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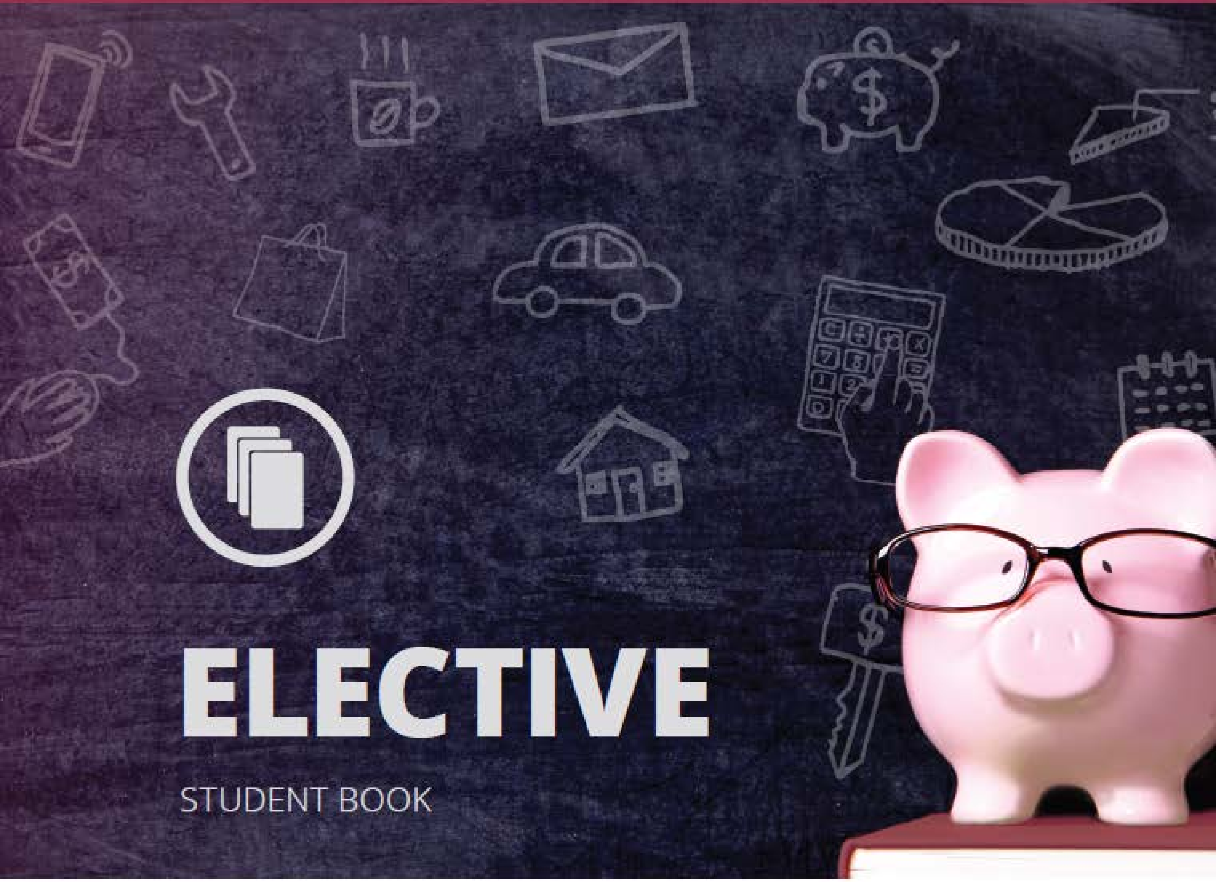

ELECTIVE

STUDENT BOOK

Consumer Math | Unit 9

AOP

1. TAKING RESPONSIBILITY

Most of you show responsibility in many different ways throughout the day. You probably complete assignments on time and communicate with your parents about important information. You may even take care of a younger sibling or complete difficult chores around the house. Some of you may already have jobs and balance work with your school responsibilities. There are many ways to be responsible. This section is about taking responsibility with money.

In previous units, you learned how to create a budget, tips for saving and responsible spending, and ways to invest your money to help it grow. Let's look at what it means to be financially responsible, how you can implement some responsible habits with your money starting today, the benefits of financial responsibility, and some of the costs of financial irresponsibility.

Section Objectives

Review these objectives. When you have completed this section, you should be able to:

1. Identify ways to be a financially responsible individual.
2. Give examples of the benefits of financial responsibility.
3. Give examples of the costs of financial irresponsibility.
4. Identify effects of responsibility and irresponsibility on the local and global community.

Vocabulary

Study these words to enhance your learning success in this section.

accountable **consequence** **habit**
responsible

Note: All vocabulary words in this unit appear in **boldface** print the first time they are used. If you are unsure of the meaning when you are reading, study the definitions given.

WHAT DOES IT MEAN TO BE FINANCIALLY RESPONSIBLE?

What does it mean to be financially **responsible**? Chances are, if you ask that question, you will receive many different answers. It is a complex question. Some would say to be financially responsible you need to live within your means. This means you must spend less than you make.

Other experts say that financial responsibility is the way you manage money and other assets, or that you manage your money in a manner that is considered productive and in your best interest. Even others would say that financial responsibility involves wise spending.

Here are a few more definitions:

- Financial responsibly means doing what you have to do to take care of your needs and the needs of your family.
- Financial responsibly means being prepared for the unexpected.
- Financial responsibility means saving for the future.

Check it out for yourself! Ask a few adults what it means to be financially responsible and see what kinds of answers you get.

How do you become financially responsible? First, you need to accept that you are **accountable** for your financial future. In other words, your actions cause you to have successes and failures regarding your money. Second, continue to become educated in financial literacy. Third, follow through with the financial plans you make.

Accountability. Right now, you likely live with your family and don't need to worry a great deal about budgets and paying bills. But you'll soon be making your own financial decisions and accountable for paying your own bills. Understanding that you will need to make financial decisions that will directly impact your day-to-day life and your future is the first step.

Becoming educated in financial literacy. You've learned about a lot of different financial topics in these units and a recurring theme has been to do your research. Research your purchases, research banks you're considering, research investments and insurance providers. The more you know, the better informed you'll be when you make financial decisions.

Following through. Planning to make a budget or planning to research a bank is one thing; following through with the plan is another. Make sure you follow through with the plans you make to ensure you're on the right financial path. This doesn't mean if you decide to do something, you must do that forever, but instead means if you intend to put into practice a responsible financial routine, that you follow through with that decision. If you create a budget plan, you'll need to maintain that plan, make updates if there are life changes, and continue using tools to make smart financial decisions.

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

1.1 ____________ There's only one definition of being financially responsible.

1.2 ____________ Being accountable means understanding you are responsible for your actions.

1.3 ____________ As long as you have a good feeling about your financial choices, you are being responsible

1.4 ____________ You are showing responsibility as long as you have a financial plan.

1.5 ____________ Following through with a financial plan means taking the steps to complete the plan.

RESPONSIBLE FINANCIAL HABITS TO START TODAY

Let's start by reviewing responsible **habits** you've learned about in Consumer Mathematics so far. While all of these habits are good practices, you may not have a paycheck or credit score yet. Being prepared with these tips ahead of time will prevent you from making immediate mistakes when you start earning, purchasing, and borrowing.

Ways to be financially responsible:

- Set a budget and stick to it.
- Save money. Take savings directly out of your paycheck before you have the chance to spend it.
- Set short- and long-term goals and review your goals periodically.
- Learn money management skills.
- Spend less money than you make.
- Make all payments on time.
- Know the difference between needs and wants.
- Pay with cash instead of credit.
- Discuss finances with others affected.
- Be a smart shopper.
- Organize financial documents.
- Learn about investment strategies.
- Have six months' income saved in case you lose your job.
- Know how to recognize the warning signs of too much debt.
- React quickly to financial problems before you ruin your credit score.
- Monitor your credit score.
- Obtain appropriate insurance.
- Educate yourself about personal finance by consulting reliable websites, magazines, or books.
- Seek information when faced with tough financial decisions.

This long list includes many ways to be financially responsible. But don't worry, you don't have to accomplish all of these today. It takes time and practice to become financially responsible.

Let's look at an example.

EXAMPLE

Kim found a new job description in the newspaper that required her to have her own vehicle. Since she started putting 20 percent of her paycheck into a savings account when she was sixteen, she now has enough to buy an economical car. This allowed her to apply for the job, secure the job, and increase her income 20 percent.

Because Kim responsibly planned ahead, she was able to buy her first car and apply for the job she wanted. And she was able to increase her income. For Kim, her long-term goal of saving money for a car was more important than the short-term enjoyment of spending money, and that responsibility paid off!

In addition to the benefits of increasing her income and landing the job she wanted, Kim's responsible saving could also help with:

- having good credit
- having more opportunities
- gaining independence
- being prepared for an emergency

As a high school student, you can already begin working on financial responsibility. Because you likely don't have any bills you're paying yet, any money earned from a part-time job or from doing chores or odd jobs can start building savings now!

Complete these activities.

1.6 Six months ago, Phoebe took out a loan to finance her first car. She has made every monthly payment on time. In which way is she being financially responsible?

a. saving money
b. paying with cash instead of credit
c. making all payments on time

1.7 Jack works part-time at a fast food restaurant while attending his senior year of high school. Every time his paycheck deposits in his checking account, 50 percent is automatically transferred into his savings account. In which way is he being financially responsible?

a. saving money   b. being a smart shopper   c. monitoring his credit score

1.8 Every December, Jennifer uses AnnualCreditReport.com to request copies of her credit reports from Equifax, Experian, and TransUnion to review. In which way is she being financially responsible?

a. saving money
b. monitoring her credit score
c. setting a budget and sticking to it

1.9 Jarissa really needs a new laptop to complete her online college course. Her old one has broken, and she has been visiting the college library to use student computers to keep up with class. She could charge the new laptop to a credit card, but instead works extra shifts at her part-time job to save up and pay cash. In which way is she being financially responsible?

a. being a smart shopper
b. making all payments on time
c. paying with cash instead of credit

1.10 Justin really wants to stream a new show, but it's only playing on a streaming service he doesn't have. He could subscribe to it, but it would cost him extra money each month that's not in his budget. He decides to cancel his other streaming service, and then subscribe to the new one, which has a monthly payment that is the same. In which way is he being financially responsible?

a. setting a budget and sticking to it
b. being a smart shopper
c. saving money

There are ways to start practicing financial responsibility with the help of a parent or guardian. Here are some ideas.

Review your parent or guardian's budget plan. Most adults have a budget plan, although formats may vary. If your parents have a budget plan, ask them to go over it with you. Or you can ask your parents to share a list of all their monthly expenses and their monthly net income and you can create a budget to discuss with them. Take what you've learned so far in Consumer Mathematics and try to develop a good plan for paying all monthly bills, while investing in savings. If you can find out credit card and other loan balances, even better. You can work together to develop a plan to pay down debt. This experience will prepare you well for creating your own budget someday!

Open a student checking account. Most financial institutions offer student checking accounts with a debit card. You can deposit earnings from a job, chores, or even birthday money in the account. This will give you an opportunity to begin saving, and to view a checking account online, becoming familiar with a bank account website, statements, and more. You can even decide on a system for depositing your money. Perhaps 20 percent of your earnings can be spent, and 80 percent must go to savings. Student accounts are typically linked to a parent or guardian account, so parents can monitor the account and transfer funds as well.

If you already have bills, perhaps a car or smartphone payment, you can set the payment up to be withdrawn automatically each month through bill pay.

Explore online banking. If you are able to open a student checking account, you'll also have access to your bank's budgeting tools. Even if you don't have an account, there are plenty of budgeting tools online that can be found. Identify budgeting tools you like, and either set up a real budget plan for saving or explore imaginary options to become familiar with the tools.

Become an authorized user on a credit card. If your parent or guardian is willing to add you to a small credit card, as an authorized user, you'll be able to make purchases. If you use the card for small purchases, and then make the payments on the credit card, this is a great way to gain experience with responsible credit usage and paying off debt.

These ideas require some help from an adult, but there are also things you can do independently to get some hands-on experience with financial responsibility.

Make a list of all purchases you've made in the last two weeks, or even a month! Remember the spending journals from Unit 2? List every single purchase, even if it's just a pack of gum. Review the list. Are there items that seem like a waste of money? How many items were "wants" and how many were "needs?" Is the total spending on "wants" higher than you expected? Little things add up! And are there certain repeat items that are problematic? Use this information to plan for your budget and to improve your spending habits.

Set a short-term financial goal. Maybe you want to start saving for a car or start saving for college. Those are big goals, but remember learning about short and long-term goal setting in Unit XX? What is a short-term achievable goal you can set? Perhaps you'd like to save $500 in the next six months. If you don't yet have a job, think about what you can do to earn money. Perhaps you can earn money doing chores around the house, mowing yards or washing cars for neighbors, family members, or friends.

If you already have a part-time job, think about a saving goal that can be achieved in the next six months and identify the amount of money you'll need to transfer from each paycheck into your savings account to achieve that goal. Then, work toward achieving this goal. Meeting goals feels wonderful, so once you've achieved it, it will be time to set the next one!

Create a budget with a small amount of money. While you may not have many or even any bills yet, creating a simple budget with a small amount of monthly earnings and expenses is a great way to practice creating and sticking to a budget that will get more complicated as you get older.

COSTS OF FINANCIAL IRRESPONSIBILITY

We've been focusing on ways to be financially responsible, but what happens when you are financially irresponsible? Let's first look at some red flags that your finances might be in trouble.

You can only afford to make the minimum payments on credit cards. Paying the minimums means you are probably paying mostly interest, so your credit card balances aren't decreasing. If you have reached a point where you're unable to pay anything more than the minimum required payments, that's a sign you might be over-extended.

You're spending more than you're earning. If you started with good credit, you may have credit cards, loans, or lines of credit that can make it seem like you have more money than you actually do. This leads to the next sign of financial irresponsibility.

You have to borrow money from loans or credit cards to pay your bills. Related to the red flag of spending more than you're earning, borrowing from loans or credit cards to pay bills is a sign of financial irresponsibility. People can sometimes fail to realize how much their debt has actually grown, and if they don't pay attention, they may end up spending more than they're actually earning. Eventually, all the debt has to be paid and people can find themselves in trouble.

You don't have savings for emergencies. There will always be emergencies that end up costing you money. It may be a car breaking down, an injury resulting in medical expenses, or a sick pet. Without money saved for emergencies, you'll have to go further into debt or will simply be unable to find the funds.

There are some difficult **consequences** of financial irresponsibility. Let's first focus on the monetary consequences.

Financial irresponsibility can:

- Hurt your credit score
- Cost you money in fees, penalties, or interest
- Make it difficult to be approved for rentals, cell phones, utilities, and other types of credit
- Impact your employability in some fields, reducing your earning potential

Let's look at some examples.

EXAMPLE

Esteban just moved into his first apartment. It was so exciting that he didn't think about how the rent would fit it with his budget. After a few months, he finds it difficult to pay his rent. He decides to break his lease and move back home. Because he broke the lease, he owes the rental company expensive fees. In addition, this may affect his credit score, so he may not be able to rent another apartment for many years.

EXAMPLE

Samantha wanted to purchase a new pair of earrings. She did not have enough money in her wallet or bank account. She decided to pay with her credit card. When the credit card bill came, she was unable to pay the full amount, so she paid part of it. Again, the next month when the bill arrived, she was unable to pay the full amount. Finally, by the third month, she finished paying for the earrings. However, she ended up paying much more for her purchase. She actually paid $22.50 in interest.

Paying more money is just one consequence of Samantha's financial irresponsibility. Other consequences include:

- paying more money in fees, penalties, and interest
- earning less money in interest
- being dependent on others

Being financially irresponsible can also financially affect your family. Let's look at an example.

EXAMPLE

Richard asked his parents to cosign on a car loan. They agreed. Over the next year, Richard made many late payments. Since his parents had cosigned, their credit scores declined. This is an example of how Richard's irresponsibility affected not just himself, but his parents.

Being financially irresponsible can even financially affect your community. Here's another example:

EXAMPLE

Andre purchased a new house. He knew the house payment was more than he could afford. This was irresponsible. He assumed he would soon receive some cost-of-living raises at work that would make the house payments manageable. However, when the economy got weak, he was forced to take a pay cut. He decided to sell his house. But in order to sell quickly, he had to reduce the price. A few months later, his neighbor wanted to sell his house. Andre's low sale forced his neighbor's house value to decrease. His neighbor sold his house for less than he purchased it. Now, the value of other houses in the neighborhood will continue to decline in value because buyers look at other recent home sales and are only willing to pay the reduced amounts.

Complete these activities.

1.11 Corey keeps charging items to his credit card so he doesn't have to pay for them until later, but now his credit cards are at their limits and the minimum payments are so high, he is only able to pay the minimum payments. What are two consequences of this financial irresponsibility?

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1.12 Maegan's parents cosigned the lease for her apartment and she's now two months behind in rent. How could this impact her parents?

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1.13 In two to three sentences, describe three signs your finances may be in trouble.

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1.14 In two to three sentences, describe three consequences of financial irresponsibility.

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EVALUATING FINANCIAL RESEARCH SOURCES

The internet has revolutionized the way people look for information, including financial information. For this reason, let's take a closer look at evaluating websites with financial information.

The internet makes it easy to shop online for car insurance or even a loan. You may also conduct an internet search for a financial topic, like mutual funds, and receive thousands of results. The internet makes it fast and easy to find a large amount of information. However, going onto the internet and finding reliable information that's aligned with ethical standards is a challenge—anyone can write and publish a website! When you use a search engine to look for financial information, the results may include sites that are selling a product or representing a special interest. You must be extra careful to look at the person or organization behind the site before relying on their advice.

Many internet users mistakenly evaluate a website based on its visual appeal, such as color and layout, instead of looking at its content. A great place to start in your evaluation of a website is looking at the website address, or URL.

Site names ending in .edu are educational, site names ending in .org are nonprofit organizations, sites ending in .gov are government sites, and sites ending in .com are commercial sites. If the web address ends in .edu or .gov, it can generally be considered reliable because these are run by educational and government institutions and are evaluated for reliability. Sites ending in .org are often reliable, but it's still good practice to validate the information.

A URL ending in .com is commercial, meaning the purpose of the site is to sell a product or service. Because the purpose is to promote a product or service, information shared will likely be solely to meet that goal. This doesn't mean the information will never be valid, but that you should use evaluation strategies to assess it before believing it's true.

Complete these activities.

2.16 What is a website ending in .edu?

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2.17 What is a website ending in .org?

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2.18 What is a website ending in .gov?

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2.19 What is a website ending in .com?

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2.20 Write a one to two sentence response explaining which sites are the most reliable sources of information and why.

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There are, however, some very straightforward and reliable websites. Some are very useful and worth adding to your list of favorite websites. Below is a brief description of several such good sites.

- The Investor Protection Trust (IPT) website (www.investorprotection.org) provides information to make informed investment decisions.
- The Financial Industry Regulatory Authority (FINRA) website (www.finra.org) offers information on a wide range of issues that affect money and investments.
- The Securities and Exchange Commission (SEC) website (www.sec.gov) provides information to help you invest wisely.
- The Rutgers University website (www.njaes.rutgers.edu/money) contains resources, courses, tools, and templates, including financial planning worksheets.
- The U.S. government offers information about financial education programs on the MyMoney website (www.mymoney.gov) as well as information about many other topics.

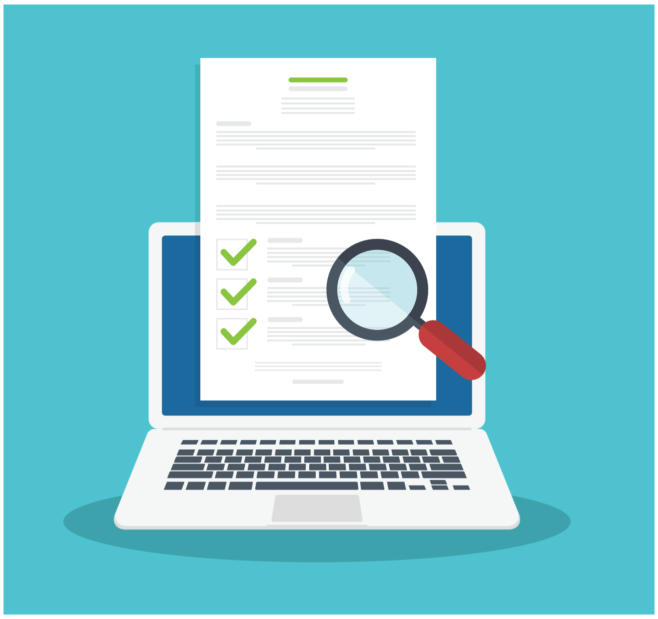
Relevance. When evaluating financial information, it's also important to consider relevance. Are you a young person who is brand new to investing and you're looking for information on where to start? Or what if you're an experienced investor looking for information on the performance of a product you believe will be a great product for a long-term investment? Or perhaps you're newly married and starting a family and would like to find information about good life insurance products. Or you are retiring from the workforce and looking for a combined life insurance and savings endowment. Each of these scenarios is quite different and even if the topics are the same—investing or life insurance—you would need information **relevant** to your situation to make an informed choice.

Information that is suitable for one person may not be suitable for another. For example, a financial advisor is likely to advise a person who is 62 years old to invest in low-risk investments. However, that financial advisor probably would not give this same advice to a person who is 23 years old. Check to make sure the information is age appropriate.

For another example, let's say you want to invest money now, but in two years, you'll use the money for college. Your situation is different from that of someone who is saving for retirement. Make sure the information you're seeking is suitable for your situation.

Relevant information is:

- appropriate for your age
- suitable for your situation



To make sure the information meets these criteria, take a thorough look at all the materials. Reading titles, headers, and tables of contents can also provide the details you need to assess the relevancy.

Now that you've had a chance to think about the difference between reliable and unreliable information, let's compare sources and categorize them as reliable or unreliable.

Complete these activities. Write *R* for Reliable or *U* for Unreliable.

2.21 ____________ Jacob is 23 years old, and his employer doesn't offer insurance. He decides to research a health insurance marketplace. He visits Healthcare.gov to start his research.

2.22 ____________ Mary is signing up for health insurance for herself, her spouse, and her three children through her employer, but doesn't know if she should choose an HMO, PPO, or POS plan. An insurance agent who partners with her employer agrees to meet with her and talk her through the plan differences, explaining the pros and cons for Mary's situation.

2.23 ____________ Joe wants to start investing money in some high risk/high reward stocks. He wants to do the research and invest on his own rather than through a brokerage firm. He starts by following a guy he likes on social media, reading through his posts about different stock options. He gets excited about one post and decides to invest $5,000 in the company discussed in the post.

2.24 ____________ Josue wants to file his own tax return, so he doesn't have to pay for a tax service. He has his own business selling custom banners and wants to research what he can write off for his business. He visits the website of a tax preparation services company and reads an article on filing taxes as a self-employed person. The article seems to have good information but shows a date of publication that's ten years old.

2.25 ____________ Finn just opened his first credit card. He received an email that looked like it was from his credit card company but asked him to respond with his Social Security number and checking account number, which the company told him they would never do. He decides to research email scams and visits the Federal Trade Commission website and searches for "scams."

2.26 ____________ Lucy and Garrett are ready to buy a home. They are researching mortgage lenders to find the best deal. They ask some of their friends which lenders they used and quickly choose one that sounds good.

2.27 ____________ Ted gets a flyer in the mail for a credit card that says, "Best rate in town!" He quickly applies for a credit card.

CHECK ______________ ______________
Teacher Date

LET'S REVIEW!

Remember, you must evaluate a source critically before you trust it for financial information. If the source is an expert or a reputable organization, you may assume it's reliable. If the information is current and can be verified by other sources, the information is likely reliable.. Another important matter is to look at the relevance of the information for your situation. Completing research and evaluating any information you find to be sure it's both good information and relevant to your situation will help you make smart and responsible financial decisions.

Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

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