Bank, Credit or Thrift: Which One is Right for Me?

Where do you stash your allowance, birthday cash or paycheck? There are lots of ways to keep your money safe, but knowing which option is best for you means researching your choices. Listen to the FDIC podcast at moneysmart.fdic.gov/index.php/podcasts/#audio1 on financial institutions and write down four facts that you learn about each type of institution below. Listen to the podcast twice if needed to fill in the chart. Then, decide which one you would choose to put your money in and why. Be ready to share your findings with the class.

<table>
<thead>
<tr>
<th>Facts About Banks</th>
<th>Facts About Credit Unions</th>
<th>Facts About Thrifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
<td>1.</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>2.</td>
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<td>3.</td>
<td>3.</td>
<td>3.</td>
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<td>4.</td>
<td>4.</td>
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</tbody>
</table>

Based on the above facts, where would you choose to put your money and why?

________________________________________________________________________

________________________________________________________________________
Banking Partners: Battle for a Bargain

The battle is on. You have $500 to deposit into a checking account and it’s up to you and your team to use the Internet to find the best “bargain” bank—the one that offers the most services for the lowest associated fees. The winning team will present their findings to the class. Time to get moving...the race to riches begins now.

**Bank A:**

Tech-savvy services (e.g., online banking, text message banking, etc.):

Other services (e.g., overdraft protection):

Minimum opening deposit:

Monthly maintenance fees:

Overdraft fees:

ATM fees:

Penalties and withdrawal limits:

**Bank B:**

Tech-savvy services (e.g., online banking, text message banking, etc.):

Continued on the next page.
Banking Partners: Battle for a Bargain

LESSON 12: STUDENT ACTIVITY SHEET 2

Other services (e.g., overdraft protection):

Minimum opening deposit:

Monthly maintenance fees:

Overdraft fees:

ATM fees:

Penalties and withdrawal limits:

Bank C:

Tech-savvy services (e.g., online banking, text message banking, etc.):

Other services (e.g., overdraft protection):

Minimum opening deposit:

Monthly maintenance fees:

Overdraft fees:

Continued on the next page.
ATM fees:

________________________________________________________________________

Penalties and withdrawal limits:

________________________________________________________________________

Based on your research, which bank would you deposit your $500 in and why?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
Getting your first paycheck can be overwhelming. There are lots of details and deductions to consider, but knowing what to expect makes it easier. Below are four different paystub samples; in all of them the employees receive their paychecks through direct deposit. Use the first example as a guide to understand the deductions and then determine how each of the remaining paystubs could be revised to maximize savings.

1. When you accept a new job, you will fill out a W-4 form on which you’ll determine a withholding allowance (this is how much money will go toward federal taxes from each paycheck). If at the end of the year you’ve overpaid, you’ll receive a tax refund. If you’ve underpaid, you’ll owe taxes.

2. Federal and state income taxes help pay for services like roads, public schools and libraries. Most but not all states have an income tax and some cities and counties do as well.

3. Medicare taxes help pay for health care costs for individuals over 65 and those with a disability.

4. Social security taxes help pay for retirement costs.

5. Health insurance deductions cover medical costs.

6. Flexible spending accounts (FSAs) allow you to set aside before-tax portions of your pay for things like childcare and medical expenses.

7. Life insurance deductions go toward a life insurance policy.

8. A 401(k) is a retirement savings account. When you put a certain percentage of your paycheck in a traditional 401(k), you don’t pay income tax on that money until it is withdrawn.

9. A savings deposit deduction can be set up if you want an after-tax portion of your paycheck to go directly into a savings account.
Sample 1: Dan just started working full-time and he is included on his parents’ health insurance plan. He withholds the maximum amount he can, so he won’t have to pay any additional taxes at the end of the year. Review Dan’s paystub below and determine where he may be spending money unnecessarily and how he could use those funds to maximize his savings.

**Description**  | **Rate** | **Hours** | **This Period** | **Year to Date**
--- | --- | --- | --- | ---
Regular | $25.00 | 80 | $2,000.00 | $12,000.00
Overtime | $30.00 | 0 | $0.00 | $0.00
**Total** | | | **$2,000.00** | **$12,000.00**

**Deductions**

<table>
<thead>
<tr>
<th>Description</th>
<th><strong>This Period</strong></th>
<th><strong>Year to Date</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>$200.00</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>State Income Tax</td>
<td>$30.00</td>
<td>$1800.00</td>
</tr>
<tr>
<td>Medicare Tax</td>
<td>$25.00</td>
<td>$150.00</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>$100.00</td>
<td>$600.00</td>
</tr>
</tbody>
</table>

**Other**

<table>
<thead>
<tr>
<th>Description</th>
<th><strong>This Period</strong></th>
<th><strong>Year to Date</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance*</td>
<td>$200.00</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>Medical Flexible Spending Account*</td>
<td>$50.00</td>
<td>$300.00</td>
</tr>
<tr>
<td>401(k)*</td>
<td>$100.00</td>
<td>$600.00</td>
</tr>
<tr>
<td>Savings Deposit</td>
<td>$50.00</td>
<td>$300.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$755.00</strong></td>
<td><strong>$4,530.00</strong></td>
</tr>
</tbody>
</table>

*Excluded from federal taxable wages

Continued on the next page.
Sample 2: Rachelle just accepted a new job as an office assistant and will have her paychecks directly deposited with a portion going toward a 401(k). She also anticipates putting in a lot of overtime—and receiving overtime pay—as she learns her new job. Review Rachelle’s paystub below to determine what she could do to build her 401(k) and increase what she is contributing to savings.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Hours</th>
<th>This Period</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>$10.00</td>
<td>40</td>
<td>$400.00</td>
<td>$800.00</td>
</tr>
<tr>
<td>Overtime</td>
<td>$15.00</td>
<td>12</td>
<td>$180.00</td>
<td>$360.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$580.00</strong></td>
<td><strong>$1,160.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions</th>
<th>This Period</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>$36.00</td>
<td>$72.00</td>
</tr>
<tr>
<td>State Income Tax</td>
<td>$9.00</td>
<td>$18.00</td>
</tr>
<tr>
<td>Medicare</td>
<td>$4.00</td>
<td>$8.00</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>$16.00</td>
<td>$32.00</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Insurance*</td>
<td>$22.00</td>
<td>$44.00</td>
</tr>
<tr>
<td>401(k)*</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Savings Deposit*</td>
<td>$50.00</td>
<td>$100.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$137.00</strong></td>
<td><strong>$274.00</strong></td>
</tr>
</tbody>
</table>

*R Rachelle L Thomas
Social Security: XXX-XX-3333
Taxable Gross: $558.00
Net Pay: $443.00

Taxable Marital Status: Single
Exemptions/Allowances:
• Federal: 0
• State: 0

Period Ending: 1/15/13
Pay Date: 1/31/13

How could Rachelle build her retirement and increase her savings?

*Excluded from federal taxable wages

Continued on the next page.
Paystub Puzzles: Putting the Pieces Together

LESSON 13: STUDENT ACTIVITY SHEET 1

Sample 3: Taylor works part-time for a construction company. His employer doesn’t offer health insurance, retirement savings or flexible spending accounts but his parents help him with medical expenses. He would like to save as much money as he can so he can buy a new truck. Review Taylor’s paystub below and determine how he could maximize his savings.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Hours</th>
<th>This Period</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>$12.50</td>
<td>40</td>
<td>$500.00</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Overtime</td>
<td>$18.50</td>
<td>6</td>
<td>$111.00</td>
<td>$444.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$611.00</strong></td>
<td><strong>$2,444.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions</th>
<th>This Period</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>$55.00</td>
<td>$220.00</td>
</tr>
<tr>
<td>State Income Tax</td>
<td>$11.00</td>
<td>$44.00</td>
</tr>
<tr>
<td>Medicare Tax</td>
<td>$8.00</td>
<td>$24.00</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>$27.00</td>
<td>$108.00</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>$20.00</td>
<td>$80.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$121.00</strong></td>
<td><strong>$484.00</strong></td>
</tr>
</tbody>
</table>

*Excluded from federal taxable wages
Taxable Gross Pay: $611.00 / Net Pay: $490.00

What could Taylor do to maximize his savings?
A credit card may look like a simple piece of plastic, but there’s a complex system behind how it works. Break down credit card mysteries by reviewing the terms at practicalmoneyskills.com/credit and defining those terms below using your own words.

1. Annual fee

2. Annual percentage rate (APR)

3. Credit line

4. Cash back/rewards

5. Balance

6. Minimum payment
There are many different laws in place to protect consumers when it comes to credit. Explore some of the laws that provide consumers with protection by reviewing the information on the Federal Trade Commission’s website at ftc.gov/bcp/edu/pubs/consumer/credit/cre01.shtm. Then define each law using your own words and be prepared to share your findings with the class.

1. What is the purpose of the Fair Credit Reporting Act?

   

2. What is the purpose of the Equal Credit Opportunity Act?

   

3. What is the purpose of the Fair Credit Billing Act and the Electronic Fund Transfer Act?

   

4. What is the purpose of the Fair Debt Collection Practices Act?
Review the credit scenarios below and determine the positive and negative impacts each decision may have on the person’s financial future.

Scenario 1
Mark and Ryan just moved into their first apartment together and they want to buy a flat screen TV for the living room. They both work but between college tuition, books and rent their funds are running low. Mark decides to take advantage of a financing offer from a local electronics store and buys the TV on a line of credit.

Is this a good or bad debt move? Why?

Scenario 2
Blake just graduated college and accepted a new job as a graphic designer for a marketing firm. He wants to buy a $100,000 condo near his new job and he has saved enough money for a 20% down payment. He is planning on taking out a loan, or a mortgage, for $80,000 to purchase the property.

Is this a good or bad debt move? Why?

Scenario 3
Nora has heard that opening a lot of credit card accounts is a good way to build credit. She currently has five credit cards, but is sometimes forgetful in paying her bills on time and usually has a balance on each card. Her favorite store is offering a $50 coupon on her next purchase, with the promise of more coupons in the future, if she opens a credit card. She decides to open the store credit card to get the discounts.

Is this a good or bad debt move? Why?
Beware of the debt snowball. Once bad debt starts rolling, it’s hard to stop the momentum of money owed from piling up. Check out the scenarios below to see how the debt snowball can pick up interest and lead to years of continued payments.

**What’s It Really Cost?**

Brent buys a new video game console at $200 and pays for it with a credit card carrying a 25% Annual Percentage Rate (APR). He only has to pay a minimum payment of $10 each month, which seems like a bargain because he can use the video game console right away and make the payments over time. Help Brent figure out the true cost of his video game console and how long it will take him to pay it off. Use the calculator at practicalmoneyskills.com/costofcredit to fill in the information below.

<table>
<thead>
<tr>
<th>Original Purchase Cost</th>
<th>Months to Pay off Debt</th>
<th>Amount Paid in Interest</th>
<th>Final Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200</td>
<td></td>
<td></td>
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</tbody>
</table>

Now, imagine that Brent charges $2,000 in car repairs and plans on paying a minimum monthly fee of $50. The card carries a 25% Annual Percentage Rate (APR). How much are those car repairs really costing Brent and when will he pay off the amount owed? Use the same online calculator to fill in the information below.

<table>
<thead>
<tr>
<th>Original Purchase Cost</th>
<th>Months to Pay off Debt</th>
<th>Amount Paid in Interest</th>
<th>Final Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td></td>
<td></td>
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</tbody>
</table>
In groups, review the scenario below and the profiles of each of the three friends.

**Scenario:**
Three friends are at the mall shopping for Joe's birthday. Shaun, Rachel and Hayden all want to get him what he really wants, but there's a snag in the plan when two of the three friends come up short on cash. After reading each of the friends’ stories below, decide who Shaun should loan his money to and why.

**SHAUN (LENDER)**
Shaun works after school and on weekends, so he usually has money in his wallet. He wants to get Joe a new portable game console, which he can easily afford. His friends are always borrowing money from him because they know he saves, and today is no different.

**RACHEL (BORROWER)**
Rachel sees the perfect gift for Joe, but she only has $20 and the gift costs $100. She tries to convince Shaun to loan her the money for the gift, explaining that she only needs $80 because she can contribute $20. She reminds Shaun that she has borrowed money from him before, and always pays debts back on time. As an added bonus, she tells Shaun he can borrow her car and her tablet in case she isn’t able to pay the money back right away.

**HAYDEN (BORROWER)**
Hayden wants to buy a new video game for Joe, but he doesn’t have the money right now. He borrows money from his friends all the time and has the reputation of being late in paying it back—sometimes he forgets entirely. He tries to convince Shaun to loan him $100 for the gift.
It’s time to find your dream home—but don’t forget, you will need a way to pay for it too. Let’s look into what an ideal home in your area costs and explore the differences in payment amounts across a variety of mortgages.

Imagine that you would like to purchase a $275,000 home. Using 20% as a down payment (or $55,000), determine the monthly mortgage payment for your dream home using the loan terms below. Hint: Read the Loan Calculator tip at right for a tool that will help you make the calculations.

A. 15-year mortgage term with a 3% interest rate
   Total Amount Paid Over Loan Term: __________________________
   Minimum Monthly Payment: __________________________

B. 20-year mortgage term with a 6% interest rate
   Total Amount Paid Over Loan Term: __________________________
   Minimum Monthly Payment: __________________________

C. 30-year mortgage term with a 5% interest rate
   Total Amount Paid Over Loan Term: __________________________
   Minimum Monthly Payment: __________________________

Which mortgage would you choose and why?

__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________

STUDENT TIPS

Check out these websites to get a feel for the prices of homes you like in your area:
• homes.com
• Trulia.com
• Realestate.com

Loan Calculator:
To calculate your mortgage payments, use the Practical Money Skills How Much Will Your Loan Really Cost calculator at practicalmoneyskills.com/costofloan. Remember that mortgage term is the amount of time it will take to pay off the mortgage, and the interest rate is the amount the bank will charge for loaning you the money.
Scenario 1:
You find a house that’s smaller than you want, but it’s in a good neighborhood. It’s pretty old and there’s lots of repair work needed. The house is $120,000 and you’ll put 20% down. The bank offers a 7% interest rate for a 15-year mortgage and you currently make $2,000 per month, with monthly expenses averaging $1,200. The repair work will cost $10,000.

Do you buy it or pass?

Why?

Scenario 2:
You have a job, but recently heard that your position may be cut. You can only make a down payment of 10% on your mortgage. Since you’re not putting 20% down, you have to pay Private Mortgage Insurance (PMI) that protects the bank in case you can’t make payments. The bank offers you a 6% interest rate on a 30-year mortgage of $450,000.

Do you buy it or pass?

Why?

Scenario 3:
You’ve always wanted to own a condo in the city and finally found one that matches your budget. You have good credit and will put 20% down on the $450,000 home price. The bank offers a 4% interest rate on a 15-year mortgage. You make $10,000 a month.

Do you buy it or pass?

Why?
From avoiding financial pitfalls to protecting our personal belongings, insurance policies help keep us safe. Finding the right insurance takes practice and comparing options ensures you’ll make a well-informed decision when it’s time to choose a plan. Use the insurance you’ve been assigned and research two different insurance plans. Fill in the table on the next page to keep track of the policies, and then decide which plan you think offers better coverage and why.

**Insurance 101**

Having trouble keeping track of all the different types of insurance? Review these quick definitions:

- **Auto**: This is designed to protect your vehicle and you as a driver. There are many different plans, some of which include paying for repairs to another driver’s vehicle if you are in an accident. Depending on the value of your car, you may also want collision insurance, which covers certain costs if your vehicle is damaged.

- **Homeowners**: Designed to protect your home and property, it covers the costs of damage in cases such as theft and fire.

- **Health**: This helps pay medical bills, and can include things like prescriptions or coverage for major medical costs. All plans are different and there are lots of options, so make sure you know what you’re getting before purchasing a plan.

- **Life**: Life insurance provides financial protection and income replacement in the case of death. A sum of money is given to a designated person, also known as a beneficiary, upon the death of the person holding the insurance policy.

- **Personal Property**: It’s not just your health or car that need insurance; your personal belongings do too. This coverage allows you to insure important and expensive items, like a wedding ring or antique painting.

- **Travel**: Travel insurance ensures you have access to quality medical care anywhere you go. Some international policies even include the option of being airlifted out of the country if you get extremely sick.

*Continued on the next page.*
Using the type of insurance you have been assigned, research two different insurance policies you feel could work for your situation. Then fill in features of those two policies in the table below.

**What type of insurance have you been assigned to research?**

________________________________________________________________________

After researching insurance policies, record the two options you think would work best for your scenario here.

________________________________________________________________________

________________________________________________________________________

**Record the specific features of the two policies you have chosen below.**

<table>
<thead>
<tr>
<th></th>
<th><strong>OPTION A</strong></th>
<th><strong>OPTION B</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductible</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the benefits and disadvantages? (e.g., high deductible, lots of coverage, etc.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Which of the two plans would be the best choice for your circumstances and why?**

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
Print enough copies of the activity sheet so that each student will receive either a situation or a match. Then cut along the lines to create individual cards and distribute them.

---

1. **The situation:**
You are a new student at the local college and will be living a few blocks away from campus. Because of the close proximity, you decide to forgo purchasing a car until graduation. You’re in good health and rarely visit the doctor, but since you are moving out of your parent’s house, you’re no longer included on their health insurance plan. What type of insurance should you purchase?

**The match:**
You have a basic health insurance plan to offer. With a premium of $30, a co-pay of $10 and a deductible of $100, the policy is a great bargain for those entering the workforce, students and the generally healthy.

---

2. **The situation:**
You’re a recent high school graduate, and at 18 you are still covered by your parent’s health insurance. To save costs, you live at home with your parents and commute one hour to campus. You own a 1988 truck, and since you aren’t concerned about it getting damaged, you debate buying car insurance. What type of insurance should you purchase?

**The match:**
You have a no-fuss car insurance plan to offer. The deductible is $1,000 with a premium of $50. It the most basic plan, so if someone buys the policy you are selling, damage to his or her car won’t be covered—only damage to the other driver’s car.

*Continued on the next page.*
3. The situation:
You’re starting your first job in your dream city. Due to a signing bonus, you just purchased a new home in the suburbs. Although you plan to use public transportation, you also have a nice vehicle that you sometimes use for weekend getaways. You’re generally in good health, but have to see specialists frequently due to a medical condition you’ve had since childhood. You get health insurance through your new job, but it only covers prescriptions and yearly doctor’s visits, not the kind of specialists you need for your condition. What type of insurance should you purchase?

The match:
You are an insurance company that does it all. You specialize in car, homeowner’s and health insurance. You also offer a 20% discount if someone purchases all three types of insurance with you. Your health insurance plan has a fairly high deductible of $1,000, but your car insurance policy has a low premium of $40. Your homeowner’s policy covers the cost of property damage from theft, fire and natural disasters.

4. The situation:
You were close to your grandfather and before he passed away, he left you his favorite Rolex watch. From the 1930s, the watch is worth a lot of money and has incredible sentimental value as a family heirloom. You’re still covered under your parent’s health insurance and don’t yet own a car. What type of insurance should you purchase?

The match:
You specialize in personal property insurance. If someone wants to insure a valuable item, like a diamond ring or antique collectibles, you offer the right policy. You provide flexible coverage and are a leader for personal property insurance in your area.
Where There’s a Will, There’s a Way

Part One
A will ensures that your wishes are carried out and your assets protected after you are no longer able to carry out and protect them yourself. Working with your group, research the important components of a will. What does a will actually do? Do you have to be a certain age to create one? Can you make one when you are in ill health? Write a list of the important elements you discover.

The important aspects of a will are:

•
•
•
•
•
•
•

Part Two
Imagine you are going to create a will that outlines the distribution of the following assets:

1. Laptop   6. Movie collection
2. Smartphone  7. Jewelry or watches
3. Car   8. Clothing
4. CD collection  9. Video game console

1. Who should receive your assets? Use the space below to designate who would get each of the assets listed above and why.

1. ____________________________________________

2. ____________________________________________

Continued on the next page.
3. ________________________________________________________________
4. ________________________________________________________________
5. ________________________________________________________________
6. ________________________________________________________________
7. ________________________________________________________________
8. ________________________________________________________________
9. ________________________________________________________________
10. ________________________________________________________________

2. **Who will be the executor of your estate?** That is, who will be the person that is responsible for making sure your wishes are carried out and your assets distributed, as you want? Why did you choose that person?
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

3. **Why do you think it is important to create a will?**
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
## Investing Tips

### LESSON 18: STUDENT ACTIVITY SHEET 1

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Definition</th>
<th>Risk</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bonds</strong></td>
<td>A type of loan in which you are the lender. You loan money to the government or a corporation with a set interest rate and maturity date</td>
<td>Often lower risk, but risk varies depending on 1) the ability of the issuer to repay the loan and 2) interest rate opportunity costs</td>
<td>- Usually provides more stability than stocks</td>
<td>- Historically lower returns than stocks - Cashing in before maturity date could result in a loss of principal</td>
</tr>
<tr>
<td><strong>Mutual Funds</strong></td>
<td>A fund managed by a company that includes a portfolio of stocks or bonds</td>
<td>Risk varies depending on type of mutual fund</td>
<td>- Diversified - You can select different risk levels</td>
<td>- Return isn’t guaranteed - Can be subject to expensive management fees</td>
</tr>
<tr>
<td><strong>Stocks</strong></td>
<td>When buying a stock, you buy partial ownership of a company</td>
<td>Different levels of risk—some can be very risky, but all stocks are subject to ups and downs of the market</td>
<td>- Potential for higher returns over the long-term</td>
<td>- The market goes up and down regularly, making it a volatile investment - Requires a long-term investment to get the best return - No guarantee for additional money above your investment (called the return) and you may lose your principal, too</td>
</tr>
</tbody>
</table>
If you could earn $100 or $10 for doing the same job, which would you take? Chances are, you’d take the $100. While that seems like an easy choice, understanding how you can earn $100 versus $10 when investing money means mastering interest and rate of return. Learn how different rates, interest types and investment strategies can impact and maximize your earnings by completing the table and questions below.

**How to Calculate Simple Interest:**

\[ \text{Principal} \times \text{Interest Rate} \times \text{Time} \]

**Simple Interest/Rate of Return Example:**

Imagine you have $100 and plan to put it in the bank for 6 years with a 6% interest rate, calculated as .06%. Here’s what the calculation would look like:

$100 \times .06 \times 6 = $36. The amount will grow by $36/year using simple interest.

- Year 1: $100 + $36 = $136
- Year 2: $172
- Year 3: $208
- Year 4: $244
- Year 5: $280

**How to Calculate Compound Interest:**

\[(\text{Principal} + \text{Earned Interest}) \times \text{Interest Rate} \times \text{Time}\]

**Compound Interest/Rate of Return Example:**

Imagine the same scenario ($100, interest rate calculated as .06% for 6 years), but this time interest will be compounded annually. Here’s how your money grows:

- Year 1: $100 \times .06 \times 6 = $36 (\$100 + $36) = $136
- Year 2: $136 \times .06 \times 6 = $48.96 ($136 + $48.96) = $184.96
- Year 3: $184.96 \times .06 \times 6 = $66.58 ($184.96 + $66.58) = $251.54
- Year 4: $251.54 \times .06 \times 6 = $90.55 ($251.54 + $90.55) = $342.09
- Year 5: $342.09 \times .06 \times 6 = $123.15 ($342.09 + $123.15) = $465.24

- In just a few years, you’ve nearly tripled your money.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Principal</th>
<th>Interest Rate</th>
<th>Time</th>
<th>Interest or Return Type</th>
<th>Interest or Return Earned</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td>$10,000</td>
<td>3%</td>
<td>10 years</td>
<td>Compound</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Fund (portfolio of stocks &amp; bonds)</td>
<td>$1,000</td>
<td>7%</td>
<td>20 years</td>
<td>Compound</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond</td>
<td>$100</td>
<td>5%</td>
<td>30 years</td>
<td>Simple</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>$700</td>
<td>10%</td>
<td>1 year</td>
<td>Compound</td>
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</tr>
<tr>
<td>Bond</td>
<td>$10,000</td>
<td>3%</td>
<td>10 years</td>
<td>Simple</td>
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*Continued on the next page.*
Investment Challenge

1. John receives $1,000 as a graduation gift from his grandparents. Rather than spend it, he decides to invest it in a two-year bond that earns 3% simple interest. John doesn’t need access to the money right away because he wants to save it for when he’s ready to buy a home in about 10 years. Is the bond a wise investment for John? Why or why not? What other investment options does John have?

2. If you had the choice between investing $1,000 in a mutual fund that earns 7.5% compound interest or a bond that earns simple interest at 7.5%, which would you prefer and why?
What does inflation really mean? Enter the amount your group was given at the beginning of class ($100, $500 or $1,000) in the space above the chart below. Then use the Inflation Calculator at data.bls.gov/cgi-bin/cpicalc.pl to calculate the difference in buying power that amount of money represented over several decades in comparison with 1990, 2000 and today. Enter the amount of money you were assigned at the beginning of the class in the calculator, then input the years according to the chart and see how the values change over time. Note: You can look up even more current inflation tables using the same tool.

**Amount of money I have:**

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<td>1920</td>
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<td>1980</td>
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What happened to the numbers on your chart? Why did they change the way they did? What does this say about the value of a dollar and inflation?
We all have to pay taxes to help fund government programs. But how will they affect your financial future? Read the scenario below and do the math to find out.

**Scenario:**
Courtney is a senior in college and just started her first job as a sales associate. At her new job, she expects to make about $24,000 per year. She is excited to receive her first paycheck, which is given every two weeks. Courtney learns that 15% of her gross pay will be withheld for federal income tax, 4% for state income tax and 6% for Social Security and Medicare taxes. Help Courtney figure out what her take home, or net pay is, and how much she will pay in taxes each paycheck.

A. How much money will Courtney pay in taxes each paycheck?
   - Federal: 
   - State: 
   - Social Security and Medicare: 

B. What is Courtney’s net pay? In other words, how much money does Courtney take home from each paycheck after paying all taxes?

C. Based on your knowledge of taxes, to which programs, services and accounts do you think the money withheld from Courtney’s paycheck will go?
Recordkeeping is no fun, but compared to tearing the house apart looking for a paystub or your bank’s contact information, it’s a small price to pay. Knowing how long records should be kept and coming up with a system for saving bills and papers is also an important aspect of staying on top of your finances. Fill in the information about your accounts, payment schedule and recordkeeping plan below. Then keep the form with your records at home, updating it when any account or payment information changes. Important: Leave blank any personal information that should not be shared publicly—account numbers, Social Security or driver’s license numbers, etc.

1. What is the name and contact information for your bank?


2. What are the names and contact information for any other accounts you have, such as a cell phone account or car loan?


3. Where will you keep the following records? Indicate where you plan to store hard copies or online records of each item.

- Paystubs and W-2 form: 
- Bank statements: 
- Where will you keep other account statements (phone, car insurance etc.): 
- Where will you keep your Social Security card, passport or other items: 
- Budget and receipts: 

Continued on the next page.
6. Knowing when your bills are due and having a set time when you will review your budget, spending, and account statements for errors is also key. Indicate which days of the month you plan to do the following:

Pay monthly bills (phone, bus pass etc.):

Receive your paycheck or allowance:

Review bank and other statements for errors:

Compare your spending to your budget and adjust your budget as needed:

7. There are many online tools and resources that can help you keep on top of your financial records. Spend 5 minutes researching the resources available at the following websites to help determine whether any would be helpful to you.

• Quicken.com
• Mint.com
• Yodlee.com
• Mvelopes.com

As you organize your records and work toward your financial goals, which online tools will you use to manage your finances?
Jack, Brooke and Caroline are chatting after school about a new special edition comic book that just exploded on the scene. One of the friends owns a signed comic acquired before the author and artist became famous, while the other two friends are eager to get their hands on a signed copy. Read the scenarios below and decide if Jack should sell his comic book to Brooke, make a trade with Caroline or hold on to his signed comic.

**JACK (SELLER):**
Jack collects comic books and last year he went to a local convention to check out some new artists. He found one he thought was amazing and decided to buy an autographed comic by him at the show for $5. Fast forward one year and the author is now hugely popular, with everyone clamoring to buy his comics. Autographed comic books are flying off local shelves at $25 each and some are even selling for $50 online. Jack’s unsure if he should keep the comic, make a trade or sell it now that it’s worth so much money.

**BROOKE (BUYER):**
Brooke collects rare and original comic books. She loves the new series and needs an autographed copy of the original comic book to add to her collection. She is willing to pay whatever it takes to buy it and offers Jack $100 for it.

**CAROLINE (TRADER):**
Caroline would really like to have a signed copy of the comic book, but there’s no way she can afford to pay $25 or $50 to buy one. She does have three comic books from another author that she, Jack and Caroline all like a lot. She offers Jack her three comic books for his autographed comic.

**Should Jack sell, hold or trade? Why?**
In order to make smart stock investments, it’s important to understand the basics of what a stock is, and to keep up-to-date with how stocks perform. Many investors do this by reading stock tables. Before researching specific companies’ stock performance, answer these questions about stock market basics:

1. What is a stock?

2. What is the price-to-earnings (P/E) ratio?

3. Identify some factors that might affect the price of a stock.

As a class, review the NYSE’s How to Read Stock Tables found at www.nyse.com. Next, select five companies that interest you and evaluate their stock performance. Think about companies that you know and like such as Disney, Coca Cola, Apple, etc. Visit the Wall Street Journal at online.wsj.com and search for the selected stocks. Record your findings in the chart below.

*Continued on the next page.*
## How did each stock perform?

- 
- 

## Which stock closed at the highest and lowest?

- 
- 

## Which stock had the greatest rate of return?

- 
- 

### Table: Stock Performance

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>52 Week High</th>
<th>52 Week Low</th>
<th>Stock Symbol</th>
<th>Yield (rate of return)</th>
<th>Price/Earnings Ratio (P/E)</th>
<th>Last Close</th>
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Part 1: Charitable Interests
Find the right charity for you by recording your interests and then researching charities to match. In the table below, record your charitable interests in the left column and then research charities that match your interests, recording your findings in the middle column. After you’ve discovered possible charities (also known as nonprofit organizations), use the right column to explain why the organizations interest you.

<table>
<thead>
<tr>
<th>Charitable Interests</th>
<th>Possible Charities</th>
<th>Why These Nonprofits Interest Me</th>
</tr>
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<tbody>
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Continued on the next page.
Part 2: Evaluating Credibility
Select one charity from your list above to evaluate. Using the charity’s website and other web searches, complete the table below by learning as much information as you can about your charity for each of the criteria. Record your findings in the table and determine if this is the right charity for you.

To learn more about the credibility of your charity, search for it at CharityNavigator.org

<table>
<thead>
<tr>
<th>Evaluation Criteria</th>
<th>What Did You Learn?</th>
</tr>
</thead>
<tbody>
<tr>
<td>“About” Page</td>
<td></td>
</tr>
<tr>
<td>Contact Information</td>
<td></td>
</tr>
<tr>
<td>Internet Research and Reviews</td>
<td></td>
</tr>
<tr>
<td>Financial Information</td>
<td></td>
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<tr>
<td>Accomplishments and Track Record</td>
<td></td>
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<tr>
<td>Transparency</td>
<td></td>
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</tbody>
</table>

Based on your checklist, do you believe this charity is credible? Why or why not?

STUDENT TIPS

What to look for:
- “About” Page: Read the “About” page and learn as much as you can about the organization.
- Contact Information and Tax ID Number: Make sure there is contact information listed on the charity’s website, including a complete address, telephone number and email address. An eligible tax ID number means that the IRS has given the organization nonprofit status.
- Internet Research and Reviews: Research the charity using a search engine, read what others are saying about it and check to see if the charity has been in the news (and for what reasons—is the publicity positive or negative?).
- Financial Information: What can you learn about the charity’s finances? Are they spending their money the way they say they are? Do they have a rainy day fund? Do they openly share this information with the public?
- Accomplishments and Track Record: What has the charity accomplished? Look for a proven track record and success stories.
- Transparency: Is the charity transparent with the public about what they do?

For more information visit the website of your state’s Attorney General to see if it has a charity section.