Living Smarter

A PERSONAL FINANCE CURRICULUM FOR JUNIOR HIGH SCHOOL STUDENTS

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LIVING SMARTER

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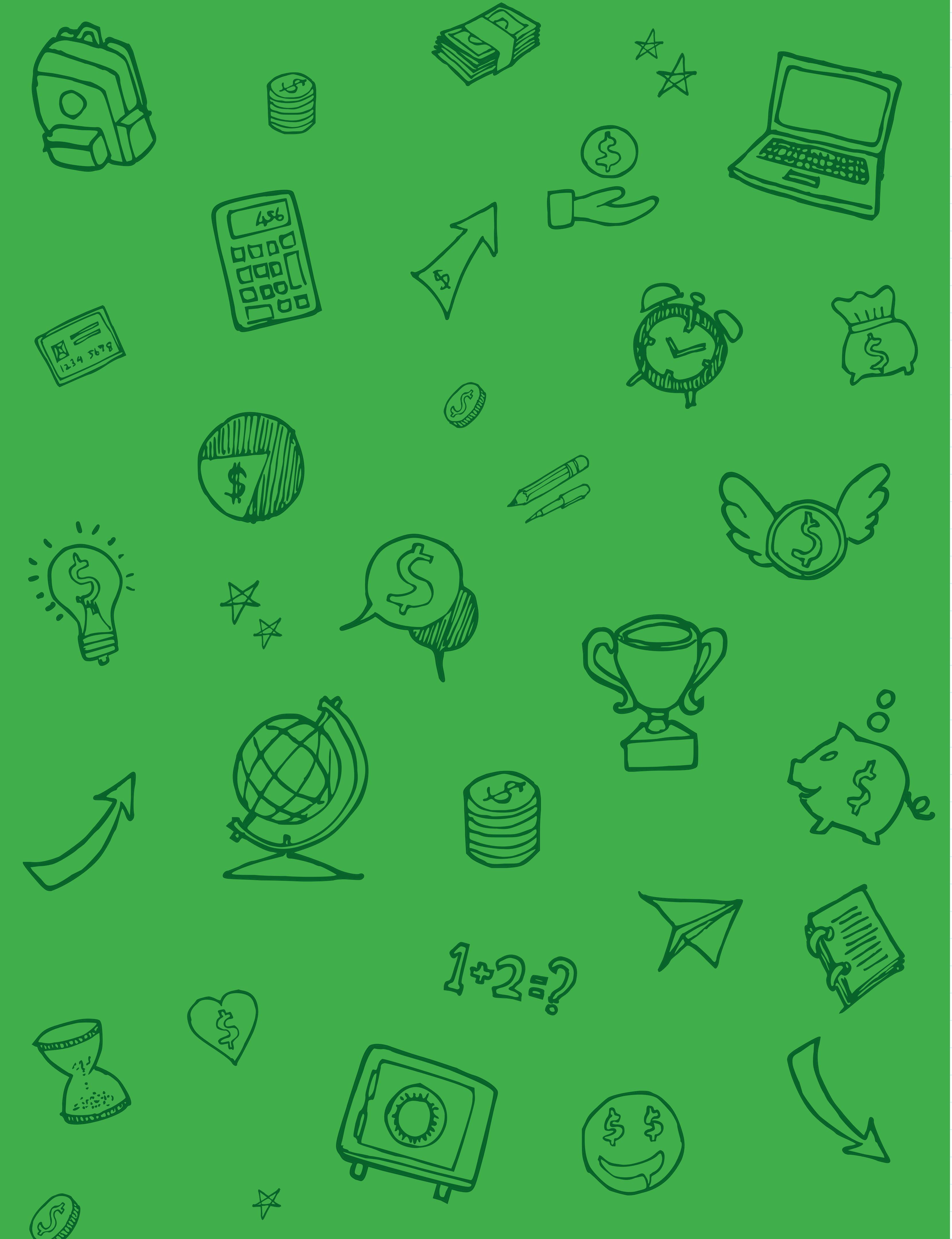
CHAPTER 1

INTRODUCTION

Being Fiscally Responsible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INTRODUCTION

Saving for a Rainy Day and Emergency Funds

Word Bank

bank: a financial institution licensed to accept checking and savings deposits and make loans

bank account: an arrangement made with a bank in which one may deposit and withdraw money. Some bank accounts pay interest on the money deposited.

custodial account: an account belonging to a child but managed or overseen by an adult until the child turns 18

emergency fund: money a person sets aside to cover life's larger, unexpected events and unanticipated expenses

interest: money the bank pays you for keeping your money in their bank

saving: putting aside money for the future instead of spending it immediately

saving for a rainy day: a phrase that can loosely mean saving money for a future time when the money is needed

PEOPLE SAVE MONEY FOR MANY DIFFERENT PURPOSES, INCLUDING LARGE EXPENSES SUCH AS CARS, HOMES, EDUCATION COSTS, RETIREMENT, AND EMERGENCIES. HOW CAN YOU SAVE MONEY?

Children as young as three can learn basic money concepts by using a piggy bank. Did you have a ceramic piggy bank with a rubber stopper at the bottom growing up? You put in your dollars and coins, not spending them. You probably didn't realize it at the time, but you were saving money for the future.

By now, you may have outgrown your piggy bank if you had one. Where can you put your money? Of course, you can keep your money in your wallet, but if you want to save it, you might want to consider putting it into a bank account. *Know that you won't be able to open up a bank account by yourself.* According to government rules, if you are under 18, a parent or a guardian must set up a custodial account to be managed or overseen by an adult until you turn 18.

Something special about having a savings account at a bank is called interest. Interest is free money! *Interest is money the bank pays you for keeping your money in their bank.* It means your money will grow if you don't take it out of the bank. Now that is very sweet! We will talk about simple interest and compound interest in the next lesson.

"SAVING FOR A RAINY DAY"

USUALLY REFERS TO SAVING MONEY FOR UNEXPECTED EXPENSES.

How much do you need in your rainy day fund?

How would you figure this out?

You will actually have to work backward to figure this out.

1. First, you want to come up with a dollar amount of what you would like to have in your rainy day fund.
2. Second, you will have to figure out how much money you can set aside weekly or monthly to fund your rainy-day savings.
3. Last, you will want to add up all your weekly or monthly amounts to figure out the time it will take to reach your rainy day goal. For example, let's say you would like to have $50 in your rainy day fund. You can put aside $5 a week towards your rainy day fund. It would take you ten weeks (5 x 10 = 50) to save for your rainy day fund.

AN EMERGENCY FUND IS VERY SIMILAR TO "SAVING FOR A RAINY DAY" FUNDS.

Emergency funds are money someone sets aside to cover life's larger, *unexpected events and unanticipated expenses.* You probably don't have anything that is an emergency in your life right now, but many people do. Notice that the stress is on unexpected and unanticipated. This is an important differentiation between saving for a rainy day and an emergency fund. Unexpected events can be stressful and costly, so having an emergency fund is important. Some unexpected events someone might have can include their car breaking down and needing to be replaced with a new one or losing their job.

How would a person know if a situation is an emergency or not? The best rule is, if you are not sure if it is an emergency, *it probably isn't*!

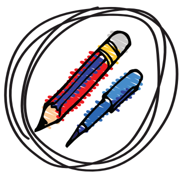
WHAT ARE SOME PRACTICAL STEPS YOU NEED TO TAKE TO START YOUR RAINY DAY OR EMERGENCY FUND?

1.
Put in whatever "extra" money you have, even if it is a quarter or a dollar.

2.
Keep your rainy day and emergency funds away from your regular spending money. If your regular spending money is in a cup on the top of your bureau, maybe you can put your savings into an envelope in your drawer.

3.
Keep the change. If you bought a candy bar for $1.29 and gave the cashier $2.00, put the 71 cents change into your rainy day or emergency funds.

4.
Sell something you don't use and your siblings or cousins don't want. Put this "found" money into your rainy day or emergency funds.



ANSWER THE FOLLOWING QUESTIONS:

1. What is a bank account?

2. What does it mean to "save for a rainy day"?

3. What is an emergency fund?

4. A 19-year-old girl wants to open a bank account. Will she need a custodial account? Why or why not?

5. Define the word saving.

6. While cleaning your room, you find $25 cash in a birthday card you received from your grandparents a couple of months ago. What would you do? Spend it on something you really want or save it?

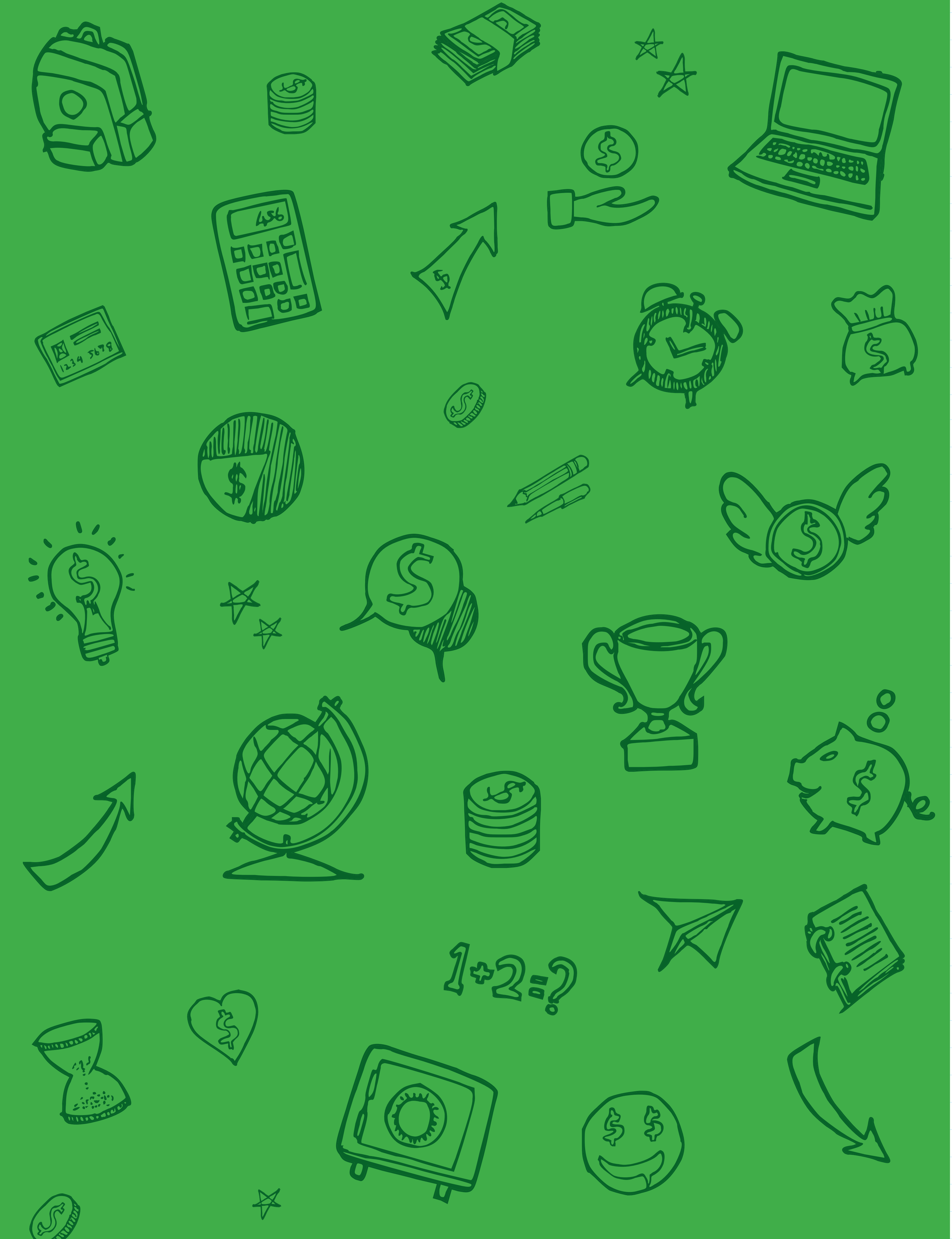
7. You go shopping with your friends. They all want to get matching sweatshirts that cost $35. Will you buy the sweatshirt?

8. Name a monetary emergency someone would use their emergency fund for.

CHAPTER 3

SPENDING

Spend Less, Enjoy More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Payment Methods

Word Bank

automated teller machine (ATM): an electronic banking outlet that allows customers to complete basic transactions without the aid of a bank representative

cash: currency or coins that can be used to acquire goods and services

check: a written, dated, and signed paper that directs a bank to pay a specific sum of money to the bearer

credit: the ability to borrow money with the understanding that it will be paid back later

credit card: a thin plastic or metal card used to make purchases with the agreement that the customer will pay back the money borrowed plus any interest owed later

credit limit: the maximum amount of money that can be borrowed from the credit card company

debit card: payment card that deducts money directly from an individual's bank account

payee: the person to whom the check is written

payor: the person writing the check

personal identification number (PIN): a number that makes sure you are the only one to use your debit card

real-time: the actual time that something takes place

retailer: a person or business that sells goods to the public

ARE YOU GOING TO THE STORE TO PURCHASE SHOES OR A SWEATER? WILL YOU PAY FOR YOUR PURCHASE WITH CASH? A CHECK? DEBIT CARD? CREDIT CARD?

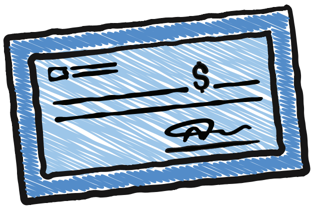
In this lesson, we'll explore each one of these ways to pay for a good or service.

CASH

Cash is very convenient when paying for small purchases. Some retailers only accept cash if the transaction is under $10. Other retailers take cash to avoid credit card payment fees, which allows them to offer their customers better prices. There are other reasons to use cash. Cash makes it very easy to budget. An individual can easily track how much money is coming in and going out of their budget when paying with cash. Another reason individuals use cash is they are much less likely to make impulse purchases.

Handling physical cash can make an individual more aware of their spending and appreciate their savings more, thus being less likely to overspend. A major problem when paying with cash is that it does not offer the protection from loss or theft that a debit or credit card offers.

CHECK



A **check** can also be used to pay for goods and services. There are advantages to writing a check over paying cash. You can use a check to pay your bill by mail, as you certainly wouldn't want to send cash in the mail! Landlords usually request that their renters pay their rent with a check. Checks are convenient and easy to use, and an individual does not have to carry large amounts of cash in their wallet. But there are many disadvantages to writing a check. Many businesses do not accept checks anymore. Your bank may charge you a service fee for writing too many checks and may require a minimum balance in your checking account. In addition, a check shows your personal information, such as your name, address, sometimes your telephone number, and your account number. Fraudsters and thieves may steal this information from your check and use it for illegal purposes. Checks do not offer the same theft or fraud protection as a debit or credit card.

DEBIT CARD

A **debit card** is sometimes called a bank card because it is linked to an individual's bank account. To use a debit card at a store or an ATM, an individual must have a personal identification number, often called a PIN. It's important not to share your PIN with anyone else.

THERE ARE THREE WAYS TO USE A DEBIT CARD:

- **Swipe the debit card using the magnetic strip**
- **Insert the card using the chip**
- **Use the tap to pay at the credit card terminal**

If your card has a tap to pay, you will see a little sideways symbol resembling sound waves.

WHAT IS CONTACTLESS OR TAP-TO-PAY?

A debit card, usually but not always, has a chip inside it that emits radio waves. The user holds the card near the payment terminal, which picks up the radio signal, communicates with the card, and processes the payment. Depending on the card, the credit card terminal may prompt an individual to enter their PIN before the transaction is finished. After swiping, inserting, or tapping to pay, they must hit the green button on the credit card terminal. Once the transaction is approved, the funds are immediately removed from the individual's checking account.

A debit card eliminates the need to carry a check or cash; however, it is similar to purchasing with cash. As a rule, you must have the money in your account to make a purchase. A debit card will not put you into debt, as you cannot spend more than what you have in your account. Without the money in your account, your transaction will be declined.

USING DEBIT CARDS HAS MANY ADVANTAGES.

First, they are easy to obtain. Once you open a checking account, most banks will issue you a debit card when you request it. Second, debit cards are convenient to use. Third, they are accepted in most stores and can be used to get cash from an ATM. Fourth, with a debit card, an individual can track their purchase in "real-time" because the money is taken out of their checking account immediately. Fifth, debit cards offer theft protection, something that cash and checks do not offer. If the debit card is stolen and the bank is notified, they can disable it so it cannot be used by anyone else.

USING A DEBIT CARD DOES HAVE DISADVANTAGES.

First, the spending limit is tied to what a person has in their checking account. If an individual has $150 in their account, they will not be able to spend more than $150. Second, using a debit card has limited fraud protection. Fraud protection is a method financial institutions use to prevent money from being obtained through illegal means.

CREDIT CARD

Goods and services can also be paid for by a **credit card.** About 80 percent of American adults have at least one credit card! To get a credit card in the United States, you need to be at least 18 years old. Usually, anyone under 18 must have a parent or guardian co-sign the credit card application. All credit cards have a credit limit.

When paying with a credit card, you are borrowing money from the credit card company and will have to pay it back. You will receive a bill each month from the credit card company. If you do not pay your bill in full and on time, you will need to pay extra money, called interest.

THERE ARE MANY BENEFITS TO USING CREDIT CARDS.

They are very easy to use, and most retailers accept them. Many credit cards offer purchase protection and return protection. Purchase protection applies to credit card purchases for a specific amount of time. A person can be reimbursed or receive a replacement for a damaged or stolen item, usually within 90 to 120 days. Return protection is a feature some credit cards offer, allowing extended time to receive a refund for a purchase return. In some cases, return protection can mean you'll receive a refund for the item you want to return, even if the seller doesn't accept returns. Some credit card companies extend the manufacturer's warranty by one to three years on purchases made with a credit card. Credit cards also offer fraud protection, limiting the amount of money owed to the credit card company if someone stole your physical credit card or used your credit card number to make unauthorized purchases. Many credit card companies offer their cardholders the ability to earn rewards, discounted hotel rooms, airline tickets, and points to purchase products. Some credit cards also offer cash back. Paying with a credit card is efficient and much easier than looking through your wallet for the right bills and coins to pay for your purchases.

PROBABLY THE BIGGEST DRAWBACK TO USING CREDIT CARDS IS PAYING INTEREST ON THE ACCOUNT BALANCE OWED.

Credit cards, on average, charge 19 percent interest on the account balance due. So for every $100 owed to the credit card company, someone who did not pay on time and in full would now owe almost $120. Credit card debt accumulates very quickly, and many people have difficulty getting out of it. The debt accrues interest, which compounds until the balance is paid off completely.

FILL IN THE BLANKS:

1. ____________ is currency or coins that can be used to acquire goods and services.

2. ____________ is the ability to borrow money with the understanding that it will be paid later.

3. A ________________ is a thin plastic or metal card used to make purchases with the agreement that the customer will pay back the money borrowed plus any interest owed later.

4. A ________________ is a payment card that deducts money directly from an individual's bank account.

5. A ________________ is the maximum amount of money that can be borrowed from the credit card company.

6. A ______________________________________ is a number that makes sure you are the only one to use your debit card.

ANSWER THE FOLLOWING QUESTIONS:

1. What is one of the biggest differences between debit and credit cards?

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2. In your own words, explain how a credit card works.

____

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3. Why is it a good idea to pay your entire credit card bill each month?

4. Once you have a credit card of your own, what types of things might you pay for with it? Explain your choices.

5. Think about it. Why would it be important to carefully keep track of how much you charge on your credit card?

6. Why do people use credit cards over cash?

A.

B.

C.

D.

7. What are some advantages of using cash when making a purchase?

A.

B.

C.

D.

8. What are some disadvantages of using a check to pay for purchases?

A. ______________________________

B. ______________________________

C. ______________________________

____

D. ______________________________

____

9. What are the three ways you can pay with a debit card at a card terminal?

____

10. What is the advantage of using a debit card over purchasing an item with cash or a check?

A. ______________________________

B. ______________________________

C. ______________________________

D. ______________________________

11. What are some important things to know about using a credit card?

A. ______________________________

____

B. ______________________________

____

C. ______________________________

____

D. ______________________________