

How to use these PDF files...

We have converted these *Dollars & Sense* PowerPoint presentations to PDF files for ease of use between different computers. You can use Adobe Acrobat Reader just like PowerPoint to make presentations.

Instructions

- 1) Download the file and open it in Adobe Reader (not your web browser).
- 2) Go to VIEW → FULL SCREEN MODE. The image will fill your screen.
- 3) Scroll between pages using your keyboard's Forward and Back Arrows.
- 4) Click Escape on your keyboard to return to a normal view.

DOLLARS & SENSE

Building Financial Dreams

Session 1

First Steps: Understanding Saving and Budgeting



REASONS FOR SAVING¹

- To provide for unexpected emergencies.
- To purchase expensive items in the future.
- The first step to future investment.
- To ensure retirement.

¹ Personal Financial Management: Participant Manual; JP Morgan Chase, 2005.

CONCERNS & ISSUES WHEN SAVING²

- **THRESHOLD:**
 - A large initial deposit or maintenance of a minimum balance may be required by the bank.
- **LIQUIDITY:**
 - How quickly can you turn an asset into cash?
- **SECURITY:**
 - Is your money in an FDIC insured account?

PLANNING FOR RETIREMENT? BUT I'M SO YOUNG!³

- TIME IS ON YOUR SIDE – you can do a lot with a little amount of money.
 - If you put \$1,000 a year from age 20 to age 30 into an IRA with a 7 percent return compounded annually and *never put in any more money*, you will have \$157,838 when you are thinking to retire at age 65.
 - Compare this to your friend, who doesn't start saving at all until age 30 and then puts in \$1,000 a year for 35 years – s/he'll have just \$147,913 at age 65.
 - Your friend has less money than you despite putting in more than *three times* as much money.
- TIME IS ON YOUR SIDE – you can afford to take more risks.

³ [Saving Fitness: A Guide to your Money and Your Financial Future](http://www.dol.gov/ebsa/pdf/savingsfitness.pdf); U.S Department of Labor Employee Benefits Security Administration.
<<http://www.dol.gov/ebsa/pdf/savingsfitness.pdf>>.

FORMULA FOR NET WORTH⁴

- **Assets – Liabilities = Net Worth**
- **Asset: What you own**
 - **Wealth-creating assets**
 - **Non wealth-creating assets**
- **Liability: What you owe**

NET WORTH is the difference between your assets and liabilities. Your net worth is personal wealth.

⁴ Building Wealth: A Beginner's Guide to Securing Your Financial Future; Federal Reserve Bank of Dallas, 2007.

GOAL SETTING & SAVING⁵

- A *short term* goal is one you would like to achieve in the next 5 years.
- A *long term* goal is one you would like to achieve in over 5 years.
- The first step towards building personal wealth is setting some goals!

SETTING GOALS⁶

- Write a goal on each card.
- Sort cards into short and long term goals.
- On the back of each card, write:
 - When you want to accomplish the goal.
 - What it will cost.
 - What money you have set aside already.
 - How much you will need to put away each month.

“SPEND TO SAVE”⁷

STEP 1: Figure out your income.

STEP 2: Add up your expenses.

STEP 3: Include savings as an expense.

STEP 4: Subtract income from expenses.

STEP 5: Cut expenses, other than savings.

INCOME & EXPENSES

- **INCOME: MONEY THAT IS COMING TO YOU**
- **EXPENSES: MONEY THAT YOU WILL SPEND**
 - *FIXED EXPENSES*: expenses where the cost remains constant or fixed over a long period of time
 - *FLEXIBLE EXPENSES*: expenses that can vary based on your behavior

WHATS, WHYS & HOWS OF BUDGETING⁹

- **WHAT IS A BUDGET?**
 - A savings and spending plan.
 - A plan for meeting expenses in a given period of time.
- **WHY BUDGET?**
 - Provides control of your financial situation.
 - Helps you build *assets* and improve your quality of life.
 - Reduces money-related anxiety.
- **HOW CAN I TELL IF I HAVE A GOOD BUDGET?**
 - Provides for achievement of goals.
 - It's balanced, which means that income and spending (including savings) are equal.
 - It's flexible and realistic.

UNDERSTANDING CREDIT¹¹

WHAT IS GOOD CREDIT?

- **YOUR CREDIT HISTORY DETERMINES YOUR CREDIT RATING**
Lenders look to your credit history and score to determine your credit rating.
- **GOOD CREDIT HELPS YOU GET LOANS**
Banks and other lenders are more likely to offer and approve you for mortgages, credit cards, and other loans.
- **GOOD CREDIT KEEPS YOUR INTEREST RATES LOW**
The interest rates offered to you for purchases, such as a home or car, are kept low. Enables you to “shop around” to find the best rate.

¹¹ <http://www.saveandinvest.org/index.htm>

MAINTAINING GOOD CREDIT¹²

- **PAY BILLS ON TIME**
 - The most important thing to do to maintain good credit is pay your bills on time and pay the minimum on your credit card bill, at the very least.
- **REVIEW YOUR CREDIT HISTORY AND SCORE**
 - Review your credit history for accuracy.
 - Three free credit reports per year.
 - With the prevalence of identity theft, check your credit history regularly to prevent fraud.

¹² <http://www.saveandinvest.org/index.htm>

STRATEGIES FOR DECREASING DAILY SPENDING¹³

- Open a Checking Account to enable Direct Deposit and avoid check cashing fees.
- Carry only small amounts of cash in your wallet.
- Control or limit the use of credit cards.
- If available, use direct deposit so the money goes directly into your account.
- Write down your savings goals and refer to them often as a reminder.
- Buy only what you need and use a shopping list to prevent “impulse” buying.
- Use coupons.
- Take your breakfast & lunch to work instead of eating out.
- Shop around to get the best deals on big-ticket purchases like cars and appliances.
- Pay your bills on time to avoid late fees, extra charges, utilities being turned off, eviction, repossessions, and the costs of a bad credit rating.

QUICK TIPS FOR SAVING¹⁴

- **PAY YOURSELF FIRST**

Put away first the money you want to set aside for goals.

- **ESTABLISH A SAVINGS ACCOUNT**

- **PUT BONUSES, RAISES, AND GIFTS TOWARD SAVINGS**

This “extra” money can really boost your savings.

- **REVISIT YOUR SPENDING PLAN**

every few months to be sure you are on track. Remember that income and expenses change over time.

QUICK TIPS FOR BUDGETING¹⁵

- **UNDERSTAND WHERE YOUR MONEY GOES**
Create a budget that works best for your income and expenses. Leave room for unplanned necessities.
- **ENSURE YOU DON'T SPEND MORE THAN YOU MAKE**
Adopt a budgeting system that helps to organize your monthly expenses.
- **PUT YOUR BUDGET IN MOTION**
Keep track of income and spending during the month. Be careful not to overspend.
- **ASSESS HOW YOU DID** at the end of the budget period. Set up another for the next time period—making adjustments as necessary.
- **FIND USES FOR YOUR MONEY THAT WILL INCREASE YOUR WEALTH!**

DOLLARS & SENSE

Building Financial Dreams

Session 2:

Saving for many Sunny Days



SAVING VS. INVESTING HIGHLIGHTS¹

- **SAVING:**
 - Initial Step.
 - Postpones spending.
 - Usually has safety features.
- **Investing:**
 - Long-term process.
 - Exchanges money for something with expectation of receiving a profit.
 - Has risk factors (initial dollar amounts on some investments can rise or fall with no guarantee of returns).

¹ Money Management: Saving vs. Investing; Citigroup Financial Education Curriculum.
<http://www.citigroup.com/citigroup/financialeducation/curriculum/pdf/mm_sav_inv.pdf>.

SAVINGS OPTIONS²

- **SAVINGS ACCOUNT:** A deposit account that pays interest but cannot be withdrawn from by check writing.
 - Access your money at any time.
 - Earn interest.
 - Pay no fees if you maintain a minimum balance.
 - Move money easily from one account to another.
 - Have your savings insured by the FDIC or NCUA up to \$100,000.
- **MONEY MARKET ACCOUNT:** A deposit account that offers a higher rate of return but often requires a higher minimum balance to avoid fees.
 - Access your money at any time.
 - Earn interest.
 - Pay no fees if you maintain a minimum balance.
 - Move money easily from one account to another.
 - Have your savings insured by the FDIC up to \$100,000.
 - May offer check-writing services.

SAVING OPTIONS CONT'D ³

- ***CERTIFICATE OF DEPOSIT:*** Interest-bearing deposit that requires a minimum dollar amount to open the account and remains in the bank for a fixed period, but generally earns a higher rate of return.
 - Earn interest during the term (3 months, 6 months, etc.).
 - Have your savings insured by the FDIC up to \$100,000.
 - Must leave the deposit in the account for the entire term or incur an early-withdrawal penalty.
 - Receive the principal and interest at the end of the term or can easily “roll over.”
- ***INDIVIDUAL DEVELOPMENT ACCOUNT:***⁴ A special savings account that matches the funds saved in the account in order to encourage families with incomes below a certain amount to save money on a regular basis.
 - For individuals whose income is below a certain level.
 - Generally opened at a local bank.
 - Deposits often matched by a foundation, government agency or other organization. Can be used for buying a first home, education/job training, or starting a small business.
 - Training on budgeting, saving and managing credit are frequently part of IDA programs.

³ Federal Reserve Bank of Dallas

⁴ JP Morgan Chase

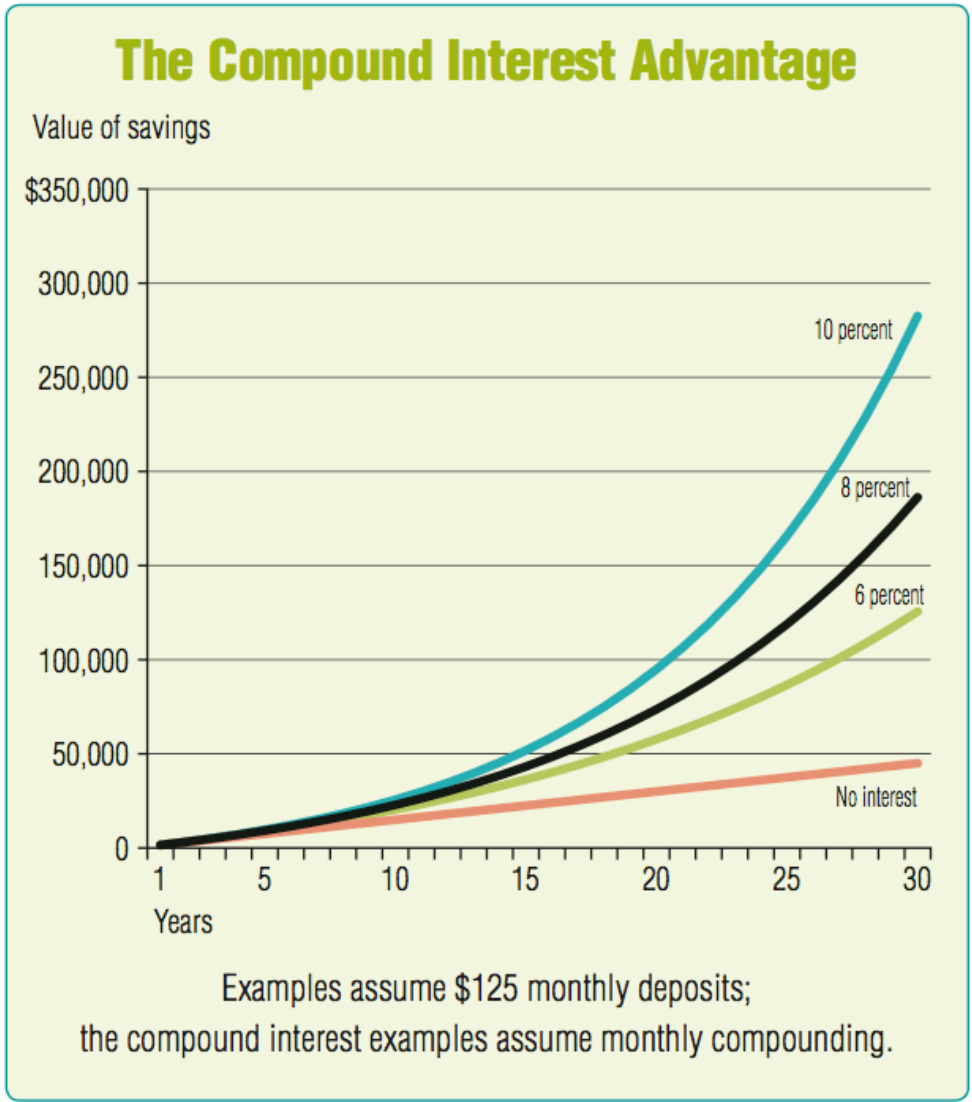
UNDERSTANDING INTEREST

- SIMPLE INTEREST – Interest paid just on the principal
- COMPOUND INTEREST – Interest on interest
- Example - \$5,000 invested for 5 years at 5% interest

<u>Year</u>	<u>Simple</u>		<u>Compound</u>	
	<u>Balance</u>	<u>Interest</u>	<u>Balance</u>	<u>Interest</u>
1	\$5,000.00	\$250.00	\$5,000.00	\$250.00
2	\$5,250.00	\$250.00	\$5,250.00	\$262.50
3	\$5,500.00	\$250.00	\$5,512.50	\$275.63
4	\$5,750.00	\$250.00	\$5,788.13	\$289.40
5	\$6,000.00	\$250.00	\$6,077.53	\$303.88
Final	\$6,250.00		\$6,381.41	

THE POWER OF COMPOUNDING⁵

- Money you put into a savings account earns interest. Then you earn interest on the money you originally put in, plus on the interest you've accumulated.
- As the size of your savings account grows, you earn interest on a bigger and bigger pool of money.
- The real power of compounding comes with time. The earlier you start saving, the more your money can work for you.
- For every 10 years you delay before starting to save for retirement, you will need to save three times as much each month to catch up.



SAVING AMOUNT GUIDELINES⁷

- **EMERGENCY FUND:**
 - Two or three months' take-home pay.
 - Amount that makes you feel comfortable.
- **SPECIFIC EXPENDITURES:**
 - Calculate monthly total needed to achieve these goals.
 - Add to savings on a regular basis.
 - Save 10% of take-home pay (alternative: save 4% or 5% of your monthly income).
- **FROM SAVINGS TO INVESTMENTS:**
 - Once savings goals are met, excess funds can be moved from savings instruments to investments.

SAVING AMOUNT GUIDELINES CONT'D⁸

- **EXAMPLE 1:**
 - Vacation: Take a cruise: \$1,000 needed in 2 years
 - You'll need to put \$40.29 each month into a 3.5% savings account for 2 years.
- **EXAMPLE 2:**
 - Save money for college for your child: \$10,000 needed in 10 years
 - Put \$67.91 each month into a 4% savings account for 10 years.
- Do it yourself: <http://www.bankrate.com/brm/calc/savecalc.asp>

EVALUATING SAVINGS OPTIONS⁹

QUESTIONS TO CONSIDER:

1. Is there a minimum deposit required?
2. Is there a minimum balance to maintain?
3. Is the principal safe?
4. What is the interest rate?
5. How frequently is the interest compounded?
6. Is the return guaranteed?
7. Can funds be withdrawn without penalty or loss of interest?
8. What fees apply to account?

FIVE-STEP SAVINGS PLAN

STEP 1: SET UP GOALS ¹⁰

- Consider needs versus wants.
- Create realistic short- and long-term goals. Outline the steps to accomplish those goals.
- Keep in mind the amount you need to achieve your goals.

STEP 2: EXAMINE YOUR INCOME AND EXPENSES ¹¹

- Decide on an amount to save monthly.
- Reduce expenses and increase income where possible.

STEP 3: START NOW! ¹²

- Identify the amount that can be saved from your budget and deposit to appropriate/relevant savings accounts.
- If possible, use direct deposit or automatic transfer to your savings account.
- Apply bonuses/tax refunds towards savings goals or debt reduction.

STEP 4: INVEST IN WEALTH-BUILDING ASSETS: (will be covered next session) ¹³

- Retirement accounts
- Stocks, bonds, other investments
- Home

STEP 5: CONTINUALLY REVISIT YOUR PLAN ¹⁴

- Make adjustments for life changes.
- Adjust strategies as you get closer to retirement.

¹⁰ JP Morgan Chase

¹¹ JP Morgan Chase

¹² JP Morgan Chase

¹³ Federal Reserve Bank of Dallas

¹⁴ Federal Reserve Bank of Dallas

INDIVIDUAL WORK FOR NEXT SESSION

- Continue expenditure and income journals.
- Speak with a friend or family member in their fifties about their experiences with saving and investing.
 - Is the person satisfied with his/her saving and investment strategies?
 - What plans have they made for saving and investing?
 - When did they start saving and investing?
 - What suggestions do they have for improving upon what they have done?

DOLLARS & SENSE

Building Financial Dreams

Session 3:

Understanding Investment Vehicles and Saving for Retirement



BUILDING BLOCKS OF RETIREMENT: 3-LEGGED STOOL

Personal Savings and Investments

Employer-Sponsored Plan

Social Security



COMMON INVESTMENT OPTIONS¹

Investing is NOT a get-rich-quick scheme. Smart investors take a long-term view, putting money into investments regularly and keeping it invested for 5, 10, 15, 20 or more years.

- **STOCKS:** Shares owned in a company.
- **BOND:** A “loan” that the investor gives to a corporation or the government for a specific time period with a fixed or variable rate of return.
- **MUTUAL FUND:** A professionally managed pool of money from a group of investors that is invested in some combination of various stocks, bonds, and other investments.
- **REAL ESTATE:** Physical property owned for the purpose of investment, including rental property, personal property, or business property.
- **RETIREMENT ACCOUNTS:** A wide variety of investments designed specifically for retirement.

PROS AND CONS OF COMMON INVESTMENT OPTIONS

STOCKS

PRO

- **Best Returns:** Historically, stocks have provided the highest long-term total return on investment. Over time, stocks typically gain an average of about 10% year.
- **Variety of choices:** Can choose from host of companies based on your risk tolerance.
- **Dividend Income:** Can receive quarterly payments from companies' profits if the company pays a dividend.

CON

- **Volatility:** Prices affected by corporations' prospects and market factors over which the company has no control.
- **Short-Term Declines:** Result of the volatility, these losses can keep investor up at night.
- **Oversight:** Requires time and reliable research to monitor stocks and make informed choices.

BONDS

PRO

- **Interest Income:** Earn fixed interest (the yield) off your investment.
- **Low Volatility:** Market value fluctuates primarily based on changes in interest rates and not precipitously.
- **Variety of Terms:** Can purchase short (6-month) and long term (20 year) bonds.

CON

- **Interest Rate:** The prices of bonds fall when interest rates rise, and they rise when rates fall. The longer a bond's maturity, the greater the interest rate risk. You can reduce—but not eliminate—interest rate risk by investing in shorter-term bonds.
- **Call:** Bonds can be redeemed, "called", by issuer earlier than maturity date. When a bond is called, investors must reinvest their money-sometimes at a lower yield.

PROS AND CONS OF COMMON INVESTMENT OPTIONS CONTINUED

MUTUAL FUNDS

PRO

- **Diversification:** A single fund can hold 100+ different securities. Reduces the risk of serious loss due to problems in single company or industry sector.
- **Professional Management:** Most of us don't have the time or expertise to manage investments daily, research new options. Each fund has an investment advisory who manages the funds operations.
- **Liquidity:** Shares in a fund can be bought and sold in a business day providing easy access to money.
- **Convenience:** Most funds offer services that make investing easy including automatic purchase plans, reinvestment of dividends, easy transfers among funds within the same family of funds, and extensive record keeping.

CON

- **Diversification "penalty":** Just as diversification can help lower your risk of loss, it can also flatten your returns.
- **Potential high costs:** Operating costs and sales commissions can reduce return on investment. Compare the costs of funds.
- **Lack of control:** The fund's manager – not you – decides what to buy or sell and when.

REAL ESTATE

PRO

- **Access:** Living in primary investment.
- **Tax Break:** Can deduct property tax and mortgage interest from taxes, generally resulting in lower taxes.

CON

- **Depreciation:** Property can go down in value resulting in loss.
- **Liquidity:** Sale of property can take long time depending on market, lenders, closing schedule, etc.

PROS AND CONS OF COMMON INVESTMENT OPTIONS CONTINUED

RETIREMENT ACCOUNTS

PRO

- **Tax Impact:** If through employer, money put is pre-tax so lowers overall tax bill. If through IRA, can deduct contribution (up to maximum limit of \$4000) from taxes.

CON

- **Accessibility:** Can't access money until specified retirement age without incurring fees.

TYPES OF RISK³

- ***INFLATION RISK*** from an increase in the prices of goods and services.
- ***FINANCIAL RISK*** related to the financial health of a company.
- ***MARKET RISK*** from outside factors (economic, social, political events).

³ Retirement: Secure Your Dreams, Growing Your Nest Egg: Risk and Return; PM 1821; Iowa State University, April 2001.
<<http://www.extension.iastate.edu/Publications/PM1821.pdf>>.

STRATEGIES TO REDUCE RISK⁴

- Diversification: Not all of your investment dollars are placed in any one type of investment.
 - Diversify among categories of investments by investing in different investment vehicles (e.g., cash, stocks, bonds, and other types of investments).
 - Diversify within each category of investment by investing in pooled arrangements, such as mutual funds.

EXAMPLES OF DIVERSIFICATION⁵

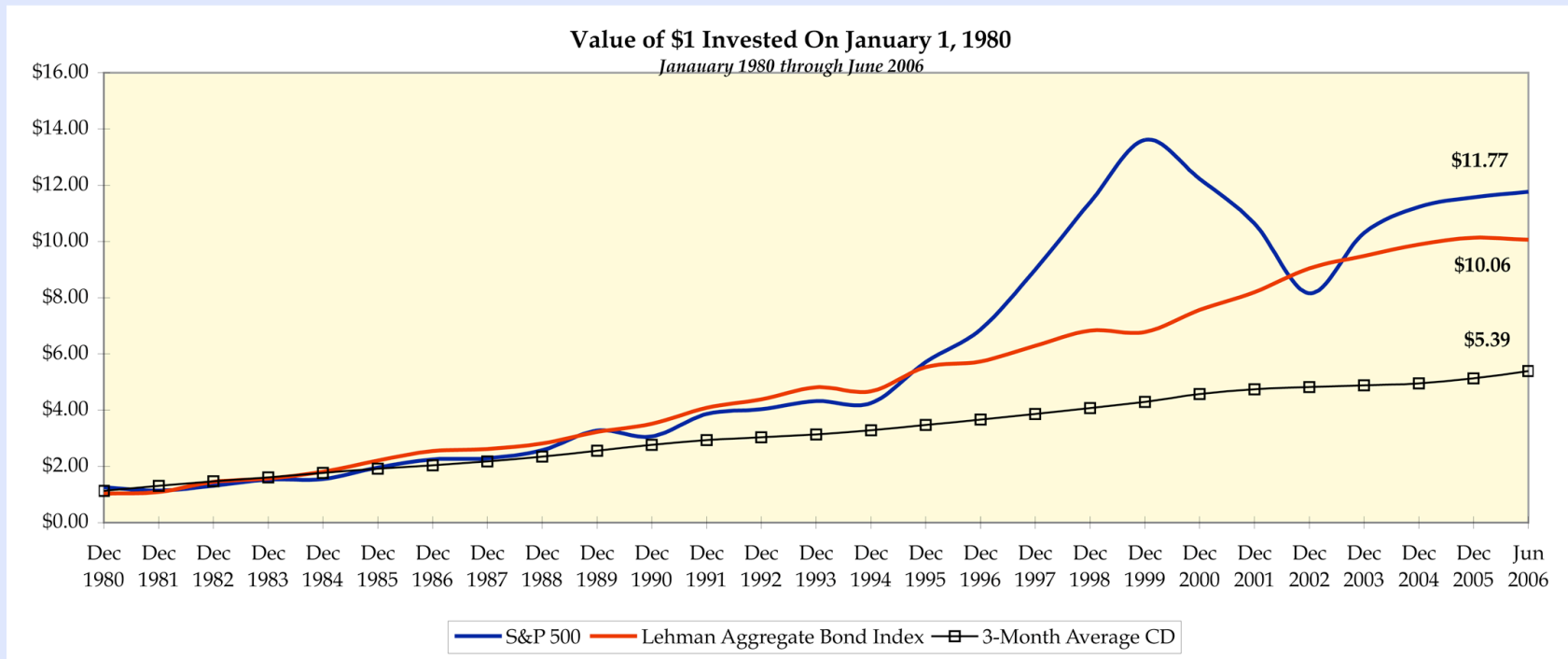
- **WITHIN A CATEGORY OF INVESTMENTS**
 - Divide your stock investments among large company stocks, small company stocks, international stocks, blue-chip stocks, and growth stocks.
 - Divide your stock investments among industries such as utilities, energy, technology, financial, transportation, and health care.
 - Divide your money in bonds and certificate of deposit among investments with different maturities.
 - Divide your mutual fund investments among money market funds, income funds, growth funds, and global funds.
- **AMONG TYPES OF INVESTMENTS**
 - Divide your savings and investments among money market accounts, certificates of deposit, individual stocks, bonds, mutual funds, and real estate.

INVESTMENT RETURNS⁶

- Why take any risk at all? Because the greater the risk, the greater the potential reward.
 - Differences in average annual returns of various types of investments since 1926

Investment Tool	Average Annual Return	Value in 2002 of \$1 Invested in 1926
Short-term U.S. Treasury bills (roughly equal to savings accounts)	3.8 percent	\$15
Long-term govt. bonds	5.3 percent	\$53
Large-company stocks	11.2 percent	\$2,300

HISTORICAL RETURNS ON VARIOUS KINDS OF INVESTMENT⁷

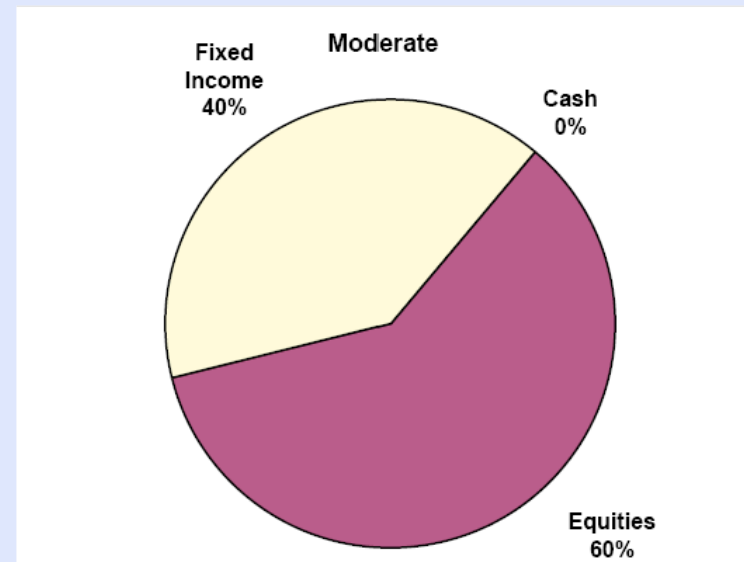
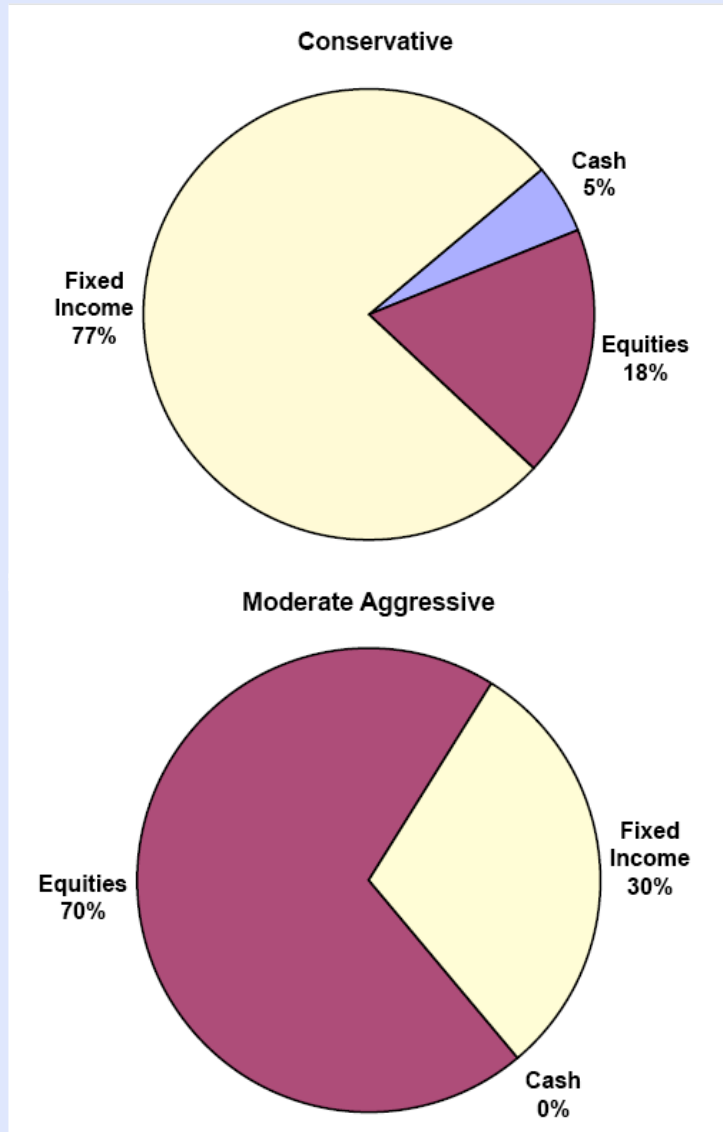


⁷ Strategic Financial Solutions, LLC, Federal Reserve

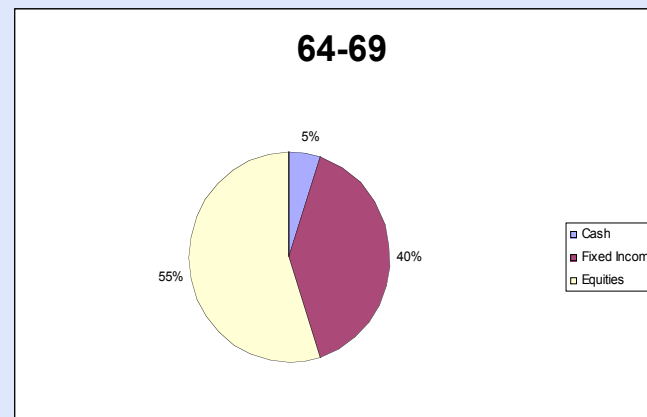
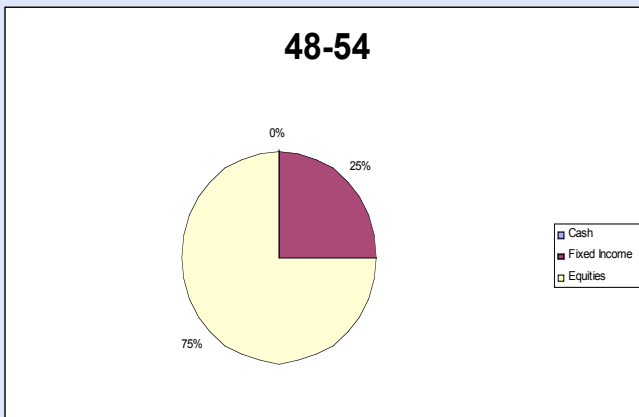
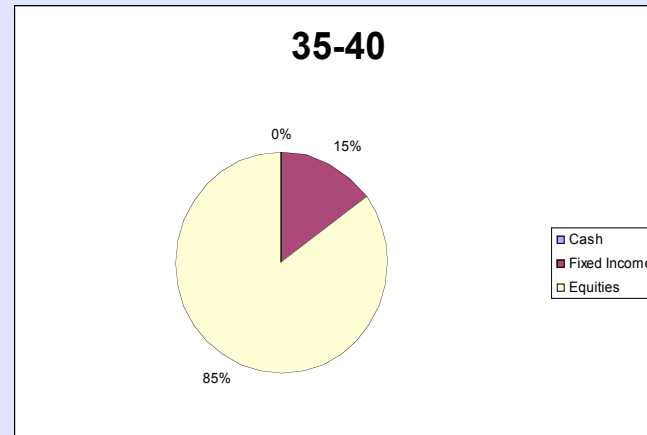
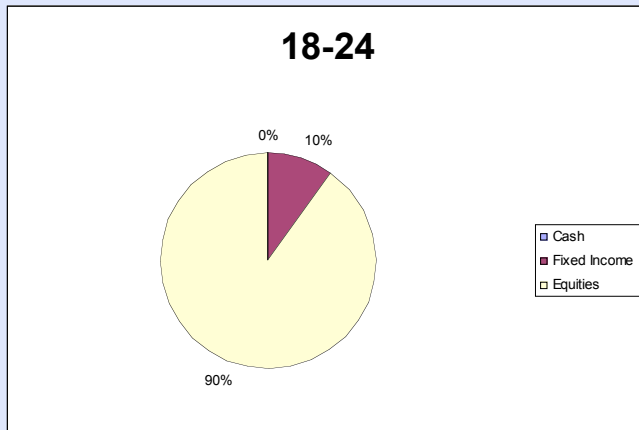
ISSUES TO CONSIDER WHEN CHOOSING INVESTMENTS⁸

- **WHAT ARE YOUR INVESTMENT OBJECTIVES?**
 - Short-term
 - Long-term
- **WHAT IS YOUR TOLERANCE FOR RISK?**
 - Conservative
 - Moderate
 - Aggressive
- **WHAT IS YOUR TIME HORIZON?**

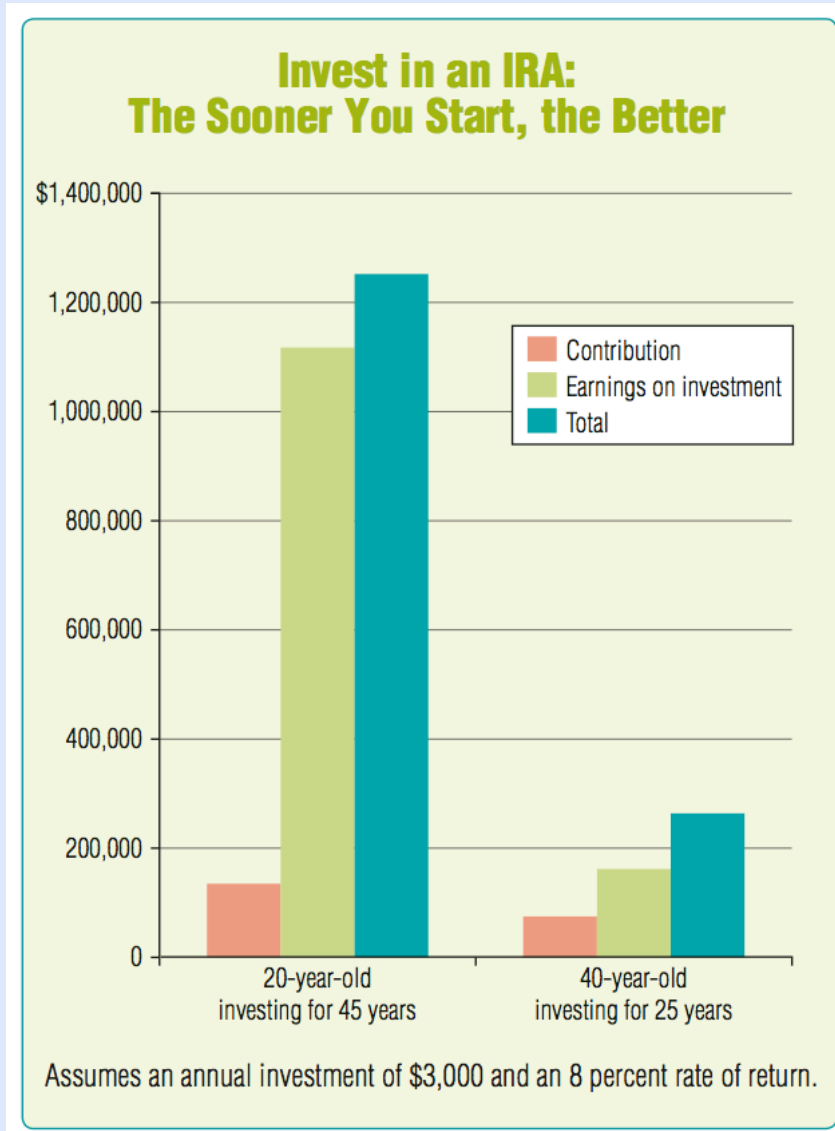
DISTRIBUTION OF INVESTMENTS BASED ON RISKS ⁹



DISTRIBUTION OF INVESTMENTS BASED ON AGE



TIME IS ON YOUR SIDE¹⁰



HOW MUCH DO YOU NEED TO SAVE FOR RETIREMENT¹¹

- A rule of thumb is that you will need to replace 70 to 90 % of your pre-retirement income to enjoy the same standard of living you had before retirement. The lower your income, generally the higher the portion of it you will need to replace.
- Some expenses will likely be lower (daily travel) but some (such as medical care) may be higher after retirement.
- Are there other sources of retirement income besides savings, such as Social Security benefits or a pension?
- What are the projected returns on investments, adjusted for inflation?
 - Choose realistic annual returns when making your estimates. Stick with the historical rates of return.

INVESTING FOR RETIREMENT¹²

- **DEFINED BENEFIT PLAN:** “Pension Plan” usually the employer funds the plan, though in some plans workers also contribute. Pays a lump sum upon retirement or guaranteed monthly benefit.
- **401(k) AND 403(b) PLANS:** Employer-sponsored retirement plans that allow you to set aside pre-tax dollars directly from your paycheck, reducing your taxable income.
- **INDIVIDUAL RETIREMENT ACCOUNTS (IRAs):** An investor-established, tax-deferred retirement account set up to hold and invest funds until retirement.
 - *Traditional IRAs*- Can contribute up to \$4000/year (\$5000 if over 50) with contribution and earnings tax-deferred until withdrawals. Penalty incurred if withdraw early (before 59 ½).
 - *Roth IRAs* - Funded by after-tax earnings; cannot deduct contribution from current income. After 59 ½, can withdraw contributions tax-free.
- **KEOGH PLANS AND SIMPLIFIED EMPLOYEE PENSION (SEP):** Retirement programs for self-employed people or owners of small companies allowing them to defer taxes on investments intended for retirement. Also known as a SEP account.

HOW DO RETIREMENT PLANS AND INVESTMENTS DIFFER FROM ORDINARY INVESTMENTS?¹³

TAX BREAKS:

- The money you invest in the plan and the earnings on those contributions are deferred from income tax until you withdraw the money.
- The tax deduction also means that the decline in your take-home pay, because of your contribution, won't be as large as you might think.

HOW DO RETIREMENT PLANS AND INVESTMENTS DIFFER FROM ORDINARY INVESTMENTS?

- *Example:* assume that you put \$100 into a retirement plan each month and that the rate you pay on income taxes is 15 percent.
 - If you don't put that \$100 into a retirement plan, you'll pay \$15 in taxes on it.
 - If you put in \$100, you postpone the taxes. Thus, your \$100 retirement plan contribution would actually reduce your take-home pay by only \$85.

VESTING¹⁴

- **VESTING:**
 - Any money you put into a retirement plan out of your pay, and earnings on those contributions, always belong to you.
 - Employees don't always have immediate access to the money their *employer puts* into their pension fund or their defined contribution plan. Under some plans, you have to work for a certain number of years before you become "vested" and can receive benefits. Some plans vest in stages.

WHAT DO I DO IF MY EMPLOYER DOESN'T OFFER A RETIREMENT PLAN?¹⁵

- Start your own plan – open an IRA.
- Consider an annuity (although 10% tax penalty if you withdraw before 59 1/2).
- Build your personal savings.

HOW TO MAKE THE MOST OF A DEFINED CONTRIBUTION PLAN¹⁶

- Talk to your benefits administrator to see what plan is offered and what its rules are.
- Join as soon as you become eligible.
- Put in the maximum amount allowed.
- If you can't afford the maximum, try to contribute enough to maximize any employer matching funds. This is free money!
- Study carefully the menu of investment choices. Some plans offer only a few choices, others may offer hundreds.
- Plan fees and expenses reduce the amount of retirement benefits you ultimately receive from plans where you direct the investments. It's in your interest to learn as much as you can about your plan's administrative fees, investment fees, and service fees.

TIPS ON HOW TO SAVE SMART FOR RETIREMENT¹⁷

- Start now. Don't wait. Time is critical.
- Start small. Money may be tight, but even small amounts can make a big difference.
- Use automatic deductions from your payroll or your checking account for deposit in mutual funds, IRAs, or other investment vehicles.
- Make saving for retirement a habit.
- Be realistic about investment returns.
- Roll over retirement account money if you change jobs.
- Don't dip into retirement savings.