


Personal Finance: The First Unit and Most Useful Unit of ECON!

Unit Test =09/01/2017

A stack of white papers is shown, slightly offset to the right. A bright yellow sticky note is attached to the left edge of the top paper. The text 'Unit Test =09/01/2017' is printed in black on the white paper. The background is solid black.

SSEPF1

o The student will apply rational decision making to personal spending and saving choices.

SSEPF1.a

- o Use a rational decision making model to evaluate the cost and benefits of post-high school life choices

What are you going to do after high school?



LT: Personal Spending & Life Choices

- o I can use a rational decision making model to evaluate post-high school choices:
- o College
- o Technical School
- o Military Enlistment
- o Workforce participation
- o Other options

Incentives

○ Positive incentives –
actions that benefit the
consumer in some way

○ Negative incentives –
actions that do not benefit
the consumer

“Human Nature

Effect”

o These incentives are predictable because of the “Human Nature Effect”

o If something is good for us, we will do it

o If something is not good for us, we will not do it

Rational Decisions: occur

o The item that meets all of the criteria

o Or

o Always consider the marginal costs and marginal benefits of your decisions in order to make a rational decision.

| College | Type | Price | AVG: GPA | Student Life | Reviews |
|--------------------------------------|--------------------|-------------|----------|--------------|---------|
| ABAC | Agriculture | \$10,000.00 | 2.1 | ★★★★☆ | ★★★★☆ |
| Georgia College and State University | University | \$17,500 | 3.3 | ★★★★☆ | ★★☆☆☆ |
| Georgia Perimeter | Community (2-Year) | 3,000.00 | 2.5 | ★★★★☆ | ★★★★★ |
| UGA | University | \$15,000.00 | 4.2 | ★★★★★ | ★★★★★ |

SSEPF 1.B

○ Create a savings or financial investment plan for a future goal



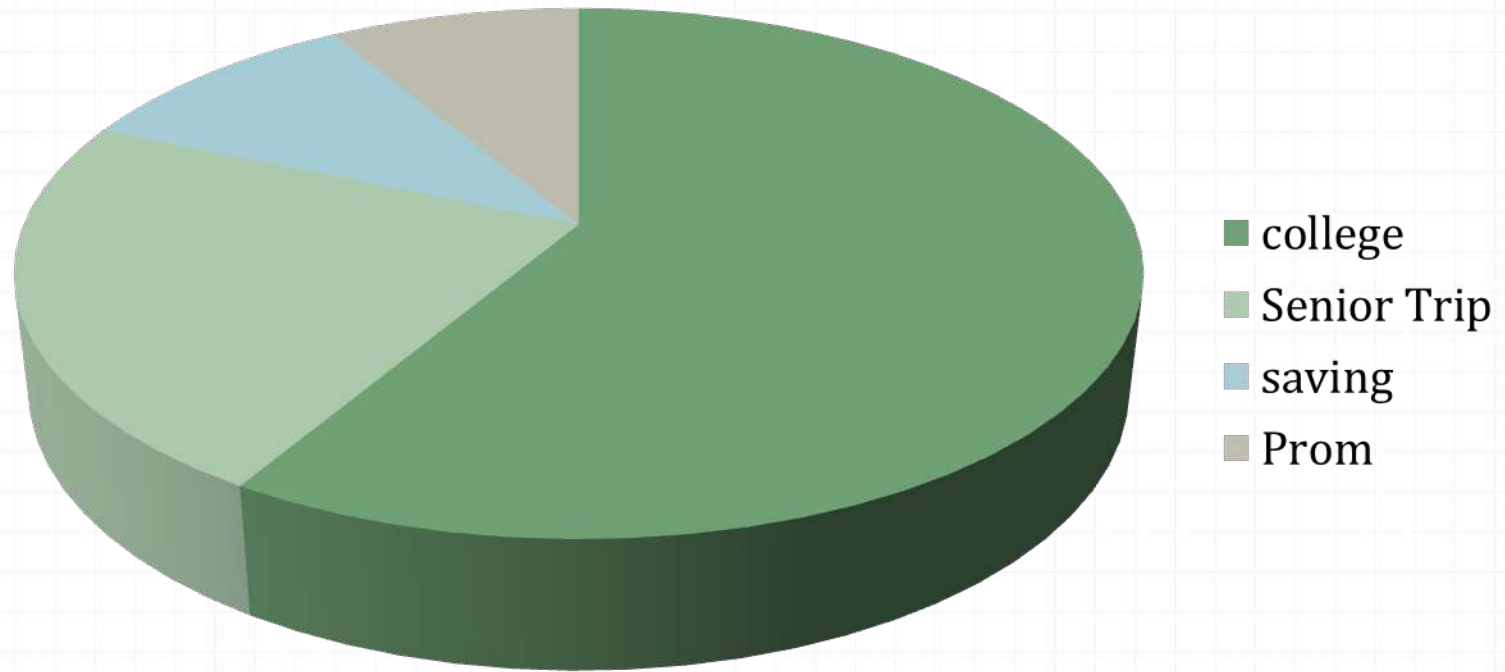
LT: Budget

- o I can create a budget for a future goal



Investment Plan

The Plan



The Wisdom of Savings 10% Average Rate of Return

| Monthly Contributions from ages 25-27 | How Much You will have at Retirement Age |
|---------------------------------------|--|
| \$50 | \$873,000 |
| \$100 | \$1,700,000 |
| \$150 | \$2,600,000 |
| \$200 | \$3,400,000 |
| \$250 | \$4,300,000 |

Why Savings?

○ Sacrificing a small benefit now in exchange for a larger benefit later

SSEPF6

- o- **The student will describe how the earning of workers are determined in the marketplace**

SSEF6.a

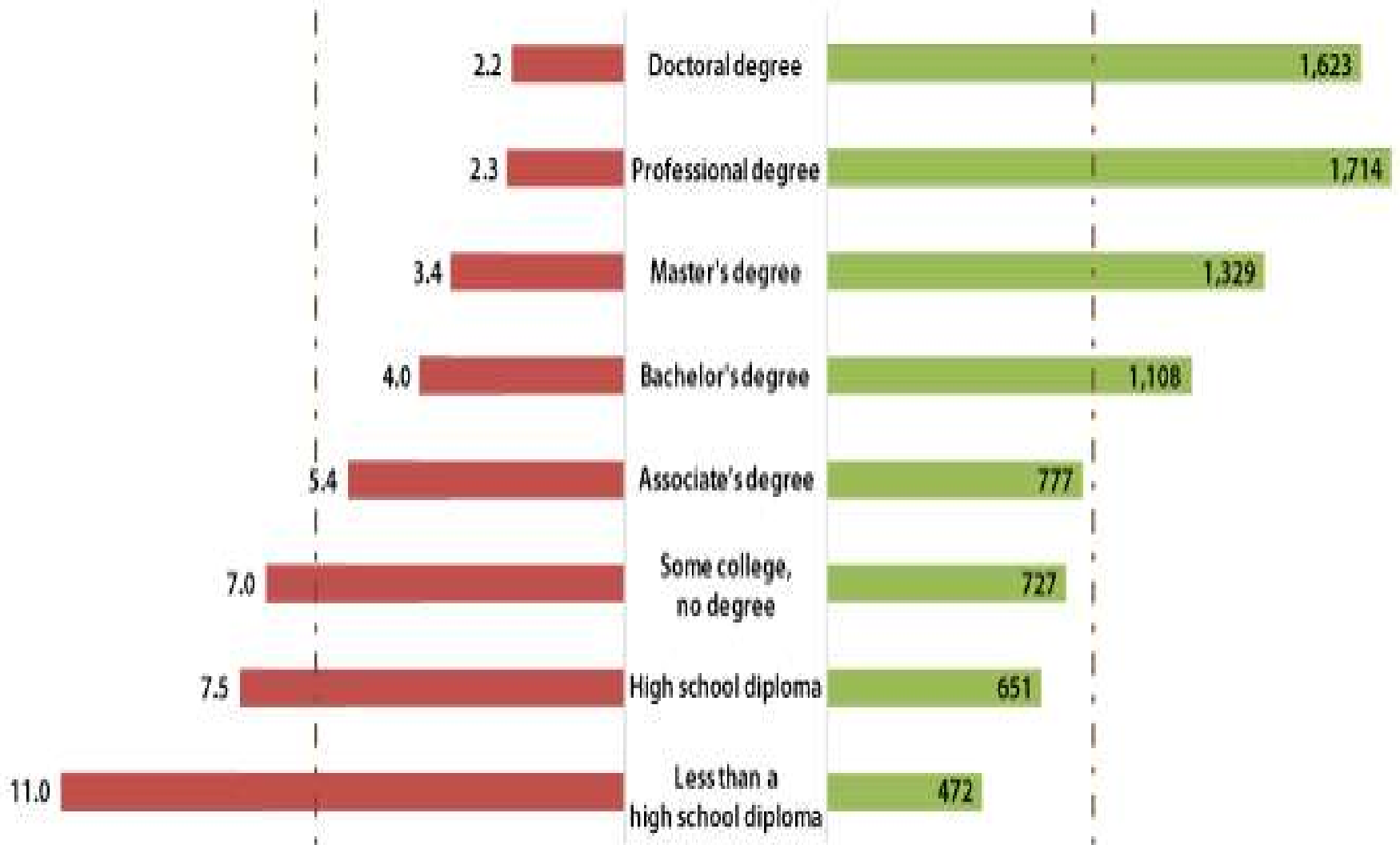
- Identify skills that are required to be successful in the workplace, including
 - Positive Work Ethics
 - Punctuality
 - Time management
 - Teamwork (critical thinking)
 - Communication skills
 - Good Character

6.b

○ Explore job and career options and explain the significance of investment in education, training and skill development as it relates to future earnings.

Unemployment rate (%)

Median weekly earnings (\$)



All workers: 6.1%

All workers: \$827

SSEF5

Describe how insurance and other risk-management strategies protect against financial loss

SSEPF5.A

○ List various types of insurance such as automobile, health, life, disability, and property.

SSEPF5.B

○ Explain the costs and benefits associated with different types of insurance, including deductibles, premiums, Shared liability and asset protection

LT: Various Types of Insurance

- List and describe various types of insurance



Insurance

oIs to provide financial protection against different kinds of risk we face in life.

Automobile

- o– In case of an accident, the car and driver are covered in damages (property). Your insurance tends to cover the other driver and vehicle



Collision Coverage

○ Pay for any damage to your own car.



Liability Coverage

○ Pay for any personal injuries or property damage.

Health Insurance

- Cover medical costs.
- You have to pay a co-pay.
- Options on doctors within your insurance network



Disability –

○ If you suffer an illness or injury that keeps you from working for extended period, this insurance will pay you 75% of your monthly income until you recover.

Property –

- In the event of a fire, theft, or act of God, your belongings are covered if you have enough
- Protects the value of your house
- Renters can purchase, “Renters Insurance”

Life –

○ When you die, the money that is left to cover your costs

○ (Term) or (Life)

Beneficiary

o The Person you want to receive the money (from Insurance Policy) when you die

LT: Cost of Insurance

o I can explain the costs and benefits associated with different types of insurance

Insurance Policy

- A written agreement between you and insurance company.
- Explains what kinds of losses the company will cover, how much it will pay to cover these losses, and how much you will pay for this protection.

All Policies have Premiums

○ Which is what a person pays to have insurance.

Coverage Limits

- The maximum amount the company will pay you for your loss.

Deductible

○ Is the amount of loss that you must pay yourself before the company will step in and pay the rest.

Claim

○ A request for
payment of your
losses



Shared Liability

- Occurs between the insurer and the insured.
- - The insurance company assumes a pre-determined amount of financial liability for a claim that the insured might file. The insurance company is obligated to pay for the loss since the customer has paid premiums for the financial protection.

o Interest- the money an institution pays you for use of your savings.
(yes you get paid to save your money)

o Investments- money you pay into a business with the expectation, but NOT guarantee, of future rewards, if the business earns a profit.

○ When you make a financial plan, you need to set goals, work out a process for achieving your goals, and then put your plan into action by setting priorities and making choices.

o Short terms goals such as:
<Senior Trip/PC Spring Break>
can be achieved by you
immediately putting a portion of
the money in an interest earning
savings account.

Asset Protection

o (sometimes also referred to as debtor-creditor law) is a set of legal techniques and a body of statutory and common law dealing with **protecting assets** of individuals and business entities from civil money judgments.

SSEPF2

o The student will explain that banks and other financial institutions are businesses that channel funds from savers to investors.

SSEPF 2.A

○ Compare Services offered by different financial institutions: Banks, credit unions, payday lenders, title Pawn lenders

LT: Financial Institutions

o I can compare services of banks, credit unions, payday lenders and Title Pawn lenders

Types of Financial Services

- Checking accounts
- Savings/Money Market accounts
- Credit Cards
- Unsecured Debt (credit cards, personal loans)

○ Secured debt (mortgage, automobile, property)

○ Financial advise

○ CD/Bond/Mutual Fund
Advise

Bank:

- Is a corporation in which stockholders own and manage them in order to make a profit. Banks make money by granting loans that charge interest.
- stores deposits and makes loans in order to earn a profit

Banks for Profit:

- Receive deposits of money, extend credit, and provide loans. Banks use the money their customers deposit to make loans to people who want to buy a house, a car, or other expensive items in return the bank pays you interest.

How do banks make money?

o Difference between **INTEREST PAID** vs. **INTEREST EARNED**

o **EXAMPLE:**

o Southern Federal Credit Union is currently **paying** about .75% annual interest on savings accounts

o When they make a loan they charge 2%

$2\% - .75 = 1.25\%$ profit

How do banks make money?

- o Other money makers include overdraft fees, annual or monthly fees, and products like checks
- o Annual percentage Rate (APR) – the yearly cost of a loan

APR → monthly or daily

Example:

$$\text{APR} = 10\%$$



monthly:

$$10\% \div 12 = 0.83\%$$

daily:

$$10\% \div 365 = 0.02\%$$



Credit Union

○ Is not-for-profit financial institution that is owned and controlled by its members, usually people who work in the same company or the same occupation.

A photograph of a modern brick building with a curved roofline. The building features large windows and a prominent entrance. A circular inset in the top right corner provides a close-up view of a window with a white frame and a decorative pillar. Three vehicles are parked in the foreground: a black pickup truck, a silver sedan, and a white sedan.

Delta Community
Credit Union

201

Job Title: Delta Community Credit Union
Location: Eagles Landing, Georgia
General Contractor: Level 5, LLC
Architect: Summer / Wise & Associates

**United Panel
Corporation**

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- They offer checking and savings accounts as well as offer loans
- Offer higher interest rates on savings/lower rates on loans.
- Exclusive only certain members may join
- Money is protected by the government

Remember:

o Banks

- o Offer the widest variety of services
 - o Checking, Savings, Loans (many types), Credit Cards, Business Loans, Transfers, etc
- o **Owned by a private company**

o Credit Union

- o Owned by **people who hold accounts there (the MEMBERS)**
 - o Usually must be a member of another organization 1st (FCBOE, Delta, Firemen's, Police)
- o Typically more “personal” and more willing to make emergency or cheaper loans

Banks have “customers”, CU's have MEMBERS

Pay Day Lenders



- Solve temporary problem
- Give out small loans in return for a portion of the upcoming pay check
- Charge much higher interest on loans than other institutions.

Title Pawn Lender



o Provide short-term loans to individuals facing a gap between their income and expenses.

o Inability to repay the loan could result in the loss of the vehicle put up as collateral

SSEPF 2.B

○ Explain reasons for the spread between interest charged and interest earned.

Interest:

o-Money charged when money is borrowed (Profit for the bank the borrower pays back the money plus interest.)

oOR

oMoney earned when it is placed in a financial institution (Profit for the saver which is paid by the bank)

SSEPF2.C

o Give examples of the direct relationship between risk and return.

RISK

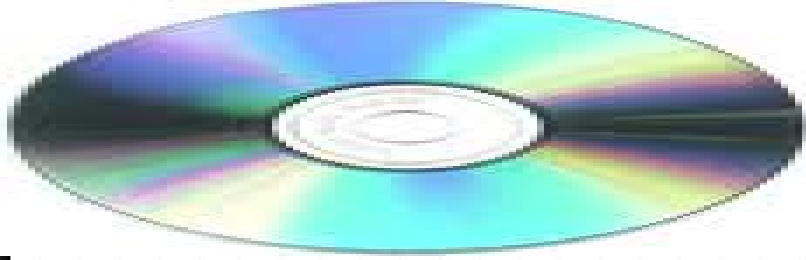
o- The financial action you take in investing your money over a period of time.



- Risk and return have a positive relationship
- The higher the risk, usually the higher the return and the lower the risk the lower the return

SSEPF 2.D

o Evaluate a variety of savings and investment options; including stocks, Saving accounts, CD, Retirement accounts, bonds, and mutual funds.



CD:

o Certificate of Deposit: a deposit you promise to leave in the bank for a specific amount of time, usually a year or more, in exchange for a higher rate of interest. (very safe, but instant access carries a penalty)

o $50,000 \times 7\% = \underline{\hspace{2cm}}$ the amount a person will earn at the end of the year.

Saving Account:

o provide a small
but steady
return (Low Risk-
Medium Return)



Bonds:

lending money to a business or government with a promise of higher returns than those offered by a bank savings or CD's. The money is paid back little by little until "Maturity date" usually several years later.

Retirement Accounts

- o 401k-Percentage of matching funds
- o Roth IRA-Pay taxes today and withdraw tax free in the future
- o MyRA- For workers who do not have 401K. Contribute up to 15,000 before having to roll it over into an account with an investment bank

Stocks

part ownership in a company offering higher risks and potentially higher returns than other investments

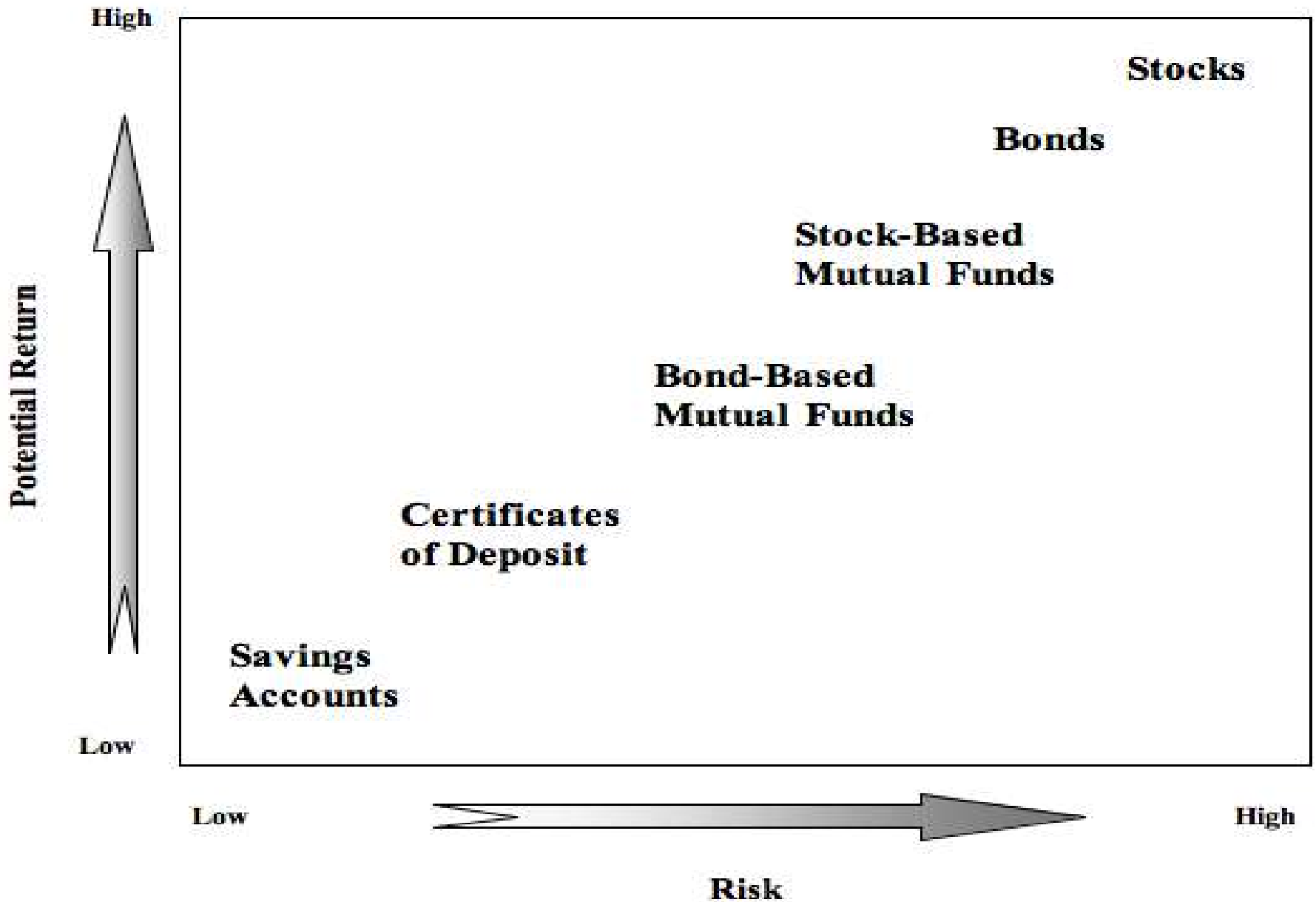


Dividends:

○ A portion of a firm's profits paid to owners of the firm's stock.

Mutual Funds:

○ Pools of money from many investors and uses it to buy a variety of stocks and bonds called a portfolio. Mutual funds offer a compromise by including low-risk, low-return stocks with some high-risk, high-return stocks.



Summary

○ STOCKS

- Pros: high return, easy to purchase
- Cons: HIGH RISK, requires research

○ MUTUAL FUNDS

- Pooling money into a fund with others and having someone else invest for you
- Pros: Decent return, safer investment, requires less research
- Cons: Less return than stocks, less flexibility

○ BONDS

- Loaning money to government or corporation
- Pros: Safe investment, specific terms
- Cons: Low rates of return

Risk/Return Spectrum

○ High Risk

○ High Return

■ Low Risk

■ Low Return



SSEPF3 -

o Explain how changes in taxation can have an impact on an individual's spending and saving choices

SSEPF3.A

○ Define progressive, regressive, and proportional taxes.

Progressive Tax

- a. Are those in which people with higher incomes pay a larger proportion, or percentage of their income than people with lower incomes pay

- a tax where the percentage paid rises as income level rises
 - Taxes go up as paycheck increases (graduated tax) and this is a Personal income tax.
 - Current U.S. System of Taxation

Complete the progressive chart below: Income x percent of income paid in taxes = amount of tax.

| Income | % of Income Paid in Tax | Amount of Tax |
|-----------|-------------------------|---------------|
| \$5,000 | 10% | |
| \$50,000 | 25% | |
| \$100,000 | 28% | |
| \$150,000 | 33% | |
| \$350,000 | 35% | |

Answers

\$500

\$12,500

\$28,000

\$49,000

\$122,500

Regressive Tax-

o tax where the percentage paid decreased as income level rises

o Taxes go down as paycheck increases

o Wealthy people like Regressive taxing because the more money they make, the less they need the government.

Income x Percentage of income
paid in tax = amount of tax

| Income | % of Income Paid in Tax | Amount of Tax |
|-----------|----------------------------|---------------|
| \$5,000 | 20% | |
| \$10,000 | 10% | |
| \$25,000 | 4% | |
| \$50,000 | 2% | |
| \$100,000 | 1% | |

Answers:

\$1,000

\$1,000

\$1,000

\$1,000

\$1,000

○ Excise tax- an extra sales tax or “sin tax” on items such as alcohol and tobacco

○ Luxury tax-on Deluxe items.

○ Property tax- imposed on land and buildings

Proportional

- a. People with higher incomes pay the same proportion of their incomes as people with lower incomes

b. rate of tax stays the same
regardless of income level

o Flat tax

o There is an incentive for
wealthy to spend money
under the flat tax structure

**Income x Percentage paid in
tax = Amount of Tax**

| Income | % of Income Paid in Tax | Amount of Tax |
|---------------|--|--------------------------|
| \$5,000 | 10% | |
| \$10,000 | 10% | |
| \$25,000 | 10% | |
| \$50,000 | 10% | |
| \$100,000 | 10% | |

Answers

\$500

\$1,000

\$2,500

\$5,000

\$10,000

Individual Tax brackets 2015

| If Taxable Income Is Between: | The Tax Due Is: |
|-------------------------------|---|
| 0 - \$9,225 | 10% of taxable income |
| \$9,226 - \$37,450 | \$922.50 + 15% of the amount over \$9,225 |
| \$37,451 - \$90,750 | \$5,156.25 + 25% of the amount over \$37,450 |
| \$90,751 - \$189,300 | \$18,481.25 + 28% of the amount over \$90,750 |
| \$189,301 - \$411,500 | \$46,075.25 + 33% of the amount over \$189,300 |
| \$411,501 - \$413,200 | \$119,401.25 + 35% of the amount over \$411,500 |
| \$413,201 + | \$119,996.25 + 39.6% of the amount over \$413,200 |

Tax Brackets 2016

Married Individuals Filing Joint Returns and Surviving Spouses

| If Taxable Income Is Between: | The Tax Due Is: |
|-------------------------------|---|
| 0 - \$18,550 | 10% of taxable income |
| \$18,551 - \$75,300 | \$1,855 + 15% of the amount over \$18,550 |
| \$75,301 - \$151,900 | \$10,367.50 + 25% of the amount over \$75,300 |
| \$151,901 - \$231,450 | \$29,517.50 + 28% of the amount over \$151,900 |
| \$231,451 - \$413,350 | \$51,791.50 + 33% of the amount over \$231,450 |
| \$413,351 - \$466,950 | \$111,818.50 + 35% of the amount over \$413,350 |
| \$466,950 + | \$130,578.50 + 39.6% of the amount over \$466,950 |

System (Internal Revenue)

- If the U.S. went to the flat tax structure, the IRS would go away and over 500,000 jobs would be lost.
- “Everybody’s created equal, just under separate tax brackets”

SSEPF3.C

○ Explain how an increase in sales tax affects different income groups

How does Sales Tax affect incomes?

- o The lower an income, the more money people are paying in taxes
- o The higher an income, the less money you are paying in taxes.

o An increase on sales tax has a larger negative effect on low income groups that buy only essential items each month.

SSEPF3.c

o Explain the impact of property taxes on individuals and communities

Property Taxes



- Levied by local governments
- Taxed regardless of the person's income
- Gentrification- Occurs when high-income property owners preplace low-income property owners in an area
- Regressive Taxes

SSEPF 4

o The student will evaluate the costs and benefits of using credit

SSEPF4.a

o List factors that affect credit worthiness and the ability to receive favorable interest rates including character (Credit score), collateral, and capacity to pay

Credit

o The ability to obtain goods and services now, based on an agreement to pay for them later.

Creditworthy

○ Are you able to pay the money back?

○ Are you likely to pay the money back?

Credit History

o To decide if you are likely to repay the loan, the bank looks at your employment history and your credit history.>>>>>>>>>>>

o How well have you managed your bills and credit in the past?

Did You KNOW

o Your credit
history follows
you for your
whole life?

Do you have Collateral?

○ Something the bank could take away from you if you do not repay the loan....

It is up to YOU!!

- Fixed expenses- amount you must pay every month for rent, utilities, transportation
- Variable expenses- the amount you usually spend on food, entertainment, new clothes, etc.

o Different Types of Credit Card Companies

o Visa

o MasterCard

o Discover

o American Express

○ Payments Forms:

○ Rollover – Gives the individual the ability to pay over time. The minimum amount due in a given statement period

- Pay-off – must pay off the entire balance at the end of the statement period, or there will be massive penalties

Installment Plan

○ You agree to pay a fixed amount per month for a specified number of months- and then make all the payments on time-to show your credit worthiness!

Credit Score Ratings

These numbers are determined by a method created by FICO Fair Isaac Company

○ These numbers range from 350 to 850

o Excellent: Over 750

o Very Good: 720 and up

o Acceptable: 660 – 720

o Uncertain: 620 – 660

o Risky: less than 620

**o Your score is
based on the
following
formula**

35% Payment History

30% On the amount you currently owe

15% On the length of your credit history

10% On the number of new accounts you've applied for or opened

10% On the mix of credit accounts you currently have

Best Ways to improve Credit Scores:

Pay your bills on time

Don't over-extend your credit debt

Don't have more than two cards

Don't max out your limits

Factors in Credit:

○ Payment History

○ Current Credit Score

○ Regular Income

○ Capacity to pay

Creditors CAN NOT USE

o age

o gender

o race

o marital status

o religion

o They may ask about these things, but can not use them in the decision making process

SSEPF 4.B

○ Compare interest rates on loans and credit cards from different institutions

Interest

o The cost of using credit is expressed in an interest rate which is a percentage of the total amount owed

Annual Rate:

○ The amount of interest charge per year, rather than per month (APR)

○ Annual Percentage
Rate

Fixed Interest

○ Never
changes.

Variable Interest

○ Can go up any
time or down
at anytime!

**Bank
A**

**Bank
B**

**Bank
C**

APR

7.5%

19%

22%

**Annual
Fee**

\$40

\$0

\$100

SSEPF4.C

○ Explain the difference between simple and compound interest rates as well as fixed and variable interest rates

Simple Interest

○ Means that you are charged interest **ONLY** on the original amount of the loan:

$$\begin{aligned} \text{○ } \$1,000 + (.10 \times \$1,000) &= \\ \$1,000 + \$100 &= \$1,100 \end{aligned}$$

$$I = P * r * t$$

Annual Fee

○ A yearly charge just for having the card whether you use it or not.

Compound Interest

o Interest charged on credit cards if you do not pay off the full amount every month....the interest is charge not only on the original amount you borrowed, but on the existing amount you owe.

Speaking of interest...

o Simple vs. Compound Interest

o Simple interest: Interest paid on the principal only

o You deposit \$100 at 10% interest per year.

o You will get \$10 added to your account every year.

o Compound interest: Interest paid on the principal AND accumulated interest

Example

- Jack and Sarah both open savings accounts with a starting balance of \$1000.00 on the same day.
- Jack's bank is paying him **compound** interest, Sarah's bank is paying **simple** interest.
- Both Jack and Sarah are receiving 8% annually.

| | Compound | | Simple | |
|---------------------------|-----------------|-------------|------------------|-------------|
| Year | Jack's interest | Amount | Sarah's interest | Amount |
| Original principle | | \$ 1,000.00 | | \$ 1,000.00 |
| add interest | 0.08 | \$ 80.00 | 0.08 | \$ 80.00 |
| year 1 end amount | | \$ 1,080.00 | | \$ 1,080.00 |
| Principle | | \$ 1,080.00 | | \$ 1,000.00 |
| add interest | 0.08 | \$ 86.40 | 0.08 | \$ 80.00 |
| year 2 end amount | | \$ 1,166.40 | | \$ 1,160.00 |
| Principle | | \$ 1,166.40 | | \$ 1,000.00 |
| add interest | 0.08 | \$ 93.31 | 0.08 | \$ 80.00 |
| year 3 end amount | | \$ 1,259.71 | | \$ 1,240.00 |
| Principle | | \$ 1,259.71 | | \$ 1,000.00 |
| add interest | 0.08 | \$ 100.78 | 0.08 | \$ 80.00 |
| year 4 end amount | | \$ 1,360.49 | | \$ 1,320.00 |
| Principle | | \$ 1,360.49 | | \$ 1,000.00 |
| add interest | 0.08 | \$ 108.84 | 0.08 | \$ 80.00 |
| year 5 end amount | | \$ 1,469.33 | | \$ 1,400.00 |

In other words.....

o At the end of month you are charged the Principle, plus the interest, on top of the interest you earned last month on your credit card.

