Money 101

A Crash Course in Better Money Management

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FINANCIAL GUIDANCE SINCE 1964

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Introduction

- **Why Money Skills Are important**
  - Create Independence
  - Set and reach goals
  - Enjoy living responsibly within your means
  - Prepare you for your future after college

Developing A Financial Plan

- Look at your resources
- Understand your expenses
- Create a Budget
- Set financial goals
- Identify and evaluate what to do
- Take action
- Review your progress
- Make changes if needed
- Get help if it's not working

Budgeting your Money

- **Where Does Your Money Go?**
  - Track expenses for one month
    - What did you buy
    - Which were needs vs. wants
    - Patterns of spending
  - Categorize spending (clothing, food, etc.)
  - Identify future spending (car, house, etc.)

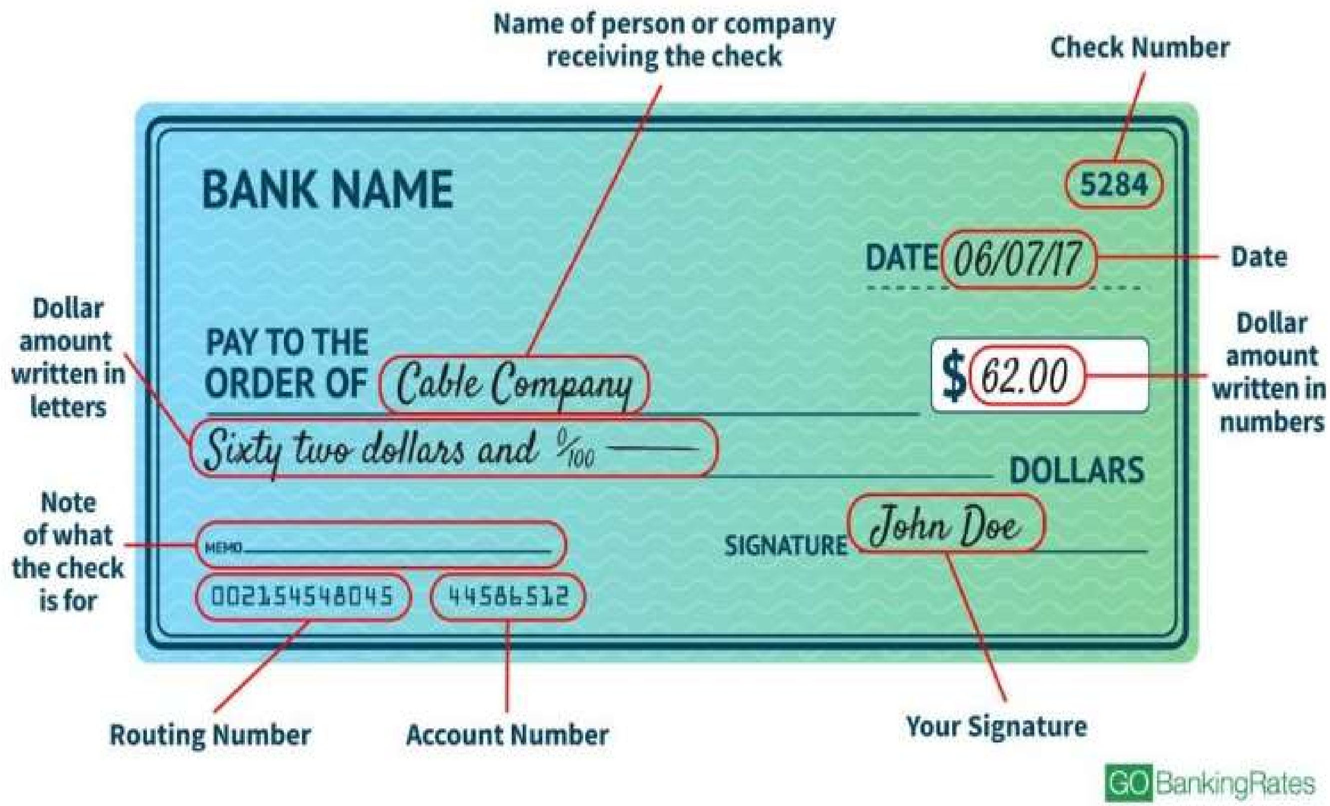
Ideas to Use

- **Draft a budget**
  - Excel
  - Budgeting Software – Mint.com
- **Pay yourself first**
  - Saving before you do anything else
  - Try and set aside a certain portion of your income the day you get paid before you spend any discretionary money.
  - Most people wait and only save what's left over – that's *paying yourself last*.

Savings Account

- **Strategies for Saving**
  - Why Save
    - In case of an emergency
    - To take advantage of opportunities
    - To reach financial goals
  - Pay yourself first
    - Save to reach goals
    - From each paycheck: save first, spend second

Checking Account



Source: Gobankingrates.com

Debit Cards

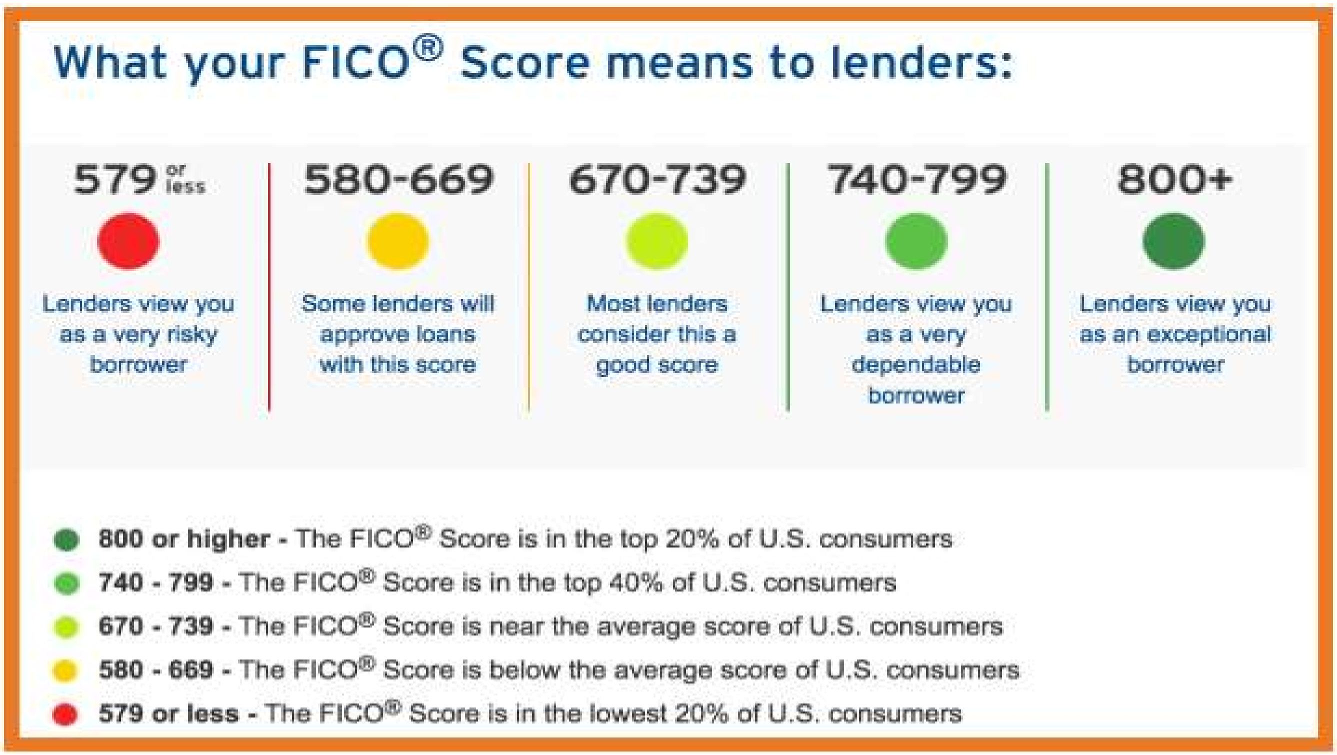
- **The Debit Card**
  - ATM Card bit with a Visa logo
  - Looks just like a credit card, but not a loan, no interest
  - Backed only by the checking account behind it
  - Widely accepted, can be a good budgeting tool

Understanding Credit

- **Your Credit Score (FICO Score)**
  - Everything you do with your credit accounts affects you credit score, including car and school loans
  - Creditors extend credit to credit worthy customers
  - When you pay your bills on time, your are proving yourself credit worthy
  - Banks reward good customers with lower interest rate loans and higher credit lines
  - Employers may check your score. A bad score may result in fewer job offers

Understanding Credit

- **Your Credit Score (FICO Score)**



Source: Mounteaconconsulting.com

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Understanding Credit

- **Costs associated with a poor FICO score (Mortgage Example):**
  - Good Credit – 30 year Mortgage @4%

Mortgage Calculator

User-Input Fields:		*Fixed Calculations:*	
Loan Amount:	$300,000.00	Scheduled Payment Amount:	$1,432.25
Interest Rate (%):	4.00%	Total No. Payments:	360
Number of Years:	30	Total Payment Amount:	$515,608.52
Number of Payments Per Year:	12	Total Interest Paid:	$215,608.52
Start Date (optional):	01-Jun-2016	Date of Last Payment:	01-Jun-2046

  - Poor Credit – 30 year Mortgage @5%
  - Interest rate increased 1%, additional $64,158.83 owed over 30 year period.

Mortgage Calculator

User-Input Fields:		*Fixed Calculations:*	
Loan Amount:	$300,000.00	Scheduled Payment Amount:	$1,610.46
Interest Rate (%):	5.00%	Total No. Payments:	360
Number of Years:	30	Total Payment Amount:	$579,767.35
Number of Payments Per Year:	12	Total Interest Paid:	$279,767.35
Start Date (optional):	01-Jun-2016	Date of Last Payment:	01-Jun-2046

Source: Excel Calculator

Credit Cards

- **Knowing Your Limit**
  - Don’t get in over your head. A credit card is a loan
  - Anything not paid back in full is assessed an interest charge.
  - There’s a pre-determined credit limit and money spent can be paid back in full or in installments.

Credit Cards

- **Advantages and Disadvantages of Credit Cards**

- **Advantages**
  - Convenient
  - Immediate purchasing power
  - No need for cash
  - Bills can be consolidated
  - Zero liability on fraud

Disadvantages

It's a loan

Interest rate may go up

May include additional fees

Can be easy to overspend

Can promote impulse buy

Retirement Accounts – 401k

- **401(k) Plan**
  - A retirement savings plan sponsored by an employer
  - It lets workers save and invest a piece of their paycheck before taxes are taken out
  - Balances grow tax deferred
  - Nearly every plan offers matching funds, most popular being 3% of salary.
  - Taxes aren't paid until the money is withdrawn from the account

Retirement Accounts – Traditional IRA

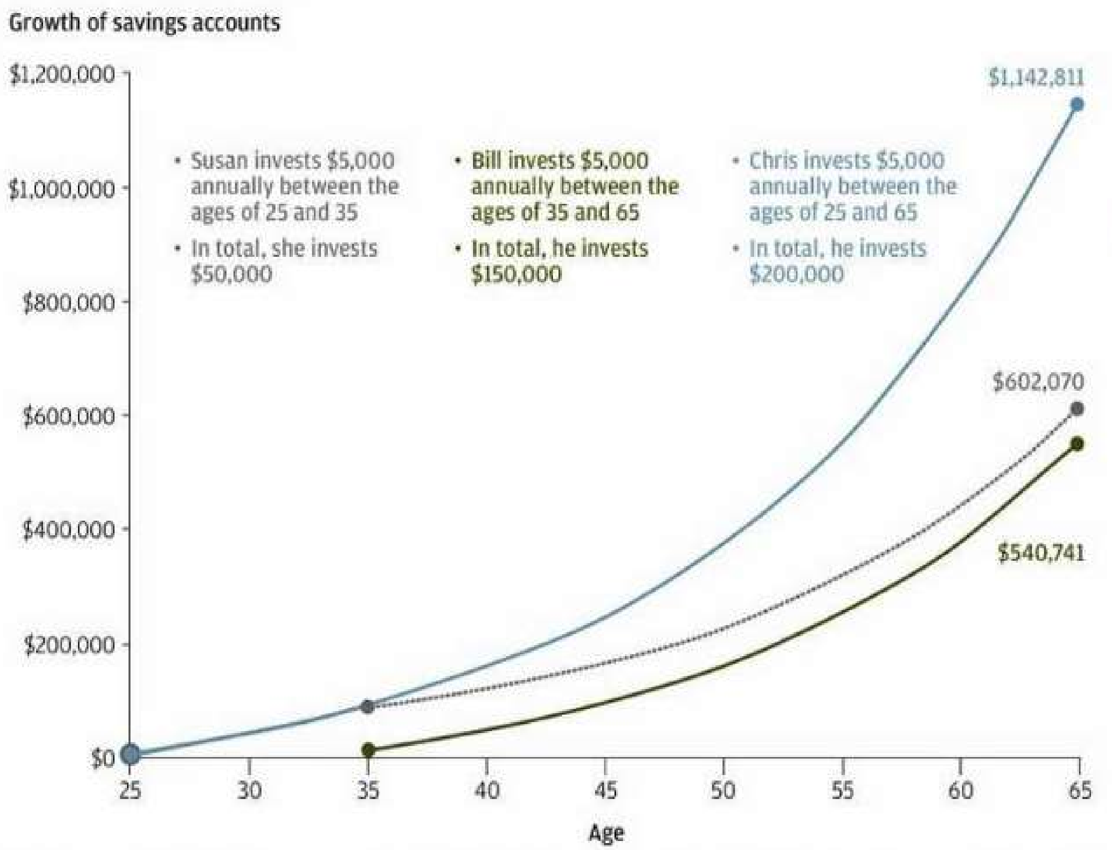
- **Traditional IRA**
  - Contributions may be tax deductible
  - Earnings can grow tax-deferred
  - After age 59 ½ , withdrawals are penalty-free but taxed as current income.
  - You must begin taking distributions at age 70 ½.
  - Anyone with earned income can contribute
  - Investment options: Mutual Funds, stocks, bonds, ETFs, CDs, money market funds

Retirement Accounts – Roth IRA

- **Roth IRA**
  - Contributions <u>are not</u> tax deductible
  - Earnings can grow tax-free
  - Contributions are always tax and penalty free
  - After age 59 ½ , and if the account has been open 5 years, earnings are tax and penalty free
  - Distributions are not required
  - Investment options: Mutual Funds, stocks, bonds, ETFs, CDs, and money market funds

Compound Interest – Benefits of Saving Early

Saving



Saving fundamentals: Harnessing the power of compounding can greatly impact the amount of savings over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return. Source: J.P. Morgan Asset Management.

Compounding refers to the process of earning return on principal plus the return that was earned earlier.

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Compound Interest

- Based on your current age and a 6% return rate, how much you need to be saving per month in order to reach $1 million by age 65

Source: Aspiremore.com

Summary

- Develop a plan
- Create a budget and stick to it
- Pay yourself first
- Use Credit responsibly
- Enroll and contribute to employer’s 401(k) plan
- Aim to save early to benefit from compound interest