Personal Finance Life Skills

Preparing for a financially secure future

Objectives

- Near term issues as you begin your financial life
- General intermediate and longer term issues
- Financial knowledge for immediate and long term value

Background

- Most people dislike handling finances
- Many people fear making mistakes
- It is easy to put off addressing finances
- Result – finances are neglected

Overall Themes

- Simplicity, Consistency, Effective Use of Time
- Avoid Big Mistakes
- Short Term and Long Term Conflict
- Emotions
- Who to rely on?
- Empowerment

Paperwork with first job
Tax forms

- Form W-4
- Withholding for income taxes, Social Security and Medicare
- Claiming exemptions will determine income tax withholding

Paperwork with first job

401(k) plan enrollment

- Wage deferral – as much as you can
- Tax deferred compounding
- Employer match – try to get entire match
- Investment options

Paperwork with first job
Other items

- Health insurance
- Other insurance
- Direct deposit

Financial Institution Relationship

- Checking and savings accounts
- Perhaps a safe deposit box
- Direct deposit
- ATMs
- Convenience
- Fees
- Online Banking

Financial Organization

- Handling the mail
- Bill paying
- Records to keep
  - Tax records
  - Monthly statements
  - Permanent records
- Filing system

Other Near Term Issues
First Apartment

- Choosing a location
- Lease terms
- Be a good tenant

Other Near Term Issues
Buying a car

- Affordability
- New or used
- Negotiating the purchase
- Paying for the car

Other Near Term Issues

Getting or using a credit card

- Choose one that has the best combination of fees, interest rates and usage benefits for you
- Do not have too many credit cards
- Pay the balance each month
- Use the card wisely
- Stop using the card if it causes problems

Longer Term Issues
Debt

- Prioritize your borrowing
- Know the terms of all your borrowing
- Be careful with credit cards
- Borrow for things with lasting value – home, car, education
- A good credit record is valuable
- Check your credit report annually
- Be careful of identity theft

Longer Term Issues
Insurance

- Strategy – Protection and Deductibles
- Homeowners or Renters
- Auto
- Health
- Life
- Disability
- Umbrella Liability

Longer Term Issues
Investing

- Critical Vehicle for Accumulating Wealth
- Investing in stocks
- Investing in bonds
- Investing in mutual funds
- Invest through employer retirement plan, IRA, individual account

Longer Term Issues
Investing

- Investing involves risk
- Be realistic in your expectations
- Take a long term approach
- Use asset allocation
- Diversify your investments
- Diversify your timing
- Consider the benefits of mutual funds

Longer Term Issues
Income Taxes

- Basics of income taxes
  - Add up your income
  - Take a few adjustments
  - Subtract your deductions
  - Calculate your tax using marginal rates
  - Compare to what was withheld
  - File your return by April 15

Longer Term Issues
Income Taxes

- More details on income taxes
  - Taxable income includes wages, investment income and most other income
  - Most common adjustment is for IRA’s
  - Deductions include state taxes, mortgage interest, charitable contributions
  - Tax rates range from 10% to 37%
  - Qualifying dividends and long term capital gains receive preferential treatment

Longer Term Issues
Retirement

- Financially secure retirement is expensive
- Starting early is critical
- Three questions
  - What will it cost?
  - How much do I need to save?
  - What should I do now?

Longer Term Issues
Retirement

- What will it cost to live during retirement?
- 70% to 80% of pre-retirement income is common
- Example for 35 year old retiring at age 65
- Current income = $50,000
- 5% income increases = $216,000 at retirement
- 70% rule of thumb = $151,000 after retired

Longer Term Issues
Retirement

- How much do I need to save?
- Current average Social Security monthly benefit for a retired couple = $2,480
- Assume living 30 years after retirement
- Impact of inflation
- Funds needed at retirement = $2.7 million

Longer Term Issues
Retirement

- What should I do now?
- Start to save early
- Take full advantage of 401(k), IRA, personal savings
- Use tax advantages of 401(k) and IRA
- Invest wisely
- Put time on your side

Longer Term Issues
Funding College Costs

- College is expensive
- College costs are rising faster than inflation
- Ways to save for college
- Starting to save early is critical

Longer Term Issues
Funding College Costs

College Costs				
Type	**Today**	**5 years**	**10 years**	**15 years**
Private	$50,900	$64,900	$75,300	$91,700
Public in-state	$25,300	$30,800	$37,400	$45,600
Public out-of-state	$40,900	$49,800	$60,500	$73,700

Longer Term Issues
Funding College Costs

- Ways to save for college
  - Custodial accounts
  - Coverdell Education Savings Accounts
  - Qualified Tuition (Section 529) Plans

Longer Term Issues
Funding College Costs

Starting to save early is critical			
Monthly Savings	In 5 years	In 10 years	In 15 years
$50	$3,400	$8,000	$13,000
$100	$6,800	$16,000	$26,000
$200	$13,600	$32,000	$52,000

Develop Good Financial Habits

- Timeliness – Pay bills, reconcile checking account, make money work for you, review status
- Credit Record - Avoid too many credit cards, pay down balances, review credit report
- Always Save – Understand spending, use automatic savings
- Improve Your Knowledge – Read, listen, watch, discuss

Questions and Answers

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