Financial Literacy 101

What are your financial goals? How will you save enough money for your future? Where should you begin? These questions make most people anxious. So take a deep breath and relax: Preparing for your future of financial security can be challenging, but you can do it. The following information will help you get started.

Getting Started

There are four basic steps you can take toward securing your financial future:

1. **Set Goals/Calculate** how much money you may need to meet your goals.
2. **Create a Plan** to accumulate money and other assets to help meet your goals.
3. **Act** to implement your plan and save the money you (and your family) may need.
4. **Reassess** your financial needs and the progress of your plan periodically. If your goals have changed or your plan isn't working, re-adjust one or both of them.

Hey, where did all my money go?

One good place to start your financial planning is by knowing what you spend your money on. You started the day with $20 in your wallet. You may not recall spending much, but by the time you get home, your wallet is empty. How does that happen? Here is one way to find out. For one or two weeks, use your cell phone or a small notebook and record every dime you spend on every single item you buy., As a backup, request a receipt for every purchase you make. You will probably be surprised by how much you spend and where your money goes.

After a week or two, look at your purchases. What do you think about where your money went? Are you spending money on things you really don't need or want? Are there things you can easily live without? Test yourself: Eliminate some of the things you don't need and start small—maybe one less CD, video game, soda, or bag of chips. Try it. The accumulated savings from a small spending adjustment means this money will be there when you really need it.

Set your goals: be inspired, but realistic.

You need to think about what you want for yourself. Do you want to buy a car? Go to college? Go to a trade school? Travel? Rent an apartment? Write down your financial goals with as much detail as you can, such as, "I want to buy a car by June", "I want to go to Harvard for college", or "I want to travel the world for a year after I graduate from high school."

The more detail you include on each of your goals, the easier it will be to develop a specific plan to reach them. Prioritize your goals and include the number of months or years you have to save for those goals. You can use the planning tools in My Portfolio keep track of your goals.

Reaching your goals.

Now that you have your goals and timelines set, you need to identify the type of saving and investing options to use to meet your goals.

Short-Term Goals – These are items you intend to purchase within the next year or two, such as a new computer or a trip to your favorite location. For short-term savings, think safety. Some of the options that are appropriate for short-term savings include: a savings account, a certificate of deposit (CD), or a money market account. These accounts offer a lower rate of return, but are also low risk. These short-term accounts can also serve as an emergency fund to help when the unexpected happens in life.

Intermediate-Term Goals – These are goals you want to meet within a five to ten year timeframe. They can include things like a new car or college tuition. When you have a little more time to save, you have the option to use options with a higher potential rate of return, such as, a mutual fund or a CD. Of course, five to ten years is still not a long time when it comes to investing, so you may still want to choose options with a moderate level of risk.

Long-Term Goals – These are goals you want to reach in more than ten years such as a down payment on a home or condo. As your horizon for time increases, you have the opportunity to use more growth-oriented options with potential higher rates of return and risks, such as, stocks and mutual funds. Diversify your investments by spreading your savings over a variety of investment options from stocks, CDs, and bonds. Never keep all of your eggs in one basket. And remember, ALL investments have the potential to increase and decrease in value. But when you own a variety of investments, you increase the likelihood that some will do well when others do poorly.

Feed it often and watch it grow.

You may not need a lot of money to accumulate meaningful savings. Thanks to compound interest, small regular savings can add up over time. Because with compound interest, it's not just your money that earns interest – your interest earns interest as well – creating a snowball effect. The longer you save, the more compound interest works for you. So the sooner you start saving, the better off you will be. For example:

$2,000 Dollars Saved Over Time 4% annual rate of return	Amount Invested	Interest Earned	Total
Saved $2,000 per year from age 20 to 30. Kept money in account until age 65.	$22,000	$85,209	$ 107,209
Saved $2,000 per year from age 20 to 65.	$90,000	$161,578	$ 251,578
Saved $2,000 per year from age 30 to 65.	$70,000	$82,288	$ 152,288
Saved $2,000 per year from age 40 to 65.	$50,000	$35,688	$ 85,688
Saved $2,000 per year from age 50 to 65.	$30,000	$11,015	$ 41,015

Credit—friend and foe

Credit cards are extremely convenient and useful and can have many good features. However, it's easy to get yourself in over your head, in a hurry. Because when it comes to credit cards, compound interest can work against you. If you carry a balance from month to month, you'll be paying interest on your interest.

For example, let's say you buy a TV for $325 using a credit card that charges 13% interest, compounded monthly. If you made just the monthly minimum payment of $10, it would take you 41 months, over three years, to pay off your purchase—and you would end up paying a total of $410 instead of $325. And that's at a 13% interest rate. Credit cards today can charge interest rates as high as 20% or more.

The only sure way to avoid credit card debt is not to have credit cards. Of course, that is not very realistic for most of us. So, use your credit cards carefully. Keep close track of your purchases and pay off the balance every month. Also, shop around for the lowest interest rate you can find—it can make a huge difference. Look for cards that provide rebates or points for travel or special products.

If you are trying to get out of debt, pay off your highest interest credit card first. Then begin paying off your second highest interest credit card and so on. And talk to your credit card companies. In some cases, they may help you by lowering your interest rate or eliminating fees. Remember, help is available. There are reputable, nonprofit organizations that can help you put together a repayment plan, and help you work with your credit card companies. Be prepared—it can take a while to get out of debt but once you do, you'll be on track to reach your goals and you'll just feel great.

Other Credit

As with credit cards, car and home loans can help you get something before you have all the money necessary to pay for it. Just remember, at 5% that nice looking $30,000 car will cost you $566 per month for five years, for a total cost of $33,968. The $300,000 house at 6% will cost you $1,798 per month for thirty years with a total cost of $647,514.57!

Insurance

Carrying enough of the right kinds of insurance is not exactly a high priority for most young adults. You may say, "Who has the money to pay the premiums, and why do I need that stuff, anyway?" Yet an unexpected event can financially wipe you out if you are uninsured or underinsured, leaving you saddled with debts for years. Insurance allows you to transfer your financial risk to an insurance company by paying relatively small premiums up front. In return, the company then pays the insured what is usually a much larger amount of money in the event of a loss.

Health insurance protects you in case you need medical care that could be very expensive.

Disability insurance is designed to replace anywhere from 45-60% of your gross income on a tax-free basis should an injury or illness prevent you from earning an income in your occupation.

Renter's/homeowner's insurance protects your assets, possessions, home or apartment, and your family in case of theft, fire, burglary, or vandalism.

Automobile insurance can protect you in case of accident (collision coverage), theft (comprehensive coverage), and damage to other people and their property (liability/medical). Most states require some type automobile coverage—check with California's Department of Motor Vehicles.

Life insurance is generally not needed by most young adults unless others depend on your financial support, such as a spouse, child, or elderly family member. It's often better to put your limited premium resources toward more critical types of insurance.

Review your goals each year

Your situation and your goals may change so you should take time each year to evaluate your progress. Did you meet your goals? Did you change your goals? Do you have new goals for the coming year? For example, if you spent last year's tax refund, make it a goal to use this year's tax refund toward a vacation or new car. As you have seen, every little bit helps so start now and get ready for what your future might bring. Save For Your Future. It will be here before you know it.

Acknowledgement

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