

Financial Literacy Module #4

Personal Finance

Welcome back!

Things to do:

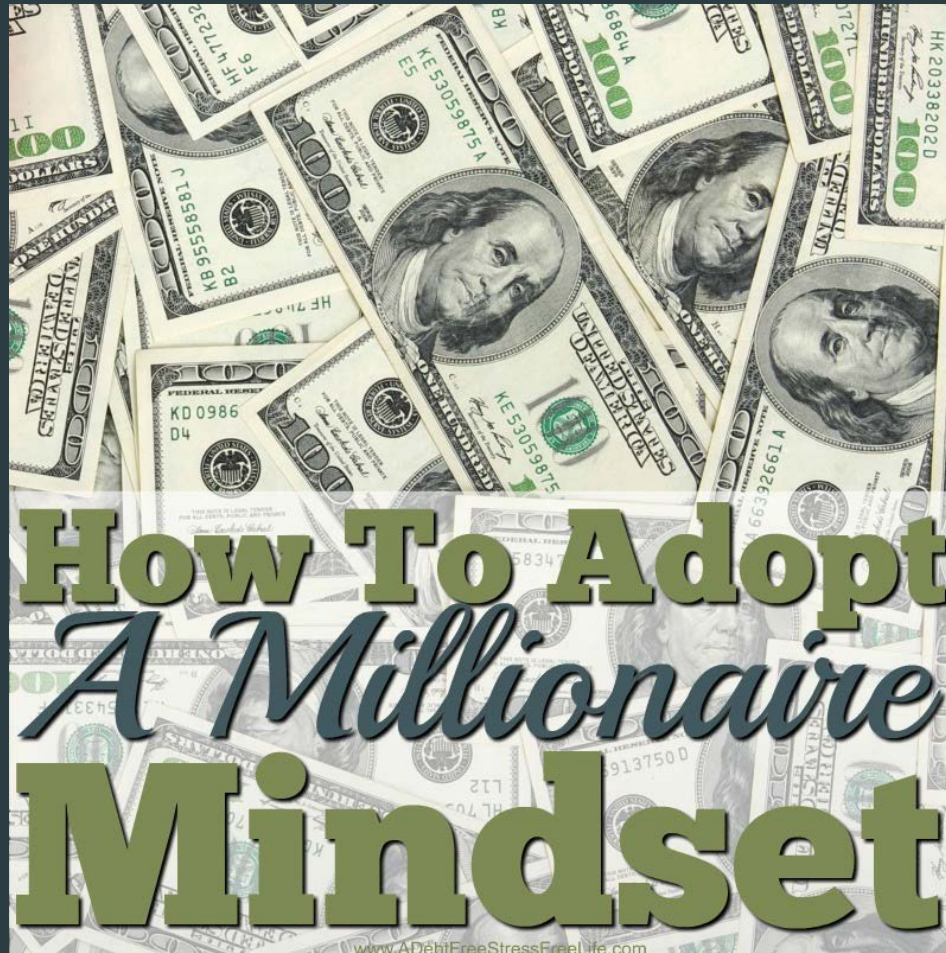
- ▶ Budgeting (review)
- ▶ Debt and Credit (review)
- ▶ Savings and Investing (new 😊)

The Millionaire's secret

Is living within your means.

-OR-

Only buying what you can afford.



Remember Budgeting?



Budgeting is

- ▶ A money management system
- ▶ Setting financial goals
- ▶ Saving money
- ▶ Preparation for the future

Budgeting is NOT

- ▶ Planning to be rich
- ▶ A punishment
- ▶ A waste of time
- ▶ Impossible

Remember Budgeting?



\$ Where does it go?

Every cent counts when it comes to a money management system. Small frequent purchases (a cup of coffee, a vending machine snack, micro-transactions, or paid subscriptions) add up.

If you buy a \$3 cup of coffee everyday, you're spending \$21 a week ($\3×7 days) which is \$84 ($\21×4 weeks) a month and \$1008 a year ($\84×12 months).

That's a lot of money! And it's only **ONE** frequent purchase.

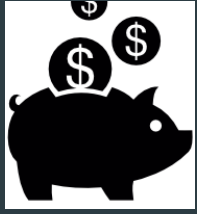
If you buy a \$3 drink, \$2 snack, and \$6 lunch everyday you go to work and have 2 \$10 monthly subscriptions you're spending \$3100 a year

Remember Debt?



Debt Vocabulary

- ▶ **Defaulting:** happens when loan repayments aren't made for a certain period of time. Defaulting will drastically reduce your credit score, impact your ability to receive future credit, and can lead to the seizure of personal property
- ▶ **Compounding:** an amount—principal plus interest—that earns interest again, and again over time
- ▶ **Debt snowball method:** preferred method of debt repayment: make minimum payments to all debts except the smallest which gets the largest possible payments, once that is payed off, take that money and apply it the next smallest debt
- ▶ **Negative Consequences of Debt:** owing money to others prevents you from paying yourself 1st (savings and investing) which makes it hard to build wealth



Savings and Investing



Who should Save?

Everyone!

When should I Save?

Now, yesterday and tomorrow!

How do I Save?

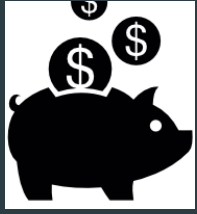
If you are budgeting your expenses, then saving is the next step of a money management system.

What is Saving?

Saving is an application of budgeting in which a person tries to accumulate money for future use.

Why should I Save?

So you can be prepared for the future, avoid debt, and have peace of mind.



Savings and Investing



How do I Save again?

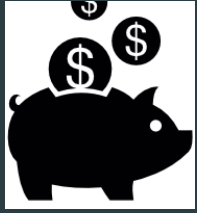
From your budget you should know your weekly or monthly net income—the amount of money you have after bills, taxes, and other necessary expenses.

Instead of spending your net income, you SAVE it.

Why should I Save again?

Saving your net income allows you to build an emergency fund which can be used to pay for emergency expenses, prepare for retirement, and have a few months worth of expenses ready if you have a loss of income.

Saving also allows you to start investing.



Savings and Investing



Who should Invest?

People who have saved enough money to cover their expenses for the foreseeable future.

What is Investing?

Investing is risking money now to possibly benefit from an increased return of money later.

When should I Invest?

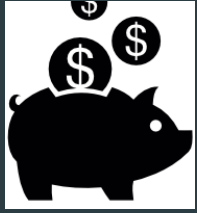
Once you have your debt and expenses well under control and can afford to lose what you've invested.

Why should I Invest?

You want to increase the value of your savings, combat inflation, prepare for retirement.

How do I Invest?

There are a number of ways: stocks, real estate, savings accounts, bonds, pensions, business ventures.



Savings and Investing

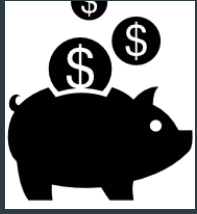


Retirement

According to the Employee Research Institute, the average American spends between 70-90% of their yearly income for each year they are retired. If someone making \$50,000 retires at the age of 65 and lives to 84 (current life expectancy for a 65 year old) they will need \$665,000-\$855,000 saved.

When accounting for an average rate of inflation of 2.5% a year, that's \$1,833,647-\$2,411,951 in 2060.

<https://smartasset.com/investing/inflation-calculator#nYBNfiz6X4>

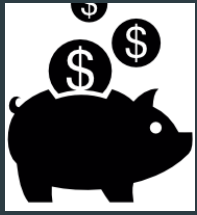


Savings and Investing



Retirement

Calm down! There are multiple ways to acquire the money needed for retirement and much of the money you will be earning over your lifetime should be benefitted by inflation as well. The average American makes more per hour today than the average American in 1960.



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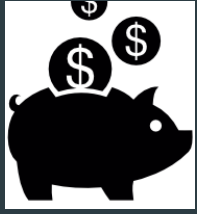


Retirement and Investing

There are multiple forms of investment specifically designed with retirement in mind:

- ▶ Pension plans
- ▶ 401k
- ▶ 403b
- ▶ Traditional IRA
- ▶ Roth IRA
- ▶ Health savings account

<https://money.usnews.com/money/personal-finance/articles/2014/12/19/7-retirement-savings-accounts-you-should-consider>



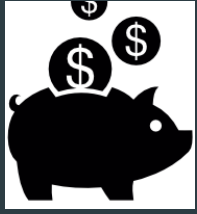
Savings and Investing



Retirement and Investing

Pension plans: Are retirement plans that are started and mostly maintained by employers. Employees have no risk so long as the employer does not go bankrupt because the business is in charge of the investments. Employees typically have a guaranteed amount of money returned based on the amount of money given to the pension plan and number of years worked for the employer.

<https://www.investopedia.com/ask/answers/100314/whats-difference-between-401k-and-pension-plan.asp>



Savings and Investing



Retirement and Investing

401(k) and 403b plans: Are retirement plans that are started and mostly maintained by employees. Employees have higher risk given that they are in charge of the investments. Employees typically do not have a guaranteed amount of money returned, though employers tend to match amounts or percents of amounts invested by employees.

401(k) plans are for for-profit institutions while 403b are for non-profit institutions. They are nearly identical for employees except that moving money from one plan to the other (changing jobs) can be difficult.

[\(https://www.goodfinancialcents.com/403b-vs-401k-whats-the-difference/\)](https://www.goodfinancialcents.com/403b-vs-401k-whats-the-difference/)



Savings and Investing



Retirement and Investing

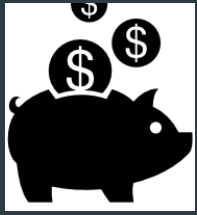
IRA and Roth IRA: Both are Individual Retirement Accounts. Both are based on personal investments. Both have benefits in regards to taxes. There are no taxes on the money earned as long as it is in the account.

IRA: The money invested into the account is tax deductible, but the money withdrawn is subject to income tax. The age limit is 70 ½ years old, but there is no income restriction. Also, at 70 ½ years old one must start withdrawing from the IRA.

Roth IRA: The money invested is not tax deductible, but the money withdrawn is tax free. There is no age limit, but there is an income limit of \$135,000 (single) or \$199,000 (married). One never has to withdraw from the Roth IRA and it can be inherited.

[\(https://www.goodfinancialcents.com/roth-ira-vs-roth-401k/\)](https://www.goodfinancialcents.com/roth-ira-vs-roth-401k/)

[\(https://www.rothira.com/traditional-ira-vs-roth-ira\)](https://www.rothira.com/traditional-ira-vs-roth-ira)



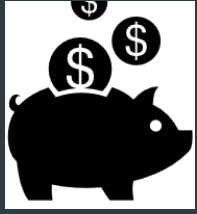
Savings and Investing



Retirement and Investing

“**Health savings account:** Those with certain high-deductible health insurance plans can save money tax-free in a HSA. You can contribute up to \$3,350 a year for an individual or \$6,650 for a family. If you’re 55 or older, you can contribute \$1,000 more. You can withdraw money from your account to pay allowable medical expenses, including copays and items such as eyeglasses. If you don’t spend the money, it rolls over indefinitely. Once you’re 65, you can withdraw money for any reason without penalty, but you have to pay income taxes on money you withdraw. Or, you can use it for retiree medical expenses tax-free. If you withdraw the money before you’re 65 for any reason besides medical expenses, you have to pay taxes and a 20 percent penalty. But as long as you save your receipts, you can withdraw money to reimburse yourself for expenses you paid years ago. If you don’t need the money for medical expenses, you can invest it as you would other retirement savings.”

(<https://money.usnews.com/money/personal-finance/articles/2014/12/19/7-retirement-savings-accounts-you-should-consider>)



Savings and Investing



Investing

Words to know:

- ▶ **Return:** the money received from an investment (principal); it can be negative; also dividends or distributions
- ▶ **Risk:** how likely an investment is to have a return or how likely an investment could lose money. Savings have very low risk (not no risk because the money could be stolen or the country could have a Great Depression like event.) while short-term stock investing and business have very high risk. Typically higher risk means higher returns. NOTHING has NO risk! (<https://www.investopedia.com/articles/investing/050715/why-riskfree-investments-dont-exist.asp>)
- ▶ **Diversification of Investments:** due to the risk of investments, one should have multiple types of assets/investments varying markets, companies, and industries to protect against dips and crashes in value i.e. real estate in rural Texas and a tech company in Silicon Valley (in case there's a housing bubble pop or the business does poorly) (<https://www.fidelity.com/viewpoints/guide-to-diversification> not an endorsement of fidelity financial services)
- ▶ **Portfolio:** a collection of assets and investments a person or company has, can refer to all or some (<https://www.investopedia.com/terms/p/portfolio.asp>)



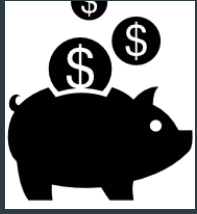
Savings and Investing



Investing

Types of Investments

- ▶ Bonds
- ▶ Stocks
- ▶ Money Markets/CDs (are more like savings for individuals)
- ▶ Annuities
- ▶ Mutual Funds



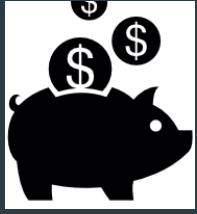
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Investing

“**Bonds:** A bond is a loan an investor makes to a corporation, government, federal agency or other organization in exchange for interest payments over a specified term plus repayment of principal at the bond’s maturity date. There are a wide variety of bonds including Treasuries, agency bonds, corporate bonds, municipal bonds and more.”
(<http://www.finra.org/investors/bonds>)

The risk of bonds vary by source since they are loans: a treasury bond is as reliable as the US government while businesses could default from a number of circumstances



Savings and Investing

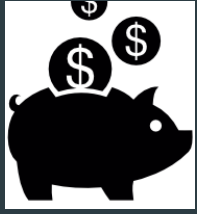


Investing

"Stocks:

When you invest in a stock, you become one of the owners of a corporation. Stocks represent ownership shares, also known as equity shares. Whether you make or lose money on a stock depends on the success or failure of the company, which type of stock you own, and what's going on in the stock market overall and other factors." (<http://www.finra.org/investors/stocks>)

Stock has the highest risk of all the investment types, but it also has the highest payouts. Short-term stock investing can be difficult, time consuming and expensive. Even professional stock traders have trouble. Though long-term stock investing is safer, it is still risky.



Savings and Investing



Investing

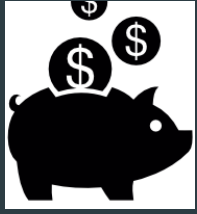
“Money Markets: A money market account is a savings account that may come with higher interest rates than other savings accounts plus checks or a debit card. But MMAs often require much higher minimum deposits and balances. And although MMA interest rates have historically been higher than those of basic savings accounts, many currently are roughly the same. So comparing rates is an essential first step when considering a money market account.

Money market accounts are insured by the Federal Deposit Insurance Corp. (FDIC) at banks and the National Credit Union Administration at credit unions (NCUA).”

(<http://www.finra.org/investors/bonds>)

Money Markets (MM) are extremely low risk when under the limit of FDIC or NCUA like a savings account. Some consider CDs (credit deposits) as apart of MMs

(<https://www.investopedia.com/terms/m/moneymarket.asp>). Additionally, many view MMs and especially CDs as a form of savings as opposed to investing when at the individual level (<https://www.thesimpledollar.com/money-market-account/>).



Savings and Investing



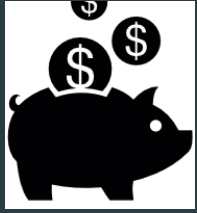
Investing

“Annuities: An annuity is a contract between you and an insurance company in which the company promises to make periodic payments to you, starting immediately or at some future time. You buy an annuity either with a single payment or a series of payments called premiums.

Some annuity contracts provide a way to save for retirement. Others can turn your savings into a stream of retirement income. Still others do both. If you use an annuity as a savings vehicle and the insurance company delays your pay-out to the future, you have a deferred annuity. If you use the annuity to create a source of retirement income and your payments start right away, you have an immediate annuity.” (<http://www.finra.org/investors/annuities>)

Annuities are often considered when people plan for retirement. They also are often marketed as tax-deferred savings products. Annuities come with a variety of fees and expenses, which are explained here

<https://money.usnews.com/investing/investing-101/articles/things-you-need-to-know-now-about-annuities> .



Savings and Investing



Investing

“Mutual Funds: “Mutual funds are investment strategies that allow you to pool your money together with other investors to purchase a collection of stocks, bonds, or other securities [assets/investments] that might be difficult to recreate on your own.” “...Price fluctuates based on the value of the securities [assets/investments] held by the portfolio at the end of each business day. Note that mutual fund investors do not actually own the securities in which the fund invests; they only own shares in the fund itself.” (<https://www.fidelity.com/learning-center/investment-products/mutual-funds/what-are-mutual-funds>).

Mutual funds allow individuals to diversify their investments even if they do not have enough money to afford to do so normally since every dollar invested is an investment in the entire portfolio. Mutual funds are also monitored by professional(s) this combined with the diversification make them lower risk than some individuals in charge of their own portfolios; though, they have much higher risks than money markets, CDs, and federal bonds.

Happy \$aving and \$mart inve\$tting



TAKE A QUIZ ON “PERSONAL FINANCE”

- Logon to the following website:
- <https://www.quia.com/quiz/3330713.html>
- Type your first and last name – click START NOW
- The Quiz is 10 Questions, you must score a 70% or above and submit your quiz. Your results will be sent to the KEY Center