



Focus on Personal Finance

An Active Approach to Help You Achieve Financial Literacy

SEVENTH EDITION

The McGraw Hill Series in Finance, Insurance, and Real Estate

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Focus on Personal Finance

**An Active Approach to Help You Achieve
Financial Literacy**

SEVENTH EDITION

Jack R. Kapoor

COLLEGE OF DUPAGE

Les R. Dlabay

LAKE FOREST COLLEGE

Robert J. Hughes

DALLAS COUNTY COMMUNITY COLLEGES

Melissa M. Hart

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FOCUS ON PERSONAL FINANCE, SEVENTH EDITION

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Dedication

To my grandchildren, Joshua, Audra, and Hannah Tucker; and
Veda and Asha Kapoor

To my wife, Linda Dlabay; my children, Carissa and Kyle;
their spouses, Doug Erickson and Anne Jaspers; and my
grandchildren Lucy Dlabay and Caleb Erickson

To my wife, Robin, and the memory of my mother, Barbara Y.
Hughes

To my husband, David Hart, and my children, Alex and Madelyn



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Focus on . . . the Cover

How do you feel when you look at this cover? We hope the image on the book conveys a feeling of relaxation and overall peace of mind—both achieved, in part, by developing a solid financial plan. From cover to cover, this text's goal is to help you gain the financial literacy and personal finance skills you need to make sound financial decisions for life. Use this book as a tool to help you plan for a successful financial future!

Focus on . . . the Authors

Jack R. Kapoor, EdD, *College of DuPage*

Jack Kapoor has been a professor of business and economics in the Business and Technology Division of the College of DuPage, Glen Ellyn, Illinois, where he taught Personal Finance, Introduction to Business, Marketing, Management, and Economics for more than 40 years. Professor Kapoor is a recipient of the Business and Technology Division's Outstanding Professor Award. He received his BA and MS from San Francisco State College and his EdD in Business and Economic Education from Northern Illinois University. He previously taught at Illinois Institute of Technology's Stuart School of Management, San Francisco State University's School of World Business, and other colleges. He served as an assistant national bank examiner for the U.S. Treasury Department and has been an international trade consultant to Bolting Manufacturing Co., Ltd., Mumbai, India.

Dr. Kapoor is known internationally as a co-author of several textbooks, including *Business: A Practical Approach* (Rand McNally), *Business* (Cengage Learning), *Business and Personal Finance* (Glencoe), and *Personal Finance* (McGraw Hill). He served as a content consultant for two popular national television series, *The Business File: An Introduction to Business* and *Dollars and Sense: Personal Finance for the 21st Century*; and he developed two full-length audio courses in Business and Personal Finance. He has been quoted in many national newspapers and magazines, including *USA Today*, *U.S. News & World Report*, the *Chicago Sun-Times*, *Crain's Small Business*, the *Chicago Tribune*, and other publications.

Dr. Kapoor has traveled around the world and has studied business practices in capitalist, socialist, and communist countries.

Les R. Dlabay, EdD, *Lake Forest College*

"Learning for a life worth living" is the teaching emphasis of Les Dlabay, professor of business emeritus, who taught at Lake Forest College, Lake Forest, Illinois, for 35 years. In an effort to prepare students for diverse economic settings, he makes extensive use of field research projects and interactive learning related to food, water, health care, and education. He believes our society can improve global business development through volunteering, knowledge sharing, and financial support. Dr. Dlabay has authored or has adaptations of more than 40 textbooks in the United States, Canada, India, and Singapore. He has taught more than 30 different courses during his career and has presented over 300 workshops and seminars to academic, business, and community organizations. Professor Dlabay has a collection of cereal packages from more than 100 countries and banknotes from 200 countries, which are used to teach about economic, cultural, and political elements of international business environments.

His research involves informal and alternative financial services in cross-cultural and global business settings. Dr. Dlabay serves on the board of Andean Aid (www.andeanaid.org), which provides tutoring assistance and spiritual guidance to school-age children in Colombia and Venezuela, and teaches community-based money management and workforce readiness classes for Love INC of Lake County (Illinois), which mobilizes local churches to transform lives and communities. Professor Dlabay has a BS (Accounting) from the University of Illinois, Chicago; an MBA from DePaul University; and an EdD in Business and Economic Education from Northern Illinois University. He has received The Great Teacher award at Lake Forest College three times.

Robert J. Hughes, EdD, *Dallas County Community Colleges*

Financial literacy! Only two words, but Bob Hughes, professor of business at Dallas County Community Colleges, believes that these two words can change your life. Whether you want to be rich or just manage the money you have, the ability to analyze financial decisions and gather financial information are skills that can always be improved. Dr. Hughes has taught personal finance, introduction to business, business math, small business management, small business finance, and accounting for over 35 years. In addition to *Focus on Personal Finance* and *Personal Finance*, published by McGraw Hill, he has authored college textbooks for Introduction to Business, Business Mathematics, and Small Business Management. He also served as a content consultant for two popular national television series, *Dollars & Sense: Personal Finance for the 21st Century* and *It's Strictly Business*, and he is the lead author for a business math project utilizing artificial intelligence instruction funded by the ALEKS Corporation. He received his BBA from Southern Nazarene University and his MBA and EdD from the University of North Texas. His hobbies include writing, investing, collecting French antiques, art, and travel.

Melissa M. Hart, CPA, *North Carolina State University*

Melissa Hart is a senior lecturer in the Poole College of Management at North Carolina State University. She teaches courses in personal and corporate finance. She is a member of the Academy of Outstanding Teachers. She has been nominated for the Gertrude Cox Award for Innovative Excellence in Teaching with Technology for developing unique approaches to introduce technology into the classroom and the distance education environment. Spreading the word about financial literacy has always been a passion of hers. It doesn't stop at the classroom. Each year she shares her commonsense approach of "No plan is a plan" to various student groups, clubs, high schools, and other organizations. She is a member of the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants. She received her BBA from the University of Maryland and an MBA from North Carolina State University. Prior to obtaining an MBA, she worked eight years in public accounting in auditing, tax compliance, and consulting. Her hobbies include keeping up with her family's many extracurricular activities. She travels extensively with her family to enjoy the many cultures and beauty of the country and the world.

Dear Personal Finance Students and Professors

Today everyone has a story about how the coronavirus pandemic affected their life. Did you quarantine with family members, friends, or alone? Did you drive around for hours trying to get basic necessities—the last roll of toilet paper or bottle of hand sanitizer? Were you laid off from your job? Did you worry about how to pay your bills and pay for food and medicines? All good questions that describe how a pandemic can affect both your health and your financial security. For many people, it was a wake-up call that they needed money and a personal financial plan.

While there are no guarantees there won't be hardships ahead, we can provide you with the information you need to weather the next crisis. The material in this new edition of *Focus on Personal Finance* will help you answer important questions including:

- How much should you have in an emergency fund?
- Why does your ratio of cash and liquid assets to monthly expenses matter in a crisis?
- What happens if you skip a monthly payment or can't pay your bills?
- If you get sick, will your health insurance cover treatment?
- What portion of your income should you save each month?
- What is your risk tolerance for investing in a volatile market?
- Will you have to delay retirement?

What's Next?

For both students and professors, the pandemic led to new problems. Many students and professors quickly found their schedule change from on-campus classes to online delivery in a matter of days. As authors, we realized our textbook materials and our digital package were an even more important component that could help students learn. As we prepared this edition of the text and digital package, we worked hard to include important content in every chapter you can use to develop your own plan to build financial security and to weather another pandemic, an unexpected job loss, or unexpected life situations.

As we emerge from this crisis, ask yourself what financial lessons you have learned. As you think about the answer, keep in mind the decisions that we all make every day can lead to effective money management and help build financial security. That's what this course, this text, and the digital package are all about: learning how to make better financial decisions and managing your money, even in a time of crisis.

Text (Or eBook Option)

The new seventh edition of *Focus on Personal Finance* provides current content, examples, exhibits, and features in each chapter to illustrate concepts that can be

used to build financial health. Our new *FinTech for Financial Literacy* feature is designed to help you use technology to improve financial decisions. Another new feature of this edition is the *Financial Literacy Portfolio* that appears at the end of each chapter. These features are designed to introduce students to the many resources that promote financial competencies, action research, and outcomes. In addition, as always, we have reviewed and revised websites and apps throughout the text to provide you with up-to-date sources of information.

Digital Package

As teachers and authors, we are acutely aware of the importance of having a robust digital package—especially now as more and more classes are taught online. We are proud of the tools we have created to facilitate student learning. For students, our digital package includes an interactive e-book, practice quizzes, and short videos along with assignable and auto-graded questions. We also offer auto-graded *Your Personal Financial Plan* sheets that are built around the cases in the text and an electronic version of the *Daily Spending Diary* sheets. For instructors, our digital resources include a comprehensive instructor manual, computerized test bank, and PowerPoint presentations for each chapter. In short, should you need digital resources at any time, we have those covered.

New Normal

While we don't know how the events surrounding coronavirus pandemic will change the future, we do believe the basic principles in a personal finance course can help your students through a crisis and beyond. We are happy to join you on this journey! We invite you to begin by reading Chapter 1, *Personal Financial Planning in Action*.

Welcome to the new, seventh edition of Focus on Personal Finance!

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New to This Edition

The seventh edition of *Focus on Personal Finance* contains new and updated boxed features, exhibits and tables, articles, and end-of-chapter material. The following grid highlights just some of the significant content revisions made to *Focus on Personal Finance*, 7e.

Global changes for all chapters

- New *FinTech for Financial Literacy* margin feature.
- New *Digital Financial Literacy with. . .* feature in each chapter.
- Revised *Road Map–Dashboard* feature at the end of each chapter.
- Revised and updated problems throughout.
- New *Financial Literacy Portfolio* activity at the end of the chapter.
- Updated websites and apps on *Your Personal Financial Plan* sheets.

CHAPTER 1

Personal Financial Planning in Action

- New definition of *financial literacy*.
- New **Exhibit 1-1**, Planning for Personal Financial Literacy.
- New **CAUTION!** feature on avoiding lifestyle inflation.
- Expanded *Financial Literacy in Practice* feature for creating financial goals.
- New *FinTech for Financial Literacy* feature discussing automated systems for banking and personal finance activities.
- New *Digital Financial Literacy with. . .* feature with resources available at **kiplinger.com**.
- New coverage of school funding sources.
- New *Financial Literacy Portfolio* feature to help students develop financial goals using the S-M-A-R-T format.
- Relocation of *Daily Spending Diary* instructions and sample sheets to the end of Chapter 1.

CHAPTER 2

Money Management Skills

- New *FinTech for Financial Literacy* feature on using robo-advisors to guide financial planning.
- New **CAUTION!** feature on having an accurate record of spending and reduced financial stress.
- New *Money Minute Focus* feature on unused educational grants and scholarships.
- New *Money Minute Focus* feature on *kakeibo*, a system used in Japan for managing personal finances.
- An updated *Money Minute Focus* feature on how most households can have an additional \$500 or more a month.
- New *Digital Financial Literacy with. . .* feature on **clark.com**.
- New *Financial Literacy Portfolio* feature teaching students how to effectively organize their financial records.
- Relocation of *Developing a Career Search Strategy* appendix to the end of Chapter 2 with new coverage of human-centered design, the use of artificial intelligence in the hiring process, and a checklist for interview success.

<p>CHAPTER 3</p> <p>Taxes in Your Financial Plan</p>	<ul style="list-style-type: none"> • New <i>FinTech for Financial Literacy</i> feature on cryptocurrency. • Coverage of TCJA tax information throughout with updated content on how to file taxes online. • Updated figures with revised tax brackets, rates, and calculations. • Revised Exhibit 3-3, showing up-to-date tax forms. • Revised Exhibit 3-4, showing up-to-date deduction schedule. • Revised Exhibit 3-5, showing up-to-date tax tables and rates. • New <i>Digital Financial Literacy with. . .</i> feature showing students how to use thebalance.com to help find the latest information to guide their financial decision making. • New <i>Financial Literacy Portfolio</i> feature guiding students on how to prepare to file a federal income tax return.
<p>CHAPTER 4</p> <p>Financial Services: Savings Plans and Payment Accounts</p>	<ul style="list-style-type: none"> • New <i>FinTech for Financial Literacy</i> feature on <i>neobanks</i>. • Revised and expanded Exhibit 4-4 for assessing and selecting a financial institution. • Updated CAUTION! feature on unnecessary bank fees. • New CAUTION! feature on potential payment deceptions. • New <i>Money Minute Focus</i> feature on education savings plans. • New <i>Money Minute Focus</i> feature on the use of varied savings accounts to effectively manage finances. • Updated <i>FinTech for Financial Literacy</i> feature on cybercurrencies. • New <i>Digital Financial Literacy with. . .</i> feature on nerdwallet.com. • New <i>Financial Literacy Portfolio</i> feature on potential payment deceptions.
<p>CHAPTER 5</p> <p>Consumer Credit Advantages, Disadvantages Sources, and Costs</p>	<ul style="list-style-type: none"> • Updated Exhibit 5-2 showing the volume of consumer credit. • Revised and updated Exhibit 5-10 covering consumer bankruptcy filings in the United States. • New <i>Money Minute Focus</i> feature explaining how a security freeze on your credit report can stop identity thieves from opening new accounts in your name. • New and updated content in What is Consumer Credit?, Credit Cards, Home Equity Loans, Applying for Credit, FICO and VantageScore, and Bankruptcy sections. • New <i>FinTech for Financial Literacy</i> feature on the Fair Credit Reporting Act. • Updated Home Equity Loans example. • New <i>Digital Financial Literacy with. . .</i> feature covering selecting and using a retail credit card. • New <i>Smart Money Minute</i> feature revealing how to obtain free credit reports. • New <i>Financial Literacy Portfolio</i> feature on how to research and compare alternative credit sources.
<p>CHAPTER 6</p> <p>Consumer Purchasing and Wise Buying Strategies</p>	<ul style="list-style-type: none"> • New <i>Money Minute Focus</i> feature on avoiding financial difficulties when mixing needs and wants. • New <i>Money Minute Focus</i> feature on the buying habits of minimalists and frugal people. • New <i>Money Minute Focus</i> feature on the financial benefits of driving an older car. • New <i>Digital Financial Literacy with. . .</i> feature with motor vehicle testing and product information from consumerreports.org.

CHAPTER 6 <i>(Continued)</i>	<ul style="list-style-type: none"> • New <i>Money Minute Focus</i> feature on renting or borrowing rather than owning motor vehicles, clothing, cameras, power tools, and home appliances. • Updated <i>Money Minute Focus</i> feature on common consumer complaints and scams. • New CAUTION! feature on avoiding scams of online used-car sellers. • New CAUTION! feature on scholarship and financial aid scams. • New <i>FinTech for Financial Literacy</i> feature on retail technology trends. • New <i>Financial Literacy Portfolio</i> feature guiding students on how to plan for a consumer purchase. • Relocation of Consumer Agencies and Organizations appendix to the end of Chapter 6 with updated links and contact information.
CHAPTER 7 Selecting and Financing Housing	<ul style="list-style-type: none"> • New <i>FinTech for Financial Literacy</i> feature on digital innovations connecting buyers, sellers, brokers, lenders, and landlords. • New <i>Digital Financial Literacy with. . .</i> feature with home ownership, mortgage, and other housing information at money.com. • Revised and updated coverage of factory-built houses, prefabricated homes, modular homes, mobile homes, and manufactured homes. • New <i>Money Minute Focus</i> feature on planning for home buying costs. • New <i>Money Minute Focus</i> feature on iBuyers. • Updated <i>Money Minute Focus</i> feature on shorter mortgages and paying an additional amount each month. • Revised CAUTION! feature on e-mail hacking, identity theft, and wire fraud related to home buying. • Updated Exhibit 7-9 on common closing costs. • New <i>Financial Literacy Portfolio</i> feature on comparing housing alternatives.
CHAPTER 8 Home and Automobile Insurance	<ul style="list-style-type: none"> • New <i>Personal Finance in Practice</i> feature on flood facts. • New <i>FinTech for Financial Literacy</i> feature explaining InsurTech. • New <i>FinTech for Financial Literacy</i> feature covering global positioning systems and the auto insurance industry. • New <i>Money Minute Focus</i> feature on seat belt usage. • New and revised content in the Property and Liability Insurance in Your Financial Plan section. • New and revised content in the Automobile Insurance Coverages section. • New <i>Digital Financial Literacy with. . .</i> feature explaining usage-based auto insurance. • New <i>Financial Literacy Portfolio</i> feature guiding students on researching and selecting home and auto insurance coverage.
CHAPTER 9 Health and Disability Income Insurance	<ul style="list-style-type: none"> • New <i>Money Minute Focus</i> feature on the Families First Coronavirus Response Act. • New <i>Money Minute Focus</i> feature covering COVID-19 testing coverage. • New <i>Money Minute Focus</i> feature on the Family Leave and Medical Act. • New <i>Money Minute Focus</i> feature on insuring Americans through private insurers. • New <i>FinTech for Financial Literacy</i> feature explaining crowd funding websites.

<p>CHAPTER 9 (Continued)</p>	<ul style="list-style-type: none"> • New Caution! feature on HSA contributions. • New Digital Financial Literacy with. . . feature covering Medicare's BlueButton and BlueButton 2.0. • Revised Financial Literacy in Practice feature covering HSAs. • Expanded discussion of out-of-pocket limits, dental expense insurance, and Medicare coverage in the What Is Not Covered by Medicare section. • New content covering health insurance options for the unemployed and a new discussion on exclusive provider organizations. • New content discussing nurse lines, virtual visits, retail clinics, and urgent care. • Updated content within the Major Medical Expense Insurance Coverage, Health Care Costs, and Long-Term Care Insurance sections. • Revised Exhibit 9-1 outlining health insurance must-haves. • Revised Exhibit 9-2 comparing managed health care plans. • Revised Exhibit 9-5 examining U.S. national health expenditures. • New Financial Literacy Portfolio feature covering how to research and select health and disability insurance.
<p>CHAPTER 10 Financial Planning with Life Insurance</p>	<ul style="list-style-type: none"> • New What Would You Do? feature on choosing types of insurance. • New What Would You Do? feature on examining types and amounts of insurance. • New What Would You Do? feature on choosing the right insurance policy. • New FinTech for Financial Literacy feature outlining how insurers turn vision into reality. • New FinTech for Financial Literacy feature examining the Insurance Barometer Study. • New Money Minute Focus feature covering individual life insurance policies. • Revised content within the Financial Planning with Annuities section. • Updated discussion on the nonworking spouse method of determining life insurance needs. • Revised How Long Will You Live? subsection. • Updated Exhibit 10-1 covering life expectancy across all races. • New Digital Financial Literacy with. . . feature with Kiplinger.com on how to shop for life insurance. • New Financial Literacy Portfolio feature guiding students on how to determine the type and amount of life insurance coverage they may need.
<p>CHAPTER 11 Investing Basics and Evaluating Bonds</p>	<ul style="list-style-type: none"> • New example of the time value of money. • New example explaining how the time value of money can help people obtain their long-term investment goals. • Many new examples highlighting financial points of interest for Coca-Cola, Amazon, Facebook, Payless ShoeSource, J. C. Penney, Walmart, McDonald's, Square Inc., and Pacific Gas & Electric. • New Digital Financial Literacy with. . . describing how the Motley Fool website can educate, amuse, and enrich an investor's experience. • Revised Money Minute Focus feature providing yields for investment-grade bonds. • New Money Minute Focus feature on the 50/20/30 rule. • Revised Figure It Out feature on determining the time value of money.

CHAPTER 11*(Continued)*

- New risk tolerance quiz in **Exhibit 11-2** providing a way for students to measure their risk tolerance.
- Revised **Exhibit 11-6** with up-to-date information about Treasury bills, Treasury notes, Treasury bonds, and TIPs.
- New **Exhibit 11-7** covering bond information available by accessing the Financial Investment Regulatory Authority website.
- Revised **Exhibit 11-8** examining the description of bond ratings provided by Moody's Investors Service and Standard & Poor's Corporation.
- New discussion on how the business cycle and financial markets are affected by political and economic developments and pandemics such as the coronavirus.
- New **FinTech for Financial Literacy** feature covering using an asset allocation calculator to construct an investment portfolio.
- New **Caution!** feature pointing out questions students may want to ask in job interviews about employee health care and retirement match programs.
- Revised **What Would You Do?** feature on preparing for a downturn in the economy or a potential job loss
- Revised **Figure It Out** feature and tryout problem illustrating how to use a financial calculator to determine the time value of money.
- New **Real Personal Finance** case asking students to choose between an investment in CDs or corporate bonds.
- New **Financial Literacy Portfolio** feature guiding students to create an investment start-up plan.

CHAPTER 12

Investing in Stocks

- New examples providing information about utility firms that provide above-average dividends.
- New example describing how Casper Sleep used an IPO to raise over \$100 million.
- New examples in the **Common and Preferred Stock, Buying Stock on Margin, and Selling Short** sections.
- Revised **Exhibit 12-1** showing how the record date is determined for a Microsoft dividend payment.
- New **Exhibit 12-2** describing how investors make money from dividends and appreciation of value.
- New **Exhibit 12-4** providing information students can use to evaluate an investment in Walmart stock.
- New **Exhibit 12-5** offering detailed information for Microsoft provided by Value Line.
- Revised **Exhibit 12-6** outlining typical commission charges for stock transactions.
- Revised **Exhibit 12-7** providing an example of dollar cost averaging for Johnson & Johnson.
- New **FinTech for Financial Literacy** feature discussing using the Internet to obtain historical information for dividends and stock prices.
- New **FinTech for Financial Literacy** feature describing the TD Ameritrade mobile app.
- New **Digital Financial Literacy with . . .** feature examining information available at the Investor.gov website.
- Revised **Money Minute Focus** feature providing current and historical data for the Dow Jones Average.

CHAPTER 12 <i>(Continued)</i>	<ul style="list-style-type: none"> • New <i>Money Minute Focus</i> feature revealing how students can use simulations or virtual stock market games to practice their investment skills. • New and revised calculations for companies in the Numerical Measures That Influence Investment Decisions section. • New and expanded discussion in the Commission Charges section. • New Real Personal Finance case asking students to use Value Line information to evaluate an investment. • New <i>Financial Literacy Portfolio</i> feature showing students how to research potential stock investments.
CHAPTER 13 Investing in Mutual Funds	<ul style="list-style-type: none"> • Revised definition for <i>mutual fund</i>. • New Exhibit 13-1 detailing the type of holdings in the Fidelity Balanced Fund. • New Exhibit 13-2 providing information about sales loads, annual fund operating expenses, and other fees. • New Exhibit 13-4 providing data investors can use to evaluate the Fidelity Contrafund. • New Exhibit 13-5 showing mutual fund research information for the T. Rowe Price Dividend Growth Fund. • Updated Exhibit 13-6 providing information about Kiplinger's 25 favorite no-load funds. • Revised <i>Money Minute Focus</i> feature on why investors purchase mutual funds. • New <i>Money Minute Focus</i> feature describing the number of households that own funds in each generation. • New information about the J.P. Morgan Large Cap Growth Fund illustrating the cost of investing in a load fund. • New information about the Alger Mid-Cap Growth Fund illustrating the cost of investing in a fund with a contingent deferred sales load. • New material explaining the objective of the Dodge and Cox Stock Fund. • New data on the number and percentages of closed-end, exchange-traded, and open-end funds. • New material and statistics in the Other Funds, Why Investors Purchase Mutual Funds, and Professional Advisory Services sections. • New <i>Digital Financial Literacy with. . .</i> feature describing the type of information investors can obtain on the Kiplinger.com website. • New <i>FinTech for Financial Literacy</i> feature on using the Fund Analyzer app to analyze and compare fund costs. • New <i>FinTech for Financial Literacy</i> feature on using the Personal Capital app to track the value of investments. • New Real Personal Finance case asking students to use Morningstar research information to evaluate an investment in the T. Rowe Price Dividend Growth Fund. • New <i>Financial Literacy Portfolio</i> feature asking students to construct their own investment portfolio.
CHAPTER 14 Starting Early: Retirement and Estate Planning	<ul style="list-style-type: none"> • Updated Exhibit 14-5 outlining various types of IRAs. • Revised <i>Financial Literacy in Practice</i> feature covering "The Psychology of Planning for Retirement While You Are Young." • New <i>FinTech for Financial Literacy</i> feature outlining Kiplinger.com's retiree tax map.

CHAPTER 14*(Continued)*

- New *Money Minute Focus* feature discussing drawing Social Security at age 62 versus age 70.
- Revised *Money Minute Focus* feature showing the average monthly Social Security benefits in 2020.
- New *What Would You Do?* feature discussing what to do with lump-sum 401(k) plan money.
- Updated IRA, Roth IRA, and SEP contribution limits for 2020 as well as the Credit Shelter Trust exemption and gift tax amounts.
- New discussion covering the required minimum distribution and the Secure Act of 2019.
- Expanded the **Social Security Retirement Benefits** section.
- New *Financial Literacy Portfolio* feature guiding students to develop their own retirement/estate planning guide plan.

Focus on . . . Learning

GET INSIDE THE BOOK

3 Steps to Financial Literacy

Getting your finances in order is simpler than you think, and we’re here to show students how. These chapter opening features break down key action items students need to take to address the most important personal finance issues from the chapter, as part of the book’s emphasis on taking action. These steps connect with the *Road Map to Financial Literacy* and *Your Personal Finance Dashboard* at the end of each chapter.

3 Steps to Financial Literacy . . . Building an Emergency Fund

1

Determine the desired amount of your emergency fund based on monthly financial needs and income volatility. Most financial advisors recommend three to six months, or more.
Website: [money.com](#)

2

Monitor your daily spending to identify possible areas of reduced spending and increased savings.
App: BUDGT or Mint

3

Decide where to keep your emergency fund. Your choices include a bank, credit union, and other financial institutions.
Website: [www.depositaccounts.com](#)

What are the financial benefits of an emergency fund?
You will be able to avoid or minimize a financial crisis due to job loss, unexpected expenses, or other unforeseen situation. At the end of the chapter, *Your Personal*



Financial Decisions

money. However, the amount, along with needs, financial choices, ons, will vary from person to person. In this book, you will have the our current situation, learn about varied financial paths, and move financial security.

the use of knowledge and skills for earning, saving, spending, and lieve personal, family, and community goals. The process includes behaviors, and competencies to meet current and future financial iteracy leads to financial well-being and a lifetime of financial secu- ing personal and economic circumstances. As shown in Exhibit 1-1, e result of information and knowledge, attitudes and abilities, and

goals may include buying a new car or a larger home, pursuing g, contributing to charity, traveling extensively, and gaining finan- o achieve these and other goals, people need to identify and set d personal satisfaction are the result of an organized process that o as *personal money management* or *personal financial planning*.

Financial Planning

ning is the process of managing your money to achieve personal This planning process allows you to control your financial situation.

LO1.1

Identify social and economic influences on financial literacy and personal financial decisions.



ACTION ITEM

Do you have an emergency fund for unexpected expenses?
☐ Yes ☐ No

personal financial planning The process of managing your money to achieve personal economic satisfaction.

Learning Objective References

Citations in the margins next to the relevant text refer to corresponding chapter objectives listed at the beginning of each chapter.

Action Items

As part of the emphasis on taking action to gain financial skills, Action Items are posted at the start of each main section of a chapter. These are designed to get students thinking about what daily actions they can be taking to achieve financial literacy and independence.

An interactive and engaging chapter opener gets students organized and demonstrates the relevance of the material to their own lives.

Learning Objectives

Learning objectives highlight the goals of each chapter for easy reference. Throughout the book, in the end-of-chapter material and even in the supplement materials, these objectives provide a valuable foundation for assessment.

CHAPTER 2 LEARNING OBJECTIVES

In this chapter, you will learn to:

- LO2.1** Identify the main components of wise money management.
- LO2.2** Create a personal balance sheet and cash flow statement.
- LO2.3** Develop and implement a personal budget.
- LO2.4** Connect money management activities with saving for personal financial goals.

YOUR PERSONAL FINANCIAL PLAN SHEETS

- 5. Financial Documents and Records
- 6. Creating a Personal Balance Sheet
- 7. Creating a Personal Cash Flow Statement
- 8. Developing a Personal Budget

A Successful Money Management Plan

"Each month, I have too many days and not enough money. If the month were only 20 days long, budgeting would be easy."

Daily spending and saving decisions are the focus of financial planning. You must coordinate these actions with your needs, goals, and personal situation. Maintaining financial records and planning your spending are essential for successful personal financial management. The time and effort you devote to these activities will yield benefits. **Money management** refers to the day-to-day financial activities necessary to manage current personal economic resources while working toward long-term financial security.

LO2.1

Identify the main components of wise money management.



ACTION ITEM

My money management strategy involves:

☐ no spending plan

Your Personal Financial Plan Sheets

A list of the *Your Personal Financial Plan* worksheets for each chapter is presented at the start of the chapter for easy reference.

Examples

Worked-out examples featuring key concepts and calculations appear throughout the text, a valuable feature for students to see how personal finance works in practice.

SIMPLE INTEREST ON THE DECLINING BALANCE When simple interest is paid back in more than one payment, the method of computing interest is known as the declining balance method. You pay interest only on the amount of principal that you have not yet repaid. The more often you make payments, the lower the interest you'll pay. Most credit unions use this method.

EXAMPLE: Using the Simple Interest Formula on the Declining Balance

Using simple interest on the declining balance to compute interest charges, the interest on a 5 percent, \$1,000 loan repaid in two payments, one at the end of the first half-year and another at the end of the second half-year, would be \$37.50, as follows:

First payment:

$$\begin{aligned} I &= P \times r \times T \\ &= \$1,000 \times 0.05 \times 1/2 \\ &= \$25 \text{ interest plus } \$500, \text{ or } \$525 \end{aligned}$$

Second payment:

$$\begin{aligned} I &= P \times r \times T \\ &= \$500 \times 0.05 \times 1/2 \\ &= \$12.50 \text{ interest plus the remaining balance of } \$500, \text{ or } \$512.50 \end{aligned}$$

Total payment on the loan:

$$\$525 + \$512.50 = \$1,037.50$$

Using the APR formula,

$$\text{APR} = \frac{2 \times n \times I}{P(N + 1)} = \frac{2 \times 2 \times \$37.50}{\$1,000(2 + 1)} = \frac{\$150}{\$3,000} = 0.05, \text{ or } 5\%$$

a periodic charge for the use of credit, or other finance option to pay the bill in full within 30 days without interest by installments based on the account balance plus interest. Grace period of 20 to 25 days to pay a bill in full before you

revolving check credit. Also called a *bank line of credit*, this is a set amount that you can use by writing a special check. Payments over a set period. The finance charges are based on the month and on the outstanding balance.

popular. The average cardholder has more than nine credit and gasoline cards. Cardholders who pay off their balances own as *convenience* users. Cardholders who do not pay off known as *borrowers*.

offer a grace period, a time period during which no finance account. A **finance charge** is the total dollar amount you pay for your entire balance before the due date stated on your to pay a finance charge. Borrowers carry balances beyond grace charges. Many credit cards offer "teaser rates." These

interest A periodic charge for the use of credit.

revolving check credit A prearranged loan from a bank for a specified amount; also called a *bank line of credit*.

finance charge The total dollar amount paid to use credit.

Key Terms

Key terms appear in bold type within the text and are defined in the margins. A list of key terms and page references is located at the end of each chapter.

Your Personal Financial Plan Sheet References

The integrated use of the *Your Personal Financial Plan* sheets is highlighted with an icon. This visual helps connect this study resource into the learning process and continue to track personal financial habits.

methods can help you select the best course of action for funding current costs, educational expenses, and retirement needs of dependents.



Sheet 1 Personal Financial Data

s affect the operation of the financial system and personal financial

cate if the person would tend to "suffer" or to "benefit" from inflation.

	suffer	benefit
	suffer	benefit
	suffer	benefit
	suffer	benefit

sonal financial planning?

PRACTICE QUIZ 1-1



- How do personal and economic factors affect the operation of the decisions?
- For each of the following situations, indicate if the person would tend (Circle your answer)

A person with money in a savings account.	suffer	benefit
A person who is borrowing money.	suffer	benefit
A person who is lending money.	suffer	benefit
A person receiving a fixed-income amount.	suffer	benefit

- What are the advantages of effective personal financial planning?

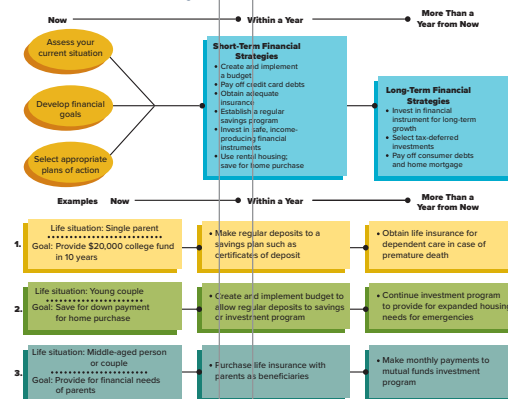
Practice Quizzes

Practice Quizzes at the end of each major section provide questions and exercises to assess knowledge of the main ideas. These will determine whether concepts have been mastered or if additional study is needed on certain topics.

Exhibits and Tables

Throughout the text, exhibits and tables visually illustrate important personal finance concepts and processes.

Exhibit 1-4 Financial Planning in Action



Focus on . . .

Personal Finance in Real Life

Margin Features

Each chapter contains several *Money Minute Focus*, and *CAUTION!* boxes. The *Money Minute Focus* boxes contain fun facts, information, and financial planning assistance for wise personal financial actions. The *CAUTION!* boxes highlight opportunities where students should take pause and think a decision through.

money minute focus

To develop financial literacy among children:

- (1) have a payday for chores, not an allowance;
- (2) explain opportunity cost, needs vs. wants;
- (3) start a savings jar or bank account for unexpected situations;
- (4) create a budgeting chart to show family spending;
- (5) sign an agreement with payment dates for money borrowed from parents;
- (6) have them buy shampoo, toothpaste, snacks to prepare them to be on their own.

STEP 2: Develop Your Financial Goals

You should periodically analyze your financial values and goals. The purpose of this action is to clarify your needs and wants. Specific financial goals are vital to financial planning. Others can suggest financial goals for you, but you must decide which goals to pursue. Your financial goals can range from spending all of your current income to developing an extensive savings and investment program for your future financial security.

CAUTION !

Don't become a victim of *lifestyle inflation*. When receiving a salary increase, overspending and increased debt may occur. Maintain your existing spending at a frugal level. Instead of buying a bigger house or new car, pay off debts and save for future needs. Keep living expenses and housing costs low; upgrade, maintain, and improve your current home. Increase your automatic savings amounts.

Digital Financial Literacy With . . .

Online resources (apps, websites, podcasts, blogs, videos, social media) are valuable for learning. As both a consumer and producer of digital content, you need to be able to locate, assess, create, and share information for wise money management. Also, online safety, privacy settings, social media sharing, and fake news can influence your financial well-being and career opportunities. Improving your digital financial literacy involves developing skills for using information to identify, research, and implement money decisions. Kiplinger.com and Kiplinger's Personal Finance magazine offer a wide variety of personal financial articles, videos, podcasts, calculators, and other features. A recent article in the magazine featured an individual who had a strong savings program but wanted to invest for a higher

Kiplinger's
PERSONAL FINANCE

return. His goals included continuing to save for retirement and buying a car and a house. He also kept some of his savings in an account as an emergency fund. As the years progressed, and marriage was on the horizon, consideration was given to some additional goals. These financial targets included buying a bigger house and renting out the current one. Kiplinger's Personal Finance staff also recommended that the couple consult a financial planner as they make plans to formally combine their finances.

ACTION STEPS FOR . . .

. . . Information Literacy

Based on your personal life situation, identify a financial goal and develop action steps to achieve that goal. Create a list of questions that might be used to validate the action steps.

. . . Financial Literacy

Locate the "Tools Gallery" at kiplinger.com and select one of the items. Prepare a visual (photo, posted) or brief video that explains how this tool might be used to achieve a personal financial goal.

. . . Digital Literacy

Select an article from kiplinger.com. Talk with others about the article. Describe how an online video or app might be used to communicate the information from these sources.

Digital Financial Literacy

Students are both consumers and producers of digital content. This feature provides students with an opportunity to enhance their digital financial literacy skills to identify, research, and implement money decisions.

Financial Literacy in Practice

Creating Goals and Assessing Financial Health

Using the S-M-A-R-T format, create a financial goal that you would like to accomplish regarding saving, spending, or sharing your time, talents, or financial resources.

Example		Your Goal
Specific ... Create an emergency fund ...		
Measurable ... of \$1,000 ...		
Action-oriented ... at a credit union ...		
Realistic ... by reduced spending on food away from home ...		
Time-based ... within the next six months.		

What are your next actions to achieve this financial goal?

- (1)
- (2)
- (3)

Financial Literacy in Practice

These features offer information that can assist you when faced with special situations and unique financial planning decisions. They challenge you to apply the concepts you have learned to your life and record personal responses.

Figure It Out!

This feature presents important mathematical applications relevant to personal finance situations and concepts.

Figure It Out!

Time Value of Money Calculations for Achieving Financial Goals

Achieving specific financial goals may require making regular savings deposits or determining an amount to be invested. By using time value of money calculations, you can compute the amount needed to achieve a financial goal.

Situation 1: Jonie Emerson has two children who will start college in 10 years. She plans to set aside \$1,500 a year for her children's college education during that period and estimates she will earn an annual interest rate of 5 percent on her savings. What amount can Jonie expect to have available for her children's college education when they start college?

Formula	Time Value of Money Table	Financial Calculator	Spreadsheet Software
$FV = \text{Annuity} \times \frac{(1 + i)^n - 1}{i}$ $FV = 1,500 \times \frac{(1 + .05)^{10} - 1}{.05}$ $FV = \$18,866.85$	Using Exhibit 1–8 (Chapter 1 Appendix), multiply the amount deposited by the factor for the interest rate and time period. $1,500 \times 12.578 = \$18,867$	$[FV] [PV] [N] [PMT] [CPT] [FV]$ $0 [PV] [N] [PMT] [CPT] [FV]$ $1,500 [PMT] [CPT] [FV]$ $= \$18,866.84$ (Different financial calculators will require different keystrokes.)	$= FV(\text{rate, periods, amount per period, amount})$ $= FV(0.05, 10, -1,500)$ $= \$18,866.84$

Conclusion: Based these calculations, if Jonie deposits \$1,500 a year at an annual interest rate of 5 percent, she would have \$18,867 available for her children's college education.

Situation 2: Don Calder wants to have \$50,000 available in 10 years as a reserve fund for his parents' retirement living expenses and health care. If he earns an average of 8 percent on his investments, what amount must he invest today to achieve this goal?

Formula	Time Value of Money Table	Financial Calculator	Spreadsheet Software
$PV = \frac{FV}{(1 + i)^n}$ $PV = \frac{50,000}{(1 + .08)^{10}}$ $PV = \$23,159.67$	Using Exhibit 1–C (Chapter 1 Appendix), multiply the amount desired by the factor for the interest rate and time period.	$[FV] [N] [PMT] [CPT] [PV]$ $50,000 [FV] [N] [PMT] [CPT] [PV]$ $0 [PMT] [CPT] [PV]$ $= \$23,159.67$ (Different financial calculators will require different keystrokes.)	$= PV(\text{rate, periods, payment, future value amount type})$ $= PV(0.08, 10, 0, -50,000)$ $= \$23,159.67$

WHAT WOULD YOU DO? You plan to spend \$5,000 on a smart television and home theater system. You are willing to spend some of your \$9,000 in savings. However, you want to finance the rest and pay it off in small monthly installments out of the \$400 a month you earn working part-time. How might you obtain a low-interest loan and make low monthly payments?

What Would You Do?

These situations, placed in the main text throughout each chapter, are designed to engage students in decision-making relating to the topics being discussed.

FinTech for Financial Literacy

Robo-advisors are automated programs to guide financial planning. These online financial planners may be completely autonomous or may be combined with human assistance. The process starts by responding to questions related to income, assets, debt, goals, and risk tolerance. Then, computer algorithms suggest actions for your investment portfolio and financial plan. Digital advisers have lower fees than other financial planners. Search nerdwallet.com for advice on selecting a robo-advisor.

First, *personal financial records and documents* help you plan the use of your resources. These provide evidence of business transactions and ownership of property, and are helpful in legal matters. Next, *personal financial statements* measure and guide your financial position and progress. Finally, your spending plan, or *budget*, is the basis for effective money management.

A System for Personal Financial Records

Purchase receipts, credit card statements, insurance policies, and tax forms are the basis of financial recordkeeping and personal economic choices. An organized system of financial records provides a basis for (1) handling daily business activities, such as bill paying; (2) planning and measuring financial progress; (3) completing required tax reports; (4) making effective investment decisions.

FinTech for Financial Literacy

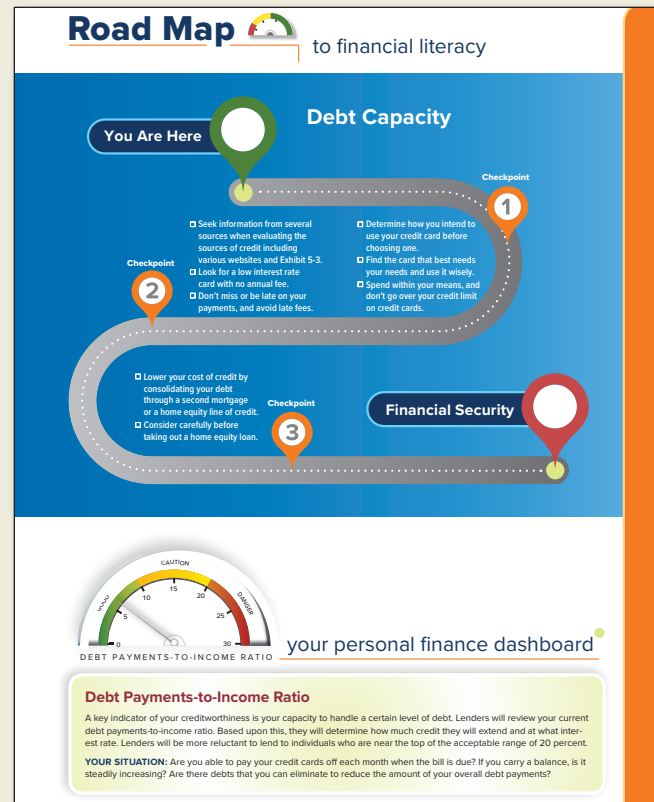
FinTech (financial technology) involves apps, software, and computers for banking and other financial activities. This margin feature highlights emerging and expanding use of FinTech, affecting various aspects of personal finance.

Focus on . . .

Practice and Assessment

Road Map to Financial Literacy and Your Personal Finance Dashboard

Having read the chapter, now consider your financial progress. The road map is designed to help you move forward in your personal financial journey. The dashboard is designed to help you monitor key performance indicators for your personal financial situation.



Chapter Summary

LOS.1 Consumer credit is the use of credit by individuals and families for personal needs. Among the advantages of using credit are the ability to purchase goods when needed and pay for them gradually, the ability to meet financial emergencies, convenience in shopping, and establishment of a credit rating. Disadvantages are that credit costs money, encourages overspending, and ties up future income.

LOS.2 Closed-end and open-end credit are two types of consumer credit. With closed-end credit, the borrower pays back a one-time loan in a stated period of time and with a specified number of payments. With

LOS.4 Compare the finance charge and the annual percentage rate (APR) as you shop for credit. Under the Truth in Lending Act, creditors are required to state the cost of borrowing so that you can compare credit costs and shop for credit.

LOS.5 If a billing error occurs on your account, notify the creditor in writing within 60 days. If the dispute is not settled in your favor, you can place your version of it in your credit file. You may also withhold payment on any defective goods or services you have purchased with a credit card as long as you have attempted to resolve the problem with the merchant.

Page	Topic	Formula
183	Calculating annual percentage rate (APR)	$APR = \frac{2 \times \text{Number of payment periods in one year} \times \text{Dollar cost of credit}}{\text{Loan amount (Total number of payments to pay off the loan + 1)}}$ $= \frac{2 \times n \times I}{P(N + 1)}$
184	Calculating simple interest	Interest (in dollars) = Principal borrowed \times Interest rate \times Length of loan in years $I = P \times r \times T$
172	Calculating debt payments-to-income ratio	Monthly debt payments (excluding mortgage payments) divided by net monthly income
172	Calculating debt-to-equity ratio	Total liabilities (excluding mortgage) divided by net worth

Self-Test Problems

- Suppose that your monthly net income is \$3,000. Your monthly debt payments include your student loan payment and a gas credit card, and they total \$400. What is your debt payments-to-income ratio?
- Suppose you borrow \$2,000 at 6 percent and will repay it in one payment at the end of one year. Use the simple interest formula to determine the amount of interest you will pay.

Solutions

Chapter Summary

Organized by learning objective, this concise content summary is a great study and self-assessment tool, located conveniently at the end of chapters.

Key Formulas

A list of key formulas and page references appears at the end of select chapters, grouped for easy reference.

Self-Test Problems

Self-test problems are worked out using step-by-step solutions so that students can see how they were solved. This user-friendly feature increases student comprehension of the material and gives confidence to solve the end-of-chapter problems.

Financial Planning Problems

A variety of problems allow students to put their quantitative analysis of personal financial decisions to work. Each problem is tagged with a corresponding learning objective for easy assessment.

1. A few years ago, Simon Powell purchased a home for \$220,000. Today, the home is worth \$300,000. His remaining mortgage balance is \$100,000. Assuming that Simon can borrow up to 80 percent of the market value, what is the maximum amount he can borrow? (LO5.2)
2. Louise McIntyre's monthly gross income is \$4,000. Her employer withholds \$800 in federal, state, and local income taxes and \$320 in Social Security taxes per month. Louise contributes \$160 each month to her IRA. Her monthly credit payments for Visa and MasterCard are \$70 and \$60, respectively. Her monthly payment on an automobile loan is \$570. What is Louise's debt payments-to-income ratio? Is Louise living within her means? (LO5.3)
3. Robert Sampson owns a \$140,000 townhouse and still has an unpaid mortgage of \$110,000. In addition to his mortgage, he has the following liabilities:

Visa	\$565
MasterCard	480

Financial Planning Problems



Financial Literacy Portfolio

To develop competencies related to specific financial decisions, this activity asks students to conduct action research beyond the class setting. Outcomes are presented in the form of a written, visual, or other creative format.

FINANCIAL LITERACY PORTFOLIO

RESEARCHING LOANS

Competency

Research and compare alternative credit sources.

Action Research

Based on this chapter and online research, complete the *Your Personal Financial Plan Sheet 17* for an auto loan or some other type of purchase on credit. (An Excel file for this sheet is available on Connect.)

Outcome

Report the findings and conclusion of the loan research with the use of an audio file, video, PowerPoint presentation, storyboard, or other visual format.

Real Life Personal Finance

Students can work through a hypothetical personal finance dilemma in order to apply concepts from the chapter. A series of questions reinforces successful mastery and application of these chapter topics.

REAL LIFE PERSONAL FINANCE

FINANCING SUE'S HONDA CIVIC

After shopping around, Sue Wallace decided on the car of her choice, a used Honda Civic. The dealer quoted her a total price of \$10,000. Sue decided to use \$2,000 of her savings as a down payment and borrow \$8,000. The salesperson wrote this information on a sales contract that Sue took with her when she set out to find financing.

When Sue applied for a loan, she discussed loan terms with the bank lending officer. The officer told her that the bank's policy was to lend only 80 percent of the total price of a used car. Sue showed the officer her copy of the sales contract, indicating that she had agreed to make a \$2,000, or 20 percent, down payment on the \$10,000 car, so this requirement caused her no problem. Although the bank was willing to make 48-month loans at an annual percentage rate of 9 percent on used cars, Sue chose a 36-month repayment schedule. She believed she could afford the higher payments, and she knew she would not have to pay as much interest if she paid off the loan at a faster rate. The bank lending officer provided Sue with a copy of the Truth-in-Lending Disclosure Statement shown here:

TRUTH-IN-LENDING DISCLOSURE STATEMENT (LOANS)			
Annual Percentage Rate	Finance Charge	Amount Financed	Total of 36 Payments
The cost of your credit as a yearly rate. 9%	The dollar amount the credit will cost you. \$1,158.32	The amount of credit provided to you or on your behalf. \$8,000.00	The amount you will have paid after you have made all payments as scheduled. \$9,158.32

You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization. ☐ I do not want an itemization.

Continuing Case

This feature allows students to apply course concepts in a life situation. It encourages students to evaluate the finances that affect a household and then respond to the resulting shift in needs, resources, and priorities through the questions at the end of each case.

CONTINUING CASE

CONSUMER CREDIT: ADVANTAGES, DISADVANTAGES, SOURCE, AND COSTS

Jamie Lee Jackson, age 27, full-time student and part-time bakery employee, has just moved into a bungalow-style, unfurnished home of her own. The house has only one bedroom, but the rent is manageable and it has plenty of room for Jamie Lee. She decided to give notice to her roommate that she would be leaving the apartment and the shared expenses after the incident with the stolen checkbook and credit cards a few weeks back. Jamie Lee had to dip into her emergency savings account to help cover the deposit and moving expenses because she had not planned to move out of the apartment and be on her own this soon.

Jamie Lee is in need of a few appliances, as there is a small laundry room but no washer or dryer, nor is there a refrigerator in the kitchen. She will also need a living room set and a television because she had only a bedroom set to move in with. Jamie is so excited to finally have the say in how she will furnish her home, and she began shopping for it as soon as the lease was signed.

The home appliance store was the first stop, where Jamie Lee chose a stacking washer and dryer set that would fit comfortably in the laundry space provided. A stainless steel refrigerator with a built-in television screen was her next choice, and the salesperson quickly began to write up the order. She informed Jamie Lee that if she opened up a credit card through the appliance store, she would receive a discount of 10 percent off her total purchase. As she waited for her credit to be approved, Jamie Lee decided to continue shopping for her other needed items.

Living room furniture was next on the list. Jamie Lee went to a local retailer who offered seemingly endless choices of complete sofa sets that included the coffee and end tables.

Daily Spending Diary

Do you buy a latte or juice every day before class? Do you and your friends meet for a movie once a week? How much do you spend on gas for your car each month? Do you like to donate to your favorite local charity a couple of times a year?

These everyday spending activities might go largely unnoticed, yet they have a significant effect on the overall financial health of an individual. The *Daily Spending Diary* sheets offer students a place to keep track of *every cent they spend* in any category. Careful monitoring and assessing of daily spending habits can lead to better control and understanding of your personal finances.

Spending Diary



"I ADMIRE PEOPLE WHO ARE ABLE TO PAY OFF THEIR CREDIT CARDS EACH MONTH."

Directions Your ability to monitor spending and credit use is a fundamental skill for wise money management and long-term financial security. Use the Daily Spending Diary sheets to record all of your spending in the categories provided. Be sure to indicate the use of a credit card with (CR). The Daily Spending Diary sheets are available at the end of Chapter 1 and in Connect Finance.

Questions

1. Describe any aspects of your spending habits that might indicate an overuse of credit.
2. How might your Daily Spending Diary provide information for wise credit use?

Daily Spending Diary

Directions: Record *every cent* of your spending each day in the categories provided, or create your own format to monitor your spending. You can indicate the use of a credit card with (CR). Comments should reflect what you have learned about your spending patterns and desired changes you might want to make in your spending habits. (Note: As income is received, record in Date column.)

Month:		Amount available for spending: \$					Amount to be saved: \$			
Date	Total Spending	Auto, Transportation	Housing, Utilities	Food (At Home, At Away)	Health, Personal Care	Education	Recreation, Leisure	Donations, Gifts	Other (note item, amount)	Comments
Example	\$83	\$20 (gas) (CR)		\$47 (H)		\$2 (pen)	\$4 (DVD rental)	\$10 (church)		This takes time, but it helps me control my spending.
1										
2										
3										
4										
5										
6										
7										
8										

Your Personal Financial Plan

The *Your Personal Financial Plan* sheets that correlate with sections of the text are conveniently located at the end of each chapter. The perforated worksheets ask students to work through the applications and record their own personal financial plan responses. These sheets apply concepts learned to their unique situation and serve as a road map to their personal financial future. Students can fill them out, rip them out, submit them for homework, and keep them filed in a safe spot for future reference. Excel spreadsheets for each of the *Your Personal Financial Plan* sheets are available through Connect.

Key websites and apps are provided to help students research and devise their personal financial plan, and the What's Next for Your Personal Financial Plan? section at the end of each sheet challenges students to use their responses to plan the next level, as well as foreshadow upcoming concepts.

Look for one or more *Your Personal Financial Plan* icons next to most Practice Quizzes. This graphic directs students to the *Personal Financial Plan* sheet that corresponds with the preceding section.

YOUR PERSONAL FINANCIAL PLAN 2

Name: _____ Date: _____

Setting Personal Financial Goals

Purpose: To identify personal financial goals and create an action plan.

Financial Planning Activities: Based on personal and household needs and values, identify specific goals that require action. This sheet is also available in an Excel spreadsheet format in Connect Finance.

Suggested Websites: thebalance.com, www.360financialliteracy.org



Short-Term Monetary Goals (less than two years)

Description	Amount needed	Months to achieve	Action to be taken	Priority
Example: Pay off credit card debt	\$850	12	Use money from pay raise	High

Intermediate Monetary Goals (two to five years)

Description	Amount needed	Months to achieve	Action to be taken	Priority

Long-Term Monetary Goals (beyond five years)

Description	Amount needed	Years to achieve	Action to be taken	Priority

Nonmonetary Goals

Description	Time frame	Actions to be taken
Example: Set up files for personal financial records and documents	Next 2–3 months	Locate all personal and financial records and add; set up files for various spending, saving, borrowing categories

What's Next for Your Personal Financial Plan?

- Based on various financial goals, calculate the savings deposits necessary to achieve those goals.
- Identify current economic trends that might influence various saving, spending, investing, and borrowing decisions.

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Online Support for Students and Instructors

Few textbooks provide such innovative and practical instructional resources for both students and teachers. The comprehensive teaching–learning package for *Focus on Personal Finance*, 7e, includes the following:

For Instructors

The Instructor’s site, delivered through Connect, provides the instructor with one resource for all supplementary material, including:

- *Teacher’s Resource Manual*: Revised by Jake Poysti and Brendon Mitschow, this supplement includes a “Course Planning Guide” with instructional strategies, course projects, and supplementary resource lists. The Chapter Teaching Materials section of the *Teacher’s Resource Manual* provides a chapter overview, the chapter objectives with summaries, introductory activities, and detailed lecture outlines with teaching suggestions. This section also includes concluding activities, ready-to-duplicate quizzes, supplementary lecture materials and activities, and answers to concept checks, end-of-chapter questions, problems, and cases.
- *Test Bank*, revised by Emily Bello, consists of true–false, multiple-choice, problem-solving, and essay questions. These test items are organized by the learning objectives for each chapter. This resource also includes answers and an indication of difficulty level.
- Chapter *PowerPoint Presentations*, revised and enhanced by Courtney Baggett, offer more than 300 visual presentations that may be edited and manipulated to fit a particular course format. If you choose to customize the slides, an online digital image library allows you to pick and choose from all of the figures and tables in the book.
- The *Focus on Personal Finance* blog (<https://kapoorfinancefocus.com/>) offers summaries of current articles with timely, relevant information to enhance the learning environment. The articles are keyed to the appropriate chapter and topic for ease of use. Each blog post includes a link to the original source, along

with discussion questions (useful for in-class or discussion boards) and teaching suggestions.

Remote Proctoring & Browser-Locking Capabilities



New remote proctoring and browser-locking capabilities, hosted by Proctorio within Connect, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within Connect, these services allow instructors to control students’ assessment experience by restricting browser activity, recording students’ activity, and verifying students are doing their own work.

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Tegrity in Connect is a tool that makes class time available 24/7 by automatically capturing every lecture. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio in a format that is easy to search, frame by frame. Students can replay any part of any class with easy-to-use, browser-based viewing on a PC, Mac, iPod, or other mobile device.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. Tegrity’s unique search feature helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn your students’ study time into learning moments immediately supported by your lecture. With Tegrity, you also increase intent listening and class participation by easing students’ concerns about note-taking. Using Tegrity in

Connect will make it more likely you will see students' faces, not the tops of their heads.

Test Builder in Connect

Available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed or administered within a LMS. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.

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- easily pinpoint the most relevant content through robust filtering options.
- manipulate the order of questions or scramble questions and/or answers.
- pin questions to a specific location within a test.
- determine your preferred treatment of algorithmic questions.
- choose the layout and spacing.
- add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

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Assurance of learning is an important element of many accreditation standards. *Focus on Personal Finance, 7e*, is designed specifically to support your assurance of learning initiatives. Each chapter in the book begins with a list of numbered learning objectives that appear throughout the chapter, as well as in the end-of-chapter problems and exercises. Every test bank question is also linked to one of these objectives, in addition to level of difficulty, topic area, Bloom's taxonomy level, and AACSB skill area. Connect, McGraw Hill's online homework solution, and EZ Test, McGraw Hill's easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted assurance of learning analysis and assessment.

AACSB Statement

McGraw Hill is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Focus on Personal Finance, 7e*, has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the general knowledge and skill guidelines found in the AACSB standards.

The statements contained in *Focus on Personal Finance, 7e*, are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Focus on Personal Finance, 7e*, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the test bank, labeled selected questions according to the six general knowledge and skills areas.

For Students (available through Connect and class instructor)

Digital Broadcasts

View chapter-related videos to see how personal finance topics are applied in everyday life.

Narrated Summary Videos

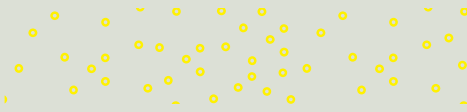
Every student learns differently, and the narrated summary videos were created with that in mind! These presentations guide students through understanding key topics and principles by presenting real-life examples based on chapter content.

And More!

Looking for more ways to study? Self-grading crossword puzzles will help students learn the material. Students can also access Excel templates for the *Your Personal Financial Plan* sheets and the *Daily Spending Diary*.



connect[®]

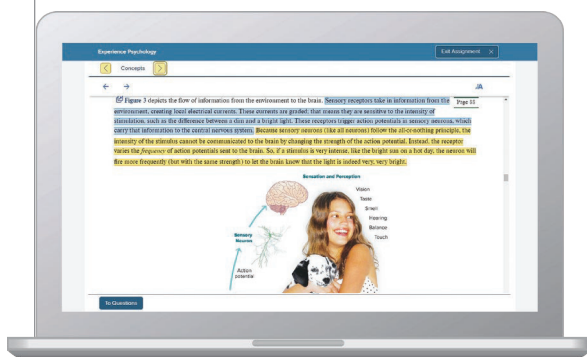


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- Jordan Cunningham,
Eastern Washington University



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Focus on Personal Finance

1

Personal Financial Planning in Action

3 Steps to Financial Literacy . . . Building an Emergency Fund

1 Determine the desired amount of your emergency fund based on monthly financial needs and income volatility. Most financial advisors recommend three to six months, or more.
Website: money.com

2 Monitor your daily spending to identify possible areas of reduced spending and increased savings.
App: BUDGT or Mint

3 Decide where to keep your emergency fund. Your choices include a bank, credit union, and other financial institutions.
Website: www.depositaccounts.com

What are the financial benefits of an emergency fund?

You will be able to avoid or minimize a financial crisis due to job loss, unexpected expenses, or other unforeseen situation. At the end of the chapter, *Your Personal Finance Road Map and Dashboard* will provide guidelines for measuring the progress of your emergency fund along with suggested actions to improve your personal financial activities.



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CHAPTER 1 LEARNING OBJECTIVES

In this chapter, you will learn to:

- LO1.1** Identify social and economic influences on financial literacy and personal financial decisions.
- LO1.2** Develop personal financial goals.
- LO1.3** Calculate time value of money situations to analyze personal financial decisions.
- LO1.4** Implement a plan for making personal financial and career decisions.

YOUR PERSONAL FINANCIAL PLAN SHEETS

1. Personal Financial Data
2. Setting Personal Financial Goals
3. Achieving Financial Goals Using Time Value of Money
4. Planning Your Career

Making Financial Decisions

Every person has some money. However, the amount, along with needs, financial choices, and unexpected situations, will vary from person to person. In this book, you will have the opportunity to assess your current situation, learn about varied financial paths, and move forward toward future financial security.

Financial literacy is the use of knowledge and skills for earning, saving, spending, and investing money to achieve personal, family, and community goals. The process includes developing attitudes, behaviors, and competencies to meet current and future financial obligations. Financial literacy leads to financial well-being and a lifetime of financial security, adapting to changing personal and economic circumstances. As shown in Exhibit 1-1, financial literacy is the result of information and knowledge, attitudes and abilities, and actions and behaviors.

Typical financial goals may include buying a new car or a larger home, pursuing advanced career training, contributing to charity, traveling extensively, and gaining financial self-sufficiency. To achieve these and other goals, people need to identify and set priorities. Financial and personal satisfaction are the result of an organized process that is commonly referred to as *personal money management* or *personal financial planning*.

Your Life Situation and Financial Planning

Personal financial planning is the process of managing your money to achieve personal economic satisfaction. This planning process allows you to control your financial situation. Every person, family, or household has a unique situation; therefore, financial decisions must be planned to meet specific needs and goals.

LO1.1

Identify social and economic influences on financial literacy and personal financial decisions.



ACTION ITEM

Do you have an emergency fund for unexpected expenses?

☐ Yes ☐ No

personal financial planning The process of managing your money to achieve personal economic satisfaction.

financial plan A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities.

adult life cycle The stages in the family situation and financial needs of an adult.

values Ideas and principles that a person considers correct, desirable, and important.

economics The study of how wealth is created and distributed.

A comprehensive financial program can enhance the quality of your life and increase your satisfaction by reducing future uncertainty. A **financial plan** is a formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities. You can create this document on your own (by using the Your Personal Financial Plan sheets at the end of each chapter), or you can seek assistance from a financial planner or use a money management app.

Advantages of effective personal financial planning include:

- Increased effectiveness when obtaining, using, and protecting your financial resources throughout your life.
- Expanded control of your financial affairs by avoiding excessive debt and dependence on others.
- Improved personal relationships resulting from well-planned and effectively communicated financial decisions.
- A sense of freedom from financial worries obtained by looking to the future, anticipating expenses, and achieving personal economic goals.

Many factors influence financial decisions. People in their 20s spend money differently from those in their 50s. Personal factors such as age, income, household size, and personal beliefs influence your spending and saving patterns. Your life situation or lifestyle is created by a combination of factors.

As our society changes, different types of financial needs evolve. Today people tend to get married at a later age, and more households have two incomes. Many households are headed by single parents. More than 2 million people provide care for both dependent children and elderly parents. We are also living longer, with over 80 percent of all Americans now alive expected to live well past age 65.

The **adult life cycle**—the stages in the family situation and financial needs of an adult—is an important influence on your financial activities and decisions. The stages are affected by age, marital status, number and age of household members, and employment situation. Your life situation is also affected by events such as graduation, dependent children leaving home, changes in health, engagement and marriage, divorce, birth or adoption of a child, retirement, a career change or a move to a new area, or the death of a spouse, family member, or other dependent.

In addition to being defined by your family situation, you are defined by your **values**—the ideas and principles that you consider correct, desirable, and important. Values have a direct influence on such decisions as spending now versus saving for the future or continuing school versus getting a job.

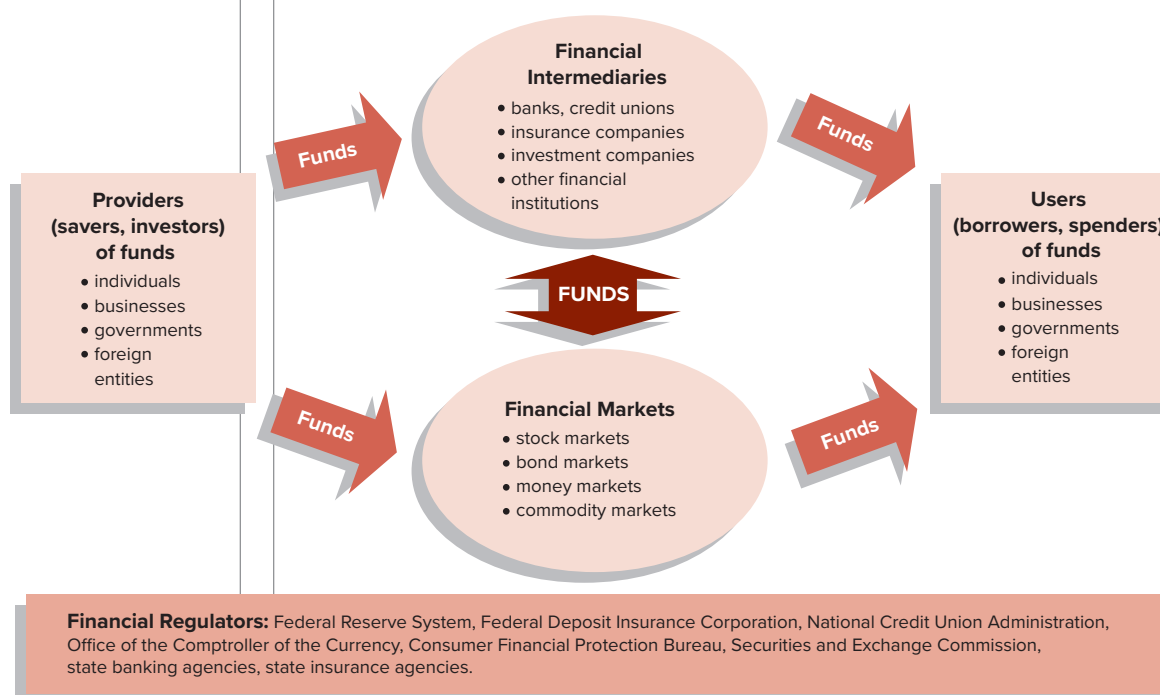
Financial Planning in Our Economy

Daily economic transactions facilitate financial planning activities. Exhibit 1–2 shows the monetary flows among providers and users of funds that occur in a financial system. These financial activities affect personal finance decisions. Investing in a bond, which is a *debt security*, involves borrowing by a company or government. In contrast, investing in stock, called an *equity security*, represents ownership in a corporation. Other financial market activities include buying and selling mutual funds, certificates of deposit (CDs), and commodity futures.

In most societies, the forces of supply and demand set prices for securities, goods, and services. **Economics** is the study of how wealth is created and distributed. The economic environment includes business, labor, and government working together to satisfy needs and wants. As shown in Exhibit 1–2, government agencies regulate financial activities. The Federal Reserve System, the central bank of the United States, has significant economic responsibility. The Fed, as it is often called, attempts to maintain an adequate money supply to encourage consumer spending, business growth, and job creation.

Exhibit 1–1 Planning for Personal Financial Literacy

INFORMATION AND KNOWLEDGE		
Financial Planning Activities		Information Sources
Obtaining (Chapter 1)	Spending (Chapters 6, 7)	<ul style="list-style-type: none">• Textbook reading, personal study• Friends, relatives, others• Online sources, apps, podcasts• Financial planning specialists
Planning (Chapters 2, 3)	Managing Risk (Chapters 8-10)	
Saving (Chapters 2, 4)	Investing (Chapters 11-13)	
Borrowing (Chapter 5)	Retirement and Estate Planning (Chapter 14)	
Attitudes and Abilities		
<ul style="list-style-type: none">• A desire for ongoing learning in varied settings and from others in diverse situations• A willingness to monitor spending and saving activities, to develop a realistic budget• Reconciliation of varied money attitudes among family and household members• A personal motivation to reduce or eliminate unplanned spending and credit use• Determination and discipline for achieving long-term goals, gaining financial independence• A commitment to share time, talents, and resources with others in need		
ACTIONS AND BEHAVIORS		
Short-term	Long-term	
<ul style="list-style-type: none">• Obtain needed career training• Create a financial document system• Track spending; create/implement a budget• Begin emergency fund/regular savings plan• Reduce or eliminate existing credit balances• Purchase appropriate insurance coverage	<ul style="list-style-type: none">• Monitor investments for changing needs• Seek actions for beneficial tax planning• Ongoing review of changing life situation• Adapt budget, financial plan, as needed• Assess changing career opportunities• Plan retirement income, living situation	
FINANCIAL LITERACY DEVELOPMENT		
EXPERIENTIAL LEARNING . . . to use interviews, observations, and market experiences for improved financial decisions.	RETENTION, REINFORCEMENT . . . to consistently use knowledge and skills for wise money management and personal financial decisions.	CRITICAL THINKING . . . to creatively analyze and solve problems for financial opportunities.
GLOBAL INFLUENCES The global economy influences financial activities. The U.S. economy is affected by both foreign investors and competition from foreign companies. American businesses compete against foreign companies for the spending dollars of American consumers. When the level of exports of U.S.-made goods is lower than the level of imported goods, more U.S. dollars leave the country than the dollar value of foreign currency coming into the United States. This reduces the funds available for domestic spending and investment. Also, if foreign companies decide not to invest in the United States, the domestic money supply is reduced. This reduced money supply can cause higher interest rates.		

Exhibit 1–2 The Financial System

inflation A rise in the general level of prices.

INFLATION Most people are concerned with the buying power of their money. **Inflation** is a rise in the general level of prices. In times of inflation, the buying power of the dollar decreases. For example, if prices increased 5 percent during the last year, items that previously cost \$100 would now cost \$105. This means more money is needed to buy the same amount of goods and services.

Inflation is most harmful to people with fixed incomes. Due to inflation, retired people and others whose incomes do not change can only afford fewer goods and services. Inflation can also have a negative affect on lenders of money. Unless an appropriate interest rate is charged, amounts repaid by borrowers in times of inflation have less buying power than the money they borrowed.

Inflation rates vary. During the late 1950s and early 1960s, the annual inflation rate was in the 1 to 3 percent range. During the late 1970s and early 1980s, the cost of living increased 10 to 12 percent annually. At a 12 percent annual inflation rate, prices double (and the value of the dollar is cut in half) in about six years. To find out how fast prices (or your savings) will double, use the *Rule of 72*: Just divide 72 by the annual inflation (or interest) rate.

EXAMPLE: Rule of 72

An annual inflation rate of 4 percent, for example, means prices will double in 18 years ($72 \div 4 = 18$). Regarding savings, if you earn 6 percent, your money will double in 12 years ($72 \div 6 = 12$).

More recently, the reported annual price increase for goods and services as measured by the consumer price index has been in the 2 to 4 percent range. The *consumer price index (CPI)*, computed and published by the Bureau of Labor Statistics, is a measure of the average change in the prices urban consumers pay for a fixed “basket” of goods and services.

Inflation rates can be deceptive since the price index is based on certain items. Many people face *hidden inflation* since the cost of necessities (food, gas, health care) on which they spend the greatest proportion of their money may rise at a higher rate than that of nonessential items, which could be dropping in price. This results in a reported inflation rate much lower than the actual cost-of-living increase being experienced by consumers.

Deflation, a decline in prices, can also have damaging economic effects. As prices drop, consumers expect they will go even lower. As a result, consumers cut their spending, which causes damaging economic conditions. While widespread deflation is unlikely, certain items may be affected and their prices will drop.

CAUTION !



Don't become a victim of *lifestyle inflation*. When receiving a salary increase, overspending and increased debt may occur. Maintain your existing spending at a frugal level. Instead of buying a bigger house or new car, pay off debts and save for future needs. Keep living expenses and housing costs low; upgrade, maintain, and improve your current home. Increase your automatic savings amounts.

INTEREST RATES In simple terms, interest rates represent the cost of money. Like everything else, money has a price. The forces of supply and demand usually influence interest rates. When consumers expand their saving and investing, the supply of money available for lending increases and interest rates tend to decrease. However, as borrowing by consumers, businesses, and government increases, interest rates are likely to rise due to an increased demand for money.

Interest rates affect your financial planning activities. The earnings you receive as a saver or an investor reflect current interest rates as well as a *risk premium* based on such factors as the length of time your funds will be used by others, expected inflation, and the extent of uncertainty about getting your money back. Risk is also a factor in the interest rate you pay as a borrower. People with poor credit ratings pay a higher interest rate than people with good credit ratings. Interest rates influence many financial decisions.

WHAT WOULD YOU DO? The future direction of interest rates is usually uncertain. You are trying to decide how interest rates might affect your savings and investing decisions. What information sources would help you better understand how changing interest rates might affect the amount saved and invested by individuals? If interest rates are expected to rise, or fall, what actions might be appropriate for your savings and investment decisions?



Financial Planning Activities

To achieve a secure financial position, you must coordinate several components through an organized plan and wise decision making.

OBTAINING (CHAPTER 1) You obtain financial resources from employment, investments, or ownership of a business. Obtaining financial resources is the foundation of financial planning.

PLANNING (CHAPTERS 2, 3) Planned spending with a budget is vital for achieving goals and future financial security. Efforts to anticipate expenses along with making certain financial decisions can reduce taxes, increase savings, and result in less financial stress.

SAVING (CHAPTERS 2, 4) Long-term financial security starts with a regular savings plan for emergencies, unexpected bills, replacement of major items, and the purchase of expensive goods and services, such as a college education, a boat, or a vacation home. Once you have established a basic savings plan, use additional money for investments that offer greater financial growth.

bankruptcy A set of federal laws allowing you to either restructure your debts or remove certain debts.

BORROWING (CHAPTER 5) Wise use of credit can contribute to your financial goals. In contrast, the overuse and misuse of credit will likely result in a person's debts exceeding the resources available to pay those debts. **Bankruptcy** is a set of federal laws allowing you to either restructure your debts or remove certain debts. The people who declare bankruptcy may have avoided this trauma with wise spending and careful borrowing decisions. Chapter 5 discusses bankruptcy in detail.

SPENDING (CHAPTERS 6, 7) Financial planning is not designed to prevent enjoyment of life but to help you obtain what you want. Too often purchases are made without considering the financial consequences. Some people shop compulsively, creating financial difficulties. Use a spending plan to control your living expenses and other financial obligations. Spending less than you earn is the only way to achieve long-term financial security.

MANAGING RISK (CHAPTERS 8, 9, 10) Adequate insurance coverage is another area for financial planning decisions. Some types of insurance are commonly overlooked. For example, the number of people who suffer disabling injuries or diseases at age 50 is greater than the number who die at that age, so people may need disability insurance more than they need life insurance. Yet research reveals that most people have adequate life insurance but few have disability insurance.

INVESTING (CHAPTERS 11, 12, 13) Although many types of investments are available, people invest for two primary reasons. Those interested in *current income* select investments that pay regular dividends or interest. In contrast, investors who desire *long-term growth* choose stocks, mutual funds, real estate, and other investments with potential for increased future value. You can achieve investment diversification by creating a *portfolio* with varied assets, such as stocks, bond mutual funds, real estate, and collectibles such as rare coins.

RETIREMENT AND ESTATE PLANNING (CHAPTER 14) Most people desire financial security upon completion of full-time employment; however, retirement planning also involves thinking about your housing situation, your recreational activities, and possible part-time work or volunteering.

Transfers of money or property to others should be timed, if possible, to minimize the taxes and maximize the benefits for those receiving the financial resources. Knowledge of property transfer methods can help you select the best course of action for funding current and future living costs, educational expenses, and retirement needs of dependents.

PRACTICE QUIZ 1–1



Sheet 1 Personal Financial Data

- How do personal and economic factors affect the operation of the financial system and personal financial decisions?
- For each of the following situations, indicate if the person would tend to “suffer” or to “benefit” from inflation. (Circle your answer)

A person with money in a savings account.	suffer	benefit
A person who is borrowing money.	suffer	benefit
A person who is lending money.	suffer	benefit
A person receiving a fixed-income amount.	suffer	benefit

- What are the advantages of effective personal financial planning?

Developing and Achieving Financial Goals

Why do so many Americans—living in one of the richest countries in the world—have money problems? The answer is based on two main factors. The first is poor planning and weak money management habits in areas such as spending and the use of credit. The other factor is extensive advertising, selling efforts, and product availability that encourage overbuying. Achieving financial well-being starts with clear financial goals.

Types of Financial Goals

What would you like to do tomorrow? Believe it or not, that question involves goal setting, which may be viewed in three time frames:

- *Short-term goals* will be achieved within the next year or so, such as saving for a vacation or paying off small debts.
- *Intermediate goals* have a time frame of two to five years.
- *Long-term goals* involve financial plans that are more than five years off, such as retirement, money for children's college education, or the purchase of a vacation home.

Long-term goals should be planned in coordination with short-term and intermediate goals. Setting and achieving short-term goals is commonly the basis for moving toward success of long-term goals. For example, saving for a down payment to buy a house is a short-term goal that can be a foundation for a long-term goal: owning your own home.

A goal of obtaining increased career training is different from a goal of saving money to pay a semiannual auto insurance premium. *Consumable-product goals* usually occur on a periodic basis and involve items that are used up relatively quickly, such as food, clothing, and entertainment. *Durable-product goals* usually involve infrequently purchased, expensive items such as appliances, cars, and sporting equipment; these consist of tangible items.

In contrast, many people overlook *intangible-purchase, or nonfinancial, goals*. These goals relate to personal relationships, health, education, community service, and leisure. Examples include learning a new skill to expand your career, participating in community service activities, and creating art through writing, photography, drawing, or sculpture.

WHAT WOULD YOU DO? Each day, people encounter various circumstances that hinder their financial goals. Personal and household situations change, or economic conditions result in unexpected consequences. What situations in your life might influence the financial goals that you decide to pursue? Describe various actions you might take to achieve your financial goals.

Goal-Setting Guidelines

An old saying goes, “If you don’t know where you’re going, you might end up somewhere else and not even know it.” Goal setting is central to financial decision making. Your financial goals are the basis for planning, implementing, and measuring the progress of your spending, saving, and investing activities. Exhibit 1–1 offers short-term and long-term financial actions that can be the basis for your financial goals.

Your financial goals should take a SMART approach, in that they are:

- **S**—*specific*, so you know exactly what your goals are and can create a plan designed to achieve those objectives.

LO1.2

Develop personal financial goals.



ACTION ITEM

Do you have specific financial goals that you hope to achieve in the future?

☐ Yes ☐ No

money minute focus



To become financially disciplined:

- > Select a word or short phrase to describe your goal.
- > Use a visual reminder—a photo, sticky note, or note card on your desk, computer, bathroom mirror, refrigerator, or car dashboard.
- > Keep a financial diary or journal.
- > Obtain support; work with a friend, roommate, spouse, or group to stay accountable.

Financial goals often lack the “why” to achieve meaningful results. If you are unable to answer “why,” this may indicate a goal that is not appropriate. What is the “why” for one of your financial goals?

Financial Literacy in Practice

Creating Goals and Assessing Financial Health

Using the S-M-A-R-T format, create a financial goal that you would like to accomplish regarding saving, spending, or sharing your time, talents, or financial resources.

Example	Your Goal
Specific ... Create an emergency fund ...	
Measurable ... of \$1,800 ...	
Action-oriented ... at a credit union ...	
Realistic ... by reduced spending on food away from home ...	
Time-based ... within the next six months.	

What are your next actions to achieve this financial goal?

- (1)
(2)
(3)

To evaluate your current financial activities for achieving goals, respond with a **YES** or **NO** answer to the following items:

	Yes	No
1. Do you have a budget or spending plan that guides your financial activities?		
2. Each month, do you pay your bills and credit card accounts on time?		
3. Do you maintain a record of the amount spent on various items each month?		
4. Is your monthly spending less than your income?		
5. If you had an unexpected major expense, would you have access to funds to cover this cost?		
6. Do you know the amount in the bank account you use for daily spending?		
7. Do you have money automatically set aside each month in a savings or investment program?		
8. Does your recordkeeping system allow you to quickly locate important documents?		
9. Do you know the balance of your credit card accounts and other loans?		
10. Over the past year, have you avoided late fees for credit cards, loans, and bills?		

A positive answer to eight or more of these questions indicates a strong personal financial situation.

10

- **M—measurable**, by a specific amount. For example, “Accumulate \$5,000 in an investment fund within three years” is more measurable than “Put money into an investment fund.”
- **A—action-oriented**, providing the basis for the personal financial activities you will undertake. For example, “Reduce credit card debt” will usually mean actions to pay off amounts owed.

- **R**—*realistic*, involving goals based on your income and life situation. For example, it is probably not realistic to expect to buy a new car each year if you are a full-time student.
- **T**—*time-based*, indicating a time frame for achieving the goal, such as three years. This allows you to measure your progress toward your financial goals.

Once you identify a S-M-A-R-T goal, a system is needed to achieve the goal. Actions steps along with a timeline can be the basis for achieving financial goals. The *Financial Literacy in Practice* feature “Creating Goals and Assessing Financial Health” can guide your goal-setting activities.

PRACTICE QUIZ 1–2



Sheet 2 Setting Personal Financial Goals

1. What are examples of long-term goals?
2. What are the main characteristics of useful financial goals?
3. Match the following common goals to the life situation of the people listed.

a. Pay off student loans	_____ A young couple without children
b. Start a college savings fund	_____ An older person living alone
c. Increase retirement contributions	_____ A person who just completed college
d. Finance long-term care	_____ A single mother with a preschool daughter

Opportunity Costs and the Time Value of Money

In every financial decision, you sacrifice something to get something that you consider more desirable. For example, you might not buy an item now to save for a future purchase or long-term financial security. Or you might obtain the use of an expensive item now by making credit payments from future earnings.

Opportunity cost is what you give up when making a choice. This cost, often referred to as a *trade-off*, cannot always be measured in dollars. Opportunity costs should be viewed in terms of both personal and financial resources.

Personal Opportunity Costs

An important personal opportunity cost is the time used for one activity cannot be used for other activities. Time used for studying, working, or shopping will not be available for other uses. Other personal opportunity costs relate to health. Poor eating habits, lack of sleep, or avoiding exercise can result in illness, time away from school or work, increased health care costs, and reduced financial security. Similar to financial resources, your personal resources (time, energy, health, abilities, knowledge) require planning and wise management.

Financial Opportunity Costs

Would you rather have \$100 today or \$103 a year from now? How about \$120 a year from now instead of \$100 today? Your choice among these alternatives will depend on several factors, including current needs, future uncertainty, and current interest rates. If you wait to receive your money in the future, you want to be rewarded for the risk. The **time value of money** involves increases in an amount of money as a result of interest earned. Saving

LO1.3

Calculate time value of money situations to analyze personal financial decisions.



ACTION ITEM

Do you set aside an amount of money on a regular basis for various financial goals?

☐ Yes ☐ No

opportunity cost What a person gives up by making a choice.

time value of money Increase in an amount of money as a result of interest earned.

or investing a dollar instead of spending it today results in a future amount greater than a dollar. Every time you spend, save, invest, or borrow money, you should consider the time value of that money as an opportunity cost. Spending money from your savings account means lost interest earnings; however, what you buy with that money may have a higher priority than the interest earned.

WHAT WOULD YOU DO? Savings is the foundation for long-term financial security. However, most people do not make saving a priority. What would you tell someone who says they do not have enough money available to save anything? Describe actions you might take to start or expand your savings program.



INTEREST CALCULATIONS Three amounts are used to calculate the time value of money for savings in the form of interest earned:

- The amount of the savings (commonly called the *principal*).
- The annual interest rate.
- The length of time the money is on deposit.

These three items are multiplied to obtain the amount of interest. Simple interest is calculated as follows:

$$\begin{array}{|c|} \hline \text{Amount in} \\ \text{savings} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Annual} \\ \text{interest} \\ \text{rate} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Time} \\ \text{period} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Interest} \\ \hline \end{array}$$

For example, \$500 on deposit at 6 percent for six months would earn \$15 ($\$500 \times 0.06 \times 6/12$ or $\frac{1}{2}$ year).

The increased value of money from interest earned involves two types of time value of money calculations, future value and present value. The amount that will be available at a later date is called the *future value*. In contrast, the current value of an amount desired in the future is the *present value*. Five methods are available for calculating time value of money:

1. *Formula calculation.* With this method, math notations are used to compute future value and present value.
2. *Time value of money tables.* In the past, before calculators and computers, future value and present value tables were used for easier computing (see Chapter 1 Appendix).
3. *Financial calculator.* Various calculators are programmed with financial functions. Both future value and present value calculations are performed using appropriate keystrokes.
4. *Spreadsheet software.* Excel and other spreadsheet programs have built-in formulas for financial calculations, including future value and present value.
5. *Websites and apps.* Many time value of money calculators are available online and through mobile devices. These programs calculate the future value of savings as well as loan payment amounts.

FUTURE VALUE OF A SINGLE AMOUNT Money deposited in a bank account earns interest. **Future value** is the amount to which current savings will grow based on a certain interest rate and a certain time period. For example, \$100 deposited in a 6 percent account for one year will grow to \$106. This amount is computed as follows:

$$\text{Future value} = \$100 + (\$100 \times 0.06 \times 1 \text{ year}) = \$106$$

future value The amount to which current savings will increase based on a certain interest rate and a certain time period; also referred to as *compounding*.

The same process could be continued for a second, third, and fourth year; however, the computations would be time-consuming. The previously mentioned calculation methods make the process easier.

An example of the future value of a single amount might involve an investment of \$650 earning 8 percent for 10 years. This situation would be calculated as follows:

Formula	Time Value of Money Table	Financial Calculator	Spreadsheet Software
$FV = PV(1 + i)^n$ $FV = 650(1 + 0.08)^{10}$ $FV = \$1,403.30$ <i>i</i> —interest rate <i>n</i> —number of time periods	Using Exhibit 1–A in the Chapter 1 Appendix, multiply the amount deposited by the factor for the interest rate and time period. $650 \times 2.159 = \$1,403.35$ (The slight difference in this answer is the result of rounding the decimal places.)	PV , I/Y , N , PMT , CPT , FV 650 PV , 8 I/Y , 10 N , 0 PMT , CPT FV $\$1,403.30$ (Different financial calculators will require different keystrokes.)	$=FV(\text{rate, periods, amount per period, single amount})$ $=FV(0.08, 10, 0, -650)$ $=\$1,403.30$

NOTE: Expanded explanations of these time value of money calculation methods are presented in the Chapter 1 Appendix.

Future value computations may be referred to as *compounding*, since interest is earned on previously earned interest. Compounding allows the future value of a deposit to grow faster than it would if interest were paid only on the original deposit. The sooner you make deposits, the greater the future value will be. Depositing \$1,000 in a 5 percent account at age 40 will give you \$3,387 at age 65. Making the \$1,000 deposit at age 25 would result in an account balance of \$7,040 at age 65.

FUTURE VALUE OF A SERIES OF DEPOSITS

Many savers and investors make regular deposits. An *annuity* is a series of equal deposits or payments. To determine the future value of equal yearly savings deposits, time value of money tables can be used (see Exhibit 1–B in the Chapter 1 Appendix). For this table to be used, and for an annuity to exist, the deposits must earn a constant interest rate. For example, if you deposit \$50 a year at 7 percent for six years, starting at the end of the first year, you will have \$357.65 at the end of that time ($\$50 \times 7.153$). The nearby *Figure It Out!* feature presents examples of using future value to achieve financial goals.

PRESENT VALUE OF A SINGLE AMOUNT Another aspect of the time value of money involves determining the current value of an amount desired in the future. **Present value** is the current value for a future amount based on a particular interest rate for a certain period of time. Present value computations, also called *discounting*, allow you to determine how much to deposit now to obtain a desired total in the future. For example, using the present value table (Exhibit 1–C in the Chapter 1 Appendix), if you want \$1,000 five years from now and you earn 5 percent on your savings, you need to deposit \$784 ($\$1,000 \times 0.784$).

PRESENT VALUE OF A SERIES OF DEPOSITS You may also use present value computations to determine how much you need to deposit now so that you can take a certain amount out of the account for a desired number of years. For example, if you want to take \$400 out of an investment account each year for nine years and your money is earning an annual rate of 8 percent, you can see from Exhibit 1–D (Chapter 1 Appendix) that you would need to make a current deposit of \$2,498.80 ($\400×6.247).

Additional details for the formulas, tables, and other methods for calculating time value of money are presented in the appendix at the end of this chapter.

money minute focus



If you invest \$2,000 a year (at 9 percent) from ages 35 to 65 (31 years), these funds will grow to \$352,427 by age 65. However, if you save \$2,000 a year (at 9 percent) **for only 10 years** from ages 25 to 34, at age 65 you would have a retirement fund worth \$545,344! Most important: Start investing something now!

present value The current value for a future amount based on a certain interest rate and a certain time period; also referred to as *discounting*.

Figure It Out!

Time Value of Money Calculations for Achieving Financial Goals

Achieving specific financial goals may require making regular savings deposits or determining an amount to be invested. By using time value of money calculations, you can compute the amount needed to achieve a financial goal.

Situation 1: Jonie Emerson has two children who will start college in 10 years. She plans to set aside \$1,500 a year for her children's college education during that period and estimates she will earn an annual interest rate of 5 percent on her savings. What amount can Jonie expect to have available for her children's college education when they start college?

Formula	Time Value of Money Table	Financial Calculator	Spreadsheet Software
$FV = \text{Annuity} \frac{(1+i)^n - 1}{i}$ $FV = 1,500 \frac{(1+.05)^{10} - 1}{.05}$ $FV = \$18,866.85$	Using Exhibit 1-B (Chapter 1 Appendix), multiply the amount deposited by the factor for the interest rate and time period. $1,500 \times 12.578 = \$18,867$	$PV, I/Y, N, PMT, CPT, FV$ $0, 5, 10, 1,500$ PMT, CPT, FV \$18,866.84 (Different financial calculators will require different keystrokes.)	$= FV(\text{rate, periods, amount per period, amount})$ $= FV(0.05, 10, -1,500)$ $= \$18,866.84$

Conclusion: Based these calculations, if Jonie deposits \$1,500 a year at an annual interest rate of 5 percent, she would have \$18,867 available for her children's college education.

Situation 2: Don Calder wants to have \$50,000 available in 10 years as a reserve fund for his parents' retirement living expenses and health care. If he earns an average of 8 percent on his investments, what amount must he invest today to achieve this goal?

Formula	Time Value of Money Table	Financial Calculator	Spreadsheet Software
$PV = \frac{FV}{(1+i)^n}$ $PV = \frac{50,000}{(1+.08)^{10}}$ $PV = \$23,159.67$	Using Exhibit 1-C (Chapter 1 Appendix), multiply the amount desired by the factor for the interest rate and time period. $50,000 \times 0.463 = \$23,150$	$FV, N, I/Y, PMT, CPT, PV$ $50,000, 10, 8, 0$ PMT, CPT, PV \$23,159.67 (Different financial calculators will require different keystrokes.)	$= PV(\text{rate, periods, payment, future value amount type})$ $= PV(0.08, 10, 0, -50,000)$ $= \$23,159.67$

Conclusion: Don needs to invest approximately \$23,160 today for 10 years at 8 percent to achieve the desired financial goal.

NOTE: Expanded explanations of these time value of money calculation methods are presented in the **Chapter 1 Appendix**.

PRACTICE QUIZ 1-3

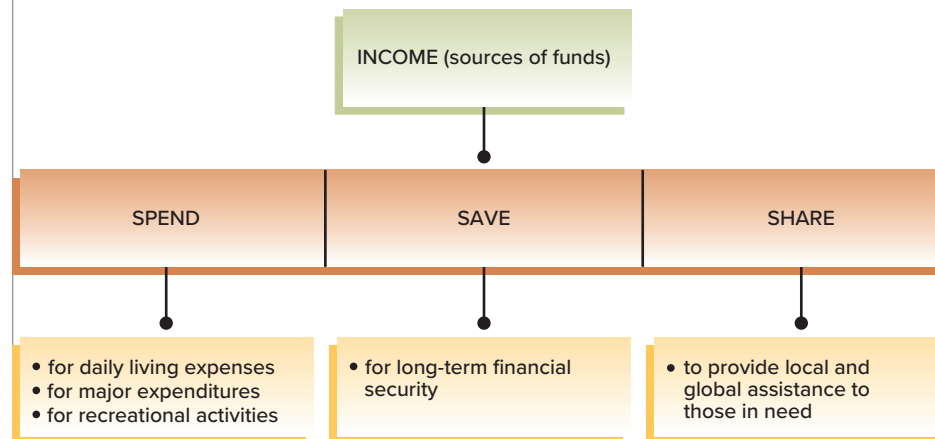


Sheet 3 Achieving Financial Goals Using Time Value of Money

- What are some examples of personal opportunity costs?
- What does time value of money measure?
- Use the time value of money tables in Exhibit 1-3 (or a financial calculator) to calculate the following:
 - The future value of \$100 at 7 percent in 10 years.
 - The future value of \$100 a year for six years earning 6 percent.
 - The present value of \$500 received in eight years with an interest rate of 8 percent.

A Plan for Personal Financial Planning

Everyone makes hundreds of decisions each day. Most of these choices are quite simple and have few consequences. However, some are complex and have long-term effects on our personal and financial situations, as shown here:

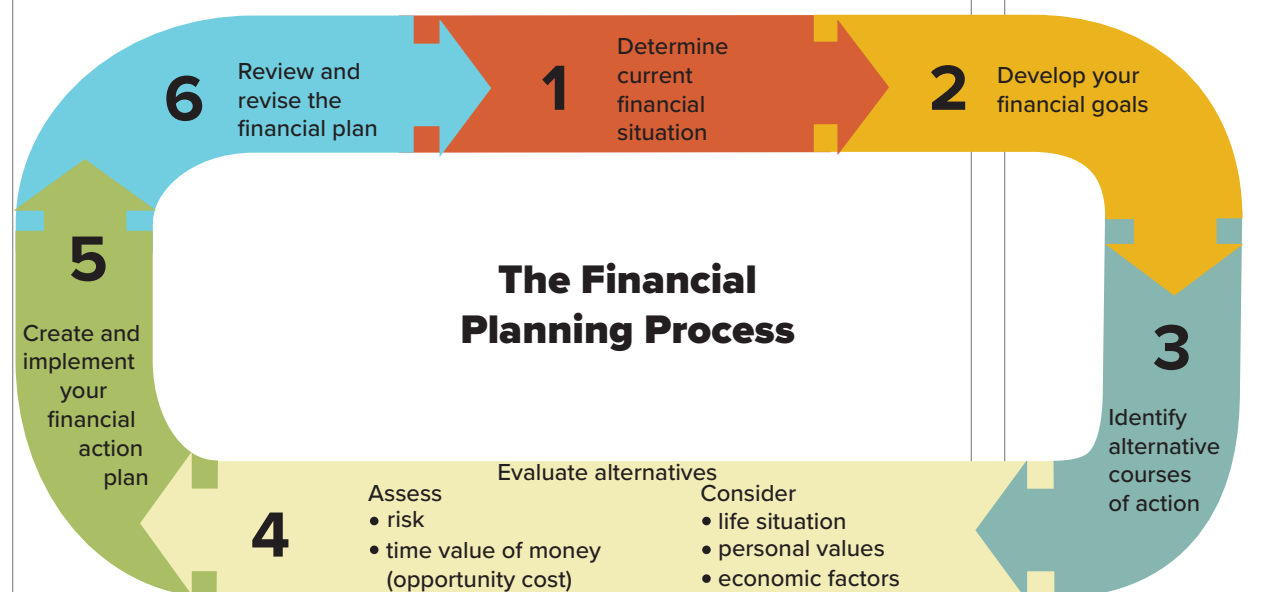


While everyone makes decisions, few people consider how to make better decisions. As Exhibit 1–3 shows, the financial planning process can be viewed in six steps that can be adapted to any life situation.

STEP 1: Determine Your Current Financial Situation

In the first step, determine your current financial situation regarding income, savings, living expenses, and debts. Prepare a list of assets and debts, along with amounts spent for various items is the foundation for financial planning activities. The personal financial statements discussed in Chapter 2 will provide the information needed for this phase of financial decision making.

Exhibit 1–3 The Financial Planning Process



LO1.4

Implement a plan for making personal financial and career decisions.



ACTION ITEM

Do you consider various types of risks when making personal financial decisions?

☐ Yes ☐ No

EXAMPLE: Step 1 - Determine Your Current Situation

Carla Elliot plans to complete her college degree in the next two years. She works two part-time jobs in an effort to pay her educational expenses. Currently, Carla has \$700 in a savings account and existing debt that includes a \$640 balance on her credit card and \$2,300 in student loans. What additional information should Carla have available when planning her personal finances?

Example from Your Life

What actions have you taken to determine your current financial situation?

money minute focus

To develop financial literacy among children:

- (1) have a payday for chores, not an allowance;
- (2) explain opportunity cost, needs vs. wants;
- (3) start a savings jar or bank account for unexpected situations;
- (4) create a budgeting chart to show family spending;
- (5) sign an agreement with payment dates for money borrowed from parents;
- (6) have them buy shampoo, toothpaste, snacks to prepare them to be on their own.

STEP 2: Develop Your Financial Goals

You should periodically analyze your financial values and goals. The purpose of this action is to clarify your needs and wants. Specific financial goals are vital to financial planning. Others can suggest financial goals for you, but *you* must decide which goals to pursue. Your financial goals can range from spending all of your current income to developing an extensive savings and investment program for your future financial security.

EXAMPLE: Step 2 - Develop Financial Goals

Carla Elliot's main financial goals for the next two years are to complete her college degree and to reduce the amounts owed. What other goals might be appropriate for Carla?

Example from Your Life

Describe some short-term or long-term goals that might be appropriate for your life situation.

STEP 3: Identify Alternative Courses of Action

Identifying alternatives is crucial when making decisions. Although many factors can influence available alternatives, possible courses of action usually fall into these categories:

- *Continue the same course of action.* For example, you may determine that the amount you have saved each month is still appropriate.
- *Expand the current situation.* You may choose to save a larger amount each month.
- *Change the current situation.* You may decide to use a money market account instead of a regular savings account.
- *Take a new course of action.* You may decide to use your monthly saving budget to pay off credit card debts.

Not all of these categories will apply to every decision; they represent possible courses of action. For example, if you stop working full-time to go to school, you must

Identify several alternatives under the category “Take a new course of action.” Creativity in decision making is vital. Considering all possible alternatives will help you make more effective and satisfying decisions. For instance, most people believe they must own a car to get to work or school. However, they should consider other alternatives such as public transportation, carpooling, renting a car, shared ownership of a car, or using a ride-sharing service.

Remember, when you decide not to take action, you elect to “do nothing,” which can be a dangerous alternative.

EXAMPLE: Step 3 - Identify Alternatives

To achieve her goals, Carla Elliot has several options available. She could reduce her spending, seek a higher-paying part-time job, or use her savings to pay off some of her debt. What additional alternatives might she consider?

Example from Your Life

List various alternatives for achieving the financial goals you identified in Step 2.

STEP 4: Evaluate Your Alternatives

Next, evaluate possible courses of action, taking into consideration your life situation, personal values, and current economic conditions. How will the ages of dependents affect your saving goals? How do you like to spend leisure time? How will changes in interest rates affect your financial situation?

CONSEQUENCES OF CHOICES Every decision closes off alternatives. For example, a decision to invest in stock may mean you cannot take a vacation. A decision to go to school full-time may mean you cannot work full-time. Opportunity cost is what you give up by making a choice. These trade-offs cannot always be measured in dollars. However, the resources you give up (money or time) have a value that is lost.

EVALUATING RISK Uncertainty is also a part of every decision. Selecting a college major and choosing a career field involve risk. What if you don't like working in a field or cannot obtain employment? Other decisions involve a very low degree of risk, such as putting money in an insured savings account or purchasing items that cost only a few dollars. Your chance of losing something of great value is not present in these situations.

In many financial decisions, identifying and evaluating risk are difficult. Common risks to consider include:

- Inflation risk, due to rising or falling (deflation) prices that cause changes in buying power.
- Interest rate risk, resulting from changes in the cost of money, which can affect your costs (when you borrow) and benefits (when you save or invest).
- Income risk may result from loss of a job or encountering illness.
- Personal risk involves tangible and intangible factors that create a less than desirable situation, such as health or safety concerns.

FinTech for Financial Literacy



FinTech (financial technology) involves apps, websites, computers, and other automated systems for banking and personal finance activities. Artificial intelligence, robotics, drones, blockchain, and other innovations will influence how you earn, save, spend, and invest. Robo-advisors, for example, offer personalized, investment advice based on your income, assets, debt, financial goals, and risk tolerance. Other FinTech operations include crowdfunding, cryptocurrencies, budgeting and payment apps, and online start-ups providing insurance.