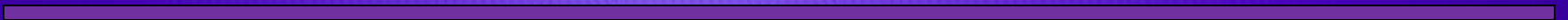




Keys to Successful Financial Management

Powercat Financial Counseling



Today's Financial Topics

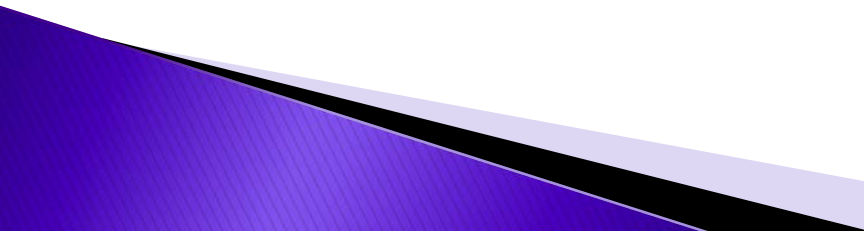
- **Budgeting**
- **Emergency Savings**
- **Understanding Credit**
- **Financial Goal Setting**
- **Employee Benefits**
- **Powercat Financial Counseling**

Budgeting

A way to keep track of money coming in and going out so you can effectively reach your financial goals.



Budgeting Process

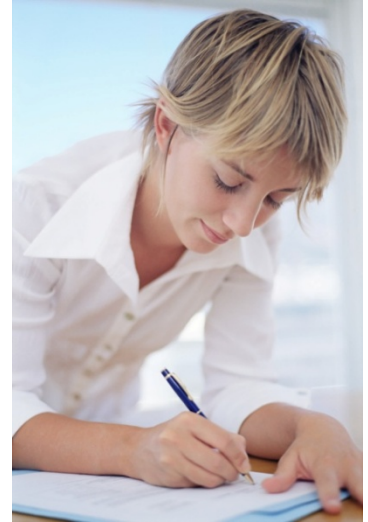
- Prioritizing Needs v. Wants
 - Considering how you want to live in the future and how you will get there
 - Examining your spending habits to determine:
 - Are changes necessary?
 - Are there interesting patterns of spending?
- 

Action Assignments

After making a budget you should:

Track your spending for 1–3 months

Remember: Finances are largely about behavior and creating a new habit and discipline for yourself!



Create an emergency fund of
3–6 months of living
expenses



Spending “Leaks”

- ▶ If you don't change your habits, these leaks can become a flood:
 - \$264 on ATM fees a year (\$22/month)
 - \$1,140 on clothes (\$95/month)
 - \$1,040 on eating out/pizza (\$20/week)
 - \$540 in Aggieville (\$45/month)
 - \$360 on gourmet coffee (\$30/month)

For a total annual spending of \$3,344

What Could You Have Done Instead?

- If you had saved that \$3,344/year for four years, you would have a total sum of \$13,376 to invest at the end of the four years.
- If you invested that \$13,376 and continued to add \$3,344 a year to your investment, with an average rate of return of 8% in 40 years . . .

You would have savings worth over \$1 million!



Budgeting Tools to Help You Get Started

Download PFC spending plan worksheet
at [http://www.k-
state.edu/pfc/budgeting/](http://www.k-state.edu/pfc/budgeting/)

or try a online tool like www.Mint.com

Budgeting methods:

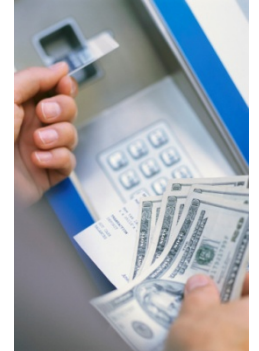
Envelope method



Check register method

Receipt method

Account book method



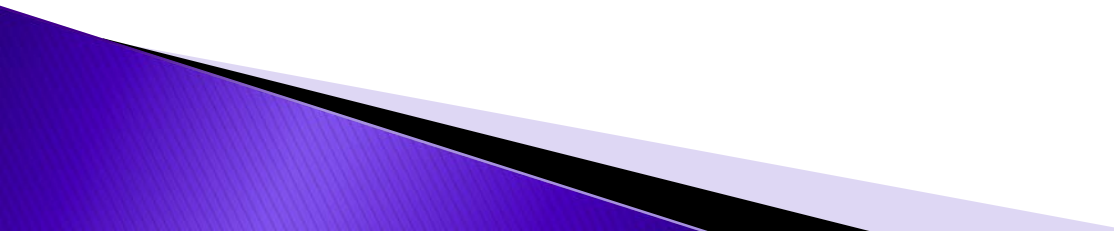
Before Investing Set Financial Goals

Write down his short and long-term financial goals with estimated amounts to work towards – make the goals:

S M A R T



Setting Financial Goals

- ▶ Helps you keep focused
 - ▶ Should be specific dollar amounts and terms
 - ▶ Should be an extension of your values about what is important for a good life
 - ▶ Short-term goals: 1 years or less
 - ▶ Long-term goals: 10 or more years
 - ▶ Prioritize Goals
 - ▶ Develop a concrete plan of steps to reach goals
- 

Did You Know?

The average credit card debt per U.S. adult is \$4,878 not including store card balances

Source: CreditCards.com from TransUnion analysis of May 2013 credit files



Cost of Credit

What is the cost to you for using credit?

- Monthly Payments
 - original principal borrowed (purchases) + interest (finance charge)
- Interest Rates
 - annual percentage rate (APR)
 - For credit cards, no interest charged if pay off balance each period
- Interpersonal Costs
 - time/emotions

Credit Card Rate Averages

Avg. APR

<u>Natl Average</u>	14.9%
<u>Business</u>	12.9%
<u>Low Interest</u>	10.4%
<u>Cash Back</u>	14.5%
<u>Balance Transfer</u>	12.4%
<u>Reward</u>	14.7%
<u>Instant Approval</u>	28.0%
<u>Airline</u>	14.6%
<u>Bad Credit</u>	23.5%
<u>Student</u>	13.3%

Source: CreditCards.com Updated: 08-30-13

Cost of Credit

Example

- Credit card balance = \$2,500
- APR = 18%
- You make a minimum payment of the greater of 2% of the balance or \$15.00 each month

Month	Payment	Interest	Principal	Balance
1	\$50.00	\$37.50	\$12.50	\$2487.50
2	\$49.75	\$37.31	\$12.44	\$2475.06
3	\$49.50	\$37.13	\$12.38	\$2462.69
4	\$49.25	\$36.94	\$12.31	\$2450.37

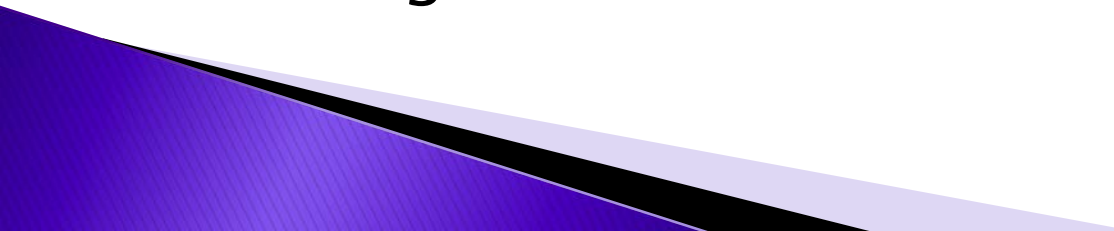
Cost of Credit

- If you only pay the minimum it will take you approximately **29 years** to pay off the debt!
 - You will have paid a total of \$8,397 (\$5,897 in interest)!
- If you pay the minimum plus \$100 per month, it will only take **2 years**!
 - You will have paid a total of \$2,951 (\$451 in interest)

Credit Reports

- ▶ What exactly is a credit report?
 - Personal information, payment history, accounts opened and closed, credit inquiries, bankruptcies
- ▶ How to I get one?
 - www.annualcreditreport.com to get free credit report
 - Allowed one free credit report annually from the three credit bureaus
 - Equifax
 - Experian
 - TransUnion
- ▶ Why does this matter?
 - Banks, insurance companies, landlords, and future employers will all be looking at your report.
 - Catch Identity Theft

Effects of Bad Credit

- Pay Higher Interest
 - Lower credit limit
 - Opportunity Cost
 - Entries stay on your credit report for 7 years
 - Could impact your employment or ability to get insurance or loans, or rent property
- 

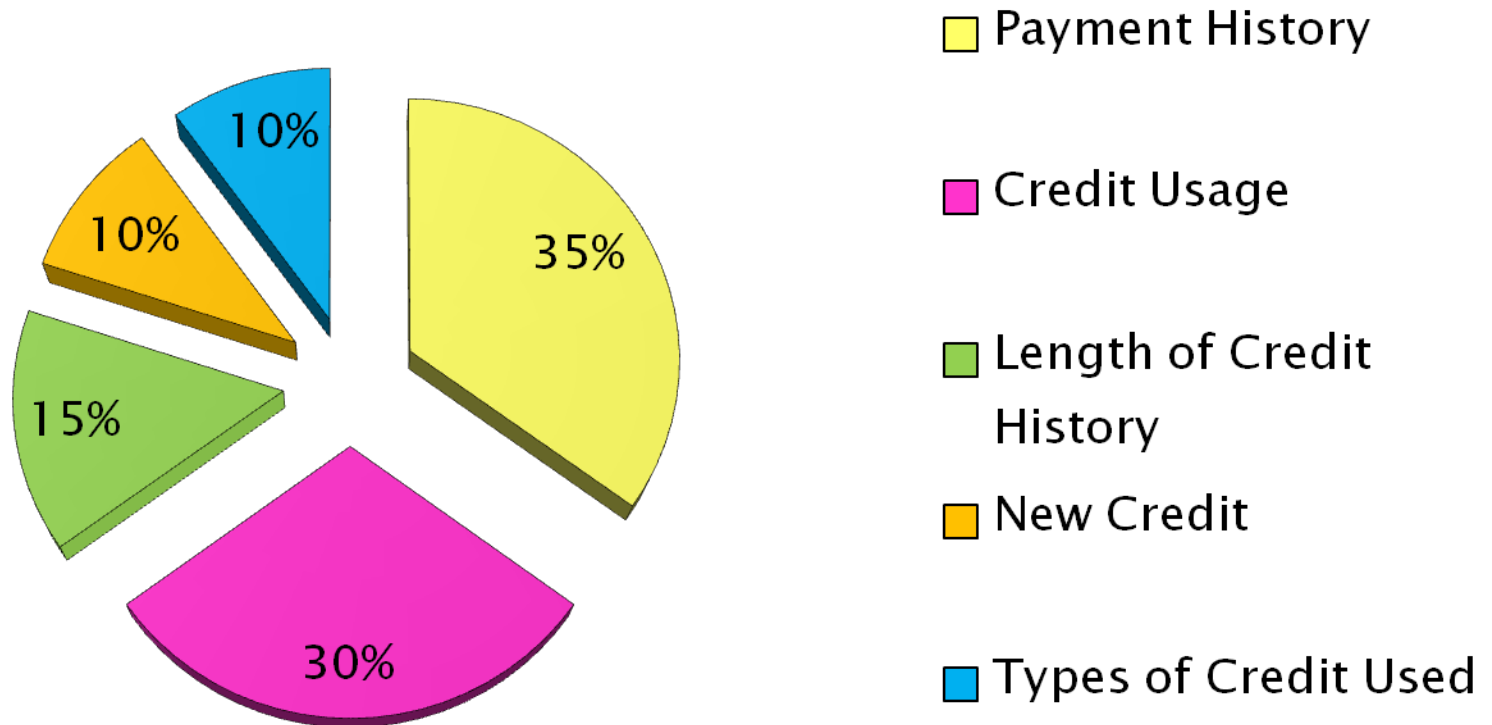
Credit Scores

- ▶ What is the difference between a report and a score?
- ▶ Think of your credit REPORT as your transcript
- ▶ Think of your credit SCORE as your GPA out of college

Your credit score is your financial “GPA” for life!

What goes into a score?

Fico Credit Score



The Good, Bad, & the Ugly

▶ FICO Credit Score Ranges 850 – 300

◦ Good Scores

- Excellent: 700 or higher
- Good: 680 – 699
- Ok – 620 – 679

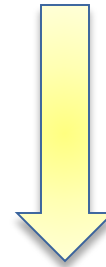
◦ Low Scores

- 580 – 619

◦ Bad Scores

- Bad – 500 – 579
- Worse – 499 and below

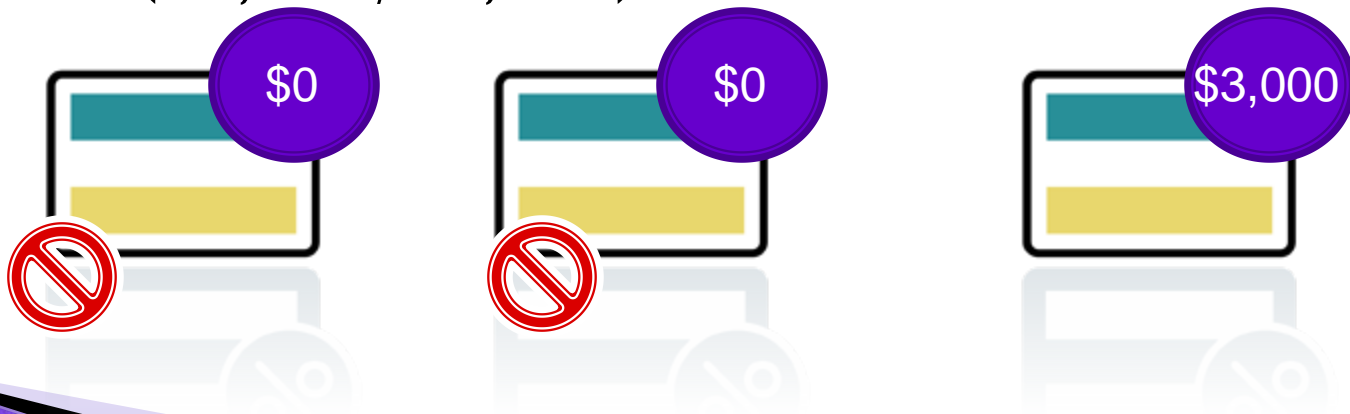
850




300

Common Myths

- ▶ Does cancelling my credit card affect my score?
 - Three card with balances of \$0, \$0, \$3,000
 - Total credit limit of \$15,000 between all three cards
 - Current credit utilization would be 20% = $(\$3,000 / \$15,000)$.
 - If you wanted to drop you two cards with zero balance then your new credit utilization would be 60% = $(\$3,000 / \$5,000)$



Common Myths

- ▶ I was late on a payment, but now the debt is paid off. I'm good right?
 - ▶ When I check my credit report it hurts my score.
 - ▶ I should use most of my credit limits to keep my score high.
 - ▶ Paying cash for everything will ensure a good credit score.
 - ▶ Small debts like unpaid parking tickets and utility bills don't affect your credit score.
- 

Salary isn't everything!

Evaluate the employee benefits and the out of pocket costs with the benefits provided along with the salary



Health Insurance

- ▶ Employer subsidized or group insurance coverage v. private medical insurance
- ▶ Understand who pays what % of the premiums
- ▶ If a “managed-care” plan – understand your “network” providers
- ▶ Take advantage of preventative care benefits
- ▶ Prescription/vision/dental coverages
- ▶ Possible flexible spending account for uncovered medical and dependent care expenses
- ▶ High deductible plans with a health saving acct.

Health Savings Account (HSA) versus Flexible Spending Plan (FSA)

▶ HSA:

- Goes along with a high-deductible health insurance plan which generally have smaller premiums
- Deposits are pre-tax and can stay there forever or be withdrawn tax-free for out of pocket medical expenses
- HSA money can be invested

▶ FSA:

- Not tied to a health insurance policy
- Can be used for medical and child care out of pocket expenses
- Deposits to an FSA are pre-tax
- Use it or lose it!

Disability Insurance

- ▶ Replaces portion of income upon severe injury or illness
- ▶ Factors to Consider:
 - Waiting period – use sick leave for short-term
 - Length of coverage – until retirement
 - Definition of “disabled” and “ability to work” and “occupation”
 - 50–70% of income replacement
 - Supplement to SSI
 - Cost of living adjustments
 - Rate increases
 - Benefit payments are tax-free if employee pays premium but not if employer pays

Life Insurance

- ▶ Determine what is your insurable risk
- ▶ General rule: (75% of current income x number of years needed) + additional expenses like repayment of debts – existing assets and survivor's income
(see www.life-line.org)
- ▶ Term insurance – no cash value, reduced premiums if under 45, length of time or specific age, may convert to permanent insurance
- ▶ Whole life or permanent insurance – builds cash value
- ▶ Review as needs change!

Retirement Benefits

- ▶ Defined benefit or pension plan – provides a certain amount when you retire
- ▶ Defined contribution plan – allows you to save for your own retirement with possible employer match (401(k) and 403(b) plans)
 - Contributions are pre-tax
 - Grows tax deferred then pay taxes when you withdraw the money
 - Possible vesting requirements
- ▶ Employee stock purchase plan lets you buy stock in your employer's company often at a discount through payroll deduction
 - Make sure the company stock is a good investment!

Helpful Online Tools

- ▶ [Career & Salary Exploration](#) – myplan.com
- ▶ [Financial Calculators](#) – dinkytown.net
- ▶ [Compare Credit Cards](#) – cardratings.com or nerdwallet.com
- ▶ [Credit Score Estimator](#) – creditkarma.com or whatmyscore.org
- ▶ <http://www.studentaid.ed.gov/> – information about federal student loans

Powercat Financial Counseling



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