Setting Financial Goals

FDIC Money Smart for Young Adults
Why Create a Spending Plan?

MAN, I RAN OUT OF MONEY AGAIN! I CAN'T GO GET A PIZZA WITH YOU.

YOU SHOULD DEVELOP A SPENDING PLAN. YOU CAN SEE WHERE YOU SPEND IT ALL, AND MAYBE SAVE SOME!

I CAN'T EVEN MAKE A BOWL OF CEREAL, HOW AM I GOING TO DEVELOP A SPENDING PLAN?
What is a Spending Plan?

• A spending plan is:
  – A step-by-step guide for meeting expenses in a given period of time
Financial Goals

- Be realistic
- Be specific
- Have a timeframe
- State the action to be taken
- Have milestones
Preparing a Spending Plan

1. Keep track of your daily spending
2. Determine what your monthly income and expenses are the month before they are due
3. Find ways to decrease spending
4. Find ways to increase income
Step 1: Keep Track of Daily Spending

- What is the difference between a “need” and a “want”?  
- Do you know where you money goes each month?  
  - To control your money:  
    - Understand where your money goes  
    - Keep a personal spending diary
Step 2: Determine Income and Expenses

- **Income**—money that comes to you from:
  - Jobs
  - Allowances
  - Interest and dividends
  - Other sources

- **Expenses**—items you spend money, on including:
  - Bills
  - Transportation expenses
  - Entertainment
What You REALLY Earn: Income

• Gross income – deductions = Net income

• Deductions include:
  – Federal and state income taxes
  – Social Security taxes
  – Retirement savings contributions
  – Premiums for medical insurance
Paying Up: Expenses

• **Fixed expenses do not change from month to month**
  – Example: car payment, rent, and savings

• **Flexible expenses might change from month to month**
  – Example: electricity, food, clothing, and entertainment
Step 3: Decreasing Spending

• Decreasing spending = Increasing your cash flow
• What are some ways you can decrease your spending?
Step 4: Increasing Income

• Other than finding a job or finding a job that pays more, what are some ways you can increase your income?
# Monthly Payment Calendar

**Month: April**

<table>
<thead>
<tr>
<th>Sunday</th>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
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<tr>
<td>$425.00 paycheck $150.00 car payment $30.00 insurance $25.00 savings</td>
<td>$60.00 gas/car maintenance</td>
<td>$25.00 personal</td>
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</table>
Module Summary

WOW, MAKING A SPENDING PLAN SEEMS EASY ENOUGH...

JUST REMEMBER TO KEEP RECEIPTS AND WRITE DOWN ALL OF YOUR EXPENSES.

HEY, CAN I BORROW FIVE BUCKS FOR PIZZA?

IF YOU LET ME HELP YOU PLAN TO PAY IT BACK!
Bank On It
FDIC Money Smart for Young Adults

Building: Knowledge, Security, Confidence
Do You Have a Bank Account?

Hey, I opened a checking account with my dad at the bank!

I just keep all my money in a satin bag in my room. It's safer in my drawer than in a bank.

Yeah, so your little brother can steal it.

Ooh, I'd get him! I'd miss out on new music downloads!
Why Keep Your Money in a Bank?

- Safety
- Convenience
- Cost
- Security
- Financial Future
What Is Account Verification?

Proving your identity by providing the bank with your:

- Name
- Address
- Date of birth
- SSN or ITIN
- State- or government-issued ID
## Banking Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Deposit</td>
<td>Put money into your account</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Take money out of your account</td>
</tr>
<tr>
<td>Balance</td>
<td>The amount of money you have in your account</td>
</tr>
<tr>
<td>Fees</td>
<td>Money charged by the bank for different services</td>
</tr>
<tr>
<td>Overdraft Programs</td>
<td>Options in the event you overdraw your account (spend more money than you have in your account)</td>
</tr>
</tbody>
</table>
Checking Accounts

• Allow you to pay bills and buy goods by using checks or an ATM or debit card
• You will receive a monthly bank statement
• Compare the rules of the different checking accounts
Savings Accounts

• You generally:
  – Are paid interest
  – Cannot write checks
  – Can open an account with a few dollars

• Review your account statement
Non-Deposit Accounts

• Examples: stocks, bonds, and mutual funds

• These products are not insured by the FDIC and you could lose some or all of the money that you invest in these products.
Did Someone Steal Your Information?

- File a report with the police as soon as possible
- Contact your bank as soon as possible
- Place a fraud alert on your credit report
- Contact the major check verification companies
Charge It Right

FDIC Money Smart for Young Adults
Objectives

• Describe the purpose of credit cards
• Determine which credit card is best for you, or if a credit card is a good option for you
• Identify the factors credit card companies look for when making credit decisions
• Describe how to use a credit card responsibly
• Identify the steps to take when a credit card is lost or stolen
Why Is Credit Important?

• Credit:
  – Can be useful in times of emergencies
  – Is more convenient and safer than carrying large amounts of cash
  – Allows you to make a large purchase (e.g., car or house), and pay for it over time
  – Can affect your ability to obtain a job, buy or rent a house, or obtain insurance
What Is a Credit Card?

• **Credit cards:**
  – Are a convenient form of borrowing
  – Provide a revolving line of credit
  – Require you to pay the minimum payment each month

• **Charge cards:**
  – Require you to pay the entire balance every month
APR

- The cost of borrowing money on a yearly basis
- Includes interest and fees
- Rate may be fixed or variable
- Different APR for types of use
  - Purchases
  - Balance transfers
  - Cash advances
  - Penalties
Application Requirements

• Must be at least 21 years old unless you:
  – Can show independent means of repaying the debt
  – Have a cosigner

• Providing false information on a credit application is a crime
Credit Report

• A credit report tells creditors:
  – Who you are
  – How much debt you have
  – Whether you have made payments on time
  – Whether there is negative information about you in public records
  – How many inquiries are listed in your credit report
Lost or Stolen Credit Card

• Tell your credit card company immediately if:
  – Your card is lost or stolen
  – You identify errors on your statement

• Never give your confidential personal information over the telephone unless you have made the call
Common Forms of Identity Theft

• **Phishing**
  – Unsolicited emails that appear to be from a legitimate source

• **Pharming**
  – Fake websites seeking personal or private information by appearing legitimate

• **Skimming**
  – Special storage device used to obtain credit/debit card numbers
Objectives

• Differentiate between secured and unsecured installment loans
• Identify the factors lenders use to make loan decisions
• Identify the questions to ask when purchasing a car
• Describe various types of college loan programs
Installment Loans

- Money you borrow and repay:
  - In fixed monthly payments or installments
  - Over a set period of time, usually several years
Cost Terms Related to Installment Loans

- Annual percentage rate (APR)
- Fixed-rate loan
- Variable-rate loan
- Finance charge
Financing a Car

“Getting a car loan” = “Financing a car”

- Car is collateral for the loan
- Lender holds the car title
- Amount you pay depends on the price of the car, the APR, and the length of loan
Total Cost of a Car

$225.00 Monthly payment

x 60 Number of payments

$13,500.00 Total of payments

$13,500.00 Total of payments

$2,500.00 Down payment

+ $575.00 Tax and registration fee

$16,575.00 Total cost of the car
Where to Obtain Car Loans

• Banks/thrifts
• Credit unions
• Finance companies
• Car dealerships
College Costs

- Tuition
- Books
- Fees
- Housing

- Use the “Cost of College Calculator”
Scholarships

- Money for college that you will not be expected to repay
- Designated for students who fit a particular profile
- Avoid scholarships scams by visiting the FTC’s website
Financial Aid Overview

• Federal Student Aid (FSA) programs include:
  – Pell grants
  – Student loans
  – College work-study program

• Complete the Free Application for Federal Student Aid (FAFSA℠)

• FAFSA is used to calculate your Expected Family Contribution (EFC)
Potential Grant Programs

- Federal Pell Grants
- Federal Supplemental Educational Opportunity Grant (FSEOG)
- Teacher Education Assistance for College and Higher Education Grant (TEACH Grant)
- Iraq and Afghanistan Service Grant
- Institutional grants
Federal Loan Programs

- Federal loans include:
  - Federal Perkins Loan
  - Direct Stafford Loans (Direct Loans<sup>SM</sup>)
    - Direct Subsidized Loans
    - Direct Unsubsidized Loans
    - Direct PLUS Loans
    - Direct Consolidation Loans
Repaying Your Federal Loan

• After you graduate, leave school, or drop below half-time enrollment you have a “grace period” before you must repay your loan:
  – Federal Perkins Loan: 9 months
  – Federal Direct Stafford Loan: 6 months
  – Direct PLUS Loan: no grace period
Nonfederal Loans

- A private student loan is issued by a lender (e.g., a bank or credit union).
  - They often have higher interest rates and loan fees.
  - They usually require a credit check.
  - They do not provide the benefits of federal student loans.
Managing Your Student Loan Payments

- Choose a repayment plan
- Research the pros and cons before applying for a student loan consolidation
- Visit the United States (U.S.) Department of Education’s National Student Loan Data System (NSLDS℠) at [www.nslds.ed.gov](http://www.nslds.ed.gov)
Federal Work-Study Program

- Provides part-time jobs for undergraduate and graduate students who need financial assistance
- Jobs: usually with your school; may be with private nonprofit organization or a public agency
Congratulations! You learned about:

- Secured and unsecured loans
- The Four Cs of loan decisions
- Car loans and auto financing
- Some of the ways to finance a college education
Benefits of Paying Yourself First

• Learn to manage money better
• Save money toward identified goals
• Improve your standard of living
• Have money for emergencies
How Your Money Can Grow

• **Interest**
  – Paid to you for keeping your money on deposit with financial institutions
  – A percentage of the money in your account

• **Compound interest**
  – Money earned on the previously paid interest and money already in your account
Savings Products

• Types:
  – Savings account
  – Money market deposit account
  – Certificate of deposit (CD)

• Choose savings products that are federally insured

• Calculate your insurance coverage:
Non-Deposit Investment Products

• Investments:
  – Are long-term savings options purchased for future income or financial benefit
  – Are NOT FDIC insured or bank guaranteed, so you could lose all the money you invest
  – May earn and grow more than a regular savings account because of the risk you take when you invest
Types of Investment Products

- Stocks
- Bonds
- Mutual funds
- U.S. Treasury securities
- Retirement investments
Stocks

• You:
  – Own a share/part of a company
  – May receive dividends if the company profits

• The value of your investment changes (up or down) according to the stock market
Bonds

• You lend money to a corporation or government entity for a certain period of time
  • I Bonds
    – Purchased at face value
  • EE Bonds
    – Normally purchased at half their face value
Mutual Funds

• A product that combines money from many investors to purchase numerous separate investments

• *Diversify:* spread your risk of loss across many savings and investment options
U.S. Treasury Securities

- Treasury (T) bills
- Treasury (T) notes
- Treasury Inflation-Protected Securities (TIPS)
- Treasury (T) Bonds

- **Minimum purchase price:** $100.00
- **Backed by the U.S. Government**
Retirement Investments

• Products to help you save toward retirement:
  – Individual retirement arrangements (IRAs)
  – 401(k) and 403(b) plans
  – Variable annuities
IRAs

• May include a combination of investment products
• Are tax exempt
• Fluctuate with stock market
• Include Traditional IRAs and Roth IRAs
401(k) and 403(b) Plans

• **401(k):**
  – Established by an employer

• **403(b):**
  – Offered to employees of public schools and certain tax-exempt organizations