



A financial literacy program of the
Huntsville-Madison County Public Library





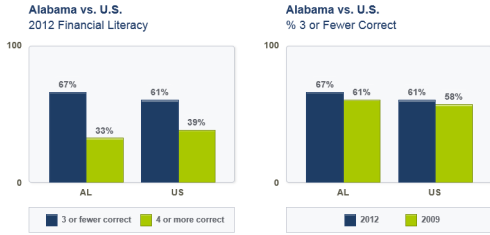
- **Practical Steps to Building Wealth**
- Net Worth & Basic Investment Options
- Principles of Investing
- Creating and Managing a Portfolio

American financial problems



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We don't understand



<http://www.usfinancialcapability.org/results.php?region=AL>

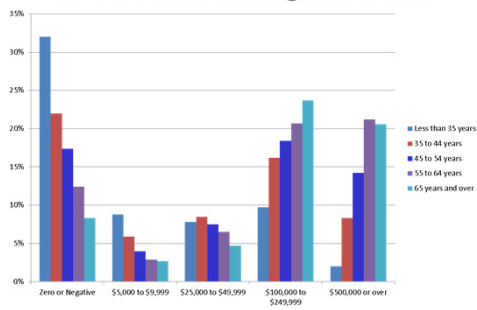
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Investment quiz

- FINRA (Financial Industry Regulatory Authority) provides a test of your knowledge.
- Want to check it out?
- <http://www.finra.org/Investors/ToolsCalculators/P116940>

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We are not building net worth



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We are overspending

- 52% of Americans spend more than they earn
- 21% of us regularly overspend
- The average American spends \$1.33 for every dollar earned
- Only 50% of us use a monthly budget

<http://www.thecreditexaminer.com/overspending-in-america-statistics-and-facts/>

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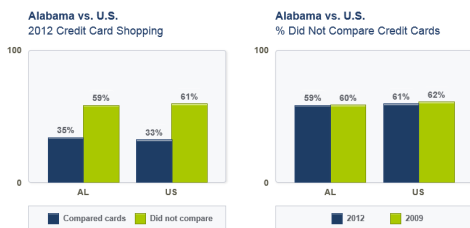
We borrow too much money

- Average mortgage debt: **\$146,215**
- Average student loan debt: **\$31,240**
- Average credit card debt: **\$15,112**

<http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/>

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And we are not doing our homework



<http://www.usfinancialcapability.org/results.php?region=AL>

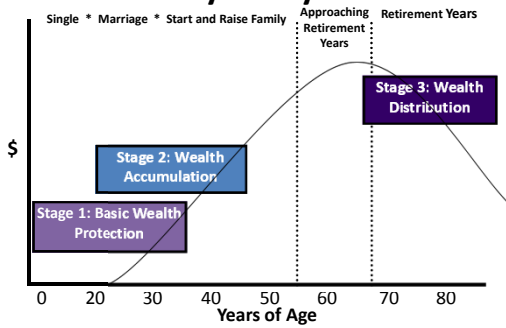
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Why do we need to build wealth?



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Goals by life cycle



www.wsfcs.k12.nc.us/cms/.../Financial%20Life%20Cycle%20Notes.ppt

Financial goals

- Short-term goals — to complete within the next year.
- Intermediate-term goals — to complete in the next 2-5 years.
- Long-term goals — to complete in over 5 years.
 - Pre-retirement Goals – need access before retirement age without penalty
 - Post-retirement Goals – tax shelter until retirement or later

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Setting financial goals

- Be specific in defining goals and focus on results.
- Make goals realistically attainable.
- Involve family members and enlist their cooperation.
- Prioritize goals and set a definite time frame.

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Setting specific goals



- Nice house
 - Have a 10% down payment on a \$200K home within 5 years
- Retire rich
 - Have a personal retirement account worth \$2 million within 30 years

Important retirement factors

- At what age do I want to retire?
- How many years will I spend in retirement?
- What will be my income from my employers' retirement and Social Security?
- How much will I have in personal investments?
- What will be the return on my investments?



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Estimating retirement needs

- *Ballpark E\$timate* (American Savings Education Council)
 - <http://www.choosetosave.org/ballpark/index.cfm?fa=interactive>
- FINRA calculator
 - http://apps.finra.org/Investor_Information/Calculators/1/RetirementCalc.aspx
- Morningstar portfolio tools (at the Library)
- Social Security benefit estimates and Web site:
 - <http://www.ssa.gov/estimator/>

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Financial goals worksheet



FINRA has a good introduction to this topic. <http://www.finra.org/Investors/index.htm>

Steps to build wealth to meet goals



1. Live within your means
2. Maximize savings with employer matches
3. Build an emergency fund
4. Protect yourself with insurance
5. Pay off high-cost debt
6. Tax-defer retirement savings
7. Invest

#1 Live within your means!

Income must be more than expenses. If not:

- Increase your income

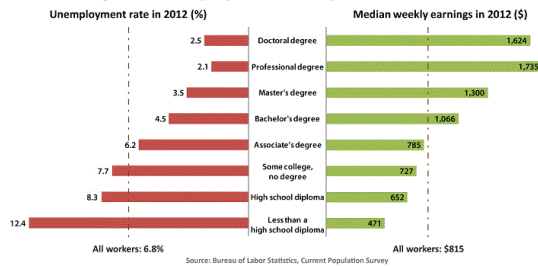
OR

- Reduce your spending

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Improve income through education

Earnings and unemployment rates by educational attainment



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Value of education

- Occupational Outlook Handbook at the Bureau of Labor Statistics,
- <http://www.bls.gov/ooh/a-z-index.htm>
- provides information on different careers
 - what education is necessary to be employed in that career
 - what income to expect
 - how much need there will be for people in that career

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Tempted to spend?



If you don't see it, you don't spend it!

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Reduce expenses

Item	Cost/ # per mo.	Cost/ month	Cost/ year	Invested for 5 yrs
Soft Drink	\$1.00/30	\$30	\$360	\$2,112
Cigarettes	\$6.00/20	\$120	\$1,440	\$8,448
Snacks	\$1.50/15	\$22.50	\$270	\$1,584
Lunch	\$10/10	\$100	\$1,200	\$7,040
Total		\$272.50	\$3,270	\$19,184

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Monitor spending

- Create a budget and monitor your spending
- <http://www.gailvazoxlade.com/articles.html>
- <http://www.budgetworksheets.org/>
- http://frugalliving.about.com/od/moneymanagement/a/Budget_Form.htm

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**#2
Maximize
savings
with
employer
matches**



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**Growth of \$100 monthly contribution to
401(k) with \$100 employer match**

Number of years	Amount you contribute	Amount with match	Contributions plus 5% growth	Contributions, matches, plus 5% growth
5	\$6,000	\$12,000	\$6,800	\$13,601
10	\$12,000	\$24,000	\$15,528	\$31,056
15	\$18,000	\$36,000	\$26,729	\$53,458
20	\$24,000	\$48,000	\$41,104	\$82,207
25	\$30,000	\$60,000	\$59,551	\$119,102
30	\$36,000	\$72,000	\$83,226	\$166,452

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**#3 Build an
emergency
fund**



- Pay yourself first!
- Before investing, save 6 months of your monthly spending level

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An emergency fund will...



- Help you feel in control financially
- Make it possible to deal with an emergency quickly and get back to normal
- Pad your bank account to help you avoid overdraft fees
- Help you avoid extra interest charges for unexpected repairs or emergency purchases

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Long term cost of bank overdrafts

- Fees of 2 overdrafts per year the first 5 years of your banking life: \$2,250
- Save \$2,250 at 5% for 40 years: \$13,718



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#4 Protect yourself with insurance

- Car
- Homeowner's or Renter's
- Health
- Disability
- Life



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#5 Pay off high-cost debt

- \$6,000 balance at 15% per year (1.25% per month)

Payment strategy	Payment amount	Months to pay off	Years to pay off
Pay minimum 4%	\$240	31 months	2.58 years
Pay an extra \$40	\$280	26 months	2.17 years
Pay an extra \$80	\$320	22 months	1.83 years

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Opportunity cost of debt

- New truck
 - \$29,000 financed over 48 months at 6%
 - Payment: \$681
 - Interest: \$3,691
- Used truck
 - \$22,000 financed over 48 months at 6%
 - Payment: \$517
 - Interest: \$2,800



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#6 Tax-defer retirement savings



- 401-k, 403-b, 457 accounts through an employer
- Keogh, SEP, SIMPLE accounts if you are self-employed
- Regular IRAs through a bank or investment company

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#7 Invest

- Mutual Funds
- Stocks
- Bonds
- Real estate
- Metals
- Other



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Steps to building wealth



1. Live within your means
2. Maximize savings with employer matches
3. Build an emergency fund
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Money grows over time

Save \$158 per month, earn a 10% return, and 40 years from now you will have ...

\$1,000,000!!!

**MIRACLE OF
COMPOUNDING**

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Who has more money in retirement?

Cliff begins saving \$200 a month at age 20 and saves until age 30, then he stops saving.



Sarah waits to begin saving \$200 a month until age 30 and saves until she retires at age 65.



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Cliff and Sarah

Cliff:

- By the time he stopped saving at age 30, Cliff contributed \$24,000 that grew to \$36,589.
- By the time he retired at age 65, his \$24,000 investment grew to \$596,128.

Sarah:

- Sarah contributed \$200 a month for 35 years — a total of \$84,000
- When Sarah retires at age 65, her investment grew to \$458,776.

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Next lesson

Net Worth & Basic Investment Options



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