



**Your Financial
Wellness.
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Understanding Financial Literacy

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What is Financial Literacy?



-
- **Ability to understand and effectively use various financial skills**, such as personal financial management, budgeting, and investing
 - **Foundation of a person's relationship with money** – a lifelong journey
 - **Support for various long-term objectives** – saving for education, saving for retirement, responsible use of debt, running a business

It's important to start learning early – education is the key to financial success.

More knowledge makes people less susceptible to fraud.

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Key Topics



Financial literacy is even more important as move away from cash; more focus on credit/debit, electronic transactions

Financial illiteracy can lead to accumulation of unsustainable debt, bad decisions and/or poor planning, bad credit, bankruptcy, housing foreclosure, et al.

- Creating a budget
- Saving for the future
- Investing
- Using credit
- Managing debt
- Maintaining insurance
- Understanding taxes



Financial Literacy Topics & Terms

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Creating a Budget



Creating a budget allows a person to:

- Ensure they're not spending money they don't have
- Figure out long-term goals and work towards them
- Plan for a happier retirement
- Prepare for emergencies
- Identify bad spending habits
- Reduce worry over money



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Key Budgeting Terms



-
- **Fixed Expenses:** Regular expense that generally costs the same amount each time
 - **Variable Expense:** Expense that changes in amount from month-to-month, often based on usage
 - **Debt:** Money that is borrowed that must be paid back to lender (e.g., student loans)
 - **Emergency Fund:** Money set aside only to be used for unexpected expenses
 - **Asset:** Item with economic value, such as stock or real estate
 - **Liability:** Money owed; debt or obligation

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Saving for the Future



Key Concepts in Saving for the Future:

- **Own and operate a bank account**
 - Receive a paycheck; use direct deposit to better protect earnings
 - Checking account for regular transactions; Savings account for unexpected expenses
- **Pay yourself first** – Commit to setting aside portion of paycheck for savings
- **Keep track of savings** – Tracking often leads to more focus
- **Set goals**
- **Plan ahead** – Figure out what you want and by when
- **Understand Time Value of Money** - Dollar today worth more than dollar tomorrow
- **Understand objectives**

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Key Savings Terms



-
- **Checking account:** Bank account allowing deposits, withdrawals, bill payment
 - **Savings account:** Bank account used to set aside money that receives interest
 - **Interest:** Payment to your account for “lending” money to bank
 - **Mobile Banking:** Service that allows you to use smartphone or tablet to manage bank account
 - **Gross Income:** Total pay before income taxes and other deductions
 - **Net Income:** Amount of money received in paycheck after taxes and other deductions

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Investing



The purpose of investing is to:

- Grow your money – Build and create wealth over time
- Save for retirement
- Earn higher returns – Investment vehicles tend to earn more than savings accounts
- Reach financial goals
- Start or expand a business

Goal is to invest in an asset at a low price and sell it at a higher price – earn a profit

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Key Investing Terms



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- **Stock:** Type of investment that gives people a share of ownership in a company
 - **Bond:** Type of debt; lending money to issuer (government, municipal, corp.); issuer pays percent of interest each year and returns principal at maturity date
 - **Mutual Fund:** Company that pools money from many investors and invests the money in securities, such as stocks and bonds
 - **Rate of Return:** Profit or loss on an investment expressed as a percentage
 - **Profit:** Money made after all the costs and expenses are paid
 - **Capital Gain:** Profit from selling investment for more than paid
 - **Dividend:** Portion of company profit paid to shareholders
 - **Compound Interest:** Earn interest of money plus interest you earn

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Using Credit



- **Typically refers to using a credit card, but could mean getting a loan**
 - Credit card enables a person to purchase something without paying cash
 - Use loan for larger purchases (e.g., house, car); pay back with interest
- **Credit card transaction is also a loan**
 - Pay with card from a bank
 - Bank pays the store for your purchase (loans you the money for purchase)
 - You pay back the bank with paying your credit card statement
 - Charged interest if do not pay back in full
- **Credit vs Debit Card**
 - Debit card pays for purchase from your bank account; cannot spend more than you have
 - Credit card allows you to extend for purchases – may need one for hotel or car rental

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Key Credit Terms



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- **Interest:** Fee paid by borrower to lender for use of money
 - **APR (Annual Percentage Rate):** Cost of borrowing money on a yearly basis
 - **Minimum Payment:** Lowest amount required to pay on your credit card statement each month; often 2% of the total balance
 - **Delinquency:** Failure to make timely payments
 - **Secured Credit Cards:** Requires collateral (usually cash deposit) for approval; designed for people with no credit or poor credit
 - **Collateral:** Asset that secures a loan or debt that lender can take if debtor does not pay
 - **Credit history:** Record showing consumer's borrowing and repaid debt
 - **Creditor:** Person or organization that lends money to a consumer or business

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Not All Debt is Bad



- Debt that helps further a life goal (own a home; start a business; further education) can be beneficial
- The wrong kind of debt (credit cards) can be problematic

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Managing Debt



Tips for managing debt include:

- Make list of all outstanding debts you owe
- Check you credit report; make sure no inaccuracies, and confirm all outstanding debt
- Look for opportunities to consolidate
- Review your spending habits
- Determine how much you must pay
- Analyze your budget for opportunities to pay extra
- Develop strategy for reducing debt

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Key Debt Terms



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- **DTI (Debt-to-Income) Ratio Interest:** Ratio of outstanding debt to monthly income; used by lenders in approving loans; target DTI < 35%
 - **Bankruptcy:** Legal procedure where debtor's assets are liquidated by the court to account for financial obligations; remains on credit report 7-10 years
 - **Consolidation:** Combining monthly payments into one payment
 - **Debt Settlement:** Process of negotiating with one or more creditors to reduce the balances owed
 - **Fixed-rate Interest:** Percentage interest charged that will not change for life of loan
 - **Foreclosure:** Lender legally takes possession of a mortgaged property for failure of borrower to meet obligations
 - **Mortgage:** Type of loan to purchase commercial or residential property
 - **Refinancing:** Replacing an old loan with a new loan at a different rate

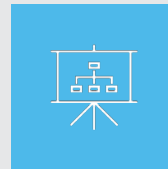
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Maintaining Insurance



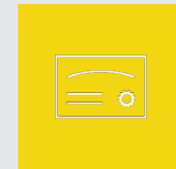
What is insurance?

- Financial safety net
- Legal contract between policyholder and insurance company
- Common policy coverage – health, life, auto, home, property



Why is insurance important?

- Protect against financial risks
- Help recover after incident – fire, theft, accident
- Maintain peace of mind



What are the most important insurances to have?

- Home or property insurance, life insurance, disability insurance, health insurance and automobile insurance

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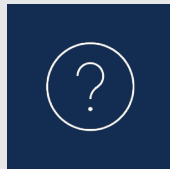
Key Insurance Terms



- **Premium:** Amount of money that must be paid for an insurance policy
- **Deductible:** Amount insured must pay before insurance company pays
- **Appraisal:** Evaluation of a home property to determine value
- **Beneficiary:** Person, people, or entity designated to receive death benefits from a life insurance policy or annuity contract
- **Copayment:** Amount you must pay out of your own pocket upon receiving medical care
- **Grace Period:** Period (usually 31 days) during which policy remains in force after the premium is due but not paid
- **Pre-existing Condition:** Medical problem or illness you had before applying for health care coverage
- **Surrender Charges:** Charges deducted if a life insurance policy or annuity is surrendered

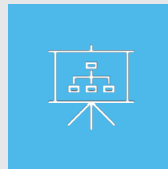
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Taxes



What are taxes?

- Payments made for the purpose of funding government operations



What taxes do we pay?

- There are many types – income, property, sales, capital gains, and estate taxes
 - Often pay for things we do not use



What is a direct vs indirect tax?

- Direct taxes are paid straight from an individual or a business - includes individual income taxes, corporate taxes, and property taxes
- Indirect taxes are typically added onto a transactions for goods or services, such as sales taxes or value-added taxes

Cannot avoid paying taxes but understanding how they work can help you make smart choices about managing your finances.

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Key Tax Terms



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- **Estate Tax:** Tax on value of property you own at your death; can be federal or state imposed
 - **Federal Income Tax:** Tax collected by federal government based on earnings of individuals or businesses
 - **Federal Insurance Contribution Act (FICA):** Tax deducted for Social Security payments
 - **Payroll Taxes:** Taxes that are taken from paycheck including Social Security & Medicare
 - **Property Tax:** Tax on property, especially real estate, but can be autos, boats, etc.
 - **Sales Tax:** A tax on retail products based on a set percentage of the retail price
 - **State Income Tax:** Most states and some local municipalities require residents to pay a personal income tax
 - **Tax Credit:** A dollar-for-dollar reduction in tax



Final Thoughts

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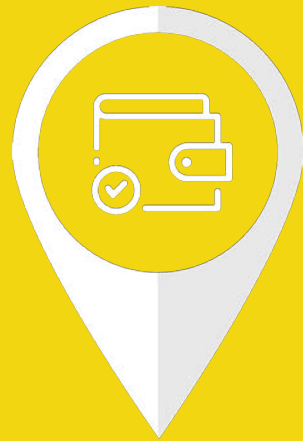
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How Does Financial Literacy Help?



Financial literacy is an important concept for everyone to embrace

- **More understanding can lead to better financial wellness**
 - Greater accumulation of assets
 - Less wasted spending
 - Better protection against fraud or other financial harm
- **Starting earlier in learning will lead to better results**
 - Books, podcasts and speakers can help gain the basic
 - Do not need to become an investment master – basic understanding of common concepts will make a difference



Resources

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Resources



Budgeting

www.mint.com

www.simplifimoney.com

www.pocketguard.com

www.goodbudget.com

www.everydollar.com

www.resourcesforliving.com

Investing

www.acorns.com

www.robinhood.com

www.stashinvest.com

Managing Debt

www.chipper.app

www.gochanged.com

www.qoins.io

Milestones

www.livingwage.mit.edu

www.zillow.com

www.trulia.com

www.mortgagecalculator.org

Social Security

www.ssanalyzer.com

www.aarp.org

www.ssa.gov

Other

www.creditkarma.com

www.nerdwallet.com

www.thebalance.com

www.smartasset.com