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

Real World, Real Money
BUDGETING BASICS
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.
THE 50-30-20 RULE: NEEDS, WANTS, AND SAVINGS

At least 20% of income on savings and/or

No more than 50% of income on needs

No more than 30% of income on

Real World, Real Money

HERITAGE FAMILY CREDIT UNION
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.

• 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!

Real World, Real 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.

Real World, Real Money
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.
BORROWING & CREDIT

Real World, Real Money
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

- 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

REVOLVING

- 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.

Real World, Real Money
REPAYMENT EXAMPLE: A $50,000 STUDENT LOAN AT 6.9%

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

Real World, Real Money
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.

Real World, Real Money
## 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.
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.

Real World, Real Money

Heritage Family Credit Union
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.

Real World, Real Money
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.