

**G-W** Goodheart-Willcox Publisher

# Succeeding in Life and Career

Frances Baynor Parnell

Tenth Edition



*Presentations for PowerPoint*

# Succeeding in Life and Career

by Yvonne Gentzler

**G-W**  
PUBLISHER

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# Chapter 17

## Managing Personal Finances

# **Section 17-1**

## **Using Financial Services**

# Objectives

- Describe various services offered by financial institutions.
- Write and endorse checks correctly.
- Balance a checkbook.

# Financial Services

- Services and features differ from one financial institution to another
- Look for one that offers the services that meet your needs



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*continued*

# Financial Services

- Savings accounts
  - Pay various amounts of interest
- Checking accounts
  - Withdraw money by writing a check or using a debit card

# Debit Cards

- *Debit cards*
  - Immediately transfers payment from your checking account
  - Protected by a *PIN*
  - Record debit transactions



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# Electronic Banking

- *Electronic banking* or *e-banking* is banking through your phone or computer
  - Retrieve information about an account
  - Move money between accounts
  - Make payments
- You can do your banking from home at any time

*continued*



# Electronic Banking

- E-banking security
  - Make sure you are at a secure website before transmitting personal or financial information
  - Never transmit usernames or passwords



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# ATMs

- Automated teller machines (ATMs) offer people the flexibility of banking at any time
  - You need a special banking card with a PIN
  - Some ATM cards can also be used as debit cards

# Loans

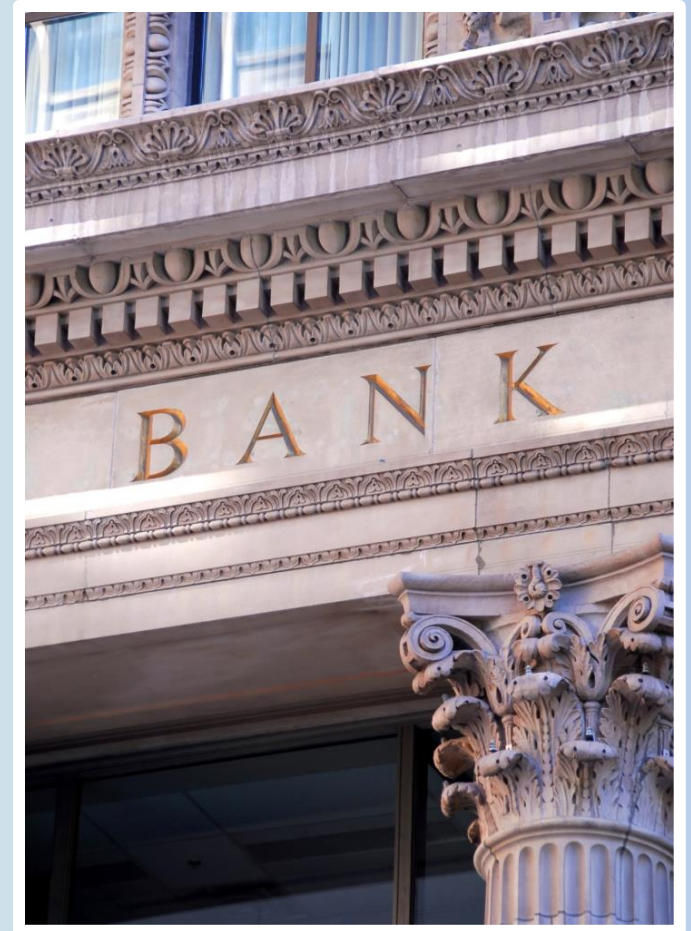
- Loans can be short-term or long-term
- People borrow money to pay existing bills or make purchases
  - Home
  - Car
  - Major appliances

# Other Financial Services

- Credit cards
- Drive-up windows
- Estate management
- Brokerage accounts
- Financial counseling

# Types of Institutions

- *Commercial banks* are owned by stockholders and are run for profit



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*continued*

# Types of Institutions

- *Savings and loan associations* typically focus on savings accounts and home loans
- *Credit unions* are nonprofit financial institutions owned and operated by members

*continued*

# Types of Institutions

- To make sure your deposits are protected, always choose an insured financial institution
  - Federal Deposit Insurance Corporation (FDIC) insures most banks
  - National Credit Union Administration (NCUA) insures most credit unions

# Using a Checking Account

- Checking accounts are convenient for making purchases and paying bills



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# Types of Accounts

- Different types of accounts are available
  - Minimum balance, no service charge
  - Service charge, no minimum balance
  - Interest-bearing

*continued*

# Types of Accounts

- Determine which type of account you need
  - How much will I keep in the account?
  - How much am I willing to pay for service fees?
  - How important is it to earn interest?

# Opening an Account and Making a Deposit

- Sign a *signature card*, a card the financial institution keeps on file to compare with signature made during transactions
- Choose a joint or individual account
- Add money to an account by
  - direct deposit
  - filling out a deposit slip

# Writing a Check

Payee's name: THOMAS B. ANDERSON, MARY A. ANDERSON, 123 MAIN STREET, ANYWHERE, USA 12345

Date: Mar 2, 20XX

Amount in numbers written close to the dollar sign: 425, \$ 15.32

PAY TO THE ORDER OF: Lee's Grocery

Fifteen and 32/100 DOLLARS

HARLAND CHECK PRINTERS, ANYWHERE, YOUR STATE 30345

MEMO: Groceries

Signature: Thomas B. Anderson

Reason for writing the check: Groceries

Amount in words, written as far to the left as possible, and a line drawn through remaining space: Fifteen and 32/100

Signature that matches your bank signature card: Thomas B. Anderson

- Write clearly and in ink
- Fill in all the required information

*continued*

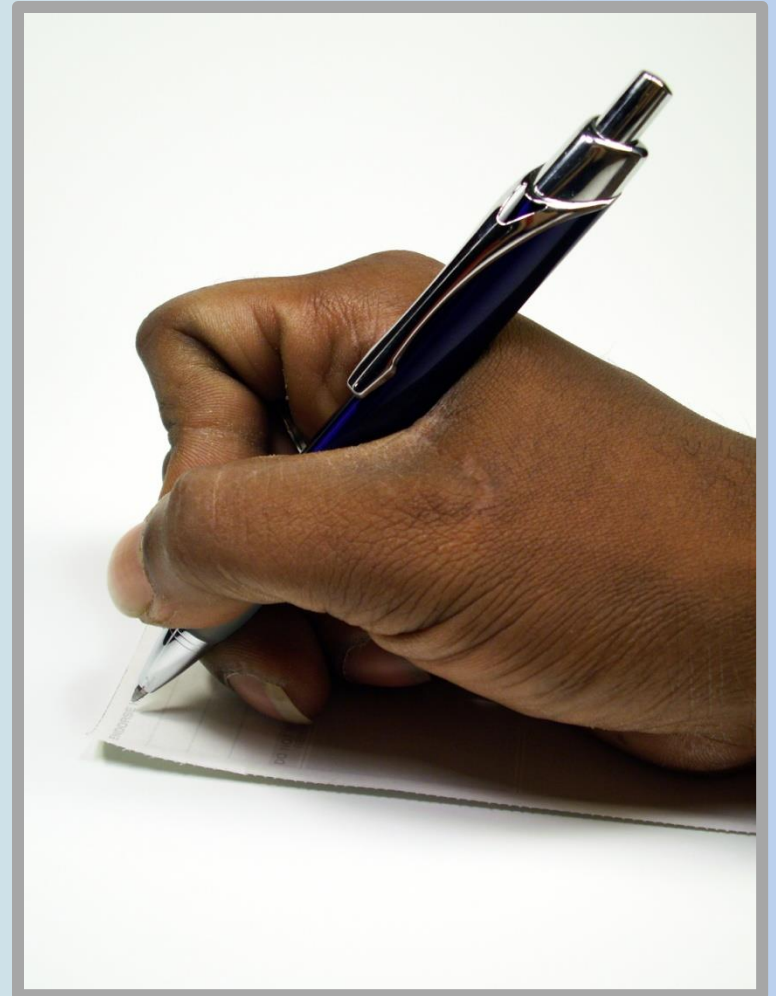
# Writing a Check

- A check instructs a financial institution to pay a certain sum of money to a person or company
- Record the number of the check, date, payee, and amount
- Subtract the amount from your balance so you always know how much is in the account



# Endorsing a Check

- Before you can cash or deposit a check written to you, you must **endorse** it
  - Sign your name on the back (left end)
  - Signature must match the name on the face of the check



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# Balancing Your Checkbook

- An **account statement** is a monthly, bimonthly, or quarterly summary of your checking account
- Balance your checkbook promptly
  - When an account statement is received, begin **reconciling**, or comparing the account statement to your check stubs or register—they should match

*continued*



# Balancing Your Checkbook

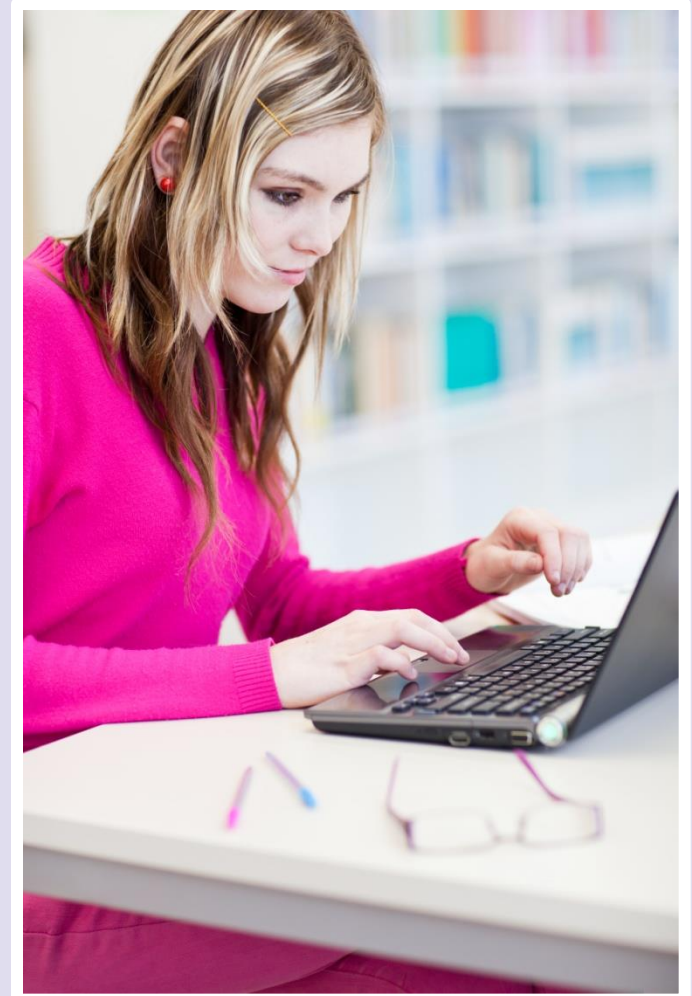
- *Canceled checks* are checks you have written that have been cashed
- *Outstanding checks* are checks you have written that have not yet been cashed

*continued*



# Think Further

➤ *How can electronic banking help you track spending and reconcile your checking account?*



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# Balancing Your Checkbook

## RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT

NUMBER	DATE	CODE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		T	FEE (IF ANY) (-)	PAYMENT/ CREDIT (+)		BALANCE	
										\$	
	3/1		Opening balance		00			100	00	100	00
										100	00
101	3/2		Lee's Grocery	15	32					15	32
			Groceries							84	68
	3/3		Cash withdrawal	20	00					20	00
										64	68
102	3/4		The Book Shelf	11	75					11	75
			Calendar							52	93
	3/6	DC	No Limits	35	13					35	13
			Jeans							17	80
	3/8	D	Deposit					130	00	130	00
										147	80

*continued*

# Balancing Your Checkbook

- **Overdrafts** are withdrawals made when there are insufficient funds in an account to cover them
  - Total fines for an overdraft can exceed \$40

# Section 17-1 Review

- In banking, what does PIN stand for?
  - *personal identification number*
- How does the ownership of a commercial bank differ from that of a credit union?
  - *a commercial bank is owned by stockholders; a credit union is owned by its members*

*continued*

# Section 17-1 Review

- How is a check endorsed?
  - *the person to whom the check is written, signs his or her name on the back*
- *True or false.* Most financial institutions fine account holders for overdrafts.
  - *true*

# **Section 17-2**

## **Saving for the Future**

# Objectives

- Explain why it is important to save money.
- List five factors to consider when deciding how to save.
- Describe various types of savings accounts.
- Determine why people need to plan their estates.



# Why Save?

- Money will be available for
  - future wants and needs
  - meeting long-term goals
  - an emergency fund
  - retirement



# Think Further

- *What are some future wants and needs that you have?*
- *Which could be satisfied easily if you start saving now?*



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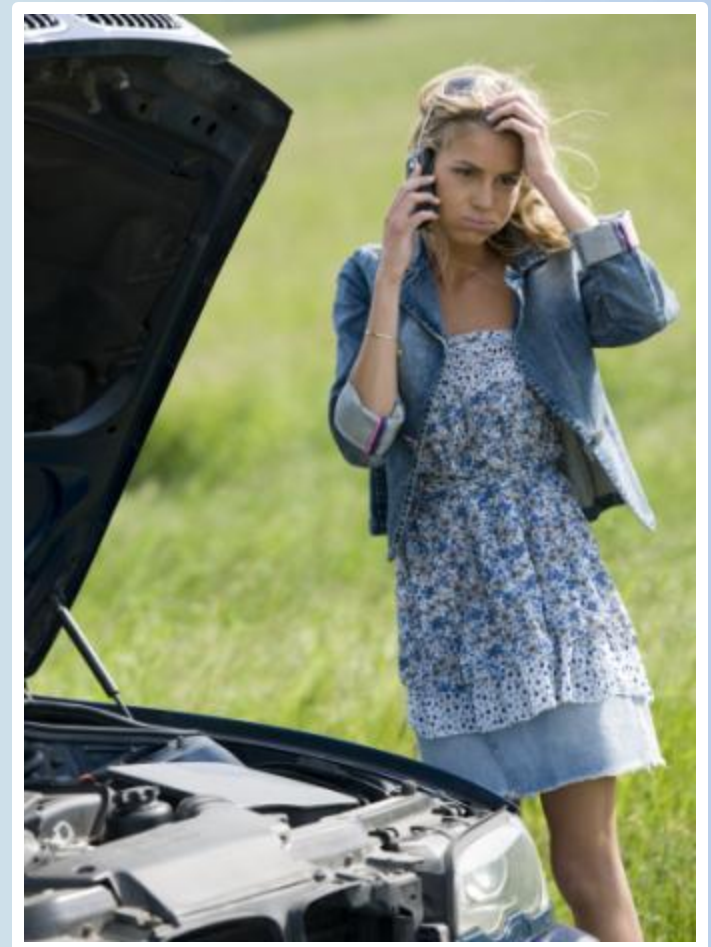
# Factors in Deciding How to Save

- Safety
  - Savings should be protected against loss, theft, fire, and other risks
- Rate of return
  - Find the highest rate of return (interest rate)

*continued*

# Factors in Deciding How to Save

- Liquidity
  - If savings may be needed for emergencies, look for a high degree of liquidity so you can get cash quickly



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*continued*

# Factors in Deciding How to Save

- Purchasing power
  - Look for protection against inflation
  - Savings in stocks, bonds, and real estate usually offer better protection against inflation than savings accounts
- Convenience
  - A financial institution near your home or along your route to work is convenient

# Ways to Save

- Regular savings accounts
  - allow deposits and withdrawals in any amount at any time
  - provide the greatest liquidity
  - pay the lowest interest rates

*continued*

# Ways to Save

- Another type of savings account is a **certificate of deposit (CD)**
  - Pays a set rate of interest on money that is deposited for a set period of time
  - Pays a higher interest rate than a regular savings account
  - Interest rates vary according to the length of time money is deposited

# Investing



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- Investing involves purchasing a financial product or item—returns can be greater, but investing involves risk

*continued*



# Investing

- Securities are proof of debt or ownership of a company or government
  - Stocks
  - Bonds
  - Mutual funds

# Stocks

- **Stocks** are certificates that represent ownership of a small portion of a company
- **Dividends** are distributions of a company's profits to stockholders
  - The company makes money by selling stock
  - The stockholder makes money if the company is profitable

# Bonds

- Bonds are certificates that represent a promise by a company or government to repay a loan on a given date
  - Companies sell corporate bonds
  - Federal government sells bonds which are considered safe investments
  - Local governments sell *municipal bonds* to build schools, improve streets, and so forth

# Mutual Funds



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- A **mutual fund** is a group of investments purchased by a company representing many investors

*continued*

# Mutual Funds

- A portfolio is a group of securities purchased by a mutual fund for an investor
- When you buy a share of a mutual fund, you become part owner of everything in that portfolio

*continued*

# Mutual Funds

- Many people prefer to invest in mutual funds rather than directly in stocks or bonds
- Mutual fund advantages
  - Managed by professional fund managers
  - Investment is diversified
  - Good liquidity; easier to buy and sell

# 401(k) Retirement Plans

- A *401(k) retirement plan* is offered by some employers
- Advantages for employees
  - Delays and perhaps reduces taxes
  - Savings builds retirement funds



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# Individual Retirement Accounts (IRA)

- An individual retirement account (IRA) is another investing tool
  - You invest money into the account, and the interest compounds over time
  - Taxes are usually deferred until retirement when people are usually taxed at a lower rate



# Planning an Estate



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- An estate is what a person leaves behind when she or he dies

*continued*

# Planning an Estate

- A will is a legal document
  - Describes how a person wants property to be distributed after his or her death
  - Designates who will carry out deceased person's wishes
  - Names legal guardians for minor children

# Section 17-2 Review

- Define *liquidity*.
  - *the degree to which you will be able to get cash quickly*
- *True or false*. Investing money involves less risk than putting it in a savings account.
  - *false—investing money is riskier*

*continued*

# Section 17-2 Review

- What happens to the value of a company's stock if the company makes no profit?
  - *it goes down in value*
- Describe what a *will* is.
  - *a legal document describing how a person wants his or her property to be distributed after death*

# **Section 17-3**

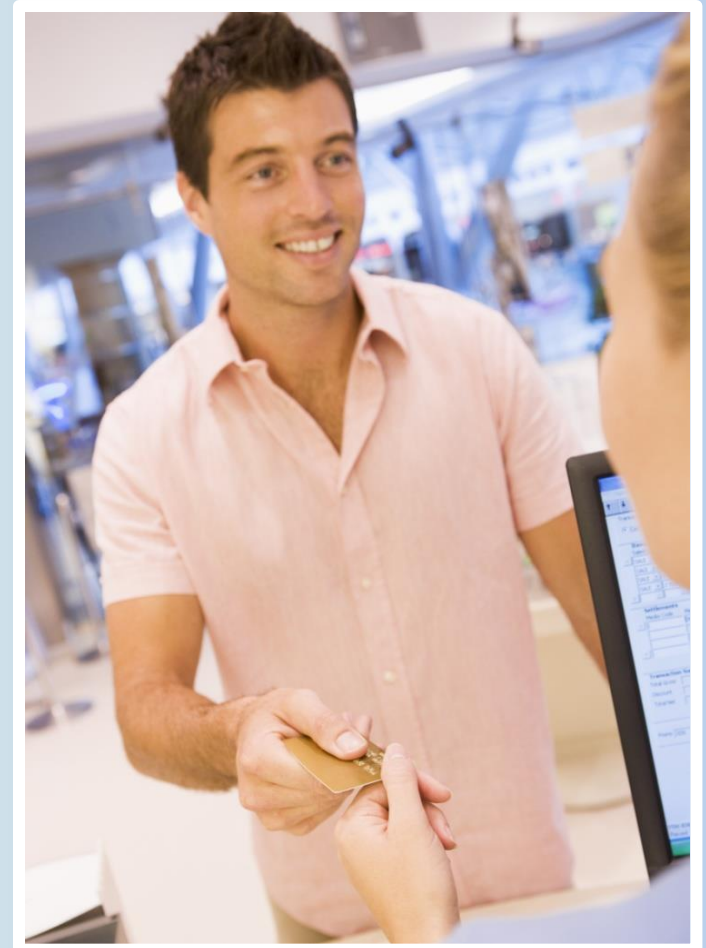
## **Using Credit**

# Objectives

- Identify different types of credit.
- Analyze the pros and cons of using credit.
- Describe how to establish a credit rating.

# Types of Credit

- **Credit** is an arrangement that allows the consumer to buy goods or services now and pay for them later



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*continued*

# Types of Credit

- *Sales credit* is offered by those who have goods or services to sell
  - Examples: department stores, car dealers
- *Cash credit* is offered by those who have money to loan
  - Example: financial institutions

*continued*



# Types of Credit

- *Noninstallment* credit is credit to be repaid in full at the end of the month
  - Examples: medical bills, utility bills
- *Installment credit* is repaid in a series of regular, equal payments made at regular intervals
  - Examples: homes, cars, large cash loans

# Sales Credit

**Regular  
charge  
accounts**

**Revolving  
charge  
accounts**

**Installment  
charge  
accounts**

# Regular Charge Accounts

- Customer can charge as much as needed as long as the account is paid off in full at the end of the billing period
- No finance charges
- Open-end credit

# Installment Charge Accounts

- Buyer signs a contract and agrees to make a fixed number of payments at certain intervals over a set period of time
- Closed-end credit contract
- Used for major purchases, such as furniture

# Revolving Charge Accounts

- Consumers are allowed to make purchases up to a credit limit established in the contract
- Form of open-end credit
- No finance charge if bill is paid in full each month
- Finance charge added if bill is not paid in full

# Credit Cards



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- Most are revolving charge accounts; you are billed at the end of each billing period

*continued*

# Credit Cards

- If the bill is paid in full each month, no finance charge
- If bill is not paid off, finance charge is made on the unpaid balance

*continued*

# Credit Cards

- If your card is lost or stolen,
  - you are responsible for no more than \$50 worth of charges made by someone else
  - you are responsible for the charges you made
  - report the loss immediately



# Loans



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- A loan is a financial transaction in which the lender agrees to give the borrower a certain amount of money

*continued*

# Loans

- Total repayment is due by a specified time
- Interest is usually paid
- Missed or late payments result in financial penalties

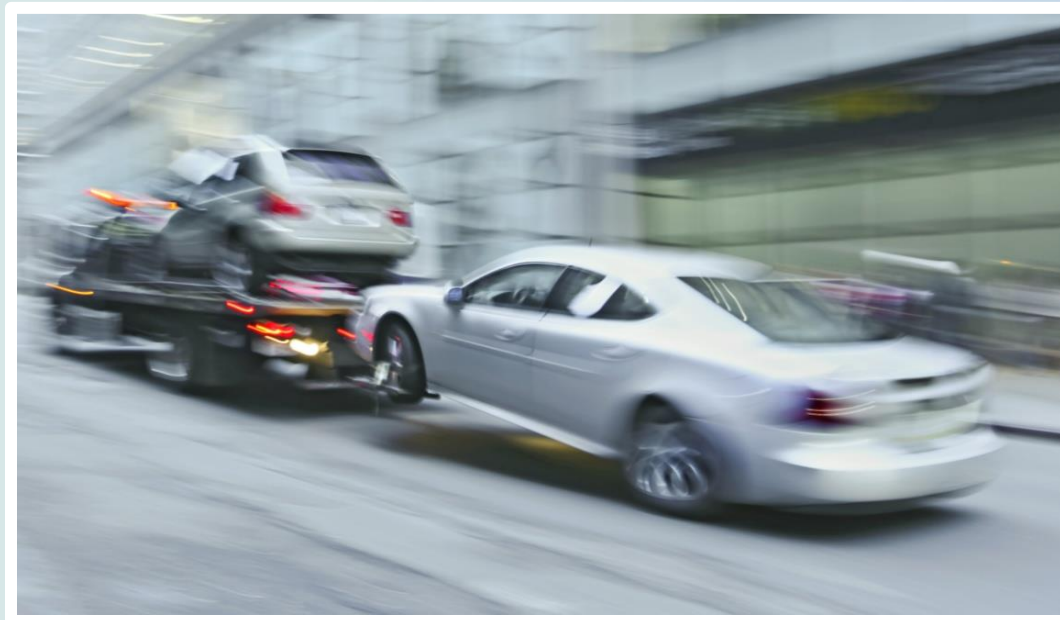
# The Pros and Cons of Using Credit

- Pros
  - Convenient
  - Provides temporary help in emergencies
  - Allows use of expensive goods and services while they are being paid for

*continued*

# The Pros and Cons of Using Credit

- Cons
  - Encourages impulse spending
  - Some creditors ask for collateral; collateral can be lost



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*continued*

# The Pros and Cons of Using Credit

- Cons
  - Using credit can be expensive
    - The more you use and the longer you take to repay, the higher the cost
    - By using credit now, you reduce future income
  - Misusing credit can have serious long-term effects

# Applying for Credit



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- When you apply for credit, prospective creditors will evaluate you



# Think Further

➤ *If you were asked for a loan, what could you do to increase the odds that you would be repaid?*



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# Establishing a Credit Rating

- A credit rating is
  - the creditor's evaluation of your ability to repay debts
  - determined by a variety of personal attributes that relate to your repayment ability
- In most cases, you must be 18 to get credit

*continued*



# Establishing a Credit Rating

- To establish a credit rating,
  - open bank accounts
  - buy something on a layaway plan
  - be prepared to make a big down payment
  - apply to a local department store for a charge account with a low limit
  - ask a relative to cosign a loan for you

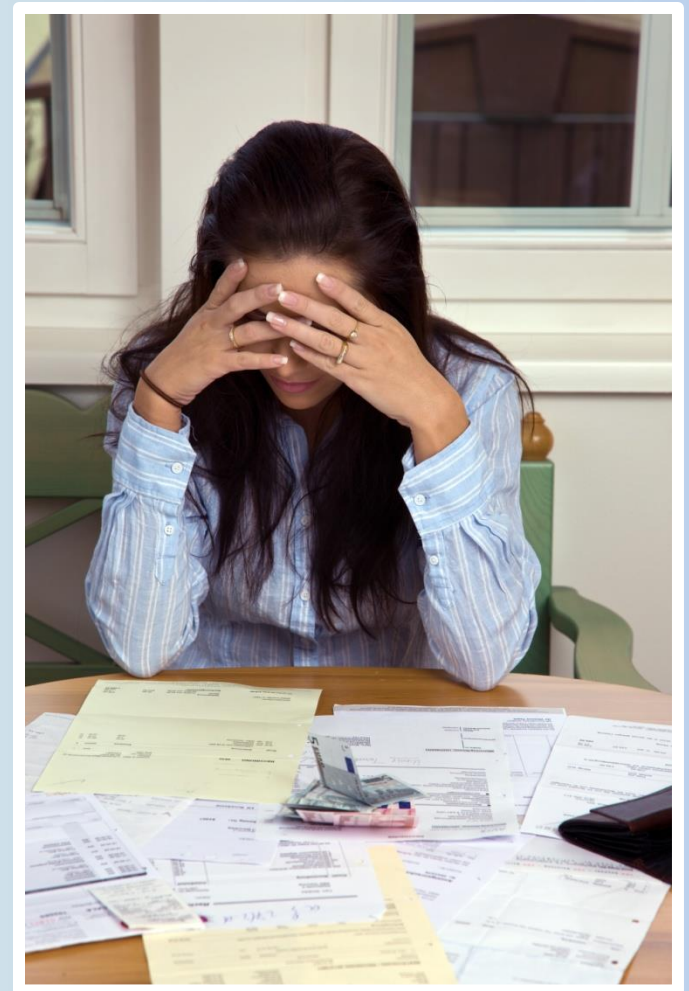
# Keeping a Good Credit Rating

- Maintaining a good credit rating is important
- Be truthful whenever you apply for credit
- Use credit only in amounts you can afford to repay

*continued*

# Keeping a Good Credit Rating

- A poor credit rating
  - results from late payments or failure to pay
  - makes it difficult to get credit in the future



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# Checking Your Credit Rating

- Consumer credit reporting agencies gather information about your credit activities
- You can get a free credit report once each year from each major agency by visiting
  - [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Report any errors in your report immediately

# The Three Cs of Credit

- Three Cs of credit are used to evaluate you
  - Character, or personal attributes, including honesty and reliability
  - Capital, or your income; your occupation and length of employment; other financial resources
  - Capacity, or your ability to repay in relation to other debts and living expenses

# Why Credit Costs

- What do businesses spend in order to provide credit for customers?
  - Interest on money borrowed to cover operating costs
  - Cost of paying credit department employees
  - Cost of additional help to collect bad debts
  - Compensation for losses on unpaid bills

# Shopping for Credit

- Comparison shop for
  - total cost of using credit
  - terms of credit agreements



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*continued*

# Shopping for Credit

- **Finance charges** are the total amounts a borrower must pay the creditor for the use of credit
  - Interest
  - Service charges
  - Any other fees



# The Cost of Credit

- The cost of credit is determined by three factors
  - Amount of credit used
  - Annual percentage rate (APR)
  - Repayment period

# The Amount of Credit Used

- The more you borrow or charge, the more interest you pay
- **Interest** is the price you pay the creditor for the use of money over a period of time



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# The Annual Percentage Rate

- The annual percentage rate (APR) is the actual percentage rate of interest paid per year
- Example: A monthly 1.5 percent rate equals an APR of 18 percent
- The higher the APR, the more you pay in interest

# The Repayment Time



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- The longer you take to repay your credit debt, the larger the amount you will pay in interest

# Credit Contracts

- A credit contract is a legally binding agreement between a creditor and a borrower that detail the terms of repayment
- It protects both creditor and borrower; if either party violates the terms, the other can take legal steps

*continued*

# Credit Contracts

- Before signing a contract
  - Read it carefully; you should understand it
  - Check that all blank spaces are filled in—especially the dates, total finance charges, and the annual percentage rate
  - Ask what will happen if you skip a payment or make it late
  - Ask if you can repay the debt in advance

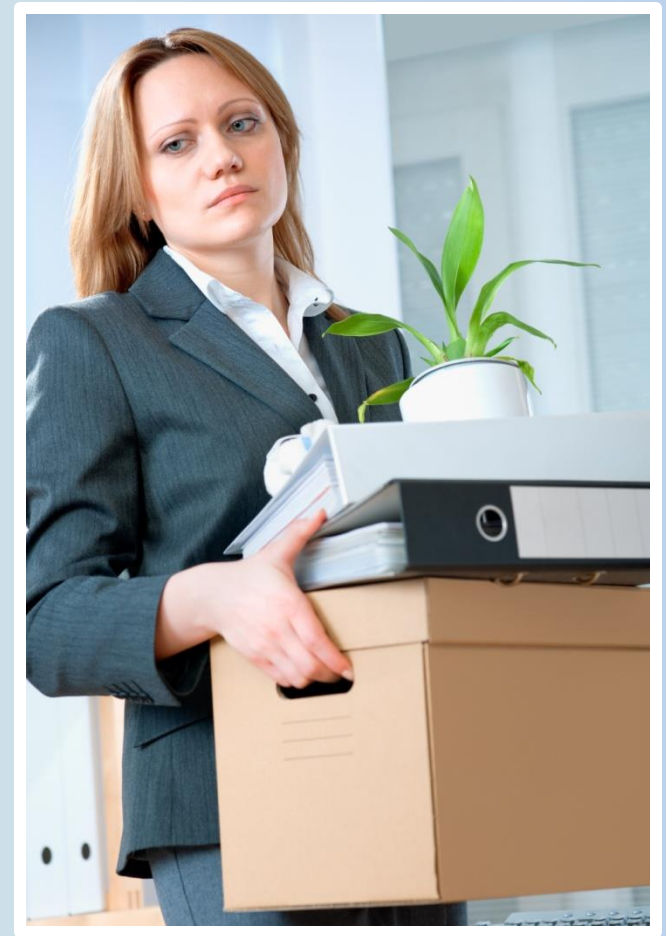
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# Credit Contracts

- It is wise to get legal advice when signing a contract that involves a large sum of money
- People who have a weak credit rating or no credit rating may need a cosigner or guarantor who agrees to pay the debt if the debtor fails to pay

# Handling Credit Problems

- Borrowers can have problems making payments due to
  - unexpected situations, such as job loss, illness, or accident
  - misuse of credit or poor management



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# Handling Credit Problems

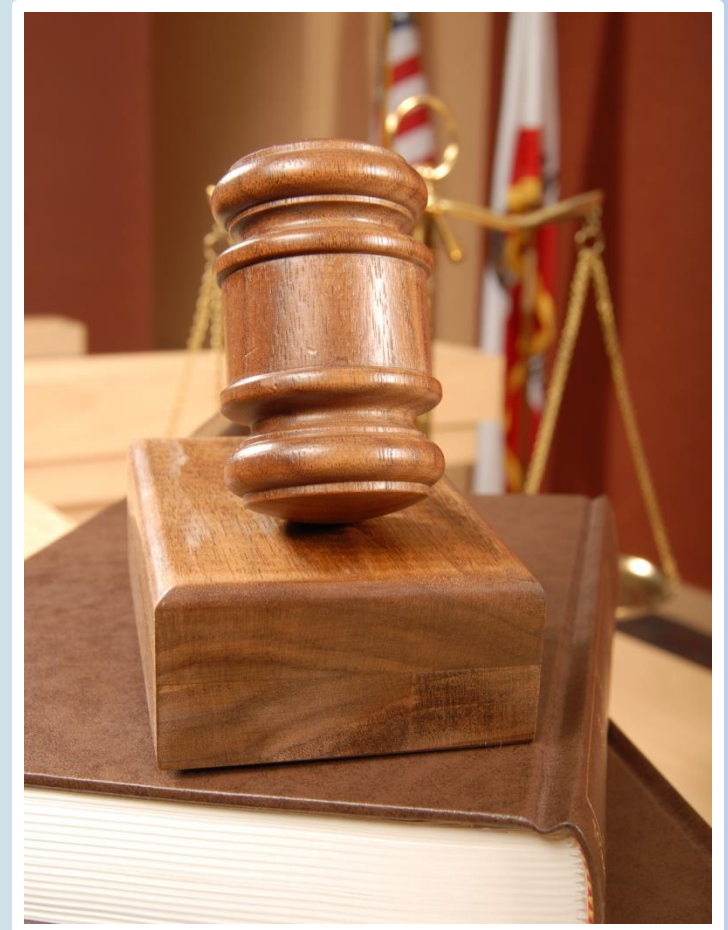
- Borrowers who have problems should notify their creditor immediately
- Creditor may help by
  - temporarily delaying payments
  - decreasing monthly payments
  - accepting returned merchandise for credit
- Borrowers can sometimes consolidate debts

# Credit Counseling

- Nonprofit credit counseling services can help debtors
  - work out a reasonable budget
  - learn money management skills
  - arrange new payment schedules

# Court Protection

- People with credit problems may seek legal protection through the court system



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*continued*

# Court Protection

- *Wage Earner Plan* is a legal arrangement by courts that schedules debt repayment
- Filing *bankruptcy*
  - A debtor's possessions are sold and cash is distributed to creditors
  - Damages credit rating and ability to get credit for at least 10 years

# Section 17-3 Review

- Why has credit been called “savings in reverse?”
  - *because it involves the present use of future income*
- *True or false.* A creditor is a person who gives credit and to whom debts are owed
  - *true*

*continued*

# Section 17-3 Review

- What are the three Cs of credit that lenders use to evaluate potential borrowers?
  - *character, capital, capacity*
- The higher the APR is, the \_\_\_\_\_ you will pay in interest.
  - *more*

# **Section 17-4**

## **Meeting Insurance Needs**

# Objectives

- Describe different kinds of insurance protection.
- Evaluate the types of insurance that you will need.



# Insurance Basics

- **Policies** are insurance contracts
- A **policyholder** is a person who has an insurance policy
- A **premium** is a regular payment made to the insurance company; in return the insurance company provides financial protection for the policyholder

# Life Insurance

- Life insurance is
  - a protection against financial loss due to death
  - important for people with *dependents* who rely on them for financial support



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*continued*

# Life Insurance

- When a life insurance policyholder dies, a death benefit is paid to the beneficiary
- Two basic types of life insurance
  - Term
  - Whole life

# Term Insurance

- Covers the owner of the policy for a specific number of years
- At the end of the term, coverage stops
- Benefits are payable only if the policyholder dies within the term

# Whole Life Insurance

- Covers a policyholder for a lifetime rather than for a specific number of years
  - The cash value is the amount the policyholder can collect if he or she decides to give up the policy
  - The loan value is the amount the policyholder can borrow using the cash value as collateral



# Did You Know?

- A serious illness or injury can keep someone from working and earning a living. Disability insurance can replace some of that income.



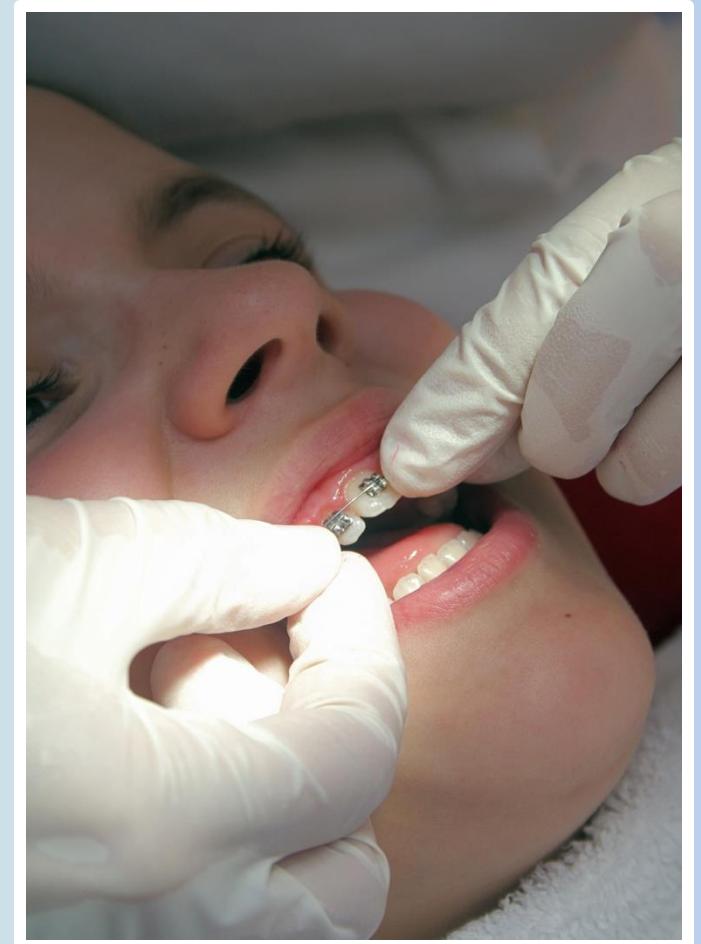
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# Universal Life Insurance

- Combines term insurance with an investment feature
- Cash value is invested to earn interest
  - The return will vary from year to year based on the insurer's investment success

# Health Insurance

- Most people get health insurance coverage through a group plan, usually an employer
  - Members buy insurance at reduced rates
  - Employers may pay all or part of the cost of premiums



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*continued*



# Health Insurance

- Some people must purchase health insurance individually—but premiums are generally higher
- Most policies do not pay 100 percent of a policyholder's medical expenses, even for items that are covered

*continued*

# Health Insurance

- A **deductible** is an amount that a policyholder must pay before the insurance company will pay anything
- **Co-insurance** requires the policyholder to pay a certain percentage of medical costs
- **Copayments** are fixed fees for certain items or services

# Types of Health Coverage



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- Health insurance is expensive, but medical expenses can cause financial ruin without it

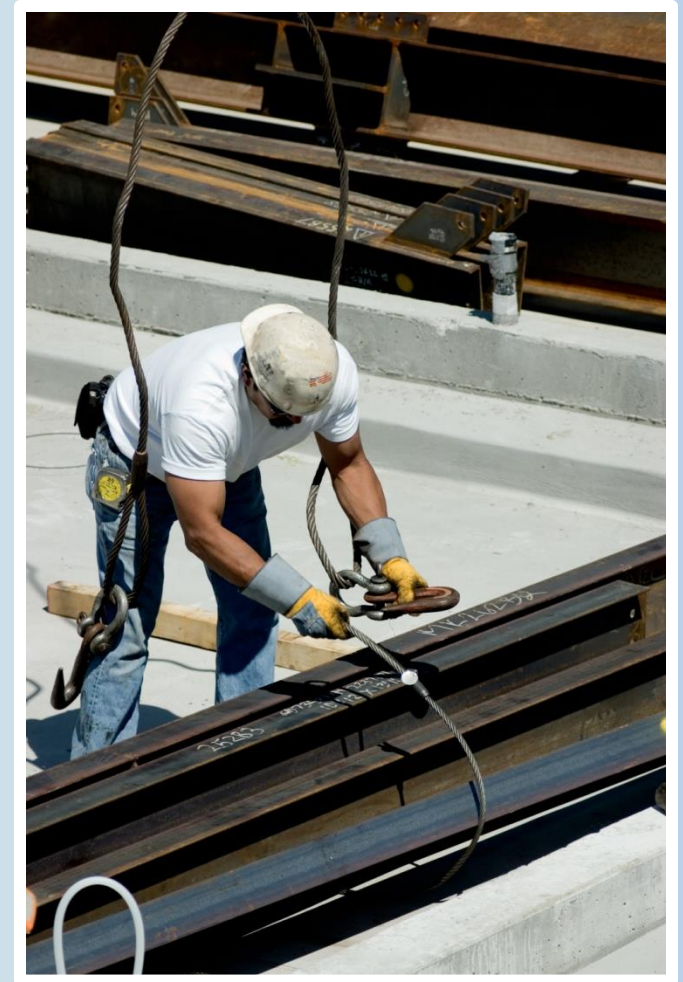
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# Types of Health Coverage

- Main types of health insurance coverage
  - *Basic medical coverage* pays standard hospital costs
  - *Major medical coverage* pays most expenses resulting from major illness or serious injury
  - *Disability insurance* provides payments for people who are unable to work because of illness or injury

# Worker's Compensation

- *Worker's compensation* is a type of health insurance required by state law
- Carried by employers to provide benefits for employees who suffer illness or injuries due to their work environment



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# Health Maintenance Organizations (HMO)

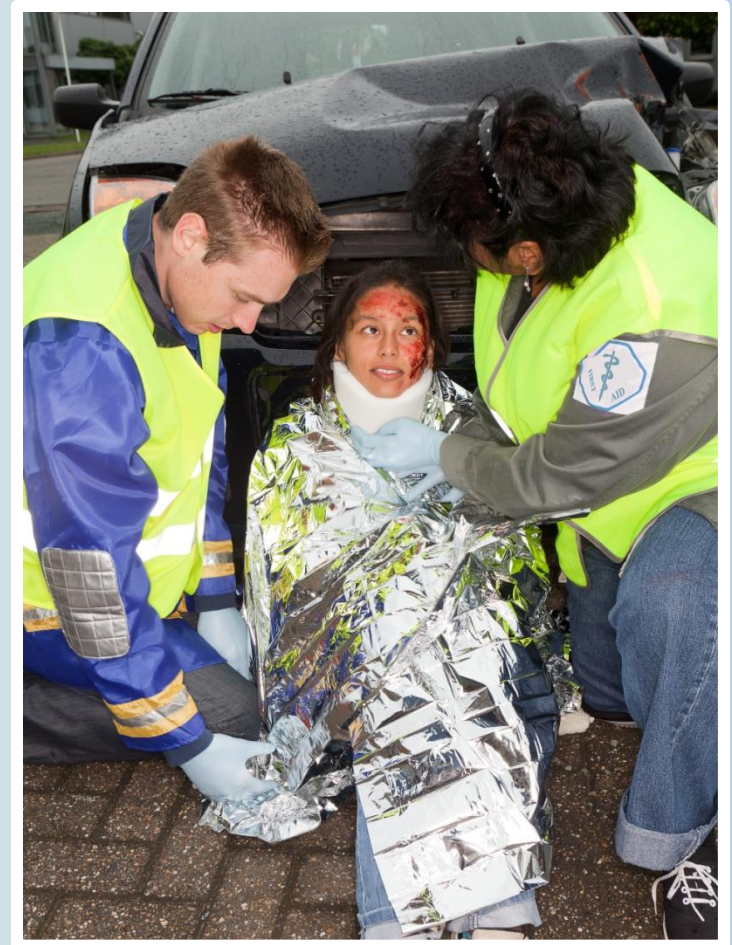
- A health maintenance organization (HMO) is a group of medical professionals and facilities that provide health care services to members
  - Members pay a flat fee
  - Doctor must be associated with the HMO
  - HMOs focus on preventive health care

# Preferred Provider Organizations (PPO)

- A preferred provider organization (PPO) is a group of doctors and medical facilities that contract to provide services at reduced rates
  - Fixed fees and terms for health care services are designated
  - Members pay less for using a preferred provider
  - Member will pay more to see a doctor outside the PPO

# Automobile Insurance

- Most states require drivers to be responsible for accidents in which they are at fault
- Without insurance, one accident could wipe out a family's savings



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# Types of Auto Coverage

- *Bodily injury liability* covers you if you are legally liable for the death or injury of others
- *Property damage liability* pays for damages your car causes to others' property
- *Medical payments* coverage pays medical costs resulting from an accident regardless of who was at fault

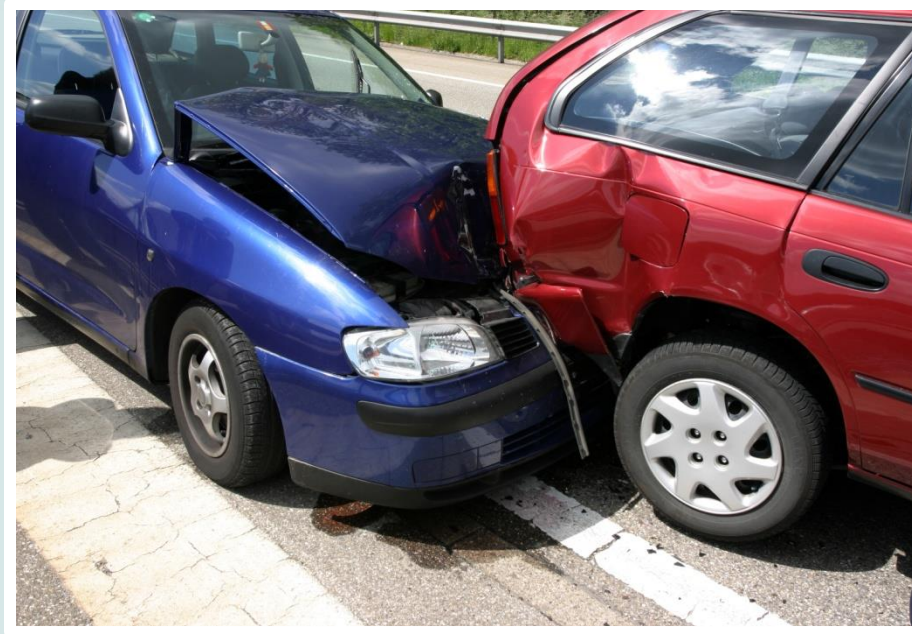
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# Types of Auto Coverage

- *Uninsured motorist* coverage pays for bodily injuries for which an uninsured motorist or hit-and-run driver is responsible
- *Comprehensive policy damage* coverage protects your car from damage by something other than another vehicle

*continued*

# Types of Auto Coverage



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- *Collision insurance* pays for damages to your car caused by collision with a vehicle or other object

# Automobile Insurance Premiums

- Vary greatly and depend on a number of factors, including
  - distance driven in a year
  - age
  - model of car
  - year of car
  - driving record
  - location of home

# Housing-Related Insurance

- *Homeowner's insurance* provides two basic types of coverage
  - Property protection
  - Liability protection



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*continued*

# Housing-Related Insurance

- Property protection
  - Covers damage or loss of a dwelling and personal possessions due to dangers such as
    - fire
    - lightning
    - vandalism
    - burglary and theft
    - explosions

*continued*

# Housing-Related Insurance

- Liability protection offers protection against financial loss if
  - others are injured on or by your property
  - you or your property accidentally damages the property of others

*continued*

# Housing-Related Insurance



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- *Renter's insurance* covers a renter's personal possessions and liability

*continued*



# Housing-Related Insurance

- Keep insurance coverage in line with the value of your home and belongings
- Make an inventory of your possessions and estimate their values

# Section 17-4 Review

- What term describes a person who receives death benefits after a life insurance policyholder dies?
  - *Beneficiary*
- *True or false.* Most people get health insurance through individual plans.
  - *false—most people get health insurance through group plans*

*continued*

# Section 17-4 Review

- What coverage is offered by bodily injury liability automobile insurance?
  - *it covers you if you are legally liable for the death or injury of others*