

REAL WORLD, REAL MONEY



**HERITAGE
FAMILY**
CREDIT UNION

April 10, 2024

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IN THIS WORKSHOP, WE WILL...

- LOOK AT THE ROLE OF COLLEGE IN YOUR FINANCIAL FUTURE
- EXPLORE THE FIVE STEPS TO FINANCIAL HEALTH
- LEARN ABOUT PAYCHECK DEDUCTIONS AND COMMON EMPLOYER BENEFITS
- DISCUSS WHY IT'S IMPORTANT TO PLAN NOW FOR YOUR FINANCIAL FUTURE
- EXPLORE THE TYPES OF CREDIT USED BY CONSUMERS
- LEARN HOW CREDIT REPORTS AND SCORES AFFECT THE COST OF CREDIT
- DISCUSS CREDIT SAFETY AND SECURITY



BUDGETING BASICS



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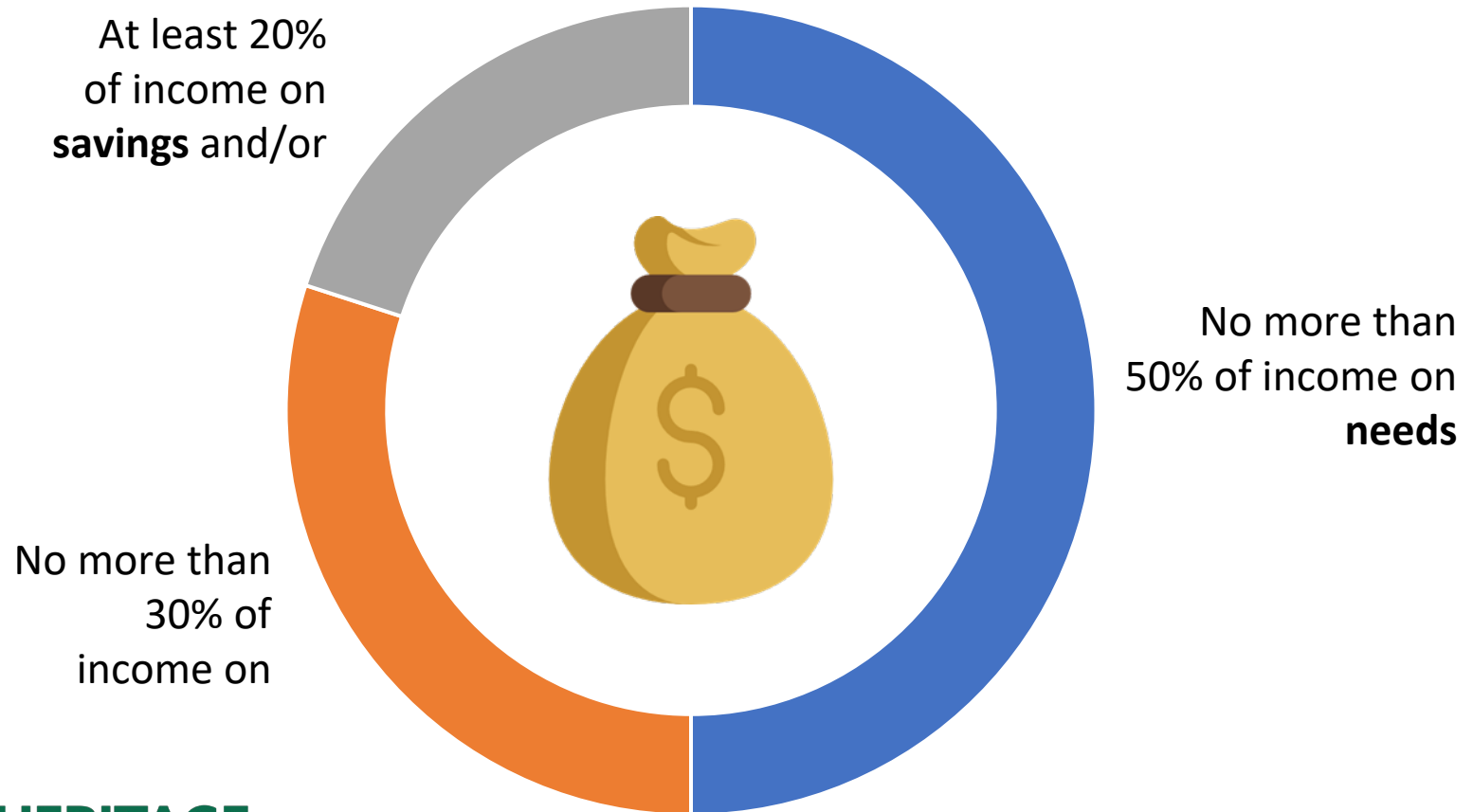
IN THE WORKFORCE: FINANCIAL HEALTH IN FIVE STEPS

- **EARNING.** STEP ONE IS TO EARN MORE THAN YOU SPEND.
- **SPENDING.** IT'S IMPORTANT TO BUDGET *EVERY* DOLLAR TO MAKE SURE YOU'RE ON TRACK TO REACH YOUR FINANCIAL GOALS.
- **SAVING AND INVESTING.** THE EARLIER YOU START, THE MORE YOU'LL HAVE. EVEN SMALL SAVINGS CAN ADD UP OVER TIME!
- **BORROWING.** MINIMIZE DEBT FOR THINGS THAT DON'T *INCREASE* IN VALUE (LIKE A CAR OR SPENDING WITH A CREDIT CARD).
- **PROTECTING.** YOU WORK HARD FOR THE MONEY, SO PROTECT YOUR ASSETS!
 - Car insurance more than the minimum.
 - Life insurance if you have dependents and/or a spouse.
 - Appropriate renters or homeowners insurance.



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THE 50-30-20 RULE: NEEDS, WANTS, AND SAVINGS



PAYCHECK DEDUCTIONS

- YOUR FIRST PAYCHECK MAY BE LESS THAN EXPECTED. COMMON DEDUCTIONS MAY INCLUDE:
 - Social Security and Medicare (~7.5%)
 - Federal income tax
 - State income tax
 - Health insurance, retirement savings and other potential employer benefits
- CONTRACTORS AND GIG WORKERS MAY NOT HAVE AUTOMATICALLY HAVE THESE ITEMS DEDUCTED, SO GET ADVICE FROM AN ACCOUNTANT TO AVOID UNEXPECTED TAX BILLS.

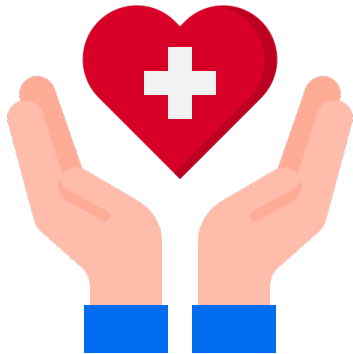


FOCUS ON EMPLOYER BENEFITS

- SALARY PLUS BENEFITS EQUALS “TOTAL COMPENSATION,” SO INCLUDE THE VALUE OF BENEFITS WHEN COMPARING JOB OFFERS.
- COMMON BENEFITS INCLUDE:
 - Health insurance
 - Retirement savings match
 - Tax-advantaged savings plans, such as health savings and flexible spending accounts
 - Paid vacation
 - Dental insurance and vision care
- EVEN WITH INSURANCE, YOU WILL ALSO HAVE OUT OF POCKET COSTS SUCH AS CO-PAYS.



EMPLOYER BENEFITS CAN VARY WIDELY

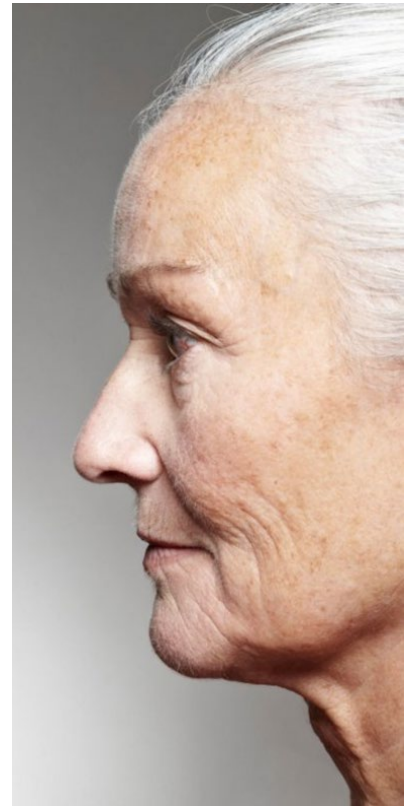


- IF THE BENEFITS YOU NEED AREN'T PROVIDED, YOU'LL NEED TO SEEK THEM INDEPENDENTLY.
- SUBSIDIZED HEALTH INSURANCE MAY BE AVAILABLE AT [HEALTHCARE.GOV](https://www.healthcare.gov).
- NO RETIREMENT PLAN? YOU CAN STILL SET UP AN INDIVIDUAL RETIREMENT ACCOUNT (IRA) TO START BUILDING YOUR FINANCIAL FUTURE NOW!
- PARTICIPATION IN RETIREMENT SAVINGS PLANS IS NOT REQUIRED, BUT REMEMBER THAT MATCHED SAVING PLANS ARE **FREE MONEY!**

WHY RETIREMENT SAVING MATTERS NOW



- IT'S EASY TO PROCRASTINATE ABOUT SAVING FOR THE FUTURE.
- EVEN STARTING SMALL CAN REALLY PAY OFF:
 - Starting at age 25, \$200/month at 10% average return yields nearly **\$2,000,000** at age 70.
 - STARTING AT 45, THE SAME INVESTMENT YIELDS JUST **\$265,000**.



RETIREMENT ACCOUNT OPTIONS

- EMPLOYERS OFTEN PROVIDE 401K ACCOUNTS.
- INDIVIDUAL RETIREMENT ACCOUNTS ARE ANOTHER OPTION, EVEN IF YOUR EMPLOYER DOES PROVIDE A 401K OPTION (YOU CAN HAVE BOTH).
- A “ROTH IRA” DOESN’T OFFER TAX DEDUCTION NOW, BUT YOUR MONEY CAN BE WITHDRAWN TAX-FREE IN RETIREMENT.
- ROTH IRAS ARE OFTEN RECOMMENDED FOR YOUNGER WORKERS SINCE THE POTENTIAL TAX SAVINGS ARE LIKELY GREATER.



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BORROWING & CREDIT

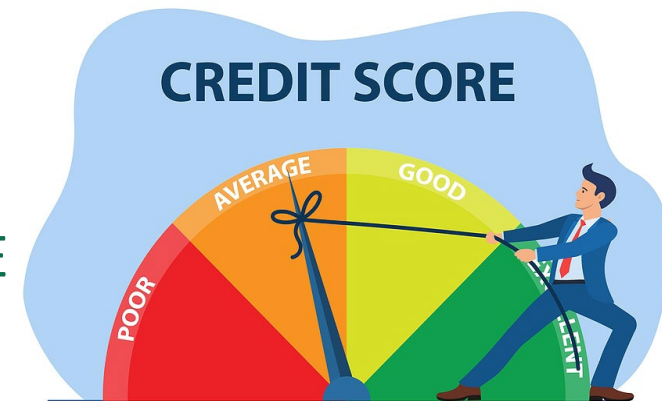


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CREDIT BASICS

- CREDIT IS A WAY TO BUY THINGS WITHOUT HAVING TO PAY ALL AT ONCE – FROM GROCERIES WITH A CREDIT CARD TO A CAR OR HOME.
- THE COST OF CREDIT (INTEREST RATE AND OTHER TERMS) OFTEN DEPENDS ON HOW WELL YOU HAVE MANAGED CREDIT IN THE PAST.
- LENDERS PRIMARILY USE YOUR **CREDIT REPORT AND CREDIT SCORE** WHEN DETERMINING YOUR CREDIT WORTHINESS.



TYPES OF CREDIT: INSTALLMENT & REVOLVING



INSTALLMENT

REVOLVING

- Borrowing a fixed amount and repaying it according to a pre-determined payment schedule.
- Examples include home mortgages, auto loans, and federal student loans.
- Often “secured” loans, meaning collateral is required - if the loan isn’t paid, the collateral (such as a home or car) may be repossessed.
- Three factors contribute to total cost:
 - Interest rate
 - Repayment term
 - Whether or not you make extra payments



- Borrow up to a certain limit with a required minimum monthly payment - as little as 1% of the balance plus the interest that’s accrued since your last payment.
- Examples include credit cards and some home equity credit lines.
- Interest is not front loaded, so payments beyond the minimum are applied to the debt.
- These accounts offer flexibility, but if only the minimum payment is made, the loan could take **decades** to repay.



REPAYMENT EXAMPLE: A \$50,000 STUDENT LOAN AT 6.9%

5 Year Term



\$987 / month
\$9,262 Interest

10 Year Term



\$577 / month
\$19,356 Interest

20 Year Term



\$384 / month
\$42,316 Interest

Shorter loan terms reduce overall costs, but
monthly payments are higher.

REPAYMENT EXAMPLE: THE “MINIMUM PAYMENT TRAP”

REVOLVING CREDIT LOANS
OFFER FLEXIBILITY, **BUT IF
ONLY THE MINIMUM
PAYMENT IS MADE THE
LOAN COULD TAKE YEARS
TO REPAY IN FULL.**



BY MAKING ONLY THE MINIMUM PAYMENT ON A
\$5,000 CREDIT CARD DEBT AT 15.9% INTEREST:

- TOTAL COST: **\$10,658**
- TOTAL TIME: **17 YEARS, 10 MONTHS**

WHY DOES IT TAKE SO LONG?

- EACH PAYMENT COVERS THE INTEREST THAT'S GROWN SINCE THE LAST PAYMENT AND A TINY FRACTION OF THE DEBT.

TO AVOID THE MINIMUM PAYMENT TRAP...

- PAY MORE THAN THE MINIMUM PAYMENT EACH MONTH – AT LEAST TWICE THE MINIMUM REQUIRED PAYMENT AND (IDEALLY) CONSIDERABLY MORE.

Revolving credit is great for convenience, but shouldn't be use for longer-term borrowing.

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PROS AND CONS: INSTALLMENT VS. REVOLVING CREDIT

INSTALLMENT

Pros:

- Best for larger debts that will take years (or even decades) to repay.
- Can often be refinanced if interest rates drop or you need a different payment.
- Interest rates are often lower than revolving loans.

Cons:

- Interest is typically front loaded, meaning much of your initial payments are applied to interest rather than reducing the debt.

REVOLVING

Pros:

- Offers payment flexibility – pay the minimum or pay more.
- If you can pay in full, credit cards may offer cash back and other benefits.
- When more than the minimum is paid, interest charges decrease right away.

Cons:

- Interest is typically front loaded, meaning much of your initial payments are applied to interest rather than reducing the debt.

CREDIT REPORTS & SCORES

WHAT IS A CREDIT SCORE?

- A SINGLE NUMBER BETWEEN 300 AND 850 THAT'S YOUR "CREDIT GRADE" – THE HIGHER, THE BETTER.
- THERE ARE MULTIPLE PROVIDERS OF CREDIT SCORES (FICO IS THE MOST WELL-KNOWN), SO YOUR SCORE MAY VARY DEPENDING ON THE PROVIDER.

CREDIT SCORES ARE TYPICALLY USED TO DETERMINE LOAN ELIGIBILITY AND INTEREST RATES

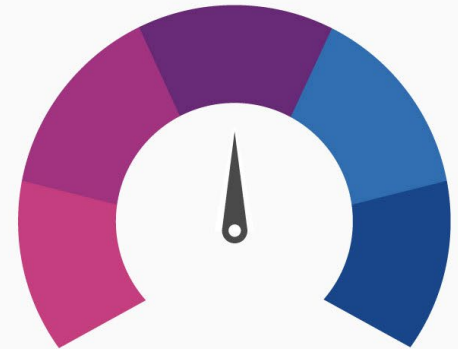
Credit Score Ranges

FICO Score



- Very Poor: **300-579**
- Fair: **580-669**
- Good: **670-739**
- Very Good: **740-799**
- Exceptional: **800-850**

Vantage Score



- Very Poor: **300-499**
- Poor: **500-600**
- Fair: **601-660**
- Good: **661-780**
- Excellent: **781-850**

Source: Experian

HOW ARE CREDIT SCORES DETERMINED?

- FACTORS OF CREDIT SCORES OFTEN INCLUDE:
 - Payment history
 - Percentage of available credit being used
 - Length of credit history
 - Whether or not new accounts have been recently opened
 - Credit mix (credit cards, mortgages, etc.)
- THE EXACT FACTORS AND SCORING PERCENTAGES WILL VARY BASED ON THE PROVIDER.



HOW ARE CREDIT REPORTS USED?

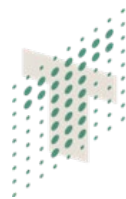
- YOUR CREDIT HISTORY IS USED FOR MUCH MORE THAN JUST CREATING A CREDIT SCORE. YOUR CREDIT REPORT CAN BE VIEWED BY:
 - Lenders
 - Landlords
 - Employers
 - Insurance companies
 - Plus more!
- A CREDIT REPORT FILLED WITH MISSED PAYMENTS AND COLLECTIONS CAN IMPACT MANY PARTS OF YOUR LIFE.



OBTAINING YOUR CREDIT REPORTS

- EACH OF THE MAJOR BUREAUS MUST PROVIDE YOU WITH ONE REPORT PER YEAR AT NO COST.
- VISIT **ANNUALCREDITREPORT.COM** TO GET EACH OF YOUR REPORTS.
- YOU WILL NEED TO PROVIDE PERSONAL INFORMATION TO ACCESS EACH REPORT, SO MAKE SURE YOU USE A TRUSTED DEVICE.
- IT'S A GOOD PRACTICE TO REVIEW YOUR CREDIT REPORTS AT LEAST ONCE PER YEAR.

NOTE: SINCE THE BEGINNING OF THE COVID-19 PANDEMIC, CREDIT BUREAUS ARE NOW OBLIGATED TO PROVIDE CONSUMERS WITH NO COST CREDIT REPORTS MONTHLY.



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UNDERSTANDING YOUR CREDIT REPORT

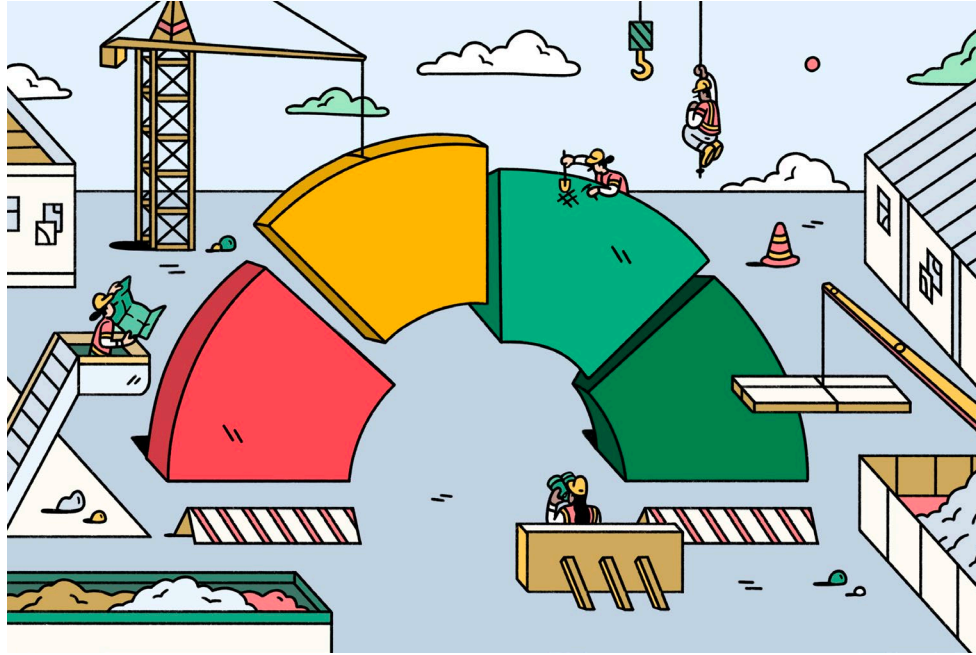
- REVIEW EACH REPORT TO MAKE SURE THE INFORMATION IS ACCURATE.
- ERRORS COULD INCLUDE: PAYMENTS THAT WERE INCORRECTLY LISTED AS LATE OR MULTIPLE RECORDS FOR THE SAME CREDIT ACCOUNT.
- YOU CAN DISPUTE INFORMATION YOU FEEL IS INACCURATE.
- MINOR INACCURACIES, LIKE A *SLIGHTLY* DIFFERENT MAILING ADDRESS, ARE NOT UNUSUAL AND ARE TYPICALLY NO CAUSE FOR ALARM.



I FOUND AN ACCOUNT THAT I DON'T RECOGNIZE... NOW WHAT?

- ACCOUNTS THAT YOU DON'T RECOGNIZE COULD BE A SIGN OF IDENTITY THEFT AND SHOULD BE ADDRESSED **RIGHT AWAY**.
- IF YOU FIND UNRECOGNIZED ACCOUNTS:
 - Contact the credit bureau ASAP.
 - Place a “freeze” or “lock” on your account to make sure no additional accounts are opened in your name.
 - File a police report.
 - Contact unrecognized lenders to have them remove the accounts.





BUILDING & MAINTAINING CREDIT



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HOW TO ESTABLISH CREDIT

MOST STUDENTS DON'T HAVE A CREDIT ACCOUNT. ONCE YOU'RE 18, YOU CAN FOLLOW THESE STEPS:

- OPEN A CREDIT ACCOUNT

- If you can't qualify, consider a secured card, credit builder loan, or a co-signed account

- PAY BILLS ON TIME

- Late or partial payments can harm your credit, even for non-loan accounts (like utility or phone bills).

- MINIMIZE AVAILABLE USED CREDIT

- Using a significant portion of your available credit may harm your score.



CHOOSING A CREDIT CARD

- YOUR CREDIT CARD CAN OFFER MAJOR BENEFITS:



- Cash back rewards. Many credit cards offer rebates of between 1% and 2% of your total spending.
 - Trip protections, price protections, car rental insurance, and extended warranties.
 - Fraud protection and assistance in disputing unauthorized charges or bait-and-switch online purchases.
 - Some cards offer free credit monitoring and credit scores for customers.
- SPENDING WITH CREDIT ALSO INVOLVES THE RISK OF DEBT AND LATE PAYMENT THAT CAN DAMAGE YOUR CREDIT. CONSIDER STARTING WITH A SMALL CREDIT LIMIT.

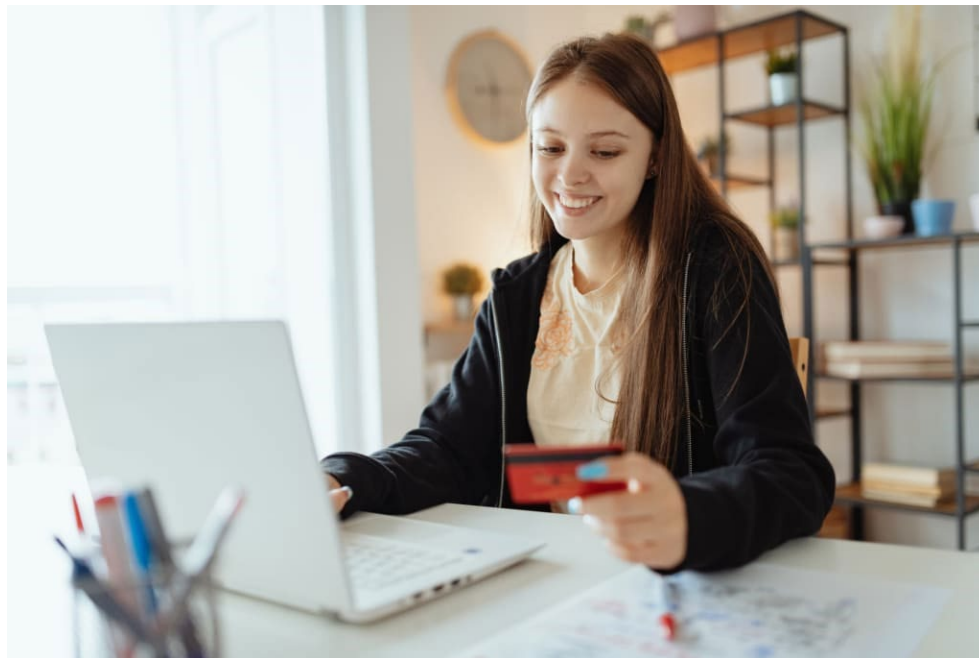
MANAGING YOUR CREDIT

- REVIEW YOUR ACCOUNT STATEMENTS AT LEAST ONCE PER MONTH. MAKE SURE:
 - Payments have been applied.
 - There are no unrecognized charges or fees.
- THE REQUIRED PAYMENT IS THE MINIMUM ALLOWED PAYMENT – IT'S BEST TO PAY THE FULL BALANCE EACH MONTH.
- IF YOU'RE HAVING TROUBLE MAKING PAYMENTS, CONTACT YOUR LENDER **RIGHT AWAY**. IT MAY BE POSSIBLE TO PREVENT DAMAGE TO YOUR CREDIT.
- REVIEW YOUR CREDIT REPORTS ANNUALLY.

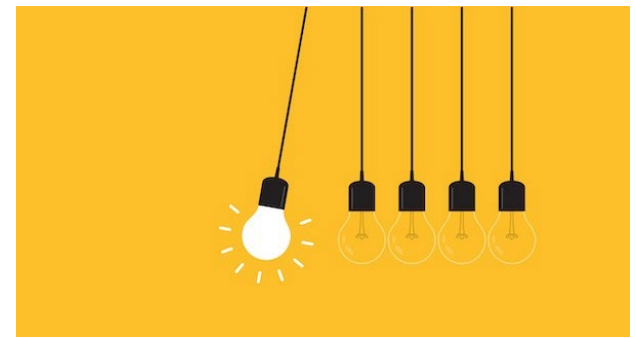


BUILDING CREDIT: A LONG-TERM PROJECT

- Pay all bills in full and on time.
- Try to use under 30% of total available credit. You can even pay more than once per month.
- Most people don't need more than one credit card. Access to more credit can increase the chances of accidental, unmanageable debt.
- Frequent applications for new credit can reduce your credit score, even if you're "pre-approved."
- **IF YOU'RE HAVING TROUBLE MAKING PAYMENTS, ALWAYS COMMUNICATE WITH YOUR LENDER.**



TAKEAWAYS...



- 1) SUCCESSFULLY GRADUATING FROM COLLEGE CAN INCREASE YOUR LIFETIME INCOME DRAMATICALLY.
- 2) EMPLOYER BENEFITS VARY WIDELY. IMPORTANT BENEFITS (LIKE HEALTH INSURANCE) CAN BE PURCHASED INDEPENDENTLY.
- 3) THE EARLIER YOU START SAVING FOR THE FUTURE, THE MORE YOU'LL HAVE.
- 4) IN GENERAL, THE LONGER YOU TAKE TO REPAY A DEBT, THE HIGHER YOUR OVERALL COST.
- 5) CREDIT REPORTS AND SCORES ARE USED FOR MORE THAN JUST LOAN APPLICATIONS – POOR CREDIT CAN EVEN IMPACT YOUR ABILITY TO GET A JOB.
- 6) IDENTITY THEFT IS A SERIOUS RISK, EVEN FOR TEENS. REVIEW ACCOUNT STATEMENTS MONTHLY AND YOUR CREDIT REPORTS AT LEAST ONCE PER YEAR.
- 7) BUILDING AND MAINTAIN CREDIT IS A PROCESS. CONSISTENTLY PAYING BILLS ON TIME WILL EVENTUALLY PAY DIVIDENDS.