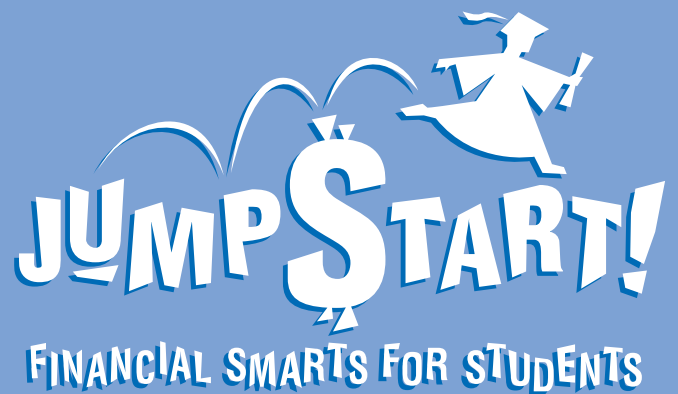


National Standards in Personal Finance

With Benchmarks, Applications and Glossary
for K-12 Classrooms



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NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being

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The following educational organizations have reviewed and are in support of the National Standards in Personal Finance. They encourage use of the Standards to strengthen personal finance education in the nation's schools.

American Association of
Family and Consumer Sciences

Council of Chief State School Officers

Junior Achievement, Inc.

National Association of
Elementary School Principals

National Association of
Secondary School Principals

National Business Education Association

National Council on Economic Education

National Council for the Social Studies



The **National Standards in Personal Finance** identify what K-12 students should know and be able to do in personal finance. The National Jump\$tart Coalition for Personal Financial Literacy asserts that all young people graduating from the nation's high schools should have sufficient knowledge and skill to enable each student to take individual responsibility for personal economic well-being.

The revised and updated standards, benchmarks, application examples and glossary of terms provide a framework for program design for use by teachers, curriculum specialists, instructional materials developers and educational policymakers.

PRACTICAL USES

Among the practical uses for the personal finance standards and benchmarks are to:

- Suggest a range of content that students should know and be able to do.
- Help shape lesson plans, unit and course outlines, learning activities, textbooks, and other instructional materials.
- Increase awareness of the need for personal finance in the nation's schools.

The K-12 standards are aligned in such a way that student learning progresses from basic to more complex and abstract. Benchmarks for student achievement are provided at three grade levels — grades 4, 8 and 12. Educators will take into account that students learn at different rates and with a variety of learning styles and interests.

The statements in the benchmark application column give examples of how the desired learning can be applied to everyday financial decisions and actions. Educators and students may suggest additional examples of knowledge and skills needed on the path toward competence in personal finance.

The standards and benchmarks can be used to design new personal finance units or courses, or to integrate concepts into existing courses. The standards are grouped into four major categories of personal finance - **Income, Money Management, Spending and Credit**, and **Saving and Investing**.

After reviewing the twenty-six personal finance standards on page 5, educators may select topics that are appropriate to the needs of learners in specific educational settings. The Jump\$tart Personal Finance Clearinghouse at www.jumpstartcoalition.org can assist in identifying appropriate educational materials.

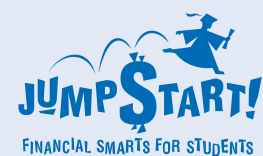
The Jump\$tart Coalition for Personal Financial Literacy is a coalition of over one hundred non-profit organizations, government agencies and corporations. The Coalition seeks to improve the financial skills of young adults by promoting the teaching of personal finance in grades K-12

INTRODUCTION

THE COALITION AND ITS MISSION

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TOPICS ADDRESSED IN PERSONAL FINANCE STANDARDS AND BENCHMARKS

The National Standards in Personal Finance can be correlated to state and local educational goals and standards. In states where personal finance is not yet part of the state's K-12 educational objectives, these National Standards can be useful in working with policymakers to assure that personal finance is included in future state standards and student achievement tests.

The following identifies various personal finance topics that are addressed in the standards, benchmarks, example applications and glossary.

INCOME

- Income sources
- Factors affecting income
- Entrepreneurship
- Taxes and government services
- Inflation and purchasing power
- Social Security and Medicare
- Employer-sponsored savings plans

SPENDING AND CREDIT

- Comparison shopping
- Opportunity cost
- Payment methods
- Consumer information
- Consumer complaint procedures
- Credit costs and records
- Credit problems, including bankruptcy
- Consumer Credit Protection Laws

MONEY MANAGEMENT

- Needs and wants
- Financial decision making
- Budget
- Financial responsibility
- Insurance, risk management
- Financial information sources
- Personal financial plan
- Legal documents such as wills

SAVING AND INVESTING

- Reasons for saving and investing
- Saving and investing products
- Risk, return and liquidity
- Compound growth, time value of money
- Rule of 72 and dollar cost averaging
- Diversification
- Prospectus and information sources
- Regulation of financial markets
- Employer-sponsored savings plans

HOW NATIONAL STANDARDS EVOLVED

In 1998, the Jump\$tart Coalition for Personal Financial Literacy issued its first Personal Finance Guidelines and Benchmarks developed by a group of 20 professionals representing a broad range of education, government and financial service organizations. In 2001 the Board of the Coalition authorized a Task Force to revise and update the 1998 document.

Members of the 2001 Standards Task Force included:

- Sarapage McCorkle, *University of Missouri - St. Louis, Center for Economic Education*
- Rosella Bannister, *Jump\$tart Personal Finance Clearinghouse*
- Nancy Brown, *Brown and Associates, Educational Consultants*
- John Clow, *SUNY-Oneonta, Leatherstocking Center for Economic Education*
- Phil Heckman, *Credit Union National Association*
- Barbara O'Neill, *Rutgers University Cooperative Extension Service*

After major revisions by the Task Force, the standards were reviewed during summer 2001 by a select group of classroom teachers representing business education, family and consumer science, and economics in the social studies. Based on teacher suggestions, additional improvements were made.

Identifying standards and benchmarks is never an easy or totally completed task. The Jump\$tart Coalition for Personal Financial Literacy considers this to be a living document, one that will be modified and expanded to meet the changing needs of personal finance teachers and learners.

■ INCOME

Students will be able to:

1. Identify sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income.
3. Explain how taxes, government transfer payments, and employee benefits relate to disposable income.

■ MONEY MANAGEMENT

Students will be able to:

1. Explain how limited personal financial resources affect the choices people make.
2. Identify the opportunity cost of financial decisions.
3. Discuss the importance of taking responsibility for personal financial decisions.
4. Apply a decision-making process to personal financial choices.
5. Explain how inflation affects spending and investing decisions.
6. Describe how insurance and other risk-management strategies protect against financial loss.
7. Design a plan for earning, spending, saving, and investing.
8. Explain how to use money-management tools available from financial institutions.

■ SPENDING AND CREDIT

Students will be able to:

1. Compare the benefits and costs of spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and costs of consumer credit.
5. Compare sources of consumer credit.
6. Explain factors that affect creditworthiness and the purpose of credit records.
7. Identify ways to avoid or correct credit problems.
8. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

■ SAVING AND INVESTING

Students will be able to:

1. Explain the relationship between saving and investing.
2. Describe reasons for saving and reasons for investing.
3. Compare the risk, return, and liquidity of investment alternatives.
4. Describe how to buy and sell investments.
5. Explain how different factors affect the rate of return of investments.
6. Evaluate sources of investment information.
7. Explain how agencies that regulate financial markets protect investors.

INCOME STANDARDS

INCOME STANDARDS

Students will be able to:

1. Identify sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income.
3. Explain how taxes, government transfer payments, and employee benefits relate to disposable income.

GRADE 4 BENCHMARKS

KNOWLEDGE

(Students will know that):

1. People can get *income* by earning *wages* and *salaries* or by receiving money gifts.
2. Income can be earned or unearned.
3. Workers can improve their ability to earn income by gaining new knowledge, skills, and experiences.
4. Many workers receive *employee benefits* in addition to their pay.
5. *Entrepreneurs*, who work for themselves by starting new businesses, hope to earn a *profit*, but accept the *risk of a loss*.
6. People are required to pay *taxes*, for which they receive government services.

APPLICATION EXAMPLES

(Students could use this knowledge to)

1. Identify jobs that children can do to earn income.
2. Give two examples each of earned and unearned income.
3. Explain why learning new skills, such as technology and communication skills, can increase a person's ability to earn income.
4. Explain how health insurance and paid vacation are forms of compensation.
5. Identify entrepreneurs in the community, and describe the risks and rewards of starting a new business.
6. Describe taxes that they and their families pay and identify government services they receive.

GRADE 8 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 benchmarks and also that):

1. People can earn income from *rent* and *interest*.
2. $\text{Wages/salaries minus payroll deductions equals take-home pay}$.
3. *Inflation* reduces the *purchasing power* of income.
4. Government *transfer payments* provide unearned income to some households.
5. Generally, people earn higher incomes with higher levels of education.

APPLICATION EXAMPLES

(Students could use this knowledge to)

1. Give examples of ways to earn rent and interest income.
2. Give examples of required and voluntary payroll deductions.
3. Define inflation and how it affects the purchase of goods and services.
4. Give examples of government transfer payments, such as reduced-price school lunches and social security survivor's benefits.
5. Compare the income and education requirements of different occupations.

KNOWLEDGE

(Students will know grade 4 & 8 benchmarks and also that):

1. People's income reflects choices they have made about jobs and careers, education, and skill development.
2. The wages/salaries paid for a given job depend on a worker's skills and education, plus the importance of the work to society and the supply of and demand for qualified workers.
3. *Social Security* and *Medicare* are government programs that provide insurance against some loss of income and benefits to eligible recipients.
4. Social Security and Medicare are funded by a compulsory payroll tax.
5. People pay taxes on many types of income, such as wages or salaries, *interest*, *dividends*, *capital gains*, *tips*, *commissions* and *profit* from a self-owned business.
6. *Deductions*, *exemptions*, and *credits* reduce *taxable income*.
7. *Employer-sponsored savings plans* enable workers to shift some current income to the future, often with tax advantages.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Develop a realistic career plan that includes educational requirements and skill development.
2. Compare different jobs and analyze why wage/salary differences exist.
3. Describe the purposes of Social Security and Medicare.
4. Determine how much Social Security and Medicare deductions are necessary for a given income by a worker and by a self employed individual.
5. Identify taxable income included when calculating gross income for an individual on the federal income tax forms.
6. Give examples of tax deductions, tax credits, and personal exemptions.
7. Analyze the effect of an employer-sponsored, tax-deferred, retirement savings program on a worker's current and future income.

MONEY MANAGEMENT STANDARDS

MONEY MANAGEMENT STANDARDS

Students will be able to:

1. Explain how limited personal financial resources affect the choices people make.
2. Identify the opportunity cost of financial decisions.
3. Discuss the importance of taking responsibility for personal financial decisions.
4. Apply a decision-making process to personal financial choices.
5. Explain how inflation affects spending and investing decisions.
6. Describe how insurance and other risk-management strategies protect against financial loss.
7. Design a plan for earning, spending, saving, and investing.
8. Explain how to use money-management tools available from financial institutions.

GRADE 4 BENCHMARKS

KNOWLEDGE

(Students will know that):

1. People make choices because they have limited *financial resources* and cannot have everything they want.
2. A first step toward reaching financial goals is to identify *needs* and *wants* and rank them in order of importance.
3. A decision-making process can help people make money decisions.
4. A budget is a plan for spending and saving income.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Give examples of situations in which they wanted to buy something but didn't have enough money.
2. List personal financial goals and indicate which goals are needs and which are wants.
3. Make a financial decision, such as choosing between going to a movie or saving money to buy a video game, using the following steps:
 - Identify the problem or issue.
 - Gather and evaluate information
 - Consider the costs and benefits of various alternatives
 - Make a decision and take action
 - Modify the decision and action as conditions change
4. Plan how to allocate a weekly allowance between spending and saving.

GRADE 8 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 benchmarks and also that):

1. Financial choices that people make have benefits, costs, and future consequences.
2. A key to financial well-being is to spend less than you earn and save the difference.
3. People perform basic financial tasks to manage money.
4. A *budget* identifies expected income and expenses, including saving, and serves as a guide to help people live within their income.
5. *Risk management* strategies include risk avoidance, risk control, and risk transfer through insurance.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Describe the advantages and disadvantages of spending now rather than saving for a future goal.
2. Give examples of how saving money can improve financial well-being.
3. Demonstrate skill in basic financial tasks such as paying bills on time, balancing a checkbook, keeping financial records, and checking a credit card statement for accuracy.
4. Develop a balanced personal budget showing expected income and expenses, including saving.
5. Give examples of various ways to manage risk, such as avoiding daredevil tricks on a skateboard and locking car doors and school lockers to deter theft.

MONEY MANAGEMENT STANDARDS (CONTINUED)

GRADE 12 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 & 8 benchmarks and also that):

1. Financially responsible individuals accept the fact that they are accountable for their financial future.
2. Attitudes and values affect financial decisions.
3. People purchase insurance to transfer the risk of financial loss.
4. Financial advice can be obtained from a variety of sources such as professional financial advisors, books, and the Internet.
5. A personal *financial plan* should include the following components: financial goals, a net worth statement, an income and expense record, an insurance plan, a saving and investing plan, and a budget.
6. Legal documents, such as wills, can be an important part of financial planning.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. List specific ways that young people can demonstrate that they are financially responsible.
2. Explain the emotional appeal behind a current advertising slogan or campaign.
3. Describe types of insurance, including life, health, disability, and property insurance, and gather information on an auto insurance plan to meet the needs of a teenage driver.
4. Compare two sources of online financial advice.
5. Design a personal financial plan for a young person living away from home.
6. Identify the important components of a will.

SPENDING AND CREDIT STANDARDS

SPENDING AND CREDIT STANDARDS

Students will be able to:

1. Compare the benefits and costs of spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and costs of consumer credit.
5. Compare sources of consumer credit.
6. Explain factors that affect creditworthiness and the purpose of credit records.
7. Identify ways to avoid or correct credit problems.
8. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

GRADE 4 BENCHMARKS

KNOWLEDGE

(Students will know that):

1. To make a decision, careful consumers compare the *benefits* and *costs* of spending alternatives.
2. Information about goods and services comes from many sources.
3. Every spending decision has an *opportunity cost*.
4. People pay for goods and services in different ways.
5. *Credit* is a basic financial tool.
6. Borrowing money to buy something usually costs more than paying cash because there is a *fee* for credit.
7. Responsible borrowers repay as promised, showing that they are worthy of getting credit in the future.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Identify the benefits and costs of buying a specific product, such as a video game.
2. Identify whether print, television, and online advertising statements are fact or opinion.
3. Identify the opportunity cost of a recent purchase.
4. Compare the advantages and disadvantages of paying with cash, *checks*, *debit cards*, *credit cards*, or *money orders*.
5. Explain the advantages and disadvantages of using credit.
6. Explain the difference in cost between cash and credit purchases.
7. Explain why lenders would be willing to make loans to some people and not to others.

GRADE 8 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 benchmarks and also that):

1. A consumer should not rely on advertising claims as the sole source of information about goods and services.
2. *Comparison* shopping helps consumers get the best *value* for their money.
3. Some payment methods are more expensive than others.
4. *Online transactions* can make consumers vulnerable to *privacy infringement* and *identity theft*.
5. Comparing the costs and benefits of buying on credit is key to making a good purchase decision.
6. For any given loan amount and *interest rate*, the longer the loan period, the smaller the monthly payment and the larger the total *cost of credit*.
7. Consumers can choose from a variety of credit sources.
8. *Credit bureaus* maintain *credit reports*, which record borrowers' histories of repaying loans.
9. Sometimes people borrow more money than they can repay.
10. Laws and regulations exist to protect consumers from a variety of seller and lender abuses. (See glossary.)

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Describe ways to verify advertising claims for a variety of consumer products.
2. Compare the value of a good or service from three different sellers.
3. Calculate and compare the total cost of paying for a purchase with cash versus paying by check, debit card, and credit card.
4. Analyze the *privacy policies* of online shopping sites.
5. Calculate the costs and benefits of borrowing to buy, given a scenario including purchase price and credit terms.
6. Describe the consumer advantages and disadvantages of a short-period loan versus a long-period loan.
7. Compare *annual percentage rates* and total credit costs for a given loan amount and time from three different types of lenders.
8. Explain the value of credit reports to borrowers and lenders.
9. Describe indicators and consequences of *excessive debt*, such as skipping payments, juggling bills and *wage garnishment*.
10. Give examples of abuses, such as fraud and the sale of faulty products, that consumer protection laws and regulations address.

SPENDING AND CREDIT STANDARDS (CONTINUED)

GRADE 12 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 & 8 benchmarks and also that):

1. Many factors affect spending patterns.
2. *Formal complaints* and government/community agencies can help consumers resolve problems with goods and services.
3. *Leasing*, borrowing to buy, and *rent-to-own* options have different *contract terms* and costs.
4. Making *minimum payments* on *credit card balances* increases the total cost and repayment time.
5. Understanding *credit card disclosure information* is key to controlling borrowing costs.
6. Consumers with excessive debt have a number of options.
7. *Bankruptcy* provides debt relief, but has serious negative consequences.
8. Laws and regulations offer specific consumer protections. (See glossary.)
9. Negative information in credit reports can affect your financial future.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Explain how factors such as peer pressure and living arrangements affect spending patterns.
2. Write a *complaint letter* that states the problem, asks for specific action, includes copies of related documents, and provides contact information.
3. Compare the total costs of leasing, borrowing to buy, and rent-to-own options.
4. Calculate how long it takes to repay debt and the total cost when a borrower makes minimum payments
5. Explain how credit card disclosure information, such as *grace periods* and methods of interest calculation, affect borrowing costs.
6. List possible actions a consumer could take in response to excessive debt, such as renegotiating a repayment schedule or selling assets, and their consequences.
7. Describe the negative consequences of bankruptcy, such as the increased difficulty of getting credit in the future.
8. Explain the purposes and features of consumer protection laws and regulations, including those in the list of key terms above.
9. Identify ways that negative credit report information can affect a consumer's financial future.

SAVING AND INVESTING STANDARDS

SAVING AND INVESTING STANDARDS

Students will be able to:

1. Explain the relationship between saving and investing.
2. Describe reasons for saving and reasons for investing.
3. Compare the risk, return, and liquidity of investment alternatives.
4. Describe how to buy and sell investments.
5. Explain how different factors affect the rate of return of investments.
6. Evaluate sources of investment information.
7. Explain how agencies that regulate financial markets protect investors.

GRADE 4 BENCHMARKS

KNOWLEDGE

(Students will know that):

1. People save for future *financial goals*.
2. Every saving decision has an opportunity cost.
3. *Banks, savings and loan associations, and credit unions* are places people can save money and earn interest.
4. Piggy banks, *savings accounts*, and *savings bonds* are alternatives for *savings*.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Identify a financial goal and develop a saving plan to reach it.
2. Give an example of how saving means giving up the purchase of something today for the purchase of something in the future.
3. Identify financial institutions in their community and the interest paid on accounts at each place.
4. Compare the advantages and disadvantages of savings alternatives.

GRADE 8 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 benchmarks and also that):

1. Saving is for emergencies and short-term goals, and *investing* is for long-term goals. Funds for investing often come from savings.
2. Savings and *investing* products differ in their potential *rate of return, liquidity, and level of risk*.
3. There is usually a positive relationship between the *average annual return* on an investment and its risk.
4. *Compound interest* is earned on both *principal* and previously earned interest.
5. *Inflation* reduces the return on an investment.
6. The *Rule of 72* is a tool for estimating the time or rate of return required to double a sum of money.
7. *Investors* can get information from many sources.
8. People can buy and sell investments in different ways.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Explain reasons to save and invest.
2. Describe appropriate financial products for different financial goals, such as bank accounts for savings and stocks for investments.
3. Identify the amount of investment risk associated with different investments.
4. Calculate and compare simple interest and compound interest earnings and explain the benefits of compound interest.
5. Explain how inflation affects investment returns.
6. Use the Rule of 72 to estimate the time or interest rate it would take to double an amount of money.
7. Describe the investment information different sources provide, such as a *prospectus, Wall Street Week*, and financial publications.
8. Compare the advantages and disadvantages of different ways to buy and sell investments, such as financial advisors, investment clubs, and online brokers.

SAVING AND INVESTING STANDARDS (STANDARDS) GRADE 12 BENCHMARKS

KNOWLEDGE

(Students will know the grade 4 & 8 benchmarks and also that):

1. Generally the more uncertain the future value of an asset, the higher the return.
2. *Tax-exempt* and *tax-deferred* investments significantly increase an investor's total return over time.
3. *Wealth* increases with regular saving, time, and frequent compounding.
4. *Diversification* reduces risk by spreading assets among several types of investments and industry sectors.
5. *Dollar-cost averaging* lowers investment costs over time and promotes regular investing.
6. *Mutual funds* pool investors' deposits to purchase securities.
7. *Employer-sponsored retirement savings programs* provide many advantages to workers.
8. Government agencies, such as the U.S. Securities & Exchange Commission, Federal Deposit Insurance Corporation, and state regulators, oversee the securities and banking industries and combat fraud.

APPLICATION EXAMPLES

(Students could use this knowledge to):

1. Compare the risks and returns of various saving and investment products.
2. Compare the returns of taxable investments with those that are tax-exempt or tax-deferred.
3. Compare amounts accumulated, given different times, rates of return, and frequencies of compounding.
4. Compare the risk and return of different types of investments and combination of investments over time.
5. Describe the benefits of dollar-cost averaging and calculate the average cost per share of investments using this strategy.
6. Read a prospectus to gain information to make mutual fund decisions.
7. Describe the advantages provided by employer-sponsored retirement savings programs, such as 401k and 403b.
8. Explain how government agencies protect savers and investors.

GLOSSARY OF TERMS

Average Annual Return

The rate of return on investments averaged over a specific period of time (e.g., the last 20 years). It is determined by adding together the rates of return for each year and dividing by the number of years in the calculation.

Asset

An asset is anything that is owned by an individual. With respect to saving and investing, assets are generally categorized as liquid (cash) assets and capital (investment) assets.

Banks

Corporations chartered by state or federal government to offer numerous financial services such as checking and savings accounts, loans, and safe deposit boxes. The Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks.

Budget

A financial plan that summarizes future income and expenditures over a period of time.

Capital Gain

A positive difference between an asset's price when bought and its price when or if sold; the opposite of capital loss.

Capital Loss

A negative difference between an asset's price when bought and its price when or if sold; the opposite of capital gain.

Commission

A fee to a third party for assisting a business transaction, such as buying or selling an asset.

Compensation

The total wage or salary and benefits that an employee receives.

Compound Interest

Interest credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

Consumer

A person who buys and/or uses a product

Credit Laws

Fair Credit Reporting Act (1971)

Federal law that covers the reporting of debt repayment information. It establishes when a credit reporting agency may provide a report to someone; states that obsolete information must be taken off (7 or 10 years); gives consumers the right to know what is in their credit report; requires that both a credit bureau and information provider (e.g., department store) have an obligation to correct incorrect information; gives consumers the right to dispute inaccurate information and add a 100-word statement to their report to explain accurate negative information; and gives consumers the right to know what credit bureau provided a report when they are turned down for credit.

Fair Credit Billing Act (1975)

Federal law that covers credit card billing problems. It applies to all open-end credit accounts (e.g., credit cards, overdraft checking). States that consumers should send a written billing error notice to the creditor within 60 days (after receipt of first bill containing an error); creditor must acknowledge in 30 days; creditor must investigate; and creditor may not damage a consumer's credit rating while a dispute is pending.

Fair Debt Collection Practices Act (1978)

Federal law that prohibits debt collectors from engaging in unfair, deceptive, or abusive practices when collecting debts. Collectors must send a written notice telling the amount owed and name of the creditor; collector may not contact consumer if he or she disputes in writing within 30 days (unless collector furnishes proof of the debt); collectors must identify themselves on the phone and can call only between 8 am and 9 pm unless a consumer agrees to another time; and collectors cannot call consumers at work if they are told not to.

Equal Credit Opportunity Act (1975)

Federal law that ensures that consumers are given an equal chance to receive credit. Prohibits discrimination on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance. Lenders cannot ask about your plans for having children or refuse to consider consistently received alimony or child support payments as income. If you are denied credit, you have a legal right to know why.

Truth in Lending Act (1969)

Federal law that mandates disclosure of information about the cost of credit. Both the finance charge (i.e., all charges to borrow money, including interest) and the annual percentage rate or APR (i.e., the percentage cost of credit on a yearly basis) must be displayed prominently on forms and statements used by creditors. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects you against unauthorized use of your credit card. If it is lost or stolen, the maximum amount you have to pay is \$50.

Fair Credit and Charge Card Disclosure Act (1989)

A part of the Truth in Lending Act that mandates a box on credit card applications that describes key features and costs (i.e., APR, grace period for purchases, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances, and penalty fees such as over the limit fees and late payment fees).

Credit Unions

Not-for-profit cooperatives of members with some type of common bond (e.g., employer) that provide a wide array of financial services, often at a lower cost than banks.

Deflation

A broad, overall drop in the price of goods and services; the opposite of the more common inflation.

Disposable Income

Income remaining after income and payroll taxes are deducted from gross pay; income available to spend or save.

Diversification

The process of spreading assets among different investments to reduce the risk of a decline in value of an investor's total portfolio from a decline in any one investment.

Dividend

A payment to shareholders that a company's board of directors approves from earnings.

Dollar-Cost Averaging

Investing regular sums of money (e.g., \$50) at regular time intervals (e.g., quarterly) regardless of whether security prices are moving up or down.

Earned Income

Payment received for work, such as wages, salaries, commissions, and tips.

GLOSSARY OF TERMS (CONTINUED)

Employee Benefit

Something of value that an employee receives in addition to a wage or salary. Examples include health insurance, life insurance, discounted childcare, and subsidized meals at the company cafeteria.

Employer-Sponsored Retirement Savings Program

Tax-deferred savings plans offered by employers that provide a federal tax deduction, tax-deferral of contributions and earnings, and, in some cases, employer matching. They include 401(k) plans for corporate employees, 403(b) plans for employees of schools and non-profit organizations, and Section 457 plans for state and local government employees.

Employer-Sponsored Savings Plan

A government-approved program through which an employer can assist workers in building their personal retirement funds.

Entrepreneur

A person who starts a business.

Expense

The cost of a good or service.

FICA

Federal Insurance Contributions Act, the legislation that funds Social Security.

Financial Goals

Short-, intermediate-, and long-term goals that require money and guide a person's future plans and savings decisions.

Financial Plan

A plan of action that allows a person to meet not only the immediate needs but also the long-term goals.

Financial Resources

Financial assets that can be accessed when necessary.

Fraud

A seller's intentional deception of a buyer, which is illegal.

Government transfer payments

Payments by governments, such as social security, veterans benefits, and welfare, to people who do not supply current goods, services, or labor in exchange for these payments.

Grace Period

A time period during which a borrower can pay the full balance of credit due and not incur any finance charges.

Income

Earnings from work or investment. (See compensation.)

Inflation

A broad, overall rise in the price of goods and services; the opposite of the less common deflation.

Interest

Money paid to savers and investors by financial institutions, government, or corporations for the use of their money (example: 5% interest on a certificate of deposit or 6% interest on a bond).

Investing

The process of setting money aside to increase wealth over time and accumulate funds for long-term financial goals such as retirement.

Investors

People investing in securities, such as stock and bonds, to achieve long-term financial goals.

Liquidity

The quality of an asset that permits it to be converted quickly into cash without loss of value.

Loss

The negative difference between total revenue from a business or investment minus total expense.

Medicare

A federal government program of transfer payments for certain health care expenses for citizens 65 or older. The Social Security Administration manages the program.

Mutual Funds

Investment companies that pool money from shareholders and invest in a variety of securities, including stocks, bonds, and short-term money market assets.

Needs

Those economic goods and services that are considered basic, such as food, clothing, and shelter.

Opportunity Cost

The opportunity cost of a choice is the value of the best alternative given up.

Payroll Deduction

An amount subtracted from a paycheck as the government requires or the employee requests. Mandatory deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

Principal

The original amount of money invested, excluding any interest or dividends (e.g., \$1,000 to purchase a Treasury bill).

Profit

The positive difference between total revenue from a business or investment minus total expense.

Prospectus

An official document that contains information required by the Securities & Exchange Commission to describe a mutual fund.

Purchasing Power

A measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy. Inflation decreases purchasing power; deflation increases it.

GLOSSARY OF TERMS (CONTINUED)

Rate of Return

Also called the "yield," this is the return on an investment expressed as a percentage of its cost (e.g., \$3 annual return divided by \$24 price per share = .125 or a 12.5% rate of return).

Rent

Periodic fee for the use of property.

Risk

Exposure to loss of investment capital due to a variety of causes such as business failure, stock market volatility, and interest rate changes. In business, the likelihood of loss or reduced profit.

Risk Management

Procedures to minimize the adverse effect of a possible financial loss by: 1) identifying potential sources of loss; 2) measuring the financial consequences of a loss occurring; and 3) using controls to minimize actual losses or their financial consequences.

Rule of 72

A quick way to calculate how long it will take to double a sum of money. Divide 72 by the expected interest rate to determine the number of years (example 72 divided by 8% = 9 years).

Salary

Payment for work, usually calculated in periods of a week or longer. Salary is usually tied to the completion of specific duties over a minimum but not maximum number of hours. (See wage.)

Savings

The process of setting aside money until a future date instead of spending it today. The goal of saving is to provide funds for emergencies, short-term goals, and investments.

Savings Accounts

Accounts at financial institutions that allow regular deposits and withdrawals. The minimum required deposit, fees charged, and interest rate paid varies among providers.

Savings Bond

A bond is a certificate representing a debt. A U.S. Savings Bond is a loan to the government. The government agrees to repay the amount borrowed, with interest, to the bondholder. Two types of savings bonds are Series EE and inflation-adjusted I bonds. Savings bonds are often purchased through payroll deduction or at financial institutions in denominations of \$50 to \$10,000.

Savings & Loan Associations (S&Ls)

Financial institutions that provide loans and interest-bearing accounts. Accounts in federally chartered S&Ls are federally insured.

Simple Interest

Interest credited daily, monthly, quarterly, semi-annually, or annually on principal only, not previously credited interest.

Social Security

A federal government program of transfer payments for retirement, disability, or the loss of income from a parent or guardian. Funds come from a tax on income, a payroll deduction labeled "FICA."

Take-Home Pay

Total wage or salary (plus bonuses) minus payroll deductions.

Tax

A government fee on business and individual income, activities, or products.

Tax Credit

An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned income below a certain limit and for qualified post-secondary school expenses. (See tax deduction, tax exemption.)

Tax Deduction

An expense that a taxpayer can subtract from taxable income. Examples include deductions for home mortgage interest and for charitable gifts. (See tax credit, tax exemption.)

Tax-Deferred

Investments where taxes due on the amount invested and/or its earnings are postponed until funds are withdrawn, usually at retirement.

Tax-Exempt (tax-free)

Investments (e.g., municipal bonds) whose earnings are free from tax liability.

Tax Exemption

An amount that a taxpayer who meets certain criteria can subtract from taxable income. Examples include exemptions for each dependent or for life insurance proceeds. (See tax credit, tax deduction.)

Taxable Income

Income subject to tax; total income adjusted for deductions, exemptions, and credits.

Time Value of Money

Comparison of a lump sum of money, or a series of equal payments, between two different time periods (e.g., present and future), assuming a specified interest rate and time period. (Reference: *The Time Value of Money* by Clayton and Spivey.)

Tip

An amount paid beyond what's required, usually to express satisfaction with service quality; also known as a gratuity.

Transfer Payments

(See government transfer payments.)

Unearned Income

Money received for which no exchange was made, such as a gift.

Wage

Payment for work, usually as calculated in periods of an hour rather than longer. (See salary.)

Wants

Desires for economic goods or services, not necessarily accompanied by the power to satisfy them.

Wealth

Accumulated assets such as money and/or possessions, often as a result of saving and investing.

