FLORIDA . . .
The Story Continues

CHAPTER 19, Personal Finances

PEOPLE **1877: When William H. Barnett opened his first bank in Jacksonville, it was easy to open a bank.** Barnett was a stranger from the north. However, people trusted him because of his five rules of business. The first rule was to treat people as he wanted to be treated. Second, he did not make business deals unless he expected to make money. Third, if someone was honest and worked hard at a good idea, he loaned them money. Fourth, he thought carefully before making promises; then he kept them. Fifth, he did not worry about making money. He was careful in his spending and the loans he made. So Barnett made a profit, and his banks spread. They served Florida for more than 100 years.

PLACES **The Miami Stock Exchange is known as MSX4.** The Miami Stock Exchange makes it easy for people to trade stocks and currency. It manages trading services for 27 Latin American and Caribbean Exchanges. These exchanges, known as the G27, are located in Central and South America, as well as in the Caribbean. Nations include Peru, Barbados, Trinidad and Tobago, Jamaica, Costa Rica, Brazil, Chile, Venezuela, and Mexico.

EVENTS **A sinkhole forms when groundwater dissolves underground rock.** Florida has more sinkholes than any other state. Sinkholes can damage or destroy homes and other buildings. The state of Florida makes insurers offer sinkhole insurance, which helps people protect the value of what they own. Claims rose from 2006 to 2010, and as a result, insurers want to increase premium costs. They have collected less money in premiums than they have paid out in claims.

EVENTS **1992: Hurricane Andrew tears across southern Florida.**
Hurricane Andrew had a 17-foot storm surge. However, most of the damage was done by the wind. Twenty-six people died in the United States and Bermuda because of Andrew. The storm caused 25.5 billion dollars in damage in South Florida. It showed the need for and importance of hurricane insurance.

EVENTS **1993: The state of Florida starts the Florida Hurricane Catastrophe Fund.** Many Floridians knew that their homes could be destroyed by hurricanes, so they bought hurricane insurance. That meant that insurance companies paid for most of what Hurricane Andrew damaged and destroyed. This cost the companies so much that they did not want to offer hurricane insurance anymore. A special session of the state legislature created the Florida Hurricane Catastrophe Fund. The purpose of the fund is to protect and promote the state's interest in keeping insurance capacity in Florida. The fund provides compensation to insurance companies for a portion of their losses caused by catastrophic hurricanes.

PLACES **1946: Business booms in Oviedo after World War II.** However, there was no local bank. Farmers and other citizens had to go to Orlando, Sanford, or Winter Park. People were afraid of being robbed on the way. In 1946, some Oviedo business owners decided to open their own bank, the Citizens Bank of Oviedo. The bank flourished and is still in operation today as the Citizens Bank of Florida.

Unpacking the Florida Standards

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

Benchmark SS.7.E.1.4 **Discuss the function of financial institutions in the development of a market economy.**

What does it mean?

Describe the roles played by financial institutions in a market economy. Go to Chapter 19, Personal Finances, and Chapter 20, Economic Challenges, for help.

Photo credits: See Chapter 1 *Florida. . . The Story Continues*

CHAPTER 19

PERSONAL FINANCES

Essential Question What role do personal finances play in the economy?

Florida Next Generation Sunshine State Standards

SS.7.C.2.11 Analyze media and political communications (bias, symbolism, propaganda). **SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy. **SS.7.E.1.6** Compare the national budget process to the personal budget process. **SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply. **SS.7.E.2.5** Explain how economic institutions impact the national economy. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection. **MA.7.A.1.2** Solve percent problems, including problems involving discounts, simple interest, taxes, tips, and percents of increase or decrease.

WHY CIVICS Matters

Imagine life without money. If you couldn't trade for the goods you wanted, you would be out of luck. Fortunately, we have a system in which you can exchange money for what you need. Understanding personal finances is an important part of being a good citizen.

PROJECT Citizen

WE THE PEOPLE PROGRAMS
CENTER FOR CIVIC EDUCATION

STUDENTS TAKE ACTION

GAINING ACCESS TO LIBRARIES

What if you had to pay to use the public library, even for materials you needed for school? Think about steps you could take to convince people that you should have access to a public library at no charge.

FOCUS ON WRITING

WRITING A LETTER OF RECOMMENDATION

Your friend has applied for a job at a local bank and has asked you to write her a letter of recommendation. After you read this chapter about personal finance, you will write a letter to convince the bank that your friend is the perfect candidate for the job.

Reading Skills

In this chapter you will read about the basic characteristics of currency. You will learn why people and businesses accept checks as payment instead of cash. You will also learn about the role credit plays in the economy. You will discover about how the Federal Reserve System regulates the amount of money in circulation. You will learn about the importance of saving money and the different ways people invest their money. Finally, you will read about private insurance and Social Security.

Making and Understanding Charts and Graphs

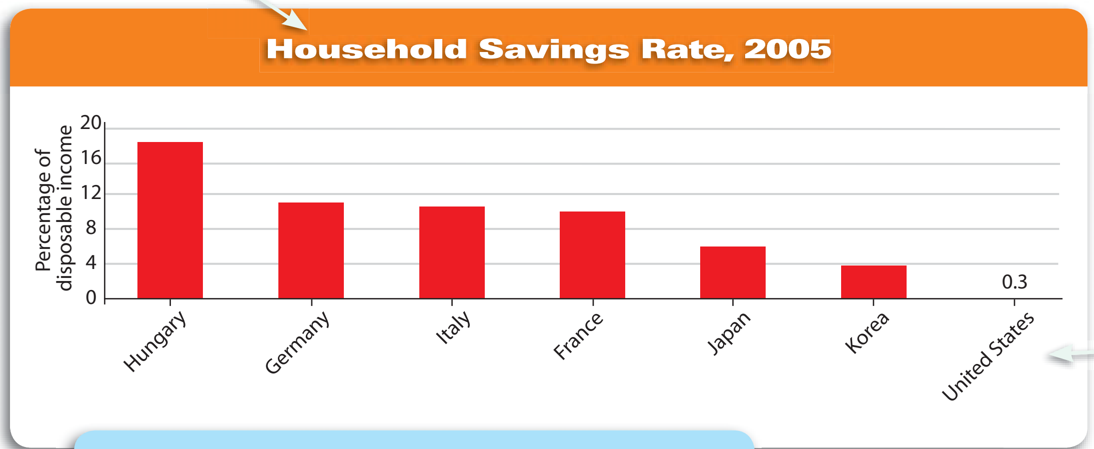
FOCUS ON READING When writers want to communicate complex information in a simple way, they often use visuals such as charts and graphs. Charts show how the parts of something relate to the whole thing. Graphs show changes or trends over time.

Making Charts and Graphs To create a visual, first decide whether a chart or graph is better. One common chart is a pie chart. It shows the sizes of the different parts, or slices, of the whole. Pie charts often use percentages instead of specific numbers. In a graph, the horizontal line, called an axis, often represents points in time such as hours, days, or years. The vertical axis often shows quantities or amounts.

Helpful Hints for Making and Understanding Charts and Graphs

1. Read the title to determine the subject of the chart or graph.
2. Study the labels. A pie chart will label the slices, or main categories. A graph will have labels on each axis.
3. Analyze the data. What does the information mean?
4. Draw conclusions about the subject.

Title Create a title that identifies the subject of the chart.



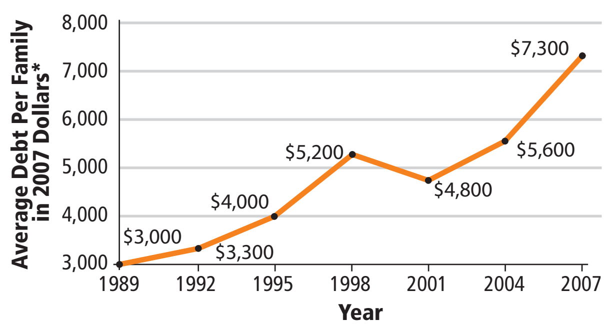
Labels Use labels to show the main categories or pieces of data that the chart or graph represents.

Analyze the Data Be sure you understand the data that is presented. Read the title and any labels to identify the subject of the chart or graph. This bar graph, for example, illustrates the percentage of disposable income that households in several countries put into savings in 2005.

You Try It!

Study the line graph below and then answer the questions that follow.

U.S. Household Credit Card Debt



Source: *Federal Reserve Board*
* for households with credit card debt

After you have studied the graph, answer the following questions.

1. What is the subject of this graph?
2. What time period does the graph cover?
3. In which year was household credit card debt the highest?
4. Between which years did household credit card debt decline? How much did the average credit card debt decline?
5. What general trend does this graph indicate?

As you read Chapter 19, notice what information could be illustrated as a chart or graph.

KEY TERMS

Chapter 19

Section 1

currency *(p. 504)*
long-term credit *(p. 507)*
short-term credit *(p. 507)*
bankruptcy *(p. 508)*
creditors *(p. 508)*

Section 2

collateral *(p. 512)*
savings and loan associations *(p. 513)*
credit unions *(p. 514)*
Federal Reserve System *(p. 514)*
discount rate *(p. 515)*
discounting *(p. 516)*

Section 3

certificates of deposit (CDs) *(p. 518)*
brokers *(p. 518)*
stock exchange *(p. 518)*
mutual funds *(p. 518)*
money market funds *(p. 519)*

Section 4

insurance *(p. 522)*
premium *(p. 522)*
private insurance *(p. 523)*
beneficiary *(p. 523)*
social insurance *(p. 524)*
Social Security *(p. 524)*
Medicare *(p. 526)*
Medicaid *(p. 526)*

Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic word:

acquire *(p. 507)*

SECTION 1

SS.7.C.2.11; SS.7.E.1.2; LA.7.1.6.1; LA.7.1.7.1

Money and Credit

BEFORE YOU READ

The Main Idea

In addition to using dollar bills and coins, individuals and businesses use checks, debit cards, and credit to pay for their purchases.

Reading Focus

1. What are three basic characteristics of currency?
2. Why do people and businesses accept checks as payment?
3. How is credit important to individuals and families?
4. How is business credit useful to the economy as a whole?

Key Terms

currency, *p. 504*
long-term credit, *p. 507*
short-term credit, *p. 507*
bankruptcy, *p. 508*
creditors, *p. 508*

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TAKING NOTES
Use the graphic organizer online to take notes on the role that currency, checks, personal credit, and business credit play in the economy.

One way you pay for what you buy is with currency, or coins and paper money. Other times you might borrow money or use a credit card.

CIVICS IN PRACTICE How do you pay for something? If an item is inexpensive, you may use cash, or currency. If goods and services are more costly, however, it may become inconvenient to carry around enough cash to buy what you want. As a result, you are more likely to write checks or use credit or debit cards. For expensive purchases, like cars and houses, people usually arrange loans.

Characteristics of Currency

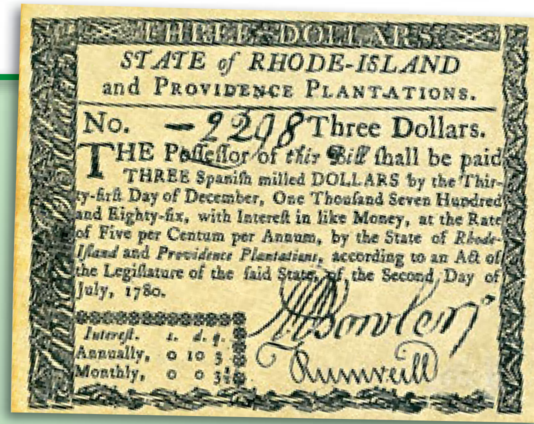
Every country in the world has an official form of currency. The word **currency** is another term for coins and paper money. Whatever it is called, all currencies share at least three common features:

1. Currency must be easy to carry. It must be small and light so people can carry it with them for everyday use.
2. Currency must be durable, or last a long time. It should not wear out too quickly or fall apart.
3. Currency must be made in a standard form and must be considered legal tender by the government that issues it. In this way, people can be certain that their coins and bills will be accepted in exchange for goods and services.

A History of Cash

People in different cultures have used a variety of materials—from stones to beads to metals—to conduct financial transactions. For people on the South Pacific island of Yap, *rai*—stone wheels as large as ten feet in diameter—were used for socially important transactions such as marriages.

Why were* rai *generally used only for important social transactions?



Early American bill

Wampum belt

Yap Island rai (stone wheel)

Ancient coins

Earlier in our history, one of the weaknesses under the Articles of Confederation was the lack of a standard currency. Each state issued its own money. The different values and exchange rates for these currencies made trade among the states very difficult. The Constitution solved this problem by granting Congress the sole right to coin money and to regulate its value.

Today, the currency used by Americans is issued by the federal government. Two mints—plants where coins are made—now make most coins for general circulation. The two mints, located in Philadelphia, Pennsylvania, and Denver, Colorado, produce more than 65 million coins a day.

In the United States, six coins are used: pennies, nickels, dimes, quarters, half-dollars, and dollar coins. For many years the value of a coin was equal to the value of the metal that it contained. A silver dollar, for example, yielded about a dollar's worth of silver when melted down. In the past, many Americans would only accept coins. They believed coins were more valuable and reliable than paper money.

Most money issued today is paper money, printed in Washington, D.C., at the Treasury Department's Bureau of Engraving and Printing. Bills are printed in denominations of $1, $2, $5, $10, $20, $50, and $100. The $5, $10, $20, $50, and $100 bills have been redesigned in recent years to make them more difficult to counterfeit.

All U.S. paper money and coins are legal tender. This means that by law people must accept this money as payment for goods and services in the United States. This system has worked for many years. Thus, everyone knows that these same dollars and coins will be accepted without hesitation when they are presented at stores, banks, or elsewhere.

READING CHECK **Summarizing** What are the three common characteristics of all currencies?

Checks and Debit Cards

Paper money and coins were important in developing a strong financial system in the United States. Today most buyers do not use coins or paper money for the majority of their purchases. Instead, Americans often make payments by check or debit card.

Checks

Checks are just pieces of paper. They are not legal tender because they are not issued or guaranteed by the federal government. To write a check for a purchase, you must have a particular kind of bank account—usually called a checking account—and enough money in that account to cover the check.

Merchants and others who receive the check know that the bank will honor the check. In other words, banks will take money from your account in the amount of the check and issue that money to the person or organization to whom the check was written.

Today, paper checks and debit cards account for almost 50 percent of U.S. consumer purchases. Cash still accounts for about one third of all purchases.

If people write checks for more money than they have in their account, the bank will usually charge an overdraft penalty. This penalty might be $25 or more, so it is important to watch your bank balance carefully. People who intentionally write checks without enough money in their accounts may be charged with a crime.

Debit Cards

Today more and more people prefer to make payments from their checking accounts with debit cards instead of writing checks. Debit cards are like electronic checks. Instead of writing out a check in the store, you can give the cashier your debit card. The money will be deducted from your account just like with a check. Debit cards offer an increasingly popular alternative to carrying cash or a checkbook.

READING CHECK **Drawing Inferences and Conclusions** Why are people more likely to use a check or debit card than cash to make a purchase?

Credit and the Economy

Sometimes a consumer may want to make a purchase but does not have enough cash in his or her wallet or bank account. When this happens that person needs access to credit. Buying something on credit means that a person is able to buy something now with the promise to pay for it later. Credit is a loan of money that is repaid plus interest. Interest is a payment charged for borrowed money.

Charge and Credit Cards

Some stores issue charge cards to many of their customers. A charge card is a form of borrowing. Customers can buy items without paying for them immediately because the store lends them the money for the purchase.

The amount of the purchase is added to the customer's account balance and billed to the customer each month. The customer then sends the store a payment for some or all of the amount due. A minimum payment is

Linking to Today

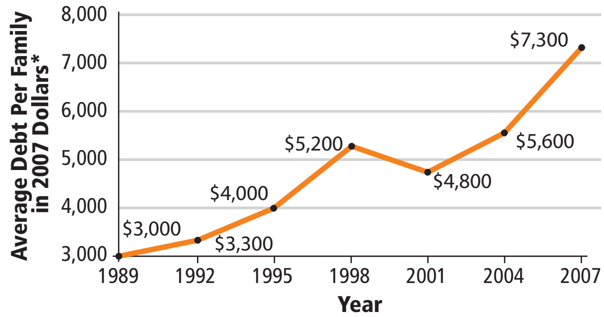
America's Credit Card Debt

The first general-purpose credit card was introduced in 1958, when the BankAmericard was sent to 60,000 potential customers. By 1970, two major credit cards were available, but only about half of the people who received cards were using them. The average credit card debt was $185.

Credit card companies have changed a lot since those early days. Companies now research the financial background of potential customers. To make more money, they also charge penalty fees and offer people higher credit lines and lower minimum payments.

Today, Americans possess more than 609 million credit cards. The average household in 2010 had an average of $7,400 in credit card debt. Many households have no credit card debt or pay their balance each month.

U.S. Household Credit Card Debt



Source: *Federal Reserve Board*
* for households with credit card debt

ANALYSIS SKILL **Drawing Conclusions**

Based on the decrease in credit card debt between 1998 and 2001, what conclusions would you draw about the national economy?

typically required. Usually there is no interest charge if the customer pays the full balance by the due date. If the customer only pays part of the balance, the store usually charges interest on the remaining amount.

Similar to charge cards, credit cards are much more common. Banks and other lending institutions issue them. A charge card can only be used in the store or chain of stores that issued it. On the other hand, you can use a credit card almost anywhere. You present the credit card when making a purchase, and the store charges the credit card company for the amount of the purchase. The credit card company pays the store. You then receive a monthly bill from the credit card company for the total amount of all your purchases.

As with charge cards, the customer pays all or part of the credit card bill once a month. Most customers send credit card companies checks. Yet, many people now use the Internet to transfer funds directly from their bank account to pay their credit card bills. Interest charges, which can be quite high, are added to the unpaid portion of the monthly bill.

Credit and the Family

If used wisely, credit can help the average American family. Few young families have saved enough money to **acquire** a house. Yet borrowing from a bank or mortgage company to do so will give them the extra money they need. They can then pay the loan off gradually from money they earn. Of course, they also have to pay interest on the loan, often for 30 years.

Loans payable over long periods are called **long-term credit.** Most American families use long-term credit to buy cars. Other families use it for buying major appliances and furniture. If a family plans to pay for an item within just a few weeks or months, it needs only **short-term credit.** This type of credit can be especially helpful for emergency purchases, such as a new furnace or refrigerator to replace the one that broke.

If used unwisely, credit can cause serious financial problems. A person might buy so much on credit that he or she cannot afford to make the payments on time. Often the lender has the right to charge a penalty and to raise the interest rate after missed payments.

Academic Vocabulary

acquire: to get, purchase or buy

SS.7.E.1.2 Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

LAW 101

FOUNDATIONS of DEMOCRACY

Credit Card Protection

When you buy a movie ticket, how do you pay for it? Do you use a debit or credit card? Maybe you pay with cash that you withdrew using your ATM card. All of these cards are convenient, but because they are linked to your bank or credit account, their loss or theft could cost you a great deal. Two laws help protect you from these situations: the Fair Credit Billing Act (FCBA) and the Electronic Fund Transfer Act (EFTA).

Why it Matters The FCBA and the EFTA offer protection if you report your lost or stolen card immediately. Under the FCBA, if you report a credit card missing before someone uses it, you will not pay for any unauthorized purchases, although you may be charged a fee up to $50. For debit and ATM cards, the EFTA protects you from charges if you file a report before the card is used. However, if the card is used after two days, you can be charged $50, and later, up to $500. After 60 days, you may have to pay for all the unauthorized charges.

Protect yourself. Always know where your cards are and keep a list of your account numbers and the phone numbers of your banks and card companies in a safe place. Save your receipts and check them against your account statements. If you see charges you did not make, report them immediately.

If you have a credit card, check your monthly statement carefully.

ANALYSIS SKILL **EVALUATING THE LAW**

1. **Is it more dangerous to lose a credit or debit card? Explain your answer.**
2. **What impact do you think the FCBA has on credit card companies and their responsibilities? Explain your answer.**

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This makes the balance even harder to pay off. Stores may repossess, or take back, purchases that have not been fully paid for.

A credit card holder may be sued for the outstanding balance, and in the worst case may have to declare bankruptcy. **Bankruptcy** is a legal declaration that a person or business cannot pay debts owed. If a bankruptcy judge agrees, the person may be excused from the debt or be allowed to pay a reduced amount. In some cases, one may have to sell most of the things he or she owns to satisfy the **creditors**, those people who are owed money. Declaring bankruptcy can hurt a person's credit rating for years. This makes it more difficult to borrow money for a car, home, or other needed items. In 2005 Congress passed strict new bankruptcy laws. It is now more difficult to declare bankruptcy, and the amount of debt that can be excused has been reduced.

READING CHECK **Analyzing Information** What are the positive and negative aspects of credit?

Business Credit and the Economy

Businesses often use credit rather than currency in most sales involving large amounts of goods. Credit helps merchants by allowing them to buy more goods at one time, which means they have more merchandise to sell to their customers.

Imagine that you are the owner of a snowboard shop and you need to stock 50 snowboards for the next season. If the boards cost you $200 each, then you would need $10,000 to pay for the shipment. But you may not have that money until you can sell all the boards. The snowboard manufacturer may agree to deliver the boards on credit, allowing you some period of time to pay for the boards. Alternatively, you may arrange to borrow the money from a bank to pay for the shipment. Then you would repay the bank as the boards are sold.

Borrowing in the form of credit is important to the purchase and sale of goods and services in a free market. It is therefore very important to the successful operation of the U.S. economy as a whole. If individuals and families use credit wisely, they can buy and use things before they have saved enough money to pay cash for them. For example, a family may be renting a house for years while saving up money. What if the family could buy the house now and begin to live in it? They can do this by borrowing the money they need from a bank.

When consumers buy goods sooner, the economy grows faster. The builder gets paid now rather than later for building a house. This would also apply to the people who supply the wood or the brick. The seller of the furnace or the air conditioning system would also be paid now. Consumer spending is an important force in the economy.

Similarly, careful use of credit allows businesses to produce and sell more goods and services than they could afford to by using only cash. This also helps the economy grow. Businesses will buy more raw materials, rent more production space, hire more employees, and so on.

READING CHECK **Finding the Main Idea** How does credit help keep the economy in balance?

SECTION 1 ASSESSMENT

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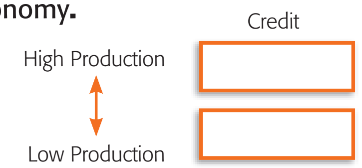
ONLINE QUIZ

Reviewing Ideas and Terms

1. a. **Define** Write a brief definition for the term currency.
   b. **Summarize** What three common features do all currencies have?
2. a. **Summarize** Why are checks not considered legal tender, and why do businesses accept them anyway?
   b. **Compare and Contrast** How are charge cards and credit cards similar and different?
   c. **Defend a Point of View** Would you prefer to use cash or checks when shopping? Explain.
3. a. **Define** Write a brief definition for the terms **long-term credit**, **short-term credit**, **bankruptcy**, and **creditors.**
   b. **Summarize** How can individual credit be both helpful and harmful?
4. a. **Recall** Why do businesses often use credit for purchases rather than cash?
   b. **Elaborate** How does the use of business credit allow the economy to grow?

Critical Thinking

5. **Categorizing** Copy the graphic organizer. Use it and your notes to show how credit can be used to help balance the economy.



FOCUS ON WRITING

6. **Analyzing Information** Imagine that you are the editor of a financial magazine. Write an article explaining what families should consider when they purchase goods on credit.

Civics Skills

21st Century

MEDIA LITERACY

CRITICAL THINKING

PARTICIPATION

Analyzing TV News

SS.7.C.2.11

Learn

One of the most powerful forms of media today is television news. Since the television boom in the 1950s, news programs have been broadcast on television across the nation and the world. Most major television networks broadcast national and international news programs every night. In addition, most local stations have nightly news programs that focus on local news.

In the last 20 years, 24-hour news channels have changed television news. Such networks can show live coverage of events around the world as they happen, because they broadcast throughout the day. Because television news is one of the major sources of information about local, national, and world events, it is important to watch the news with a critical eye. Use the strategies below to help you analyze television news.

Practice

1 Pay attention to the stories. What types of stories does a news program cover? Whether they focus on politics, international relations, or financial issues, the choice of stories can tell you about the priorities of the news station. Also pay attention to the order in which stories appear—it might indicate which stories the news directors feel are most important.

2 Identify the point of view. Ideally, news stories are supposed to be balanced. That is, they offer both sides of an issue or event. Often, however, some stories can present only one point of view. Pay careful attention to the words and phrases the reporter uses, as they can indicate a particular point of view.

3 Analyze the visual information. Often, news stories are intended only to provide viewers with information about an event. They may also serve other purposes. Examine the visual information—what is the background of the screen, the dress of the reporter, or the visual information used to present the story? How does it affect the story?

4 Notice the balance of stories on international and domestic topics. News programs usually cover both events happening in the United States, and those happening abroad. Often the relevance to Americans—in terms of economics or national security—is stressed in international stories.

Apply

Use the photo below to help you answer the following questions.

1. What is likely the subject of the news story pictured below? How can you tell?
2. What does this television news program use to capture the audience's attention?
3. Is this news story likely intended for a local, national, or international audience? Explain.

SECTION 2

SS.7.E.1.2; SS.7.E.1.4; SS.7.E.2.2; SS.7.E.2.5; LA.7.1.6.1; LA.7.1.7.1

Banks and Banking

BEFORE YOU READ

The Main Idea

Banks provide a safe place to keep money and help businesses and individuals by making loans.

Reading Focus

1. How and why were the first banks established?
2. What is the purpose of banks and the banking system?
3. How and why does the U.S. Federal Reserve System regulate the amount of money in circulation?
4. How does a person get a bank loan?

Key Terms

collateral, *p. 512*
savings and loan associations, *p. 513*
credit unions, *p. 514*
Federal Reserve System, *p. 514*
discount rate, *p. 515*
discounting, *p. 516*

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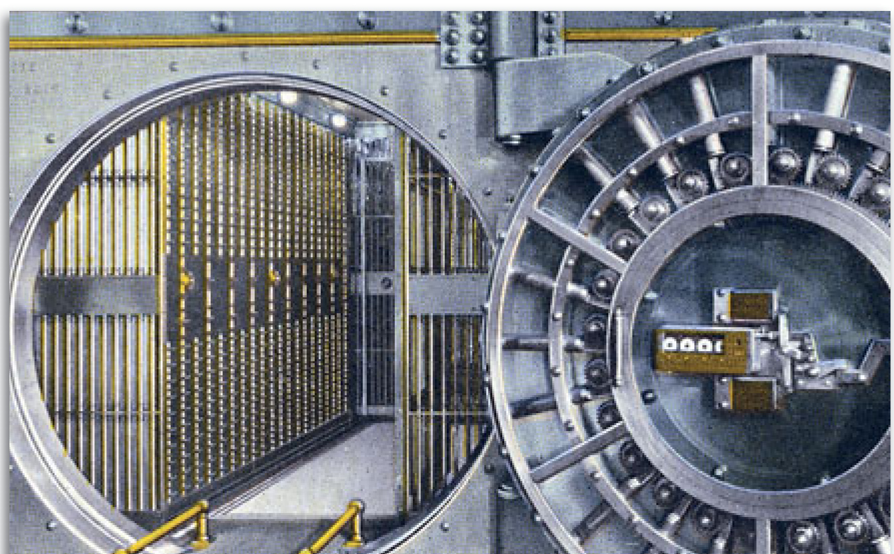
TAKING NOTES
Use the graphic organizer online to take notes on the origins of banking, the banking system, the Federal Reserve System, and getting a bank loan.

SS.7.E.1.4 Discuss the function of financial institutions in the development of a market economy.

CIVICS IN PRACTICE Not all banks are the same, although many of them offer the same services. They protect your money in a checking or savings account. They lend money to businesses and individuals. If you start your own business, you might apply to a bank for a small business loan. Banks help a market economy grow and develop by increasing the supply of money and credit available to people and businesses.



Banks are secure locations where people can safely deposit their money.

The Origins of Banking

Money presented problems for many people 1,000 years ago just as it does today. People had difficulty finding a safe place to keep their riches. Carrying money made people the targets of thieves. Hiding it in their homes did not guarantee its safety either.

In most communities there were goldsmiths who kept a supply of gold to work on in their business. Because gold was so valuable, the goldsmiths kept it in heavy safes. In time, the townspeople began to bring their money to the goldsmiths for safekeeping. Before long, local goldsmiths had entered the money-keeping business, charging a small fee for the service.

Eventually, goldsmiths began providing money-lending services as well. Townspeople who needed money came to the goldsmiths for loans. In return for the loans, they signed a paper promising to repay the money by a certain date and to pay interest for using the money. The first banks were born.

SS.7.E.1.2 Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

Borrowers guaranteed their loans by promising to give up their property to the money lender if the loans were not repaid on time. Property used to guarantee repayment of a loan is called **collateral**. Over time, these money-lending practices developed into the banking system we know today.

READING CHECK **Finding the Main Idea** Why did banks first become necessary?

The Banking System

SS.7.E.1.4 Discuss the function of financial institutions in the development of a market economy.
SS.7.E.2.2 Describe the banking system in the United States and its impact on the money supply.

Our modern banking system is much more complicated than that of the early money lenders. Banks today handle billions of dollars' worth of deposits and withdrawals. Businesses and individuals rely upon the services and security of banks to help them protect and manage their money.

Types of Bank Accounts

Most people rely on banks for checking and savings accounts. Although you usually do not earn interest on regular checking accounts, you can easily access the money in these accounts. Money in a checking account is called a demand deposit. That is, the bank must give you your money when you request, or demand, it by coming to the bank in person to withdraw it or by writing checks. Many banks also will issue automated teller machine (ATM) cards. These cards allow you to withdraw cash from your accounts at various locations at any time of day, even when the bank is closed. Another popular option for withdrawing money is the debit card, which acts as an electronic check.

You can also deposit your money in a savings account, where it earns interest. If the bank requires you to keep the money in your savings account for a minimum period of time, then the account is called a time deposit. The amount of interest you are paid depends on the type of account. Longer time deposit accounts are usually called certificates of deposit, or CDs. With these accounts you receive a certificate recording the deposit, the time period, and the interest rate. Another type of savings account is

Types of Banks

QUICK FACTS

Today businesses and individuals have a variety of different types of banks to choose from. While the basic services of each type of bank are similar, they offer different services to their customers.

Commercial Banks

Commercial banks offer a full range of financial services to businesses and individuals.

Savings and Loan

Savings and loan associations are institutions that help people save and obtain home mortgages.

Credit Union

Credit unions are member-owned institutions that provide the same services as banks and savings and loans.

called a money market deposit account, or money market account. As long as a minimum balance is maintained, this account typically earns a higher rate of interest than a standard account. There are limits on how often you may take money out of this type of account.

Another popular type of bank account combines checking and savings. This is the negotiable order of withdrawal (NOW) account. With a NOW account, you can write checks and receive interest on the money in the account. Most banks require that you maintain a certain minimum balance in your NOW account.

Types of Banks

There are four main types of banks in the United States—commercial banks, savings and loan associations, savings banks, and credit unions. Although the differences among these banks have blurred in recent years, some important distinctions remain.

Commercial Banks Most of the banks in the United States are commercial banks. Commercial banks offer a full range of services. They offer checking, savings, and NOW accounts. They also make loans to individuals and businesses. Many commercial banks even issue credit cards and manage retirement accounts. They have departments that help customers manage property and invest money.

Accounts in commercial banks are insured by a government agency called the Federal Deposit Insurance Corporation (FDIC). In 2009 each depositor was insured up to $250,000. If for some reason a bank is unable to give its depositors their money, the FDIC will refund their deposits up to this limit.

Savings and Loan Associations Banks known as **savings and loan associations**, or S&Ls, were created in the mid-1800s to help people purchase homes. They still account for a large percentage of home mortgage loans.

PRIMARY SOURCE

POLITICAL CARTOON

Savings and Loans

Savings and loan associations were popular places for many families to save money and to take out loans to buy homes.

From 1980 to 1982, some 118 U.S. savings and loan institutions, with assets worth $43 billion, failed. In the 45 years before 1980, only 143 savings and loans, with a total of $4.5 billion in assets, had failed. Clearly, there was a crisis in the savings and loan industry.

This cartoon was published in 1989. By then, some 565 savings and loan associations had failed.

ANALYSIS SKILL **ANALYZING POLITICAL CARTOONS**

How does this cartoon reflect the impact of the savings and loan crisis of the 1980s on the ordinary family?

During the 1980s federal legislation allowed S&Ls to expand their services to offer many of the same services as commercial banks. Customers can obtain loans, open checking, savings, and NOW accounts, and apply for credit cards. When this deregulation first began, many S&Ls made risky loans and other bad investments. As a result, hundreds of S&Ls throughout the country failed in what became known as the S&L crisis.

Until 1989 the Federal Savings and Loan Insurance Corporation (FSLIC) insured S&L deposits. Faced with paying the costs of the failed S&Ls, the FSLIC ran out of money. The government then formed the Resolution Trust Corporation (RTC) to sort out the savings and loan crisis. Administered by the FDIC, the RTC took over the FSLIC's insurance obligations.

By August 1994 the RTC had saved more than 730 savings and loans. The total cost to taxpayers was estimated at nearly $165 billion.

Savings Banks Savings banks began in the early 1800s to encourage people who could make only very small deposits to save. Today these banks offer a variety of services, including home loans. As with commercial banks, deposits in savings banks are insured by the FDIC.

Credit Unions Most **credit unions** are established by people who work for a single company or belong to a single organization. Credit unions are owned and operated by their members.

FOCUS ON
Anna Escobedo Cabral
(1959–)

In 2004, President George W. Bush selected Anna Escobedo Cabral to be the forty-second treasurer of the United States. During her time as treasurer, Cabral's signature appeared on each new piece of currency to make the bill official.

Cabral grew up in California and studied political science at the University of California, Davis. She later earned a master of public administration degree at Harvard University. In the 1990s Cabral became deputy staff director of the Senate Judiciary Committee. She also served as executive staff director of the Senate Republican Conference Task Force on Hispanic Affairs. In this position, she led 25 senators on a mission to respond to Hispanic communities. Afterwards, she became president and chief executive officer of the Hispanic Association on Corporate Responsibility. She later served as director of the Smithsonian Institution's Center for Latino Initiatives.

As treasurer, Cabral was in charge of collecting taxes through the Internal Revenue Service. She also oversaw the printing and minting of American currency. Also, she served as a spokesperson on financial education.

Evaluating What are the duties of the United States treasurer? Why is this position important?

When members make deposits, they buy interest-paying shares in the credit union. These deposits are pooled in order to make low-interest loans available to members. Depositors may also write checks, which are called share drafts.

Deposits in credit unions are insured by a government agency called the National Credit Union Association (NCUA). Each depositor is insured up to $250,000.

READING CHECK **Comparing** How are the different types of banks similar?

The Federal Reserve System

At one time, banks were allowed to conduct business with few rules. As a result, they sometimes lent money to high-risk customers and did not get enough collateral in return for loans. Some banks lent too much money and did not keep enough in reserve. Under these conditions, some banks failed.

Rumors occasionally spread that a particular bank was shaky. Depositors might then start a run on the bank—rushing to the bank to withdraw all their money in case the bank did fail. If too many depositors withdrew their money at once, the bank would have no funds left. People with money still in the bank would have lost their savings.

To prevent such bank failures and to give people more confidence in the safety of banks, the federal government created a plan to regulate the U.S. banking system. In 1913 Congress set up the **Federal Reserve System**, sometimes called the Fed. The Fed regulates banks by requiring that they keep a certain amount of money in reserve.

Federal Reserve Banks

The Federal Reserve System divides the United States into 12 federal districts. A Federal Reserve bank is located in each district. Federal Reserve banks do not do business directly with individuals or companies. Instead, they act as bankers for the federal government and for other banks.

SS.7.E.2.5 Explain how economic institutions impact the national economy.

SS.7.E.2.2 Describe the banking system in the United States and its impact on the money supply.

Federal Reserve banks serve two main purposes. First, they handle the banking needs of the federal government. For example, Federal Reserve banks handle the sale of bonds issued by the government. In addition, most U.S. currency is put into circulation through the Federal Reserve System. From these banks, the money spreads out into the economy for use by businesses and consumers.

Second, the 12 Federal Reserve banks provide various services to state and national banks, and control the banking system. For example, a member bank can go to the Federal Reserve bank in its district and borrow money. Doing so allows the member bank to meet a high demand for cash from its customers.

The member bank must pay interest on the loans it receives from the Fed, just like individuals or businesses. The rate of interest charged to member banks by the Federal Reserve is called the **discount rate**. This rate often influences the amount of money available to banks for making loans.

The Board of Governors

The Federal Reserve System is managed from Washington, D.C., by a seven-member board of governors. Each member is appointed by the president, with the consent of the Senate, and serves for a single 14-year term.

Through its influence over the banking system, the Fed tries to keep the right amount of currency in circulation. When the economy is growing and more goods and services are being produced, more currency is needed in circulation. The additional currency allows businesses and individuals to take part in a growing economy.

When the currency supply grows faster than the supply of goods, prices tend to rise. To prevent this, the Fed may try to slow the growth of the money supply or even take money out of circulation.

READING CHECK **Analyzing Information** How does the Federal Reserve regulate the economy?

Banks and the Money Supply

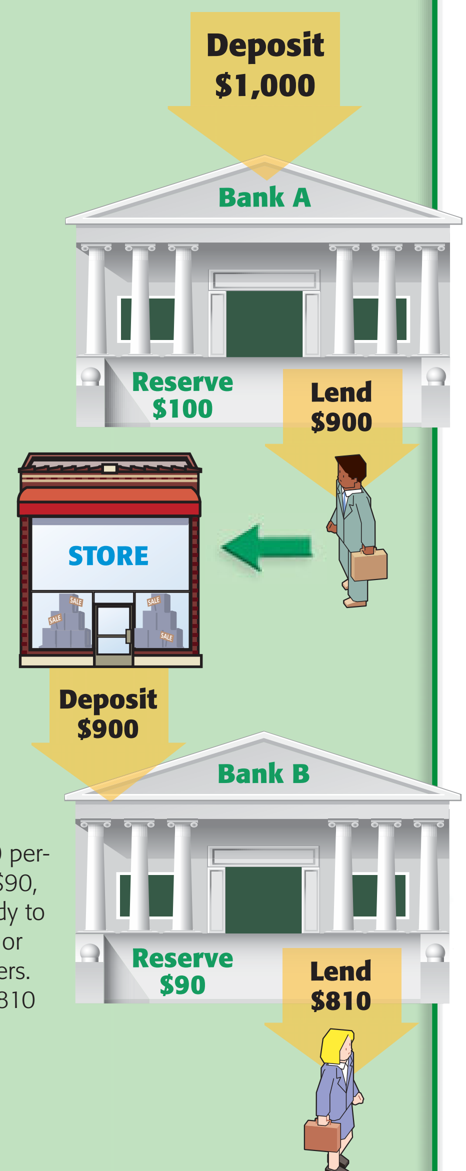
Economists use two definitions of money supply. The narrowest definition, called M1, includes all currency, checking accounts, and traveler's checks. A broader definition, M2, includes all of those plus savings deposits, certificates of deposit, and other assets that can be converted quickly into cash. Money in your pocket or in your checking account is part of the money supply.

1. You deposit $1,000 into your checking account at Bank A. The government guarantees your deposit.

2. Bank A can lend $900 of your deposit to other people. By law it must hold 10 percent of your deposit in reserve.

3. The person who borrows the bank's $900 may spend it at a store. The store then deposits that money into its account at Bank B.

4. Bank B shows that 10 percent of the $900, or $90, is in its reserves and is ready to lend the other 90 percent, or $810, to one of its customers. She is free to spend that $810 any way she wants to.



Because banks can lend cash, the government does not have to print more money—it simply lets the banks increase the money supply.

ANALYSIS SKILL **ANALYZING VISUALS**

Describe how banks increase the money supply.

Getting a Bank Loan

What happens when you borrow money from a bank? Imagine that you own and operate a small computer repair service company. You need $5,000 to buy some new equipment in order to service the latest generation of computers. Because you do not have the money yourself, you apply for a loan.

You meet with a loan officer to explain why you need this money. You bring in business records that show that you have been making a profit. You might also bring financial analyses, called projections, that estimate how your business will improve with the added equipment. In addition, you want to convince the loan officer that you will be able to repay the loan. So you also point out that you have no other debts except for a car loan, which you have always paid on time.

The loan officer needs the approval of the bank's lending committee for larger loans. She does, however, have the authority to approve smaller loans like yours on her own. You receive a short-term loan of $5,000, which you must repay in 90 days. You do not receive the full $5,000, however. The bank deducts a small amount in advance as the interest it is charging for the loan. It deposits the remainder as a credit in your checking account at the bank. Deducting the interest on a loan in advance is known as **discounting**.

After you receive the loan, you buy the new equipment. This starts a chain of events into action. You can now offer better service to your customers, which should help you make more money. The bank also makes money on the loan. The equipment company uses the money it got from you and other customers to pay its employees and suppliers. Perhaps it will even be able to expand its business as well. In this way, your loan and other forms of credit circulate throughout the U.S. economy.

READING CHECK **Identifying Cause and Effect** What factors might cause a bank to agree to lend money?

SECTION 2 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

1. **Explain** How did the first banks originate?
2. a. **Define** Write a brief definition for the terms **collateral, savings and loan associations,** and **credit unions.**
   b. **Compare and Contrast** What is the difference between a demand deposit account and a time deposit account?
3. a. **Define** Write a brief definition for the terms **Federal Reserve System** and **discount rate.**
   b. **Identifying Cause and Effect** Why did the U.S. government decide to regulate banks, and how did it do this?
4. a. **Define** Write a brief definition for the term **discounting.**
   b. **Analyze Information** How do business loans help the U.S. economy grow?

Critical Thinking

5. **Summarizing** Use your notes and a chart like the one here to summarize the different types of banks that operate in the United States.

Commercial Banks	Savings and Loans	Savings Banks	Credit Unions

FOCUS ON WRITING

6. **Summarizing** Imagine that you are an economics professor teaching a course to future bankers. Write a brief lesson explaining the purpose of the Federal Reserve banks.

SECTION 3

SS.7.C.2.11; S.7.E.1.2; MA.7.A.1.2; LA.7.1.6.1; LA.7.1.7.1

Saving and Investing

BEFORE YOU READ

The Main Idea

There are many ways to save money. Saving helps the economy by providing banks with money to make loans to others.

Reading Focus

1. Why is it important to save money?
2. What are some ways people save and invest their money?
3. How does saving money help the U.S. economy?
4. How does the government protect savings and investments?

Key Terms

certificates of deposit (CDs), *p. 518*
brokers, *p. 518*
stock exchange, *p. 518*
mutual funds, *p. 518*
money market funds, *p. 519*

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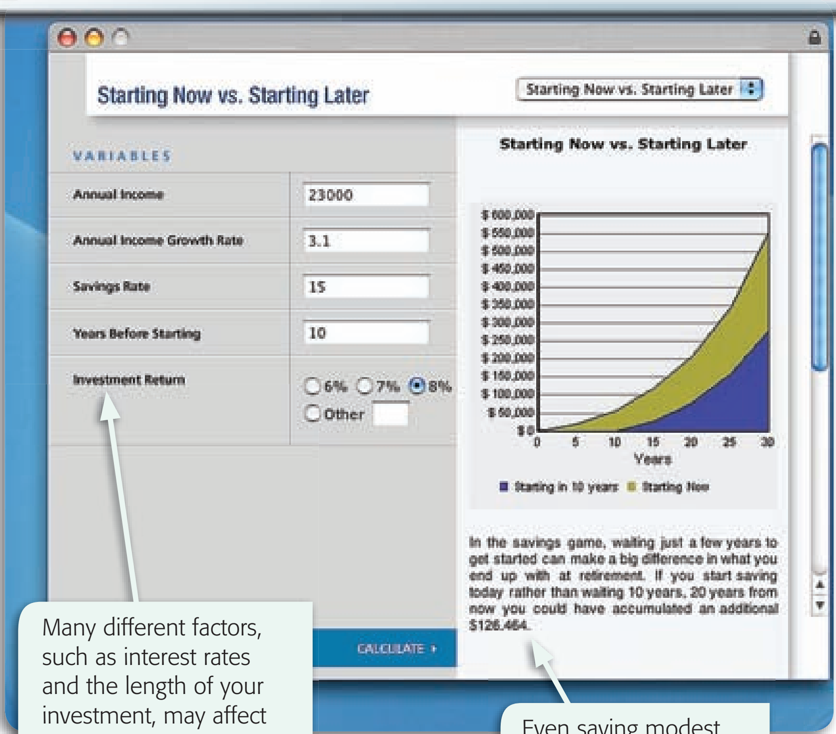
TAKING NOTES
Use the graphic organizer online to take notes saving and investing.



Many different factors, such as interest rates and the length of your investment, may affect how much you can save.

Even saving modest amounts can give you a large sum after a number of years.

CIVICS IN PRACTICE Many people put aside part of what they earn to meet unexpected expenses, to pay for an expensive item, or to live more comfortably when they retire. You will, too, someday. Money can be kept in a savings account, or it can be invested in stocks and bonds. A savings account is probably safer. Stock market investments are riskier but might be more rewarding. Savings and investment both make your money available to others and help the economy grow.

Saving Is Important

There are many different ways to save your money. You can hide your money under a mattress, put it in a cookie jar, or keep it in a piggy bank, but these places are not very safe and do not pay interest.

Saving Accounts

Many Americans set aside a regular amount in a savings account each week or each month. The bank pays interest on all money deposited in a savings account. In this way, your money earns more money for you. If you save money on a regular basis, you can build a large sum over time. The money can be withdrawn when it is needed.

Regular savings accounts usually require you to keep only a small minimum balance. However, some banks charge a service fee if your account falls below the minimum balance or if you exceed a specified number of transactions within a certain time period.

Certificates of Deposit

Banks and other financial institutions also offer **certificates of deposit (CDs)**. Savers who use CDs invest a certain amount of money for a specified period of time. Most CDs are issued in units of $1,000 or more. The interest to be paid when the CD matures is set at the time of purchase and usually remains constant.

CDs can have terms lasting weeks, months, or even years. Usually, the longer the money is invested, the higher the interest paid on the CD. However, if you withdraw your money before the end of the specified term, you may have to pay a penalty.

READING CHECK **Analyzing Information** Why might banks require a minimum balance be maintained in a savings account?

Ways to Invest

Another way to save for the future is to invest your money. Bonds and stocks are two of the most popular investments.

Buying Bonds

Bonds are certificates of debt issued by governments and corporations to people who lend them money. Most bonds pay interest regularly, such as every calendar quarter. When the bond reaches maturity, bond holders get back the amount of their original investment. U.S. government bonds, as well as the bonds of most states, localities, and corporations, are a relatively safe form of investment.

One form of bond, the U.S. savings bond, does not pay interest until the bond matures and you cash it in. For example, a savings bond bought for $100 might earn $100 in interest over 12 years. If you paid $100 for one of these bonds, you would receive $200 when you cashed it in. Meanwhile, your money is safe because the federal government can be counted on to repays its debt. However, the interest rate for savings bonds is usually lower than for many other kinds of investments.

Buying Stocks

Business organizations known as brokerage houses buy and sell various stocks for their customers. The people employed by brokerage houses are known as **brokers**. Each brokerage house is a member of one or more stock exchanges. Millions of shares of stock are bought and sold every working day at a **stock exchange**. One of the most influential stock exchanges in the world is the New York Stock Exchange in New York City.

Anyone can buy stocks through a brokerage house. In addition, you can easily buy and sell stocks via the Internet. However, you should know a great deal about the stock market before buying stocks. Stock prices depend on expectations of how a company will perform in the future, making stocks a relatively risky investment.

People who buy stocks are taking a chance. They hope their investment will earn more money than it would earn in a savings account or a bond purchase. If the value of the stock rises, you can sell it at a profit. However, stocks may pay small dividends or none at all. Moreover, their value on the stock market may fall.

To reduce the amount of risk in stock purchases, many people buy shares in **mutual funds**. By buying a share in a mutual fund, you own a small piece of a large number of stocks. Because mutual fund managers buy many different stocks, the risk from any one stock is not great. Before buying shares in a mutual fund, however, you should research the fund. You should determine what stocks the fund holds, its performance over time, and its management. A mutual fund that is poorly managed can be risky.

Money market funds are mutual funds that buy short-term bonds. Most short-term bonds have stable values. So you can be fairly confident that a dollar invested will still be worth a dollar when you take it out. You can withdraw your money at any time. Money market funds do not guarantee a specified amount of interest. However, they often can pay a slightly higher rate than most banks. Bear in mind that the rate of interest may rise or fall. Also, the government does not insure this form of saving. Thus, it can be a risky investment.

READING CHECK **Evaluating** What should a person take into consideration before investing?

Saving Helps the Economy

What happens to the money that Americans have in savings accounts, bonds, stocks, and other forms of saving? That money is used to help expand the U.S. economy. How does saving promote such growth?

Economic growth occurs when factories and other means of production increase their production. However, expanding production normally requires money to pay for a variety of needs. These needs can include more employees, new factories, machine tools, and other capital goods. Some of the money will come from the company's profits that it saves to fund expansion. Much of the rest will come from other people's savings that banks lend to the company.

Businesses can use a combination of saving and borrowing to finance expansion. Most corporations put aside a portion of their profits before paying dividends to their stockholders. This money is reinvested in the business in the form of new capital. The new capital might be in the form of new machines or larger factories. It helps businesses establish new branches or add new lines of products or services to what the company already produces.

READING CHECK **Finding the Main Idea** How does saving contribute to economic growth?

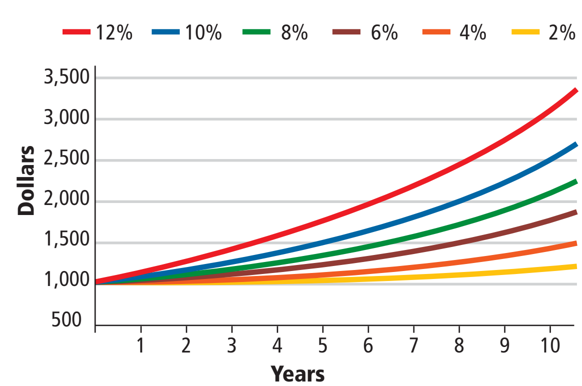
Protecting Savings and Investments

When people deposit money in a bank account, they want to know that their money will be safe. They also want to know that they will be able to get their money back when they ask for it. Likewise, when people buy stocks or bonds, they want to be sure that they are not taking unnecessary risks with their money.

Calculating Interest

Interest is the money a financial institution pays you for the use of your money. A saver's initial deposit is called the principal. The most basic kind of interest is simple interest. Simple interest is interest paid on the principal alone. Compound interest is interest paid on the principal, plus any interest that has already been earned. Simple interest is calculated using the following formula: Principal x Interest Rate = Interest Earned. To calculate compound interest, use the following: (Principal + Year 1 Interest) x Interest Rate = Interest Earned.

Compound Interest



Source: *Historical Statistics of the United States*

ANALYSIS SKILL **ANALYZING GRAPHS**

How many years would it take to double your deposit of $1,000 at eight percent interest?

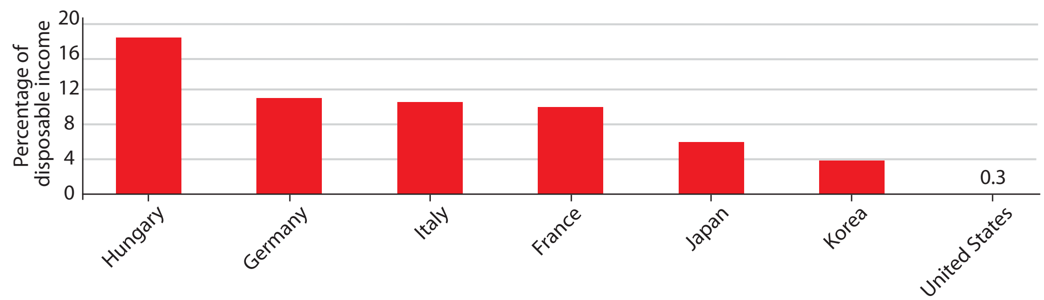
National Savings Rates

QUICK FACTS

Saving is important to the national economy because the money set aside can be lent to other people to invest or spend. For example, businesses may borrow the funds and invest in new equipment or hire more workers. The economy as a whole benefits when you save.

Disposable income is the money income you have left after you have paid all taxes. Disposable means that you can spend the money.

Household Savings Rate, 2005



Source: Organisation for Economic Co-operation and Development, U.S. Bureau of Economic Analysis

Things You Might Want to Save For

- New video game
- Clothes
- Living expenses (such as telephone bills)
- New cell phone
- Car and automotive expenses
- College education
- Apartment

ANALYSIS SKILL — INTERPRETING CHARTS

Why do you think Americans save so little compared to people in other countries?

For these reasons, federal and state governments have passed laws regulating institutions that handle money. All financial institutions must receive a state or federal charter to operate.

Regulating Stock Exchanges

In the 1930s Congress established the Securities and Exchange Commission, or SEC. This organization ensures that all stock and bond offerings on the country's stock exchanges include accurate information about the company. This way, purchasers are not misled.

In years past, people sometimes sold watered-down stock. This stock did not fully represent the value claimed for it. There were also many other types of stock fraud and deception. Some dishonest people and firms cheated the American public.

The regulations of the Securities and Exchange Commission were established to stop such practices. The SEC constantly monitors the practices of the country's stock exchanges and the brokers who buy and sell stock. This does not mean, however, that all stocks are safe investments.

Regulating Savings Organizations

All of the country's savings organizations come under state or federal government control. Laws regulate both banks and savings and loan associations. Even company credit unions must allow government accountants to examine their records regularly. These people determine if they have enough capital and are operating properly.

As you have read, money in savings and loan accounts is insured against loss. The Federal Deposit Insurance Corporation manages deposit insurance. In 2009 deposits were insured up to $250,000. The insurance covers savings accounts, certificates of deposit, and money market accounts. The National Credit Union Share Insurance Fund similarly insures credit union accounts.

Saving is important to the prosperity of the United States and its citizens. Because of this, it is essential that individual savings be protected.

READING CHECK **Summarizing** How does the government protect the savings of individuals?

MEDIA INVESTIGATION

NEWSPAPER HEADLINES

The 1929 Stock Market Crash

Headlines are designed to sell newspapers. They use active language that makes people want to read the article. A well-written headline will tell what the article is about without exaggeration.

Some writers try so hard to get a reader's attention that their headlines are misleading. Such headlines often point up the most violent or sensational aspect of an event, regardless of whether it fairly represents the whole story.


BROOKLYN DAILY EAGLE
WALL ST. IN PANIC AS STOCKS CRASH
Attempt Made to Kill Italy's Crown Prince
Hollywood Fire Destroys Films Worth Millions
High Duty Group Gave $700,000 to Coolidge Drive

In October 1929, when the U.S. stock market crashed, many people first learned of the collapse from newspapers. Investors were very worried—even panicked—about losing their money. Some headlines reflected that panic, but it is also possible that they contributed to creating it, too.

ANALYSIS SKILL **MEDIA INVESTIGATION**

What page of the newspaper is likely to have the most sensational headlines? Why?

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SECTION 3 ASSESSMENT

hmhsocialstudies.com ONLINE QUIZ

Reviewing Ideas and Terms

1. a. Define Write a brief definition for the term **certificates of deposit (CDs)**.
b. Summarize What are some ways that people can save money?

2. a. Define Write a definition for the terms **brokers**, **stock exchange**, **mutual funds**, and **money market funds**.
b. Compare and Contrast What is the difference between saving and financial investments?

3. a. Summarize How does the U.S. economy benefit when people deposit money in savings accounts, bonds, or stocks?
b. Draw Inferences and Conclusions Why do businesses often invest much of their profit in expanding their companies?

4. Summarize What are some of the ways the government protects your savings and investments?

Critical Thinking

5. Summarizing Copy the graphic organizer at right. Use it and your notes to show the different ways people save and invest their money.

FOCUS ON WRITING

6. Decision Making Write a paragraph telling how you might invest $1,000 and why you would choose such a form or forms of investment.

SECTION 4

LA.7.1.6.1; LA.7.1.7.1

Insurance against Hardship

BEFORE YOU READ

The Main Idea

Insurance companies offer policies to protect people from possible financial hardships. The federal government also has several programs to help protect people from risks and uncertainties.

Reading Focus

1 How are insurance companies able to protect you?
2. What are some forms of insurance provided by the government?

Key Terms

insurance, *p. 522*
premium, *p. 522*
private insurance, *p. 523*
beneficiary, *p. 523*
social insurance, *p. 524*
Social Security, *p. 524*
Medicare, *p. 526*
Medicaid, *p. 526*

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TAKING NOTES
Use the graphic organizer online to take notes on the different types of insurance.

Homeowners can buy insurance against damage from wind, water, floods, and fires.

CIVICS IN PRACTICE The concept of insurance is at least 4,000 years old. Babylonian merchants traveling in caravans to East Asia protected themselves by contributing to a collective fund to cover losses to bandits. Over the centuries, the idea has become increasingly popular. What was once common only for businesses and wealthy individuals is available today for many Americans. Risk and uncertainty are a part of life, but insurance provides a way to protect yourself and your family.

Insurance Protects You

Insurance is a system of spreading risks over large numbers of people. These people each pay a small amount to an insurance company to avoid the risk of a large loss. For example, if you own a $20,000 car, it could be ruined in an accident. You might be willing to pay a much smaller sum—perhaps $750 each year—to protect yourself against the risk of an accident.

The amount you pay for this protection is called a **premium**. Premiums may be paid yearly or more often. The contract that gives this kind of protection is called an insurance policy.

Types of Insurance

QUICK FACTS

Families may need a variety of types of insurance to protect themselves from unexpected losses.

ANALYSIS SKILL COMPARING AND CONTRASTING

If you were a college student, unmarried in your early 20s, which types of insurance might you buy? Explain your answer.

How can insurance companies take small amounts of money from people, yet pay them a large sum if a hardship occurs? The reason is simple—not everyone has a hardship. You may pay premiums on accident insurance all your life and never collect a cent because you never have an accident.

A large insurance company has millions of policyholders who pay their premiums regularly. Part of this money goes into a reserve fund. State laws specify how large a reserve fund a company must maintain. Claims are paid from the reserve fund. As long as the insurance company collects more in premiums than it has to pay out in claims, it can make a profit. Major natural disasters can cause a problem for insurance companies, however.

The voluntary insurance that individuals and companies pay to cover unexpected losses is called **private insurance**. There are many different kinds of losses that private insurance covers, from life insurance to health insurance to property insurance.

Life Insurance

The main purpose of life insurance is to provide the policyholder's family with money in the event that the policyholder dies. In this way, the family is protected from financial hardship. The person named in the policy to receive the money when the policyholder dies is called the **beneficiary**.

The two kinds of life insurance are term insurance and whole-life insurance. Term insurance covers only a specified period of time. Because it expires at the end of the specified term, it is relatively inexpensive. Whole-life insurance covers the policyholder throughout his or her life, and is more expensive.

Disability and Health Insurance

Other insurance policies cover policyholders if they are injured in an accident or suffer an illness. Disability income insurance, for example, provides payments to replace lost wages when the policyholder cannot work due to a total or partial disability.

Health insurance covers medical or hospital expenses. Major medical expense insurance pays a large portion of the medical costs resulting from a serious illness or injury. Premiums for these kinds of insurance are often paid in part by you and in part by your employer.

Property and Liability Insurance

Some types of insurance protect your personal property from events such as fires, hurricanes, vandalism, and theft. The most widely purchased form of property and liability insurance is automobile insurance. This type of insurance protects you against liability for injuring another person or damaging another car in an automobile accident. It also provides coverage if your car is stolen, vandalized, or damaged in an accident.

READING CHECK **Analyzing Information** How do insurance companies stay profitable while still paying policyholders for their claims?

Insurance Provided by the Government

During the Great Depression of the 1930s, many businesses and factories closed, and millions of men and women lost their jobs. Banks failed, and thousands of people lost their life savings. In response, President Franklin D. Roosevelt recommended and Congress passed a series of laws called the New Deal. Some of the new laws brought immediate assistance to needy people. Other laws were intended to protect people against severe economic risks and hardships in case of future recessions.

Government programs like these that are meant to protect individuals from future hardship are called **social insurance**. The Social Security Act of 1935 set up a system of social insurance known as **Social Security**. It has three major parts—old-age and survivors insurance, disability insurance, and unemployment insurance.

Old-Age, Survivors, and Disability Insurance

People pay a percentage of their salary each month while they work in order to receive cash benefits later, when they retire. During the years when workers earn money, they and their employers contribute to a fund. After workers retire, or if they become disabled and are no longer earning money, they receive payments from the fund.

By law monthly contributions made under the Social Security Act are shared equally by workers and by employers. These contributions are actually a tax because they are compulsory, or required. If workers die before reaching retirement age, their families receive survivors' payments. A payment is made for each child under 18 and for the surviving spouse. When children turn 18, payments to them stop.

Unemployment Compensation

The Social Security Act contained a plan to help workers who lost their jobs due to circumstances beyond their control. This plan is called the unemployment compensation program.

To receive benefits, workers who become unemployed must register with a state employment office. Then they report periodically to the office for help finding jobs. If the job search is unsuccessful, unemployed workers receive weekly benefits based on their average earnings over a certain period of time. Most states provide benefits for up to 26 weeks.

In February 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act. Among other things, the act aimed to help the millions of Americans who had lost their jobs as a result of the 2008 recession. Unemployment benefits were extended under the act, though the number of weeks people can receive unemployment benefits varies by state.

Workers' Compensation

Federal and state workers' compensation programs help people who have job-related

QUICK FACTS

The Social Security System

The Social Security Act was passed in 1935 to provide economic assistance to retired workers. Since then, the system has grown and changed to aid more people.

Employees

Employees put **7.5** percent of their earnings into the Social Security system.

Employees and employers pay a certain percentage of each paycheck into the Social Security program. This money is used to pay the benefits owed to retired people or their families and to eligible people with disabilities.

Federal Government

Employer

Employers match the **7.5** percent for each employee.

Social Security Trust Fund

The Social Security trust fund pays benefits to eligible retirees, survivors, and disabled people.

General Fund

The general fund makes payments to those eligible for supplemental income.

The Future

The Social Security system faces a possible problem because eventually it may not have enough money to pay full benefits to everyone entitled to them. The system is expected to be able to make payments easily until 2014. After that it will have to take money from its savings fund. Some experts predict that in 2041 the system will no longer have enough money to pay full benefits to everyone in the system. How to solve this problem is a matter of national debate.

TODAY — Full benefits paid

2014 — Full benefits paid, but using savings fund

2041 — Full benefits cannot be paid

ANALYSIS SKILL **ANALYZING VISUALS**

If you were in Congress, what solution might you provide to avoid the problem in 2041?

People today live longer and healthier lives. However, many elderly people need Medicare or Medicaid to help pay for health care.

injuries or illnesses. These programs pay the medical expenses of the workers and help replace any lost income. Workers' compensation also pays death benefits to the survivors of workers killed while on the job.

Medicare and Medicaid

The federal government also has programs to help poor and older citizens pay their medical expenses. In 1965 Congress passed the health insurance program called **Medicare** to help U.S. citizens who are 65 and older pay for hospital care and for some nursing home care. Medicare includes a voluntary medical insurance plan that helps many older citizens pay their medical bills. People with disabilities who are unable to work are also eligible for Medicare benefits. In 2003 Congress added a prescription medicine benefit to Medicare.

Congress also passed the **Medicaid** health insurance program in 1965. This program provides money to the states to help pay the medical costs of people with low incomes. For example, it helps some people pay for treatments they might not otherwise be able to afford.

The cost of Social Security has become a major concern. As more Americans live longer, retire, and collect benefits, the expense of the program grows. Attempts to reform the program have caused national debate that has yet to be settled.

READING CHECK **Finding the Main Idea** What is the main purpose of social insurance?

SECTION 4 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

1. a. **Define** Write a brief definition for the terms **insurance**, **premium**, **private insurance**, and **beneficiary.**
   b. **Summarize** How can insurance companies cover large risks in return for relatively small premiums?
2. a. **Define** Write a brief definition for the terms **social insurance**, **Social Security**, **Medicare**, and **Medicaid**.
   b. **Compare and Contrast** What is the difference between unemployment compensation and workers' compensation?
   c. **Summarize** What do the Medicare and Medicaid programs provide?

Critical Thinking

3. **Summarizing** Copy the graphic organizer below. Using your notes, list the different kinds of insurance you have read about and what each kind covers. Add boxes if you need to.

Insurance	
Type	What it Covers

FOCUS ON WRITING

4. **Supporting a Point of View** Do you think Social Security has encouraged Americans to become too dependent on the state and federal governments for support in times of need? Write a paragraph explaining your answer.

STUDENTS TAKE ACTION

PROJECT Citizen

WE THE PEOPLE PROGRAMS · CENTER FOR CIVIC EDUCATION

Lobbying for Library Access

In the city of Newberg, Oregon, many students in the public school district lived outside the city's public library district. These students had to pay a fee to use the library's resources. That fee included the use of books and other educational materials. Some families could not afford to pay the fee. That meant many students could not use the public library.

Local libraries are a valuable asset for many students.

Community Connection Project Citizen students in Ms. Terry McElligott's social studies class decided that all local public school students should have access to the library. However, the teens found from their research an interesting fact. Most local residents outside of the library district opposed expanding its boundaries. Being within the library district would increase their property taxes. They would end up paying more than the current library usage fee.

Taking Action The teens focused on two goals. First, they wanted to increase public support for expanding the library district boundaries. Second, they wanted funding for library access for young people. A city council member and a local librarian supported the students' efforts. Both in person and through the media, the students lobbied citizens and public officials. They explained how extending the library district's boundaries would benefit all students. They made the public more aware of the issue of library access. Also, for a private fund to pay for out-of-district cards for students in need, the students raised more than $400.

SERVICE LEARNING

1. **How did the students take into account the economic concerns of different groups in the community when developing their action plan?**
2. **What compromises might help win more support for the students' plan to extend district boundaries?**

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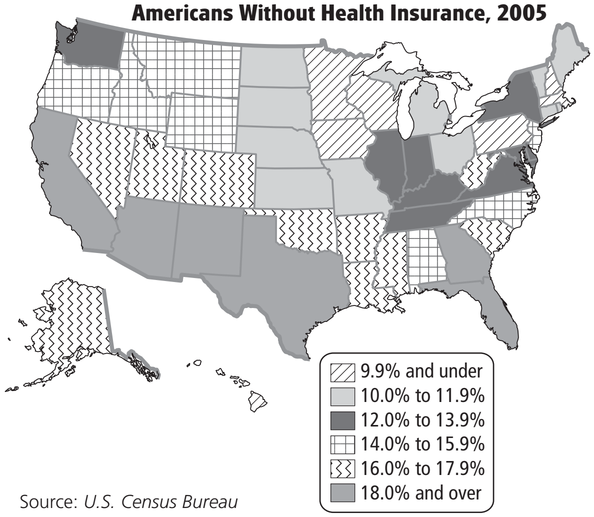
CHAPTER 19 REVIEW

FLORIDA CIVICS EOC PRACTICE

1. The map below displays the percentage of Americans who were without health insurance in 2005.

Americans Without Health Insurance, 2005



Source: *U.S. Census Bureau*

What percentage of the states had uninsured rates of 18.0% and over?

A. 32%
B. 16%
C. 5%
D. 12%

2. Which phrase describes Federal Reserve Banks?

A. established by people who work for a single company or work for a single organization
B. act as bankers for the federal government and for other banks
C. act as back-ups for savings and loan associations
D. regulate the amount of collateral this is available for government loans

Reviewing Key Terms

For each term below, write a sentence explaining its significance to personal finances.

1. currency
2. long-term credit
3. short-term credit
4. bankruptcy
5. creditors
6. collateral
7. savings and loan associations
8. credit unions
9. Federal Reserve System
10. discount rate
11. discounting
12. certificates of deposit
13. brokers
14. stock exchange
15. mutual funds
16. money market funds
17. insurance
18. premium
19. private insurance
20. beneficiary
21. social insurance
22. Social Security
23. Medicare
24. Medicaid

Comprehension and Critical Thinking

SECTION 1 *(Pages 504–509)*

25. a. Recall Why are checks not considered legal tender, and why do people accept them for payment even though they are not legal tender?

b. Elaborate How do charge cards differ from credit cards?

c. Supporting a Point of View Periodically in the United States there is debate about abolishing the penny. Do you think the penny should be abolished? How might this affect the economy?

SECTION 2 *(Pages 511–516)*

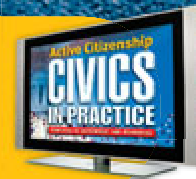
26. a. Describe What are the four main types of financial institutions?

b. Compare and Contrast What are the different types of bank accounts? How are they similar and different?

c. Predict How might our financial system be different without the Federal Reserve System?

Active Citizenship video program

Review the video to answer the closing question: *In your opinion, is it the government's responsibility to protect citizens from identity theft?*



SECTION 3 *(Pages 517–521)*

27 a. Recall How does saving money help the economy grow?

b. Summarize What different opportunities do people have to save and invest?

c. Evaluate Do you think Americans should save more money? Give reasons for your answer.

SECTION 4 *(Pages 522–526)*

28. a. Explain What enables insurance companies to stay in business while still charging the premiums that they do?

b. Compare and Contrast What are the similarities and differences between private insurance and social insurance?

c. Evaluate In your opinion, should the federal government continue the Social Security system? Why or why not?

Civics Skills

Analyzing TV News *Use the Civics Skills taught in this chapter to answer the questions about the photo below.*

29. What type of news program might this photo show?

30. What clues might indicate if a news story is biased?

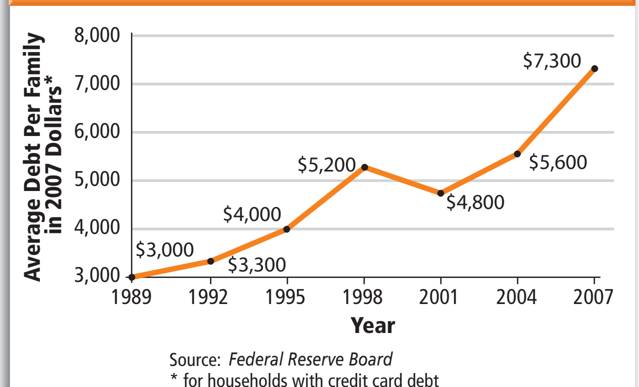
Reading Skills

Making and Understanding Charts and Graphs *Use the Reading Skills taught in this chapter to answer the questions about the line graph below.*

31. What is the subject of this line graph? What labels does the graph use?

32. What was the average credit card debt in 1995? In 2004?

U.S. Household Credit Card Debt



Source: *Federal Reserve Board*
* for households with credit card debt

Using the Internet

33. Managing Money Whether you are making it, spending it, or saving it, money is an integral part of life in the United States. Through your online textbook, conduct research on money, loans, and credit. Then create a skit to explain the importance of money, loans, and credit in terms of the national economy. Make sure you use correct terminology and explain the role of money, loans, and credit in your skit.

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FOCUS ON WRITING

34. Writing a Letter of Recommendation Review your notes on personal finance. Then write a two- to three-paragraph letter to the bank to which your friend has applied for a job. Explain to the bank why you think it should hire your friend.