Building Wealth

A BEGINNER'S GUIDE TO SECURING YOUR FINANCIAL FUTURE

FEDERAL RESERVE BANK OF DALLAS

Instructor's Manual

TABLE OF CONTENTS

Buying a home, saving for retirement or for children's education, or even effectively managing the family budget now requires more financial sophistication than ever before. Financially literate consumers make the financial marketplace work better, and they are better-informed citizens as well.

Ben S. Bernanke, Chairman,
Federal Reserve System

Building Wealth: A Beginner's Guide to Securing Your Financial Future offers introductory guidance to individuals and families seeking help to develop a plan for building personal wealth. While a comprehensive discussion of accounting, finance and investment options is beyond the scope of the workbook, it presents an overview of personal wealth-building strategies. For additional copies of the guide or this instructor's manual, call 800-333-4460, ext. 5254, or order from the Dallas Fed's website, www.dallasfed.org. An animated CD-ROM version of the guide has been developed for individuals to use on their home computers or for multiple users in classrooms and computer labs. This interactive program is also available at www.dallasfed.org.

Building Wealth

INSTRUCTOR'S MANUAL

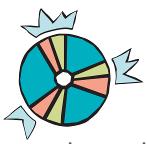
Introduction

A *Building Wealth* CD-ROM is available as a teaching tool and for individuals to use at home

Introduce *Building Wealth: A Beginner's Guide to Securing Your Financial Future* to the students.

Explain that the guide offers introductory assistance to individuals and families who want to build personal wealth. It presents an overview of personal wealth-building strategies.

- For additional information and assistance, students can consult the resources at the back of the guide.
- An interactive version of *Building Wealth*, as well as downloadable versions of the CD-ROM and guide (PDF), can be found on the Dallas Fed's website, **www.dallasfed.org**.
- Additional copies of the CD and guide (which is also available in Spanish) can be ordered from the website.



Insert the CD
Ben Bernanke and Richard Fisher

CD will auto play

View videos:

- Introduction by Ben S. Bernanke, Chairman, Federal Reserve System.
- Welcome to *Building Wealth* by Richard W. Fisher, President and Chief Executive Officer, Federal Reserve Bank of Dallas.

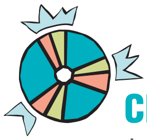
Follow the guide

Blue-bordered pages in this manual are images of the corresponding pages from the *Building Wealth* guide.

Instructor-led discussion

"Wealth Wisdom" quotes are placed throughout *Building Wealth* for inspiration and to stimulate discussion.

Ask students to share any wealth wisdoms they've heard or create/adapt new wisdoms based on their own experiences. Example: "A $20 bill saved is a $20 bill earned!"

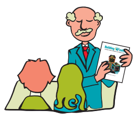


Click Building Blocks in right-hand corner to start

CD can be paused at any time for discussion

View the CD or **read** the following:

Each person's definition will depend on their values and life experiences. Some people think to be wealthy means to travel around the globe; others believe they are wealthy if they're able to pay their bills on time.



Instructor-led discussion

Ask students how they define wealth.

Discuss how their definition may evolve throughout their life.

Emphasize that building wealth successfully results from having the right information, planning and making good choices.

Explain the importance of developing a personal definition of wealth before you set your goals.

Student activity

Ask students to take a moment to think about what wealth means to them and write their personal definition of wealth in their book.

Wealth Wisdom:

The indispensable first step to getting the things you want out of life is this: Decide what you want.

Ben Stein

Building Wealth

You can create personal wealth. It's possible to meet your financial goals. By choosing to budget, save and invest, you can pay off debt, send your child to college, buy a comfortable home, start a business, save for retirement and put money away for a rainy day. Through budgeting, saving and investing, and by limiting the amount of debt you incur, all these goals are within your reach.

DEFINING WEALTH

Some people consider themselves wealthy because they live in a very expensive house and travel around the globe. Others believe they are wealthy simply because they're able to pay their bills on time. What we are talking about here is financial wealth and what it means to you. In the following space, write your definition.

Examples: Wealth is…

1. *being able to put my kids through college.*
2. *having enough money to buy a house.*

Wealth is…

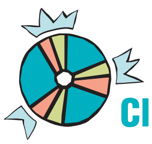
1. ____________________
2. ____________________
3. ____________________

Now that you have defined what wealth means to you, how do you acquire it?

Building wealth requires having the right information, planning and making good choices. This workbook provides basic information and a systematic approach to building wealth. It is based on time-honored principles you probably have heard many times before—budget to save; save and invest; control debt; and protect the wealth you accumulate.

Chapter 1

Wealth Creation:
Learn the Language



Click Wealth Creation

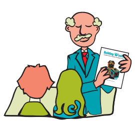
Introduce the class to our first *Building Wealth* character, Bob.

You want to create personal wealth, right? So does Bob.

View the CD or **read** the following:

Bob is 35 and works for a manufacturing company. Bob has chosen to embark on a personal wealth-creation strategy to meet his family's financial goals. He begins by learning the language of wealth creation. The first lesson is to understand the meaning of assets, liabilities and net worth. They make up this very important formula.

ASSETS – LIABILITIES = NET WORTH



Instructor-led discussion

Define *assets*. A wealth-creating asset is a possession that generally increases in value and provides a return. **Ask** your students to give examples of assets. Are they wealth-creating assets?

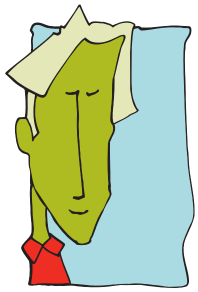
Define *liabilities*. Also called debt, this is money you owe, or your bills. Ask students to give examples of liabilities. Some examples: car loan, student loan, medical debt.

Restate the definition at the bottom of page 2 in the *Building Wealth* guide: *Net worth* is the difference between your assets (what you own) and your liabilities (what you owe).

Explain that the difference between the market value of the home and the amount of the mortgage on the home is the home's *equity*. Equity contributes to your net worth.

The bottom line is: your net worth is your *wealth*.

① Wealth Creation:
Learn the Language



Bob

Accumulating wealth—as distinct from just making a big income—is the key to your financial independence. It gives you control over assets, power to help shape the corporate and political landscape, and the ability to ensure a prosperous future for your children and their heirs….

Rev. Jesse L. Jackson, Sr. and Jesse L. Jackson, Jr., *It's About the Money!*

The market value of a home is an asset; the mortgage, a liability. Let's say your house is worth $120,000, but your mortgage is $80,000. That means your equity in the home is $40,000. Equity contributes to your net worth.

You want to create personal wealth, right? So does Bob.

Bob is 35 and works for a manufacturing company. He looked at his finances and realized that at the rate he was going, there wouldn't be enough money to meet his family's financial goals. So he chose to embark on a personal wealth-creation strategy. His first major step was to pick up a copy of this workbook for guidance. Bob began by learning the language of wealth creation. The first lesson was to understand the meaning of **assets**, **liabilities** and **net worth**. They make up this very important formula:

ASSETS – LIABILITIES = NET WORTH

A wealth-creating ***asset*** is a possession that generally increases in value or provides a return, such as:

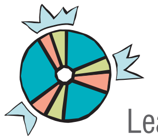
- A savings account.
- A retirement plan.
- Stocks and bonds.
- A house.

Some possessions (like your car, big-screen TV, boat and clothes) are assets, but they aren't wealth-creating assets because they don't earn money or rise in value. A new car drops in value the second it's driven off the lot. Your car is a tool that takes you to work, but it's not a wealth-creating asset.

A ***liability***, also called debt, is money you owe, such as:

- A home mortgage.
- Credit card balances.
- A car loan.
- Hospital and other medical bills.
- Student loans.

Net worth is the difference between your assets (what you own) and your liabilities (what you owe). Your net worth is your wealth.

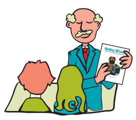


Wealth Creation, Learn the Language; **click** Bob's Balance Sheet

View the CD or **read** the following:

To calculate how much he is worth, Bob created a balance sheet using the formula:

ASSETS – LIABILITIES = NET WORTH



Instructor-led discussion

Review how Bob completed his balance sheet.

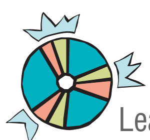
Note how Bob has listed one year of child support payments in the liability column.

Discuss how change in assets affects net worth.

Discuss how change in liabilities, for example, an increase in debt, affects net worth.

As you can see from Bob's Balance Sheet, net worth is the difference between what you own (your assets) and what you owe (your liabilities).

Student activity



Wealth Creation, Learn the Language; **click** Your Balance Sheet

Ask students to use the blank balance sheet (page 3 of the guide) to calculate their net worth. **Remind** students to add any assets and liabilities that are not listed on the form.

Alternatives would be to use printed copies of the blank balance sheet, use the CD interactive worksheet or direct students to www.dallasfed.org for the interactive version of *Building Wealth*.

To calculate how much he is worth, Bob used the following formula: **Assets – Liabilities = Net Worth**. He made a balance sheet listing all his assets and all his liabilities. He listed his wealth-building assets first.

Bob discovered his net worth is $21,600. Using Bob's balance sheet as an example, figure your own net worth. Be sure to add any assets and liabilities you have that are not listed here. Remember that net worth is your wealth. Are you worth as much as you want to be?

Bob's Balance Sheet

Wealth-building assets	Amount
Cash	$ 1,500
Savings account	1,000
Stocks, bonds and other investments	5,000
401 (k) retirement plan /IRA	25,000
Market value of home	0
Other assets	
Market value of car	14,000
Total assets	$ 46,500

Liabilities	Amount
Home mortgage	$ 0
Home equity loan	0
Car loan balance	13,000
Credit card balances	3,000
Student loan	5,000
Child support*	2,400
Miscellaneous liabilities	1,500
Total liabilities	$ 24,900
Net worth	$ 21,600

*Represents one year of payments.

My Balance Sheet

Wealth-building assets	Amount
Cash	
Savings account	
Stocks, bonds and other investments	
401 (k) retirement plan /IRA	
Market value of home	
Other assets	
Market value of car	
Total assets	

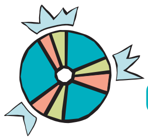
Liabilities	Amount
Home mortgage	
Home equity loan	
Car loan balance	
Credit card balances	
Student loan	
Child support*	
Miscellaneous liabilities	
Total liabilities	
Net worth	

Chapter 2

Budget to Save

Student activity

Once students have taken time to complete their balance sheets in Chapter 1, **suggest** that they think about what they would like their net worth to be in five or 10 years.



Click Budget to Save

View the CD or **read** the following:

Most people who have wealth didn't build it overnight. They got wealthy by setting goals and striving to reach them. Bob set two short-term and two long-term goals.

Review Bob's short- and long-term goals with the class.

Bob's short-term goals: Save $3,000 a year for three years to have $9,000 for a down payment on a home, and pay off $3,000 in credit card debt within two years.

Bob's long-term goals: Save and invest enough to have $25,000 in 15 years for his children's college education, and to have $5,000 a month to live on when he retires in 30 years.

Instructor-led discussion

Discuss other examples of short- and long-term goals with the class (give age-appropriate examples).

Other examples of short-term goals may include:

- In one year, save $500 for an emergency fund.
- Pay off high-cost credit card balances within two years.
- In three years, save $5,000 for a down payment on a house.

An example of a long-term goal might be:

- In eight years, save $15,000 to help my child with college.

② Budget to Save

What would you like your net worth to be

5 years from now? $ ____________________

10 years from now? $ ____________________

SET FINANCIAL GOALS

If you make a good income each year and spend it all, you are not getting wealthier. You are just living high.

Thomas J. Stanley and William D. Danko,
The Millionaire Next Door

Most people who have built wealth didn't do so overnight. They got wealthy by setting goals and striving to reach them. Bob set two short-term goals: (1) to save $3,000 a year for three years to have $9,000 for a down payment on a house, and (2) to pay off his $3,000 credit card debt within two years. Bob also set two long-term goals: (1) to save and invest enough to have $25,000 in 15 years for his children's college education, and (2) to have $5,000 a month to live on when he retires in 30 years.

A personal wealth-creation strategy is based on specific goals. In preparing your goals:

- Be realistic.
- Establish time frames.
- Devise a plan.
- Be flexible; goals can change.

In the space provided, list your top goals.

Example: Short-term

1. *In one year, save $500 for my emergency fund.*
2. *In three years, save $5,000 for a down payment on a house.*

Example: Long-term

1. *In eight years, save $15,000 to help my child with college.*

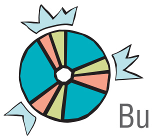
My short-term goals are:

1. ____________________
2. ____________________
3. ____________________

My long-term goals are:

1. ____________________
2. ____________________
3. ____________________

Now you, like Bob, can choose how to meet those goals. This is where budgeting to save comes into play.



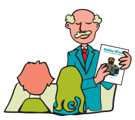
Budget to Save, Financial Goals; **click** Next to view two screens

Recommend that students follow these guidelines in preparing their goals:

- Be realistic.
- Establish time frames.
- Devise a plan.
- Be flexible; goals can change.

Student activity

Ask students to list their short- and long-term goals on page 4 of their guides. An alternative would be for students to use the interactive worksheet on the CD or website.



Instructor-led discussion

Discuss these different personalities and **ask** students to think about which category best fits their personality:

- *Planners* control their financial affairs. They budget to save.
- *Strugglers* have trouble keeping their heads above rough financial waters. They find it difficult to budget to save.
- *Deniers* refuse to see that they're in financial trouble. So they don't see a need to budget to save.
- *Impulsives* seek immediate gratification. They spend today and let tomorrow take care of itself. They could care less about budgeting to save.

Knowing what kind of financial manager you are will help determine what changes to make.

DEVELOP A BUDGET AND LIVE BY IT

When it comes to finances, people generally fall into the following groups. Where do you fit in?

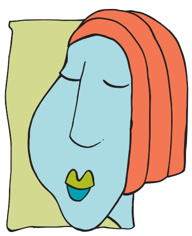
Planners control their financial affairs. They budget to save.

Strugglers have trouble keeping their heads above rough financial waters. They find it difficult to budget to save.

Deniers refuse to see that they're in financial trouble. So they don't see a need to budget to save.

Impulsives seek immediate gratification. They spend today and let tomorrow take care of itself. They couldn't care less about budgeting to save.

Knowing what kind of financial manager you are will help determine what changes to make. To maximize your wealth-creating ability, you want to be a planner, like Betty.



Betty

Betty is a single parent with one child. "I have to budget in order to live on my modest income. I have a little notebook I use to track where every dime goes. Saving is very important to me. When my son was born, I started investing every month in a mutual fund for his college education. I am proud to say that I control my future. I have bought my own home and provided for my son, and I've never bounced a check. You must have common sense regarding money!"

Lynne

Lynne, by contrast, is an impulsive. Lynne has a good job, makes good money and lives a pretty comfortable life, but her bank statement tells a different story. She has no savings or investments, owns no property and has no plans for retirement. Plus, she's got a lot of credit card debt, lives from paycheck to paycheck and doesn't budget.

You can choose to be like Lynne, or you can follow Betty's road to wealth creation by learning to budget and save.

A budget allows you to:
- Understand where your money goes.
- Ensure you don't spend more than you make.
- Find uses for your money that will increase your wealth.

To develop a budget, you need to:
- Calculate your monthly income.
- Track your daily expenses.
- Determine how much you spend on monthly bills.

Budget to Save, Financial Goals

Introduce the class to Betty and Lynne.

View the CD or **read** the following:

Click Betty the Planner

Betty, a single parent with one child, is a planner who:

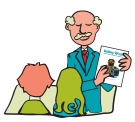
- Keeps a budget.
- Has never bounced a check.
- Saves and invests for the future.

Click Lynne the Impulsive

Lynne, on the other hand, is a struggler and an impulsive. She thinks she's in good shape financially until she realizes that she:

- Has no savings.
- Owns no property.
- Has a lot of debt.
- Is living paycheck to paycheck.

You can choose to be like Lynne, or you can follow Betty's road to wealth creation by learning to budget and save.



Instructor-led discussion

Discuss the benefits of budgeting.

A budget allows you to:

- Understand where your money goes.
- Avoid overspending.
- Find uses for your money that will increase your wealth.

To develop a budget, you need to:

- Calculate your monthly income.
- Track your daily expenses.
- Determine how much you spend on monthly bills.

Budget to Save, Budgeting; **click** Lynne's Day-to-Day Spending

View the CD or **read** the following:

Lynne decided she needed to become more of a planner like Betty.

Review Lynne's daily expenses with the class.

Lynne decided to analyze her spending habits. She carried a notebook in her purse so she could write down her daily spending. She noted whether she used cash, check or a credit card.

Track Day-to-Day Spending

One day, Lynne, the impulsive, realized that to create wealth she had to become more like Betty and plan her financial future. To start, Lynne analyzed her finances to see how much money she made and how she was spending it. She set a goal to save $125 a month to put toward her wealth-creation goals. First, she calculated her income. Then she added up her monthly bills.

She also carried a little notebook in her purse for jotting down her daily spending, whether by cash or debit card, check or credit card. Here is a page from her notebook.

Lynne's Day-to-Day Spending

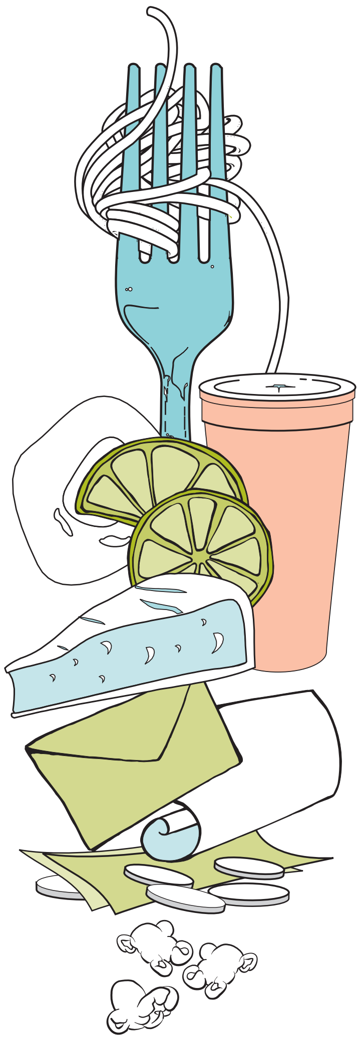
Date	Expense	Cash/debit/check	Charge
1/2	Breakfast, Get-N-Go	$ 3.56	
1/2	Coffee	.90	
1/2	Lunch		$ 6.75
1/2	Soft drink	1.25	
1/2	Gas for car		46.00
1/2	Drinks with friends	10.00	
1/2	Groceries		50.00
1/2	Dinner	10.00	
1/2	Newspaper	.50	
1/3	Bacon and eggs, Moonlight Diner	4.95	
1/3	Newspaper	.50	
1/3	Coffee	.90	
1/3	Lunch with coworkers		5.72
1/3	Dinner		15.00
1/3	Dress		45.00
1/3	Soft drink	1.25	
1/3	Trip to the movies	15.00	
1/4	Breakfast	3.50	
1/4	Coffee	.90	
1/4	Lunch	5.75	
1/4	Cookies	1.25	
1/4	Newspaper	.50	
1/4	Birthday present	15.00	
1/4	Dinner		6.77
1/5	Breakfast	3.25	
1/5	Coffee	.90	
1/5	Soft drink	1.25	
1/5	Newspaper	.90	
1/5	Magazine	3.95	
1/6	Breakfast	3.25	
1/6	Coffee	.90	
1/6	Newspaper	.50	
1/6	Lunch	4.50	
1/6	Cookies	1.25	
1/6	Jacket		50.00
1/6	Video rental	3.95	

Student activity

Ask students to use the blank worksheet on page 7 of the guide, or a notebook like Lynne does, to track their spending so they know where their money goes.

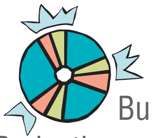
Alternatives would be to use printed copies of the blank worksheet, use the CD interactive worksheet or direct students to www.dallasfed.org for the interactive version of *Building Wealth*.

You can study your own spending habits by using this sheet to track daily expenses. Be sure to include items purchased with credit cards, as well as those purchased with cash, debit card or check.



My Day-to-Day Spending

Date	Expense	Cash/debit/check	Charge



Budget to Save, Budgeting; **click** Lynne's Monthly Budget; **click** Pause to discuss

View the CD or read the following:

What did Lynne discover by tracking her day-to-day expenses? (Current spending shown in Column 1 of Lynne's budget.)

- She is spending more money than she earns each month.
- In order to save, she has to earn more, spend less or both.
- She found ways to cut her expenses and developed a budget that enables her to save $125 each month.

Instructor-led discussion

Ask students for suggestions of other changes that could be made to Lynne's budget that would allow her to save more each month.

Once you've established your spending and savings plan (also known as your "budget") and identified an amount to save each month, you can:

- Regularly put money in a savings account.
- Invest in a 401(k) retirement plan at work.
- Invest in an individual retirement account (IRA).
- Invest in stocks, bonds or mutual funds.
- Pay off debt.

These are just some of the wealth-building choices available when you budget to save.

Get a Handle on Income and Expenses

Lynne used the information from tracking her day-to-day expenses to develop a monthly budget. When Lynne reviewed her budget, she realized she was spending more than she earned. Lynne knew if she were ever going to save $125 a month, she had to cut her expenses, earn more money, or both. She worked overtime at her company, which increased her take-home pay. She bought fewer clothes, discontinued premium cable TV channels, carpooled to work to cut gas consumption and reduced her spending on eating out and entertainment. Tracking her expenses paid off. Lynne successfully developed a budget that enables her to save $125 each month.

Here is her budget. If Lynne sticks to it, she will have $125 a month that she can:

- Put in a savings account.
- Invest in a 401(k) retirement plan at work.
- Invest in an individual retirement account (IRA).
- Invest in stocks, bonds or mutual funds.
- Use to pay off debt.

These are just some of the wealth-building choices available when you budget to save.

Lynne's Monthly Budget

	Current income	Income changes	New budget
Take-home pay	$ 2,235		$ 2,235
Overtime pay		$ 40	$ 40
Pension, Social Security benefits			
Investment earnings not reinvested			
Interest on savings accounts			
Alimony/child support			
Other income			
Total income	$ 2,235	$ 40	$ 2,275

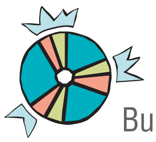
	Current expenses	Spending changes	New budget
Rent	$ 680		$ 680
Renter's insurance	20		20
Electricity	60		60
Gas	30		30
Water	25		25
Telephone	50		50
Cable TV/Internet service	55	–20	35
Insurance (life, disability)	0		0
Charitable donations	0		0
Credit card interest payment	25		25
Groceries	200		200
Clothing	130	–30	100
Day care/tuition	0		0
Car loan	300		300
Car insurance	75		75
Gas for car	145	–20	125
Meals out & entertainment	425	–50	375
Miscellaneous daily expenses	100	–50	50
Total expenses	$ 2,320	$ –170	$ 2,150
Monthly net (income – expenses)	$ –85		$ 125

Available to save or invest	$ 0		$ 125

Student activity

Using Lynne's budget as an example, **suggest** that students create a budget. **Ask** students to consider how they may increase their income or decrease their expenses and develop a new budget that includes more savings. **Emphasize** that students should be sure to make reasonable budget changes that they can live with month to month.

Students can use a printed copy of the blank monthly budget on page 9 of the guide, or the interactive worksheet on the CD or website.



Budget to Save, Budgeting; **click** Review

View the CD or **read** the following:

To help you maintain the discipline to save:

- Save every month.
- Have savings automatically deducted from your paycheck or checking account.
- Base your budget on what's left.

In other words, get on automatic pilot and stay there.

Now that you have seen how you can budget to save, the next step is saving and investing.

Wealth Wisdom:

A goal without a plan is just a wish.

Antoine de Saint-Exupery

Using Lynne's budget as an example, track your income and expenses. Identify changes you can make to increase your income or decrease your expenses, and develop a new budget that includes more savings. Be sure to make reasonable budget changes that you can live with month to month.

To help you maintain the discipline to save:

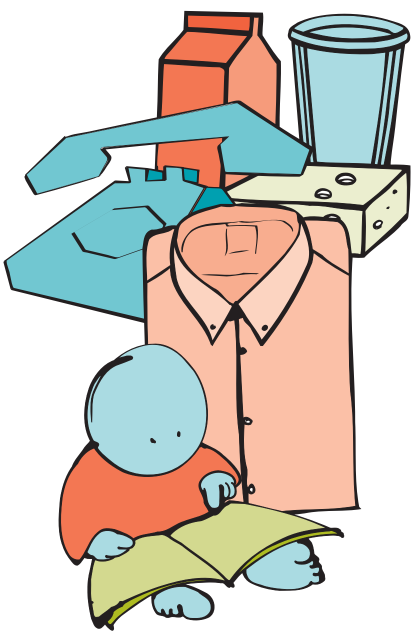
- Save every month.
- Have savings automatically deducted from your paycheck or checking account.
- Base your budget on what's left.

In other words, get on automatic pilot and stay there.

How much do you currently save each month? $____________

How much are you ***going*** to save each month? $____________

You have now successfully budgeted to save. The next step is saving and investing.



My Monthly Budget

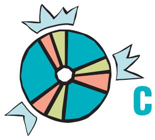
	Current income	Income changes	New budget
Take-home pay			
Overtime pay			
Pension, Social Security benefits			
Investment earnings *not reinvested*			
Interest on savings accounts			
Alimony/child support			
Other income			
Total income			

	Current expenses	Spending changes	New budget
Rent/House Payment			
Property insurance			
Electricity			
Gas			
Water			
Telephone			
Cable TV/Internet service			
Insurance (life, disability)			
Charitable donations			
Credit card interest payment			
Groceries			
Clothing			
Day care/tuition			
Car loan			
Car insurance			
Gas for car			
Meals out & entertainment			
Miscellaneous daily expenses			
Total expenses			
Monthly net (income – expenses)			

Available to save or invest			

Chapter 3

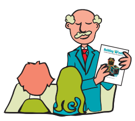
Save and Invest



Click Save and Invest

View the CD or **read** the following:

Now that you've budgeted and identified an amount to save each month, where are you going to put your savings? In Chapter 3, we look at investing; that is, putting your money to work making more money and increasing your wealth.



Instructor-led discussion

Discuss options for learning more about investments (see examples under Get Guidance on page 10 of the guide).

Review the definitions:

- *Investment*
- *Compound interest*

From the glossary, **review**:

- *Dividend*
- *Principal*
- *Interest*
- *Accrued interest*

Save and Invest, Investment Advice; **click** Compound Interest Chart; **click** Pause to discuss

View the CD or **read** the following:

Let's see how interest compounds on Lynne's savings. Assume that Lynne saves $125 a month for 30 years and the interest on her savings is compounded monthly.

The chart compares results of Lynne's monthly investment at different rates of interest.

What will she have if she just puts that money in a shoe box and doesn't earn any interest?

Student activity

Ask students to use one of numerous online savings and investment calculators (such as www.bankrate.com) to estimate the growth of Lynne's savings using different assumptions for the average rate of return.

③ Save and Invest

Take the power of compound interest seriously—and then save.
Dwight R. Lee and Richard B. McKenzie,
Getting Rich in America

You have budgeted and identified an amount to save monthly. Where are you going to put your savings? By investing, you put the money you save to work making more money and increasing your wealth. An ***investment*** is anything you acquire for future income or benefit. Investments increase by generating income (interest or dividends) or by growing (appreciating) in value. Income earned from your investments and any appreciation in the value of your investments *increase* your wealth.

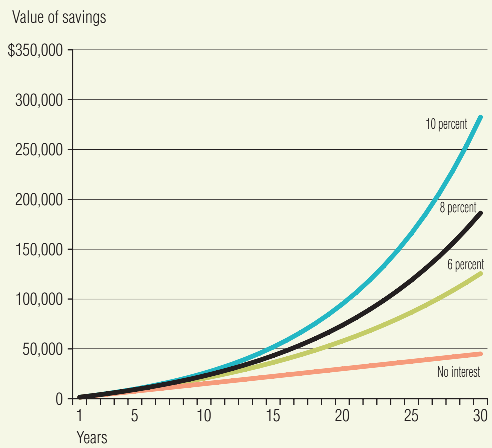
GET GUIDANCE

There is an art to choosing ways to invest your savings. Good investments will make money; bad investments will cost money. Do your homework. Gather as much information as you can. Seek advice from personnel at your bank or other trained financial experts. Read newspapers, magazines and other publications. Identify credible information sources on the Internet. Join an investment club. Check out the information resources listed in the resource guide at the back of this publication.

TAKE ADVANTAGE OF COMPOUND INTEREST

Compound interest helps you build wealth faster. Interest is paid on previously earned interest as well as on the original deposit or investment. For example, $5,000 deposited in a bank at 6 percent interest for a year earns $308 if the interest is compounded monthly. In just 5 years, the $5,000 will grow to $6,744.

The Compound Interest Advantage



Examples assume $125 monthly deposits;
the compound interest examples assume monthly compounding.

Let's see how interest compounds on Lynne's savings. Assume that Lynne saves $125 a month for 30 years and the interest on her savings is compounded monthly.

The chart to the left shows how compound interest at various rates would increase Lynne's savings compared with simply putting the money in a shoebox. This is compound interest that you earn. And as you can see from Lynne's investment, compounding has a greater effect after the investment and interest have increased over a longer period.

There is a flip side to compound interest. That is compound interest you are charged. This compound interest is charged for purchases on your credit card. Chapter 4, "Take Control of Debt," discusses this type of interest.

Save and Invest, Risk v. Return; **click** Next to view two screens

Review the concept of risk-expected return relationship.

When saving and investing, the amount of expected return is based on the amount of risk you take with your money. Generally, the higher the risk of losing money, the higher the expected return.

For example, a savings account at a financial institution is fully insured by the Federal Deposit Insurance Corp. (FDIC) up to $250,000.* The return—or interest paid on your savings—will generally be less than the expected return on other types of investments.

On the other hand, an investment in a stock or bond is not insured. The money you invest may be lost or the value reduced if the investment doesn't perform as expected.

Note: The U.S. Consumer Price Index (CPI) is a common measure of inflation. For more information, the U.S. Department of Labor's Bureau of Labor Statistics tracks the CPI at www.bls.gov/cpi.

View the CD or **read** the four criteria in the box on page 11 of the guide.

Review the investment pyramid: the higher the expected return, the higher the risk of losing money. For example, savings accounts (cash) help form the foundation of the pyramid because they are insured by the FDIC. This is appropriate for money that might be needed in the short term. Compare that to an investment in stock (values that increase and decrease). You should move up the pyramid only after you have built a strong foundation.

Instructor-led discussion

Ask students to read the definition of *inflation* in the glossary.

Discuss why investors should consider inflation expectations while choosing investments.

*In October 2008, the Federal Deposit Insurance Corp. approved a temporary increase in deposit insurance per account from $100,000 to $250,000. From www.fdic.gov: "On January 1, 2010, the standard coverage limit will return to $100,000 for all deposit categories except IRAs and Certain Retirement Accounts, which will continue to be insured up to $250,000 per owner."

UNDERSTAND THE RISK–EXPECTED RETURN RELATIONSHIP

An investment in knowledge always pays the best interest.
Benjamin Franklin

HOW MUCH RISK DO YOU WANT TO TAKE?

Here are some things to think about when determining the amount of risk that best suits you.

Financial goals. How much money do you want to accumulate over a certain period of time? Your investment decisions should reflect your wealth-creation goals.

Time horizon. How long can you leave your money invested? If you will need your money in one year, you may want to take less risk than you would if you won't need your money for 20 years.

Financial risk tolerance. Are you in a financial position to invest in riskier alternatives? You should take less risk if you cannot afford to lose your investment or have its value fall.

Inflation risk. This reflects savings' and investments' sensitivity to the inflation rate. For example, while some investments such as a savings account have no risk of default, there is the risk that inflation will rise above the interest rate on the account. If the account earns 5 percent interest, inflation must remain lower than 5 percent a year for you to realize a profit.

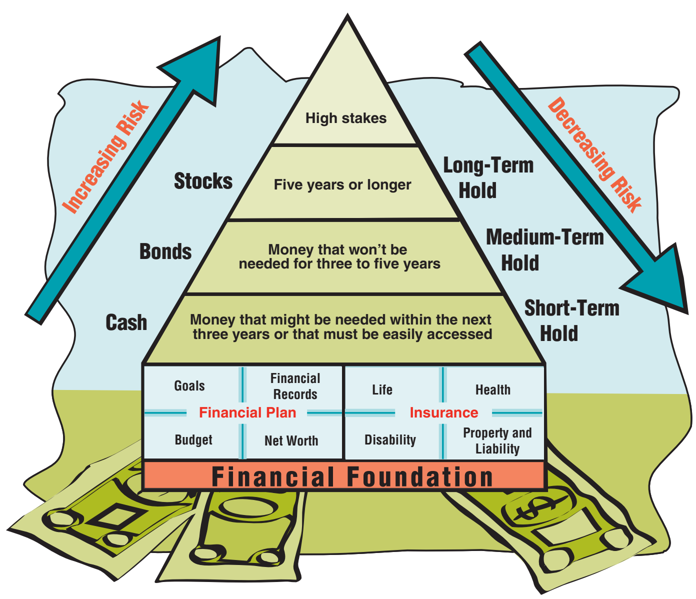
When you are saving and investing, the amount of expected return is based on the amount of risk you take with your money. Generally, the higher the risk of losing money, the higher the expected return. For less risk, an investor will expect a smaller return.

For example, a savings account at a financial institution is fully insured by the Federal Deposit Insurance Corp. up to $100,000. The return—or interest paid on your savings—will generally be less than the expected return on other types of investments.

On the other hand, an investment in a stock or bond is not insured. The money you invest may be lost or the value reduced if the investment doesn't perform as expected.

After deciding how much risk you are able to take, you can use the investment pyramid to help balance your savings and investments. You should move up the pyramid only after you have built a strong foundation.

Investment Pyramid



NOTE: Information not intended as specific individual investment advice.

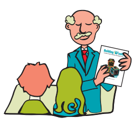
SOURCES: National Institute for Consumer Education, Eastern Michigan University; AIG VALIC.

Save and Invest, Tools for Saving; **click** Next to view three screens

View the CD or **read** the following:

The simplest way to begin earning money on your savings is to open a savings account at a financial institution. You can take advantage of compound interest, with no risk.

Review the types of savings accounts in the box on page 12 of the guide.



Instructor-led discussion

Review the information about individual development accounts (IDAs) in the box on page 12. Is an IDA program available in your community? If so, provide information about the program to your class participants. They may be eligible to participate in the program or may know someone who is.

Save and Invest, Tools for Investing; **click** Next to view seven screens regarding stocks and bonds

View the CD or **review** the information and definitions of bonds, stocks and mutual funds on pages 12–15.

Discuss the definitions of:

- *Bonds*
- *Stock*
- *Stockholder*
- *Dividend*
- *Stock appreciation*
- *Mutual funds*

Instructor-led discussion

Discuss the benefits of diversification. Once you have a good savings foundation, you may want to diversify your assets among different types of investments. Diversification can help smooth out potential ups and downs in your investment returns. Investing is not a get-rich-quick scheme. Smart investors take a long-term view, putting money into investments regularly and keeping it invested for five, 10, 15, 20 or more years.

Wealth Wisdom:

Don't put all your eggs in one basket.

Anonymous

TOOLS FOR SAVING

The simplest way to begin earning money on your savings is to open a savings account at a financial institution. You can take advantage of compound interest, with no risk.

Financial institutions offer a variety of savings accounts, each of which pays a different interest rate. The box below describes the different accounts. Find the best one for your situation and compare interest rates and fees. You can choose to use these typical accounts to save for the near future or for years down the road.

Individual Development Accounts

In some communities, people whose income is below a certain level can open an individual development account (IDA) as part of a money-management program organized by a local nonprofit organization. IDAs are generally opened at a local bank. Deposits made by the IDA account holder are often matched by deposits from a foundation, government agency or other organization. IDAs can be used for buying a first home, paying for education or job training, or starting a small business.

Training programs on budgeting, saving and managing credit are frequently part of IDA programs.

Find out about IDAs by calling CFED at (202) 408-9788, or visit its web site at www.idanetwork.org.

Types of Savings Accounts

Savings account (in general)

- Access your money at any time.
- Earn interest.
- Move money easily from one account to another.
- Savings insured by the FDIC up to $100,000.

Money market account

- Earn interest.
- Pay no fees if you maintain a minimum balance.
- May offer check-writing services.
- Savings insured by the FDIC up to $100,000.

Certificate of deposit (CD)

- Earn interest during the term (three months, six months, etc.).
- Must leave the deposit in the account for the entire term to avoid an early-withdrawal penalty.
- Receive the principal and interest at the end of the term.
- Savings insured by the FDIC up to $100,000.

TOOLS FOR INVESTING

Once you have a good savings foundation, you may want to diversify your assets among different types of investments. Diversification can help smooth out potential ups and downs of your investment returns. Investing is not a get-rich-quick scheme. Smart investors take a long-term view, putting money into investments regularly and keeping it invested for five, 10, 15, 20 or more years.

Bonds—Lending Your Money

Bonds. When you buy bonds, you are lending money to a federal or state agency, municipality or other issuer, such as a corporation. A bond is like an IOU. The issuer promises to pay a stated rate of interest during the life of the bond and repay the entire face value when the bond comes due or reaches maturity. The interest a bond pays is based primarily on the credit quality of the issuer and current interest rates. Firms like Moody's Investor Service and Standard & Poor's rate bonds. With corporate bonds, the company's bond rating

Save and Invest, Investment Advice; **click** Rule of 72 Calculator

View the CD or **read** the following (see box, page 13 of the guide):

The Rule of 72 can help you estimate how your investment will grow over time. Simply dividing the number 72 by the investment's expected rate of return will tell you approximately how many years it will take for your investment to double in value.

Student activity

Ask students to calculate how long it will take to double an initial investment at a specified rate of interest. For example, if you invest $5,000 today at 8 percent interest, how many years will it take to double your initial investment?

Answer: 72/8 = 9

The Rule of 72 also works if you want to find out the rate of return you will need to double your money. For example, what interest rate is required to double your investment in five years?

Answer: 72/5 = 14.4%

Ask students to find an interest rate quote for a savings account in a newspaper or an online ad. They can use the Rule of 72 to estimate how long it will take to double an amount invested at that rate.

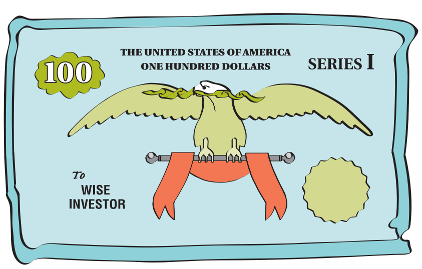
Note: Through TreasuryDirect.gov, an individual can learn more about government securities, such as savings bonds, Treasury bonds, bills and notes, as well as establish an online account to buy, convert, sell or redeem securities. TreasuryDirect tracks details like issue date and current value for you. There are no fees to establish an account or purchase securities directly from the U.S. Treasury, and you can establish regular purchases through direct deposit.

A Good Rule of Thumb

The Rule of 72 can help you estimate how your investment will grow over time. Simply divide the number 72 by your investment's expected rate of return to find out approximately how many years it will take for your investment to double in value.

Example: Invest $5,000 today at 8 percent interest. Divide 72 by 8 and you get 9. Your investment will double every nine years. In nine years, your $5,000 investment will be worth about $10,000, in 18 years about $20,000 and in 27 years, $40,000.

The Rule of 72 also works if you want to find out the rate of return you need to make your money double. For example, if you have some money to invest and you want it to double in 10 years, what rate of return would you need? Divide 72 by 10 and you get 7.2. Your money will double in 10 years if your average rate of return is 7.2 percent.



is based on its financial picture. The rating for municipal bonds is based on the creditworthiness of the governmental or other public entity that issues it. Issuers with the greatest likelihood of paying back the money have the highest ratings, and their bonds will pay an investor a lower interest rate. Remember, the lower the risk, the lower the expected return.

A bond may be sold at face value (called ***par***) or at a premium or discount. For example, when prevailing interest rates are lower than the bond's stated rate, the selling price of the bond rises above its face value. It is sold at a premium. Conversely, when prevailing interest rates are higher than the bond's stated rate, the selling price of the bond is discounted below face value. When bonds are purchased, they may be held to maturity or traded.

Savings bonds. ***U.S. savings bonds*** are government-issued and government-backed. There are different types of savings bonds, each with slightly different features and advantages. ***Series I*** bonds are indexed for inflation. The earnings rate on this type of bond combines a fixed rate of return with the annualized rate of inflation. Savings bonds can be purchased in denominations ranging from $50 to $10,000.

Treasury bonds, bills and notes. The bonds the U.S. Treasury issues are sold to pay for an array of government activities and are backed by the full faith and credit of the federal government. ***Treasury bonds*** are securities with terms of more than 10 years. Interest is paid semiannually. The U.S. government also issues securities known as Treasury bills and notes. ***Treasury bills*** are short-term securities with maturities of three months, six months or one year. They are sold at a discount from their face value, and the difference between the cost and what you are paid at maturity is the interest you earn. ***Treasury notes*** are interest-bearing securities with maturities ranging from two to 10 years. Interest payments are made every six months. ***Treasury Inflation Protected Securities (TIPS)*** offer investors a chance to buy a security that keeps pace with inflation. Interest is paid on the inflation-adjusted principal.

Bonds, bills and notes are sold in increments of $1,000. These securities, along with U.S. savings bonds, can be purchased directly from the Treasury through TreasuryDirect at www.treasurydirect.gov.

Instructor-led discussion

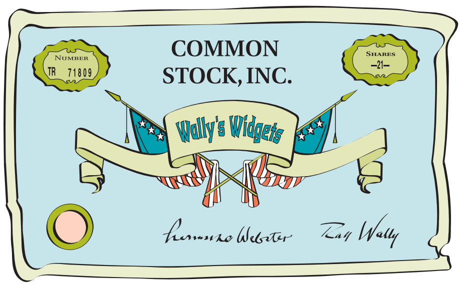
Explain that stocks, bonds and mutual funds can be purchased through a full-service broker if you need investment advice, or from a discount broker, or even directly from some companies and mutual funds.

Remember, when investing in these products:

- Find good information to help you make informed decisions.
- Make sure you know and understand all the costs associated with buying, selling and managing your investments.
- Beware of investments that seem too good to be true; they probably are.

Note: The U.S. Securities and Exchange Commission (SEC) oversees and regulates the securities industry in the U.S. and enforces securities laws. The SEC's website has tips for saving and investing, with illustrations and a quiz, *Test Your Money Smarts*. For more information on stocks, bonds and mutual funds, go to www.sec.gov/investor/students/tips.htm.

Some government-issued bonds offer special tax advantages. There is no state or local income tax on the interest earned from Treasury and savings bonds. And in most cases, interest earned from municipal bonds is exempt from federal and state income tax. Typically, higher income investors buy these bonds for their tax benefits.



Stocks—Owning Part of a Company

When you buy ***stock***, you become a part owner of the company and are known as a ***stockholder***, or ***shareholder***. Stockholders can make money in two ways—receiving dividend payments and selling stock that has appreciated. A ***dividend*** is an income distribution by a corporation to its shareholders, usually made quarterly. ***Stock appreciation*** is an increase in the value of stock in the company, generally based on its ability to make money and pay a dividend. However, if the company doesn't perform as expected, the stock's value may go down.

There is no guarantee you will make money as a stockholder. In purchasing shares of stock, you take a risk on the company making a profit and paying a dividend or seeing the value of its stock go up. Before investing in a company, learn about its past financial performance, management, products and how the stock has been valued in the past. Learn what the experts say about the company and the relationship of its financial performance and stock price. Successful investors are well informed.

Mutual Funds—Investing in Many Companies

Mutual funds are established to invest many people's money in many firms. When you buy mutual fund shares, you become a shareholder of a fund that has invested in many other companies. By diversifying, a mutual fund spreads risk across numerous companies rather than relying on just one to perform well. Mutual funds have varying degrees of risk. They also have costs associated with owning them, such as management fees, that will vary depending on the type of investments the fund makes.

Before investing in a mutual fund, learn about its past performance, the companies it invests in, how it is managed and the fees investors are charged. Learn what the experts say about the fund and its competitors.

Wealth Wisdom:

There are two kinds of people in the world, those that believe in saving for retirement and those that believe in the Retirement Fairy.

MP Dunleavy

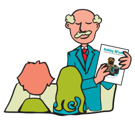
Save and Invest; **click** Invest for Retirement

View the CD or **read** the following:

Have you ever thought about how much money you will need when you retire?

Will you save enough today to meet your future needs at prices higher than today's due to inflation?

Many people don't save enough for retirement.



Instructor-led discussion

Discuss the chart on page 15 of the guide, which shows how a single deposit grows over time, or **use** the Calculate Future Value interactive worksheet on the CD to compute a single deposit saved for 10, 20, 30 and 40 years using various assumptions for average annual interest rate.

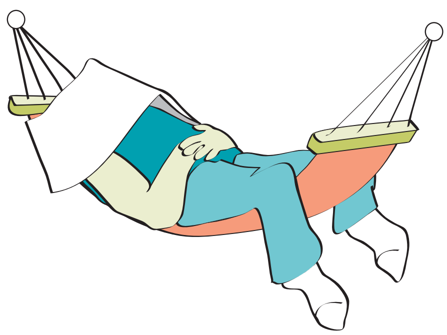
Ask students to compare the expectations of a 20-year-old adult who begins saving $3,000 per year for 45 years to those of a 40-year-old who begins saving $3,000 per year with hopes of retiring at 65. Assume both investors earn an average annual rate of return of 8 percent per year.

See the chart on page 16 of the guide for the results or use an online investment calculator to find the results.

Stocks, bonds and mutual funds can be purchased through a full-service broker if you need investment advice, from a discount broker, or even directly from some companies and mutual funds. Remember, when investing in these products:

- Find good information to help you make informed decisions.
- Make sure you know and understand all the costs associated with buying, selling and managing your investments.
- Beware of investments that seem too good to be true; they probably are.

INVEST FOR RETIREMENT



Have you ever thought about how much money you will need when you retire? Will you save enough today to meet your future needs at prices higher than today's due to ***inflation***? Many people don't save enough for retirement. Use the following chart to calculate how much you need to invest today to achieve your retirement goal. For example, suppose you are 20 years old and would like to have $1 million when you retire at age 65. If you can invest $13,719 today, it will grow to $1 million over the next 45 years if it earns a constant 10 percent return, compounded annually. You never have to add another dime to your initial investment.

How old are you? ______________________

How much do you want saved by retirement? ________________

Invest Today to Meet Retirement Goals at Age 65

Age	Amount invested				
20	$ 2,743	$ 5,487	$ 8,232	$ 10, 976	$ 13,719
25	4,419	8,838	13,257	17,676	22,095
30	7,117	14,234	21,351	28,468	35,585
35	11,462	22,924	34,386	45,847	57,309
40	18,460	36,919	55,378	73,838	92,296
45	29,729	59,458	89,186	118,915	148,644
50	47,879	95,757	143,635	191,514	239,392
55	77,109	154,217	231,326	308,435	385,543
60	124,185	248,369	372,553	496,737	620,921
65	$ 200,000	$ 400,000	$ 600,000	$ 800,000	$ 1,000,000

Assumes a 10 percent return that is compounded annually.

Save and Invest, Invest for Retirement; **click** Next to view four screens

View the CD or **use** the guide to review the definitions of:

- *Traditional IRA*
- *Spousal IRA*
- *Catch-up contributions*
- *Roth IRA*
- *401(k) plans*
- *Qualified plans*

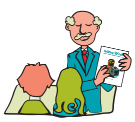
Check the IRS website—www.irs.gov—for current information on tax-deferred investments.

Student activity

Ask students to compare the tax treatment of contributions to, and withdrawals from, a traditional IRA and a Roth IRA.

Be sure to emphasize that early withdrawals for certain purposes, such as funding higher education expenses, are not penalized.

For current IRA contribution limits, go to www.irs.gov. Maximum contributions are based on a number of factors, including age and filing status.

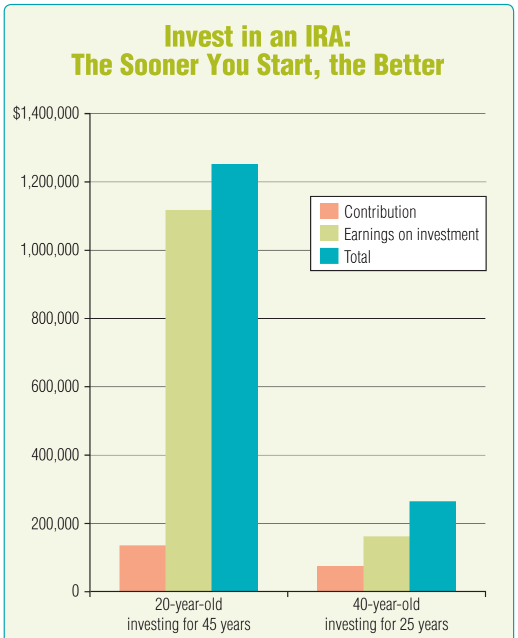


Instructor-led discussion

By putting a percentage of your salary into a 401(k), you reduce the amount of pay subject to federal and state income tax. Tax-deferred contributions and earnings make up the best one-two punch in investing.

Review the information in the top box on page 17 of the guide.

Discuss the example of a $3,000 IRA contribution for an investor who is subject to a 15 percent tax rate.



Assumes an annual investment of $3,000 and an 8 percent rate of return.

Individual Retirement Accounts

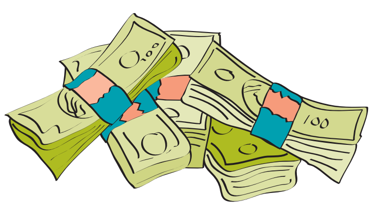
An individual retirement account (IRA) lets you build wealth and retirement security. The money you invest in an IRA grows tax-free until you retire and are ready to withdraw it. You can open an IRA at a bank, brokerage firm, mutual fund or insurance company. IRAs are subject to certain income limitations and other requirements you will need to learn more about, but here is an overview of what they offer.

You can contribute up to $4,000 a year to a ***traditional IRA***, as long as you earn $4,000 a year or more. A married couple with only one person working outside the home may contribute a combined total of $8,000 to an IRA and a ***spousal IRA***. Individuals 50 years of age or older may make an additional "catch-up" contribution of $1,000 a year, for a total annual contribution of $5,000. Money invested in an IRA is deductible from current-year taxes if you are not covered by a retirement plan where you work and your income is below a certain limit.

You don't pay taxes on the money in a traditional IRA until it is withdrawn. All withdrawals are taxable, and there generally are penalties on money withdrawn before age 59½. However, you can make certain withdrawals without penalty, such as to pay for higher education, to purchase your first home, to cover certain unreimbursed medical expenses or to pay medical insurance premiums if you are out of work.

A ***Roth IRA*** is funded by after-tax earnings; you do not deduct the money you pay in from your current income. However, after age 59½ you can withdraw the principal and any interest or appreciated value tax-free.

401(k) Plans



Many companies offer a 401(k) plan for employees' retirement. Participants authorize a certain percentage of their before-tax salary to be deducted from their paycheck and put into a 401(k). Many times, 401(k) funds are professionally managed and employees have a choice of investments that vary in risk. Employees are responsible for learning about the investment choices offered.

By putting a percentage of your salary into a 401(k), you reduce the amount of pay subject to federal and state income tax. Tax-deferred contributions and earnings make up the best one-two punch in investing. In addition, your employer may match a portion of every dollar you invest in the 401(k), up to a certain percentage or dollar amount.

Save and Invest, Other Investments; **click** Building Equity

View the CD or **read** the following:

Remember Bob in Chapter 1, who started reading this workbook to create wealth? Practicing what he read, Bob reduced his debt, increased his savings and is now ready to buy a house.

Discuss the definition of *equity*. What are some ways that Bob may build equity in his house?

Review the 15- versus 30-year mortgage comparison (see bottom box on page 17 of the guide).

Instructor-led discussion

Discuss other financing decisions that consumers face when purchasing a home. A few of these important considerations:

- Loan amount and down payment.
- Requirement for mortgage insurance.
- Fixed versus adjustable-rate mortgage.
- Government-insured loan versus conventional.

How Much Extra Savings Is a Tax-Deferred Investment Worth?

If you pay taxes, which most of us do, a tax-deferred investment will be worth the amount you invest multiplied by the tax rate you pay. For example, if your federal tax rate is 15 percent and you invest $3,000 in an IRA, you'll save $450 in taxes. So in effect, you will have spent only $2,550 for a $3,000 investment on which you will earn money. A good wealth-creation plan maximizes tax-deferred investments.

As long as the money remains in your 401(k), it's tax-deferred. Withdrawals for any purpose are taxable, and withdrawals before age 59½ are subject to a penalty. Take full advantage of the retirement savings programs your company offers—and understand thoroughly how they work. They are great ways to build wealth.

Qualified Plans

If you're self-employed, don't worry. There is a retirement plan for you. A qualified plan (formerly referred to as a Keogh plan) is a tax-deferred plan designed to help self-employed workers save for retirement.

The most attractive feature of a qualified plan is the high maximum contribution—up to $42,000 annually. The contributions and investment earnings grow tax-free until they are withdrawn, when they are taxed as ordinary income. Withdrawals before age 59½ are subject to a penalty.

Check the IRS web site—www.irs.gov—for current information on tax-deferred investments.

OTHER INVESTMENTS

Investing in Your House

Remember Bob in Chapter 1, who started reading this workbook to create wealth? Practicing what he read, Bob reduced his debt, increased his savings and is now ready to buy a house. He has a sizable down payment saved, so right from the beginning he will have equity in his home.

Equity, in this case, is the difference between the market value of the house and the balance on Bob's mortgage. As Bob pays his mortgage, he increases his equity. Plus, over time, his house may rise in value—giving him more money if he chooses to sell it. Knowing that the more equity he has in his house, the wealthier he will be, Bob takes a 15-year mortgage rather than the more traditional 30-year mortgage. This will enable him to own his house in 15 years. Of course, Bob will make higher monthly payments on his mortgage than he would have, but he will build equity quicker and ultimately pay less interest.

By making higher monthly payments, Bob not only will own his house outright in 15 years, but he will save $106,119 in interest payments. Making higher monthly payments, of course, means budgeting. Bob chose to budget extra money each month out of his paycheck—and make wise spending choices—so he can do just that.

Building Equity Quicker—A Comparison

Mortgage term	30 years	15 years
Loan amount	$ 118,000	$ 118,000
Months to pay	360	180
Annual percentage rate	7.5%	7.0%
Monthly payment	$ 825	$ 1,061
Total interest	$ 179,030	$ 72,911
Interest savings	—	$ 106,119

Save and Invest, Other Investments; **click** Invest in Your Own Business

View the CD or **read** the story of Duncan, the entrepreneur.

Ask students to share stories of friends or family who are entrepreneurs, or perhaps their own personal stories.

Ask students to share examples of the keys to success in self-employment. Some examples may include:

- Hard work and long hours.
- Saving for start-up costs.
- Putting profits back into the business.

Instructor-led discussion

Other keys to success in self-employment:

- ______________________________
- ______________________________
- ______________________________

Many small-business experts agree that it is very important to have a good understanding of the basics of budgeting, saving and investing, debt and protecting your wealth before starting your own business.

Save and Invest, Other Investments; **click** Investment Alternatives

View the CD or **discuss** other investment alternatives, such as land, rental properties, art, antiques, collectibles, etc.

Student activity

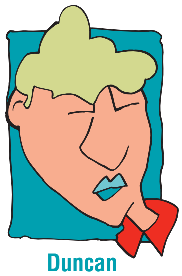
Review the investment pyramid again on page 11 of the guide. Where would these other investments be found on the pyramid?

Ask students to list the investment options they plan to learn more about and weigh the options against their wealth-creation goals, time frame and risk tolerance.

We have seen that by budgeting to save, saving and investing, wealth can be created. But what if debt limits your ability to save and invest? The next chapter discusses controlling debt.

Start Your Own Business

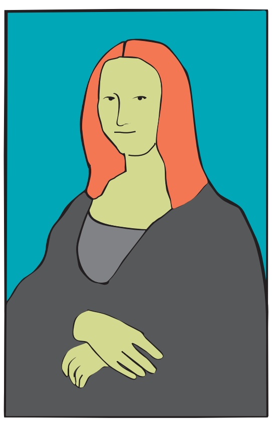
You can also start and invest in your own business as part of a wealth-creation plan. This requires planning, know-how, savings and an entrepreneurial spirit. Starting a small business can be risky, but it is one of the most significant ways individuals have to create personal wealth.



Duncan

Duncan had a dream—he wanted to own a business. He worked for a printing company for 10 years and learned every aspect of the business. He and his wife saved every month until they had a sizable nest egg. When they felt the timing was right, they bought a printing press and computer equipment and set up shop in an old warehouse. Duncan's wife kept her job so they would have steady income and benefits while the business got off the ground.

For the next five years, Duncan worked long hours and put all the income back into the business to help it grow. He gave his customers good service, attracted more customers and paid close attention to his expenses. By the sixth year, the business was profitable and Duncan and his wife were well on the way to owning a successful, ongoing enterprise that will increase their personal wealth.



None of this would have been possible without budgeting and saving. Duncan was able to use the couple's savings to invest in his talents and entrepreneurial spirit.

Other Investment Alternatives

You also can invest in other things that may not earn a dividend or interest but may rise in value over time, such as land, rare coins, antiques and art. If you are knowledgeable about these types of investments, they might be the right choice for you.

Now it's time to plan your investment strategy. List the investment options you are going to learn more about and weigh them against your wealth-creation goals, time frame and risk tolerance.

1. ______________________________

2. ______________________________

3. ______________________________

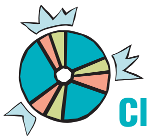
4. ______________________________

5. ______________________________

We have seen that by budgeting to save, saving and investing, wealth can be created. But what if debt limits your ability to save and invest? The next chapter discusses controlling debt.

Chapter 4

Take Control of Debt



Click Take Control of Debt

View the CD or read the following:

Remember the definition of *net worth* (wealth)?

ASSETS – LIABILITIES = NET WORTH

Liabilities are your debts. Debt reduces net worth.

In Chapter 4, we will take a hard look at debt, including credit card debt and the interest you pay on debt, money that cannot be saved or invested—it's just gone.

Debt is a tool to be used wisely for such things as buying a house or financing your education. If not used wisely, debt can easily get out of hand.

- Develop a budget and stick to it.
- Save money so you're prepared for unforeseen circumstances. You should have at least three to six months of living expenses stashed in a rainy-day savings account.
- When faced with a choice of financing a purchase, it may be a better financial decision to choose a less expensive model of the same product and save or invest the difference.
- Pay off credit card balances monthly.
- If you must borrow, learn everything about the loan, including the interest rate, fees and penalties for late payments or early repayment.

Instructor-led discussion

Ask students for other suggestions on controlling debt. Instructor or students may want to share something they've learned.

Wealth Wisdom:

Build wealth, not debt.

Consumer Federation of America, slogan for the "America Saves" campaign

④ Take Control of Debt

Remember the definition of net worth (wealth)?

Assets – Liabilities = Net Worth

I owe, I owe, so it's off to work I go.

Bumper sticker on a 1972 Chevy

Liabilities are your debts. Debt reduces net worth. Plus, the interest you pay on debt, including credit card debt, is money that cannot be saved or invested—it's just gone. Debt is a tool to be used wisely for such things as buying a house. If not used wisely, debt can easily get out of hand. For example, putting day-to-day expenses—like groceries or utility bills—on a credit card and not paying off the balance monthly can lead to debt overload.

WHY PEOPLE GET INTO TROUBLE WITH DEBT

Lots of people are mired in debt. In some cases, they could not control the causes of their debt. However, in some instances they could have.

Many people get into serious debt because they:
- Experienced financial stresses caused by unemployment, medical bills or divorce.
- Could not control spending, did not plan for the future and did not save money.
- Lacked knowledge of financial and credit matters.

Tips for Controlling Debt

- Develop a budget and stick to it.
- Save money so you're prepared for unforeseen circumstances. You should have at least three to six months of living expenses stashed in your rainy day savings account, because as the poet Longfellow put it, "Into each life some rain must fall."
- When faced with a choice of financing a purchase, it may be a better financial decision to choose a less expensive model of the same product and save or invest the difference.
- Pay off credit card balances monthly.
- If you must borrow, learn everything about the loan, including interest rate, fees and penalties for late payments or early repayment.

Take Control of Debt, Use Debt Wisely; **click** Next

View the CD or **read** the following:

The bottom line on interest is that those who know about interest earn it; those who don't, pay it.

Review the definitions of *principal* and *interest*.

Take Control of Debt, Use Debt Wisely; **click** Tale of Two Spenders

View the CD or **read** the Tale of Two Spenders on page 20 of the guide.

Planners like Betty rarely use credit cards. When they do, they pay off their balances every month. When a credit card balance is not paid off monthly, it means paying interest—often 20 percent or more a year—on everything purchased. So think of credit card debt as a high-interest loan.

Instructor-led discussion

Ask students to give other examples of spending choices that usually include a decision about financing. When is it a good time to choose to pay cash and when is a loan or credit charge a good idea? How does a spending plan, or budget, come in handy for these decisions? One example would be choosing a "no interest for one year" option for a purchase but budgeting monthly payments so that the purchase is paid off before the interest charge hits.

What about a decision to rent versus purchase an item, such as a home appliance? Of course, the best idea is to save until you can pay cash, but that may not always be possible. If you need a stove to cook your meals, for example, but can't afford to pay cash, appliance rental may be your best option. But be sure you know the terms of the deal before you sign.

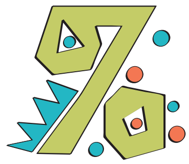
Review the suggestions for reducing credit card debt on page 20.

Take Control of Debt, Use Debt Wisely; **click** Avoid Credit Card Debt

Use the interactive chart on the CD to investigate the true cost of paying the minimum monthly payment on a credit card balance.

SPEAKING OF INTEREST

When you take out a loan, you repay the ***principal***, which is the amount borrowed, plus ***interest***, the amount charged for lending you the money.



Remember the discussion about earning compound interest in Chapter 3? The interest on your monthly balance is a good example of compound interest that you pay. The interest is added to your bill, and the next month interest is charged on that amount *and* on the outstanding balance.

The bottom line on interest is that those who know about interest earn it; those who don't, pay it.

AVOID CREDIT CARD DEBT

Planners, like Betty, rarely use credit cards. When they do, they pay off their balances every month. When a credit card balance is not paid off monthly, it means paying interest—often 20 percent or more a year—on everything purchased. So think of credit card debt as a high-interest loan.

Do you need to reduce your credit card debt? Here are some suggestions.

- Pay cash.
- Set a monthly limit on charging, and keep a written record so you don't exceed that amount. (Remember your daily expense sheet from Chapter 2? Use it to keep track.)
- Limit the number of credit cards you have. Cut up all but one of your cards. Stash that one out of sight, and use it only in emergencies.
- Choose the card with the lowest interest rate and no (or very low) annual fee. But beware of low introductory interest rates offered by mail. These rates often skyrocket after the first few months.
- Don't apply for credit cards to get a free gift or a discount on a purchase.
- Steer clear of blank checks that financial services companies send you. These checks are cash advances that may carry a higher interest rate than typical charges.
- Pay bills on time to avoid late charges or increased interest rates.

The Tale of Two Spenders and the Big-Screen TV

Remember Betty, the planner? She saved up for the "extras." When she had enough money in her savings account, she bought a big-screen TV for $1,500. She paid cash.

Her friend Tim is an impulsive spender. He seeks immediate gratification using his credit cards, not realizing how much extra it costs. Tim bought the same TV for $1,500 but financed it on a store credit card with an annual interest rate of 22 percent. At $50 a month, it took him almost four years to pay off the balance.

While Betty paid only $1,500 for her big-screen TV, Tim paid $2,200—the cost of the TV plus interest. Tim not only paid an extra $700, he lost the opportunity to invest the $700 in building his wealth.

Take Control of Debt;
click Payday Loans
and Predatory Lenders

View the CD or **review** the description of payday loans and predatory lenders on page 21 of the guide.

People can get deep in debt when they take out a loan against their paychecks.

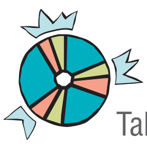
Predatory lenders often target seniors and low-income people they contact by phone.

Take Control of Debt, Payday Loans
and Predatory Lenders;
click Pauline's Story

View the animated vignette on the CD or **review** Pauline's story on page 21.

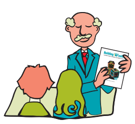
Emphasize these lessons:

- Don't borrow from Peter to pay Paul.
- Never respond to a solicitation that makes borrowing sound easy and cheap.
- Always read the fine print on any loan application.
- Seek assistance from family members, local credit counseling services or others to make sure a loan is right for you.



Take Control of Debt;
click Credit Report/Score;
click Next through five screens

View the CD or **review** the description of *credit report* and *credit score* on page 21.



Instructor-led discussion

Read the list of factors below and **ask** students whether the factor is considered in the credit score:

- Age of individual? (No.)
- History of late payments? (Yes, may predict future habits.)
- Available balance on credit lines? (Yes, may predict overuse of credit.)
- Income? (No.)
- Own/rent? (No.)
- Length of time at your current job? (No.)
- Number of recent credit applications? (Yes, may be taking on too much debt.)

BEWARE THE PERILS OF PAYDAY LOANS AND PREDATORY LENDERS

People can get deep in debt when they take out a loan against their paycheck. They write a postdated check in exchange for money. When they get paid again, they repay the loan, thus the name ***payday loan***. These loans generally come with very high, double-digit interest rates. Borrowers who can't repay the money are charged additional fees for an extension, which puts them even deeper in debt. Borrowers can continue to pay fees to extend the loan's due date indefinitely, only to find they are getting deeper in debt because of the steep interest payments and fees.

Pauline

Predatory lenders often target seniors and low-income people they contact by phone, mail or in person. After her husband died, 73-year-old Pauline got plenty of solicitations from finance companies. She was struggling to make ends meet on her fixed income. To pay off her bills, she took out a $5,000 home equity loan that carried a high interest rate and excessive fees. Soon she found she was even deeper in debt, so she refinanced the loan once, then again, and again, paying fees each time.

Pauline's children discovered her situation and paid off the loan. The lessons here are:
- Don't borrow from Peter to pay Paul.
- Never respond to a solicitation that makes borrowing sound easy and cheap.
- Always read the fine print on any loan application.
- Seek assistance from family members, local credit counseling services or others to make sure a loan is right for you.

KNOW WHAT CREDITORS SAY ABOUT YOU

Those who have used credit will have a credit report that shows everything about their payment history, including late payments.

The information in your credit report is used to create your credit score. A credit score is a number generated by a statistical model that objectively predicts the likelihood that you will repay on time. Banks, insurance companies, potential landlords and other lenders use credit scores.

Credit scores range from under 500 to 800 and above and are determined by payment history, the amount of outstanding debt, length of your credit history, recent inquiries on your credit report and the types of credit in use. Factors not considered in a credit score include age, race or ethnicity, income, job, marital status, education, length of time at your current address, and whether you own or rent your home.

What's on YOUR Credit Report?

Consumers have the right to receive annually a free copy of their credit report from each of the three major credit reporting companies:

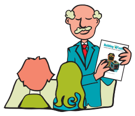
Equifax: 1-800-685-1111; www.equifax.com

Experian: 1-800-397-3742; www.experian.com

Trans Union: 1-800-888-4213; www.transunion.com

The three nationwide consumer credit reporting companies have set up a toll-free telephone number and one central web site for ordering free reports:

1-877-322-8228; www.annualcreditreport.com



Instructor-led discussion

Review the process for correcting errors on credit reports on page 22 of the guide.

The Federal Trade Commission has a sample dispute letter on its website, www.ftc.gov/bcp/edu/pubs/consumer/credit/cre21.shtm.

Review the sample letter with class participants and discuss the information required to complete a dispute letter.

For example:
- A copy of the report that is being disputed.
- The name of the information provider.
- A description of the item that is incorrect or incomplete.
- Copies of payment records that support your dispute.

Take Control of Debt; **click** Credit Report/Score; **click** Next to the sixth screen, Keep Your Good Name

View the CD or **review** Betty's system for paying her bills on time. Betty has found that "autopilot" really simplifies budgeting and saving.

If you believe you are too deep in debt:
- Discuss your options with your creditors before you miss a payment.
- Seek expert help, such as consumer credit counseling services, listed in your local telephone directory.
- Avoid "credit repair" companies that charge a fee. Many of these are scams.

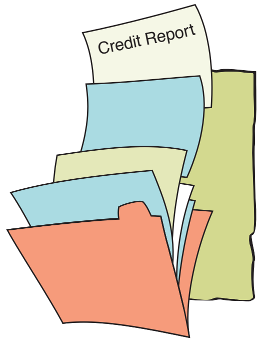
Instructor-led discussion

Discuss some of the benefits and cautions about direct deposit and auto debit. It's still important to follow the activity on your bank accounts closely even if you're on autopilot.

Explain overdraft protection (having your overdrafts from your checking account covered by your savings account) and the benefits of having a backup plan. Warn students about fees that their banks may charge for overdrafts—they can add up fast!

Review the tips for shopping for a good loan.

If you have good credit, you may want to take out a loan to purchase a house or to pay educational expenses—both are investments in the future. But regardless of how the money is spent, a loan is a liability, or debt, and decreases your wealth. So choose loans carefully.



A credit report that includes late payments, delinquencies or defaults will result in a low credit score and could mean not getting a loan or having to pay a much higher interest rate. The higher your score, the less risk you represent to the lender.

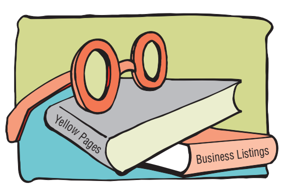
Review your credit report at least once a year to make sure all information is accurate. If you find an error, the Fair Credit Reporting Act requires credit reporting companies and those reporting information to them to correct the mistake. To start the process of fixing an error:

- Contact the credit reporting company online, by fax or certified letter, identifying the creditor you have a dispute with and the nature of the error.
- Send the credit reporting company verifiable information, such as canceled checks or receipts, supporting your complaint.
- The credit reporting company must investigate your complaint within 30 days and get back to you with its results.
- Contact the creditor if the credit reporting company investigation does not result in correction of the error. When you resolve the dispute, ask the creditor to send the credit reporting company a correction.

If the issue remains unresolved, you have the right to explain in a statement that will go on your credit report. For example, if you did not pay a car repair bill because the mechanic didn't fix the problem, the unpaid bill may show up on your credit report, but so will your explanation.

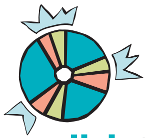
KEEP YOUR GOOD NAME

Every month, go back to your budget and plan carefully to ensure your bills are paid before their due dates. Betty, the planner, makes sure she pays her bills on time. Betty gets paid twice a month. She has her paycheck set up for direct deposit so she doesn't have to scramble to get to the bank on payday. With her first paycheck each month, she pays her mortgage (which she has set up on auto debit), cable TV and utility bills. Out of the second check, Betty makes her car payment (also on auto debit) and has a monthly deposit automatically made to her savings account. Betty has found that "autopilot" really simplifies budgeting and saving.



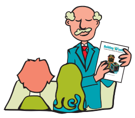
If you believe you are too deep in debt:

- Discuss your options with your creditors before you miss a payment.
- Seek expert help, such as Consumer Credit Counseling Services, listed in your local telephone directory.
- Avoid "credit repair" companies that charge a fee. Many of these are scams.



Take Control of Debt; **click** Choosing the Right Loan

View the CD or **review** the chart with auto loan options on page 23 of the guide. The CD has an interactive chart that can be used to compare different rates and terms, such as 36, 48 or 60 months.



Instructor-led discussion

Ask students how much interest Betty saved by choosing the three-year term on her car loan.

If Betty started having major car problems after four years, she could decide to trade in her car on a new one. If she had financed it for five years, at this point she would still owe 12 payments and may not have any equity in the car. Or she may have negative equity, owing more than the car is worth. Why do many money experts recommend buying used cars instead of new ones? A used car doesn't depreciate as quickly as a new car.

Compare financing options for an auto loan using the interactive chart Advantages of Paying Loans Off Early. Research current auto loan rates for various terms and decide which option is best. Under what circumstances would it be better to choose the five-year term? One example may be when other debt obligations would make the higher monthly payment on the car note too difficult.

As you can see, a big part of building wealth is making wise choices about debt. You need to maximize assets and minimize liabilities to maximize net worth. To manage debt, you need to know how much you have and develop strategies to control it.

SAVE MONEY BY CHOOSING THE RIGHT LOAN

$15,000 Car Loan for 5 Years		
Lender	Interest rate	Total interest
Pixley Bank and Trust	6.5%	$2,609.53
XYZ Savings and Loan	7.5%	$3,034.15
Joe's Auto Sales	15.0%	$6,410.94

If you have good credit, you may want to take out a loan to purchase a house or to cover educational expenses—both are investments in the future. But regardless of how the money is spent, a loan is a liability, or debt, and decreases your wealth. So choose loans carefully.

Shop and negotiate for the lowest interest rate. The interest you save can be invested to build wealth. Take a look at the chart to the left. In this example, it is obvious that Pixley Bank and Trust would charge the lowest interest over the term of the loan. What's not obvious is that your credit score may determine which interest rate you are offered. Use an online auto loan calculator to compare rates.

SAVE MONEY BY PAYING LOANS OFF EARLY

You can save interest expense by increasing your monthly payments or choosing a shorter payment term on your loan.

Betty, the planner, knew her new car would cost more than the sticker price because she would have to pay interest on the loan from the bank. After checking her options, she chose a shorter payment term with higher payments. Betty budgeted enough money each month to make the higher payments. By doing this, she will reduce the amount of interest she ultimately pays.

The chart on the left shows how shorter terms with higher payments would affect the total amount and interest on Betty's $15,000 car loan.

$15,000 Car Loan at 8 Percent Interest			
	3-year	4-year	5-year
Number of payments	36	48	60
Payment	$ 470	$ 366	$ 304
Total paid	$ 16,922	$ 17,577	$ 18,249

Avoid the trap of getting "upside down"—owing more on the car than it is worth when you sell or trade it in. Betty's car will be paid for in three years, and she plans on driving it for at least eight years. Once her car is paid for, she will continue to budget for the car payment but will invest the money to further build her wealth.

Take Control of Debt, Choosing the Right Loan; **click** Control Credit Card Debt

View the CD or **review** Bob's plan to reduce his credit card debt (page 24 of the guide).

When Bob decided to reduce his $3,000 credit card debt, he analyzed his debt and developed the following strategy. Taking these steps can help wipe out debt:

- List the balance, interest rate and monthly interest on each credit card you have that has an unpaid balance.
- Check your credit score and shop for the best rate on a new credit card.
- Transfer all balances to the new lower-rate card.
- Cut up the old credit cards and use the interest you save to pay toward the principal balance.
- Use the new card only for emergencies.

Student activity

Ask students to use the list provided on page 24 of the guide (or the interactive chart on the CD) to develop their own credit card list and debt reduction strategy.

Take Control of Debt; **click** Guard Your Identity

View the CD or **review** the tips for protecting your identity on page 24.

Just as you protect the security of your home with locks for your windows and doors, you should take— steps to protect your identity.

TAKE STEPS TO CONTROL YOUR DEBT

Credit card	Debt	Interest rate	Monthly interest*
Department Store A	$ 500	19.5%	$ 8.13
XYZ Bank	$ 1,250	17%	$ 17.71
BHA Finance Co.	$ 1,000	22%	$ 18.33
Store B	$ 250	15%	$ 3.13
Total	$ 3,000		$ 47.30

*Interest rate divided by 12 months multiplied by the amount of debt.

Credit card	Debt	Interest rate	Monthly interest
Total			

As you can see, a big part of building wealth is making wise choices about debt. You need to maximize assets and minimize liabilities to maximize net worth. To manage debt, you need to know how much you have and develop strategies to control it.

When Bob decided to reduce his $3,000 credit card debt, he analyzed his debt and developed a strategy. He listed the balance, interest rate and monthly interest on each credit card. He checked his credit score and shopped for the best rate on a new credit card. Then he transferred all his balances to that card. He cut up the old credit cards and used the interest he saved to pay toward the principal balance. He used the new card only for emergencies.

What is your credit card debt situation? Using the chart to the left, do an analysis of your own.

My strategy for reducing credit card debt includes:

1. ______________________________

2. ______________________________

3. ______________________________

GUARD YOUR IDENTITY

Just as you protect the security of your home with locks for your windows and doors, you should take steps to protect your identity. Secure your financial records, Social Security number and card, account numbers, and all passwords and PINs (personal identification numbers). A periodic check of your credit report can alert you if someone is illegally using credit products in your name. If you suspect unauthorized access, contact the three major credit reporting companies and place a fraud alert on your name and Social Security number.

Some Tips to Protect Your Identity:

- Shred or destroy your bank and credit card statements and all other private records before tossing them in the trash.
- Give out your Social Security number only when absolutely necessary, and never carry both your Social Security card and driver's license in your wallet.
- Pick up mail promptly from your mailbox, and never leave outgoing mail with paid bills in an unsecured mailbox.
- Don't give out personal information on the phone, through the mail or on the Internet unless you're sure you know whom you're dealing with.

Protect Your Wealth;
click Next to view 10 screens

Chapter 5

Protect Your Wealth

View the CD or **read** the following:

After working hard to create personal wealth, you need to protect it. People acquire insurance to protect themselves from financial loss. Insurance is simply a promise of reimbursement in case of loss in return for a premium paid. When shopping for insurance products, consumers should match their needs with what the product offers and seek out the best deal.

Review the basics of auto insurance:

- *Liability* insurance (to cover injury to other people or their property) is required by state law.
- Your lender will also require physical damage coverage.
- You may select a higher *deductible* (the amount you pay out of pocket before insurance kicks in) and receive a more affordable rate on the *premium* (the cost of the policy).

Review the basics of homeowners insurance:

- Protect your home and possessions from loss due to risks such as fire and theft.
- Personal liability coverage protects from loss resulting from injuries that may occur on your property.
- Your mortgage lender will require insurance coverage.
- A higher-deductible policy will save you money on your premium.
- Contact your state department of insurance for more information on insurance for high-risk areas—for example, flood and earthquake coverage.

Emphasize the importance of emergency savings: If you have your emergency savings in place, you will feel more confident about taking out a higher-deductible policy—which will lower your premium costs.

⑤ Protect Your Wealth

It is unwise to be too sure of one's own wisdom. It is healthy to be reminded that the strongest might weaken and the wisest might err.
Mahatma Gandhi

After working hard to create personal wealth, you need to protect it. People acquire insurance to protect themselves from major financial loss. Insurance is simply a promise of reimbursement for a loss in return for a premium paid. When shopping for insurance products, consumers should match their needs with what the product offers and seek out the best deal. A solid credit history is also important because insurers use credit information to price homeowners insurance policies. You can buy insurance to cover all kinds of risks, but basic needs can be met with property, health and life insurance.

PROPERTY INSURANCE

Auto Insurance

State law requires that all motor vehicles have ***liability*** insurance to cover injury to other people or damage to their property. If you have a loan on your vehicle, your lender will also require physical damage coverage on it.

You may select a higher ***deductible*** (the amount you pay out of pocket before insurance kicks in) and receive a more affordable rate on the ***premium*** (the cost of the policy). If you have your emergency savings in place, you will feel more confident about taking out a higher-deductible policy, which will lower your premium costs.

Home Insurance

Homeowners insurance covers your home and possessions. The personal liability coverage in a homeowners policy protects you from loss resulting from any injuries that may occur on your property. Your mortgage lender will require you to carry a certain amount of insurance coverage as long as the mortgage is in place. You may also consider a higher-deductible insurance plan to save money on your homeowners coverage.

Standard homeowners coverage insures your home and its contents against loss from such risks as fire and theft. You may require special insurance for flood, earthquake or other risks specific to your area. Contact your state department of insurance for more information on insurance in high-risk areas.

Review the basics of a home warranty:

- This product is a service contract that protects you from unexpected costs due to repair/replacement of major systems such as heating and air-conditioning.
- Sellers will sometimes provide a one-year home warranty to give potential buyers added confidence.
- Homebuyer/owner has the option of renewing the warranty annually.

Review the basics of renters or contents insurance:

- If you are renting your home or apartment, you should purchase renters or contents insurance to cover your possessions against loss from fire or theft.
- Your landlord's insurance will cover only damage to the building, not its contents.
- Liability insurance may also be included in this policy to cover injuries to another person. If someone is hurt in your rented home, that liability is yours, not the landlord's.

Review the basics of health insurance:

- Medical debt results from a lack of health insurance or lack of savings for deductibles and copays.
- Medical debt damages credit; late payments and defaults may be reported on credit reports.
- Save for medical expenses not covered by insurance through employer-sponsored flexible spending accounts or through your own savings account. (See detailed description on page 26 of the guide.)

Explain that health insurance pays for some, but not all, of your doctor, hospital and prescription costs.

Another type of household protection, a ***home warranty***, is a service contract that protects the homeowner from unexpected costs for repair or replacement of major systems. These might include heating and air-conditioning, plumbing, electrical systems or a water heater. Sellers will sometimes provide a one-year home warranty to give potential buyers added confidence. The homebuyer then has the option of renewing the warranty at the end of the year.

If you are renting your home or apartment, you should purchase ***renters*** or ***contents insurance*** to cover your possessions against loss from fire or theft. Your landlord's insurance will only cover damage to the building, not its contents. Also, if someone is hurt in your rented home, that liability is yours, not the landlord's.

HEALTH INSURANCE

Medical Insurance

Medical insurance pays for some, but not all, of your doctor, hospital and prescription drug costs. Many people have significant levels of debt because they didn't have medical insurance or they didn't have savings to pay the expenses that weren't covered by their health plan. Late payments and defaults on medical debt may be reported on credit reports and affect a person's credit score.

Premiums are lower on employer-provided health insurance because risk is spread over a larger group of people. Take advantage of the lower costs that employer-sponsored health plans offer, but expect to pay part of the premium out of your paycheck. In addition to medical insurance, many employers offer dental and vision plans, often at low cost.

Flexible spending accounts. People who are insured through their employer should consider participating in a flexible spending account (FSA) if it is offered. An employer-sponsored FSA allows employees to save pretax dollars in an account to cover deductibles, co-pays, prescription and over-the-counter drugs, and other health expenses not covered by insurance. Employees need to plan their FSA spending so they have enough saved to cover their uninsured medical expenses but not more than they can use in one year plus two and a half months. On March 15 every year, money left in an FSA from the previous year is forfeited.

If you have health insurance and your employer doesn't offer a flexible spending account, you should make sure your emergency savings account is adequate to provide a safety net against unexpected medical costs.

Review the basics of health savings accounts.

As an alternative to employer-sponsored health insurance, consider a health savings account coupled with a high-deductible, lower-premium medical insurance policy. (See detailed description on page 27 of the guide.)

Every state provides free or low-cost health insurance for children in low- to moderate-income households.

For more information about state programs, contact the U.S. Department of Health and Human Services at 877-Kids-Now (877-543-7669). Go to www.insurekidsnow.gov and link to the provider of low-cost children's health insurance in your state; download and print applications to distribute to class participants.

Review the basics of disability insurance:

- This insurance helps you pay living expenses if you are sick or injured and unable to work for a long time.
- Your employer may offer this insurance in its benefits plan.
- It is a good idea to buy this protection even if you have to pay for part of the premium.

Emphasize that statistics show individuals have a higher risk of becoming disabled than of dying before the age of 65.

Health savings accounts. If you do not have health insurance or you need more affordable insurance, a high-deductible health plan (HDHP), coupled with a health savings account (HSA), provides medical insurance coverage and a tax-free opportunity to save for future medical needs. The premium for an HDHP is generally lower than for traditional health insurance because the deductible (the amount you pay before the insurance kicks in) is higher.

That's where the health savings account comes in. HSAs are set up at banks or other financial institutions to pay for current and future health-related costs that occur before the deductible is met and insurance takes over. Contributions to an HSA are tax-deductible, up to certain limits, even if you do not itemize deductions on your income tax return. Interest earned on the HSA account is not taxable, and withdrawals are tax-free if used for qualified medical expenses. An HSA is portable, so it stays with you even if you change jobs or retire. Plus, unspent savings in an HSA can grow year-to-year.

For more information about HSAs, go to www.treasury.gov/offices/public-affairs/hsa.

Health insurance for children. Every state provides free or low-cost health insurance for children in low- to moderate-income households. For more information about state programs, contact the U.S. Department of Health and Human Services at 877-Kids Now (877-543-7669) or go to www.insurekidsnow.gov.

Disability Insurance

Statistics show that you have a higher risk of becoming disabled than of dying before age 65. Disability insurance helps you pay living expenses if you are sick or injured and unable to work for a long time. Your employer may offer this insurance in its benefits plan. It is a good idea to buy this protection even if you have to pay for part of the premium.

Review the basics of life insurance:

- This product offers a guaranteed death benefit to give financial protection to your dependents.
- Dependents include your children, your spouse or even your business.
- Some types offer savings and investment components but are not a substitute for a savings or investment plan.

Review the basics of long-term care insurance:

- This product covers in-home nursing, assisted living or nursing home care.
- Premiums are much less expensive earlier in life.

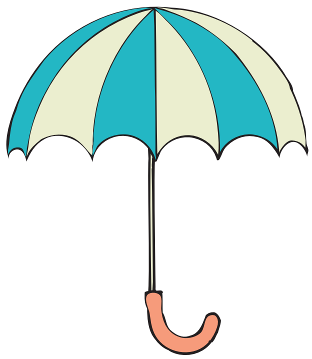
Review tips for protecting your wealth:

- There are many types of property, health and life insurance, so do your research and seek good advice.
- Take advantage of group insurance through your employer or other associations you may have.
- Study the needs of your family and decide how much you can afford to pay.
- Shop around and get at least two quotes.
- Consider a higher deductible to lower your premium.
- Ask about other discounts that may be available (for a good driving record, safety equipment, multiple policies with the same provider, etc.) to reduce your cost of coverage.
- Review your insurance coverage annually to make sure you have appropriate coverage as your situation changes.
- Like all investments, be sure to get all the facts before parting with your hard-earned money.

Instructor-led discussion

Refer students to character Bob on page 3 of the guide. Review Bob's balance sheet and list the types of insurance he may need at this stage of his life.

LIFE INSURANCE



The need for life insurance depends on a person's circumstances. In the event of your death, life insurance pays money to the person you choose (your beneficiary). Life insurance helps give financial protection to your children, spouse, parents or even your business.

While some types of life insurance offer savings and investment components to keep the future cost of premiums lower or to increase the death benefit, they are not a substitute for a savings or investment plan. Low-cost term insurance, often available through your employer, can offer protection for young families.

Personal accident insurance may also offer a cushion to families if a member dies or is seriously injured in an accident. This kind of insurance is often available through your employer or other provider at relatively low cost.

LONG-TERM CARE INSURANCE

If you or a family member became very ill and needed a nursing home, who would pay for it? You would, until all your assets, and those of your spouse, are exhausted. Only then would government assistance help cover these needs. Long-term care insurance is not medical insurance, but it pays for such health-related items as nursing home, assisted living or in-home care.

Generally, the need for long-term care comes late in life, but insurance premiums are much less expensive when you are younger. Some employers offer access to long-term care insurance for employees to purchase, but most consumers have to find coverage themselves. Shopping for long-term care insurance takes research, common sense and attention to the policy's details.

Tips for Protecting Your Wealth

There are many types of property, health and life insurance, so do your research and seek good advice.

- Take advantage of group insurance through your employer or other associations you may have.
- Study the needs of your family and decide how much you can afford to pay.
- Shop around and get at least two quotes.
- Consider a higher deductible to lower your premium.
- Ask about other discounts that may be available (for a good driving record, safety equipment, multiple policies with the same provider, etc.) to reduce your cost of coverage.
- Review your insurance coverage annually to make sure you have appropriate coverage as your situation changes.
- Like all investments, be sure to get all the facts before parting with your hard-earned money.

Buy Insurance Wisely

Insure U, a web site sponsored by the National Association of Insurance Commissioners representing insurance regulators from across the United States, has more information on buying all types of insurance at www.insureuonline.org.

Student activity

Ask students to define *wealth* now that they have completed this class. On page 29 of the guide, students may write their definition and compare it with the definition they wrote on page 1.

Suggest that students write their financial goals and compare them with their original goals. Also, **advise** students to periodically refer to their goals and measure their

Assets – Liabilities = Net Worth

to make sure their wealth-building programs stay on track.

Advise students to keep these points in mind as they create their own wealth-building strategies:

- Educate yourself about money.
- Establish financial goals.
- Create a budget.
- Save each month, using automatic deduction.
- Take advantage of tax-deferred investments.
- Learn about the best investments for you based on your financial goals, time horizon and tolerance for risk.
- Control debt.
- Protect your wealth.

Start budgeting, saving and investing *today*. Every day counts in building wealth.

Review

Redefining Wealth

Now that you've read this workbook and thought about the information it contains, how would you define wealth? In the space provided, write your definition. Then compare it with the definition you wrote back on page 1. Has your definition of wealth changed?

Resetting Your Financial Goals

Now, write your financial goals and compare them with your original goals. Keep these new goals with your definition of wealth. Periodically refer to your goals and measure your **Assets – Liabilities = Net Worth** to make sure your wealth-building program stays on track.

Using Key Wealth-Building Strategies

Now, write your own strategies for building wealth. Keep in mind the following:

- Educate yourself about money.
- Establish financial goals.
- Create a budget.
- Save each month, using automatic deduction.
- Take advantage of compound interest.
- Take advantage of tax-deferred investments.
- Research and learn about the best investments for you based on your financial goals, time horizon and tolerance for risk.
- Control debt.
- Protect your wealth.

Start budgeting, saving and investing *today*. Every day counts in building wealth.

Wealth is:

____

____

____

____

____

My short-term goals are:

1. ______________________________
2. ______________________________
3. ______________________________

My long-term goals are:

1. ______________________________
2. ______________________________
3. ______________________________

My strategies for building wealth are:

1. ______________________________
2. ______________________________
3. ______________________________

My strategies for controlling debt are:

1. ______________________________
2. ______________________________
3. ______________________________

Clip the box and put it where you will see it often: inside your checkbook, on your computer monitor, where you pay your bills, on your bathroom mirror. Keep your definition of wealth and your goals firmly implanted in your mind and use your wealth-creating and debt-controlling strategies every day.

Glossary

Acceleration clause A stipulation in a loan contract stating that the entire balance becomes due immediately if other contract conditions are not met.

Accrued interest Interest that has been earned but not received or recorded.

Amortization Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.

Annuity A series of equal payments made at regular intervals, with interest compounded at a specified rate.

Appreciation An increase in the value or price.

Asset Anything an individual or business owns that has commercial or exchange value.

Auto debit The deduction from a checking or savings account of funds that are automatically transferred to a creditor each month. Some lenders offer interest rate discounts if loan payments are set up on auto debit at the beginning of the loan.

Balance The amount owed on a loan or credit card or the amount in a savings or investment account.

Balance sheet A financial statement showing a "snapshot" of the assets, liabilities and net worth of an individual or organization on a given date.

Bankruptcy A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.

Beneficiary The person designated to receive the proceeds of a life insurance policy.

Budget An itemized summary of probable income and expenses for a given period.

Capital Cash or other resources accumulated and available for use in producing wealth.

Cash flow Money coming to an individual or business less money being paid out during a given period.

Certificate of deposit (CD) A type of savings account that earns a fixed interest rate over a specified period of time.

Collateral Assets pledged to secure a loan.

Common stock A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.

Compound interest Interest computed on the sum of the original principal and accrued interest.

Credit The granting of money or something else of value in exchange for a promise of future repayment.

Credit card A plastic card from a financial services company that allows cardholders to buy goods and services on credit.

Credit report A loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.

Credit reporting company An organization that compiles credit information on individuals and businesses and makes it available for a fee.

Credit score A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.

Credit union A cooperative organization that provides financial services to its members.

Creditor A person, financial institution or other business that lends money.

Debit Charges to an account.

Debit card A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account.

Debt Money owed; also known as a *liability*.

Debt service Periodic payment of the principal and interest on a loan.

Deductible The amount of loss paid by an insurance policyholder. The deductible may be expressed as a specified dollar amount or a percent of the claim amount.

Delinquency The failure to make timely payments under a loan or other credit agreement.

Direct deposit The electronic transfer of a payment from a company to an individual's checking or savings account. Many employers offer direct deposit of paychecks.

Diversification The distribution of investments among several companies to lessen the risk of loss.

Dividend A share of profits paid to a stockholder.

Equity Ownership interest in an asset after liabilities are deducted.

Face value The principal amount of a bond, which will be paid off at maturity.

Fair market value The price a willing buyer will pay and a willing seller will accept for real or personal property.

Federal Deposit Insurance Corp. (FDIC) A federally chartered corporation that insures bank deposits up to $100,000.

Finance company A company that makes loans to individuals.

Financing fee The fee a lender charges to originate a loan. The fee is based on a percentage of the loan amount; one point is equivalent to 1 percent.

Flexible spending account An employer-sponsored account that allows employees to save pretax dollars to cover qualified medical or dependent care expenses.

Foreclosure The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

401(k) plan A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.

Health savings account A tax-advantaged personal savings account, set up to be used exclusively for medical expenses; must be paired with a high-deductible health insurance policy.

High-deductible health plan A health insurance policy that requires the policyholder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health insurance plans.

Individual development account (IDA) A type of savings account, offered in some communities, for people whose income is below a certain level.

Individual retirement account (IRA) A retirement plan, offered by banks, brokerage firms, mutual funds and insurance companies, to which individuals can contribute each year on a tax-deferred basis.

Inflation A sustained increase in the prices of goods and services.

Installment plan A plan requiring a borrower to make payments at specified intervals over the life of a loan.

Insurance premium The amount of money required for coverage under a specific insurance policy for a given period of time. Depending on the policy agreement, the premium may be paid monthly, quarterly, semiannually or annually.

Interest A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also, money earned on a savings account.

Interest rate The percentage charged for a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings account.

Investing The act of using money to make more money.

Investor An organization, corporation, individual or other entity that acquires an ownership position in an investment, assuming risk of loss in exchange for anticipated returns.

Leverage The ability to use a small amount of money to attract other funds, including loans, grants and equity investments.

Liability Money an individual or organization owes; same as debt. Also, a kind of insurance for the policyholder's legal obligation to pay for either bodily injury or property damage caused to another party.

Lien A creditor's claim against a property, which may entitle the creditor to seize the property if a debt is not repaid.

Liquidity The ease with which an investment can be converted into cash.

Load The fee a brokerage firm charges an investor for handling transactions.

Loan A sum of money lent at interest.

Management fee The fee paid to a company for managing an investment portfolio.

Market value The amount a seller can expect to receive on the open market for merchandise, services or securities.

Maturity The time when a note, bond or other investment option comes due for payment to investors.

Money market account A type of savings account offered by a financial institution.

Mortgage A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.

Municipal bond A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.

Mutual fund A pool of money managed by an investment company.

Net worth The difference between the total assets and total liabilities of an individual.

Par value The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.

Predatory lending Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.

Pretax A person's salary before state and federal income taxes are calculated.

Prime rate The lowest interest rate on bank loans, offered to preferred borrowers.

Principal The unpaid balance on a loan, not including interest; the amount of money invested.

Promissory note A written promise on a financial instrument to repay the money plus interest.

Qualified plan A tax-deferred retirement plan for the self-employed.

Return The profit made on an investment.

Revenue bond A type of municipal bond backed by revenue from the project the bond finances.

Risk The possibility of loss on an investment.

Savings account A service depository institutions offer whereby people can deposit their money for future use and earn interest.

Stock option The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.

Stockholder A person who owns stock in a company and is eligible to share in profits and losses; same as *shareholder*.

Tax-deferred Phrase referring to money that is not subject to income tax until it is withdrawn from an account, such as an individual retirement account or a 401(k) account.

Term The period from when a loan is made until it is fully repaid.

Terms Provisions specified in a loan agreement.

Treasury bill A short-term investment issued by the U.S. government for a year or less.

Treasury bond A government security with a term of more than 10 years; interest is paid semiannually.

Treasury Inflation-Protected Security (TIPS) A Treasury bond or note that is tied to inflation so that the principal amount of the investment increases or decreases according to the annual inflation rate.

Treasury note A government security with a maturity that can range from two to 10 years; interest is paid every six months.

U.S. savings bond A nontransferable, registered bond issued by the U.S. government in denominations of $50 to $10,000.

Wealth-Building Resource Guide

INTRODUCTION

The following resources can be used to learn more about building personal wealth. The list includes sources of information on financial literacy for adults and youth, budget and debt management, and consumer protection. This guide is not intended to be all-inclusive; there are many additional national, state and local resources that can provide additional information on building wealth for a more secure financial future.

PERSONAL FINANCIAL EDUCATION

AARP
(888) 687-2277
www.aarp.org

America Saves
(202) 387-6121
www.americasaves.org

American Bankers Association Education Foundation
(800) 226-5377
www.aba.com/abaef/consumers.htm

American Council of Life Insurance
(202) 624-2000
www.acli.com

American Financial Services Association Education Foundation
(202) 296-5544
www.afsaef.org

American Institute of Certified Public Accountants
(888) 777-7077
www.360financialliteracy.org

American Savings Education Council
(202) 659-0670
www.choosetosave.org

The Beehive/One Economy
(202) 393-0051
www.thebeehive.org

CFED
(202) 408-9788
www.cfed.org

Fannie Mae
(202) 752-7000
www.fanniemae.com

Federal Citizen Information Center
(800) 878-3256
www.consumer.gov
www.pueblo.gsa.gov

Federal Deposit Insurance Corporation
(877) 275-3342
www.fdic.gov/consumers/consumer/moneysmart

Federal Reserve Board
(212) 720-6134
www.federalreserveeducation.org

Freddie Mac
(703) 903-2000
www.freddiemac.com
www.freddiemac.com/creditsmart
www.freddiemacfoundation.org

Internal Revenue Service
(800) 829-1040
www.irs.gov

Louisiana Bankers Association
(225) 387-3282
www.lba.org

Louisiana Cooperative Extension
(225) 578-4161
www.lsuagcenter.com

State of Louisiana – Office of Financial Institutions
(225) 925-4660
www.ofi.state.la.us

National Credit Union Administration
(703) 518-6340
www.ncua.gov

National Endowment for Financial Education
(303) 741-6333
www.nefe.org
www.smartaboutmoney.org

Native Financial Education Coalition
(605) 342-3770
www.nfec.info

DIRECT DEPOSIT & YOU

Many people who receive federal benefits checks, such as Social Security, Supplemental Security Income, Veterans Affairs or other government checks, enroll in direct deposit. Not only is it safer (no direct deposit has ever been stolen), it is far more convenient, and it gives you more control over your money than a mailed check. Call the toll-free Go Direct helpline at (800) 333-1795 or (800) 333-1792 en Español, or go to www.GoDirect.org for more information and other sign-up options.

ELECTRONIC TRANSFER ACCOUNT

For a low-cost option for direct deposit, consider an ETA account. The Electronic Transfer Account, or ETA℠, allows you to have your federal benefit, wage, salary and retirement payments deposited directly into your bank account—automatically, electronically and safely. Open a low-cost ETA at a federally insured bank, credit union, or savings and loan. Financial institutions offering the ETA have decals in their windows or lobbies identifying them as certified ETA providers. To find an ETA provider in your area, visit the ETA web site, www.eta-find.gov, or call toll-free, (888) 382-3311.

New Mexico Regulating and Licensing Department Financial Institutions Division
(505) 476-4885
www.rld.state.nm.us/FID

New Mexico State University Cooperative Extension Service
(505) 646-2198
http://cahe.nmsu.edu/ces/families/families.html

Texas Cooperative Extension
(979) 845-7907
http://texasextension.tamu.edu

Texas Department of Banking
(512) 475-1337
www.banking.state.tx.us/dss/fe.htm

Texas Saves
(877) 897-2830
www.txsaves.org

Texas Society of CPAs
(800) 428-0272
www.valueyourmoney.org

U.S. Department of Agriculture Cooperative State Research, Education and Extension Service
(202) 690-2674
www.csrees.usda.gov

U.S. Department of Labor Women's Bureau
(800) 827-5335
www.wiseupwomen.org

U.S. Department of the Treasury
(800) 722-2678
www.treasurydirect.gov

U.S. Financial Literacy and Education Commission
(888) 696-6639
www.mymoney.gov

U.S. Social Security Administration
(800) 772-1213
www.ssa.gov

Women's Institute for Financial Education
(760) 736-1660
www.wife.org

Women's Institute for Secure Retirement
(202) 393-5452
www.wiserwomen.org

FINANCIAL EDUCATION – YOUTH

American Financial Services Association
(888) 400-7577
www.moneyskill.org

Banking on Our Future
(877) 592-4673
www.bankingonourfuture.org

Federal Reserve Board
(212) 720-6134
www.federalreserveeducation.org
www.federalreserve.gov/kids

Jump$tart Coalition for Personal Financial Literacy
(888) 453-3822
www.jumpstart.org

Junior Achievement
(719) 540-8000
www.ja.org

National Council on Economic Education
(800) 338-1192
www.ncee.net

National Endowment for Financial Education
(303) 741-6333
www.nefe.org

North American Securities Administrators Association
(202) 737-0900
www.nasaa.org

Sallie Mae
(888) 272-5543
www.salliemae.com

U.S. Department of the Treasury Money Math
(800) 722-2678
www.savingsbond.gov/mar/marmoneymath.htm

BUDGET AND DEBT MANAGEMENT

Consumer Credit Counseling Services of Greater Dallas, Inc.
Colorado, New Mexico, Oklahoma and Texas
(800) 249-2227
www.cccs.net

Consumer Credit Counseling Services of the Gulf Coast Area, Inc.
(713) 923-2227
www.cccsintl.org

Credit Coalition
Houston Area
(713) 224-8100
www.creditcoalition.org

CCCS of Greater San Antonio
Austin, Laredo and San Antonio
(800) 410-2227
www.cccssa.org

Get Checking
(480) 629-7683
www.getchecking.org

Homeownership Preservation Foundation
(888) 995-HOPE
www.995hope.org

Money Management International
Various locations across U.S., including Texas, Louisiana and New Mexico
(800) 873-2227
www.moneymanagement.org

National Foundation for Credit Counseling
Various locations across U.S., including Texas, Louisiana and New Mexico
(800) 388-2227
www.debtadvice.org
www.nfcc.org

Operation HOPE, Inc.
(888) 388-HOPE
www.operationhope.org

CONSUMER PROTECTION

Federal Deposit Insurance Corporation
(415) 808-8049
www.fdic.gov/consumers/index.html

Federal Trade Commission
(202) 326-2222
www.ftc.gov

First Gov for Consumers
(800) 333-4636
www.consumer.gov/yourmoney.htm

Investor Protection Trust
(202) 775-2113
www.investorprotection.org

Louisiana Department of Insurance
(800) 259-5300
www.ldi.state.la.us

Louisiana – Office of the Attorney General
(800) 351-4889
www.ag.state.la.us

National Association of Insurance Commissioners
(816) 842-3600
www.insureuonline.org

New Mexico Insurance Division
(800) 947-4722
www.nmprc.state.nm.us/id.htm

New Mexico – Office of the Attorney General
(800) 678-1508
www.nmag.gov/default.aspx

Securities and Exchange Commission
(800) 732-0330
www.sec.gov

Texas Department of Insurance
(800) 252-3439
www.tdi.state.tx.us

Texas – Office of the Attorney General
(800) 252-8011
www.oag.state.tx.us

Texas State Securities Board
(888) 663-0009
www.texasinvestored.org

BOOKS QUOTED IN PUBLICATION

Getting Rich in America: 8 Simple Rules for Building a Fortune and a Satisfying Life
Dwight R. Lee and
Richard B. McKenzie
1999, Harper Business

It's About the Money! The Fourth Movement of the Freedom Symphony: How to Build Wealth, Get Access to Capital, and Achieve Your Financial Dreams
Reverend Jesse L. Jackson, Sr.
and Jesse L. Jackson, Jr.
with Mary Gotschall
1999, Times Business/Random House

The Millionaire Next Door: The Surprising Secrets of America's Wealthy
Thomas J. Stanley
and William D. Danko
1996, Longstreet

We hope that you have found Building Wealth *to be a useful tool. We invite you to visit our web site and send us your* Building Wealth *success stories.*

Richard W. Fisher, President and CEO
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www.dallasfed.org

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