

# IT'S YOUR PAYCHECK!

Andrew Anako  
1234 Kingsway  
Our Town, USA

Date	Item	Amount
1-May	Opening deposit	\$40.00
2-May	ATM withdrawal	\$47.30
5-May	Debit card	\$95.00
16-May	Deposit	\$34.80
17-May	Check #96	
18-May	Debit card	\$60.00
31-May	Deposit	\$1.50
31-May	ATM	
31-May	Service charge	

Produced by the Federal Reserve Bank of St. Louis

31-May **ENDING BALANCE** \$115.00  
Check # #96  
In your check with a check all checks paid  
Enter the ending balance on the bank statement



CENTRAL  
to  
AMERICA'S  
ECONOMY™



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### Overview

In 2005, the Federal Reserve Bank of St. Louis was a partner in a community initiative to educate teens about how to manage their personal finances. As part of the initiative, a program called *Your Paycheck* was developed. This program involved college students as instructors teaching personal finance concepts to new, teenage employees of local businesses.

In 2007, as part of its economic and financial education program, the St. Louis Fed decided to develop its own personal finance curriculum for use by high school educators, with similar and expanded content based on *Your Paycheck*. The new curriculum is called *It's Your Paycheck!*

*It's Your Paycheck!* was designed for use in high school personal finance classes. The curriculum contains three sections—"Know Your Dough," "KaChing!" and "All About Credit." The lessons in each of these sections employ various teaching strategies to engage students so that they have opportunities to apply the concepts being taught. Each lesson includes black-line masters of the handouts and visuals needed to teach the lesson.

All of the lessons are correlated with the National Personal Finance Standards and the National Standards in Economics. (See the "Lesson Correlation" section for more information.) Below is a brief description of each lesson in the unit.

### Unit A: Know Your Dough

#### Lesson 1: Invest in Yourself

Students are divided into groups to produce name tents. Each of four groups in the classroom produce name tents in a different way to highlight different levels of human capital. The students identify ways in which people invest in human capital and the link between investment in human capital and earning income.

#### Lesson 2: "W" Is for Wages, W4 and W2

Students compute the gross pay for a fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay to net pay. They learn what FICA and federal income taxes are. They learn how to complete a W-4 form and what a W-2 form is.

### Unit B: KaChing!

#### Lesson 3: Cash the Check and Track the Dough

Students participate in an activity to learn about checking accounts, savings accounts and check-cashing services. Students learn the components of a check, and they organize and enter information into an account register for a fictitious person in order to determine the person's balance. Students learn why maintaining account records is important. Students balance a monthly account statement.

#### Lesson 4: Your Budget Plan

Students work in pairs to participate in a "Track Star" game that illustrates positive and negative spending behaviors. Each pair of students analyzes the "Track Star" results, identifies effective and ineffective budgeting behaviors, and generates a list of budgeting principles.

### **Lesson 5: Savvy Savers**

Students calculate compound interest to identify benefits of saving in interest-bearing accounts. They learn the “rule of 72” and apply it to both investments and debt. They learn that there is a relationship between the level of risk for an investment and the potential reward or return on that investment.

## **Unit C: All about Credit**

### **Lesson 6: Credit Reports—and You Thought Your Report Card Was Important**

Students complete an activity sheet and discuss the advantages and disadvantages of using credit. Students read a scenario about a young person’s use of a credit card and answer some questions regarding repayment. Students learn about credit history, credit reports and credit-reporting agencies.

### **Lesson 7: Creditors’ Criteria and Borrowers’ Rights and Responsibilities**

Students discuss key terms related to credit and learn how creditors use capacity, character and collateral as criteria for making loans. Students learn about credit rights and responsibilities. Groups use role-play scenarios in order to identify and discuss the rights and responsibilities of using credit.

### **Lesson 8: So How Much Are You Really Paying for that Loan?**

Students learn what a payday loan is and the high cost involved in using such a loan. Working in groups, students calculate an annual percentage rate (APR) on a short-term loan.

### **Lesson 9: To Rent-to-Own or Not to Rent-to-Own?**

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

## **Acknowledgements**

### **Authors**

David B. Ballard, Federal Reserve Bank of St. Louis—Louisville Branch  
Dawn C. Conner, Federal Reserve Bank of St. Louis  
Mary C. Suiter, Ph.D., Federal Reserve Bank of St. Louis

### **Editor**

Laura J. Hopper, Federal Reserve Bank of St. Louis

### **Designer**

Kathie Lauher, Federal Reserve Bank of St. Louis

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### **Pilot Teachers:**

Sam Rego  
Butler Traditional High School  
Louisville, Kentucky

Debra Robinson  
Ballard High School  
Louisville, Kentucky

### **Teacher Reviewers:**

Laura Cline  
Warren East High School  
Bowling Green, Kentucky

Anthony Harper  
Borden Junior/Senior High School  
Borden, Indiana

Krista Hunt  
Warren East High School  
Bowling Green, Kentucky

Strauzie Miller  
Doss High School Magnet Career Academy  
Louisville, Kentucky

Cheri Klausung  
Ballard High School  
Louisville, Kentucky

Lacy Rice  
Moore Traditional High School  
Louisville, Kentucky

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## Lesson Correlations with the National Standards in Economics and the National Standards in K-12 Personal Finance

It's Your Paycheck Correlation with National Standards in K-12 Personal Finance									
Lesson	1	2	3	4	5	6	7	8	9
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions</p> <p><b>Standard 1:</b> Take responsibility for personal financial decisions. High school expectation 3: Identify changes in personal spending behavior that contribute to wealth building.</p>				X				X	
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions</p> <p><b>Standard 1:</b> Take responsibility for personal financial decisions. Eighth-grade expectation 2: Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.</p>									X
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions.</p> <p><b>Standard 1:</b> Take responsibility for personal financial decisions. Eighth-grade expectation 1: Identify ways to be a financially responsible young adult</p>						X	X	X	
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal financial decisions.</p> <p><b>Standard 2:</b> Find and evaluate financial information from a variety of sources. Eighth-grade expectation 1: Analyze and evaluate advertising claims.</p>								X	
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal financial decisions.</p> <p><b>Standard 2:</b> Find and evaluate financial information from a variety of sources. High school expectation 1: Determine whether financial information is objective, accurate and current.</p>						X	X	X	

## It's Your Paycheck! | Introduction

It's Your Paycheck Correlation with National Standards in K-12 Personal Finance									
Lesson	1	2	3	4	5	6	7	8	9
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions.</p> <p><b>Standard 4:</b> Make financial decisions by systematically considering alternatives and consequences. Eighth-grade expectation 3: Evaluate the results of a financial decision.</p>						X	X		X
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions.</p> <p><b>Standard 4:</b> Make financial decisions by systematically considering alternatives and consequences. High school expectation 6: Give examples of how decisions made today can affect future opportunities.</p>						X	X		X
<p><b>Financial Responsibility and Decision Making:</b> Apply reliable information and systematic decision making to personal finance decisions.</p> <p><b>Standard 5:</b> Develop communication strategies for discussing financial issues. High school expectation 3: Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.</p>									X
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms and manage debt.</p> <p><b>Standard 1:</b> Identify the costs and benefits of various types of credit. Eighth-grade expectation 2: Explain how interest rate and loan length affect the cost of credit.</p>								X	X
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms and manage debt.</p> <p><b>Standard 1:</b> Identify the costs and benefits of various types of credit. Eighth-grade expectation 4: Give examples of "easy access" credit.</p>						X			
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms and manage debt.</p> <p><b>Standard 1:</b> Identify the costs and benefits of various types of credit. Eighth-grade expectation 5: Discuss potential consequences of using "easy access" credit.</p>						X			



## It's Your Paycheck! | Introduction

It's Your Paycheck Correlation with National Standards in K-12 Personal Finance									
Lesson	1	2	3	4	5	6	7	8	9
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms, and manage debt.</p> <p><b>Standard 2:</b> Explain the purpose of a credit record and identify borrowers' credit report rights.</p> <p>High school expectation 4: Identify organizations that maintain consumer credit records.</p>						X			
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms, and manage debt.</p> <p><b>Standard 2:</b> Explain the purpose of a credit record and identify borrowers' credit report rights.</p> <p>High school expectation 7: Discuss ways that a negative credit report can affect a consumer's financial future.</p>						X			X
<p><b>Credit and Debt:</b> Maintain creditworthiness, borrow at favorable terms, and manage debt.</p> <p><b>Standard 3:</b> Describe ways to avoid or correct credit problems.</p> <p>High school expectation 2: List actions that a consumer could take to reduce or better manage excessive debt.</p>						X			
<p><b>Income and Careers:</b> use a career plan to develop personal income potential.</p> <p><b>Standard 1:</b> Explore career options</p> <p>Eighth-grade expectation 1: Give an example of how education and/or training can affect lifetime Income.</p>	X								
<p><b>Income and Careers:</b> Use a career plan to develop personal income potential</p> <p><b>Standard 3:</b> Describe factors affecting take-home pay.</p> <p>Eighth-grade expectation 1: Explain items commonly withheld from gross pay.</p>		X							
<p><b>Income and Careers:</b> Use a career plan to develop personal income potential</p> <p><b>Standard 3:</b> Describe factors affecting take-home pay.</p> <p>Eighth-grade expectation 3: Explain the difference between Social Security and Medicare programs.</p>		X							

## It's Your Paycheck! | Introduction

It's Your Paycheck Correlation with National Standards in K-12 Personal Finance									
Lesson	1	2	3	4	5	6	7	8	9
<p><b>Planning and Money Management:</b> Organize and plan personal finances and use a budget to maintain cash flow.</p> <p><b>Standard 3:</b> Describe how to use different payment methods.</p> <p>Eighth-grade expectation 3: Compare the costs of cashing a third-party check at various local financial institutions including check-cashing services.</p>			X						
<p><b>Planning and Money Management:</b> Organize and plan personal finances and use a budget to maintain cash flow.</p> <p><b>Standard 3:</b> Describe how to use different payment methods.</p> <p>High-school expectation 1: Demonstrate skill in basic financial tasks including scheduling bill payments, writing a check, reconciling a checking/debit account statement, and monitoring printed and/or online account statements for accuracy.</p>							X		
<p><b>Saving and Investing:</b> Implement a diversified investment strategy that is compatible with personal goals.</p> <p><b>Standard 1:</b> Discuss how saving contributes to financial well-being.</p> <p>High school expectation 3: Identify and compare saving strategies, including "paying yourself first," using payroll deduction and comparison shopping to spend less.</p>					X				
<p><b>Saving and Investing:</b> Implement a diversified investment strategy that is compatible with personal goals.</p> <p><b>Standard 3:</b> Evaluate investment alternatives</p> <p>High school expectation 3: Compare the risks and returns of various investments.</p>					X				

X

It's Your Paycheck Correlation with National Content Standards in Economics									
Lesson	1	2	3	4	5	6	7	8	9
<p><b>Standard 12:</b> Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.                      Benchmark 1, Grade 12: An interest rate is the price of money that is borrowed or saved.</p>					X				
<p><b>Standard 13:</b> Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.                      Benchmark 2, Grade 8: People's incomes, in part, reflect choices they have made about education, training, skill development and careers. People with few skills are more likely to be poor.</p>	X			X					



## Lesson Description

Students are divided into groups to produce name tents. Each of four groups in the classroom produce name tents in a different way to highlight different levels of human capital. The students identify the ways in which people invest in human capital and the link between investment in human capital and earning income.

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## Concepts

Human capital  
Investment in human capital

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## Objectives

Students will:

- Define human capital and investment in human capital.
  - Give examples of investment in human capital.
  - Describe the relationship between a person's level of education and income-earning potential.
- 

## Content Standards

### National Standards in K-12 Personal Finance

**Income and Careers:** Use a career plan to develop personal income potential.

- **Standard 1:** Explore career options.
  - Eighth-grade expectation 1: Give an example of how education and/or training can affect lifetime income.

### National Standards in Economics

- **Standard 13:** Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.
  - Benchmark 2, Grade 8: People's incomes, in part, reflect choices they have made about education, training, skill development and careers. People with few skills are more likely to be poor.

- **Standard 15:** Investment in factories, machinery, new technology, and the health, education and training of people can raise future standards of living.
  - Benchmark 1, Grade 4: When workers learn and practice new skills, they are improving their human capital.
  - Benchmark 2, Grade 4: Workers can improve their productivity by improving their human capital.

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### Time Required

30 minutes

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### Materials

- Two sheets of light-colored construction paper per student plus one sheet for the teacher
- One dark-colored marker per student
- Visual 1.1

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### Procedures

1. Explain that students will participate in a personal finance unit, *It's Your Paycheck*, to learn more about earning income, paying taxes, managing income and using credit.
2. Tell students that the first activity involves creating name tents for display on their desks for class and for guest speakers.
3. Demonstrate how to produce a name tent as follows.
  - Fold the piece of construction paper in half, shorter edges (8 ½") together. Crease the center fold. The folded paper should measure 8 ½" x 5 ½".
  - Open the page to 8 ½" x 11".
  - Fold the bottom 8 ½" edge to the middle crease. Crease the fold.
  - Open the page to 8 ½" x 11".
  - Fold the top 8 ½" edge to the middle crease. Crease the fold.
  - The paper should now have four sections each measuring approximately 2 ¾" x 8 ½".
  - Starting from one end of the paper, count down three rectangles. Print your first name in large letters in the rectangle.

- Turn the paper upside-down. Again count down three rectangles and print your first name in large letters in the rectangle.
  - Fold the paper to create a tent with the name displayed on both sides.
4. Divide the students into four groups. Explain that each group will have different rules for folding name tents. Describe the rules for each group as follows.
- Group 1: Each of you will remain seated to produce your own name tent, using only one hand, your nondominant hand—that is, the hand with which you do not write—to produce the name tent. You must keep your dominant hand behind your back.
  - Group 2: Each of you will remain seated to produce your own name tent, using only one hand, your dominant hand—that is, the hand with which you write—to produce the name tent. You must keep your nondominant hand behind your back.
  - Group 3: Each of you will remain seated to produce your own name tent, using both hands.
  - Group 4: Each of you will produce your own name tent while standing and using only one hand—the nondominant hand—to produce the name tent. You must keep your dominant hand behind your back. You may not use the desk, table or chair.
  - None of the groups may begin producing name tents until the class is told to begin.
  - When each student finishes folding his or her name tent, he or she should raise a hand.
  - Students will be timed and will have a maximum of two minutes to make the name tent.
5. Draw the following table on the board and use this to tally students who raise their hands upon completing the name tent.

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Group 4</b>
30 seconds				
60 seconds				
90 seconds				
120 seconds				

6. Distribute a piece of construction paper to each student. Remind them that students in each group must fold name tents according to the rules described and that they are to raise their hands individually when they have finished their name tents. Tell students they may begin. As students raise their hands, record tallies on the board next to the appropriate group number and time segment.
7. After two minutes, ask everyone to stop producing name tents and discuss the following:
  - Did any students find it very difficult to produce name tents? (*students in Group 4*) Why? (*Standing and folding with one hand—the nondominant hand—made it nearly impossible.*)
  - Ask students in each group what difficulties they encountered making the name tents? (*Group 1: hard to fold with one hand, very hard to fold using only nondominant hand, difficult to write with nondominant hand; Group 2: hard to fold with one hand; Group 3: few difficulties; Group 4: hard to fold with one hand, very hard to fold with nondominant hand, very, very hard to fold standing up and difficult to write with nondominant hand*)
  - In general, which group of students finished most quickly? (*Group 3*) Why? (*Students in this group were able to use both hands and were able to remain seated.*)
  - In general, which group of students took the longest time to finish? (*Group 4*) Why? (*Students in this group had to use only the nondominant hand and had to stand.*)
8. Explain that **human capital** is the knowledge, talent and skills that people possess. Point out that people are able to invest in their human capital by going to school, pursuing additional training and developing skills.
9. This unit, *It's Your Paycheck*, is about earning and managing income. The process of managing income includes saving and investing for the future. An important investment that students make in their future is their **investment in human capital**—their efforts to acquire and improve human capital. There is a very strong correlation between the level of human capital a person possesses and the amount of income the person earns.
10. Explain that in the name tent activity, Group 4 represents those with the smallest investment in human capital—high school dropouts. Group 1 represents those who graduate from high school. Group 2 represents those who pursue additional training following high school—associate's degrees, bachelor's degrees or trade school. Group 3 represents those who pursue advanced degrees.
11. Ask the students how finishing name tents more quickly in the activity might relate to investment in human capital. (*Answers will vary, but students might recognize that people with more skills, education and training tend to be more productive.*)



Point out that people with more skills, education and training tend to be more productive and, as a result, earn higher incomes.

12. Display *Visual 1.1: Income and Education* to emphasize the correlation between education and income earning potential. Point out that part of planning for their financial future is making a strong investment in their own human capital, which includes learning about earning and managing income.
13. Explain that people develop human capital throughout life. Learning to read and compute are examples. Discuss the following and record student examples on the board:
  - Give examples of the human capital you possess—that is, the skills, talents and education that you have now. (*read, write, compute, play piano, play chess, draw, use various woodworking tools, ability to use a computer, ability to work with others, and so on*)
  - What investments did/do you make to develop and maintain this human capital? (*practiced reading, completed math homework, practiced piano, joined the chess club, attended a special art class, attended a computer class, made furniture and other wood items, and so on*)
  - If you want to own your own business in the future, what human capital might you need? (*management skills, accounting skills, computer skills, communication skills, etc.*)
  - What investments might you make to develop this human capital? (*pursue a college degree in business or accounting, read professional journals, shadow someone who owns a business, etc.*)
14. Distribute new pieces of construction paper to students who were not able to complete their name tents or to students whose name tents are illegible.
15. Tell students that the name tents will be used throughout this unit to remind them about investing in their human capital. Name tents will also be displayed when guests visit the classroom.

## Closure

16. Review the key points of this lesson by discussing the following:
- What is human capital? (*the knowledge, talent and skills that people have*)
  - What is investment in human capital? (*efforts to acquire and improve human capital*)
  - How do people invest in human capital? (*education, training and practice*)
  - In general, how does investment in human capital—through education—affect income? (*The more education, the greater income people earn.*)

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## Assessment

17. Have students select an occupation in which they are interested. Have them identify the human capital they currently possess that would be important in this occupation (*reading, mathematics, people skills, writing, etc.*) and identify investments in human capital they must make to attain this occupation (*additional education, training and so on*).

## Visual 1.1: Income and Education

According to the U.S. Census Bureau News, March 15, 2007:

- Adults with advanced degrees earn four times more than high school dropouts.
- Adults with a master's, professional or doctoral degree earned an average of \$79,946 annually, while those with less than a high school diploma earned \$19,915.
- Adults with a bachelor's degree earned an average of \$54,689 in 2005, while those with a high school diploma earned \$29,448.
- In 2006, 86 percent of all adults 25 years old and older reported that they had completed at least high school.
- 28 percent of adults 25 years old and older had attained at least a bachelor's degree.

SOURCE: <http://www.census.gov/Press-Release/www/releases/archives/education/009749.html>



## Lesson Description

Students compute the gross pay for a fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay to net pay. They learn what FICA and federal income taxes are. They learn how to complete a W-4 form and what a W-2 form is.

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## Concepts

Gross pay  
Income  
Income tax  
Net pay  
Taxes  
Wages  
W-2 form  
W-4 form

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## Objectives

Students will:

- Define income, taxes and wages.
  - Explain what FICA is.
  - Explain the difference between gross pay and net pay.
  - Explain what a W-4 form is used for.
  - Explain what a W-2 form is.
- 

## Content Standards

### National Standards in K-12 Personal Finance

**Income and Careers:** Use a career plan to develop personal income potential.

- **Standard 3:** Describe factors affecting take-home pay.
    - Eighth-grade expectation 1: Explain items commonly withheld from gross pay.
    - Eighth-grade expectation 3: Explain the difference between Social Security and Medicare programs.
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## Time Required

60-75 minutes

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## Materials

- A copy of Handout 2.1 for each student and a visual of Handout 2.1
- Visuals 2.1 and 2.2
- A copy of Visual 2.1 for each student
- A copy of Handout 2.2 for each student
- Handout 2.2—Answer Key

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## Procedures

1. Ask the students the following questions.
  - Why do people work? (*to earn income*)
  - How many of you already have paying jobs outside of work that you do at home? (*Answers will vary.*)
  - If you already have a job, what were some challenges you faced when you started your job? (*Answers will vary but may include getting to work on time, having to work overtime or late on a school night, etc.*) What were some surprises? (*Answers will vary but may include the fact that, after taxes or other deductions, their paychecks were much smaller than they anticipated.*)
2. Point out that **income** is the payment people receive for providing resources in the market. When people work, they provide human resources (*labor*) and in exchange they receive income in the form of **wages**. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. People also earn salaries for providing labor. Rather than an hourly pay scale, salaries are generally an annual amount paid monthly or bi-monthly for a specified number of hours, usually a 40-hour week. (*Note: People also receive income in the form of interest, profit and rent.*) Discuss the following:
  - What hourly wage might you and other teenagers in this area earn? (*Answers will vary.*)
  - How many hours would you expect to work at a part-time job during the school year? (*Answers will vary.*)
  - How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)

3. Distribute a copy of *Handout 2.1: John A. Dough's Pay Stub* to each student and display a visual of the handout. Ask a student to read the information about John A. Dough in the paragraph above the pay stub. Ask a student to determine how much income John A. Dough earned during his first pay period. ( $\$7 \times 24 \text{ hours} = \$168$ ) Record the amount on the visual of Handout 2.1 under "This Period" across from "Regular Pay" and have students record the amount on their copy. Explain that because this is his first paycheck, the amount that John received for this pay period is the same as the amount year-to-date. Enter \$168 on the visual under "YTD" across from "Regular Pay" and have students enter the amount on their copy. Point out that John had no overtime or holiday pay this period; so, total pay for this period and year-to-date are also \$168. Enter this amount in the "Total Pay" row under "This Period" and "Year-to-Date." Have the students do the same.
4. Refer the students to the "Net Pay" amount at the bottom of the visual. Point out that net pay is the amount that John actually received. Ask the students why John earned \$168 and only received \$124.91. (*Answers will vary; some students may know that people have taxes and other deductions withheld from their pay.*)
5. Refer students to the "Deductions" section of the pay stub. Explain that people pay taxes. **Taxes** are government fees on business and individual income, activities, products or property. People are required to pay taxes. The tax revenue collected is used to provide government goods and services for citizens and to allow government to operate. People also voluntarily have money deducted from their paychecks for expenses such as medical insurance or savings in retirement accounts. **Gross pay** is the amount people earn per pay period before any deductions or taxes are paid. **Net pay** is the amount people receive after taxes and other deductions are taken out.
6. Explain that one tax everyone pays is federal income tax. **Income tax** is a tax on the amount of income people earn. People pay a percentage of their income in tax. People who earn more pay a higher percentage of their income in tax. Discuss the following:
  - How much federal income tax was withheld from John's check? ( $\$25.20$ )
  - What percentage of his income did John pay in federal income tax?  
( $\$25.20 \div \$168.00 = .15 = 15\%$ )
7. Explain that John works in a state that has a state income tax. John had \$5.04 withheld for state income taxes. Because John isn't a full-time employee, he isn't part of ABC Mart's benefit package; so, no money was deducted for medical insurance or retirement savings plans such as a 401(k).
8. Ask the students how John's employer knew what percentage of John's income to deduct for federal income taxes and what amount to deduct for state income taxes. (*Answers will vary, but some students may know that employees must complete various forms that give the employer the information needed to determine this.*)

9. Explain that once people are hired for a job, there are various forms they must complete. One of these is a W-4 form. This is a federal form. There are state forms that must be completed as well. Those vary from state to state. Discuss the following.
- A W-4 is a form required by the Internal Revenue Service (IRS).
  - The W-4 allows employers to determine what amount of income tax they should deduct from each employee’s paycheck based on that person’s situation, such as whether he/she is married or single, etc.
  - Even if you are a student, it isn’t likely that you are exempt from tax withholdings.
  - Each April, you must file a federal income tax return with the IRS. If over the course of the year you paid more income tax than necessary, you will receive a tax refund from the federal government.
  - Employees are expected to complete the W-4 accurately and honestly when starting a new job or if their status changes in some way.
  - If you make mistakes such as entering the wrong Social Security number or using a nickname, you could delay or prevent receipt of any tax refund you are owed.
10. Display *Visual 2.1: Form W-4* and distribute a copy of the visual to each student. Explain that the form is completed for John A. Dough. Have a student read the paragraph above the form about John Dough. Then ask a student to read the paragraph on the form titled “Exemption from withholding” including the “Note.” Discuss the following.
- Why can’t John claim exempt status? (*Because his parents still claim him as a dependent.*)
  - What number should John enter on line B? (*“1” because he is single with only one job*)
  - Should John enter a “1” on line C? (*No.*) Why? (*He is not married.*)
  - What should John enter on line D? (*Nothing.*) Why? (*He has no dependents [children].*)
  - Why should John leave line E blank? (*He is not the head of a household.*)
  - What should John enter on line F? (*Nothing.*) Why? (*He has no child- or dependent-care expenses.*)
  - What should John enter on line G? (*Nothing.*) Why? (*He has no children.*)
  - What total should John enter on line H? (*“1”*)
11. Have students refer to the deductions section of the pay stub on Handout 2.1 again. Point out that money was also deducted for **FICA**, which stands for the Federal Insurance Contributions Act. Explain that FICA is another tax or required contribution that most workers and employers pay. (*Note: Some workers such as state government workers and teachers may not be required to pay FICA because of the defined benefit plan provided for retirement by their employers.*)



*Discuss the following:*

- FICA is a U.S. payroll tax used to fund Social Security and Medicare.
  - Social Security is a federal program that provides benefits for retirees, the disabled and the minor children of deceased workers.
  - Medicare is a federal program that provides hospital insurance benefits.
  - Employees pay part of FICA, and employers pay the other part of FICA.
  - For 2008, the employee's share of FICA was 7.65 percent of gross income (6.2 percent for Social Security and 1.45 percent for Medicare) and the employer's portion of FICA was also 7.65 percent. So, the total FICA tax was 15.3 percent for 2008.)
  - Self-employed people are responsible for the entire FICA percentage because they are both employer and employee.
  - How much was withheld for Social Security from John Dough's check?  
( $.062 \times \$168 = \$10.42$ )
  - How much was withheld for Medicare from John Dough's check?  
( $.0145 \times \$168 = \$2.44$ )
12. Point out that John's employer, ABC Mart, also paid \$10.42 in Social Security and \$2.44 in Medicare for John.
13. Explain that another important form related to working is a Form W-2. A Form W-2 is a summary of a person's earning and tax withholding for an entire year. Workers receive W-2 Wage and Tax Statements from their employers around the end of January following the year being reported. The forms can arrive in the mail, can be provided in person or, with the worker's consent, can be received electronically. Display *Visual 2.2: Form W-2 Wage and Tax Statement*.
14. Explain that this is what the W-2 for John Dough looked like at the end of the year. It is important for people to hold on to their W-2 forms when they receive them. People are required to submit their W-2 form(s) to the IRS with their tax return. Tell students to refer to John Dough's W-2 to answer the following questions:
- How much did John earn in 2009? ( $\$3,598$ )
  - At a wage of \$7 per hour, how many hours did John work to earn \$3,598?  
( $514$  hours)
  - How much was withheld for federal income tax in 2009? ( $\$539.70$ )
  - How much was withheld for Social Security tax? ( $\$223.08$ )
  - How much was withheld for Medicare? ( $\$52.17$ )
15. Point out that the W-2 has two boxes labeled "Social Security wages" and "Medicare wages and tips." John is required to pay these taxes on the full amount he earned—\$3,598. However, there is a Social Security income cap that changes from year-to-year. Once people have earned the cap amount, they do not pay Social

Security tax on additional earnings. For example, in 2009 the cap was \$106,800. A person who earned more than \$106,800 did not pay Social Security taxes on additional earnings.

16. Remind the students that at the end of the year, taxpayers are required to complete a form reporting income earned and taxes paid, which must be submitted by April 15 of the next year. The 1040EZ is the simplest form to submit. If during 2009 John paid more income tax than he was required to, he will receive a refund from the federal government. Discuss the following:
  - Taxes are collected on a "pay as you go" principle. That means that as people earn income, they pay taxes rather than waiting until the end of the year to pay all taxes.
  - Many people, therefore, try to adjust their withholding so that they pay the correct amount of taxes for each paycheck. That way, at the end of the year they don't have to pay additional taxes.
  - Some people prefer to have a refund each year; so, they purposely pay more than they need to pay per pay period. This is often referred to as "forced savings." The government has the money during the year and refunds it to the taxpayer. The taxpayer then has a lump sum to purchase a large item or place in savings.
  - Note that the government does not pay you interest on your overpayment. Therefore, it might be a better idea to have the correct amount withheld rather than overpaying and to put your savings in an interest-bearing account during the year.
  
17. Ask the students if they were surprised to learn that workers receive less income than they actually earn. (*Answers will vary.*) Point out that they are not alone; nearly all workers feel the same way when they see their first paycheck and see that the amount they thought they would receive has been reduced due to various deductions. Discuss the following:
  - Everyone in the United States is required to pay taxes on the money they earn.
  - Employers are required by law to send the money withheld from employees' pay to various federal and state agencies. The tax revenue collected from workers is added together to pay for the goods and services that federal, state and local governments provide for citizens and to pay the costs of operating the government.
  - What are some goods and services that the federal government provides for citizens? (*roads, bridges, national parks and national defense*)
  - What are some goods and services that state governments provide for their citizens? (*state roads, state parks, state troopers and public education*)
  - What are some goods and services that local governments provide for their citizens? (*street lights, fire and police protection, and public education*)

## Closure

18. Review key content from the lesson with the following questions.
  - What are wages? (*a form of income people receive for work they do*)
  - What is income? (*payment people receive for providing resources in the market*)
  - What are taxes? (*Taxes are government fees on business and individual income, activities, products or property. People are required to pay taxes.*)
  - What is gross pay? (*the amount people earn in a pay period before any deductions or taxes are taken out*)
  - What is net pay? (*take-home pay; the amount received after taxes and deductions have been taken out*)
  - What is FICA? (*FICA is a tax or required contribution resulting from the Federal Insurance Contributions Act.*)
  - What does FICA fund? (*Social Security and Medicare*)
  - Who pays FICA? (*Both employees and employers pay FICA.*)
  - What is a W-4 form and for what is it used? (*A W-4 form is a form that must be completed by employees before they start a job. It is used by employers to determine the amount of income tax to withhold.*)
  - What is a W-2 form? (*A W-2 form is a form employers must provide to employees shortly after year-end to report annual income and withholding for the employee's tax return.*)

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## Assessment

19. Distribute a copy of *Handout 2.2: Assessment* to each student. Instruct students to read the directions and complete the handout.
20. Display *Handout 2.2: Assessment—Answer Key* and allow students to check their answers.

## Visual 2.1: Form W-4

John Dough is a 16-year-old who just started his first job at ABC Mart in Our Town, USA. John is not married and does not have any children. John's parents still claim him as a dependent on their tax return.

### Form W-4 (2009)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

**Exemption from withholding.** If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2009 expires February 16, 2010. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on their tax return.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earner/multiple job situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

**Head of household.** Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or

dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

**Nonresident alien.** If you are a nonresident alien, see the Instructions for Form 8233 before completing this Form W-4.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2009. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

#### Personal Allowances Worksheet (Keep for your records.)

**A** Enter "1" for **yourself** if no one else can claim you as a dependent. . . . . **A** \_\_\_\_\_

**B** Enter "1" if:   
 { • You are single and have only one job; or   
 • You are married, have only one job, and your spouse does not work; or   
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. } . . . **B** 1

**C** Enter "1" for your **spouse**. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . **C** \_\_\_\_\_

**D** Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . . **D** \_\_\_\_\_

**E** Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . . **E** \_\_\_\_\_

**F** Enter "1" if you have at least \$1,800 of **child or dependent care expenses** for which you plan to claim a credit . . . **F** \_\_\_\_\_  
 (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

**G Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.  
 • If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three or more eligible children.  
 • If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have six or more eligible children. **G** 1

**H** Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ▶ **H** 1

For accuracy, **complete all worksheets that apply.**   
 { • If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.  
 • If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$40,000 (\$25,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.  
 • If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form <b>W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b>		OMB No. 1545-0074 <b>2009</b>
▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.				
1 Type or print your first name and middle initial. <b>John A.</b>	Last name <b>Dough</b>	2 Your social security number <b>123 45 6789</b>		
Home address (number and street or rural route) <b>123 Main Street</b>		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code <b>Our Town USA 12345</b>		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5 _____		
6 Additional amount, if any, you want withheld from each paycheck		6 \$ _____		
7 I claim exemption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here . . . . . ▶ <b>7</b> _____				
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (Form is not valid unless you sign it.) ▶ <b>John A. Dough</b>		Date ▶ <b>Jan. 11, 2009</b>		
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) <b>ABC Mart, 10 Washington St., Our Town</b>		9 Office code (optional)	10 Employer identification number (EIN)	


For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form **W-4** (2009)

## Visual 2.2: W-2 Wage and Tax Statement

John Dough will receive a Form W-2, Wage and Tax Statement from his employer, ABC Mart, by Jan. 31 of the following year, as required by the IRS. You can see John's completed W-2 form below.

XXXX		a Employee's social security number 123-45-6789		Safe, accurate, FAST! Use		 Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .		OMB No. 1545-0008			
b Employer identification number (EIN) XXXX				1 Wages, tips, other compensation \$3,598		2 Federal income tax withheld \$539.70					
c Employer's name, address, and ZIP code ABC Mart 10 Washington St. Our Town, USA 12345				3 Social security wages \$3,598		4 Social security tax withheld \$223.08					
				5 Medicare wages and tips \$3,598		6 Medicare tax withheld \$52.17					
				7 Social security tips		8 Allocated tips					
d Control number				9 Advance EIC payment		10 Dependent care benefits					
e Employee's first name and initial John A.		Last name Dough		Suff.		11 Nonqualified plans		12a See instructions for box 12			
123 Main Street Our Town, USA 12345				13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		12b	
				14 Other		12c					
				12d							
f Employee's address and ZIP code				15 State		Employer's state ID number		16 State wages, tips, etc. \$3,598		17 State income tax \$107.94	
XX		XXXX		18 Local wages, tips, etc. XX		19 Local income tax XX		20 Locality name XX			

**Form W-2 Wage and Tax Statement** 2009 Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
 This information is being furnished to the Internal Revenue Service.

## Handout 2.1: John A. Dough's Pay Stub

John Dough is a 16-year-old with his first job. Here is his pay stub for his first two weeks of work.

<b>ABC Mart</b>		<b>John A. Dough</b>		<b>Allowances</b>	
<b>SSN</b>	123-45-6789	<b>Federal</b>	1	<b>State</b>	1
<b>Employee ID</b>	98765				
<b>Pay Period</b>	1/1/09 to 1/14/09	<b>Hourly Rate</b>	\$7.00		
<b>Pay Date</b>	2/3/09	<b>Hours Worked this Pay Period</b>			
		<b>Regular</b>	24		
		<b>Overtime</b>	0		
		<b>Holiday</b>	0		
<b>Earnings</b>					
		<b>This Period</b>	<b>YTD</b>		
<b>Regular Pay</b>					
<b>Overtime Pay</b>		\$0.00	\$0.00		
<b>Holiday Pay</b>		\$0.00	\$0.00		
<b>Total Pay</b>					
<b>Deductions</b>					
		<b>This Period</b>	<b>YTD</b>		
<b>Federal Income Tax</b>		\$25.20	\$25.20		
<b>Social Security Tax (FICA)</b>		\$10.42	\$10.42		
<b>Medicare Tax (FICA)</b>		\$2.44	\$2.44		
<b>State Income Tax</b>		\$5.04	\$5.04		
<b>Medical Insurance</b>		\$0.00	\$0.00		
<b>Retirement [401(k)]</b>		\$0.00	\$0.00		
<b>Total Deductions</b>		\$43.09	\$43.09		
<b>Net Pay</b>					
		<b>This Period</b>	<b>YTD</b>		
<b>Gross Pay</b>		\$168.00	\$168.00		
<b>Total Deductions</b>		\$43.09	\$43.09		
<b>Net Pay</b>		<b>\$124.91</b>	<b>\$124.91</b>		

## Handout 2.2: Assessment

Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. Based on this information, have the students complete the W-4 form below for Angela. She has accepted a job as a civil engineer with the Grayline Electric Co. She has rented an apartment at 222 Warthog Road, Batesville, Mo., 12345. Her Social Security number is 234-56-7890.

### Form W-4 (2010)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

**Exemption from withholding.** If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

**Head of household.** Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

**Nonresident alien.** If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

#### Personal Allowances Worksheet (Keep for your records.)

**A** Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . **A** \_\_\_\_\_

**B** Enter "1" if:   
 • You are single and have only one job; or   
 • You are married, have only one job, and your spouse does not work; or   
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. . . . . **B** \_\_\_\_\_

**C** Enter "1" for your **spouse**. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . **C** \_\_\_\_\_

**D** Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . . **D** \_\_\_\_\_

**E** Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . . . . **E** \_\_\_\_\_

**F** Enter "1" if you have at least \$1,800 of **child or dependent care expenses** for which you plan to claim a credit . . . . . **F** \_\_\_\_\_

**(Note.** Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

**G Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. **G** \_\_\_\_\_

- If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then **less** "1" if you have three or more eligible children.
- If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have six or more eligible children.

**H** Add lines A through G and enter total here. **(Note.** This may be different from the number of exemptions you claim on your tax return.) **H** \_\_\_\_\_

For accuracy, **complete all worksheets that apply.**   
 • If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.   
 • If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.   
 • If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 <b>2010</b>
1 Type or print your first name and middle initial.		Last name		2 Your social security number
Home address (number and street or rural route)			3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code			4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>	
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5 _____
6 Additional amount, if any, you want withheld from each paycheck				6 \$ _____
7 I claim exemption from withholding for 2010, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no tax liability and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no tax liability.</b></li> </ul> If you meet both conditions, write "Exempt" here . . . . . ▶ 7 _____				
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (Form is not valid unless you sign it.) ▶				Date ▶
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form W-4 (2010)

## Handout 2.2: Assessment (continued)

Based on Angela's pay stub below, answer the questions on the next page.

		<b>Allowances</b>	
<b>Grayline Electric</b>	<b>Angela Smith</b>	<b>Federal</b>	1
<b>SSN</b>	234-56-7890	<b>State</b>	1
<b>Employee ID</b>	56789		
<b>Pay Period</b>	2/1/10 to 2/28/10		
<b>Pay Date</b>	3/3/10		
<b>Earnings</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Regular Pay</b>	\$4,125.00	\$8,250.00	
<b>Vacation</b>	\$0.00	\$0.00	
<b>Total Income/Pay</b>	\$4,125.00	\$8,250.00	
<b>Before Tax Deductions</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Medical Insurance</b>	\$90.00	\$180.00	
<b>Retirement [401(k)]</b>	\$247.50	\$495.00	
<b>Total Before Tax Deductions</b>	\$337.50	\$675.00	
<b>Taxes</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Federal Income Tax</b>	\$598.87	\$1,197.74	
<b>Social Security Tax (FICA)</b>	\$255.75	\$511.50	
<b>Medicare Tax (FICA)</b>	\$59.81	\$119.62	
<b>Total</b>	\$914.43	\$1,828.86	
	<b>This Period</b>	<b>YTD</b>	
<b>Gross Pay</b>	\$4,125.00	\$8,250.00	
<b>Total Deductions</b>	\$1,251.93	\$2,503.86	
<b>Net Pay</b>	<b>\$2,873.07</b>	<b>\$5,746.14</b>	



**Handout 2.2: Assessment (continued)**

1. What was Angela's gross pay for this pay period?
2. What is Angela's net pay for this pay period? Define "net pay."
3. What are taxes?
4. For what do governments use tax revenues?
5. How much did Angela pay in FICA?
6. What is FICA and how is the money that is collected used?
7. How much did Angela pay in federal income tax this pay period?

## Handout 2.2: Assessment—Answer Key

Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. Based on this information, have the students complete the W-4 form below for Angela. She has accepted a job as a civil engineer with the Grayline Electric Co. She has rented an apartment at 222 Warthog Road, Batesville, Mo., 12345. Her Social Security number is 234-56-7890.

### Form W-4 (2010)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

**Exemption from withholding.** If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

**Head of household.** Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

**Nonresident alien.** If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

#### Personal Allowances Worksheet (Keep for your records.)

<b>A</b>	Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . .	<b>A</b>	<u>1</u>
<b>B</b>	Enter "1" if: <ul style="list-style-type: none"> <li>• You are single and have only one job; or</li> <li>• You are married, have only one job, and your spouse does not work; or</li> <li>• Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. . . . .</li> </ul>	<b>B</b>	<u>1</u>
<b>C</b>	Enter "1" for your <b>spouse</b> . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . .	<b>C</b>	_____
<b>D</b>	Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . .	<b>D</b>	_____
<b>E</b>	Enter "1" if you will file as <b>head of household</b> on your tax return (see conditions under <b>Head of household</b> above) . . . . .	<b>E</b>	_____
<b>F</b>	Enter "1" if you have at least \$1,800 of <b>child or dependent care expenses</b> for which you plan to claim a credit . . . . .	<b>F</b>	_____
<b>G</b>	<b>Child Tax Credit</b> (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. <ul style="list-style-type: none"> <li>• If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then <b>less "1"</b> if you have three or more eligible children.</li> <li>• If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus <b>"1" additional</b> if you have six or more eligible children. . . . .</li> </ul>	<b>G</b>	_____
<b>H</b>	Add lines A through G and enter total here. ( <b>Note.</b> This may be different from the number of exemptions you claim on your tax return.) ▶ <b>H</b>	<b>H</b>	<u>2</u>
	For accuracy, complete all worksheets that apply. <ul style="list-style-type: none"> <li>• If you plan to <b>itemize or claim adjustments to income</b> and want to reduce your withholding, see the <b>Deductions and Adjustments Worksheet</b> on page 2.</li> <li>• If you have <b>more than one job or are married and you and your spouse both work</b> and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the <b>Two-Earners/Multiple Jobs Worksheet</b> on page 2 to avoid having too little tax withheld.</li> <li>• If <b>neither</b> of the above situations applies, <b>stop here</b> and enter the number from line H on line 5 of Form W-4 below.</li> </ul>		

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form <b>W-4</b> Department of the Treasury Internal Revenue Service	<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.	OMB No. 1545-0074 <b>2010</b>	
1	Type or print your first name and middle initial. <b>Angela</b>	2	Your social security number <b>234 56 7890</b>
	Last name <b>Smith</b>		
	Home address (number and street or rural route) <b>222 Warthog Road</b>	3	<input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <b>Note.</b> If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
	City or town, state, and ZIP code <b>Batesville, Mo. 12345</b>	4	If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>
5	Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)	5	<u>2</u>
6	Additional amount, if any, you want withheld from each paycheck . . . . .	6	\$ <u>0</u>
7	I claim exemption from withholding for 2010, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no tax liability and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no tax liability</b>.</li> </ul> If you meet both conditions, write "Exempt" here . . . . . ▶ <b>7</b>		
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.			
Employee's signature (Form is not valid unless you sign it.) ▶ <b>Angela Smith</b>		Date <b>(today's date)</b>	
8	Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9	Office code (optional)
		10	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form **W-4** (2010)

## Handout 2.2: Assessment—Answer Key (continued)

Based on Angela's pay stub below, answer the questions on the next page.

		<b>Allowances</b>	
<b>Grayline Electric</b>	<b>Angela Smith</b>	<b>Federal</b>	1
<b>SSN</b>	234-56-7890	<b>State</b>	1
<b>Employee ID</b>	56789		
<b>Pay Period</b>	2/1/10 to 2/28/10		
<b>Pay Date</b>	3/3/10		
<b>Earnings</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Regular Pay</b>	\$4,125.00	\$8,250.00	
<b>Vacation</b>	\$0.00	\$0.00	
<b>Total Income/Pay</b>	\$4,125.00	\$8,250.00	
<b>Before Tax Deductions</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Medical Insurance</b>	\$90.00	\$180.00	
<b>Retirement [401(k)]</b>	\$247.50	\$495.00	
<b>Total Before Tax Deductions</b>	\$337.50	\$675.00	
<b>Taxes</b>			
	<b>This Period</b>	<b>YTD</b>	
<b>Federal Income Tax</b>	\$598.87	\$1,197.74	
<b>Social Security Tax (FICA)</b>	\$255.75	\$511.50	
<b>Medicare Tax (FICA)</b>	\$59.81	\$119.62	
<b>Total</b>	\$914.43	\$1,828.86	
	<b>This Period</b>	<b>YTD</b>	
<b>Gross Pay</b>	\$4,125.00	\$8,250.00	
<b>Total Deductions</b>	\$1,251.93	\$2,503.86	
<b>Net Pay</b>	<b>\$2,873.07</b>	<b>\$5,746.14</b>	

## Handout 2.2: Assessment—Answer Key (continued)

1. What was Angela's gross pay for this pay period?  $\$4,125.00$
2. What is Angela's net pay for this pay period? Define "net pay."  
 $\$2,873.07$   
*Net pay is the "net" or remainder after all deductions and taxes are subtracted from gross pay.*
3. What are taxes? *Taxes are government fees on business and individual income, activities, products or property.*
4. For what do governments use tax revenues? *Governments use tax dollars to operate and to provide goods and services for the public.*
5. How much did Angela pay in FICA for the year?  $\$631.12$  ( $\$511.50 + \$119.62$ )
6. What is FICA, and how is the money that is collected used? *FICA stands for Federal Insurance Contributions Act. The money collected is used for Social Security payments to workers who are retired, to the disabled and to the minor children of deceased workers. Medicare provides medical insurance for those who are retired and 65 or older or disabled.*
7. How much did Angela pay in federal income tax this pay period?  $\$598.87$

## Lesson Description

Students participate in an activity to learn about checking accounts, savings accounts and check-cashing services. Students learn the components of a check, and they organize and enter information into a bank account register in order to determine the balance. Students learn why maintaining account records is important. Students balance a monthly account statement.

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## Concepts

Bank account register  
Checking account  
Check-cashing services  
Savings account

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## Objectives

Students will:

- Compare checking accounts, savings accounts and check-cashing services.
  - Explain the importance of maintaining records of deposits, withdrawals and payments from bank accounts.
  - Explain the importance of balancing bank accounts.
  - Demonstrate filling out and balancing a bank account register.
- 

## Content Standards

### National Standards in K-12 Personal Finance

**Planning and Money Management:** Organize and plan personal finances and use a budget to manage cash flow.

- **Standard 3:** Describe how to use different payment methods.
    - Eighth-grade expectation 3: Compare the costs of cashing a third-party check at various local financial institutions, including check-cashing services.
    - High school expectation 1: Demonstrate skill in basic financial tasks including scheduling bill payments, writing a check, reconciling a checking/debit account statement, and monitoring printed and/or online account statements for accuracy.
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## Time Required

60-75 minutes

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### Materials

- A copy of Handout 3.1 cut apart
- A copy of Handout 3.2, Handout 3.5 and Visual 3.3 for each student
- Copies of Handout 3.3 and 3.4 for each pair of students
- A copy of Handout 3.4—Answer Key for each pair of students
- Visual of Handout 3.4 for the teacher
- Visuals 3.1, 3.2 and 3.3
- A calculator for each pair of students
- Copies of Handout 3.3—Answer Key and Handout 3.5—Answer Key for the teacher

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### Procedures

1. Distribute to two students the cards from *Handout 3.1: How To Turn a Paycheck into Cash*. Have the student with card number 1 read the card. Discuss the following.
  - How many of you have a savings or checking account? (*Answers will vary.*)
  - Why do you have savings and/or checking accounts? (*Answers will vary, but may include: My parents made me open a savings account, banks are a safe place to keep my money or I deposit my weekly paycheck into a bank account.*)
  - A **checking account** is an account held at a bank, credit union or other financial institution in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds.
  - A **savings account** is an account at a bank, credit union or other financial institution in which account owners deposit funds. Account owners are paid interest on the amount deposited in the account. Account owners have the ability to withdraw funds but do not write checks on these accounts. The number of withdrawals in a given period of time may be limited.
2. Have the student with card number 2 read the card. Discuss the following.
  - How many of you have heard of or used (or had a family member use) a check-cashing service? (*Answers will vary.*)
  - Why do people use check-cashing services? (*don't have checking or savings accounts, services are quick and convenient*)

3. Distribute a copy of *Handout 3.2: What Do You Know?* to each student. Divide the class into pairs. Tell each pair to read each statement and decide whether the statement is true or false. Explain that they should be prepared to share their answers.
4. Allow time for pairs to work and then ask each question. Have pairs of students indicate with a “thumbs up” if they think the statement is true and a “thumbs down” if they think the statement is false. Discuss the following.
  - a. People are able to make deposits to and withdrawals from both savings accounts and checking accounts. This statement is true.
  - b. Check-cashing services charge minimal fees for cashing checks. This statement is false. The fees for check-cashing services vary, but these companies charge either a percentage of the check amount or a minimum fee to cash a check—typically up to \$10 each time a check is cashed. If your check is for \$100 and you have to pay a \$10 fee, you are paying 10 percent of your earnings in fees.
  - c. Usually people are able to cash checks for free or for a much reduced fee (less than a few dollars a month) at the bank where they have a savings or checking account. This statement is true. Often students can take advantage of the low or no monthly fees that many banks and credit unions offer to students. A student who has a no-fee student checking account would not pay a fee to cash a check. If savings or checking accounts do have fees, they rarely add up to more than a few dollars a month. Therefore, the monthly fees, if any, for a basic savings or checking account are usually less than the fee charged by a check-cashing service to cash just one check.
  - d. There are fees or costs associated with checking accounts. This statement is true. There are fees associated with checking accounts. For example, there are fees for ordering checks and fees if you bounce a check, i.e., have an “overdraft,” or use a debit card when there isn’t enough money in the account. There may also be fees if you are required to keep a certain amount (a “minimum balance”) in your account and you don’t. If you lose a check and ask the bank to issue a “stop-payment order” for the check so that someone doesn’t find it and then forge your name and cash it, you’ll also be charged a fee.
  - e. Savings accounts pay interest on the balance in the account. This statement is true. Keeping your savings in an account that earns interest is a way to make your savings grow.
  - f. It isn’t legal for companies to require employees to use “direct deposit.” This statement is false. It is legal and many companies do have this requirement. Businesses actually consider direct deposit to be an employee benefit because direct deposit is considered to be more convenient, safer and more efficient than cashing paper checks.
  - g. With a checking account, you can write checks to pay for many types of goods and services. This statement is true. If you want to write a check to

pay for your school yearbook, you can do so if you have a checking account. If you have to pay your own car insurance, you can write a check.

- h. There are no fees associated with savings accounts. This statement is false. There may be fees associated with a savings account. You may be required to have a minimum balance. If the amount in your account falls below that amount, you may be charged a fee. There may be a limit on how often you may make a withdrawal from a savings account. If you make a withdrawal more often, you may be charged a fee.
  - i. You may use an ATM or debit card with both savings and checking accounts. This statement is true. You can make arrangements with your bank to have a debit card that you can use to make withdrawals and deposits from both checking and/or savings accounts.
  - j. Banks are a safe place to keep your money. This statement is true. The Federal Deposit Insurance Corporation (FDIC) insures deposits in bank accounts up to \$250,000 per person per institution. This limit is temporary and is expected to revert to the old limit of \$100,000.
5. Discuss the following:
- How well did you answer the questions on Handout 3.2? (*Answers will vary.*)
  - What would you do if your employer didn't require direct deposit? Would you open a bank account or would you use a check-cashing service, and why? (*Answers will vary.*)
  - Suppose your company requires direct deposit and you open a checking account. How will you know how much money is in the account, particularly as you begin to withdraw, spend and make additional deposits? (*Answers will vary.*)
6. Explain that it is really important to know how much money is available in an account to avoid "overdrawing" the account—that is, taking out more money than is in the account. When a person overdraws an account, the bank charges the account holder a fee. The fee can be quite high—as much as \$35 per overdraft. Discuss the following:
- If you want to keep track of the money in your account, what information do you need? (*Answers will vary, but some students may suggest that you need a list of all your withdrawals and expenditures as well as all your deposits.*)
  - To keep track of the money in your bank account, you need to know the amount of each deposit to your account, the amount of each withdrawal from your account and the amount for each check that you write or purchase you make with a debit card.
  - How could you keep track of the money in your account, i.e., your financial transactions? (*computer spreadsheet, computer program, a notepad*)
  - Banks provide **bank account registers** in which account holders are able to record information in order to keep track of their money. A bank account register is essentially a table in which the account holder records important information.



- When people bank online, they can view an online table that indicates deposits that the bank has received, withdrawals that the bank has recorded, checks that the bank has paid and debit card transactions.
7. Explain that students will complete bank account registers. To do that, however, it is important to understand the various parts of a check. Display *Visual 3.1: Check Out Checks*, and discuss the following:
- Each check has a unique number. When you write a check, you should record the check number in the bank account register. The check number is also shown as the final set of digits along the bottom of the check.
  - Each check has a place to enter the date the check was written. You should also enter the date in the bank account register.
  - Each check has a section to enter the name of the person or company to which the check is being written. You should enter the name in the bank account register, too.
  - Each check has a place to record the amount of the check and to write out the amount of the check. It is important that your written description of the check amount matches the numerical amount. The written description is the legally binding amount. You should also enter the amount of the check in the bank account register.
  - Each check has a signature line. By signing the check, you give your bank permission to transfer money from your account to the account of the person or company to which you have written the check.
  - Each check shows the routing number. This is the first nine digits at the bottom of the check and indicates the financial institution responsible for payment. It is an address for your bank. If you use direct deposit or wish to allow automatic payments from your account, such as a payment for your car insurance, you will have to include this number on the payment instructions.
  - Each check displays the account number. This is the second set of numbers along the bottom of the check. You will have to include this number when arranging direct deposit or automatic payments from your account.
8. Display *Visual 3.2: Bank Account Register*. Remind students that a check register is a tool for keeping track of the money in their account. Discuss the following:
- The first entry records John Dough's first paycheck, which was automatically deposited into his account. It was deposited on Jan. 2, 2008, and it is a deposit or a "credit"; the dollar amount is added to John's balance. Because this was the first deposit, John's balance is now \$125.18.
  - The second entry is a check that John wrote to a clothing store. He has entered the check number, the date the check was written and the amount for which the check was written. This is a payment or a "debit" from his account. The amount is subtracted from his balance. His new balance is \$88.03.

- The next transaction is an ATM (automatic teller machine) withdrawal. Banks offer automatic teller cards to account holders. This allows account holders to deposit and withdraw money from ATMs. In this case, John used an ATM that wasn't one of his bank's ATMs. As a result, he had to pay a fee—also a deduction from his account. His new balance is \$66.53.
  - The next transaction is a debit card transaction. Banks also offer account holders the opportunity to use a debit card, which allows them to have money automatically transferred from their account to pay for a purchase. In this case, John bought dinner at a hamburger shop and paid with his debit card. The purchase amount is subtracted from his balance. The new balance is \$54.81.
  - The next transaction is the automatic deposit of John's second paycheck. This amount is added to his balance. The new balance is \$163.08.
  - The next transaction is a check that John wrote to pay his car insurance. This amount is subtracted from his balance. The new balance is \$73.58.
9. Explain that students will now practice recording transactions in order to track account balances. Divide students into pairs. Distribute a copy of *Handout 3.3: What's the Balance?*, a copy of *Handout 3.4: Bank Account Register* and a calculator to each pair of students. Continue to project Visual 3.2 as a guide.
10. Explain that Andrew Anakoia has not been entering information into a bank account register or an online spreadsheet. He has kept receipts, but he doesn't know his current balance. Tell pairs to reorder chronologically the transactions on Handout 3.3 and to enter them into the bank account register on Handout 3.4 in order to determine Andrew's balance. Allow time for students to work.
11. Display a transparency of *Handout 3.4: Bank Account Register—Answer Key* and distribute a copy to each pair of students. Discuss the following:
- What are fees that Andrew paid? (*\$1.50 for use of a out-of-network ATM*)
  - What was Andrew's balance on June 8? (*\$17.33*)
  - What would happen if Andrew tried to withdraw \$40, make a debit purchase for \$40 or write a check for \$40? (*He wouldn't have enough money in the account.*)
  - Although Andrew could go ahead and write a check, and the bank might allow him to use his debit card, he wouldn't have enough money in the account to cover the expense. The bank would charge him an overdraft fee, and that fee can be very high—as much as \$35.00 for each overdraft.
  - Why is it important for people to keep records of deposits to and withdrawals and expenditures from an account? (*to be certain that they do not spend money that isn't in the account, to avoid overdrafts, to know what they have, to manage their spending*)
  - It is very important to know that the bank has recorded account transactions accurately. It's also important to make sure that you recorded your transactions correctly.

12. Explain that when people have bank accounts, they receive bank statements every month or quarter via mail, and/or the bank provides the account information online for customers to view. The statement or online information keeps people informed of all transactions they made during the statement period and allows them to determine if their records match the bank records. Display a copy of *Visual 3.3: Balancing Andrew's Checking Account* and distribute a copy to each student. Refer students to *Handout 3.4: Bank Account Register—Answer Key*. Discuss the following and refer to *Visual 3.3: Balancing Andrew's Bank Account—Answer Key* as you go through the process of balancing Andrew's checking account with the students:
  - The first step in balancing an account is to put a checkmark by all checks that have cleared and all deposits that have been credited to the account.
  - What is the first item listed on the bank statement? (*a deposit on May 1*) Find that item on the check register and put a check next to the item. It is important to place a checkmark next to the item on the bank statement, too.
  
13. Tell students to continue placing checkmarks in the bank account register by items listed on the bank statement until reaching the bottom of the bank statement. When students have completed this process, explain that the next step is to enter the ending balance shown on the bank statement in the box on the bank statement worksheet. Ask the students what the ending balance is on the bank statement. (*\$128.22*) Enter the ending balance in the worksheet on the visual and tell students to enter it on their handout. Discuss the following:
  - Are there any deposits listed in the bank account register that do not appear on the bank statement—that is, deposits that do not have a checkmark by them? (*No.*)
  - If there were additional deposits, they would be added to the balance on the statement because the bank has not recorded those transactions on this bank statement. Because there are no additional deposits, the total is equal to the ending balance—*\$128.22*. Demonstrate this procedure by entering the total on *Visual 3.3* and ask students to do the same.
  - Are there any checks, ATM withdrawals or debit purchases which have no checkmarks in the bank account register? (*Yes.*) Are there any fee amounts that do not have a checkmark by them? (*Yes.*) If so, these items must be listed in the "Items Outstanding" area of the worksheet.
  - These items must be subtracted from the balance on the worksheet.
  
14. As students name expense transactions that are not listed on the statement, write them in the "Items Outstanding" section of the worksheet and have students enter the information on their handout. (Refer to *Visual 3.3: Balancing Andrew's Bank Account—Answer Key*) Discuss the following:
  - Items outstanding must be added together, and the total should be recorded on the line labeled "Total Items Outstanding." (*\$110.89*)

- The total amount outstanding is subtracted from the balance listed on the Total line above. ( $\$128.22 - \$110.89 = \$17.33$ )
- The resulting amount is the total balance for this time period. It should match the amount shown as the balance in the bank account register. ( $\$17.33$ )
- If the statement balance and the bank account register balance do not match, you have made an error. It could be a small entry error—for example, entering \$18.67 when the debit amount was actually \$19.67. It could also be that you failed to enter a debit or ATM withdrawal or service fee in your bank account register. And, there is always the possibility that the bank has made an error.

### Closure

15. Review the key concepts in the lesson by asking the following questions.
  - What are some advantages of having a checking or savings account? (*money is safe, your money may earn interest depending on the type of account, low or no fees for cashing checks, record of transactions*)
  - What are some disadvantages of using check-cashing services? (*The fees are very high.*)
  - Why is it important to maintain account records and keep track of bank account balances? (*to avoid paying fees for overdrafts, to make certain the records are accurate and show the correct balance, to know where your money is going*)

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### Assessment

16. Distribute a copy of *Handout 3.5: Assessment* to each student. Review the instructions and allow time for students to work.
17. Review student answers using *Handout 3.5: Assessment—Answer Key*.

Visual 3.1: Check Out Checks

*o/o* Andrew Anakoia No. 155 *o/o*  
1234 Kingsway  
Our Town, USA 23456 \_\_\_\_\_ , \_\_\_\_\_

*PAY* \_\_\_\_\_ \$  \_\_\_\_\_  
\_\_\_\_\_ Dollars

 Million Dollar Bank  
100 Dollar Lane  
Our Town, USA 23456

Memo \_\_\_\_\_ *Card Check*

*o/o* ••098765432 1234567890•• 155 *o/o*

### Visual 3.2: Bank Account Register

John Dough's Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	√	Fee (Debit)	Deposit (Credit)	Balance
	01/02/10	Paycheck				\$125.18	\$125.18
100	01/15/10	Old Blue (clothing)	\$37.15				\$88.03
ATM	01/16/10	Cash (out-of-network ATM)	\$20.00		\$1.50		\$66.53
Debit	01/25/10	Hamburger Haven	\$11.72				\$54.81
	01/30/10	Paycheck				\$108.27	\$163.08
101	02/08/10	Safe Gecko Car Insurance	\$89.50				\$73.58

### Visual 3.3: Balancing Andrew’s Bank Account

Bank Statement				
Andrew Anakoia 1234 Kingsway Our Town, USA		Million Dollar Bank 100 Dollar Lane Our Town, USA	Statement Period: 5/1/10-5/31/10 Account Number: 10-5245	
Date	Item	Withdrawal Amount	Deposit Amount	Balance
1-May	Opening balance/ deposit			\$155.76
2-May	ATM withdrawal	\$40.00		\$115.76
5-May	Debit card	\$47.30		\$68.46
16-May	Deposit		\$95.30	\$163.76
17-May	Check #96	\$95.00		\$68.76
18-May	Debit card	\$34.80		\$33.96
31-May	Deposit		\$155.76	\$189.72
31-May	ATM	\$60.00		\$129.72
31-May	Service charge	\$1.50		\$128.22
<b>31-May ENDING BALANCE</b>				\$128.22
Check #	Amount			
#96	\$95.00			
In your bank account register, mark with a check all checks paid, ATM and debit withdrawals made and certified, and deposits credited.				
Enter the ending balance shown on the bank statement				
Add + (deposit(s) that do not appear on the statement for this period)				\$
				\$
				\$
<b>TOTAL</b>				\$
Enter Items Outstanding: (withdrawals that have been entered in the bank account register, but do not appear on this statement)				
				\$
				\$
				\$
				\$
				\$
<b>TOTAL ITEMS OUTSTANDING:</b>				\$
Subtract total items outstanding from the amount listed on the TOTAL line above and record new amount on TOTAL BALANCE line.				
<b>TOTAL BALANCE</b> This amount should equal the balance in your bank account register. If it does not, then your account does not balance, and there is an error.				\$

**Visual 3.3: Balancing Andrew’s Bank Account—Answer Key**

Bank Statement				
Andrew Anako 1234 Kingsway Our Town, USA		Million Dollar Bank 100 Dollar Lane Our Town, USA	Statement Period: 5/1/10-5/31/10 Account Number: 10-5245	
Date	Item	Withdrawal Amount	Deposit Amount	Balance
1-May	Opening balance/ deposit			\$155.76
2-May	ATM withdrawal	\$40.00		\$115.76
5-May	Debit card	\$47.30		\$68.46
16-May	Deposit		\$95.30	\$163.76
17-May	Check #96	\$95.00		\$68.76
18-May	Debit card	\$34.80		\$33.96
31-May	Deposit		\$155.76	\$189.72
31-May	ATM	\$60.00		\$129.72
31-May	Service charge	\$1.50		\$128.22
<b>31-May ENDING BALANCE</b>				<b>\$128.22</b>
Check #	Amount			
#96	\$95.00			
In your bank account register, mark with a check all checks paid, ATM and debit withdrawals made and certified, and deposits credited.				
Enter the ending balance shown on the bank statement				\$128.22
Add + (deposit(s) that do not appear on the statement for this period)				\$0.00
<b>TOTAL</b>				<b>\$128.22</b>
Enter Items Outstanding: (withdrawals that have been entered in the bank account register, but do not appear on this statement)				
Check #97				\$69.00
Debit				\$15.67
Debit				\$9.97
Check #98				\$16.25
<b>TOTAL ITEMS OUTSTANDING:</b>				<b>\$110.89</b>
Subtract total items outstanding from the amount listed on the TOTAL line above and record new amount on TOTAL BALANCE line.				
<b>TOTAL BALANCE</b> This amount should equal the balance in your bank account register. If it does not, then your account does not balance, and there is an error.				<b>\$17.33</b>



### Handout 3.1: How to Turn a Paycheck into Cash

1. John Dough got his first job. He thought he had done everything he needed to do, but then there was a surprise. His employer, ABC Mart, doesn't issue paper paychecks. Employees must have a savings or checking account at a bank or credit union. The company automatically deposits the employees' pay into their accounts. John doesn't have a bank account and isn't so sure that he wants one. ABC Mart gave him the forms he must complete for the automatic deposit. Now, John is going to talk with his mom about opening a bank account.
2. Alesandra Monter has a summer job at *62 Flavors and Counting* ice cream shop. She received her first paycheck and took it to the *Check 'n Cash* store down the street. She had to pay a \$7 fee to have her check cashed, but now she has lots of cash in her wallet.

### **Handout 3.2: What Do You Know?**

Read each statement and discuss with your partner to decide whether the statement is true or false. Indicate true or false by writing T or F in the blank for each statement. Be prepared to share your answers with the class.

- \_\_\_\_\_ a. People are able to make deposits to and withdrawals from both savings accounts and checking accounts.
- \_\_\_\_\_ b. Check-cashing services charge minimal fees for cashing checks.
- \_\_\_\_\_ c. Usually, people are able to cash checks for free or for a much reduced fee (less than a few dollars a month) at the bank where they have a savings or checking account.
- \_\_\_\_\_ d. There are fees or costs associated with checking accounts.
- \_\_\_\_\_ e. Savings accounts pay interest on the balance in the account.
- \_\_\_\_\_ f. It isn't legal for companies to require employees to use "direct deposit."
- \_\_\_\_\_ g. With a checking account, you can write checks to pay for many types of goods and services.
- \_\_\_\_\_ h. There are no fees associated with savings accounts.
- \_\_\_\_\_ i. You may use an ATM or debit card with both savings and checking accounts.
- \_\_\_\_\_ j. Banks are a safe place to keep your money.

**Handout 3.3: What's the Balance?**

<b>Andrew Anako's Transactions</b>			
Check Number	Date	Transaction	Amount
98	6/8/10	Books Galore	\$16.25
	5/01/10	Paycheck	\$155.76
	5/2/10	ATM withdrawal	\$40.00
	5/5/10	Debit-Grocery Gallery	\$47.30
96	5/17/10	Safety First Insurance (car insurance)	\$95.00
97	5/31/10	Picture Posers (senior pictures deposit)	\$69.00
	5/16/10	Paycheck	\$95.30
	5/30/10	Paycheck	\$155.76
	6/2/10	Debit-Music Markers	\$15.67
	6/4/10	Debit-Hamburger Haven	\$9.97
	5/31/10	ATM withdrawal (non-network fee 1.50)	\$60.00
	5/18/10	Debit-BP gasoline	\$34.80

### Handout 3.4: Bank Account Register

Directions: Use this bank account register to reorder Andrew Anako's transactions and to determine his current balance.

Andrew Anako's Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	√	Fee (Debit)	Deposit (Credit)	Balance

**Handout 3.4: Bank Account Register—Answer Key**

Andrew Anako'a's Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	√	Fee (Debit)	Deposit (Credit)	Balance
	5/1/10	Paycheck				\$155.76	\$155.76
ATM	5/2/10	Cash	\$40.00				\$115.76
Debit	5/5/10	Grocery Gallery	\$47.30				\$68.46
	5/16/10	Paycheck				\$95.30	\$163.76
96	5/17/10	Safety First Insurance (car insurance)	\$95.00				\$68.76
Debit	5/18/10	BP gasoline	\$34.80				\$33.96
	5/30/10	Paycheck				\$155.76	\$189.72
ATM	5/31/10	Cash (out-of-network ATM)	\$60.00		\$1.50		\$128.22
97	5/31/10	Picture Posers (senior pictures deposit)	\$69.00				\$59.22
Debit	6/2/10	Music Markers	\$15.67				\$43.55
Debit	6/4/10	Hamburger Haven	\$9.97				\$33.58
98	6/8/10	Books Galore	\$16.25				\$17.33

### Handout 3.5: Assessment

Directions: Use the bank account register on this page to reorder Sandra Sherril's transactions listed below and to determine her current balance.

Sandra Sherril's Transactions			
Check number	Date	Transaction	Amount
117	6/8/10	Buy the Notes	\$28.13
	6/15/10	Paycheck	\$150.80
	6/1/10	ATM withdrawal	\$40.00
	6/5/10	Debit-BP gasoline	\$47.30
118	6/16/10	Insurance Geek (car insurance)	\$95.00
	5/31/10	Paycheck	\$167.00
	6/28/10	Debit-Ice Cold Cream	\$5.87
	6/2/10	ATM withdrawal—out-of-network fee \$1.50	\$20.00
	6/25/10	Debit-Hamburgers To Go	\$8.68
	6/26/10	Debit-Clothes Rack	\$18.72
	6/16/10	Debit-Vending Venues	\$15.26
	6/12/10	ATM withdrawal (out-of-network fee \$1.50)	\$20.00

Sandra Sherril's Transactions			
Check number	Date	Transaction	Amount

**Handout 3.5: Assessment—cont.**

Directions: Use the bank account register that you completed for Sandra Sherril and her bank statement below to balance her account.

Bank Statement				
Sandra Sherril 1234 Broad Street Our Town, USA		Million Dollar Bank 100 Dollar Lane Our Town, USA		Statement Period: 5/15/10-6/14/10 Account Number: 10-5245
Date	Item	Check Amount	Deposit Amount	Balance
31-May	Opening balance/ deposit			\$167.00
1-June	ATM withdrawal	\$40.00		\$127.00
2-June	ATM withdrawal	\$20.00		\$107.00
2-June	Service charge	\$1.50		\$105.50
5-June	Debit	\$47.30		\$58.20
8-June	Check #117	\$28.13		\$30.07
12-June	ATM withdrawal	\$20.00		\$10.07
12-June	Service charge	\$1.50		\$8.57
<b>31-May ENDING BALANCE</b>				<b>\$8.57</b>
Check #	Amount			
#117	\$28.13			
In your bank account register, mark with a check all checks paid, ATM and debit withdrawals made and certified, and deposits credited.				
Enter the ending balance shown on the bank statement				
Add + (deposit(s) that do not appear on the statement for this period)				
<b>TOTAL</b>				
Enter Items Outstanding: (withdrawals that have been entered in the bank account register, but do not appear on this statement)				
<b>TOTAL ITEMS OUTSTANDING:</b>				
Subtract total items outstanding from the amount listed on the TOTAL line above and record new amount on TOTAL BALANCE line.				
<b>TOTAL BALANCE</b> This amount should equal the balance in your bank account register. If it does not, then your account does not balance, and there is an error.				

**Handout 3.5: Assessment—Answer Key—cont.**

Sandra Sherril's Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	√	Fee (Debit)	Deposit (Credit)	Balance
	5/31/10	Paycheck		√		\$167.00	\$167.00
ATM	6/1/10	Cash	\$40.00	√			\$127.00
ATM	6/2/10	Cash (out-of-network ATM)	\$20.00	√	\$1.50		\$105.50
Debit	6/5/10	BP (gasoline)	\$47.30	√			\$58.20
117	6/8/10	Buy the Notes	\$28.13	√			\$30.07
ATM	6/12/10	Cash (out-of-network ATM)	\$20.00	√	1.50		\$8.57
	6/15/10	Paycheck				\$150.80	\$159.37
118	6/16/10	Insurance Geek (car insurance)	\$95.00				\$64.37
Debit	6/16/10	Vending Venues	\$15.26				\$49.11
Debit	6/25/10	Hamburgers To Go	\$8.68				\$40.43
Debit	6/26/10	Clothes Rack	\$18.72				\$21.71
Debit	6/28/10	Ice Cold Cream	\$5.87				\$15.84



**Handout 3.5: Assessment—Answer Key—cont.**

Bank Statement					
Sandra Sherril 1234 Broad Street Our Town, USA		√	Million Dollar Bank 100 Dollar Lane Our Town, USA	Statement Period: 5/15/10-6/14/10 Account Number: 10-5245	
Date	Item		Check Amount	Deposit Amount	Balance
31-May	Opening balance/ deposit	√			\$167.00
1-June	ATM withdrawal	√	\$40.00		\$127.00
2-June	ATM withdrawal	√	\$20.00		\$107.00
2-June	Service charge	√	\$1.50		\$105.50
5-June	Debit	√	\$47.30		\$58.20
8-June	Check #117	√	\$28.13		\$30.07
12-June	ATM withdrawal	√	\$20.00		\$10.07
12-June	Service charge	√	\$1.50		\$8.57
<b>31-May ENDING BALANCE</b>					<b>\$8.57</b>
Check #	Amount				
#117	\$28.13				
In your bank account register, mark with a check all checks paid, ATM and debit withdrawals made and certified, and deposits credited.					
Enter the ending balance shown on the bank statement					\$8.57
Add + (deposit(s) that do not appear on the statement for this period)					\$150.80
<b>TOTAL</b>					<b>\$159.37</b>
Enter Items Outstanding: (withdrawals that have been entered in the bank account register, but do not appear on this statement)					
Check #118					\$95.00
Debit					\$15.26
Debit					\$8.68
Debit					\$18.72
Debit					\$5.87
<b>TOTAL ITEMS OUTSTANDING:</b>					<b>\$143.53</b>
Subtract total items outstanding from the amount listed on the TOTAL line above and record new amount on TOTAL BALANCE line.					
<b>TOTAL BALANCE</b> This amount should equal the balance in your bank account register. If it does not, then your account does not balance, and there is an error.					<b>\$15.84</b>



## Lesson Description

Students work in pairs to participate in a “Track Star” game that illustrates positive and negative spending behaviors. Each pair of students analyzes the “Track Star” results, identifies effective and ineffective budgeting behaviors, and generates a list of budgeting principles.

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## Concepts

Budget  
Expenses  
Income

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## Objectives

Students will:

- Define budget.
- Define income and expenses.
- Give examples of effective and ineffective budgeting behavior.
- Identify principles of effective budgeting.

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## Content Standards

### National Standards in K-12 Personal Finance

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Develop a plan for spending and saving.
  - High school expectation 3: Identify changes in personal spending behavior that contributes to wealth-building.

### National Standards in Economics

- **Standard 13:** Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.
  - Benchmark 2, Grade 8: To earn income, people sell productive resources. These include their labor, capital, natural resources and entrepreneurial talents.

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## Time Required

45 minutes

## Materials

- A copy of Handout 4.1 cut into strips
- A copy of Handout 4.2, 4.3 and 4.4 for each pair of students
- A copy of Handouts 4.5 and 4.6 for each student
- Visual of Handout 4.5
- One copy of Handout 4.5—Answer Key and Handout 4.6—Answer Key for the teacher
- Scissors for each student or pair of students
- One calculator for each student

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## Procedures

1. Distribute the definition strips from *Handout 4.1: Definitions* to various students and instruct them to wait until they are called on to read their definitions.
2. Write the word budget on the board and ask the students to write down three words or phrases that come to mind when they think about that term. Ask students to share various answers. (*Answers will vary but may include: spending, saving, money, spending plan or credit.*)
3. Explain that “budget” may be used as a noun or a verb. Call on the student who has the definition of the term “budget” from Handout 4.1 to read the definition aloud to the class.
4. Write the word “income” on the board and ask students what the term means. (*Answers may vary but may include the money one makes, money received, job pay, etc.*) Call on the student who has the definition of the term “income” from Handout 4.1 to read the definition aloud to the class.
5. Write the word “expenses” on the board and ask students what the term means. (*Answers may vary but may include spending money, payments, costs, etc.*) Call on the student who has the definition for “expenses” from Handout 4.1 to read the definition to the class.
6. Tell students that working in pairs they are going to play a “Track Star” game. The objective of this board game is to see which of the two players can finish running the track first. They advance by moving their game piece based on the information on the cards.
7. Divide students into pairs. Distribute *Handout 4.2: Track Star Game Board* to each pair of students. Tell students that the two competitors in the game are “Jet Stream” and “Whoosh.” Tell students to decide which of the pair will be Jet Stream and which will be Whoosh.

8. Distribute to each pair of students a pair of scissors and one copy of *Handout 4.3: Jet Stream's Cards* and one copy of *Handout 4.4: Whoosh's Cards*. Tell students to cut out their cards and their game pieces from their Jet Stream (Handout 4.3) or Whoosh (Handout 4.4) sheet, shuffle their cards and place them face down on the appropriate box on the game board.
9. Explain the directions for playing the game as follows:
  - Those students who chose to be Whoosh should draw the top card from their set, read it to their partner, follow the directions and place the used card at the bottom of the stack.
  - If the card drawn instructs Whoosh to move back one or more spaces and the Whoosh game piece is on the start block, the player should put that card at the bottom of the Whoosh card stack and draw another card in order to move forward from the start block.
  - After Whoosh has taken a turn, Jet Stream should take a turn drawing from the Jet Stream card set and following the same rules.
  - Students should alternate taking turns until someone wins the game.
  - If you land on an instruction space, follow the instructions.
10. Tell students to raise their hands when they finish the game. At that time, give each student a copy of *Handout 4.5: Savvy Spending and Saving Principles*. Tell students to develop answers as a pair but for both students to record their answers.
11. Ask students to identify expenses that both Whoosh and Jet Stream had in the game. (*Answers may include friend's birthday party gift, flat tire repair, increased movie ticket prices, etc.*) Ask students what these expenses have in common. (*Answers may include that they are unexpected, that expenses such as flat tire repair and increased movie ticket prices are something over which they have no control, and that in some ways these expenses are optional for students—they don't have to go to a movie, for example—and in some ways, practically speaking, they are not optional because flat tires must be repaired, friends may expect a birthday present if you attend their party, etc.*)
12. Using Handout 4.5 as a visual, call on students for their answers and fill in the visual so that all students will have the answers. See *Handout 4.5: Savvy Spending and Saving Principles—Answer Key* for suggested answers.

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## Closure

13. Review the key points of this lesson by discussing the following.
  - What is budgeting? (*managing one's income and expenses by creating a plan*)
  - What is income? (*earnings or payment received for resources provided, such as labor*)

- What are expenses? (*costs incurred or the spending of money*)
- Why do you think there were blocks on the road that said, “Friend’s Birthday Party Gift. Move back one block,” “Flat tire repair. Move back one block,” “Movie tickets increase in price. Move back one block.”? (*Even savvy spenders/savers like Jet Stream have unexpected expenses.*)
- What are some important principles to keep in mind if you want to be a savvy spender/saver? (See *Handout 4.5: Savvy Spending and Saving Principles—Answer Key.*)

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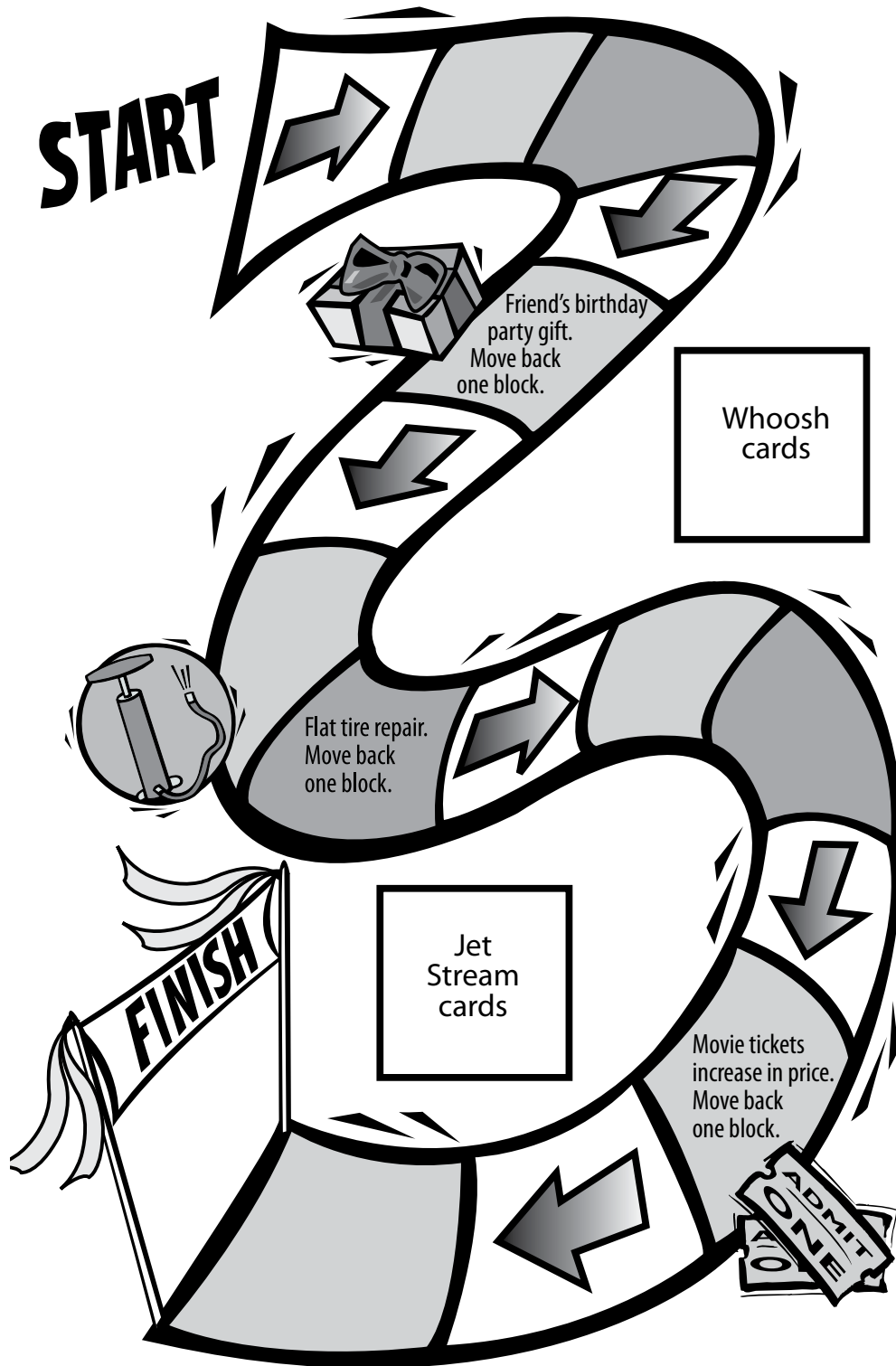
### Assessment

14. Distribute *Handout 4.6: Maria’s Story Assessment* and have students follow the instructions to create a budget. (*Budgets may vary but expenses should not exceed income.*) Optional: Have students exchange their completed Handout 4.6 with another student and instruct them to check each other’s budget for Maria to be sure that the math is correct and that expenses do not exceed income. See *Handout 4.6: Maria’s Story—Answer Key* for suggested answers.

### Handout 4.1: Definitions

Term	Definition
<b>Budget</b>	(noun) A plan for managing income and expenses (verb) To plan or to manage income and expenses
<b>Income</b>	Earnings or payment received for resources provided such as labor
<b>Expenses</b>	Costs incurred or the spending of money

Handout 4.2: Track Star Game Board




Note: Game board can be photocopied at 200% to fit on 11" x 17" paper.



**Handout 4.3: Jet Stream's Cards**

	<p>You established a savings account and put 10 percent of your paycheck into that account before spending on other things. Move forward three spaces.</p>	<p>You put 5 percent of your paycheck in a fund for unexpected expenses. Move forward one space.</p>
<p>You elected to receive your paycheck by direct deposit. Move forward one space.</p>	<p>You waited until you received your first paycheck before you spent your earnings. Move forward two spaces.</p>	<p>Based on your monthly income, you created a budget. When your expenses were greater than your income, you reworked your budget so that your income was equal to or greater than your expenses. Move forward three spaces.</p>
<p>You started keeping track of your miscellaneous cash expenditures so that you'd know where your money was going. Move forward two spaces.</p>	<p>At the end of the month, you compared your actual spending to your budget and made a note of categories where you overspent. Move forward two spaces.</p>	<p>Based on your monthly income, you created a budget. Move forward two spaces.</p>
<p>You received a bill from Monster Music and paid it a week before it was due. Move forward two spaces.</p>	<p>You got \$20 cash from your ATM machine, kept the receipt and recorded that withdrawal. Move forward two spaces.</p>	<p>You received your monthly bank statement and balanced your checkbook. Move forward three spaces.</p>

**Handout 4.4: Whoosh's Cards**

	<p>You established a savings account and put 10 percent of your paycheck into that account before spending on other things. Move forward three spaces.</p>	<p>You did not put money from your paycheck in a fund for unexpected expenses. Move back one space.</p>
<p>You threw away your receipt after withdrawing cash from your ATM and forgot to record it. Move back two spaces.</p>	<p>You made a budget based on your gross rather than you net pay. Move forward two spaces for creating a budget but move back one space for basing it on gross rather than net pay.</p>	<p>You didn't double-check your math when you created a budget and do not have an accurate amount for your monthly expenses. Move back two spaces.</p>
<p>You notice you always run out of cash but have no idea where you are spending it. Move back two spaces for not keeping track of your miscellaneous cash transactions.</p>	<p>To stay within your entertainment budget, you didn't purchase any candy or soft drinks while at the movie. Move forward two spaces.</p>	<p>You purchased a shirt at a concert without having any money in your budget for this. Move back one space.</p>
<p>You received a bill from Instruments Inc. for a guitar you purchased, and you mailed the payment on the due date. Move back two spaces because your payment will be late.</p>	<p>You got \$20 cash from your ATM machine, kept the receipt and recorded the withdrawal. Move forward two spaces.</p>	<p>You received your monthly bank statement but never got around to balancing your account. Move back three spaces.</p>

### Handout 4.5: Savvy Spending and Saving Principles

**Instructions:** Look at Jet Stream and Whoosh’s cards from the Track Star Game. Put the cards that indicate successful spending/saving behavior (and result in moving forward) in one set and the cards that illustrate unsuccessful spending/saving behavior in the other set. Then use the instructions on each set of cards to create a list of spending and saving principles or guidelines for each. For example, for the card that says, “You got \$20 cash from your ATM machine, kept the receipt and recorded that withdrawal. Move forward two spaces,” you might write a principle or guideline such as “Keep receipts of financial transactions” or “Record all financial transactions.”

Successful Spending/ Saving Principles	Unsuccessful Spending/ Saving Principles

### Handout 4.5: Savvy Spending and Saving Principles—Answer Key

**Instructions:** Look at Jet Stream and Whoosh’s cards from the Track Star Game. Put the cards that indicate successful spending/saving behavior (and result in moving forward) in one set and the cards that illustrate unsuccessful spending/saving behavior in the other set. Then, look at each set of cards in order to create a list of general principles or guidelines for each. For example, for the card that says, “You got \$20 cash from your ATM machine, kept the receipt and recorded that withdrawal. Move forward two spaces,” you might conclude that a principle or guidelines could be “Keep receipts of financial transactions,” or “Record all financial transactions.”

Successful Spending/ Saving Principles	Unsuccessful Spending/ Saving Principles
Create a budget and stick with it.	Forget about taxes when estimating the amount of your paycheck.
Don’t spend more than you make.	Don’t have a “rainy day” fund for unexpected expenses.
Keep track of your cash transactions.	Don’t worry about recording cash transactions.
Balance your bank accounts.	Don’t worry about keeping receipts of financial transactions.
Keep receipts of financial transactions.	Don’t bother to balance your bank accounts. Your bank knows how much money you have, even if you don’t.
Double-check your math.	Don’t hesitate to make an unplanned purchase. You can always make up that expenditure by cutting back on something else.
Pay your bills on time.	Don’t worry about mailing your bill payments in advance of the due date.
Pay yourself first by saving before you spend.	Pay all your bills and spend on miscellaneous items before putting money into a savings account.
Save for unexpected expenses.	

### Handout 4.6: Maria's Story Assessment

Maria is one of your best friends. She keeps complaining that she runs out of money each month before she gets paid. She's asked you to help her make a budget based on her income from her part-time job. She handed you a crumpled paper with the following record of her expenditures for last month. Before you help her make a budget, first help her balance her monthly transactions by filling in the last column on the table below. To obtain the balance, add income and subtract expenditures and withdrawals.

Date	Transaction	Expenditure	Income or Withdrawal	Balance
2/1	Paycheck-Direct Deposit		\$168.43	
2/1	ATM cash + fee		-\$21.50	
2/1	Movie and soft drink	\$9.50		
2/3	Gasoline	\$22.97		
2/5	Music CD	\$17.99		
2/10	Old Navy clothes	\$43.47		
2/12	ATM cash		-\$40.00	
2/15	Jewelry	\$14.99		
2/19	Gasoline	\$16.02		

**Handout 4.6: Maria’s Story Assessment cont.**

Using the information on the previous page, help Maria make a budget so that her expenditures do not exceed her monthly income of \$168.43. Also, be sure to allocate at least \$35 per month for gasoline since Maria has to use her car to get to work. Use the form below. If your first budget attempt goes over her income, use the second budget attempt column.

Income	1st Budget Attempt	2nd Budget Attempt
Earnings		
Other (gifts, etc.)		
<b>Total Income</b>		
<b>Expenses</b>		
<b>Total Expenses</b>		
<b>Total Income Less Expenses</b>		

On the back of this page, write one paragraph explaining what a budget is and identifying at least three savvy spending and saving principles.

**Handout 4.6: Maria’s Story Assessment—Answer Key**

Maria is one of your best friends. She keeps complaining that she runs out of money each month before she gets paid. She’s asked you to help her make a budget based on her income from her part-time job. She handed you a crumpled paper with the following record of her expenditures for last month. Before you help her make a budget, first help her balance her monthly transactions by filling in the last column on the table below. To obtain the balance, add income and subtract expenditures and withdrawals.

<b>Date</b>	<b>Transaction</b>	<b>Expenditure</b>	<b>Income or Withdrawal</b>	<b>Balance</b>
2/1	Paycheck-Direct Deposit		\$168.43	<i>\$168.43</i>
2/1	ATM cash + fee		-\$21.50	<i>146.93</i>
2/1	Movie and soft drink	\$9.50		<i>137.43</i>
2/3	Gasoline	\$22.97		<i>114.46</i>
2/5	Music CD	\$17.99		<i>96.47</i>
2/10	Old Navy clothes	\$43.47		<i>53.00</i>
2/12	ATM cash		-\$40.00	<i>13.00</i>
2/15	Jewelry	\$14.99		<i>-1.99</i>
2/19	Gasoline	\$16.02		<i>-18.01</i>

**Handout 4.6: Maria’s Story Assessment—Answer Key cont.**

(Answers will vary but will look similar to the example below.)

Using the information on the previous page, help Maria make a budget so that her expenditures do not exceed her monthly income of \$168.43. Also, be sure to allocate at least \$35 per month for gasoline since Maria has to use her car to get to work. Use the form below. If your first budget attempt goes over her income, use the second budget attempt column.

<b>Income</b>	<b>1st Budget Attempt</b>	<b>2nd Budget Attempt</b>
Earnings	\$163.43	\$163.43
Other (gifts, etc.)	0.00	
<b>Total Income</b>	163.43	163.43
<b>Expenses</b>		
<i>Gasoline</i>	-35.00	-35.00
<i>Cash</i>	-50.00	-50.00
<i>Clothes, jewelry</i>	-60.00	-50.00
<i>Entertainment, CDs</i>	-30.00	-20.00
<b>Total Expenses</b>	175.00	155.00
<b>Total Income Less Expenses</b>	-11.57	8.43

On the back of this page, write one paragraph explaining what a budget is and identifying at least three savvy spending and saving principles.



## Lesson Description

Students calculate compound interest to identify benefits of saving in interest-bearing accounts. They learn the “rule of 72” and apply it to both investments and debt. They learn that there is a relationship between the level of risk for an investment and the potential reward or return on that investment.

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## Concepts

Compound interest  
Interest  
Non-interest bearing account  
Principal  
Risk-reward relationship  
Rule of 72  
Saving

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## Objectives

Students will:

- Explain the difference between a non-interest bearing account and an interest-bearing account.
  - Calculate interest compounded semiannually.
  - Explain and demonstrate the Rule of 72.
  - Describe the risk-reward relationship.
- 

## Content Standards

### National Standards in K-12 Personal Finance

Saving and Investing: Implement a diversified investment strategy that is compatible with personal goals.

- **Standard 1:** Discuss how saving contributes to financial well-being.
  - High school expectation 3: Identify and compare saving strategies, including “paying yourself first,” using payroll deductions and comparison shopping to spend less.
- **Standard 3:** Evaluate investment alternatives.
  - High school expectation 3: Compare the risks and returns of various investments

### National Standards in Economics

- **Standard 12:** Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.
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- Benchmark 1, Grade 12: An interest rate is the price of money that is borrowed or saved.

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## Time Required

45 minutes

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## Materials

A copy of Handouts 5.1, 5.2 and 5.3 for each student  
Visuals of *Handout 5.1—Answer Key*, *Handout 5.2—Answer Key* and *Handout 5.3—Answer Key*  
A calculator for each student

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## Procedures

1. Begin by asking students the following:
  - What does it mean to be a saver? (*Answers may vary but may include not spending all of one's income, having money left after paying expenses, income greater than expenses, etc.*)
  - What do you suppose it means to be a savvy saver? (*Answers may vary but may include being a smart saver, knowing about places to save one's money, knowing about different savings accounts, etc.*)
2. Explain that **saving** is income not spent. Distribute *Handout 5.1: Maria's Saving Decision* to all students and explain that they may see the difference between a saver and a savvy saver when they examine Maria's story. Call on a student to read aloud the first paragraph of Handout 5.1.
3. Explain the following:
  - A **non-interest bearing account**, or zero-interest account, is one in which no interest is paid on the **principal**—that is, the amount of deposit or account balance.
  - **Interest** is the price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays the account holder interest. There are various types of interest-bearing accounts depending on the amount of interest and how often the interest is paid.

- **Compound interest** means that interest is computed on the sum of the original principal and any accrued (accumulated or earned) interest. For example, an account that pays 5 percent interest “compounded semiannually” means that every six months  $\frac{1}{2}$  of 5 percent, i.e., 2.5 percent, interest is paid on the principal and any accrued interest.
4. Show students how to calculate 5 percent interest compounded semiannually by demonstrating the answers to problems #1 through #3 on Handout 5.1. (Refer to *Handout 5.1: Maria’s Savings Decision—Answer Key* for answers.)
  5. Distribute a calculator to each student and instruct students to complete Handout 5.1 (problem #4) on their own.
  6. Display a visual of Handout 5.1 and go over answer #4 on the handout. After reviewing all of the questions on Handout 5.1, ask students the following:
    - What is a non-interest bearing account? (*an account or deposit that does not pay interest on the principal*)
    - What could Maria have bought with the \$50.62 of interest she might have earned on her savings? (*Answers may vary.*)
    - Would you classify Maria as a saver or a savvy saver? (*saver*) Why? (*She didn’t invest her money in a way that would give her a return on her investment, i.e. an account that pays interest on the principal.*)
    - Why would anyone leave the \$1,000 in a non-interest bearing account rather than putting it in an interest-bearing account? (*Answers may vary but may include that she was financially lazy—not proactive—or that she may not understand the importance of compound interest.*)
    - Imagine that instead of \$1,000, Maria’s grandmother had given her \$10,000. After three years, how much interest would \$10,000 have earned on a 5 percent compounded semiannually account? (*\$1,597.10*)
    - Why is time—i.e., the number of months you have your money in an interest-bearing account—a very important factor in accumulating savings? (*Answers may vary but may include that the sooner you start saving, the sooner you start earning interest not only on your principal but also on accrued interest. Your money works for you over time.*)
  7. Ask students the following questions:
    - How many of you would like for the amount of your savings to double over a period of years? (*Answers may vary, but most students will likely want their amount of savings to double.*)
    - How long would it take for Maria’s \$1,000 to double if she kept the money in a non-interest bearing account? (*It would never double.*)

- How long do you think it will take for Maria's \$1,000 to double if she puts the money in a savings account that pays compounded interest? (*Answers will vary.*)
8. Tell students that you are going to show them the **Rule of 72**, which is an easy way to estimate how long it will take their money to double at a certain interest rate. Tell students that in order to determine how long it will take their money to double at a certain interest rate they should divide 72 by the interest rate. For example,  $72 \div 5 = 14.4$ . Therefore the principal in a savings account that pays 5 percent interest will double in a little over 14 years. Explain that the Rule of 72 assumes people leave their money in an account without taking away from it or adding to it. It isn't an exact number, but it's close enough to serve as an estimate.
  9. Distribute *Handout 5.2: The Rule of 72* to all students and ask them to complete the handout by following the instructions.
  10. When students have completed Handout 5.2, display a visual of *Handout 5.2: The Rule of 72—Answer Key* to review the answers. Discuss the following:
    - Does the amount of interest an account pays have much of an impact on how long it will take for your money to double? (*Answers will vary.*)
    - Interest rates vary over time, but savings accounts are considered to be a safe way to save your money because for most savings accounts your principal is guaranteed. Interest rates for savings accounts generally pay in the 2 percent to 4 percent range, depending on current financial conditions in the economy. This reflects the risk-reward relationship.
    - The **risk-reward relationship** is based on the concept that the higher the risk of loss of principal for an investment, the greater the potential reward of an increase in the principal or higher yield on the principal. And the lower the risk of loss of principal for an investment, the lower the potential reward of increased principal or higher yield on the principal. Therefore, savings accounts are considered very low risk; so, their reward, as compared with other investment options, is a relatively low "yield," or interest rate.
    - The Rule of 72 applies not only to investments but also to debt, because it shows approximately how fast your debt will double at a certain rate of interest.
    - What rate of interest do credit cards charge? (*Answers will vary.*)
    - Credit card rates of interest vary over time and under different financial conditions in the economy, but generally credit cards charge a relatively high rate of interest. Credit cards can charge a high rate because the card companies bear a risk to loan funds to their cardholders.
    - If a credit card charges an interest rate of 18 percent, approximately how long would it take for your debt to double if you made no payment on the debt? (*4 years*)

## Closure

11. Review the key points of this lesson by discussing the following:
  - What is a non-interest bearing account? (*an account that pays zero interest on the principal*)
  - What is interest? (*the price of using someone else's money*)
  - What is compound interest? (*Interest is paid on the principal and also on the accrued interest at specific time intervals.*)
  - What level of interest would you expect a safe account or investment that is low risk to pay—low, medium or high—and why? (*low because of the risk-reward principal*)
  - What does the Rule of 72 indicate? (*The rule shows how long it takes to double your money—or your debt—given a specified rate of interest.*)

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## Assessment

12. Give each student a copy of *Handout 5.3: Charlie's Financial Goal* and tell them to follow the instructions on the handout. Display a visual of *Handout 5.3: Charlie's Financial Goal—Answer Key* to review student answers.

### Handout 5.1: Maria's Savings Decision

One year ago, Maria received \$1,000 from her grandmother with instructions to save it for college two years from now. She deposited the money in her checking account for which she was paid no interest. She had considered putting the \$1,000 in a savings account that paid 5 percent interest compounded semiannually, but she never got around to it. How much money did Maria lose by leaving her \$1,000 in a non-interest bearing account for 12 months? Follow the steps below to find the answer.

1. Because the interest on the account is compounded semiannually, the interest is added to the principal every six months. Therefore, divide the annual amount of interest—5 percent—by two to determine interest paid at the end of each six-month period. Every six months, the saver would receive .025 ( $.05 \div 2$ ) interest on the principal plus any accumulated interest. Multiply the principal (plus any accrued interest) by the interest rate. Round to the nearest hundredth. (For example,  $\$25.625 = \$25.63$ .) Note that the principal will change each time interest accrues.

Months	Principal (p)	Interest (i)	p + i
6	\$1,000.00	\$	\$
12	\$	\$	\$

2. Fill in the following chart, which shows these two savings options.

Type of account	Original Principal	Interest after 12 months	Total principal and interest after 12 months
Zero-interest checking account	\$1,000.00	\$	\$
5% compounded semiannually	\$1,000.00	\$	\$

3. Maria lost \$\_\_\_\_\_ by keeping her money in a non-interest bearing account rather than putting it in an account that paid 5 percent compounded semiannually.

**Handout 5.1: Maria's Savings Decision cont.**

4. Now, complete the chart below by using the information from question one for months six and 12, and calculate the interest paid for years two and three in the account that pays 5 percent compounded semiannually. Round to the nearest hundredth. Remember that the principal will change each time interest accrues.

Months	Principal (p)	Interest (i)	p + i
6	\$1,000.00	\$	\$
12	\$	\$25.63	\$
18	\$	\$	\$
24	\$ 1,076.90	\$	\$
30	\$	\$27.60	\$
36	\$	\$	\$

**Handout 5.1: Maria's Savings Decision—Answer Key**

One year ago Maria received \$1,000 from her grandmother with instructions to save it for college two years from now. She deposited the money in her checking account, for which she was paid no interest. She had considered putting the \$1,000 in a savings account that paid 5 percent interest compounded semiannually, but she never got around to it. How much money did Maria lose by leaving her \$1,000 in a non-interest bearing account for 12 months? Follow the steps below to find the answer.

1. Because the interest on the account is compounded semiannually, the interest is added to the principal every six months. Therefore, divide the annual amount of interest—5 percent—by two to determine interest paid at the end of each six-month period. Every six months, the saver would receive .025 ( $.05 \div 2$ ) interest on the principal plus any accumulated interest. Multiply the principal (plus any accrued interest) by the interest rate. Round to the nearest hundredth. (For example,  $\$25.625 = \$25.63$ .) Note that the principal will change each time interest accrues.

Months	Principal (p)	Interest (i)	p + i
6	\$1,000.00	\$25.00	\$1,025.00
12	\$1,025.00	\$25.63	\$1,050.63

2. Fill in the following chart, which shows these two savings options.

Type of account	Original Principal	Interest after 12 months	Total principal and interest after 12 months
Zero-interest checking account	\$1,000.00	\$0	\$1,000.00
5% compounded semiannually	\$1,000.00	\$50.63	\$1,050.63

3. Maria lost \$ 50.63 by keeping her money in a non-interest bearing account rather than putting it in an account that paid 5 percent compounded semiannually.



**Handout 5.1: Maria's Savings Decision—Answer Key cont.**

4. Now, complete the chart below by using the information from question one for months six and 12, and calculate the interest paid for year two and three in the account that pays 5 percent compounded semiannually. Round to the nearest hundredth. Remember that the principal will change each time interest accrues.

<b>Months</b>	<b>Principal (p)</b>	<b>Interest (i)</b>	<b>p + i</b>
6	\$1,000.00	\$25.00	\$1,025.00
12	\$1,025.00	\$25.63	\$1,050.63
18	\$1,050.63	\$26.27	\$1,076.90
24	\$1,076.90	\$26.92	\$1,103.82
30	\$1,103.82	\$27.60	\$1,131.42
36	\$1,131.42	\$28.29	\$1,159.71

## Handout 5.2: The Rule of 72

The **Rule of 72** is a method to determine the number of years it will take for your savings to double in value. Complete the following chart by shading in the bar chart below. Begin at 0 years, and shade horizontally to the number of years it will take for an amount of money to double for each interest rate. Please use pencil.

Your money will double in . . .	0 years	10 years	20 years	30 years	40 years	50 years
<b>If your interest rate is . . .</b>						
<b>2% (72 ÷ 2)</b>	<input type="text"/>					
	<input type="text"/>					
<b>6% (72 ÷ 6)</b>	<input type="text"/>					
<b>8% (72 ÷ 8)</b>	<input type="text"/>					
<b>12% (72 ÷ 12)</b>	<input type="text"/>					

## Handout 5.2: The Rule of 72—Answer Key

The **Rule of 72** is a method to determine the number of years it will take for your savings to double in value. Complete the following chart by shading in the bar chart below. Begin at 0 years, and shade horizontally to the number of years it will take for an amount of money to double for each interest rate. Please use pencil.



### Handout 5.3: Charlie's Financial Goal

- Charlie is saving to buy a car a year and a half from today. He has \$12,000 in a savings account with an interest rate of 4 percent compounded quarterly. How much will Charlie have in his savings account after 18 months? Calculate and fill in the chart below. Round to the nearest hundredth.

Months	Principal (p)	Interest (i)	p + i
3	\$12,000.00	\$	\$
6	\$	\$	\$
9	\$	\$	\$
12	\$	\$	\$
15	\$	\$	\$
18	\$	\$	\$

- How long will it take Charlie's money to double at an interest rate of 4 percent? \_\_\_\_\_
- Charlie wants to explain the risk-reward relationship to his nephew, who is a sophomore in high school. If you were Charlie, how would you explain the principal of risk-reward?

**Handout 5.3: Charlie's Financial Goal—Answer Key**

- Charlie is saving to buy a car a year and a half from today. He has \$12,000 in a savings account with an interest rate of 4 percent compounded quarterly. How much will Charlie have in his savings account after 18 months? Calculate and fill in the chart below. Round to the nearest hundredth.

Months	Principal (p)	Interest (i)	p + i
3	\$ 12,000.00	\$ 120.00	\$ 12,120.00
6	\$ 12,120.00	\$ 121.20	\$ 12,241.20
9	\$ 12,241.20	\$ 122.41	\$ 12,363.61
12	\$ 12,363.61	\$ 123.64	\$ 12,487.25
15	\$ 12,487.25	\$ 124.87	\$ 12,612.12
18	\$ 12,612.12	\$ 126.12	\$ 12,738.24

- How long will it take Charlie's money to double at an interest rate of 4 percent? (18 years)
- Charlie wants to explain the risk-reward relationship to his nephew, who is a sophomore in high school. If you were Charlie, how would you explain the principal of risk-reward? (*When you are investing your money, the higher the risk of loss of principal for an investment, the higher the potential reward. So, relatively safe places to put your money—in a savings account at a bank, for example—yield a relatively low reward because the risk of losing your principal is very low.*)



## Lesson Description

Students complete an activity sheet and discuss the advantages and disadvantages of using credit. Students read a scenario about a young person's use of a credit card and answer some questions regarding repayment. Students learn about credit history, credit reports and credit-reporting agencies.

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## Concepts

Credit  
Credit cards  
Credit history  
Credit report  
Income  
Interest

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## Objectives

Students will:

- Define credit and creditor.
- Define interest.
- Compare the advantages and disadvantages related to using credit.
- Identify the three credit-reporting agencies.
- Explain the importance of maintaining a good credit history.
- Identify features on a credit report.
- Explain the rights and responsibilities related to using credit.

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## Content Standards

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions.
  - Eighth-grade expectation 1: Identify ways to be a financially responsible young adult.
- **Standard 2:** Find and evaluate financial information from a variety of sources.
  - High school expectation 1: Determine whether financial information is objective, accurate and current.

- **Standard 4:** Make financial decisions by systematically considering alternatives and consequences.
  - Eighth-grade expectation 3: Evaluate the results of a financial decision.
  - High school expectation 6: Give examples of how decisions made today can affect future opportunities.

**Credit and Debt:** Maintain creditworthiness, borrow at favorable terms and manage debt.

- **Standard 1:** Identify the costs and benefits of various types of credit.
  - Eighth-grade expectation 4: Give examples of “easy access” credit.
  - Eighth-grade expectation 5: Discuss potential consequences of using “easy access” credit.
- **Standard 2:** Explain the purpose of a credit record and identify borrowers’ credit report rights.
  - High school expectation 4: Identify organizations that maintain consumer credit records.
  - High school expectation 7: Discuss ways that a negative credit report can affect a consumer’s financial future.
- **Standard 3:** Describe ways to avoid or correct credit problems.
  - High school expectation 2: List actions that a consumer could take to reduce or better manage excessive debt.

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### Time Required

60-75 minutes

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### Materials

- Visual 6.1
- A copy of Visual 6.1 for each student
- A copy of Handouts 6.1, 6.2, 6.4, 6.5 and 6.7 for each student
- A visual of Handout 6.5 for the teacher
- A copy of Handout 6.3—Answer Key, Handout 6.4—Answer Key and Handout 6.7—Answer Key for the teacher
- A copy of Handout 6.6 cut apart to provide strips for 10 students in the class
- Two sheets of notebook paper for each student



## Procedures

1. Ask the students if they have ever used credit or heard family members talk about credit. (*Answers will vary.*) Ask the students how they would define credit. (*Answers will vary, but may include using a credit card or borrowing money.*) Define **credit** as the ability to obtain goods or services now while paying for them in the future.
2. Remind the students that credit is not free. People pay a price for using credit—interest. **Interest** is the price of using credit—that is, the price of using someone else’s money. Interest is an expense to the borrower, and it is income to the lender. **Income** is payment received in exchange for resources provided, such as labor. Income payments include wages, rent, profit or interest. If people borrow money from a bank, they pay interest to the bank because they are using money deposited in the bank by others. Those who deposit their money in the bank receive interest as payment for allowing others to use their money. Banks serve as financial intermediaries because they essentially take deposits from savers and lend those deposits to borrowers. For providing this service, banks intend to charge borrowers more in interest than they pay savers and thereby make a profit.
3. Tell the students that in addition to paying interest, people also pay fees for using credit. There may be fees charged to service and maintain credit accounts and other fees if a loan is not paid on time.
4. Point out that there are advantages and disadvantages connected with the use of credit. Distribute a copy of *Handout 6.1: Advantages and Disadvantages of Credit* and *Handout 6.2: Student Answer Guide* to each student. Divide the class into groups. Have each group discuss the statements on Handout 6.2. Have the students fill in the boxes on Handout 6.1 using the statements on Handout 6.2.
5. When the students have completed Handout 6.1, review their answers using the *Handout 6.3: Advantages and Disadvantages of Credit—Answer Key* as a guide.
6. Explain that **credit cards** represent an agreement between a lender—the institution issuing the card—and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loans, retail stores and other businesses. Ask the students if they have ever received an application for a credit card. (*Answers will vary.*) Point out that when students graduate from high school and when they start college, they begin to receive credit card applications in the mail. It is important to understand some basics about credit cards.
7. Distribute a copy of *Handout 6.4: The Ins and Outs of Credit Cards* to each student. Divide students into pairs. Allow time for pairs to read the scenario. Review the table and answer the questions using *Handout 6.4: The Ins and Outs of Credit Cards—Answer Key*. Discuss the following:

- What was the interest rate that Katarina was charged? (*21.0 percent*)
  - Point out that an interest rate is the price of credit expressed as a percentage. Usually, the interest rate is a percentage of the amount borrowed.
  - Point out that if Katarina had paid only \$10 more each month, she would have made only 31 payments and would have spent only \$605 for the \$500 sound system.
8. Explain that **credit history** is a record of people's payment behavior over time. Distribute a copy of *Handout 6.5: Notes on Credit History* to each student and display a visual of the handout. Tell students that they will use the handout to take notes during the discussion of credit history. Distribute strips from *Handout 6.6: Ideas To Note about Credit History* to 12 students in the class. Call on students to read the statements on the strips one at a time in numerical order. After a student reads a statement, work with the class to summarize and paraphrase the information and write notes on the visual of Handout 6.5. Tell students to record notes on their copy of Handout 6.5.
9. Explain that it is important for people to monitor their credit history to ensure that information reported is accurate and to avoid identify theft. People can monitor their credit history by obtaining and reviewing copies of their credit reports. A credit report is a loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid. Ask the students why they think school records, such as transcripts, are important. (*show that you completed high school, college and so forth; affect your ability to move into other programs or jobs*). Tell students that throughout their lives a credit report will be even more important than school records.
10. Point out that a central site, [www.annualcreditreport.com](http://www.annualcreditreport.com), allows people to request a free credit report once every 12 months from each of the nationwide credit reporting companies: Equifax, Experian and TransUnion. Consumers may also request their report by phone.
11. Display *Visual 6.1: Consumer Credit Report* and distribute a copy of the visual to each student. Discuss the following:
- Section "A" of the credit report contains information about the consumer, including name, address and employment.
  - Section "B" contains information about each credit account in the consumer's name, including the name of each creditor. A creditor is a person, financial institution or business that lends money.
  - What are some of the credit accounts recorded on Mikhail's credit report? (*Monster Music, Our Town Bank and Sallie Mae*)

- There are circles, squares and triangles under each account. The ▲ triangles indicate that Mikhail was 30 days late when he made his February and March payments two years ago.
- What do the empty squares □ mean? (*not applicable*)
- Notice that all of the squares are blank under the Sallie Mae loan. This is because it is a student loan, and Mikhail does not have to repay it until he finishes school.
- What do the solid circles ● mean? (*60 days late*)
- Notice that Mikhail has not been 60 days late with any payments.
- What do the solid squares ■ mean? (*90 days late*)
- Notice that Mikhail has not been 90 days late with any payments, either.
- Section “C” contains a list of publicly available information about legal matters affecting the consumer’s credit. There is nothing listed here in Mikhail’s report. If he had filed for bankruptcy, that information would have appeared in section C.
- Section “D” contains a list of anyone who has inquired about the consumer’s credit history. Creditors inquire about a consumer’s credit history before granting the consumer credit. Mikhail’s creditors are listed in this section.
- A landlord will inquire about a consumer’s credit before renting the consumer an apartment or house. This inquiry would appear here, too.
- An employer may inquire about a potential employee’s credit history. That inquiry will appear on the report, too.

12. Remind students that even they should be concerned about their credit history. Discuss the following key principles and steps to establish and maintain a good credit history.

- Establish a credit history.
  - Open a bank account.
  - Purchase a cell phone contract and pay it on time and in full each month.
  - Make car payments and car insurance payments on time.
  - Pay all bills on time to avoid expensive late fees and notes on your credit report.
  - Don’t open too many credit card accounts. Information on every credit card appears on your credit report.
- Monitor your credit usage.
  - Check your monthly credit card statements to make sure that you have not been charged for something that you did not purchase. If you have, call the credit card company immediately.
  - Notice whether or not you are being charged interest on credit cards and create a plan to pay off your cards in full each month.

## Closure

13. Review the key points of the lesson by discussing the following.
  - What is credit? *(the ability to obtain goods and services now while paying for them in the future)*
  - Who are creditors? *(a person, financial institution or business that lends money)*
  - What is interest? *(the price of using someone else's money, the price of credit)*
  - What is income? *(payment received in exchange for resources provided, such as the wages received for labor)*
  - What are some of the advantages of using credit? *(not carrying cash, being able to pay for emergencies, using goods and services while paying for them later, purchasing goods or services you couldn't otherwise afford, convenience)*
  - What are some of the disadvantages of using credit? *(possible identity theft, can cost more than paying in cash, poor use can limit future spending and abuse of credit can contribute to a bad credit report)*
  - Why is it best to pay your credit card balance in full every month? *(to avoid paying large amounts of interest)*
  - If you can't pay the entire balance each month, what should you do? *(make the largest payment possible to avoid larger interest payments)*
  - What is a credit history? *(a record of a person's payment activity or behavior)*
  - Why is it important to maintain and establish good credit history? *(Credit history affects almost every aspect of your life. A poor credit history results in higher interest charges in the future and difficulty obtaining credit in the future. A poor credit history can prevent you from renting an apartment, opening a bank account or even getting a job.)*
  - What is a credit report? *(a loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid)*
  - What is a credit-reporting bureau? *(an organization that compiles credit information on individuals and makes it available to businesses for a fee)*
  - What are the three credit-reporting bureaus? *(Equifax, Experian and TransUnion)*

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## Assessment

14. Distribute a copy *Handout 6.7: Credit Assessment* to each student. Review the directions and allow time for students to work. Use *Handout 6.7: Credit Assessment—Answer Key* to review students' work.

## Visual 6.1: Consumer Credit Report

<b>A</b>	<b>Consumer Information</b>			<b>Date of Report: 2/3/2010</b>									
	<b>Name:</b>	Mikhail Turner		<b>SSN:</b>	123-45-6789								
	<b>Spouse:</b>	N/A		<b>Date of Birth:</b>	1/1/88								
	<b>Current Address</b>			<b>Previous Address</b>									
	321 Any Street			123 Main Street									
	Our Town, USA			Our Town, USA									
	<b>Employment Data</b>												
	<b>Employer Name:</b>	ABC Mart	<b>Employer Name:</b>	N/A									
	<b>Location:</b>	Our Town	<b>Location:</b>	N/A									
	<b>Date Hired:</b>	1/11/06	<b>Date Hired:</b>	N/A									
	<b>B</b>	<b>Account History Information</b>											
		<b>Monster Music</b>	<b>Balance:</b>	\$85.78	<b>Pay Status:</b>	As Agreed							
Our Town, USA		<b>High Balance:</b>	\$500.00	<b>Loan Type:</b>	Credit card								
		<b>Credit Limit:</b>	\$500.00	<b>Date Opened:</b>	1/24/06								
		<b>Past Due:</b>	\$0										
<b>Two-Year Payment History:</b>		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
		○	○	○	○	○	○	○	○	○	○	○	○
		○	▲	▲	○	○	○	○	○	○	○	○	○
		○			○	○	○	○	○	○	○	○	○
<b>Our Town Bank</b>		<b>Balance:</b>	\$1,900	<b>Pay Status:</b>	As Agreed								
Our Town, USA		<b>High Balance:</b>	\$4,500	<b>Loan Type:</b>	Automobile								
		<b>Credit Limit:</b>	N/A	<b>Date Opened:</b>	1/3/08								
	<b>Past Due:</b>	\$0											
<b>Two-Year Payment History:</b>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
	○	○	○	○	○	○	○	○	○	○	○	○	
	○	○	○	○	○	○	○	○	○	○	○	○	
<b>Sallie Mae</b>	<b>Balance:</b>	\$5,000	<b>Pay Status:</b>	As Agreed									
Washington, DC	<b>High Balance:</b>	\$5,000	<b>Loan Type:</b>	Educational									
	<b>Credit Limit:</b>	N/A	<b>Date Opened:</b>	8/5/08									
	<b>Past Due:</b>	N/A											
<b>Two-Year Payment History:</b>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
	□	□	□	□	□	□	□	□	□	□	□	□	
	□	□	□	□	□	□	□	□	□	□	□	□	
<b>C</b>	<b>Public Record Information</b>												
	None												
<b>D</b>	<b>Inquiry Information</b>												
	<b>Creditor Name</b>	<b>Date of Inquiry</b>		<b>Credit Bureau</b>									
	Sallie Mae	8/5/09		TransUnion									
	Monster Music	1/24/07		Experian									
	Our Town Bank	1/3/09		Equifax									

Not Applicable   
  Current   
  30 days late   
  60 days late   
  90 days late

## Handout 6.1: Advantages and Disadvantages of Credit

### The Advantages

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

### The Disadvantages

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

## Handout 6.2: Student Answer Guide

Directions: Use the following statements to fill in the boxes on Handout 6.1. Each statement may be used only once.

- possible identity theft
- not having to carry cash
- being able to pay for emergencies
- can cost more than paying in cash
- having goods and services while paying for them later
- purchasing goods or services you couldn't otherwise afford
- if not properly used, may limit future spending
- convenience
- Poor use can affect your ability to get credit in the future.
- It is easy to spend even though you don't have enough money to pay for the item.

## Handout 6.3: Advantages and Disadvantages of Credit—Answer Key

### The Advantages

1. not having to carry cash  
\_\_\_\_\_
2. being able to pay for emergencies  
\_\_\_\_\_
3. having goods and services while paying for them later  
\_\_\_\_\_
4. purchasing goods or services you couldn't otherwise afford  
\_\_\_\_\_
5. convenience  
\_\_\_\_\_

### The Disadvantages

1. possible identity theft  
\_\_\_\_\_
2. can cost more than paying in cash  
\_\_\_\_\_
3. Poor use can affect your ability to get credit in the future.  
\_\_\_\_\_
4. if not properly used, may limit future spending  
\_\_\_\_\_
5. It is easy to spend even though you don't have money to pay for the item.  
\_\_\_\_\_



## Handout 6.4: The Ins and Outs of Credit Cards

Directions: Read the information below. Work with your partner to review the table below and to answer the questions on the next page.

Katarina Smavern is 18 and wants a new sound system. The price of the sound system is \$500. She doesn't have enough money saved to buy the sound system. Her friend told her about a credit-card promotion at a local electronics store. If Katarina opens an account with the store, she will be able to buy the sound system and take it home with her. She is so excited that she barely notices that she will be charged a 21 percent interest rate. She thinks to herself, "I have a job now; so, I'll be able to pay this off in no time, which means the interest rate doesn't really matter. The minimum monthly payment is not very much."

<b>Purchase made on Jan. 24, 2008</b>	
Sound system with Katarina's credit card	\$500.00
Katarina pays only the minimum payment in month 1	-25.00*
Charges for month 1: (grace period)	0
<b>Amount owed in month 2</b>	<b>\$475.00</b>
Katarina pays only the minimum payment in month 2	-23.75*
Charges for month 2: $21.0\% \times (475/12) =$	+8.31
Amount outstanding on card	\$459.56
<b>Amount owed in month 3</b>	<b>\$459.56</b>
Katarina pays only the minimum payment in month 3	-22.98*
Charges for month 3: $21.0\% \times (459.56/12) =$	+ 8.04
Amount outstanding on card	\$444.62
<b>Amount outstanding on card at the end of three-month period</b>	<b>\$444.62</b>
Amount repaid ( $\$25.00 + \$23.75 + \$22.98$ )	\$71.73
Amount by which debt was actually reduced ( $\$500.00 - \$444.62$ )	\$55.38
Amount paid to credit card company in interest charges ( $\$8.31 + \$8.04$ )	\$16.35

\* As the balance owed on a credit card changes, the minimum monthly payment changes. In this case, the balance is becoming slightly smaller; so, the minimum monthly payment is slightly less.

If Katarina continues to make only the minimum payments, she will have to make payments for 52 months and will spend \$697.

1. Once she has paid off the sound system, how much interest will Katarina have paid?
2. If she is 18 when she buys the sound system, how old will she be when the system is paid off if she makes only the minimum payments?
3. What could Katarina have done with the money she paid in interest on the sound system?
4. What could Katarina have done to reduce the amount of interest she paid?
5. What could Katarina have done instead of using a credit card to purchase the sound system?
6. Was making the minimum payment each month on the credit card a smart way for Katarina to handle her credit?

## Handout 6.4: The Ins and Outs of Credit Cards—Answer Key

Directions: Read the information below. Work with your partner to review the table below and to answer the questions on the next page.

Katarina Smavern is 18 and wants a new sound system. The price of the sound system is \$500. She doesn't have enough money saved to buy the sound system. Her friend told her about a credit-card promotion at a local electronics store. If Katarina opens an account with the store, she will be able to buy the sound system and take it home with her. She is so excited that she barely notices that she will be charged a 21 percent interest rate. She thinks to herself, "I have a job now; so, I'll be able to pay this off in no time, which means the interest rate doesn't really matter. The minimum monthly payment is not very much."

<b>Purchase made on Jan. 24, 2008</b>	
Sound system with Katarina's credit card	\$500.00
Katarina pays only the minimum payment in month 1	-25.00*
Charges for month 1: (grace period)	0
<b>Amount owed in month 2</b>	<b>\$475.00</b>
Katarina pays only the minimum payment in month 2	-23.75*
Charges for month 2: $21.0\% \times (475/12) =$	+8.31
Amount outstanding on card	\$459.56
<b>Amount owed in month 3</b>	<b>\$459.56</b>
Katarina pays only the minimum payment in month 3	-22.98*
Charges for month 3: $21.0\% \times (459.56/12) =$	+ 8.04
Amount outstanding on card	\$444.62
<b>Amount outstanding on card at the end of three-month period</b>	<b>\$444.62</b>
Amount repaid ( $\$25.00 + \$23.75 + \$22.98$ )	\$71.73
Amount by which debt was actually reduced ( $500.00 - 444.62$ )	\$55.38
Amount paid to credit card company in interest charges ( $\$8.31 + \$8.04$ )	\$16.35

\* As the balance owed on a credit card changes, the minimum monthly payment changes. In this case, the balance is becoming slightly smaller; so, the minimum monthly payment is slightly less.

If Katarina continues to make only the minimum payments, she will have to make payments for 52 months and will spend \$697.

**Handout 6.4: The Ins and Outs of Credit Cards—Answer Key—Cont.**

1. Once she has paid off the sound system, how much interest will Katarina have paid?  $\$697 - \$500 = \$197$
2. If she is 18 when she buys the sound system, how old will she be when the system is paid off if she makes only the minimum payments?  
*52 months = 4 years and 4 months. 18 years + 4 years = 22 years*
3. What could Katarina have done with the money she paid in interest on the sound system? *Answers will vary, but could include pay car insurance, save money for college expense, etc.*
4. What could Katarina have done to reduce the amount of interest she paid?  
*Katarina could have paid more than the minimum payment.*
5. What could Katarina have done instead of using a credit card to purchase the sound system? *She could have waited until she saved \$500 or bought a less expensive stereo for which she was able to pay cash.*
6. Was making the minimum payment each month on the credit card a smart way for Katarina to handle her credit? *No, because she paid so much in interest.*

### **Handout 6.5: Notes on Credit History**

1. What is credit history?
2. What information does a credit history contain?
3. Why is credit history important?
4. How does credit history affect a person's life?
5. Why should everyone, even teenagers, be concerned about their credit history?
6. What is a credit report?
7. What are the names of the three credit reporting agencies?

## Handout 6.6: Ideas to Note about Credit History

Directions: Cut the strips apart and distribute a strip to 12 students in your class.

1. Credit history is a report of a person's payment activity over time. A person's credit history is a vital part of a credit review process. When a person applies for loans or credit cards, the lender checks the borrower's credit history. A person's ability to get credit depends to a great extent on the person's credit history.
2. A credit history contains information such as where you live, where you work and the type of credit you already have, as well as outstanding debt information.
3. A credit history reports credit problems, such as past-due payments or accounts turned over to a collection agency.
4. A bill that remains unpaid for a period of time is often turned over to a collection agency. The agency may call the borrower constantly in an attempt to obtain payment. If the account is for a car loan, the car may be repossessed.
5. Credit history affects all aspects of your life including your ability to open a bank account, buy a car, get a cell phone, obtain a credit card or rent an apartment.
6. Credit history may affect your ability to obtain a job. Many employers check applicants' credit history prior to hiring.
7. Credit history may affect the price you pay for car insurance. Insurance companies check credit history because they think there is a correlation between risky financial behavior and risky driving behavior.
8. If you do not demonstrate the ability and willingness to repay what you have borrowed in the past, your ability to obtain credit in the future will be limited. And the cost of future credit may be higher. You may have to pay a higher interest rate because you are considered a risky borrower.
9. Even teenagers should be concerned about their credit history because it will affect their ability to rent an apartment, buy a car or even obtain a cell phone contract.
10. Another reason to be concerned about credit history is identity theft. Identity theft occurs when someone uses your name, Social Security number, date of birth or other identifying information, without authority, to commit fraud.
11. A credit report is a loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.
12. Equifax, Experian and TransUnion are the three credit reporting companies. Consumers can request their report by phone or through the web site [www.annualcreditreport.com](http://www.annualcreditreport.com).

## **Handout 6.7: Credit Assessment**

Directions: Read the scenario below and answer the questions that follow.

Your friend Todd is a college freshman. Last week, there was a credit card company on campus in the Student Activities Building distributing credit card applications. Students who completed an application received a T-shirt and a frisbee. Todd thought this was terrific and completed the credit card application. He is excited because he thinks that he will have “free money”—he’ll be able to buy whatever he wants whenever he wants and won’t have to worry about paying. Todd’s roommate told Todd to get a copy of his credit report and review it. Todd doesn’t know what a credit report is. He comments to you, “I am already getting credit. Why do I need to look at some report?”

1. What would you tell Todd about the advantages and disadvantages of using credit cards?
  
  
  
  
  
  
  
  
  
  
2. What would you tell Todd about his comment that he will have “free money”?
  
  
  
  
  
  
  
  
  
  
3. What would you tell Todd about the importance of getting and reviewing his credit report?

## Handout 6.7: Credit Assessment—Answer Key

Directions: Read the scenario below and answer the questions that follow.

Your friend Todd is a college freshman. Last week, there was a credit card company on campus in the Student Activities Building distributing credit card applications. Students who completed an application received a T-shirt and a frisbee. Todd thought this was terrific and completed the credit card application. He is excited because he thinks that he will have “free money”—he’ll be able to buy whatever he wants whenever he wants and won’t have to worry about paying. Todd’s roommate told Todd to get a copy of his credit report and review it. Todd doesn’t know what a credit report is. He comments to you, “I am already getting credit. Why do I need to look at some report?”

1. What would you tell Todd about the advantages and disadvantages of using credit cards? *There are many advantages to using credit. It is convenient, you don’t have to carry lots of cash, you have a record of purchases, and you can buy things today and pay for them later. However, there are disadvantages, too. Using credit may make it easier for someone to steal your identity. And, if you don’t pay on time and pay at least the minimum balance, you can hurt your potential for obtaining credit in the future.*
2. What would you tell Todd about his comment that he will have “free money”? *Credit cards aren’t free money. There are costs to using credit—interest payments, fees and the inability to buy something you want in the future. If you don’t pay the entire balance each month on time, you will be charged interest and fees.*
3. What would you tell Todd about the importance of getting and reviewing his credit report? *A credit report is a loan and bill payment history kept by a credit bureau. A credit report affects people’s ability to rent an apartment, buy a home, obtain additional credit and, in some cases, obtain a job. People should obtain a copy of their credit report each year to determine if the information recorded there is accurate and to protect themselves against identify theft.*



## Lesson Description

Students discuss key terms related to credit and learn how creditors use capacity, character and collateral as criteria for making loans. Students learn about credit rights and responsibilities. Groups use role-play scenarios in order to identify and discuss the rights and responsibilities of using credit.

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## Concepts

Capacity  
Character  
Collateral  
Credit  
Creditor  
Credit responsibilities  
Credit rights  
Interest

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## Objectives

Students will:

- Define credit and creditor.
- Define interest.
- Identify and describe criteria lenders use to make loans.
- Explain the rights and responsibilities related to using credit.

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## Content Standards

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions.
  - Eighth-grade expectation 1: Identify ways to be a financially responsible young adult.
- **Standard 2:** Find and evaluate financial information from a variety of sources.
  - High school expectation 1: Determine whether financial information is objective, accurate and current.
- **Standard 4:** Make financial decisions by systematically considering alternatives and consequences.
  - Eighth-grade expectation 3: Evaluate the results of a financial decision.
  - High school expectation 6: Give examples of how decisions made today can affect future opportunities.

## Time Required

45-60 minutes

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## Materials

- Visual 7.1
- A copy of Handouts 7.1, 7.2, 7.4 and 7.5 for each student
- Copies of Handout 7.3 cut apart to provide scenario cards for members of each group
- A copy of Handout 7.4—Answer Key for the teacher
- A sheet of notebook paper for each student

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## Procedures

1. Define **credit** as the ability to obtain goods or services now while paying for them in the future. Explain that the ability to have and use credit is a privilege earned by exhibiting behaviors that are related to some broad characteristics that creditors consider when making lending decisions—character, capacity and collateral. Ask the students what they think these terms mean. (*Answers will vary.*)
2. Remind the students that credit is not free. People pay a price for using credit—interest. **Interest** is the price of using credit—that is, the price of using someone else's money. Interest is an expense to the borrower, and it is income to the lender. If people borrow money from a bank, they pay interest to the bank because they are using the money deposited in the bank by others. Those who deposit their money in the bank receive interest as payment for allowing others to use their money.
3. Tell the students that, in addition to interest, people also pay fees for using credit. There may be fees charged to service and maintain credit accounts and other fees if a loan is not paid on time.
4. Tell the students that when they apply for credit, the **creditor**, i.e., the person, financial institution or business that lends the money, will look at different types of information about the borrower. Often creditors review information to determine how well a borrower satisfies the three C's of credit. These are criteria that the creditor uses to evaluate potential borrowers: **Capacity, Character and Collateral**. Display *Visual 7.1: The 3 C's of Credit*. Explain that the creditor is interested in the answers to the following three questions:

- **Capacity** – Does the borrower have the ability to repay the loan?  
Factors that affect a borrower's ability to repay the loan include how much money the borrower makes, how long the borrower has been at his or her current job and how much debt the borrower already has relative to income.
- **Character** – Will the borrower repay the loan?  
The primary factor that affects character is the borrower's past bill-paying history. The creditor wants to know if the borrower has paid his/her bills and if he/she has paid them on time.
- **Collateral** – Is there a financial asset or a piece of property that a creditor can take if the borrower fails to repay the loan? Collateral provides protection for the creditor if the borrower fails to repay the loan. For example, if a borrower fails to repay a car loan, the creditor can repossess the car. The car is collateral for a car loan.

5. Remind students that people earn the privilege of using credit and that this privilege is based to a great extent on their character, capacity and collateral. Consumers should be aware of another key factor, though—with this privilege comes consumer credit rights and responsibilities. **Credit rights** refer to the protections put in place by law to help people obtain and maintain credit. **Credit responsibilities** are the actions or behaviors in which people should engage when they use credit. Distribute a copy of *Handout 7.1: Your Credit Rights* and *Handout 7.2: Your Credit Responsibilities* to each student. Review the statements on the handouts with the students.
6. Tell the students that they are going to be involved in a role-play activity. They are going to play the part either of a person seeking credit or of someone who is providing credit, i.e., a creditor.
7. Divide the class into four groups. Distribute scenario cards from *Handout 7.3: Role-Play Scenarios* to each group member. Distribute Scenario 1 cards to group one, Scenario 2 cards to group two, and so on. Tell each group member to read the scenario silently. Refer students to Handout 7.1 and Handout 7.2. Have the students discuss which rights or responsibilities could be demonstrated in their group's role-play scenario.
8. Distribute one sheet of notebook paper to each student and instruct students to divide the sheet into two columns: one labeled "Rights" and the other "Responsibilities." Tell each student to list the rights and/or responsibilities that should apply to the people described in the scenarios. For example, if a person in a scenario accepts a credit offer without comparing it with other offers and without knowing the interest rate and fees associated with that card, the students should list on their sheet the guidelines from the credit responsibilities list that apply to that situation.
9. Tell each group to consider how its scenario could be transformed into a short skit that group members can perform in front of the class. Have each group select two rights, two responsibilities or a combination of a right and a responsibility from the

group member's lists. Tell the students to develop their skit and be prepared to perform it using the scenario as a guide. Remind group members that they will have to explain which responsibilities persons in their skit should have adhered to and which rights persons in their skit should have been aware of.

10. Explain that all students will serve as the audience for all skits except their own. Explain that each member of the audience will be responsible for completing a handout related to each skit. (Note to teachers: The skits will be conducted as an assessment activity.)

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### Closure

11. Review the key points of the lesson by discussing the following:
  - What is credit? (*the ability to obtain goods and services now while paying for them in the future*)
  - Who are creditors? (*people, financial institutions or businesses that lend money*)
  - What is interest? (*the price of using someone else's money, the price of credit, a fee for the use of money over time*)
  - What is capacity? (*the borrower's ability to repay a debt*)
  - What are factors that affect a borrower's capacity? (*level of income, length of time on the job, how much debt the borrower has relative to income*)
  - What is character? (*the borrower's willingness to repay the debt and the borrower's reputation for paying bills and debts based on past behavior*)
  - What is collateral? (*an asset the creditor can take if the borrower doesn't repay the debt*)
  - If you have a car loan, what serves as collateral? (*the car*)
  - What are some of the rights we have when we use credit? (*Use Handout 7.1: Your Credit Rights to review the various rights.*)
  - What are some of the responsibilities we have as we use credit? (*Use Handout 7.2: Your Credit Responsibilities to review the responsibilities.*)

---

### Assessment

12. Distribute *Handout 7.4: Student Role-Play Tally Sheet* to each student. Tell the students that they should use the handout to record which responsibilities persons in their skit should have adhered to and which rights persons in their skit should have been aware of. Use the following steps:

- As you watch and listen to each skit, mark the tally sheet to indicate which rights or responsibilities are related to each skit by entering the group number on the line in front of the right or responsibility. More than one group number may be listed on any line.
  - Because each skit is supposed to emphasize more than one right or responsibility, you will mark more than one right or responsibility for each group performance.
13. Have each group perform its skit while the students in the audience mark their tally sheets.
  14. After all of the skits have been performed and tallies recorded by students in the audience, ask for volunteers from groups one, two and three to read the rights and responsibilities that they marked for group number four. Have the students explain why they marked those statements.
  15. Have a volunteer from group four tell the class what rights and responsibilities the group was trying to illustrate in the skit and explain why.
  16. Repeat procedures 13 and 14 until all group performances have been discussed. Suggested answers for each skit are provided on *Handout 7.4: Student Role-Play Tally Sheet—Answer Key*.
  17. Distribute *Handout 7.5: 3C's Assessment* to each student. Review the directions with the students and have them complete the handout. Have them turn in the handout. Correct the form and return to the students. You may wish to review Procedure #4 when you discuss their answers. Below is the answer key for Handout 7.5:

1. CH

2. CH

3. CA

4. CO

5. CH

## Visual 7.1: The 3 C'S of Credit

### **CAPACITY**

Refers to the ability of the borrower to repay the loan

### **CHARACTER**

Refers to the willingness of the borrower to repay the loan

### **COLLATERAL**

Refers to a financial asset such as savings or stocks or a purchased asset that the lender can seize if the borrower fails to repay the debt

## Handout 7.1: Your Credit Rights

- You have the right to see your personal information on credit reports.
- Organizations that use credit reports are required to help you understand the report.
- You have the right to have errors in credit reports corrected.
- You have the right to know why you were denied credit. If you are denied credit because of something in your credit report, the lender must give you the name, address and telephone number of the credit bureau that provided the credit report.
- You have the right to know who has requested information about your credit history.
- Creditors cannot make decisions based on sex, national origin, marital status, color, race or age, nor can they ask for this information.
- Neither the length of the loan, i.e., the term, nor the interest rate may be changed for a fixed-rate loan.
- Lenders must notify you within 30 days of their decision to make a loan to you or not.

SOURCE: *What Your Credit Report Says about You and Your Credit Rating*, Federal Reserve Bank of Philadelphia

## Handout 7.2: Your Credit Responsibilities

- Pay your bills on time.
- Pay off your credit card balances in full each month.
- Compare offers for similar types of credit. For example, compare different credit card offers.
- Make informed choices about credit usage.
- Keep your receipts for purchases.
- Check monthly statements to make sure charges are correct.
- Know how much you can afford to spend.
- Understand that if a deal sounds too good to be true, it probably is.
- When you borrow money, know what you're agreeing to.
- Make certain that you know the interest rate and fees you are paying for a loan and the interest rate and fees associated with any credit card for which you apply.
- Notify credit card companies and financial institutions immediately when credit cards, debit cards or checks are lost or stolen.
- Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.

SOURCE: *What Your Credit Report Says about You and Your Credit Rating*, Federal Reserve Bank of Philadelphia



## Handout 7.3: Role-Play Scenarios

### Scenario 1

Alissa recently graduated from high school. She received cash gifts totaling \$500 from friends and relatives. She decided to put that money in a savings account at the bank. She also took a job at a local athletic shoe store. She read an ad in the local newspaper about a sound system for her car for \$850. It was a great system and at an even greater price! Her friend told her about a wonderful credit card offer at the electronics store. When Alissa arrived at the electronics store a salesperson told her that if she opened an account that day, she could have the system installed and drive away with some great sound. Alissa was very excited and said to herself, "I have a great job now. I'll be able to pay this off in no time, which means the interest rate doesn't really matter."

### Scenario 2

Darryl went to visit Arena Used Cars because he had his eye on a black 2003 Ford Mustang on Arena's lot. Darryl met a salesman, Nathan, at the car lot. Darryl had spoken to Nathan several days before on the phone. Darryl told Nathan he didn't have the cash to pay for the car but would like to buy it on credit. Nathan said that he could work out a plan that would be just perfect for Darryl. All Darryl had to do was fill out a credit application. Darryl filled out the application and gave it to Nathan. Nathan took the application and said that he would be back in a few minutes. After a short time, Nathan returned with some bad news: Arena Used Cars could not extend any credit to Darryl. Darryl asked why and was told that it just wasn't possible to grant him credit, but Nathan wouldn't provide any specific reasons.

### Scenario 3

Max used his credit card to pay for some birthday gifts for his girlfriend. One night when he stopped at the local gas station to get gas for a date later in the evening, he noticed his credit card was gone. He called the credit card company's toll-free number and talked to a customer service representative named Susan. He was told he would have to pay a fee to get a new card. He told her he was afraid someone might have used the card. She asked him if he had receipts for his recent transactions. He told her he was just not good at keeping all of those little slips of paper. She suggested he check his recent credit card statement. Max responded, "I'm not sure where it is. My place is a mess."

### Scenario 4

Amanda doesn't remember asking for a credit card when she opened a checking account before starting her freshman year at the local university. Yet two weeks after establishing the account, a Visa card arrived in her mailbox, accompanied by reams of fine print. She didn't read the materials. Instead, she called her father and said, "I have a credit card, I haven't used it, but I'm not afraid to. I just need to know whether there is an interest charge." Her father explained the advantages and disadvantages of using credit cards.

## Handout 7.4: Student Role-Play Tally Sheet

Directions: Place the group number or numbers on the line next to rights and responsibilities you identified for each skit. Different groups' skits may represent the same rights or responsibilities.

### Credit Rights

- \_\_\_\_\_ You have the right to see your personal information on credit reports.
- \_\_\_\_\_ Organizations that use credit reports are required to help you understand the report.
- \_\_\_\_\_ You have the right to have errors in credit reports corrected.
- \_\_\_\_\_ You have the right to know why you were denied credit. If you are denied credit because of something in your credit report, the lender must give you the name, address and telephone number of the credit bureau that provided the credit report.
- \_\_\_\_\_ You have the right to know who has requested information about your credit history.
- \_\_\_\_\_ Creditors cannot make decisions based on sex, national origin, marital status, color, race or age, nor can they ask for this information.
- \_\_\_\_\_ Neither the length of the loan, i.e., the term, nor the interest rate may be changed for a fixed-rate loan.
- \_\_\_\_\_ Lenders must notify you within 30 days of their decision to make a loan to you or not.

## Handout 7.4: Student Role-Play Tally Sheet—Cont.

### Credit Responsibilities

- \_\_\_\_\_ Pay your bills on time.
- \_\_\_\_\_ Pay off your credit card balances in full each month.
- \_\_\_\_\_ Compare offers for similar types of credit. For example, compare different credit card offers.
- \_\_\_\_\_ Make informed, reasonable choices about credit usage.
- \_\_\_\_\_ Keep your receipts for purchases.
- \_\_\_\_\_ Check monthly statements to make sure charges are correct.
- \_\_\_\_\_ Know how much you can afford to spend.
- \_\_\_\_\_ Understand that if a deal sounds too good to be true, it probably is.
- \_\_\_\_\_ When you borrow money, know what you're agreeing to.
- \_\_\_\_\_ Make certain that you know the interest rate and fees you are paying for a loan and the interest rate and fees associated with any credit card for which you apply.
- \_\_\_\_\_ Notify credit card companies and financial institutions immediately when credit cards, debit cards or checks are lost or stolen.
- \_\_\_\_\_ Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.

## Handout 7.4: Student Role-Play Tally Sheet—Answer Key

Directions: Place the group number or numbers on the line next to rights and responsibilities you identified for each skits. Different groups' skits may represent the same rights or responsibilities.

### Credit Rights

\_\_\_\_\_ You have the right to see your personal information on credit reports.

\_\_\_\_\_ Organizations that use credit reports are required to help you understand the report.

\_\_\_\_\_ You have the right to have errors in credit reports corrected.

**2** \_\_\_\_\_ You have the right to know why you were denied credit. If you are denied credit because of something in your credit report, the lender must give you the name, address and telephone number of the credit bureau that provided the credit report.

\_\_\_\_\_ You have the right to know who has requested information about your credit history.

\_\_\_\_\_ Creditors cannot make decisions based on sex, national origin, marital status, color, race or age, nor can they ask for this information.

\_\_\_\_\_ Neither the length of the loan, i.e., the term, nor the interest rate may be changed for a fixed-rate loan.

\_\_\_\_\_ Lenders must notify you within 30 days of their decision to make a loan to you or not.

## Handout 7.4: Student Role-Play Tally Sheet—Answer Key—Cont.

### Credit Responsibilities

\_\_\_\_\_ Pay your bills on time.

\_\_\_\_\_ Pay off your credit card balances in full each month.

**1, 2, 4** \_\_\_\_\_ Compare offers for similar types of credit. For example, compare different credit card offers.

\_\_\_\_\_ Make informed, reasonable choices about credit usage.

**3** \_\_\_\_\_ Keep your receipts for purchases.

\_\_\_\_\_ Check monthly statements to make sure charges are correct.

\_\_\_\_\_ Know how much you can afford to spend.

\_\_\_\_\_ Understand that if a deal sounds too good to be true, it probably is.

\_\_\_\_\_ When you borrow money, know what you're agreeing to.

**1, 4** \_\_\_\_\_ Make certain that you know the interest rate and fees you are paying for a loan and the interest rate and fees associated with any credit card for which you apply.

\_\_\_\_\_ Notify credit card companies and financial institutions immediately when credit cards, debit cards or checks are lost or stolen.

\_\_\_\_\_ Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.

### Handout 7.5: 3C's Assessment

Directions: Place the letters **CO** for Collateral, **CA** for Capacity and **CH** for Character in front of the statement which best represents that criteria.

1. \_\_\_\_\_ Angela is very willing to work and keep her business running. Even though January and February were difficult months because of the weather, she kept her credit-card payments current.
2. \_\_\_\_\_ Jordan contacted Equifax Credit Bureau to request a copy of her credit report to make sure that it shows that she always pays her bills and pays them on time.
3. \_\_\_\_\_ Fred owns a very successful motorcycle repair shop in the city. The first year was a struggle, but now each month he is earning a profit.
4. \_\_\_\_\_ Franklin owns a small house that he received in his mom's will when she passed away. He wants to borrow some money to put a new roof on the 20-year-old home.
5. \_\_\_\_\_ Enrique, who works for Earth Bank, reviewed Barbara's loan application and saw that she had borrowed money from a local bank and an out-of-state bank and had paid off both of the loans. He called the local bank to verify the information with its loan officer.

## Lesson Description

Students will learn what a payday loan is and the high cost involved in using such a loan. Working in groups, students will calculate an annual percentage rate (APR) on a loan.

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## Concepts

Annual percentage rate  
Interest  
Interest rate  
Loan  
Payday loan

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## Objectives

Students will:

- Define loan, payday loan, interest rate and annual percentage rate.
- Calculate an annual percentage rate.
- Explain key facts regarding payday loans.

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## Content Standards

### National Standards in K-12 Personal Finance

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions.
  - Eighth-grade expectation 1: Identify ways to be a financially responsible young adult.
- **Standard 2:** Find and evaluate financial information from a variety of sources.
  - Eighth-grade expectation 1: Analyze and evaluate advertising claims.
  - High school expectation 1: Determine whether financial information is objective, accurate and current.

**Credit and Debt:** Maintain creditworthiness, borrow at favorable terms and manage debt.

- **Standard 1:** Identify the costs and benefits of various types of credit.
  - Eighth-grade expectation 2: Explain how interest rate and loan length affect the cost of credit.
  - Eighth-grade expectation 5: Given an “easy access” loan amount and a two-week borrowing fee, calculate the interest rate for the loan period and its annual equivalent.

## Time Required

60 minutes

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## Materials

- Copies of Handouts 8.1, 8.2 and 8.3 for each student
- A visual of Handout 8.3
- A calculator for each student

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## Procedures

1. Introduce the topic by asking the following questions.
  - Have you ever borrowed money from someone? (*Answers will vary.*)
  - Give some examples of things for which you have borrowed money? (*Answers will vary, but might include lunch, gas, etc.*)
  - Have you ever loaned money to someone? (*Answers will vary.*)
  - For what did you lend? (*Answers will vary but may include lunch money, advance on a weekly allowance, etc.*)
2. Define a **loan** as a sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.
3. Explain that when people borrow money, they are using money that belongs to someone else. The price or fee for using someone else's money is **interest**. Explain that the amount of interest on a loan is often expressed as an **interest rate**, such as 5 percent, which is the percentage of the principal that must be repaid (in addition to the principal) over a specified time period.
4. Define **annual percentage rate** (APR) as the percentage cost of credit on an annual basis. Explain that lenders are required by law to disclose the APR to borrowers. Discuss the following:
  - The annual percentage rate (APR) may be different from the stated interest rate.
  - APR is the total cost of credit to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front. APR is commonly used to compare loan programs from different lenders in order to help consumers make a better-informed choice. (Note: Rules regarding fees that must be included in APR are different for mortgage loans than for auto loans and short-term loans.)
  - APR does not affect the monthly payment on a loan. The monthly payments are a function of the interest rate and length of the loan.



5. Explain that computing APR for loans of longer than a year requires some complicated mathematics. In these cases, it is easier to use an APR calculator like the one found at: [http://www.efunda.com/formulae/finance/apr\\_calculator.cfm](http://www.efunda.com/formulae/finance/apr_calculator.cfm). Tell the students that there are key pieces of information that consumers must have in order to compute the APR, whether using a calculator or not. Discuss the following:
  - Consumers must know the amount of credit to be received—that is, the amount of the loan. For example, if a person wants to borrow \$3,000 to buy a used car, the amount financed is \$3,000.
  - Consumers must know the dollar amount the credit will cost—that is, the fees and interest charges associated with a loan. Examples of fees included when computing APR are loan-processing fees and underwriting fees. The loan-processing fee for the used car loan above is \$50, and the interest rate is 7 percent. (Note: When using an APR calculator, it is not necessary to know the dollar amount in interest; knowing the interest rate is enough.)
  - Consumers must know the length of the loan, often referred to as the “term” of the loan. In the case of the car loan, the term is 24 months.
  - Entering this information into the APR calculator tells us that this loan, with a stated interest rate of 7 percent, has an APR of 8.63791 percent.
  - If another dealer offered a stated interest rate of 6 percent for a two-year loan but charged a \$100 fee, the APR would be 9.24659 percent.
  - Obviously, APR is as important a factor as the stated interest rate when loans are being compared. Even though the interest rate on the second loan is lower, the APR is higher because the fee is higher.
  
6. Distribute a copy of *Handout 8.1: Calculating the Annual Percentage Rate for Short-Term Loans* and a calculator to each student. Tell the students that the handout includes the steps for calculating an APR for a short-term (less than a year) loan. Review the steps with the students. Use the following example to calculate an APR on the board: A consumer borrows \$500 for car repairs. The sum of the fees and interest charges is \$50. The term of the loan is 21 days.
  - Step 1 – Divide the sum of the fees and finance charges (\$50) by the amount financed.  $\$50 \div \$500.00 = .1$
  - Step 2 – Multiply the answer by the number of days in a year.  $.1 \times 365 = 36.5$
  - Step 3 – Divide the answer by the term of the loan in days.  $36.5 \div 21 = 1.7381$
  - Step 4 – Move the decimal point two places to the right and add a percent sign. 1.7381 becomes 173.8% (rounded) to state the annual percentage rate.

SOURCE: <http://stop paydaypredators.org/>
  
7. Remind students that APR expresses the cost of the loan by incorporating not only the interest payment based on the stated interest rate but also incorporating all upfront fees paid by the borrower. This becomes very important when comparing loans and when analyzing the cost of short-term loans. Distribute a copy of *Handout 8.2: APR Problems* to each student. Tell the students to calculate the APR

for each example. Allow time for the students to complete their work. Review the answers as follows:

- A. Interest Charge - \$5    Amount of Loan - \$500    Term - 14-days    APR – 26%  
 $[(\$5/\$500) \times 365]/14 = 26\%$
- B. Interest Charge - \$12    Amount of Loan - \$200    Term - 21-days    APR – 104%  
 $[(\$12/\$200) \times 365]/21 = 104\%$
- C. Interest Charge - \$5    Amount of Loan - \$750    Term - 14-days    APR – 17%  
 $[(\$5/\$750) \times 365]/14 = 17\%$

8. Review the definition of Annual Percentage Rate as the percentage cost of credit on an annual basis. Remind the students that the APR is the total cost of credit to the consumer and is intended to make it easier to compare loan options in order to help the consumer make better-informed choices. Point out that the APRs for the short-term loans from Handout 8.2 were much higher than the APR from the car loan—a longer-term loan.
9. Ask the students whether they or others they know have used short-term loans to obtain things that they want. (*Answers will vary.*) Point out that when fees and interest are combined for short-term loans, the APRs become very high, as illustrated by the problems listed on Handout 8.2.
10. Ask the students if they have heard advertisements for payday loans. (*Answers will vary.*) Explain that these are short-term loans that typically have very high APRs. Explain the following:
- A **payday loan** is a small, short-term loan that is intended to cover a borrower's expenses until his or her next payday.
  - A payday loan may also be called a "paycheck advance" or "payday advance."
  - Usually the initial term for the loan is two weeks.
  - The loans are also sometimes called "cash advances," although that term can also refer to cash provided against a prearranged line of credit, such as a credit card.
11. Display a visual of *Handout 8.3: Payday Loan Fact Sheet* and distribute a copy of the handout to each student. Ask the students the following questions.
- What is the amount of a typical payday loan? (\$300)
  - What fees does a payday loan have? (*loan fees and, if extended past the initial term, rollover fees*)
  - When rollover fees are included, what is the range for the annual percentage rate of payday loans? (*about 390 percent to 780 percent depending on the amount and length {term} of the loan*)
  - What percentage of borrowers are unable to repay their payday loans? (*about 91 percent*)
  - What percentage of payday loans go to repeat borrowers? (*99 percent*)

- Do any states prohibit such loans? *(Yes—as of 2009, there are 11 states, the District of Columbia and two territories that prohibit these loans. The states and territories are: Connecticut, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, West Virginia, Puerto Rico and the Virgin Islands. Three other states—Arkansas, Ohio and New Hampshire—allow payday loans, only if the loans are low-cost for consumers. These states severely restrict the interest rate and fees the payday loan companies can charge. Many other states in which payday loans are legal restrict some of the companies’ business practices by not allowing rollover loans or loan refinancing.)*

*SOURCES: National Conference of State Legislatures. [www.ncsl.org/default.aspx?tabid=12473](http://www.ncsl.org/default.aspx?tabid=12473); Consumer Federation of America Payday Loan Consumer Information. [www.paydayloaninfo.org/stateinfo.asp](http://www.paydayloaninfo.org/stateinfo.asp)*

[Note: Students might find it of interest that payday lenders were labeled “loan sharks” during the Great Depression. *(This is the origin of the term.)*]

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### Closure

12. Review the key points of the lesson by discussing the following:
  - What is a loan? *(a sum of money provided temporarily on the condition that the amount borrowed be returned, usually with interest)*
  - What is interest on a loan? *(the price of using someone else’s money)*
  - What is an annual percentage rate? *[APR is the total cost of credit to a consumer because it combines all fees as well as the interest paid (finance charges) on the loan.]*
  - Why it is important for consumers to know what the APR is and be able to calculate the rate? *(The APR is the total cost of credit to the consumer and allows the consumer to compare loan options and to make better-informed decisions.)*
  - How can consumers determine APR for long-term loans such as car loans or mortgages? *(by using an online APR calculator)*
  - What information must consumers know to use an APR calculator? *(length of the loan, fees and interest rate)*
  - What are the steps to calculate an annual percentage rate for a short-term loan?
    - Divide the sum of any fees and interest charges by the amount financed, i.e., the amount borrowed.
    - Multiply the answer by the number of days in the year if the loan is for one year or less.
    - Divide the answer by the term of the loan expressed in number of days.
    - Move the decimal point to the right two places and add the percent sign.

- What is a payday loan? (*a small, short-term loan intended to cover a borrower's expenses until his or her next payday*)
- What are the disadvantages of a payday loan? (*high interest rates, additional fees, increased debt*)
- Why do people use payday loans? (*to pay for goods or services before they receive their paycheck*)

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### Assessment

13. Divide the class into groups. Using the information provided on *Handout 8.3: Payday Loan Fact Sheet*, have each group develop a short public service announcement (commercial) aimed at high school students outlining the drawbacks of using a payday loan. Have the groups deliver the announcement in class and then discuss with the class which group was most effective in delivering the message and illustrating the facts contained in Handout 8.3.

## Handout 8.1: Calculating the Annual Percentage Rate for Short-Term Loans

Directions: Use the following steps to compute the annual percentage rate (APR) for a loan of less than one year.

Step 1 – Divide the sum of the fees and interest charges by the amount financed.

Step 2 – Multiply the answer by the number of days in a year.

Step 3 – Divide the answer by the term of the loan in days.

Step 4 – Move the decimal point two places to the right and add a percent sign.

SOURCE: <http://stop paydaypredators.org/>

## Handout 8.2: APR Problems

Directions: For each problem below, calculate the APR. Use the steps for computing APR found on Handout 8.1. Show your work. Round answers to the nearest whole number.

- A. Andrew borrowed \$500 to repair his car. The finance charge on the loan was \$5, and the term on the loan was 14 days. What was the APR for Andrew's loan?
- B. Shondra borrowed \$200 for the books she needed for her second semester of college. The finance charge for her loan was \$12, and the term was 21 days. What was the APR for Shondra's loan?
- C. Mario borrowed \$750 to pay a doctor bill. The finance charge was \$5, and the term was 14 days. What was the APR for Mario's loan?

### Handout 8.3: Payday Loan Fact Sheet

- The term of a payday loan is usually two weeks—until the next paycheck—and annual percentage rates are often 390 percent to 780 percent when loan fees and rollover fees are included.
- A typical payday loan is about \$300.
- The borrower can give a post-dated check to a lender to be held until the next paycheck.
- Approximately 91 percent of borrowers are unable to repay their payday loans.
- Lenders charge fees, called “rollover fees,” when borrowers want to extend the loan beyond the original term.
- Approximately 99 percent of payday loans go to repeat borrowers, and government reports conclude that the industry relies on repeat (rollover) borrowers.
- Fees paid on loans that go past 90 days total approximately \$4.2 billion annually.
- Currently 14 states, the District of Columbia and two territories prohibit or greatly restrict payday loans, whereas 36 states allow them.
- Payday lenders have partnered with national banks in some states to avoid state prohibitions and restrictions.

SOURCES:

Consumer Federation of America web site, [www.paydayloaninfo.org/](http://www.paydayloaninfo.org/)

Credit Abuse Resistance Education Program (C.A.R.E.), [www.careprogram.us](http://www.careprogram.us)

Center for Policy Alternatives, [www.cfpa.org](http://www.cfpa.org)

“‘Fringe’ Lenders: Traditional Institutions Search for Alternatives,” *Bridges*, Winter 2007-2008,

Federal Reserve Bank of St. Louis

Statistics provided by the Center for Responsible Lending





## Lesson Description

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

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## Concepts

Annual percentage rate (APR)  
Contract  
Elements of a contract  
Rent-to-own contract

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## Objectives

Students will:

- Define contract.
  - Explain the elements of a contract.
  - Evaluate the terms and costs of a rent-to-own contract.
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## Content Standards

### National Standards in K-12 Personal Finance

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions
    - Eighth-grade expectation 2: Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.
  - **Standard 4:** Make financial decisions by systematically considering alternatives and consequences
    - Eighth-grade expectation 2: Evaluate the results of a financial decision.
    - High school expectation 6: Give examples of how decisions made today can affect future opportunities.
  - **Standard 5:** Develop communication strategies for discussing financial issues.
    - High school expectation 3: Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.
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## Time Required

60 minutes

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## Materials

- A copy of Handouts 9.1 and 9.2 for each student
  - A copy of Handout 9.1—Answer Key for the teacher
  - A copy of Handout 9.3 for each student (optional)
  - A copy of Handout 9.3—Answer Key for the teacher
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## Procedures

1. Tell the students that a **contract** is a legally binding exchange or promise or agreement between parties that is enforced by law. Ask the students if they have ever heard of any examples of contracts. (*Professional athletes have contracts with team owners, union workers have contracts with management, and so on.*)
2. List the following on the board: Competent Parties, Consideration and Mutual Agreement. Explain that these are key elements of a contract. Using the information provided below, discuss each of the key elements of a contract.
  - **Competent Parties** – The individuals involved in the contract must be able to understand the conditions of the contract and what they are agreeing to. For example, a drugged or mentally impaired person might not understand the conditions of the contract, and it is unlikely that a court would hold that person to the contract. Generally, minors (usually those under 18) may not enter into a binding contract without parental consent unless it is for the necessities of life, such as food, clothing or for student loan contracts.
  - **Consideration** – If you are one of the parties in a contract, you must give up something in exchange for what the other party is providing to you. This is called “consideration.” Money is the most common form of consideration, but consideration may also be property, making a promise to do or not to do something, or anything of value. Agreeing to perform an illegal act is not consideration, and a contract that includes this would be void.
  - **Mutual Agreement** – This means that each side must be clear as to the essential details, rights and obligations of the contract. This can be done in written or oral form.

## Lesson 9: To Rent-to-Own or not to Rent-to-Own?

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3. Ask the students the following questions.
  - What consideration might a professional athlete give a team owner? (*his or her skills or abilities, performance for that team, not signing with any other team*)
  - What consideration might a team owner give a professional athlete? (*salary, length of contract, performance bonuses*)
  - Describe some essential details of a contract you might have with your parents to mow the lawn every two weeks. (*how much you are going to be paid; in addition to cutting the grass, what else must be done to complete the job*)
  - What conditions might make a contract void? (*One of the parties is mentally impaired and does not understand the conditions of the contract, one of the parties is a minor or the contract involves an illegal act.*)
4. Ask the students if they have seen or heard advertisements for rent-to-own stores. (*Answers will vary.*) Ask what types of products these ads usually involve. (*furniture, appliances, televisions and so on*)
5. Tell the students they are going to study a specific type of contract, a **rent-to-own contract**, which is a basic lease contract with an option to purchase. Discuss the following:
  - With this type of contract consumers can get immediate delivery on new furniture, appliances or other items.
  - There is no down payment or credit check.
  - If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it.
  - Rental stores offer contracts that are technically rental-purchase agreements.
  - These contracts allow people to rent merchandise either by the week or month. The person owns the item after all payments have been made.
  - If a renter misses a payment, the contract requires them to return the item.
  - If this happens, the consumer has nothing to show for the money spent. They have only the benefits of having used the item for a period of time.
6. Explain that if people want to use furniture or appliances for just a few weeks or months, renting may be the right choice. On the other hand, if their goal is to own the item, rental payments can add up to a greater total cost than buying the product outright. Tell the students that about 75 percent of customers return a rental item within the first four months, and fewer than 25 percent of customers actually rent long enough to own the item.

7. Point out that rent-to-own contracts are not written as loans; therefore, annual percentage rates are not disclosed. **Annual percentage rate** (APR) is the percentage cost of credit on an annual basis. (Note: For a more detailed explanation of APR, see Unit C, Lesson 8.) APR may differ from the stated interest rate of a loan because it is the total cost of credit to the consumer in that it includes fees and any other upfront charges in addition to the stated interest rate. Therefore, APR includes the real costs of credit and is intended to make it easier to compare lenders and loan options in order to help the consumer make a better-informed choice.
8. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit to get immediate use of an expensive good without providing a down payment. In addition, they allow consumers to try something out before buying.
9. Remind the students that the three key elements of a contract are competent parties, consideration and mutual agreement. Discuss the following:
  - How does the competent parties element factor into a rent-to-own contract? *(The individuals involved must understand the conditions of the contract. The store may not initiate a contract with someone who is mentally impaired or a minor.)*
  - What considerations are given by each party in a rent-to-own contract? *(The renter agrees to make payments to the store. The store agrees to provide the good. The renter agrees that the good may be repossessed by the store if the renter fails to make payments. The store agrees that the renter may return the item without penalty after a specified amount of time.)*
  - How is mutual agreement illustrated in a rent-to-own contract? *(Often the store provides a written contract. It is the responsibility of the renter to read the contract carefully in order to understand the terms prior to signing the contract.)*
10. Explain that if consumers are considering the rent-to-own option, it is important to compute the cost of these contracts as compared with the outright purchase of a good before making a decision. Distribute a copy of *Handout 9.1: Rent-to-Own Chart* to each student. Divide the class into groups of three. Have the students fill in the blanks on the chart. Tell the groups that they will be sharing their answers with the class, and ask each group to appoint a spokesperson.
11. Review the answers on the chart by selecting a group spokesperson to provide an answer for each row on the chart until each row has been discussed. (Note: Refer to *Handout 9.1: Rent-to-Own Chart—Answer Key*)
12. Ask the students the following:
  - How is the total cost for the rent-own-contract computed? *(the amount of payment X term or length of time payments are made)*
  - Which column in the chart has the higher total costs? *(rent-to-own stores)*
  - Which column in the chart has the lower total costs? *(retail stores)*

## Lesson 9: To Rent-to-Own or not to Rent-to-Own?

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- Can rent-to-own contracts be a beneficial way to obtain the use of goods such as furniture, appliances, etc.? *(Yes, if you want an item for a short period of time or you want to try out an item before purchase.)*
- What are the drawbacks to the rent-to-own contract? *(The cost is higher than outright purchase of the item, there may be additional fees attached, financial disclosure laws do not always apply and, even after some payments have been made, you can lose the item if you don't continue to make the rental payments.)*
- Do the differences between the retail price of items and the amount paid when purchasing items from rent-to-own stores seem significant to you? *(Answers will vary.)*
- Point out that the items purchased through rent-to-own contracts cost from 80 percent (car rims and laptop) to 368 percent (Nintendo Wii) more than retail.

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### Closure

13. Review the key points of the lesson by discussion the following.
  - What is a contract? *(a legally binding exchange of promises or agreements between parties enforceable by law)*
  - What are the key elements of a contract? *(competent parties, consideration and mutual agreement)*
  - What is a rent-to-own contract? *(a basic lease contract with an option to purchase)*
  - Why is purchasing a good with a rent-to-own contract more expensive than buying the item outright? *(Payments are spread out over a period of time—usually 12 months—and additional fees may be attached; RTO stores incur the risk of repossessing the merchandise and repairing or replacing the merchandise.)*
  - What are the disadvantages of such a contract? *(The cost is higher than outright purchase of the item; there may be additional fees attached; financial disclosure laws do not always apply; even after some payments you can lose the item if you don't continue payments; and consumers are often left paying twice as much, if not more, for owning the rented goods than they would have if they had bought them outright.)*

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### Assessment

14. Distribute *Handout 9.2—Assessment* to the students. Have them read the scenario and answer the questions located below the scenario.

*Answers to Handout 9.2 questions*

- A. *How much money did Jose save by buying the television using an installment loan? ( $\$1080 - \$558.72 = \$521.28$ )*

- B. *Do you think Jose made the correct decision? Why? (Yes, he saved money on his purchase. Point out that Jose also gathered information about the payments and recognized that he could lose the television and money if he missed a payment.)*
  - C. *If you were Jose, what would you do with the money you saved? (Answers will vary, but could include purchase another item, deposit the savings into a savings account, purchase a savings bond or pay off another bill.)*
15. As an optional assessment, distribute *Handout 9.3: Figuring Percentages*. Instruct students to follow the instructions and example on the handout in order to complete the chart. Use *Handout 9.3: Figuring Percentages—Answer Key* to check students' work.

### Handout 9.1: Rent-to-Own Chart

Item/Description	Rent-to-Own-Payments	Total	Retail Cost	Difference
Hitachi 50" Plasma Television	\$279.99 per month for 12 months		\$1,449.50	\$1,910.38
Nintendo Wii Bundle	per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88		\$799.95
18.3cf Refrigerator	\$139.99 per month for 12 months		\$799.99	
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	
Gibson SG Electric Guitar	\$60.75 per month for 12 months		\$405.00	

## Handout 9.1: Rent-to-Own Chart—Answer Key

Item/Description	Rent-to-Own-Payments	Total	Retail Cost	Difference
Hitachi 50" Plasma Television	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38
Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00



## Handout 9.2: Assessment

Directions: Read the scenario below and answer the questions that follow.

Jose is trying to decide between using a rent-to-own contract or an installment loan to purchase a new television. Primo Electronics is selling the television he wants for \$500. He can obtain an installment loan that will allow him to finance the television with an interest rate of 21 percent. A rent-to-own store nearby has advertised the same model for \$15 a week. After seeing the rent-to-own store advertisement, Jose went to the rental store to get more information. The assistant manager told Jose that he could own the television in 72 weeks. Jose multiplied  $\$15 \times 72$  and got \$1,080.

Jose found out that if he missed one payment at the rent-to-own store, the store would take back the television. He calculated that if he made 50 payments on time, that would be  $50 \times \$15$ , for a total of \$750. If he missed the next payment, he would lose the television and still be out the \$750.

Jose purchased the television at Primo Electronics. He was able to obtain an installment loan for one year. The interest rate was 21 percent with monthly payments of \$46.56, totaling \$558.72.

A. How much money did Jose save by buying the television using an installment loan?

B. Do you think Jose made the correct decision? Explain your answer.

C. If you were Jose, what would you do with the money you saved?

### Handout 9.3: Figuring Percentages

Using the information in the chart below, determine the percentage of the retail cost that the total rent-to-own (RTO) payments are. To determine the percentage, divide the RTO cost by the retail cost. Then, move the decimal two places to the right to change the answer from a decimal to a percentage. Round to the nearest hundredth (two decimal places). Answer the question that follows the table.

Example:

$$\$3,359.88 \div \$1,449.50 = 2.32 \text{ (rounded)} = 232\%$$

If the Hitachi television purchased through RTO cost 100 percent of the retail cost, that would mean that the RTO method cost the same as retail (100%-100% = 0%). In the example above, 232 percent means that the Hitachi television costs 132 percent more if purchased through RTO rather than buying directly at a retail store (232 percent -100 percent = 132 percent).

Item/Description	Rent-to-Own Payments	Total	Retail Cost	Difference	RTO as % of Retail
Hitachi 50" Plasma Television	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38	232%
Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95	
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89	
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89	
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00	

What percentage more than retail was the Nintendo Wii Bundle?

### Handout 9.3: Figuring Percentages—Answer Key

Using the information in the chart below, determine the percentage of the retail cost that the total rent-to-own (RTO) payments are. To determine the percentage, divide the RTO cost by the retail cost. Then, move the decimal two places to the right to change the answer from a decimal to a percentage. Round to the nearest hundredth (two decimal places). Answer the question that follows the table.

Example:

$$\$3,359.88 \div \$1,449.50 = 2.32 \text{ (rounded)} = 232\%$$

If the Hitachi television purchased through RTO cost 100 percent of the retail cost, that would mean that the RTO method cost the same as retail (100% - 100% = 0%). In the example above, 232 percent means that the Hitachi television costs 132 percent more if purchased through RTO rather than buying directly at a retail store (232 percent - 100 percent = 132 percent).

Item/Description	Rent-to-Own Payments	Total	Retail Cost	Difference	RTO as % of Retail
Hitachi 50" Plasma Television	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38	232%
Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	468%
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	180%
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95	180%
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89	210%
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89	220%
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00	180%

What percentage more than retail was the Nintendo Wii Bundle? *368 percent more (468% - 100% = 368%)*



## Glossary of Terms

**Annual percentage rate** – The percentage cost of credit on an annual basis and the total cost of credit to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front. (Lessons 8 and 9)

**Automatic Teller Machine (ATM) card** – A form of debit card that you use in a cash machine by punching in your code or personal identification number. (Lesson 3)

**Bank account register** – A tool in which an account holder lists his or her initial balance in an account and then records all debits and credits in order to maintain an accurate record of account activity and an accurate balance. (Lesson 3)

**Bank statement** – A statement given to you by your bank or credit union to keep you informed of all transactions you made during the statement period. These statements are sent on a regular basis or posted online. (Lesson 3)

**Budget** – An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending and saving during a given period of time. (Lesson 4)

**Capacity** – A borrower's ability to repay debt. (Lesson 7)

**Character** – A borrower's reputation for paying bills and debts in the past. (Lesson 7)

**Checking account** – An account held at a bank or credit union in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds. (Lesson 3)

**Check-cashing services** – A business that provides services such as cashing all types of checks, including payroll, insurance, tax refund, settlement, government and social security. These businesses may also provide other services, such as payday loans, money orders and money wires. (Lesson 3)

**Collateral** – A borrower's savings, investments or the value of the asset purchased that can be seized if the borrower fails to repay a debt. (Lesson 7)

**Compound interest** – Interest computed on the sum of the original principal and accrued interest. (Lesson 5)

**Contract** – A legally binding exchange or promise or agreement between parties that is enforced by law. (Lesson 9)

**Credit** – The granting of money or something else of value in exchange for a promise of future repayment. (Lessons 6 and 7)

**Credit cards** – Cards that represent an agreement between a lender—the institution issuing the card—and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loans, retail stores, and other businesses. (Lesson 6)

**Credit history** – A person's payment activity over a period of time. (Lesson 6)

**Credit report** – A loan and bill payment history, kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid. (Lesson 6)

**Credit reporting bureau** – An organization that compiles credit information on individuals and businesses and makes it available to businesses for a fee. (Lesson 6)

**Credit responsibilities** – Refers to the actions or behaviors in which people should engage when they use credit. (Lesson 7)

**Credit rights** – Refers to the protections put in place by law to help people obtain and maintain credits. (Lesson 7)

**Creditor** – A person, financial institution or other business that lends money. (Lessons 6 and 7)

**Credits** – Additions or deposits to an account. In a bank account register, credits are added to the balance. (Lesson 2)

**Debits** – Charges to an account. In a bank account register, debits are subtracted from the balance. (Lesson 3)

**Debit card** – A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account. (Lesson 3)

**Elements of a contract** – Competent parties, consideration and mutual agreement are the elements of a contract that must be present to make the contract legal and enforceable. Competent parties means that the individuals involved in a contract must be able to understand the conditions of the contract. Consideration refers to the fact that each party of a contract gives up something in exchange for what the other party is providing. Mutual agreement means that each party to the contract must be clear as to the essential details, rights and obligations of the contract. (Lesson 9)

**Exempt (from withholding)** – Free from withholding of federal income tax. A person must meet certain income, tax liability and dependency criteria. This does not exempt a person from other kinds of tax withholding, such as the Social Security tax. (Lesson 2)

**Exemption** – Amount that taxpayers can claim for themselves, their spouses and eligible dependents. There are two types of exemptions—personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year. (Lesson 2)

**Expenses** – The costs people incur for goods and services. Expenses are often categorized as fixed, variable and periodic. Fixed expenses are those that occur each month in a regular amount such as rent, car payment or mortgage payment. Variable expenses are those that change from time period to time period, such as food, clothing, gasoline or entertainment. Periodic expenses are those that occur several times a year, such as car insurance or life insurance payments. (Lesson 4)

**Federal income tax** – The federal government levies a tax on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement and interest on the national debt. (Lesson 2)

**Federal Insurance Contributions Act (FICA) tax** – A tax or required contribution that most workers and employers pay. FICA is a payroll tax used to fund Social Security and Medicare. (Lesson 2)

**Fees** – Money charged to review your application for credit or to service your credit account, such as maintenance fees or late fees. Banks also often charge fees for servicing bank accounts, these fees include charges for using a non-bank ATM. (Lessons 2, 6, and 7)

**File a return** – To mail or otherwise transmit to an IRS service center the taxpayer's information, in specified format, about income and tax liability. This information (the return) can be filed on paper, electronically or by telephone. (Lesson 2)

**Gross pay** – The amount people earn per pay period before any deductions or taxes are paid. (Lesson 2)

**Human capital** – The knowledge, talent and skills that people possess. (Lesson 1)

**Income** – The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the form of rent, profit and interest. (Lessons 2, 4 and 6)

**Income tax** – Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes). (Lesson 2)

**Interest** – The price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays the account holder interest. Those who borrow from banks or other organizations pay interest for the use of the money borrowed. (Lessons 5, 6, 7 and 8)

**Interest rate** – The percentage of the amount loaned that is charged for a loan, usually a percentage of the amount loaned. Also, the percentage paid on a savings account. (Lesson 8)

**Internal Revenue Service (IRS)** – The federal agency that collects income taxes in the United States. (Lesson 2)

**Investment in human capital** – The efforts people put forth to acquire human capital. These efforts include education, training, and practice. (Lesson 1)

**Loan** – A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest. (Lesson 8)

**Medicare tax** – A payroll tax that is part of FICA. Collected from most employees and employers to fund the hospital insurance provided under the Medicare system. Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65. (Lesson 2)

**Net pay** – Gross pay minus deductions and taxes. (Lesson 2).

**Non-interest bearing account** – An account in which no interest is paid on the principal—that is, the amount of deposit or account balance. Also, called zero-interest account. (Lesson 5)

**Payday loan** – A small, short-term loan that is intended to cover a borrower's expenses until his or her next payday. May also be called a "paycheck advance" or a "payday advance." (Lesson 8)

**Payroll deduction** – The amounts subtracted from gross pay, which results in your net pay. (Lesson 2)

**Principal** – The original amount of money deposited or invested, excluding any interest or dividends. Also refers to the original amount of a loan without any interest. (Lesson 5)



**Rent-to-own contract** – A contract that allows consumers to get immediate delivery on new furniture, appliances or other items. There is no down payment or credit check required. If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it. If the renter misses a payment, the contract requires them to return the item. (Lesson 9)

**Risk-reward relationship** – The idea that there is a direct relationship between risk of loss of principal and expected rate of return. The higher the risk of loss of principal for an investment, the greater the potential reward. Conversely, the lower the risk of loss of principal for an investment, the lower the potential reward. (Lesson 5)

**Rule of 72** – A method to estimate the number of years it will take for an investment or debt to double in value. Divide the number 72 by the percentage rate of interest being paid on a debt or being earned on an investment to determine the approximate number of years. (Lesson 5)

**Salary** – Income earned for providing human resources (labor) in the market. Salaries are generally an annual amount paid monthly or bi-monthly for a specified number of hours, usually a 40-hour week. (Lesson 2)

**Saving** – The part of a person's income that is not spent or used to pay taxes. (Lesson 5)

**Savings account** – An account with a bank or credit union in which people can deposit their money for future use and earn interest. (Lesson 3)

**Social Security tax** – A payroll tax that is part of FICA and is collected from most employees and employers to fund Social Security, which provides old-age, survivors' and disability income. (Lesson 2)

**Taxes** – Government fees placed on business and individual income, activities, property or products. People are required to pay taxes. Tax revenue collected is used to provide government goods and services to citizens and to allow government to operate. (Lesson 2)

**Tax refund** – Money owed to taxpayers when their total tax payments are greater than the total tax. Refunds are received from the government. (Lesson 2)

**W-2 form, Wage and Tax Statement** – A summary of a person's earning and tax withholding for an entire year. Employers must provide a W-2 to employees by the end of January for the previous year's employment to report annual income and withholding for the employees' tax return. (Lesson 2)

**W-4 form, Employee's Withholding Allowance Certificate** – A form completed by the employee and used by the employer to determine the amount of income tax to withhold. (Lesson 2)

**Wages** – Income earned for providing human resources (labor) in the market. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. (Lesson 2)

**Withholding allowance** – The amount of money that employers withhold from an employee's paycheck. This money is deposited for the government on behalf of the individual taxpayer. (It will be credited against the employee's tax liability when they file their returns.) Employers withhold money for federal income taxes, Social Security taxes, and state and local income taxes in some states and localities. (Lesson 2)