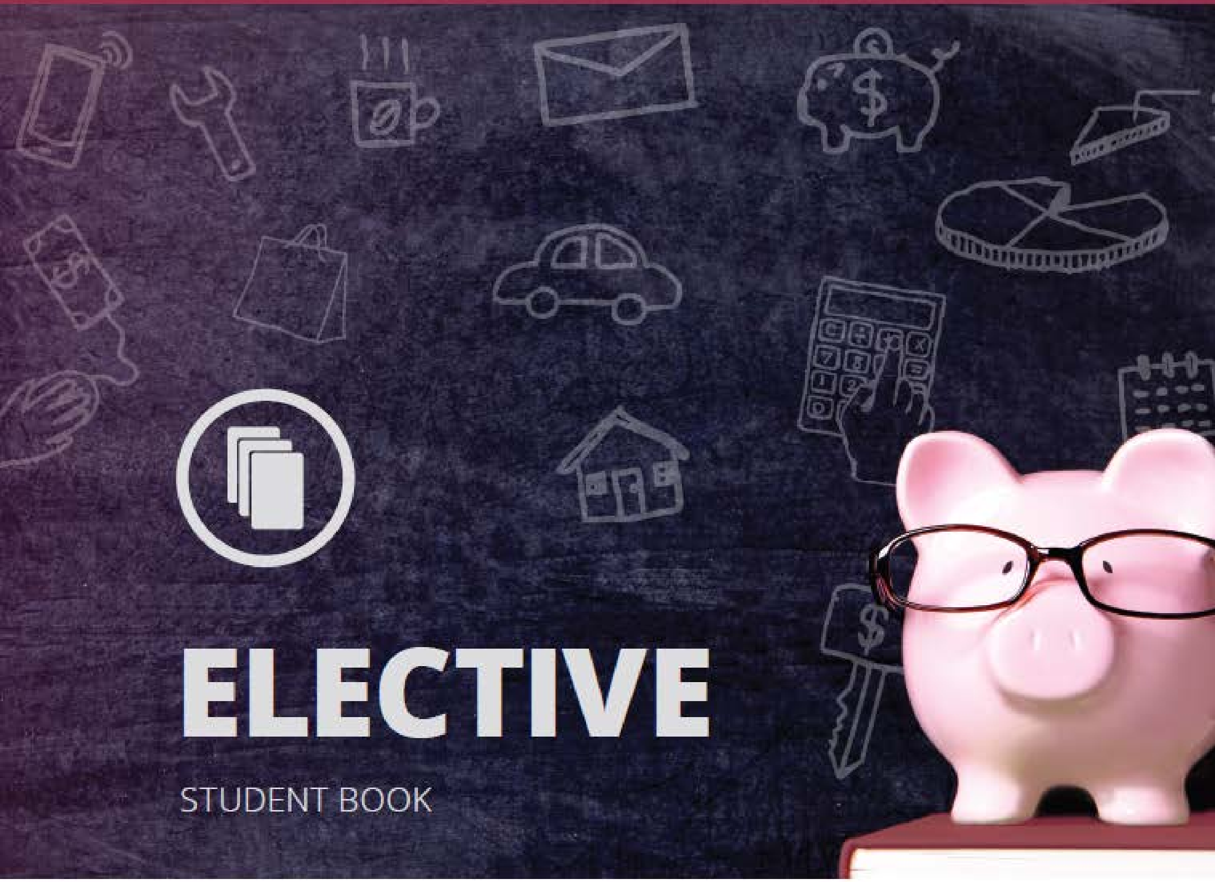
LIFEPAC®



ELECTIVE

STUDENT BOOK

Consumer Math | Unit 3

AOP

Financial Institutions

Introduction

Financial institutions will be an integral part of your life. You'll use them to save your money and manage your money. You'll use them to borrow money for purchases such as home appliances, automobiles, and even a home. In previous units, you've learned about some of the services offered by banks and credit unions, but in this unit, you'll learn more about banks, credit unions, and other financial institutions. You will learn about the different types of financial institutions, benefits of banking, and services, resources, and tools offered by banks.

You will also learn how to open a checking account, manage your account through online banking, and the tasks involved in setting up online bank account access. Lastly, you will learn about different types of financial risks and how to manage them. Ready to start preparing for managing your finances? Let's go!

Objectives

Read these objectives. The objectives tell you what you will be able to do when you have successfully completed this LIFEPAC. When you have finished this LIFEPAC, you should be able to:

1. Identify the major types of financial institutions.
2. Compare the types of financial institutions.
3. List reasons to use a financial institution.
4. Identify banking services, tools, and resources that will help you.
5. Describe two types of deposit accounts and the services and tools that come with them.
6. Describe the roles of the bank customer service representative, teller, loan officer, and branch manager.
7. Identify the purpose of a checking account.
8. Describe the steps involved in opening and maintaining a bank account.
9. Label the parts of a check.
10. Describe the process of writing a check.
11. Understand the purpose of online banking.
12. List banking tasks that can be completed online.
13. Describe how to make a payment using online banking.
14. List advantages and disadvantages of online banking.
15. Define key terms, such as liability, identity theft, and privacy policy.
16. Identify financial risks.
17. List strategies to manage risks and protect yourself.

TYPES OF FINANCIAL INSTITUTIONS

The two major types of financial institutions are banks and **credit unions**. Let's compare these financial institutions.

Bank. A bank is a financial institution or business that has to follow federal and state laws and regulations. Banks provide many financial services including loans, cashing paychecks, **money orders**, checking accounts, savings accounts, CDs, and IRAs. They also provide mortgage and insurance services. They are insured by the FDIC (Federal Deposit Insurance Corporation).

Credit Union. A credit union is a nonprofit financial institution formed by a large corporation or organization for its employees or members. It's necessary to become a member of the credit union to keep your money there. Members also need to meet certain requirements, such as be an employee in a certain corporation or be a member of a certain organization. Credit unions provide the same services as banks. The main difference between a bank and credit union is that banks are typically for-profit institutions, while credit unions are not-for-profit and distribute their profits among their members.

BENEFITS OF BANKING

Why keep your money in a financial institution? The most obvious reason is that banks keep your money safe. Let's say you kept your money at home in your bedroom dresser. If your home was burglarized or there was a fire, you could lose your money. Here's a list of some reasons people choose to keep money in a financial institution:

- safety
- convenience
- growth
- cost
- security
- financial future

Safety. Keep your money safe. Money in a financial institution is safe from loss, theft, and fire. Money kept at home, even in a safe place, may be at risk.

Convenience. When your money is in a bank or credit union, you can access it quickly and easily. You can deposit a paycheck or quickly withdraw money by walking into the bank or using an ATM. You can also set up direct deposits with your employer to have your money automatically deposited into your account. Money can also be transferred between accounts within your bank or credit union, and both typically have bill pay options.

Most bills, from car payments to utility bills, offer the option to automatically deduct your monthly bill from your bank account as well.

Growth. When your money is in an account at a bank, it can grow. If your money is in a savings account, your money will earn interest and increase over time. Certain checking accounts and other accounts also pay interest. We will go over CDs, IRAs, and other ways to invest your money through your financial institution in greater detail in Unit 4.

Cost. When you keep your money in a bank, some services are free. Services vary from bank to bank and credit union to credit union. Some offer free checking and savings accounts, while others charge a fee. Some offer free checks, and some offer free overdraft protection—a feature that automatically pays the difference to a certain amount if a charge to your account exceeds the amount of money you have in your account. If a charge exceeds your balance, most banks charge an overdraft fee that typically ranges from $25-$50.

Security. Your money is secure in a bank. Banks are insured by the FDIC, or Federal Deposit Insurance Corporation, which was discussed in Unit 2. This government corporation insures deposits up to a certain amount in bank accounts. This means that if for some reason a bank closes and cannot give its customers their money, the FDIC will return the money to them. Credit unions are not FDIC insured, but they do have their own insurance fund run by the National Credit Union Administration.

Complete these activities.

1.1 The __________ insures money deposited in banks.

a. FDIC
b. National Banks Association
c. National Credit Union Administration

1.2 The __________ insures money deposited in credit unions.

a. FDIC
b. National Banks Association
c. National Credit Union Administration

1.3 Most employers allow __________ so money is deposited directly in your bank account.

a. paycheck transfer b. direct deposit c. bill pay

1.4 A financial institution formed by a large corporation for their employees or members is a(n) __________ .

a. FDIC b. credit union c. bank

1.5 Jen heard the bank where she kept her money was going to close for good. She wasn't worried. What is the most likely reason Jen wasn't worried?

a. She knew that banking rules required banks to give customers their money.
b. She knew that her bank would open a new account for her at a different bank.
c. She knew that laws prevented banks from closing for good.
d. She knew that her money was insured by the FDIC.

Write *T* for True or *F* for False.

1.6 __________ All banks charge the same fees.

1.7 __________ Financial institutions keep all your money in a vault.

1.8 __________ The main types of financial institutions are banks and credit unions.

1.9 __________ When selecting a financial institution, you should consider their fees.

1.10 __________ When selecting a financial institution, you should consider the services they offer.

Complete the activity.

1.11 Name four reasons for keeping your money in a financial institution.

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LET'S REVIEW!

There are benefits to keeping your money in a financial institution. These benefits include safety, growth, convenience, security, financial future, and cost. There are two main types of financial institutions: banks and credit unions. In this section, you looked at the differences between these organizations, as well as at factors that should affect which financial institution you select. These factors are fees, locations, services, interest, hours, and minimum account balance.

OPENING A CHECKING ACCOUNT

To open an account, you'll need to provide certain information, such as your name, address, date of birth, and Social Security number. You'll also need to provide identification, such as a state-issued ID card, a driver's license, a passport, or possibly your student ID. The required ID varies by bank, so find out what type of ID you need. The bank will then verify your identity and run a process called **account verification**. Through account verification, the bank makes sure that you've not acted irresponsibly with a checking account in the past. If it finds you have a bad history, the bank may not allow you to open an account.

After your identification has been checked and the bank has run the account verification, you'll fill out an application, typically online. In most banks, the customer service representative will type in your information, such as name, address, phone number, email, and Social Security number, and then you'll sign an electric signature pad. Banks require an initial deposit that can range from $25 to $100. You'll make a deposit and write your signature on an electronic signature pad. The bank will then have a copy of your signature to verify how it should look whenever you sign anything, like a check, for example. This protects you from identity theft.

As we've discussed, services vary from bank to bank, but most banks and credit unions allow young people to open checking accounts connected to their parent or guardian's account at age 16 and then at age 18, the account can be transitioned to a separate independent adult account. As most states allow teens to legally begin working at age 16, this provides an option to begin depositing paychecks in an account from a young age. Prior to age 16, many banks have a youth or dependent savings account option parents can open to deposit allowance or chore money.

Complete this activity.

2.1 When opening a checking account, the bank runs a(n) __________ using your state-issued ID.

a. credit check b. account verification c. background check

Maintaining an Account.
There are four steps involved in maintaining a checking account. These steps are:

1. Make deposits and withdrawals.
2. Record deposits, withdrawals, interest, and fees in your spending journal or budget.
3. Record checks you write and receive in the **checkbook register** or other spending tracking tool.
4. Keep track of your balance.

To deposit a check made out to you into your account, sign your name on the back of the check and deposit into your checking account with a bank teller, at an ATM, or through a bank app on your phone. Be sure to save the deposit receipt to verify the funds were correctly deposited into your account. In most cases, a deposited check does not show up in your account for several days. The bank waits to deposit the funds until the amount of the check has been transferred from the sender's bank.

The Parts of a Check. While writing checks as payment isn't as common as it used to be, checks are still used for many purposes. Some banks offer checks free of charge, while others charge for them. In either case, the checks will come with a check registry, which can be used to write down any checks and keep track of spending and deposits.Often, checks are needed for deposits on big purchases like renting an apartment or house or buying a car. Some people prefer to pay bills with checks simply because they make it easier to track outgoing funds.

Here are the parts of a check and what to write.

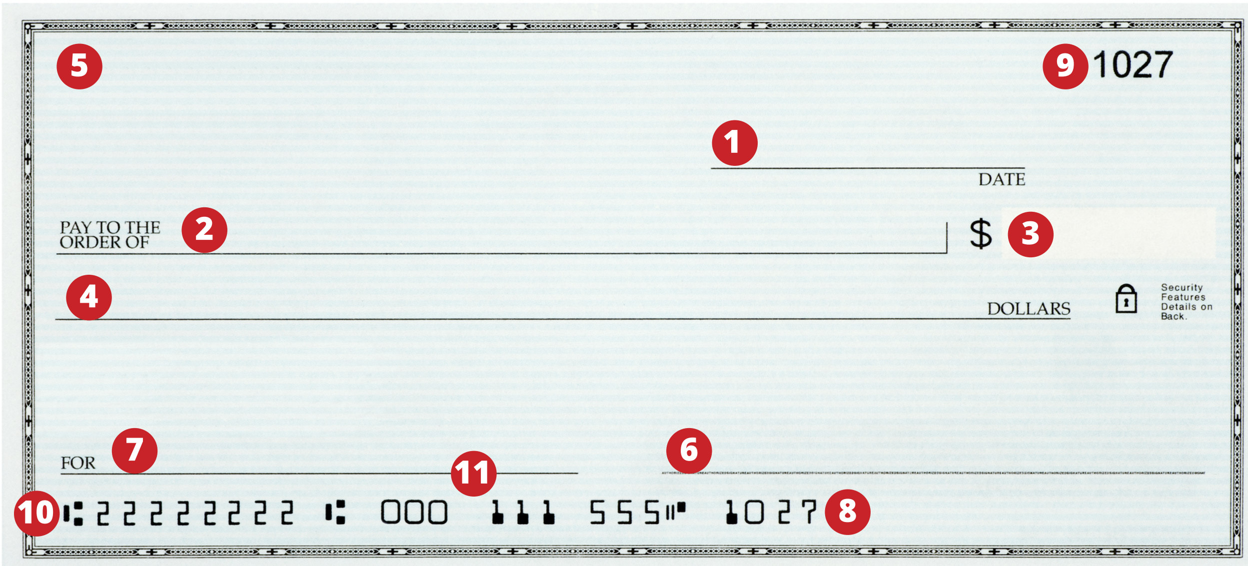
1. **Date line**. Write today's date here.
2. **Payee**. Write the name of the person or the company you are paying.
3. **Amount of check in numbers**. Enter the amount of the check in numbers.
4. **Amount of check in words**. Enter the amount of the check in words. Start writing at the far-left side of the line. After the dollar amount, write "and," then write the number of cents above the number 100. Draw a line from the end of the 100 to the end of the line.
5. **Name.** Your name and address is printed in the top left corner.
6. **Signature.** Sign your check.
7. **Memo.** This line sometimes has different labels, but it is always in the bottom left corner. This is optional, but typically, people write what the check is for (e.g., rent, etc.) or an account number if the check is meant to pay a bill.
8. **Identification numbers.** These are the numbers along the bottom. The first nine numbers are the bank's routing numbers. Every bank will have a nine-digit routing number. The numbers after the routing number will include your checking account number and the check number.
9. **Check number.** This is in the top right corner. The checks in your checkbook will be in numerical order starting with 0001.

In your check register, you can write down all incoming and outgoing checks. You may also use the check register as your spending journal, noting all withdrawals and deposits. Similar to a bank statement, there are lines to write a description, date, transaction or deposit amount, and ending balance. There is also a line to write check numbers. A check register is the booklet you keep with your checkbook.

Writing deposits and withdrawals and calculating your ending balance is often called balancing your checkbook. You can use a checkbook to verify everything in your bank statement is correct.

Complete this activity.

Pretend you are filling out this check to pay your auto loan to Auto Lenders USA for the amount of $295.00. Your account number for your auto loan is 123456.



2.2	What do you write for #1?	______________
2.3	What do you write for #2?	______________
2.4	What do you write for #3?	______________
2.5	What do you write for #4?	______________
2.6	What do you write for #6?	______________
2.7	What do you write for #7?	______________
2.8	What is #8?	______________
2.9	What is #9 showing?	______________
2.10	What is #10?	______________
2.11	What is #11?	______________

Write *T* for True and *F* for False.

2.12	________	Recording deposits and withdrawals is a task associated with maintaining a checking account.
2.13	________	Transferring money from checking to savings is a task associated with maintaining a checking account.
2.14	________	Checks are not numbered.
2.15	________	The routing number on your checks will always be the same.
2.16	________	The account number on your checks will always be the same.

2.17 ____________ The check number on your checks will always be the same.

2.18 ____________ Some banks will allow you to open a checking account with a parent or guardian before you turn 18.

Complete the activity.

2.19 List the required steps to write a check.

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LET'S REVIEW!

The purpose of a checking account is to keep your money safe and to make it convenient to pay your bills. Opening and maintaining a checking account is not difficult. To open an account, visit a bank and meet with a representative. Complete the application, show identification, and sign. Maintaining an account means making deposits and withdrawals, tracking your transactions in a checkbook register or spending journal, and keeping track of your balance.

ONLINE BANKING

Meet the Smith family: Mr. and Mrs. Smith, their son Chase, and their daughter Emma. It's Saturday afternoon and Mrs. Smith has not been looking forward to paying bills and reconciling her check registry. When the family first opened an account at their bank, the customer service representative described the services available online. At the time, Mrs. Smith thought, "This can save me lots of time!" But a year has passed, and she has never tried any of these services. Now it's time for the Smith family to start saving time and using the online banking features. In this section, you will observe the Smith family completing tasks online.

GETTING STARTED WITH ONLINE BANKING

What is online banking? These days, most banking is completed online. Banking used to be much more time-consuming, involving a lot of paperwork that had to be completed in-person at the bank or over the phone. Today, you can skip paper-based tasks and manage your finances more quickly and efficiently from your laptop or cell phone. Online banking is primarily automated, but most banks have chat and email features, as well as webpages devoted to information and frequently asked questions.

To get started with online banking, Mrs. Smith looks for the paperwork she received when she opened the account. It has information about the bank's website and how to log in. Now that she's found the correct papers, she sits down at her computer, types the website address into her browser, and logs into her account with her account number and password. She's ready to get started. What tasks can she complete from her personal computer? Here's a list of services that most financial institutions offer:

» view account balances
» order checks
» transfer money
» bill pay
» issue **stop payment**
» track recent account activity
» apply for loans
» gain information

Complete this activity.

2.20 Write one to two sentences describing how you would use online banking.

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MANAGING RISKS

How can you manage all these risks? You've already looked at many strategies to protect yourself. For example, buying car insurance protects you if you get in a car accident, and not giving out personal information protects you from identity theft. Managing risks is about identifying risks and protecting yourself by using these strategies. Such strategies minimize financial loss. In summary, these strategies include:

- keeping your money in a safe place
- financial planning or meeting with a financial adviser
- obtaining health, car, home, and disability insurance
- protecting your personal information and your identity
- becoming educated and informed to avoid scams
- having an emergency fund
- buying products with warranties
- knowing consumer rights

Insurance. You may still be wondering how insurance is related to personal finances and managing your money. Well, if you've ever been sick or injured, you know how important it is to have health insurance coverage. Health insurance pays for things both big and small, from a lab test that might cost $75 to a hospital stay for major surgery that could cost thousands of dollars. Having health insurance gives you peace of mind, knowing that no matter what kind of care or procedure you might require, you won't have to pay the cost on your own.

In most states, if you own a car, having car insurance is mandatory. Furthermore, you'll have peace of mind knowing that if you are in a car accident, the insurance company will pay for at least a portion repairs and hospital bills.

So how does insurance work? First, you pay the insurance **premium** or the bill for insurance. Then, if you ever need the insurance company to pay for bills associated with an accident, illness, disability, or home repair, you file a claim. A **claim** is a request for payment from the insurance company. The claim process varies by the type of insurance. For example, for health insurance, your doctor's office most likely requests payment directly from the insurance company. To file a claim related to a car accident, you'll most likely call your insurance company and answer their questions. After the claim is filed and approved, the insurance company will pay the bills. However, if you have a deductible, you'll pay the amount of the **deductible**, and then the insurance company will pay the remaining costs. Let's look at an example.

EXAMPLE

You shop around for a car insurance policy, and you find a policy that charges $109 per month and has a deductible of $500. You pay the premium for the policy every month ($109). Then, a few years later, you cause a minor car accident. You call the insurance company and answer their questions. They send you to an auto body shop to get an estimate for the repairs. You provide the insurance company with the body shop's estimate of $1,200. They send you or the auto body shop a check for $700 because it's your responsibility to pay the first $500. (In other words, because your deductible is $500, the insurance company deducts that $500 from what they pay, and then they pay the remainder.)

All types of insurance help provide financial protection for unforeseen losses for you and your family. Here are some of the main types of insurance:

Home or homeowner's insurance provides financial protection against disasters to your home. A standard policy insures the home itself and provides property coverage for the things you keep in it.

Renter's insurance provides **property coverage** for damage that occurs to items inside a rental property.

Disability insurance replaces a percentage of your gross income if an injury or illness prevents you from earning an income.

Car insurance provides protection in case of an accident or theft. It covers hospitalization costs that happen as a result of a car accident. Some policies include **liability coverage** or coverage for the costs incurred by others involved in a car accident that's your fault.

Health insurance covers costs associated with health, such doctor bills, hospital stays, vaccinations, and prescriptions from a pharmacy. Health insurance varies greatly in what it covers. Sometimes a health insurance plan will require you to pay a **copayment**. This is a fee that you pay each time you visit the doctor or buy a prescription.

Dental insurance covers at least part of the costs incurred at a dental office, such as cleanings, exams, fillings, and x-rays.

Vision insurance covers costs incurred at an optometrist's office.

Life insurance pays a certain sum of money in the case of death. The payment is made to the **beneficiary**.

Jewelry insurance covers the cost to replace jewelry in the case of loss or theft.

Malpractice insurance protects doctors, dentists, and other professionals from financial loss caused by lawsuits.

Travel insurance covers costs paid for a vacation in case there's need to cancel.

Accidents and disasters can and do happen, and if you aren't adequately insured, it could leave you in financial ruin. You need insurance to protect you and to help keep a roof over your head. In the next project, you'll create an insurance plan and shop for insurance. To shop for insurance, you need to be familiar with some insurance terms:

- An **insurance policy** is an agreement to cover or reimburse an individual for a loss that occurs.
- **Liability coverage** covers injury or loss that you have caused to happen to other people.
- The **premium** is the amount to be paid by the policyholder for insurance.
- The **deductible** is the amount an individual has to pay before the insurance company will cover the remaining costs.
- **Bodily injury limit** is the most the insurance company will pay.

Complete these activities.

3.13 The purpose of insurance is to __________ .

a. pay for repairs when you can't pay for them
b. help protect you from financial loss
c. protect you from getting sick and needing a doctor
d. pay for insurance premiums

3.14 Life insurance __________ .

a. pays a certain sum of money to a beneficiary in case of death.
b. covers the costs associated with life
c. pays for repairs on cars
d. covers hospital bills

Write *T* for True or *F* for False.

3.15 ____________ One strategy to manage risks is becoming informed.

3.16 ____________ One strategy to manage risks is providing your personal information to others.

3.17 ____________ One strategy to manage risks is to have an emergency fund.

3.18 ____________ One strategy to manage risks is to pay for health insurance.

3.19 ____________ One strategy to manage risks is to have a warranty.

3.20 ____________ One strategy to manage risks is to carry lots of cash.

3.21 ____________ Phishing is looking for and reporting online scams.

Project: Manage the Risks Part I

Earlier in the unit you, learned that a good financial plan has certain parts. One of those parts is an insurance plan. The insurance plan helps you manage your risks. In this section, you will create an insurance plan.

Meet the Martin family.

This family of four consists of a mom, dad, a twelve-year-old girl, and a sixteen-year-old boy. The family is about to move into a new house. They also own two cars. Help the Martin family create an insurance plan. An insurance plan simply lists the types of insurance they have or will be purchasing. The plan may also include some details about the insurance. For example, it may list "life insurance worth $500,000" or "health insurance with ABC Agency." For your assignment, create an insurance plan for the Martins.

3.22 Write your insurance plan on the lines below. As you create the plan, think about all the risks this family faces and how they can protect themselves from financial loss. Next to each type of insurance you list in the plan, explain why you think they need this insurance.

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