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Chapter 1: Personal Financial Planning

Chapter Summaries

- Personal financial planning means managing your money (spending, saving, and investing) so that you can achieve financial independence and security.
- The six steps of financial planning are: (1) Determine your current financial situation; (2) develop financial goals; (3) identify alternative courses of action; (4) evaluate alternatives; (5) create and use your financial plan of action; and (6) review and revise your plan.
- The most important factors that influence personal financial planning are your life situations, your personal values, and outside economic factors.
- For all your financial decisions, you must make choices and give up something. These opportunity costs, or trade-offs, can be personal or financial.
- The eight strategies for achieving your financial goals and avoiding money problems are: Obtain, plan, spend wisely, save, borrow wisely, invest, manage risk, and plan for retirement.

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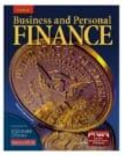

Chapter 2: Finances and Career Planning

Chapter Summaries

- Personal issues to consider when choosing a career include your aptitudes, interests, personality, and current personal situation.
- The more education and training you have, the greater your potential earning power will be. Also, the field of study you select will affect your salary.
- Employment opportunities are affected by social influences, such as demographic trends, geographic trends, and economic factors, as well as industry and technology trends.
- Gain experience through part-time work, volunteer work, internships, cooperative education, and class projects.
- To evaluate career opportunities, use sources such as the Internet, libraries, newspapers, school guidance offices, community organizations, and networking with people working in the field you choose.
- Financial issues to consider when looking for employment are your starting salary, opportunities for promotions and raises, benefits, and the cost of living. Legal issues to consider relate to the work environment of the company, its adherence to laws regarding discrimination, minimum wage, unemployment insurance, Social Security, and workers' compensation.

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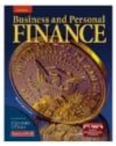

Chapter 3: Money Management Strategy

Chapter Summaries

- There are opportunity costs, or trade-offs, in all decisions. When you make a decision about how to manage your money, you remove the option to use the money in a different way.
- Organizing your financial documents makes it easier to plan and measure progress, handle routine money matters, know how much money is available, and make effective decisions.
- You can organize financial documents in home files, a safe-deposit box, and on a computer.
- A personal balance sheet helps determine your net worth, so you can manage your money to meet your financial goals. A personal cash flow statement helps determine the amount of cash you receive and how you spend it.
- On a personal balance sheet, list the value of all your assets, along with all your liabilities. On a personal cash flow statement, record your income and expenses. Then subtract your expenses from your income to determine your net cash flow.
- To create a budget: (1) Set financial goals; (2) estimate your income; (3) budget for unexpected expenses and savings; (4) budget for fixed expenses; (5) budget for variable expenses; (6) record what you spend; and (7) review your spending and saving patterns.
- Savings are the key to a sound financial future. Savings enable you to handle unexpected emergencies.

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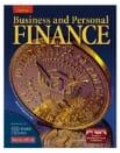

Chapter 5: Banking

Chapter Summaries

- The three primary types of financial services are savings; payment services; and borrowing.
- Commercial banks, savings and loan associations, mutual savings banks, and credit unions are financial institutions that accept secure deposits and provide transfer and lending services. Life insurance companies and investment companies accept customers' funds, provide financial security for dependents, and invest and manage funds. Finance companies and mortgage companies offer loans.
- Bank savings plans offer the lowest interest rates with the greatest liquidity. Higher interest rates are available on certificates of deposit (CDs); money must be on deposit for a specified time. Money market accounts and U.S. Savings Bonds are less liquid than bank savings accounts, but may provide greater returns.
- To evaluate a savings plan, look at its features, such as its rate of return compared with inflation, tax considerations, liquidity, and restrictions and fees.
- Regular, activity, and interest-earning are the three categories of checking accounts. Some of these require minimum balances and/or fees for transactions. Some pay interest on deposits.
- To use a checking account, write checks carefully, endorse checks you deposit, and reconcile your checkbook against bank statements.

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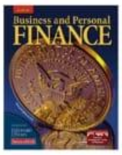

Chapter 8: Saving and Investing

Chapter Summaries

- Before investing, set financial goals that are compatible with your values.
- Obtain money to start investing by setting aside funds before you buy other things; by contributing to employer-sponsored retirement plans and savings programs; and by saving gifts of money and unexpected windfalls.
- An investment's safety or degree of risk, income potential, and liquidity are factors to consider before choosing an investment. Also, diversifying your investments is wise.
- Savings and investment alternatives include savings accounts, certificates of deposit, stocks, bonds, some annuities, mutual funds, and real estate.
- Steps in developing a personal investment plan include establishing goals, determining funds needed and funds available, evaluating investments in terms of risk and return, and choosing at least two investments.
- Check your investments for yourself, keep track of them, keep accurate records, and consider the tax consequences of buying and selling.
- A great deal of investment information is available on the Internet, in books, magazines, newspapers, government publications, as well as from individual corporations and investment companies.

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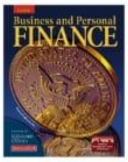

Chapter 9: Stocks

Chapter Summaries

- Investors choose common stock because stocks provide a greater potential return than bank savings accounts and government bonds.
- Investors choose preferred stocks because they are less risky than common stocks and because they provide a steady income in the form of dividends.
- Types of stock investments include blue-chip stocks, income stocks, growth stocks, cyclical stocks, defensive stocks, large- and small-cap stocks, and penny stocks.
- Information about stocks' risk can be found in newspapers, stock advisory services, corporate reports, and on the Internet.
- Factors affecting stock prices include general attitudes about current economic conditions and corporate performance.
- Stocks are bought and sold in primary markets, such as in an initial public offering (IPO), and in secondary markets, such as securities exchanges and the over-the-counter (OTC) market.
- Long-term investors buy and hold stocks, use dollar-cost averaging to smooth out the prices they pay for stocks they buy regularly, and reinvest their dividends and buy more stock directly from companies in which they have already invested to avoid stockbroker commissions. Short-term speculators use techniques such as buying stock on margin and selling short.

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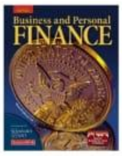

Chapter 10: Bonds and Mutual Funds

Chapter Summaries

- Corporate bonds have the following characteristics: interest rates, maturity dates, and face values.
- Corporations sell bonds to raise funds for operations, expansions, or purchases.
- Investors buy bonds because they provide regular income, plus the principal must be repaid by maturity.
- Governments sell bonds for reasons similar to corporations: to fund regular activities and finance the national debt.
- Government bonds include Treasury bills, Treasury notes, and U.S. savings bonds (Series EE).
- Information on bonds is available in the financial press, corporate annual reports, bond rating reports, and online.
- Types of mutual funds include closed-end mutual funds, open-end mutual funds, load funds, and no-load funds.
- Mutual fund information is found in newspapers, annual reports, and financial publications, and through Web sites and advisors.
- Methods of buying and selling include regular account transactions, voluntary savings plans, payroll deduction plans, contractual savings plans, reinvestment plans, and withdrawal options.

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Chapter 13: Home and Motor Vehicle Insurance

Chapter Summaries

- Risk is the probability of loss or injury; peril is something that may cause a loss; hazards increase the probability of loss; and negligence is failing to take reasonable care to prevent accidents. Risk avoidance, risk reduction, risk assumption, and risk shifting are ways of managing risk.
- Insurance involves the risk management method of shifting risk: In exchange for fees, the insurance pays for losses.
- Property insurance protects from losses resulting from natural causes, fire, and criminal activity. Liability insurance covers legal responsibility for the cost of losses to others.
- Homeowners insurance covers the building, living expenses, personal property, and personal liability. Renters insurance covers personal possessions, living expenses, and personal liability.
- Factors affecting the cost of homeowners insurance are home location, structural type, coverage amount and policy type, discounts, and differences among insurance companies.
- The types of motor vehicle insurance include bodily injury liability, medical payments coverage, uninsured motorist's protection, property damage liability, collision, and comprehensive physical damage coverage.
- Factors affecting the cost of motor vehicle insurance include the amount of coverage, type of vehicle, rating territory, and driver classification.

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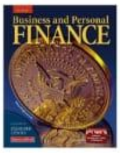

Chapter 14: Health, Disability, and Life Insurance

Chapter Summaries

- Health insurance is important for financial planning because it can help protect against the financial burden of illness or injury.
- Health insurance policies have certain similarities but can differ in terms of reimbursement versus indemnity, internal limits versus aggregate limits, deductibles and coinsurance, and out-of-pocket limits.
- Private health care plans are offered by private insurance companies, hospital and medical service plans, health maintenance organizations, preferred provider organizations, home health care agencies, and employer self-funded health plans. Government health care programs are Medicare and Medicaid.
- Disability insurance provides regular cash income for people who are unable to work due to pregnancy, a non-work-related accident, or illness.
- Sources of disability income are workers' compensation, an employer, Social Security, and private disability insurance.
- Types of life insurance policies include term insurance, whole life insurance, group life insurance, credit life insurance, and endowment life insurance.
- The key provisions in a life insurance policy include naming a beneficiary, an incontestability clause, a suicide clause, and policy riders.

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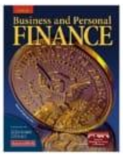

Chapter 15: Retirement and Estate Planning

Chapter Summaries

- The sooner you start planning and saving for retirement, the faster your assets will accumulate.
- Estimating your living expenses is the first step of retirement planning. Housing needs will depend on your desires and your health.
- Social Security provides a regular monthly income payment but is not meant to cover all retirement expenses.
- Employer pension plans include two types: A defined-contribution plan is an individual account for each employee into which an employer contributes a specific annual amount; a defined-benefit plan specifies benefits based on total earnings and years on the job.
- Personal retirement accounts include regular IRAs, Roth IRAs, SEP plans, Spousal IRAs, Rollover IRAs, Education IRAs, and Keogh plans.
- The various types of wills include simple wills, traditional marital share wills, exemption trust wills, and stated dollar amount wills.
- The several types of trusts include credit-shelter trusts, disclaimer trusts, living trusts, and testamentary trusts.
- One common characteristic of many estates is joint ownership of property between spouses.
- Estates are taxed with estate taxes, estate and trust federal income taxes, inheritance taxes, and gift taxes.