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Lesson 1:

Invest in Yourself

Standards and Benchmarks (see page 1.10)

Lesson Description

Students are put into four groups to produce name tents. Each group produces name tents in a different way to highlight different levels of human capital. Students identify ways in which people invest in their human capital. Students use the Bureau of Labor Statistics Occupational Outlook Handbook to analyze unemployment, educational attainment, and median weekly income data. They work with a partner to create a graphical representation of the data and share their examples with the class. As an assessment, they write several sentences that describe the unemployment, educational attainment, and median weekly income data and explain the likely impact of investment in human capital on potential earnings and unemployment. A second assessment asks students to use the Occupational Outlook Handbook to select an occupation of interest and outline the investments in human capital they must make to obtain that occupation.

Grade Level

6-12

Concepts

Human capital

Investment in human capital

Compelling Question

How do people benefit from investing in themselves?

Objectives

Students will be able to

- 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; and
- describe the relationship between educational attainment and unemployment.

Time Required

60 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 1: Invest in Yourself"
- Handout 1.1, one copy for each student
- Two sheets of light-colored construction paper for each student, plus one sheet for the teacher
- One sheet of chart paper for each pair of students
- One dark-colored marker for each student
- Markers for each pair of students
- Masking or painter's tape

Procedure

1. Explain that students will participate in the 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 the class and for guest speakers.

3. Display Slides 1-3 and demonstrate how to produce a name tent as listed below. Tell students that they should only observe the process and not make name tents at this time.
    - Fold the sheet of construction paper in half, shorter edges (8½") together. Crease the center fold. The folded paper should measure 8½" x 5½".
    - Open the paper to 8½" × 11".
    - Fold the bottom 8½" edge to the middle crease. Crease the fold.
    - Open the paper to 8½" × 11".
    - Fold the top 8½" edge to the middle crease. Crease the fold.
    - The paper should now have four sections, each measuring approximately 2¾" × 8½".

- 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 your name displayed on both sides.

4. Select one student who will help you time the activity. Divide the remainder of the class into four groups. Explain that the students will now make their own name tents and that each group will have different rules they must follow. Display Slides 4-8 and explain the rules 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. You may not assist one another.
    - **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. You may not assist one another.
    - **Group 3:** Each of you will remain seated to produce your own name tent, using both hands. You may not assist one another.
    - **Group 4:** Each of you will produce your own name tent while standing and using only one hand—your nondominant hand—to produce the name tent. You must keep your dominant hand behind your back. You may not use the desk, table, floor, walls, or chair. You may not assist one another.
    - None of the groups may begin producing name tents until the class is told to begin.
    - When you finish producing your name tent, raise your hand.
    - You will be timed and will have a maximum of two minutes to make your name tent.
    - None of you may help one another produce name tents in any way.

5. Display Slide 9 or draw the following table on the board and use this to tally students as they raise their hands upon completing the name tent.

	Group 1	**Group 2**	**Group 3**	**Group 4**
30 seconds				
60 seconds				
90 seconds				
120 seconds				

6. Distribute a sheet of construction paper to each student. Remind the students that members of each group must fold their name tents according to the rules described.

7. Explain that the student who is keeping time will indicate when the groups should start. The student will also announce when 30 seconds, 60 seconds, 90 seconds, and 120 seconds have been reached and will call "stop" at 120 seconds. Tell students that they are to raise their hands when they have finished their own name tent.

8. Have timer start the exercise. As students raise their hands, record tallies on the board or slide in the table cell for the appropriate group number and time segment.

9. After two minutes, timer should say "stop." Ask everyone to stop producing name tents and if standing to sit down. Discuss the following:
    - Who found 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.*)
    - What difficulties did those in other groups encounter making the name tents? (*Likely responses include the following: 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—likely few or no difficulties.*)
    - 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 their nondominant hands and had to stand.*)

10. Point out that those who had fewer constraints or limits when producing name tents in the activity represent those with more human capital.

11. Display Slide 10 and define **human capital** as the knowledge and skills that people obtain through education, experience, and training. Point out that people are able to invest in their human capital by going to school, pursuing additional training, and developing skills through practice.

12. Explain that people with more skills, education, and training tend to have more options available to them. They are less constrained in the labor market. They tend to be more productive and, as a result, earn higher incomes. In the name-tent activity, Group 4 represents those with the smallest investment in human capital—high school dropouts; Group 1 represents high school graduates; Group 2 represents high school graduates with additional training—associate degrees, bachelor's degrees, or trade school; and Group 3 represents those who pursue advanced degrees.

13. Explain that 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**. Define investment in human capital as the efforts people put forth to acquire and improve human capital. These efforts include education, experience, and training.

14. Explain that people develop human capital throughout life. Learning to read and compute are examples. Display Slides 11-14 and discuss the following, recording student examples on the board:

    - What are examples of human capital you possess—that is, the knowledge and skills that you have now from your education, experience, and training? (*Answers will vary but may include the ability to read, write, compute, play the piano, play chess, draw, use various woodworking tools, use a computer, or work well with others.*)
    - What investments have you made or will you make to develop and maintain your human capital? (*Answers will vary but may include reading, completing homework, practicing the piano, joining the chess club, attending a special art class, attending a computer class, or making furniture and other wood items.*)
    - If you want to run your own business in the future, what human capital might you need? (*Answers will vary but may include management skills, accounting skills, computer skills, or communication skills.*)
    - What investments might you make to develop this human capital? (*Answers will vary but may include pursuing a college degree in business or accounting, reading professional journals, or shadowing someone who owns a business.*)

15. Visit https://www.bls.gov/ooh/a-z-index.htm as a class. (NOTE: This link is also on Slide 15.) Explain that the Bureau of Labor Statistics (BLS) developed the Occupational Outlook Handbook website to provide information about careers. Ask a student to name an occupation in which he or she is interested. Use the alphabetical search to find that occupation in the Handbook. Point out that the site provides the following information:

    - Median income for the occupation
    - The amount of education required to enter this field
    - Whether or not work experience is required
    - How much, if any, on-the-job training is required
    - The number of jobs available in the field in the previous year
    - The expected growth rate of jobs in this field
    - The projected numeric change in the number of jobs available in this field over the next decade
    - A description of what people in this field do

- A description of the type of environment in which people in this occupation work
- A link to a list of similar occupations
- A link to a site that provides key characteristics of occupations and workers

16. Pair the students. Display Slide 16 and distribute a copy of *Handout 1.1: Educational Attainment, Income, and Unemployment Data*, a sheet of chart paper, and markers to each pair. Review the directions.

17. Allow time for students to complete the task and then ask the pairs to share their illustrations. (*Answers will vary.*) Use masking or painter's tape to display illustrations if possible.

18. Display Slides 17-18 and discuss the following:
    - What type of relationship exists between education and median income? (*A positive [direct] relationship exists—as the level of education increases, the median income increases.*)
    - Why does this relationship exist? (*Education is an investment in human capital. People with more human capital are likely to be more productive. Businesses are willing to pay more-productive workers more.*)
    - What type of relationship exists between education and unemployment? (*A negative [indirect] relationship exists—as the level of education increases, the unemployment rate decreases.*)
    - Why does this relationship exist? (*People with more education have more skills and are generally more productive. As a result, in general they have less difficulty and spend less time finding a job, and businesses are less likely to lay them off.*)

19. Point out that the income data on Handout 1.1 and on the BLS website are given as median income rather than mean (or average) income. Discuss the following:
    - What is the difference between mean and median? (*Students should explain that the mean is the average. All terms are added, and the sum is divided by the number of terms. Median is the middle number. It is found by arranging data from the lowest value to the highest value, then finding the middle value.*)
    - Why might it be beneficial to report a median instead of a mean? (*A mean [average] can be substantially skewed by a single number, while a median is not as dramatically affected.*) Note that economists generally favor using a median when looking at groups of numbers, particularly income, where a small number of high earners can skew the mean upward.

20. (Optional) Display Slides 19-21 and explain the following to clarify the difference between mean and median:
    - Say you want to calculate the average and median incomes for seven full-time high school students with incomes that are fairly low and vary widely.
    - The students' incomes range in $1,000 increments from $1,000 to $7,000. To calculate the mean (or average), you must add the incomes of all the students and divide by the number of students in the group: $1,000 + $2,000 + $3,000 + $4,000 + $5,000 + $6,000 + $7,000 = $28,000; $28,000 ÷ 7 = $4,000. So, in this case, the mean is $4,000.
    - To find the median, you put the incomes in order of value from lowest to highest and find the middle number: $1,000, $2,000, $3,000, **$4,000**, $5,000, $6,000, $7,000. In this case, the median is $4,000.
    - In this example, $4,000 is both the mean and median, so it doesn't seem to matter which measure is used. However, let's add one more student to the group—a student entrepreneur who earns $150,000 per year.
    - The new mean is calculated as follows: $1,000 + $2,000 + $3,000 + $4,000 + $5,000 + $6,000 + $7,000 + 150,000 = $178,000; $178,000 ÷ 8 = $22,250.
    - With the addition of one student, the average income of the group increased from $4,000 to $22,250. Although $22,250 is the mathematically correct average, it might seem misleading to say that the average income of people in the group is $22,250 since everyone in the group except the entrepreneur earns far less than that.
    - Because there are now two middle numbers, to calculate the median, you need to find the average of the two middle numbers: $1,000, $2,000, $3,000, **$4,000**, **$5,000**, $6,000, $7,000, $150,000. The new median is $4,500.
    - The median income for the group increased from $4,000 to $4,500. Thus, the median income for the group—$4,500—better reflects the actual earnings of the people in the group than the mean.

21. Explain that part of planning for your financial future includes making a strong investment in your own human capital. Learning about earnings and managing income is an investment in human capital.

22. Distribute new sheets of construction paper to students who were not able to complete their name tents or to students whose name tents were illegible and allow them time to create new tents.

Closure

23. Display Slides 22-26 and review the key points of the lesson by discussing the following:

- What is human capital? (*The knowledge and skills that people obtain through education, experience, and training*)
- What is investment in human capital? (*Efforts people put forth to acquire and improve human capital*)
- How do people invest in human capital? (*Through education, experience, and training*)
- In general, how does investment in human capital through education affect income? (*In general, there is a positive [direct] relationship between the amount of education people have and the amount of income they earn; that is, the more education people have, the greater income they earn.*)
- Why is this the case? (*In general, those with more investment in human capital have more skills and are likely to be more productive. Businesses are willing to pay more-productive workers more.*)
- In general, how does investment in human capital through education affect the likelihood of being unemployed? (*In general, there is a negative [indirect] relation- ship between the amount of education people have and the likelihood that they will be unemployed; that is, the more education people have, the less likely they will become unemployed.*)
- Why is this the case? (*In general, those with more investment in human capital have more skills and are likely to be more productive. In general, they spend less time looking for a job and are less likely to be laid off.*)

Assessment

24. Ask students to write a paragraph explaining the relationship between educational attainment and income, the relationship between educational attainment and unemployment, and the impact of human capital on earning income and unemployment.

    Sample Answer:

    The relationship between how much education people have and the income they earn is a positive or direct relationship. The more education and training people have, the higher their incomes are likely to be. The relationship between income and unemployment is an inverse or negative one. The more education and training people have, the less likely they are to be unemployed. Investment in human capital can help people earn more income and help them remain employed—avoid unemployment.

25. Have students review the Occupational Outlook Handbook at http://www.bls.gov/ooh/. Have them select an occupation in which they are interested, identify the human capital that they currently possess that would be important for this occupation (reading, mathematics, people skills, writing, and so on), and identify investments in human capital that they must make to attain this occupation (additional training and education, computer skills, and so on).

Handout 1.1: Educational Attainment, Income, and Unemployment Data

Unemployment rate in 2020 (%)	Educational attainment	Median weekly earnings in 2020
2.5	Doctoral degree	$1,885
3.1	Professional degree	$1,893
4.1	Master's degree	$1,545
5.5	Bachelor's degree	$1,305
7.1	Associate degree	$938
8.3	Some college, no degree	$877
9.0	High school diploma	$781
11.7	Less than a high school diploma	$619

NOTE: Data are for persons 25 years old and older. Earnings are for full-time wage and salary workers.

SOURCE: Bureau of Labor Statistics, Current Population Survey. For the most recent data, go to https://www.bls.gov/emp/chart-unemployment-earnings-education.htm.

Directions: Working with a partner, use the chart paper and markers provided to illustrate the relationships between median income and educational attainment and between unemployment and educational attainment by creating a graph or chart (line, bar, or pie).

Standards and Benchmarks

National Standards for Personal Finance Education

Standard I: Earning Income

- **Benchmarks: Grade 8**
    1. Careers are based on working at jobs in the same occupation or profession for many years. Careers vary in their education and training requirements.
    2. People make many decisions over a lifetime about their education, jobs, and careers that affect their incomes and opportunities.
    3. Getting more education, training, and experience can increase a person's human capital, productivity, and income-earning potential.
- **Benchmarks: Grade 12**
    4. Employers generally pay higher wages or salaries to more educated, skilled, and productive workers than to less educated, skilled, and productive workers.

Voluntary National Content Standards in Economics

Standard 13: Income

Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce.

- **Benchmarks: Grade 8**
    4. More productive workers are likely to be of greater value to employers and earn higher wages than less productive workers.
    5. 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: Economic Growth

Investment in factories, machinery, new technology, and the health, education, and training of people stimulates economic growth and can raise future standards of living.

- **Benchmarks: Grade 4**
    1. When workers learn and practice new skills, they improve their productivity by improving their human capital.
- **Benchmarks: Grade 8**
    4. Increases in productivity can result from advances in technology or increases in physical or human capital.

Lesson 2:

"W" is for Wages, W-4, and W-2

Standards and Benchmarks (see page 2.18)

Lesson Description

Students compute the gross pay for fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay with net pay. They learn what FICA and federal income taxes are. They learn how to complete Form W-4 and about Form W-2. In the assessment, students re-read the information provided on a W-4 and provide a more easily understood explanation to a friend in an email.

Grade Level

6-12

Concepts

FICA tax	Gross pay	Net pay
Form W-2	Income	Taxes
Form W-4	Income tax	Wages

Compelling Question

Why does my gross pay differ from my net pay?

Objectives

Students will be able to

- define income, taxes, and wages;
- explain what the FICA tax is;
- explain the difference between gross pay and net pay;
- explain what Form W-4 is used for;
- explain what Form W-2 is; and
- rewrite the technical language found on a W-4 form.

Time Required

60-75 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 2: 'W' is for Wages, W-4, and W-2"
- Handouts 2.1, 2.2, and 2.3, one copy of each for each student
- Handout 2.3 Answer Key, one copy for the teacher to use as a visual
- Optional: Personal Finance 101 Conversations video series—W-4; https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-22-w-4-form

Procedure

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 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 working late on a school night.*)
   - What were some surprises you had about working? (*Answers will vary but may include that, after taxes or other deductions, their paychecks were much smaller than anticipated.*)

2. Explain that people work for many different reasons. Work can provide a social avenue; there's usually time for a laugh or short conversation with friends. Work can provide experience and a sense of accomplishment. Display Slide 1 and explain that work also provides **income**, which 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 may also earn salaries for providing labor. Rather than an hourly pay scale, salaries are generally an annual amount paid monthly or bimonthly for a specified number of hours, usually a 40-hour work week. (NOTE: People also receive income in the form of interest, profit, and rent.) Discuss the following:
   - What hourly wage might you and others in this area earn? (*Answers will vary.*)
   - How many hours would you expect to work at a part-time job during the year? (*Answers will vary.)*
   - How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)

3. Display Slide 2 and distribute a copy of *Handout 2.1: John A. Dough's Pay Stub* to each student. Ask a student to read the information about John A. Dough in the paragraph by the pay stub. Discuss the following:
   - How much income did John A. Dough earn during his first pay period? (*$360—the amount listed as gross pay*)
   - Because this is his first paycheck, the amount that John received for this pay period is the same as the year-to-date (YTD) amount.
   - Point out that John had no overtime or holiday pay this period, so total pay for this period and year-to-date are also $360.

4. Refer the students to the "**Net Pay**" line at the bottom of Handout 2.1. Point out that net pay is the amount that John actually received. Discuss the following:
   - Why did John earn $360 and receive only $310.06? (*Answers will vary; some students may know or realize from the stub 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 mandatory payments individuals, households, and businesses make to local, state, or national governments. The tax revenue collected is used to provide government goods and services for citizens and to allow the government to operate. People also voluntarily have money deducted from their paychecks for expenses such as medical insurance or for 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 of gross pay.

6. Explain that one tax people pay is federal **income tax**. Income tax is a tax on the amount of income people earn. People pay a percentage of their income in taxes. People who earn more pay a higher percentage of their income in taxes. Display Slide 3 and discuss the following:
   - How much federal income tax was withheld from John's check? (*$21.40*)
   - What percentage of his income was withheld for federal income tax? (*$21.40/$360.00 = 5.9%*)
   - John works in a state that has a state income tax. How much was withheld for state income taxes? (*$1.00*)
   - Why wasn't money deducted from John's check for medical insurance or retirement savings plans such as a 401(k)? (*Answers will vary. Students may not know.*) Explain that John isn't a full-time employee and doesn't receive a benefits package, so money wasn't deducted for insurance or retirement savings. Point out that when people have the opportunity to contribute to a retirement savings plan by withholding money from their net income, they should.
   - How did John's employer know what percentage of John's income to deduct for federal income taxes and 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.*)

7. Explain that once people are hired for a job, there are various forms they must complete. (NOTE: Use the following video to discuss completing an I-9 form: https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-21-i-9-form.) There is **Form W-4**, which is a federal form. There are state forms that must be completed as well, which vary from state to state. Explain the following:
   - Form 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 or she is married or single.
   - Even if you are a student, it isn't likely that you are exempt from tax withholdings.
   - Each April, anyone who earned income must file a federal income tax return with the IRS. If over the course of the year more of your income than necessary was withheld, you will receive a 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.

8. Distribute a copy of *Handout 2.2: Form W-4* 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." Discuss the following:
   - Point out that taxpayers who meet the two criteria can claim exemption from withholding so that an employer will not withhold any money for income tax.
   - The two criteria are (i) you paid no taxes the previous year, meaning you got a refund of all your federal income tax withheld last year because you had no tax liability; and (ii) your earned income is below the established threshold.
   - In Step 3, note that having people dependent on the taxpayer's income, like children or elderly family members, reduces the amount of income subject to tax. For example, each dependent a taxpayer claims reduces the amount of income on which he or she pays taxes.
   - When you file your taxes, the government allows you a certain dollar amount to maintain your life, called a *standard deduction*. Some people have more qualifying deductions than the standard deduction. These people may elect to itemize those deductions to see if it lowers their tax bill. Some examples of itemized deductions include the amount of student loan interest a person paid, mortgage interest, and charitable contributions. The W-4 includes a deductions worksheet.

9. Either (i) visit the Personal Finance 101 Conversations video found at https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-22-w-4-form or (ii) discuss the following:
   - Why can't John claim exempt status? (*This is John's first job. To know if he meets both criteria for exemption—zero tax liability and an earned income below the threshold—he would have had to file a tax return the previous year.*)
   - What did John mark in Step 1, part (c)? (*Single or Married filing separately*)
   - Did John complete Step 2? (*No*) Why? (*He didn't meet either of the criteria.*)
   - Did John complete Step 3? (*No*) Why? (*He has no children or dependents.*)
   - Did John complete Step 4? (*No*) Why? (*He has one job, no deductions, and doesn't plan on withholding additional tax per pay period.*)
   - What did John enter in Step 5? (*He signed and dated the W-4 under penalties of perjury.*)

10. Point out that exempt does not mean that a person does not have to pay other kinds of taxes such as Social Security taxes. Display Slide 4 and discuss the following:
    - FICA stands for Federal Insurance Contributions Act. The **FICA tax** 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 health insurance for people 65 years of age or older and people under 65 with certain disabilities.
    - Employees and employers each pay a share of the FICA tax: For 2020 the employee's share was 7.65 percent (6.2 percent for Social Security and 1.45 percent for Medicare), and the employer's share was also 7.65 percent of the employee's gross income. So the total FICA tax in 2020 was 15.3 percent of an employee's gross income.

11. Display Slide 5 and discuss the following:
    - How much was withheld for Social Security from John Dough's check? (*$22.32*)
    - How much was withheld for Medicare from John Dough's check? (*$5.22*)
    - John's employer, ABC Mart, also paid $22.32 in Social Security and $5.22 in Medicare for John, but these payments are not indicated on the pay stub.
    - Self-employed people are responsible for paying the entire FICA percentage because they are both employer and employee.

12. Display Slide 6 and explain that this is another important form related to working. This form is a summary of a person's earnings and tax withholding for an entire year. Workers receive a personalized **Form W-2** from their employers around the end of January for the previous year's work.

The forms can arrive in the mail, be provided in person, or, with a worker's consent, received electronically.

13. Explain that this is what the W-2 for John Dough looked like at the end of the year. Note the text in the bottom left-hand corner that says, "To Be Filed With Employee's FEDERAL Tax Return." Point out that it is important for people to hold on to their W-2 form(s) 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 for the year? (*$8,640*)
    - At a wage of $15 per hour, how many hours did John work to earn $8,640? (*576 hours*)
    - How much was withheld for federal income tax for the year? (*$513.60*)
    - How much was withheld for the Social Security tax? (*$535.68*)
    - How much was withheld for the Medicare tax? (*$125.28*)

14. Point out that on the W-2, box 3 is "Social Security wages" and box 5 is "Medicare wages and tips." John is required to pay these taxes on the full amount he earned—$8,640. 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, if in a given year the cap was $137,700, a person who earned more than $137,700 did not pay Social Security taxes on additional earnings.

15. Display Slide 7 and remind the students that taxpayers are required to complete a form reporting income earned and taxes paid in the previous year, which must be submitted by April 15 of the current year to the IRS. Discuss the following:
    - Taxes are collected on a *pay as you go* principle, which 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, use their W-4 to try to adjust the amount of money they have withheld so that they pay the correct amount of taxes for each paycheck. That way, they don't have to pay additional taxes when they submit their income tax form.
    - Some people, however, prefer to receive a refund each year, so they purposely pay more; that is, they have more withheld each pay period than they need to. People often refer to this as *forced savings*. The government collects the money during the year and refunds it to the taxpayer after they submit an income tax form. 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 overpay and to instead put your savings in an interest-bearing account during the year.

- Were you surprised to learn that workers receive less income than they actually earn? (*Answers will vary; most students will likely have known taxes were deducted but perhaps not the actual amounts.*)

16. Point out that nearly all workers feel surprised when they see their first paycheck and find that the amount they thought they would receive is reduced because of various deductions. Explain the following:
    - Everyone in the United States is required to pay taxes on the money he or she earns.
    - 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.

17. Display Slides 8-10 and discuss the following:
    - What are some goods and services the federal government provides for citizens? (*Answers will vary but may include roads, bridges, national parks, and national defense.*)
    - What are some goods and services state governments provide for their citizens? (*Answers will vary but may include state roads, state parks, state troopers, and public education.*)
    - What are some goods and services local governments provide for their citizens? (*Answers will vary but may include streetlights, fire and police protection, and public education.*)

Closure

18. Display Slides 11-20 and review the key points of the lesson by discussing the following:
    - What are wages? (*Wages are a form of income people receive for work they do.*)
    - What is income? (*Income is payment people receive for providing resources in the market.*)
    - What are taxes? (*Taxes are mandatory government payments on business and individual income, activities, products, and property.*)
    - How does gross pay differ from net pay? (*Gross pay is the amount people earn in a pay period before any deductions or taxes are taken out. Net pay is take-home pay; it is the amount received after taxes and deductions have been taken out of gross pay.*)
    - What is the FICA tax? (*The FICA tax is a tax resulting from the Federal Insurance Contributions Act.*)
    - What does the FICA tax fund? (*Social Security and Medicare*)
    - Who pays the FICA tax? (*Both employees and employers pay the FICA tax.*)

- What is Form W-4 and for what is it used? (*Form W-4 is a form that must be completed by an employee before starting a job. It is used by the employer to determine the amount of federal and state income tax to withhold for the employee.*)
- What is Form W-2? (*Form W-2 is a form an employer must provide to each employee shortly after year-end to report annual income and withholding for an employee's tax return.*)

Assessment

19. Distribute a copy of *Handout 2.3: Assessment* to each student. Instruct students to read the directions and complete the handout.

20. Display *Handout 2.3: Assessment—Answer Key* and allow students to check their answers.

Handout 2.1: John A. Dough's Pay Stub

John Dough is 16 years old and recently started his first job at ABC Mart. This is his pay stub for his first two weeks of work.

ABC Mart	John A. Dough
SSN	123-45-6789
Employee ID	98765
Pay Period	1/1/XX to 1/14/XX
Pay Date	2/3/20XX
Allowances	
Federal	1
State	1
Hourly Rate	$15.00

Hours Worked this Pay Period	
Regular	24
Overtime	0
Holiday	0

Earnings		
	This Period	**YTD**
Regular Pay		
Overtime Pay	$0.00	$0.00
Holiday Pay	$0.00	$0.00
Total Pay		

Deductions		
	This Period	**YTD**
Federal Income Tax	$21.40	$21.40
Social Security Tax (FICA)	$22.32	$22.32
Medicare Tax (FICA)	$5.22	$5.22
State Income Tax	$1.00	$1.00
Medical Insurance	$0.00	$0.00
Retirement [401(k)]	$0.00	$0.00
Total Deductions	$49.94	$49.94

Net Pay		
	This Period	**YTD**
Gross Pay	$360.00	$360.00
Total Deductions	$49.94	$49.94
Net Pay	$310.06	$310.06

Handout 2.2: Form W-4

When John Dough started his first job at ABC Mart in Our Town, USA, he filled out this Form W-4. He is 16 years old, 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**
(Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate

▶ **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
▶ **Give Form W-4 to your employer.**
▶ **Your withholding is subject to review by the IRS.**

OMB No. 1545-0074

2021

Step 1: Enter Personal Information

(a) First name and middle initial: John A.
Last name: Dough
(b) Social security number: 123-45-6789
Address: 123 Main Street
City or town, state, and ZIP code: Our Town USA 12345

▶ **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to *www.ssa.gov*.

(c)
- [X] **Single** or **Married filing separately**
- [ ] **Married filing jointly** or **Qualifying widow(er)**
- [ ] **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at *www.irs.gov/W4App*, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for most accurate withholding for this step (and Steps 3–4); **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . . ▶ ☐

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 ▶ $ ________

Multiply the number of other dependents by $500 . . . . ▶ $ ________

Add the amounts above and enter the total here . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . **4(b)** $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . **4(c)** $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

▶ John A. Dough
Employee's signature (This form is not valid unless you sign it.)

▶ January 11, 20XX
Date

Employers Only	Employer's name and address	First date of employment	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2021)

Handout 2.3: Assessment (page 1 of 5)

Directions: An actual Form W-4 is provided below and on the next page. Read the information, review the form, and answer the questions that follow.

Form **W-4**
(Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate

▶ **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
▶ **Give Form W-4 to your employer.**
▶ **Your withholding is subject to review by the IRS.**

OMB No. 1545-0074

2021

Step 1: Enter Personal Information	(a) First name and middle initial	Last name	(b) Social security number
	Address		▶ **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to *www.ssa.gov*.
	City or town, state, and ZIP code		
	(c) ☐ **Single** or **Married filing separately** ☐ **Married filing jointly** or **Qualifying widow(er)** ☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)		

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at *www.irs.gov/W4App*, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for most accurate withholding for this step (and Steps 3–4); **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . . ▶ ☐

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 ▶ $ ________

Multiply the number of other dependents by $500 . . . . ▶ $ ________

Add the amounts above and enter the total here . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . **4(b)** $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . **4(c)** $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

▶ **Employee's signature** (This form is not valid unless you sign it.) ▶ **Date**

Employers Only	Employer's name and address	First date of employment	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2021)

Handout 2.3: Assessment (page 2 of 5)

Form W-4 (2021) Page 2

General Instructions

Future Developments

For the latest information about developments related to Form W-4, such as legislation enacted after it was published, go to *www.irs.gov/FormW4*.

Purpose of Form

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. If too little is withheld, you will generally owe tax when you file your tax return and may owe a penalty. If too much is withheld, you will generally be due a refund. Complete a new Form W-4 when changes to your personal or financial situation would change the entries on the form. For more information on withholding and when you must furnish a new Form W-4, see Pub. 505, Tax Withholding and Estimated Tax.

Exemption from withholding. You may claim exemption from withholding for 2021 if you meet both of the following conditions: you had no federal income tax liability in 2020 **and** you expect to have no federal income tax liability in 2021. You had no federal income tax liability in 2020 if (1) your total tax on line 24 on your 2020 Form 1040 or 1040-SR is zero (or less than the sum of lines 27, 28, 29, and 30), or (2) you were not required to file a return because your income was below the filing threshold for your correct filing status. If you claim exemption, you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2021 tax return. To claim exemption from withholding, certify that you meet both of the conditions above by writing "Exempt" on Form W-4 in the space below Step 4(c). Then, complete Steps 1(a), 1(b), and 5. Do not complete any other steps. You will need to submit a new Form W-4 by February 15, 2022.

Your privacy. If you prefer to limit information provided in Steps 2 through 4, use the online estimator, which will also increase accuracy.

As an alternative to the estimator: if you have concerns with Step 2(c), you may choose Step 2(b); if you have concerns with Step 4(a), you may enter an additional amount you want withheld per pay period in Step 4(c). If this is the only job in your household, you may instead check the box in Step 2(c), which will increase your withholding and significantly reduce your paycheck (often by thousands of dollars over the year).

When to use the estimator. Consider using the estimator at *www.irs.gov/W4App* if you:

1. Expect to work only part of the year;

2. Have dividend or capital gain income, or are subject to additional taxes, such as Additional Medicare Tax;

3. Have self-employment income (see below); or

4. Prefer the most accurate withholding for multiple job situations.

Self-employment. Generally, you will owe both income and self-employment taxes on any self-employment income you receive separate from the wages you receive as an employee. If you want to pay these taxes through withholding from your wages, use the estimator at *www.irs.gov/W4App* to figure the amount to have withheld.

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

Specific Instructions

Step 1(c). Check your anticipated filing status. This will determine the standard deduction and tax rates used to compute your withholding.

Step 2. Use this step if you (1) have more than one job at the same time, or (2) are married filing jointly and you and your spouse both work.

Option **(a)** most accurately calculates the additional tax you need to have withheld, while option **(b)** does so with a little less accuracy.

If you (and your spouse) have a total of only two jobs, you may instead check the box in option **(c)**. The box must also be checked on the Form W-4 for the other job. If the box is checked, the standard deduction and tax brackets will be cut in half for each job to calculate withholding. This option is roughly accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld, and this extra amount will be larger the greater the difference in pay is between the two jobs.

CAUTION ***Multiple jobs.*** *Complete Steps 3 through 4(b) on only one Form W-4. Withholding will be most accurate if you do this on the Form W-4 for the highest paying job.*

Step 3. This step provides instructions for determining the amount of the child tax credit and the credit for other dependents that you may be able to claim when you file your tax return. To qualify for the child tax credit, the child must be under age 17 as of December 31, must be your dependent who generally lives with you for more than half the year, and must have the required social security number. You may be able to claim a credit for other dependents for whom a child tax credit can't be claimed, such as an older child or a qualifying relative. For additional eligibility requirements for these credits, see Pub. 972, Child Tax Credit and Credit for Other Dependents. You can also include **other tax credits** in this step, such as education tax credits and the foreign tax credit. To do so, add an estimate of the amount for the year to your credits for dependents and enter the total amount in Step 3. Including these credits will increase your paycheck and reduce the amount of any refund you may receive when you file your tax return.

Step 4 (optional).

Step 4(a). Enter in this step the total of your other estimated income for the year, if any. You shouldn't include income from any jobs or self-employment. If you complete Step 4(a), you likely won't have to make estimated tax payments for that income. If you prefer to pay estimated tax rather than having tax on other income withheld from your paycheck, see Form 1040-ES, Estimated Tax for Individuals.

Step 4(b). Enter in this step the amount from the Deductions Worksheet, line 5, if you expect to claim deductions other than the basic standard deduction on your 2021 tax return and want to reduce your withholding to account for these deductions. This includes both itemized deductions and other deductions such as for student loan interest and IRAs.

Step 4(c). Enter in this step any additional tax you want withheld from your pay **each pay period**, including any amounts from the Multiple Jobs Worksheet, line 4. Entering an amount here will reduce your paycheck and will either increase your refund or reduce any amount of tax that you owe.

Handout 2.3: Assessment (page 3 of 5)

1. What does "exemption from withholding" mean?

2. Some people claim others as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?

3. 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. She is having trouble filling out her W-4 form. Write a text to Angela explaining why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

Handout 2.3: Assessment (page 4 of 5)

Directions: Review Angela's second pay stub below and answer the questions on the next page.

Grayline Electric	Angela Smith
SSN	234-56-7890
Employee ID	56789
Pay Period	2/1/20XX to 2/28/20XX
Pay Date	3/3/20XX
Allowances	
Federal	1
State	1

Earnings		
	This Period	**YTD**
Regular Pay	$4,125.00	$8,250.00
Vacation	$0.00	$0.00
Total Income/Pay	$4,125.00	$8,250.00
Before Tax Deductions		
	This Period	**YTD**
Medical Insurance	$90.00	$180.00
Retirement [401(k)]	$200.00	$400.00
Total Before Tax Deductions	$290.00	$580.00
Taxes		
	This Period	**YTD**
Federal Income Tax	$415.71	$831.42
Social Security Tax (FICA)	$255.75	$511.50
Medicare Tax (FICA)	$59.81	$119.62
Total	$731.27	$1,462.54
Gross Pay	$4,125.00	$8,250.00
Total Deductions	$1,021.27	$2,042.54
Net Pay	$3,103.73	$6,207.46

Handout 2.3: Assessment (page 5 of 5)

1. What is Angela's gross pay for this pay period? ______________________________

2. What is Angela's net pay for this pay period? ______________________________

3. Define net pay:

4. Define taxes:

5. For what do governments use tax revenues?

6. How much has Angela paid in FICA taxes so far this year? ______________________

7. What does FICA stand for, and how are FICA taxes collected used?

8. How much did Angela pay in federal income tax this pay period? ________________

Handout 2.3: Assessment—Answer Key (page 1 of 2)

1. What does "exemption from withholding" mean?

   If a person is exempt, they do not have to pay federal income tax. A person must meet specific criteria in order to be exempt. Exempt does not mean that the person does not have to pay other kinds of taxes such as Social Security taxes.

2. Some people claim others as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?

   Each dependent reduces the amount of income on which taxes must be paid.

3. 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. She is having trouble filling out her W-4 form. Write a text to Angela explaining why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

   Answers will vary. Students might say something like the following:

   Hi, Angela, you must complete the W-4 form so that your employer knows how much money to take out of your gross pay for federal income taxes and the FICA tax. You are not exempt from paying taxes. You are not a head of household, so Step 1, part (c) does not apply to you. Since you only have one job and you are not married, you can also skip Step 2.

   You can skip Step 3 because you have no children or other dependents, and Step 4 doesn't apply because you don't have other income (not from jobs), deductions, or extra withholding to claim.

Handout 2.3: Assessment—Answer Key (page 2 of 2)

1. What is Angela's gross pay for this pay period? *$4,125.00*

2. What is Angela's net pay for this pay period? *$2,873.07*

3. Define net pay:

   Net pay is the remainder after all deductions and taxes are subtracted from gross pay.

4. Define taxes:

   Taxes are government fees on business and individual income, activities, products, or property.

5. For what do governments use tax revenues?

   Governments use tax dollars to operate and to provide goods and services for the public.

6. How much has Angela paid in FICA taxes so far this year? *$631.12 ($511.50 + $119.62)*

7. What does FICA stand for, and how are FICA taxes collected used?

   FICA stands for Federal Insurance Contributions Act. FICA taxes are used for (i) Social Security payments to workers who are retired, the disabled, and minor children of deceased workers and for (ii) Medicare, which is health insurance for people 65 years of age or older and people under 65 with certain disabilities.

8. How much did Angela pay in federal income taxes this pay period? *$598.87*

Standards and Benchmarks

National Standards for Personal Finance Education

Standard I: Earning Income

- **Benchmarks: Grade 8**
  6. Social Security is a federal government program that taxes workers and employers to provide retirement, disability, and survivor income benefits for workers or their dependents.
  7. People are required to pay taxes on most types of income, including wages, salaries, commissions, tips, earnings on investments, and self-employment income.
- **Benchmarks: Grade 12**
  6. Federal, state, and local taxes fund government-provided goods, services, and transfer payments to individuals. The major types of taxes are income taxes, payroll taxes, property taxes, and sales taxes.
  7. The type and amount of taxes people pay depend on their sources of income, amount of income, and amount and type of spending.
  8. Interest, dividends, and capital appreciation (gains) are examples of unearned income derived from financial investments. Capital gains are subject to different tax rates than earned income.
  9. Tax deductions and credits reduce income tax liability.

Lesson 3:

Cash the Check and Track the Dough

Standards and Benchmarks (see page 3.24)

Lesson Description

Students learn about checking accounts, savings accounts, and check-cashing services. They learn the components of a check and how to organize and enter information into a bank account register, balance a monthly account statement, and write a check. They also learn why maintaining account records is important.

Grade Level

6-12

Concepts

Check

Check-cashing services

Checking account

Direct deposit

Electronic payments

Overdraft

Savings account

Compelling Question

How do people manage bank accounts?

Objectives

Students will be able to

- compare checking accounts, savings accounts, and check-cashing services;
- explain what automatic/direct deposits, electronic payments, and checks are; and
- explain the importance of maintaining records of deposits to, withdrawals from, and payments from a bank account.

Time Required

60-75 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 3: Cash the Check and Track the Dough"
- Handout 3.1, one copy cut apart
- Handouts 3.2, 3.3, 3.5, and 3.6, one copy of each for each student
- Handout 3.4 and Handout 3.4 Answer Key, one copy of each for each pair of students
- Handouts 3.5 and 3.6 Answer Keys, one copy of each for the teacher
- A calculator for each student

Preparation

Prior to this lesson, have students read *Page One Economics®: Focus on Finance* "Banking Basics" found at this link: https://www.econlowdown.org/resource-gallery/focus-on-finance-banking-basics.

Procedure

1. Distribute the cards from *Handout 3.1: How to Turn a Paycheck into Cash* to two students. 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 the following: My parents made me. Banks are a safe place to keep money. An account was needed to deposit a regular paycheck.*)

2. Explain the following:
   - Banks and credit unions can be physical places, but there are also online banks and credit unions. Banks and credit unions are safe places to keep your money.
   - Two common types of accounts at banks and credit unions are checking accounts and savings accounts.

3. Display Slides 1-2 and explain the following:
   - 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 using debit cards, using automated teller machine (ATM) cards, and writing **checks** on their accounts 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 their accounts. Account owners can withdraw funds but do not write checks on these accounts. The number of withdrawals in a given period may be limited.

4. 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? (*They likely don't have checking or savings accounts. The services are quick and convenient.*)

5. Distribute a copy of *Handout 3.2: What Do You Know?* to each student. Divide the class into pairs. Instruct the pairs to read each statement and decide whether the statement is true or false.

6. Allow time for pairs to work and then display Slides 3-7. Tell students that they should give a thumbs-up if they think the statement is true and a thumbs-down if they think the statement is false. Explain each statement as noted in the following:

   a. People can make deposits to and withdrawals from both savings accounts and checking accounts. (*True*)

   With a savings account, there may be limits to the number of withdrawals you can make in a given period of time.

   b. Check-cashing services charge minimal fees for cashing checks. (*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. For example, if you cash a $100 paycheck and you have to pay a $10 fee, you are paying 10 percent of your earnings to cash that check.

   c. People with a savings or checking account are usually able to cash checks for free or a small fee (less than a few dollars a month) at the bank where they have an account. (*True*)

   Often students can take advantage of 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 a checking account. (*True*)

   There are fees associated with a checking account. For example, there are fees for ordering checks and fees if an **overdraft** occurs and you have requested that the bank cover your overdrafts. An overdraft occurs when the account holder authorizes a withdrawal through an **electronic payment**, a debit card, an ATM, or a check when the account does not have enough money to cover the transaction. Fees may also be charged 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 in case someone finds it and tries to cash it, you'll also be charged a fee.

e. Savings accounts pay interest on the balance in the account. (*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**. (*False*)

A direct deposit is money deposited electronically directly into a payee's bank account from a payer's bank account. It is legal for companies to require employees to receive paychecks by direct deposit, and many companies do have this requirement. Businesses actually consider direct deposit to be an employee benefit because direct deposit is considered to be safer, more convenient, and more efficient than cashing paper checks.

g. With a checking account, you can use a debit card for transactions; make electronic payments for bills; use an ATM to access funds; or go old-school and write checks. (*True*)

For example, if you have a checking account, you could use an electronic payment app on your phone or write a check to pay for your school yearbook. And you could pay your car insurance electronically.

h. There are no fees associated with savings accounts. (*False*)

There may be fees associated with a savings account. For example, 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. Also, there may be a limit on how often you may make a withdrawal from a savings account. If you make more withdrawals than allowed, you may be charged a fee.

i. You may use an ATM or a debit card with both savings and checking accounts. (*True*)

You can make arrangements with your bank to have a debit card that you can use to make withdrawals and deposits from your checking and/or savings accounts.

j. Check-cashing services are open more hours than banks and credit unions and have convenient locations. (*True*)

Check-cashing services are open evenings and weekends, and they are conveniently located. Banks and credit unions may be open fewer hours, but if you have your paycheck deposited directly into your account, you can access your account using either an electronic payment app on your phone, a debit card, or an ATM. You will have to pay a fee to use an ATM outside your bank's network; however, the fee for getting your money is much less than the fee charged by a check-cashing service.

k. Banks and credit unions are safe places to keep your money. (*True*)

The Federal Deposit Insurance Corporation (FDIC) insures deposits in checking and savings accounts up to $250,000 per person per banking institution, and the National Credit Union Association (NCUA) insures deposits in checking and savings accounts up to $250,000 per person per credit union.

l. You must go to a bank or credit union to make deposits, withdraw money, or pay bills. (*False*)

Both banks and credit unions allow their customers to bank online. That is, customers can use an electronic payment system through the bank's or credit union's website or app to make payments and accept deposits. Online financial institutions—banks and credit unions that operate without actual buildings—offer all of their services online as well.

7. Ask students how well they did with answering the questions on Handout 3.2. (*Answers will vary.*) Display Slide 8 and discuss the following:
   - What would you do if your employer didn't require direct deposit? Would you open a checking or savings account, or would you use a check-cashing service? 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.*)

8. Explain that it is really important to know how much money is available in an account to avoid an overdraft—that is, the result of 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. Display Slides 9-10 and 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 deposits and withdrawals, including all scheduled payments.*)

     To keep track of the money in your bank account, you need to know the amount and date of each deposit, withdrawal (including from ATMs), automatic payment, purchase made with an electronic payment app or a debit card, and check written.
   - How could you keep track of the money moving in and out of your account— that is, your financial transactions? (*Answers will vary but may include a computer spreadsheet, computer program, phone app, or notepad.*)

9. Display Slide 11 and explain that at one time, customers regularly used a tool that banks and credit unions provided to account holders—a bank account register. A bank account register is essentially a table in which account holders record their financial transactions to keep track of their money. Banks and credit unions still provide these, along with paper checks.

   However, today, bank and credit union customers have access to online banking services. This allows account holders to transfer money electronically and view all the financial transactions recorded for their accounts, including all deposits and withdrawals.

10. Explain that students will view an online list of recent transactions—deposits, withdrawals, and payments. Display Slide 12 and explain that deposits include cash and payments deposited to an account by the customer and direct deposits—the electronic transfer of funds to an account.

Deposits are credited, or added, to an account. Withdrawals can be made several ways, particularly when making payments. Withdrawals are debits to an account; they are subtracted from an account.

11. Explain that bank customers can make payments using checks. Display Slide 13 and discuss the following:
    - Checks are printed forms directing a bank to withdraw money from an account and pay it to another account.
    - Each check has a unique number in the top right-hand corner. The check number is also the final set of digits along the bottom of the check. When you write a check, you should record the check number in your bank account register.
    - Each check has a place to enter the date the check was written. You should also enter the date in your bank account register.
    - Each check has a line to enter the name of the person or company to which the check is being written. This line often begins with "Pay to the order of." You should also enter the name of the payee in your bank account register.
    - Each check has two places to record the amount of the check. One is on the line under "Pay to the order of." Here you spell out the dollar amount of the payment rather than use numerals. The other place you record the amount is in the box to the right of the dollar sign. Here you write the payment amount using numerals. It is important that your spelled-out check amount matches the numerical amount because the spelled-out amount is the legally binding amount. You should also enter the amount of the check in your 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 whom you have written the check.
    - Each check shows a bank routing number, which is the same on all of your checks. This is the first nine digits at the bottom of the check and indicates the financial institution responsible for payment. These numbers are the electronic 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 your account number when arranging direct deposits to or automatic payments from your account.
    - Each check provides a memo line. Use this line for notes that may be helpful to you or the payee. When you view a copy of the check online, you will be able to see the memo line.

12. Display Slide 14 and explain that it is an example of a bank account register in which people can record transactions. Many people use their bank's online banking tools instead of writing checks. You may choose to use your bank's online banking tools instead of writing checks, but you should still record all of your transactions in the bank account register.

13. Display Slide 15. Explain that this is a screenshot of John's online bill payment center after he set up payments on January 31. As shown in the "Pending Payments" section, in a previous session, John chose February 2 as the payment date for his cell phone bill, gasoline credit card, and rent. He chose February 17 as the payment date for his car insurance. The two payments John has just entered, one for his cable bill and one for his gym membership, will move into the Pending Payments section after he hits the "Submit Payments" button. These two bills will be paid on February 5. Ask the following questions:
    - What is the total amount of John's pending payments (before he adds the two new payments)? (*$1,024.48*)
    - What is the available balance in his checking account as of January 31, 2015? (*$1,805.36*)
    - Is his available balance sufficient to cover his pending payments? (*Yes*)
    - What will be his available balance after his pending payments are made on February 2? (*$760.88*)

14. Display Slide 16 and distribute a copy of *Handout 3.3: John Dough's Online Recent Transactions List* and a calculator to each student. Explain that the bank they choose will keep a list of transactions similar to this one. Discuss the following while having students take turns identifying the transactions. Students should identify the date of the transaction, the type of transaction, the amount of the transaction, whether the transaction is a credit or a debit, and the new balance.

02/01/15		**Electronic deposit Technix Corp.**		**$1,256.83**	**$1,805.36**

- This transaction is John Dough's salary paid by direct deposit.
- This transaction is a credit.
- The amount is added to John's balance of $548.53, making his new balance $1,805.36.

02/02/15		**Web-authorized pmt Cell Nation**	**$82.48**		**$1,722.88**

- John did not write a check for this payment but, rather, used the online bill payment feature offered through his bank. Paying bills online is a convenient way to make and keep track of those withdrawals. It eliminates the expense of checks, envelopes, and postage. Also, it takes less time than paying by check.
- This transaction is an $82.48 web-authorized payment to Cell Nation.
- This transaction is a debit.
- The $82.48 is subtracted from John's balance, making his new balance $1,722.88.

02/02/15		**Web-authorized pmt Midwest G&P**	**$113.00**		**$1,609.88**

- This transaction is a $113.00 web-authorized payment to Midwest G&P.
- This transaction is a debit.
- John's new balance is $1,609.88.

02/02/15		**Web-authorized pmt Rosewood Prop.**	**$750.00**		**$859.88**

- This transaction is a $750.00 web-authorized payment to Rosewood Properties for John's rent.
- This transaction is a debit.
- John's new balance is $859.88.

02/03/15		**ATM withdrawal**	**$60.00**		**$799.88**
02/03/15		**ATM out-of-network fee**	**$1.50**		**$798.38**

- These two entries are the result of one transaction. John made an ATM withdrawal of $60.00 and was charged a $1.50 out-of-network ATM fee.
- Both transactions are debits.
- John's new balance is $798.38.
- If John has used an ATM in his network, he would not have had to pay a fee. Fees for using an out-of-network ATM vary but can be as high as $6. Some banks have broader ATM networks and lower fees, which is worth considering when choosing a bank.

02/05/15		**Purchase with PIN Hamburger Haven**	**$15.63**		**$782.75**

- "Purchase with PIN" means a debit card was used and the account holder had to enter a personal identification number (PIN) on a keypad. Bank customers can get a debit card tied to their checking account. The debit card can be used for payment at stores, restaurants, and gas stations, among other places. When a debit card is used, payment is withdrawn directly from the cardholder's bank account.
- This transaction is a $15.63 debit card purchase at Hamburger Haven.
- This transaction is a debit.
- John's new balance is $782.75.

02/05/15		**Web-authorized pmt Community Cable**	**$52.00**		**$730.75**

- This transaction is a $52.00 web-authorized payment to Community Cable.
- This transaction is a debit.
- John's new balance is $730.75.

02/05/15		**Web-authorized pmt Strong Man Gym**	**$52.67**		**$678.08**

- This transaction is a $52.67 web-authorized payment to Strong Man Gym
- This transaction is a debit.
- John's new balance is $678.08.

02/05/15		**Purchase with PIN Gas 'n Go**	**$14.68**		**$663.40**

- This transaction is a $14.68 debit card purchase at Gas 'n Go.
- This transaction is a debit.
- John's new balance is $663.40.

02/06/15		**Check <u>view</u>**	**$20.00**		**$643.40**

- This transaction is $20 for check #128. (John wrote this check to his niece for her birthday about a week earlier.)
- February 6 is the date the check was cashed.
- This transaction is a debit.
- John's new balance is $643.40.
- The "view" link in the middle box allows you to view a copy of the check online.

02/08/15		**ATM withdrawal Bank of Everywhere**	**$60.00**		**$583.40**

- This transaction is a $60 ATM withdrawal from an ATM operated by John's bank. He did not have to pay a fee.
- This transaction is a debit.
- John's new balance is $583.40.

02/09/15		**Debit Food for Less**	**$63.87**		**$519.53**

This transaction is a $63.87 debit card purchase at Food for Less (a grocery store).

This transaction is a debit.

John's new balance is $519.53.

02/15/15		**Electronic deposit Technix Corp.**		**$1,256.83**	**$1,776.36**

- This transaction is an $1,256.83 direct deposit from John Dough's employer.
- This transaction is a credit.
- John's new balance is $1,776.36.

15. Explain that many people sign up for automatic payments to their service providers, such as electric companies, gas companies, insurance companies, and phone companies. With automatic payment, a bill is paid automatically from a person's checking or savings account on the payment due date. This payment method differs from the online-payment feature banks offers. Automatic payments are set up through individual companies and not through the bank. These payments won't appear on the account's online recent transactions list until payment is made.

16. Display Slide 17 and tell students to compare John Dough's personal bank account register on the slide with the online bank-provided recent transactions list on Handout 3.3.
    - In what ways are the lists similar? (*Both lists contain information about deposits and withdrawals.*)
    - In what ways are the lists different? (*John's personal bank account register has the following entries that are not on the recent transactions list:*

      2/02, Safe Gecko [web-authorized pmt on 2/17], $79.00

      2/15, Zoe Dough [car pmt #5], check #129, $225.00

      2/16, Debit, C-Stop, $18.57

      2/16, Auto pay, Metro Health payment, $105.00)
    - Why would there be an online payment on the bank account register that is not on the recent transactions list? (*The payment has not yet been made and is on the online pending payments list for the account. The transaction will not appear on the recent transactions list until it is paid.*)
    - Why would there be a check listed on the bank account register that is not listed on the recent transactions list? (*The person to whom John wrote the check has not cashed it or deposited it yet. The check will only appear on John's online recent transactions list after it is cashed.*)
    - Why would there be a debit on the bank account register that is not on the recent transactions list? (*The payment was likely made on the same date as the recent transactions list. It hasn't been processed yet.*)
    - Why would John's payment to Metro Health appear on his bank account register but not on the recent transactions list? (*Automatic payments are debited on a schedule. On 2/16, John noted the payment in his bank account register. Although the automatic payment is*

scheduled for 2/16, it may not appear as paid on the recent transactions list until the day following the payment date, in this case 2/17. Automatic payments do not appear on the pending payments list because they are not set up through the bank. They are set up through the individual companies being paid.)

- Which list provides a more accurate report of John's transactions and bank account balance? (*John's bank account register is a more accurate report of his balance because it contains a record of checks that have been written but not cashed, payments that are pending, and automatic payments that have been requested but haven't been paid.*)

17. John holds a credit card issued by the Bank of Everywhere. He would like to pay the entire balance on the card, which amounts to $621.00. Would you advise John to pay the entire balance this month or just some portion of the balance? Why or why not? (*John should pay the entire balance this month. His recent transactions list shows he has a balance of $1,808.36. After making the payment, his balance will be $1,380.79, well more than what is necessary to cover the online payment scheduled for 2/17 [$79.00], check #129 that has not been cashed [$225], the debit card purchase on 2/16 that hasn't been processed [$18.57], and the automatic payment scheduled for 2/16 [$105.00]*). Explain that students will now record transactions to practice keeping track of an account balance. Divide students into pairs. Distribute a copy of *Handout 3.4: What's the Balance?* to each pair of students.

18. Explain that Andrew Anakoa has not been entering his transaction information into a bank account register or online. He has kept receipts, but he doesn't know his current balance. Tell the pairs to enter the transactions chronologically into the bank account register on Handout 3.4 and determine Andrew's balance. Allow time for students to work.

19. Display Slide 18 and distribute a copy of *Handout 3.4: What's the Balance?—Answer Key* to each pair of students. Discuss the following:
    - What are fees that Andrew paid? (*$1.50 for use of an out-of-network ATM*)
    - What was Andrew's balance on June 8? (*$35.80*)
    - What would happen if Andrew tried to withdraw $40, make a debit purchase for $40, or write a check for $40 on June 8? (*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 his account to cover the expense. If Andrew had opted for overdraft protection, the bank would allow the card to be used—so the person or business would be paid—and charge him an overdraft fee. That fee can be very high—as much as $35.00 for each overdraft. If Andrew had not chosen overdraft protection, if he used a check, the bank would return the check to the person or business Andrew paid and Andrew would pay an overdraft fee. For a debit card transaction, his card would be declined at the point of the purchase.*)
    - Why is it important for people to keep records of all deposits to and withdrawals from an account? (*Answers will vary but should include the following: to be certain that you do not spend*

money that isn't in your account, to avoid overdrafts and fees, to manage your spending, and to make sure that you can verify that the bank has recorded account transactions accurately.)

20. Explain that when people have bank accounts, they receive bank statements every month or quarter in the mail and/or the bank provides account information online. The statement lists all transactions made during a given period and allows account holders to determine if their records match the bank records. Display Slide 19 and distribute a copy of *Handout 3.5: Balancing Andrew Anakoa's Bank Account* to each student. Refer students to Handout 3.4. Discuss the following and refer to Handout 3.5 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 check mark in the account register 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 $155.76 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 check mark next to the item on the bank statement, too.

21. Tell students to continue placing check marks 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, display Slide 20 and explain that the next step is to enter the ending balance shown on the bank statement in the box on the bank statement worksheet. Discuss the following, referring to *Handout 3.5: Balancing Andrew Anakoa's Bank Account—Answer Key* as needed:
    - What is the ending balance on the bank statement? (*$192.52*) Have the students enter the ending balance on the bottom portion of Handout 3.5.
    - 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 check mark 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—$192.52. Instruct the students to enter the information on Handout 3.5.
    - Are there any debits—checks, ATM withdrawals, or debit purchases—with no check mark in the bank account register? (*Yes*) Are there any fees that do not have a check mark by them? (*Yes*) Have the students list these items in the "Enter items outstanding" area of the statement on the handout.
    - Items outstanding must be added together and recorded on the "Total items outstanding" line. (*$156.72*) Add the outstanding items and have the students do the same.
    - The total amount outstanding is subtracted from the ending balance. (*$192.52 – $156.72 = $35.80)* Instruct the students to write the total balance on Handout 3.5.

- The total balance should match the amount shown as the balance in the bank account register. (*$35.80*)
- 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 $8.97 when the debit amount was actually $9.97. 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

22. Display Slides 21-24 and review key points of the lesson by discussing the following:
    - What are some advantages of having a checking or savings account? (*Answers will vary but may include that money is safe in a bank, money deposited may earn interest depending on the type of account, there are low or no fees for cashing checks, banks provide a record of transactions, and you likely have 24-hour access to your money through ATMs.*)
    - What is a disadvantage of using check-cashing services? (*Their fees are very high.*)
    - What are direct deposits? (*Direct deposits are monies deposited electronically and directly into a payee's bank account from a payer's bank account. For example, the company you work for deposits your monthly paycheck into your account from theirs.*)
    - What are electronic payments? (*These are payments made electronically from an account online. Payment is withdrawn [debited] from your account and deposited into someone else's account to pay a bill or pay for a purchase.*)
    - What are checks? (*Checks are printed forms directing a bank to withdraw money from an account and pay it to another account.*)
    - Why is it important to maintain account records and keep track of bank account balances? (*To avoid paying overdraft fees, to make certain the records are accurate and show the correct balance, and to know where your money is going*)

Assessment

23. Distribute a copy of *Handout 3.6: Assessment* to each student. Review the instructions and allow time for students to work.

24. Review student answers using *Handout 3.6: Assessment—Answer Key*.

25. Instruct students to send Sandra a memo advising her of the problems they found in her record-keeping and explaining the value of keeping accurate records of her income and expenditures.

26. Assign a brief essay in which students provide an argument for or against using checking accounts. Arguments in favor of using checking accounts should include the following:
    - You can make deposits and withdrawals.
    - There are no fees for cashing checks.
    - There are low or no fees for writing checks.
    - Checks can be used to pay for goods and services.
    - Transactions are recorded by the bank.
    - There is 24-hour access to your money through ATMs.
    - A debit card can be tied to the account.
    - Money is safe in a bank.

    Arguments against using checking accounts should include the following:
    - Overdrafts result in large fees.
    - A minimum balance may be required to receive free checking.
    - Check-cashing services are open more hours than banks.

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 to start working, 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 pays its employees by direct deposit to a bank account only. 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 direct 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?

Directions: Working with a partner, read each statement and then decide together whether the statement is true (T) or false (F). Circle your answers. Be prepared to share your answers with the class.

T o r F a. People can make deposits to and withdrawals from both savings accounts and checking accounts.

T or F b. Check-cashing services charge minimal fees for cashing checks.

T or F c. People with a savings or checking account are usually able to cash checks for free or a small fee (less than a few dollars a month) at the bank where they have an account.

T or F d. There are fees or costs associated with a checking account.

T or F e. Savings accounts pay interest on the balance in the account.

T or F f. It isn't legal for companies to require employees to use direct deposit.

T or F g. With a checking account, you can use a debit card for transactions; make electronic payments for bills; use an ATM to access funds; or go old-school and write checks.

T or F h. There are no fees associated with savings accounts.

T or F i. You may use an ATM or a debit card with both savings and checking accounts.

T or F j. Check-cashing services are open more hours than banks and have convenient locations.

T or F k. Banks and credit unions are safe places to keep your money.

T or F l. You must go to a bank or credit union to make deposits, withdraw money, or pay bills.

Handout 3.3: John Dough's Online Recent Transactions List

Bank of Everywhere YOUR NEIGHBOR, YOUR BANK!

Online Banking for John Dough February 16, 20XX

Checking Account xxxxxxxx5189

Account Balance $1,808.36 Available Balance $1,808.36

Recent Transactions

Date	Check Number	Description	Payment (Debit)	Deposit (Credit)	Balance
					$548.53
02/01/XX		Electronic deposit Technix Corp.		$1,256.83	$1,805.36
02/02/XX		Web-authorized pmt Cell Nation	$82.48		$1,722.88
02/02/XX		Web-authorized pmt Midwest G&P	$113.00		$1,609.88
02/02/XX		Web-authorized pmt Rosewood Prop.	$750.00		$859.88
02/03/XX		ATM withdrawal	$60.00		$799.88
02/03/XX		ATM out-of-network fee	$1.50		$798.38
02/05/XX		Purchase with PIN Hamburger Haven	$15.63		$782.75
02/05/XX		Web-authorized pmt Community Cable	$52.00		$730.75
02/05/XX		Web-authorized pmt Strong Man Gym	$52.67		$678.08
02/05/XX		Purchase with PIN Gas 'n Go	$14.68		$663.40
02/06/XX	128	Check view	$20.00		$643.40
02/08/XX		ATM withdrawal Bank of Everywhere	$60.00		$583.40
02/09/XX		Debit Food for Less	$63.87		$519.53
02/15/XX		Electronic deposit Technix Corp.		$1,256.83	$1,776.36

Handout 3.4: What's the Balance?

Directions: Andrew Anakoa recently opened a bank account but has not tracked his financial transactions in a bank account register. Using his receipts, he jotted this list of expenditures. Record his transactions in chronological order in the bank account register and calculate his current balance.

Andrew Anakoa's Transactions

Check Number	Date	Transaction	Amount
97	6/8	Books Galore	$16.25
	5/1	Paycheck	$155.76
	5/2	ATM withdrawal	$40.00
	5/5	Debit – Grocery Gallery	$47.30
	5/17	Safety First Insurance (online)	$95.00
	5/17	World Cellular (online)	$45.00
96	5/22	Hannah Anakoa (b'day)	$20.00
	5/31	Debit – Picture Posers (Sr. pictures deposit)	$69.00
	5/16	Paycheck	$128.30
	5/31	Paycheck	$155.76
	6/2	Debit – Hamburger Haven	$9.97
	6/4	ATM withdrawal (fee $1.50)	$61.50

Andrew Anakoa's Bank Account Register

Check Number	Date	Transaction	Payment (Debit)	✔	Fee (Debit)	Deposit (Credit)	Balance
	5/1	Paycheck				$155.76	$155.76

Handout 3.4: What's the Balance?—Answer Key

Andrew Anakoa's Bank Account Register

Check Number	Date	Transaction	Payment (Debit)	✔	Fee (Debit)	Deposit (Credit)	Balance
	5/1	Paycheck				$155.76	$155.76
ATM	5/2	Withdrawal	$40.00				$115.76
Debit	5/5	Grocery Gallery	$47.30				$68.46
	5/16	Paycheck				$128.30	$196.76
Online	5/17	Safety First Insurance	$95.00				$101.76
Online	5/17	World Cellular	$45.00				$56.76
96	5/22	Hannah Anakoa	$20.00				$36.76
	5/31	Paycheck				$155.76	$192.52
Debit	5/31	Picture Posers (Sr. pictures deposit)	$69.00				$123.52
Debit	6/2	Hamburger Haven	$9.97				$113.55
ATM	6/4	Withdrawal	$60.00		$1.50		$52.05
97	6/8	Books Galore	$16.25				$35.80

Handout 3.5: Balancing Andrew Anakoa's Bank Account

Bank Statement				
Andrew Anakoa 1234 Kingsway Our Town, USA 23456	Million Dollar Bank 100 Dollar Lane Our Town, USA 223456		Statement Period: 5/1/15-5/31/15 Account Number: 1234567890	
Date	**Item**	**Withdrawal**	**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		128.30	$196.76
17-May	Online	$95.00		$101.76
17-May	Online	$45.00		$56.76
25-May	Check #96	$20.00		$36.76
31-May	Deposit		$155.76	$192.52
31-May ENDING BALANCE				**$192.52**
Check #	Amount			
#96	$20.00			

In your bank account register, place a check mark beside each check paid, ATM or debit withdrawal made and certified, and deposit credited.	
Enter the ending balance shown on the bank statement	**$**
Enter deposits that do not appear on the statement.	
TOTAL (Ending balance plus deposits not shown on this statement)	**$**
Enter items outstanding (withdrawals that have been entered in the bank account register but do not appear on this statement)	
TOTAL ITEMS OUTSTANDING	**$**
Subtract TOTAL ITEMS OUTSTANDING from the amount listed on the TOTAL line above and record the new amount on the TOTAL BALANCE line.	
TOTAL BALANCE	**$**
The TOTAL BALANCE 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: Balancing Andrew Anakoa's Bank Account—Answer Key

Bank Statement				
Andrew Anakoa 1234 Kingsway Our Town, USA 23456			Statement Period: 5/1/15-5/31/15 Account Number: 1234567890	
Date	**Item**	**Withdrawal**	**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		128.30	$196.76
17-May	Online	$95.00		$101.76
17-May	Online	$45.00		$56.76
25-May	Check #96	$20.00		$36.76
31-May	Deposit		$155.76	$192.52
31-May ENDING BALANCE				**$192.52**
Check #	Amount			
#96	$20.00			
In your bank account register, place a check mark beside each check paid, ATM or debit withdrawal made and certified, and deposit credited.				
Enter the ending balance shown on the bank statement				***$192.52***
Enter deposits that do not appear on the statement.				*$0.00*
TOTAL (Ending balance plus deposits not shown on this statement)				***$192.52***
Enter items outstanding (withdrawals that have been entered in the bank account register but do not appear on this statement)				
Debit				*$69.00*
Debit				*$9.97*
ATM				*$60.00*
Fee				*$1.50*
Check #97				*$16.25*
TOTAL ITEMS OUTSTANDING				***$156.72***
Subtract TOTAL ITEMS OUTSTANDING from the amount listed on the TOTAL line above and record the new amount on the TOTAL BALANCE line.				
TOTAL BALANCE				***$35.80***
The TOTAL BALANCE 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 3.6: Assessment

Directions: Reorder Sandra Sherril's transactions, record them in chronological order in the bank account register, and calculate her current balance.

Sandra Sherril's Transactions

Check Number	Date	Transaction	Amount
	6/10	Deposit (check from John D.)	$28.13
	6/15	Paycheck	$150.80
ATM	6/1	ATM withdrawal	$40.00
Debit	6/5	PB Gasoline	$47.30
Online	6/16	Insurance Geek (car insurance)	$95.00
	5/31	Paycheck	$167.00
Online	6/16	City Cellular	$38.00
Check #117	6/5	Kylie Devers	$20.00
Atm	6/2	Withdrawal (out-of-network fee $1.50)	$20.00
Debit	6/25	Hamburgers to Go	$8.68
Debit	6/26	Clothes Rack	$18.72
Debit	6/12	Vending Venues	$15.26
ATM	6/12	Withdrawal (out-of-network fee $1.50)	$20.00

Sandra Sherril's Bank Account Register

Check Number	Date	Transaction	Payment (Debit)	✔	Fee (Debit)	Deposit (Credit)	Balance

Handout 3.6: Assessment—Answer Key

Sandra Sherril's Bank Account Register

Check Number	Date	Transaction	Payment (Debit)	✔	Fee (Debit)	Deposit (Credit)	Balance
	5/31	Paycheck				$167.00	$167.00
ATM	6/1	ATM withdrawal	$40.00				$127.00
ATM	6/2	ATM withdrawal out of network	$20.00		$1.50		$105.50
	6/4	Deposit (check from John D.)				$28.13	$133.63
Debit	6/5	PB Gasoline	$47.30				$86.33
#117	6/5	Kylie Devers	$20.00				$66.33
	6/12	ATM withdrawal out of network	$20.00		$1.50		$44.83
	6/15	Paycheck				$150.80	$195.63
Debit	6/16	Vending Venues	$15.26				$180.37
Online	6/16	Insurance Geek	$95.00				$85.37
Online	6/16	City Cellular	$38.00				$47.37
Debit	6/25	Hamburgers to Go	$8.68				$38.69
Debit	6/26	Clothes Rack	$18.72				$19.97

Standards and Benchmarks

National Standards for Personal Financial Education

Standard II. Spending

- **Benchmarks: Grade 8**

  3. When evaluating information about goods and services, a consumer can better assess the quality and usefulness of the information by understanding the incentives of the information provider.

  4. Consumers weigh the costs and benefits of different payment methods to determine the best option for purchasing goods and services.

Standard III. Saving

- **Benchmarks: Grade 8**

  3. Financial institutions pay interest to depositors and loan out the money to borrowers who pay interest on their loans.

  6. Checking and saving deposit accounts in many financial institutions are insured up to certain limits by the federal government.

- **Benchmarks: Grade 12**

  1. Financial institutions offer several types of savings accounts, including regular savings, money market accounts, and certificates of deposit (CDs), that differ in minimum deposits, rates, and deposit insurance coverage.

  2. Deposit account interest rates and fees vary between financial institutions and depend on market conditions and competition.

Lesson 4:

Your Budget Plan

Standards and Benchmarks (see page 4.14)

Lesson Description

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

Grade Level

6-12

Concepts

Budget

Expenses

Fixed expenses

Income

Periodic expenses

Variable expenses

Compelling Question

How can a budget help people meet financial goals?

Objectives

Students will be able to

- define budget, expenses, fixed expenses, income, periodic expenses, and variable expenses;
- give examples of effective and ineffective budgeting behavior;
- give examples of fixed, variable, and periodic expenses; and
- explain why some emergency savings is important when implementing good budgeting.

Time Required

45 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 4: Your Budget Plan"
- Handout 4.1, one copy cut into strips
- Handouts 4.2 (copied on 11" x 17" paper if desired), 4.3 (copied on colored paper if desired), and 4.4, one copy of each for each pair of students
- Handouts 4.5 and 4.6, one copy of each for each student
- Handout 4.6 Answer Key, one copy for the teacher
- Scissors for each student
- One calculator for each student

Procedure

1. Distribute a definition strip from *Handout 4.1: Definitions* to three students and instruct them to wait until called on to read the definition.

2. Display Slide 1 and ask students to write down three words or phrases that come to mind when they think about the term **budget**. Ask students to share 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 budget from Handout 4.1 to read the definition aloud to the class. Display Slide 2 so that students can read the definition.

4. Display Slide 3 and ask students what the term **income** means. (*Answers will vary but may include the money one makes, money received, or job pay.*) Call on the student who has the definition of income from Handout 4.1 to read the definition aloud to the class. Display Slide 4 so that students can read the definition.

5. Display Slide 5 and ask students what the term **expenses** means. (*Answers may vary but may include spending money, payments, or costs.*) Call on the student who has the definition of expenses from Handout 4.1 to read the definition aloud to the class. Display Slide 6 so that students can read the definition.

6. Tell students that they are going to work in pairs to play a board game called Track Star. The objective of the game is to see which of the two players can finish running the track first. Players advance by moving their game piece based on the information on game cards.

7. Divide the class into student 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." Each pair is to decide who will be Jet Stream and who will be Whoosh.

8. Distribute to each pair of students two pair of scissors, one copy of *Handout 4.3: Jet Stream's Game Cards*, and one copy of *Handout 4.4: Whoosh's Game Cards*. Tell the students to cut out their character cards and game pieces and then shuffle the cards, being careful not to mix up the individual character's cards, and place them face down on the appropriate spaces on the game board.

9. Display Slides 7-8 and explain the directions for playing the game.

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 both students should record their answers.

11. Allow time for students to complete the handout, then display Slide 9 and discuss the following:
    - Which expenses did both Whoosh and Jet Stream have in the game? (*A friend's birthday gift, a flat tire repair, and the increased price of movie tickets*)
    - What do these expenses have in common? (*Answers will vary but may include the following: They are all unexpected expenses. A flat tire repair and the increased price of movie tickets are things over which they have no control. The movie tickets and the birthday gift are optional expenses, but fixing the flat tire is not an optional expense.*)

12. Display Slide 10 and explain that expenses are often categorized as fixed, variable, or periodic. **Fixed expenses** are expenses that occur each month in a regular amount, such as rent or a car payment. **Variable expenses** are expenses that change from one period to the next, such as food and gasoline. **Periodic expenses** are expenses that occur several times a year, such as car insurance.

13. Display Slide 11 and ask students for some examples of variable and periodic expenses mentioned in the game. (*Variable expenses: movie theater snacks, shirt at a concert, and miscellaneous cash expenses; periodic expenses: friend's birthday gift, flat tire repair, Monster Music purchase, and Instruments, Inc. guitar purchase*)

14. Point out that there were no references to fixed expenses in the game. Display Slide 12 and ask the students for some examples of fixed expenses that Whoosh and Jet Stream or other teens might have. (*Answers will vary but may include rent or a car payment.*)

15. Display Slide 13 and call on students for answers; record responses on the board so that all students will see them. See Slide 14 for suggested answers.

16. Discuss the following:

    - What is a budget? (*An itemized summary of probable income and expenses for a given period; a plan for managing income, spending, and saving*)
    - Based on the list of successful spending and saving principles, what advice would you give Whoosh? (*Answers will vary but may include the following: Keep track of your expenses, keep receipts, track the money in your bank account, pay bills on time, and save for unexpected and periodic expenses.*)

17. Display Slide 15. Point out that the advice for Whoosh is really to have a budget because a budget helps people keep track of their income and expenses.

18. Explain that one of the successful saving principles that students identified was to save for unexpected expenses. Unexpected expenses include emergencies. Discuss the following:

    - What emergency expense occurred in the game? (*A flat tire*)
    - What are other examples of emergency expenses? (*Another type of car repair, an appliance repair or replacement, a medical expense*)
    - Why does a good budget include some emergency savings? (*You are better prepared for the unexpected, so you don't have to use a credit card or borrow money in an emergency.*)
    - How can a budget help people meet their financial goals? (*Answers will vary but may include that it helps them plan, encourages them to control spending, or encourages them to save.*)
    - Point out that a budget can help people meet their financial goals because it helps them control spending and encourages them to contribute regularly to savings. These habits help people grow savings they can use to meet future goals.

Closure

19. Display Slides 16-22 and review the key points of this lesson by discussing the following:

    - What is budgeting? (*Budgeting is managing one's income and expenses by creating a plan.*)
    - What is income? (*Income is the payment people receive for providing resources in the market-place. 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 forms of rent, profit, and interest.)

- What are expenses? (*Expenses are costs incurred for goods and services.*)
- What are fixed expenses? (*Fixed expenses are expenses that occur each month in a regular amount.*)
- What are some examples of fixed expenses? (*Rent, a mortgage payment, and a car payment)*
- What are variable expenses? (*Variable expenses are expenses that change from one period to the next.*)
- What are some examples of variable expenses? (*Food, entertainment, gasoline, clothing, and dining out*)
- What are periodic expenses? (*Periodic expenses are expenses that occur several times a year.*)
- What are some examples of periodic expenses? (*Gifts for birthdays or other special occasions, health insurance, and car insurance*)
- Why do you think the game board included the following spaces? "Buy friend birthday gift. Move back 1 space." "Flat tire repair. Move back 1 space." "Movie tickets increase in price. Move back 1 space." (*Even savvy spenders/savers like Jet Stream have unexpected and periodic expenses for which they should be prepared if possible.*)
- What are some important principles to keep in mind if you want to be a savvy spender/saver? (*Answers will vary but should include the following: Save before spending. Have an emergency fund. Make informed choices. Plan for periodic expenses. Create a budget and be sure that your expenses don't exceed your income.*)
- Why is emergency savings an important part of a budget? (*Emergency savings helps people be prepared for unexpected events in life so that they don't have to use credit cards or borrow money.*)
- How can a budget help people meet financial goals? (*A budget helps people control spending and increase savings. Growing savings allows people to meet their financial goals.*)

Assessment

20. Distribute *Handout 4.6: Maria's Story—Assessment* and have students follow the directions to create a budget. (Budgets may vary, but expenses should not exceed income.) See *Handout 4.6: Maria's Story—Assessment Answer Key* for other suggested answers.

21. Optional: Have students exchange their completed Handout 4.6 with another student and instruct them to check each other's budget for Maria, making sure the math is correct and expenses do not exceed income.

Handout 4.1: Definitions

Budget (noun)

An itemized summary of probably income and expenses for a given period; a plan for managing income, spending, and saving during a given period.

Budget (verb)

To plan or manage income and expenses.

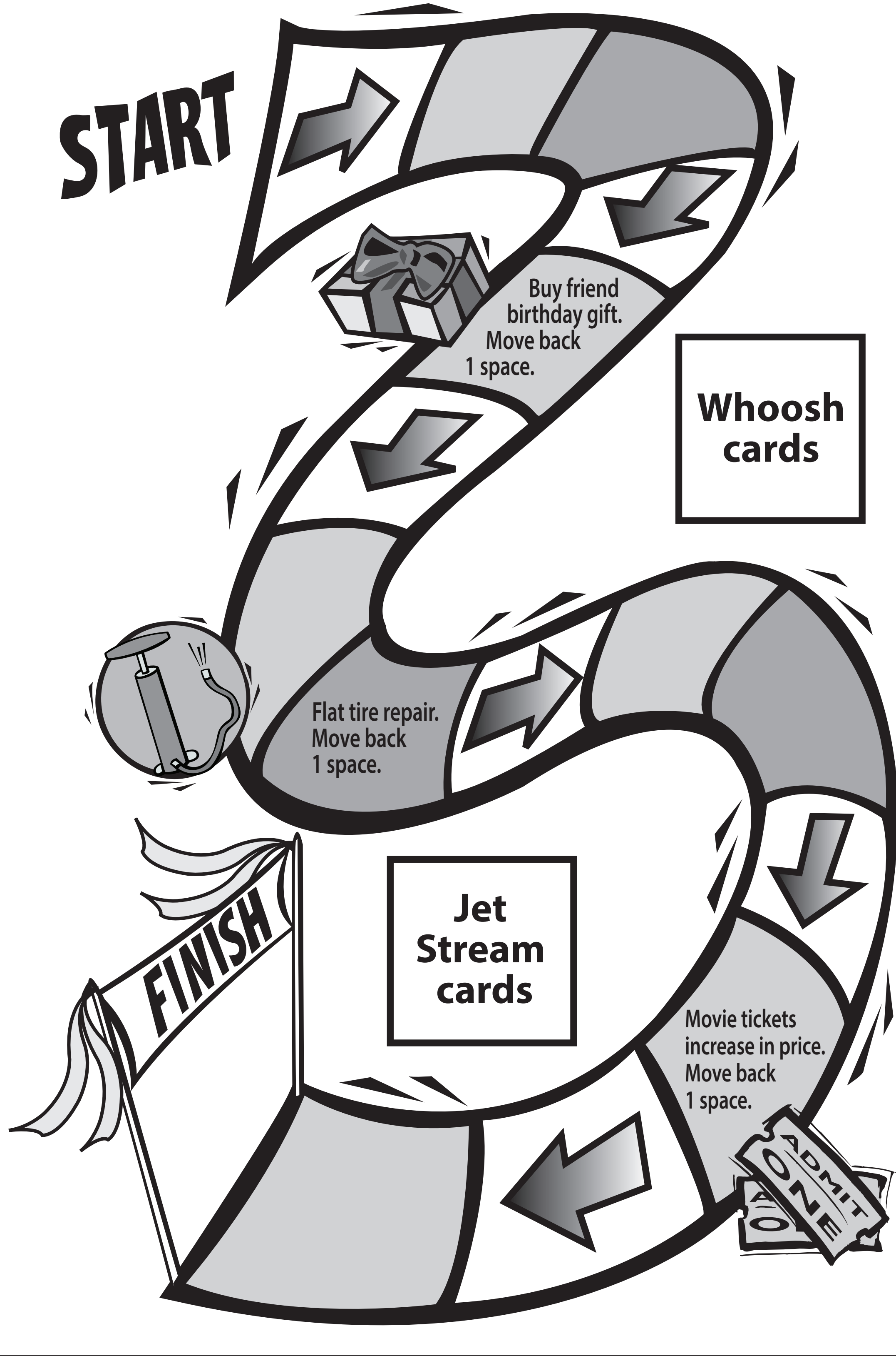
Income

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 forms of rent, profit, and interest.

Expenses

Costs incurred for goods and services.

Handout 4.2: Track Star Game Board



Handout 4.3: Jet Stream's Game Cards

You established a savings account and put 10% of your paycheck into that account before spending on other things.
Move forward 3 spaces.

You put 5% of your paycheck in a fund for unexpected expenses.
Move forward 1 space.

You elected to receive your paycheck by direct deposit.
Move forward 1 space.

You waited until you received your first paycheck before you spent your earnings.
Move forward 2 spaces.

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 3 spaces.

You started keeping track of your miscellaneous cash expenditures so that you'd know where your money is going.
Move forward 2 spaces.

At the end of the month, you compared your actual spending with your budget and noted categories where you overspent.
Move forward 2 spaces.

Based on your monthly income, you created a budget.
Move forward 2 spaces.

You received a bill from Monster Music and paid it by the due date.
Move forward 2 spaces.

You withdrew $20 cash from an ATM, kept the receipt, and recorded the withdrawal.
Move forward 2 spaces.

You received your monthly bank statement and balanced your checkbook.
Move forward 3 spaces.

Handout 4.4: Whoosh's Game Cards

	You established a savings account and put 10% of your paycheck into that account before spending on other things. Move forward 3 spaces.	You did not put money from your paycheck in a fund for unexpected expenses. Move back 1 space.
You threw away your receipt after withdrawing cash from your ATM and forgot to record it. Move back 2 spaces.	You made a budget based on your gross pay rather than your net pay. Move forward 2 spaces for creating a budget but move back 1 space for basing it on gross pay rather than net pay.	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 2 spaces.
You notice you always run out of cash but have no idea where you spend it—you do not keep track of your miscellaneous cash transactions. Move back 2 spaces.	To stay within your entertainment budget, you didn't purchase any candy or soft drinks while at the movie theatre. Move forward 2 spaces.	You purchased a shirt at a concert without having any money in your budget for this. Move back 1 space.
You received a bill from Instruments Inc. for a guitar you purchased and mailed the payment on the due date. Move back 2 spaces because your payment will be late.	You got $20 cash from the ATM, kept the receipt, and recorded the withdrawal. Move forward 2 spaces.	You received your monthly bank statement but never got around to balancing your account. Move back 3 spaces.

Handout 4.5: Savvy Spending and Saving Principles

Instructions: Look at Jet Stream's and Whoosh's cards from the Track Star game. Sort the cards into two sets: one that indicates successful spending or saving behavior (i.e., cards that moved play forward) and one that indicates unsuccessful spending or saving behavior (i.e., cards that moved play backward). Use the instructions on the cards to create lists of successful and unsuccessful spending and saving principles or guidelines. For example, for the card that says, "You got $20 cash from your ATM machine, kept the receipt, and recorded the withdrawal. Move forward 2 spaces," you might write "Keep receipts of financial transactions," or "Record all financial transactions."

Successful spending and saving principles	Unsuccessful spending and saving principles

Handout 4.6: Maria's Story—Assessment (page 1 of 2)

Maria is one of your best friends. She keeps complaining that she runs out of money each month before she gets paid and that she isn't able to save any money. She's asked you to help her make a budget based on her income from two part-time jobs. She handed you a crumpled paper with the following record of her expenditures for last month. Before you help her make a budget, help her balance her monthly transactions by filling in the last column of 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		$210.20	
2/1	ATM cash & fee		–$21.50	
2/1	Movie and soft drink	$9.50		
2/3	Gasoline	$35.50		
2/5	Music downloads	$17.80		
2/10	Old Army clothes	$43.47		
2/12	ATM cash		–$40.00	
2/15	Jewelry at Clara's	$14.99		
2/16	Paycheck—direct deposit		$200.25	
2/25	Quarterly car insurance payment to parents	$125.50		
2/29	Monthly car payment to parents	$95.00		

Handout 4.6: Maria's Story—Assessment (page 2 of 2)

Using the information on the previous page, help Maria make a budget so that her expenditures do not exceed her monthly income of $410.45 and she can begin to save some money. Be sure to allocate at least $50 per month for gasoline because Maria has to use her car to get to work. Categorize her expenses appropriately. Use the form below. If your first budget attempt goes over her income, use the second column.

	1st Budget attempt	**2nd Budget attempt**
Income		
Earnings		
Other (gifts, etc.)		
Total income		
Fixed expenses		
Variable expenses		
Periodic expenses		
Emergency savings		
Total expenses		
Total income less expenses		

On the back of this page, write a note to Maria explaining what a budget is and what fixed, variable, and periodic expenses are. Explain ways in which Maria might reduce her current expenditures to meet her budget and begin to save. Explain why having an emergency fund is important. Identify at least three savvy spending and saving principles that might help Maria and explain why they would help her.

Handout 4.6: Maria's Story—Assessment Answer Key

Maria's Monthly Transactions

Date	Transaction	Expenditure	Income or Withdrawal	Balance
2/1	Paycheck—direct deposit		$210.20	$210.20
2/1	ATM cash & fee		–$21.50	$188.70
2/1	Movie and soft drink	$9.50		$179.20
2/3	Gasoline	$35.50		$143.70
2/5	Music downloads	$17.80		$125.90
2/10	Old Army clothes	$43.47		$82.43
2/12	ATM cash		–$40.00	$42.43
2/15	Jewelry at Clara's	$14.99		$27.44
2/16	Paycheck—direct deposit		$200.25	$227.69
2/25	Quarterly car insurance payment to parents	$125.50		$102.19
2/29	Monthly car payment to parents	$95.00		$7.19

NOTE: No answer key is provided for page 2 of the assessment as budgets will vary.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard II. Spending

- **Benchmarks: Grade 4**
  1. People differ in their preferences, priorities, and resources available for consuming goods and services.
  2. Money can be spent to increase one's own or another individual's personal satisfaction or to share the cost of goods and services.
  3. When people make a decision to use money for a particular purpose, they incur an opportunity cost in that they cannot use the money for another purpose.
  4. Purchasing decisions have costs and benefits that can be different for different people.
- **Benchmarks: Grade 8**
  1. Creating a budget can help people make informed choices about spending, saving, and managing money in order to achieve financial goals.
  2. Making an informed purchase decision requires a consumer to critically evaluate price, product claims, and quality information from a variety of sources.
- **Benchmarks: Grade 12**
  1. A budget helps people achieve their financial goals by allocating income to necessary and desired spending, saving, and philanthropy.

Voluntary National Content Standards in Economics

Standard 13: Income

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.

- **Benchmarks: Grade 8**

  2. To earn income, people sell productive resources. These include their labor, capital, natural resources, and entrepreneurial ability.

Lesson 5:

Savvy Savers

Standards and Benchmarks (see page 5.10)

Lesson Description

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

Grade Level

6-12

Concepts

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

Compelling Question

How can compound interest help people achieve their financial goals?

Objectives

Students will be able to

- explain the difference between a non-interest-bearing account and an interest-bearing account;
- calculate interest compounded semiannually and quarterly;
- explain and demonstrate the rule of 72; and
- describe the risk-reward relationship.

Time Required

45 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 5: Savvy Savers"
- Handouts 5.1, 5.2, and 5.3, one copy of each for each student
- One calculator for each student

Preparation

Prior to the lesson, have students watch the Growing Money–Compound Interest video in the No-Frills Money Skills video series: https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-1-growing-money-compound-interest.

Procedure

1. Display Slide 1 and begin by asking students the following:
   - What does it mean to be a saver? (*Answers may vary but may include purposefully setting aside money to spend later, not spending all of your income, having money left after paying expenses, or having income greater than expenses.*)
   - 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, or knowing about different types of savings accounts.*)

2. Display Slide 2 and explain that **saving** is not spending on current consumption or taxes. Distribute a copy of *Handout 5.1: Maria's Savings Decision* to each student. Explain that the students will likely realize the difference between a saver and a savvy saver when they examine Maria's story. Call on a student to read aloud the Introduction on Handout 5.1.

3. Display Slides 3-5 and explain the following:
   - A **non-interest-bearing account**, also called a zero-interest account, is one in which no interest is paid on the **principal**. Principal is the original amount of money deposited or invested, excluding any interest.
   - **Interest** is the price of using someone else's money. When people place their money in a bank, the bank pays them interest. There are various types of interest-bearing accounts that vary by the amount of interest paid and how often interest is paid.

- **Compound interest** is interest paid on the sum of the original principal and accrued (accumulated or earned) interest. For example, an account that pays 5 percent interest "compounded semiannually" means that every six months ½ of 5 percent interest—that is, 2.5 percent interest—is paid on the principal and any accrued interest.

4. Display Slides 6-16 and show students how to calculate 5 percent interest compounded semi-annually by working through numbers 1-3 on Handout 5.1. (Refer to answers on slides.)

5. Distribute a calculator to each student and instruct students to complete number 4 on Handout 5.1 on their own. Allow time for students to work.

6. Display Slide 17 and review the answers to number 4.

7. Display Slides 18-21 and discuss the following:
    - What could Maria have bought with the $50.63 of interest she might have earned on her savings? (*Answers will vary.*)
    - Would Maria be classified 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—that is, an account that would pay her interest on her principal.*)
    - Why might Maria have kept her $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 with an account that pays 5 percent interest compounded semiannually? (*$1,596.93*)
    - Why is time—that is, the number of months you have your money in an interest-bearing account—a very important factor in accumulating savings? (*Answers may vary but should 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.*)

8. Display Slide 22 and ask students to raise their hands if they would like their savings to double over a period of years. (*Most students will likely want their savings to double.*) Discuss the following:
    - 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 compound interest? (*Answers will vary.*)

9. Display Slide 23 and explain that the **rule of 72** is a method to estimate the number of years it will take for a financial investment (or debt) to double in value at a given annual interest rate. You divide 72 by the interest rate to determine the approximate number of years it will take the investment (or debt) to double in value.

10. Display Slides 24-26 and explain the following:
    - Consider a savings account with a 5 percent annual interest rate: 72 ÷ 5 = 14.4. The principal in this savings account will double in a little over 14 years.
    - The rule of 72 assumes people leave their money in an account without taking away from it or adding to it. It is not an exact number, but it serves as a good estimate.
    - How can compound interest help people achieve their financial goals? (*Investing savings in accounts that earn compound interest allows savings to grow faster. More savings helps people achieve their financial goals.*)

11. Explain that compound interest allows savings to grow faster. As a result, people have more savings to put toward any financial goals they have.

12. Distribute a copy of *Handout 5.2: The Rule of 72* to each student. Display Slide 27 and instruct students to complete the handout by following the directions. When students have completed their work, display Slide 28 and review the answers.

13. Display Slides 29-32 and 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? (*Yes. The higher the interest rate, the less time it will take for your money to double.*)
    - Interest rates vary over time, but savings accounts are considered a safe place to save your money because for most savings accounts your principal is guaranteed—it cannot go down. Savings accounts generally pay interest annually in the 0.5 percent to 1.5 percent range, depending on current financial conditions in the economy. This reflects the risk-reward relationship.
    - The **risk-reward relationship** is the idea that there is a direct relationship between risk of the loss of principal and the 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. 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 given interest rate.

- What annual interest rate do credit cards charge? (*Interest rates on credit cards vary over time and under different financial conditions in the economy, but generally credit cards charge a relatively high interest rate.*) Point out that credit cards can charge high rates because credit card companies bear a risk when loaning funds to their cardholders.
- If a credit card charges an 18 percent annual interest rate, approximately how long would it take for your debt to double if you made no payment or only the minimum payment on the debt? (*4 years; 72 ÷ 18 = 4*)

Closure

14. Display Slides 33-38 and review the key points of this lesson by discussing the following:
    - What is a non-interest-bearing account? (*A non-interest-bearing account is one that pays no interest on the principal.*)
    - What is interest? (*Interest is the price of using someone else's money.*)
    - What is compound interest? (*Compound interest is interest computed on the original principal and accrued interest.*)
    - What interest rate would a savings account or a low-risk investment likely pay— would it be a low, medium, or high interest rate—and why? (*They would each pay a low interest rate because of the risk-reward relationship.*)
    - What does the rule of 72 estimate? (*The rule of 72 estimates the number of years it will take for a financial investment—or debt—to double in value at a given annual interest rate.*)
    - How can compound interest help people achieve their financial goals? (*Compound interest allows savings to grow more quickly. This means people have more savings to put toward their financial goals.*)
    - Why is time—that is, the number of months you have your money in an interest-bearing account—a very important factor in accumulating savings? (*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.*)

Assessment

15. Give each student a copy of *Handout 5.3: Charlie's Financial Goal* and tell them to follow the instructions on the handout. Allow time for students to complete the handout and then display Slides 39-43 and review the answers.

Handout 5.1: Maria's Savings Decision (page 1 of 2)

Introduction: 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, which pays her 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. Interest compounded semiannually is added to the principal in an account every six months. Follow the steps to calculate interest compounded semiannually, and write the answers in the chart below:

   Step 1: Convert the annual interest rate to a decimal. In this case, 5 percent becomes 0.05.

   Step 2: Divide the annual interest rate (as a decimal) by 2 to determine the interest paid every six months. In this case, (0.05 ÷ 2) = 0.025. (So, for this scenario, every six months the saver would receive 0.025 percent interest on the principal and on any accumulated interest.) If interest were compounded quarterly, you would divide the interest rate by 4. If interest were compounded every 2 months, you would divide the interest rate by 6. If interest were compounded every month, you would divide by 12.

   Step 3: Multiply the principal (plus any accrued interest) by the interest rate to get the amount paid in dollars. Round to the nearest hundredth (for example, $25.625 = $25.63). (Note that the principal will change each time interest accrues.)

   Step 4: Add principal and interest to get the new principal.

   Step 5: Repeat steps 2 and 3 to calculate interest and principal for each six-month time period.

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

Handout 5.1: Maria's Savings Decision (page 2 of 2)

2. Fill in the following chart for Maria's 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		
Savings account with 5% interest 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 a 5 percent interest rate compounded semiannually.

4. Complete the chart by using the information from question 1 for months 6 and 12, and then calculate the interest paid at 18 months, 2 years, and 3 years for an account that pays a 5 percent interest rate compounded semiannually. Round to the nearest hundredth. Remember that the principal will change each time interest accrues.

Months	Principal (p)	Interest rate (i)	p + i
6	$1,000.00	$	$
12	$	$25.63	$
18	$	$	$
24 (2 years)	$1,076.90	$	$
30	$	$27.60	$
36 (3 years)	$	$	$

Handout 5.2: The Rule of 72

Directions: The rule of 72 is a method to estimate the number of years it will take for a financial investment, including savings, to double in value at a given annual interest rate. You divide 72 by the interest rate to determine the approximate number of years it will take the investment to double in value. For each bar below, begin at 0 years and shade in the bar horizontally to indicate the number of years it would take for money to double at the noted annual interest rate. Please use a pencil.

Your money will double in…	**0 years**	**10 years**	**20 years**	**30 years**	**40 years**	**50 years**
If your interest rate is…						
2% (72 ÷ 2)						
4% (72 ÷ 4)						
6% (72 ÷ 6)						
8% (72 ÷ 8)						
12% (72 ÷ 12)						

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 a 2 percent interest rate compounded quarterly. How much will Charlie have in his savings account after 18 months? Calculate his balance in the chart below. Round to the nearest hundredth.

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

2. How long will it take Charlie's money to double with a 2 percent interest rate compounded quarterly?

3. How will compound interest help Charlie meet his financial goal?

4. 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 this relationship?

Standards and Benchmarks

National Standards for Personal Financial Education

Standard III. Saving

- **Benchmarks: Grade 8**
    4. Interest earned on savings is the interest rate multiplied by the balance in the account, which includes the original amount saved (principal) and previously earned interest.
    5. Compound interest is interest on both the original principal and previously earned interest, as compared to simple interest, which is only interest on the original principal.

Standard IV: Investing

- **Benchmarks: Grade 8**
    6. Different types of investments expose investors to different degrees of risk.
    7. The benefits of compounding for building wealth are greatest for people who invest regularly over longer periods of time.
- **Benchmarks: Grade 12**
    3. Investors expect to earn higher rates of return when they invest in riskier assets.

Voluntary National Content Standards in Economics

Standard 12: Interest Rates

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

- **Benchmarks: Grade 8**
    1. An interest rate is a price of money that is borrowed or saved.

Lesson 6:

Credit History, Credit Reports, and Credit Scores

Standards and Benchmarks (see page 6.16)

Lesson Description

Students read informational text and discuss the advantages and disadvantages of using credit and the importance of maintaining a good credit history. They read a scenario about a young person's use of a credit card and answer questions regarding repayment. Students learn about credit history, credit reports, and the three credit bureaus. They watch a video about credit scores to learn how credit scores are determined. Students read a scenario and write an essay addressing the key points of the lesson.

Grade Level

6-12

Concepts

Credit	Credit report
Credit cards	Credit score
Credit history	Interest
Creditor	Interest rate

Compelling Question

How can you establish good credit?

Objectives

Students will be able to

- define credit, credit history, creditor, credit report, credit score, interest, and interest rate;
- compare the advantages and disadvantages of using credit;
- identify the three credit bureaus;
- explain the importance of maintaining a good credit history;
- identify features on a credit report; and
- explain what a credit score is.

Time Required

60-75 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 6: Credit History, Credit Reports, and Credit Scores"
- Handouts 6.1, 6.2, 6.4, and 6.5, one copy of each for each student
- Handout 6.3, one copy for each student (optional)
- Handout 6.5 Scoring Rubric, one copy for the teacher

Procedure

1. Display Slide 1 and ask the following question:
   - How would you obtain goods or services if you did not have any money? (*Answers will vary but may include borrowing from family or friends, saving, or using a credit card.*)

2. Explain that in today's lesson students will analyze the advantages and disadvantages of using **credit** and possible future effects of using credit.

3. Distribute *Handout 6.1: Facts About Credit* to each student. Divide the class into student pairs. Instruct the pairs to work together to read the handout and answer the questions at the bottom. Discuss the following:
   a. What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
   b. What are some advantages of using credit? (*Buying and using things now while paying for them in the future; buying more expensive items you could not afford to pay for all at once; in the case of credit cards: convenience, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, being able to spend in an emergency, and possibly receiving perks from your credit card company [e.g., cash back or travel rewards]*)
   c. What are some disadvantages of using credit? (*Spending money you don't have; ease of overextending yourself and buying more than you can afford; regarding loans—and credit cards if you do not pay the full balance each month—you are charged interest on the balance owed, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities*)
   d. What is a **credit card**? (*A credit card is a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products or services, up to a specific dollar amount called a credit limit.*)

e. What is **credit history**? (*Credit history is a report of a person's payment activity over a period of time. A person's credit history is listed in a credit report.*)

f. Why is it important to maintain a good credit history? (*A good credit history makes it easier for you to obtain credit in the future. Generally, those with a good credit history are able to pay lower interest rates for credit. Also, your credit history can affect your ability to rent a house or an apartment or get a job.*)

g. How do **creditors** determine a person's credit history? (*Creditors pay a fee to one of the three credit bureaus to receive that person's credit report.*)

h. What are the three credit bureaus? (*Experian, TransUnion, and Equifax*)

i. How can you check your **credit reports**? (*You can request a free copy of your credit report from each credit bureau annually.*)

j. Why is it a good idea to check your credit reports each year? (*To correct errors and to identify any fraudulent activities*)

4. Display Slide 2 and distribute a copy of *Handout 6.2: Credit Costs* to each student. Have a student read the paragraph. Display Slides 3-4 and discuss the following:
   - What **interest rate** was Katarina charged for using the credit card? (*21 percent*)
   - Point out that an interest rate is the percentage of the amount of a loan that is charged for the loan.
   - Once Katarina pays off the laptop, how much **interest** will she have paid? (*$197.00 [$697.00 – $500.00 = $197.00]*)
   - What could Katarina have done to reduce the amount of interest she paid? (*Answers will vary but may include that she could have paid more than the minimum payment each month or obtained a lower interest rate.*)
   - 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 laptop.
   - How might missing a payment affect Katarina's ability to get credit in the future? (*Creditors look at credit history, so not paying bills on time could negatively affect Katarina's ability to get credit in the future.)*

5. Display Slides 5-8. Distribute a copy of *Handout 6.3: Consumer Credit Report* to each student if desired. 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 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. A solid triangle (▲) indicates a payment at least 30 days late. Two years ago Mikhail was at least 30 days late with his February and March payments for Monster Music.
- What does an open circle (○) indicate? (*Current*)
- What does an open square (□) indicate? (*Not applicable*)
- Notice that all of the squares are blank under the Sallie Mae loan; it is a student loan, and Mikhail does not have to start repaying it until he finishes school.
- What does a solid circle (●) indicate? (*A payment at least 60 days late*)
- Has Mikhail been 60 days late with any payments? (*No*)
- What does a solid square (■) indicate? (*A payment at least 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 creditors that have 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 that consumer an apartment or house. This inquiry would appear here, too.
- An insurance company might inquire about a person's credit history before issuing a policy.
- An employer may inquire about a potential employee's credit history. This inquiry would appear on the report as well.
- It is also possible to see a creditor listed that did not grant credit but reviewed the credit report.

6. Display Slide 9 and explain that a **credit score** is a number based on information in a credit report that indicates a person's credit risk. Show students the video, Understanding How a FICO Credit Score is Determined, at https://www.stlouisfed.org/education/continuing-feducation-video-series/episode-1-understanding-how-a-fico-credit-score-is-determined.

7. Remind students that even though they are young, they should be concerned about their individual credit histories. Distribute a copy of *Handout 6.4: Keys to Establishing and Maintaining Credit (and Saving Money)* to each student. Use Slides 10-14 to discuss the following key principles and steps to establishing and maintaining a good credit history:

- **Establish a credit history.**
  - For example, open a bank account or purchase a cell phone contract.
- **Pay *all* your bills on time each month.**
  - Payments 30 days or more late will be noted on your credit reports.
  - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
  - The less you owe, the better your credit history will look to potential creditors.
  - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
  - Every credit card account you have appears on your credit reports.
  - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
  - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
  - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so that you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
  - Request a free copy of your credit report from each of the three credit bureaus annually.
  - Clear up any inaccuracies on your credit reports.
- **A good credit report is the key to a good credit score.**
- **Understand what a good credit score means for you.**
  - You will qualify for lower interest rates when purchasing large items such as a car or a house.
  - You will have lower insurance rates.

Closure

8. Use Slides 15-23 to review the key points of the lesson by discussing the following:
   - What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
   - Who are creditors? (*Creditors are people, financial institutions, or businesses that lend money.*)
   - What is interest? (*Interest is the price of using someone else's money; it is the price of credit.*)
   - What is an interest rate? (*An interest rate is the percentage of the amount of a loan that is charged for a loan.*)
   - What are some of the advantages of using credit? (*Answers will vary but should include the following: convenience, buying and using things now while paying for them later, buying more expensive items you couldn't afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, and possibly receiving perks from the credit card company [e.g., cash back or travel rewards].*)
   - What are some of the disadvantages of using credit? (*Answers will vary but should include the following: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay your bill in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities.*)
   - Why is it best to pay your credit card balance in full every month? (*The less you owe, the better your credit history will look to potential creditors. You will avoid paying large amounts of interest.*)
   - If you can't pay the entire balance each month, what should you do? (*You should make the largest payment possible to avoid larger interest payments.*)
   - What is a credit history? (*A credit history is a record of a person's payment activity or behavior over a period of time.*)
   - Why is it important to establish and maintain a good credit history? (*Your credit history affects many aspects of your life. A poor credit history results in higher interest and difficulty obtaining credit in the future. It can also prevent you from renting an apartment or even getting a job.*)
   - What is a credit report? (*A credit report is a loan and bill payment history kept by a credit bureau.*)
   - How are credit reports used by financial institutions and other potential creditors? (*They review credit reports of potential borrowers to determine the likelihood that a future debt will be repaid and may or may not grant credit.*)
   - What is a credit bureau? (*A credit bureau is an organization that compiles credit information on individuals and makes it available to businesses for a fee.*)

- What are the three credit bureaus? (*Equifax, Experian, and TransUnion*)
- What is a credit score? (*A credit score is a number based on information in a credit report that indicates a person's credit risk.*)
- How can you establish and maintain good credit? (*You can establish a credit history, pay your bills on time and in full, not open too many credit card accounts, monitor credit card usage, and check your credit report.*)

Assessment

9. Distribute a copy *Handout 6.5: Credit Assessment* to each student. Review the directions and allow time for students to work. Use *Handout 6.5 Credit Assessment—Scoring Rubric* to review students' work.

Handout 6.1: Facts About Credit (page 1 of 3)

Directions: Read the handout and answer the questions that follow.

Credit is the granting of money or something else of value in exchange for a promise of future repayment. 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 for the borrower and income for the lender. Usually, borrowers pay a given interest rate—that is, the percent of the amount of the loan that will be charged as interest. In addition to paying interest, borrowers may also pay fees for using credit. Fees may be charged to service and maintain credit accounts and if a loan payment is late.

There are advantages and disadvantages of using all types of credit. As stated, one advantage of credit is the opportunity to buy and use things now while paying for them later. In addition, you can buy things you might not be able to afford if you had to pay for them all at once—for example, a car or a house. In the case of credit cards, advantages include convenience, not having to carry cash, being able to pay for things in an emergency, ease of tracking your expenses, and possibly receiving perks from your credit card company, such as cash back or travel rewards. Disadvantages of credit include spending money you don't have; the ease of overextending and buying more than you can realistically afford; giving up things in the future to pay for things you bought in the past; and if you don't pay your bills in full each month, paying more for things than you would if you paid cash. If you pay off your credit cards each month, you don't have to pay interest; but if you don't, the interest charges are fairly high. When you use credit cards, it can be easier for someone to steal your identity.

Credit cards are a frequently used type of credit. They represent an agreement between a lender—the institution issuing the card—and the cardholder. A credit card offers a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products and services up to a specific dollar amount called a credit limit. The credit card company determines the credit limit based on a credit card holder's credit history. Credit card holders must pay a minimum amount of the card balance each month to avoid fees.

Banks, credit unions, savings and loans, retail stores, and other businesses issue credit cards. You may have even received an application for a credit card. It is common for students graduating from high school or starting college to receive credit card applications in the mail. It is important to understand some basic information about using credit cards and credit in general so that you use credit wisely and maintain a strong credit history. A credit history is a report of a person's payment activity over a period of time.

A person's credit history is listed in a credit report. A credit report is similar to a school transcript. Your school transcript is a report that shows whether you completed high school, college, and so forth and how well you performed. Your education and your performance could affect your ability to move into other programs or jobs. Similarly, throughout your life a credit report will record your credit history and will be even more important than your school transcript.

Handout 6.1: Facts About Credit (page 2 of 3)

Credit reports are maintained by credit bureaus and provided to creditors for a fee. Credit reports include a list of all of the credit a person has been granted (e.g., credit cards and loans) and his or her payment history, which notes if any payments have been 30 days or more late. In addition, unpaid bills turned over to a collection agency, items repossessed because of failure to repay a loan, and legal actions (for example, bankruptcy) will be noted on a credit report.

Financial institutions and other potential creditors review credit reports to determine the likelihood that the person seeking credit will repay a debt. 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, the cost of future credit may be higher, and you could miss out on opportunities. For example, you may have to pay a higher interest rate if you are considered a risky borrower, or you may have to pay more for car insurance. Insurance companies check credit histories because there is a correlation between risky financial behavior and risky driving behavior. In addition, if you want to rent an apartment, the landlord may check your credit history. When you apply for a job, the potential employer may check your credit history because it may give them insight into your character. So even teenagers should be concerned about their credit history because it may affect their ability to obtain credit or even get a job.

Mistakes can and do happen on credit reports, so it is important for you to monitor your credit history. If you find inaccuracies, get them cleared up and off your report. In addition, check your reports for fraudulent activities, which could help you prevent or flag identity theft. In the United States, three credit bureaus maintain credit reports: Equifax, Experian, and TransUnion. You may request a free copy of your credit report once every 12 months from each of the three bureaus. And it is a good idea to do so. You can get your free credit reports at https://www.annualcreditreport.com.

a. What is credit?

b. What are some advantages of using credit?

c. What are some disadvantages of using credit?

Handout 6.1: Facts About Credit (page 3 of 3)

d. What is a credit card?

e. What is a credit history?

f. Why is it important to maintain a good credit history?

g. How do creditors determine someone's credit history?

h. What are the three credit bureaus?

i. How can you check your credit reports?

j. Why is it a good idea to check your credit reports each year?

Handout 6.2: Credit Costs

Katarina Smavern is 18 and wants a new laptop that costs $500. She doesn't have that much money saved. Her friend tells her, though, about a credit card promotion at a local electronics store. Katarina heads to the store and opens an account; she can buy the laptop and take it home with her that day. She is so excited that she doesn't give much thought to the 21 percent interest rate. "I have a job now," she thinks to herself, "So I'll be able to pay this off in no time. The interest rate doesn't really matter because the minimum monthly payment isn't very much." Katarina buys the laptop, takes it home, and pays only the minimum payment due each month.

Credit card summary for laptop purchased on January 24, 20xx	
Month 1	
Initial credit card balance	$500.00
Minimum payment due	–$25.00*
Interest charged (grace period)	0
Month 2	
Credit card balance	**$475.00**
Minimum payment due	–$23.75*
Interest charged: 21% × ($475/12) =	+$8.31
Month 3	
Credit card balance	**$459.56**
Minimum payment due	–$22.98*
Interest charged: 21% × ($459.56/12) =	+$8.04
3-month overview	
Credit card balance at the end of three months	**$444.62**
Amount repaid: $25.00 + $23.75 + $22.98 =	$71.73
Amount by which debt was 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 the 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 monthly payments, she will have to make 52 payments and spend $697.

Handout 6.3: Consumer Credit Report

A

Consumer Information		**Date of Report: 2/3/20xx**	
Name:	**Mikhail Turner**	**SSN:** 123-45-6789	
Spouse:	N/A	**Date of Birth:** 1/1/98	
Current Address		**Previous Address**	
321 Any Street		123 Main Street	
Our Town, USA		Our Town, USA	

Employment Data

Employer Name:	ABC Mart	**Employer Name:**	N/A
Location:	Our Town	**Location:**	N/A
Date Hired:	1/11/16	**Date Hired:**	N/A

B

Account History Information

Monster Music	**Balance:**	$85.78	**Pay Status:**	As Agreed
Our Town, USA	**High Balance:**	$500.00	**Loan Type:**	Credit card
	Credit Limit:	$500.00	**Date Opened:**	1/24/16
	Past Due:	$0		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
○	○	○	○	○	○	○	○	○	○	○	○
○	▲	▲	○	○	○	○	○	○	○	○	○

Our Town Bank	**Balance:**	$1,900	**Pay Status:**	As Agreed
Our Town, USA	**High Balance:**	$4,500	**Loan Type:**	Automobile
	Credit Limit:	N/A	**Date Opened:**	1/3/18
	Past Due:	$0		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
○	○	○	○	○	○	○	○	○	○	○	○
○	○	○	○	○	○	○	○	○	○	○	○

Sallie Mae	**Balance:**	$5,000	**Pay Status:**	As Agreed
Newark, DE	**High Balance:**	$5,000	**Loan Type:**	Educational
	Credit Limit:	N/A	**Date Opened:**	4/5/18
	Past Due:	N/A		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
□	□	□	□	□	□	□	□	□	□	□	□
□	□	□	□	□	□	□	□	□	□	□	□

C

Public Record Information

None

D

Inquiry Information

Creditor Name	**Date of Inquiry**	**Credit Bureau**
Sallie Mae	8/5/19	TransUnion
Monster Music	1/24/17	Experian
Our Town Bank	1/3/19	Equifax

□ Not Applicable ○ Current ▲ 30 days late ● 60 days late ■ 90 days late

Handout 6.4: Keys to Establishing and Maintaining Credit (and Saving Money)

- **Establish a credit history.**
    - For example, open a bank account or purchase a cell phone contract.
- **Pay *all* your bills on time each month.**
    - Payments 30 days or more late will be noted on your credit reports.
    - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
    - The less you owe, the better your credit history will look to potential creditors.
    - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
    - Every credit card account you have appears on your credit reports.
    - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
    - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
    - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so that you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
    - Request a free copy of your credit report from each of the three credit bureaus annually.
    - Clear up any inaccuracies on your credit reports.
- **A good credit report is the key to a good credit score.**
- **Understand what a good credit score means for you.**
    - You will qualify for lower interest rates when purchasing large items such as a car or a house.
    - You will have lower insurance rates.

Handout 6.5: Credit Assessment

Directions: Read the following paragraph and write an essay addressing

- the advantages and disadvantages of using credit cards,
- why a credit card isn't "free money,"
- the importance of reviewing your credit reports annually, and
- how to establish and maintain good credit.

Your friend Todd is a college student. Last week when Todd was at the mall, a credit card company was distributing credit card applications. Everyone who completed an application received a T-shirt and a Frisbee. Todd completed the credit card application and collected the freebies. He is excited because he thinks that he will have "free money"—that he'll be able to buy whatever he wants whenever he wants and won't have to worry about paying for it right away. Todd's roommate told Todd to get a copy of his credit reports and review them. Todd doesn't know what a credit report is. He comments to you, "I'm already getting credit. Why do I need to look at some reports?"

Handout 6.5: Credit Assessment—Scoring Rubric

<table>
<tr><th></th><th>Below Basic</th><th>Basic</th><th>Proficient</th><th>Advanced</th></tr>
<tr><td>Advantages of credit</td><td>One advantage noted</td><td>Two advantages noted</td><td>Three advantages noted with some explanation</td><td>Three or more advantages noted with thorough explanations and relevant examples</td></tr>
<tr><td colspan="5">Advantages: convenience, buying and using things now while paying for them later, buying more expensive items you could not afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, being able to spend in an emergency, and possibly receiving perks from the credit card company (e.g., cash backf or travel rewards)</td></tr>
<tr><td>Disadvantages of credit</td><td>One disadvantage noted</td><td>Two disadvantages noted</td><td>Three disadvantages noted with some explanation</td><td>Three or more disadvantages noted with thorough explanations and relevant examples</td></tr>
<tr><td colspan="5">Disadvantages: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities</td></tr>
<tr><td>Why a credit card isn't "free money"</td><td>One cost of credit noted</td><td>Two costs of credit noted</td><td>Three costs of credit noted with some explanation</td><td>Three costs of credit noted with thorough explanations and relevant examples</td></tr>
<tr><td colspan="5">Costs of credit: interest payments, fees, and the inability to buy something in the future</td></tr>
<tr><td>Importance of reviewing your credit report</td><td>The purpose of a credit report noted</td><td>One reason for maintaining a good credit report noted</td><td>Two reasons for maintaining a good credit report noted with rationale of their importance</td><td>Two or more reasons for maintaining a good credit report noted and explanation of the need to check your credit report annually</td></tr>
<tr><td colspan="5">Importance of reviewing your credit report: A credit report shows your payment history. A bad credit report could prevent you from getting future credit, renting an apartment, or getting a job. Errors can occur on a credit report, so it is important to check for errors and have them corrected. You can flag or prevent identity theft by looking at your credit report. You can see how much total credit you have open on your credit report. An annual check of your credit report can help you maintain a good credit report (and you have a good payment history).</td></tr>
<tr><td>How to establish and maintain good credit</td><td>One tool/tip noted</td><td>Two tools/tips noted</td><td>Three tools/tips noted with some explanation</td><td>Three or more tools/tips noted with thorough explanations and relevant examples</td></tr>
<tr><td colspan="5">How to establish and maintain good credit: Establish credit by opening a bank account or purchasing a cell phone contract, and pay your phone bill on time and in full. Establish and maintain credit by paying all of your bills on time and in full because late payments will be noted on a credit report, and late or partial payments may result in added fees. Don't open too many credit cards, because every account you open will appear on your credit report. Even if you don't use an account, it appears that you have access to a certain amount of credit. Lenders and others will take the potential access into account. Monitor your credit card usage. Check online to make sure that only purchases that you actually made appear on your account, and make sure that any returns and payments are accounted for accurately. Credit card companies make mistakes, so by monitoring your accounts, you protect yourself from errors. It will also help you protect against fraud. You'll note when there is something on the account that you didn't purchase and can report it as potential fraud. Review your credit reports—all three of them—annually. Make sure the information on them is accurate and that no accounts have been opened of which you were not aware. In addition to helping you maintain good credit, this helps you protect yourself from fraud.</td></tr>
</table>

Standards and Benchmarks

National Standards for Personal Financial Education

Standard V. Managing Credit

- **Benchmarks: Grade 4**
  1. Interest is the price a borrower pays for using someone else's money, and the income earned by the lender.
  2. When a person pays with credit, they have immediate use of purchased goods or services while agreeing to repay the lender in the future with interest.
  3. Lenders are more likely to approve borrowers who do not have a lot of other debt and who have a history of paying back loans as promised.
- **Benchmarks: Grade 8**
  1. Interest rates and fees vary by type of lender, type of credit, and market conditions.
  3. The longer a loan repayment period and the higher the interest rate, the larger the total amount of interest paid by a borrower.
  5. Lenders charge different interest rates based on borrower risk of nonpayment, which is commonly evaluated using information in the borrower's credit report.
  7. Borrowing increases debt and can negatively affect a person's finances.
- **Benchmarks: Grade 12**
  7. Lenders assess creditworthiness of potential borrowers by consulting credit reports compiled by credit bureaus.
  8. A credit score is a numeric rating that assesses a person's credit risk based on information in their credit report.
  9. Credit reports and credit scores may be requested and used by entities other than lenders.

Lesson 7:

Creditors' Criteria and Borrowers' Rights and Responsibilities

Standards and Benchmarks (see page 7.12)

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 to identify and discuss the rights and responsibilities of using credit.

Grade Level

6-12

Concepts

Capacity	Creditor
Character	Credit responsibilities
Collateral	Credit rights
Credit	Interest

Compelling Question

How can credit have both rights and responsibilities?

Objectives

Students will be able to

- define credit, creditor, and interest;
- identify and describe criteria lenders use to make loans; and
- explain the rights and responsibilities related to using credit.

Time Required

45-60 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 7: Creditors' Criteria and Borrowers' Rights and Responsibilities"
- Handouts 7.1, 7.3, and 7.4, one copy of each for each student
- Handout 7.2, enough copies cut apart to provide one numbered scenario card for each member of four groups
- A sheet of notebook paper for each student

Procedure

1. Display Slide 1 and define **credit** as the granting of money or something else of value in exchange for a promise of future repayment. Explain that the ability to have and use credit is a privilege earned by exhibiting behaviors related to some broad characteristics that creditors consider when making lending decisions. Display Slide 2 and explain that these characteristics are called the three C's of credit: **capacity**, **character**, and **collateral**. Ask the students what they think capacity, character, and collateral mean? (*Answers will vary.*)

2. Remind the students that credit is not free. Display Slide 3 and explain that 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 income to the lender. When people borrow money from a bank, they pay interest to the bank because they are borrowing other people's money. Those who deposit their money in the bank receive interest as payment for keeping their money in accounts at the bank.

3. Display Slide 4 and explain that when a person applies for credit, the **creditor**—that is, the person, financial institution, or business that lends the money—will look at different types of information to evaluate the potential borrower. Specifically, creditors review information to determine how well the borrower satisfies the three C's of credit: capacity, character, and collateral.

4. Display Slide 5 and explain that a 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 or her bills and if he or 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 and sell it. The car is collateral for a car loan.

5. Remind students that people earn the privilege of using credit; this privilege is based to a great extent on their capacity, character, and collateral. Display Slide 6 and explain that consumers should be aware, though, that with that privilege comes consumer **credit rights** and **credit responsibilities**. Credit rights are 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.

6. Tell the students that they are going to be involved in a role-play activity. They are going to play the part of either a person seeking credit or someone who is providing credit—that is, a creditor. Distribute a copy of *Handout 7.1: Your Credit Rights and Responsibilities* to each student. Tell the students they will use the handout with the role-play activity, but first the class will review the rights and responsibilities statements on the handout. Display Slides 7-10 and review the statements with the students.

7. Divide the class into four groups. Distribute scenario cards from *Handout 7.2: Role-Play Scenarios* to each group member. Distribute Scenario 1 cards to Group 1, Scenario 2 cards to Group 2, and so on. Instruct the students to read their group's scenario silently and allow time for them to do so.

8. Refer students to Handout 7.1. Instruct the students to discuss in their group which rights or responsibilities could be demonstrated in their group's role-play scenario. Allow time for discussion, then instruct students to work individually and circle on the handout the rights and/or responsibilities they believe apply to the people described in their group's scenario. 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 student should circle "Compare offers for similar types of credit. For example, compare different credit card offers or the cost (fees and interest charges) of a loan from different sources."

9. Instruct the groups to discuss how to transform their scenario into a short skit that the group members will perform in front of the class. Each group is to discuss the rights they individually circled and then as a group select two rights, two responsibilities, or a combination of one right and one responsibility that the people in their skit should have adhered to or been aware of and clearly present these items in their skit. Allow time for students to prepare the skits.

10. Explain that the students will serve as the audience for all skits except their own. Instruct students to complete Handout 7.1 based on the skits, including their own, as follows:

- Mark the handout 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 may mark more than one right or responsibility for each skit.
- Mark the handout for your own group now.

11. Have each group perform its skit.

12. After the skits are performed and tallies recorded, ask for volunteers from Groups 1, 2, and 3 to read the rights and responsibilities that they marked for Group 4. Have the students explain why they marked those statements.

13. Have a volunteer from Group 4 tell the class which rights and responsibilities the group was trying to illustrate in their skit and explain why.

14. Repeat procedure steps 12 and 13 until all skits have been discussed. Suggested answers for each skit are provided on Slides 11 and 12.

15. Distribute a copy of *Handout 7.3: Three C's Assessment* to each student. Review the directions with the students and have them complete and then turn in the handout. Correct and return the handout to the students. You may wish to review procedure step 4 when you discuss their answers. The following is the answer key for Handout 7.3:

    1. CH

    2. CH

    3. CA

    4. CO

    5. CH

Closure

16. Use Slides 13-18 and review the key points of the lesson by discussing the following:
    - What is credit? (*The granting of money or something else of value in exchange for a promise of future repayment*)
    - 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*)

- What is capacity? (*A borrower's ability to repay a debt*)
- What are factors that affect a borrower's capacity? (*How much money the borrower makes, how long the borrower has been at his or her current job, and how much debt the borrower has relative to income*)
- What is character? (*A borrower's reputation for paying bills and debts based on past behavior*)
- What is collateral? (*Property required by a lender and offered by a borrower as a guarantee of payment on a loan; also, a borrower's savings, investments, or the value of the asset purchased that can be seized if the borrower fails to repay a 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 to review rights.*)
- What are some of the responsibilities we have when we use credit? (*Use Handout 7.1 to review responsibilities.*)
- How can credit have both rights and responsibilities? (*There are rights associated with credit to protect consumers to make sure they can access credit and be treated fairly. But there are also responsibilities that come with using credit. People who use credit are obligated to repay and pay any interest charged. They should pay on time as they agreed to, and they should look after themselves—comparing offers, reviewing any agreements they sign, and checking on any bills they receive.*)

Assessment

17. Distribute *Handout 7.4: Darryl's Credit Debacle* to each student. Instruct the students to read Darryl's story and write a short essay detailing the credit rights and credit responsibilities evident in the story. They may reference Handout 7.1 if necessary.

18. Use the guidance below to correct student essays.

    Items that students should include in their essay about "Darryl's Credit Debacle" include the following:

    - *You have the right to know why you were denied credit. Darryl wisely asked why he had been denied credit.*
    - *You have the right to see your personal information on credit reports. The salesman first said Darryl couldn't see the credit report but then said yes when Darryl said it was his right.*
    - *Organizations that use credit reports are required to help you understand the report. The salesman explained a few key components of the credit report.*
    - *If you are denied credit because of something on your credit report, the lender must give you the name, address, and telephone number of the credit bureau that provided the credit report. The salesman told Darryl the name of the company that provided the credit report.*

- *You have the right to have errors in credit reports corrected. When Darryl noticed an error, he called the store and the credit agency and successfully cleared up the matter.*
- *Pay your bills on time. Darryl had late payments, which were reported on his credit report.*
- *Pay your credit card balances in full each month. Since Darryl had late payments, it is clear that he did not pay his balances in full.*
- *Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more. Darryl cleared up the error on his credit report as soon as he learned about it. He did not ignore it.*
- *Compare offers for similar types of credit. Darryl should have checked the cost of the loan from other sources.*
- *When you borrow money, know what you are agreeing to. Darryl quickly filled out the application and should have taken more time to read the agreement carefully.*

Handout 7.1: Your Credit Rights and Responsibilities (page 1 of 2)

Directions: Place the group number or numbers on the line next to the rights and responsibilities you identify for each skit. Different groups' skits may represent the same rights or responsibilities, and each group may have more than one right or responsibility.

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 your 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. This information is included in your credit report.

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

_______ Neither the length of the loan—that is, 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 7.1: Your Credit Rights and Responsibilities (page 2 of 2)

Credit Responsibilities

_______ Pay all 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 or the cost (fees and interest charges) of a loan from different sources.

_______ Make informed, reasonable choices about credit usage.

_______ Know how much you can afford to spend.

_______ Keep your receipts for purchases/returns to check against purchases/returns listed on credit card statements.

_______ Check monthly statements to make sure charges are correct.

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

_______ When you borrow money, know what you are 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 7.2: Role-Play Scenarios

Group 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 online 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 an 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."

Group 2

Carlos was shopping at his favorite electronics store when he found the home theater system of his dreams. When he asked about payment options, the salesperson presented him with the in-store credit plan. The salesperson started to rattle off the details of the loan, but Carlos told him to save his breath; he wasn't concerned with the details, he just wanted to take the system home that day. He quickly filled out the forms and turned them in. The salesperson took the forms back to get approval from the store manager. In a few minutes the salesperson returned with bad news; his application was denied. Carlos asked for a reason, but the manager asked Carlos to leave the store.

Group 3

Max uses his credit card to buy many things. He earns "cash-back points" for using the card. He normally pays the entire balance each month. Last month, he purchased a new monitor, but later that day he had to purchase a new tire. He decided he couldn't afford the new monitor and returned it unopened the next day. When he checked his online credit card statement, he noticed that the refund for the monitor was not listed. He called the credit card company's toll-free number and talked to a customer service representative named Susan. She checked his account and said there was no record of a refund. She asked if he had an electronic receipt for the return. He told her he was just not good at keeping track of things like that.

Group 4

Amanda was at the mall and signed up for a credit card to get the freebies being offered. Two weeks later, a PassWorld 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 just got a credit card in the mail. 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. His final words were, "Never spend more in a month than you can pay in full when you receive the bill."

Handout 7.3: Three C's Assessment

Directions: Identify which one of the three C's of credit each statement represents. Write **CA** for capacity, **CH** for character, or **CO** for collateral in the space provided.

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 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 he is earning a profit each month.

4. __________ Franklin owns a small house 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.

Handout 7.4: Darryl's Credit Debacle

Directions: Read Darryl's story below and write a short essay detailing the credit rights and credit responsibilities evident in the story. You may reference Handout 7.1.

Darryl went to visit Arena Used Cars because he had his eye on a mint-condition, red 1967 Ford Mustang on its lot. Darryl talked with a salesman, Nathan, about the features and condition of the car. It was just what Darryl wanted. 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 credit plan that would be just perfect for Darryl. All Darryl had to do was fill out a credit application. Darryl quickly filled out the application and gave it to Nathan. Nathan took the application and said 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, but Nathan shrugged and said it just wasn't possible for the dealership to grant him credit. Nathan didn't provide any specific reasons. Fortunately, Darryl knew about his credit rights and told Nathan that he had a right to know why his credit application had been denied. Nathan then told Darryl that he was denied credit based on his credit report. Darryl asked Nathan to show him the report, and he did. Darryl verified his personal information, and Nathan explained a few key components of the report. Darryl knew he needed more time, though, to examine the credit report more fully. Nathan told Darryl he had gotten the report from TransUnion and gave him the necessary contact information for that company.

When Darryl got home, he went online to access his credit report. As he looked over the report, he noticed that it said he had not paid a few bills on time. He thought back and realized it was correct because he had forgotten to pay his credit card bill on time a few times that year. Then he noticed an error on the report. An electronics store claimed he had not paid his store credit card bill. Darryl had never even heard of the company and did not have a credit card from that store. He called the electronics store and the credit agency and eventually cleared the matter up. A week later Darryl signed the loan papers for the Mustang.

Standards and Benchmarks

National Standards for Personal Finance Education

Standard V: Managing Credit

- **Benchmarks: Grade 4**
  1. Interest is the price a borrower pays for using someone else's money, and the income earned by the lender.
  3. Lenders are more likely to approve borrowers who do not have a lot of other debt and who have a history of paying back loans as promised.
- **Benchmarks: Grade 8**
  1. Interest rates and fees vary by type of lender, type of credit, and market conditions.
  5. Lenders charge different interest rates based on borrowers risk of nonpayment, which is commonly evaluated using information in a borrower's credit report.
  7. Borrowing increases debt and can negatively affect a person's finances.
- **Benchmarks: Grade 12**
  2. Loans that are secured by collateral have lower interest rates than unsecured loans because they are less risky to lenders.
  7. Lenders assess credit-worthiness of potential borrowers by consulting credit reports compiled by credit bureaus.
  12. Consumer credit protection laws govern disclosure of credit terms, discrimination in borrowing, and debt collection practices.

Lesson 8:

How Much Are You Really Paying for That Loan?

Standards and Benchmarks (see page 8.13)

Lesson Description

Students learn what a payday loan is and the high cost involved in using such a loan. They work in groups to calculate the cost of loans at given annual percentage rates (APRs). As an assessment, students select four scenarios involving payday lending, offer reasons why payday loans might not be the best alternative, and suggest other options for financing what the individuals want.

Grade Level

6-12

Concepts

Annual percentage rate (APR)

Interest

Interest rate

Loan

Payday loan

Compelling Question

Why is it important to understand annual percentage rate (APR) when borrowing?

Objectives

Students will be able to

- define annual percentage rate, interest, interest rate, loan, and payday loan;
- calculate annual percentage rates; and
- explain key facts regarding payday loans.

Time Required

60 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 8: How Much Are You Really Paying for That Loan?"
- Handouts 8.1, 8.2, and 8.3, one copy of each for each student
- Handout 8.3 Answer Key, one copy for the teacher
- A calculator for each student

Procedure

1. Display Slide 1 and introduce the topic by asking the following:
    - Have you ever borrowed money from someone? (*Answers will vary*.)
    - What are some examples of things for which you have borrowed money? (*Answers will vary but may include lunch, gas, clothes, or a movie ticket*.)
    - Have you ever lent money to someone? (*Answers will vary*.)
    - How did the person who borrowed the money spend it? (*Answers will vary but may include to buy lunch, gas, clothes, or a movie ticket*.)

2. Display Slide 2 and define a **loan** as a sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.

3. Display Slide 3 and explain that when people borrow money, they are using money that belongs to someone else. The price of 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 amount of a loan that is charged for the loan and must be repaid (in addition to the amount borrowed) over a specified time period. For example, if the simple interest rate on a $1,000 loan is 10 percent, the borrower must repay the $1,000 plus $100 in interest.

4. Display Slide 4 and define **annual percentage rate (APR)** as the percentage cost of credit on an annual basis. Explain that lenders are required by law to disclose APRs to borrowers. Display Slides 5-6 and discuss the following:
    - An APR may differ from the stated interest rate because APR includes the fees and costs related to the loan.
    - An APR is the total cost of credit a consumer pays per year of a loan—it combines the interest paid over the life of the loan and all fees that are paid up front, which together are called finance charges. APRs are commonly used to compare loan costs from different lenders to help consumers make better-informed choices. (NOTE: Rules regarding fees that must be included in an APR are different for mortgage loans than for auto loans and short-term loans.)

- The fees and costs vary depending on the type of loan you're applying for (e.g., a home loan or an auto loan).
- Some examples of possible fees included in the APR are processing fees, underwriting fees, document fees, and appraisal fees. For most loans, other than mortgages, the fees usually pertain to processing and managing the loan.
- The APR gives you an easy way to compare loan rates. For example, credit cards come with all types of fees and costs, and they are all different. But the APR makes it easy to compare rates, and credit card companies must provide the APR.
- Generally, the lower the APR the better.
- When you apply for a loan, you should always be able to see both the interest rate and the APR.
- The APR does not affect the monthly payment on a loan. Monthly payments are a function of the interest rate and length of the loan.

5. Display Slide 7 and explain that the following information is needed to calculate an APR:
   - the amount of credit—the amount of the loan—to be received,
   - the dollar amount of the credit costs—that is, the dollar amount of fees and interest charges associated with the loan, and
   - the length (term) of the loan.

6. Explain that the length of a loan is often referred to as the "term" of the loan. Computing an APR of a loan longer than a year requires some complicated mathematics. Display Slide 8 and explain that in these cases, it is easier to use an APR calculator, such as the one found at http://www.efunda.com/formulae/finance/apr_calculator.cfm. Tell the students you are going to calculate APRs of loans. Discuss the following:
   - For example, let's say you borrow $3,000 to buy a used car. The amount of credit—the amount of the loan—is $3,000.
   - To calculate the APR of this loan, you must know the dollar amount of the credit costs—that is, the amount of the fees and interest charges associated with the loan. Examples of fees include loan-processing fees and underwriting fees. Let's say that for your $3,000 loan, the loan-processing fee is $50 and the interest rate is 7 percent. (NOTE: When using an APR calculator, it is not necessary to know the dollar amount paid in interest; knowing the interest rate is enough.)
   - Let's say that for the $3,000 car loan the term is 24 months.
   - (Input the information into the calculator.) 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.

- (Recalculate the loan with a 6 percent interest rate and a $100 fee.) 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.
- As these examples show, APR is as important to consider as the stated interest rate when comparing loans. The interest rate on the second loan is 6 percent, which is lower than the rate on the first loan. However, the APR on the second loan is 9.25 percent, which is higher than the 8.64 percent on the first loan. This is because the processing fee on the second loan was higher ($100) than on the first loan ($50).

7. Distribute a copy of *Handout 8.1: Calculating the APR of a Short-Term Loan* and a calculator to each student. Tell the students that the handout includes the steps for calculating an APR of a short-term (less than a year) loan. Display Slide 9 and 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 up-front fees and interest charges is $50. The term of the loan is 21 days.

   Step 1: Add all fees and interest charges to calculate total fees: $50.

   Step 2: Divide the total fees by the amount financed (borrowed): $50/$500 = 0.1.

   Step 3: Multiply the answer by the number of days in a year—365: 0.1 × 365 = 36.5.

   Step 4: Divide the answer by the term of the loan in days: 36.5/21 = 1.7381.

   Step 5: Move the decimal point two places to the right and add a percent sign: 1.7381 becomes 173.8% (rounded) to state the APR.

   SOURCE: http://stoppaydaypredators.org/.

8. Remind students that an APR expresses the cost of a loan by incorporating not only the interest paid based on the stated interest rate, but also all up-front fees paid by the borrower. This becomes very important when comparing loans and analyzing the cost of short-term loans. Instruct the students to complete the problems on Handout 8.1. Allow time for the students to complete their work. Display Slide 10 and review the answers as follows:

Calculation	Finance charge	Loan amount	Term	APR
A. [($5/$500) × 365]/14 = 26%	$5	$500	14 days	26%
B. [($12/$200) × 365]/21 = 104%	$12	$200	21 days	104%
C. [($5/$750) × 365]/14 = 17%	$5	$750	14 days	17%

9. Review the definition of APR as the percentage cost of credit on an annual basis. Remind the students that an APR is the total cost of credit to the consumer each year of a loan. APRs make it easier to compare loan options and help consumers make better-informed choices. Point out

that the APRs of the short-term loans on Handout 8.1 were much higher than the APR of the car loan—a longer-term loan.

10. Display Slide 11 and discuss the following:
    - Have you or people you know used short-term loans to buy things? (*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 short-term loans on Handout 8.1.
    - Have you ever heard advertisements for payday loans? (*Answers will vary.*) Explain that these are short-term loans that typically have very high APRs.

11. Display Slide 12 and explain the following:
    - A **payday** loan is usually a small, short-term loan 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 a payday loan is two weeks.
    - Payday loans are also sometimes called "cash advances," although that term can also refer to cash provided through a prearranged line of credit, such as a credit card.

12. Distribute a copy of *Handout 8.2: Payday Loan Fact Sheet* to each student. Ask students to read the sheet, and display Slides 13-15 to review the content.

13. Display Slides 16-18 and discuss the following:
    - What is the amount of a typical payday loan? (*$375*)
    - What fees are charged for a payday loan? (*Loan fees and, if the loan is extended past the initial term, rollover fees*)
    - When rollover fees are included, what is the common range of APRs for payday loans? (*About 390 percent to 780 percent, depending on the amount and length [term] of the loan*)
    - What percentage of borrowers do not repay their payday loans? (*About 91 percent*)
    - What percentage of payday loans go to repeat borrowers? (*99 percent*)
    - Do any states prohibit or greatly restrict payday loans? (*Yes—as of 2019, 14 states and the District of Columbia prohibit payday loans; 9 states allow only low-cost payday loans by severely restricting the interest rate and fees payday loan companies can charge. Many other states in which payday loans are legal restrict some payday lender practices by prohibiting rollover loans or loan refinancing.*) SOURCE: National Conference of State Legislatures, http://www.ncsl.org/default.aspx?tabid=12473; and Consumer Federation of America Payday Loan Consumer Information, http://paydayloaninfo.org/.

(NOTE: Students might find it interesting that payday lenders were labeled "loan sharks" during the Great Depression. [This is the origin of the term.])

14. Divide the class into groups. Instruct the groups to each use the information on Handout 8.2 as a guide to develop a short public service announcement (commercial) aimed at high school students that outlines the drawbacks of using a payday loan. Have the groups deliver the announcements in class, and then discuss with the class which group was most effective in delivering the message and illustrating the facts in the handout.

Closure

15. Display Slides 19-25 and review the key points of the lesson by discussing the following:
    - What is a loan? (*A loan is a sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.*)
    - What is interest on a loan? (*Interest is the price of using someone else's money.*)
    - What is an APR (annual percentage rate)? (*An APR is the percentage cost of credit on an annual basis; it is the total cost of credit a consumer pays per year of a loan. It combines the interest paid over the life of the loan and all fees that are paid up front, which together are called finance charges.*)
    - Why it is important for consumers to know what an APR is and be able to calculate it? (*An APR is the total cost of credit to the consumer and allows the consumer to compare loan options and to make better-informed decisions.*)
    - What help is available online for consumers to determine the APRs of long-term loans such as car loans or mortgages? (*APR calculators are available online.*)
    - What loan information must a consumer have to use an APR calculator? (*The dollar amount of the loan, the length [term] of the loan, fees, and the interest rate*)
    - What are the steps for calculating the APR of a short-term loan?

      Step 1: *Add all fees and interest charges to calculate total fees.*

      Step 2: *Divide the total fees by the amount financed (borrowed).*

      Step 3: *Multiply the answer by the number of days in a year—365.*

      Step 4: *Divide the answer by the term of the loan in days.*

      Step 5: *Move the decimal point two places to the right and add a percent sign.*
    - What is a payday loan? (*A payday loan is a small, short-term loan intended to cover a borrower's expenses until his or her next payday.*)
    - What are the disadvantages of payday loans? (*Disadvantages of payday loans include high APRs, additional fees, and increased debt.*)

- Why do people use payday loans? (*Answers will vary but should include that people use payday loans for emergencies, to buy goods and services they want, or to pay a bill when they don't have enough money to do so.*)

Assessment

16. Distribute a copy of *Handout 8.3: Assessment* to each student. Students will choose four scenarios and write arguments for each against payday lending and suggest alternative ways of solving the problem. Use *Handout 8.3: Assessment—Answer Key* to review student responses.

Handout 8.1: Calculating the APR of a Short-Term Loan

Steps for calculating the annual percentage rate (APR) of a loan with a term of one year or less.

Step 1: Add all fees and interest charges to calculate total fees.

Step 2: Divide the total fees by the amount financed (borrowed).

Step 3: Multiply the answer by the number of days in a year—365.

Step 4: Divide the answer by the term of the loan expressed in days.

Step 5: Move the decimal point two places to the right and add a percent sign.

SOURCE: http://stoppaydaypredators.org/.

Directions: For each problem below, calculate the APR. Use the steps found above. 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 of the loan was 14 days. What was the APR of Andrew's loan?

B. Shondra borrowed $200 for the books she needed for her second semester of college. The finance charge on the loan was $12, and the term of the loan was 21 days. What was the APR of Shondra's loan?

C. Mario borrowed $750 to pay a doctor bill. The finance charge on the loan was $5, and the term of the loan was 14 days. What was the APR of Mario's loan?

Handout 8.2: Payday Loan Fact Sheet

- The term of a payday loan is usually two weeks—until the next paycheck—and the loan (the amount borrowed plus fees) must be paid back in full at the end of the term.
- Lenders charge "rollover fees" when borrowers want to extend the loan beyond the original term.
- Annual percentage rates (APRs) are commonly 390 percent to 780 percent when loan fees and rollover fees are included.
- A typical payday loan is about $375.
- The borrower can give a postdated check to a lender to be held until the next paycheck is deposited.
- Approximately 91 percent of borrowers are unable to repay their payday loans at the end of a 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 payday loans that exceed 90 days amount to approximately $4.2 billion annually.
- Currently, 14 states and the District of Columbia prohibit payday loans; nine states allow only low-cost payday loans by severely restricting the interest rate and fees payday loan companies can charge. Many other states in which payday loans are legal restrict some payday lender practices by prohibiting rollover loans or loan refinancing.
- Payday lenders have partnered with national banks in some states to avoid state prohibitions and restrictions.

SOURCE: http://www.paydayloaninfo.org/; http://www.pewtrusts.org/en/research- and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why; http://www.responsiblelending.org/; and http://www.stlouisfed.org/publications/br/articles/?id=524.

Handout 8.3: Assessment

Directions: Read and select four of the following scenarios. Answer the questions for the selected scenarios.

- Renaldo lives and works in Metroland. He has been unable to pay his full rent for three months. His landlord is threatening to evict him if doesn't catch up on his rent. He is thinking about visiting a payday lender in his community. He normally pays all of his bills on time, but he has struggled the past few months because he had to pay for car repairs. He has a savings account at a local bank, and he has the money to pay the rent. However, using this money would leave him with no emergency savings. Why shouldn't he use a payday lender? What could he do instead?

- Henry has been traveling more than 30 miles one way to visit his new girlfriend each evening. His truck does not get very good gas mileage, so he has to fill up almost every day. His truck payment is due in a few days, and he doesn't have enough money to pay it. He needs his truck to get to and from work each day. He thinks taking out a payday loan would help. Why shouldn't he use a payday loan? What could he do instead?

- Brandi lent her brother $400 to pay for his emergency room visit. Unfortunately, he was unable to return to work because of his injury, and he doesn't have short-term disability insurance. He can't pay his sister back, and she needs the money for day care. Without day care she'll be unable to go to work herself. She has an account at the local credit union, and she pays her bills regularly. She is thinking about visiting a payday lender in her community. Why isn't this a good idea? What could she do instead?

- Alex left her purse on the bus—with her company-provided cell phone inside. It is now her responsibility to replace the phone with the same or a newer model. The same phone will cost her $250 plus the activation fee. She just spent the last of her paycheck on new shoes. She has a credit card, but she is concerned about the 18% APR her credit card will charge if she doesn't pay the full amount of the bill when it comes in. She is considering visiting a payday lender in her community. What are the reasons for not using a payday loan service? What could she do instead?

- Jamie borrowed $150 from a payday loan service to pay for her car insurance. Now that it is time to pay the loan back, she doesn't have the money. Why shouldn't she just extend the loan? What could she do instead?

Handout 8.3: Assessment—Answer Key (page 1 of 2)

Directions: Read and select four of the following scenarios. Answer the questions for the selected scenarios.

- Renaldo lives and works in Metroland. He has been unable to pay his full rent for three months. His landlord is threatening to evict him if doesn't catch up on his rent. He is thinking about visiting a payday lender in his community. He normally pays all of his bills on time, but he has struggled the past few months because he had to pay for car repairs. He has a savings account at a local bank, and he has the money to pay the rent. However, using this money would leave him with no emergency savings. Why shouldn't he use a payday lender? What could he do instead?

  Answers will vary but may include the following: The fees and interest charged by a payday lender are high. His best option would be to use his savings to pay the rent and then start saving again. He could also borrow money from family or friends, find a roommate, find a less expensive place to live, get a second job, or cut other expenses.

- Henry has been traveling more than 30 miles one way to visit his new girlfriend each evening. His truck does not get very good gas mileage, so he has to fill up almost every day. His truck payment is due in a few days, and he doesn't have enough money to pay it. He needs his truck to get to and from work each day. He thinks taking out a payday loan would help. Why shouldn't he use a payday loan? What could he do instead?

  Answers will vary but may include the following: The fees and interest charged by a payday lender are high. He could borrow money from family or friends, visit his girlfriend less often, or reduce his gas costs by purchasing a fuel-efficient vehicle or using public transportation.

- Brandi loaned her brother $400 to pay for his emergency room visit. Unfortunately, he was unable to return to work because of his injury, and he doesn't have short-term disability insurance. He can't pay his sister back, and she needs the money for day care. Without day care she'll be unable to go to work herself. She has an account at the local credit union, and she pays her bills regularly. She is thinking about visiting a payday lender in her community. Why isn't this a good idea? What could she do instead?

  Answers will vary but may include the following: The fees and interest charged by a payday lender are high. She could ask her brother to watch her child or ask the day care to work out a payment plan. She could also arrange a loan through her credit union. The interest charged by the credit union for the loan would be much less than the fees and interest charged by a payday lender.

Handout 8.3: Assessment—Answer Key (page 2 of 2)

- Alex left her purse on the bus—with her company-provided cell phone inside. It is now her responsibility to replace the phone with the same or a newer model. The same phone will cost her $250 plus the activation fee. She just spent the last of her paycheck on new shoes. She has a credit card, but she is concerned about the 18% APR her credit card will charge if she doesn't pay the full amount of the bill when it comes in. She is considering visiting a payday lender in her community. What are the reasons for not using a payday loan service? What could she do instead?

  Answers will vary but may include the following: The fees and interest charged by a payday lender are high. She could charge the phone on her credit card. The 18% APR for her credit card is low relative to the fees she would have to pay for a payday loan. She could also borrow the money from family or friends, return the shoes, or work out a payment plan with her employer.

- Jamie borrowed $150 from a payday loan service to pay for her car insurance. Now that it is time to pay the loan back, she doesn't have the money. Why shouldn't she just extend the loan? What could she do instead?

  Answers will vary but may include the following: She shouldn't extend the loan because she might be in the same situation again and face higher and higher charges from rollover fees and interest. She could borrow money from family or friends, sell items at a garage sale, or pay the payday loan in full and try to negotiate an alternative arrangement with the creditor of a different bill.

Standards and Benchmarks

National Standards for Personal Finance Education

Standard V: Managing Credit

- **Benchmarks: Grade 8**
    1. Interest rates and fees vary by type of lender, type of credit, and market conditions.
    2. Financial institutions advertise loan costs to potential borrowers using the Annual Percentage Rate (APR), expressed as an annual percentage of the loan principal. Low introductory rates offered to attract customers may increase later.
    3. The longer a loan repayment period and the higher the interest rate, the larger the total amount of interest paid by a borrower.
- **Benchmarks: Grade 12**
    1. Borrowers can compare the cost of credit using the Annual Percentage Rate (APR) and other terms in the loan or credit card contract.

    13. Alternative financial services, such as payday loans, checkcashing services, pawnshops, and instant tax refunds, provide easy access to credit, often at relatively high cost.

Lesson 9:

To Rent-to-Own or Not to Rent-to-Own?

Standards and Benchmarks (see page 9.11)

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.

Grade Level

6-12

Concepts

Annual percentage rate (APR)

Contract

Elements of a contract

Rent-to-own contract

Compelling Question

Why don't rent-to-own stores provide consumers with annual percentage rates (APRs)?

Objectives

Students will be able to

- define contract and annual percentage rate (APR),
- explain the five elements of a contract,
- evaluate the terms and costs of a rent-to-own contract, and
- compare rent-to-own costs with outright purchases.

Time Required

60 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 9: To Rent-to-Own or Not to Rent-to-Own"
- Handouts 9.1 and 9.2, one copy of each for each student
- Handout 9.2 Answer Key, one copy for the teacher
- Handout 9.3, one copy for each student (optional)
- Handout 9.3 Answer Key, one copy for the teacher

Procedure

1. Display Slide 2 and explain that a **contract** is an exchange, promise, or agreement between two parties that is enforceable by law. Ask the following:
   - What are examples of contracts you have heard about? (*Answers will vary but may include contracts between professional athletes and team owners, union workers and management, or cell phone users and providers.*)

2. Display Slide 3 and explain that consumers may enter into a contract with a business when they make a purchase. Discuss the following:
   - Have you seen or heard advertisements for rent-to-own stores? (*Answers will vary.*)
   - What types of products do rent-to-own ads usually offer? (*Answers will vary but may include furniture, appliances, or televisions.*)

3. Display Slides 4-5 and discuss the following.

   A **rent-to-own contract** is a rental contract that includes an option to purchase. It generally adheres to the following terms:
   - No down payment or credit check is required.
   - A consumer (renter) can get immediate delivery of new furniture, appliances, or other goods.
   - The merchandise may be rented by the week or month.
   - The consumer is legally entitled to have the merchandise as long as payments are being made as outlined in the contract. After the final payment is made and the contract is fulfilled the merchandise belongs to the consumer.
   - If the merchandise is kept for a minimum amount of time, there is probably no penalty charged for returning it.
   - If a payment is missed, the consumer may be able to make a late payment that likely includes a late-payment fee. However, it may also be the case that the store will demand

return of the merchandise and arrange for its immediate repossession. The consumer will receive nothing in return for the payments made (except the benefit of having used the merchandise).

4. Explain that if people want to use furniture or appliances for just a few weeks or months, renting may be a good choice. On the other hand, if their goal is to own the merchandise, purchasing it from a retail store most likely will cost less. 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.

5. Display Slide 6 and point out that a rent-to-own contract is not written as a loan; therefore no federal laws protect the consumer. As a result, annual percentage rates (APRs) are not disclosed. An **annual percentage rate (APR)** is the percentage cost of credit on an annual basis. (NOTE: For a more detailed explanation of APR, see Lesson 8.) APR may differ from the stated interest rate of a loan because it is the total cost of credit to the consumer; it includes all fees and any other upfront charges in addition to the stated interest rate. Therefore, because an APR includes the real cost of credit, comparing the APRs of different loan options can help consumers make better-informed choices.

6. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit history or low credit scores to get immediate use of expensive merchandise without providing a down payment. In addition, these contracts allow consumers to try something before buying it.

7. Display Slide 7 and tell the students that the five **key elements of a contract** are offer, acceptance, competent parties, consideration, and mutual agreement.

8. Display Slides 8-12 and discuss the following:
   - How does the requirement of an offer factor into a rent-to-own contract? (*The rent-to-own company is making an offer to the consumer. The offer includes renting an item with the option to purchase it in the future.*)
   - How does the requirement of acceptance factor into a rent-to-own contract? (*Acceptance occurs as the consumer agrees to the terms of the contract by giving consideration.*)
   - How does the requirement of competent parties 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—the store and the renter—in a rent-to-own contract? (*The renter agrees to make timely payments and to return the item to the store in good condition if not purchased outright. The store agrees to provide merchandise. The renter agrees that the merchandise may be repossessed by the store if the renter fails to make a payment.*

The store agrees that the renter may return the merchandise without penalty after a specified amount of time.)

- How is mutual agreement established in a rent-to-own contract? (*The store provides a written contract and both parties add their signature.*) Point out that it is the responsibility of the renter to read the contract carefully to understand the terms before signing the contract.

9. Explain that when consumers consider a rent-to-own contract, before making a decision it is important to compute the total cost of the contract and compare it with the cost of purchasing the good outright. Display Slide 13 and distribute a copy of *Handout 9.1: Rent-to-Own Costs vs. Retail Prices* 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 that each group should appoint a spokesperson.

10. Review Handout 9.1 by asking the spokespersons to provide the answers. (*Answers are provided on Slide 14.*)

11. Display Slides 15-19 and discuss the following:
    - How is the total cost of a rent-to-own contract computed? (*The monthly payment amount is multiplied by the number of payments.*) (NOTE: Any fees are included in the monthly payment.)
    - Which column has the higher final costs—the rent-to-own cost column or the retail price column? (*The rent-to-own cost column*)
    - When might purchasing merchandise, such as furniture or an appliance, with a rent-to-own contract be beneficial relative to purchasing it outright? (*It may be beneficial to choose a rent-to-own contract if you want the merchandise for only a short time or want to try it before you purchase it.*)
    - What are the drawbacks of purchasing with a rent-to-own contract? (*Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you probably will lose the merchandise rented.*)
    - Do the differences between the retail prices and the rent-to-own costs on Handout 9.1 seem significant to you? (*Answers will vary.*)
    - What do you notice about the differences between the retail prices and the rent-to-own costs? (*The rent-to-own costs are from 80 percent [chrome car wheels and laptop] to 368 percent [gaming system] more than the retail prices.*)
    - Why are rent-to-own costs higher? (*Rent-to-own stores incur the risk of loss or damage to the merchandise and must repair or replace damaged merchandise. If renters fail to make payments, rent-to-own stores incur the costs of repossessing the merchandise.*)

Closure

12. Display Slides 20-22 and review the key points of the lesson by asking the following:

    - What is a contract? (*An exchange, promise, or agreement between two parties that is enforceable by law*)
    - What are the key elements of a contract? (*Offer, acceptance, competent parties, consideration, and mutual agreement*)
    - What is a rent-to-own contract? (*A rental contract with the option to purchase the merchandise*)
    - Why is purchasing merchandise with a rent-to-own contract usually more expensive than buying it outright? (*Rent-to-own contracts charge fees and interest. Rent-to-own stores incur the risk of repossessing the merchandise and repairing or replacing the merchandise.*)
    - What are the disadvantages of a rent-to-own contract? (*Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you will lose the merchandise.)*

Assessment

13. Distribute a copy of *Handout 9.2: Assessment* to each student. Instruct the students to read the scenario and answer the questions. Use *Handout 9.2: Assessment—Answer Key* to review the answers.

14. As an optional assessment, distribute *Handout 9.3: Figuring Percentages*. Instruct students to follow the directions and the example on the handout to complete the chart. Use *Handout 9.3: Figuring Percentages—Answer Key* to check students' work.

Handout 9.1: Rent-to-Own Costs vs. Retail Prices

Directions: Calculate the missing information in the chart.

Merchandise description	Rent-to-own payments	Rent-to-own costs	Retail price	Difference
50" Smart TV	$279.99 per month for 12 months		$1,449.50	$1,910.38
Gaming system bundle	$ ___________ per month for 12 months	$1,170.00	$250.00	$920.00
22" Chrome car wheels	$266.48 per month for 12 months	$3,197.76	$1,776.50	
Laptop computer	$149.99 per month for 12 months	$1,799.88		$799.95
Refrigerator	$139.99 per month for 12 months		$799.99	
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	
Electric guitar	$60.75 per month for 12 months		$405.00	

Handout 9.2: Assessment

Directions: Read the scenarios below and answer the questions.

José is trying to decide whether to purchase a new TV with a rent-to-own contract or an installment loan. Primo Electronics has the TV he wants for $500. José can get a one-year installment loan from the store at a 21 percent interest rate. An advertisement for the nearby rent-to-own store says it has the same model available for $15 a week. José heads to the rent-to-own store for more information. The assistant manager tells José that he could own the television in 72 weeks.

a. What are some important things José should know about a rent-to-own contract?

José multiplies $15 × 72 to see what the rent-to-own option will cost. The total is $1,080.

The manager tells José that if he misses one payment, the rent-to-own store will take back the TV. José calculates that if he makes 50 payments on time (50 × $15), he will have spent a total of $750 up to that point. If he misses the next payment, though, he realizes he would lose the TV and be out the $750.

José decides to purchase the TV from Primo Electronics instead. He obtains a one-year installment loan with a 21 percent interest rate. His monthly payments will be $46.56, totaling $558.72 for the life of the loan.

b. How much money did José save by buying the television using an installment loan?

c. What are the advantages of José's choice? Explain your answer.

d. If you were José, what would you do with the money you saved?

Handout 9.2: Assessment—Answer Key

Directions: Read the scenarios below and answer the questions.

José is trying to decide whether to purchase a new TV with a rent-to-own contract or an installment loan. Primo Electronics has the TV he wants for $500. José can get a one-year installment loan from the store at a 21 percent interest rate. An advertisement for the nearby rent-to-own store says it has the same model available for $15 a week. José heads to the rent-to-own store for more information. The assistant manager tells José that he could own the television in 72 weeks.

a. What are some important things José should know about a rent-to-own contract?

   The rent-to-own company is making an offer about the television. José has the opportunity to accept the offer. The offer includes component parties; both José and the rent-to-own store are competent parties. They understand the conditions of the contract. There are also considerations in the contract. These are things that the parties are exchanging. In this case, José makes a payment each month; he is exchanging money. The rent-to-own company allows José to use the television and gives him the chance to purchase the television over a period of time. Mutual agreement is an element of the contract that means both parties agree to the terms of the contract.

José multiplies $15 × 72 to see what the rent-to-own option will cost. The total is $1,080.

The manager tells José that if he misses one payment, the rent-to-own store will take back the TV. José calculates that if he makes 50 payments on time (50 × $15), he will have spent a total of $750 up to that point. If he misses the next payment, though, he realizes he would lose the TV and be out the $750.

José decides to purchase the TV from Primo Electronics instead. He obtains a one-year installment loan with a 21 percent interest rate. His monthly payments will be $46.56, totaling $558.72 for the life of the loan.

b. How much money did José save by buying the television using an installment loan?

   $1,080 – $558.72 = $521.28

c. What are the advantages of José's choice? Explain your answer.

   Answers will vary but may include that he saved money on his purchase and will pay off the loan in 12 months rather than 72 months. (Point out that José also gathered information about the payments and recognized that he could lose the television and money if he missed a payment.)

d. If you were José, what would you do with the money you saved?

   Answers will vary but may include purchasing other things, depositing the savings into a savings account, purchasing a savings bond, or paying off another bill.

Handout 9.3: Figuring Percentages

Directions: For each item in the chart below, determine the rent-to-own cost as a percentage of the retail price as follows:

1. Divide the difference between the two prices by the retail price.
2. Move the decimal two places to the right to change the answer from a decimal to a percentage.
3. Round to the nearest hundredth (two decimal places).

   The first answer is provided for you and was computed as follows: $1,910.38/$1,449.50 = 132%

Merchandise description	Rent-to-own payments	Rent-to-own costs	Retail price	Difference	Difference divided by retail price
50" Smart TV	$279.99 per month for 12 months	$3,359.88	$1,449.50	$1,910.38	132%
Gaming system bundle	$ 97.50 per month for 12 months	$1,170.00	$250.00	$920.00	
22" Chrome car wheels	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	
Laptop computer	$149.99 per month for 12 months	$1,799.88	$999.93	$799.95	
Refrigerator	$139.99 per month for 12 months	$1,679.88	$799.99	$879.89	
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	$914.89	
Electric guitar	$60.75 per month for 12 months	$729.00	$405.00	$324.00	

Handout 9.3: Figuring Percentages—Answer Key

Directions: For each item in the chart below, determine the rent-to-own cost as a percentage of the retail price as follows:

1. Divide the difference between the two prices by the retail price.
2. Move the decimal two places to the right to change the answer from a decimal to a percentage.
3. Round to the nearest hundredth (two decimal places).

   The first answer is provided for you and was computed as follows: $1,910.38/$1,449.50 = 132%

Merchandise description	Rent-to-own payments	Rent-to-own costs	Retail price	Difference	Difference divided by retail price
50" Smart TV	$279.99 per month for 12 months	$3,359.88	$1,449.50	$1,910.38	132%
Gaming system bundle	$ 97.50 per month for 12 months	$1,170.00	$250.00	$920.00	*368%*
22" Chrome car wheels	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	*80%*
Laptop computer	$149.99 per month for 12 months	$1,799.88	$999.93	$799.95	*80%*
Refrigerator	$139.99 per month for 12 months	$1,679.88	$799.99	$879.89	*110%*
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	$914.89	*120%*
Electric guitar	$60.75 per month for 12 months	$729.00	$405.00	$324.00	*80%*

Standards and Benchmarks

National Standards for Personal Finance Education

Standard V. Managing Credit

- **Benchmarks: Grade 8**

    2. Financial institutions advertise loan costs to potential borrowers using the Annual Percentage Rate (APR), expressed as an annual percentage of the loan principal. Low introductory rates offered to attract customers may increase later.

- **Benchmarks: Grade 12**

    1. Borrowers can compare the cost of credit using the Annual Percentage Rate (APR) and other terms in the loan or credit card contract.

    13. Alternative financial services, such as payday loans, checkcashing services, pawnshops, and instant tax refunds, provide easy access to credit, often at relatively high cost.

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 used in a cash to access an account by using a code. (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 accounts holders bank or credit union to keep them informed of all transactions they 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 based on past behavior. (Lesson 7)

Check – A printed form directing a bank to withdraw money from an account and pay it to another account. (Lesson 3)

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 – Businesses that provide services such as cashing all types of checks, including payroll, insurance, tax refund, settlement, government, and Social Security payments. These businesses may also provide other services, such as payday loans, money orders and money wires. (Lesson 3)

Collateral – Property required by a lender and offered by a borrower as a guarantee of payment on a loan. Also, 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)

Competent parties – The individuals involved in a contract, who must be able to understand the conditions of the contract. (Lesson 9)

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

Consideration – What each party of a contract gives up in exchange for what the other party is providing. (Lesson 9)

Contract – An exchange, promise, or agreement between two parties that is enforceable by law. For example, a car buyer agrees to pay the amount financed at an agreed upon interest rate for the length of the contract. (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 loan associations, 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 – The actions or behaviors in which people should engage when they use credit. (Lesson 7)

Credit rights – The protections put in place by law to help people obtain and maintain credit. (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 or withdrawals from 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 payments made directly from the holder's bank account. (Lesson 3)

Direct deposit – An electronic transaction in which money is deposited directly into a payee's bank account from a payer'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 are the individuals involved in a contract, who must be able to understand the conditions of the contract. Consideration is what each party of a contract gives up in exchange for what the other party is providing. Mutual agreement is that each party to a contract is 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, or periodic. Fixed expenses are those that occur each month in a regular amount, such as rent, car payments, and mortgage payments. Variable expenses are those that change from one time period to the next, such as food, clothing, gasoline, and entertainment. Periodic expenses are those that occur several times a year, such as car insurance and life insurance payments. (Lesson 4)

Federal income tax – The tax the federal government levies 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, such as charges for using a non-bank ATM. (Lessons 2, 6, and 7)

File a return – To mail or otherwise transmit to an Internal Revenue Service (IRS) service center a 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)

Fixed expenses – Expenses that occur each month in a regular amount, such as rent, car, or mortgage payments. (Lesson 4)

Form W-2, 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 returns. (Lesson 2)

Form W-4, 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)

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

Human capital – The knowledge and skills that people obtain through education, experience, and training. (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 and 4)

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 interest to the account holder. 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. Also, the percentage paid on a savings account. (Lessons 6 and 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, experience, and training. (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)

Mutual agreement – That each party to a contract is clear as to the essential details, rights, and obligations of the contract.

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, which is the amount of deposit or account balance. Also called a zero-interest account. (Lesson 5)

Overdraft – The result of an account holder authorizing a withdrawal through a check, ATM, debit card purchase, or electronic payment when the account does not have enough money to cover the transaction. (Lesson 3)

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 – Amounts subtracted from gross pay, which results in your net pay. (Lesson 2)

Periodic expenses – Expenses that occur several times a year, such as car insurance or life insurance payments. (Lesson 4)

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 a financial investment (or debt) to double its value (or cost). Divide 72 by the interest rate (percentage) to determine the approximate number of years it will take the investment (debt) to double its value (cost). (Lesson 5)

Saving – Not spending on current consumption or taxes. Saving involves giving up some current consumption for future consumption. (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 (Federal Insurance Contributions Act) 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 on business and individual income, activities, property, or products that people are required to pay. 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)

Variable expenses – Expenses that change from time period to time period, such as food, clothing, gasoline, and entertainment. (Lesson 4)

(W-2) – See "Form-W2"

(W-4) – See "Form-W4"

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 an employer withholds 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 he or she files a return.) Employers withhold money for federal income taxes, Social Security taxes, and state and local income taxes in some states and localities. (Lesson 2)