

Personal Finance Overview

Savings, Investing, and Maximizing Wealth

Financial Education Workshops

This is the *second* workshop in a three-part series.



Understanding Your Financial Situation and Budgeting

- ☐ Taking a financial inventory
- ☐ Budgeting: Making the most of your money
- ☐ Allocating your Money



Savings, Investing, and Maximizing Wealth

- ☐ Save for retirement and other goals
- ☐ Maximizing Income
- ☐ Setting Financial Goals and Budgeting



Building & Maintaining Good Credit/Debt Management

- ☐ Establishing Credit
- ☐ Taking a Financial Inventory
- ☐ Managing Debt
- ☐ Building and Maintaining Good Credit

Welcome!

Plan for *this session* of Saving, Investing, and Maximizing Wealth



Speaker(s) Introduction

Goals for the Session

Topics of Interest

Preparation for Q&A Session



Table of Contents

Topics covered in *this session* of Savings, Investing, and Maximizing Wealth

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Types of Saving

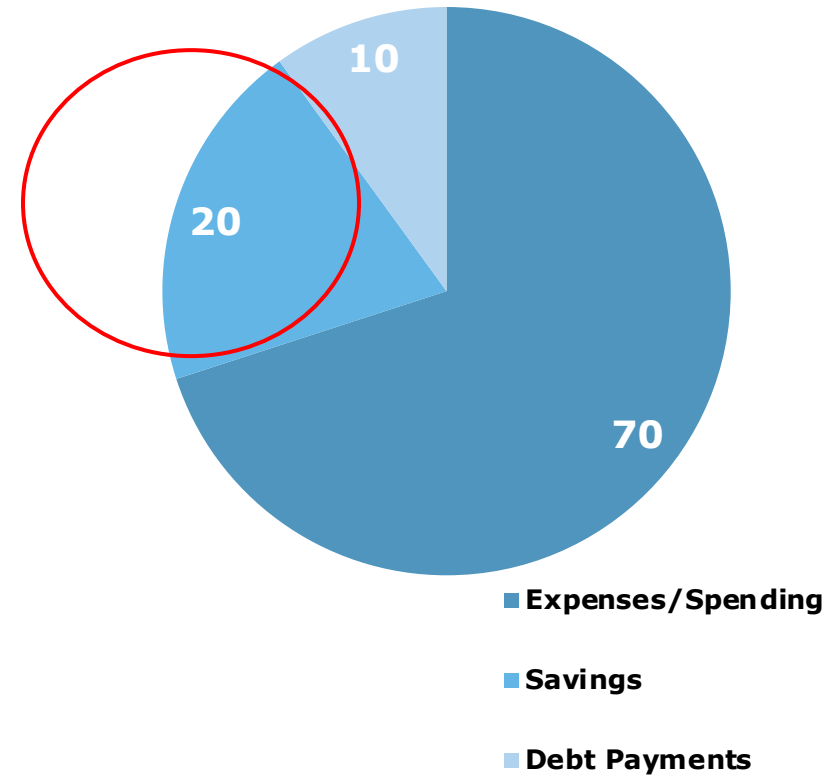
This chart depicts ways you could allocate your after-tax income to various savings goals

Taking a closer look at the **Savings** portion (~20%) how might you allocate funds?

- **5% emergency fund**
- **5% short term goals such as computer, vacation, tuition, car, special events, etc**
- **10% long term (retirement) such as IRA, 401(k), 403(b), company pension**

Where are you going to put your savings?

Monthly % Allocation



Emergency Planning

Determine your savings goal for an emergency fund to be prepared for various life emergencies

Medical Expenses

Knowing your deductible and having money available can reduce the financial burden of unforeseen medical issues.

Home Appliance Repair/Replacement

Be aware of the life cycles of major appliances in your home.

Car Repair/Replacement

Be aware of major expenses and know your car insurance deductible.

Unemployment/Unpaid Leave of Absence

Keep 3-6 months worth of expenses.

"How-To" create an emergency:

1. Calculate the total you want to save.
2. Set a monthly savings goal.
3. Create an automatic transfer to move money into your savings account.
4. Keep the change.
5. Save your tax refund.
6. Assess and adjust contributions.

EMERGENCY FUND CALCULATOR

GO

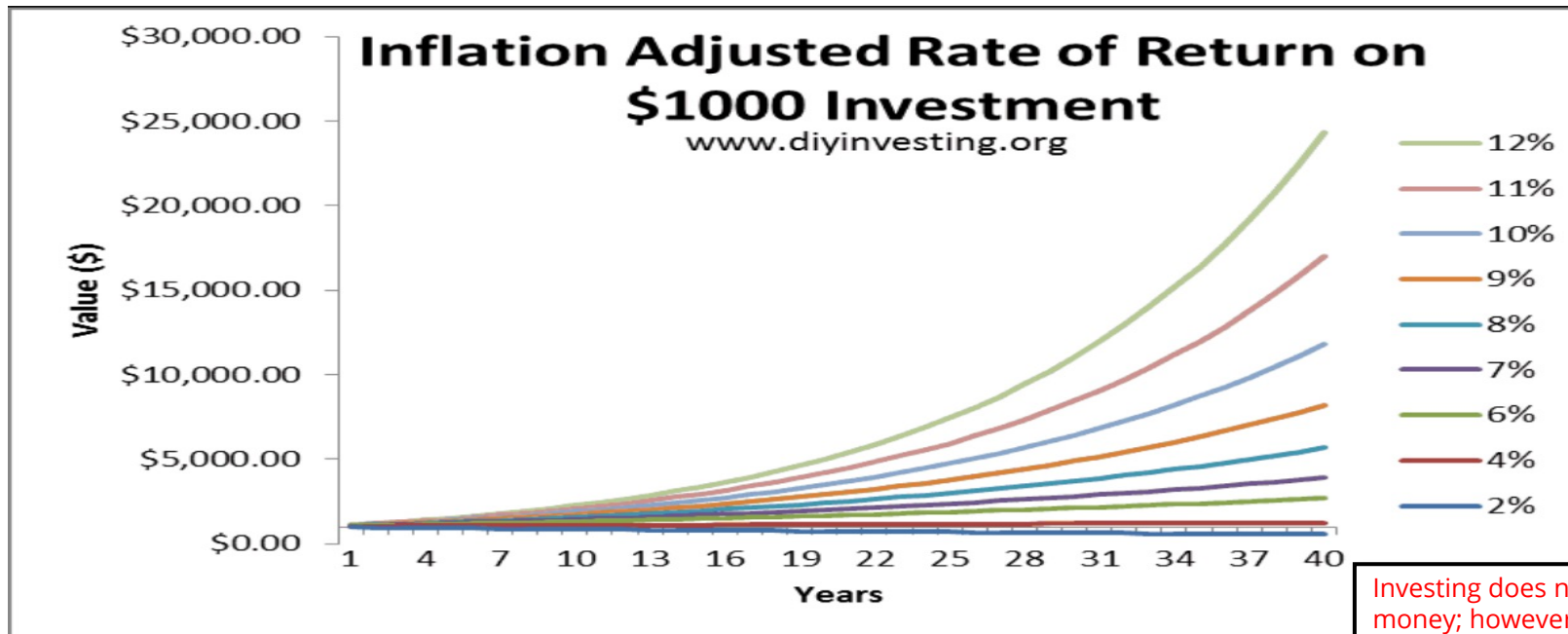
Save for Retirement through Investing

Place your money in the market through a retirement account

An **investment** is anything that you acquire for future income or benefit. Investments may increase by generating income or by growing in value.

Inflation is a general rise in the price level in an economy over a period of time. When the general price level rises, the dollar buys fewer goods and services.

The **Rate of Return** is used to measure the profit or loss of an investment over time.



Investing does not **guarantee** you make money; however, it has the potential to.

Inflation means that the money you put into a savings account now will not buy the same amount in the future. However, the economy **generally** increases over time which increases the rate of return. By investing, the investment **can** outpace inflation leaving you with significantly more than you started with.

Save for Retirement through Investing

Place your money in the market through a retirement account

Investment options for retirement

Roth IRA: A retirement account that you open and control. It has an annual limit of \$6000 and you pay taxes up front. There are plenty of options but no match.

Traditional IRA: Identical to a ROTH IRA but you pay taxes when you withdraw.

Roth 401(k): Offered through employer who can match up to a set percent (usually 5%). The contributions are taxed up front and the limit is \$6000.

Traditional 401(k): Offered through employer who can match up a set percent. Earnings grow tax-deferred. Subject to contribution limitations.

403(b): Also called a tax-sheltered annuity plan. Retirement plan for certain employees of public schools, employees of certain Code Section 501(c)(3) tax-exempt organizations and certain ministers.



There are other kinds of retirement accounts that may be offered by various employers.

There are also penalties for withdrawing money from a retirement account before the age of 59.5.

Why save for retirement through investing?

Assume you retire at 65 and live to 105: 40 years in retirement.

Assume you require \$30,000 to live each of those 40 years – you would need \$1.2 million total.

If you begin maxing a Roth IRA (\$500 per month) at age 35 and contribute until age 65, you'll have around \$200,000.

If you begin maxing a traditional 401(k) (~\$1500 per month) at age 35 and contribute until age 65, you'll have around \$600,000.

The total saved for retirement is \$800,000. There is a difference of \$400,000. Over 40 years that difference is only \$30 a day.

You could either delay retirement or take a part time job during retirement to cover some expenses.

Save for Other Goals

Depending on the kind of savings goal, there are many ways to effectively save



Vacation

Saving period: 8 months

Savings Account: This is a traditional savings account where you can grow your savings at your own pace and typically has a lower interest rate than a high yield savings account.

High Yield Savings Account: This is a type of traditional savings account, where the bank will reward you with a higher interest rate. This allows your savings to grow at a faster rate the longer the savings sit within the account.

Down Payment

Saving period: 3-5 years

Certificates of Deposit (CD): An insured interest earning savings tool that allows restricted access to savings (deposits must be held for a certain period of time, ranging from 7 days to 8 years).

Common stocks: Shares of ownership of a public corporation.

Index: A type of mutual fund with a portfolio constructed to match or track components of the financial market index (i.e., Standard and Poor's 500 Index).

Big purchase - Car

Saving period: 15 years

Bonds: Buying bonds provides a loan to the bond issuer, who has agreed to pay you interest and return your money on a specific date in the future.

Common stocks: Shares of ownership of a public corporation.

Index: A type of mutual fund with a portfolio constructed to match or track components of the financial market index (i.e., Standard and Poor's 500 Index).

The Risk vs. Reward Concept

The investment pyramid can help you determine your risk appetite with your savings goals in mind

HOW MUCH RISK DO YOU WANT TO TAKE?

Here are some things to think about when determining the amount of risk that best suits you.

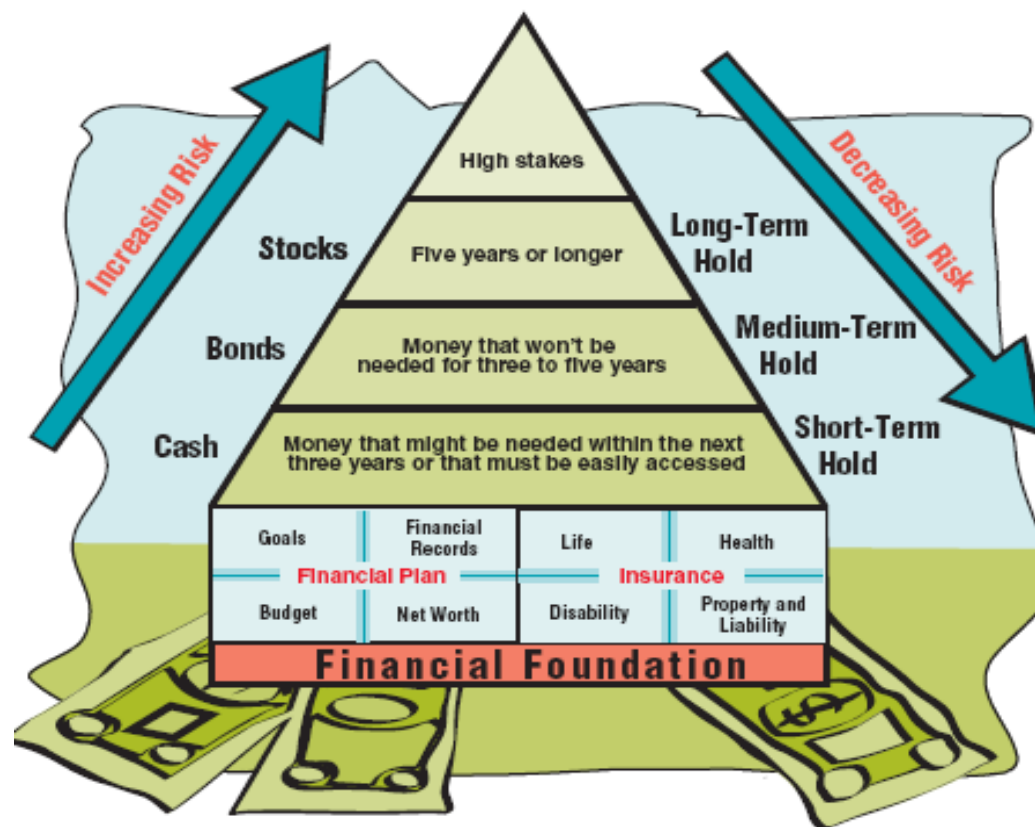
Financial goals. How much money do you want to accumulate over a certain period of time? Your investment decisions should reflect your wealth-creation goals.

Time horizon. How long can you leave your money invested? If you will need your money in one year, you may want to take less risk than you would if you won't need your money for 20 years.

Financial risk tolerance. Are you in a financial position to invest in riskier alternatives? You should take less risk if you cannot afford to lose your investment or have its value fall.

Inflation risk. This reflects savings' and investments' sensitivity to the inflation rate. For example, while some investments such as a savings account have no risk of default, there is the risk that inflation will rise above the interest rate on the account. If the account earns 5 percent interest, inflation must remain lower than 5 percent a year for you to realize a profit.

Investment Pyramid



NOTE: Information not intended as specific individual investment advice.

SOURCES: National Institute for Consumer Education, Eastern Michigan University; AIG VALIC.

Other Considerations for Maximizing Income

Use insurance and pre-tax options through employer-sponsored plans

Life Insurance

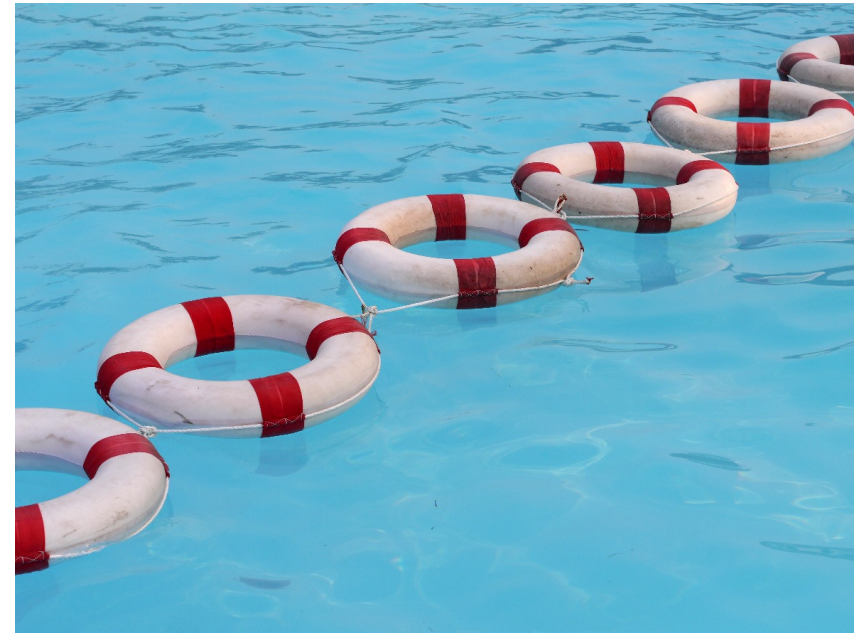
- Provides financial protection to your dependents
- Pays money to the beneficiary in the event of death
- Often available through employer

Homeowners Insurance/Home Warranty

- Protects you from loss resulting from any damage that may occur
- Covers unexpected costs for repair or replacement of major systems
- For renters – (Renters or Contents Insurance) – Covers possessions against loss from fire or theft

Flexible Spending Accounts (FSA)/Health Savings Accounts (HSA)

- **FSA** - Allows you to save pre-tax dollars to cover deductibles, co-pays, prescriptions, over-the-counter drugs, and other health expenses not covered by insurance. Use or lose.
- **HSA** – tax advantaged personal savings account , set-up to be used exclusively for medical expenses; must be paired with a high deductible health insurance policy. For more information about HSAs, go to www.treasury.gov/offices/public-affairs/hsa.



Other Considerations for Maximizing Income

Use insurance and pre-tax options through employer-sponsored plans

Medical Insurance

- Pays for some, but may not pay for all, of your doctor, hospital and prescription drug costs.
- Some have incurred significant levels of debt because they didn't have medical insurance, or they didn't have savings to pay out-of-pocket expenses.
- High-deductible health plan – A health insurance policy that requires the policy holder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health plans
- Health insurance for children – Free or low-cost health insurance for children in low- to moderate-income households.
- Avoiding “gaps” in Coverage.

Credit Report

- A summary of how you have handled your credit accounts
- Credit reports are used by potential lenders and creditors to help them decide whether to offer you credit
- It is important to check your credit reports regularly to ensure information is complete and accurate



Setting Financial Goals and Budgeting

There are two key activities to focus on when planning to save

Setting Financial Goals

In preparing your goals, ensure they are:

- **Specific**
- **Measurable**
- **Attainable**
- **Realistic**
- **Time** bound
- Devise a plan; be flexible; goals can change
- Remember, saving is a critical part of reaching your financial goals

Budgeting: Making the most of your money

A budget allows you to:

- Understand where your money goes and determine how much you spend on bills
- Ensure you don't spend more than you make
- Find uses for your money that will increase your wealth
- Cover monthly expenses without incurring more debt
- Then make more than minimum payments
- **P**ay
- **Y**ourself
- **F**irst

Setting Financial Goals and Budgeting

Make SMART financial goals



Setting Financial Goals

- Devise a plan but be flexible; goals can change.
- Remember, saving is a critical part of reaching your financial goals.

Example: Short-term

1. In one year, pay down \$500 in credit card debt.
 2. In 2 months, save \$200 for a pair of new shoes.
-

Example: Intermediate/Long-term

1. In five years, have a balance of \$5,000 in a high yield savings account.
2. In ten years, pay-off \$25,000 in student loans.

Activity #1

Practice setting individual financial goals

- Brainstorm and identify examples of your short-term and long-term goals (*10 minutes*)
- Discuss examples with the group (*5 minutes*)

My short-term goals are:

1. _____
2. _____
3. _____

My long-term goals are:

1. _____
2. _____
3. _____

Goals for Saving and Investing

- *Identify three ways to save money*
- *List your short-term and long-term goals for savings and investing*

Activity #1

Examples for completing this activity of setting individual financial goals

Example: Short-term

1. *In one year, save \$500 for my emergency fund.*
2. *In three years save \$5,000 for a down payment on a house.*

Example: Long-term

1. *In eight years save \$15,000 to help my child with college.*



Coronavirus (COVID-19) Resources in the DMV Area



- **Washington, District of Columbia (D.C.)**

- <https://coronavirus.dc.gov/>

- **Maryland**

- Anne Arundel County: <https://www.aacounty.org/coronavirus/>
 - Charles County: <https://charlescountycovid.org/resources/>
 - Frederick County: <https://health.frederickcountymd.gov/614/Novel-Coronavirus-COVID-19>
 - Montgomery County: <https://www.montgomerycountymd.gov/HHS/RightNav/Coronavirus.html>
 - Prince George's County: <https://www.princegeorgescountymd.gov/3397/Coronavirus>

- **Virginia**

- Alexandria: https://www.alexandriava.gov/Coronavirus_
 - Arlington County: <https://www.arlingtonva.us/covid-19/>
 - Fairfax County: <https://www.fairfaxcounty.gov/covid19/>
 - Falls Church: <https://www.fallschurchva.gov/CivicAlerts.aspx?AID=1125>
 - Loudon County: <https://www.loudoun.gov/5323/COVID-19-Resources>
 - Manassas: <https://www.nvfs.org/covid-19-resource-guides/>
 - Prince William County: <https://www.pwcva.gov/covid19>
 - Stafford County: [https://staffordcountyva.gov/residents/public_safety/covid-19_\(coronavirus\)/health_information_and_assistance.php](https://staffordcountyva.gov/residents/public_safety/covid-19_(coronavirus)/health_information_and_assistance.php)

Questions?



Common Personal Finance Terms Defined

TERM	DEFINITION
Asset Allocation	An approach for managing capital that involves setting parameters for different asset classes, such as equities, fixed-income, real estate, cash, or commodities.
Bonds	A bond is like a loan. You are usually agreeing to lend money to a government or a company.
Capital Gains	Capital gain is an economic concept defined as the profit earned on the sale of an asset which has increased in value over the holding period.
Common Stock	Represents ownership in a legally formed corporation.
Dividends	A dividend is a distribution of profits by a corporation to its shareholders. When a corporation earns a profit or surplus, it is able to pay a proportion of the profit as a dividend to shareholders.
Exchange-Traded Funds	Similar to a mutual fund, except they trade throughout the day on the stock exchange as if they were stocks.
Fiduciary Duty	The highest duty owed to another person. It requires the fiduciary to put the interest of the principal (the client) above its own.
Gross Income	For households and individuals, gross income is the sum of all wages, salaries, profits, interest payments, rents, and other forms of earnings, before any deductions or taxes.
Hedge Fund	A type of investment partnership.
Index Fund	A type of mutual fund that allows an individual to "invest" in an index, such as the S&P500
Mutual Funds	A pooled portfolio. Investors buy shares or units in a fund, and the money is invested by a professional portfolio manager.
NASDAQ	Nasdaq, Inc. is an American multinational financial services corporation that owns and operates three stock exchanges in the United States
Net Worth	Net worth is the value of all the non-financial and financial assets owned by an individual or institution minus the value of all its outstanding liabilities.
New York Stock Exchange (NYSE)	The most important stock exchange. Requires companies to meet strict criteria to be listed on their exchange and subsequently traded.
Portfolio Management	Experienced investment professionals, who strategically group or pool together different types of assets into portfolios they manage to generate a profit for investors.

Common Personal Finance Terms Defined (Cont.)

TERM	DEFINITION
Preferred Stock	A class of ownership that allows shareholders of a company to get a larger dividend, and that dividend is often guaranteed.
Price –to-Earnings (PE) Ratio	Tells you how many years it would take for a company to pay back its purchase price per share from after tax profits alone at current profits with no growth.
Real Estate	Tangible property, such as land or buildings, that the owner can use or allow others to use in exchange for payment.
Registered Investment Advisor (RIA)	A firm that is engaged, for compensation, in providing advice, making recommendations, issuing reports, or furnishing analyses on securities.
Stockbroker	An institution or individual that executes buy-or-sell orders on behalf of a customer.
Stock Exchange	An institution, organization, or association that hosts a market for buyers and sellers of equities to come together during certain business hours and trade with one another
S&P 500	The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.
Trust Fund	A special type of legal entity that allows a person or organization to hold assets they will eventually give to another.

List of References

TERM	DEFINITION
Federal Reserve Bank of Dallas – “Building Wealth: A Beginner’s Guide to Securing Your Financial Future” provides introductory guidance to help develop a plan for building personal wealth.	http://www.dallasfed.org/ca/wealth/index.cfm
DC Saves - Modeled on the national America Saves campaign, DC Saves is a coalition of nonprofit, corporate, and government groups helping individuals and families save and build wealth.	http://www.dcsaves.org/
National Endowment for Financial Education® (NEFE®) is an independent, nonprofit foundation committed to educating Americans on a broad range of financial topics and empowering them to make positive and sound decisions to reach their financial goals.	www.nefe.org and www.smartaboutmoney.org
SEC Publications – Provides guidance on financial planning, facts on savings and investing, evaluating retirement options, etc.	http://www.sec.gov/investor/pubs_subject.shtml#investments
Federal Citizen Information Center – Provides various links to documents related to saving money, investing, introduction to mutual funds, retirement planning and insurance.	http://www.pueblo.gsa.gov/results.tpl?id1=18&startat=1&--woSECTIONSDatarq=18&--SECTIONSwor=ww
What Do Financial Advisors Do & How Much Do They Cost?	https://www.americanexpress.com/en-us/credit-cards/credit-intel/financial-advisors/?linknav=creditintel-money-article
How to Invest in Mutual Funds?	https://www.americanexpress.com/en-us/credit-cards/credit-intel/mutual-fund-investment/?linknav=creditintel-money-article
What, Exactly, is “Personal Finance”?	https://www.americanexpress.com/en-us/credit-cards/credit-intel/personal-finance/?linknav=creditintel-money-article
Managing Credit Card Debt After a Job Loss	https://www.americanexpress.com/en-us/credit-cards/credit-intel/credit-card-debt-after-job-loss/?linknav=creditintel-money-article
Tips for Filing Unemployment Claims	https://www.americanexpress.com/en-us/credit-cards/credit-intel/file-unemployment-claim/?linknav=creditintel-money-article