

PERSONAL FINANCE

MATHUR

NYSE-Composite Trans

Continued From Following Page

52 Weeks	High	Low	Stock	Div.	%	P-E	Sales	Ratio	100s	High	low	Close	Net
81 1/2	52 1/4	Plessey	1.85e	2.4	8	1	78 1/2	78 1/2	24 1/2	24 1/2	24 1/2	24 1/2	1/4
34	17 3/4	Pneumo	.60	4.0	7	134	25 1/2	24 1/2	21 1/2	21 1/2	21 1/2	21 1/2	3/4
36 1/2	17 1/2	PopoPd	1	5.9	23	6620	17	16 1/2	16 1/2	16 1/2	16 1/2	16 1/2	1/4
33 1/2	16 1/2	Polarid	.40	2.4	9	453	17	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2	1/4
18 1/2	11 1/2	Pndros	.80	7.3	22	1	11	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	1/4
22 1/2	10 1/2	PopTal	.80	7.0	6	39	11 1/2	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	1/4
15 1/2	10 1/2	Portec	1.74	14	4	411	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	1/4
13 1/2	11	PortGE	16	16		43	27 1/2	27 1/2	27 1/2	27 1/2	27 1/2	27 1/2	1/4
18 1/2	16	PorG	pf2.60	16		53	21 1/2	21 1/2	21 1/2	21 1/2	21 1/2	21 1/2	1/4
30 1/2	27 1/2	PorG	pf4.40	16		7	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	1/4
42 1/2	20 1/2	Polittch	1.48	7.0	7	113	27 1/2	27 1/2	27 1/2	27 1/2	27 1/2	27 1/2	1/4
16 1/2	12 1/2	PolmEI	1.68	11	7	2300	23 1/2	23 1/2	23 1/2	23 1/2	23 1/2	23 1/2	1/4
31 1/4	26	PolEI	pf4.04	15		68	23 1/2	23 1/2	23 1/2	23 1/2	23 1/2	23 1/2	1/4
24 1/2	16 1/2	Preslev	5.42	1.8	14	8	8 1/2	24 1/2	24 1/2	24 1/2	24 1/2	24 1/2	1/4
14 1/2	8	Prmrk	n2.40	3.6	5	34	19 1/2	19 1/2	19 1/2	19 1/2	19 1/2	19 1/2	1/4
28	21	PrimeC	20	1.0	12	27	20 1/2	20 1/2	20 1/2	20 1/2	20 1/2	20 1/2	1/4
40 1/2	17	PrimMI	4.20	5.0	9	894	83 1/2	83 1/2	83 1/2	83 1/2	83 1/2	83 1/2	1/4
87 1/2	67 1/2	ProctG	.32	3.8	14	42	8 1/2	18 1/2	18 1/2	18 1/2	18 1/2	18 1/2	1/4
13	18 1/2	ProRsh	1.40	7.4	11	6	19	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	1/4
39 1/2	12 1/2	PSvCol	pf2.10	12	7	343	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	1/4
16 1/2	13 1/2	PSCol	2.76	12	6	151	22 1/2	22 1/2	22 1/2	22 1/2	22 1/2	22 1/2	1/4
24 1/2	19 1/2	PSind	pf1.04	14		5	115	15 1/2	15 1/2	15 1/2	15 1/2	15 1/2	1/4
8 1/2	6 1/2	PSin	2.12	16		2	24030	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	1/4
16 1/2	12 1/2	PSvNH	pf2.75	16		4	26 1/2	26 1/2	26 1/2	26 1/2	26 1/2	26 1/2	1/4
18 1/2	15 1/2	PSNH	pf2.81	16		6	24 1/2	24 1/2	24 1/2	24 1/2	24 1/2	24 1/2	1/4
19	15 1/2	PSNH	pf4.25	16		6	24 1/2	24 1/2	24 1/2	24 1/2	24 1/2	24 1/2	1/4
28 1/4	24	PSNH	pf3.75	15		6	1506	19 1/2	19 1/2	19 1/2	19 1/2	19 1/2	1/4
25 1/2	21 1/2	PSvNM	2.80	13	8	454	10 1/2	10 1/2	10 1/2	10 1/2	10 1/2	10 1/2	1/4
25 1/2	21 1/2	PSVEG	2.56	13		10	33 1/2	33 1/2	33 1/2	33 1/2	33 1/2	33 1/2	1/4
21 1/2	16 1/2	PSEG	pf1.40	15		260	35	35	35	35	35	35	1/4
11	9 1/2	PSEG	pf5.05	15		2700	44 1/2	44 1/2	44 1/2	44 1/2	44 1/2	44 1/2	1/4
37	31	PSEG	pf5.28	15		2	16 1/2	16 1/2	16 1/2	16 1/2	16 1/2	16 1/2	1/4
39	32 1/2	PSEG	pf6.80	15		210	51 1/2	51 1/2	51 1/2	51 1/2	51 1/2	51 1/2	1/4
50 1/2	41 1/2	PSEG	pf2.43	15		23900	52 1/2	52 1/2	52 1/2	52 1/2	52 1/2	52 1/2	1/4
18 1/2	14 1/2	PSEG	pf7.70	15		2100	50	50	50	50	50	50	1/4
58 1/2	48 1/2	PSEG	pf7.80	15		2840	66 1/2	66 1/2	66 1/2	66 1/2	66 1/2	66 1/2	1/4
56 1/2	46	PSEG	pf7.52	14		145	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	1/4
70	59 1/2	PSEG	pf9.62	12	2.6	6	72	3	3	3	3	3	1/4
5 1/2	1 1/2	Publick		12	2.6	6	72	3	3	3	3	3	1/4
4	3 1/2	Pueblo	1.76	14	5	152	13	13	13	13	13	13	1/4
2 1/2	1 1/2	PR Cem	5.6	9	105	11 1/2	34 1/2	34 1/2	34 1/2	34 1/2	34 1/2	34 1/2	1/4
1 1/2	1 1/2	PR Cem	1.76	14	5	152	13	13	13	13	13	13	1/4

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PREFACE

Readers today are interested in the practical applications of concepts and techniques in managing personal finances. This book has been written for today's readers. By using a variety of special features, the book will help the reader in living the type of lifestyle that he or she wants to live.

Special Features

Managing personal finances has become increasingly complex in the past few years. Financial institutions are subject to fewer regulations now and offer the consumer many different types of savings and checking plans. The home buyer is faced with a large array of alternative mortgages. The car buyer may often face a choice of a cash rebate or lower finance charges. These are but some of the financially oriented areas that require the consumer to carefully evaluate alternatives and make informed decisions. This book includes a number of special features that are designed to focus the reader's attention, communicate the factors involved in financial analysis, and help the reader make better financial decisions.

There are learning objectives at the beginning of each chapter and each chapter opens with a vignette or real life example, highlighting a major theme covered in the chapter. Spot quizzes at the end of chapter sections help the reader test his or her understanding of the subject materials. Important terms in the text are highlighted in bold face in the text where they are defined and are further defined in a separate glossary. Figures, tables, box items, and cartoons are utilized extensively throughout the book, and help illustrate important personal finance concepts. End of chapter case problems are designed to test the reader's knowledge with "real life" financial problems. References provided at the end of each chapter can be used to explore certain topics in more depth.

Supplements

Two supplements are available with this book. An *Instructor's Manual* is available free to all adopters of the book. A *Study Guide*, written by Lynette L. Knowles and myself, is also available. The *Study Guide* has the following sections:

- I. Terms to Know
- II. Key Concepts
- III. Self Tests
 - a. True-False

- b. Multiple Choice
- c. Matching or Fill in the Blanks

IV. Solved Case Problems

The first two sections help the reader in understanding the main ideas in each chapter. Section III helps in testing one's understanding of the materials covered. The last section contains one or more case problems with detailed solutions.

Acknowledgments

Many have contributed directly or indirectly to the development of this book. My greatest debt is to my students who read the materials included here and provided valuable feedback. Their feedback was very helpful in deciding on the presentation style, and on the types of figures and tables included in the text.

I am grateful to my colleagues, here at Southern Illinois University at Carbondale and at other universities, who read selected portions of the materials and provided a stimulating environment for developing the book. I am especially grateful to Susan Edgren, Southern Illinois University at Carbondale, for using my preliminary materials in her personal finance courses and for providing me with valuable feedback. Mary Beth Felle and Barbara Hill deserve special thanks for typing the text manuscript. Finally, I am indebted to my family for their understanding during the writing of this book.

CONTENTS

Part One FINANCIAL PLANNING

1	Careers and Lifetime Financial Goals	3
2	Financial Records: Tools of Financial Management	35
3	Financial Planning and the Income Tax	56
4	Consumerism: Getting More for Less	92

Part Two BUDGETING, CASH, AND CREDIT

5	Budgeting for Current Expenses	123
6	Managing Liquid Assets	144
7	Managing Credit	188

Part Three HOUSING AND TRANSPORTATION

8	Renting Housing	235
9	Buying a Home	251
10	Transportation and Major Appliances	289

Part Four INSURANCE

11	Principles of Insurance	319
12	Property and Liability Insurance	341
13	Health Insurance	374
14	Life Insurance	403

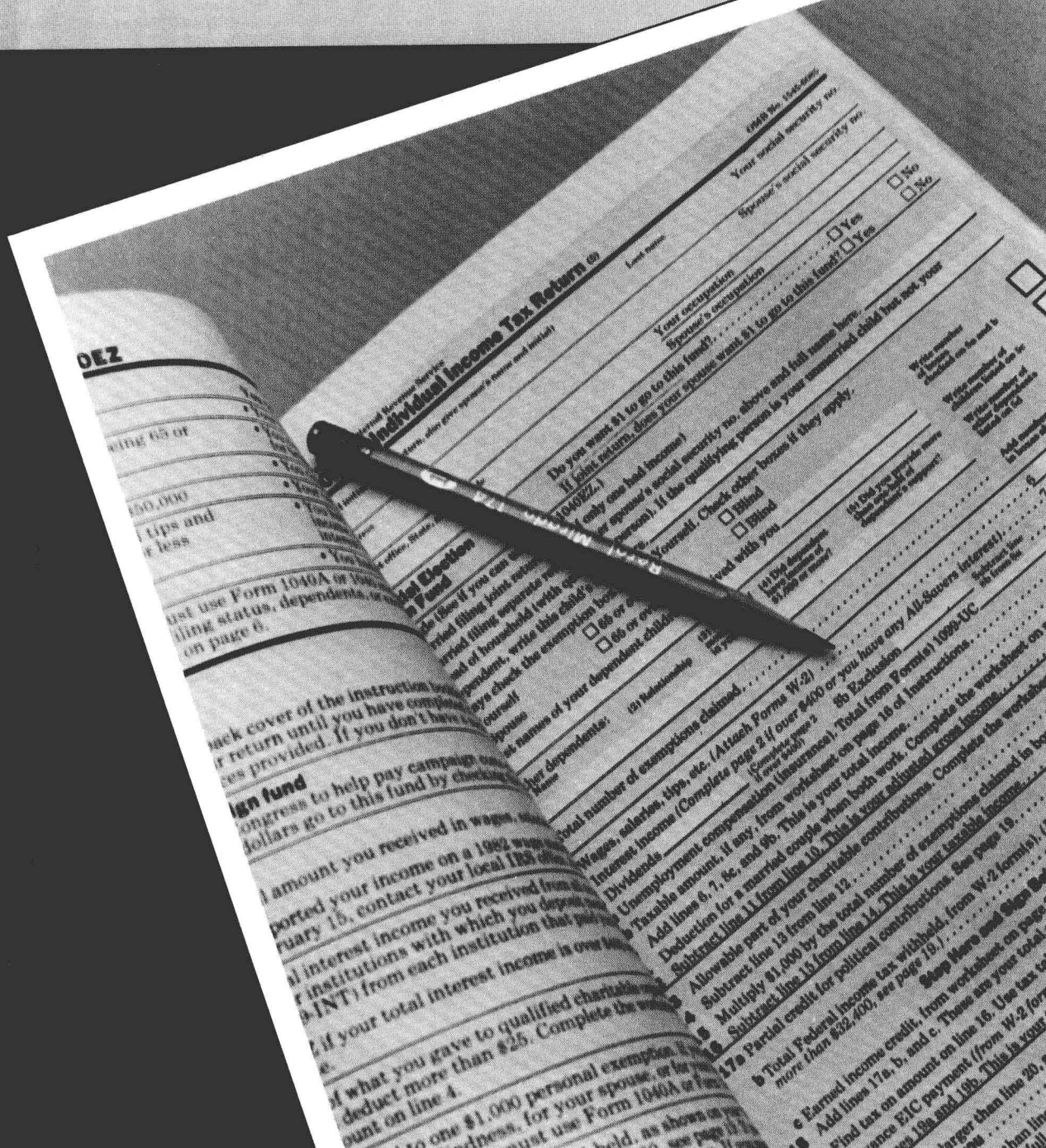
Part Five INVESTMENTS

15	The Basics of Investing	439
16	Information and Transactions for Securities Markets	460
17	Stock and Bond Investments	482
18	Managing Investment Funds	513
19	Speculative Investments	533

Part Six RETIREMENT AND ESTATE PLANNING

20	Planning for Leisure, Recreation, and Retirement	567
21	Estate Planning	602
Glossary		631
Index		643

Part One: Financial Planning



Financial planning is a key requirement for successful personal financial management. Chapter 1 on "Careers and Lifetime Financial Goals" explains the relationship between life style and personal financial management. Factors that explain differences in incomes are discussed. The chapter discusses choosing a career, preparing a resume, getting a job, and the process of setting personal financial goals.

Chapter 2 explains maintaining records as well as the mechanics of preparing income statements and balance sheets. Chapter 3 is on "Financial Planning and the Income Tax." The chapter explains the nature of taxes and how tax returns are prepared. Special topics discussed are capital gains taxes, reducing taxes, and tax assistance.

Chapter 4 is on "Consumerism." Typical consumer frauds are explained. Warranties and service contracts are discussed. Consumer protection legislation is outlined. The last part of the chapter outlines a procedure for filing a complaint regarding a product or service.

Chapter 1

Careers and Lifetime Financial Goals

Chapter Objectives After reading this chapter you will be able to:

- Explain the relationship between life style and personal financial goals.
- Identify factors that explain differences in personal income.
- Discuss factors to consider in choosing a career.
- Prepare a resume.
- Explain how to get a job.
- Explain the procedure for setting financial goals for yourself.

When Tom Seifert was five years old, he went with his father to see a U.S. Navy-Pittsburgh football game. The Navy cadets in their uniforms increased his interest in serving in the armed forces. He pursued his interest in college by joining the Naval ROTC at Villanova University. Upon graduation he joined the U.S. Marines. After serving in the Marines for four years he has decided to resign and look for a new job. His reasons for leaving the Marines are two-fold: (1) he did not like the separations from his family from time to time; (2) his military salary did not allow him to lead the kind of life he wanted. Tom is married and the father of a two-year-old daughter. He and his family live in Jacksonville, North Carolina. He owns a house worth \$29,000, some land worth \$12,500, and other assets worth \$17,750. He owes \$29,300 on his property and car. His wife is a part-time teacher. Last year the family's income was about \$20,800. Tom's B.A. is in political science and he is thinking about getting an M.B.A. He feels that he is well qualified to work as a salesman.¹ What financial factors do you think that the Seiferts should have in mind as Tom thinks about a new career?

¹ "Out of Dress Blue, Into Gray Flannel," *Money*, Vol. IX, No. 5 (May, 1980), pp. 95-100.

Tom Seifert is not alone in his search for a better life for his family and himself. Most of us share his desire to better ourselves. Our search for a better life, however, is affected by our choice of a career, and by how well we can plan and manage the financial side of our life. This chapter shows how style of living, or life style, and financial plans are tied together, how to choose a career, how to get a job, and how to set financial goals.

LIFE STYLES AND FINANCIAL GOALS

In 1969 John Baird was a Peace Corps volunteer working in Nigeria on farm irrigation projects. After returning from Nigeria, John attended the University of Illinois where he sold left-wing newspapers while obtaining a B.A. in sociology. After graduation, John started to look for a job that was financially and personally rewarding. His aptitude and desire for independence led him into piano tuning. Nowadays, John spends about 12 hours each day tuning pianos. He values self-reliance and the financial security of his job. Neither he nor his wife are covered by any pension plan. Therefore, the Baird's family financial planning is heavily geared towards retirement planning.²

Life Styles

As the above paragraph indicates, John is a very independent type of person. His desire for independence led him to a job that allows him the maximum amount of freedom to do what he wants to do. As a piano tuner, he can decide how many hours each day he wants to work. He can, within reason, control how much or how little money he wants to make. Basically, John's choice of a career allows his family to live their preferred life style. The other side of the coin is that, as an independent businessperson, John is not covered by a pension or retirement plan. Therefore, he has to plan for his own retirement.

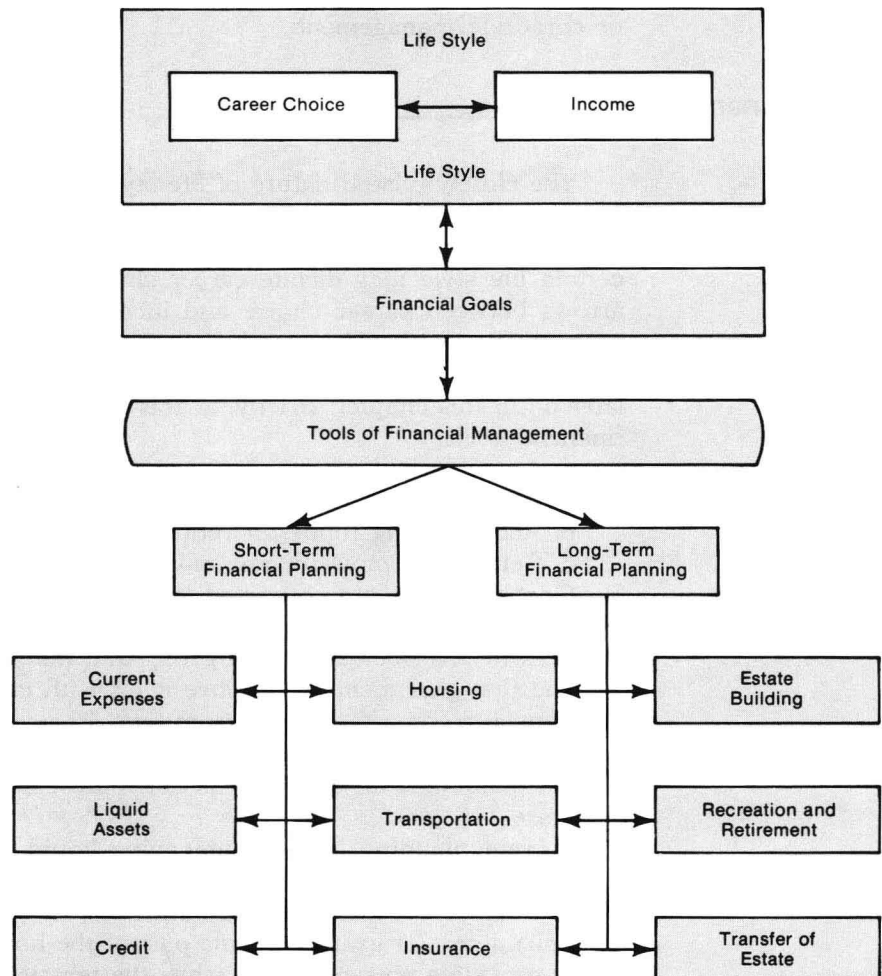
The Baird family situation is one that we encounter all the time. Even you and I face a similar situation. Individual persons and families have considerable freedom to follow life styles of their choosing. Some of us may choose the security of a 9 to 5 job. The job may provide a steady income, security, and a pension. Some of us, like the Bairds, may choose the more risky option of being our own

² "A Tuner and a Tutor Look Toward the 21st Century," *Money*, Vol. VIII, No. 7 (July, 1979), pp. 46-50.

bosses. We may choose this career path because it provides us more freedom, and the opportunity to earn a high income.

The three factors that we have mentioned thus far—life style, career choice, and income—are closely related. Figure 1-1 shows these relationships. The box on the top says “Life Style.” One family may choose a simpler life on a farm, where it raises its own food and is relatively self-sufficient. Another family may choose to live in New York and enjoy the city’s operas, plays, and night life. These two families have life styles that are different from each other. The country family is giving up entertainment for perhaps a less pressured living environment. The city family is giving up closeness to nature in return for the glamour of city life. The career choices for the wage

Figure 1-1
**Personal Financial
Management
Model**



earners in the two families are going to be different. The farm family is not going to go to work in suits and jackets; the city family is not going to be involved with pitching manure. Similarly, the incomes of the two families are going to be different.

Basically, the life style that one desires affects both choice of career and income. One's life style in return is affected by choice of career and income. As the Seifert family example indicates, the present career of Tom Seifert is affecting both the family's life style and income. His desire to change careers is mainly to improve the family's life style and income. Income, too, affects life style and career choice. A person with high income would be able to lead a life style that is not possible for someone with a lower level of income. A desire for a particular level of income would point towards certain careers also. For example, persons with a desire for high income would probably look more favorably at professions such as medicine or corporate management.

Financial Goals

The closely related nature of life style, career choice, and income is reflected in Figure 1-1. The box at the top encloses smaller boxes labeled "Career Choice" and "Income," indicating that desire for a certain life style may dictate career choice and income. The double arrows between career choice and income indicate that they affect each other directly. The next box in Figure 1-1 is labeled "Financial Goals." The topic of financial goals will be discussed in greater detail later on in this chapter. Briefly, at this point, we could identify three financial goals:

- a. Attaining and maintaining a certain life style or quality of living.
- b. Accumulating funds for retirement and building an estate.
- c. Getting the most for our money.

Financial goals are converted into financial plans by using tools of financial management such as budgeting and tax planning. Later chapters in this book cover budgeting and tax planning.

The first goal mentioned above deals with current planning, that is, financial planning for the present time. The second goal deals with long term financial planning. The third goal deals with both long and current planning and, therefore, is not represented by a separate box in Figure 1-1.

Current planning includes managing liquid assets such as cash, and checking and savings accounts. It also includes managing credit or loans received. Housing and insurance span both current and long term planning. For example, some part of the housing payments may be for providing present shelter while the remaining payment may be

for building an estate. Similarly a portion of insurance expenses may be for property insurance while another portion may be for life insurance.

Long-term planning, besides housing and insurance, deals with accumulating funds for retirement purposes and for estate building. We plan for retirement so that when we stop producing income, we have sufficient funds to continue to maintain our life style. We are interested in building an estate for a variety of reasons such as having funds on hand to educate our children or to leave them, or a charity, an inheritance.

Notice in Figure 1-1 that there is a double arrow connecting the two boxes labeled "Life Style" and "Financial Goals." The reason is that our life styles dictate what financial goals we should have. Achieving our financial goals helps us to attain or maintain our preferred life style. Consider the example of the Baird family. Without planning for retirement, the family would not have funds on hand to maintain its life style after John stopped tuning pianos. Putting into effect a plan for retirement will allow the Baird family to retire and live comfortably.

● Spot Quiz on
Life Styles and
Financial Goals

Q1: Financial goals should be established independently of preferred life style. T ____ F ____

Q2: Setting and carrying out financial goals help achieve preferred life style. T ____ F ____

FACTORS AFFECTING INCOME

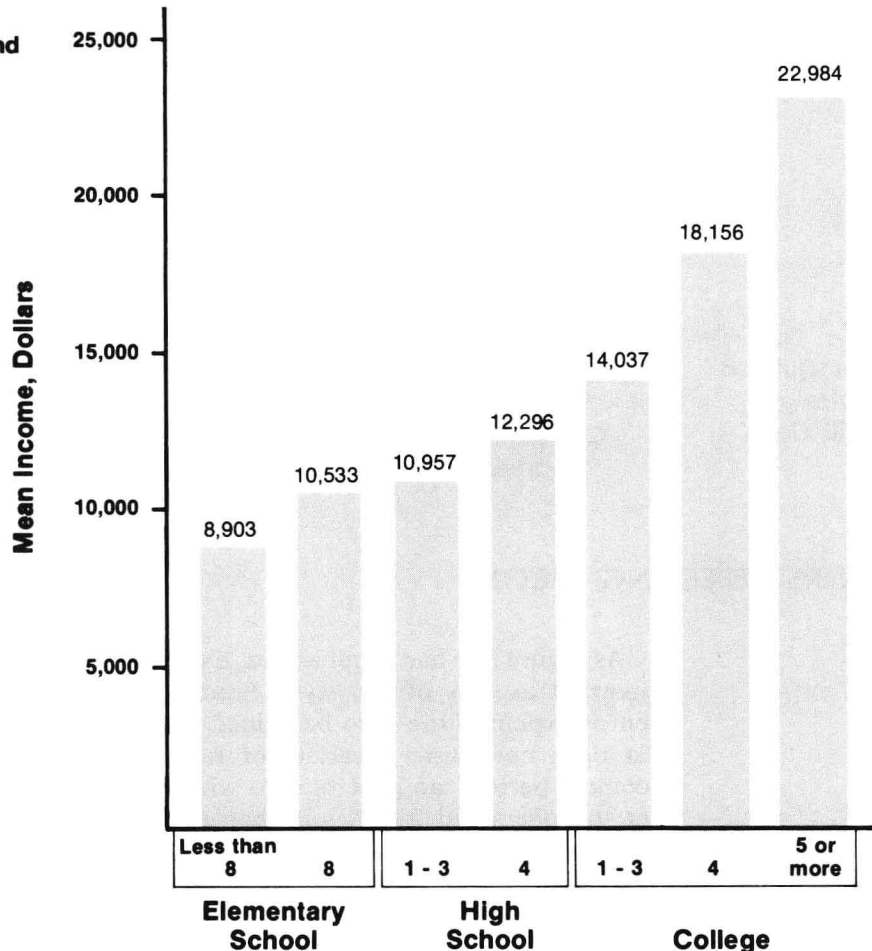
As Figure 1-1 had emphasized, choice of a career and income are important aspects of life style. From a personal financial management viewpoint, little is to be gained by trying to manage an income that does not exist. A variety of factors influence the amount of income a person can generate. To wisely choose a career, it is important to understand the factors that affect income.

Education _____

Education beyond high school can be of two types. One is going to college where a bachelor's degree can be earned in about four years. The second is post-high school vocational training in a specialized area such as automotive repairs or medical technology. In gen-

eral, persons with some education beyond high school earn more money over their life than persons with only a high school education. There is evidence to show that more education, in general, results in a higher income level. As Figure 1-2 shows, the average or mean income is lowest for persons who complete less than 8 years of elementary education. Income levels rise with number of years of schooling completed. Mean income is highest for those persons who have done some graduate school work. Figure 1-2 shows a direct relationship between years of schooling completed and mean income.

Figure 1-2
Mean Income and
Education*



Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports: Consumer Income*, Series P-60, No. 118 (Washington, D.C.: U.S. Government Printing Office, 1977), p. 194.

Mean income is for full-time workers, age 18 and over, who are employed year-round. Data are for 1977.

While data in Figure 1–2 indicate that higher levels of education produce higher income, such is not the case always. There are many types of high paying occupations that do not require extensive education beyond the high school level. For example, persons trained as appliance repairpersons, medical technicians, and electronics technicians, and who do not have college degrees, earn salaries as high as or higher than those with college degrees. In some areas such as history or sociology, college graduates have a relatively difficult time finding a suitable job. What this means is that it is not necessary for everyone to obtain a college degree to earn a higher income.

While most would argue that a college education is a worthwhile, enlightening experience, some question the need for a college education. A major critic of college education is Professor Caroline Bird. She states that colleges are ghettos for the nation's youth. The young people of this country go to college, or are sent to college, because the society finds them of no immediate use.³

Whether one agrees or disagrees with Professor Bird's statements, one should not decide to go to college solely for the purpose of earning a higher income. If you feel that you were destined to be a superb auto mechanic, then a vocational program in auto repairing might be more beneficial than a college education. This is not meant to imply that a college education is not worthwhile. Rather, college education should be considered from a personal development point of view. College gives you the opportunity to be exposed to new ways of thinking, to meet people from different cultural, ethnic, racial, religious, and social backgrounds, and to gain vocational as well as self-satisfying experiences. If college education provides you with entry to higher paying jobs, that's fine. But if that is not the case, the education itself should be a personally satisfying experience.

Nature of Job

Incomes also depend on the nature of the job to be performed, and the number of persons available to do the job. Some jobs are physically demanding, or require a high degree of training and ability. Because of these requirements, these jobs pay high wages. Those who worked on the construction of the Alaska Pipeline worked under difficult environmental conditions and were well paid for it. Professional athletes have very high skill levels and earn very high wages, although only for a few years. Similarly, computer scientists and petrochemical engineers, because of their specialized training, earn high wages. Jobs which do not require special skills or high training

³ Caroline Bird. *The Case Against College*. (New York: David McKay. 1975.)

usually do not pay high wages. Sales clerks, for example, make relatively low wages.

The supply of and demand for workers in an occupation affects wages also. In an occupation, if there are more persons willing to work than employers can hire, then wages will be low. Unskilled laborers make low wages because of the easy availability of labor. The supply and demand picture, however, is quite often tempered by the presence of labor unions or professional trade associations. The efforts of unions such as the United Auto Workers and the United Mine Workers has resulted in benefits for workers that cannot be explained by the demand-supply situation alone. Similarly, professional trade associations such as the American Medical Association and the American Bar Association have certain standards that are designed to protect consumers, but which also serve to affect wages based strictly on demand and supply.

Experience

A look at job listings in newspapers would show that most employers prefer to hire persons with some work experience. Employers are willing to pay experienced workers higher salaries than they are willing to pay workers with no experience. Many jobs involve on-the-job training. During the training period workers are not as productive as they will be after the training. As workers spend more time on their jobs, they become more experienced and productive. Employers recognize the value of experienced workers by paying them higher salaries. Also, as workers spend more time on their jobs they gain seniority, and many times wages are related to seniority on the job.

Experience, seniority, and education come with time, which means that normally older persons earn more than younger persons in a given profession. There are exceptions. For example, a person who starts a new career at age 40 is probably going to earn less than someone who is 35 years old but has been in the same profession for 14 years. The relationship between age and income is shown in Figure 1-3. For college graduates, income continues to rise until about age 52 years and, thereafter, declines. For those with high school or elementary school education, income rises until about age 47, and then it begins to decline. The decline in income after age 47 years is due to lower job mobility for the elderly.

Figure 1-3 again shows the benefits of college training. Note that, on the average, income levels for college trained persons are higher than for non-college trained persons throughout the persons' working