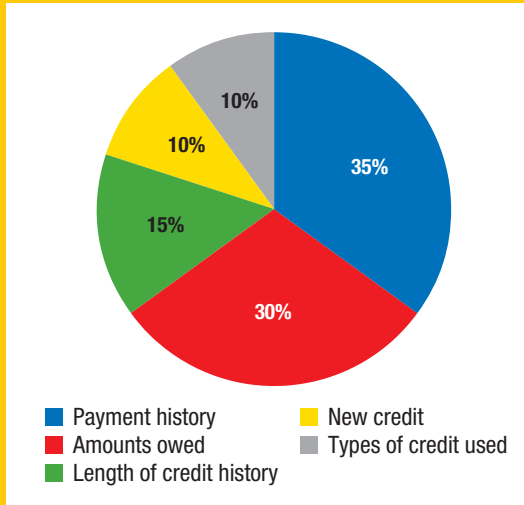
### Check It Out

Free credit reports are available once per year from each of the three national credit-reporting agencies: Experian, Transunion, and Equifax. Sample credit reports can be found on their websites. To get a free credit report go online: [www.annualcreditreport.com](http://www.annualcreditreport.com); call (877) 322-8228; or mail: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA, 30348. A credit report is not the same as a credit score.

How much information is gathered for a credit report? Take a look at the sample reports available on the websites of the credit-reporting agencies. Review your credit report for errors, such as the number of late payments, and for possible fraud.

If you find an error in your credit report, send a separate letter to each agency where the mistake is found as soon as possible. Include a copy of the credit report with the misinformation highlighted. The credit reporting agency is required by law to investigate with the creditor in question. It should remove from your credit report any mistakes a creditor admits. The **Fair Credit Billing Act** requires creditors to correct errors without lowering your credit rating.

**How Do You Score?** The chart below shows the factors in your credit report that are used to create your credit score. Paying your bills on time has the greatest influence. Knowing these factors should help you understand how you can improve your credit score.



SOURCE: [www.myfico.com](http://www.myfico.com)

### Clean It Up

No matter how careful you might be with your finances, circumstances may get the better of you. The loss of a job or a medical emergency could leave you in a world of financial difficulty. Here are some steps to take if you have trouble paying your bills on time.

- ▶ Reassess your needs and wants. Be prepared to make hard choices.
- ▶ Stop using credit until you are out of trouble.
- ▶ Contact your lenders to negotiate a different payment schedule or interest rate.
- ▶ Contact nonprofit credit counseling organizations who, for a small fee, can provide debt-management assistance and intervene with card issuers. Make sure the service is affiliated with a third party such as the Association of Independent Consumer Credit Counseling Agencies or National Foundation of Credit Counseling.

### Are You Ready?

1. What factors affect your credit rating?
2. Create mock credit reports for both a good and a bad credit risk.



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Ready. Set. Charge?

*The freedom to charge your purchases comes with fine print, finance charges, and a host of fees. Know your limits.*

## The Lure of Credit

“Buy now—pay later.” Those four words sum up the attraction of **credit**, or deferred payment. Credit comes in many forms, from car loans to mortgages—and most popular of all, the credit card.

## Credit Convenience

Credit cards make buying easy. With a piece of plastic, you can walk into nearly any store and walk out with merchandise. As for buying online, it would be almost unthinkable without credit cards.

No wonder credit card use by Americans has skyrocketed. And no wonder the companies that issue credit cards enjoy tremendous profits.

## Teens and Credit

Americans under 21 can have a credit card if a parent or other individual over 21 co-signs the account, or if they can prove that they have the income to make the monthly payments. About one third of all high school students use cards linked

to the account of a parent or relative. Credit card companies eager to issue young people their first card used to give out freebies such as t-shirts, but reforms in 2009 made this illegal.

Why do they want your business? The answer is simple: *teens spend*. Each year, consumers between the ages of 12 and 19 spend well over \$100 billion of their own and their parents money. Credit card companies want to tap into this spending power.

## Credit Traps and Tips

So there you are, card in hand and a world of things to buy. Unless you learn how to use credit responsibly, you could find yourself in a deep hole. You won't be there alone. It is estimated a majority of Americans between the ages of 18 and 24 spend nearly 30 percent of their monthly income on debt repayment.

### GO FIGURE



The number of credit card solicitations that American households received in their mailboxes in 2006.

SOURCE: Mintel comperemedia

# Credit Card Round-Up





## Avoid Those Charges

Ideally, you'll want to pay off your credit card balance in full every month. True, you are *required* to make only a small minimum payment. But look at the table on the right. For every dollar you don't pay this month, you'll pay interest next month. Worse, first-time cardholders without an established credit rating are often subject to a higher-than-normal **annual percentage rate (APR)**.

What if you pay late or miss a payment entirely? You'll be subject to a late penalty. The finance charges, which include the APR and any related fees, can quickly add up to more than your initial purchase.

Suppose a credit card company requires a \$10 minimum payment on a \$290 outfit. If your payment is late by even one day, you'll get hit with a late fee and more than likely a significantly higher APR. And if your balance goes over the credit limit set by the issuer, there's a charge for that, too. Suddenly, the \$290 "bargain" can turn into a \$600 headache.

## The Cost of Cash

Fees mount up even faster if you use your credit card to get cash. A cash advance carries an up-front fee of 2 percent to 4 percent, plus a higher interest rate than the regular card. And the charges start the second the ATM coughs out the cash.

**Double the Debt** This table shows the cumulative effect of a 19 percent interest rate on a \$2,000 credit card debt. A person paying only \$40 a month would incur \$1,994 in interest charges by the time the loan was paid, in addition to the \$2,000 in principal—nearly double the original debt.

### Minimum Repayment Schedule on a \$2,000 Credit Card Loan at 19 Percent Interest

Monthly minimum payment amount	Number of months to pay	Total interest payment
\$40	100	\$1,994
\$50	64	\$1,193
\$75	35	\$619
\$100	25	\$424

SOURCE: Government Accounting Office: "College Students and Credit Cards"

## Read the Fine Print

The importance of reading the fine print of a credit card's terms of agreement should not be lost on any cardholder. The **Truth in Lending Act** requires banks to provide complete information on the APR, fees, and surcharges. New regulations require credit card companies to tell you how long it will take to pay off your balance if you make only minimum payments. Companies must also notify customers before interest rates increase or terms change. You can opt out of the changes, which will close the account. You can then pay off the balance under the old terms. The time it takes to review these terms could save you headaches and money.

## Credit or Debit?

The surest way to avoid the debt trap is to keep credit card use to a minimum. For lower-cost purchases, you are better off using a debit card, a check, or cash. A **debit card** offers the same convenience as a credit card. But because the money comes straight out of your bank account, there is no interest rate and no risk of going over your limit. The danger of debit cards is that they are so easy to use, you may lose track of your spending. For online purchases, however, it's wisest to use a credit card. It offers greater security.

### Are You Ready?

1. Give three examples of bank fees.
2. What is the difference between a debit card and a credit card?

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)



# Managing Your Debts

*Ignore what you owe and erode your credit. Drowning in debt is as bad as it sounds.*

## Getting Into Debt

With today's world of easy credit, it is not hard to find yourself in debt over your head. Using credit cards or borrowing money is not necessarily bad. You get into trouble when you go overboard.

### Types of Loans

Loans come in several forms. Single-payment loans are short-term loans paid off in one lump sum. **Installment loans**, such as home mortgages or auto loans, are repaid at regularly scheduled intervals. Each payment is divided between principal, or the amount borrowed, and interest. (The earlier you are in the life of the loan, the higher the proportion of each payment goes toward interest.) A third kind of debt is revolving credit, where the amount borrowed and paid changes each month. The best example is a credit card.

### How Much Is too Much?

Carrying some debt is not a problem—almost everybody does it. But you need to stay within safe limits. A general rule is that your debt payments, including a mortgage, should not be more than 36 percent of your gross income (income before taxes and deductions). You can estimate your own debt-to-income ratio by dividing the amount of money that you owe by the amount of money that you earn. If the result is higher than 36 percent, you probably owe too much money.

Here are some warning signs:

- ▶ Inability to make minimum payments
- ▶ Relying on credit cards out of necessity and not convenience
- ▶ Borrowing from one credit card in order to pay another
- ▶ Tapping retirement savings or other investments to pay loans

## Getting Out

One reason people take on too much debt is that they want stuff NOW and ignore the fact that credit is a promise to pay later. They don't adequately plan for the fact that the repayment of principal and interest begins to eat into money needed for necessities.

### Caught in the Debt Spiral

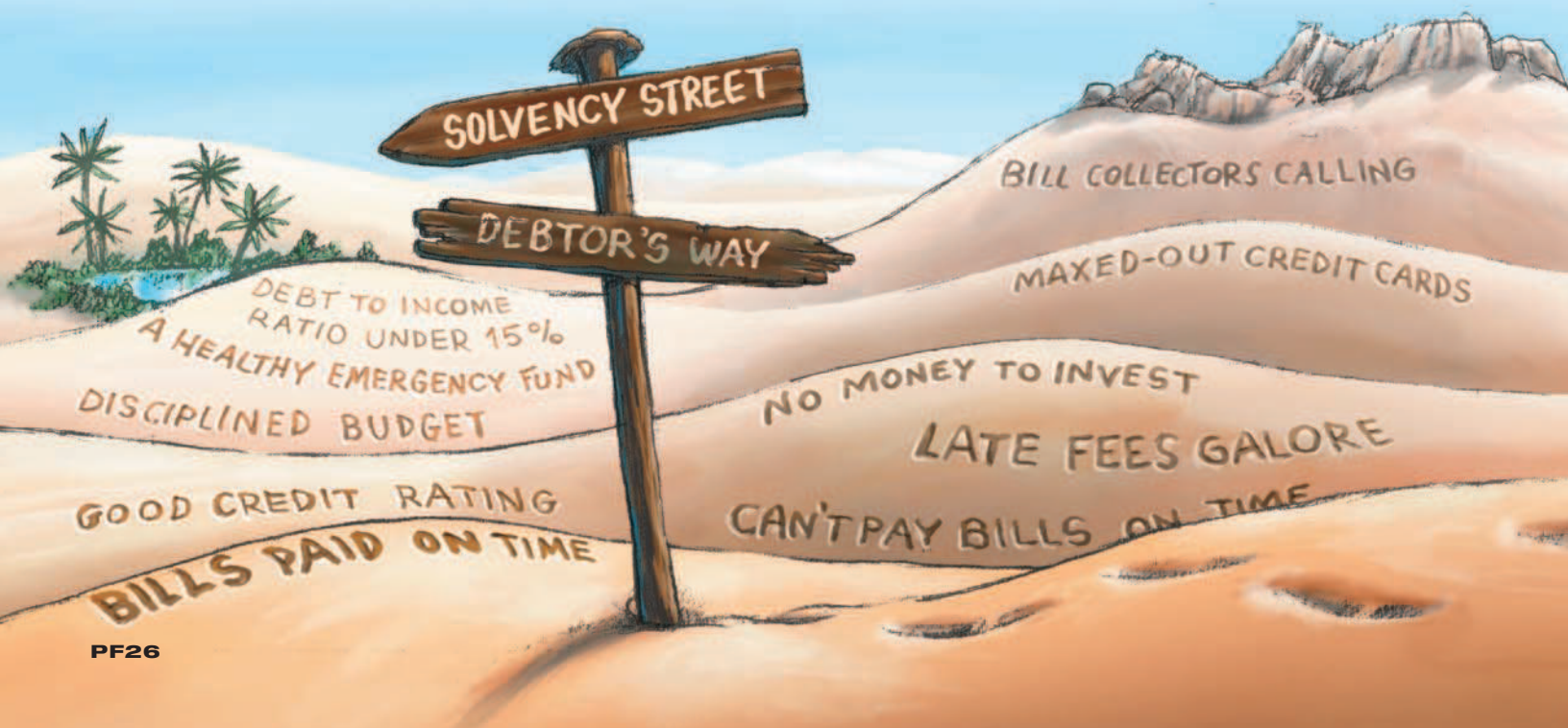
Take Andy. His entry-level job had an entry-level salary. The debt he ran up in college soared as he depended more and more on "plastic" to cover the basics. Paying just the minimum spared his credit temporarily, but he was racking up high finance charges. Once he started missing payments, creditors began calling. Now what?

### GO FIGURE

\$1.22

The amount American consumers spent for every dollar they earned in 2004.

SOURCE: "The Basics: How Does Your Debt Compare?" by Kim Khan







**MA.912.F.3.1** Compare advantages and disadvantages of using cash versus a credit card.

## Credit Counseling

Andy hated to admit it, but he needed help. He tried credit counseling. A credit counseling agency will negotiate on your behalf with the creditors, trying to get you an extension of time and lower interest rates. For a small service fee, it will take over your monthly payments. Andy checked with the National Foundation for Credit Counseling and the Association of Independent Consumer Credit Counseling Agencies to find a reputable agency. He now writes one check per month to the agency, instead of three to his creditors.

## Other Options

If you find yourself in Andy's shoes, there are other options to consider—with caution. You could swallow your pride and ask a relative or friend for a loan. If you go this route, though, make sure that you have a written repayment plan and offer to pay interest.

You could also try taking out a loan from a credit union. Credit unions usually offer more lenient credit terms than banks. You may, however, need a co-signer.

## Bankruptcy: The Last Resort

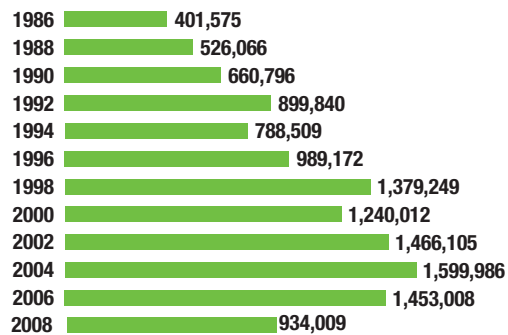
**Bankruptcy** is truly your last option. Common reasons for bankruptcy are large hospital and medical bills, uninsured losses, or high credit card bills. Some of these are unavoidable, but many people get into serious debt because of poor decisions and lack of foresight. Once you declare bankruptcy it will be harder for you to obtain credit. Nearly every credit application asks: *Have you ever declared bankruptcy?* So take this step only with the help of a lawyer who specializes in bankruptcy and can explain the options and consequences.

*“If you think nobody cares if you’re alive, try missing a couple of car payments.”*

—Earl Wilson, author and newspaper columnist

**Credit Slips** Over the past three decades, the number of Americans who filed for bankruptcy rose over 300 percent. A 2005 law made it harder to qualify for bankruptcy protection. In recent years, the number of bankruptcy filings has dropped.

### Bankruptcy Petitions Filed in the United States



SOURCE: The 2008 Statistical Abstract of the United States

One option is known as Chapter 7, or liquidation. You give up your assets in exchange for your debts. The cash value of your assets is paid to the creditors. To reduce fraud and make it harder to declare bankruptcy, the federal government passed the Bankruptcy Abuse Prevention and **Consumer Protection Act** of 2005. Debtors must prove that their income is below their state's median income and complete financial counseling and financial management education. Also, the government randomly audits debtors to check up on the accuracy of the bankruptcy documents.

A second option is known as Chapter 13, or debt adjustment, which involves temporarily suspending foreclosures and collection actions while you draft and execute a plan to repay some or all of the debts in three to five years. The amount to be repaid depends on how much you have versus how much you owe. Any form of bankruptcy will make it far more difficult to rebuild a secure financial future.

### Are You Ready?

1. Give several reasons why some people get into trouble with debt.
2. Why is bankruptcy a last resort?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Insurance Basics, Part I

*As you grow older and acquire more assets, your need for insurance grows as well.*

## Insuring the Future

You just got ticketed for sailing past a stop sign. You got distracted while you were changing a CD. Your parents are using the word *grounded* a lot—and also the word *insurance*. Sure, they have you covered on their policy, but a moving violation could raise their rates—and yours—through the roof.

### What Is Insurance?

The road of life is peppered with the unexpected. Chances are you'll hit a few bumps along the way. Insurance is part of a **risk management plan** that will protect you against financial losses. Basically, insurance is a bet between you and your insurer. You are betting that something bad will happen to you, such as illness or a car accident. The company is betting against it.

### Types of Insurance

There are four basic types of insurance coverage most adults should have. Your age, family situation, and income are some major factors to consider when deciding the type and amount of coverage you should get.

- ▶ **Auto:** Protects you and other drivers in case of an accident that results in damage and injury. It also protects you in case of theft, vandalism, and natural disasters. Most states require you to have your own auto insurance or to be listed as a driver on someone else's policy.
- ▶ **Health:** Protects you in case of illness or injury. It also covers the cost of routine medical and preventive care, prescriptions, and in some cases dental care. Even if you're healthy, having health insurance is a very good idea.
- ▶ **Property:** Protects your home or apartment in case of damage or loss of your belongings due to water, fire, or wind. It can cover your liability if someone is injured in your home and sues you for damages. Most policies do not, however, protect you against flood damage. You need to buy that coverage separately.
- ▶ **Life:** Pays a set amount to your **beneficiary** in case of your death. The beneficiary is the person or entity, such as a charity, that you name as the recipient of the death benefit of your life insurance policy. The two most common types of life insurance are *term*, or temporary, insurance and *whole life* insurance. Rates for term insurance increase over time. The only way to collect from a term policy is to die during the term. Whole life insurance remains in effect for one's entire lifetime at a set rate. It builds cash value. The insured can borrow against the policy.

## What It Costs

The payment you make to an insurance company is called a premium. The cost of insurance is high, and getting higher. So does it pay to buy it? Absolutely. You may never have an accident and file a claim. But if you do, the amount you collect could be many times what you paid in premiums. Even a brief stay in a hospital, for example, can run up a bill of hundreds of thousands of dollars.

Besides, in many cases, insurance is not optional. You can't even register a car without proof of auto insurance. Nor can you get a mortgage without homeowner coverage.

### Deductibles

Insurance companies spread out their risk by collecting premiums from a lot of customers. They also reduce their costs by requiring co-pays and deductibles. A **deductible** is an amount you have to pay before your coverage kicks in. For example, if your car insurance policy has a \$1,000 deductible, and you have an accident, you'll have to pay the first \$1,000 in damages. The company pays the rest. The higher the deductible, the lower the premium.

### Co-pays

If you have a **co-pay**, you are responsible for a small portion of the total cost of a service covered by your insurance policy. Every time you go to a doctor, you might have to pay a relatively small amount of the bill and your insurance company pays the rest. Generally, you can keep co-pays to a minimum if your medical provider—a doctor, hospital, or specialist—is part of your insurance company's healthcare network.

## Changing Needs

As you get older, acquire more possessions, and expand your family, you have more to replace and more to protect.

### Coreen at 18–25

Coreen is three months into her first full-time job. Finally eligible for employee health benefits, she lets her parents know that they can remove her from their policy. She also

### GO FIGURE



The ratio of Americans who used Medicaid coverage in 2005.

SOURCE: Pew Research Center





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

finds an apartment and gets rental insurance to protect her possessions from damage or theft. With no dependents, Coreen leads a relatively carefree existence. She can probably get by with basic auto, rental and health coverage—for now.

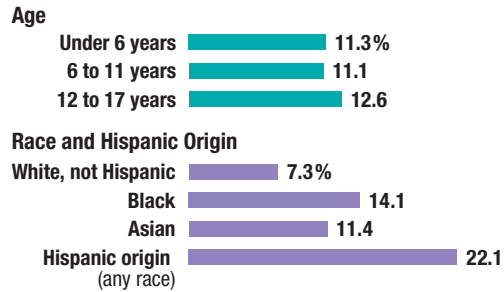
### Karen and Bill at 25–54

Coreen’s sister Karen and her husband Bill have purchased their first home. They are also expecting their second child. With a new home, children, and two cars, their insurance needs are due for a tune-up.



**Kid Care** It is estimated that more than 9 million children in the U.S. are not covered by health insurance. According to a 2008 study\*, researchers found that uninsured children with serious illnesses are far more likely to have their care delayed or to receive no care. Some programs such as Medicaid and State Children’s Health Insurance Program provide aid to about 3.6 million children. The table below shows some background on children without insurance.

**Percentage of Uninsured Children by Age, Race, and Hispanic Origin: 2006**



\* 2008 report by Robert Wood Johnson Foundation

SOURCE: U.S. Census Bureau, Current Population Survey, 2007 Annual Social and Economic Supplement

Karen and Bill now need a medical policy that covers more checkups for the children. They also can’t risk having to pay for a new car if they have an accident. With lives and assets to protect, this young family will focus on adding collision insurance to their auto policy and purchasing home, mortgage, and life insurance coverage.

### Alex and Isabel, over 54

Coreen’s parents, Isabel and Alex, decide to revisit their insurance needs as well. Free of dependents, they are less concerned about term or whole life insurance coverage. They are far more concerned about the cost of long-term healthcare. Once again, insurance needs change according to age and life circumstances. Because Alex and Isabel are in their 50s, they can expect to pay more for their coverage, perhaps as much as hundreds of dollars a month. Their problem will be trying to find the right coverage at an affordable price. To find the best rates, they will want to get group coverage through an employer or a large organization.

### Are You Ready?

1. Why is it important to have insurance?
2. Describe the insurance needs of people at different stages of life.



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Insurance Basics, Part II

*People who don't get insurance are betting that nothing bad will ever happen to them. Are you willing to take that gamble?*

## Insurance Is an Investment

You wind up in the hospital for an emergency appendectomy. Your house is robbed. An uninsured driver hits you from behind. You get to pick up the pieces – and, unless you're insured, the bill.

### It's All About Risk

Insurance is all about avoiding risk. For you, that means paying now to avoid a gigantic cost later. For the insurance company, it means identifying people who are likely to cost them a bundle.

Insurers set rates based on **risk factors**, hard statistics that predict whether someone is likely to be a bad risk. Do you plan to become a pilot or take up mountain climbing? That will make you a higher risk than a lawyer who spends leisure time doing crossword puzzles. A smoker must pay higher health insurance premiums than a nonsmoker. In the worst case, a risky lifestyle may make you uninsurable.

### Who's Got You Covered?

Right now, insurance costs are probably not your concern. Most teens are covered for pretty much everything—life, health, property—by a parent or guardian. However, some teens must foot their own auto insurance bill. And that's

expensive. Statistically, new drivers are high-risk. But if you want wheels, you have no choice.

## Health Insurance

No matter how healthy your lifestyle is, you are going to face illness or accident. A bout of pneumonia or a broken leg may cost hundreds, even thousands. Even with health insurance, you'll have to pay something. But it's better than paying it all.

### Employer Plans

Most young people are covered under parents' health insurance whether they are in school or not—at least up to age 26. Once you enter the working world, it's up to you. If you work for a company that offers health insurance, you can usually choose from a variety of group plans. Some cover you from day one. More often, there is a waiting period. Your share of the premium is deducted from your paycheck each pay period. The higher the deductible, the lower the premium.

### GO FIGURE

\$1,896

The average auto insurance premium in the U.S. in 2007. Louisiana had the nation's highest average at \$2,740. Wisconsin had the lowest with \$1,335.

SOURCE: "Most Expensive States for Car Insurance", Insurance.com

## 5 Tips for Cheaper Auto Insurance



Searching for ways to cut down on the cost of insuring a car doesn't mean you have to skimp on coverage. Even with the best of companies, there are steps you can take that will help lower your bill.

- 1. Increase your deductible.** If you have to file a claim, can you afford to pay a higher deductible? The higher your deductible, the lower your premium.
- 2. Buy safely.** Some cars cost more to insure because they are a favorite target for thieves. Find out which makes and models these are before you buy.
- 3. Drive carefully.** Don't think insurance companies won't notice speeding tickets or accidents. Unsafe driving makes for a big risk and a big bill.
- 4. Go back to school.** Most, if not all, insurers offer discounts for completing a defensive driving course.
- 5. Install safety and anti-theft devices in your car.** These will lower your risk profile.





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

The least expensive health insurance plan is generally a **Health Maintenance Organization (HMO)**. An HMO allows you to pick a primary care physician, to whom you pay a co-pay. If you need to see a specialist, your primary doctor will refer you to an in-network doctor. This is a doctor who has agreed to accept the payment level paid by the insurance company.

## The Uninsured

Can't get insurance through your job or your parents? As of 2014, you will be able to purchase private health insurance from an exchange in your state. The healthcare reform law passed in 2010 also prevents insurance companies from denying you coverage for pre-existing conditions.

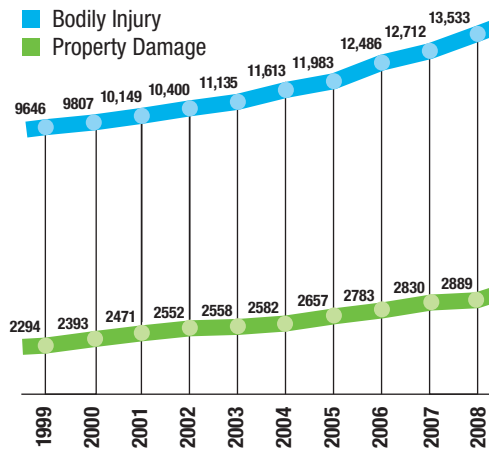
## Cut Your Costs

The rising number of claims, plus increasing cases of fraud, have caused insurance premiums to skyrocket. But there are a number of steps you can take to get the best coverage for your buck.

- 1. Comparison shop.** Compare the rates of different companies. Check with the local Better Business Bureau. And don't forget word of mouth. For example, if you're shopping for auto insurance, talk to people with similar driving records. Don't just ask about premium costs. Ask about customer service as well. Low price is no bargain if an insurer takes forever to service your claim.
- 2. Make yourself a better risk.** If you smoke—or collect speeding tickets like they were trading cards—it's going to cost you. But insurers also reward behavior that lowers risk. A healthy lifestyle and a good driving record can keep costs in check. And while good grades won't reduce health or life insurance premiums, they might get you a discount on car insurance.
- 3. Cover yourself.** You and your insurer may not always see eye to eye on a claim. It's up to you to provide evidence of loss. Take pictures of that busted headlamp. And keep receipts. That way, you'll be more likely to be covered for everything you've paid.
- 4. Know your policy.** Being smart about insurance involves keeping your policy updated. Talk to your insurer to make sure you have the coverage you need. Review your coverage before filing a claim. You'll avoid nasty surprises that way.

**Climbing Claims** Accidents can drive up insurance premiums. The rising costs of car repair and health care cause auto insurance companies to increase their rates. The chart below gives a look at how insurance claims have risen over the past two decades.

**Average Claim Payments for Private Passenger Auto Insurance** (in dollars)



SOURCE: Insurance Information Institute

## Should I Use an Agent?

Nowadays, you can often buy insurance online. Still, it might pay for you to use a licensed agent. It all depends on your needs.

There are two kinds of insurance agents: captive and independent. Captive agents represent a single insurance company. Independent agents offer policies from many different companies. Both types of agents must be licensed by the state in which they sell.

For most purposes, buying directly with a company or its agents works out just fine. But if you are difficult to insure—for example, if you have a bad driving record—an independent agent might be the way to go. With access to many different companies, the independent agent can help you find a company that can meet your special needs.

A good agent also helps you through the process of filing a claim and acts on your behalf in dealing with the provider. Many insurance agents are also certified to help you with other kinds of financial planning.

## Are You Ready?

1. Why is insurance an investment?
2. What are some ways you can reduce the cost of insurance?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Buying a Car

*Ready to go for a spin around the car lot? The best car is the one that suits your needs, and that you can afford.*

## A Major Purchase

Like most young people, your first major purchase may be a car. You need to do your homework, and spend some time and effort to get a good deal.

### The Costs of Ownership

Step one is to determine what kind of car you can afford to buy and adequately insure and maintain. There are many money issues to consider:

- how much you can put down
- how much you need to borrow
- what your monthly payment will be
- how much your insurance premiums will be
- how much car maintenance will cost
- what gasoline, parking, and tolls will do to your budget

Since you have no credit history, you may have to search around for a bank or credit union that will lend you money. To get a vehicle loan, a bank may require you to have a co-signer, a person who is responsible for paying the loan if you default.

### New or Used

If you are going to buy a new car, you want to determine the invoice price of the model you want, and then get at least five competitive bids from dealers. Request bids in writing and then try to negotiate. Will the dealer closest to you match the price of the dealer who is less conveniently located? You can use Web sites such as cars.com, yahoo!autos, and myride.com

### GO FIGURE

**\$800–  
\$2,400**

**The average range of annual repair costs in the first 5 years of car ownership in the U.S.**

SOURCE: new-cars.com

## MAKING A DECISION

Two things will have a major affect on what car you choose: what you like and what you can afford based on your savings and income. If you are still in school, you will have fewer options than a well-paid professional has.

To get a taste of what it is like to plan for a major purpose, choose two differently priced cars from ads in the newspaper or online. Go to a website with a loan calculator, like Bankrate.com, and estimate how much you would have to pay per month with various down payments, interest rates, and loan payment plans. How much income would you need in order to buy the car of your choice?

### POINTS TO REMEMBER

- ✓ Taxes and fees will be lower on a less expensive car.
- ✓ You can lower your monthly payment by putting more money down.
- ✓ A lower interest rate will mean you pay less over the life of the loan.







**MA.912.A.2.2** Interpret a graph representing a real-world situation

as online resources for researching and getting bids.

If you're buying used, get a history of the **Vehicle Identification Number (VIN)** and have a mechanic inspect the car. That way you can determine how well the car has been cared for. There are also online sites that deal with buying used cars. They offer reviews of online used car classifieds, how to buy a used car from dealers or private sellers, how to negotiate with tough sellers, scams to avoid, and a list of questions for you to print out to ask the seller.

New automobiles **depreciate**, or lose value, quickly. A new car loses half its value in the first three years. But buying a new car can make sense if you plan to keep the car for a long time. You have to carry collision insurance if you have a car loan. Used cars are less expensive to buy and insure, but maintenance costs will likely be higher. Budget accordingly.

## Leasing

Leasing is primarily used by businesses or by those who don't plan on driving many miles. If you go over the mileage allowed for the term of the **auto lease**, generally 12,000 miles per year, you have to pay a substantial fee for each additional mile. If you have a long drive to college or a job, the commute could eat up the mileage limit in no time.

## It's Your Money

You might want to consider taking a more experienced person along with you when you buy your first car. It pays to have an ally.

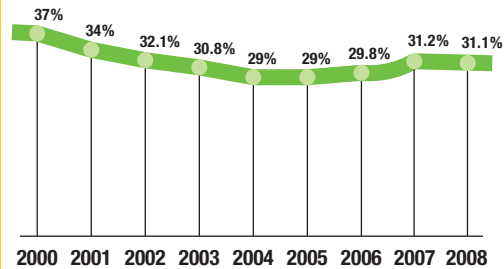
## Dealing With Dealers

In many cases, salespeople hold the upper hand when it comes to negotiating car prices. You can take a few steps, however, to level the buying field and avoid being pressured into spending more money than you want or can afford.

- ▶ Be prepared. Know what you want, and get bids based on the invoice price.
- ▶ Don't be talked into unnecessary options.
- ▶ Don't ever discuss trade-in until after you've settled on a sale price. A dealer might want to consider the trade-in vehicle as a reduction in the sticker price. In fact, any trade-in should have nothing to do with the price of the new car.

**License to Ride** Fewer American 16-year-olds are driving now than in 2000. Some possible reasons for the decline are tougher driver's license laws, the students' choice to spend more social time online instead of on the road, and the drop in the number of high schools offering driver's education courses.

**Percentage of 16-year-olds Who Hold a Driver's License**



SOURCE: U.S. Department of Transportation, Federal Highway Administration

- ▶ Don't be pushed into a quick decision, no matter what one-day specials are dangled before you.
- ▶ Get the sale offers in writing. If a dealer is not willing to put all agreements in writing, walk away.

## Warranties

Dealers are required by federal law to post a Buyer's Guide on the used cars they offer for sale. This guide must specify whether the vehicle is being sold "as is" or with a **warranty**, and what percentage of the repair costs the dealer will pay. Most new and some used cars come with a manufacturer's warranty that covers certain repairs for a set period of time or up to a certain mileage limit. Extended warranties increase the amount of time or mileage that repairs will be covered. No warranty covers basic maintenance, like oil changes or new tires.

If you do happen to buy a car and the next day the engine falls out, you're protected by federal and state "lemon laws." First, however, you should go back to the dealer if you think you've bought a lemon. If you cannot reach an agreement, check the law to see what recourse you have.

## Are You Ready?

1. How should you prepare to buy a car?
2. What are some negotiation strategies you can use when buying a car?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Renting an Apartment

*Home is more than a place to hang your hat. Think twice and act once before unlocking the door to independent living.*

## Can I Afford It?

You've dreamed of this day of living under your roof and by your own rules. Independence. Rent. Bills. Cooking and cleaning. Yes, life is full of both ups and downs.

The first reality check is figuring out what you can afford. A general rule of thumb is that your rent and utility payments should not cost more than one week's take-home pay. How can you figure the average monthly cost of utilities? Ask the landlord or the previous tenant.

You will have to plan ahead. Many landlords require that you pay the first and last month's rent up front. In addition, you may have to pay a **security deposit**. This money is set aside for repairs of any damage you may do to the apartment beyond normal wear and tear.



## KEY QUESTIONS

Finding the right apartment can be hard. Before you sign a lease, be sure you get the answers to these questions.

- ◆ How long is the term of the lease?
- ◆ When is the rent due?
- ◆ What are the penalties for paying late?
- ◆ Are utilities included in the rent?
- ◆ Are there working smoke detectors?
- ◆ Is parking available?
- ◆ Is the neighborhood safe?
- ◆ Is there public transportation nearby?
- ◆ Are there laundry facilities?
- ◆ Are pets allowed?
- ◆ How much advance notice is required before moving?
- ◆ What happens if you break the lease?
- ◆ How are repairs handled?
- ◆ Can you make cosmetic changes such as painting or hanging pictures?

## Finding the Right Place

Finding the right apartment takes more than a little time, effort, and money. The federal government has stepped in to level the playing field. The **Federal Fair Housing Act of 1968** makes it illegal for a landlord to discriminate against a potential tenant because of that person's race, sex, national origin, or religion.

You can make the rental process easier by defining your needs and wants. Usually to rent an apartment you have to make a commitment of at least six months. So while the cheap one-bedroom with high ceilings and walk-in closets may seem like a steal, the fact that it's near the firehouse could make it a case of home, sleepless home.

Online Web sites are a good place to begin your apartment hunting. You can also look for apartments in the real estate section of a local newspaper. And if you're hiring a realtor to search on your behalf, keep in mind that they will charge you a fee based on the rental price. So do your homework, and check out the Key Questions list on this page for important factors you'll want to consider before making your decision. What if the ideal apartment is beyond your means? That might be the time to consider getting a roommate to share the cost.

## GO FIGURE



# 4

The number of students that legally can live in a rental unit in Boston.

SOURCE: City of Boston Rental Housing Resource Center





**MA.912.F.3.6** Calculate the total cost of purchasing consumer durables over time.

## Roommates

Can two live more cheaply than one? More often than not, a two-bedroom apartment in many locales is not much more expensive than a one-bedroom place. Plus, you can split the utilities and rent. The sources for finding a roommate are the same as those for finding an apartment—Web sites like roommates.com, newspaper classifieds, and word of mouth. You want someone who has a compatible lifestyle and who can pay their share of the bills on time. Your search for the right roommate is just as important as your search for the right place to live.

## Furnishings

If you have decided to rent an unfurnished apartment, you will need to be resourceful to avoid major expenses. After you have tapped family and friends, yard sales and thrift shops are potential gold mines. An unfurnished apartment is not only empty, it will probably also be bare, right down to the windows and shower—not to mention the cupboards.

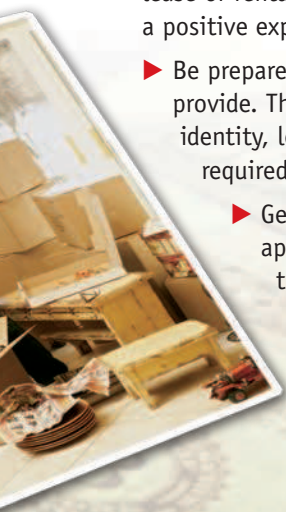
## Protect Yourself

Learn from others' mistakes. Many apartment complex Web sites are chock-full of comments posted by current or previous tenants. You might even ask a passerby in the parking lot. To protect yourself from being charged for pre-existing conditions, assess and photograph any existing damage before you sign a lease.

## The Lease

You, as **tenant** or "lessee," and the property owner, as "landlord" or "**lessor**," enter into a contract called the lease or rental agreement. Here are some tips to make it a positive experience.

- ▶ Be prepared with the documents you will need to provide. These items include proof of income and identity, letters of reference, and a check for any required deposit.
  - ▶ Get the lease in writing! Never take an apartment on the basis of a handshake with the landlord.
  - ▶ If you don't understand something, don't sign the lease!



**Costs of Living** Geography is one factor that will have a major impact on your living expenses. If you live in cities like New York, Boston, or Los Angeles, expenses will be much higher than those in smaller cities or rural areas.

### Living Expenses in Select U.S. Metropolitan Areas (monthly, per household)

Metro area	Electricity	Food and beverages	Transportation
Los Angeles, CA	\$261	\$211	\$183
Miami, FL	150	211	190
Chicago, IL	133	200	176
New York, NY	168	211	190
Boston, MA	202	213	176
Houston, TX	185	186	167

SOURCE: Bureau of Labor Statistics (Consumer Price Index), 2007 data

## Renter's Insurance

Even if you furnish with hand-me-downs or thrift-store treasures, be sure to consider renter's insurance. Maybe your roommate comes fully loaded with a flat-screen television. Should it disappear, you'd be left footing the bill. The benefits can far outweigh the costs.

## Rights and Responsibilities

This is your money and your home, and you have rights. For example, you have the right to privacy. A landlord or maintenance worker is prohibited from entering your apartment without your permission. Renter's rights and responsibilities vary according to location, but most states provide a tenant-landlord bill of rights. Check with your local housing or consumer affairs office for specific information.

Tenants also have responsibilities, such as paying the rent on time and keeping the apartment clean. There may also be quiet hours, a policy imposed on most apartment dwellers. As always, a tenant's rights come with certain responsibilities.

### Are You Ready?

1. What are some potential pitfalls in searching for an apartment?
2. What are four things you should do before signing a lease?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Identity Theft

*Keep your personal information personal. Learn how to protect yourself, before somebody else shows up as you.*

## A Growing Crime

An estimated 9 million Americans have their identities stolen every year. Chances are you know someone who has been victimized. You may be a victim yourself—without even knowing it.

## It Can Happen Anywhere

**Question:** What do going to the beach ... taking out the garbage ... and answering your e-mail have in common?

**Answer:** They can all leave you vulnerable to identity theft.

A thief can raid your wallet while you're splashing in the water. A dumpster diver can retrieve old bank statements. Or an innocent-looking e-mail could be a phishing scam to get your personal info. Most people don't realize they've been victimized until it's too late. You might not find out until you're denied a student loan because you've missed several car payments—and you don't even own a car.

## The Cost of Theft

Once they have your ID, thieves can use it to commit a wide variety of fraud, such as obtaining credit cards or even a mortgage in your name. Worse, if the crook who stole your identity gets arrested for *any* crime, you could get stuck with a criminal record.

In too many cases, the burden of proof is on the victim. According to the Identity Theft Resource Center, it can take 600 hours to repair the damage. Some victims need up to 10 years to fully clear their records. If your identity is stolen, you could face higher insurance costs, credit card fees, and interest rates for loans—or may even have trouble finding a job.

### GO FIGURE

\$500

**The median loss due to I.D. theft per U.S. consumer.**

SOURCE: "Top 5 consumer complaints," CNN Money, February 7, 2007

## To download or not to download



After you go through all the trouble of protecting your stuff, did you ever think you might be taking somebody else's stuff illegally?

That's what you're doing if you download software from the Internet or make unauthorized copies of music or movies. It's like cheating on a test. You're taking someone else's hard work without permission.

Just like ID theft, "software piracy" has far-reaching consequences for teens, for teachers and parents, and for software creators and manufacturers. Some of the issues are:

1. Getting files or software secondhand exposes a computer's data and hard drive to viruses and worms that can cause damage.
2. When software is stolen, companies must adjust their budgets to make up those losses, which means software creators may lose their jobs, affecting the families those jobs support.
3. It's very easy to get caught. Internet search engines make it easy for teachers to find the source of plagiarized passages in seconds.



## Prime Target: You

So should you be worried? Well, of the more than 255,000 **identity theft** complaints filed with the U.S. Federal Trade Commission in 2005, about 5 percent were against those under age 18—up from 3 percent in 2003. So congratulations: you are part of the fastest-growing target group for identity thieves.

### Why Me?

Why are young people so vulnerable? One reason is that most teens have not established credit records that can be monitored. In addition, studies show that teens—

- ▶ are less likely than adults to check their credit card records.
- ▶ are more likely than adults to frequent the Internet and provide personal information.
- ▶ take greater risks relative to older age groups.
- ▶ often have an “it can't happen to me” attitude.

Finally, many Americans do not use their Social Security number until around the age of 15, when they apply for driver permits or first jobs. As a result, identity thefts against them may go unnoticed for years. There have even been babies that were the victims of identity theft!

### At College

Over half of all personal information security breaches take place at universities, experts say. Part of the reason may be that nearly half of all college students have had their grades posted by using a Social Security number. It's within your rights to tell a college administrator not to post your personal information.

## Lower Your Risk

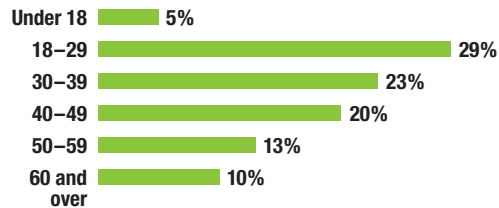
Although there is no foolproof way to safeguard your identity, there are a number of common-sense steps you can take to protect yourself against fraud.

**Be alert online.** Think twice before sharing personal information. Social networking sites like Facebook.com and MySpace.com post your favorite music and status along with you addresses, cellphone numbers and former employers. All of this information could be used to create a credit account or take out a loan in your name.

**Use passwords.** Always use a password to protect your cellphone, laptop, and PDA. Do not store personal information on these electronic devices. Create passwords that contain upper- and lowercase letters, numbers, and special characters such as !, \$, &.

**Identity Crisis** In 2007 the Federal Trade Commission received more than 800,000 complaints of identity theft, making it the agency's most widely reported consumer crime. Nearly one third of all victims fall in the 18–29 age bracket. One reason for this trend could be that younger people tend to spend more time on the Internet, where identity thieves thrive on credit and banking scams.

**Identity Theft Complaints by Victim's Age**  
January 1–December 31, 2006 (percentage)



SOURCE: “Consumer Fraud and Identity Theft Complaint Data, January–December 2006,” the Federal Trade Commission, February 2007.

**Check your credit.** Check your credit report with a major credit agency like Equifax, Experian, and TransUnion at least once a year. You are entitled to one free report yearly. You can find them online at [www.annualcreditreport.com](http://www.annualcreditreport.com).

**Check and shred your statements.** Always check your bank and credit card statements for anything unusual. Then make sure to dispose of those documents containing personal information using a paper shredder. Simply tearing up documents isn't enough to keep thieves from easily reassembling those statements.

**Watch your mailbox.** If you're too young to have a credit card, or don't have one already, you should be suspicious of any unsolicited credit-card offers in the mail addressed to you. For more information on identity theft and what you can do to protect yourself, check out the government's Web site [www.ftc.gov/bcp/edu/microsites/idtheft](http://www.ftc.gov/bcp/edu/microsites/idtheft).

**Protect your reputation.** Loss of one's reputation could be worse than loss of one's identity. Be careful what you write and say online about others and check what is posted about you. Online postings are testing the limits of libel and slander laws.

### Are You Ready?

1. Why are young people especially vulnerable to identity theft?
2. What are some steps you can take to protect yourself?

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Shopping Online: Be Safe, Not Sorry

*It's hard to put a price tag on convenience. But by taking a little care, you can get your money's worth.*

## Buying Online

Online shopping may already be a regular part of your life. You don't have to drive anywhere, stand in line, or haul the stuff home. A few clicks will do it all. And you can shop 24/7.

## It's Easy to Be Smart

If you have ever gone from store to store looking for a hard-to-find item, you will appreciate the ease of shopping online. Who has the item in stock? Who has the lowest price? Free shipping? Quickest delivery? You can get the answers to all of these questions with the click of your mouse. For starters, you can check price comparison sites such as bizrate.com, mysimon.com or pricegrabber.com.

## Read the Reviews

All right, so you can't try on shoes or a shirt online. Online buyers trade that advantage for online customer reviews. A recent study of online buyers shows that 9 out of 10 Americans read reviews posted by other customers online before they make a purchase. You can access detailed customer-driven product reviews for almost any product. Love the product, you can let the world know. Hate it, you can warn others as well.

## E-Buyer Be Aware

Along with its unique benefits, online shopping includes some unique challenges. How do you really know if the online retailer you're dealing with is reputable and your information will be secure? For the most part, you have a higher degree of confidence if there is a brick-and-mortar backup to the online stores. Major retailers devote a lot of resources to ensuring that their customers have a satisfying and secure online shopping experience.

That does not mean that you should not deal with online-only vendors. See the Five Online Shopping Tips below for advice on making sure the sites you use are secure and reputable.

## GO FIGURE

6%

The amount of all merchandise sold online that gets returned.

SOURCE: University of Nevada Center for Logistics Management

## Five Online Shopping Tips

1

Check out the reviews written by other buyers.

2

Look for a padlock icon in the browser and "https" for security.

3

Check for endorsements from rating agencies, such as the Better Business Bureau (BBB).





## Bidding Online

Comfortable online? The biggest and best deals often exist beyond the big stores. Two of the most-widely used alternatives are the relatively free classified and message boards and auction sites. These offer shopping alternatives that come with a different set of rules tailored for the online marketplace.

Local appeal can be a major advantage. Online classifieds provide access to backyard buyers and sellers at relatively no cost. Your next entertainment center might very well be three towns or three blocks away.

In its attempt to keep you scam- and worry-free, these services encourage buyers to deal locally with folks you can meet in person. The site also includes detailed safety guidelines.

On Internet auctions, buyers can quickly and easily comparison shop for just about anything, from used cars and leather bomber jackets to concert tickets and, even, private jets.

In this auction format, shoppers can engage in competitive bidding wars.

4

Steer clear of sellers who offer low prices only to squeeze you on shipping costs.

5

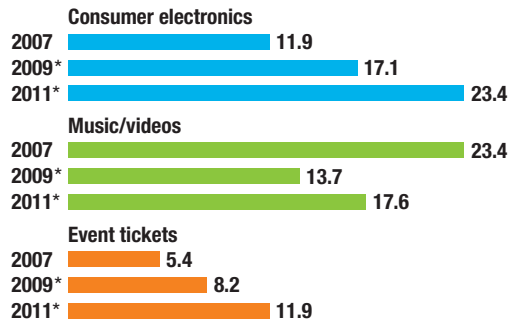
Use a credit card as it offers the best safeguard against fraud, but never e-mail a credit card number, bank account information, password, or PIN number.

Unsecured Sites

Identity Theft

**Virtual Sales** In 2007, Americans bought over \$20 billion worth of music and video products on the Internet, making them the most popular online purchase. By 2011, however, it is projected that consumer electronics sales will far outpace other products sold online.

U.S. Online Retail Sales (in billions of dollars)



\* Projected SOURCE: The 2008 Statistical Abstract of the United States

So how are buyers and sellers protected? Buyers rate the reliability and service provided by sellers and eBay makes these ratings available to you. However, if you win a bid and do not go through with the purchase, you are stuck with a negative rating for the rest of your eBay life. There are also services that make it possible for you to pay an individual seller using your credit card.

## Fighting Fraud

There is a new charge on your credit card bill! But where is the merchandise? You never got it, or even worse, you never ordered it. Many credit card companies will investigate suspected cases of fraud on your behalf, limiting your liability to \$50. Also, the Fair Credit Billing Act allows you to withhold payment if you believe that someone has stolen your card number.

You also have the option of filing complaints with the Federal Trade Commission (FTC) at [www.ftc.gov](http://www.ftc.gov). The FTC offers you advice on how to protect against fraud, identity theft, and questionable business practices. The site guides you step-by-step through the process of filing a consumer complaint.

### Are You Ready?

1. What are the advantages of shopping online?
2. What are two possible pitfalls?

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Paying for College

*Learning how to pay for college is an education in itself.*

## Almost Priceless

It's hard to put a price on a college education. The personal and career rewards last a lifetime. Unfortunately, paying off the costs of a four-year degree can seem almost as long. The hard facts about paying for college are these: In constant dollars, the average cost of **tuition** at public and private universities nearly doubled between 1990 and 2005.

## Choose Carefully

If rapidly rising costs continue, in 2014 a four-year public education will cost over \$125,000 (in constant dollars) for incoming freshman. The cost at a private university will be almost twice that amount. For most students, those are pretty scary numbers. Here are a few questions to consider:

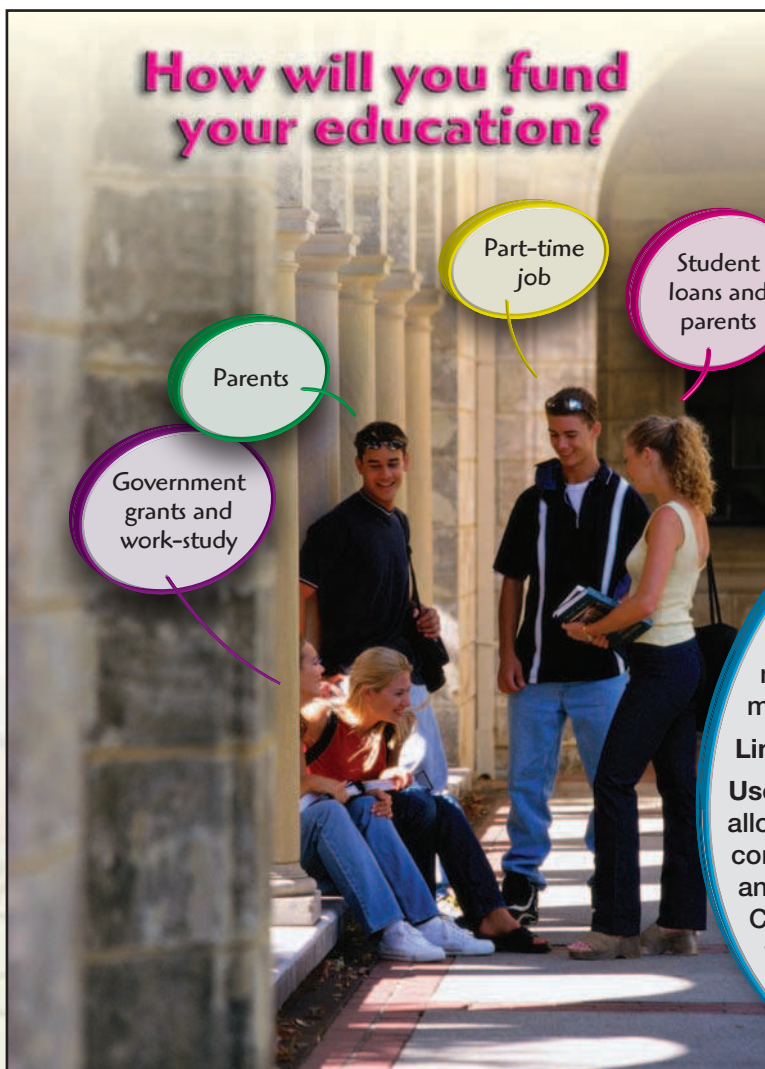
- ▶ **What school do you want to attend, and why?** Examine your goals. Look for the educational resources you need at less-expensive public schools. Private schools generally are more costly, but can be more generous with their financial aid offers.
- ▶ **Does location matter?** Tuition costs vary considerably from region to region.
- ▶ **How much debt can you tolerate?** If your career goal is to be a freelance artist rather than a brain surgeon, you might want to choose the less-expensive college to cut down on your post-graduation debt.

## GO FIGURE

9/10

The fraction of Americans who believe that access to higher education is a basic right.

SOURCE: Public Agenda 2007 report



## Financial Aid Basics

The thought of paying for college might send you into panic mode. But there is help. It comes in three forms: (a) grants and scholarships; (b) work-study programs; and (c) loans. The idea is to reduce the amount you're going to owe by applying for as many sources of aid as possible.

## FINANCIAL AID TIPS

**Apply early:** There is a limited amount of aid available, so make sure you get your fair share.

**Seek free money:** Grants and scholarships need not be repaid. Search for local and government sources of financial aid.

**Limit your debt:** Finance just what you need.

**Use the Web:** Several sites have calculators that allow you to estimate your expected family contribution, the amount of your aid awards, and the amount of your loan payments. The College Board has one as well as a search tool for scholarships. The Sallie Mae ([www.salliemae.com](http://www.salliemae.com)) site includes a listing of major private lenders.





**MA.912.A.2.2** Interpret a graph representing a real-world situation.

And if you're like most students, you will qualify for some type of assistance. The biggest financial aid error is not to apply at all. Many colleges are substituting loans for grants and some are experimenting by waiving tuition for certain income levels altogether.

## Types of Lenders

Financial aid comes in many packages and, regardless of income, you can qualify for a government loan.

### Federal Government

When it comes to government aid, the Department of Education offers three basic loans: Direct Loans and Stafford Loans for parents or students, as well as the Parent Loan for Undergraduate Students (PLUS).

For those in financial need, there is the Federal Perkins Loan. These loans have a fixed interest rate and are made available through the college. Students who go on to take teaching jobs in certain areas or who volunteer in the Americorps, Peace Corps, or VISTA programs may be eligible to have their federal loans partially repaid or even canceled. To help qualifying graduates, the government limits loan payments to 10% of their discretionary income. Any person who makes their payment on time will have the balance forgiven after 20 years.

### Private Sources

If money from government loans does not cover all your college expenses, private lending sources could fill the gap. Compared to government loans, regular commercial loans typically have higher interest rates, fees, and credit requirements. Trade organizations and educational institutions also offer lending aid. Check with your guidance counselor to find out more information.

## Other Sources

All kinds of students can qualify for financial aid that does not have to be repaid. You need not be valedictorian or an all-state basketball star.

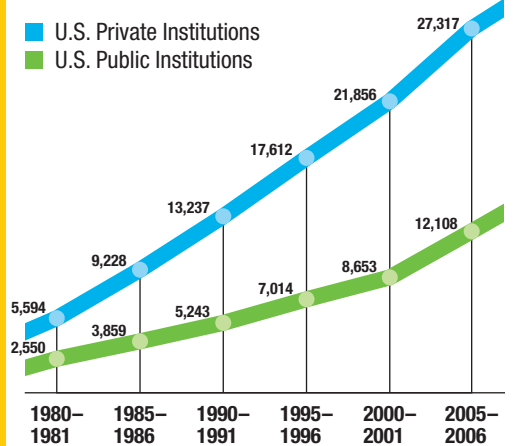
### Grants

A no-strings attached grant is a no-brainer to consider when applying for financial aid. Available from the federal government, state governments and higher education institutions, grants are usually awarded according to financial need and tuition rates.

Don't forget FAFSA, also known as, the Free Application for Federal Student Aid available at [www.fafsa.ed.gov](http://www.fafsa.ed.gov). All students should complete the FAFSA, even if they

**Sticker Shock** In recent years, the cost of attending a U.S. four-year-college has risen at twice the inflation rate. A 2007 study\*, however, finds that the benefits outweigh the short-term cost. Over a lifetime, a college education increases a worker's earning potential by about \$800,000.

**Average Undergraduate Tuition, Fees, Room and Board Charged to Full-Time Students (in dollars)**



\*Report by the College Board, "Education Pays" SOURCE: Digest of Education Statistics

believe they will not qualify for aid. There is always a chance that family circumstances will change. You need to complete this form if you want to be considered for federal aid, such as the Pell Grant and Supplemental Educational Opportunity Grant. These grants are given to students with "exceptional financial need." Find out more by checking out the U.S. Department of Education Web sites, [www.federalstudentaid.ed.gov](http://www.federalstudentaid.ed.gov), [www.students.gov](http://www.students.gov), your state education agency, or your high school guidance office.

## Scholarships and Work Study

Besides aid from the school itself, there are scholarships available from local community and civic groups. Check with local organizations such as the Kiwanis and Lions Clubs. Some companies also offer scholarships to children of their employees. Work-study programs are a win-win situation for the student, college, and community. This type of aid allows students to earn money to offset their educational expenses.

### Are You Ready?

1. Why is it important to complete the FAFSA form?
2. What is the advantage of seeking a federal loan instead of one from a private lender?



To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Getting a Job

*Engineer? Store manager? Teacher? Whatever you want to be, you'll soon have to look for your first real job—and then get it.*

## Be Prepared!

You may already have had your first job—after school, week-ends, or summers. But for most of us, finding a full-time, long-term job doesn't come until after we graduate from high school or college.

### Your Resumé

The first step is to prepare a **resumé**, a written summary of your educational and work experience. Think of it as an advertisement to market yourself to an employer.

You might be thinking, "That's fine if I have a lot of experience to list. But this is my first real job." True, but that doesn't mean you don't have qualities that employers are interested in. For example, suppose you worked the same job every summer for three years running. That shows that somebody liked you enough to keep hiring you back. Your service in school clubs or volunteer organizations could indicate

qualities such as leadership, planning abilities, and a strong work ethic. Academic honors can count for a lot, too.

Organize your resumé in a neat, readable fashion—no fancy type. And have plenty of copies on hand. (For more tips, see the resumé-writing worksheet available online.)

### References

Some employers may ask for references. If you've been applying for colleges, you know the drill. Pick people—other than family—who can tell potential employers about your character and work ethic: a former boss, a colleague from an internship, a professor or advisor. Be ready with names, home or business addresses, e-mail addresses, and phone numbers.

### GO FIGURE

3-5

The average number of careers a U.S. worker will have in a lifetime.

SOURCE: Careers in Transition, LLC

## Where to Look

**There are plenty of good sources of job information out there. Any or all of these can help you land the right job.**

**The Internet** More and more companies are using sites like [monster.com](http://monster.com) and [careerbuilder.com](http://careerbuilder.com) to advertise for help.

**Newspapers** Maybe you don't read the newspaper so much. But a lot of employers do. Find out what day your local newspaper publishes want ads.

**Employment Agencies** For a fee, the agency can help you connect with a company looking for someone with your skills.

**Job/Career Centers** High schools and colleges offer career counseling. In addition to helping you find a job, counselors can appraise your resumé at no cost and give you interviewing tips.

**Job Fairs** Companies get a chance to meet recent graduates—you get a chance to meet possible employers.





## Know Where to Look

So you're ready to look for a job. Where should you start? Some common sources of job information are listed on the previous page. Make a list of places that seem most promising. And try to find out something about a company before you apply there. It's all just part of being prepared.

## The Interview

That very first job interview can be an exciting but nerve-wracking experience. But you can prepare for it. Hold a mock interview with family members or friends. Have them ask you possible questions and then critique your responses and your delivery.

## Make a Good Impression

The minute you step into a potential employer's office, you are being judged. Don't blow it before you open your mouth. Posture, eye contact, and a firm handshake go a long way to making a positive impression.

*“You never get a second chance to make a first impression.”*

—Maxim attributed to 20th century Dutch author William Triesthof

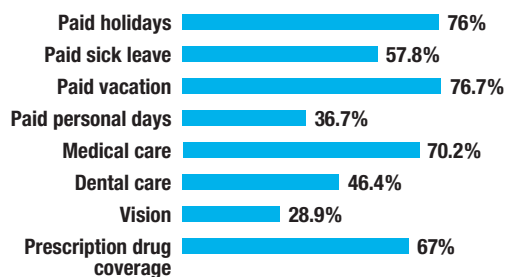
Believe it or not, dressing wrong can be a deal-breaker. What works on the beach or in a dance club won't cut it in the office. Even a company that allows “casual” dress on the job doesn't want to see you in tank tops, cutoffs, or flip-flops. Be safe. Think conservative and professional. Yes, that may mean a suit or a dress. Let them tell you that you don't have to dress that way—after you get the job.

## Turn Off That Cellphone

The person interviewing you may have to interrupt to take a phone call. But you do not get the same privilege. Before you step in that office, make sure your cellphone is switched off. Nothing will ruin a good interview faster than a ringing cellphone.

**Paid in Full?** Not all benefit packages are created equal. For instance, rising medical costs in recent years have forced many private companies to scale back, or even drop, health coverage. The chart below shows that the types of benefits private companies offer can vary greatly.

Average Percentage of U.S. Workers in Private Industry With Access to Select Benefits in 2006



SOURCE: The 2008 Statistical Abstract of the United States

## Ask the Right Questions

Where do you see yourself in five years? Why did you choose your particular college major? Why are you the best candidate for this position? Expect to be peppered with questions. But be equally as prepared to ask them. Questions like these show you're interested in the job:

- ▶ What are the company's goals for the next year or so?
- ▶ How does this job fit in with the company's goals?
- ▶ Describe a typical day here in this department.

Steer clear of questions about pay, benefits, hours, and vacation time. All that will be covered if you are asked back for a second interview.

## After the Interview

Follow up with a handwritten or e-mailed thank you note. This reaffirms your interest and makes a lasting impression. If you're rejected, try not to get discouraged. It's part of the interview process. And remember: rejection can work either way. You're under no obligation to accept the first offer that comes along. Factor in benefits, commuting costs, work environment, and the possibility of career advancement. Look for the best fit for you.

## Are You Ready?

1. How should you dress for an interview?
2. What are important things about yourself you should highlight during an interview?

**WebQuest**  
online

To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Understanding Your Paycheck

*Your pay stub is an important tool in managing your personal finances. Put it to work for you.*

## What's in a Paycheck?

You've got your first job—and your first paycheck. Attached to your check is a pay stub, also known as an earnings statement, which includes your identification information and the pay period you worked. But there's a lot more to it than that.

### Salary and Wages

It all begins with your wages or salary. Wages refer to hourly pay, and can change based on how much time you worked. Salary is monthly or yearly pay, which is not dependent on the number of hours worked.

Your pay stub shows your **gross pay**, the total amount of income you earned during the pay period. If you are paid hourly, it should be equal to the number of hours you worked times your hourly wage. (It will also show if you worked overtime at a higher rate.) If you are on an annual salary, it's your salary divided by the number of pay periods in the year.

### Withholdings

You will immediately notice that your **net pay**—the amount the check is made out for—is far less than your gross pay. Where did the rest of the money go?

Your stub lists all your **payroll withholdings**, the earnings that come out of your check before you get it. Some of these withholdings are voluntary. For example, if you join a company medical or insurance plan, your share of these benefits comes out of your check. Other withholdings, however, go in taxes to the state and federal government.

## Federal and State Deductions

Most workers have federal and state taxes deducted from their earnings. Your employer is also required to pay the federal government a certain percentage your earnings.

### Social Security and Medicare

**Social Security** (FICA) and Medicare taxes are based on a percentage of your earnings. FICA stands for Federal Insurance Contributions Act. It is a U.S. payroll tax on employees and employers to fund programs that provide benefits for retirees, the disabled, and children of deceased workers. Medicare provides hospital insurance benefits.

### The W-4 Form

Federal and state taxes are deducted based on an estimate of how much you will owe in yearly taxes. Most workers

are required to fill out the W-4 form when they start a new job. It includes guidelines to help you do the calculations needed to estimate how much will be withheld from each paycheck. The W-4 gives you the option of taking certain personal allowances that will lower the amount of tax withheld from your income. For example, you may take an exemption for yourself and your spouse. You also can take an exemption for anyone who is dependent on your income, such as a child. Young people who are not married and have no children will generally claim a single exemption. The IRS offers an online withholding calculator ([www.irs.gov/individuals](http://www.irs.gov/individuals)) to help you avoid having too much or too little income tax withheld from your pay.

### GO FIGURE

9 million

The number of trees that would be saved if all U.S. households switched to electronic records, including using direct deposit for payment instead of paper paychecks.

SOURCE: PaytGreen Alliance

**Pay Check** Level of education, skill and supply and demand are major factors that determine a worker's entry-level pay. Typically, college graduates with technical, medical, or business degrees will command higher salaries.

#### Average Entry-Level Salaries in Select Occupations (2007)

Customer Service Representative	\$29,203
Assistant Chef	\$31,176
Librarian	\$35,684
Mail Carrier	\$40,000
Software Developer	\$47,088
Biologist	\$49,000
Physical Therapist	\$52,293
Electrical Engineer	\$54,332
Attorney	\$57,988
Investment Banker	\$58,858
Physician (General Practitioner)	\$100,000

SOURCE: Payscale.com



## Earnings Statement

Period ending: 00/00/0000  
Pay date: 00/00/0000

**XYZ Corporation**  
100 Corporation Crt.  
New Town, NY 10000

**A Year-to-date**  
(for pay and deductions)  
The year-to-date shows the total amount withheld for a particular deduction at any point in the calendar year.

**C Leave Time**  
Includes vacation hours or sick hours. Many employers will detail how many hours have been used to date, and how many hours are remaining for the calendar year.

**B Gross Pay**  
The total amount of income that you earned during the pay period.

Social Security Number: 999-99-9999  
Taxable Marital Status: Single  
Exemptions/Allowances:  
Federal: 1  
State: 1  
Local: 1

**TOMÁS Q. PUBLIC**  
123 MAIN STREET  
ANYWHERE, USA 12345

Earnings	rate	hours	this period	year to date
Regular	20.00	40.00	800.00	16,640.00
Overtime	30.00	1.00	30.00	780.00 <b>A</b>
Holiday	30.00	8.00	240.00	1,200.00 <b>A</b>
<b>B Gross Pay</b>			<b>\$ 1,070.00</b>	18,620.00

Other Benefits and Information	this period	year-to-date
Vac Hrs Left		40.00 <b>C</b>
Sick Hrs Left		16.00

Deductions	Statutory		
<b>H</b> Federal Income Tax	-	235.75	4,351.44
<b>I</b> Social Security Tax	-	65.10	1,251.67
<b>J</b> Medicare Tax	-	15.23	272.89
<b>K</b> NY State Income Tax	-	64.60	1,203.24
<b>L</b> NYC Income Tax	-	33.86	527.96
NY SDI Tax	-	1.80	15.20
<b>Other</b>			
Medical and Dental	-	35.00	700.00
401(k)	-	107.00 *	2,140.00 <b>D</b>
Stock Plan	-	15.00	300.00
Life Insurance	-	5.00	100.00 <b>E</b>
FSA	-	20.00 *	400.00 <b>F</b>

**Important Notes**  
YOUR TOTAL NET PAY HAS BEEN AUTOMATICALLY DEPOSITED INTO CHECKING ACCOUNT XXXX4071.

**D Retirement Plan Contributions**  
Contributions to plans such as 401(k) or 403(b) retirement savings plans.

**E Insurance Deductions**  
Deductions for insurance such as health (medical and dental), and life insurance.

**F Flexible Spending Account**  
A pre-tax benefit offered by some employers to help workers save for health- and childcare-related expenses.

**Net Pay \$ 598.34 **G****

**G Net Pay**  
The amount of income that you actually take home.

\* Excluded from federal taxable wages  
Your federal taxable wages this period are \$943.00

TEAR HERE

THE ORIGINAL DOCUMENT HAS AN ARTIFICIAL WATERMARK ON THE BACK. HOLD AT AN ANGLE TO VIEW WHEN CHECKING THE ENDORSEMENT.

**H Federal Tax Amount**  
The amount of federal tax that is deducted and paid to the federal government. It is based on your gross income, minus any "pre-tax deductions."

**I Social Security**  
The mandatory 6.2 percent tax imposed on workers for Social Security disability insurance and retirement benefits.

**J Medicare**  
The mandatory 1.45 percent tax imposed on workers for Medicare.

**K State Tax Amount**  
The amount of tax paid to the state government.

**L Local Tax Amount**  
The local tax is sometimes applied to residents of certain cities, counties or school districts.

**Are You Ready?**

1. What is the difference between gross pay and net income?
2. What would be the year-to-date Medicare tax withholding for a worker whose gross pay was \$9,845?

**WebQuest online** To learn more about this topic, visit [PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Paying Your Taxes

*Your country, state, and community want a share of your paycheck. It's a cost of being a responsible citizen.*

## Taxes and You

Welcome to the workforce! You have joined the ranks of taxpayers. But why do you have to pay taxes anyhow?

### Your Share of the Bill

Governments have expenses. They have to pay salaries for thousands of employees and provide services for millions of citizens. The biggest source of government revenue is taxes. And you are required by law to pay your share.

### Don't Mess With the IRS

Among taxes, the federal income tax is top dog. The Internal Revenue Service (IRS), an agency within the Treasury Department, applies federal income tax laws passed by Congress. The agency generates tax forms and collects taxes. The IRS will notice if you don't pay what you owe and impose hefty financial penalties for any misdeeds.

The federal income tax is a progressive tax, so people with the highest income have the highest tax rates. The system also includes hundreds of tax breaks for people with special financial burdens, such as people paying for college or starting a business, as well as rewards for actions like making a donation to charity.

## Other Taxes

Most state governments collect income tax, too. In addition, states and local communities levy other kinds of taxes, such as sales tax and property tax. Sales taxes vary from state to state, but they generally involve paying a fixed percentage on most items you buy. Essentials of life—such as food and medicine—are generally exempt from sales tax. Property taxes are based on the value of privately owned homes and land.

Taxes are also collected on income you didn't work for. If Aunt Bessie leaves you money in her will, you have to pay an inheritance tax. If you buy stock and you make a lot of money when you sell it, that's also taxed.

## Forms, Forms, Forms

Sometime during the 'tax season', which runs from January to April 15, you need to fill out and file the appropriate tax forms. Filing is the only way to get a refund, or return of excess taxes paid. But whether you've got a refund coming or not, it's against the law not to file an income tax return.

### GO FIGURE

**\$1.236**  
trillion

**Gross collections  
from individual U.S.  
taxpayers in 2006.**

SOURCE: Internal Revenue Service

## Stay on Track

**You can overcome the hurdles to responsible financial citizenship.**



### Remember these important principles:

- ★ Be honest in your dealings.
- ★ Live within your means.
- ★ Pay yourself first.
- ★ Borrow only what you can repay on time.
- ★ Be a wise consumer.

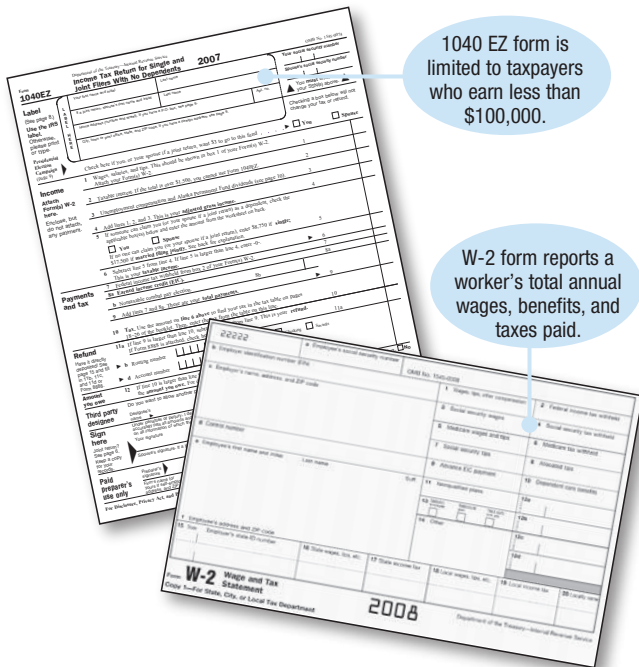


## The W-2

The most common federal tax form is the W-2, which reports wages paid to employees and taxes withheld from them. The form also reports FICA taxes to the Social Security Administration. Employers must complete and send out a W-2 to every employee by January 31. Save these documents! Your W-2's must be attached to your tax return when you file.

## 1040 and Beyond

When you file your income tax return, which is due by April 15, you'll use Form 1040, the Individual Income Tax Return. By filling it out properly, you will learn if you owe more money to the government or if the government owes you money.



To make life easier, the government introduced the Form 1040EZ, which is the simplest tax form. Its use is limited to taxpayers with taxable income below \$100,000 who take the standard deduction instead of itemizing deductions, that is, listing them separately. Many unmarried people with no children also qualify to use this form.

If you have income other than wages, salaries, and tips, Form 1099 comes into play. It's a statement you receive from payers of interest income, such as banks and savings institutions, that summarizes your interest income for the year.

**State Tax Bites** Americans pay federal taxes no matter where they live. State taxes are another matter. Some states, like Florida and Texas, do not impose an income tax. But they assess a sales tax. Alaska residents, who pay no sales or income tax, have the least per capita tax rates in the nation.

### State Sales Tax Rate: Highs and Lows

Highest Tax Rate	
California	7.25%
Lowest Tax Rate	
Colorado	2.9%
No Sales Tax	
Alaska	New Hampshire
Delaware	Oregon
Montana	

SOURCE: State Sales Tax Rates, January 1, 2008  
www.taxadmin.org

## Don't Guess—Get Help!

You want to make sure you get all the tax deductions that the IRS allows. Each form has step-by-step instructions, but they might not answer all your questions. Here are some other places to get advice:

- ▶ The IRS has a user-friendly Web site, with lots of information. It can be found at [www.irs.gov](http://www.irs.gov).
- ▶ Call the IRS at (800) 829-1040. You can talk to a tax specialist, or even schedule an appointment for help at IRS service centers. But don't delay. The closer you get to April 15, the harder it may be to get timely help.
- ▶ Tax-preparation services and tax accountants will prepare your tax return for you for a fee. Some will file your return for you.

If you prepare your return on paper, you must send it to the IRS Service Center listed in the instruction booklet and at the IRS Web site. There are ways you can prepare and "e-file" your return online. Filing in this way will get you a faster tax refund. But you usually will have to pay a fee, especially if you use a tax preparation firm.

### Are You Ready?

1. Describe the role of a W-2 form when filing your taxes.
2. Why do governments collect taxes?

**WebQuest**  
online

To learn more about this topic, visit  
[PearsonSchool.com/PHecon](http://PearsonSchool.com/PHecon)

# Glossary

**annual percentage rate** a finance charge, or the cost of credit, expressed as an annual rate  
**tasa de porcentaje anual** cargo financiero, o costo del crédito, expresado como tasa anual

**annual percentage yield** the annual rate of return on an investment, which must be disclosed by law and which varies by the frequency of compounding  
**rentabilidad porcentual anual** tasa de interés anual de una inversión que, según la ley, se debe dar a conocer, y que varía por la frecuencia del compuesto

**auto lease** a method of financing a car by essentially renting it for a predetermined period of time  
**arrendamiento de vehículo** método de financiamiento de un auto que consiste en alquilarlo por un período preestablecido de tiempo

**automatic bill pay** an automatic deduction from your bank account on a predetermined date  
**pago automático de facturas** deducción automática de fondos de una cuenta bancaria en una fecha determinada

---

**bankruptcy** a state of being legally released from the obligation to repay some or all debt in exchange for the forced loss of certain assets

**bancarrota** condición que consiste en liberarse legalmente de la obligación de pagar parte de una deuda, o la deuda completa, a cambio de la pérdida forzosa de ciertos bienes

**beneficiary** a person or organization named to receive assets after an individual's death

**beneficiario** persona u organización designada a recibir bienes tras la muerte de un individuo

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**certificate of deposit** a savings certificate entitling the bearer to receive interest

**certificado de depósito** certificado de ahorros que autoriza al poseedor a recibir intereses

**compound interest** accumulated interest added back to the principal, so that interest is earned on interest

**interés compuesto** interés acumulado agregado al capital, de modo que se ganan intereses sobre el interés

**consumer protection act** an act designed to reduce fraud and make it harder to declare bankruptcy

**acto de protección al consumidor** ley designada para disminuir el fraude y dificultar el proceso de declaración de bancarrota

**co-pay** a small portion of the total cost of a service covered by your insurance that you are required to pay

**copago** porción pequeña, que una persona debe pagar, del costo total de un servicio cubierto por el seguro

**credit** an agreement to provide goods, services, or money for future payments with interest by a specific date or according to a specific schedule

**crédito** acuerdo por medio del cual se proveen bienes, servicios o dinero a cambio de pagos con interés, en una fecha específica futura o según un cronograma de pago específico

**credit report** a detailed report of an individual's credit history prepared by a credit bureau and used by a lender to determine a loan applicant's creditworthiness

**informe de crédito** reporte detallado preparado por la agencia de información crediticia y usado por un prestamista para determinar la solvencia de una persona que solicita un préstamo

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**deductible** an amount you have to pay before your insurance benefits can be applied

**deducible** cantidad que se debe pagar antes de beneficiarse de la cobertura del seguro

**depreciate** to decrease in value

**depreciar** disminuir en valor

**dollar cost averaging** a method of investing a fixed amount in the same type of investment at regular intervals, regardless of price  
**promediación de costos** método que consiste en realizar regularmente la misma inversión con una cantidad fija de dinero, independientemente del precio

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**electronic funds transfer** the shifting of money from one financial institution account to another without the physical movement of cash

**transferencia electrónica de fondos** paso de dinero de una cuenta en una institución financiera a otra cuenta, sin necesidad de movilizar dinero en efectivo

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**Fair Credit Billing Act** a federal law that addresses billing problems by requiring that consumers send a written error notice within 60 days of receiving the first bill containing the error, and preventing creditors from damaging a consumer's credit rating during a pending dispute

**Ley de Facturación Justa de Crédito** ley federal que trata los problemas de facturación al requerir a los consumidores que notifiquen por escrito sobre cualquier error de una factura, durante los 60 días después de recibir la factura errónea, y que evita que los acreedores afecten negativamente el crédito del consumidor mientras se resuelve el problema

**Fair Credit Reporting Act** a federal law that covers the reporting of debt repayment information, requiring the removal of certain information after seven or ten years, and giving consumers the right to know what is in their credit report, to dispute inaccurate information, and to add a brief statement explaining accurate negative information

**Ley de Informe Justo de Crédito** ley federal que cubre el reporte de información sobre la cancelación de deudas, exige la eliminación de cierta información después de siete o diez años y le otorga al consumidor el derecho de acceder a su informe de crédito, cuestionar información errónea y agregar una declaración breve que explique información negativa correcta

**Fair Housing Act** makes it illegal for a landlord to discriminate against a potential tenant because of that person's race, sex, national origin or religion

**Acta de Equidad en la Vivienda** ley que establece que es ilegal que el dueño de una propiedad discrimine contra un posible inquilino por su raza, sexo, país de origen o religión

**Federal Deposit Insurance Corporation** the government agency that insures customer deposits if a bank fails

**Corporación Federal de Seguros de los Depósitos Bancarios** organismo gubernamental que asegura los depósitos de los clientes si un banco falla

**FICO score** a type of credit score that makes up a substantial portion of the credit report that lenders use to assess an applicant's credit risk and whether to extend a loan

**puntaje FICO** tipo de puntaje de crédito que representa una porción considerable del informe de crédito que los prestamistas usan para evaluar el riesgo crediticio de un solicitante y si se le debe hacer un préstamo

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**gross pay** wages or salary before deductions for taxes and other purposes

**ingreso neto** salario antes de incurrir en deducciones fiscales o de otro tipo

---

**Health Maintenance Organization (HMO)** least expensive insurance plan that allows you to pick a primary care physician, that will refer you to in-network doctors

**Organización para el Mantenimiento de la Salud (OMS)** tipo de seguro médico menos costoso que le permite al beneficiario escoger un doctor que lo remite a otros doctores dentro de una red



**identity theft** the crime of using another person's name, credit or debit card number, Social Security number, or another piece of personal information to commit fraud

**robo de identidad** crimen que consiste en usar el nombre de otra persona, su número de tarjeta de crédito o débito, su número del seguro social o cualquier otra información personal con fines fraudulentos

**Individual Retirement Account** An investment account that provides certain tax advantages to people who set aside money for retirement.

**Cuenta Personal de Jubilación** Cuenta de inversión que les otorga ciertas ventajas tributarias a quienes ahorran dinero para su jubilación

**installment loans** loans, divided between principal and interest, that are repaid at regularly scheduled intervals

**préstamos a plazo** préstamos, divididos entre capital e interés, que se pagan en intervalos regulares establecidos

**lessor** landlord

**arrendador** dueño de un local o lugar que se ha alquilado

**money market account** a savings account that offers a competitive rate of interest in exchange for larger-than-normal deposits

**cuenta de alto rendimiento** cuenta de ahorros que ofrece una tasa de interés competitiva a cambio de recibir depósitos de grandes sumas

**net pay** an individual's income after deductions, credits and taxes are factored into gross income

**salario neto** ingreso de un individuo después de calcular las deducciones, los créditos y los impuestos que se deben considerar del ingreso bruto

**payroll withholding** any tax that is taken directly out of an individual's wages or other income before he or she receives the funds

**retención en nómina** cualquier impuesto que se retiene del pago de un individuo o de otro ingreso antes de que él o ella reciba los fondos

**phishing** an Internet scam used to gain personal and financial data to commit fraud

**phishing** delito cometido a través de Internet que consiste en adquirir información personal y financiera para fines fraudulentos

**resumé** a document summarizing an individual's employment experience, education, and other information a potential employer needs to know

**currículo** documento donde se resume la experiencia profesional, la educación y otra información de un individuo que un empleador puede necesitar

**risk factors** statistics that predict whether someone is likely to be a bad risk

**factores de riesgo** estadísticas que predicen la probabilidad de que alguien sea un riesgo

**risk management plan** the process of calculating risk and devising methods to minimize or manage loss

**plan de manejo de riesgos** proceso que calcula el riesgo y crea métodos para minimizar o manejar pérdidas

**risk pyramid** a portfolio strategy that allocates assets according to the relative safety and soundness of investments

**pirámide de riesgo** estrategia del portafolio que asigna activos de acuerdo a lo seguro y aconsejable que sean las inversiones

**Roth IRA** an individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax deductible and qualified distributions are tax free

**IRA Roth** plan de jubilación personal que tiene bastantes similitudes con una cuenta personal de jubilación, IRA (por sus siglas en inglés), pero sus contribuciones no son deducibles de impuestos y ciertas distribuciones que califican son libres de impuestos

**Rule of 72** a method of finding the number of years required to double your money at a given interest rate, divide 72 by the compound return

**Regla de 72** fórmula para calcular el número de años necesarios para duplicar una suma de dinero a cierta tasa de interés; dividir 72 por el rendimiento compuesto

**security deposit** money given to the landlord by the tenant to cover any damage to the apartment

**depósito de seguridad** dinero que un arrendador le entrega a un inquilino para cubrir cualquier daño que se le cause a una propiedad

**Social Security** a federal government program that provides retirement, survivor's, and disability benefits, funded by a tax on income, which appears on worker's pay stubs as a deduction labeled FICA (for Federal Insurance Contributions Act)

**seguro social** programa del gobierno federal que proporciona a los ciudadanos beneficios en caso de jubilación, muerte o incapacidad; se acumula mediante la deducción de impuestos al ingreso y aparece identificado en los talones de pago de los trabajadores como Ley Federal de la Contribución al Seguro Social (FICA, por sus siglas en inglés)

**tenant** someone that pays rent to use or occupy land, a building, or other property owned by another

**inquilino** persona que paga un alquiler para usar u ocupar un terreno, un edificio o cualquier propiedad que le pertenece a otra persona

**Truth in Lending Act** a federal law that requires financial institutions to disclose specific information about the terms and cost of credit, including the finance charge and the annual percentage rate (APR)

**Ley de Divulgación de los Términos Totales de Crédito** ley federal que requiere que las instituciones financieras proporcionen información específica sobre los términos y costos del crédito, incluyendo el cargo financiero y la tasa de porcentaje anual

**tuition** the charge for instruction, especially at a college or private school

**matrícula** cargo por la educación, especialmente en una universidad o una escuela privada

**Vehicle Identification Number** a unique serial number used by the automotive industry to identify individual motor vehicles

**Número de Identificación del Vehículo** serial único que usa la industria automotriz para identificar cada vehículo

**warranty** a written guarantee from a manufacturer or distributor that specifies the conditions under which the product can be returned, replaced, or repaired

**garantía** documento de un fabricante o distribuidor que especifica las condiciones en las cuales un producto se puede devolver, reemplazar o reparar