

Focus on Personal Finance

Learn to Link to Your Econ Ed Resources

ECONnections Webinar

April 26, 2016

4:00 – 5:00 p.m. EDT

3:00 – 4:00 p.m. CDT



Welcome

Logistics

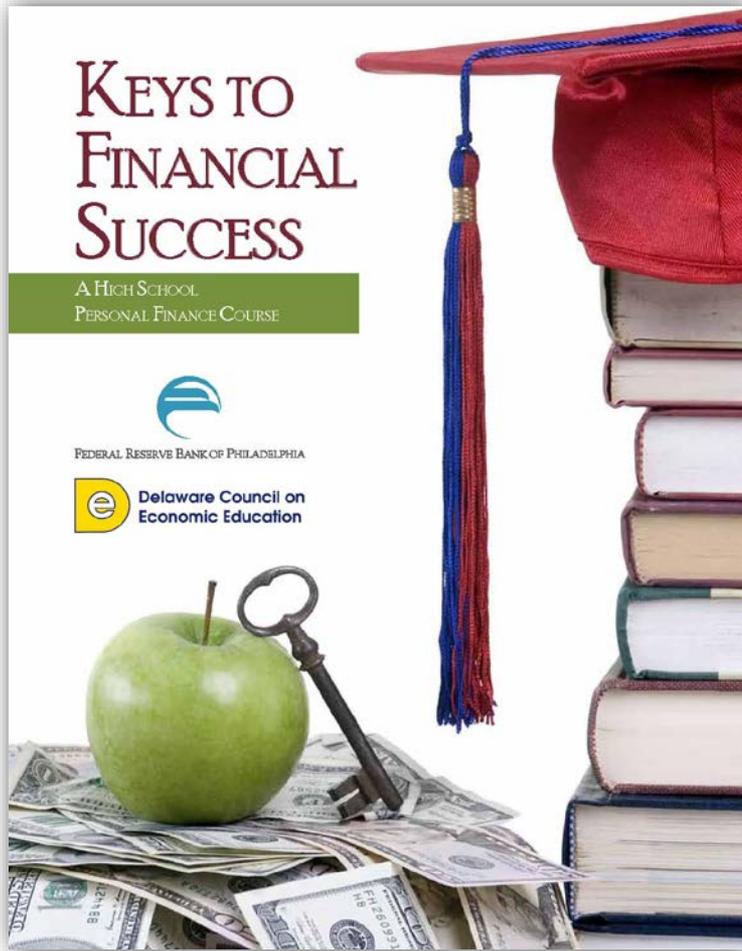
- Call-in number: 888-625-5230
- Participant code: 49708101#
- <https://www.webcaster4.com/Webcast/Page/577/14213>
- This call is being recorded and will be available a later date.
- You can listen through your computer or dial in to the toll free line listed above above.

Remember: Your specific connection matters; if audio on your computer diminishes, dial into the toll-free line.

How we will take questions

- Use the chat feature in the webinar (Ask Questions button on the bottom of the screen.)

The Keys to Financial Success Model

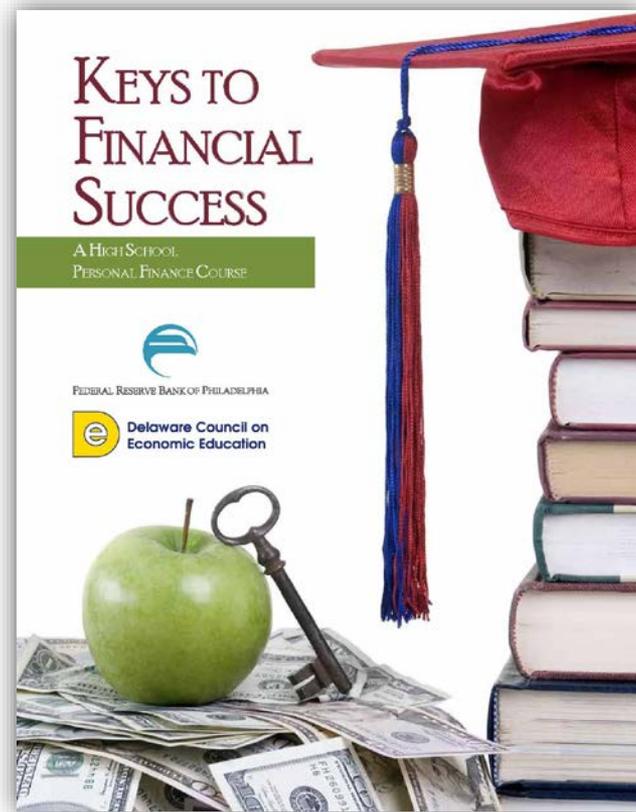


- 52-lesson course plan for teaching a high school personal finance course.
- Aggregates lessons from *Financial Fitness for Life; Learning, Earning, and Investing; Practical Money Skills*, and author-created lessons, activities, and materials.
- Philly Fed provides curriculum materials and a week's training at the Reserve Bank in Philadelphia each July.
- School pledges to offer the course at least one semester each school year.

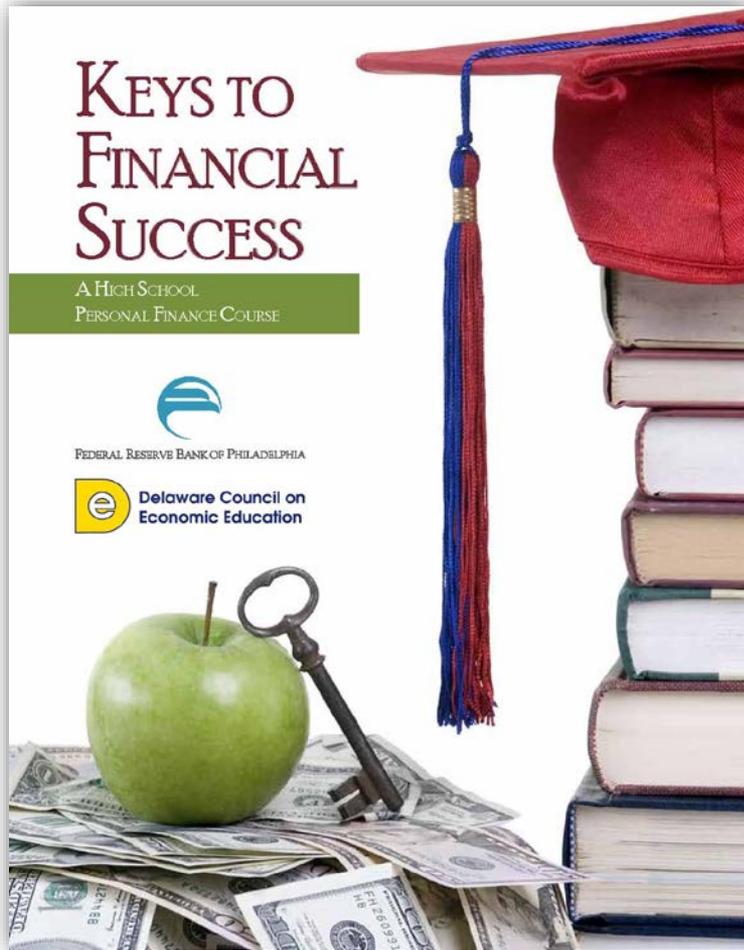


The Features of the *Keys* Program

- The *Keys to Financial Success* Program
 - Partnership between the University of Delaware Center and the Federal Reserve Bank of Philadelphia since 2001
 - Partnership's goals
 - Provide training and materials for educators to support the teaching of a semester course in personal finance.
 - Use accurate materials grounded in the “economic way of thinking.”
 - Provide flexibility for the teacher to use the materials in a variety of classes.
 - Assess program effectiveness with pre- and posttesting.

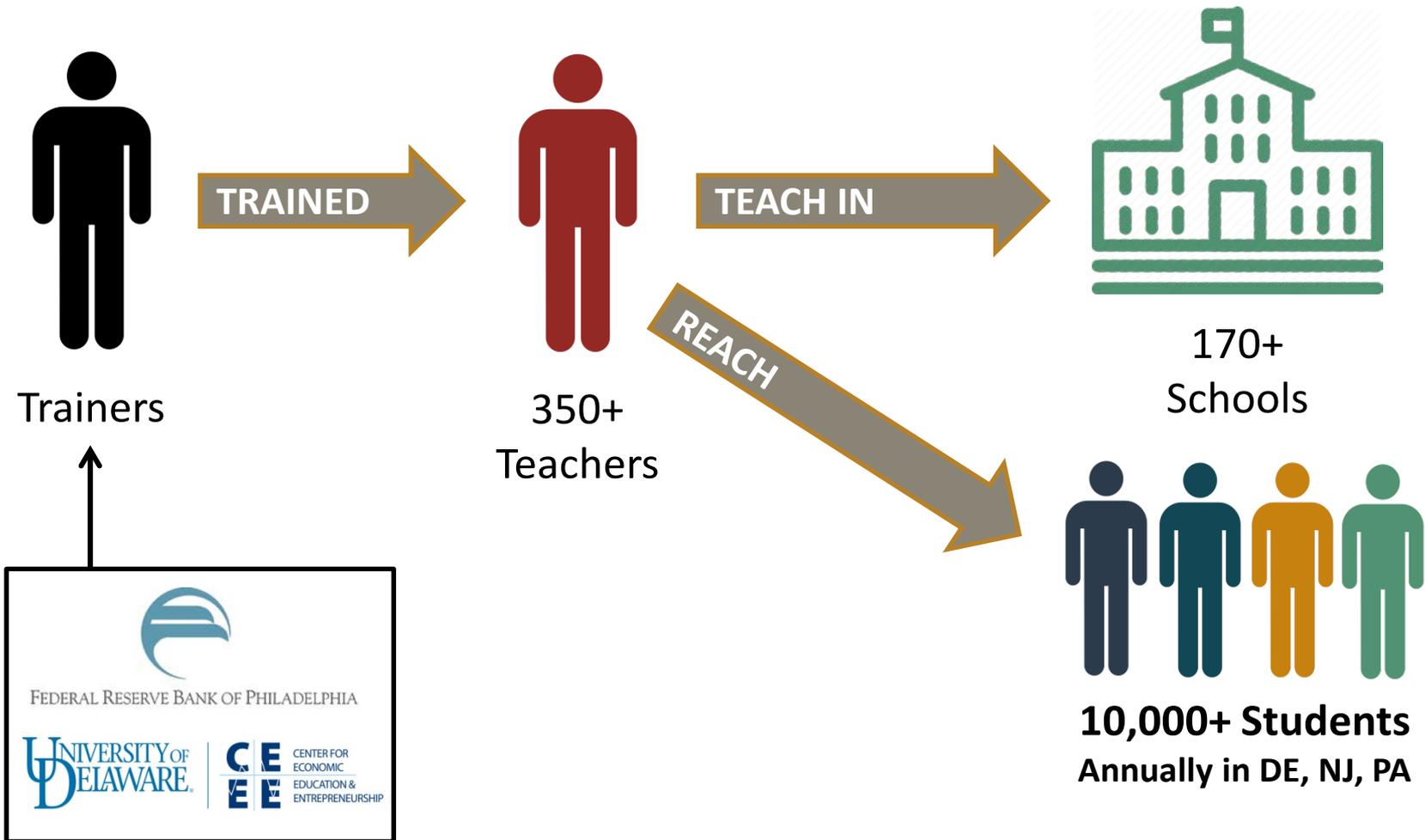


Keys to Financial Success

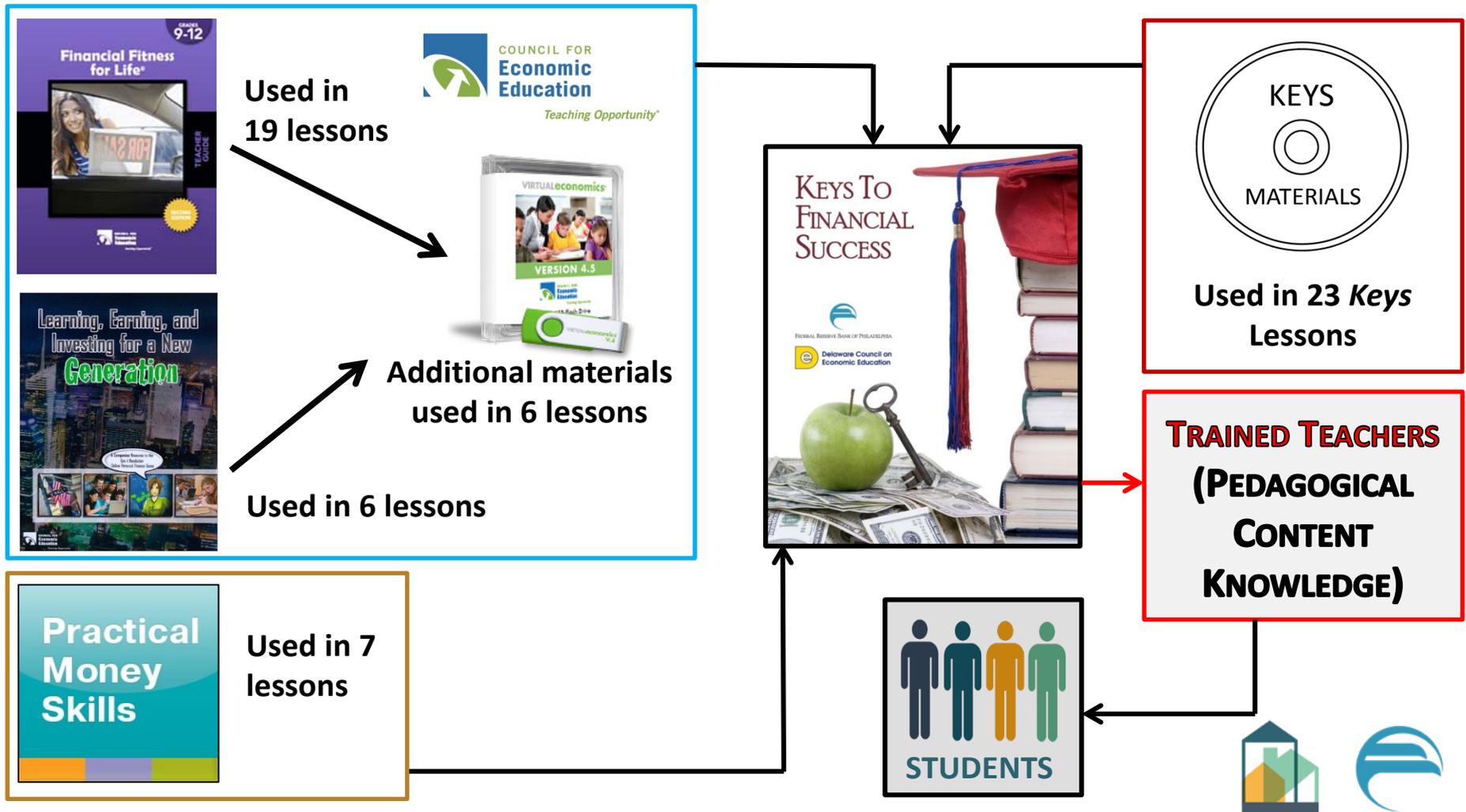


- Course covers:
 - Goals & Decision Making
 - Careers & Planning
 - Budgeting
 - Saving & Investing
 - Credit
 - Banking Services
 - Transportation Issues
 - Housing Issues
 - Risk Protection
- Our research using pre- and post-test scores indicates that students who take the course, on average, increase their personal finance knowledge by over 60 percent.

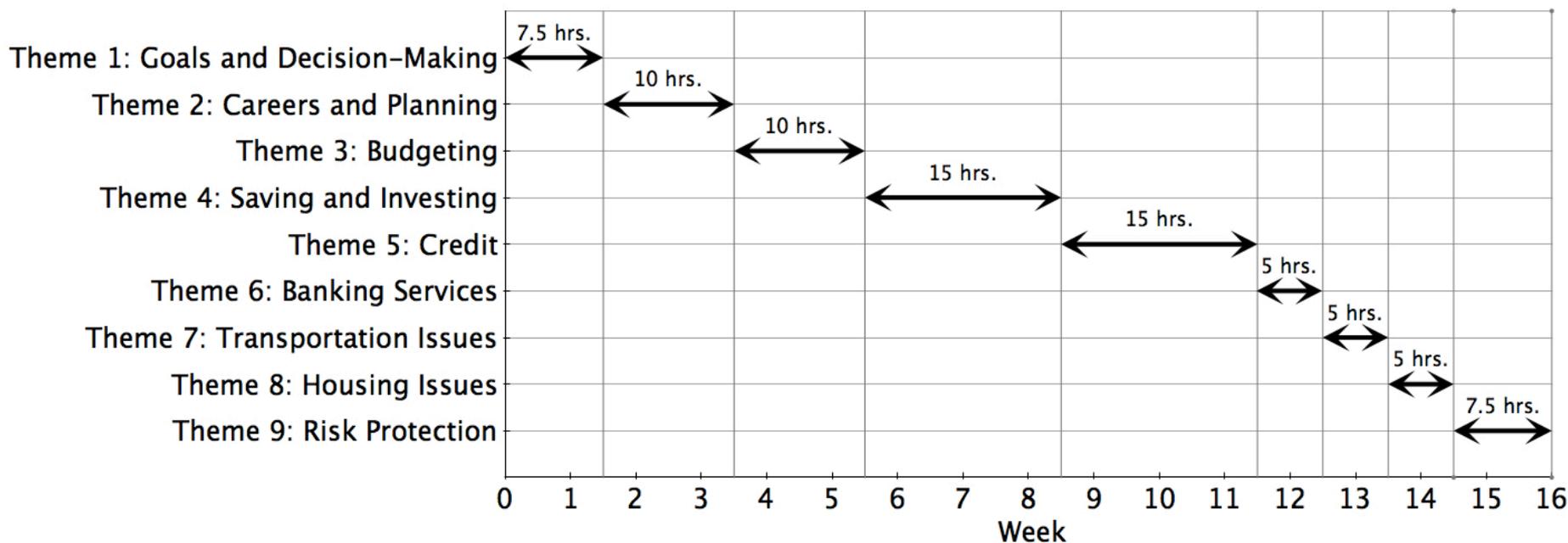
The Multiplier Effect



How the *Keys* Curriculum Works



A Typical Semester *Keys* Course



While *Keys* was designed as a semester course, we have many teachers who teach using the model in other formats:

- Yearlong personal finance course
- Yearlong “Enhanced Economics” courses (50% personal finance, 50% economics)
- Block scheduling



Keys Teacher-Training Program

- Familiarizes participants with the *Keys* model, how to set-up their course, and the extensive curriculum materials.
- Emphasizes the development of pedagogical content knowledge through extensive use of lesson demonstrations.
- Gives teachers the opportunity to see many *Keys* lessons in action before they have to teach them to their own students.



Asarta, Hill, and Meszaros (2014): Study Design

International Review of Economics Education 16 (2014) 39–50

Contents lists available at ScienceDirect

International Review of Economics Education

ELSEVIER journal homepage: www.elsevier.com/locate/iree

The features and effectiveness of the *Keys to Financial Success* curriculum[☆]

Carlos J. Asarta^{a,*}, Andrew T. Hill^b, Bonnie T. Meszaros^c

^a Department of Economics, University of Delaware, 102 Alfred Lerner Hall, Newark, DE 19716, United States
^b Federal Reserve Bank of Philadelphia, United States
^c Department of Economics, University of Delaware, United States

CrossMark

ARTICLE INFO

Article history:
Received 22 October 2013
Received in revised form 30 April 2014
Accepted 11 July 2014
Available online 24 July 2014

JEL classification:
A21
G00

Keywords:
Financial literacy
Financial education
Assessment
Financial Fitness for Life

ABSTRACT

The global financial crisis of 2007–2009 generated a renewed interest in including personal finance in the secondary curriculum in the United States and in many countries around the world. This paper explains the features of a successful and unique high school personal finance curriculum, *Keys to Financial Success*, which is offered by a consortium of partners in Delaware, Pennsylvania, and New Jersey, and is available to teachers from the Federal Reserve Bank of Philadelphia. Using the *Financial Fitness for Life High School Test (FFFL-HS Test)*, pre- and posttest results are reported for 967 students who participated in a one-semester *Keys* course during the 2011–2012 and 2012–2013 academic years. The survey results indicate that the training of teachers in the *Keys* curriculum, and the implementation of a one-semester *Keys* course, significantly improve the average personal finance knowledge of students in each of the standards and concept areas of the *FFFL-HS Test*. These results contribute to the growing literature showing the positive effects of a well-designed personal finance course, taught by properly trained teachers, on the financial knowledge of high school students, and should be of interest to an international audience.
© 2014 Elsevier Ltd. All rights reserved.

[☆] The views expressed in this paper are those of the authors and do not necessarily represent those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.
* Corresponding author. Tel.: +1 302 831 4868; fax: +1 302 831 6659.
E-mail addresses: asarta@udel.edu, asarta@economiceducator.com (C.J. Asarta), andrew.hill@phil.frb.org (A.T. Hill), meszaros@udel.edu (B.T. Meszaros).

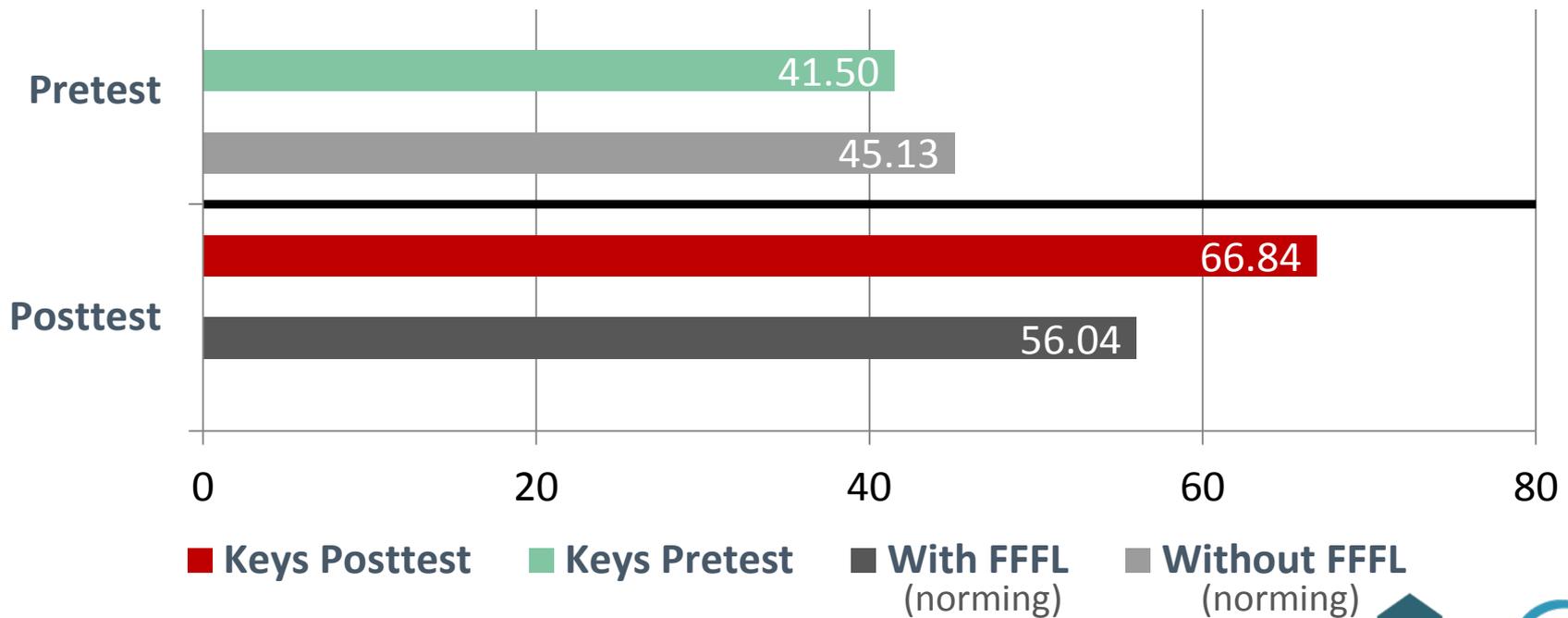
<http://dx.doi.org/10.1016/j.iree.2014.07.002>
1477-3880/© 2014 Elsevier Ltd. All rights reserved.

- Study Design
 - Pre- and posttest students using a nationally-normed personal finance instrument (*FFFL-HS Test*)
 - Compare our results to *FFFL-HS Test* norming results
- The 2011-2012 and 2012-2013 Cohort (Semesters)
- Asarta, C. J., A. T. Hill, and B. T. Meszaros. 2014. “The Features and Effectiveness of the *Keys to Financial Success* Curriculum.” *International Review of Economics Education* 16, pp. 39-50.



Asarta, Hill, and Meszaros (2014): Overall Results

- *Keys* students exhibit large and highly statistically significant gains in all topic areas on the *FFFL-HS Test*.



Source: Asarta, Hill, and Meszaros (2014)



How Can You Implement *Keys*?

- Practicing Teachers

- Best Way: Come for training in Philadelphia (June 27–July 1, 2016)
 - Participants receive 30 hours of professional development training, all materials to teach the course, participation in our pre- and posttesting program, on-going support from our staff.
 - Registration fee: \$50
- If you can't come for training:
 - Request the free pdf of the *Keys to Financial Success Teacher's Manual* and materials CD-ROM from the Federal Reserve Bank of Philadelphia
 - Purchase *Virtual Economics 4.5* from Council for Economic Education (\$159.95)
 - Access *Practical Money Skills* lessons for free from website.



Keys to Financial Success Training

- June 27–July 1, 2016, 8:00 a.m. to 3:30 p.m.
- Credit: 30 hours of professional development (Act 48 for Pennsylvania teachers)
- Breakfast and lunch daily
- Registration fee: \$50
- Register on our website (www.philadelphiafed.org/education)
- For more info, email todd.zartman@phil.frb.org

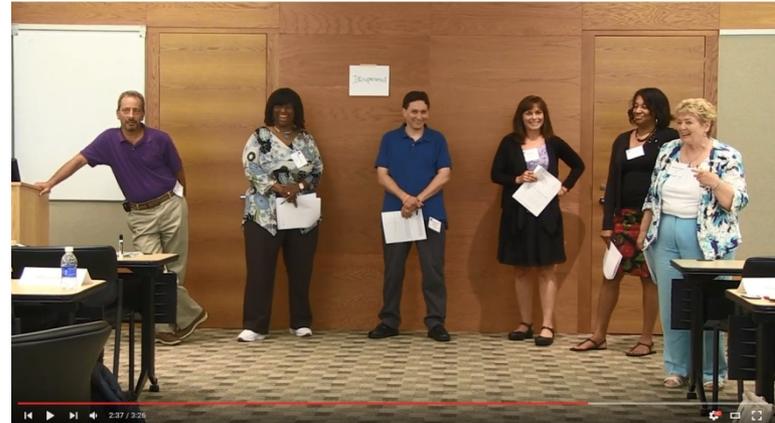


Learn More About *Keys* via YouTube

- Watch a nine videos about the *Keys* program at <https://goo.gl/i9UKKv>

KEYS TO FINANCIAL SUCCESS

What makes this program special?



Questions?

Andrew Hill

andrew.hill@phil.frb.org

For more information about the Keys to Financial Success program, visit philadelphiafed.org/keys

To view videos about the Keys program, visit <https://goo.gl/i9UKKv>



Building Wealth

A Beginner's Guide to Securing Your Financial Future



Federal Reserve Bank of Dallas

Building Wealth

A Beginner's Guide to Securing Your Financial Future



Building Wealth

A Beginner's Guide to Securing Your Financial Future



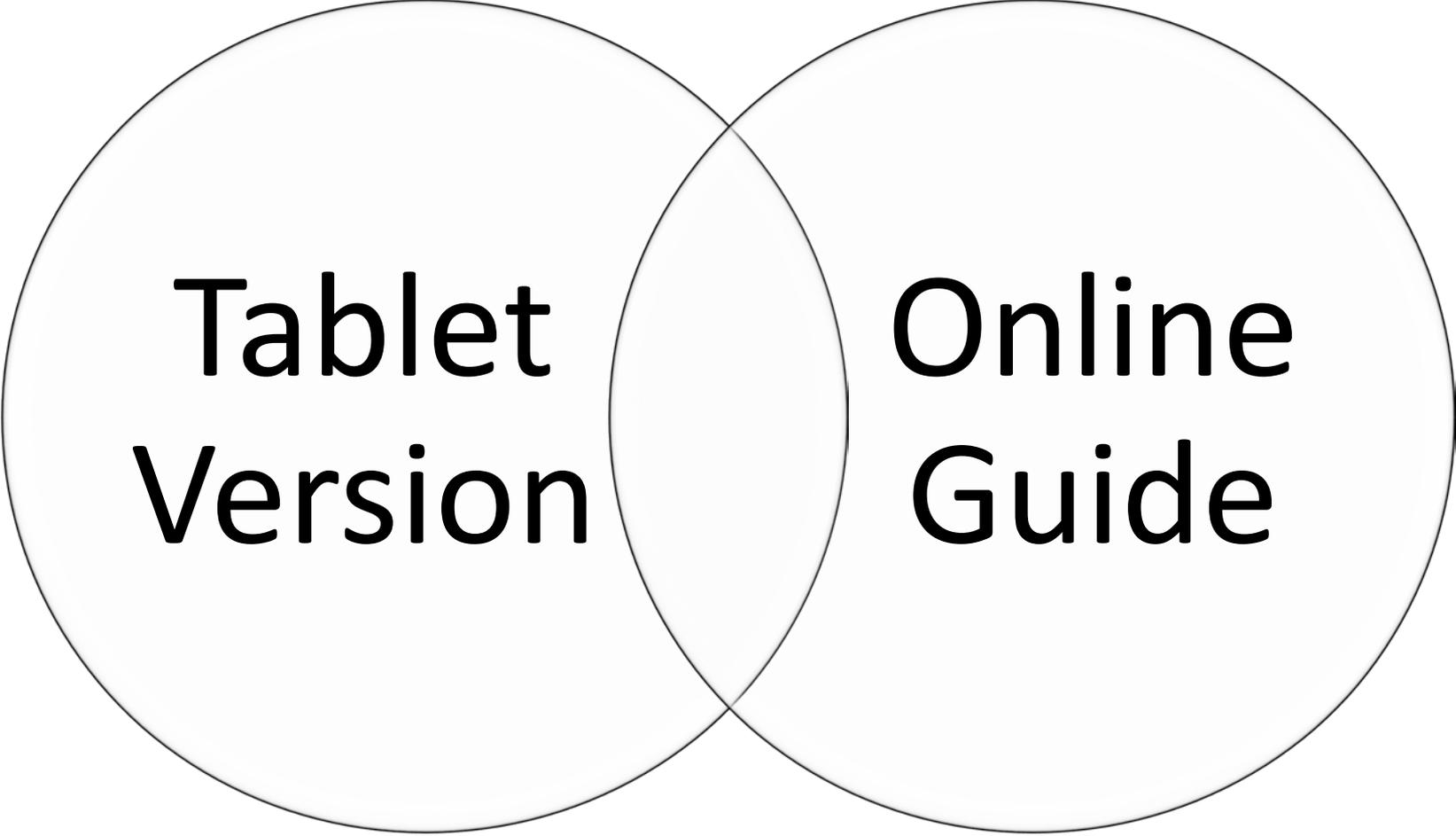
For Teachers

- Printed guide in English and Spanish
- Tablet version and online guide
- 12 classroom lessons with interactive PDF's and comprehensive procedure docs

Printed Guide

- Provided to teachers as a class set (50 copies)
- Topics
 - Define personal wealth
 - Use a balance sheet to determine net worth
 - Set financial goals
 - Track daily spending
 - Create a budget
 - Plan an investment strategy
 - Control debt
- Includes a comprehensive glossary

Digital Access



Tablet
Version

Online
Guide

Classroom Lessons

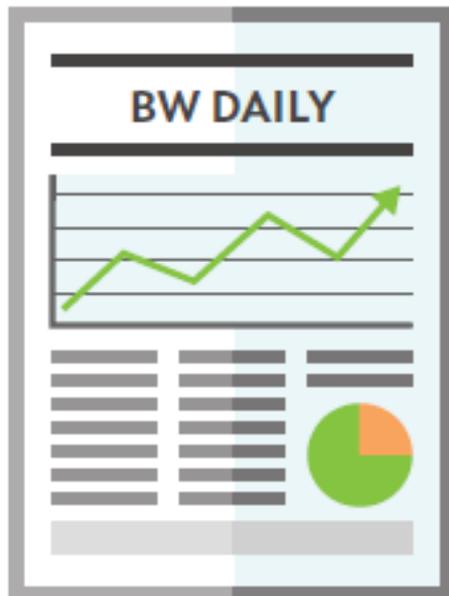
- The Balance Sheet
- Developing a Budget
- Put It in the Bank
- Owning versus Renting
- Stocks—Owning Part of a Company
- Bonds—Lending Your Money
- Diversification
- Investing for a Lifetime
- Risk and Return
- Use Credit Wisely
- Are You Credit Worthy?
- Term Loans

Save and Invest Lessons

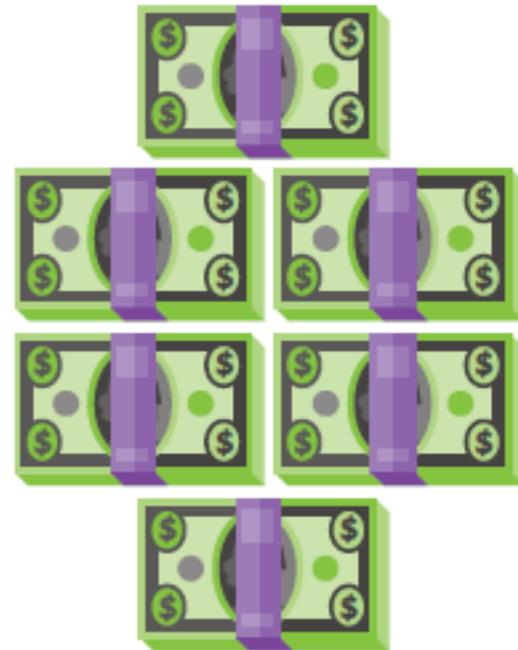
- Stocks—Owning Part of a Company
- Bonds—Lending Your Money
- Diversification
- Investing for a Lifetime

Wealth-Building Assets

Wealth-building assets are assets that generally appreciate over time or provide a return.



Stock Appreciation



Dividends

Building Wealth with Stocks

Wealth-Building Assets		
Savings Account	\$ 500	\$ 500
Stock (100 shares)	5,000	5000
Total	\$ 5,500	\$ 5500

Liabilities		
All Liabilities	\$ 1,000	\$ 1000

Totals		
Assets	\$ 5,500	\$ 5500
Liabilities	1,000	1,000
Net Worth	\$ 4,500	\$ 4500



Reset 

Sell Stock

Receive Dividend

\$.75/share * 100 shares quarterly
\$3.00/share annually

\$1000

BOND

\$1000

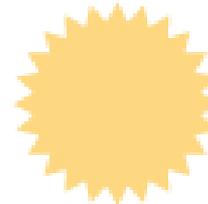
The United States of America

10 Year Note

Issued: 10/15/2011

Matures: 10/15/2021

5% Paid Annually



\$50

\$50

\$50

\$50

\$50

\$50

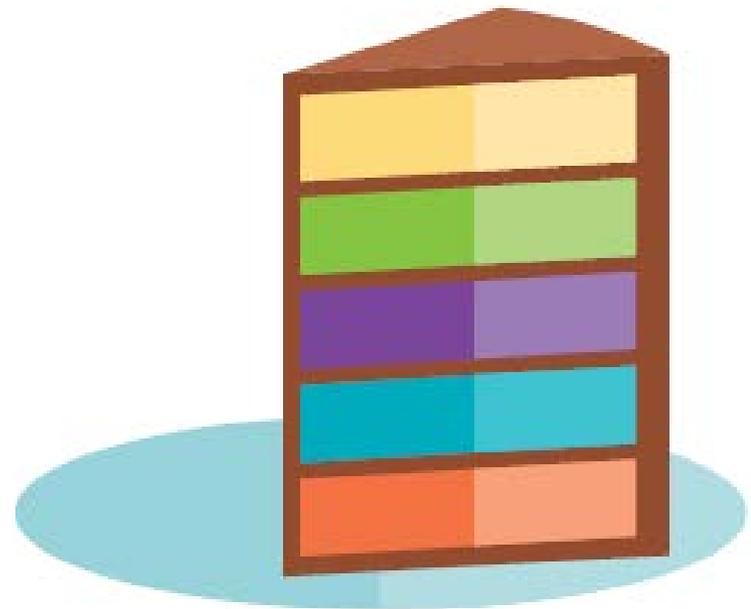
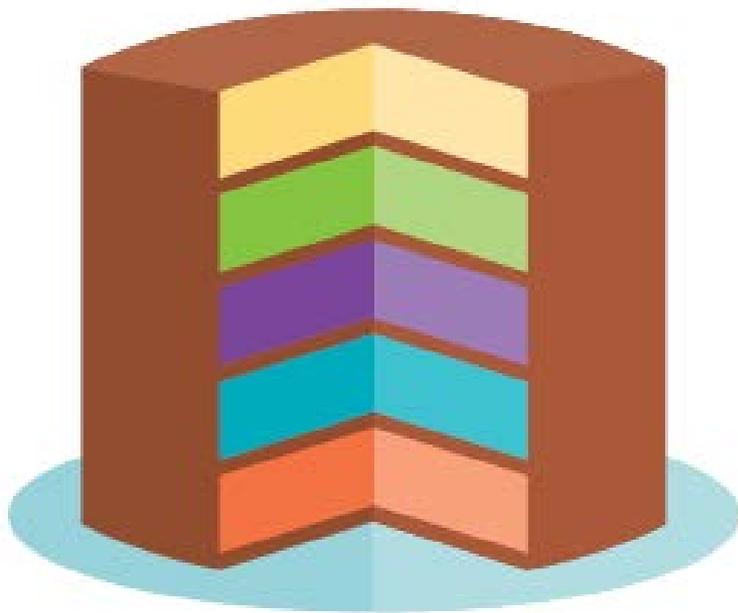
\$50

\$50

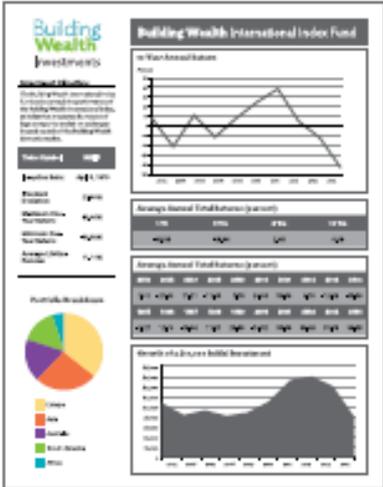
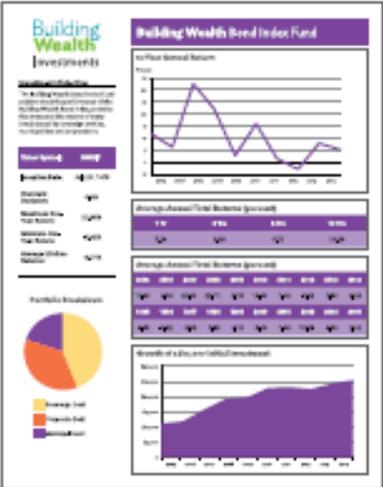
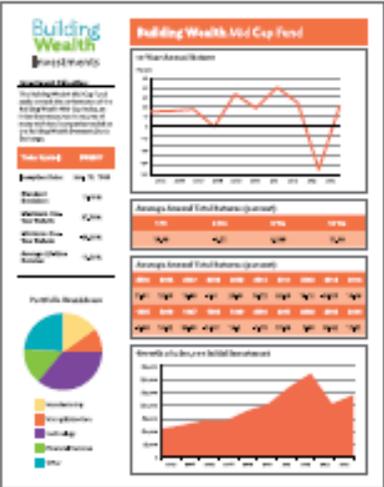
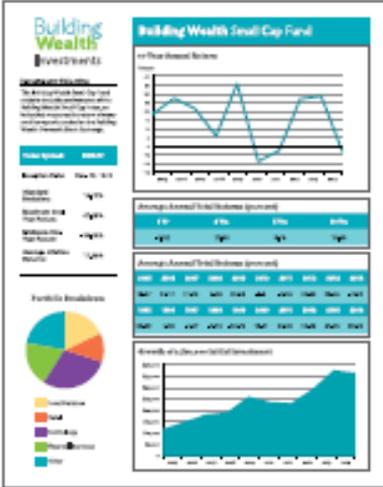
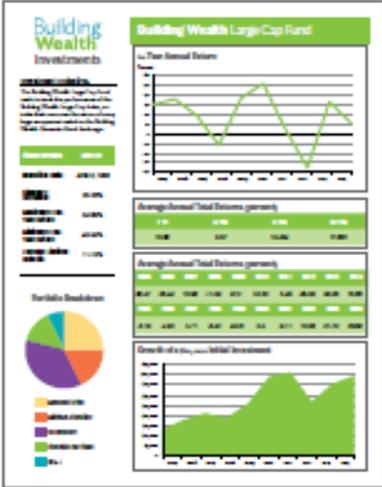
\$50

\$50

Mutual Funds



Building Wealth Mutual Funds





A Lifetime of Investing

Allocation 1



Allocation 2



Allocation 3



Allocation 4



Graph

A Lifetime of Investing

Allocation 1
\$890419

Allocation 2
\$890419

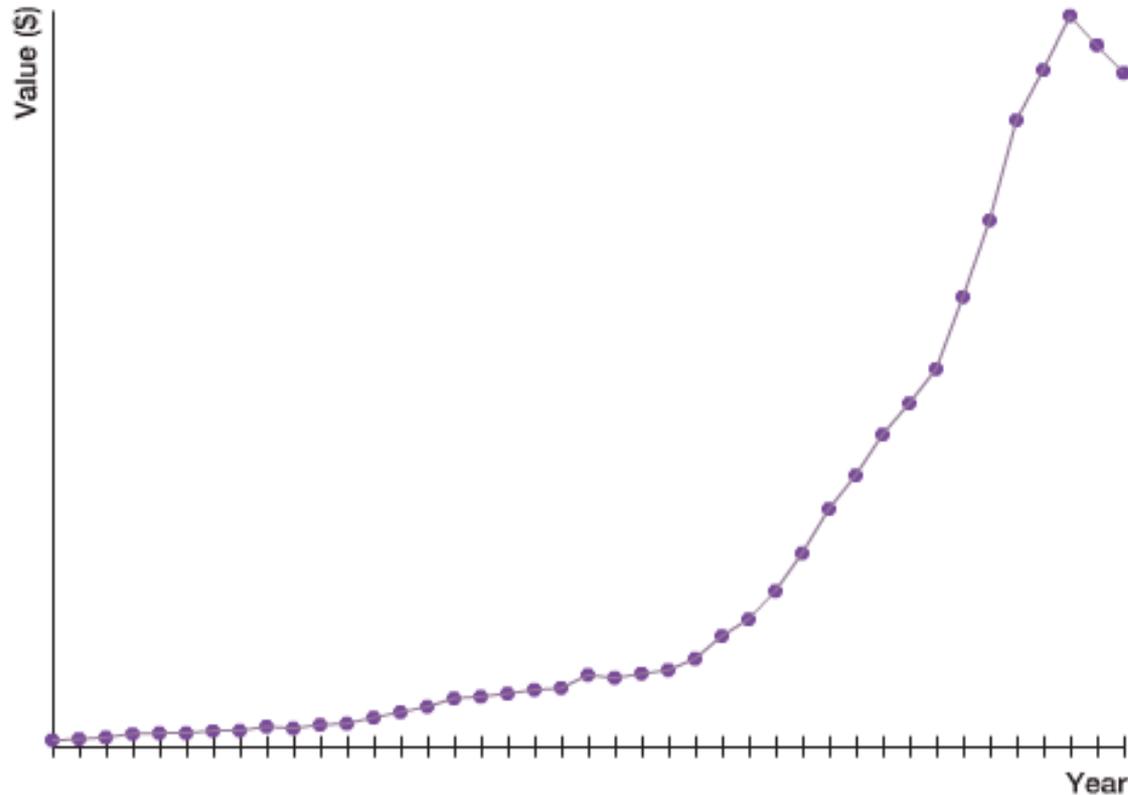
Allocation 3
\$890419

Allocation 4
\$890419

Allocate

Returns

Year 40



Reset 

Questions?

Princeton Williams

princeton.williams@dal.frb.org

**To order publications or access
lessons, visit www.BuildingWealth.org**

EconLowdown Online Resources

www.stlouisfed.org/education



ONLINE COURSE LOGIN:

- STUDENTS
- TEACHERS

econlowdown[®]
click. teach. engage.

EVENTS

SUBSCRIBE

ENDORSEMENTS

TEACHER ED

PARTNERS

CONTACT US

GLOSSARY

FLASH CARDS

Econ Lowdown provides award-winning, free classroom resources for K-16 educators to teach about economics, personal finance, money and banking, and the Federal Reserve. We also have free resources for consumers who want to learn about these topics.

Check out our extensive list of online courses, and see what teachers have to say on our endorsements page. Explore opportunities for teacher education, and for becoming a school partner with the Federal Reserve Bank of St. Louis.

RESOURCES

Search all Econ Lowdown resources

Use the filters below to find the education resources relevant to your needs.

- ELEMENTARY SCHOOL +
- MIDDLE SCHOOL +
- HIGH SCHOOL +
- COLLEGE +
- CONSUMERS +

SELECTED FILTERS: [Clear All](#)

Language: ▾ Subject: ▾ Resource Type: ▾ Concept: ▾ SORT BY A-Z ▾

Online Portal Login

econlowdown
click. teach. engage.

Log In

Username

Password

SUBMIT

[Forgot Password?](#)

New to the site? Let's get you started!

REGISTER



Welcome to the Econ Lowdown Online Learning Module Instructor Management Panel. This tool allows you to:

- assign your students their student code and password
- register your students for online courses and videos
- monitor student progress in each of the online courses
- view the results of students' pre- and post-test results
- complete professional development

EconLowdown Instructors Management Panel

- Enroll students
- Track student progress
- Access pre-test and post-test scores



click. teach. engage.

SCOTT WOLLA | [CHANGE PASSWORD](#) | [LOG OUT](#)

 [MY CLASSROOMS](#) [COURSES](#) [VIDEO Q&A](#) [PROFESSIONAL DEVELOPMENT](#)

Hi, Scott.

Today, you will find peace and tranquility - after the final bell.

Click on My Classrooms to check your students' progress, check students' grades, or perform a number of other classroom management tasks.

If you would like to offer additional online courses to your students, click on View Courses to preview.

If you would like to preview videos to offer to your students, click on Video Q&A.

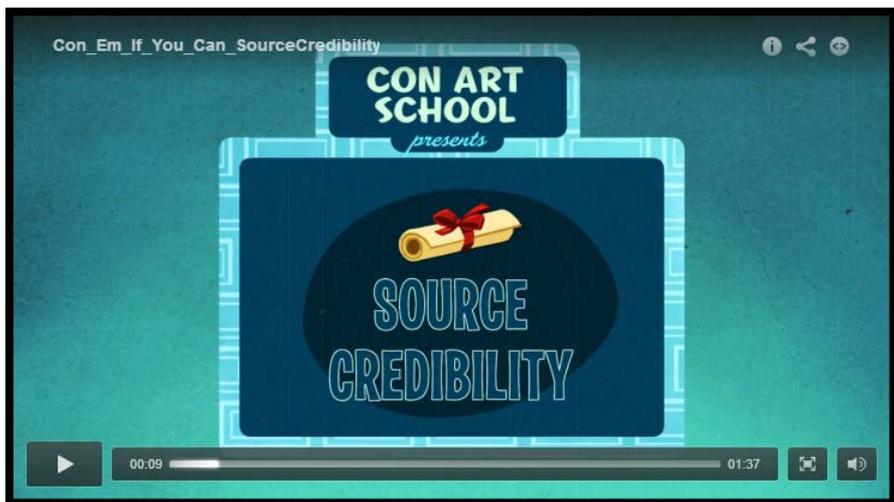
If you would like to sign up or view your progress for graduate credit, CPDU credit, or FRB certification, click on Professional Development.

[MY CLASSROOMS](#) [VIEW COURSES](#) [VIDEO Q&A](#) [PROFESSIONAL DEVELOPMENT](#)

If you have any questions or concerns, please contact us at economiceducation@stls.frb.org.

Con 'Em If You Can: Lessons from Con Art School

All of the best con artists graduate from con art school...



Con 'Em If You Can: Lessons from Con Art School



2 of 2

Which con artist's statement demonstrates the red flag of scarcity?

- a. Once in a lifetime opportunity! Don't miss out!
- b. I've been working with your friend, Sally, and she has seen success with our product.
- c. I've been in this business for over 15 years and I've earned two certificates in investment.

That is correct.

Submit Quiz

© 2016 Federal Reserve Bank of St. Louis



2 of 2

When it comes to source credibility, which of the following sayings best applies?

- a. An apple a day keeps the doctor away.
- b. Don't put all of your eggs in one basket.
- c. Everything that glitters isn't gold.

That is correct.

Submit Quiz

© 2016 Federal Reserve Bank of St. Louis

Trick\$ of the Trade: Outsmarting Investment Fraud

Investment fraud can happen to anyone.



Trick\$ of the Trade: Outsmarting Investment Fraud

Investment fraud can happen to anyone.



2 of 2

Which con artist's statement demonstrates the red flag of scarcity?

- a. Once in a lifetime opportunity! Don't miss out!
- b. I've been working with your friend, Sally, and she has seen success with our product.
- c. I've been in this business for over 15 years and I've earned two certificates in investment.

That is correct.

Submit Quiz

© 2016 Federal Reserve Bank of St. Louis

S-123456

"Miracle Shim"

Retail Value
~~\$24.00~~

SSN Price
\$49.90

5 easy payments
\$9.98

Orders Today
7,922

HOT BUY!

1-800-123-1234
www.ssn.com

1:38

A man in a suit is standing behind a table covered with a red cloth. On the table are several stacks of wooden shims of varying heights. The background is a wood-paneled wall with a chair.

2 of 2

When it comes to source credibility, which of the following sayings best applies?

- a. An apple a day keeps the doctor away.
- b. Don't put all of your eggs in one basket.
- c. Everything that glitters isn't gold.

That is correct.

Submit Quiz

© 2016 Federal Reserve Bank of St. Louis

Tools for Enhancing The Stock Market Game™: Invest it Forward™



[Wealth Creation for All](#)

1 of 1

Interest describes:

- a. The fee paid to a financial planner for investment advice.
- b. The fee paid to a real estate agent to demonstrate the buyer is serious.
- c. The fee paid by a borrower to a lender for the use of their money.
- d. The fee paid by a lender to a borrower for the use of their money.

That is correct.

Next Question

© 2016 Federal Reserve Bank of St. Louis



[Understanding Capital Markets](#)

1 of 6

Capital markets bring buyers and sellers together to

- a. sell goods and services at extremely discounted rates.
- b. trade stocks, bonds, currencies and other financial assets.
- c. barter products for stocks, bonds, and other financial assets.
- d. buy exclusive goods and services unavailable elsewhere.

That is correct.

Next Question

© 2016 Federal Reserve Bank of St. Louis

Saving for College

PAGE ONE Economics®

College: Learning the Skills To Pay the Bills?

Scott A. Wolla, Senior Economic Education Specialist

GLOSSARY

Asymmetric information: A situation in which one party to an economic transaction has less information than the other party.

Human capital: The knowledge and skills that people obtain through education, experience, and training.

Innate: Something determined by factors present in an individual from birth rather than learned by experience.

Opportunity cost: The value of the next-best alternative when a decision is made; it's what is given up.

Productivity: The ratio of output per worker per unit of time.

"An investment in knowledge pays the best interest."
—Benjamin Franklin

It's often said that a college education is the key to success. And the decision to go to college is one of the most important choices young people encounter. But you might wonder why a college degree makes such a big difference. Does college really teach valuable skills, or is it all about the degree itself—the piece of paper that serves as your ticket to success? Or is it a bit of both?

The Economic Benefits of Education

Economists observe that individuals benefit greatly from education, and those benefits accumulate into benefits for the entire economy. For the individual, education increases job opportunities and usually results in a higher income. This occurs because workers with more education tend to have higher **productivity**, which means they tend to produce more output with the same inputs. Because businesses can sell this extra output to earn higher revenues, firms are willing to pay highly productive employees a higher wage.¹ In other words, higher productivity increases the value of these employees to the firm.

So, as noted above, an educated workforce benefits society by producing more goods and services with the same level of resources. Productivity gains fuel economic growth, which increases the standard of living in an economy—for both the highly educated workers and the population more broadly. In a sense, these are two sides of the same coin: Education increases productivity, and higher productivity results in higher incomes for workers and more economic growth for the economy.

How Are Education and Productivity Linked?

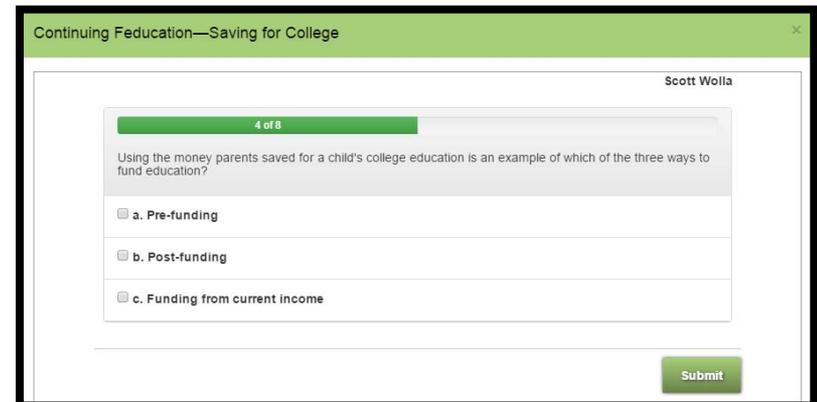
In some ways, discussing the relationship between education and productivity is like trying to answer the old question "Which came first, the chicken or the egg?" On the one hand, education might nurture productivity,

December 2015

Federal Reserve Bank of St. Louis | research.stlouisfed.org



Saving for College video



Saving for College video Q&A

Page One Economics



PAGE ONE Economics®

Stock Market Strategies: Are You an Active or Passive Investor?

Scott A. Wolla, Ph.D., Senior Economic Education Specialist

GLOSSARY

Bonds: Certificates of indebtedness issued by a government or a publicly held corporation, promising to repay borrowed money to the lenders at a fixed rate of interest and at a specified time.

Capital gains: A profit from the sale of financial investments.

Diversification: Investment in various financial instruments in order to reduce risk.

Dividend: A share of a company's net profits paid to stockholders.

Efficient market hypothesis (EMH): The theory that the current price of a stock in a corporation reflects all relevant information about the stock's current and future earnings prospects.

Index fund: A mutual fund with the objective to match the composite investment performance of a large group of stocks or bonds such as those represented by the Standard and Poor's 500 index.

Portfolio: A list or collection of financial assets that an individual or company holds.

Stock market index: A collection of stocks chosen to represent a particular part of the market.

Stock mutual fund: A mutual fund that buys stocks in order to make profits for the investors.

Transaction costs: The costs associated with buying or selling a good, service, or financial asset.

Volatile: Likely to change in a sudden or extreme way.

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

—Mark Twain, *Pudd'nhead Wilson*

If you ever ask an economist which stocks to buy, chances are you won't get a specific answer. Instead, you might hear about the "efficiencies" of markets.¹ In fact, there's an old economics joke about market efficiency: Two economists walk down a sidewalk—one is older and wiser and the other is younger and less experienced. The younger economist says, "Look a \$20 bill" and bends down to snatch it. The older economist says, "Don't bother! It can't be real or someone would have already picked it up."

The joke is meant to exaggerate the belief held by many economists that markets quickly adjust to new information. Financial markets are said to be "efficient" if they leave no "money on the table" for very long. If there's an opportunity to make a profit, buyers and sellers will swoop in and take it. Hence the joke—a \$20 bill left on the street for any length of time might not be a real \$20 bill at all.

Making Money in the Stock Market

Savers have many investment options to choose from. Investing in stocks has risks, but over time, the stock market tends to have higher average returns than other popular investment options (see the boxed insert "Stock Market Returns Over Time"). Investors earn money on their stock purchases through dividends and capital gains. **Dividends** are shares of a company's net profits paid to stockholders. Dividends are often paid quarterly and are commonly associated with established, profitable companies. **Capital gains** are the profit from the sale of a financial investment—for example, when a stock is sold for more than the original purchase price.

Every investor hopes to earn high returns—dividends plus capital gains—while minimizing risk. An effective way to minimize the risk of investing in stocks (a relatively risky financial asset) is to diversify. **Diversification** means to invest in various financial instruments—not just a specific one.



PAGE ONE Economics®

The Smart-Chip Credit Card: A Current Solution

Jeannette N. Bennett, Senior Economic Education Specialist

GLOSSARY

Card-not-present (CNP) transaction: A card transaction in which the card itself is not physically present. The cardholder provides information including the card number, expiration date, name of cardholder, and security code to a merchant.

Card-present (CP) transaction: A face-to-face card transaction in which the card is physically swiped or inserted into a card reader terminal.

Card reader: A device designed to read or decode the encoding on plastic cards.

EMV chip specifications: Specifications developed by Europay, MasterCard, and Visa defining requirements for using chip cards worldwide.

Fraud: Intentional and deliberate misrepresentation of information in violation of laws and regulations.

Issuer: Any financial institution that issues or causes credit cards to be issued.

Magnetic stripe: A magnetic stripe on the back of a plastic card that activates card information stored on the card when swiped through a card reader; also called a magnetic strip or magstripe.

Personal identification number (PIN): A required code known only by the cardholder that is used to make transactions; the PIN is entered into a terminal and sent to an authorizing entity to verify the account.

Point-of-sale (POS) terminal: An electronic device for the acceptance of payment cards; POS refers to the area or location where customers can pay for their purchases.

Skimming: An illegal method of stealing credit card information by using a small electronic device that scans and stores card data. The stolen credit card information can be used to make fraudulent purchases or clone new cards.

SmartPay Program: The world's largest government charge card and commercial payment program that allows authorized government employees to make purchases on behalf of the U.S. government.

"Once a new technology rolls over you, if you're not part of the steamroller, you're part of the road."

—Stewart Brand, *Editor of the Whole Earth Catalog*

"New and improved" credit cards are appearing in wallets of consumers across the United States. Designed for additional security for consumers and businesses, the new cards command the attention of consumers, merchants, and financial institutions. They look like the traditional old cards with one difference: a small, square, metallic computer chip appears on the front of each card. The card is known by several names, including smart card, smart-chip card, chip-enabled smart card, chip card, chip-and-signature card, chip-and-PIN (personal identification number) card, and EMV (named for Europay, MasterCard, and Visa) chip card (see the table).¹ Given all these names, it's understandable that the transition to the new card has prompted questions and even some confusion. For simplicity, this essay primarily refers to the new cards as *smart cards* or *chip cards*.

Changes in Procedures and Processes

For a point-of-sale (POS) transaction, the smart card functions the same as the traditional **magnetic stripe** card but some procedures and processes have changed. When a magnetic stripe card is swiped for a transaction, unencrypted data stored on the card are read by the terminal. The terminal processes and sends the unencoded information to the card **issuer**. Within seconds, the issuer's computer verifies and either approves or declines the requested transaction.² In a smart card transaction, the card is not swiped but is inserted, or "dipped," into a **chip card reader** terminal. Payment data are embedded on the chip³ and the terminal enables the chip to process information. The payment application embedded on the chip completes processing, stores encrypted (coded) data, and generates a new code for each transaction. During a transaction, encoded data flow between the smart card and the issuing institution for account authorization to approve or decline the transaction.

Page One Economics: Focus on Finance



Focus on
FINANCE

PAGE ONE Economics®

myRA: A New Way To Save for Retirement

Shannon R. Smithers, Analyst

"I have enough money to last me the rest of my life, unless I buy something."
—Jackie Mason

"It is never too early to start saving for your **retirement**." You've certainly heard this advice before. Is it good advice? Sure it is. Is it easy to follow? Maybe not. Many of us have more immediate expenses that get our attention and money before we think about retirement. Routine payments to buy a house, pay for college, or buy a car may make **saving** for retirement less of a priority or something you believe you can do later. Then there are those who barely make ends meet, who may also believe that saving for retirement is out of the realm of possibility.

Many small companies do not offer 401(k) retirement plans to their employees. Without the ease of an employer-sponsored savings plan, many employees may not save for retirement. As we have often heard, **Social Security income** may not meet all your needs during your retirement years (Employee Benefit Research Institute, 2010). The average Social Security benefit for retirees is \$1,294 per month. That is \$15,528 per year (Social Security Administration, 2014). So, the best advice is to plan to build up a savings nest egg to help supplement your Social Security income.

Well, there's a new retirement savings option that may provide a means for you to start saving for retirement by removing the "I can't afford it right now" barrier.

Introducing myRA

The U.S. Department of the Treasury has unveiled its latest savings tool. "my Retirement Account"—myRA for short—is a retirement savings account designed for individuals who may not have access to a saving plan through their employers.

It costs nothing to open a myRA account, and there are no fees, no minimum balance, and no contribution requirements. In addition to being free of fees, a myRA account carries no risk of losing money and is backed by the U.S. Treasury (<https://myra.gov/how-it-works/>).

GLOSSARY

Earned income: Earned income is the money you get for the work you do. There are two ways to get earned income: You work for someone who pays you or you own or run a business or farm.

Gross pay: The amount people earn per pay period before any deductions or taxes are paid.

IRA (individual retirement account): A retirement account that allows individuals to direct pretax or after-tax income, up to specific annual limits, toward investments that can grow.

Net pay: Gross pay minus deductions and taxes.

Qualified distribution: A reason you may withdraw money from a Roth IRA without the withdrawal being subject to tax.

Retirement: Permanently leaving a job, career, occupation, or active working life.

Saving: Not spending on current consumption or taxes. Saving involves giving up some current consumption for future consumption.

Social Security income: The monthly monetary amount received by retired workers who paid into the Social Security system while they worked.

January 2016

Federal Reserve Bank of St. Louis | research.stlouisfed.org

January 2016



Focus on
FINANCE

PAGE ONE Economics®

Peer-to-Peer Lending

Katherine Ren, Economic Education Intern

"Some debts are fun when you are acquiring them, but none are fun when you set about retiring them."
—Ogden Nash, American poet

GLOSSARY

Annual percentage rate (APR): The percentage cost of credit on an annual basis and the total cost of credit to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front.

Credit report: A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid.

Credit reporting bureau: An organization that compiles credit information on individuals and businesses and makes it available to businesses for a fee.

Credit score: A number based on information in a credit report, which indicates a person's credit risk.

Interest rate: The percentage of the amount of a loan that is charged for a loan. Also, the percentage paid on a savings account.

Liability: money owed; debt.

Microloan: A small, short-term loan at low interest, often used by self-employed individuals or entrepreneurs for start-up expenses, inventory, or equipment.

Soft inquiry: Any check of a person's credit report that occurs when the person's credit is not being reviewed by a prospective lender. Examples include inquiries as part of a background check, a person checking his or her own score, and checks by a financial institution with which a person already does business.

If you have ever taken a personal finance class, you likely remember that the teacher emphasized the importance of maintaining a good credit score. The teacher might have said that a good credit score gives you access to loans and credit cards with comparatively lower interest rates. In addition, you were likely warned of the consequences of a bad credit score and the potential dangers of easy-access payday loans that offer cash at an **annual percentage rate (APR)** as high as 400 percent.¹

As the terms "FICO" score," "interest rate," and "loans" were thrown around in class, perhaps it wasn't long until you found yourself wondering about your own credit score and its implications. So, what does a Fair Isaac Corporation (FICO) score tell lenders? What's a good **credit score**, and how does it affect the **interest rate** you'll pay? How is traditional lending different from other types of lending? And if payday loans are risky, are there other alternatives to traditional lending?

Traditional Lending and Credit Scores

When creditors consider making a loan, they look at the borrower's credit score to assess that person's ability and willingness to make payments on time. While an individual's credit score is not the sole factor affecting a credit application, the credit score influences not only the amount a lender will provide but also the terms of the loan such as the interest rate. One of the most common scoring techniques used by 90 percent of top lenders is the FICO score. A base FICO score ranging from 300 to 850 is generated by considering a combination of an individual's information (see the boxed insert). As with most scoring methods, a higher score is better; the premise is that the higher the score, the less risk posed to lenders.²

In addition to reviewing the FICO score, the lender also carefully reviews the borrower's **credit report**, a summary of the individual's payment history. The three major **credit reporting bureaus**—Experian, TransUnion,

November 2015

Federal Reserve Bank of St. Louis | research.stlouisfed.org

November 2015

41

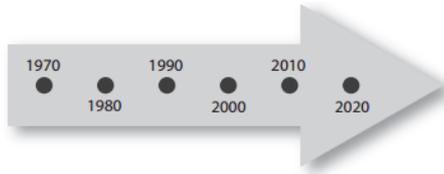
Page One Economics: Focus on Finance

Name _____ Period _____

Federal Reserve Bank of St. Louis Page One Economics®:
“The Smart-Chip Credit Card: A Current Solution”

After reading the article, answer the following questions:

1. The timeline below is divided according to decades (10-year increments) of time. If you were asked to add events to the timeline to illustrate the development and implementation of the chip card based on information in this essay, what entry would be first on the timeline? What entry would be last on the timeline?



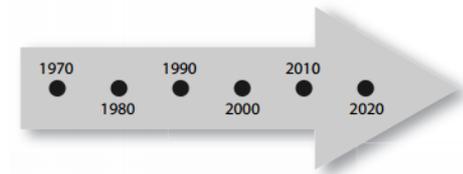
2. What evidence is provided to prove the endorsement of the chip card by the U.S. government? Check all that apply.
 - A. Mandate issued to transition to smart cards by October 2015
 - B. Smart cards issued to government employees who use credit cards to conduct government business
 - C. Chip card reader terminal upgrades initiated for all government-owned POS terminals
3. Give reasons why the United States is the last developed country to transition to chip cards.
4. Why did the United States finally transition to chip cards?

Teacher's Guide

Federal Reserve Bank of St. Louis Page One Economics®:
“The Smart-Chip Credit Card: A Current Solution”

After reading the article, answer the following questions:

1. The timeline below is divided according to decades (10-year increments) of time. If you were asked to add events to the timeline to illustrate the development and implementation of the chip card based on information in this essay, what entry would be first on the timeline? What entry would be last on the timeline?



First entry: Invention of the chip card in early 1970s
 Last entry: Liability-shift responsibility date for gas pumps in the United States set for October 2017

2. What evidence is provided to prove the endorsement of the chip card by the U.S. government? Check all that apply.
 - A. Mandate issued to transition to smart cards by October 2015
 - B. Smart cards issued to government employees who use credit cards to conduct government business
 - C. Chip card reader terminal upgrades initiated for all government-owned POS terminals

Only selections B and C are correct. No mandate was issued to transition to the new chip card.
3. Give reasons why the United States is the last developed country to transition to chip cards.

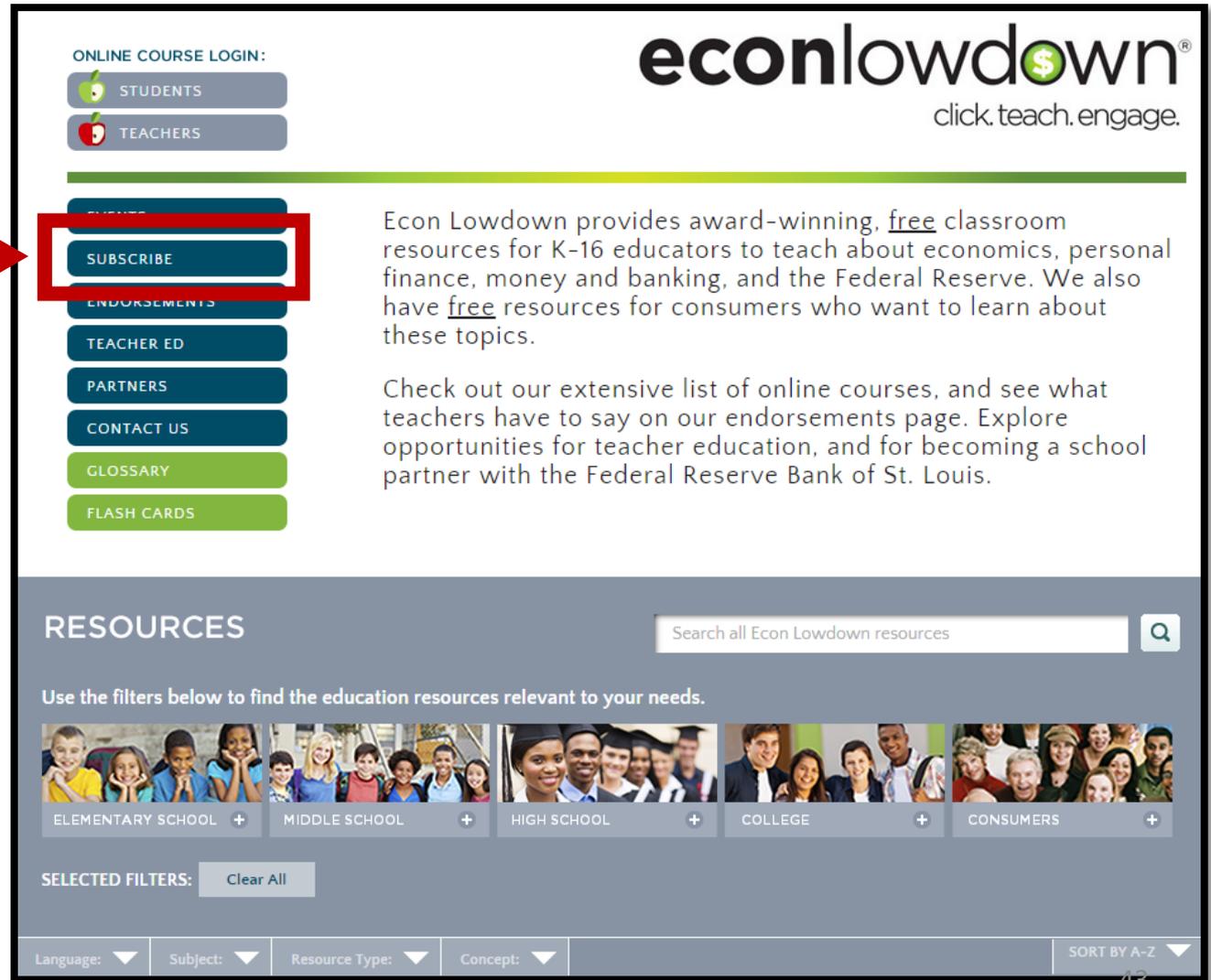
The United States had advanced fraud management methods in place for the magnetic stripe card and the cost of the investment necessary for migrating to the new card did not seem justified.
4. Why did the United States finally transition to chip cards?

The growing number of credit card hacks and high-profile data breaches involving credit card counterfeiting, skimming, and fraudulent transactions became problematic. The smart card offered a solution to these problems.

EconLowdown Online Resources

www.stlouisfed.org/education

**Subscribe to
email alerts!**



The screenshot shows the EconLowdown website interface. At the top right is the logo "econlowdown" with a registered trademark symbol and the tagline "click. teach. engage.". Below the logo is a navigation menu with buttons for "ONLINE COURSE LOGIN:", "STUDENTS", "TEACHERS", "SUBSCRIBE", "ENDORSEMENTS", "TEACHER ED", "PARTNERS", "CONTACT US", "GLOSSARY", and "FLASH CARDS". The "SUBSCRIBE" button is highlighted with a red box and a red arrow from the left. To the right of the navigation menu is a text block: "Econ Lowdown provides award-winning, free classroom resources for K-16 educators to teach about economics, personal finance, money and banking, and the Federal Reserve. We also have free resources for consumers who want to learn about these topics." Below this is another text block: "Check out our extensive list of online courses, and see what teachers have to say on our endorsements page. Explore opportunities for teacher education, and for becoming a school partner with the Federal Reserve Bank of St. Louis." At the bottom of the page is a "RESOURCES" section with a search bar "Search all Econ Lowdown resources" and a search icon. Below the search bar is a filter section: "Use the filters below to find the education resources relevant to your needs." with five filter buttons: "ELEMENTARY SCHOOL +", "MIDDLE SCHOOL +", "HIGH SCHOOL +", "COLLEGE +", and "CONSUMERS +". Below the filters is a "SELECTED FILTERS:" section with a "Clear All" button. At the very bottom are dropdown menus for "Language:", "Subject:", "Resource Type:", and "Concept:", followed by a "SORT BY A-Z" dropdown.

econlowdown

click. teach. engage.

The EconLowdown Collection of Online Resources:

- ***63 online modules,***
- ***95 videos,***
- ***and growing...***

Questions?

Scott Wolla

scott.a.wolla@stls.frb.org

www.stlouisfed.org/education

• Get a free credit report each year at annualcreditreport.com.

CREDIT HISTORY

Your credit history says a lot about you



PAY ON TIME

More readily approved for credit
Offered lower interest rates
Given a higher credit score



PAY LATE

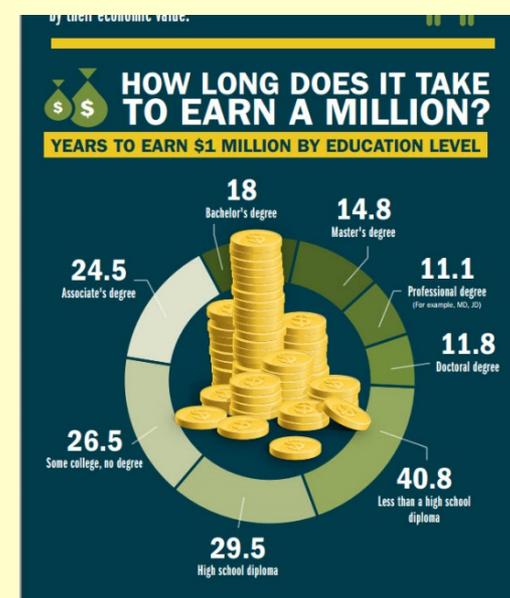
Sometimes denied credit
Offered higher interest rates
Given a lower credit score

CREDIT REPORT

Is a credit report the same as a credit score? **NO**



A credit report is a record of your credit history. It can show lenders and others how you manage your financial responsibilities.



Atlanta Fed's Infographic Series

Amy Hennessy

Director, Economic Education
Federal Reserve Bank of Atlanta

Infographics/Posters

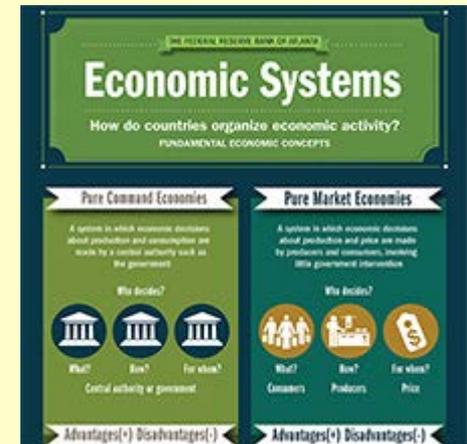
- Katrina's Classroom
(Personal Finance)



Planned for 2016:

- Saving and Investing
- Budgeting
- GDP
- Fiscal v. Monetary Policy

- Economics
(International Economics,
Microeconomics, Macroeconomics,
Fundamental Economic Concepts)



Preparing for the Unexpected



- Types of Financial Disasters
- Making a Plan
- Creating an Emergency Fund
- Planning and Preparing for Emergencies

Where Do You Bank?

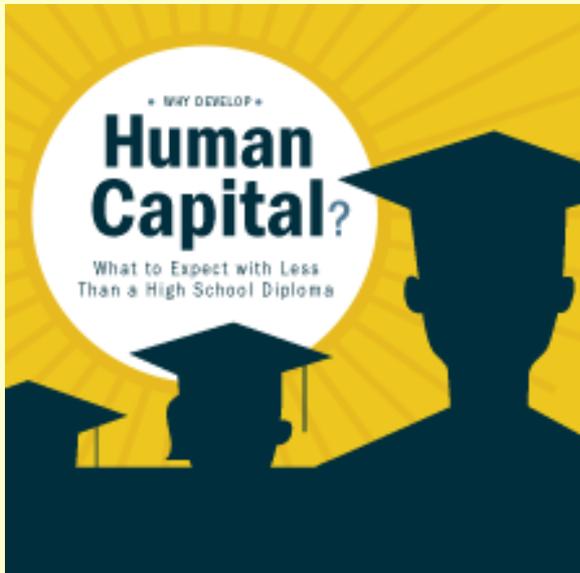


- Bank versus Piggy Bank?
- Choosing Banking Services
- Liquidity
- Security (Deposit Insurance)



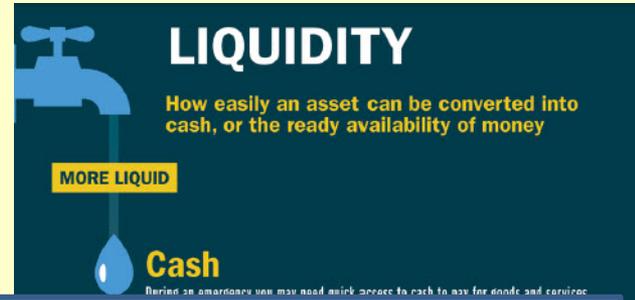
- What is Credit?
- Maintaining Good Credit
- Credit History
- Credit Report
- Components of Credit Scores

Human Capital



- What is Human Capital?
- Earning a Million by Education
- Poverty and Income Statistics for High School Only Graduates
- Unemployment and Weekly Earnings by Education Level

Poster Order Form



<https://www.frbatlanta.org/forms/education/infographics-order.aspx>



ACCESSIBILITY

24-hour access
Online banking
Mobile banking
Smartphone apps
Direct deposit

ACCOUNT FEATURES

Account fees
Overdraft protection
Availability of funds
Interest rates
ATM & debit cards

LOCATION

Online only
Physical locations
ATM locations
Convenience
Proximity

LESS LIQUID

SECURITY



\$250,000

The amount covered for each depositor for each account in an FDIC insured bank.

Source: Federal Deposit Insurance Corporation, Deposit Insurance, www.fdic.gov/deposit/

FRBATLANTA.ORG
EDUCATION RESOURCES

KATRINA'S CLASSROOM

IN THE AFTERMATH



To place a bulk order of the posters contact

Amy Hennessy

Amy.Hennessy@atl.frb.org

Questions?



