

# National Standards in K–12 Personal Finance Education

With Benchmarks, Knowledge Statements, and Glossary





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# Introduction

The National Standards in K–12 Personal Finance Education, created and maintained by the Jump\$tart Coalition® for Personal Financial Literacy, delineate the personal finance knowledge and skills that K–12 students should possess.

The Jump\$tart Coalition asserts that all young people graduating from our nation’s high schools should be able to take individual responsibility for their personal economic well-being. Broadly speaking, a financially literate high school graduate should know how to:

- Find, evaluate, and apply financial information
- Set financial goals and plan to achieve them
- Develop income-earning potential and the ability to save
- Use financial services effectively
- Meet financial obligations
- Build and protect wealth

Many organizations have defined “personal finance” and “financial literacy.” The following, a distillation of the views of several sources, are the definitions underlying the National Standards.

**Personal finance** describes the principles and methods that individuals use to acquire and manage income and assets.

**Financial literacy** is the ability to use knowledge and skills to manage one’s financial resources effectively for lifetime financial security.

Financial literacy is not an absolute state; it is a continuum of abilities that is subject to variables such as age, family, culture, and residence.

Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances.

Because of limited experience and responsibility, a typical recent high school graduate will not exhibit the same degree of knowledge of personal finance as a financially literate older adult. Financially literate high school graduates, however, should have a general understanding of all key aspects of personal finance. These graduates will be confident in their ability to find and use the information required to meet specific personal finance challenges as they arise. To this end, the National Standards in K–12 Personal Finance Education indicate the skills students must have to increase their personal finance knowledge continually as their responsibilities and opportunities change.

The Jump\$tart Coalition intends the National Standards in K–12 Personal Finance Education to serve as a model. As such, the National Standards represent the framework of an ideal personal finance curriculum, portions of which might not be appropriate for individual instructors and students. The Coalition leaves it up to various stakeholders to decide how to address the topics in the National Standards.

## Uses for the National Standards

The revised and updated National Standards in K–12 Personal Finance Education provide a program design and evaluation framework for school administrators, teachers, curriculum specialists, instructional materials developers, and educational policymakers. At each of the three benchmark grades—4th, 8th, and 12th—the expectations describe skills and knowledge each student should exhibit, not what should be taught in that grade. Individual students might have missed or not remember previous lessons. In those cases, teachers can refer to earlier expectations to identify areas of instruction on which to concentrate.

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

- Suggest a range of content that students should know and be able to act on
- Provide guidelines for evaluating published educational materials
- Help to shape lesson plans, unit and course outlines, learning activities, textbooks, and other instructional materials
- Increase awareness of the need for personal finance in the nation’s schools

After reviewing the 29 personal finance standards, educators may select topics that are appropriate to the needs of diverse learners in specific settings. Educators can use the stan-

dards and expectations to design new personal finance units or courses, or to integrate concepts into existing courses. To help accomplish this, the Jump\$tart Coalition provides the following additional resources:

### **Personal Finance Clearinghouse**

The searchable, online Jump\$tart Clearinghouse ([www.jumpstartclearinghouse.org](http://www.jumpstartclearinghouse.org)) can help educators identify appropriate educational materials by several factors, including grade level, format, and content category.

### **National Best Practices Guidelines**

The Jump\$tart Best Practices Guidelines ([www.jumpstart.org/bp.cfm](http://www.jumpstart.org/bp.cfm)) can help educators evaluate and select existing instructional materials, help organizations improve programs that they already provide, and assist designers in creating effective new personal finance curricula.

The National Standards in K–12 Personal Finance Education complement state and local educational goals and standards. In states where personal finance is not yet part of the state’s K–12 educational objectives, the National Standards in K–12 Personal Finance Education can help convince policymakers to include personal finance in future state standards and student achievement tests and guide their creation.

# Organization of the Standards

The National Standards in K–12 Personal Finance Education describe the minimum requirements for functional financial literacy. They are organized as follows:

## **Standards**

The K–12 standards trace a path to a minimal level of competency upon completion of high school. They describe what personal finance instruction should enable students to know and do. The standards fall into six major categories of personal finance—Financial Responsibility and Decision Making; Income and Careers; Planning and Money Management; Credit and Debt; Risk Management and Insurance; and Saving and Investing. Each category focuses on an overall competency derived from the Jump\$tart Coalition’s definition of financial literacy.

## **Expectations**

The statements of expectation describe how students can apply knowledge to everyday financial decisions and actions at three points

in their consumer development—at grades 4, 8, and 12. The expectations reflect a progression of student learning in which increasing complexity builds on earlier knowledge. Educators will take into account that students learn at different rates because of a variety of learning styles, interests, and experiences outside the classroom.

## **Knowledge Statements**

These statements show relationships among the key concepts underlying the standards and expectations. They provide further guidance for publishers as they develop and revise curricula and for educators as they select classroom materials and plan lessons. Like the Glossary, the Knowledge Statements are not meant to be exhaustive.

## **Glossary**

The list of definitions is meant as an aid to understanding the Standards, Expectations, and Knowledge Statements. It includes only a sampling of key terms.

# The Standards

## Financial Responsibility and Decision Making

### Overall Competency

Apply reliable information and systematic decision making to personal financial decisions.

**Standard 1:** Take responsibility for personal financial decisions.

**Standard 2:** Find and evaluate financial information from a variety of sources.

**Standard 3:** Summarize major consumer protection laws.

**Standard 4:** Make financial decisions by systematically considering alternatives and consequences.

**Standard 5:** Develop communication strategies for discussing financial issues.

**Standard 6:** Control personal information.

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## Income and Careers

### Overall Competency

Use a career plan to develop personal income potential.

**Standard 1:** Explore career options.

**Standard 2:** Identify sources of personal income.

**Standard 3:** Describe factors affecting take-home pay.

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## Planning and Money Management

### Overall Competency

Organize personal finances and use a budget to manage cash flow.

**Standard 1:** Develop a plan for spending and saving.

**Standard 2:** Develop a system for keeping and using financial records.

**Standard 3:** Describe how to use different payment methods.

**Standard 4:** Apply consumer skills to purchase decisions.

**Standard 5:** Consider charitable giving.

**Standard 6:** Develop a personal financial plan.

**Standard 7:** Examine the purpose and importance of a will.

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## Credit and Debt

### Overall Competency

Maintain creditworthiness, borrow at favorable terms, and manage debt.

**Standard 1:** Identify the costs and benefits of various types of credit.

**Standard 2:** Explain the purpose of a credit record and identify borrowers' credit report rights.

**Standard 3:** Describe ways to avoid or correct debt problems.

**Standard 4:** Summarize major consumer credit laws.

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## Risk Management and Insurance

### Overall Competency

Use appropriate and cost-effective risk management strategies.

**Standard 1:** Identify common types of risks and basic risk management methods.

**Standard 2:** Explain the purpose and importance of property and liability insurance protection.

**Standard 3:** Explain the purpose and importance of health, disability, and life insurance protection.

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## Saving and Investing

### Overall Competency

Implement a diversified investment strategy that is compatible with personal goals.

**Standard 1:** Discuss how saving contributes to financial well-being.

**Standard 2:** Explain how investing builds wealth and helps meet financial goals.

**Standard 3:** Evaluate investment alternatives.

**Standard 4:** Describe how to buy and sell investments.

**Standard 5:** Explain how taxes affect the rate of return on investments.

**Standard 6:** Investigate how agencies that regulate financial markets protect investors.

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## How the National Standards Evolved

In 1998, the Jump\$tart Coalition for Personal Financial Literacy issued its first Personal Finance Guidelines and Benchmarks. A group of 20 professionals representing a broad range of education, government, and financial service organizations developed these original guidelines.

In 2001, and again in 2006, the Jump\$tart Coalition board authorized the formation of a task force to revise and update the National Standards in K–12 Personal Finance Education. Members of the 2006 standards revision task force included:

- Rosella Bannister, Jump\$tart Personal Finance Clearinghouse, Ann Arbor, Michigan
- Les Dlabay, Lake Forest College, Lake Forest, Illinois
- Vickie Hampton, Texas Tech University, Lubbock, Texas
- Philip Heckman, Credit Union National Association, Madison, Wisconsin (Committee Chair)
- Claudia Kerbel, University of Rhode Island, Kingston, Rhode Island

- Nancy Lang, Northern Kentucky University, Highland Heights, Kentucky
- Jacqueline Ward, Wisconsin Women’s Business Initiative Corporation, Milwaukee, Wisconsin

Before and after the 2006 task force completed major revisions, a select group (identified on page 44) of business and finance industry professionals and educators—which included classroom teachers representing business education, family and consumer science, and economics in the social studies—reviewed the standards for academic integrity, as well as practical applications. Reviewers’ suggestions led to substantial improvements.

Identifying standards and expectations is not an easy task, nor is it ever completely finished. The Jump\$tart Coalition for Personal Financial Literacy considers this to be a living document, one that it will continue to modify and expand to meet the changing needs of personal finance teachers and students.

# The Jump\$tart Coalition and Its Mission

Jump\$tart Coalition for Personal Financial Literacy consists of 180 organizations and 47 affiliated state coalitions dedicated to improving the financial literacy of youth from kindergarten through college age by providing advocacy, research, standards, and educational resources. Jump\$tart strives to prepare youth for lifelong successful financial decision making.

# Financial Responsibility and Decision Making

## Overall Competency

Apply reliable information and systematic decision making to personal financial decisions.

### Standard 1

Take responsibility for personal financial decisions.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <p>List examples of financial decisions and their possible consequences.</p> <p>Identify ways to be a financially responsible youth.</p>	<p>8th grade student can:</p> <p>Identify ways to be a financially responsible young adult.</p> <p>Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.</p>	<p>High school graduate can:</p> <p>Explain how individuals demonstrate responsibility for financial well-being over a lifetime.</p> <p>Analyze how financial responsibility is different for individuals with and without dependents.</p> <p>Given a scenario, discuss ethical considerations of various personal finance decisions.</p>
<p>4th grade student can:</p> <p>Give examples of situations in which financial information would lead to better decisions.</p> <p>Identify sources of financial information.</p>	<p>8th grade student can:</p> <p>Analyze and evaluate advertising claims.</p> <p>Identify online and printed sources of product information and list the strengths and weaknesses of each.</p>	<p>High school graduate can:</p> <p>Determine whether financial information is objective, accurate, and current.</p> <p>Investigate current types of consumer fraud, including online scams.</p> <p>Given a scenario, identify relevant financial information needed to make a decision.</p> <p>List factors to consider when selecting a financial planning/ counseling professional and legal/tax adviser.</p>

### Standard 2

Find and evaluate financial information from a variety of sources.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	Financial Responsibility and Decision Making
<p>4th grade student can:</p> <p>Compare product return policies at local retail stores.</p>	<p>8th grade student can:</p> <p>Research the primary consumer protection agency in the state of residence.</p> <p>Give examples of unfair or deceptive business practices that consumer protection laws forbid.</p> <p>Given a scenario, explain steps in resolving a consumer complaint.</p>	<p>High school graduate can:</p> <p>Match consumer protection laws to descriptions of the issues that they address and the safeguards that they provide.</p> <p>Research online and printed sources of up-to-date information about consumer rights.</p> <p>Given a scenario, write a complaint letter that states the problem, asks for specific action, includes copies of related documents, and provides contact information.</p>	<p><b>Standard 3</b></p> <p>Summarize major consumer protection laws.</p>
<p>4th grade student can:</p> <p>Explain how limited personal financial resources affect the choices people make.</p> <p>Rank personal wants/needs in order of importance.</p> <p>Set measurable short-term financial goals.</p> <p>Outline the steps in systematically evaluating alternatives and making a decision.</p> <p>Apply systematic decision making to a short-term goal.</p>	<p>8th grade student can:</p> <p>Set measurable short- and medium-term financial goals.</p> <p>Prioritize personal financial goals.</p> <p>Evaluate the results of a financial decision.</p> <p>Use a financial or online calculator to determine the cost of achieving a medium-term goal.</p> <p>Apply systematic decision making to a medium-term goal.</p>	<p>High school graduate can:</p> <p>Set measurable short-, medium-, and long-term financial goals.</p> <p>Use a financial or online calculator to determine the cost of achieving a long-term goal.</p> <p>Apply systematic decision making to a long-term goal.</p> <p>Analyze how inflation affects financial decisions.</p> <p>Analyze how taxes affect financial decisions.</p> <p>Give examples of how decisions made today can affect future opportunities.</p>	<p><b>Standard 4</b></p> <p>Make financial decisions by systematically considering alternatives and consequences.</p>

**Financial Responsibility and Decision Making**

**Standard 5**

Develop communication strategies for discussing financial issues.

**4th Grade**

Expectations

4th grade student can:

Give examples of how members of previous generations spent money as children.

Analyze the values and attitudes of members of previous generations from their personal stories about money.

**8th Grade**

Additional Expectations

8th grade student can:

Explain how discussing important financial matters with household members can help reduce conflict.

Identify differences among peers' values and attitudes about money.

**12th Grade**

Additional Expectations

High school graduate can:

Explain the value of discussing individual and shared financial responsibilities with a roommate before moving in.

Discuss the pros and cons of sharing financial goals and personal finance information with a partner before combining households.

Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.

**Standard 6**

Control personal information.

4th grade student can:

List types of personal information that should not be disclosed to others and the possible consequences of doing so.

8th grade student can:

List actions an individual can take to protect personal identity.

Describe problems that occur when one is the victim of identity theft.

Identify ways that thieves can fraudulently obtain personal information.

High school graduate can:

List entities that have a right to obtain individual Social Security numbers.

Recommend actions a victim of identity theft should take to restore personal security.

# Income and Careers

## Overall Competency

Use a career plan to develop personal income potential.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <p>Explain the difference between a career and a job and identify various jobs in the community.</p> <p>Give an example of how an individual's interests, knowledge, and abilities can affect career and job choice.</p> <p>Identify a topic of personal interest and research a career related to that topic of interest.</p> <p>Examine a job related to a career of interest.</p> <p>Give examples of entrepreneurs in the community.</p>	<p>8th grade student can:</p> <p>Give an example of how education and/or training can affect lifetime income.</p> <p>Identify online and printed sources of information about jobs, careers, and entrepreneurship.</p> <p>Compare personal skills and interests to various career options.</p> <p>Describe the educational/training requirements, income potential, and primary duties of at least two jobs of interest.</p> <p>Identify individuals who could provide a positive job reference.</p> <p>Complete an age-appropriate, part-time job application, including references.</p>	<p>High school graduate can:</p> <p>Describe the risks, costs, and rewards of starting a business.</p> <p>Outline the main components of a business plan.</p> <p>Analyze how economic, social-cultural, and political conditions can affect income and career potential.</p> <p>Identify a career goal and develop a plan and timetable for achieving it, including educational/training requirements, costs, and possible debt.</p>

## Standard 1

Explore career options.

Income and Careers

**Standard 2**

Identify sources of personal income.

**4th Grade**  
Expectations

4th grade student can:  
 Explain the difference between a wage and a salary.  
 Identify jobs children can do to earn money.  
 Give examples of sources of income other than a wage or salary.

**8th Grade**  
Additional Expectations

8th grade student can:  
 Define gift, rent, interest, dividend, capital gain, tip, commission, and business profit income.  
 Explain the difference between earned and unearned income and give an example of each.  
 Give an example of a government transfer payment.  
 Describe how a local government assistance program can benefit people in the community.

**12th Grade**  
Additional Expectations

High school graduate can:  
 Explain the effect of inflation on income.  
 Use a financial or online calculator to determine the future income needed to maintain a current standard of living.

**Standard 3**

Describe factors affecting take-home pay.

4th grade student can:  
 Define tax and explain the difference between sales and income taxes.  
 Give an example of how government uses tax revenues.

8th grade student can:  
 Explain all items commonly withheld from gross pay.  
 Give examples of employee benefits and explain why they are forms of compensation.  
 Explain the difference between Social Security and Medicare programs.

High school graduate can:  
 Explain the effect on take-home pay of changing the allowances claimed on an "Employee's Withholding Allowance Certificate" (IRS form W-4).  
 Transfer information on "Wage and Tax Statement" (IRS form W-2) and "Interest Income" (IRS form 1099-INT) to "U.S. Individual Income Tax Return" (IRS form 1040) and comparable state income tax form.  
 Complete "Income Tax Return for Single and Joint Filers with No Dependents" (IRS form 1040EZ) and comparable state income tax form.  
 Examine the benefits of employer-sponsored savings plans and other options for shifting current income to the future.

# Planning and Money Management

## Overall Competency

Organize and plan personal finances and use a budget to manage cash flow.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	<b>Standard 1</b> Develop a plan for spending and saving.
<p>4th grade student can:</p> <p>Give examples of household expense categories and sources of income.</p> <p>Describe how to allocate a weekly allowance among the financial goals of spending, saving, and sharing.</p>	<p>8th grade student can:</p> <p>Prepare a personal spending diary.</p> <p>Calculate the sales tax for a given purchase.</p> <p>Discuss the components of a personal budget, including income, planned saving, taxes, and fixed and variable expenses.</p> <p>Given a household case study, calculate percentages for major expense categories.</p>	<p>High school graduate can:</p> <p>Explain how to use a budget to manage spending and achieve financial goals.</p> <p>Identify changes in personal spending behavior that contribute to wealth-building.</p> <p>Given a scenario, design a personal budget for a young person living alone.</p> <p>Analyze how changes in circumstances can affect a personal budget.</p>	<b>Standard 2</b> Develop a system for keeping and using financial records.
<p>4th grade student can:</p> <p>Prepare a personal property inventory, including locations and estimates of value.</p>	<p>8th grade student can:</p> <p>Set up a file system for household product information and warranties and financial documents such as receipts and account statements.</p>	<p>High school graduate can:</p> <p>Develop a filing system for keeping financial records, both paper and electronic.</p> <p>Describe recordkeeping features that financial institutions provide for online account management.</p>	

**Planning and Money Management**

**Standard 3**

Describe how to use different payment methods.

**4th Grade**  
Expectations

4th grade student can:  
Describe different types of local financial institutions and explain the differences between them.  
Explain how checks and debit and credit cards work as payment methods.

**8th Grade**  
Additional Expectations

8th grade student can:  
Discuss the advantages and disadvantages of different payment methods, such as stored-value cards, debit cards, and online payment systems.  
Compare the features and costs of a checking account and a debit card offered by different local financial institutions.  
Compare the costs of cashing a third-party check at various local financial institutions, including a check-cashing service.

**12th Grade**  
Additional Expectations

High school graduate can:  
Demonstrate skill in basic financial tasks, including scheduling bill payments, writing a check, reconciling a checking/debit account statement, and monitoring printed and/or online account statements for accuracy.

**Standard 4**

Apply consumer skills to purchase decisions.

4th grade student can:  
Compare prices for the same item at two different stores.  
Apply systematic decision making to a personal age-appropriate purchase.  
Explain how peer pressure can affect spending decisions.

8th grade student can:  
Explain the relationship between spending practices and achieving financial goals.  
Give examples of how external factors, such as marketing and advertising techniques, might influence spending decisions for different individuals.  
Given an age-appropriate scenario, describe how to use systematic decision making to choose among courses of action that include a range of spending and non-spending alternatives.

High school graduate can:  
Apply comparison shopping skills to purchasing decisions.  
Given a personal finance scenario for a family of four, describe how to apply systematic decision making to choose among alternative consumer actions.  
Compare the benefits and costs of owning a house versus renting housing.  
Explain the elements of a standard apartment lease agreement.  
Describe the effect of inflation on buying power.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	Planning and Money Management
<p>4th grade student can:</p> <p>Identify a private charitable organization and the people it serves.</p>	<p>8th grade student can:</p> <p>Determine whether charitable giving fits one's budget and, if so, how much is appropriate.</p>	<p>High school graduate can:</p> <p>Use online charity-rating organizations to compare information about specific charities, such as the percentage of money spent on programs versus salaries and fundraising.</p>	<p><b>Standard 5</b></p> <p>Consider charitable giving.</p>
<p>4th grade student can:</p> <p>Give examples of household assets.</p>	<p>8th grade student can:</p> <p>Explain the difference, with examples, between assets and liabilities.</p> <p>Given a simplified case study, construct a net worth statement.</p>	<p>High school graduate can:</p> <p>Discuss the factors that affect net worth.</p> <p>Explain the difference, with examples, between cash inflows (including income) and cash outflows (including expense).</p> <p>Explain the difference between a cash flow statement and a budget.</p> <p>Given a simplified case study, construct a cash flow statement.</p> <p>Develop, monitor, and modify a personal financial plan, including goals, net worth statement, cash flow statement, insurance plan, investing plan, and a budget.</p>	<p><b>Standard 6</b></p> <p>Develop a personal financial plan.</p>

**Planning and Money  
Management**

**Standard 7**

Examine the purpose and importance of a will.

<b>4th Grade</b> Expectations	<b>8th Grade</b> Additional Expectations	<b>12th Grade</b> Additional Expectations
<p>4th grade student can:</p> <p>Identify an item that a household member has inherited.</p>	<p>8th grade student can:</p> <p>Research the age at which an individual can write a valid will in the state of residence.</p> <p>Describe the main components of a simple will and research the typical cost of having one drafted.</p>	<p>High school graduate can:</p> <p>Identify the individuals and/or charitable organizations that are potential beneficiaries of personal property.</p> <p>Explain how the law in the state of residence specifies the disposition of an estate when there is no valid will.</p> <p>Explain the purpose and importance of a “living will” (durable power of attorney for health care).</p>

# Credit and Debt

## Overall Competency

Maintain creditworthiness, borrow at favorable terms, and manage debt.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <p>Explain the difference between buying with cash and buying with credit.</p> <p>Describe the advantages and disadvantages of using credit.</p> <p>Explain why financial institutions lend money.</p> <p>Identify credit purchases that adults commonly make.</p> <p>Explain why using a credit card is a form of borrowing.</p>	<p>8th grade student can:</p> <p>Explain how debit cards differ from credit cards.</p> <p>Explain how interest rate and loan length affect the cost of credit.</p> <p>Using a financial or online calculator, determine the total cost of repaying a loan under various rates of interest and over different periods.</p> <p>Give examples of “easy access” credit.</p> <p>Given an “easy access” loan amount and a two-week borrowing fee, calculate the interest rate for the loan period and its annual equivalent.</p> <p>Discuss potential consequences of using “easy access” credit.</p> <p>Explain how students, homeowners, and business owners use debt as an “investment.”</p> <p>Explain the potential consequences of deferred payment of student loans.</p>	<p>High school graduate can:</p> <p>Compare the cost of borrowing \$1,000 by means of different consumer credit options.</p> <p>Define all required credit card disclosure terms and complete a typical credit card application.</p> <p>Explain how credit card grace periods, methods of interest calculation, and fees affect borrowing costs.</p> <p>Using a financial or online calculator, compare the total cost of reducing a \$1,000 credit card balance to zero with minimum payments versus above-minimum payments.</p> <p>Given a scenario, apply systematic decision making to identify the most cost-effective option for purchasing a car.</p> <p>Identify various types of student loans and alternatives to loans as a means of paying for post-secondary education.</p> <p>Identify various types of mortgage loans and mortgage lenders.</p>

## Standard 1

Identify the costs and benefits of various types of credit.

## Credit and Debt

**Standard 2**

Explain the purpose of a credit record and identify borrowers' credit report rights.

**4th Grade**

Expectations

4th grade student can:

Describe the qualities that would be desirable in a person who borrows a favorite personal possession.

Give examples of reasonable conditions to set for the use of borrowed personal property.

Given a scenario, describe steps that a person could take to regain a lender's trust after losing or damaging borrowed personal property.

**8th Grade**

Additional Expectations

8th grade student can:

Explain why it is important to establish a positive credit history.

Explain the value of credit reports to borrowers and to lenders.

Describe the information in a credit report and how long it is retained.

Give examples of permissible uses of a credit report other than granting credit.

**12th Grade**

Additional Expectations

High school graduate can:

Describe the elements of a credit score.

Explain how a credit score affects creditworthiness and the cost of credit.

Explain the factors that improve a credit score.

Identify organizations that maintain consumer credit records.

Explain the rights that people have to examine their credit reports.

Analyze the information contained in a credit report, indicate the time that certain negative data can be retained, and describe how to dispute inaccurate entries.

Discuss ways that a negative credit report can affect a consumer's financial future.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	Credit and Debt
<p>4th grade student can:</p> <p>List ways to avoid credit problems, including not overspending.</p>	<p>8th grade student can:</p> <p>Give examples of legal and illegal debt collection practices.</p> <p>Identify possible indicators of excessive debt.</p>	<p>High school graduate can:</p> <p>Describe possible consequences of excessive debt.</p> <p>List actions that a consumer could take to reduce or better manage excessive debt.</p> <p>Evaluate various credit counseling services.</p> <p>Describe the purpose of bankruptcy and its possible effects on assets, employability, and credit cost and availability.</p> <p>Given a scenario, write a billing dispute letter that states the problem, asks for specific action, includes references to copies of related documents, and provides contact information.</p> <p>Describe debtors' and creditors' rights related to wage garnishment and repossession when an overdue debt is not paid.</p>	<p><b>Standard 3</b></p> <p>Describe ways to avoid or correct credit problems.</p>
	<p>8th grade student can:</p> <p>Give examples of protections derived from consumer credit laws.</p>	<p>High school graduate can:</p> <p>Summarize consumer credit laws and the protections that they provide.</p> <p>Research online and printed sources of up-to-date information about consumer credit rights.</p>	<p><b>Standard 4</b></p> <p>Summarize major consumer credit laws.</p>

# Risk Management and Insurance

## Overall Competency

Use appropriate and cost-effective risk management strategies.

### Standard 1

Identify common types of risks and basic risk management methods.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <ul style="list-style-type: none"> <li>Give examples of risks that individuals and households face.</li> <li>Given an age-appropriate activity such as riding a bicycle, analyze how to reduce and avoid different kinds of risk.</li> </ul>	<p>8th grade student can:</p> <ul style="list-style-type: none"> <li>Discuss the relationship between risk and insurance.</li> <li>Explain how insurance deductibles work.</li> <li>Determine how to evaluate an extended warranty.</li> </ul>	<p>High school graduate can:</p> <ul style="list-style-type: none"> <li>Give examples of how people manage risk through avoidance, reduction, retention, and transfer.</li> <li>Explain how to self-insure and give examples of circumstances in which self-insurance is appropriate.</li> <li>Recommend insurance for the types of risks that young adults might face.</li> </ul>

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	Risk Management and Insurance
<p>4th grade student can:</p> <p>List valuable items that households commonly own.</p> <p>Describe how valuable items might be damaged or lost and ways to protect them.</p>	<p>8th grade student can:</p> <p>Identify the types of insurance that might cover accidental damage to another person's property.</p> <p>Give examples of the kinds of expenses that a typical auto insurance policy covers.</p> <p>Give examples of the kinds of expenses that a typical renter's policy and a typical homeowner's policy cover.</p> <p>Identify the factors that influence the cost of insurance for vehicles and housing.</p>	<p>High school graduate can:</p> <p>Differentiate among the main types of auto insurance coverage.</p> <p>List factors that can increase or reduce auto insurance premiums.</p> <p>Determine the legal minimum amounts of auto insurance coverage required in one's state of residence and recommend optimal amounts.</p> <p>Given a scenario, calculate the amount paid on an insurance claim after applying exclusions and deductibles.</p> <p>Compare the costs of auto insurance for the same vehicle, given two different deductibles and two different liability coverage limits.</p> <p>Explain the benefits of renter's insurance and compare policies from different companies.</p>	<p><b>Standard 2</b></p> <p>Explain the purpose and importance of property and liability insurance protection.</p>

## Risk Management and Insurance

### Standard 3

Explain the purpose and importance of health, disability, and life insurance protection.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <p>Explain why people need health insurance.</p>	<p>8th grade student can:</p> <p>List the main threats to household income and assets.</p> <p>Give examples of the kinds of expenses that health insurance can cover.</p> <p>Describe the purpose of disability insurance.</p> <p>Explain the primary purpose of life insurance and the characteristics of people who need it most.</p>	<p>High school graduate can:</p> <p>Analyze the conditions under which young adults need life, health, and disability insurance.</p> <p>Identify government programs that provide financial assistance for income loss due to illness, disability, or premature death.</p> <p>Compare sources of health and disability insurance coverage, including employee benefit plans.</p> <p>Explain the purpose of long-term care insurance.</p>

# Saving and Investing

## Overall Competency

Implement a diversified investment strategy that is compatible with personal goals.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	
<p>4th grade student can:</p> <p>Describe the advantages and disadvantages of saving for a short-term goal.</p> <p>Describe ways that people can cut expenses to save more of their incomes.</p>	<p>8th grade student can:</p> <p>Give examples of how saving money can improve financial well-being.</p> <p>Describe the advantages and disadvantages of saving for short- and medium-term goals.</p> <p>Explain the value of an emergency fund.</p> <p>Explain why saving is a prerequisite to investing.</p>	<p>High school graduate can:</p> <p>Describe the advantages and disadvantages of saving for short-, medium-, and long-term goals.</p> <p>Identify and compare saving strategies, including “paying yourself first,” using payroll deduction, and comparison shopping to spend less.</p> <p>Develop a definition of wealth based on personal values, priorities, and goals.</p>	<p><b>Standard 1</b></p> <p>Discuss how saving contributes to financial well-being.</p>

## Saving and Investing

**Standard 2**

Explain how investing builds wealth and helps meet financial goals.

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations
<p>4th grade student can:</p> <p>Give an example of an investment and explain how it can grow in value.</p>	<p>8th grade student can:</p> <p>Apply systematic decision making to determine when to invest cash not needed for short-term spending or emergencies.</p> <p>Define the time value of money and explain how small amounts of money invested regularly over time grow exponentially.</p> <p>Use the Rule of 72 to estimate the time or interest rate needed to double an amount of money.</p> <p>Calculate and compare simple interest and compound interest earnings and explain the benefits of a compound rate of return.</p> <p>Determine the average, median, or estimated costs of a four-year college education, a wedding, a new business startup, and the down payments on a new car and a house.</p> <p>Devise a periodic investment plan for accumulating the money for a four-year college education, a wedding, a new business startup, and the down payments on a new car and a house.</p>	<p>High school graduate can:</p> <p>Identify and compare strategies for investing, including participating in a company retirement plan.</p> <p>Describe the effect of inflation on investment growth.</p> <p>Given rate of return, and years, use a financial or online calculator to figure (a) the end value of an invested lump sum and (b) the lump sum needed to reach a specific investment goal.</p> <p>Given rate of return, years, and frequency, use a financial or online calculator to figure (a) the end value of an invested periodic amount and (b) the periodic amount needed to reach a specific investment goal.</p> <p>Explain the relative importance of the following sources of income in retirement: Social Security, employer retirement plans, and personal investments.</p> <p>Explain why games of chance are not good investments for building wealth.</p>

4th Grade Expectations	8th Grade Additional Expectations	12th Grade Additional Expectations	Saving and Investing
<p>4th grade student can:</p> <p>List the advantages of investing money with a financial institution.</p> <p>Give an example of an investment that allows relatively quick and easy access to funds.</p> <p>Compare the main features of interest-earning accounts at local financial institutions.</p>	<p>8th grade student can:</p> <p>Explain how stocks and bonds differ as investments.</p> <p>Compare investing in individual stocks and bonds with investing in stock or bond mutual funds.</p> <p>Compare the investment potential of stocks, bonds, and real estate to collectibles and precious metals.</p> <p>Explain how inflation affects investment returns.</p> <p>Explain how to match investments to financial goals.</p>	<p>High school graduate can:</p> <p>Discuss common types of investment risk.</p> <p>Compare the risks and returns of various investments.</p> <p>Calculate investment growth given different amounts, times, rates of return, and frequency of compounding.</p> <p>Describe the benefits of a diversified investment portfolio.</p> <p>Identify the appropriate types of investments to achieve the objectives of liquidity, income, and growth.</p> <p>Identify the appropriate types of investments for accumulating the money for a four-year college education, a wedding, a new business startup, the down payments on a new car and a house, and retirement.</p> <p>Use systematic decision making to select an investment.</p>	<p><b>Standard 3</b></p> <p>Evaluate investment alternatives.</p>

## Saving and Investing

**Standard 4**

Describe how to buy and sell investments.

**4th Grade**  
 Expectations

4th grade student can:  
 Compare the rates of return on basic savings accounts at different financial institutions.

**8th Grade**  
 Additional Expectations

8th grade student can:  
 Identify and describe various sources of investment information, including prospectuses, online resources, and financial publications.  
 Interpret the financial market quotations of a stock and a mutual fund.  
 Research and track a publicly traded stock and record daily market values between two specified dates.

**12th Grade**  
 Additional Expectations

High school graduate can:  
 Analyze how economic and business factors affect the market value of a stock.  
 Compare the investment objectives and historical rates of returns in two mutual fund prospectuses.  
 Compare the advantages and disadvantages of buying and selling investments through various channels, including financial advisors, investment clubs, and online brokers.  
 Describe the benefits of dollar-cost averaging and calculate the average cost per share of investments using this strategy.

**Standard 5**

Explain how taxes affect the rate of return on investments.

8th grade student can:  
 Identify the income tax-free earnings limit for an investor under the age of 18.  
 Identify the tax rate for dividends.

High school graduate can:  
 Compare the returns of taxable investments with those that are tax-exempt or tax-deferred.  
 Contrast the benefits of a traditional IRA versus a Roth IRA.  
 Describe the advantages provided by employer-sponsored retirement savings plans, including 401(k) and related plans.

**Standard 6**

Investigate how agencies that regulate financial markets protect investors.

8th grade student can:  
 Explain how deposit insurance protects investors.

High school graduate can:  
 Explain how federal and state regulators protect investors.

# Knowledge Statements

These statements show relationships among the key concepts underlying the standards and expectations. They provide further guidance for publishers as they develop and revise curricula and for educators as they select classroom materials and plan lessons.

The statements are by no means an exhaustive outline of personal finance instruction. They merely suggest the scope of, and relationships among, the topics that the standards cover.

## Financial Responsibility and Decision Making

### Overall Competency

Apply reliable information and systematic decision making to personal financial decisions.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. People make choices because they have limited financial resources and cannot have everything they want.</li> <li>2. A first step toward reaching financial goals is to identify wants/needs and rank them in order of importance.</li> <li>3. Systematic decision making can help people make money choices.</li> <li>4. To make a decision, careful consumers compare the benefits and costs of spending alternatives.</li> <li>5. Information about goods and services comes from many sources.</li> <li>6. Every spending decision has an opportunity cost.</li> </ol>	<ol style="list-style-type: none"> <li>1. Financial choices that people make have benefits, costs, and future consequences.</li> <li>2. A key to financial well-being is to spend less than you earn.</li> <li>3. A consumer should not rely on advertising claims as the sole source of information about goods and services.</li> <li>4. Comparison shopping helps consumers get the best value for their money.</li> </ol>	<ol style="list-style-type: none"> <li>1. Financially responsible individuals accept the fact that they are accountable for their financial futures.</li> <li>2. Attitudes and values affect financial decisions.</li> <li>3. Financial advice is available from a variety of sources, such as professional financial advisors, books, and the Internet.</li> <li>4. Many factors, such as role models and peer pressure, affect spending patterns.</li> </ol>

## Income and Careers

### Overall Competency

Use a career plan to develop personal income potential.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. People can acquire income in several ways, including wages, salaries, and money gifts.</li> <li>2. Income can be earned or unearned.</li> <li>3. Workers can improve their ability to earn income by gaining new knowledge, skills, and experiences.</li> <li>4. Many workers receive employee benefits in addition to their pay.</li> <li>5. Entrepreneurs, who work for themselves by starting new businesses, hope to earn a profit, but accept the risk of a loss.</li> </ol>	<ol style="list-style-type: none"> <li>1. People can earn income from rent and interest.</li> <li>2. Wages/salaries minus payroll deductions equal take-home pay.</li> <li>3. Inflation reduces the purchasing power of income.</li> <li>4. Government transfer payments provide unearned income to some households.</li> <li>5. Generally, people earn higher incomes with higher levels of education.</li> </ol>	<ol style="list-style-type: none"> <li>1. People's income reflects choices they have made about jobs and careers, education, and skill development.</li> <li>2. The wages/salaries paid for a given job depend on a worker's skills and education, plus the importance of the work to society and the supply of and demand for qualified workers.</li> <li>3. Social Security and Medicare are government programs that provide insurance against some loss of income and benefits to eligible recipients.</li> <li>4. Social Security and Medicare are funded by a compulsory payroll tax.</li> <li>5. People pay taxes on many types of income, such as wages or salaries, interest, dividends, capital gains, tips, commissions, and profit from a self-owned business.</li> <li>6. Deductions, exemptions, and credits reduce taxable income.</li> </ol>

## Planning and Money Management

### Overall Competency

Organize personal finances and use a budget to manage cash flow.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. A budget is a plan for using income productively, including spending, sharing, and setting money aside for future expenses.</li> <li>2. People pay for goods and services in different ways.</li> <li>3. People are required to pay taxes, for which they receive government services.</li> </ol>	<ol style="list-style-type: none"> <li>1. People perform basic financial tasks to manage money.</li> <li>2. A budget identifies expected income and expenses, including saving, and serves as a guide to help people live within their income.</li> <li>3. Some payment methods are more expensive than others.</li> </ol>	<ol style="list-style-type: none"> <li>1. Formal complaints and government/community agencies can help consumers resolve problems with goods and services.</li> <li>2. A personal financial plan should include the following components: financial goals, a net worth statement, an income and expense record, an insurance plan, a saving and investing plan, and a budget.</li> <li>3. Legal documents, such as wills, are an important part of financial planning.</li> </ol>

## Credit and Debt

### Overall Competency

Maintain creditworthiness, borrow at favorable terms, and manage debt.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. Credit is a basic financial tool.</li> <li>2. Borrowing money to buy something usually costs more than paying cash because there is a fee for credit (interest).</li> <li>3. Responsible borrowers repay as promised, showing that they are worthy of getting credit in the future.</li> </ol>	<ol style="list-style-type: none"> <li>1. Comparing the costs and benefits of buying on credit is key to making a good purchase decision.</li> <li>2. For any given loan amount and interest rate, the longer the loan period, the smaller the monthly payment and the larger the total cost of credit.</li> <li>3. Consumers can choose from a variety of credit sources.</li> <li>4. Credit bureaus maintain credit reports, which record borrowers' histories of repaying loans.</li> <li>5. Sometimes people borrow more money than they can repay, which can have consequences such as the repossession and garnishment.</li> </ol>	<ol style="list-style-type: none"> <li>1. Leasing, borrowing to buy, and rent-to-own options have different contract terms and costs.</li> <li>2. Making minimum payments on credit card balances increases the total cost and repayment time.</li> <li>3. Understanding credit card disclosure information is key to controlling borrowing costs.</li> <li>4. Consumers with excessive debt have a number of options, including loan consolidation and renegotiation of repayment schedules.</li> <li>5. Bankruptcy provides debt relief, but has serious negative consequences.</li> <li>6. Negative information in credit reports can affect your financial future.</li> <li>7. Laws and regulations offer specific protections for borrowers.</li> </ol>

## Risk Management and Insurance

### Overall Competency

Use appropriate and cost-effective risk management strategies.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. Risk is a part of daily life.</li> <li>2. People have choices for dealing with risk.</li> </ol>	<ol style="list-style-type: none"> <li>1. Risk management strategies include risk avoidance, risk control, and risk transfer through insurance.</li> <li>2. Laws and regulations exist to protect consumers from a variety of seller and lender abuses.</li> </ol>	<ol style="list-style-type: none"> <li>1. People purchase insurance to transfer the risk of financial loss.</li> <li>2. Online transactions can make consumers vulnerable to privacy infringement and identity theft.</li> </ol>

## Saving and Investing

### Overall Competency

Implement a diversified investment strategy that is compatible with personal goals.

<b>4th Grade</b> Students will know that:	<b>8th Grade</b> Students will exhibit grade 4 knowledge, plus:	<b>12th Grade</b> Students will exhibit grades 4 and 8 knowledge, plus:
<ol style="list-style-type: none"> <li>1. People save for future financial goals.</li> <li>2. Every saving decision has an opportunity cost.</li> <li>3. Banks, savings and loan associations, and credit unions are places people can invest money and earn interest.</li> <li>4. Piggy banks are places to hold savings. Savings accounts and savings bonds are ways to earn money from income not spent.</li> </ol>	<ol style="list-style-type: none"> <li>1. Saving means setting income aside for emergencies and immediate needs. Investing means putting money to work earning more money for the future. Funds for investing often come from current income not spent.</li> <li>2. Investments differ in their potential rate of return, liquidity, and level of risk.</li> <li>3. There is usually a positive relationship between the average annual return on an investment and its risk.</li> <li>4. Compound interest is money earned on both principal and previously earned interest.</li> <li>5. Inflation reduces the return on an investment.</li> <li>6. The Rule of 72 is a tool for estimating the time or rate of return required to double a sum of money.</li> <li>7. Investors can get information from many sources.</li> <li>8. People can buy and sell investments in different ways.</li> </ol>	<ol style="list-style-type: none"> <li>1. Employer-sponsored savings plans enable workers to shift some current income to the future, often with tax advantages.</li> <li>2. Generally, the more uncertain the future value of an asset, the greater the return.</li> <li>3. Tax-exempt and tax-deferred investments significantly increase an investor's total return over time.</li> <li>4. Wealth increases with regular investment, time, and frequent compounding.</li> <li>5. Diversification reduces risk by spreading assets among several types of investments and industry sectors.</li> <li>6. Dollar-cost averaging lowers investment costs over time and promotes regular investing.</li> <li>7. Mutual funds pool investors' deposits to purchase securities.</li> <li>8. Government agencies, such as the U.S. Securities and Exchange Commission, Federal Deposit Insurance Corporation, and state regulators, oversee the securities and banking industries and combat fraud.</li> </ol>

# Glossary

## Advertising

An announcement—usually paid—of a product's or service's benefits that is intended to encourage its purchase.

## Asset

An item with economic value that an individual or organization owns, such as stocks, real estate, personal property, and business equipment.

## Annual Percentage Rate (APR)

The percentage cost of credit on an annual basis, which must be disclosed by law. Example 1: A \$100 loan repaid in its entirety after one year with a \$10 finance charge (\$9 interest plus a \$1 service fee) has an APR of 10%. Example 2: A \$100 one-year loan with a \$10 finance charge repaid in twelve equal installments (meaning the borrower has the use of less and less of the loan principal each month) has an APR of 18%.

## Annual Percentage Yield (APY)

The annual rate of return on an investment, which must be disclosed by law and which varies by the frequency of compounding. Example 1: A \$1,000 investment that earns 6% *per year* pays \$60 at year-end and has an APY of 6%. Example 2: A \$1,000 investment that earns 0.5% *per month* (6%/12) pays \$61.68 in one year and has an APY of 6.17%. Example 3: A \$1,000 investment that earns 0.0164% *per day* (6%/365) pays \$61.83 in one year and has an APY of 6.18%.

## Automated Teller Machine (ATM)

A computer terminal used to conduct business with a financial institution or purchase items such as postage stamps or transportation tickets; also known as a cash machine.

## Bankruptcy

A state of being legally released from the obligation to repay some or all debt in exchange for the forced loss of certain assets. A court's determination of personal bankruptcy remains in a consumer's credit record for 10 years.

## Bankruptcy Abuse Prevention and Consumer Protection Act

A revision of bankruptcy law intended to make the system fairer for creditors and debtors and make affordable credit available to more people.

## Bank

A state or federally chartered for-profit financial institution that offers commercial and consumer loans and other financial services.

## Beneficiary

A person or organization named to receive assets after an individual's death.

## Bond

A certificate representing the purchaser's agreement to lend a business or government money on the promise that the debt will be paid — with interest — at a specific time.

**Glossary****Budget**

1. A spending plan. 2. A record of projected and actual income and expenses over a period.

**Business plan**

A description of a company's organizational structure, staff, activities, and marketing and financial plans, including expected sources of income and expenses.

**Capital gain**

Income that results when the selling price of an asset is greater than the original purchase price.

**Capital loss**

Monetary loss that occurs when the selling price of an asset is less than the original amount invested.

**Career**

A profession or field of employment for which one studies or trains, such as financial services or medicine. (See **Job**.)

**Cash flow statement**

A summary of receipts and payments for a given period, helpful when preparing a budget; also known as an income and expense statement.

**Charitable gift**

Aid to those in need.

**Closed-end credit**

A specific-purpose loan requiring repayment with interest and any other finance charges by a specific date. Examples include most mortgages or auto loans.

**Collateral**

Property that a borrower promises to give up to a lender in case of default.

**Collectibles**

Physical objects—such as fine art, stamps, and antiques—that an investor buys in the hope that they will grow in value.

**Collection agency**

A business that specializes in obtaining payments from debtors who have defaulted on their loans.

**Comparison shopping**

The process of seeking information about products and services to find the best quality or utility at the best price.

**Compensation**

Payment and benefits for work performed; also payment to injured or unemployed workers or their dependents.

**Complaint**

An expression of dissatisfaction with a product or service, often in the form of a letter to the seller or manufacturer documenting the problem and stating the desired solution.

**Compounding**

Calculating interest on both principal and previously earned interest.

**Contract**

A legally binding agreement between two or more parties.

**Credit**

An agreement to provide goods, services, or money in exchange for future payments with interest by a specific date or according to a specific schedule. The use of someone else's money for a fee. (See **Open-end credit**, **Closed-end credit**, and **Easy-access credit**.)

**Credit card**

A plastic card that authorizes the delivery of goods and services in exchange for future payment with interest, according to a specific schedule.

**Credit counseling service**

An organization that provides debt and money management advice and assistance to people with debt problems.

**Credit report**

An official record of a borrower's credit history, including such information as the amount and type of credit used, outstanding balances, and any delinquencies, bankruptcies, or tax liens.

**Credit score**

A statistical measure of a loan applicant's creditworthiness, which is the likelihood of repayment.

**Credit union**

A state or federally chartered not-for-profit financial cooperative that provides financial services to its member-owners, who have met specific employment, residence, or other eligibility requirements.

**Creditworthy**

The presumption that a specific borrower has sufficient assets, income, and/or inclination to repay a loan.

**Decision making, systematic**

A method of selecting a course of action after gathering and evaluating information and considering the costs and benefits of various alternatives and consequences.

**Debit card**

A plastic card that provides access to electronic funds transfer (EFT) from an automated teller machine (ATM) or a point-of-sale (POS) terminal.

**Debt**

Something owed, usually measured in dollars.

**Deductible**

The dollar amount or percentage of a loss that is not insured, as specified in an insurance policy.

**Default**

The failure to meet a financial obligation or agreement.

**Dependent**

A person who relies on another individual for support.

**Disposable income**

Gross pay minus deductions for taxes.

**Diversification**

A strategy for reducing some types of risk by selecting a wide variety of investments.

## Glossary

**Dividends**

Earnings from corporate stock or credit union share accounts.

**Dollar-cost averaging**

A method of investing a fixed amount in the same type of investment at regular intervals, regardless of price.

**Earned income**

Earnings from employment, including commissions and tips.

**Easy-access credit**

Short-term loans granted regardless of credit history, often for very short periods and at high interest rates. (See **Pawnshops**, **Payday loans**, **Rent-to-own**, and **Title loans**.)

**Electronic Funds Transfer (EFT)**

The shifting of money from one financial institution account to another without the physical movement of cash.

**Emergency fund**

Money set aside for unexpected expenses or for living costs in case of job loss.

**Employee benefit**

Compensation that an employee receives in addition to a wage or salary. Examples include health insurance, life insurance, childcare, and subsidized meals.

**Employer-sponsored retirement savings plan**

Tax-deferred investment programs, such as 401(k) plans for corporate employees and Section 457 plans for state and local govern-

ment employees, which provide, in some cases, employer matching funds.

**Entrepreneur**

An individual who conceives of, establishes, operates, and assumes the risks of a business.

**Equal Credit Opportunity Act**

A federal law that forbids lenders from discriminating against loan applicants on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance.

**Equity**

Stock ownership in a corporation.

**Estate**

The assets and debts that a person leaves at death.

**Ethics**

A set of moral principles or beliefs that govern an individual's actions.

**Expense**

The cost of goods and services, including those that are fixed (such as rent and auto loan payments) and those that are variable (such as food, clothing, and entertainment).

**Fair and Accurate Credit Transactions Act (FACT Act)**

A federal law that gives consumers more ways to recover their credit reputations after they have been victims of identity theft, and allows consumers to request one free copy of their credit reports from the major credit reporting agencies each year.

**Fair Credit and Charge Card Disclosure Act**

A part of the Truth in Lending Act that mandates a description of key features and costs—such as APR, grace period, balance calculation, annual fees, and penalty fees—on credit card applications.

**Fair Credit Billing Act**

A federal law that addresses billing problems with open-end credit accounts by requiring, for example, that consumers send a written error notice within 60 days of receiving the first bill containing the error, and preventing creditors from damaging a consumer's credit rating during a pending dispute.

**Fair Credit Reporting Act**

A federal law that covers the reporting of debt repayment information, requiring, for example, the removal of certain information after seven or ten years, and giving consumers the right to know what is in their credit reports, to dispute inaccurate information, and to add a brief statement explaining accurate negative information.

**Fair Debt Collection Practices Act**

A federal law that prohibits debt collectors from engaging in unfair, deceptive, or abusive practices, such as calling consumers at work after being told not to.

**FICA**

Federal Insurance Contributions Act. (See **Social Security**.)

**Finance charge**

The total dollar amount paid for credit. Example: A \$100 loan repaid with \$9 interest plus a \$1 service fee has a finance charge of \$10.

**Financial adviser**

A person who provides financial information and advice. Examples include employee benefits staff, bank and credit union employees, credit counselors, brokers, financial planners, accountants, insurance agents, and attorneys.

**Financial goals**

Desired results from one's efforts to achieve personal economic satisfaction.

**Financial literacy**

The ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.

**Financial plan**

A report that identifies a person's financial goals, needs, and expected future earning, saving, investing, insurance, and debt management activities; it typically includes a statement of net worth.

**Fraud**

Intentional and illegal deception, misrepresentation, or concealment of information for monetary gain.

**Garnishment**

A court-sanctioned procedure that sets aside a portion of an employee's wages to pay a financial obligation.

**Grace period**

A time during which a borrower can pay the full balance of credit due and not incur finance charges or pay an insurance premium without penalty.

## Glossary

### **Gross pay**

Wages or salary before deductions for taxes and other purposes.

### **Identity theft**

The crime of using another person's name, credit or debit card number, Social Security number, or another piece of personal information to commit fraud.

### **Impulse buying**

Purchasing goods or services without considering needs, goals, or consequences.

### **Income**

Money earned from investments and employment.

### **Individual Retirement Account (IRA)**

An investment with specific tax advantages. A traditional IRA defers taxes on earnings until withdrawal and, under certain circumstances, allows the deduction of some contributions from current taxable income. A Roth IRA requires after-tax contributions only, but allows tax-free withdrawals under certain rules.

### **Inflation**

An overall rise in the price of goods and services; the opposite of the less common deflation.

### **IRA**

(See **Individual Retirement Account**.)

### **Insurance**

A risk management tool that protects an individual from specific financial losses under specific

terms and premium payments, as described in a written policy document. Major types include:

**Auto** – Provides liability and property damage coverage under specific circumstances.

**Disability** – Replaces a portion of income lost when a person cannot work because of illness or injury.

**Health** – Covers specific medical costs associated with illness, injury, and disability.

**Homeowners** – Provides property damage and liability coverage under specific circumstances.

**Liability** – Protects the insured party from others' claims of loss due to the insured's alleged or actual negligence or improper actions.

**Life** – Protects dependents from loss of income, debt-repayment, and other expenses after the death of the insured party.

**Long-term care** – Covers specific costs of custodial care in a nursing facility or at home.

**Renters** – Protects from losses due to damage to the contents of a dwelling rather than the dwelling itself.

### **Interest**

1. Cost of borrowing money. 2. Earnings from lending money.

### **Interest income**

Money that financial institutions, governments, or corporations pay for the use of investors' money.

**Investing**

Purchasing securities such as stocks, bonds, and mutual funds with the goal of increasing wealth over time, but with the risk of loss.

**Job**

A position of employment with specific duties and compensation. (See **Career**.)

**Lease**

A written contract specifying the terms for the use of an asset and the legal responsibilities of both parties to the agreement, such as a landlord and tenant.

**Liability**

An actual or potential financial obligation.

**Liquidity**

The quality of an asset that permits it to be converted quickly into cash without loss of value. For example, a mutual fund is more liquid than real estate.

**Living will**

A document that contains the signer's desires for specific medical treatment in case the person is unable to make medical decisions; also known as a health care directive.

**Loan shark**

A person who lends money at an exorbitant rate of interest.

**Medicaid**

A program, financed by state and federal government tax revenues, to pay specified health care costs care for those who cannot afford them.

**Medicare**

A federal government program, financed by deductions from wages, that pays for certain health care expenses for older citizens. The Social Security Administration manages the program.

**Mortgage**

A long-term loan to buy real estate, that is, land and the structures on it.

**Mutual fund**

An investment tool that pools the money of many shareholders and invests it in a diversified portfolio of securities, such as stocks, bonds, and money market assets.

**Net worth**

A measure of a person's financial condition at a given time, equal to what that person owns (assets) minus what that person owes (liabilities).

**Open-end credit**

An agreement with a financial institution that gives a borrower the use of money up to a specified limit for an indefinite time as long as repayment of the outstanding balance and finance charge proceeds on schedule; also known as revolving credit or a revolving line of credit. A credit card is an example.

**Opportunity cost**

The value of possible alternatives that a person gives up when making one choice instead of another; also known as a trade-off.

**Pawnshop**

An easy-access credit business that makes

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high-interest loans secured by personal property collateral, such as jewelry.

### **Payday loan**

An easy-access credit business that makes high-interest loans for the period of the borrower's pay cycle. This practice is illegal in some states.

### **Payment method**

The means of settling a financial obligation, such as by cash, check, credit card, debit card, smart card, or stored value card.

### **Payroll deduction**

An amount an employer withholds from a paycheck. Mandatory deductions include various taxes. Voluntary deductions include loan payments, charitable contributions, and direct deposits into financial institution accounts.

### **Peer pressure**

The influence that a social group has on an individual, based on the individual's desire for the group's approval.

### **Pension Protection Act**

A federal law that attempts to strengthen employees' retirement security by, among other things, allowing employers to automatically enroll employees in retirement savings plans.

### **Personal finance**

The principles and methods that individuals use to acquire and manage income and assets.

### **Philanthropy**

The act of voluntarily contributing to others' welfare.

### **Point of sale (POS)**

The location where a transaction occurs. POS software can track sales, inventory, and customer information.

### **Portfolio**

A collection of securities—such as stocks, bonds, mutual funds, and real estate—that an individual investor owns.

### **Principal**

1. An amount of money originally invested, excluding any interest or dividends. 2. An amount borrowed, or an outstanding loan balance.

### **Privacy**

Freedom from unauthorized release of personal information.

### **Probate court**

The government institution with jurisdiction over a deceased person's will and estate.

### **Profit**

The positive difference between total revenue and total expenses of a business or investment.

### **Prospectus**

A legal document that provides detailed information about mutual funds, stocks, bonds, and other investments offered for sale, as required by the Securities and Exchange Commission.

### **Rate of return**

Annual earnings on an investment expressed as a percentage of the amount invested; also known as yield. Example: A \$3 annual dividend divided by \$34 share cost = 0.088, an 8.8% rate of return.

**Recordkeeping**

The process of keeping an orderly account of a person's financial affairs, including income earned, taxes paid, household expenditures, loans, insurance policies, and legal documents.

**Rent**

A periodic fee for the use of property.

**Rent-to-own**

A plan to buy a product with little or no down payment by renting it until the final payment is made, at which point the total paid far exceeds the product's purchase price.

**Repossession**

Confiscation of collateral, often without notice, if a borrower defaults on a loan.

**Risk**

A measure of the likelihood of loss or the uncertainty of an investment's rate of return.

**Risk management**

The process of calculating risk and devising methods to minimize or manage loss, for example, by buying insurance or diversifying investments.

**Rule of 72**

A rough calculation of the time or interest rate needed to double the value of an investment. Example: To figure how many years it will take to double a lump sum invested at an annual rate of 8%, divide 72 by 8, for a result of 9 years.)

**Scam**

A fraudulent or deceptive act.

**Salary**

Compensation for work, expressed as an annual sum and paid in prorated portions regularly— usually weekly, bi-weekly, or monthly. (See **Wage**.)

**Saving**

The process of setting income aside for future spending. Saving provides ready cash for emergencies and short-term goals, and funds for investing.

**Savings account**

A financial institution deposit account that pays interest and allows withdrawals.

**Savings bond**

A document representing a loan of more than one year to the U.S. government, to be repaid, with interest on a specified date.

**Savings and loan association (S&L)**

A state or federally chartered for-profit financial institution that pays dividends on deposits and makes mortgage loans.

**Security**

1. A legal agreement that records a debt or equity obligation from a corporation, government, or other organization. Examples include stocks and bonds. 2. Collateral for a loan.

**Simple interest**

Interest calculated periodically on loan principal or investment principal only, not on previously earned interest.

**Glossary****Social Security**

A federal government program that provides retirement, survivor's, and disability benefits, funded by a tax on income, which appears on workers' pay stubs as a deduction labeled FICA (for Federal Insurance Contributions Act, the enabling legislation).

**Spending plan**

Another name for budget.

**Standard of living**

The overall degree of comfort of an individual, household, or population, as measured by the amount of goods and services its members consume.

**Stock**

An investment that represents shares of ownership of the assets and earnings of a corporation.

**Stored-value card**

Prepaid plastic card that allows purchases up to a set limit, at which point the card is discarded or, if "rechargeable," replenished from an account.

**Take-home pay**

Gross wage or salary, plus bonuses, minus deductions such as for taxes, health care premiums, and retirement savings.

**Tax**

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

**Tax credit**

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

**Tax deduction**

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

**Tax deferral**

The feature of an investment in which taxes due on principal and/or earnings are postponed until funds are withdrawn, often at retirement.

**Tax exemption**

Earnings, such as interest from municipal bonds, that are free of certain taxes. (See **Tax credit** and **Tax deduction**.)

**Time value of money**

The potential of an investment to increase in value through periodically compounded earnings.

**Tip**

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

**Title loan**

A high-cost, short-term loan that uses the borrower's automobile as collateral.

**Transfer payment**

Money that a government provides to citizens for reasons other than current employment or the delivery of goods or services in exchange. Examples include Social Security, veteran's benefits, and welfare.

**Trust**

A legal arrangement through which a trustor manages a trustee's assets for the good of one or more beneficiaries.

**Truth in Lending Act**

A federal law that requires financial institutions to disclose specific information about the terms and cost of credit, including the finance charge and the annual percentage rate (APR).

**Truth in Savings Act**

A federal law that requires financial institutions to disclose specific information about the terms and costs of interest-earning accounts—such as annual percentage yield (APY)—and certain other financial services.

**Unearned income**

Earnings from sources other than employment, including investment returns and royalties.

**Values**

An individual's beliefs about what is important, desirable, and worthwhile, which often influence decisions.

**Wage**

Compensation for work, usually calculated on an hourly, daily, or piecework basis and paid on schedule—usually weekly, biweekly, or monthly. (See **Salary**.)

**Warranty**

A written guarantee from the manufacturer or distributor that specifies the conditions under which the product can be returned, replaced, or repaired.

**Wealth**

Accumulated assets; positive net worth.

**Welfare**

Aid in the form of money or necessities for those in need; often from a government program.

**Will**

A legal declaration of a person's wishes for the disposition of his or her estate after death.

## Independent Reviewers

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