Today’s Financial Topics

- Budgeting
- Emergency Savings
- Understanding Credit
- Financial Goal Setting
- Employee Benefits
- Powercat Financial Counseling & SALT can help
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?
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
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/

or try an 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:

SMART
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

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

<table>
<thead>
<tr>
<th>Month</th>
<th>Payment</th>
<th>Interest</th>
<th>Principal</th>
<th>Balance</th>
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<tr>
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<td>$50.00</td>
<td>$37.50</td>
<td>$12.50</td>
<td>$2,487.50</td>
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<tr>
<td>2</td>
<td>$49.75</td>
<td>$37.31</td>
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<tr>
<td>3</td>
<td>$49.50</td>
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<td>$12.38</td>
<td>$2,462.69</td>
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<tr>
<td>4</td>
<td>$49.25</td>
<td>$36.94</td>
<td>$12.31</td>
<td>$2,450.37</td>
</tr>
</tbody>
</table>
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)
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](http://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

- Payment History: 35%
- Credit Usage: 10%
- Length of Credit History: 10%
- New Credit: 15%
- Types of Credit Used: 30%
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
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.
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: \((75\% \text{ of current income } \times \text{ number of years needed}) + \text{ additional expenses like repayment of debts – existing assets and survivor’s income} \)
  (see [www.life-line.org](http://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!
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 whatsmyscore.org
KSU’s Powercat Financial Counseling bought you SALT! {saltmoney.org/K-State}

SALT created by American Student Assistance
Jobs, Internships & Scholarships!
### Loan Navigator

**Standard Repayment Plan**

Standard repayment is simple: You pay the same amount each month for 10 years. On this plan, the total amount of interest you have to pay will generally be lower, too—so, if you can afford the monthly payments, it's generally the best overall deal.

**What You’ll Learn**
- Advantages of the basic, normal plan
- What to do if you need lower payments

#### Stacking it up

**Your monthly payment**

![Graph showing monthly payments for different repayment plans.](image_url)

- **Pay As You Earn**
  - $69
- **Income-Based**
  - $104
- **Income-Sensitive**
  - $198
- **Income-Contingent**
  - $231
- **Extended**
  - $243
- **Graduated**
  - $277
- **Standard**
  - $403

Depending on your financial circumstances and repayment plan, your monthly payment may go up over time. The repayment period will vary for each repayment plan. To find out how long you will be making payments under this repayment plan and how we came up with these numbers, check out the bottom of the page.

#### The Basics

- You are automatically placed into standard repayment once you finish your grace period.
- Repayment lasts 10 years, or 120 payments.
- While you may have a higher payment amount, standard repayment generally costs you the least amount of money in the long run.
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- Budgeting: Find More Money
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Last Name
Email
Confirm Email
Password
Confirm Password
School Name (optional)

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- Contact Preferences
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Loan Support
877.523.9473 (toll-free)
Mon – Thu: 8:00 a.m. – 10:00 p.m. ET
Fri: 8:00 a.m. – 5:00 p.m. ET
Sat: 9:00 a.m. – 6:00 p.m. ET
Sun: 11:00 a.m. – 10:00 p.m. ET
loanhelp@saltmoney.org

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Mon – Thu: 8:00 a.m. – 10:00 p.m. ET
Fri: 8:00 a.m. – 5:00 p.m. ET
Sat: 9:00 a.m. – 6:00 p.m. ET
Sun: 11:00 a.m. – 10:00 p.m. ET
membersupport@saltmoney.org

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