



Words for Wealth

A Glossary of Personal Finance Terms



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Background |

In 2007, Ohio Legislators passed Amended Substitute Senate Bill 311. What this legislation mandates for Ohio is the following:

Authorization :

“SB311 Passed December 2007 (R.C. 3313.603(B) and (C)) The bill prescribes a new minimum high school curriculum for public and chartered nonpublic schools. Called the "Ohio Core," the new curriculum first applies to the Class of 2012. Thus, students entering the ninth grade in the 2008-2009 school year in any public or chartered nonpublic school will be subject to the new minimum curriculum. Students attending nonchartered nonpublic schools remain subject to the current curriculum requirements. As with the current state minimum high school curriculum, the new Ohio Core consists of 20 units of study, but the distribution of those units among subject areas is changed from current law. (R.C. 3313.603(C)(6)) Under the bill, each public and chartered nonpublic high school must integrate the study of economics and financial literacy into the content of one or more of the Ohio Core social studies classes or another class so that all students receive the instruction.”

Curriculum :

“Each school shall integrate the study of economics and financial literacy, as expressed in the social studies academic content standards adopted by the state board of education under section 3301.079 of the Revised Code, ensuring that every high school student receives instruction in those concepts. See Personal Finance Curriculum below, although, there is no formally approved course of study.”

Terms |

Asset |

An item with economic value that an individual or organization owns, such as stocks, real estate, personal property, and business equipment.

Annual Percentage Rate (APR) |

The percentage cost of credit on an annual basis, which must be disclosed by law. Example 1: A \$100 loan repaid in its entirety after one year with a \$10 finance charge (\$9 interest plus a \$1 service fee) has an APR of 10%. Example 2: A \$100 one-year loan with a \$10 finance charge repaid in twelve equal installments (meaning the borrower has the use of less and less of the loan principal each month) has an APR of 18%.

Annual Percentage Yield (APY) |

The annual rate of return on an investment, which must be disclosed by law and which varies by the frequency of compounding. Example 1: A \$1,000 investment that earns 6% per year pays \$60 at year-end and has an APY of 6%. Example 2: A \$1,000 investment that earns 0.5% per month (6%/12) pays \$61.68 in one year and has an APY of 6.17%. Example 3: A \$1,000 investment that earns 0.0164% per day (6%/365) pays \$61.83 in one year and has an APY of 6.18%.

Automated Teller Machine (ATM) |

A computer terminal used to conduct business with a financial institution or purchase items such as postage stamps or transportation tickets; also known as a cash machine.

Bankruptcy |

A state of being legally released from the obligation to repay some or all debt in exchange for the forced loss of certain assets. A court's determination of personal bankruptcy remains in a consumer's credit record for 10 years.

Bank |

A state or federally chartered for-profit financial institution that offers commercial and consumer loans and other financial services.

Beneficiary |

A person or organization named to receive assets after an individual's death.

Bond |

A certificate representing the purchaser's agreement to lend a business or government money on the promise that the debt will be paid — with interest — at a specific time.

Budget |

1. A spending plan.
2. A record of projected and actual income and expenses over a period.

Business Plan |

A description of a company's organizational structure, staff, activities, and marketing and financial plans, including expected sources of income and expenses.

Capital Gain |

Income that results when the selling price of an asset is greater than the original purchase price.

Capital Loss |

Monetary loss that occurs when the selling price of an asset is less than the original amount invested.

Cash Flow Statement |

A summary of receipts and payments for a given period, helpful when preparing a budget; also known as an income and expense statement.

Charitable Gift |

Aid to those in need.

Closed-End Credit |

A specific-purpose loan requiring repayment with interest and any other finance charges by a specific date. Examples include most mortgages or auto loans.

Collateral |

Property that a borrower promises to give up to a lender in case of default.

Collectibles |

Physical objects—such as fine art, stamps, and antiques—that an investor buys in the hope that they will grow in value.

Collection Agency |

A business that specializes in obtaining payments from debtors who have defaulted on their loans.

Comparison Shopping |

The process of seeking information about products and services to find the best quality or utility at the best price.

Compensation |

Payment and benefits for work performed; also payment to injured or unemployed workers or their dependents.

Compounding |

Calculating interest on both principal and previously earned interest.

Contract |

A legally binding agreement between two or more parties.

Credit |

An agreement to provide goods, services, or money in exchange for future payments with interest by a specific date or according to a specific schedule. The use of someone else's money for a fee. (See Open-end credit, Closed-end credit, and Easy-access credit.)

Credit Card |

A plastic card that authorizes the delivery of goods and services in exchange for future payment with interest, according to a specific schedule.

Credit Counseling Service |

An organization that provides debt and money management advice and assistance to people with debt problems.

Credit Report |

An official record of a borrower's credit history, including such information as the amount and type of credit used, outstanding balances, and any delinquencies, bankruptcies, or tax liens.

Credit Score |

A statistical measure of a loan applicant's creditworthiness, which is the likelihood of repayment.

Credit Union |

A state or federally chartered not-for-profit financial cooperative that provides financial services to its member-owners, who have met specific employment, residence, or other eligibility requirements.

Creditworthy |

The presumption that a specific borrower has sufficient assets, income, and/or inclination to repay a loan.

Decision Making |

A method of selecting a course of action after gathering and evaluating information and considering the costs and benefits of various alternatives and consequences.

Debit Card |

A plastic card that provides access to electronic funds transfer (EFT) from an automated teller machine (ATM) or a point-of-sale (POS) terminal.

Debt |

Something owed, usually measured in dollars.

Deductible |

The dollar amount or percentage of a loss that is not insured, as specified in an insurance policy.

Default |

The failure to meet a financial obligation or agreement.

Dependent |

A person who relies on another individual for support.

Disposable Income |

Gross pay minus deductions for taxes.

Diversification |

A strategy for reducing some types of risk by selecting a wide variety of investments.

Dividends |

Earnings from corporate stock or credit union share accounts.

Dollar-Cost Averaging |

A method of investing a fixed amount in the same type of investment at regular intervals, regardless of price.

Earned Income |

Earnings from employment, including commissions and tips.

Electronic Funds Transfer (EFT) |

The shifting of money from one financial institution account to another without the physical movement of cash.

Emergency Fund |

Money set aside for unexpected expenses or for living costs in case of job loss.

Employee Benefit |

Compensation that an employee receives in addition to a wage or salary. Examples include health insurance, life insurance, childcare, and subsidized meals.

Employer-Sponsored Retirement Savings Plan |

Tax-deferred investment programs, such as 401 (k) plans for corporate employees and Section 457 plans for state and local government employees, which provide, in some cases, employer matching funds.

Entrepreneur |

An individual who conceives of, establishes, operates, and assumes the risks of a business.

Equal Credit Opportunity Act |

A federal law that forbids lenders from discriminating against loan applicants on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance.

Equity |

Stock ownership in a corporation. Estate The assets and debts that a person leaves at death.

Ethics |

A set of moral principles or beliefs that govern an individual's actions.

Expense |

The cost of goods and services, including those that are fixed (such as rent and auto loan payments) and those that are variable (such as food, clothing, and entertainment).

FICA |

Federal Insurance Contributions Act. (See Social Security.)

Finance Charge |

The total dollar amount paid for credit. Example: A \$100 loan repaid with \$9 interest plus a \$1 service fee has a finance charge of \$10.

Financial adviser |

A person who provides financial information and advice. Examples include employee benefits staff, bank and credit union employees, credit counselors, brokers, financial planners, accountants, insurance agents, and attorneys.

Financial Goals |

Desired results from one's efforts to achieve personal economic satisfaction.

Financial Literacy |

The ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.

Financial Plan |

A report that identifies a person's financial goals, needs, and expected future earning, saving, investing, insurance, and debt management activities; it typically includes a statement of net worth.

Fraud |

Intentional and illegal deception, misrepresentation, or concealment of information for monetary gain.

Garnishment |

A court-sanctioned procedure that sets aside a portion of an employee's wages to pay a financial obligation.

Grace Period |

A time during which a borrower can pay the full balance of credit due and not incur finance charges or pay an insurance premium without penalty.

Gross Pay |

Wages or salary before deductions for taxes and other purposes.

Identity Theft |

The crime of using another person's name, credit or debit card number, Social Security number, or another piece of personal information to commit fraud.

Impulse Buying |

Purchasing goods or services without considering needs, goals, or consequences.

Income |

Money earned from investments and employment.

Individual Retirement Account (IRA) |

An investment with specific tax advantages. A traditional IRA defers taxes on earnings until withdrawal and, under certain circumstances, allows the deduction of some contributions from current taxable income. A Roth IRA requires after-tax contributions only, but allows tax-free withdrawals under certain rules.

Inflation |

An overall rise in the price of goods and services; the opposite of the less common deflation.

IRA |

(See **Individual Retirement Account**.)

Insurance |

A risk management tool that protects an individual from specific financial losses under specific terms and premium payments, as described in a written policy document. Major types include:

Auto - Provides liability and property damage coverage under specific circumstances.

Disability - Replaces a portion of income lost when a person cannot work because of illness or injury.

Health - Covers specific medical costs associated with illness, injury, and disability.

Homeowners - Provides property damage and liability coverage under specific circumstances.

Liability - Protects the insured party from others' claims of loss due to the insured's alleged or actual negligence or improper actions.

Life - Protects dependents from loss of income, debt-repayment, and other expenses after the death of the insured party.

Renters - Protects from losses due to damage to the contents of a dwelling rather than the dwelling itself.

Interest |

1. Cost of borrowing money.
2. Earnings from lending money.

Interest Income |

Money that financial institutions, governments, or corporations pay for the use of investors' money.

Investing |

Purchasing securities such as stocks, bonds, and mutual funds with the goal of increasing wealth over time, but with the risk of loss.

Job |

A position of employment with specific duties and compensation. (See **Career**.)

Lease |

A written contract specifying the terms for the use of an asset and the legal responsibilities of both parties to the agreement, such as a landlord and tenant.

Liability |

An actual or potential financial obligation.

Liquidity |

The quality of an asset that permits it to be converted quickly into cash without loss of value. For example, a mutual fund is more liquid than real estate.

Living Will |

A document that contains the signer's desires for specific medical treatment in case the person is unable to make medical decisions; also known as a health care directive.

Mortgage |

A long-term loan to buy real estate, that is, land and the structures on it.

Mutual Fund |

An investment tool that pools the money of many shareholders and invests it in a diversified portfolio of securities, such as stocks, bonds, and money market assets.

Net Worth |

A measure of a person's financial condition at a given time, equal to what that person owns (assets) minus what that person owes (liabilities).

Open-End Credit |

An agreement with a financial institution that gives a borrower the use of money up to a specified limit for an indefinite time as long as repayment of the outstanding balance and finance charge proceeds on schedule; also known as revolving credit or a revolving line of credit. A credit card is an example.

Opportunity Cost |

The value of possible alternatives that a person gives up when making one choice instead of another; also known as a trade-off.

Pawnshop |

An easy-access credit business that makes high-interest loans secured by personal property collateral, such as jewelry.

Payday Loan |

An easy-access credit business that makes high interest loans for the period of the borrower's pay cycle. This practice is illegal in some states.

Payment Method |

The means of settling a financial obligation, such as by cash, check, credit card, debit card, smart card, or stored value card.

Payroll Deduction |

An amount an employer withholds from a paycheck. Mandatory deductions include various taxes. Voluntary deductions include loan payments, charitable contributions, and direct deposits into financial institution accounts.

Peer Pressure |

The influence that a social group has on an individual, based on the individual's desire for the group's approval.

Personal Finance |

The principles and methods that individuals use to acquire and manage income and assets.

Philanthropy |

The act of voluntarily contributing to others' welfare.

Point of sale (POS) |

The location where a transaction occurs. POS software can track sales, inventory, and customer information.

Portfolio |

A collection of securities—such as stocks, bonds, mutual funds, and real estate—that an individual investor owns.

Principal |

1. An amount of money originally invested, excluding any interest or dividends.
2. An amount borrowed, or an outstanding loan balance.

Privacy |

Freedom from unauthorized release of personal information.

Probate Court |

The government institution with jurisdiction over a deceased person's will and estate.

Profit |

The positive difference between total revenue and total expenses of a business or investment.

Prospectus |

A legal document that provides detailed information about mutual funds, stocks, bonds, and other investments offered for sale, as required by the Securities and Exchange Commission.

Rate of Return |

Annual earnings on an investment expressed as a percentage of the amount invested; also known as yield. Example: A \$3 annual dividend divided by \$34 share cost = 0.088, an 8.8% rate of return.

Recordkeeping |

The process of keeping an orderly account of a person's financial affairs, including income earned, taxes paid, household expenditures, loans, insurance policies, and legal documents.

Rent |

A periodic fee for the use of property.

Rent-to-Own |

A plan to buy a product with little or no down payment by renting it until the final payment is made, at which point the total paid far exceeds the product's purchase price.

Repossession |

Confiscation of collateral, often without notice, if a borrower defaults on a loan.

Risk |

A measure of the likelihood of loss or the uncertainty of an investment's rate of return.

Risk Management

The process of calculating risk and devising methods to minimize or manage loss, for example, by buying insurance or diversifying investments.

Rule of 72 |

A rough calculation of the time or interest rate needed to double the value of an investment. Example: To figure how many years it will take to double a lump sum invested at an annual rate of 8%, divide 72 by 8, for a result of 9 years.)

Scam |

A fraudulent or deceptive act.

Salary |

Compensation for work, expressed as an annual sum and paid in prorated portions regularly—usually weekly, bi-weekly, or monthly. (See Wage.)

Saving |

The process of setting income aside for future spending. Saving provides ready cash for emergencies and short-term goals, and funds for investing.

Savings Account |

A financial institution deposit account that pays interest and allows withdrawals.

Savings Bond |

A document representing a loan of more than one year to the U.S. government, to be repaid, with interest on a specified date.

Savings and Loan Association (S&L) |

A state or federally chartered for-profit financial institution that pays dividends on deposits and makes mortgage loans.

Security | 1. A legal agreement that records a debt or equity obligation from a corporation, government, or other organization. Examples include stocks and bonds.

2. Collateral for a loan.

Simple Interest |

Interest calculated periodically on loan principal or investment principal only, not on previously earned interest.

Social Security |

A federal government program that provides retirement, survivor's, and disability benefits, funded by a tax on income, which appears on workers' pay stubs as a deduction labeled FICA (for Federal Insurance Contributions Act, the enabling legislation).

Spending Plan |

Another name for budget.

Standard of Living |

The overall degree of comfort of an individual, household, or population, as measured by the amount of goods and services its members consume.

Stock |

An investment that represents shares of ownership of the assets and earnings of a corporation.

Stored-Value Card |

Prepaid plastic card that allows purchases up to a set limit, at which point the card is discarded or, if "rechargeable," replenished from an account.

Take-Home Pay |

Gross wage or salary, plus bonuses, minus deductions such as for taxes, health care premiums, and retirement savings.

Tax |

A government fee on business and individual income, activities, or products.

Tax Credit |

An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned income below a certain limit and for qualified post-secondary school expenses. (See Tax deduction and Tax exemption.)

Tax Deduction |

An expense that a taxpayer can subtract from taxable income. Examples include deductions for home mortgage interest and for charitable gifts. (See Tax credit and Tax exemption.)

Tax Deferral |

The feature of an investment in which taxes due on principal and/or earnings are postponed until funds are withdrawn, often at retirement.

Tax Exemption |

Earnings, such as interest from municipal bonds, that are free of certain taxes. (See Tax credit and Tax deduction.)

Time Value of Money |

The potential of an investment to increase in value through periodically compounded earnings.

Tip |

An amount paid for a service beyond what's required, usually to express satisfaction; also known as a gratuity.

Title Loan |

A high-cost, short-term loan that uses the borrower's automobile as collateral.

Transfer Payment |

Money that a government provides to citizens for reasons other than current employment or the delivery of goods or services in exchange. Examples include Social Security, veteran's benefits, and welfare.

Unearned Income |

Earnings from sources other than employment, including investment returns and royalties.

Values |

An individual's beliefs about what is important, desirable, and worthwhile, which often influence decisions.

Wage |

Compensation for work, usually calculated on an hourly, daily, or piecework basis and paid on schedule—usually weekly, biweekly, or monthly. (See Salary.)

Warranty |

A written guarantee from the manufacturer or distributor that specifies the conditions under which the product can be returned, replaced, or repaired.

Wealth |

Accumulated assets; positive net worth.

Welfare |

Aid in the form of money or necessities for those in need; often from a government program.

Will |

A legal declaration of a person's wishes for the disposition of his or her estate after death.

