Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. Describe and compare characteristics of various types of investments.
2. Define liquidity and risk; describe how liquidity and risk factor into investment decisions; and investigate the liquidity and risk involved in the various forms of investments.
3. Examine the importance of retirement planning, and identify the types of investments used in retirement accounts.

Resources. The following resources may be useful in teaching this lesson:

Corresponding E-unit(s). Danville, IL: CAERT, Inc. www.mycaert.com
Equipment, Tools, Supplies, and Facilities.

✓ Overhead or PowerPoint projector
✓ Visual(s) from accompanying master(s)
✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
✓ Materials listed on duplicated items
✓ Computers with printers and Internet access
✓ Classroom resource and reference materials

Key Terms. The following terms are presented in this lesson (shown in bold italics):

► annuity
► defined benefit plan
► defined contribution plan
► 401(k) plans
► 403(b) plans
► GO bonds
► individual retirement accounts
► Keogh plan
► liquidity
► municipal bonds
► mutual fund
► revenue bonds
► risk
► savings incentive match plan for employees
► Section 457
► simplified employee pensions
► tangible
► tax exemption
► treasury bills
► treasury bonds
► treasury notes

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

Ask students to write the age at which they want to retire. Then have students work in pairs to determine what they would like to do during retirement. List their ideas of possible retirement activities: travel, home repairs/additions, golf memberships, and classes. Only allow a few minutes. Then ask how they plan to pay for the activities. Also, take some time to discuss retirement age. At what age do students feel retirement is appropriate?
Objective 1: Describe and compare characteristics of various types of investments.

Anticipated Problem: What are the characteristics of various types of investments?

I. There are several forms of investments an individual can choose from to keep money safe, generate interest, or endow securities.

A. Savings accounts—Interest is compounded and credited monthly, depending on the bank. Typically, there are competitive rates among banks.
   1. Depending on the type of savings account, there is generally no minimum balance required.
   2. Funds can be accessed through an ATM and online banking.
   3. Some special savings accounts include holiday club savings, student/minor savings, and higher interest/yield accounts.

B. Money market accounts (MMA)—Interest is compounded and credited monthly depending on the bank. Generally banks give above-average interest rates.
   1. Competitive rates can be found online.
   2. MMAs require a minimum balance to open (i.e., $1,000).
   3. Some MMAs require a daily balance (i.e., $10,000).
   4. There are restrictions on the number of withdrawals per month, and it is less of a liquid investment.
   5. It is considered a long-term investment.

C. Certificates of deposit (CD)—These include a specified sum that is deposited for a set period of time at a fixed rate of interest.
   1. CDs have a maturity date (date when money can be withdrawn without paying a penalty).
   2. They are considered a short- to medium-term investment.
   3. They are protected by the Federal Deposit Insurance Corporation (FDIC).

D. Savings bonds—They offer a low $50 minimum.
   1. There is no credit check.
   2. The principal is secure.
   3. Lost bonds can be replaced.
   4. They are backed by the government.
   5. There are no fees.
   6. There is a solid return because they are inflation protected.
7. This long-term design allows for access after one year.
8. They can be given as gifts.

E. **Stocks**—Common stock can provide rights and powers (e.g., right to receive dividend payments, sell stock, receive consideration during a merger, elect/vote for directors and approve fundamental transactions, and receive proportionate distribution of assets during a liquidation).
   1. Stocks can be categorized in many different phases:
      a. Class A vs. Class B
      b. Publicly owned vs. closely held
      c. Company size
      d. Style of stock (e.g., growth, value, or cyclical)
      e. Stock sectors
         1. Consumer Discretionary (e.g., GM, Home Depot, and Walt Disney)
         2. Consumer Staples (e.g., Pepsico and Sara Lee)
         3. Energy (e.g., Exxon/Mobil)
         4. Financials (e.g., Wachovia and Bank of America)
         5. Health Care (e.g., Pfizer)
         6. Industrials (e.g., Boeing)
         7. Information Technology (e.g., Microsoft)
         8. Materials (e.g., U.S. Steel)
         9. Telecommunications (e.g., AT&T)
         10. Utilities (e.g., Southern Co.)
   2. Returns on common stock are uncertain because some companies do not have enough earnings to pay dividends. However, dividends provide investors with a consistent flow of income.

F. **Treasury bills** (T-bills)—These are non-interest bearing commitments that are issued by the U.S. government at a discount from the actual face value.
   1. They have maturities of three months, six months, or one year.
   2. They are considered short-term investments.
   3. They are exempt from state and local taxes.
   4. They are treated as ordinary income for federal tax.
   5. They are very liquid and have active primary and secondary markets.

G. **Treasury notes** (T-notes)—They are issued by the U.S. Treasury and are guaranteed by the U.S. government.
   1. T-notes are considered an intermediate investment with maturities of one to ten years.
   2. They are taxed federally, not statewide or locally.
   3. They are sold through auctions using the bidding process (e.g., two- or three-year maturities are sold in $5,000 denominations).
   4. They generate payment on fixed coupon rates of interest every six months.
H. **Treasury bonds** (T-bonds)—These are issued by the U.S. Treasury and are guaranteed by the U.S. government.
   1. They are considered a very long-term investment with maturities greater than 10 years.
   2. They pay interest semiannually.
   3. They are considered one of the safest investments.
   4. They are sold (in $1,000 denominations) through auctions using the bidding process.
   5. They are taxed federally, not statewide or locally.

I. **Municipal bonds**—They are issued by states, cities, counties, and various districts to raise money to pay for projects (e.g., schools, power plants, airports, and hospitals).
   1. On most municipal bonds, the interest earned is not subject to federal taxes, which is considered a **tax exemption**.
   2. The majority of municipal bonds are purchased by individual investors.
   3. Municipal bonds are issued by $5,000 face-value denominations (or multiples of $5,000).
   4. There are two different forms of municipal bonds: general obligations (GO bonds) and revenue.
      a. **GO bonds** raise funding for projects that do not produce revenue.
      b. **Revenue bonds** are used for projects, such as a new stadium. Then the money generated from the new stadium will pay bondholders interest and will pay principal on the loan.
      c. Municipal bonds may be insured.

J. **Mutual funds**—A **mutual fund** takes your money with other investors’ money, and the capital is invested.
   1. Investments can be made in a wide range of securities:
      a. Aggressive growth funds
      b. Growth/index funds
      c. Income funds
      d. Money market funds
      e. International/global funds
   2. These funds are professionally managed to focus on the fund’s goal.
   3. Investors tend to buy stock in small numbers or to buy a small piece of the entire fund.
   4. Because of the diversification of mutual funds, the danger of company-specific declines reduces.
   5. As a holder of a mutual fund, the individual becomes a shareholder of stocks, bonds, or money market investments. Therefore, the individual/shareholder has the ability to receive capital appreciation, interest, or dividends.
K. Annuities—An **annuity** can provide supplementary income during retirement.
   1. An annuity allows an individual to accumulate tax-deferred savings and then receive periodic payouts for a set period of time.
   2. Interest earned is not taxed until payouts start.
   3. There are several types of annuities:
      a. Fixed
      b. Variable
      c. Equity-indexed

L. Precious metals—Ruthenium, rhodium, palladium, silver, osmium, iridium, gold, and platinum are some of the most common precious metals used by investors. The precious metal market is complex.
   1. Many investors buy shares in a mining company.
   2. Precious metals are used in the manufacture of jewelry; therefore, it is common to invest in jewelry companies as a form of precious metal investment.
   3. Precious metals tend to retain value even during economic crisis.

M. Ownership of assets—Owning real estate can provide a steady income (e.g., rent payments from tenants). It can also act like stock.
   1. Its value can fluctuate.
   2. There is no fixed maturity.
   3. It is **tangible**—you can see/touch the investment and talk to tenants.
   4. It requires management (e.g., repairs and landscape).
   5. There are inefficient markets.
   6. There is a high transaction cost (i.e., private market real estate contains high purchase and sales costs).
   7. There is lower liquidity.
   8. Tenant quality varies due to location.

Assign the corresponding E-unit text to aid in understanding the characteristics of various types of investments. Use VM–A. Discuss the importance of investments, and link the discussion to retirement. If time allows, invite a local financial manager to discuss the basics of investing. Then assign LS–A.

**Objective 2:** Define liquidity and risk; describe how liquidity and risk factor into investment decisions; and investigate the liquidity and risk involved in the various forms of investments.

**Anticipated Problem:** What is liquidity and risk? How does liquidity and risk impact investment decisions? How is liquidity and risk involved in various forms of investments?

II. Liquidity is used in many ways within financial investments, markets, or financial institutions. **Liquidity** (marketability) is the ease of converting an asset into cash while not affecting the asset’s price. An asset/security is liquid if the market is liquid.
The market is liquid if the trading can easily be bought or sold without affecting market prices. A liquidity institution has the ability to access cash. Liquidity cannot be found with a formula; it requires comparing and studying liquidity ratios. Investing in liquid assets, securities, or markets is safer because it is easier to get the money out of the investment. Therefore, liquidity can impact types of investment decisions because of the ease of obtaining cash.

A. Some investments (e.g., a savings account) are considered to have a more constant liquidity.
   1. The cash within a traditional savings account is easily attainable through withdrawal or the use of an ATM.
   2. Money market accounts are typically used as a long-term investment, so they are less of a liquid investment.
   3. CDs have maturity dates, and the cash is attainable after the maturity date. Cash is attainable before maturity with a penalty.
   4. T-notes and T-bonds are treated as a low liquidity risk (with short-term maturities) and a moderate liquidity risk (with long-term maturities). T-notes and T-bonds have the largest, most liquid market in the world.
      a. T-bills represent a low liquidity risk because they are very liquid—with maturities of three and six months or one year.
      b. T-bills are one of the most liquid securities within financial investments.

B. With all financial investments, risks of money being lost or investments declining can be scary. Risk is the chance that loss may occur. No one can predict the future with perfect accuracy, so reliable information must be gathered about trends and directions to make the best possible decision for the future of a business or a financial investment. Agribusinesses and investors use resources (e.g., market forecast and analysis) to minimize risk and to prepare for future decisions.
   1. Credit and market risk are two important key elements when evaluating types of investments.
      a. T-notes and T-bonds have low credit risk because of the backing of the U.S. Treasury. However, market risks are high on long-term maturities due to the duration of the investment.
      b. T-bills have a low credit and market risk. The short-term of the T-bill allows for less price volatility.
      c. Stocks can be very risky due to the uncertainty of returns.
   2. Mutual funds can be subject to different risks, volatility, fees, and expenses. It is important to remember that the greater the need for higher returns with mutual funds, the more risk there is to take.
      a. Aggressive funds may result in a higher long-term return, but they can also involve greater risk for an overall loss.
      b. Municipal bonds can be insured, decreasing the risk factor involved. Municipal Bond Insurance Association (MBIA) and the American Municipal Bond Assurance Corporation (AMBAC) are two municipal bond insurers.
Display VM–B. Discuss the importance of researching investment types before making any commitments. Bring in some financial journals and newspapers for review and discussion in small groups. You may use the following as a visual to introduce this objective: Water in an open-lid pitcher is easier to pour for a drink versus a partial-lid with ice or if the water is completely frozen in the pitcher.

**Objective 3:** Examine the importance of retirement planning, and identify the types of investments used in retirement accounts.

**Anticipated Problem:** Why is retirement planning important? What are the types of investments used in retirement accounts?

III. One of the goals in retirement planning is to be financially stable during the later years of life. It is important to maintain a steady stream of funds during retirement. Insufficient funds during retirement can trigger older, experienced individuals back in the workforce. Individuals depending on Social Security payments and nothing else will find themselves looking for additional funds. In today’s workforce, employers offer several different forms of retirement accounts and/or plans that allow individuals to save for retirement.

A. Under the Employee Retirement Income Security Act (ERISA), there are two types of pension plans: defined benefit plans and defined contribution plans.
   1. A **defined benefit plan** provides a specified amount given monthly at retirement, such as $100 per month. Some benefit plans are calculated through a plan formula that considers salary and service during employment.
   2. A **defined contribution plan** does not promise a specific amount. These plans use contributions from employees or employers (or both) to be invested on the employee’s behalf. Contributions can be set at a certain rate (e.g., 5 percent of earnings annually). At retirement, the employee receives the account balance, which is based on the investment (of contributions) gains or losses. During the employment time period, this investment can fluctuate because the values of investments change. Examples of defined contribution plans are 401 (k) plans, 403 (b) plans, employee stock ownership plans, and profit-sharing plans.
      a. **401 (k) plans**—Employees in private corporations can contribute a portion of their salary, before taxes. Contributions are deducted directly from the individual’s paycheck. Sometimes the employer matches the contributions. This plan allows employees to have some responsibility for their retirement by contributing part of their salary and by directing their own investments.
      b. **403 (b) plans**—These are similar to 401 (k) plans. However, the participants are commonly public employees (e.g., teachers or employees of non-profit organizations). Few of these employers will match contributions.
      c. **Section 457**—This plan is similar to 401 (k) and 403 (b) plans, but this retirement plan is for state and local government employees.
B. Self-employed or small business individuals have options in retirement plans (e.g., Keogh plans, simplified employee pension plan, or savings incentive match plan for employees). These are also tax-deferred plans.

1. **Keogh plan**—It is available to anyone with self-employed income or income from any unincorporated business. Money added to a Keogh plan is not taxed, and the funds grow in value until withdrawn. Keogh plans can be started through a bank, mutual fund, or other financial institutions. There are three forms of Keogh plans: money-purchase, profit-sharing, and combination of money-purchase and profit sharing.

2. **Simplified employee pensions** (SEP)—These allow employees to make contributions into individual retirement accounts (IRAs). Employers may contribute, but employees must have an IRA set up to accept contributions. An SEP is much simpler to get started than a Keogh plan.

3. **Savings incentive match plan for employees** (SIMPLE)—This type of plan is designed for owners of businesses that employ 100 employees or less. It is designed to cover all employees and owners. The employer’s contribution to the plan decreases the business’s taxable income. The employee’s contribution decreases his or her taxable income. The SIMPLE plan is tax-deferred.

C. **Individual retirement accounts** (IRAs) are another way for individuals to set aside money for retirement. Individuals can use an IRA to take advantage of the tax-deferred growth of funds. IRAs can be established at banks, mutual fund companies, or brokerage firms. The types of IRAs are:

1. Traditional
   a. Tax-deductible
   b. Non-deductible

2. Roth—These are not tax-deductible; they accumulate like whole life insurance. The funds enter into a Roth IRA after tax, and funds accumulate tax-deferred. Then they are tax-free at the point of withdrawal.

D. Retirement plans are subject to penalties (if early withdrawal occurs) and limits. Some accounts have exceptions to the rules.

1. If the funds are going to be used as a first-time home buyer, a penalty may not be applied.

2. Depending on the type of investment, there are contribution limits. For example, the maximum IRA contribution for 2009 is limited to $5,000. It is important to know the consequences, requirements, and responsibilities of these types of accounts.

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**Display VM–C.** Divide the class into small groups. Assign a type of retirement account to each group, and have them conduct research. They should share their findings with the class.

**Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can
be used to determine which objectives need to be reviewed or taught using a different approach.

- **Application.** Use the included visual masters and lab sheet to apply the information presented in the lesson.

- **Evaluation.** Evaluation can involve observing student performance throughout the lesson. A sample written test is provided.

**Answers to Sample Test:**

**Part One: Matching**
1. e
2. a
3. c
4. f
5. b
6. d

**Part Two: Completion**
1. treasury
2. Revenue
3. tangible
4. Risk
5. defined benefit plan
6. 403(b)

**Part Three: Short Answer**
1. Savings accounts—Interest is compounded and credited monthly, depending on the bank. Generally, there are competitive rates among banks. Depending on the type of savings account, there is often no required minimum balance. Funds can be accessed through an ATM and online banking. Some special savings accounts include holiday club savings, student/minor savings, and higher interest/yield accounts.
   Money market accounts (MMAs)—Interest is compounded and credited monthly, depending on the bank. Generally banks give above-average interest rates. Competitive rates can be found online, but MMAs require a minimum balance to open (e.g., $1,000). Some MMAs require a daily balance (e.g., $10,000). In addition, there are restrictions on the number of withdrawals per month. It is less of a liquid investment, and it is considered a long-term investment.

2. Certificates of deposit (CDs)—These include a specified sum deposited for a set period of time at a fixed rate of interest. They have a maturity date and are
considered short- to medium-term investments. They are protected by the Federal Deposit Insurance Corporation (FDIC).

3. An asset/security is liquid if the market is liquid. The market is liquid if the trading can easily be bought or sold without affecting market prices. A liquidity institution has the ability to access cash. Liquidity cannot be found with a formula; it requires comparing and studying liquidity ratios. Investing in liquid assets, securities, or markets is safer because it is easier to get the money out of the investment. Therefore, liquidity can impact types of investment decisions because of the ease of obtaining cash.

4. 401 (k) plans—Employees in private corporations can contribute a portion of their salary, before taxes. Contributions are deducted directly from the individual’s paycheck; sometimes the employer may match the contributions. This plan allows employees to have some responsibility for their retirement by contributing part of their salary and by directing their own investments.
Financial Investments

Part One: Matching

Instructions: Match the term with the correct definition.

- a. municipal bonds
- b. Keogh plan
- c. mutual fund
- d. Section 457
- e. treasury bills
- f. liquidity

1. Investments that are a non-interest bearing commitment issued by the U.S. government at a discount from the actual face value with maturities of three and six months and one year.

2. Investments issued by states, cities, counties, and various districts used to raise money to pay for projects.

3. An investment that takes your money with other investors’ money and invests the capital in a wide range of securities.

4. The ease of converting an asset into cash while not affecting the asset’s price.

5. An investment that is valuable to anyone with self-employed income or income from any unincorporated business.

6. A retirement plan that is for state and local government employees.

Part Two: Completion

Instructions: Provide the word or words to complete the following statements.

1. A(n) ______________________ bond is a very long-term investment with maturities greater than 10 years, and it pays interest semiannually.

2. ______________________ bonds are used for projects, such as a new stadium.

3. Owning real estate can provide a steady income, and it is ______________________.
4. _________________________ is the chance that loss may occur.

5. A(n) _________________________ provides a specified amount given monthly at retirement, such as $100 per month.

6. Public employees, like school teachers, will use a(n) _________________________ plan as a retirement tool.

Part Three: Short Answer

Instructions: Answer the following.

1. What is the difference between savings accounts and money market accounts?

2. What are the characteristics of certificates of deposit (CDs)?

3. How does liquidity impact investment decisions?

4. What is a 401(k) plan?
FORMS OF INVESTMENTS

♦ Savings accounts
♦ Money market accounts (MMAs)
♦ Certificates of deposit (CDs)
♦ Savings bonds
♦ Stocks
♦ Treasury bills (T-bills)
♦ Treasury notes (T-notes)
♦ Treasury bonds (T-bonds)
♦ Municipal bonds
♦ Mutual funds
♦ Annuities
♦ Precious metals
♦ Ownership of assets
Liquidity of Investments

♦ Savings account—The money is easily attainable through withdrawal or the use of an ATM.
♦ Money market accounts—These are typically used as a long-term investment and are referred to as a less liquid investment.
♦ CDs—Cash is attainable after the maturity date.
♦ T-notes and T-bonds—These involve low liquidity risk (with short-term maturities) and moderate liquidity risk (with long-term maturities).
♦ T-bills—These are a low liquidity risk.

Risk of Investments

♦ T-notes and T-bonds—These are a low credit risk due to the backing of the U.S. Treasury.
♦ T-bills—These are a low credit and market risk.
♦ Mutual funds—These can be subject to different risks, volatility, fees, and expenses.
♦ Municipal bonds—These can be insured, thereby decreasing the risk factor involved.
TYPES OF RETIREMENT ACCOUNTS

Under the Employee Retirement Income Security Act (ERISA), there are two types of pension plans.

1. A defined benefit plan provides a specified amount given monthly at retirement, such as $100 per month.

2. A defined contribution plan does not promise a specific amount. These plans use contributions from employees or employers (or both) to be invested on the employee’s behalf.

Accounts

♦ 401 (k) plans—Employees within private corporations can contribute a portion of their salary, before taxes. Contributions are deducted directly from the individual’s paycheck.
403 (b) plans—These are similar to 401 (k) plans. However, the participants are commonly public employees (e.g., employees of schools).

Section 457—It is also similar to 401 (k) and 403 (b) plans, but it is a retirement plan for state and local government employees.

Keogh plan—It is available to anyone with self-employed income or income from any unincorporated business. Money added to a Keogh plan is not taxed. The funds grow in value until withdrawn.

Simplified employee pensions (SEP)—These allow employees to make contributions into individual retirement accounts (IRAs). Employers may contribute, but employees must have an IRA set up to accept contributions.

Savings incentive match plan for employees (SIMPLE)—This type of plan is designed for owners of businesses that employ 100 employees or less.

Individual retirement accounts (IRAs) are another way for individuals to set aside money for retirement. Individuals can use an IRA to take advantage of the tax-deferred growth of funds.
Objective

Develop a graphic organizer displaying the advantages and disadvantages of the various types of investments.

Materials

- paper
- pencil
- markers

Procedure

1. Research the various types of investments.
   - Savings accounts
   - Money market accounts (MMAs)
   - Certificates of deposit (CDs)
   - Savings bonds
   - Stocks
   - Treasury bills (T-bills)
   - Treasury notes (T-notes)
   - Treasury bonds (T-bonds)
   - Municipal bonds
   - Mutual funds
   - Annuities
   - Precious metals
   - Ownership of assets
2. Identify the advantages and disadvantages of each investment type.

3. Create a graphic organizer displaying the investment characteristics.