FINANCIAL LITERACY LESSONS

with Patty Ann

MONEY CONCEPTS THAT MAKE CENT$

Beginner Banking Basics

FINANCIAL LITERACY
L E S S O N S

MONEY CONCEPTS THAT MAKE CENT$
Beginner Banking Basics

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MONEY CONCEPTS THAT MAKE CENT$
Chapters

Money Concepts

What is the Concept of Money?
Money means different things to different people. For example it can mean:

- Prestige
- Security
- Comfort
- A way to buy stuff
- Financial freedom

In order to have the list above you'll need to learn about the list below:

-Checking Accounts
-CDs
-Stocks
-Mutual Funds
-Pension Plan
-Smart Money Tips
-Savings Accounts
-Credit Accounts
-Bonds
-401K Accounts
-IRA
-More Hot Money Tips

Stay with us for the duration of the book and you'll be sure to become money $mart!

What is Money?

- Money is a unit of measure.
- Money is a medium of exchange.
- Money is used as payment for goods and services.
- Money has a value.

What is Value?

Value has both implicit and explicit meanings. ► What does this mean?

Implicit meanings are internal emotional or mental rewards that people get from purchasing products.

For example:
If you want to buy a good used car and you find one in mint shape for $500.00 you would feel great about getting such a steal of a deal. This is an emotional or implicit reward.

Explicit values come from outside yourself. Let's say the $500.00 car you just purchased came with a new $40.00 CD stereo player. So you got an added feature along with a good deal.

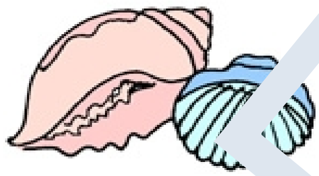
Value is concrete in the minds of the buyer and seller.

A seller puts value on what they think their product is worth. The value of a product is determined by the seller's time spent making it, or their cost of buying it.

And, a buyer is willing to pay for a product as long as they believe the value is acceptable. Therefore value has a price and that price comes in the form of money.

The Origin of Money

Did you know that money used to come in all sorts of forms besides dollar bills? It's true. From ancient times people have used other items to exchange goods. Here are some examples:



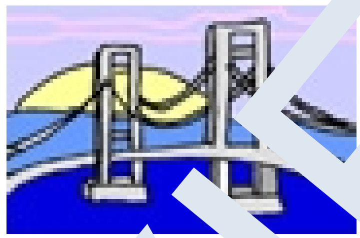
Islanders traded sea shells.

Fancy feathers had decorative value
and were traded for making tribal garments.

Natives traded bead
and bone necklaces.

Terms to Describe Money

There are many names used to describe the price of a commodity. A commodity is a good or service that's for sale. Different markets dictate the proper terms that are used. Here are some common terms that you'll be sure to recognize:



Drivers pay a **toll** to
go over a toll bridge.

Sales **commissions** are paid to
car salesmen and real estate brokers.

Students pay **tuition**
for a college education

* * * * * * *

Money Concepts Exercises

People appreciate money in a variety of ways. It means various things to different people. What does money mean to you?

1)____

2)____

Name an item, like a toy, vehicle, animal or something that you own, and cherish a lot: ____.

What type of <u>implicit</u>, or mental, rewards do you get from owning this item? ____.

Are there any <u>explicit</u>, or obvious, values that can comes from owning this item? ____.

When you buy a product, you place a value on it based on what's important to you. For example you might buy a shirt for its color or style. Name two values you seek when shopping for something you want.

1)____

2)____

In the past goods and services were used in exchange as payment. Name a product and/or a service that was used in past trade agreements.

1)____

2)____

What are some forms of money that you use today in purchasing your products?

1)____

2)____

Different markets dictate how we refer to money. For instance, some states have a sales ***tax*** on products bought; or, ***interest*** is charged on money that is borrowed from a bank. Name some other money terms that comes from their market roles:

____

Types of Money Accounts

This section will introduce the most common types of money accounts.

Understanding money terminology is essential. Throughout this program new vocabulary is introduced and defined within each topic page. To get started, here are some familiar terms and their definitions:

Principal = the original amount of money invested.
E***xample:*** John saved $100.00 and put it into his savings account. This $100.00 is the original or principal amount of money invested.

Interest earned is money made over and above the original investment. It's usually paid as a percentage of the principal.

Example: If John kept $100.00 in a savings account that paid 5% for one year he would earn $5.00. After twelve months John's savings account would then total $105.00.

How Interest is Figured
Interest and their rates are converted to a decimal point to determine their rate of return. Rate of return is the percentage of money you earn on our principal investment.

Example:
First, convert 5%:
(5 ÷ 100 = .05)

Second, figure earnings:
$100.00 = Principal amount
x .05 = Rate of return
$5.00 = Interest earned

Checking Accounts

What is a checking account?

- Checking accounts are one of life's necessities.
- A check is a form of monetary exchange.
- Writing a check for purchases replaces paying cash.

For an example of how checking accounts work let's look at this scenario:

1. John deposits $500.00 to open a checking account.

2. John signs a signature card stating he owns this account.

3. The bank gives John a few checks to get started, but there is a printing charge of $15.00 to order John's first set of checks.

4. John runs to the grocery store where he writes one check for $75.00.

5. He also writes another check for car repairs to his car mechanic for $125.00.

<u>John's checking account would reflect these charges:</u>

$500.00 John's initial deposit

-$15.00 Deducted for check order

- $75.00 Check withdrawal for groceries

<u>-$125.00 </u>Check withdrawal for car repairs

= $285.00 Left in John's checking account.

Savings Accounts

What's a savings account?
It's a place where you deposit money for safekeeping. Instead of putting cash in a cookie jar at home, having a savings account means putting money into a bank account that holds your money for you.

What's a savings account used for?
This type of account is used for saving for that first car, a stereo, a new jet ski, and eventually perhaps your first home. Here are some savings account guidelines:

- ♦ You can deposit and withdraw only your money.
- ♦ You may not withdraw more than the amount in your account.
- ♦ You can deposit and withdraw your money at anytime.
- ♦ The bank pays you money to keep your account with them. This is called interest or cash dividends.

What does the bank do with my money?
Banks pay you interest on your money because they use it to make their own investments. Savings account interest is not a big rate of return, but it is better than nothing. Remember rate of return is the amount of interest you are paid on your money.

> ***Example:*** If a bank pays John 3% (his rate of return) they must earn a bigger percent on their investments to make a profit. For example: the bank pays John 3% for leaving his money in his saving account. The bank then lends out John's money at 8% which earns them a 5% profit.

Credit Accounts

What is credit?
Credit allows you to buy merchandise now and pay for it later. Credit is a money loan. You agree to pay for the goods you bought at a future designated point.

How does someone get credit?
Credit accounts can be established in many ways. First, a credit application needs to be filled out for the type of credit account you want. After its approved you can use your credit buying privileges. Here are a few ways to setup credit:

- Apply for and use a specific store's credit card like Macy's or Target.
- Apply for and use a charge card such as Visa or MasterCard.
- Open a checking account with a credit card attached and use it.

What's a credit report?
Credit reports reveal your credit history which shows if you've paid your bills on time and/or have any outstanding debts unpaid.

What's the purpose of a credit report?
It allows the loaning party to check your credit history for loan defaults. A credit report tells loan officers if you can handle money responsibly.

Example #1:
You want to rent a house, but the landlord does not know anything about you. With your permission, the landlord can order a credit report to see if you are a good credit risk. If you have no loans in default (unpaid) this is one indication to the landlord that you are likely to pay your rent, which makes you a good credit risk.

Loans

What is a loan?
Loans are used for purchasing big ticket items such as a car, house, boat or college education. A borrower applies to a lending institution such as a bank or finance company for a one-time lump sum of money to buy a financially large investment.

How is a loan different from credit?
Loans are granted for a single – usually expensive – purchase, whereas credit is usually used for buying miscellaneous less expensive items.

How does someone get a loan?
First, you need to acquire an application from a lending institution. Then you need to [illegible] fill out the application. The paperwork will ask things like:

→ Your current employment history and salary. Lenders want to make sure you can afford the payment.

→ Past loans or credit accounts to check out your credit history.

→ Whether you rent or own your residence, including it's location and how long you've lived there. This shows lenders stability.

→ Other relevant information. Lending institutions want to ensure borrowers are a good credit risk.

Monthly Payment Schedule	Monthly Principal Paid**	Monthly Interest Paid**	Total Monthly Payment
1	$240.97	+ $20.00	= [illegible]
2	242.58	+ 18.39	= $260.97
3	244.19	+ 16.78	[illegible]
4	245.82	+ 15.1[illegible]	= $260.9[illegible]
5	247.46	+ 1[illegible]1	= $260.97
6	249.11	+ 11.[illegible]	= $2[illegible].97
7	250.77	[illegible]0.20	= [illegible]260.97
8	252.44	+ 8.[illegible]	= $260.97
9	254.13	+ 6.84	= $260.97
10	[illegible].82	[illegible]5.15	= $260.97
11	257.53	[illegible]44	= $260.97
12	25[illegible]18	+ 1.73	=260.91

Balance Minus Monthly Payment = Remaining Principal Balance

[illegible] 260.97 = $2759.03
$2759.03 – 260.97 = 2516.45
$2516.45 – 260.97 = 2272.26
$2272.26 – 260.97 = 2026.44
$2026.44 – 260.97 = 1778.98
$1778.98 – 260.97 = 1529.87
$1529.87 – 260.97 = 1279.10
$1279.10 – 260.97 = 1026.66
$1026.66 – 260.97 = 772.53
$772.53 – 260.97 = 516.71
$516.71 – 260.97 = 259.18
$260.91 – 260.91 = 0.00

Stocks

Who has not heard of a family friend, an uncle, or a neighbor who has struck it rich in the stock market?

Stocks can create great wealth, but they are also the source of much grief for those who have invested and lost their life savings. Therefore, it's best to educate yourself about what stocks are and how they work.

What is a stock?
A stock is the partial ownership of a corporation represented by shares. A stock certificate is a paper certificate that shows you own a small portion of a corporation. Buying a company's stock means you are part owner in a corporation and everything they own.

For instance, if you buy Boeing stocks you own a fraction of everything Boeing owns such as their buildings, computers, tables, chairs, even the airplanes! Investing your money into Boeing stock allows Boeing to use your money to buy more equipment and materials to expand their business. The growth of their business means bigger profits for them, and you as a stockholder.

How do stocks work?
A company that goes public sells shares of itself to whoever is willing to buy them. When a company designates a certain number of shares to be sold to the public for the first time, this is known as an IPO, or Initial Public Offering.

Bonds

What is a bond?
A bond is an interest-bearing or discounted government or corporate security. When the government or a corporation needs money to build a new facility or to develop a new product often bonds are issued. These bonds are sold to the public. If you decide to purchase a bond, in effect you are loaning your money out to support these endeavors. In return you get a bond which is really an IOU from the agency you loaned your money to.

> ***Example:***
> Your state's transportation department wants to build a new bridge. To raise money the state government issues bonds for a fixed term at 6% interest. You decide to buy a bond. Your initial investment, or loan, to the government is for $[illegible]6.00. After the bond matures — or grows to its full value — you'll receive $5000.00.

Principles of a bond

- Bonds are issued by the government or other corporations.
- Bonds are sold through a bank or lending institution, and have a fixed period of time until they mature.
- Bonds pay interest.
- Bonds issued by reputable agencies or firms are typically regarded as safe investments.
- Bonds are rated for quality.

Mutual Funds

What's a mutual fund?
It's a collection of individual stocks from many companies combined in one portfolio to make up a fund. For illustration, a mutual fund might be structured like this:

Stock	% of Total
AT&T	25%
Boeing	15%
Target	15%
Costco	20%
Microsoft	25%
Total =	100%

Yummy Mutual Fund
(Made-up Fund)

A pizza is another way to look at a mutual fund. How? There are only so many pieces (or stocks) that make up the whole pizza (or mutual fund). Some slices (or stocks) are larger and some are smaller taking up a bigger or smaller percentage of the whole circle.

How does a mutual fund work?
When you buy a mutual fund you are buying many stocks at one time. Like stocks, mutual funds are bought and sold at a price per share such as $12/share. The success or failure of the stocks in the portfolio determines the profit or loss of the entire fund.

401K Accounts

What is a 401K Account?
401K accounts are retirement savings accounts. It is a more structured savings account in that the rules are more rigid about how and when you can withdraw your money.

Who sets up your 401K?
Usually your employer takes care of setting the plan up for you. You agree to add money to your 401K through payroll deductions.

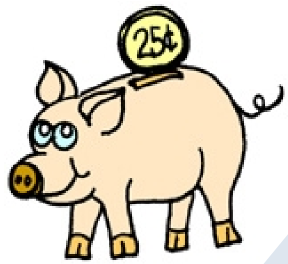
How much can you put into your 401K?
You can designate up to a certain percentage of your income to the 401K account each paycheck. Usually there is a maximum allowable amount set like 15%, but you can put in any increment amount of your income in from 1-15%.

What's so special about having a 401K?
401K dollars are tax exempt. In other words, you do not pay tax on the dollars you earn until you withdraw the money later on. The theory is that in your retirement years your income is supposed to be less than in your working years; therefore, when you withdraw and use these dollars you will pay tax on a smaller yearly income.

Taking advantage of an employer sponsored 401K program is a good idea because employer can offer several investment options that pay a decent rate of return.

<u>Sample 401K Deduction:</u>

Pension Plans



What is a pension plan?
Pension plans that are strictly company sponsored, which means your employer sets up a savings account for you at their expense.

How does a pension plan work?
It depends how your employer sets up their retirement programs. They may:

- Set up a plan through your 401K and/or
- Have a separate company pension plan altogether.

401K pension plans are based on these principles:

- When you have established your 401K account with your employer, and after a given period of time (usually 6-12 months), the employer may contribute matching dollars to your 401K account.

- The dollar amount of contribution varies from employer to employer.

- You always get to keep the money you put into your 401K program, but you may not get to keep what the employer puts in until you've stayed a certain amount of time. This is what is known as being <u>vested in a company</u>. All employer plans are different. Check to see how much they'll contribute and how long their vesting period is.

Company pension plans are based on these concepts:

- Company pension plans are usually hosted and paid for by your employer. That is, your employer contributes to your pension.

Smart Money Tips

And what's money talk without some Smart Money Tips? Want better financial health? Follow these simple ideas!

Be mindful of your daily spending. Keep a log of your expenses for 1-3 months. From that list make two categories:

- Things I NEEDED to buy, and
- Things I WANTED to buy.

Now take all your expenses and categorize them. Add up the columns separately. Look at the totals and compare. The money spent on things you wanted could have gone into a savings account instead!

Here’s an example:

Items I Needed	**Dollar Amount per Month**	**Items I Wanted**	**Dollar Amount per Month**
Gas for Car	[illegible]	Lunches Out	$72.00
School Textbooks	$47.00	Rented Movies	$32.00
Car Insurance	$120.00	Candy & Gum	$26.00
Totals	$223.00	Could Have Saved ►	$130.00

Timeless Tips for
Stretching those Dollars

Buy fresh foods to prepare – lunch and dinner out gets expensive and adds up

Repairing your auto yourself saves time and money!

Although it's nice to buy a new car you can save oodles of dollars by buying a used one.

Double Check! Money Terminology Quiz!	
Description of the Term:	**Write the Correct Term HERE!**
Reveals your credit history and whether you're worthy of paying back a loan.	
A percentage of money earned over and above the original principal amount.	
A corporation's first stock offering to the public.	
A government regulated agency that insures bank accounts.	
Taxes that everyone has to pay to the IRS on their earnings each year.	
Real estate or other real property that has value and is worth money.	
A government agency which collects tax on people's earned income each year.	
The implicit or explicit worth a buyer and/or seller attaches to a good or service.	
Allows you to purchase merchandise now and pay for it later.	
A company supported retirement savings account.	
The ownership of one corporation represented by shares.	
Money lent to you by a lender.	
The increase in the value of money invested over a period of time.	
A collection of individual stocks in one portfolio that makes up the fund.	
A plastic card used in place of writing a check.	
[illegible] to buy and sell stocks.	
Commissions and fees paid to stockbrokers who buy and sell stocks and other investments.	
A credit rating and financial past records of debts.	
When price levels rise causing the value of the dollar to decrease over time.	
Answer Key for terminology is found at the end of this book!	

Glossary of Terms

NOTE: This list includes the terms presented in this program, but is not inclusive of every term found within the financial field.

Amortization: Amortization is reduction of debt by paying back a predetermined sum over a fixed period of time. Each payment is the same dollar amount, which includes interest and principal. However, the amount you pay toward the principal and interest changes from payment to payment as the principal gets paid down.

Annual Percentage Rate (APR): APR is the cost of credit. It's the money a lending institution charges on the loan amount and figured in percentage value.

Appreciation: The increase in the value of money invested over a period of time.

Assets: Real estate or other real property such as stocks, bonds, mutual funds, precious jewels, rare collectibles — anything that has value and is worth money.

Asset Backed Securities: Bonds that are backed by assets.

Balloon Payment: Balloon payments are used as a final payment on a loan. The term balloon signifies that this last payment is substantially larger than the preceding payments. For example, it allows buyers to make smaller payments until a designated point in time when the large, balloon payment

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