

Glossary

TERMS LISTED BY CHAPTER

Chapter 1: Introduction to Personal Finance

Asset: anything that is owned by an individual, including money in the bank or investments

Consumer: a person or organization that uses a product or service

Credit: the granting of a loan and the creation of debt; any form of deferred payment

Debt: money owed to another person or company

Expense: the cost of goods or services; money paid out

Financial Literacy: the knowledge and skill base necessary for people to be informed consumers and manage their finances effectively

Financial Plan: a plan of action that allows a person to meet not only their immediate needs but also their long-term goals

Interest: the additional cost a lender charges for borrowing their money

Interest Rate: the percentage of principal charged by the lender for use of its money

Liability: financial debts or obligations

Loan Shark: person or entity that charges borrowers interest rates above an established legal rate

Negative Net Worth: the dollar value of a person's liabilities is larger than the value of their assets

Net Income: what a person earns after payroll taxes and other deductions are taken out; often referred to as take-home pay

Net Worth: the amount by which the value of a person's assets exceeds or falls behind the value of their liabilities

Paycheck to Paycheck: an expression used to describe a person or household whose monthly income is devoted to expenses and has little to no savings

Personal Finance: all the financial decisions an individual or family must make in order to earn, budget, save, spend, and give money over time

Positive Net Worth: the dollar value of a person's assets is greater than the dollar value of their liabilities

Chapter 2: Budgeting Basics

Budget: a written plan for giving, saving, and spending

Cash-Flow Statement: a record that summarizes all of the income and outgo (spending) over a certain time period

Commission: earnings based on a percentage of the sales made

Discretionary (Nonessential) Expense: expense for things you don't need

Fixed Expense: expense that remains the same from month to month

Gross Income: the amount you earn before taxes and other payroll deductions

Income: money received for work, as a gift, or through investments

Intermittent Expense: expense that occurs at various times throughout the year and tends to be in large, lump sums

Irregular Income: income that comes in at different amounts or at different times, or both

Net Income: what a person earns after payroll taxes and other deductions are taken out; often referred to as take-home pay

Variable Expense: expense that varies in dollar amount from month to month, but that you can expect to have every month

Zero-Based Budget: a cash-flow plan that assigns an expense to every dollar of your income; the goal is for the total income minus the total expenses to equal zero

Chapter 3: Saving Money

Accrued Interest: the amount of interest charged on a debt but not yet collected; interest accumulates from the date a loan is issued

Compound Growth: the average rate of growth for an investment over time; often expressed as an annual figure

Compound Interest: interest paid on interest previously earned

Emergency Fund: a savings account set up specifically to be used to cover financial emergencies

Inflation: the persistent rise in the cost of goods and services over time

Interest Rate: the percentage of principal charged by the lender for use of its money

Large Purchase: a purchase that requires a significant amount of money

(Chapter 3, continued)

Principal: the initial amount of money invested or borrowed

Rate of Return: the measure of an investment's profit or loss, usually expressed as a percentage of the initial investment

Time Value of Money: concept that an amount of money is worth more today than in the future due to earning potential

Chapter 4: Credit and Debt

Appreciating Asset: an asset that increases in value over time

Collateral: something owned (that has value) offered as security on a debt; if the debt is not repaid as agreed, the item is forfeited to the lender

Credit Bureau: a company that collects credit rating information and makes it available to creditors

Credit Score: a statistical number used to represent a consumer's creditworthiness

Debt: money owed to another person or company

Default: failure to repay a loan on time

Depreciating Asset: an asset that loses value over time, such as a car that's worth less every year

Depreciation: the loss of value of an asset over time

Equity: the increase in value of a home over time; the difference between the amount owed and what the home could be sold for

Installment Credit: a loan for a fixed amount of money that's paid back in monthly installments

Interest: the additional cost a lender charges for borrowing their money

Lien: a legal claim (or right to own) against an asset until the debt (loan) is repaid

Negative Equity: when the value of an asset falls below what is owed on it

Predatory Lender: a lender who uses deceptive, unfair, or fraudulent practices on borrowers who are desperate for cash

Principal: the original amount of a loan; the total amount borrowed before fees and interest

Revolving Credit: credit that automatically renews whenever a payment is made to reduce the debt

Term: the amount of time, in months, that you'll be making payments

Chapter 5: Consumer Awareness

Amygdala: the part of your brain that helps regulate your stress responses

Brand Recognition: the public's ability to recall and recognize a brand by its logo, jingle, packaging, or name

Buyer's Remorse: a feeling of guilt, regret, or uneasiness after making a purchase

Card Fraud: the unauthorized use of your debit or credit card number and PIN or the forging of your signature

Consumerism: the theory that spending money and consuming goods is good for the economy

Contentment: the state of being satisfied with who you are and what you have in life

Extended Warranty: extra coverage for the repair or replacement of items purchased

Identity Theft: the act of fraudulently gaining and using the personal information of someone else, usually for financial gain

Impulse Buying: buying anything without planning to do so in advance

Manufacturer's Warranty: a promise from the manufacturer that a product will be replaced or repaired if it's faulty

Marketing: the process of communicating the value of a product or service to customers

Opportunity Cost: the financial opportunity that is lost when you choose to do something else with your money

Prefrontal Cortex: the part of your brain that controls memory, impulses, and thoughts

Retail Therapy: the shopping people do to lift their mood when they're discontent

Chapter 6: Career Readiness

Discovery: the act of finding something out

Entrepreneur: someone who starts and runs their own business

Hard Skills: technical skills (typically learned) demonstrated with a level of competency requiring IQ (intelligence quotient)

Mentor: someone who supports, guides, and advises another person over a period of time

Personal Brand: a widely recognized perception or impression of an individual based on conduct, experience, skills, and actions

(Chapter 6, continued)

Proximity Principle: the idea that you should connect with people who are doing what you want to do and get in the right places in order to find new opportunities related to your dream job

Resumé: from a French word meaning “to sum up” or a summary

Soft Skills: character traits and interpersonal skills requiring EQ (emotional quotient) that guide how you interact with others

Sweet Spot: the spot where what you love to do the most intersects with the things you do the best

Chapter 7: College Planning

Academic Scholarship: an award presented to students who display high educational excellence

Associate Degree: a two- or three-year, postsecondary, undergraduate degree

Bachelor’s Degree: an undergraduate degree from a college or university, usually after completing four or five years of study

CLEP: (College-Level Examination Program) a set of tests that qualify students to earn college credit if they pass them

Deferred: when debt payments are held off for or until a certain time and no interest accrues

FAFSA: the federal application required to receive any financial aid, including scholarships, grants, or loans offered through a college or university

Federal Student Loans: loans made by the government with terms and conditions set by law; often have a lower fixed interest rate

Financial Aid Award Letter: a letter sent by a college or university that explains attendance costs and details about a student’s financial aid package

Forbearance: debt payments are held off for or until a certain time but interest continues to accrue

Gift Aid: any form of financial aid that doesn’t need to be repaid

Grant: financial aid that does not need to be repaid; usually awarded based on financial need

Net Price: the total cost of education expenses needed for a student to attend an educational institution

Postsecondary Education: all education that takes place after high school, including university, college, community college, certification, or trade school

Prerequisite: a course that needs to be completed before a student can enroll in a second course

(Chapter 7, continued)

Private Student Loans: loans made by banks, credit unions, or other organizations with terms and conditions set by the lender including higher or variable interest rates

Return on Investment (ROI): measures the gain or loss generated on an investment relative to the amount of money invested

Scholarship: financial aid that does not need to be repaid; usually awarded based on achievements

Student Aid Report: a document that shows whether or not you are eligible for federal student aid

Subsidized Loans: federal student loans that are based on a student's financial need and don't accrue interest for a set period of time

Unemployment Rate: the percentage of the labor force, or a specific demographic, who are jobless and who are looking for work

Unsubsidized Loans: federal student loans that aren't based on a student's financial need and start accruing interest immediately

Work-Study: a program that allows students to work part time while continuing their studies

Chapter 8: Financial Services

Bank: a financial institution licensed to receive deposits and provide financial services

Checking Account Register: also called a ledger; a lined and divided journal to record checking account activity

Credit Unions: nonprofit financial institutions that are owned and operated by their members; offer deposit accounts and lending services similar to a retail bank but at a lower cost

Direct Deposit: option to allow automatic electronic deposit of your payroll checks

Federal Deposit Insurance Corporation (FDIC): independent federal agency that insures deposits in bank accounts up to \$250,000

Liquidity: how quickly you can access the money in an account or the value of an asset without a penalty or fee

National Credit Union Administration (NCUA): independent federal agency that insures deposits in credit unions up to \$250,000

Online Banks: also known as internet banking; all transactions done online; no physical location

Overdraft Fee: a penalty charged if the account holder spends more than their account balance, causing the available balance to go below zero

Overdraft Protection: an option offered by banks to cover overspending an account and then charge a fee for it

(Chapter 8, continued)

Reconciling: the process of making sure you and the bank agree on how much money is in your checking account

Retail Banks: for-profit financial institutions that accept deposits and offer a variety of deposit accounts and financial services

Unbanked: people who don't have bank accounts

Underbanked: people who have savings or checking accounts but still use alternative financial products and services

Chapter 9: The Role of Insurance

Actuarial Life Table: life expectancy chart used by insurance agents to figure out life insurance premiums for an individual based on a variety of factors

Affordable Care Act (ACA): also known as Obamacare; the health care reform law enacted in 2010, intended to make affordable health insurance more available

Beneficiaries: people who are designated by the policyholder to receive the death benefit of a life insurance policy

Claim: a formal request by a policyholder to their insurance company for compensation for a covered loss

Collision Insurance: protection for damage to your car resulting from a collision with another car or object

Comprehensive Insurance: protection for loss or damage to your vehicle caused by something other than a collision (such as vandalism)

Copays: (also copayments or coinsurance) the payments an individual makes each time they get medical service

Coverage: the amount of liability protection offered to an individual through an insurance policy

Death Benefit: benefit paid to the beneficiaries after the policyholder

Deductible: the amount of money you will pay out of pocket before the insurance company will make a payment

Dependent: a person who relies on someone for financial support

Disability Insurance: a type of insurance that will replace a portion of the policyholder's income in the event that the policyholder becomes disabled and is unable to work

Elimination Period: the period of time between when a doctor confirms a disability and when the policyholder receives a disability payment

Grace Period: the amount of time after the premium is due in which a policyholder can make a premium payment without suffering a lapse (break) in coverage

(Chapter 9, continued)

Health Insurance: coverage for an individual's (or family's) medical expenses from illness or injury

Health Insurance Marketplace: a platform where individuals, families, and small businesses can compare health insurance plans

Health Savings Account (HSA): a tax-exempt savings account dedicated to health care costs; only available for individuals on a high-deductible health plan (HDHP)

High-Deductible Health Plan (HDHP): a health plan with a high minimum deductible for medical expenses

Homeowners Insurance: protection for losses to a private residence and the possessions within it, as well as liability coverage against accidents in the home or on the property

Identity Theft: the act of fraudulently gaining and using the personal information of someone else, usually for financial gain

Insurance: an arrangement in which an individual will receive financial protection or reimbursement of losses from an insurer

Liability Insurance: protection against claims resulting from personal injury or property damage as the result of an auto accident

Lifetime Limit: the maximum amount of lifetime benefits a person can receive from their insurance company

Long-Term Care Insurance: a type of insurance that covers some or all of the costs of nursing home care, assisted living, in-home care, and other end-of-life care

Out-of-Pocket Maximum: the most a policyholder has to spend for covered services in a year

Personal Injury Protection (PIP): a component of auto insurance that pays for medical expenses, lost wages, and other financial losses of the driver and passengers of the policyholder's vehicle

Policy: the contract between an insurance company and the insured individual

Premium: the amount of money paid for an insurance policy

Renters Insurance: protection for destroyed or stolen personal property for a renter

Self-Insured: having enough money saved and invested so a spouse or loved one could live off of it when you die, eliminating the need for life insurance

Subsidizing: the practice of employers paying for a portion of their employees' insurance premiums

Supplemental Insurance: plans to cover expenses and services not on typical policies

Term Life Insurance: life insurance for a specified amount of time; at the death of the policyholder, the insurance company pays the death benefit to the beneficiaries dies

(Chapter 9, continued)

Umbrella Insurance: optional extended liability coverage that can be added to auto and homeowner's policies

Uninsured/Underinsured Motorist

Protection: protection for you and passengers if you're hit by an uninsured or underinsured motorist, or if you are the victim of a hit-and-run

Whole Life Insurance (or Cash Value):

life insurance that lasts for the life of the policyholder and uses a portion of the premium as an investment

Chapter 10: Income and Taxes

Audit: an official IRS inspection of a tax return to make sure the income and deductions are accurate

Capital Gains Tax: a tax on the positive difference between the sale price and the value of a gift when it was inherited

Consumption Tax: a tax on the purchase of goods or services in the form of sales tax, excise tax, and other special taxes

Deficit Spending: spending more than you earn; an economic policy in which the government spends public funds raised by borrowing rather than by taxation

Earned Income: any income (wages/salary) that is generated by the work someone performs

Estate Tax: a tax that's imposed on a property owner's right to transfer the property to others after his or her death

Excise Tax: a tax on a certain goods that aren't typically considered a necessity; sometimes called a luxury tax

Fiscal Year: a one-year period that governments or companies use for financial reporting

Gift Tax: a tax on any asset that exceeds the yearly amount you can transfer to another person without compensation of equal value

Gross Income: the amount you earn before taxes and other payroll deductions

Income Tax: tax paid out by anyone who earns an income

Inheritance Tax: a state tax on an asset an individual received from someone who has passed away

Itemized Deductions: a list of all eligible expenses that can be claimed to decrease taxable income

Minimum Wage: the smallest amount that employers can legally pay their employees per hour of work

National Debt: the total amount of debt a country owes to companies and other countries as a result of deficit spending

(Chapter 10, continued)

Net Income: what a person earns after payroll taxes and other deductions are taken out; often referred to as take-home pay

Paper Asset: a representation (on paper) of stocks, bonds, currencies, mutual funds, etc.

Passive Income: money earned on a regular basis with little or no effort required to maintain it

Portfolio Income: income from an investment sold at a higher price than you paid for it

Property Tax: taxes paid by anyone who owns property such as land, a home, or commercial real estate

Salary: a fixed annual amount earned by an employee, typically paid weekly, biweekly, or monthly

Sales Tax: a tax on goods and services that goes to a state or local government

Standard Deduction: the dollar amount people can subtract from their income before the tax is calculated

Tax Bracket: the income ranges in which tax rates apply

Tax Credit: an amount of money a taxpayer can subtract from the taxes they owe

Tax Day: the annual deadline for filing your income taxes; usually falls on April 15

Tax Liability: the total tax a person or business has to pay

Tax Return: a report that a taxpayer has to submit annually to the government and is used to determine a person's tax liability

Tax Schedule: a special tax form to report certain types of income or deductions

Wage: money paid by the hour and for an agreed number of hours per week; especially for unskilled or manual labor

Wealth Tax: a tax based on the market value of owned assets

Withholdings: the portion of an employee's pay held back to cover taxes and other deductions

Chapter 11: Housing and Real Estate

Acknowledgment Clause: the portion of a legal contract signed by both parties

Amenities: things that help provide convenience, comfort, or enjoyment

Cost of Living: the average cost of the basic goods and services needed to sustain a certain standard of living

Down Payment: a lump sum of money, usually a percentage of the total price of that home, paid by the buyer at the time of purchase

(Chapter 11, continued)

Equity: the increase in value of a home over time; the difference between the amount owed and what the home could be sold for

Fixed-Rate Mortgage: a mortgage with a set interest rate for a set number of years

House Poor: when someone spends so much of their income on the costs of homeownership that they struggle to reach other financial goals

Leasing Contract: a legal contract that allows the renter, or lessee, rights to the use of a property owned or managed by the lessor for a period of time

Legal Contract: an agreement made between two or more parties that is enforced by law

Mortgage: a loan obtained for the purchase of a home

Mortgage Principal: the amount borrowed (that has to be paid back) to purchase a home

Private Mortgage Insurance (PMI): insurance that protects lenders against loss if the borrower defaults on the loan; does not go toward paying down your mortgage at all

Renting: periodic payments (usually monthly) by a tenant to a landlord in return for the use of a property

Standard of Living: the level of wealth, comfort, material goods, and necessities available to a group of people

Chapter 12: Investing and Retirement

401(k): a qualified retirement savings plan offered by a company to its employees who contribute money from their gross pay

Bear Market: when a financial market experiences prolonged price declines

Bull Market: when prices in a financial market are on the rise or expected to rise

Capitalization: the total dollar market value of a company or how much a company is worth

Charitable Organization: an organization set up to provide help and raise money for those in need

Diversification: the practice of dividing the money a person invests among different types of investments in order to lower risk

Dividend: a distribution from the net profits of a company to its shareholders

Estate Planning: preparation of tasks to manage an individual's assets after death

Fixed Annuity: annuity that offers low, guaranteed rates of interest and fixed income payments in retirement

Individual Retirement Arrangement (IRA): a tax-advantaged investing account that people use to save for retirement

(Chapter 12, continued)

Investing: the process of setting money aside to increase wealth over time for long-term financial goals such as retirement

Liquid Asset: an asset that can be easily bought or sold

Portfolio: a list of your investments

Prospectus: a description of the investing strategy the mutual fund management company will use to invest your money

Qualified Retirement Savings Plan: an employer-sponsored retirement plan that has a special tax treatment

Retirement Planning: the process of figuring out how much money you'll need in retirement and creating a plan to get there

Return on Investment (ROI): measures the gain or loss generated on an investment relative to the amount of money invested

Risk-Return Ratio: relationship of expected return (profit you expect to make) compared to the amount of risk (amount you stand to lose if the price goes down) taken with a given investment

Stock: a security that represents part ownership or equity in a company

Stock Market: a financial market that trades shares of ownership of public companies

Stock Market Index: a measurement of a section of the stock market, typically a weighted average of the prices of selected stocks

Variable Annuity: a type of annuity that can vary in value based on the performance of the mutual funds inside it

Will: a legal document listing how a person wants their assets distributed after their death

Chapter 13: Global Economics

Business Cycle: describes the rise and fall in production output; it is generally divided into four stages: expansion, peak (prosperity), contraction (recession), and trough

Capitalism: economic and political system in which trade and industry are controlled by private owners for profit

Competition: when businesses compete for a share of profit

Deflation: the general reduction of prices in an economy over time

Developed Country: one with a high level of economic growth, industrialization, and a higher standard of living

Developing Country: one with less economic development, an agriculture-based economy, less industrialization, high population, and high level of unemployment

(Chapter 13, continued)

Economic Indicators: key statistics used to analyze a country's economy

Economic Interdependence: the relationship between two or more countries dependent on one another for goods or services

Economic System: an organized way in which a nation or country manages all their buying, selling, and production

Embargo: a government order that restricts or prohibits trade

Equilibrium: the state in which market supply and demand match each other, resulting in price stability

Exports: resources, materials, and goods a country produces and sells to another country

Global Economics: the study of how the economies in all parts of the world operate

Global Trade: the exchange of capital, goods, and services between different countries

Gross Domestic Product (GDP): the total market value of all finished goods and services produced in a country in a given period of time

Imports: resources, materials, and goods a country buys from another country

Inflation: the persistent rise in the cost of goods and services over time

Law of Supply and Demand: an economic theory that explains the interaction between the sellers of a resource and the buyers for that resource

Macroeconomics: the study of the big economic picture through various economic indicators

Microeconomics: the study of behavior in small economic units like businesses and individuals

Monopoly: an industry or commodity that's dominated by one corporation that manipulates prices; an extreme result of free-market capitalism without government regulation

Product Standards: criteria and specifications related to the health, safety, and compatibility of goods and services

Profit Motive: the desire to make money as the result of a business venture

Protectionism: governmental actions that restrict trade with the intent to protect local businesses from foreign competition

Quota: a government-imposed restriction on the number or value of imported or exported items

Rationing: a limit placed on the distribution of resources in high demand but in short supply

Scarcity: limited resources and an unlimited demand by a population

(Chapter 13, continued)

Socialism: economic and political theory promoting collective or government ownership and control of the means of production and distribution of goods

Specialization: when a nation or individual concentrates its efforts in producing a limited variety of goods or services

Standard of Living: the level of wealth, comfort, material goods, and necessities available to a group of people

Subsidy: payment from the government to producers to lower their cost to produce or increase the quantity produced

Supply and Demand: how the availability of a product or service, and how much it's desired by consumers, affects the price

Tariff: a tax imposed on the goods and services imported from another country