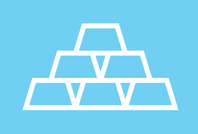
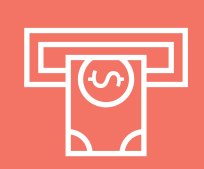

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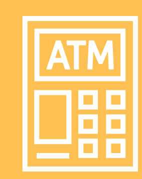
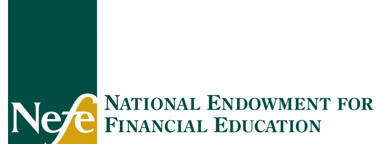


A Beginner's Guide to Financial Readiness



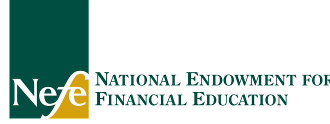


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TABLE OF CONTENTS

INTRODUCTION 4

PART ONE: YOUR SPENDING **5**

Reflect On Your Money Habits **5**
- What Motivates Your Spending? 5
- Separate Spending Needs from Spending Wants 6
- Plug Spending Leaks 8

Apply Intentional Spending Strategies 10
- Mindful Spending 11
- Create a Spending Plan 11

Manage Borrowing
- Why Use Credit? 15
- Establishing Creditworthiness: Your Credit Report 16
- Credit Card Tips 19
- How Much Consumer Debt Can I Manage? 20
- How to Get Out of Debt 22
- Bankruptcy: A Last Resort 25

PART TWO: YOUR SAVINGS **26**

Grow Your Savings 26
- Where Do I Put My Pay and My Savings? 27
- Tips for Using a Checking Account 29
- Your Savings Account 31
- Saving vs. Investing: What Is The Difference? 32
- Types of Investments 34

Apply Sound Savings and Investing Habits 35
- Set Financial Goals 35
- Make the Commitment to Save 37
- Use Investment Strategies to Mitigate Risk 38
- Use Investments to Meet Your Financial Goals 39
- Save For Emergencies 40
- Tax-Advantaged Retirement Accounts 41
- Tax-Advantaged Ways To Pay For Education 44

Protect Your Savings and Investments 45
- Work with a Financial Professional 45
- Common Types of Financial Fraud 46

PART THREE: YOUR FUTURE **48**

Plan for Contingencies: Thinking About Tomorrow 48
- Establish Your Emergency Fund 49
- Use Insurance to Protect You, Your Assets and Your Loved Ones 49

Planning for Retirement 51
- Declare Your Retirement Goals 51

Personalize Your Money Management 52
- Monitor Your Financial Goals 52
- Get Help: Financial Coaching 52
- Manage and Monitor Your Spending and Saving 52
- Set Up a Financial Record Retention System 53

RESOURCES 55

ACKNOWLEDGMENTS 57

INTRODUCTION

WHAT PLACE DOES MONEY HAVE IN YOUR LIFE?

You might think of money as what you need to pay your bills, buy groceries and take care of other practical concerns. All of this is true. We do need money to carry on with our day-to-day lives. Yet, money can be more than that — it can be the key that opens the door to a brighter future.

The purpose of *Your Spending, Your Savings, Your Future: A Beginner's Guide to Financial Readiness* is to help you use your money more intentionally and realize that you are in control of your financial future. Positive change can happen at any moment. It all begins with believing in yourself, working with limitations and nurturing your talents.

You make money choices every day about what to buy and when to buy it. Now it's time to improve upon those basic skills and add some new ones to ensure that you actually can reach the dreams you have for yourself and your family. Before you begin to use this publication, take a few minutes to think about your dreams and goals.

If money has been a source of problems in your past, it may be difficult to dream or set goals right now. Just start by thinking about a small goal. It could be something as simple as setting aside $100 to start an emergency fund. Then, as you gain new knowledge and confidence, make your goals bigger and more ambitious.

Online Resources

Download The Wealth Care Kit at:

WWW.SMARTABOUTMONEY.ORG

(Select Topics, then Saving and Investing, then Build Your Wealth, then Wealth Care Kit.)

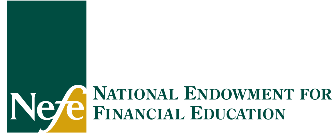
THE MORE SKILLED YOU BECOME WITH MONEY, THE MORE POSSIBLE YOUR DREAMS CAN BE.

USING THIS PUBLICATION

Your Spending, Your Savings, Your Future is a personal planning notebook to put you on a path to where you want to go financially. As you read through these pages, you will want to have a pen or pencil to complete worksheets and activities. This publication begins by discussing your spending and your savings, which are the building blocks for the most important part of this publication: your future.

OTHER MONEY RESOURCES

The National Endowment for Financial Education® (NEFE®) also offers *The Wealth Care Kit*, a digital publication that covers insurance, savings and investments, taxes, retirement and estate planning. *Your Spending, Your Savings, Your Future* was designed to work with *The Wealth Care Kit*.



NEFE IS PROUD TO MAKE THIS PUBLICATION AVAILABLE SO YOU CAN REACH YOUR FULLEST POTENTIAL. BEST WISHES!

PART ONE Your Spending

REFLECT ON YOUR MONEY HABITS

The first building block for reaching your dreams is to look at what you currently earn and spend. This is a good step for all of us, regardless of income. Did you know that many people with salaries above $100,000 feel broke much of the time? A person can earn a lot and still feel financially insecure. On the other hand, many people who earn $30,000 or less feel that they're doing well financially. Financial security doesn't depend on how much you earn. Instead, financial security is determined by how much you accumulate after covering income taxes and living expenses — and how you manage what you keep.

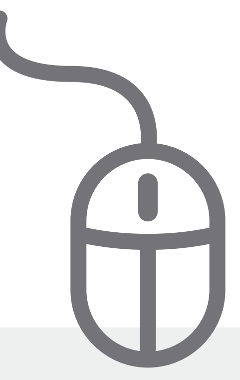
This first section will give you a clear picture of what motivates your spending, how to make intentional spending decisions, and how to manage your borrowing. Being intentional about spending doesn't mean putting yourself on a strict financial diet. Of course, you need to spend money, and it's perfectly all right to buy some of the little extras that make life more pleasant. The key to money management is finding balance between what you earn and what you spend.

Many people have no idea where their money goes. As a result, they struggle to set goals for the future. By knowing your spending habits and your motivations to spend, you can make better choices. These better spending choices will help you free up money to save and use toward your goals.

What Motivates Your Spending?

If you have tried over and over to cut your spending, but you haven't been too successful, it may be helpful to consider your motivation for buying things. You may have some confused feelings about money.

To understand what goes on behind the scenes when you make financial decisions, try the LifeValues Quiz featured at www.**smartaboutmoney.org.**



Online Resources

Use the **LifeValues Quiz** featured at Smart About Money to get a handle on what influences your financial decisions.

WWW.SMARTABOUTMONEY.ORG

(Select Tools, then LifeValues Quiz.)

Separate Spending Needs from Spending Wants

Before buying something — especially something costly — ask yourself some tough questions, such as:

- **Why am I spending money on this item?**
- **Why do I want this item?**
- **What is the purpose behind this purchase?**
- **Is this purchase trying to make up for some area of my life that is lacking?**
- **Is there a cheaper alternative to what I want to buy? If so, why am I not willing to buy the cheaper alternative?**

Don't cheat yourself with quick answers like, "I just want it." Careless spending may be a symptom of a deeper problem. For example, maybe you buy expensive gifts to try to impress someone or gain friendship. Perhaps you buy things to make up for the fact that you don't believe you'll ever get what you really want, such as a better education or a nice home.

If your spending habits are a result of unhealthy triggers, you may want to reflect on your motivations alone or with a counselor. Careless spending will not take away personal pain, and in some cases it can lead to serious financial problems that only add stress.

Spending and Financial Well-Being

Financial security — the feeling of having enough to cover financial needs — is unique to each person. In 2015, the Consumer Financial Protection Bureau (CFPB) published a report defining financial well-being as "a state of being wherein you:

- **Have control over day-to-day, month-to-month finances;**
- **Have the capacity to absorb a financial shock;**
- **Are on track to meet your financial goals; and**
- **Have the financial freedom to make the choices that allow you to enjoy life."**

Focusing on financial well-being keeps the spotlight on you and your financial needs rather than material possessions.

DEVELOP A NEW AGREEMENT WITH YOUR MONEY

Consider the suggestions in the "My New Agreements with Money" statements below. Check the agreements you want to achieve, personalize them, and add to them. Read your money agreements often, especially when you're at risk of falling back into old, negative spending habits.

My New Agreements with Money

- ☐ I will use my money so my family and I can live in decent housing in a safe neighborhood.
- ☐ I will use my money to promote the physical health and emotional well-being of my family and myself.
- ☐ I will use my money to help further the educational and personal growth of my family and myself.
- ☐ I will use my money to provide for a secure future.
- ☐ I will use my money to help charities of my choice.
- ☐ Other: ______________________
- ☐ Other: ______________________

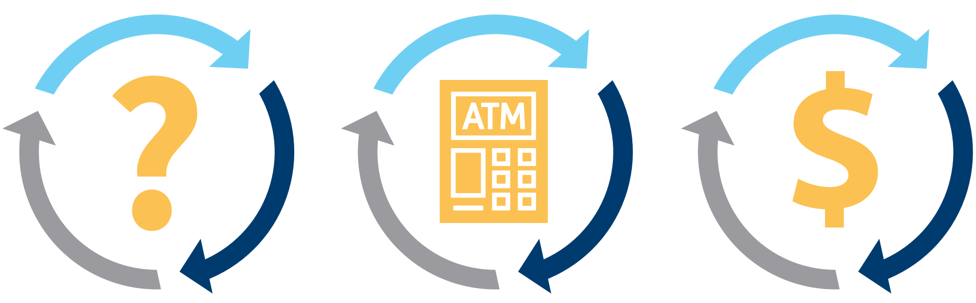
When you have made your new agreements with money and are working toward your goals, you can make better spending decisions.

Online Resources

Use the Financial Well-Being course from Smart About Money to learn more about making smart money choices to build your financial security.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then My Financial Well-Being Plan.)



Where Does The Money Go?

Have you ever looked in your wallet and asked, “Where is the cash I had yesterday?” Sometimes, it’s hard to remember how we’ve spent our money. Try the following activity to keep track. You may be surprised what you learn.

TRACK YOUR MONEY FLOW

1. Create an anticipated spending list of how you think you spend your money in a typical month. Jot down everything you think you spend money on (bills, rent, gas, food) and their approximate costs. Some things you may buy each day, other things only occasionally.

2. For the next month, keep an actual spending list of your expenditures. (If you have an infrequent or unusual expense that month, such as a car insurance bill you pay every six months, determine the cost for a single month.) If you haven’t tracked expenses before, the easiest way is to keep a small spiral notebook or note-taking app with you at all times.

    a. Each day, list everything you buy and how much you pay for it.
    b. Include all your purchases, whether you paid for them with cash, electronic payment, check, debit card or credit card.
    c. Don’t forget to include even small purchases such as a snacks or drinks. Over time, these small items really add up.

3. At the end of the month, compare your anticipated spending list to your actual spending list.

4. Now use your actual spending list to fill in the spending leaks chart on the next page and get more clarity on where your money goes.

Plug Spending Leaks

When you tracked your expenses, you probably found areas where money seems to disappear with nothing to show for it. These are called spending leaks. The chart on the next page shows how minor purchases add up over the course of a year. Spending leaks mean there's less money available for saving toward your dreams.

WHAT CAUSES SPENDING LEAKS?

Use your actual spending list to identify spending leaks and begin exploring ways to plug them. That might mean giving up a costly habit or making different choices. For example, if you cut back to buying lunch once a week rather than twice a week, you could save hundreds of dollars a year — money you could instead put toward your goals.

	COST OF ITEM	COST PER MONTH	COST PER YEAR	TACTIC TO PLUG SPENDING LEAK	POTENTIAL YEARLY SAVINGS
ITEM (EXAMPLES)					
Example: Lunch out twice a week	$11	$88	$1,056	Lunch once/wk.	$528
New clothes					
Cellphone					
Snacks/convenience store purchases					
Dining out					
Coffee or tea purchases					
Magazines/books/games/ apps					
Movies					
Music downloads/streaming					
Gifts					
TV					
Internet					
Online purchases					
Toiletries/hair care/cosmetics					
Other					
Other					

Spending Time and Spending Money: Are They Really So Different?

Every time you buy something, you pay for it with your time as well as money. For example, how many hours would you have to work to pay for a $200 suit?

COST OF SUIT	$200
HOURLY AFTER-TAX WAGE	$10
HOURS REQUIRED TO PAY FOR SUIT	20 hours

Maybe you like the suit. You need it for your work, it fits you well and you will wear it for several years, so you are confident this purchase will have long-lasting value.

But consider some of the other things you might have bought with that $200. Every purchase has an opportunity cost — if you spend your money on one item, it means you don't have money to spend on another item.

Your Money, Your Future

"I always wanted to go to college," Maria says, "but my parents couldn't afford to send me."

MARIA REDIRECTS HER LIFE

Maria had been working for a number of years in a downtown office. Many of the people around her had college degrees, and she envied them, despite the fact that she earned good wages. "I always wanted to go to college," Maria says, "but my parents couldn't afford to send me." Still, Maria took pride in her fine wardrobe and her newer model car.

Then, her company hired Denise, who would play an important role in Maria's life. "Denise and I would go to lunch together. One day she asked me why I hadn't gone to college since it seemed like I wanted to go. I gave my usual answer: 'My parents couldn't afford it.' That usually stopped most people, but not Denise. She just laughed and said, 'Yeah, mine couldn't either. That's why I did it on my own.'

"At first I was a bit angry. How could she compare our lives? Then I learned that even though we were about the same age, Denise had earned her bachelor's degree only recently. When I told her that if I started college now, I would be older than the other students, she asked, 'How old will you be if you don't go to college?' All of my reasons simply became excuses."

After many talks with Denise and lots of soul-searching, Maria finally faced the real issue. "I was afraid. It's true that my parents couldn't afford to send me to college after high school, but it was my fear that stopped me after that. I also had been buying things as a way to make up for not having what I really wanted — a college degree."

With encouragement from Denise and her family, Maria started taking night classes at her local community college. She studied hard and did well. To afford the tuition, Maria changed her lifestyle. Her first step was to pay off her car loan and her department store account. Then, she moved into a much smaller and less costly apartment. Now, she rarely buys clothes and when she does, they come from a consignment store and not her favorite department store. Maria earned an associate's degree and now is working toward her bachelor's degree.

"Sometimes I get tired of watching my money so closely. I miss buying new clothes, my car is really old now and juggling work and school isn't easy," Maria says. "But when I get an A on an exam, I feel better than I do with a new outfit. More than anything, I'm proud of myself in a way that I never thought I would be. I feel like I can do anything. That makes it all worth it."

APPLY INTENTIONAL SPENDING STRATEGIES

Better spending decisions begin with getting the most out of every dollar. Check off any of the following items you want to put into practice within the next month or come up with your own list. Then rank them in order of priority. At the end of the month, turn back to this page to see how you're doing.

THINGS TO TRY	PRIORITIES TO ME	
☐	____	Buy the things I really need first. Then buy only a few inexpensive wants.
☐	____	Save money to pay cash for what I need. Limit the use of credit cards and loans.
☐	____	Shop at thrift stores, consignment stores, outlet stores, garage sales and flea markets rather than big-box stores and department stores. Bargain for better prices.
☐	____	Limit expensive telephone, cable TV/satellite and internet options in favor of basic services.
☐	____	Buy long-lasting classic styles of clothing made from high-quality fabrics.
☐	____	Keep my receipts in case I need to return an item.
☐	____	Make a shopping list and stick to it. Do not buy on a whim.
☐	____	When shopping, take only cash.
☐	____	Shop for food at supermarkets or food warehouses. Avoid costly convenience stores.
☐	____	Choose generic-labeled or store brands instead of name brands at supermarkets and drugstores.
☐	____	Use coupons when it saves money. Be careful not to buy discounted items just because they are on sale. Compare coupon "savings" on name brands to lower-cost generic brands.
☐	____	Buy bulk quantities of things I use a lot, but be careful not to buy more than I realistically can use or items that will spoil quickly.
☐	____	Eat at home. Make my meals from scratch. Take my lunches to work.
☐	____	Share driving (e.g., carpool) or use public transportation.
☐	____	Shop around for the best price on car, home, renters and other insurance every few years.
☐	____	Trade skills and services (child care, lawn care, cooking, crafts) with neighbors, friends and relatives.
☐	____	Check out media (movies, music, books, magazines) from the library rather than buying new.
☐	____	Stay within my cellphone limits to avoid overage charges.
☐	____	Give homemade gifts.
☐	____	Do as much simple repair work as possible myself.

Mindful Spending

Cutting back spending can be very hard if you haven't considered your motivation for buying things in the first place.

Think about a "want" purchase that is expensive or that you consider a luxury. This could be something you already have bought, something you're planning to buy, or something you really want to buy but don't think you can afford just yet.

Before making the purchase, use these questions to be more intentional about your spending:

→ **What is my reasoning for buying this particular thing? For example:**

- I need to keep up with trends, otherwise I'll be embarrassed.
- I deserve to splurge once in a while, and this will feel like a reward for all my hard work.
- This was a necessary upgrade — even though my old one still works, someday I'll have to buy a new one, so it might as well be today.

→ **How do I think this purchase might make up for something in my life that is lacking? Examples:**

- If I had something nice to wear, then I would get asked out more.
- If I had a bigger TV, then my kids would want to come over.
- If I had a better computer, I would be motivated to work on side projects.

→ **What might be an alternative to this purchase? For example:**

- I could research generic brands rather than brand names.
- I could monitor the deals online and make the purchase at a time when I would get a discount.
- I already have researched and compared options, and I am confident that this is the best value for the best deal.

Online Resources

Download the *Mindful Spending Worksheet* from Smart About Money.

WWW.SMARTABOUTMONEY.ORG

(Select Tools, then Worksheets, then Mindful Spending Worksheet.)

Create a Spending Plan

It's estimated that the average family wastes 30 percent of its money (30 cents out of every dollar) through unexamined spending habits. To avoid this waste — which is like giving yourself a 30 percent pay increase — you need to create a spending plan.

A spending plan (budget) is simply a tool for taking control of your financial future — a way to meet your goals. There are four steps to making a spending plan:

1. Identify your income.
2. List your expenses.
3. Compare income and expenses.
4. Set priorities and make changes.

The worksheets that follow will help you get started on the first three steps. Consider making several copies so you will have them ready to use throughout the year.

Keep in mind that for a spending plan to work, it must be accurate. Don't forget about bills that come due every few months or so, such as car insurance. For those cases, list an average amount you must pay each month on your monthly expense sheet. For example, if you pay $450 for car insurance every six months, you must save $75 each month to pay the bill ($450 ÷ 6 = $75).

Online Resources

Create your own spending plan (budget) using the Budget Wizard at Smart About Money.

WWW.SMARTABOUTMONEY.ORG

(Select Tools then Budget Wizard.)

SPENDING PLAN STEP 1: IDENTIFY YOUR INCOME

When completing this worksheet, don't overestimate your income. Look back at check stubs and savings or investment statements to get the following information:

INCOME SOURCES	ANNUAL AMOUNT	AMOUNT PER MONTH
Wages – your own, after taxes	$	$
Wages – others in household, after taxes	$	$
Job bonuses, overtime pay or tips	$	$
Interest and dividends on savings and investments	$	$
Child support	$	$
Pension benefits	$	$
Social Security benefits	$	$
Gifts	$	$
Tax refund(s)	$	$
Rental income	$	$
Business income	$	$
Other ____	$	$
TOTAL INCOME	$	$

SPENDING PLAN STEP 2: LIST YOUR EXPENSES

To get started, you will need:

- Your list of actual spending from tracking your monthly expenses
- Your checking, savings and investment account statements for three months
- Your credit card statements for three months

EXPENSES	PER MONTH (AVERAGE)
Savings and investments	$
Housing (mortgage or rent)	$
Electricity	$
Gas/heat	$
Water/sewer	$
Telephone	$
TV (streaming, cable)	$
Internet	$
Groceries	$
Snacks and meals eaten out	$
Transportation:	$
Car payment	$
Gas	$
Car repairs	$
Car Insurance premiums	$
Bus fare, parking, other	$
Child care	$
Alimony or spousal maintenance	$
Child support or support to other family members	$
Insurance premiums:	$
Health, disability and long-term care	$
Property/homeowners	$
Renters	$
Medical bills and expenses	$
Property tax	$
Pet care	$
Union or professional association dues	$
Clothing/uniforms:	$
Purchase cost	$
Dry cleaning bills	$
Donations	$
Loan payments (not car or mortgage)	$
Credit card payments (all credit cards)	$
Personal expenses (allowances, toiletries, etc.)	$
Home improvements and repairs	$
Other (classes, downloads, etc.) ______________________________	$
TOTAL MONTHLY EXPENSES	$

SPENDING PLAN STEP 3: COMPARE INCOME AND EXPENSES

INCOME AND EXPENSES	PER MONTH (AVERAGE)
Write down your total monthly income (from Step 1)	$
Write down your total monthly expenses (from Step 2)	$
Subtract expenses from income	$

SPENDING PLAN STEP 4: SET PRIORITIES AND MAKE CHANGES

Did you have money left over at the end of the month? If so, great! Your income and your expenses are balanced. If you put the money left over at the end of the month into your savings, you're well on your way to controlling your money and getting what you want out of life.

But what if your expenses were more than your income? This can happen to anyone occasionally. But if it happens often, you have a negative cash flow and your budget is out of balance.

There are three ways to balance your spending: Cut back on your expenses, increase your income, or do both. Earlier, we talked about ways to find out where your money is going and how to plug spending leaks. This would be a good time to review that work and brainstorm even more ways to cut spending.

Some possible ways to increase income include:

- **Look for a better job.**
- **Ask if you can work overtime.**
- **Take on a second job or do freelance work.**
- **Turn a hobby into extra income.**
- **Sell unwanted items.**

You also may consider using investments to increase your income. We will look at that option later in Part Two.

What are your ideas for cutting back expenses, spending mindfully and/or increasing your income?

____

____

____

MANAGE BORROWING

Not all debt is created equal. Some types of debt are better than others. For example, a mortgage usually is one of the better forms of debt because most homes increase in value over time. Also, the interest paid on a home loan may be tax-deductible.

Student loans can be another type of better debt because there usually is a long-term financial payoff (higher wages) for those who earn a degree, and the interest rate tends to be lower than other types of loans.

The least beneficial type of debt is called consumer debt, which is money you borrow (from a bank, credit card or other source) to buy items that do not increase in value over time. This includes balances on credit cards and car loans. The interest paid on consumer debt is likely to be high and not tax-deductible. Managing consumer debt begins by knowing how much debt you can maintain without tipping your spending plan out of balance.

Why Use Credit?

Credit is a tool. It's part of the way you conduct your financial life to get the things you need, such as cars, homes, technology, furniture and appliances. And, of course, credit can be a necessary cushion in emergencies.

Establishing your creditworthiness, especially as a young person, will open doors for your future. A positive credit history may be considered by some employers, lenders or even landlords in helping you secure what you want.

But you need to select your credit wisely. Be sure you understand the interest rates and fees before you apply for credit. Before you sign up for rewards credit cards with high annual fees or interest rates, consider that airline miles are only good if you can actually use them, and cash back incentives may not cover the annual fee.

Interest can be 25 percent or higher on some credit cards. Credit card companies, banks and some department stores often charge annual fees, as well as fees for late payments.

Online Resources

For more in-depth help with credit and debt, visit Smart About Money.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then Money Basics, then Credit and Debt.)

Understanding Interest, Fees and Finance Charges

The cost to you of using a credit card includes interest, fees and penalties. Interest and fees added together are a finance charge. The finance charge also is expressed as an annual percentage rate (APR). The company offering you credit is legally obligated to disclose the APR. Be sure to compare the APR charged by several companies before choosing a card.

Use this worksheet to compare credit card options. You can find the information you need from credit card offers sent to you in the mail, internet searches or through a financial institution where you already have another account.

CREDIT COMPARISON WORKSHEET

CHARACTERISTIC	AMERICAN EXPRESS	DISCOVER	MASTERCARD	VISA
Interest rate (APR), for example, 18%				
Annual fee, for example, $95/year				
Other fees for example, $25 late fee				
Grace period, for example, 20 days				
Rewards programs (cash back, travel rewards)				
Other				

Interest is the price paid for the use of someone else's money.

Establishing Creditworthiness: Your Credit Report

Your power to borrow depends on your reputation for repaying your debts. A credit report is a record of how you have repaid your credit card debt and other loans over time. In addition to your personal information (name, address, birthday, Social Security number) and employment information, a credit report shows:

- **How much debt you have**
- **If you have made payments on time**
- **If you have not paid back some loans at all**
- **How long you've used credit**
- **The amount of credit you have available**
- **The amount of credit you're using on all your credit accounts**
- **Whether any of your accounts have gone to collections**
- **If you've declared bankruptcy within the last seven to 10 years**
- **If you have any liens against you**
- **If you have any unpaid bills, such as utility or medical bills**
- **Credit inquiries by others (such as landlords and lenders with whom you have applied for credit)**

Credit reports do not show information about your race, religion, medical history, personal lifestyle, political preferences, specific purchases, criminal record or any other information unrelated to credit.

Creditors rely on your credit information to see how you've handled your loans in the past and decide how likely you are to repay a new loan. When you apply for a credit card or a loan, you give the creditor permission to order your credit report from a credit reporting agency.

Order a Credit Report

The best way to know what is on your credit report is to order one for yourself and review it carefully. You have the right to pull your own free credit report once a year from each of the three nationwide credit reporting bureaus: Equifax, Experian and TransUnion. Because you can request up to three per year (one from each of the three major bureaus), it is recommended that you request your report from a different bureau every four months to keep continuous track of your record.

TO ORDER YOUR FREE REPORT:

- Visit www.annualcreditreport.com.
- Call 1-877-322-8228.

Order your credit report once a year to make sure there are no errors.

When you order your report, have ready your Social Security number, date of birth, current and previous addresses for the past five years, and maiden name, if applicable.

If you have been turned down for credit, you are entitled to a free credit report. However, you must ask the agency that produced the credit report for a copy of it within a specified period, usually 60 days, after being turned down.

Successful credit repair requires that you put everything in writing. When disputing items, make sure your communication exchanges are documented.

Establishing Creditworthiness: How to Correct Errors on Your Credit Report

About 20 percent of credit reports contain inaccurate information. Errors or outdated information on your credit report may result in a low credit score that can jeopardize your chances of being approved for a loan or credit card.

The good news is that you have the right to correct the mistakes on your credit report at no charge to you. The bad news is that the process of correcting an error requires patience and persistence. Here's how to get started:

1. The credit report itself may include information on how to correct errors. Follow the instructions that you get with the credit report to tell the credit reporting agency about the mistake. Most credit bureaus offer an online dispute form on their websites.
2. You may be able to take care of the problem with a simple phone call, but always follow up with written documentation such as an email or letter.
3. If more information is needed to correct the error, the credit reporting agency will tell you what to send. For example, the agency may ask for copies of canceled checks or other payment information. If you have kept good records of this information, it will be much easier to show where a mistake occurred.
4. You also may wish to explain the problem in a brief letter. The credit reporting agency must investigate your complaint within 30 days and respond with its results. As part of its investigation, the agency will check with the creditor whose information you are questioning. If the agency finds that the information in the credit report is inaccurate, the creditor must notify the other major credit reporting agencies of the error so they can correct their information too.

If the credit reporting agency does not find an error, but you still believe your credit report is inaccurate, you can contact the creditor directly to try to straighten out the problem. When you resolve the dispute, ask the creditor to send a copy of the correction notice to the credit reporting agency and to you.

SAL'S STORY

After Sal graduated from college, he treated himself to a new flat-screen TV. He wanted the best and bought the TV for $1,000. He had not yet received his first paycheck from his new job, so he charged the TV on his credit card.

The offer for this card, with an 18 percent interest rate, was sent to Sal in the mail his senior year. He did not shop for a lower rate. In fact, he planned to pay off the full $1,000 soon. However, since he was just starting out, he had many other expenses, and soon found himself paying just the minimum of $40 each month. It didn't seem like much.

Nearly seven years later, Sal finally finished paying for that TV. In addition to paying back the $1,000, he paid $474 in interest.

If you must have a credit card, be sure to shop around for a lower interest rate.

How To Use A Credit Card Wisely

If you take a look at Sal's story and the chart below, you can see that paying interest on credit card debt is not cheap. In addition, using a credit card makes it easy to get into burdensome debt. Then why use a credit card at all?

Credit cards are a convenience and are much safer than carrying cash. If your card is lost or stolen, you are responsible for no more than $50 of unauthorized charges — if you call the card company as soon as you realize the card is missing.

Some types of purchases, such as airline tickets, car rentals, hotel reservations and items bought online, may require you to use a credit or debit card. A credit card also helps you cover emergencies — such as car repairs — that may cost more than you have in your checking account.

You may want to use a credit card to establish your creditworthiness as well. You have to borrow to prove you can borrow responsibly. If you apply for a credit card, use it for purchases that you can afford and promptly pay back what you owe. You will begin building a credit history that will show up on your credit report. This topic will be discussed further in the following pages.

So if — and only if — you have the income to pay back what you borrow, you may want to consider applying for a credit card. Be sure to shop around for the best credit terms. Interest rates vary greatly and even one or two percentage points can make a big difference.

Remember Sal's story? Look how much Sal could have saved in interest charges on his $1,000 purchase if he had shopped around for a card with a lower rate. Also, consider how much he could have saved if he had paid more than the minimum amount every month or saved up enough to buy the flat-screen TV with cash.

ANNUAL PERCENTAGE RATE	NUMBER OF MONTHS TO PAY OFF $1,000 OF DEBT*	INTEREST PAID
18%	70 months	$474
16%	66 months	$398
14%	63 months	$328
12%	61 months	$267

*Assumes a balance of $1,000 and a minimum monthly payment of $40.

CREDIT CARD TIPS

- Use only one or two cards and consider their purpose. For example, you might use one card for convenience that you always pay off immediately and one with a low interest rate for when you must carry over a balance.
- If you are just starting out, consider using a secured credit card, which requires you to deposit money into your account in advance. These cards carry little risk and they help you build good credit by showing your ability to use a card responsibly.
- Keep track of credit card charges just as you would with a checking account. You won't be shocked when your credit card bill arrives.
- Use credit cards only for essential needs or charges that you can repay the following month before you are charged interest.
- Save for big-ticket items instead of putting them on a card. If you must borrow for those items, less expensive loans from banks and credit unions may be available. Shop around.
- Pay credit card bills as soon as they arrive. This lowers the average daily balance on which interest is charged and avoids late payment fees.
- Pay off the entire balance each month. If you choose not to pay the entire balance, always pay more than the minimum balance due.
- If the balance begins to increase beyond what you can pay each month, quit using the card. Leave the card at home to avoid temptation to use it.
- If the balance still continues to increase, call the credit card company and request to have your credit limit lowered. (Note that lowering your credit limit can affect your credit score and you may incur over-the-limit fees if you exceed the new limit.)
- Use a card with a low interest rate and a low or no annual fee. Shop around on the internet or through offers sent to you in the mail. Rates vary widely. (Credit cards issued by department stores tend to charge the highest interest rates.) **Use the Credit Comparison Worksheet on page 15** to compare interest rates and fees from at least three lenders.
- Be wary of cards that offer extremely low interest rates or zero interest "for a limited time." All too soon that time ends, and the new interest rate charged may be well above average interest rates.
- Pay attention to the minimum payment disclosures on your credit card statements. These disclosures tell you how long it will take and how much money you will spend to pay off your credit card balance if you pay only the minimum amount due.

How Much Consumer Debt Can I Manage?

Many financial advisors suggest that your total consumer debt load (not including housing debt) should be less than 20 percent of your annual net (after-tax) income.

When looking at your debt, remember to consider the amount you borrowed along with the interest on the debt. Even while you're paying down debts, you are being charged interest on the remaining balance.

When making your debt-to-income ratio calculations, don't forget to include debts that you are repaying to friends and family members or for child support. Even though debts like these don't show up on a credit report, they still are part of your monthly debt responsibilities.

Calculate how much you can afford each month for consumer debt. Consider this example:

Net yearly income (after income taxes and payroll deductions) = $25,000

Net monthly income = $2,083 ($25,000 ÷ 12)

Recommended maximum debt level (20 percent) = $417 ($2,083 x .20 = $417)

In this example, the person probably can manage to pay up to $417 a month, including interest charges, for total consumer debt. However other living expenses would determine if this is realistic.

YOUR DEBT-TO-INCOME RATIO

Net yearly income (after income taxes and payroll deductions) = $_________

Net monthly income: $_________ (net yearly income ÷ 12)

Amount of consumer debt per month that I should not exceed is:

$_________ (net monthly income x 0.20)

Each month, I should pay no more than $_________, including interest charges, for my consumer debt.

A word of caution: If your current debt level is below what you can afford to pay each month, don't go on a spending spree. Instead, congratulate yourself for living below your means. Your lower debt level can mean more freedom to change jobs or reach your long-term goals sooner.

The 20 percent rule of thumb is a general guideline and may not apply to you. For example, if you live in an area with high housing costs, you may not be able to afford 20 percent in consumer debt because you have to use more of your money to pay your rent or mortgage.

If you find that you're exceeding the 20 percent recommendation for consumer debt, does this mean you have a debt problem? Read on and find out.

Online Resources

Learn more about calculating your net income after taxes and deductions at Smart About Money.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then Money Basics, then Employment.)

10 SIGNS OF TOO MUCH DEBT:

1. You spend more than 20 percent of your net (after-tax) income to pay off car loans, credit cards or other types of consumer debt.
2. You are borrowing to pay off other debts.
3. You do not know how much money you owe.
4. You make only the minimum payment on each bill.
5. You miss payments or you pay your bills late.
6. Creditors are calling.
7. People or stores refuse to give you credit.
8. You borrow from retirement accounts or use credit cards to pay normal monthly bills.
9. You have overdrawn your checking account more than three times in the last year.
10. You must take an extra job just to keep up with paying your bills.

Warning Signs of Too Much Debt

While a limited amount of debt isn't necessarily bad, excessive debt delays you from reaching your goals. At its worst, excessive debt could rob you of your dreams. The sense of hopelessness that often comes with excessive debt can affect your behavior, harm your physical or emotional state of well-being and upset valued relationships.

You already may know whether you have too much debt for your own comfort and well-being. Even if you're carrying too much debt, you can reduce it over time. It will take patience, and it won't always be easy, but you can regain control. You can achieve balance in the future.

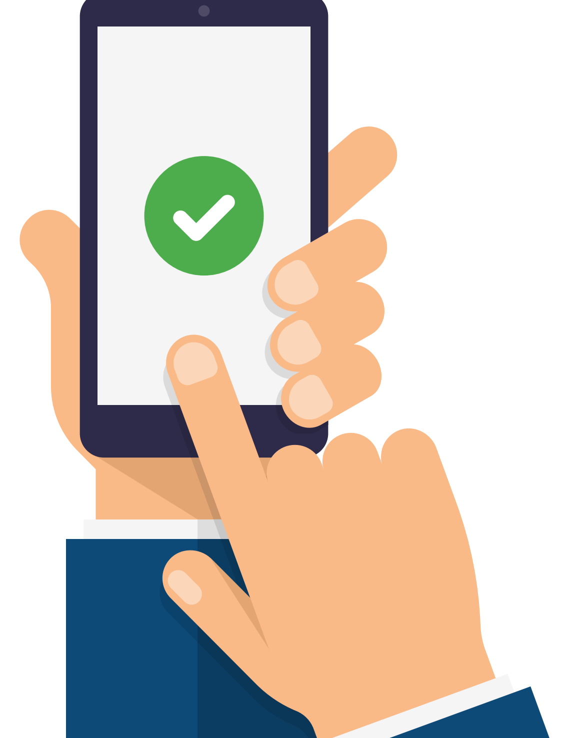
It'll take patience and it won't always be easy…

How to Get Out of Debt

Reclaiming your financial future starts by taking positive steps to get out of debt. Even if you have serious problems with debt, there is hope. Consider taking at least some of the steps below:

- Don't wait to act. Just as investments compound over time, so do debts.
- Create a get-out-of-debt plan. Use the *Debt Recovery Worksheet* on page 24 to organize your plan.
- When one debt is paid off, keep making the same payment — just put that amount toward another debt.
- Cut expenses. Try to find a few things you can stop buying or buy less often.
- Sell rarely used items. Sell items yourself — avoid going to a pawnshop or using an internet broker who takes a cut of the profit.
- Honestly assess your ability to pay for something and then take the appropriate action. Say that you bought a car and are having trouble making the payments. It may be better to trade the car for a cheaper one or use alternative transportation than to let the creditor repossess your car, which will hurt your credit record.
- Try to increase your income. Is it possible to get a second job or get paid overtime and use the money to reduce debt? (If you have family responsibilities, first consider what effect your absence could have on the well-being of your family.)
- Consolidate loans. Shift higher-interest loans to a single lower-rate loan and stop running up new charges.
- Keep only one or two major credit cards. Limit overspending by cutting up your other cards, freezing them in a block of ice, locking them in a safe deposit box or giving them to a trusted family member to keep. Cancelling cards or lowering your credit limit can have negative effects on your credit score, so try these measures first to find a balance between reducing your debt and a possible reduction in your credit score.
- To stop most credit card offers from arriving in your mail, call 1-888-5OPTOUT (1-888-567-8688). You also can visit www.optoutprescreen.com.

Check with your credit card and loan companies to see if you can set up automatic payments online. **Automatic payments will eliminate late and missed payments.**



Only you can repair your bad credit by repaying your debts and paying your current bills on time.

Before you get in over your head in debt, consider taking the steps below.

GET HELP WITH YOUR DEBT

1. Before you miss a payment, call your creditors to discuss your options. This may be a difficult step, but it is less embarrassing than receiving calls from creditors or debt collectors. Often you can work out terms with your creditors, and they might agree to divide payments into smaller amounts or even forgive some of your debt. Negotiate with lenders. They may suspend payments, lower payments, waive late fees or forgive part of the loan. Get any agreement in writing.

2. Go to a nonprofit credit counseling agency that can put you on a budget and help you negotiate with lenders. The U.S. Department of Justice lists (by state) approved credit counseling agencies at www.justice.gov/ust.

3. Stay away from so-called “credit repair” companies that offer to fix your credit history for a fee. Only you can repair your bad credit by repaying your debts and paying your current bills on time. Be wary of promises like, “We can erase your bad credit — 100 percent guaranteed!” These companies often charge large fees to do the same things you could do on your own.

4. To check out a credit repair company’s reputation, contact the Better Business Bureau (www.bbb.org) or your state’s attorney general (www.naag.org, and click The Attorneys General at upper left).

Reducing Your Debt: Use a Debt Recovery Worksheet

First, make several copies of the worksheet below (one per creditor). On each worksheet, list the interest rate, amount owed, and the minimum monthly payment. Put your worksheets in order, from the debt with the highest interest rate to the lowest. Pay as much as you can on the debt with the highest interest rate while still making the minimum payment on other debts — and do not add new debt. Soon, if you make steady payments, the amounts owed will go down. The debts will be reduced even faster if the amount you pay each month is more than the minimum payment due.

When one debt is eliminated, celebrate your progress — just don't let your celebration land you in debt again. Then, take the amount paid monthly on the paid-off debt and apply it to the unpaid debt with the next highest interest rate.

DEBT GUIDELINES

Managing debt can be tricky, but following these generally accepted guidelines will give you a good start:

- **Know how long it will take to repay debts making monthly payments.**
- **Make all payments on time – even if it's only the minimum due.**
- **Know the costs associated with making monthly payments, such as fees and interest.**
- **Maintain a debt-to-income ratio of less than 20 percent (not including mortgage debt).**
- **Maintain a credit score of 700 or more to show good credit management.**

DEBT RECOVERY WORKSHEET

Creditor/Purpose: ____________________ **Interest Rate:** __________

INTEREST RATE	AMOUNT OWED	MINIMUM MONTHLY PAYMENT	PAYMENT DUE DATE	AMOUNT PAID AND DATE

Online Resources

Use the *Credit and Debt Plan Worksheet* at Smart About Money to size up your debt management and make a plan for using credit.

WWW.SMARTABOUTMONEY.ORG

(Select Tools, then Worksheets, then Credit and Debt Plan Worksheet.)

BANKRUPTCY: A Last Resort

Bankruptcy should be considered a last resort for getting out of debt. It typically will not erase debts such as taxes, student loans and child support. It usually will stop collection agency calls, but it can have a serious effect on your credit for years.

Let's look at the two major types of bankruptcy for consumers.

CHAPTER 7

In Chapter 7 bankruptcy, your assets are sold and the money is divided among your creditors. You may be able to keep some items, such as a car and certain personal property. Still, you easily could lose many of the things you value. A Chapter 7 bankruptcy stays on your credit record for up to 10 years and there are some debts that won't go away even after filing. For example, you still have to pay child support, student loans, taxes and alimony.

In 2005, the federal bankruptcy laws were changed, making it tougher for most people to qualify for Chapter 7. For example, applicants must meet eligibility standards under a "means test," as well as complete mandatory credit counseling through a government-approved program. As a result of these changes, more people are required to use a Chapter 13 filing instead.

CHAPTER 13

A Chapter 13 bankruptcy is a plan to pay back your creditors. You make installment payments to the court, and a trustee forwards them to your creditors. In general, your creditors agree to accept less than the full amount you owe. As long as you make on-time payments, you get to keep your assets. A Chapter 13 bankruptcy stays on your credit record for at least seven years.

BANKRUPTCY FAQS

Q: **I was recently turned down for a job. Later I found out that the employer looked at my credit record and saw that I had declared bankruptcy a few years ago. Can they do that?**

Yes. Many businesses — including employers, utility companies, banks, mortgage companies and so on — can look over your credit record. Bankruptcy can follow you for years and hurt your ability to take out a loan for a home or car, get utility service or even get a job.

I am still paying on my car, but I intend to file for Chapter 7 bankruptcy. Will I be able to keep the car?

Maybe. Your car loan probably is a "secured" loan, meaning if you do not keep making the payments, your car could be repossessed. Work with a trusted advisor to understand fully reaffirming your debt, especially if you intend to keep the property in a Chapter 7 bankruptcy.

I filed Chapter 13 bankruptcy five years ago, and now I need a car. Lenders are willing to loan me the money, but they want to charge me a high interest rate. Does this seem right?

Interest a company charges is partially based on its risk of loaning you money. Since you filed for bankruptcy, you will be seen as a bad risk. While some places won't offer you credit at all, others will charge you a higher interest rate for a loan. This can be expected until the bankruptcy comes off your credit record in seven years.

PART TWO

Your Savings

The second building block for reaching your dreams is a strong savings habit. When you put money away, you are saying, “I believe in my future and I’m willing to take charge of it.” Saving puts into action the faith you have in yourself.

If you haven’t successfully put money aside in the past, that’s all right. Saving some amount is possible — no matter the size of your paycheck. Here in Part Two, we’ll show you how to make use of your money so you can:

- **Save for short-term goals**
- **Save for an emergency**
- **Finance your long-term goals and dreams**

GROW YOUR SAVINGS

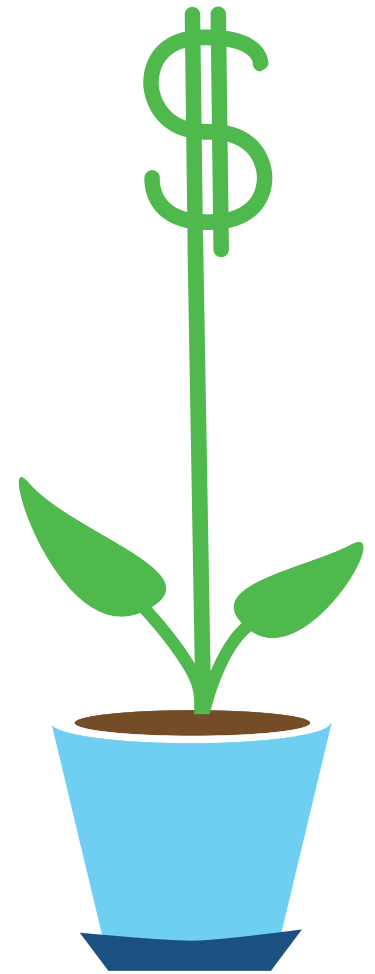
Regardless of how much you earn, your savings (your wealth) can grow if you start treating money as something that works for you. And, time is much more powerful than the amount you save or even the returns you earn on investments because of inflation and the time value of money.

Start Saving Early. It Pays!

Because of **inflation**, the same items you purchase today will cost more in the future.

But individuals who start saving and investing early in life have an advantage over those who start later. When you put away even small amounts, a very important financial concept is working for you: the **time value of money.**

When you put money into an interest-bearing savings account, the amount you save is the principal. The principal earns a rate of interest as determined by the financial institution. Interest is paid



on a saved amount at regular times, such as annually, quarterly or monthly. When interest is paid, it is added to the principal. This new balance – principal plus interest – earns more interest during the next period, and so on. This process is called **compounding,** and its effect is like magic when you let it work for you over time.

The more frequently interest is calculated (or compounded), the more your money works for you to grow. Here is an example of why it pays to start saving early in life and to compare interest rates and frequency of compounding.

Aletta and her brother Cory both deposit $5,000 into high-yield money market accounts that pay an annual percentage rate of 6 percent. Compare the results after 10 years if interest on Aletta's account is compounded once a year and interest on Cory's account is compounded once a month.

	ALETTA'S ACCOUNT	CORY'S ACCOUNT
FREQUENCY OF COMPOUND INTEREST	ANNUALLY	MONTHLY
Interest Earned over 10 Years	$3,954	$4,097
Balance of Account at Year 10	$8,954	$9,097

Another way to take advantage of the power of compounding is to increase the principal amount so more interest is earned each period. Suppose that Aletta and Cory both establish the routine to add $100 each month to their money market accounts. Not only will the principal grow, but they will receive a considerable amount of interest after 10 years. Compare to the previous example the results after 10 years.

	ALETTA'S ACCOUNT	CORY'S ACCOUNT
FREQUENCY OF COMPOUND INTEREST	ANNUALLY	MONTHLY
Interest Earned over 10 Years	$8,202	$8,485
Balance of Account at Year 10	$25,202	$25,485

WHERE DO I PUT MY PAY AND MY SAVINGS?

Both checking and savings accounts are offered by banks, savings and loan associations and credit unions. It is not necessary to have your savings and checking accounts at the same financial institution, although that may be more convenient and it may permit you to have a free checking account.

A checking account is a safe, convenient and inexpensive way to pay bills. This account is a service that financial institutions provide, so they often offset the cost of this service by charging fees. Make sure you understand what fees you will be charged, if any.

Once you start saving money, you'll need a safe place to keep it. A savings account pays you money in the form of interest while you leave your money in the account.

How much money do I need to deposit to open an account?

YOUR CHECKING ACCOUNT

Before you open a checking account, shop around.
Here are some questions to ask:

- **How much money do I need to deposit to open an account?**
- **What is the minimum balance to avoid fees?**
- **Are there any monthly fees charged to the account (for instance, for falling below the minimum balance)?**
- **Will I get more benefits if I keep a larger balance?**
- **Is a debit card available?**
- **How much do new checks cost? Is there a fee for writing checks?**
- **Is there a "basic" account with lower fees if I meet certain criteria?**
- **Do any checking accounts earn interest? If so, do they require a minimum balance?**
- **What is the overdraft fee if I make a payment or purchase that my account cannot pay (a nonsufficient funds fee)?**
- **Is overdraft protection available?**
- **What are the automated teller machine (ATM) fees?**
- **Is there a fee for working with a teller in person, online or by phone?**
- **Is the bank insured by the Federal Deposit Insurance Corporation (FDIC)?**
- **Is the credit union insured by the National Credit Union Administration (NCUA)?**

Make Your Checking Account Work for You

Checking accounts make money management convenient. For example, you can ask your employer to pay you through direct deposit, so your paycheck is deposited directly into your account electronically. Your paycheck funds will be there on payday, ready for you to use. You will not have to go to the bank and there is no chance of losing your paycheck or having it stolen. Your money is easy to track because you will receive a statement from your employer showing how much was deposited to your account.

If you have a savings account, you can ask your employer to have part of your pay directly deposited into that account. If you start with an affordable amount, you won't miss it and your savings will grow without effort on your part. An alternate way to "pay yourself first" is to have money transferred automatically from your checking account to your savings or investment account on a certain day of each month.

Automatic bill payment from your checking account also can relieve stress. If you have regular bills (for example, mortgage or car payments), your bank transfers the bill amount to the company or institution each month. You don't have to remember to make payments, which saves time and worry. Most importantly, you can be sure your bill is paid on time, and that you avoid penalties for late payments.

But be careful. If you lose track of your checking account balance, or if for some reason you run low on money, you could overdraw your checking account. This could cost you a lot of money in fees. Give yourself reminders to record automatic payments on your spending plan or budget when they occur. Some banks also will send you reminders of upcoming automatic payments.

Automatic payments can work for you — or against you

ONE COUPLE PAYS A PRICE FOR AUTOMATIC PAYMENTS

When Tina and Tyler bought their first home, they chose the automatic payment feature so that their house payments went directly from their checking account to the mortgage company. At first it was great — no checks to write, no worries about late payments.

When their first child, Alicia, was born, Tina quit work for three months to care for the baby. With no second paycheck and extra expenses, money was tight. A little while later, one of them forgot to track a payment for groceries. Not only did the automatic payment bounce, but so did two other small payments. The mortgage company charged a $25 penalty because the payment was late. Also, the bank charged a $30 overdraft fee for each of the other payments. Tina and Tyler lost a total of $85.

After paying these charges, Tina and Tyler decided to drop the automatic payment on their mortgage until they got their finances back under control. For them, this convenience feature was no deal.

AUTOMATIC PAYMENTS SAVE THE DAY — AND MONEY

Jennifer, a recent college graduate, is accustomed to doing everything online. She uses direct deposit and makes as many bill payments online as possible. Jennifer generally pays all her bills on time, but sometimes she loses track. As a result, she's paid late fees.

So when Jennifer bought a one-year-old used car, she requested automatic payments. Her car payment money stays in her checking account, earning interest, right up until it's due each month. (Her checking account pays interest if she keeps it above a certain balance.) Jennifer also signed up for email spending alerts and she frequently checks her bank account balances. By keeping close tabs on her accounts, she can ensure that her online payments, automatic payments and daily expenses aren't getting her in trouble.

TIPS FOR USING A CHECKING ACCOUNT

- **Keep track of how much money is in your checking account. In addition to your online statements, maintain a spreadsheet, app or checkbook register to track your current balance as well as each deposit, payment and withdrawal.**
- **Never make payments if you don't have the money in your account. The bank's nonsufficient funds (NSF) service charges can be as high as $35 for each overdraft. Overdrafts will hurt your reputation with the bank and with people to whom you owe money. The business receiving the payment may charge a fee as well.**
- **Be careful about using your debit card when your account is running low. Depending on how a business verifies your card, you can get approval to spend more than you have in your account. Then the bank charges you $35 or more for overdrawing your account.**
- **Don't rely solely on the bank to track your balance. Follow the *How to Reconcile a Checking or Savings Account* tips on page 30. If something doesn't add up or you spot an error, ask your bank or credit union representative to help you reconcile your checking account. Sometimes pending deposits or withdrawals will not be reflected in your balance right away, which can make you think you have more money than you do.**
- **Promptly report any errors, and lost or stolen checks, debit cards or credit cards to your bank or credit union.**
- **Keep your bank statements and other relevant payment paperwork for up to seven years. You may need this information to prepare and defend your tax returns or dispute an error on your credit report.**
- **When you are ready to dispose of any paperwork from the bank (statements, canceled checks, etc.), shred it to prevent identity theft.**

Reconciling your own spending tracker with your bank statements verifies that your records match the bank's records.

HOW TO RECONCILE A CHECKING OR SAVINGS ACCOUNT

1. Verify that all your posted withdrawals are accurate, including amounts for electronic payments from your checking account, ATM withdrawals and debit card charges. Often tips are not reflected in pending payments, so it's a good idea to keep your receipts to track the full amounts.
2. Total the amounts of payments, checks and debits that have not yet posted to your account. Also, subtract ATM withdrawals, debit card transactions and/or automatic withdrawals (for savings or monthly bills).
3. Total the amounts of any deposits that have not yet posted to your account.
4. Subtract any bank fees.
5. The resulting balance should match the balance in your spending tracker.
6. If the numbers don't agree, check your math and look for missing transactions (for example, additional payments that have not cleared or fees you may have incurred). Remember, you always can ask a bank or credit union representative for help.

Your Savings Account

Before opening a savings account, call several financial institutions or visit their websites to find out answers to the following questions:

- How much money do I need to open the account?
- What is the minimum balance I will need to keep in the account?
- How much interest does the account pay?
- How often is interest applied to the account?
- How do I withdraw money when the time comes to spend or invest it?
- Is there a limit to the number of times I can withdraw money from my account each month without incurring a charge? (Remember, the whole point of having a savings account is to leave the money there, so a few reasonable limits on how often you can take money out should not be a problem.)
- When I take money out of the account, is there an effect on the interest earned?
- Is the bank insured by the FDIC? If it's a credit union, is it NCUA insured?

After those questions are answered, you also may want to ask about certificates of deposit (CDs) and money market deposit accounts.

CERTIFICATES OF DEPOSIT.

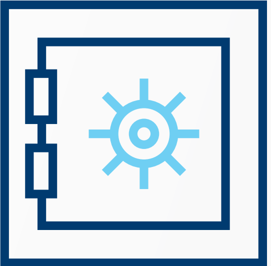
CDs are deposits you make for a specific period of time. At the end of that time period — called the maturity date — you get back the dollar amount of the CD (the principal) plus interest. CDs pay a fixed amount of interest, so the amount you can earn on a CD doesn't change over its time period.

You can choose a CD with a maturity period of one month, three months, six months, one year, two years, three years, and so on. The longer the maturity, the higher the interest rate you generally earn in your account. CDs are great when you have a specific time frame to meet a specific goal. For example, say you plan to buy a new car in three years. You can choose a CD with a three-year maturity. If you need the money before the CD matures, you may have a penalty (such as losing three to six months' worth of interest).

MONEY MARKET DEPOSIT ACCOUNTS.

Compared to regular checking accounts that sometimes pay interest, you may earn a higher interest rate on money market deposit accounts. However, you may need to deposit as much as $2,500. (Each financial institution requires a different minimum balance.) Like a regular savings account, a money market deposit account may limit the number of monthly withdrawals. A money market deposit account can be a good place to keep your emergency fund.

Money market and CD accounts might pay more interest more frequently than a regular savings account, but there is a trade-off for this higher interest rate. With a CD, the trade-off is that you have to leave your money in the account for a certain period of time. With a money market deposit account, the trade-off is that you have to keep a higher minimum balance to earn the higher interest. However, both options have the potential to grow your savings faster than a traditional savings or checking account.



KEEPING YOUR MONEY SAFE

When you select a bank for your checking and savings accounts, be sure the bank is insured by the Federal Deposit Insurance Corporation (FDIC). This insures your bank accounts (checking, savings, trust, CDs and IRAs) up to a total of $250,000. Other accounts, such as mutual funds, may not be insured. Credit union accounts are insured in a similar manner by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the National Credit Union Association (NCUA).

Saving vs. Investing: What Is The Difference?

There can be confusion about the words saving and investing. For example, someone might claim that a new car is an investment, which probably is not true since most cars lose their value over time and an investment ideally should increase in value. Think of saving and investing as methods of setting aside money for the future. The best method depends on your needs and goals.

Saving means putting aside money you don't spend now so it can be used later. For short-term needs, individuals typically set aside savings in safe interest-bearing accounts that can be accessed quickly. Examples of liquid accounts that have little or no risk of losing value include a regular savings account, a certificate of deposit (CD) or money market deposit account. Use these accounts for money you want to be able to access quickly, with little or no risk that you'll lose what you set aside.

Savings can be used to meet short-term needs (for example, an emergency or a down payment). You also can use savings to build up the minimum amount needed to make an investment.

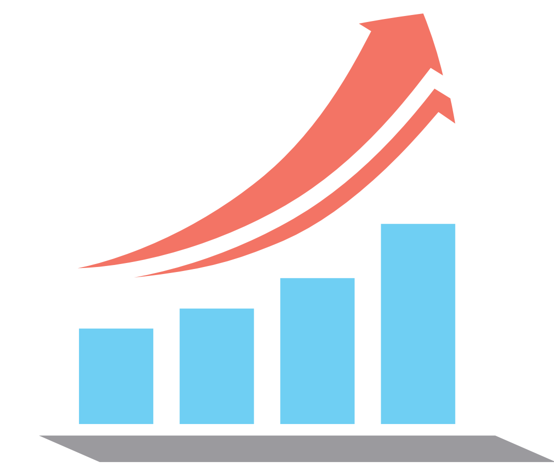
To build up money for long-term needs, invest your saved funds in ways that have the potential to offer greater returns than interest-bearing accounts. Investments are meant to accumulate so they can be used for longer-term needs, such as your retirement or a child's education.

Investing means buying something with the expectation that it will make money for you. The most common investment choices are stocks, bonds, real estate and mutual funds. These types of investments do not guarantee a return, so they have more risk associated with them. However, they are capable of earning more than low-risk savings accounts.

Investment accounts can be very volatile — they can lose (or gain) a great deal of value in a short period of time. Generally speaking, the longer you invest, the more the risks are reduced. As long-term goals approach, you should consider moving the money for those goals from riskier investments to guaranteed interest-bearing types of savings accounts.

In time, you will have both short-term and long-term financial needs; therefore, you will need money in both savings and investments.

vs.



Double Your Money: The Rule Of 72

As noted earlier, a key to investment success is time. The longer a sum of money earns compound interest or an investment increases in value, the larger it becomes. The other important factor is the rate of return. The higher the rate, the more quickly a sum of money will grow.

To see how fast your money can grow in different savings and investment products, use The Rule of 72, which is an approximation of how quickly your money will double.

OPTION 1. To see how long it will take to double a sum of money (for example, turn $500 into $1,000), divide 72 by the rate of return. The example below assumes an 8 percent interest rate.

72 ÷ by 8 (the interest rate) = 9 (years)

So, at 8 percent interest, $500 doubles to $1,000 in nine years.

OPTION 2. To determine the rate needed to double your money, divide 72 by the number of years in which you want to double your money. The example below assumes an investor wants her money to double in 10 years.

72 ÷ by 10 (the desired number of years)

= 7.2 (the rate of return)

So, to double $500 to $1,000 in 10 years, the investment needs to have a 7.2 percent annual percentage rate.

The Rule of 72 shows that, over time, investors earn more on their money than savers. Using sample rates of returns in the table below, compare the outcomes of two different average returns from individual stocks or mutual funds compared to money market deposit accounts. Using an 8 percent average return on individual stocks or stock mutual funds and 4 percent annual interest rate on money market deposit account, compare the number of years it takes to achieve the same dollar value of returns.

The rate of return can make an amazing difference. Investors need to balance higher rates of return with increased risk.

SAVING $1,000		INVESTING $1,000	
MONEY MARKET		STOCK/MUTUAL FUND	
Number of Years	4% Return*	Number of Years	8% Return*
18	$2,000	9	$2,000
36	$4,000	18	$4,000
54	$8,0008	27	$8,000

*Note that these interest rates and returns are for illustration purposes; they do not represent any specific products or returns.

TYPES OF INVESTMENTS

Here is a quick overview of common types of investments. The money you initially invest is called the "principal."

STOCKS: Owning stock means you own part of a company. In general, if a company does well, its stock price increases. You also might receive some of the profit in the form of a dividend. Of course, if the company does not do well, the stock goes down in value. Also, stocks can be affected by outside factors, such as political and market events that have nothing to do with the company's performance.

Stocks can be risky; however, over a long period of time — such as 20 years — many stocks do increase in value. To decrease risk, it's a good idea to own stock in more than one company, in different industries (diversifying your investments) and to hold these stocks for long periods.

MUTUAL FUNDS: A good way for most people to diversify their investments is through mutual funds. A mutual fund pools your money with money from many other people. Instead of buying just a few assets, a professional fund manager purchases many stocks, bonds and/or other assets. This diversifies your investment so that you don't have all of your eggs in one basket. Professional management and diversification are two of the main benefits of mutual funds.

BONDS: Bonds are issued by both companies and government entities (federal, state or local). When you buy a bond, you lend money to the issuer. The bond represents a legal promise to pay you interest for the use of your money (for example, for bridges and highways) and to repay you the original amount you paid for the bond (the principal).

Bondholders are less likely than stockholders to lose money. But the return on the bond investment usually is lower than potential returns on stock. However, the potential for your money to grow is greater than a basic savings account.

TREASURY SECURITIES: Treasury securities include federal government bills, notes and bonds. The principal is safe as long as you hold the security to maturity (the time at which the government agrees to pay back the principal). However, if you sell the security before maturity, you risk losing some of the principal if interest rates have risen since your purchase date.

REAL ESTATE: A real estate investment may include residential rental property, raw land, real estate investment trusts (REITs) or commercial businesses. Real estate is an attractive investment to many people. It can be seen and touched, and it offers pride of ownership.

However, an investment in real estate carries some distinct risks. It is possible for property values to go down as well as up. If you sell the property when it is worth less than the price for which you bought it, you could lose some of your investment principal. Interest rates may rise, causing your monthly payments to go up if you have an adjustable-rate mortgage rather than a fixed-rate mortgage. Also, real estate is subject to property taxes, even if it is not income-producing.

Keep in mind that real estate is not a liquid investment. That is, it may be hard to sell the property when you want to, leaving your money tied up when you need it.

Online Resources

Use the Investment course at Smart About Money for more information about investments and risk.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then Money Basics, then Investing.)

APPLY SOUND SAVINGS AND INVESTING HABITS

Set Financial Goals

How do you take control of your life and move forward when you are busy keeping up with everyday life demands, such as paying the bills and taking care of loved ones? The answer is planning, and the first step in planning is setting goals.

Different goals will have different time frames. Goals generally can be divided into three durations:

- Short-term
- Medium-term
- Long-term

SHORT-TERM GOALS:

These are goals you want to accomplish within one to three years. For example, you could save $200 each month for a year to establish a solid emergency fund. Common short-term goals might include:

1. Paying down debt
2. Establishing emergency funds
3. Taking a vacation
4. Buying cars or household items

MEDIUM-TERM GOALS:

These are goals you want to accomplish in three to five years. An example would be to save $10,000 over three years for a home down payment. Often people will consider these medium-term goals:

1. Further education or training
2. Beginning to invest
3. Charitable donations
4. Buying a home

LONG-TERM GOALS:

These are goals you want to accomplish in five to 10 years. An example would be to save at least $5,000 each year to invest for retirement. Long-term goals also can include:

1. Educating children or grandchildren
2. Starting a business
3. Acquiring rental property
4. Retiring

SMART Goals

Improving your financial life requires planning, which starts with setting goals that are **Specific, Measurable, Achievable, Realistic and Time-bound (SMART).** It also helps to share your goals with a "financial buddy" to set specific dates to check in on progress and celebrate your successes.

Once you've set your goals, you can figure out what you need to save over each time period and chart your progress with a financial buddy. Before you get started, however, take some time to think about what you want and need that costs money.

1. Jot down a dozen or more items that could become your goals.
2. Prioritize these items, starting with the ones that are the most important to you.
3. Mark each goal with a time frame: short-term, medium-term or long-term. Then use the worksheet that follows to outline your goals, the amounts you will need to save over time and when you will conduct your progress checks with your financial buddy.

MY GOALS					
GOAL	PRIORITY NUMBER	ACHIEVEMENT DATE	SHORT-, MEDIUM-, OR LONG-TERM	TOTAL COST	WEEKLY SAVINGS NEEDED

Make the Commitment to Save

The first step in setting aside money for savings is deciding that it's possible. Far too many people think they just can't save money. If you are one of those who never seems to have anything left from your paycheck after paying bills and living expenses, start thinking of saving as a necessity.

The secret of saving is to pay yourself first. When you collect your paycheck, set aside a certain amount for savings.

IF YOU THINK PAYING YOURSELF FIRST IS EASIER SAID THAN DONE, HERE ARE SOME IDEAS TO GET STARTED:

- If possible, have your employer automatically deduct money from your paycheck and deposit it into your savings account. What you don't see, you won't miss.
- Have your financial institution automatically transfer a set amount from your checking account each month into your savings account. Your financial institution usually can set the date of the automatic transfer for the day (or a few days after) your pay is deposited. It is fine to start small (say $10, $15 or $20 a week). You will be amazed at how quickly your money grows.
- Try putting $1 a day, plus pocket change, into a large envelope or a jar. At the end of the month, you could have about $50 to deposit into your savings account. That's $600 a year (not including interest if you deposit it in an interest-earning account).
- Deposit a tax refund, pay raise or bonus into your savings account rather than spending it.
- Include savings as a line item expense on your spending plan. Make saving a priority over spending for things such as movies or dining out.
- Take advantage of product rebates. When you receive the rebate checks, deposit them into your savings account. (Most people fail to take advantage of this savings tool.)
- Break costly habits and save the difference. For example, if you spend $75 a month on trendy new T-shirts, put the $75 into your savings account instead.
- After paying off a loan, put the same amount each month into savings (if the money isn't already going to paying off another loan).
- Plug your spending leaks.

The first step in setting aside money for savings is deciding that it's possible.

Use Investment Strategies to Mitigate Risk

It's important to view investing as a long-term savings and wealth-building tool, not a get-rich-quick tactic. Controlling risk is key to your investment strategy. One of the best ways to manage risk is to spread your investments and savings across a variety of channels. This is important because if you have all — or even most — of your money in one place (whether it's the stock market, real estate or even municipal bonds issued by your hometown), you're at a higher risk to lose it all if something goes wrong.

There are three main ways to control risk: diversification, investing consistently and investing over a long period of time.

Diversification

Diversifying means spreading investments across different industry sectors (e.g., technology and health care) and securities (e.g., stocks and bonds), and using a variety of investment products to protect the value of your overall portfolio in case a single security or market sector takes a serious downturn. This reduces risk, because even though one or more investments might falter, others will gain.

Think of it this way: If all of your wealth was in a single company's stock and that stock suddenly plummeted 50 percent, you would lose half of your savings. Diversifying over several stocks, as well as real estate, bonds and other products, lets gains in one area offset losses in another.

Investing Consistently (Dollar-Cost Averaging)

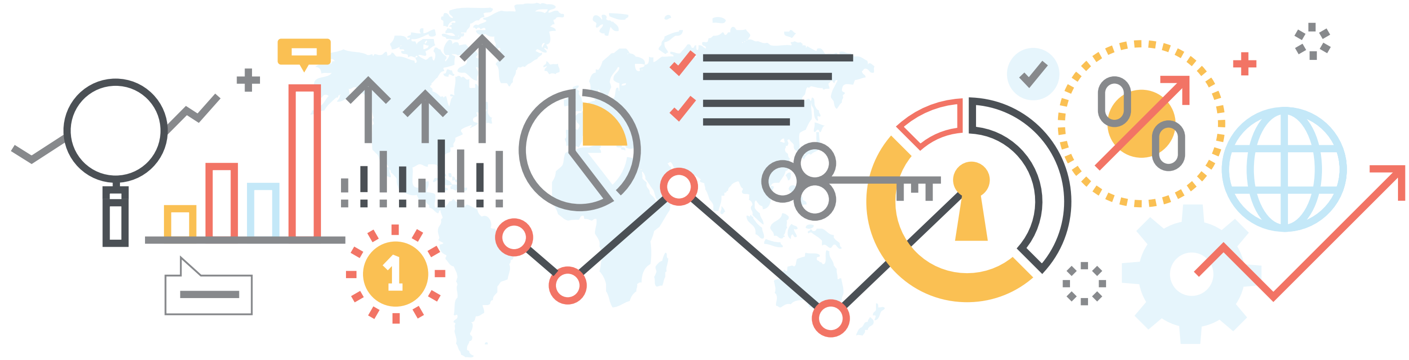
One way to make the most of investments over time is to commit to investing a certain dollar amount on a regular basis. For example, let's say you are going to invest $30 per month in Company XYZ's stock. The value of the stock will fluctuate from month to month based on the company's performance, the demand for the stock and other factors. Regardless of whether the stock is high or low, you buy as many shares of Company XYZ's stock as you can with your $30.

One month, your $30 might buy you two shares, the next month it might buy just one share. But no matter what, you consistently invest your $30. This is called dollar-cost averaging. Since markets generally rise over time, you'll often do well over the long term.

Investing Over Time

Research shows that investing for the long term reduces investment risk because, even though the price of a given investment may rise and fall within a short period of time, it generally will gain back any losses over the long term. Investing is a long-term strategy for long-term goals (typically five, 10, 20 years or longer).

Withstanding short-term price fluctuations often generates greater long-term rewards for stocks versus other asset classes. Over the long term, stocks, on average, consistently and substantially outperform cash and inflation.



USE INVESTMENTS TO MEET YOUR FINANCIAL GOALS

When you decide to take on investments, you will need to keep in mind the length of time to meet a particular financial goal.

For example, most stocks are growth investments that you buy in hopes of selling for a higher price later. But some investments, such as rental property and fixed-income securities (such as government bonds), are not meant to be sold, but are meant to be maintained as a consistent source of income.

GROWTH INVESTMENTS

The primary goal of growth investments is to sell the assets at a higher price than you paid for them. Some investments qualify as both growth and income investments. Compared to income investments, growth investments typically offer more potential for bigger gains … and losses.

Some common growth investments include:

- Mutual funds that let you invest in a variety of stocks, often for a low initial investment. Mutual fund shares can be purchased through a broker, by mail or online. Fees and commissions will vary.
- Exchange-traded funds are similar to mutual funds because they pool money from many investors to buy securities. ETFs are bought and sold through brokers, usually with high fees.
- Stocks hopefully can be sold for a higher price than you paid for them some time in the future. Stocks can be bought through a registered broker or by using online brokerage firms.

Online Resources

Use the Investment course at Smart About Money for more information about using investments to meet your goals.

WWW.SMARTABOUTMONEY.ORG

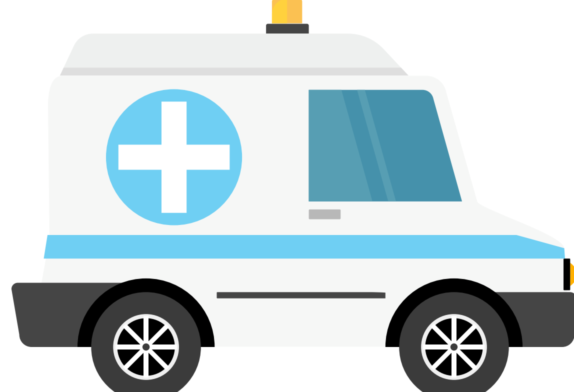
(Select Courses, then Money Basics, then Investing.)

INCOME-PRODUCING INVESTMENTS

Income investments provide regular earnings such as monthly interest, quarterly dividends or rent payments. Steady, predictable income is the goal for income investments. Choose wisely to create a balanced portfolio.

Some common income-producing investments include:

- Bonds, in which you lend money to a government entity or corporation with a promise that you will be repaid on a certain maturity date. Risks vary depending on the type of bond you purchase.
- Real estate investments, in which monthly rent payments provide regular income with the potential to sell the property later for more than you paid. The best way to purchase real estate is through a qualified real estate agent.
- Dividend stocks, in which regular payments usually are paid to stockholders quarterly, either in cash or shares of stock. Depending on the performance of the stock, you may be able to sell it later for more than you paid. Registered brokers or online discount brokers can facilitate stock purchases.
- Business ownership that can generate regular income payments. You get to keep all the profits after taxes and business expenses, but about 50 percent of new businesses fail in the first five years.



SAVE FOR EMERGENCIES

Nobody can predict the future so it makes sense to put aside money for a rainy day. Keep this emergency fund money in an account that is separate from your general savings. If you mix your emergency fund with your general savings account, it becomes too easy to dip into the emergency fund.

Using the money in your emergency fund is better than taking out a loan or cashing in your investments to pay for an emergency. If you take out a loan, you will have to pay interest. If you cash out an investment, you will lose interest and possibly some of the original investment.

Remember these points when building an emergency fund:

- Aim to set aside enough to cover your basic living expenses for at least three months. (Saving even $500, however, can help you better cope with unexpected expenses.)
- Keep the money in an easily accessible savings account or money market deposit account. Do not keep the money in a long-term investment asset, such as a CD with a long maturity date or in a stock or a mutual fund.
- Use the money only for true emergencies, such as unexpected medical bills. If you lose your job, you may need your emergency fund for food, utilities, mortgage payments or rent and necessary transportation.

Here's how much I will need to keep in my emergency fund

Grocery bill for 1 month $ ______ x 3 months = $ ______

Gas/oil, electric, and water for 1 month $ ______ x 3 months = $ ______

Mortgage or rent for 1 month $ ______ x 3 months = $ ______

Car payment and gas or bus fare for 1 month $ ______ x 3 months = $ ______

$ ______ Other Expenses

Other debt payments for 1 month $ ______ x 3 months = $ ______

Total amount I will need to keep in my emergency fund:

$ ______

Online Resources

Learn how to build an emergency fund at Smart About Money.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then My Emergency Plan Fund.)

Saving for Retirement Shouldn't Come Last

Many people look forward to retirement as the time when they will be able to kick back and do the things they love. That could mean traveling, starting a business or just living comfortably. No matter what your retirement dreams are, it's a good idea to start planning — and investing — for retirement now. With years to go before retirement, you can set aside savings from each paycheck in an investment account such as a 401(k), and let time and compound interest work their magic.

The best way to build your retirement account balance is through automatic savings. For example, your employer, at your request, can transfer a portion of your paycheck directly into your retirement savings account. You can request that your bank or credit union automatically transfer money from your checking account into your retirement account on the day of the month you choose. Dollar-cost averaging is a great investment strategy to use for automatic retirement savings.

Use these tools to see if your retirement is on track:

- ***What is Your R3 Retirement Readiness Rating?* quiz from the Employee Benefit Research Institute (Visit www.ebri.org, search for R3.)**
- **Social Security Administration benefit calculator (Visit www.ssa.gov, click Retirement.)**

Tax-Advantaged Retirement Accounts

To make it easier to grow your retirement nest egg, the federal government enables you to put your retirement investments into certain accounts that have special tax advantages. These accounts, such as IRAs, are available from mutual fund companies and stock brokerage firms. Financial institutions, such as banks, credit unions and savings and loan associations, also offer and maintain these accounts. Be sure to ask about costs, such as annual fees and sales charges, before opening a retirement account.

Often, you can choose the assets you want to put into a retirement account. You can choose among cash, CDs, money market funds, annuities, mutual funds, stocks or bonds. (In general, you cannot invest in collectibles such as coins, stamps or antiques for a retirement account.) Ask your employer, financial planner, insurance agent, stockbroker or your financial institution about investment options.

One smart way to invest for retirement is to use accounts that let your money grow without generating a tax bill each year.

Individual Retirement Accounts (IRA)

If you have a job, you can put away as much as $5,500 each year ($6,500 if you are 50 or older) in an Individual Retirement Account (IRA). If you have a nonworking spouse, you can open a spousal IRA and contribute from your earnings up to the same limits. Contribution limits can change, so double check the current amounts with your financial planner or **visit www.irs.gov and search for "IRA contribution limit."**

The money you put into an IRA often can be deducted from your taxable income, so you pay less in taxes each year. Your IRA money is not taxed until it is withdrawn. This is a big advantage because you end up having more money earning compound interest year after year.

You can withdraw your IRA money without penalty after you reach age 59½ . Under certain conditions, such as buying a home, you may be able to withdraw funds out of certain IRAs without paying a penalty. If you withdraw your IRA money and do not meet the certain conditions, you will face a large penalty. You will have to pay $1 for every $10 that you withdraw (10 percent). In addition, you will have to pay income taxes on the withdrawn money.

The Roth IRA

The money you contribute to a Roth IRA is made with "after-tax" dollars. The difference is that regular IRA contributions lower your taxable income while Roth IRA contributions do not. The amount of money you can put into a Roth IRA is the same as a traditional IRA, but you can't fully fund both types of IRAs. Roth IRA withdrawals work as follows:

After age 59½, you can take out the money you put in — plus the interest earned on the account — without paying taxes on any of that money.

Interest earned on Roth IRA contributions can be subject to income tax upon withdrawal if funds are withdrawn within the first five years from the date of your first contribution. Such a withdrawal is an "unqualified distribution." Only qualified distributions are completely exempt from taxes.

You can withdraw the original money you put into a Roth IRA before reaching 59½ without paying a penalty or taxes. (Of course, withdrawing funds prior to retirement reduces your potential earnings for retirement.)

The rules for Roth IRAs are different if you convert another investment or savings account into a Roth IRA. It is best to talk with a tax advisor or financial planner and visit www.irs.gov to get the latest information about a Roth IRA.

Employer-Sponsored Retirement Plans

401(K) PLANS

This type of retirement plan is offered by employers. Usually, you sign up for the plan and tell your employer what percentage of your paycheck to transfer into your plan. (The maximum dollar amount you can contribute each year is set by the federal government.)

Many employers sweeten the pot by matching a percentage of your contributions. For example, an employer might contribute 25 to 50 percent for every dollar (25 to 50 cents) you contribute to the plan. This is equal to getting a bonus, so it pays to put in as much as you can afford.

A 401(k) offers you a number of advantages:

- You do not pay taxes on the money you contribute; in other words, you make “pretax” contributions.
- You pay taxes on those contributions only after you withdraw them from your plan — usually after you retire.
- The money you contribute to a 401(k) plan usually can be invested in a selection of investments that ranges from reasonably safe to risky.

After you contribute money to a 401(k) plan, leave it there. It’s true that some 401(k) accounts permit you to borrow from them, but borrowing slows down the rate at which your account grows. If you borrow from your 401(k), you will have less money with which to retire. Borrowed 401(k) funds must be paid back with after-tax dollars. Because you must pay income tax on 401(k) withdrawals after you retire, you end up paying income tax twice on borrowed funds: once when you borrow, then again when you retire. If you leave your job and cannot repay borrowed funds within a short time period, you will pay taxes on the balance. If you’re younger than 59½, you also will pay a penalty of $1 for every $10 you borrowed from this fund.

To learn more about 401(k) plans and how they help you reach your retirement goals, **visit the FINRA website at www.finra.org/investors/401k-investing.**

403(B) PLANS

Nonprofit organizations offer 403(b) retirement plans, which are similar to 401(k) plans. These plans are sometimes referred to as tax-sheltered annuities.

As with a 401(k), you do not pay taxes on your contributions or on the amount of money the plan earns until you withdraw funds after you retire.

Also, similar to the 401(k), you choose how your contributions are invested. There are limits on how much you can contribute each year. Taking money out of a 403(b) plan before you retire has the same 10 percent penalty that applies to the 401(k) plan.

THRIFT SAVINGS PLAN (TSP) AND 457 PLANS

The TSP covers federal government workers and service members and 457 plans cover state and local government workers. Contributions by you (and your agency, if applicable) are pretax.

Online Resources

Explore more employer-sponsored retirement plans at Smart About Money,

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then Money Basics, then Employment.)

Tax-Advantaged Ways to Pay for Education

The U.S. government not only provides tax-advantaged ways to save for retirement, it also provides tax-advantaged ways to pay for education. These include Coverdell Education Savings Accounts, which apply to a child's entire education; 529 plans, which are helpful for traditional college; and the American Opportunity Tax Credit, which can be ideal for adult education. Be sure to consult a financial planner or tax professional on all these options.

COVERDELL EDUCATION SAVINGS ACCOUNT (ESA):

A Coverdell ESA provides a tax-deferred method to save for elementary, secondary and postsecondary education expenses, including tuition, books, supplies, room and board, private school enrollment fees and other qualified expenses. You can set up a Coverdell ESA for any child under the age of 18, and contribute a maximum of $2,000 per year per child until his or her 18th birthday. A Coverdell ESA can be transferred without penalty to another family member. The contributions are not tax deductible, but earnings accumulate tax free. The rules regarding the Coverdell ESA — including the contribution limit — may change over time. For more information, **visit www.irs.gov and search for "Coverdell."**

529 PLANS:

Established in 1996 and named for Section 529 of the IRS code, 529 plans provide tax incentives to set aside money for college. Each state offers its own plans — and its own type of tax incentives. The plan's beneficiary, usually a child or grandchild, can withdraw funds tax free for qualified educational expenses at any college in the country. The 529 plans are either savings plans, which can grow on a tax-deferred basis, or prepaid plans. For more information about 529 plans, **visit the College Savings Plans Network at www.collegesavings.org.**

AMERICAN OPPORTUNITY TAX CREDIT (AOTC):

The AOTC provides a tax credit up to $2,500 per student for four years of college or other eligible postsecondary training. The tax credit applies to tuition, fees and course materials, minus grant aid, for families below certain income levels. For more information about the AOTC, visit the U.S. Department of Education at www.ed.gov and type "AOTC" in the search box.

Additional tax-advantaged ways to pay for education include Lifetime Learning Credits, student loan interest deductions and more. For more information, **visit www.irs.gov.**

PROTECT YOUR SAVINGS AND INVESTMENTS

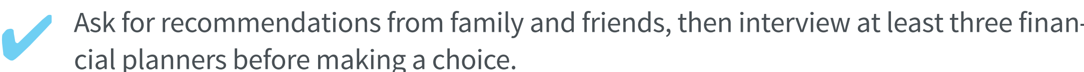
Financial planning encompasses many aspects of managing your financial life. One key area is how to protect yourself and your finances from fraud. This section will explore ways to help you identify common types of fraud and what you can do to protect yourself.

Work with a Financial Professional

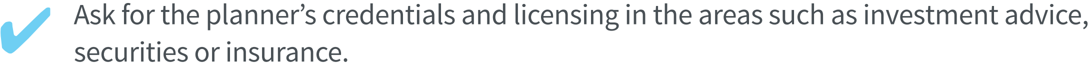
Taking care of your finances is like taking care of your health. You need to do regular checkups. But just like going to a doctor for your physical, not everyone wants to do their own financial planning, In fact, many of us prefer to have the assistance of a licensed financial practitioner.

Use these tips to help you identify a qualified, knowledgeable financial professional:

WORKING WITH AN ADVISOR



- Ask for recommendations from family and friends, then interview at least three financial planners before making a choice.



- Ask for the planner's credentials and licensing in the areas such as investment advice, securities or insurance.
- Ask about the person's work experience in financial planning.
- Find out how the advisor keeps on top of the latest trends; regulations change all the time, so current knowledge is important.
- Find out what you can expect regarding the extent of written advice offered, number of meetings, whether you are expected to purchase investments through the planner, etc.
- Ask for references from other clients.
- Discuss how the financial planner will be paid — by commission, fee and commission or fee only.

Make sure the planner is interested in your needs. You don't want someone who offers the same type of plan to everyone, and you don't want someone who is just interested in collecting fees or commissions from selling products.

Common Types of Financial Fraud

Fraud can strike individuals and families of all education and income levels. Some common types of fraud include:

- **Identity theft in which someone steals your personal information and uses it without your permission.**
- **Tax refund fraud in which an identity thief uses a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund.**
- **Debit and checking account fraud in which fraudulent telemarketers steal money from your checking account.**
- **Credit card fraud in which thieves steal your credit card information to use for their own gain.**
- **Credit repair fraud in which a credit repair company promises to help you clean up your credit history for a fee.**
- **Online fraud in which fraudsters use your social media accounts, email or seemingly legitimate sites to steal your identity and account information or sell you bogus products.**

PROTECT YOURSELF AND YOUR ASSETS FROM FRAUD

You can't be on guard all the time, but take these steps to minimize your risk.

- Guard your Social Security number: Don't give anyone your Social Security number unless you know the source and have initiated the contact.
- Shred documents with account numbers: Shred or tear up any documents with any identifying account numbers or personal information.
- Use a postal mailbox: Don't leave your mail laying around. Place bill payment envelopes inside a postal mailbox instead of in a home mailbox.
- Opt out of prescreened credit offers: You can stop prescreened credit offers from arriving in the mail by calling 1-888-5OPTOUT or visiting www.optoutprescreen.com.
- Update computer security software: Install firewalls and anti-spyware on your computer to prevent viruses or downloads designed to steal your personal information.
- Watch your wallet: Keep track of credit cards and debit cards, and never lend them out — to anyone. Leave your Social Security card, bank account numbers, passwords and PINs at home instead of storing them in your wallet.
- Check your statements: Review bank statements, credit card statements and all other bills for unauthorized use. Also check your credit report every year.

Highlight on Social Media:

Take these special precautions when using social media sites to protect yourself from fraud:

PRIVACY SETTINGS. Default privacy settings on many social media websites or apps typically are broad and may permit sharing of information to a vast online community. Modify the setting before posting any information on a social media site or app.

BIOGRAPHICAL INFORMATION. Limit the information made available to other social media users. Consider customizing your privacy settings to minimize the amount of biographical information others can view.

ACCOUNT INFORMATION. Never share account information, Social Security numbers, bank information or other sensitive financial information on a social media website or app.

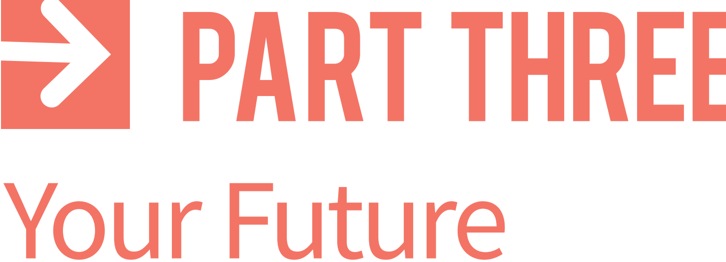
FRIENDS AND CONTACTS. When choosing friends or contacts on a social media site or app, think about why you use it. Decide whether it is appropriate to accept a friend or other connection request from a financial service provider, such as a financial advisor or broker-dealer.

SITE FEATURES. Familiarize yourself with the functionality of the social media site or app before broadcasting messages. Who will be able to see your messages — only specified recipients or all users?

STEPS TO TAKE IF YOU FALL VICTIM TO FRAUD

Fraud crimes often are underreported because the victims of fraud feel shame or embarrassment, or doubt their own judgment. In fact, the U.S. Department of Justice reports that only about 15 percent of fraud victims report the crimes to law enforcement. If you are a victim of fraud, take these steps:

1. **Save all paperwork related to the incident.**
2. **File a fraud alert with any one of the three main credit reporting companies (TransUnion, Experian or Equifax). Whichever company you file with must notify the other two.**
3. **File a fraud report with the Federal Trade Commission either online (www.identitytheft.gov), by phone or in writing.**
4. **File a police report with your local police.**
5. **Notify your bank or credit issuers.**
6. **If you believe someone may have used your Social Security number fraudulently, notify the IRS immediately.**



PART THREE

Your Future

In this publication, we talk a lot about how to keep money from slipping through your fingers. We've talked about how to get out of debt and how saving and investing can make your money grow over time. We even looked at ways to protect yourself from financial fraud.

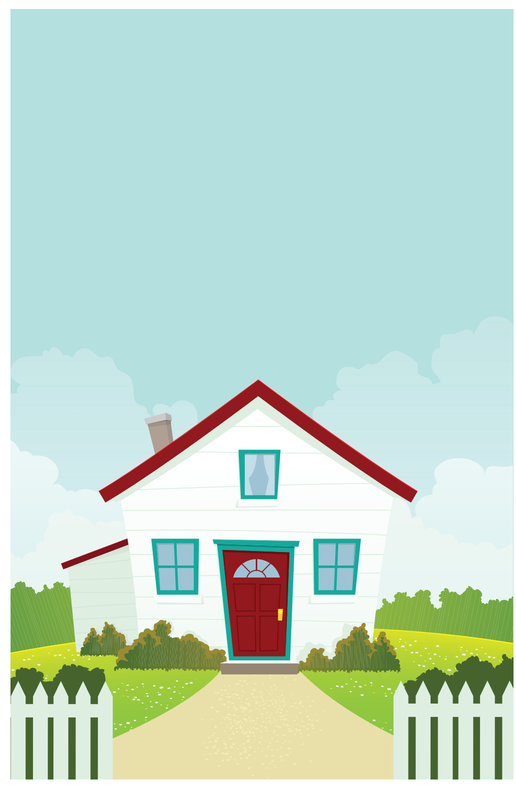
In this section, we start exploring what you can do to ensure your financial future by looking at areas concerning:

- **Planning for contingencies**
- **Planning for retirement**
- **Personalizing money management to achieve your goals and aspirations**

PLAN FOR CONTINGENCIES: THINKING ABOUT TOMORROW

Terrell and Maya's most important long-term goal was building up a $10,000 down payment for a home. Both had good jobs and, to reduce expenses, they agreed to drive reliable older cars. With good incomes and low expenses, they were able to put $500 a month into a money market deposit account. With interest, this amount of monthly savings would enable them to save the down payment and buy their home in 24 months.

But, one cold morning, one of the cars would not start. It was time for a new battery, which cost $52. With this unexpected expense, Terrell and Maya were only able to save $448 that month. Not discouraged, the following month they resumed their savings plan. There were other expenses too — a dental bill, some higher utility bills they had not planned for, and an emergency trip to see Maya's mother, who had fallen ill. Each time, they used their money market deposit account to cover the expense, and the next month they went back to saving $500. They were able to buy their home just a few months beyond the planned time frame.



Establish Your Emergency Fund

If you were in Terrell and Maya's place, would you be able to handle unexpected expenses? Emergencies can send your family into financial crisis. Even relatively small costs like cellphones that get dropped in water, veterinary bills when the dog eats something he shouldn't, and helping friends or family in need can throw off your monthly budget.

Some of the top reasons for having emergency funds include medical bills, job loss, and car and home repairs. In a survey by the Federal Reserve, only 48 percent of respondents said they could cover an expense of $400 without borrowing or selling something. Other research shows that households with emergency savings below $500 are more prone to worry, loss of sleep and other ill effects than households with more savings.

Assess your emergency savings. If you do not have at least $500 on hand, go back to the financial goal-setting section in Part Two and consider setting a SMART goal to start your emergency fund.

USE INSURANCE TO PROTECT YOU, YOUR ASSETS AND YOUR LOVED ONES

Insurance is crucial to financial success. Suppose you can't get to work because of a car accident, or you become too sick to work for a long period of time. With a leaner paycheck and greater expenses, could you afford to pay your bills? Think about a recent natural disaster you've seen in the news. Do you have enough savings to rebuild and refurnish if your home was damaged?

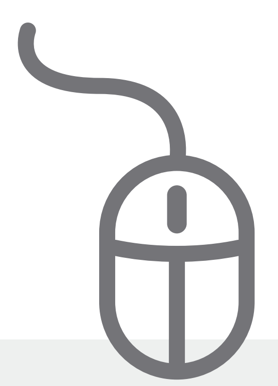
Insurance protects your dreams and everything you're working to achieve. It helps you manage risk by passing some of it along to a third party — the insurance company — in exchange for the payment of a premium.

Here are three primary reasons to be insured:

1. Things happen. Accidents, illnesses, injuries, thefts and natural disasters happen all the time. Any of these events can drain your savings quickly and put you into debt.
2. The law says so. Almost all states require drivers to carry auto liability insurance that pays for medical costs, vehicle repairs and other costs. The one state that does not require liability insurance still requires drivers to show that they can provide funds to cover costs if they are at fault. And, under the current provisions of the Affordable Care Act, all Americans (with a limited number of exceptions) either must have medical coverage or pay a penalty.
3. Lenders say so. Your car or home can be seized by a lender if you default on your loan. Lenders don't want to lose their investment, so they insist on certain levels of coverage.

Which of these common insurances do you have?

Yes	No	**Property Protection**	Auto and mortgage lenders insist on insurance to cover your vehicle and your home. Renters insurance covers your personal property. All of these insurances also protect you from liability claims.
Yes	No	**Protection for Yourself and Your Family**	Protect your family's financial future with health insurance, workers' compensation, life insurance and long-term care insurance.
Yes	No	**Income Protection**	Safeguard your financial savings with disability insurance, life insurance and unemployment insurance to provide income for you and your family in the case of illness, injury or death.
Yes	No	**Protection for/ from Others**	Liability insurance, also called umbrella coverage, protects you against injury and property damage claims from others. Umbrella liability insurance generally adds more protection to the underlying liability coverage provided in homeowners and auto policies.



Online Resources

Smart About Money offers a course for planning your retirement.

WWW.SMARTABOUTMONEY.ORG

(Select Courses, then My Retirement Plan.)

NEFE® also offers My Retirement Paycheck for retirees.

WWW.MYRETIREMENTPAYCHECK.ORG

Both sites offer information on the eight key retirement areas along with credible online resources for further investigation.

PLANNING FOR RETIREMENT

There are eight key areas to consider when planning to support yourself in retirement:

1. **Work.** How long you will work before retiring, whether you can phase your retirement or work part time, and what to do with buyout offers.
2. **Social Security.** When to take your benefits, how much you will receive in benefits and any special situations (such as death of a spouse).
3. **Home.** How best to utilize your home for your retirement planning, including downsizing and understanding reverse mortgages, home equity lines of credit and home equity loans for supplementing retirement needs.
4. **Insurance.** How Medicare works, planning for long-term health care, life insurance needs and limiting health care costs as you age.
5. **Retirement Plans.** How and when to use retirement plan funds, understanding required minimum distributions and establishing retirement accounts either on your own or through your employer.
6. **Savings and Investments.** How to manage your finances to last throughout your lifetime, learning to manage expenses as you age and sequencing your liquidation of assets.
7. **Debt.** Paying off debt before you retire, managing your debt before and during retirement, and handling financial crises or emergencies when you retire.
8. **Fraud.** Being alert to senior-targeted frauds and scams, knowing when to pass control to others for financial help, and taking steps to create a trusted team who can look after you as you age.

Declare Your Retirement Goals

Take a moment to write down three goals for your ideal retirement. For example, if you want to travel with family, your goals could be something like this:

1. **Have enough saved in my 401(k) to pay for a family trip every three years.**
2. **Be in good enough health to enjoy traveling with my family.**
3. **Use my Social Security benefits only for living needs, not traveling.**

Personalize Your Money Management

Developing your own money management system will help you achieve your financial goals and aspirations. The next few sections outline simple steps for effective money management.

MONITOR YOUR FINANCIAL GOALS

As you make progress on your goals, you undoubtedly will have to make adjustments. Use the worksheets on Smart About Money to help you prioritize, monitor (with a financial buddy) and adjust your goals.

www.smartaboutmoney.org

(Select Tools, then Worksheets, then SMART Goals Worksheet.)

Get Help: Financial Coaching

In addition to using financial apps or other methods to track your spending and saving, you may find it useful to work with a financial coach. Financial coaching is different from financial planning because it allows you to choose your own goals and personalize your money management techniques to meet those goals.

Finding a Financial Coach

Call 2-1-1 or research Consumer Financial Protection Bureau programs (www.consumerfinance.gov) to find free financial coaching through credit unions and other nonprofits in your community.

MANAGE AND MONITOR YOUR SPENDING AND SAVING

Use mobile apps to track your spending. It may take some time and effort to set up, but you might like the convenience of having all your spending and savings information on your smartphone or other device.

There are many mobile budgeting and spending apps available for free and for a fee. Some things to consider when selecting an app:

- **PRIVACY:** If you don't like to share your private financial information online, then apps might not be the best option for you. Mobile apps are widely used and have built-in security measures; however, any time you share your private information with a third party you are increasing your risk.
- **PASSWORD-PROTECT YOUR DEVICE** to safeguard your information if your phone is lost or stolen.
- **ADVERTISEMENTS AND SALES PITCHES:** Many apps are free but feature advertisements for fee-based goods and services. Other apps continuously try to sell you upgrades and add-ons.
- **SETUP AND MAINTENANCE TAKE EFFORT:** Even after you've done the legwork to connect your various financial accounts to the app, you likely will need to continuously check and update information to make it useful. Just as with a paper or spreadsheet budget, the app can only do so much for you. You get out of it what you put into it.
- **RESEARCH CUSTOMER REVIEWS:** Look up customer reviews and complaints about specific apps before committing to one.

Set Up a Financial Record Retention System

With all the paper and electronic statements, agreements, receipts and bills coming your way, it can be difficult to know what to save and for what reason. The list below will help you keep the important records where you need them and get rid of the documents that are OK to toss.

TOSS	KEEP FOR A YEAR	KEEP FOR 7 YEARS	KEEP UNTIL NOT NEEDED	KEEP FOREVER
Bills older than a year (phone, utility — you might want to record amounts before tossing)	Store receipts — unless you need them for tax, insurance or warranty purposes (which you then should keep for as long as you need them)	Bank and credit card statements that include tax-deductible charitable donations, tuition costs, business or medical expenses	Warranties until expired	Birth certificate
Grocery store receipts	Pay stubs — to match up with the W-2 form your employer sends at tax time	Any records needed for tax deduction purposes that are not already included on bank and credit card statements	Loan document until loans are paid in full	Educational records (transcripts, diplomas)
ATM receipts after reconciling your account			Insurance policies until expired and outstanding issues are resolved	Employment records, including military papers
			Receipts, including model/ serial numbers, for major purchases (cars, equipment, appliances)	Adoption papers
			Animal registration and immunizations	Citizenship documents
			Reports and insurance claims (for theft or accidents)	Marriage certificate (and divorce, alimony, custody agreements)
			Car title	Important health records such as immunizations
			Receipts or certificates of sale for major items you have sold	Passport
			Lease agreements and membership contracts	Social Security card
			Credit card and bank account agreements	Year-end pay stubs and bonus statements
				Records of contributions to retirement accounts
				Change-of-name legalization papers
				Stock and bond certificates
				Mortgage, home deed and improvement records

Congratulations on starting a new financial life!

START YOUR ADVENTURE

No one said that dealing with money would be easy, but it can be exciting and satisfying. Financial planning gives you the tools you need to meet goals and overcome challenges along the way.

Your Spending, Your Savings, Your Future covers life skills you can use for the entire journey — including the basics of saving, investing, budgeting and goal setting. The activities in this workbook will help give you an idea of where you are financially and what to do next.

You can add to your financial skills and knowledge with other resources such as ***The Wealth Care Kit,*** which you can download from www.smartaboutmoney.org.

Visit these websites for more tips:

- → www.smartaboutmoney.org
- → www.myretirementpaycheck.org
- → www.onyourown.org

Keep *Your Spending, Your Savings, Your Future* on hand and review it often. If you slip back into old habits (such as overusing your credit card), you will be able to use this publication to recover and get started again.

Saving and investing are not the end goal. A pile of money isn't a life. It's what you can do with that money to meet your life goals that matters.

RESOURCES

GOVERNMENT AGENCIES

- Consumer Financial Protection Bureau, www.consumerfinance.gov
- Federal Reserve System, www.federalreserve.gov
- Federal Trade Commission, www.consumer.ftc.gov
- Internal Revenue Service, www.irs.gov
- Social Security Administration, www.ssa.gov
- U.S. Department of Labor, www.savingmatters.dol.gov
- U.S. Department of the Treasury, www.mymoney.gov

MAGAZINES

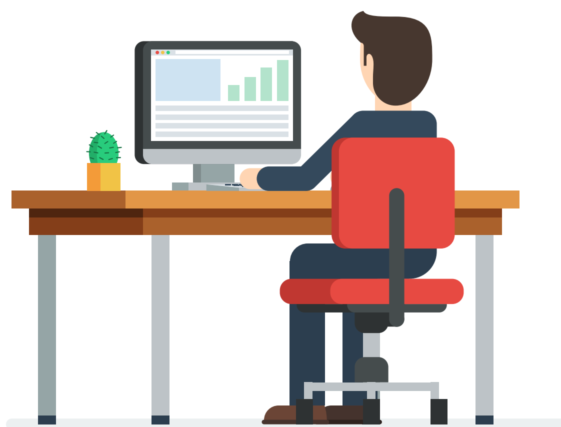
- *Consumer Reports*
- *Kiplinger's* Personal Finance Magazine
- *Money* Magazine

NEWSPAPERS

- *Investor's Business Daily*
- *The Wall Street Journal*
- *USA Today Money*

NONPROFIT ORGANIZATIONS

- Alliance for Investor Education, www.investoreducation.org
- American Institute of Certified Public Accountants, www.aicpa.org
- American Savings Education Council, www.choosetosave.org/asec
- Better Investing, www.betterinvesting.org
- Certified Financial Planner Board of Standards, Inc., www.cfp.net
- Consumer Federation of America, www.consumerfed.org
- Financial Planning Association, www.fpanet.org
- Investment Company Institute, www.ici.org
- National Association of Personal Financial Advisors, www.napfa.org
- National Endowment for Financial Education:
  - **www.nefe.org**
  - **www.smartaboutmoney.org**
  - **www.myretirementpaycheck.org**
  - **www.onyourown.org**
  - **www.financialworkshopkits.org**
- National Foundation for Credit Counseling, www.nfcc.org
- North American Securities Administrators Association, www.nasaa.org
- Society of Financial Service Professionals, www.societyoffsp.org



WEBSITES

Credit Related

- www.annualcreditreport.com
- www.bankrate.com
- www.cardtrak.com
- www.consumerfed.org
- www.consumerfinance.gov
- www.equifax.com
- www.experian.com
- www.optoutprescreen.com
- www.transunion.com

General Personal Finance

- www.americasaves.org
- www.kiplinger.com
- www.managingmymoney.com
- www.money.cnn.com
- https://powerpay.org
- **www.nefe.org**
- **www.financialworkshopkits.org**
- **www.onyourown.org**
- **www.smartaboutmoney.org**
- www.usatoday.com/money
- www.investing.rutgers.edu

Investing

- www.aaii.com
- www.finrafoundation.org/resources/education
- www.investoreducation.org
- www.saveandinvest.org
- www.401k.org

Retirement

- www.aarp.org
- www.choosetosave.org
- **www.myretirementpaycheck.org**
- www.psca.org
- www.ssa.gov

ACKNOWLEDGMENTS

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