CONSUMER DECISION MAKING
CHAPTER 1

All people are consumers, whether they are rich or poor, young or old. A consumer is a user of goods and services on a personal basis. Being a consumer is a central part of life. In nearly everything you do throughout your life you will use goods and services. Consumer decisions you make will affect the quality of your life.

With practice the ability to make wise consumer decisions can be learned which is a valuable skill. Some decisions will be easy and require little thought. Examples of simple decisions are: what to buy for lunch or which movie to see this weekend. Some decisions are complex such as what type of car to buy or choosing a career.

Informed consumer decision making can give you many benefits:

1.It can help you reach your goals.
2.It can increase your chances of being in control of your life.
3.It can increase the satisfaction you get from living.

If you have no goal, you will be sure to hit it. A child's poem illustrates that:

I shot an arrow into the air
It fell to earth, I know not where.
Author unknown

CONSUMER DECISION-MAKING SKILLS

Decision making is the act of choosing among alternatives. Alternatives are the options available when choosing between two or more courses of action. You must be free to choose among alternatives to make a decision. In other words, you must be free to make choices.

Decision making is a process. It may be done under conditions of uncertainty. Everything is subject to change, and in our world of financial problems, that is doubly sure. Decisions often must be made before all the facts are known. Because of uncertainty, some people put off making decisions, or they let someone else decide for them. Other people, though, have confidence in their own decision-making skills.

Lets consider the following situation which calls for a consumer decision.

THE BICYCLE TRIP

Your Bicycle Club has planned its annual bicycle trip. The weekend trip will take place next month. You want to go, but you have a problem: your bicycle needs major repairs to be safe on the road. You would like to buy a new ten-speed bike for the trip, but you are $50 short of having enough money for the bike you want How would you solve this problem? what are your alternatives?

Making a decision is a personal matter. The process is flexible, but the following step-by step approach to decision making is a useful guide.

Step 1: Identify the goal and define the problem.
Step 2: Gather information.
Step 3: Explore alternatives.
Step 4: Consider the consequences.
Step: 5 Make the decision and take action.
Step 6: Evaluate the decision.

Before we solve this problem we first need to define some words to understand better how we are going to do this. This problem will be solved during class time.

1.A goal is a specific aim that reflects a set of values.
2.Values are beliefs or ideas that you consider desirable and important.
3.Consequences are the results that follow from acting upon an alternative.
4.Trade-offs are things that you are given up when a choice is made.
5.Evaluation is the process of judging the value or worth of a decision or action.

IDENTIFY YOUR CONSUMER RESOURCES

Consumer decision making is based on the wise use of resources. Resources are the things you can use to meet your consumer goals. What is one of the first things that you think of when you hear the word 'resources'? MONEY Financial resources are only one of many resources available to consumer. Other types include human, community, natural and technological resources. Many resources are available but all resources are limited. Informed decision making can help consumers use their limited resources to satisfy: their most important needs and wants.

Financial Resources

Financial resources, or money income, are a major factor in the economic well-being of consumers. People obtain money income from a variety of sources which include:

1.wages or salary from a job
2.self-employment,
3.gifts
4.retirement pensions
5.savings and investments
6.child-support payments
7.Social Security benefits
8.government aid (housing subsidies, food stamps, and unemployment benefits)
9.low-cost loans to needy college students is another type of aid.

Human Resources

Human resources include a person's time, energy, skills, knowledge, and family. We use our human resources in all our activities such as in work, school and hobbies. We use our human resources to earn income. We may also use our human resources instead of spending income. Or you could exchange services with other people. Bartering is an example of exchanging services. To barter means to trade one subject or service for another without the use of money. Some years back there was no “money” as we know it, so bartering was common. What is an example of bartering?

Resource substitution is another way to use your human resources. Instead of buying a bookcase from a store, you might decide to build your own bookcase from scrap or leftover bricks and boards. In this case you substitute your creative abilities for your financial resources.

Community Resources

Many community resources are available to consumers. These include ballparks, bike paths, libraries and churches. Public schools and police and fire protection are some other community resources. These resources are often available without direct cost to consumers. But someone must pay for them. Some resources may be provided through private donations such as library books. Others are provided through taxes paid by the community members.

Natural Resources

These resources include clean air and water, oil, minerals, timber, and land. We affect the use of natural resources with consumer decisions and actions. Business and government decisions have an effect. Consumers often waste natural resources. However, there is a growing trend of conservation. People are trying to conserve resources - save and protect them. What are some ways to protect these resources and not waste them? (Recycle, conserve water, conserve electricity)

Technological Resources

These resources include such items as cars, telephone systems. Computers, cell-phones, e-mail, and even light bulbs. Technological resources are the result of a combination of human and natural resources. Consumers today are very dependent on technological resources and it is likely that we will be even more dependent on these in the future.

In recent years consumers have become more aware of how their resources are limited. Rising energy costs and higher prices for other consumer goods have brought the point home. To be a wise consumer today means more than finding a "good buy." It means using one's consumer resources in ways that are not wasted but which provide satisfaction. To achieve this, consumers must decide what is important to them so they will not waste their resources.

FOCUS ON WHAT IS IMPORTANT

What is important to you? What do you want out of life? Your answers to these questions can help you to achieve the kind of life you want. The answers can help you to think about your values, set goals, develop plans, and take actions.

Values and goals

Things that you valued when you started grade school may not be important to you now. What you value now may change by the time you graduate from high school. Even though your values may change, it is very useful to know what it important to you now. This is because the consumer decisions and actions you make are influenced by what you value.

People use words like love, family, friends, health and money to describe their values. Other values expressed are freedom, independence, truth, peace and security.

Goals are specific aims that reflect a set of values. Goals are what you need or want and what you are willing to work toward. Goals will more likely be achieved if they are clearly identified and they should also be ranked in order of importance.

What are some common goals? (Graduating from high school, passing a test, getting a driver's license, having good marriages doing well in sports and being happy.) Some goals are shared by many people.

Goals give direction to your life. Short-term goals provide direction in your daily activities and should concern the near future. (What you want to do today, this week and this month.) What short-term goal do you have?

Long-tern goals concern the distant future. What do you want to do in the next year or five? What do you want you life to be like in twenty years? Obviously, if we want to have a technical skill, it is not good to lay around and bed and just hope it comes to pass, for it will not. We must study, attend class and be educated to work in technical fields. Short-term goals need to be met in order for long-term goals to be achieved. If your long-term goal was to go to a certain college, the short-term goal would be to study to gain the knowledge you need to meet the college requirements.

Needs and Wants

Needs are those things that are essential for human existence such as, water, air and food. Wants are things such as cars, exotic vacation, that are desired or useful but not essential for existence. As one person said, it is not the high cost of living but the high cost of want that gets us into trouble. We live in a world of unlimited wants but limited resources. We cannot have everything we want so that is why we need to choose goals for our life.

Two common ways in which people respond to their needs and wants are:

I.Immediate satisfaction - Fulfilling an immediate want or need; often evidenced by impulse buying.
2.Deferred satisfaction - Postponing an immediate pleasure in favor of an anticipated future pleasure.

Lifestyles and Quality of Life

Lifestyle is a term used to describe a person's typical way of life. Your lifestyle is influenced by:

1.consumer resources available to you
2.values
3.goals
4.needs
5.wants
6.affected by social, political and economic environment or surroundings.

Quality of life is the level of satisfaction people feel in what they do and how they live. It does not necessarily mean the quality or amount of material possessions. The idea of quality of life allows for personal freedom and growth. It shows concern for the natural environment. It encourages a balance between material wealth and other kinds of personal satisfaction. Some types of personal satisfaction such as, clean air, meaningful work, freedom and good health are important to nearly everyone in society.

People who have a realistic idea of lifestyle and quality of life they want are more likely to make good consumer decisions. Achieving a desired lifestyle and quality of life does not happen by accident. It requires skilled decision making.

THE CONSUMER AND THE ECONOMY
CHAPTER 2

What is an Economic System?

Every nation has a system for producing and consuming goods and services. (A good is a material product, such as food and clothing. A service is a nonmaterial product, such as education or a haircut, etc.) A nation's people, businesses, and governments relate to one another in the system and influence what goods and services are produced. This system is called an economy, or economic system. Economic Systems evolve, for the most part, in response to the needs and wants of consumers.

Market Economy.
There are different types of national economics. The market economy is common to countries like the United States. In market economies, individuals largely determine which goods and services are produced. There is no reason to make a product if no one wants it. For the most part, individuals influence the economy by their consumer actions in the marketplace. Government control of the economy is limited, and the economy allows for private ownership. This type of economic system is also called capitalism or free enterprise, and is a “bottom up” system.

Command Economy
In some communist countries, many of the decisions about what goods and services are produced are made by the governments. The governments control the means of production. The individuals within the economy have limited say in what, how, and for whom goods and services should be produced. There is limited private ownership. Since the decisions of governments in communist countries are all-important, such an economy is called a command economy, and is a “top down” system.

Market economy is used to describe the economic system of countries like the United States, and command economy is used to refer to communist countries. However, most nations actually have a mixed economy which combines characteristics of both market and command economies. In the United States, for example, governments make many important economic decisions, and in some communist countries, individuals have some influence. The United States has been moving toward a socialist, command economy for the last 50 years.

Most people are both workers and consumers. As workers, they produce goods and services which circulate in the economy. As consumers, they buy items produced in the economy.

The Basic Economic Problem

The situation of unlimited wants and limited resources is called the basic economic problem. We all want certain thins which may be limited in availability. This situation is faced by consumers. It is also faced by a nation's economic system. The study of economics is concerned with how people and governments try to solve the basic economic problem.

Making economic choices often requires a trade-off. Something must be given up. In economics, the term used to describe the choices given up is opportunity cost. When society chooses to build a hospital, the opportunity cost might be a length of highway that cannot be built now.

Productive Resources

Nations have resources that can be used to produce goods and services in the economic system. A nation's productive resources are the combined resources of all its people, business, and government. These resources are called the factors of production.

Factors of Production

The study of a nation's factors of production involves three groups of resources which are the country's natural, human and capital resources.

Natural Resources

These resources are given to us by God which men may refer to as “nature” and include land, minerals (coal, oil and metals), fish, wild animals, and timber. This is what God put into the earth at creation. Some nations have an abundant (but not unlimited) supply and others have scarce (limited) natural resources. (Scarcity is a condition of limited resources.)

Human Resources

These resources are a nation's people who work to produce goods and services. They include groups like farmers, office workers, managers, factory workers, teachers and doctors. This factor of production covers more than just the number of people. Human resources include the people's many skills and talents.

Capital Resources

In economics, capital resources include money but they also include other things needed to produce goods and services. Examples are: tools, machinery, and buildings. Natural and human resources are not considered capital resources.

Balancing the Factors of Production

The success of a nation's economy depends on having a balance of the factors of production. An economy needs a balance of natural, human, and capital resources.

If a country has abundant natural resources but scarce human and capital resources, it does not have a balance. It may not be able to use well the resources it does have. A poor country may have great mineral wealth, but may lack the skilled workers, tools, and railroads needed to extract and transport the minerals. As a result, the minerals remain in the earth and the country remains poor. The economy cannot utilize its resources fully.

Some nations prosper even though they lack certain factors of production. To achieve a balance, some countries substitute one type of resource for a scarce resource. If human resources are scarce, machinery (capital resources) may be used more to achieve a balance. International trade is also used to achieve a balance of the factors of production. Money (capital resources) made from the international sale of products may be used by a nation to buy needed natural resources, such as oil.

Three Economic Questions

A nation's economy must provide answers to the three basic economic questions which are; **what, how,** and **for whom**.

What Should Be Produced?

What goods and services should a nation produce? Should its resources by used to make cars or planes, guns, or bicycles? Should it produce wheat or apples, medical research or social services? To answer the "what" question, the nation must decide what is important to its citizens.

How Should Goods and Services Be Produced?

The nation must decide how the productive resources should be used. The individual citizens do this in the United States, for the most part. The abundance or scarcity of certain resources will help a nation to answer the 'how" question. In some countries, there are many workers but little machinery. Much of the production is done by hand labor (human resources) In other countries, where labor is not so plentiful or is highly paid, more machinery (capital resources) is used and less hand labor.

For Whom Should Goods and Services Be Produced?

A nation must decide whose needs are the greatest. Should its productive resources be used to produce low-priced cars for people with limited incomes? Or should luxury cars be built for the small number of people who can afford them?

Answering the Three Economic Questions

The three economic questions are important in the economy of every nation. In a command economy, the governments provide the answers for the most part. For example, a government in a command economy may consider being prepared for war to be a major goal. It may then use its nation's productive resources to produce more guns and fewer cars than would be the case in a market economy.

In market economy, the answers result mainly from the actions and decisions of the people in the economy. The governments' role is more limited. Some important forces are involved in the way a nation answers the three economic questions. They are the profit motive, law of supply and demand, and competition. They are more active in a market economy than in a command economy.

Profit Motive

A profit is a financial gain that results when money received from selling goods or services is greater than the costs of producing them. “Profit” is not a bad word. Control of the economy by government tens to say it is, but it is not. The profit motive is what often makes a person or business decide to produce certain goods and services. When a manufacturer produces a product they have a profit motive, a financial reason to produce certain goods or services. What happens when the goods can no longer be produced at a profit? The manufacturer may start to produce other goods which can be sold at a profit, or they may go out of business.

Supply and Demand

Supply and demand refer to how much a product is available, and how much people are wiling to pay for it. Supply is the amount or number of a good or service available. Demand is the level of willingness of all the people to pay a certain price for a good or service.

This affects many parts of our lives such as: the pay we receive for our work, number of people producing certain goods and services, prices of goods and services. A large supply is likely to bring prices down. A large demand is likely to make prices rise.

Competition

Competition in commerce is the rivalry or struggle between business to fill the demands of consumers and thus to make a profit. If a product is in demand, probably more than one producer will offer it. The producers then compete in the marketplace for consumers dollars.

Economic competition is usually thought of in terms of price. Some producers compete by offering lower prices. But competition is not limited to price. There is also non-price competition, competition which is not based directly on price. Some types of non-price competition are sweepstakes, coupon offers, and special services (free delivery of goods.) A consumer may be offered the same product at the same price by several competitors. The consumer is likely to buy from the one who offers an advantage through non-price competition.

The largest retailer in the world uses efficiency of scale, computers, buying power to drive down costs, and sells for less by a good business model. Other businesses have found the model hard to compete with, but some have been able to do so by adjusting their business model to include other types of offers to lure consumers to their stores.

Alternative competition exists between alternative choices of similar goods or services. Types of transportation may compete with one another such as airlines compete with one another but also with trains, buses and cars. Another example could be a consumer going to a fruit market. The consumer may not have a certain fruit in mind but wants some fruit. If apples are priced much higher than oranges, the consumer will probably buy the oranges. Alternative competition thus exists between the alternative choices of apples or oranges.

Government Influence on Our Economy

In command economies, the governments largely answer the three economic questions (what? How? for whom?). In market economies, it is mainly the people acting in the economy who provide the answers. However, in the United Sates, governments also have economic influence, along with businesses.

Local, state, and federal governments influence the economy. They have to power to tax. At the federal level, government regulates the supply of money. Laws passed by the various levels of government affect the economy and consumers. Zoning laws passed by local governments, for example can limit the areas used for business purposes. Pollution controls set by various levels of government also affect how business is done, especially in those businesses which use large amounts of coal, gas, or nuclear power. These types of government controls tend to protect society as a whole.

Since government influences our economy, you may wonder who the market system is so different from command economies. It is different because the control over what goods and services are produced rests mainly with the people in the economy. We keep control through our actions in the marketplace and because we elect our government officials. If our government elected officials do not act in our best interests, we have the ballot box to control their actions, by electing others in their place, or by recall votes.

CONSUMERS AND THE QUALITY OF LIFE
CHAPTER 3

How do you rate your life? Quality of life is the level of satisfaction people feel in what they do and how they live. It has to do with feelings of well-being and contentment. The term quality of life can apply both to individual consumers and to society as a whole.

In this chapter we will look at some of the ways people measure their quality of life. We will explore several social and economic trends that affect our consumer decisions. We will identity various American lifestyle patterns, and how technology affects the way we live. We will also examine values one might consider when choosing a lifestyle.

Measuring Quality of Life

Measuring one's quality of life is a personal judgment. Some people measure their quality of life by their possessions. Their sense of self-worth is determined by how much money they earn and what they own. Money and possessions give some a feeling of power, status, and control. They also rate their quality of life in terms of dollars and cents or how much they have in bank accounts. They may practice conspicuous consumption-wasteful spending for the purpose of impressing others. (diamond-studded dog collar)

Other people feel that after life's basic needs are met, more money does not add satisfaction. They measure their quality of life by personal factors, such as warm relationships, their spiritual life, job satisfaction, as well as by financial factors.

Most people feel that a balance of financial and personal factors is needed for a good quality of life. Money could cause a person to be unhappy. On the other hand, money cannot buy happiness-having a lot of money does not ensure satisfaction in life. Some who have a lot of money worry about how to keep it, or fight with family members over how the money will be expended.

Researchers asked hundreds of people what factors seem to affect a person's well-being. Their findings suggest four broad areas that affect people's general feelings of happiness:

1. Health
2. Economic situation
3. Residential environment
4. Spare time activities; family and friends
5. Knowing Jesus Christ as Savior

Many questions remain about what affects a person's sense of well-being. Two personal factors are generally considered to be important. One factor is the ability to adapt, to make the best of things as they are. The second factor is a person's feeling that he or she has the freedom to choose among alternatives. People who have a voice in the decisions that affect their lives seem to be happier than those who feel powerless.

Consumers in a Changing World

In the past, social patterns changed very slowly. In recent years, though, social and economic pressures have caused rapid changes. Among the changing social and economic trends that affect consumers are:

1. Two income households
2. Single-person households
3. Poverty linked to divorce
4. Equality in the workplace
5. Consumer search for quality
6. Commitment to self-reliance
7. Aging population and health care

These trends influence both individual consumers and the national economy Let’s look at each one and see the effects on the consumers.

Two-income Households

More women today work outside the home than at any other time in our history. There are more two-income families that ever before. Men and women not only share the earning responsibilities but also the managing of the household. The care of the children and the household tasks of running the house and fixing the meals is being shared by both husband and wife. "Women's work" is now the task of husbands also.

Husbands were usually considered the household 'head" and were often responsible for earning and deciding how the money should be spent. The wife was responsible for caring for the home and the family. Today, family members are more likely to share in all these responsibilities.

Two-income families have more money to spend on housing, travel and other consumer goods and services. But their free time together is often limited. As a result, some members of two-income families may feel trapped by the earning and spending cycle that takes so much of their time and money. For these consumers, spending less on consumer goods and services could actually increase their quality of life.

Single-person Households

For various reasons single living is a growing trend. In 1983 more than 50% of women aged 20-24 had never been married. By comparison in 1970 only 36 % of women in that age range had never been married. If current trends continue those who do marry, half will be divorced which results in more single-person households.

This trend of single-person households suggests a need for both women and men to have strong job skills. Individuals who can support themselves on their own income are more likely to be pleased with their quality of life than those who must rely on others for economic support.

Poverty Linked to Divorce

Divorce is a major cause of poverty among young and middle-aged women. Some reasons a divorced woman may face poverty could be a low-paying job or lack of skills, or because she may be the only support of her children. Other causes are limited job skills and the rise in out-of wedlock births. Another difficulty divorced women with children have is collecting child-support payments.

Even for women, though, poverty is often short-lived. For most Americans poverty is a shifting, temporary condition. Fully a third of those Americans in poverty one year are not poor the next. However, poverty remains a serious economic and social problem.

Equality in the Workplace

In the past women, Hispanics, blacks and other minority groups were employed in mainly low-paying jobs. White males often held the higher-paying jobs and had more chances for advancement.

In recent years this has been changing but there is still room for more improvement. Much progress has been made against discrimination in the workplace. Discrimination is the act of treating a person differently because of the person's sex, race, or color.

The U.S. Equal Pay Act of 1963 is a law that calls for equal pay for equal work. The U.S. Civil Rights Act of 1964 prohibits sex discrimination in employment. These laws have helped some but there is still room for correction of this problem. In the last 20 years opportunities for women and minorities have opened up.

It is likely that the trend toward equality in the workplace will continue. This trend will help contribute to a better quality of life for individuals and society.

Consumer Search for Quality

Today consumers are more concerned with quality and value in the goods and services they buy. They do not want to waste their money. A study showed that nearly 4 out of 5 Americans say they have become more demanding about quality than they were a few years ago. Younger, better-educated consumers were especially likely to say they are more demanding. They agreed that shopping around leads to getting their money's worth.

Commitment to Self-reliance

Self-reliance is self-help, or relying on oneself to get things done. Self-reliance has always been part of American life. After the Great Depression of the 1930's, many people turned to the nation's large institutions for help. They looked to government to provide protection and regulations in the workplace. They trusted the medical establishment to look after their health. They relied on educational institutions to teach their children. They enjoyed working for a large corporation.

A new trend of consumer self-reliance developed in the 1980's. Consumers want more control of and responsibility for their own lives. Examples of this trend of self-reliance include:

1.More individual responsibility for personal health
2.An independent spirit that favors self-employment in small business
3.Home gardening to grow part of the household food supply
4.Volunteer groups, such as Citizens Against Crime and Mothers Against Drunk Drivers (MADD), working to bring about social and legal changes.
5.Do-it-yourself home, appliance, and automobile repairs.

These examples show a trend toward a self-reliant, "I can" attitude. Individual consumers are taking more responsibility for their quality of life.

Aging Population and Health Care

More people are living longer. We are an aging society. The growth in numbers of older people is causing increased demand for housing and health-care services for the elderly. More individuals and families are finding it difficult to afford basic health care. Many families cannot provide home care for elderly family members.

There is a need for low-cost alternatives to home health care for older people. Nursing-home care is expensive and more insurance companies do not cover the costs of extended nursing-home care. It is estimated that a typical person in a nursing home will use up lifetime savings in only 13 months.

Since the 1960's, the United States government has provided health-care assistance to low-income and elderly people. These government programs are called Medicare and Medicaid. Economic conditions have caused the government to shift some of the increasing costs of health care back to individuals and families.

Congress is exploring the problems of funding health-care services. A workable plan is needed to control health-care costs and make health-care services available to everyone. This plan will require the cooperation of consumers, health-care providers, and government.

TECHNOLOGY AND CONSUMERS

Advances in science and technology affect the quality of life. Technology is the interaction of tools and equipment, and how people use them.

Medical discoveries help us to live longer and usually healthier lives. New forms of transportation move people from place to place at rapid speed. In the workplace, some dangerous or unpleasant jobs are now done by robots. News of major events from around the world is communicated instantly by satellite. Computers are playing an ever increasing part in daily life.

Computers

We are in the midst of a computer revolution. Each year, more people buy personal computers to use for their personal business and entertainment. Many schools have computers to help students do calculations, take tests and receive instruction.

Consumers use computers to help them manage their money. For example, computers can help consumers.

1. Keep financial records
2. Prepare a budget
3. Figure income tax
4. Balance a checkbook
5. Write checks and pay bills

6. Make financial planning decisions.
7. Analyze life insurance policies
8. Plan for college education costs

Computer technology touches our lives in many ways. For example, we enjoy the convenience of using automatic teller machines at the bank. We can shop for and order goods and services without leaving home, using the telephone, a television set, and the home computer.

AMERICAN LIFESTYLE TRENDS

Lifestyles are influenced by changing economic and social conditions. They are also shaped by personal and family values, needs, points of view, and dreams for the future.

To better understand personal values and their effects on American lifestyles researchers have identified a number of American lifestyle groups. The lifestyle groups are:

Need-driven people.

People in mainly low-income jobs are in this group. Their consumer decisions are based on need rather than choice. Many are minorities, single-parent families headed by women or older people. Their money is largely spent on food, housing, clothing, and other basic needs. It is estimated that over 11 percent of the U.S. population is need driven.

Outer-directed people

People in this group include the nation's large and diverse middle class. Their income allows them to satisfy: basic needs and have enough money left over to buy desired items that are not essential. Those in this group of people are often family-oriented and are leaders in the community and workplace. Young professionals in this group tend to spend money on visible things. The achievers tend to be materialistic. They have above-average education and tend to enjoy physical, social, and intellectual activities. Over 67 % of the U.S. population can be described as outer directed.

Inner-directed people.

This group tend to meet their own goals rather than to do what others expect of them. Money is not the central focus of their lives. But it is seen as wonderfully useful for buying the things they feel are important This group tends to be more concerned with people and the environment and less concerned about financial security. This group makes up over 30 percent of the U.S. population.

Combined inner-and outer-directed people.

This group are seen as being able to find reasonable solutions to economic and social problems. They are likely to reach a comfortable balance between financial achievement and personal happiness and well-being. This group is estimated to be only 2 percent of the U.S. population. It is expected to grow and play a greater part in leadership roles in the future.

VALUES TO CONSIDER WHEN CHOOSING A LIFESTYLE

It is good to dream about how you would like to live in the future. Your dreams help you to set goals and achieve them. When choosing a lifestyle, you must consider your future earning capacity. You should also think about achieving a balanced way of life that satisfies your personal values.

Future Earning Capacity

Your future earning capacity is the salary or wages you can expect to earn during your working life. Your earning capacity will play a large role in your lifestyle. It is not realistic to expect a large income and costly lifestyle if you are not educated or trained for a high-paying job, or to run a business. With the proper career preparation and a realistic image of the lifestyle you want, you are more likely to achieve your goals. Determination and effort can help you get to where you want to be. God says that you can do all things when relying upon Him, Philippians 4:13.

A Balanced Way of Life

Five values which are believed to be central to a balanced way of life are:

1. Material simplicity.

Skills in our daily life are becoming complex. Consumers are searching for ways to simplify daily living. Material simplicity is freedom from unnecessary possessions.

The material aspects of life require a conscious effort to reduce possessions that are not essential. Some may ask if a certain purchase is really necessary or desirable. It is possible to increase the quality of life by simplifying our lives. A symptom of a material life-style is the “storage-building” phenomena of the 1990’s.

2. Human scale.

Human scale is the idea that 'bigger is not always better," that sometimes "small is beautiful." These people are more likely to purchase a smaller car over a larger one. They can be comfortable in a small, efficient living space rather than a more spacious home. They tend to feel that the large institutions of society-big schools, big government, big labor unions and big business-are somewhat insensitive to human needs. They might prefer to be self-employed or to work for a small company rather than a large corporation.

3. Self-determination.

The value of self-determination is a desire to take charge or control of one's own life, to be less dependent on others. This group likes to be self-sufficient. Financial planning is important to this group. Home gardening, home sewing, and do-it-yourself car repairs are other examples of activities that self-sufficient people are likely to do.

4. Environmental awareness.

Many people are concerned about the impact of their lifestyles on the natural environment. They realize that the quality of their lives is related to the quality of land, air, water, and other natural resources in the environment. They encourage such activities as walking, biking, car pooling, recycling, and maintaining the beauty of the natural environment.

5. Personal growth.

People who value personal growth seek intellectual, physical, and spiritual activities. They take time to listen to music, to talk with friends, to read, to pray, and to think. They seek a balance between work and leisure, and tend to avoid the high-pressure tensions that often accompany strong desire to achieve. Job satisfaction in terms of meaningful work may be valued more highly than job security and high salary.

American consumers have a powerful voice in shaping the quality of their lives, even in times of economic and social change. It is important to have a clear sense of a desired lifestyle, one that is in balance with personal values, career goals, and future earning capacity.

PART IV, CHAPTER 4
MANAGING MONEY

OBTAINING INCOME

Have you often wondered why some people are rich and others are poor? Do you ever wonder where the rich get their money? Or why the poor lack money? Why are there such variations in income?

Some people inherit huge sums or money or valuable property. Some people have money because they stole it, but they will never prosper. A few others win a lottery, but we should never think we can live on it. Most who do so are broke again in just a few months. Most people must work for their income.

Wages are payments made to workers calculated on an hourly rate. Salary is paid to workers calculated on a weekly, monthly, or yearly rate. Wages and salaries make up the bulk of income for most consumers.

Income Level and the Consumer

We learn that the higher our income, the more consumer choices we have. As young people, it is hard to imagine what will be our consumer needs as adults. Many times we underestimate our needs and after some years in the workplace we find that our income does not meet our consumer needs. At this point it may be hard to make major career changes. Plan your education to help you get the job you want to meet the level of your determined income. This is just as important as learning to be a wise consumer. Plan ahead.

Choosing a Career

The career you choose will be a major part of your life. It will determine your income throughout life and also affect your consumer lifestyle and standard of living. It will affect your quality of life, the happiness and satisfaction you feel in the way you live. A very important decision is choosing the career that is right for you.

Many career choices are available to you. How do you choose between them? The U.S. Department of Labor publishes a resource called Occupational Outlook Handbook which provides employment information. It describes different types of jobs and job fields. It lists the education or training needed for different jobs and what jobs are expected to be available.

There are many other sources available for job information that can help you. (family and friends) Reading newspaper "help wanted" ads is another way to learn about different jobs and careers. Above all, pray and ask God what it is He wants you to work at, for He is interested in every aspect of our lives.

Here are some questions you should ask yourself a job sounds interesting to you.

1. What education is needed for this job?
2. Are jobs in the field likely to be available throughout my lifetime?
3. Are career advancements possible in this job field?
4. With the proper training, could I do the job? Are my interests and basic talents suited to the general field of work?
5. Will the pay meet my consumer needs?
6. Would I be happy in this type of work? Would I find it interesting and challenging over a long period of time?
7. What gifts and talents has God given me? What desires are in me? These are indicators of what I would be good at in my work life.

Planning your education is a major key to getting the job you want. Your level of education will affect your level of pay. People who drop out of school usually earn less than high school graduates. People with college degrees usually earn more than high school graduates.

FACTORS THAT AFFECT INCOME

All the jobs offered by employers and all the workers who fill the jobs-or could fill the jobs-make up a huge job market.

The economic principle of supply and demand and competition for goods and services also apply in the job market. Other factors that affect income include labor unions, employer salary policies, non-wage income, and minimum wage laws.

Supply and Demand

Supply and demand affect the pay a worker receives. When only a few workers can do a certain job and many employers need such workers, employers compete for the few workers available. The wages paid to such workers are likely to be high, because their skills are in demand.

On the other hand, if many workers can do a certain job but fewer of those jobs are available, the workers compete for the limited number of jobs. Wages paid for these jobs are likely to be low.

The law of supply and demand also influences factors such as working conditions and job security.

Employer Competition

Sellers of goods and services compete in the marketplace, and competition affects prices. Competition also exists between employers for workers. The competition can take many forms.

Consider a case where you have a choice of working at one of the two supermarkets in your community. Market A is clean, attractive, and convenient to public transportation. Market A also offers good fringe benefits, such as paid vacations and health insurance. Market B is not as pleasant as Market A. Market B is dirty. It is cold in the winter and hot in the summer. It cannot be reached by public transportation, and it offers poor hinge benefits.

Would you choose to work in Market A or Market B? If each store paid the same wages, you would probably first seek a job at Market A. You would prefer it because of its good working conditions. Because it has more to offer workers, Market A would have a competitive advantage over Market B. Market B would be at a competitive disadvantage because it has less to offer.

Fringe Benefits

1. Paid sick days
2. Fully or partially paid medical and dental insurance
3. Merchandise discounts
4. Tuition assistance
5. Company subsidized cafeteria

When considering a job you should evaluate each benefit. For example, the benefit of merchandise discounts is likely to be of more value if you work at a department store than at a tombstone distribution.

Minimum-wage Laws

Wages are largely determined by supply and demand. The supply of workers is so great that the wages employers are willing to pay may be very low. Workers may not be able to earn a "living wage". Because of this the federal government and some states have passed minimum-wage laws. The laws require that employers pay no less than a minimum hourly wage (near $8.00 per hour today).

This hourly rate changes from time to time. The laws allow certain workers, such as trainees or apprentices, to be paid less. Still, the laws provide valuable protection for workers.

RETIREMENT INCOME

Young people often dismiss thoughts of retirement because they consider it something to think about later in life. Retirement requires some early planning and periodic review.

Planning for retirement requires an awareness of budgeting, savings, investments and insurance. The changing provisions of the Social Security and Medicare programs also affect retirement planning. There is not better time to start saving than to do so today. Nothing outstrips the power of compounding of money saved that pays interest. Many retirees today are extremely happy with the fact that they started saving for retirement early on in their work life.

Retirement Income from Employment

People who retire should consider the possibility of employment income after they retire. There are many factors to consider before holding down a part-time job. The job needs to suit the individual’s skills and physical abilities. Also some private pension plans and the Social Security system apply restrictions to a retired person's employment income. Earnings may only reach a certain level before the amount of pension or Social Security payments are reduced.

Pension Plans

A pension is a series of payments made to a retired worker. At one time only workers who had pension plans were railroad and government workers. Now, many workers in all kinds of jobs can look forward to a pension when they retire.

There are many different kinds of pension plans Some plans have employeer make periodic contributions. Others are funded entirely by employees. There are different requirements for length of employment before receiving a pension and also different ways to determine the amount of pension payments.

Individuals should compare the features of the plans offered by different employers and the values of different plans when choosing a place to work. Employees should also evaluate the security of different plans. The Employer Retirement Income Security Act of 1974 is a law which regulates pension plans. But it is the employer's responsibility to choose the most secure and suitable plan possible.

Individual Retirement Plans

Special savings plans such as Individual Retirement Account (IRA's) help people plan for their retirement. IRA's allow individuals to make periodic savings deposits. Roth IRA’s are post-tax, but are not taxed on their gains, while the typical IRA is pre-tax, and is taxed as the money is taken out after retirement.

Money deposited in these special accounts can usually deduct them from their annual income for tax purposes. This gives the double bonus of saving money plus reducing taxes. The earnings of these accounts are not taxed until they are withdrawn in retirement.

The government has encouraged these types of retirement plans so people will not rely entirely on pension plans and Social Security for retirement income.

Savings and Investments

Earnings on savings and investments can be an important source of income for retired people. In fact, savings and investments can be an important part of a consumer's overall money management plan throughout life.

Social Security System

During your working life you will contribute a percentage of your income to the federal Social Security system. Your record of payments to this system is kept under your Social Security number. Social Security payments are available to retired people as a source of income.

PUBLIC AND CHARITABLE ASSISTANCE

People in the United States are protected from starvation and the total lack of medical attention that can be found in some other countries. Society provides the basic necessities of life for the less fortunate.

Public and charitable aid is not a substitute for holding a job, but is meant to be temporary. They are meant to help people who lose a job or suffer a disability and cannot work. This aid usually provides only the bare essentials of life.

Public Assistance

Public assistance is made through the taxes we pay and is provided through the government. A form of assistance is unemployment benefits. These direct payments are made by states to people who have lost a job and vary from state to state. However, all states provide money payments and aid in finding a job. Counseling or retraining is also available in some states.

Some people may not be eligible for unemployment benefits while others may have used up all their benefits. If people cannot find a job they may receive welfare payments. Welfare payments are made to help provide the necessities of life. Food stamps are available to low income citizens, sometimes in a paper form and in other states as a plastic "credit-card" type method of receiving the welfare payment.

Other services are provided to help needy people stretch a low income. Medical and dental clinics provide free or low cost services in most areas. The national Medicaid system may also pay for health services for low-income people.

Charitable Assistance

Charitable assistance may take the form of free or low priced food, clothing, shelter and furniture. A primary purpose of many religions and civic groups is to help people in need. The organizations can help needy consumers stretch limited dollars.

A PLAN FOR YOUR MONEY
CHAPTER 5

It is not only important to obtain income but also how to manage it well. You may find people with an average income to seem financially comfortable. But you also may find people who are rich by most standards finding it hard to get by. The difference between these two types of people is how they manage their income.

Money management is a plan for controlling and spending income. Money management requires the personal application of some of the economic principles introduced in Chapter 2. For example, consumers have limited income. This resource is scarce. Income spent on one thing cannot be spent on other things. This is the opportunity cost. Consumer decisions involve trade-offs.

BUDGETING

A budget is an estimate of expected income, expense, and savings. It is a tool to help you reach your financial goals. Following a budget is a key to good money management.

The budget prepared by the federal government each year is the largest and most complicated budget. Business, state and local governments prepare budgets. Individuals and families should also

Some people do not prepare budgets because they think budgeting is just record keeping. They think budgeting only involves juggling numbers and balancing books. Actually, record keeping is a small part of budgeting. Depending on the system used, it can be a very minor part.

Budgeting is really money management. When you prepare and follow a budget you control better how you use your income.

A budget should not be viewed as a chore It should be seen as a way to control spending. Through a budget you can use your limited resources for what you will really enjoy.

Set Goals

You should set goals and priorities before you prepare a budget. Few people can afford to waste income If you set goals for spending your income, your money will be less likely to slip through your fingers.

Estimated Income

To prepare a budget, you need to estimate your income for the time period of the budget. Estimate income from all sources, but only include those amounts that you are sure you will receive. A family might have income from regular and part-time employment, interest on a savings account, stock dividends, and gifts. A student might have income from part-time employment and an allowance.

Some people have a regular income that does not change much from year to year. They may have occasional wage or salary increases, but even the changes can be estimated. Other people have incomes that are very unpredictable. A salesperson who is paid only a commission on sales might find it hard to estimate future income. But even a realistic guess is better than no estimate at all.

Estimate Expenses and Savings

The next step in budgeting is to estimate expenses. This is the part many people have trouble with. It helps to separate the regular expenses from the ones which change from month to month. Regular expenses are called fixed expenses. These expenses include things like rent or mortgage payments, installment and loan payments and insurance.

Although a regular savings account is not an expense, many people have a savings goal as a fixed expense. Some people have their employers deduct regular amounts from their paychecks for savings account deposits. Also Christmas club savings can be deducted also.

Expenses whose amounts are likely to change from month to month are called variable expenses. These include items such as food, clothing, transportation, health care, and entertainment. Even these variable expenses can be estimated to an approximate amount.

A budget that is balanced means the expenses and savings are equal to the income. Remember a budget is only a plan for estimating income and spending. Adjustments may be made within the budget. One purpose of the budget is to see that spending does not exceed income. The more realistic your budget is, the better you will be able to follow it. Self-discipline is also required to follow it and make it work for you.

BUDGET RECORD KEEPING SYSTEMS

What system should you use to set up your budget? The important part of budgeting is to set goals and estimate income expenses The system you use should allow you to achieve this purpose.

Most people outline their budget on a sheet of paper. This process allows people to visualize income and spending. To put this budget to work, some financial records must be kept.

The envelope system is useful for record keeping when incomes are small. In this system, an envelope is labeled for each type of expense. The budgeted amount of money is placed in each envelope at the beginning of the period. When the money is needed for the budgeted items, the cash is taken out of the proper envelope. Each time money is added to or taken from an envelope, the date, amount, and purpose is written on a piece of paper left in the envelope. At the end of the period, the papers from all the envelopes are reviewed. The amounts are totaled and compared to the budgeted estimates. Of course, money kept in envelopes will not earn interest, as it could in a bank.

Other people use a more formal system that involves record booklets. Entries are made in the booklet columns for each type of income and expense. This system is useful for people who pay most of their bills by check. Record booklets are available in many stationery stores. Some people even make their own record booklets from a notebook. This allows for a more personalized system than is provided by store-bought booklets.

Whatever record-keeping system you choose, it must allow you to evaluate your budget with ease. Keeping records is not the purpose of budgeting. A budget is only a tool to help you read your financial goals.

FINANCIAL SERVICES FOR CONSUMERS
CHAPTER 6

A bank is a type of financial institution. In the past, bank services were limited to checking accounts, savings accounts and loans. Today, banks and other financial institutions are more like supermarkets. They offer a great variety of service.

Until recently, there were different types of financial institutions for different needs. There were commercial banks, savings-and-loans associations, and mutual savings banks. These institutions are no longer so important or clear cut.

Some of the most important services that banks offer consumers are:

1. Loan money
2. Maintain savings accounts
3. Provide a safe place to keep money
4. Issue credit cards
5. Rent safe-deposit boxes
6. Sell traveler's checks
7. Provide checking accounts
8. Debit cards

In some small communities banks also provide services of accepting utility and phone bill payments. They also accept property tax payments as a convenience for their customers.

Banking Vocabulary

The following basic terms will help your understanding of consumer banking.

Balance -The amount of money in a bank account at a given time.
Deposit- Money placed into a bank account.
Interest- Payment for the use of money; usually expressed as an annual percentage rate, such as 13.5 percent.
Withdrawal- Money removed from a bank account.

Consumer Loans

When you need to borrow money where is the first place you think of? Banks and other financial institutions loan money for purchasing a car, college tuition, home improvements and home mortgages. They also loan money for other reasonable needs.

When applying for a loan the consumer must fill out a detailed application with financial personal information. The information will be checked out by the loan office. The officer may contact the employer to verify that the consumer works for them. The information is needed to make sure the consumer has the financial resources to repay the loan. The loan officer may also contact a credit bureau to find out about the consumer's financial history.

If the loan is granted, it must be repaid at a preset time period. The consumer may repay the loan all at once or over a period of time. The lender will charge interest for the use of the money borrowed. Some loans have a few payments and then a “balloon” payment at the end.

Savings Accounts

A savings account helps you establish the habit of saving money. The money you deposit earns interest. How do you decide which institution to use? One guide is to compare interest rates from different institutions. Another guide is to compare the conveniences offered by different institutions, such as locations and business hours. The amount to open a savings account varies from institution to institution.

To open a savings account a bank employee will ask you to fill out a signature card. This card serves as the basic record for the account. The card will list your name, address and the amount of the initial deposit. The card shows your account number and the type of account.

You will usually be given a savings passbook in which all of your deposits and withdrawals-your account activity-will be noted. To make deposits after the account is open, you must fill out a deposit slip. You fill out a withdrawal slip to take money out of the account. These slips serve as records of your account activity.

Savings account deposits and withdrawals can sometimes be made by mail. Some institutions also allow activity by telephone or computer.

Safe-deposit Boxes

One way people protect jewelry, coins, important documents and other valuables is to rent a safe deposit box at a bank. Two good reasons to use a safe-deposit box are:

1. Valuables put into the box cannot be stolen.
2. Valuables put into the box are safe from fire or natural disaster. Several sizes of safe-deposit boxes are available. The yearly cost is usually small.

Bank Credit Cards

Two major credit cards are issued by banks. The credit cards are VISA and Master Card. These cards may be used almost anywhere in the world. We will explain the use of credit cards in Chapter 7.

Traveler's Checks

Traveler's checks are like cash in one way. They are accepted for a payment almost everywhere. Traveler's checks are much safer than cash because if they are lost or stolen the company that issued the checks will replace them.

A number of companies issue traveler's checks and are usually purchased at financial institutions. They can be purchased in various amounts. The fee for this service is usually a small percentage (such as 1/4th %) of the amount purchased.

When you buy traveler's checks you should immediately sign your name on the top of the check. To cash a check, write in the date, the city or town, and the name of the person or business cashing the check. Then sign your name again on another line provided at the bottom of the check. The person cashing the check will compare the two signatures to make sure they match, and may ask for a form of identification such as a driver's license. The two signatures are needed to make sure the right person is cashing the check. This protection is another reason traveler's checks can be useful.

When you buy traveler's checks, you are given a form to record the official number of each check. This form should be carried in a place separate from the checks. If they are lost or stolen, you must provide the check numbers listed on the form to the issuing company in order to receive replacement checks.

CHECKING ACCOUNTS

A big majority of financial transactions in this country involve checks. A check is a written order for payment. Checks provide a record of a transaction and are much safer than using cash. However, debit cards and digital forms of banking are gaining fast in paying bills.

Different banks offer different types of checking accounts. It is best to find out what types are offered when choosing among different banks. Some banks require a certain amount of money to open the account (example - $100). Some banks offer a service of no service charge if you keep a minimum balance (example $300). If your balance gets below the minimum balance then the bank would charge an amount per check written, such as 20 cents per check. Another way banks charge a service fee is a flat rate per month, as in a $6.00 charge each month. Other checking accounts called NOW accounts pay interest, such as 5-1/2% on the account. NOW accounts normally require a certain minimum balance. Opening a checking account is much like opening a savings account. You fill out a signature card and make an initial deposit. The bank will give you a small supply of blank checks. Any further checks you may need must be purchased. These checks are bound with check stubs or a check register, which are forms for record keeping. The checkbook will also include deposit slips. Your check stubs or register is used as your record of the checking account activity.

Signature Card

Before you fill out your signature card you need to decide what your official signature will be. That signature must be the only one used on the checks. Employees will compare the signature from the check with the signature card.

If two people open a joint account, both must sign the signature card. It may not be necessary for both people to sign each check. Many married people choose to use joint checking accounts. Some business and churches require two signatures on a check for security reasons.

Writing Checks

Writing checks involves two procedures. The first is filling out the check stub or register. The second procedure is actually writing the check.

It is important to fill out the check register or stub first, because you might forget to do it later. If this happened, you could easily lose track of how much money you had in the account. This might cause you to bounce a check-write a check for money you do not have in the account. Your account would be overdrawn (there would not be enough money in the account to pay the check). In such a case, the bank may refuse to pay the amount of the check to the payee. This could be very embarrassing. It can also be costly, since most banks charge $15 to $20 for insufficient fund checks- also known as bounced, or overdrawn checks. Too, the retailer will likely charge a person a fee of $20-$30 when they pick up the insufficient funded check.

To write a check, follow this procedure:

1. Date the check
2. Write in the name of the payee.
3. Write in the amount of the check in numbers next to the dollar sign.
4. Write in the dollar amount of the check in words, and write the cents as a fraction. Start writing the amount far to the left so that no one can write anything else to change the amount. Fill in the remaining blank space with a line.
5. Write in the purpose of the check.
6. Sign your name exactly as you signed it on the signature card. Always use permanent ink to write your check. Never use pencil or erasable ink.

Making Deposits

You must fill out a deposit slip each time you make a deposit in your account. First note the deposit in the check register or stub. Then fill out the deposit slip.

When you deposit checks in your account you must endorse them. You may deposit checks by mail, by night depository or machine, or in person at the bank. Cash should only be deposited in person at the bank.

Endorsing Checks

You must endorse a check when you cash it or deposit it in your account. An endorsement is a signature on the back of the check. This verifies ownership or transfer of the check.

To endorse a check paid to you, write your name on the back exactly as it is written on the front. If your name is written wrong or misspelled, you must endorse your name as it is written. Below that endorsement, write your name correctly, as shown on your signature card.

What would happen if you lost a check made out to you after you endorsed it with no special restriction? The law considers such check a “bearer check”. This means anyone can cash it. Be careful about how and when you endorse a check.

It is best to use a restriction endorsement when depositing a check by mail. This kind of endorsement limits the use of the check to the purpose stated. To make a restricted endorsement, first sign your name on the back of the check. Next, make the restriction in writing. An example of a restriction may read ”For deposit only”. Restricted endorsements protect you in case the check is lost or stolen.

The Monthly Statement

The bank will send you a periodic report of the activity in your checking account. The report is usually made monthly and is called the statement. The statement is sent with your canceled checks that have been paid. The statement lists checks paid, any service-charge deductions or interest payments, deposits and account balance. There are several reasons why your monthly statement may not agree with your bank register or stubs.

1. Some of the checks you wrote may not have been paid by the time the statement was prepared. These checks are known as “outstanding checks”. They have not yet been deducted from the balance shown on the statement.
2. Some of the deposits you made may not have been received by the institution before the statement was prepared.
3. An error may have been made by you or the bank.

What if the statement does not agree with your records? You must reconcile the statement, or try to make it agree with your records. Most banks provide a reconciliation form on the reverse side of the statement for the depositor's use.

The process is simple. First subtract the amount of the outstanding checks from the statement balance. Next add any deposits made that were not recorded on the statement. Compare the new balance with your checkbook balance. If the institution deducted any service charges or added interest payments to your account, you might not have noted these amounts in your check register or stub. Add or subtract the amounts from your balance.

Your statement balance should now match the balance in your check register or stubs. If your account is still not reconciled, report the problem right away. The institution will compare your account records (such as deposit slip receipts, canceled checks, and check register or stubs) with its records. An error may have been made by you or the institution.

COMPUTERS IN FINANCIAL SERVICES

Financial institutions use computers in a number of ways. Computers reduce costs and improve the services provided. Computers enable banks to move money from one account to another without the paperwork that was once necessary. This computerized transfer of money is known as electronic funds transfer (EFT).

The use of EFT has given consumers a variety of services that would be nearly impossible without it:

Through EFT, employers can deposit employees' pay directly to their accounts. They do not have to issue a paycheck. This can be a real convenience to employees.

Automatic-teller machines have been installed outside many institutions and at other convenient locations, such as shopping centers. These machines allow consumers to make deposits, withdrawals, and transfers of money from one account to another. These transactions can be made at any time of the day or night.

The financial institution can automatically pay certain bills through a consumer's account. The account owner does not have to write checks for these bills. This saves time and postage, and avoids the possibility of making late payments.

Some institutions have installed computer terminals in retail stores so that a merchant can verify that a consumer who wishes to pay by check has money in the account to pay the check. Usually these terminals indicate that the retailer will draft your account and receive the payment immediately into their bank account.

CONSUMER CREDIT
CHAPTER 7

WHAT IS CONSUMER CREDIT?

Credit is a form of financial trust. A seller or lender trusts the borrower to pay later for goods or services received now. Credit is based on the borrower's promise to pay at some future time.

Borrowing money requires a contract or agreement and is actually a Covenant. God says He will not break Covenant, and He does not like Covenant breakers (Ps.89:34; Ezekiel 16:8, 59). Borrowing money is not a sin, but it is not wise if avoidable, for the borrower becomes the slave of the lender (Pr.22:7). God expects us to keep Covenant (our word to pay).

Sometimes the amount of money borrowed on credit is small and the length of time to repay is short. If the amount of money is large it may take years to repay. The large amount of money could be for a car, house or new furniture.

Whether the amount is large or small, the use of credit is an important part of a consumer's life. To use credit wisely, the consumer must be aware of its advantages and disadvantages.

ADVANTAGES OF CREDIT

Millions of people and thousands of businesses use credit every day. What are some of the reasons for the popularity of credit? What are some of the advantages of using credit?

Credit Lets You Use Purchases Immediately

It might take years to save enough money to buy a major consumer product, such as a car. While you would be saving for a car you would not be able to use it to drive. If you could depend on public transportation this would not be a problem. if you really do not need the car, it might be better to save the money. Your savings would earn interest, and the money would provide you with some financial security.

What if you could not rely on public transportation? Or what if you need a car to do your job? In these cases, using credit to buy a car would be a real advantage. If you needed the car for your job, using credit would be a financial advantage. This is because you might not have the income without the car.

Credit Can Force "Savings"

Some people lack the self-discipline to save money regularly. They let their money slip away on small, unplanned purchases. Buying on credit is not the same as savings. However, it can have a similar effect. Buying on credit forces a consumer to save money to make regular payments. This is actually keeping covenant.

Credit Can Be Convenient

Consumers using credit cards do not have to carry as much cash. It also lowers the risk of cash being lost or stolen. By having credit the consumer can save money on items on sale. By the time a consumer would save money to pay cash, a sale would be over. Consumers can take advantage of lower prices by using credit. Also, having a credit account with a store makes it easy to use the telephone or mail to buy.

Credit May Give Status

Some consumers think they are treated better in stores where they have credit accounts. A consumer who buys on credit might be reviewed by the seller as a regular customer. A consumer who pays cash might never come into the store again. It is also possible that consumers buying on credit might find it easier to return purchases. In these ways, credit may give status to the customer. However, it is doubtful that all stores treat credit customers better. Most salespersons do not know if the customer will pay cash or use credit until the end of the sales transaction.

DISADVANTAGES OF CREDIT

For most arguments in favor of using credit, there are equally strong reasons for not using it. Consumers should also consider the disadvantages of using credit.

Credit Can Lead to Unwise Buying

People tend to buy more when they use credit. They also tend to buy higher priced merchandise. Even though the bills for credit purchases must be paid eventually, some consumers buy on credit as if there is no tomorrow. It is not the same feeling to hand a salesperson a plastic card as to part with cash. Thus, credit tends to encourage impulse buying. Some consumers lose control of their spending when they use credit.

Studies have shown that there is a psychological “pain” when we remove cash from our billfold to pay a bill, but not the same kind of “pain” when we use a credit card to make the same purchase. So, it is critical to discipline ourselves in the use of a credit card, lest we overbuy and be not able to repay.

Consumers often must choose between different sellers. If one seller offers credit and one does not, some consumers will buy from the seller who gives credit. In order to use credit, the consumer may even pay a higher price.

Using Credit Costs Money

Credit is a financial service. It costs money to provide the service. Who pays? The consumer does. In most cases, the costs of credit are clearly stated as interest or as a finance charge (a fee for using credit). The credit user must pay the interest or finance charge. These charges for using credit can add a great deal to the cost of an item. Some sellers do not charge directly for the use of credit. This is true in the case of charge accounts which must be paid in full within a month. There is not a direct charge for this credit. But the seller must recover the costs of offering credit. It is likely that the seller will charge higher prices for the merchandise.

Balance the Advantages and Disadvantages

The wise consumer considers both the advantages and disadvantages of using credit. Sometimes credit can be a real help to a consumer. Other credit purchases, though, are not necessary. Using credit too often can create financial problems. Buying too much (over spending) on credit can cause a person to suffer great financial strain when the bills come due.

WHO RECEIVES CREDIT?

Credit is based on the borrower's promise to pay later (keep covenant). You may know people who have good intentions but rarely keep their promises. God hates the breaking of a covenant. A lender or seller must decide whether a person's promise to pay later can be relied upon. A lender or seller considers three things: character, capacity, and capital. These are known as the three C's of credit.

Character

When deciding whether to give credit, a lender or seller will evaluate the consumer's financial character. A lender or seller will look for a record of other loans and credit accounts. If the consumer has never had credit, the lender or seller will ask other people or businesses for their opinion. There is available a free credit report by each of the three companies who supply credit reports, once a year. It is wise to know your credit rating.

Capacity

A person who borrows money or buys on credit must be able to repay. Capacity refers to a person's ability to keep the promise to repay. If a consumer has no job and no hope of getting one, it could be said that he or she lacks the capacity to pay a debt. The person would also lack capacity if he or she has many other debts to repay. Even consumers with large incomes can lack the capacity to pay if they have used too much credit because a large proportion of their incomes must be used to pay off credit debts.

Capital

The term capital, in the three C's of credit, refers to a person's wealth. You may think that if people have wealth, they have no need for credit. But in the world of credit, the term wealth does not mean only cash to spend. It also means one's possessions. If someone owns a car and house, he or she is considered to have wealth. A lender will view a person's wealth as evidence that he or she has the ability to manage money. Also, if the lender is not paid, the wealth of the borrower may legally be taken by the lender to pay the debt.

CREDIT RECORD

It is important for lenders and sellers to know a borrower's background. It would be inconvenient and take to much time for each lender and seller to require each borrower to prove the three C's. Fewer loans could be made and little credit would be extended.

To solve this problem, a system has been developed to gather and store financial information about individuals. The organization that gathers and stores the information are called credit bureaus. The financial information about an individual is called a credit record. Credit records are made available by credit bureaus to qualified lenders and sellers.

A person's credit record begins with the first application for credit. How the person uses credit and pays off the loans is recorded. Credit records are kept for many years. Therefore, the wise consumer must use credit carefully. A bad credit record is a financial mark against a consumer. If a person has gone through bankruptcy, they will have a very bad credit score and cannot borrow money when they need to.

KINDS OF CREDIT

Different kinds of credit, such as cash loans, retail credit, and travel and entertainment credit, may offer a combination of the two. Installment credit requires periodic payments (usually every month). Non-installment credit requires that the amount owed be paid in full at the end of the month or billing period.

Cash Loans

Some sellers, such as painters or mechanics, are not able or willing to give credit. They would probably want to be paid in cash. In these cases, the consumer might borrow cash from a lender. Cash loans can be repaid in one payment or in installments.

Retail Credit

Many firms, including department stores, medical offices and oil companies, offer charge accounts (credit accounts) to regular customers. They offer retail credit as a convenience to their customers. The retail (business) credit may be available in the form of open charge accounts or revolving charge accounts.

In an open charge account, the customer is allowed to make purchases on credit during the "open" period. At the end of the open period (usually a month), the consumer is expected to pay the bill in full. If the full amount is not paid within a certain period of time, the balance due is charged on the next bill. Interest or finance charges most likely will be applied.

A revolving charge account is a combination of open account, non-installment credit, and installment credit. A consumer with this type of account can charge amounts up to a specified limit. The consumer can pay the entire bill within a certain time. Or the consumer can pay only a part of the amount due. The unpaid amount is carried over, or “revolved” to the next month's bill. An interest or finance charge is made on the unpaid amount.

Many charge account holders are given a plastic card to be used as identification. The card may speed up the sales transaction. Charge cards from a department store can be used at all branches of the store. Oil company charge cards can be used at any service station operated by that company.

Travel and Entertainment Cards

Travel and entertainment cards are widely used by business people and are a popular type of credit account. The cards are issued by several companies for a small yearly fee, such as $20.00. They can be used at many stores, hotels, restaurants, airlines, and railroads. They are non-installment credit cards and the bill must be paid in full each month A reminder is sent to the account holder if the bill is not paid within a certain time.

The bill is carried over to the next month, but no finance charge is made on the unpaid balance Carte Blanche, American Express, and Diner's Club are three types of travel and entertainment cards.

Bank Credit Cards

Bank credit cards, VISA and MasterCard, are issued to qualified people by banks. Bank cards differ from travel and entertainment cards in one important way they offer revolving credit. A card holder can charge purchases up to a specified limit. When the monthly bill is received, the entire balance may be paid, or only a portion. The unpaid amount is carried over to the next month. Interest charges may be high, even up to 30% in some cases, per year, in some states. In addition, some banks charge an annual fee. Bank credit cards can be used in many stores, restaurants, hotels, airlines, and other places.

SOURCES OF CREDIT

There was a time when just a few kinds of credit were available, such as home mortgages and car loans. A small number of consumers had charge accounts at department stores. Consumers are now bombarded with offers of credit. Credit appeals are heard everywhere. “No money down," "Many months to pay," and "Easy terms" are appeals we have all heard.

Many sources of credit are not the same. Some have higher interest or finance rates. Some offer advantages that others do not.

Banks and Other Financial Institutions

Banks and other financial institutions, such as savings-and-loan associations, may lend money for many consumer purposes. A consumer may take out a loan for a car purchase, home mortgage, home improvements, and college expenses. Loans are also available for other worthwhile consumer needs. Consumers can shop around at different institutions to find the best interest rates possible.

Finance Companies

Finance companies are financial organizations that lend money to consumers for a variety of purposes. These lenders usually concentrate on car loans and other small loans. Finance companies will often loan money to people who cannot meet the requirements of other lenders. They usually charge higher interest rates than do other lenders.

Pay-Day Loans

Another recent phenomena is the pay-day loan company. These usually small companies will loan you a specific amount of money, usually less than the anticipated pay check you might have coming, for a short period of time, usually a month or two. These loan companies charge very high interest rates, from 25% and up.

Credit Unions

Credit unions are organized by groups of people who have a common interest. The people may be employees of a company or members of a lodge, church, or union. Credit unions serve some of the financial needs of their members. They maintain savings accounts and make small loans. Often, loan payments can be deducted directly from paychecks. Credit unions frequently charge lower interest rates for loans than do other loan sources.

INVESTMENTS
CHAPTER 8

To invest money means to use it to make a profit. Many consumers invest their money by buying securities. Securities include stocks and bonds. The people who purchase securities are called investors.

Many consumers choose not to buy securities. Investing can be risky. The risk is that money may be lost. Investments are not insured like savings accounts. Securities can and sometimes do decline in price. This makes the value of an investment decrease. But nearly 30 million people in the Unites States do invest in securities.

STOCKS AND BONDS

Corporations need money to start and continue operations. They obtain money through normal business activities. They also obtain money by selling stocks and bonds. Buying corporate stocks and bonds is a common consumer activity.

Stocks

Investors can buy two types of stocks. Both represent an ownership interest in a company. These types are common stock and preferred stock.

With common stock, you become a shareholder and part owner in the company that issues the stock. A share of stock is one of the equal parts into which the ownership of a company is divided. A shareholder (also called a stockholder) is a person who owns one or more shares of stock. The owners of common stock elect a board of directors to manage the company. The board of directors acts as the shareholder's representative.

The board of directors may decide to pay dividends to the shareholders. A dividend is money earned as profits by the company and divided among the shareholders.

An advantage of owning common stock is that you are an owner and thus have a say in how the company is run. Another advantage is that you can vote for the company's officers as well as on other important matters. However, a major disadvantage of owning common stock is that you can lose the full amount of money invested, if that companies stock price goes to zero.

If things go well for the company, the price of the stock may increase. Then the value of your stock investment would then increase. This is one of the main reasons why people buy common stock.

The purchase of preferred stock is a more conservative, or cautious, way to invest. A preferred stock pays a fixed dividend. A fixed dividend does not change if the company improves its earnings. Also, if the company does poorly, the preferred stockholders must receive their dividends before the common stockholders can receive theirs.

Most preferred stocks are less risky than common stock. They are not as likely to increase or decrease in value. A disadvantage is that the preferred stockholder does not usually have voting rights.

Bonds

Some people do not want to take the risk of losing money with common stock. They want an income combined with a high level of safety and invest in bonds. A bond is a certificate representing a loan of money to a corporation or government body. The organization that issues the bond agrees to pay back the money, with interest, within a certain time.

A bond, then, is a debt obligation. When you buy a bond, you lend the organization money for a certain period of time. So that you will lend the money, the organization will pay interest every six months. When the time period is up, you are repaid the money. Thus, you not only get back your investment, but also collect interest during the time you own the bond.

Federal Government Bonds

Bonds are issued by the U.S. government are considered the safest and most secure. No U.S. government-backed bond issue has ever defaulted on the bond amounts or missed an interest payment. (To default means to miss a payment when due.) A number of different bonds are issued by the U.S. government and its agencies or branches. The most well-known type is the Series EE bond.

State and Municipal Bonds

Bonds are also issued by state and local governments. These bonds are sold when, for example, money is needed to build a bridge or public housing. State and municipal bonds have an important advantage over federal government bonds. No federal income taxes are charged on the interest. These bonds are also free of state and local taxes in the state where they are issued. Thus, the investor keeps all the income rather than paying part of it in taxes.

Corporate Bonds

The nation's thousands of business organizations often must raise money for special needs. These needs can include acquiring new office space or introducing a new product line. Companies may issue or sell bonds to raise their money.

HOW TO INVEST

Research Your Investments

Before investing learn as much about the company as possible. Check out their annual report. An annual report describes a company's type of business, where its factories are, and what its markets are. The report lists the sales and earnings for a period of years. It also describes the company's financial condition at the end of the year the report is for. All companies who sell stocks and bonds are required to issue an annual report.

Special magazines and newspapers also provide information about stocks and bonds. The Wall Street Journal is published daily (Monday through Friday). Barron's is published weekly. There are many investment news letters available too and are among the most useful sources of investment information.

The wise investor will also follow the stock market averages. The Dow Jones Industrial Average is the most widely watched stock market average. It measures the performance of 30 of the largest and most well known companies. Other popular stock market averages are issued by the New York Stock Exchange and the American Stock

Exchange. Another is published by Standard and Poor's Corporation. Stock market averages provide useful sources of information for investors.

Investing Principles

Besides doing the basic investment research just described, the investor should follow three major principles:

1. Set investment goals.
2. Diversify investments - Diversify means to invest in a variety of investments, such as different stocks and bonds, real estate, and savings accounts.
3. Review and revise investments. Keep your eye on investments. Read reports to learn how your investment is doing.

INVESTING AS AN INDIVIDUAL

Most people who choose to invest individually open an account with a brokerage house. Stockbrokers, or "registered representatives," are people trained in making investments. Brokers can provide information about many stocks and other investments. They can also give investment suggestions made by the analysts who work for the brokerage house. Too, a person can now invest over the internet, using brokerage houses such as “E-Trade” or “Scottrade.”

The stockholder usually asks the investor about his or her financial situation and goals. The broker needs this information to suggest investments that will help meet the individual's needs.

When you buy or sell through a broker, you must pay a commission, or fee. Many people choose to invest as individuals through a broker. These fees can run as low as $4.00 to $35.00 per trade, depending upon who the broker is and what kind of trade is being made.

GROUP INVESTMENTS

Making investment decisions may be difficult for many people. They do not trust their own judgment. Some people do not have much money to invest or the time to study the stock market. For these people, joining with others is often a good way to invest. Mutual funds and investment clubs involve group investments.

Mutual Funds

A mutual fund is an organization set up like companies that make products. But the fund does not produce consumer goods. Its 'business" is to invest its stockholders' money in the securities of other companies.

The first mutual fund was organized in 1868 in London, England. Its purpose was to provide the small investor with the same advantages available to people who had more money to invest.

An advantage of mutual funds over individual investments is that you do not need a lot of money to buy shares. The initial investment in a mutual fund may be as low as $50 in some cases. You can also invest more money whenever you want.

Managers of mutual funds developed money market funds in the 1970's. Money market funds are very similar to mutual funds, but money market funds concentrate on U.S. government bonds and high-quality loans to businesses.

Money market funds are popular because they provide more earnings than regular savings accounts. Also, the investors' money is usually safer than if it were invested in stocks. Investors in money market funds can get their money back at any time. Many of these funds even allow their stockholders to write checks on the money they have invested.

Investment Club

Some people choose to invest through membership in an investment club. This type of financial group is usually made up of people who share a common interest, for example, same church, sports club, or work together. Most investment clubs meet once a month where they contribute a fixed amount of money. The amount is agreed upon when the club is formed. At the meetings stocks are reported on and discussed, then voted on for purchase.

Membership in an investment club can help you learn about investing. It can also enable you to save money on a regular basis. if the investments you help to choose do well, the money you invest will grow.

OTHER INVESTMENTS

We have discussed stocks, bonds, mutual funds, and investment clubs. Some people choose to invest in real estate, works of art, stamp or coin collection, rare books, antique cars, thoroughbred horses, and in other ways.

Some people invest in certificate of deposit (CDs), which are available through many banks. This kind of investment is a form of bank deposit in which the investor agrees to leave his or her money on deposit for a definite period, such as six months or up to several years. The interest paid is generally higher than that paid for a regular bank savings account. A fee is charged for early withdrawal.

Another popular way to invest is through employee stock purchase plans provided by some employees. A stock purchase plan allows employees to buy shares of common stock in the company that employs them. Sometimes these plans offer reduced prices or no commission fees.

CHAPTER 9
MANAGING CONSUMER RISKS

A risk is the possibility of loss. As individuals and as consumers, we face many risks in daily life. We run the risk of losing a wallet or having our car being stolen. All risks have an element of uncertainty. We do not know for sure that we will lose a wallet. If we knew we would lose it, we would not carry it.

It is impossible to completely remove all risks. But we can take steps to reduce them. We manage the risk of our car being stolen by locking the doors. In this chapter, we discuss the major risks consumers face. We also explain how consumers can use insurance to protect against loss.

MANAGING CONSUMER RISKS

Three steps are involved in managing consumer risks:

1. Identify the risks. Consumers should ask themselves, 'What could happen to cause a loss to me, my family, or my property?"
2. Analyze the risks. Once a risk is identified, consumers should consider how likely a loss is. How costly would it be? What effects would the loss have?
3. Control the risks. After identifying and analyzing risks, consumers should decide what to do about them. Some risks may be avoided completely.

Some people may choose to accept a risk' and do nothing about it. This is known as retaining, or keeping the risk. Retaining a risk should be the result of a decision rather than a failure to identify it. Some risks involve so much money, though, that consumers are not willing to accept them. They choose not to retain the risks. In the case of large risks, such as a house fire or a car accident, consumers often transfer the risk to someone else. Risks that consumers do not want to accept can frequently be transferred to an insurance company.

INSURANCE - A WAY TO MANAGE CONSUMER RISKS

Insurance is a system by which risks of loss are spread among a number of people. Many people who face similar risks, such as car owners, pay a relatively small amount of money, called a premium, to an insurance company. The insurance company, in turn, issues a legal contract, called a policy, to the consumer. The consumer is called the policyholder.

The insurance company agrees to pay a certain amount of money, or to perform certain services, if the policyholder suffers losses covered by the policy. Insurance policies are issued that protect consumers from many different risks, such as accidents, fire, and theft. Insurance is valuable protection for consumers.

CATEGORIES OF RISKS

There are four categories or risks faced by most consumers:

1. Loss to property, including the loss of use of property, such as a damaged car.
2. Liability losses that can occur when you are found to be responsible for losses suffered by someone else.
3. Loss of income that can occur when a person unexpectedly dies or becomes disabled.
4. Unexpected or major expenses, such as large medical or dental expenses.

Risk of Properly Losses

People start to collect property at an early stage. From toys and sports equipment at a young age to things bought with your allowance or money earned as a teen. As an adult you could acquire more property, such as a house, furniture, and car. Most of the property will involve some risk of loss.

People whose homes are damaged by fire often lose the use of the house while it is being repaired to rebuilt. A driver who has been in an accident may lose the use of the car while it is being repaired. These risks of loss of use of property, as well as loss of property, can be covered by insurance.

Risk of Liability Losses

It is easy to imagine the risk of fire damage to a house. It is hard, though, to imagine the risk of being held liable for injury to others. To be liable means to be responsible. (The term liable should not be contused with the term libel, which means to damage a person's good name by writing or speaking untrue statements,)

Most cases of liability are related to car accidents, but many cases involve accidents around the home. Some risks in the home could be:

1. a chair might collapse under a visitor
2. child might drown in a swimming pool
3. someone may fall on a slippery sidewalk
4. pet dog may bit someone making a delivery.

An injured person might sue the homeowner. If the court decided the homeowner is liable for the injuries, the homeowner may have to pay an amount decided by the court.

Consumers who have been found liable for injuries to someone else are often surprised at the large amount they sometimes must pay. Not having enough cash to pay is not an acceptable excuse. The court can take away a person's house, car, and other property. The property may be sold to pay the injured person. If a child is found to be liable, the child's parents may be held responsible.

Many liability lawsuits involve physical injury. Others involve damage to property. Liability insurance is the most important way to protect against risks of liability.

Risk of Loss of Income

The sudden loss of income resulting from the death or disablement of a wage earner can cause financial hardship. Life insurance is intended to protect against the risk of loss of income due to unexpected, early death.

Risk of Unexpected Major Expenses

The most common risk of major expense faced by consumers is the cost of medical and dental services. Even people who lead healthy lives may be hospitalized because of a serious illness or injury.

Hospital, medical, and dental costs are very high, comprising about 17% of the United States economy.. Most consumers cannot afford to pay them on their own. Many employers provide insurance to protect employees against the risk of major medical expenses. Consumers may also buy individual policies if they are not covered through their work. Many common consumer risks can be managed through insurance.

AUTOMOBILE AND PROPERTY INSURANCE
CHAPTER 10

Consumers should practice good risk management to protect themselves, their families, and their property. Insurance is usually a major part of a risk management program. For insurance to be effective, the consumer must know how insurance works, how to buy it, and how to use it.

WHY BUY INSURANCE

Insurance coverage is sometimes required by law. Even if insurance is not required, consumers more often choose to buy insurance to protect themselves. With so many lawsuits and the high medical costs of today, different kinds of insurance are essential for most consumers.

Some states require by law that consumers have insurance. Most states have financial responsibility laws. With these laws if someone causes a car accident and cannot pay the damages, that person's license can be taken away. Financial responsibility laws do not require the consumer to have auto insurance. They do encourage the purchase of insurance. The law makes the consumer responsible for injuries to other people or damage to their property. Other states have laws that require the purchase of certain amounts and kinds of car insurance. Every state has a financial responsibility law or a law requiring car owners to have insurance.

Most consumers cannot pay cash for a home or car. Instead, they borrow part of the purchase price. The law allows the money lender to have an interest in the property. if the borrower does not pay back the loan, the lender can take possession of the property. The property may then be sold to pay off the loan. The lender may require the borrower to have insurance on the property. In this way, the lender will be repaid if the property is damaged or destroyed.

HOW TO BUY INSURANCE

Insurance is sold through agents. Agents are either employees of an insurance company or are independent people working for several insurance companies. Agents can advise about the amount and kind of insurance that is best but the final decision should be made by the consumer.

Consumers should shop around for insurance. Different insurance companies offer a wide range of rates, or prices. By comparing costs, coverages, and services of several companies, a consumer can find the best insurance coverage for the best price.

Applying for Insurance

When meeting with the agent to apply for insurance, the consumer will need to answer questions about their background and insurance needs. It is very important to be truthful in answering the questions. An insurance company may cancel the policy without paying if there are misrepresentations in the application.

An insurance policy is a legal contract between you (the insured) and the insurance company (the insurer). In the policy, both parties agree to do certain things. The consumer makes certain statements, called representation. If the statements are not true, they are called misrepresentations.

An untrue statement might concern an important matter, such as how a car is used or who will drive it. An untrue statement about an important matter is called a material misrepresentation.

Some consumers have made material misrepresentations in order to pay less insurance. They may be in for a surprise when they suffer a loss. When a claim is made for a loss, the insurance company investigates the loss. If a material misrepresentation is found, the policy can be considered void due to the false statement. The consumer, not the insurance company, is then responsible for the loss. This is why it is important to be truthful when applying for insurance.

Choose a Deductible

Some kinds of auto and home insurance are sold with a deductible clause. This means that the insured person agrees to pay, or absorb, a portion of the loss. These deductibles are usually in the amounts of $100, $500, or $1,000.

Deductibles are available in different amounts. The premium, or cost of insurance, is lower for policies with a higher deductible. When you choose a deductible you choose to retain some of the risk.

BUYING AUTOMOBILE INSURANCE

When buying insurance to protect against damages to your car itself, you do not choose a dollar amount of insurance. if there is a loss, the insurer will pay only what the car is worth. But you do choose the dollar amount of insurance to protect against losses you might cause to others (liability). It is important to choose an amount large enough to cover all losses you might cause.

Bodily injury car insurance will pay your liability for injuries you cause to others. The amounts of liability insurance in a policy are expressed as 10/20, 25/50, 100/300, and so on. These figures refer to the maximum amounts, or limits, in thousands of dollars, that the insurer will pay. The higher the limits, the higher the premium for the policy.

Assume that you have 10/20 insurance The first number in the group, 10, refers to the maximum amount the insurer will pay for injuries or death of one person in one accident. With 10/20 insurance, the insurer would pay $10,000 maximum. The second number, 20, refers to the maximum the insurer will pay for all the injuries or death resulting from one accident. With 10/20 insurance, the insurer would pay $20,000 for all the injuries or deaths in one accident. In that case, if 5 people were killed in the accident, only 2 would be paid for up to the maximum of $20,000, and the other 3 would be looking directly to the person who caused the accident.

Another kind of liability insurance pays for damages you cause to property of others. Property damage liability insurance is usually expressed as the third figure in the number group. A complete series might look like this: 10/20/15. The number 15 means that the insurer will pay up to $15,000 for damages you cause to property of others.

AUTOMOBILE INSURANCE RATES

Insurers group people and property into risk classes. In most states, people are grouped according to age, sex, and marital status. Individual records are then taken into consideration. A driver with a record of accidents and speeding tickets will be charged higher rates than a driver who has had no accidents and speeding tickets. A person who is ticketed for a DUI offence will have their insurance premiums raised, if they are able to get their driver’s license back at all.

Younger drivers, especially single males, have more accidents as a group. Also, the accidents they have are more serious. Insurance rates are often highest for this group.

Things that affect insurance rates are:

1. How many miles a car is driven
2. Value of the car
3. Whether the car is used for business or personal reasons
4. If the make or model of the car is expensive to repair
5. Make or model of car is attractive to thieves

Consumers can lower their car insurance rates by qualifying for discounts. Some discounts are given for good driving records, given to people who have passed approved driver education courses. Discounts are often given to a member of a car pool, since the car is driven less.

AUTOMOBILE INSURANCE PROTECTION

Six different kinds of auto insurance are usually combined into a "package policy. These types are:

1. Bodily injury liability
2. Medical payments
3. Uninsured motorist
4. Property damage liability
5. Collision
6. Comprehensive physical damage

It is not necessary by law to buy all six types. Some of these coverages apply only to the insured. Some apply only to other people and their property.

Bodily injury-liability insurance protects you in case you are judged by a court to be responsible for injuries or deaths suffered by others. This insurance covers people in other cars, passengers in your car, and pedestrians.

Medical payments insurance pays the costs of ambulance, hospital, doctors, and other medical expenses up to the policy limits. The advantage of this coverage is that your medical bills are paid right away. You do not have to wait to pay the bills until you can collect from the other driver's insurance.

Uninsured motorist insurance applies only when you are not the cause of an accident. You could be injured by a hit-and-run driver. You could be injured by a driver who has no insurance or money to pay for your injuries. This insurance pays for injuries suffered by you and any passengers in your car.

Property damage liability insurance pays for the damages you cause to someone else's car or property. Most accidents involve another car. But you could be liable for an accident involving property, such as a building or fire hydrant.

Collision insurance pays for damages to your car. The damages may result from collision with another car or with an object such as a tree. It does not pay for injuries to people or damage to property of others. Collision insurance is usually sold with a deductible. It will not pay more than the actual damages or value of the car. Collision insurance usually should not be purchased for car that have low value, because in some cases the cost of the insurance for a year or two might equal the value of the car.

Comprehensive physical damage insurance covers your car for a wide range of losses, except collision. This insurance is often called comprehensive. Comprehensive insurance covers losses caused by fire, theft, vandalism, falling objects, and many other causes. Like collision insurance comprehensive is sold with a deductible.

No-fault insurance

The person who is responsible for an accident can be forced by a court to pay for injuries or deaths suffered by others. Bodily injury liability insurance covers these losses. But the problem with this system is that it may take years to bring the case to court. Meanwhile, the injured person must pay the costs of medical care. Also, the loss of income because of death or injuries can be a serious hardship. To help injured persons avoid the delays of collecting money from someone who was responsible, a number of states have passed laws known as no-fault. These laws provide that a person's own insurance company will pay the medical bills and lost pay of persons injured in an accident, without regard to who caused it.

HOME AND PROPERTY INSURANCE

Most homeowners and many renters buy package insurance policies that protect against many different losses. Losses maybe due to fire, theft, smoke, hurricane, earthquake, and liability for injuries caused to others.

Several package policies are available to consumers. Each homeowner should modify or change their policy to meet their needs. One type of policy is available to the homeowners. A somewhat different policy is available to people who rent houses or apartments. Still another kind of policy is available to people who own condominiums and cooperative apartments.

Consumers must be very careful when choosing the amount of home property insurance. If you buy insurance to cover the price you paid for a house, you are probably buying too much. This is because the price of a house includes the land that would not be lost in case of say, a fire.

The consumer must determine the replacement value of the house, that is, what it would cost to replace the house. The consumer should buy insurance which covers 80 percent of the replacement cost because insurance companies will pay the entire cost of partial losses if the insured person has 80 percent coverage.

Insurance for Personal Property

Consumers who insure their homes sometimes forget to insure their personal property, such as a computer, furniture and jewelry. Homeowners and tenant policies (renter insurance) provide coverage against losses to personal property from such causes as fire and theft. The amount of protection (policy limit) is usually a percentage of the amount of insurance on the house itself. A tenant's policy does not cover the structure of a house or apartment building. But it provides coverage for losses to the personal property of the insured.

Personal Liability Insurance

What would happen if you or a member of your family were held liable for injuring another person? Personal liability insurance can cover these losses. This type of insurance is included in a homeowner's policy.

Consumer Responsibilities

When you buy insurance, you are responsible for certain actions. These responsibilities include:

1. Record keeping
2. Following proper claim procedures
3. Reviewing and revising insurance when needed

In case of a loss, you will have to make a claim to the insurance company. You will need to know what was lost or damaged. The insurance company will require that you provide proof of loss. Therefore, you need to keep records of purchases. You should keep an inventory, or list, of your possessions. Many insurance companies provide special forms for this purpose. It is important to record when and where your property was purchased, and the cost. Some people take several photographs of each room, with closet doors open. Others choose to video tape each room of the house. These can serve as a memory aids if it is necessary to make a claim.

Insurance records, inventories, pictures and videos must be kept in a safe, fireproof place. It is best to keep these important records in a safe-deposit box at a bank.

If you are involved in an accident, write down the names and addresses of people who were also involved or who saw it. File an accident report with the police, and inform the insurance company or agent right away. After an accident or a loss, it may be necessary to take steps to prevent more damage. It is important to follow the instructions of the insurance agent or representative concerning such matters as obtaining estimates of the cost of repair.

The value of property may change with the passage of time. Other circumstances may also require changes in insurance coverage. It is important to review your insurance program on a regular basis. if your insurance needs are no longer met, make suitable changes in your coverage.

LIFE AND HEALTH INSURANCE
CHAPTER 11

HOW LIFE INSURANCE WORKS

Life insurance is a contract between the insured and an insurance company. A crude way of saying this is that “they bet you do not die and you bet you do.” The contract is called a policy. The policyholder (the insured) agrees to pay a certain premium each year. In return, the insurance company agrees to pay a certain amount of money to a person named by the insured, upon the insured person's death. The person (or persons) who will receive the benefits of the policy is called the beneficiary.

The cost of Life Insurance

The cost of life insurance is related directly to the amount of risk. The purpose of life insurance is to protect against the risk of economic loss due to unexpected or early death. The main factors in determining the risk are the policyholder's age, general health, and occupation. The amount of insurance coverage and the type of policy also affect the total cost. Coverage refers to the scope of protection provided by the insurance contract.

There are two general types of life insurance. These are term insurance and whole life insurance. The major features are:

1. Term Insurance
2. Low initial premium
3. Protection for a specific period of time
4. May be renewable and/or converted into whole life without physical examination
5. Premium rises with each new term
6. Builds no cash value

Whole Life Insurance
1. Protection for life
2. Fixed premium for a specific period
3. Growing cash value
4. Higher initial premiums than term insurance
5. Policyholder or beneficiary always receives benefits
6. Available in various forms

TERM INSURANCE

Term insurance provides protection for a specific term, or period of time. A consumer may buy insurance for a term of 5, 10, or 20 years, or to a certain age such as 65. A term policy pays the beneficiary only if the policyholder dies during the period covered by the policy. If the policyholder stops paying premiums, the insurance protection stops.

Term insurance provides the most protection for the premium paid. Premiums increase each time the policy is renewed, since the insured person is getting older. For some consumers, especially young people who are just starting a career, term insurance might be the best choice. Even though premiums increase when the policy is renewed, the higher premium may be paid just as easily because the policyholder's income may be increasing, too.

WHOLE LIFE INSURANCE

Whole life insurance (often called ordinary life or straight life) is harder to understand because it provides certain features not found in term insurance. Whole life insurance is permanent. As long as the insured person pays the premium, which does not increase with age, the insurance protection continues. Also, whole life insurance builds up a cash value which continues to grow with the passing of time.

Cash value is the built-up value of a whole life insurance policy. Whole life insurance builds cash value as a result from the level-premium way of paying for life insurance. “Level-premium” means paying more in the earlier years of the policy than the cost of protection at those ages, and paying less in later years than the cost of protection at the older ages. In other words, the additional money paid by the policyholder in the earlier years helps pay for the greater cost of life insurance protection at the older ages.

The cash value feature is a form of savings. Because of this savings feature, the cost of whole life insurance is higher. Some advantages offered by whole life insurance are:

1. The policyholder can borrow some of the cash value without affecting the face value, or insured amount, of the policy. If the policyholder dies before the loan is repaid, the balance of the loan is deducted from the amount paid to the beneficiary.
2. The build-up value can be used to continue the policy in force if the policyholder looses their job and is unable to pay the premium.
3. The policyholder can cancel the policy and still collect the cash value that has built up.

Life Insurance Policy Variations

Life insurance companies offer many variations and combinations of the feature of term and whole life insurance.

Some policies cover all family members. Other policies offer premium payment plans that require lower premiums in the early years and higher payments as the years pass. Some others offer lower premiums for nonsmokers.

Many life insurance policies offer a number of options that must be considered. Just as a new car can be purchased without accessories, so can life insurance. And just as some buyers choose to buy cars with extra cost options, buyers of insurance may choose from a number of "extras". For example, one option provides that if the policyholder becomes disabled and unable to work, he or she will not have to pay premiums to keep the policy in force.

UNIVERSAL LIFE INSURANCE

For many years, whole life insurance policies provided consumers with a fairly standard return on the savings portion of their policies. Return means the amount earned on money invested, similar to interest earned on a savings account at a bank. In the late 1970's other forms of investments began to pay higher rates of return. Consumers began to borrow the cash value of their life insurance policies. They invested this money in ways that paid higher rates of return. Some consumers even began to resist buying whole life insurance.

Universal life insurance was first introduced in 1978. Universal life offers a higher return on the cash value, and greater flexibility in paying premiums, than do regular whole life policies. The consumer thus not only has life insurance, but also a form of savings that provides higher earning.

BUYING LIFE INSURANCE

The most important step when buying insurance is to decide whether you need life insurance at all. Next select the agent, company, and policy that are best for you.

Deciding Whether You Need Insurance

Insurance is one way to protect against risk or loss. Young people who have no children and live with their parents may decide not to buy life insurance. Older adults with children are more likely to buy life insurance to provide money for the family in case of a wage earner's death.

Protecting against the risks of loss of income is an important step for consumers. Building up savings is also important. Some people believe that term insurance should be purchased for protection, and savings should be a separate matter. Many people lack the self-discipline to make regular deposits in a savings account. For them, whole life insurance might be the answer since it combines insurance protection and savings. They should keep in mind, though, that earnings from insurance are usually low as compared to other types of savings and investments.

Selecting an Agent and Company

Life insurance agents must be licensed to sell insurance in the state in which they operate. To obtain an agent's license a person must pass an examination to prove that he/she has a basic understanding of insurance. The exam, though, cannot determine whether an agent will recommend the policy that is right for you. Usually insurance agents represent only one insurance company but they may represent several companies.

The insurance agent you choose should be competent, knowledgeable and trustworthy. It is the responsibility of the consumer to make the final decisions regarding which policy to buy, and from what company.

Applying for Life Insurance

A person who wishes to purchase life insurance is asked to fill out an application, and may also need to have a physical examination. The application requires information that the company will use to decide whether to issue the policy.

As discussed in Chapter 9 material misrepresentation applies to life insurance also. if a consumer hides important information about such matters as his or her occupation or previous health problems, the insurance company may not pay the benefits if the policyholder dies within two years.

Consumer Responsibilities

The following list of consumer responsibilities notes important points to consider.

1. Determine your insurance needs before making a purchase.
2. Buy from a company licensed in your state.
3. Choose an agent who is competent, knowledgeable, and trustworthy
4. Shop around and compare costs per $1,000 of protection.
5. Buy only the insurance you need and can afford
6. Make truthful statements when applying for insurance.
7. Read your policy and make sure you understand it.
8. Inform beneficiaries about the insurance you have and where the policies are kept.
9. Review your insurance protection periodically, or whenever your situation changes.

HEALTH INSURANCE

The cost of medical care, hospitalization, and lost income resulting from an injury or illness can be a serious financial burden. Consumers buy health insurance to protect against the risk of major medical expenses and loss of income due to health-related problems. Many employers made available various forms of group health insurance, at a low cost to employees, because the employer pays part of the cost as a fringe benefit.

Health insurance is available on three levels: basic, major medical and disability. These types of health insurance along with dental insurance will be discussed in this section.

BASIC MEDICAL EXPENSE INSURANCE

Basic medical expense insurance provides protection for routine medical expenses. It often includes:

Hospital Expense Insurance

Hospital expense insurance pays all or most of a person's hospital costs. This can include the cost of the room, specialized equipment and the services of health-care professionals.

Surgical Expense Insurance

if a policyholder requires surgery, the expense will be paid by surgical expense insurance. Some policies list the kinds of surgery and maximum amounts that will be paid. Others agree to pay reasonable and customary fees.

Regular Medical Expense Insurance

Some medical expenses do not involve surgery or a stay in the hospital. Visits to the doctor's office would not be covered by hospital expense insurance or surgical expense insurance. Regular medical expense insurance pays all or part of the fees for care in the doctor's office or in the policyholder's home. Usually this type of insurance requires what is known as a “co-pay”, which may be $10-$25 and is paid by the policyholder.

MAJOR MEDICAL EXPENSE INSURANCE

Sometimes a person requires very costly medical care, often as a result of a serious or long term illness or injury. Basic medical expense insurance is not intended to cover this type of “catastrophic” expense.

Major medical expense insurance covers this so-called catastrophic medical care. Major medical is intended to take over where other forms of health insurance stop, or it can by itself cover most health expenses since these policies have high maximum benefit limits.

All major medical insurance policies have a deductible, similar to homeowner and automobile insurance policies Having a deductible means that the policyholder is required to pay the first part of the expense.

The policy holder is also required to pay a certain percent of the expense, usually 20 percent of the expense over the deductible amount. This is known as “80/20” insurance.

Example:

Medical expenses less the $100 deductible with 80/20 insurance:

$1,000
<u>100</u>
900
<u>180</u>
720
Less 20% (900x.20)

Paid by insurance

Policyholder's share of expense (280)

DISABILITY INCOME INSURANCE

An injury or illness may prevent a person from working. This can cause a loss of earning. Disability income insurance is intended to help make up for lost earnings. Benefits paid are lower than earnings usually one-half to two-thirds of a person's earned income. Benefits are not usually taxed as much as regular income.

Disability income insurance is often included in health insurance policies. It is a valuable protection against economic loss caused by health related problems.

DENTAL EXPENSE INSURANCE

Dental expense insurance is an increasingly popular form of health insurance. Dental expense insurance pays for needed dental work, such as preventive exams, x-rays, cleaning and fillings. Many plans are available that provide different limits and deductibles.

Like other forms of health insurance, dental expense insurance may be purchased by the consumer from an insurance agent. Many employees now provide dental insurance plans as well.

OBTAINING HEALTH INSURANCE

Many people have health insurance that they did not choose directly. This is because employees and groups such as labor unions often will arrange group health insurance for their employees or members. This insurance is purchased by a group, so the cost for each member is lower than if each person purchased the insurance separately. In most cases, the employer or union may pay part of the cost, but seldom ever all of it.

The employer or union chooses the insurance company and the different types of coverages. These plans may provide excellent savings to the insured. The employee or member is not required to use the group insurance and may buy other health insurance to make up for any lack of coverage.

When choosing a job, you should also check out the different insurance packages the employer offers. When choosing among several jobs you may choose the job with the best insurance program. Health insurance is a VERY valuable fringe benefit of a job.

HEALTH MAINTENANCE ORGANIZATION

Health maintenance organizations (HMOs) have become a significant factor in the health care field. HMOs are medical organizations that provide members with a variety of health-care services. Their main purpose is preventative health-care - keeping people healthy - rather than crisis health-care. However, they can provide full medical care.

HMOs provide a form of health insurance. Members pay a set fee in advance and in return have unlimited use of HMO medical centers for a full range of check-ups and medical services.

TAXES
CHAPTER 12

Taxes have been collected by governments and rulers since ancient times. Most people are familiar with taxes, since taxes are levied, or charged, on the value of many goods and services.

WHY ARE TAXES NECESSARY?

Taxes are the source of income used by government to provide the goods and services individuals cannot or would not provide on their own. The money governments collect through taxes is called revenue.

In the early years of this country, there were no public fire departments. Insurance companies maintained fire brigades to fight fires. However, they would do so only if the property on fire was insured by the company. Public schools did not exist. Children whose parents could afford private schools or tutors received a formal education. Others did not. Today, we look to governments to provide many important goods and services such as consumer publications and public schools. Governments provide these necessary goods and services through tax revenues.

Consider an average day in your life. Think of the many goods and services you use that are provided by local, state, and federal governments. The most obvious examples of the use of our taxes are public schools, including school buses. In many schools, books are also provided without direct cost to the users. School lunches, while not usually free, are partially paid for by government through taxes. Police protection, the military services, and many of the roads and bridges we travel on are other common examples of the goods and services provided by governments.

Through the use of taxes, governments can improve the quality of life for all people in a society. State parks, forests, and wildlife preserves are protected and maintained through public taxes. Taxes are used to provide social services for needy, low-income people. People who are hired by governments to define and establish pollution controls are paid through taxes. All government employees and the people we elect to government positions are also paid through our taxes. Through our actions as citizens, voters, consumers, and taxpayers, we can determine how our taxes can be used wisely.

TYPES OF TAXES

Taxes are classified by different ways. One classification refers to the way taxes are paid: directly and indirectly. Another classification refers to how a tax affects the taxpayer progressive and regressive.

Direct and Indirect Taxes

Certain kinds of taxes are paid directly to a merchant or government. A direct tax is a clearly identified tax not included in the price of goods and services. Many states, for example, levy a state sales tax. Sales tax is paid directly on the value of items purchased, which is currently 6-1/4% in Illinois, though the rates are different in different states.

The sales tax is paid directly to the seller, who is then responsible for sending the sales tax to the state government.

Property taxes are paid directly to a city or county tax collector. State or federal income taxes-taxes on a worker's income-are also paid directly to the government.

Other kinds of taxes are "hidden," or included, in the stated price of an item. These taxes are considered indirect. An indirect state tax of 5 percent per gallon of gasoline, for example, would be included in the stated price per gallon. However, many states compute it simply at a “cents per gallon” rate.

Consumers sometimes pay both direct and indirect taxes on the same item. The price of gasoline, jewelry, or cigarettes, for example, often include an indirect excise tax paid to the state or federal government by the manufacturer. The buyer also pays a direct sales tax, which is sent by the seller to the state government. (An excise tax can be a state or federal tax often applied to luxury goods such as furs, cigarettes, and jewelry.)

Proportional Taxes

A proportional tax is one where the rate of tax is the same for all who are taxed. Consider, for example, a community that charges a property tax of $40 per thousand on the value of a house and lot. A person with a house and lot worth $50,000 would pay a tax of $2,000. A person with a house and lot worth $75,000 would pay $3,000. Thus the tax is in proportion, or directly related, to the value of the taxed property.

On the surface, a proportional tax seems fair, since everyone is taxed at the same rate. However, there are critics of the proportional tax. Critics argue that it is unfair, because the people who are better able to afford higher taxes are not required to pay higher taxes. To understand this concept, think again about the property tax of $40 per thousand we described previously.

Suppose that the person who owns the $50,000 house and pays a tax of $2,000 has a yearly income of $30,000. The tax would be 6.6 percent of his or her income. The person who owns the $75,000 house and pays a tax of $3,000 might have an income of $60,000. This person, by contrast, would pay 5 percent of his or her income. The person with the higher income would actually be paying less tax proportionally than the person with the lower income.

People who do support the proportional tax argue with high incomes should not be penalized by having to pay a higher rate of tax.

Progressive Taxes

Some taxes are charged in such a way as to require people with higher incomes to pay a greater percentage of their incomes in taxes. These taxes are said to be progressive. The federal income tax is progressive, because the rate of tax increases as the amount of income increases.

Regressive Taxes

The opposite of progressive tax is a regressive tax. That is, the tax rate decreases as income increases. This is regarded by many people as clearly unfair. Yet a tax can be regressive in the way it affects people. Many state and city sales taxes are regressive in their effect. This is because lower-income people tend to spend a greater share of their income on clothing, gasoline, and other goods and services that are subject to sales taxes.

To lessen the regressive effect of sales taxes, some states do not apply the tax to certain necessary goods such as food and medicine. Some states charge differing tax rates for differing food-stuffs, such as Kentucky.

TAXES AND CONSUMER DECISIONS

Consumers have little choice about paying taxes. Most states levy a sales tax. In those states, consumers cannot shop around and find a retailer who does not add the sales tax to purchases. The law requires that the taxes be collected. However, through their voting decisions, consumers can influence how much they are taxed and how the taxes are used.

Consumers should know about tax systems, because they influence the way the government collects and uses tax dollars. Not only do consumers affect the economy by the goods and services they buy or do not buy, but they have voting responsibilities as well.

Remember, income taxes are usually progressive, and sales taxes usually regressive. The voters have approved sales tax increases by voting for the politicians who enacted the legislation. The majority of voters, even those who are low-income, approved an increase in sales tax even though it would affect them the most. This suggests that the voters often do not realize the impact of the increased tax on their personal finances.

Consumer decisions are sometimes influenced by taxes. For example, when you are deciding where to live, you may find that one community has higher property and sales taxes than another, even if the two communities are right next to each other. Some states, looking for higher revenues to cover their short-falls, have taxed at much higher rates those considered rich. However, there is a “law of unexpected consequences” that may backfire on the idea. When a tax rate gets higher than a person or group will pay, they may leave that state or community and go where the tax rates are less.

A community with higher taxes may or may not provide better services. A community with lower taxes may or may not provide fewer services. Low taxes in a community might mean that there are fewer school-age children So less money is needed for schools Or it could be that a number of industrial plants are located there that pay taxes and ease the burden for individuals. It might also mean that the local government officials do a good job of managing the money available to the community.

Your choice of where to work could also be influenced by taxes. Suppose you had a choice between two jobs. One job is located in a state which has an income tax, excellent schools, and is considering adding a sales tax. The other job is located just across the border in another state that has no income tax' relatively few good schools, and a sales tax. Are government services in both states likely to be equal?

TAXES YOU MAY PAY

Consumers may pay a number of different taxes. Combined, these taxes can represent a significant portion of income.

Federal Income Tax

The federal income tax is a progressive, direct tax. It is paid to the United States government through the Internal Revenue Service (I.R.S. S.)

One of the first things a new employee is asked to do is to fill out a withholding form (W4). This simple form provides information to the employer for withholding the proper amount of federal income tax from the employee's income. The information provided by the employee concerns such matters as number of dependents and any additional taxes the worker wants withheld.

Students and part time workers who do not expect to earn enough money to be taxed use the W-4 form to indicate that they are "exempt." This means that no tax will be withheld from their earnings and it will not be necessary to file a tax return in order to get a refund.

Unless you declare yourself exempt, taxes will be deducted from each paycheck. At the end of each year, your employer will send you another federal tax form, a W-2 form. The W-2 form is a statement of earnings that shows how much money you earned and how much tax was withheld. If you have several employers in a year you will get a W-2 form from each one. It is important to remember that a copy of each W-2 form must be sent to the I.R.S. with the income tax return you file. If you desire, today we can file both Federal and State Income Tax forms electronically by using tax-payer software.

Shortly after the first of the new year, when you have received all the W-2 forms from all the employers you had, you will file a tax return, or report, with the I.R.S. There are three forms that can be used 104O, 1040A and 104OEZ. Most young taxpayers whose income is primarily from wages, salaries, or tips use the simplest form 1040A or l04OEZ. The longer and more complex form, 1040, is used by taxpayers who may own a home, are married, have interest expenses and other deductions that require the more detailed form.

State and City Income Taxes

Many cities and states also levy an income tax which is similar to the federal tax. Like the federal tax, deductions are usually made from the worker's paycheck. The W-2 form (statement of earnings) will also show the state and city taxes withheld, if applicable. Workers are also required to file a tax return with the appropriate city or state bureau.

Social Security

Social Security means retirement income to many people. To others, it means payment of health care. To still others, it means survivor's benefits. Benefits provided through the Social Security program are made available through workers' and employers' taxes.

Retirement

Social Security provides monthly retirement income to persons who have reached age 62-1/2 and 65-1/2, and who have paid Social Security taxes into the system for the required length of time. The provisions of the system, as well as the ages to qualify for benefits, are changed from time to time and will probably continue to be revised.

Disability Insurance

The Social Security system provides for benefits to be paid to a worker who becomes disabled and is unable to work, and to his or her spouse and children.

Survivor's Benefits

If a worker eligible for Social Security benefits were to die before his or her spouse, the surviving spouse and children would receive benefits as provided by the law.