# Recipe for Success

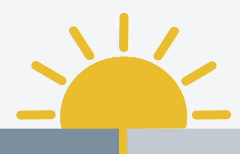
GOAL SETTING AND UNCERTAINTY

DECISION-MAKING

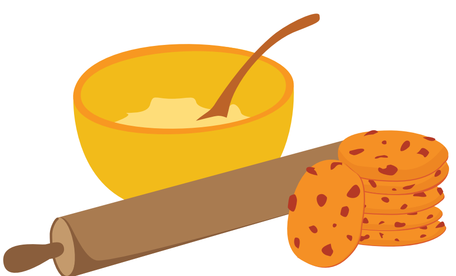
INFLATION

ASSET ALLOCATION

DIVERSIFICATION



# Let's Get Cooking



## Congratulations on taking the first step towards a successful financial future! That begins by learning the ingredients it takes to build your financial capabilities.

To help, we hope you will take the time to read through this toolkit and complete the activities within it. This was designed to provide financial education, to give you an understanding of the money concepts that you will use for the rest of your life. Understanding them can serve as a foundation for building financial security and financial well-being, while generating wealth.

These may sound like foreign terms, but we'll get into what they mean shortly. We hope you find this useful and informative.

Best of luck in your culinary career and on your financial journey! Thanks for reading.

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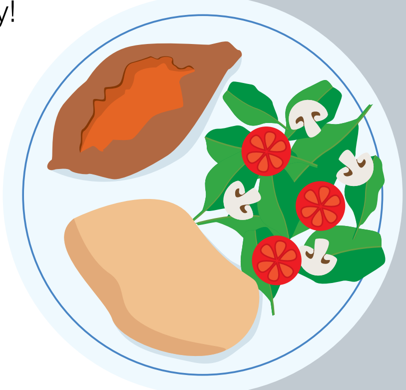


# Glossary

## Language of Money

Money words help you talk dollars and cents. As you learn more about creating realistic goals and investing your money, you'll encounter a lot of new words. Learning the "language of money" can help you make smart financial decisions and talk about money with others—like your family and other adults.

### MONEY WORDS GLOSSARY

A **401(k) plan** is a savings plan companies offer that allows their employees to prepare for retirement. Employees make contributions to the plan from their salary, which may be matched by their employer. Any gains in employee accounts are not taxed until the employee withdraws their money, so the account can grow tax-free until retirement.

A **529 savings plan** is an account designed to help you fund education expenses in a tax-advantaged way. Money in a 529 can be used to pay for tuition and fees, computers, room and board, and books and supplies.

An **account** is a place to put your money. You can have an account at a bank, credit union, or other financial institution. A checking account is a bank account used for cash deposits and withdrawals on a day-to-day basis. A savings account is also a bank account but used primarily to save money and potentially earn interest.

**Appreciation** is an increase in the value of an asset over time. For example, home values generally rise over long periods, and housing is often regarded as an appreciating asset.

An **asset** is anything that has a financial worth. Cash, savings accounts, stocks, bonds, mutual funds, houses, and cars are examples of assets.

**Asset allocation** is how your money is divided among stocks, bonds, and short-term investments. For instance, you can put some of your money in a savings account and invest some money in stocks, bonds, and mutual funds.

A **bond** is an asset issued by the federal government, state governments, or corporations. When you buy bonds, you are lending your money to the organization. Bonds generally pay interest (usually more than a savings account) every six months, and you receive the original amount you loaned the organization plus interest earned at the end of a specified time. Unlike a savings account at a bank or credit union, state and corporate bonds are subject to risk—which means you could lose some or all of the money you invested. Federal bonds are backed by the United States government.

A **budget** is a plan of how much money a person or business has to spend and how it will be spent. For instance, your home budget might include rent, utilities, food, clothing, health care, car payment, pet care, and insurance.

**Capital** is money or other assets that are owned by a person or company.

A **credit card** is a small plastic card issued by a bank or business that lets you buy goods or services with the promise that you'll pay at a later date. When you "charge" goods or services on a credit card, you are borrowing someone else's money—and you have to pay it back, usually with interest if you don't pay back the entire amount within a month.

A **credit rating** measures the probability that you will repay a debt such as a credit card bill, auto loan, or mortgage. The higher your credit rating, the more likely you will be able to get a loan or credit.

**Debt** is money you owe when you buy on credit or borrow from someone else. Any money you have to pay back can be considered debt.

A **deposit** is money you put in your account.

**Depreciation** represents how much of an asset's value has been used up. For example, cars depreciate in value over time, as they clock more miles and need more repairs with age.

**Diversification** means having lots of different kinds of investments (different types of stocks, different types of bonds, etc.). For example, if you invest in a skateboard company stock and kids stop buying skateboards, you could lose all the money you have invested. Instead, if you invest money in skateboards, pizza, and computers, and kids stop buying skateboards, you might lose only the money you invested in skateboards—not all of it. Diversification cannot guarantee that your investments will make money or protect against loss if the market goes down.

A **down payment** is a partial payment made at the time you make a purchase, with the remainder due over a given time period. Used primarily for larger purchases such as a house or car.

**Expenses** are the amount you pay for purchases such as food and clothing; also includes payments for rent, a mortgage, or other regularly scheduled bills.

**Financial planning** is deciding on the most important goals for your future and carefully saving and investing so you can meet these goals.

**Financial strategy** is a financial plan that helps secure your financial future that includes your daily expenses along with larger items such as a house, car, and saving for retirement. This strategy includes a plan for saving and investing your money.

**Income** is the amount of money you regularly receive from sources such as your job, investments, pensions, and Social Security.

**Industry sector** is a group of companies that produce similar products or services, for example, agriculture, mining, banking, and financial services.

**Inflation** is the general increase in the price of goods and services. Money loses value due to inflation, so it will be more expensive to buy products in the future. For example, in 1939, a car cost $400. A similar car today would cost almost $30,000 at a 3% rate of inflation.

**Insurance** helps protect individuals or companies by paying them if they suffer losses due to fire, theft, or injury. Individuals can also buy life insurance to pay their dependents in case they die.

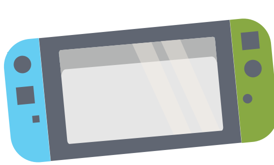
**Interest** can be an amount of money an investment earns or an amount of money that is added to money you borrowed. If you have a savings account, your money can earn interest—and then you'll have even more money. However, if you borrow money (like using a credit card), you will have to pay interest on top of what you borrowed. That's expensive.

You **invest** by putting money into assets (such as stocks, bonds, or mutual funds) to help you reach your financial goals.

An **investment** is anything that you buy in hopes that it will increase in value.

A **loan** is money that's borrowed and expected to be repaid, usually with added interest.

A **luxury** is something you don't need. It can be a material object or a service that you want but could live without. For example, you need shoes to wear, but you don't need to buy the most expensive pair or a new pair every month.



A **mutual fund** combines the money of many investors who have common financial goals into a professionally managed portfolio. Mutual funds take the money and buy many different stocks, bonds, and/or short-term investments (depending on what kind of mutual fund it is), giving small investors access to a diversified portfolio. Each investor shares in the gain or loss of money in the mutual fund.

A **portfolio** is a group of investments owned by a person, investment company, or financial institution. Your portfolio should include different types of investments.

**Retirement** is the period in someone's life after they have stopped working because they have reached a particular age.

A **return** is the gain (or loss) of money from an investment in a particular time period.

**Risk** comes in many different forms. Two types of risks are the risk of losing money and the risk of not gaining enough to reach your goal. Your asset allocation helps you keep the right balance of these risks for your goal. Another risk you'll face is having most or all of your money in an investment that does worse than your other choices. Diversification helps reduce how much of this risk you have.

**Savings** are how much money you have in your bank account, brokerage accounts, and retirement accounts (a 401(k) plan, for example).

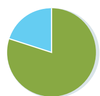
A **savings account** is one place to put your money to help achieve your financial goals. When you put your money in a savings account, the bank "borrows" your money and pays you interest. Please note that while money invested in savings accounts is usually insured against loss, you earn a very low interest rate.

A **stock** is a share of a company that is sold to the public. Companies sell stocks to raise money to finance business operations. Stock prices can change daily. As an investment, stocks have produced the highest long-term returns over the past several decades. They also have had the biggest swings in performance and are subject to much greater short-term risk of losing money. Of course, just because something happened in the past doesn't mean it will happen again.

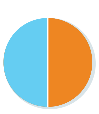
The **stock market** is where shares of stock of different companies are bought and sold.

A **stockholder** (or shareholder) is a person who owns stock (shares) in a company.

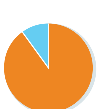
**Time horizon** is how long it is before you plan to spend your money on a specific goal. This determines how your money should be divided between stocks, bonds, and short-term investments.



Something you need immediately or within a few years (under four years) has a **short-term time horizon**.



Something you save for over several years (between five and 10 years) has a **medium-term time horizon**.



Something you save for that will happen many years or decades in the future (over 10 years), like retirement, has a **long-term horizon**.

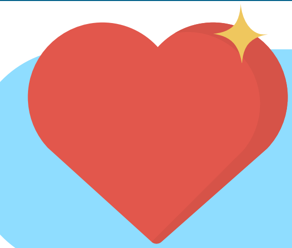
**Volatility** is the degree of variation of a trading price over time. If an investment or a security experiences big swings in its price, rising and falling rapidly, those swings represent volatility.

**Wants** are things you don't need to live or do your job. For example, you might want to eat out every day, but you don't need to. A want can also be considered a luxury.

**Wealth** is the summation of valuable assets that someone owns. Building wealth is important for establishing a secure life.

# Goal Setting and Uncertainty

Saving money starts with setting a financial goal. Learn how to save your money, consider what you want to achieve, and then commit to it in six easy steps!



## 1. Discover what matters

What's important to you? Whatever it may be, your goal is connected to what's valuable to you.

## 2. Be as specific as possible

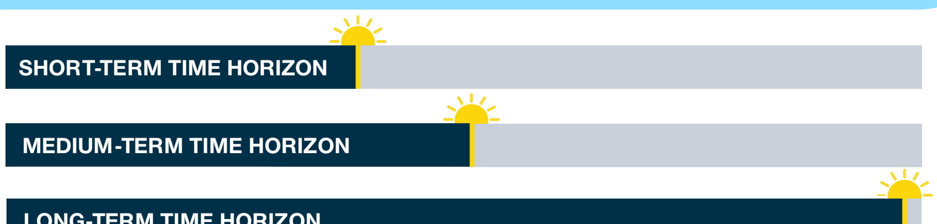
In order for you to achieve your goal, you have to clearly define what you want to achieve. Write it down and put it in places you'll see often.

## 3. Be prepared

Following a budget and preparing for unexpected expenses can help you increase your income, reduce your expenses, and end up with more savings. Just remember, income – expenses = savings.

## 4. Keep track of time

It's important to track your goal to a specific date or time frame. This is also referred to as a time horizon, which is a future point in time when you will need to access your savings. Remember, your goal may challenge you, but if you keep at it, you'll get there!




**Know-It Note**

- If your goal is something you need immediately or within a couple years, it has a short-term time horizon.
- Something you save for over several years, such as a car, has a medium-term time horizon.
- Something you save for that will happen many years or decades in the future, like retirement, has a long-term time horizon.

## 5. Keep it up!

You may have to make trade-off spending decisions to stay on track. Focusing on what's important and what you want to save for can lead to forming good financial habits at an early age and help achieve your goal.

## 6. Achieve your goal!

# Goal Setting

**LESSON 1**

**Goal Setting** helps you envision why and what you are saving for and when you want to achieve it. Knowing how long you need to save for your financial goal is called a "time horizon."

Setting a financial goal is the first and most important step to financial planning. Think about money now and how you spend and manage it. What do you think your spending will look like when you graduate college and then at other stages later in life? What kind of longer-term financial goals might you have?

Different financial goals have different time horizons. A time horizon is simply the length of time between now and when you'll need your money to achieve your goal. It helps you categorize your financial goals. For example, saving up for a new electronic device has a short-term time horizon of less than one year. Saving for college might have an intermediate time horizon of one to five years, while saving for retirement has a long-term time horizon of more than 10 years.

## SHORT-TERM TIME HORIZON

Buying new running shoes might be ***weeks or months*** in the future. Take the time to find the best buy and save for the purchase.

## MEDIUM-TERM TIME HORIZON

College is expensive, and some students help pay for it. If a student is going to college in the next ***one to five years***, and they are helping to pay for it, that makes it a medium time horizon for them. Even though it's years away, they need to start planning now.

## LONG-TERM TIME HORIZON

Other goals have an even longer time horizon—***decades!*** Such as buying a house and saving for retirement.

Additionally, understanding your time horizon will help you make **SMART** goals. People and businesses often use a process called **SMART** goals to make decisions. Goals need to be **S**pecific, **M**easurable (meaning there's a way to tell if you succeeded or failed), **A**chievable (meaning doable), **R**elevant (meaning appropriate or fitting for your current lifestyle), and **T**ime specific (meaning there's a deadline).

| | |
|---|---|
| Specific | Your goal is clearly defined and states exactly what you are going to achieve. |
| Measurable | Track your progress and know when your goal is met. |
| Achievable | Your goal challenges you but is also something realistic. |
| Relevant | Your goal is connected to what is valuable and important to you. |
| Time specific | Your goal includes a date you will have achieved it by. |

WHAT'S THE

## Big Idea?

Income – Expenses = Savings. Preparing and following a budget can help you increase your income, reduce your expenses, and end up with more savings.

# Better Get a Budget

**LESSON 1**

A thoughtfully developed and monitored budget is the foundation for the overall management of your finances.

Creating and monitoring a budget helps ensure you are spending money on the things that are important to you and aids in making good decisions as new situations arise or you face unexpected circumstances.

A good budgeting technique is to divide your budget into two main categories:

- Ongoing expenses that you incur each month (such as rent or a cell phone bill)
- Other expenses that are not paid monthly (such as car insurance paid semiannually or annually) or are unpredictable (such as car repairs).

| **Income (monthly total)** | |
|---|---|
| Gross Pay | $3,200 |
| Taxes | (800) |
| Retirement[1] | (250) |
| Benefits (e.g., health insurance) | (150) |
| **Net Pay** | **$2,000** |

| **Expenses** | | | |
|---|---|---|---|
| Incurred Monthly | | Other | |
| Rent | $550 | Emergency Fund[2] | $150 |
| Food | 275 | Travel/Entertainment | 150 |
| Student Loan | 250 | Car Insurance[3] | 90 |
| Utilities | 115 | Car Maintenance | 80 |
| Gasoline | 75 | Next Car | 75 |
| Cell Phone | 40 | Clothes | 60 |
| Streaming Services | 25 | Renters Insurance | 15 |
| Miscellaneous | 35 | Charitable Giving | 15 |
| **Total** | **$1,365** | **Total** | **$635** |
| **Grand Total** | | | **$2,000** |

[1] working toward 15% (including employer match)

[2] working toward three to six months of living expenses

[3] represents 1/12 of expected annual need

A suggested approach is to maintain funds associated with the “incurred monthly” expenses in your checking account and place cash associated with the “other expenses” in your savings account.

Every dollar in your savings account should be set aside for something specific. This means that each time you move money to or from your savings account, you need to update your records to reflect this increase or decrease in the categories making up your savings balance.

GOAL SETTING ASSESSMENT

# Show What You Know

## Time Horizons

Financial goals have different time horizons. Here are a few examples:

- Something you need immediately or within a couple years has a **short-term time horizon**.
- Something you save for over several years, such as a car, has a **medium-term time horizon**.
- Something you save for that will happen many years or decades in the future, like retirement, has a **long-term horizon**.

Determine whether each goal has a short-, medium-, or long-term time horizon.

**1.** Replacing your college car with a newer model.

Time horizon ____________

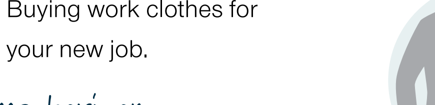
Explain your thinking:

______________________________

______________________________

______________________________

**2.** Buying work clothes for your new job.




Explain your thinking:

______________________________

______________________________

______________________________

**3.** Deciding on whether to make a donation to the local library.

Time horizon ____________

Explain your thinking:

______________________________

______________________________

______________________________

**4.** Retiring using your company's **retirement** savings program.

Time horizon ____________

Explain your thinking:

______________________________

______________________________

______________________________

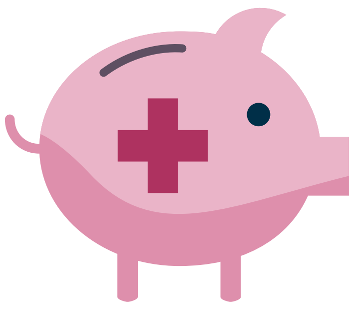
Answer Key: (1) Medium term, 5–10 years. (2) Short term, 1–4 years or less. (3) Short term, 1–4 years or less. (4) Long term, 11–30+ years. To retire comfortably, you should begin saving as soon as possible to give your money time to grow.

# Prepare for the Unexpected: Emergency Funds

Okay, so you have a budget and are on track to make your goals a reality. Awesome! But what happens when the unexpected happens? You need a big car repair. You break your arm. You lose your job. You don't want these setbacks to derail your goals or impact your financial well-being. This is why it's important to prepare for uncertainties and have an emergency fund.

We suggest you aim to have enough money in your **emergency fund to cover at least three to six months of living expenses.**

It can be really tempting to forgo establishing an emergency fund or to tap into the fund for things that aren't really emergencies. You need to resist this temptation, because the consequences of doing so can be severe. Without an emergency fund, you may need to rely on credit cards, take out a loan, or tap savings earmarked for other goals (e.g., retirement), all of which are financial setbacks and can create financial stress.



If you believe you will be tempted to take money from your emergency fund for non-emergencies, you should consider putting this money in a separate account (as opposed to treating it as part of your savings account) where it will be somewhat out of sight, out of mind.

Be mindful of what you might be inclined to call an emergency. For example, if the tires on your car are likely going to need to be replaced in a year, this is not an emergency. You can reasonably predict that you are going to need to incur this cost and should be putting away money each month as part of your budget. Conversely, paying for repairs resulting from an accident would be an appropriate use of your emergency fund.

# Prepare for the Unexpected: Insurance

Along with your emergency fund, insurance is an important tool for managing financial risk and protecting your financial well-being.

The concept of insurance is rather simple—you pay the insurance company an amount (the "premium") in exchange for the insurance company bearing the risk of a specified type of loss. Payments for actual losses are made by the insurance company from the pool of money paid by all insured parties.

Most types of insurance coverage are subject to a "deductible." This is the amount of money you will pay before the insurance coverage takes effect and the company pays you. After you pay the deductible, the insurance company pays the remainder of the claim, up to the limits defined in the policy.

You likely need four types of insurance:

- **Auto Insurance** - States require you to purchase liability insurance if you own a car. That pays for property damage and injury-related costs of another person in an incident where you are legally responsible or at fault. You can also purchase insurance that will cover a repair or replacement of your car in the event of an accident.
- **Health Insurance** - Your good health allows you to work, earn money, and otherwise enjoy life. If you were to develop a serious illness or have an accident without being insured, you may find yourself in a lot of debt. If your employer offers health insurance benefits, this is typically the most affordable way to obtain coverage. If you do not have coverage through your employer, you will need to explore other options such as the Federal Health Insurance Marketplace. You may also be able to obtain coverage through a parent's policy if you are under age 26.
- **Long-Term Disability** - Long-term disability insurance protects you from loss of income if you are unable to work for a long period of time due to an illness or injury. Most policies pay a percentage of your salary (typically 50% to 70%) while you are disabled after a specified period has passed (generally three to six months). These policies are usually very affordable through an employer.
- **Property Insurance** - The value of your house and/or your belongings inside your dwelling can add up to a significant amount of money, particularly as you begin to accumulate. You should consider a "replacement cost" homeowners or renters policy that can cover most of the cost to replace an item in the event of a burglary, fire, or disaster. Landlords often require renters policies that also include liability coverage, in case you're responsible for others' injuries or property damage.

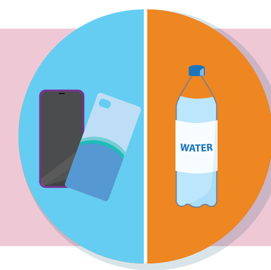
In addition, if other people (such as a spouse or children) depend on your income, you should strongly consider purchasing life insurance.

# Decision-Making

We all have limited time and money, so making deliberate spending decisions and resisting impulse buys is a key financial strategy. Learn how to do it in five simple steps!

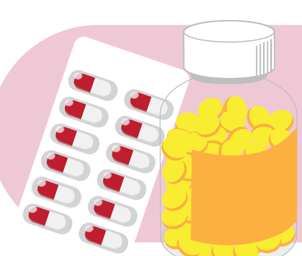
## 1. Determine wants vs. needs

Needs are the things you must have to survive. Wants are the things you would like to have but don't really need.




Know-It Note

- Food, water, and medicine or things that will help you achieve your financial goals are typically needs.
- You don't really need a cool pair of jeans or a new phone cover, so those are typically wants.



## 2. Ask yourself why and when

Understanding the purpose of buying something and when you will need it helps with making smart spending decisions.

## 3. Say "no" to impulse buys

To get the most value for your money, think through your spending decisions carefully and resist buying on impulse.

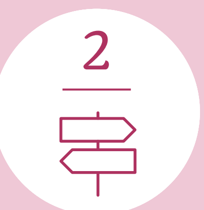
## 4. Spend wisely

An important part of making wise financial decisions is understanding trade-off decisions, meaning thinking about how much we spend and whether or not that can hinder or help us achieve financial goals.

## 5. Stay focused

If we keep our focus on what we really need rather than what we want, we'll have more money in the long run and a more secure financial future.

# Decision-Making

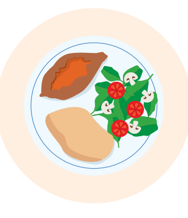



## Get It for Less

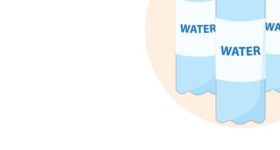
First, define your goal and then determine if it is a need or a want. **Needs** are the things you must have to survive, like food, water, and medicine—or *things that will help you achieve your financial goals*.

### NEEDS

**Needs** are the things you must have to survive, like food, water, and medicine—*or things that will help you achieve your financial goals.*



FOOD

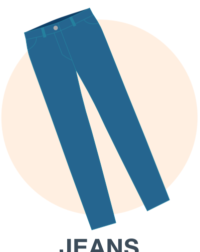



WATER

MEDICINE

### WANTS

**Wants** are the things you would like to have but don't ***really*** need that can take you off track from reaching your goals, like a cool pair of jeans or a new phone cover. Additionally, another important choice you can make is to do comparison shopping. Stores and websites often sell the same product for different prices and sometimes have sales.



JEANS

NEW PHONE COVER

**LESSON 1**

**Decision-Making**
To get the most value for your money, think through your spending decisions carefully and resist buying on impulse.

WHAT'S THE
## Big Idea?

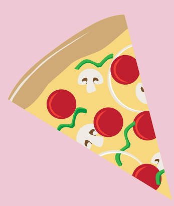
To reach your financial goals, you have to make good decisions along the way. You can save money by holding off on buying things you don't need and by comparison shopping to get the best deal on the things you do buy.

# Plan Your Party

## Planning a Budget

You're planning an anniversary party, and the guest list includes nine people.

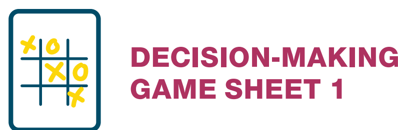
Apply good decision-making techniques to make sure you meet the goal of planning the best possible party that fits the budget!



See pricing options for food and other fun items below:

### PARTY ITEM OPTIONS

| Item | Store A | Store B | Store C |
|---|---|---|---|
| Fruit Juice (serves 4) | Two for $7.00 | $3.89 | $4.19 |
| Bottled Water (1 serving) | $0.39 | Three for $1.00 | $0.49 |
| Water From the Tap (free!) | $0 | $0 | $0 |
| Pizza (serves 3) | $7.99 | $8.99 | Two for $15.00 |
| Turkey Burgers (pack of 10) | $6.99 | $7.99 | $6.99 |
| Party-Sized Subs (serves 10) | $16.00 | $18.00 | $17.00 |
| Cake (serves 10) | $22.00 | $20.00 | $19.00 |
| Ice Cream (serves 4) | $5.99 | Two for $10.00 | $4.99 |
| Giant-Sized Wedding Picture | $17.50 | $20.00 | $22.50 |
| Flowers | $20.00 | $22.00 | $25.00 |
| Greeting Card | $5.95 | $5.95 | $6.95 |
| Piano Player ($50 fee) | N/A | N/A | N/A |
| Magician ($40 fee) | N/A | N/A | N/A |



DECISION-MAKING GAME SHEET 1

# Plan Your Party

## Planning a Budget

(Continued)

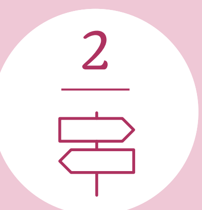
**Directions:** You have $75 to spend on the anniversary party. Plan a menu, making sure that there's enough food for everyone, and stay within your budget. (Note: You may have to buy more than you need for some items because of the package sizes.)

### Anniversary Party

PARTY ITEM BUDGET

| | Item and Quantity | Store | Amount Paid |
|---|---|---|---|
| example | Greeting Card | Store A | $5.95 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | Total | $ |

# Decision-Making




## A Penny Saved...

Imagine you need to buy a car soon, a purchase with a **short-term time horizon**, so you can commute to work, but you also want to make sure you still have some savings for other goals. You have $6,500 in your savings account.

While shopping around for the best deal, you wonder if you'll have to take out a car loan. With a **loan**, you would make a cash payment for part of the cost (called a **down payment**), then pay the rest, a bit each month, over several years. Take note that there are pros and cons to taking out a car loan. A loan helps people buy an expensive item immediately rather than wait months or years while they save for it. But, in addition to the amount of your purchase, a loan adds **interest** charges each month—a charge for borrowing the money. Over a four- or five-year loan, interest charges can add hundreds or thousands of dollars to the cost. For example, if you borrowed $10,000 for five years at 7% interest, your total payments would add up to $11,186.

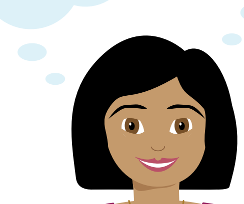
Deciding to use a **credit card** or take out a loan from a bank is an important financial decision. If you have time to save for your goal, that is usually the best option, but sometimes, purchasing on credit is necessary.

### Understanding Debt

Although there are often good reasons to borrow money, it is important that you borrow only after careful consideration of your overall financial situation.

*It is essential that you:*

- Understand the terms of the debt: the total you are borrowing (principal), the interest rate you are paying (and whether that can change), the time period over which you are making payments, and monthly payment amounts.
- Understand how this debt affects your budget, considering the debt payment amount as a percentage of your income.
- Understand your payment options for reducing (and ultimately eliminating) your debt, including the ability to pay it down early and what happens if you have trouble making payments.
- Consider whether the debt serves a long-term purpose (such as buying a house and funding your education) or short-term spending (such as entertainment expenses on a credit card).




**LESSON 2**

**Decision-Making**
An important step in making wise financial decisions is understanding the relationship between spending practices and achieving financial goals.

Although there is no approach to debt reduction or elimination that fits every situation, it is generally advisable to focus first on paying off the debt that carries the highest interest rate.

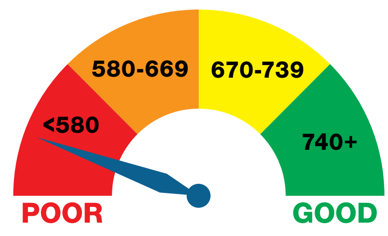
Credit card debt can be particularly problematic because the interest rate on this debt is typically high, and it is easy to spend more than you intend. Credit cards are great for convenience and in some cases to earn rewards, but you should seek to pay your outstanding balance in full each month.

Paying bills on time is critical. Information on your credit reports is used to determine credit scores, such as the commonly used FICO score. Credit reports and scores will not only impact how much interest you pay on a car loan, credit card balance, and mortgage, but also your insurance premiums and your ability to rent an apartment. In some cases, a prospective employer may even vet job candidates using their credit reports.

Here are a few tips for establishing a good credit history and earning a high FICO score:

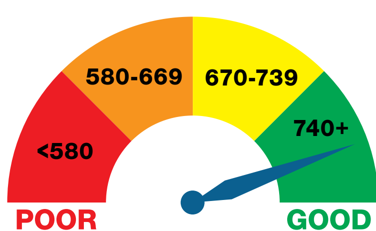
- Pay all of your bills on-time and in full
- Keep credit card balances low
- Apply for and open new credit accounts only as needed
- Consider not closing unused credit cards. That keeps your credit utilization (ratio of amounts owed to available credit) low, which helps your score. But that should be weighed against any ongoing fees and the effort to monitor those cards for fraudulent activity

## POOR CREDIT RATING




- Miss payments
- High balances
- Hard to borrow money
- Higher interest rate

## GOOD CREDIT RATING




- Make all your payments on time
- Low balances
- Easier to borrow money
- Lower interest rate

WHAT'S THE

**Big Idea?**

If you need to take out a loan to help you pay for expensive things, you have to consider interest costs. You must make payments on time to keep a good credit rating.

**DECISION-MAKING ACTIVITY SHEET 2**

# How Interesting!

Do you really know how much you'll pay for an item you purchase on credit? The cost can vary depending on what type of credit you used and how you pay it back! You pay interest to a credit card company when you charge purchases on a credit card or to a bank when you borrow money via a loan.

Interest payments on credit card purchases or bank loans will most often be calculated as an annual percentage of the original amount loaned—for instance, paying 12% interest on $100 on a credit card. To find out the dollar amount of the interest you'd owe after one year, multiply the original amount of money ($100) by the interest rate (in this case, 12%, which is 0.12 when converted to a decimal for easier multiplying).

$100 x 0.12 = $12.00 After the interest payment, you would owe $112.00

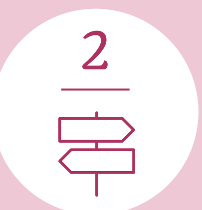
**Directions:** Calculate the amount of annual interest:

1. **$200** on a credit card that charges **12%** interest ______________
2. A **$500** loan that charges **3%** ______________
3. A **$1,200** loan that charges **7.5%** ______________
4. A **$7,500** loan that charges **6.8%** ______________

**Now Try This:** A borrower paid **$66** on a **$600** loan. What was the interest rate? ______________

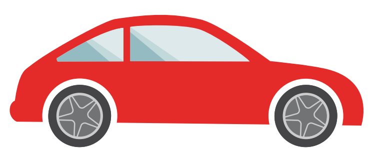
Answer Key: (1) $24. (2) $15. (3) $90. (4) $510. Now Try This: 11% ($66 ÷ $600 = 0.11 or 11%).

# Decision-Making




## But I Love That New Car Smell

Time to go car shopping! You start by researching different types of cars online, both new and used, to narrow down the models that interest you.



You found a car dealer selling a new model you liked for $21,000 and offering a five-year loan at 5%. With a $4,000 down payment, the monthly payment would be $320.81 for 60 months. After giving it some thought, you decide that you need something more practical since you would be paying more than $2,200 in interest over the five-year life of the loan and would use up most of your savings for the down payment. And there are other expenses to consider: gas, maintenance, auto **insurance**, and unexpected costs for repairs. Insurance can cost hundreds of dollars a month, but it is absolutely necessary to protect yourself from the financial **risk** of expensive repairs and lawsuits if you ever have an accident.

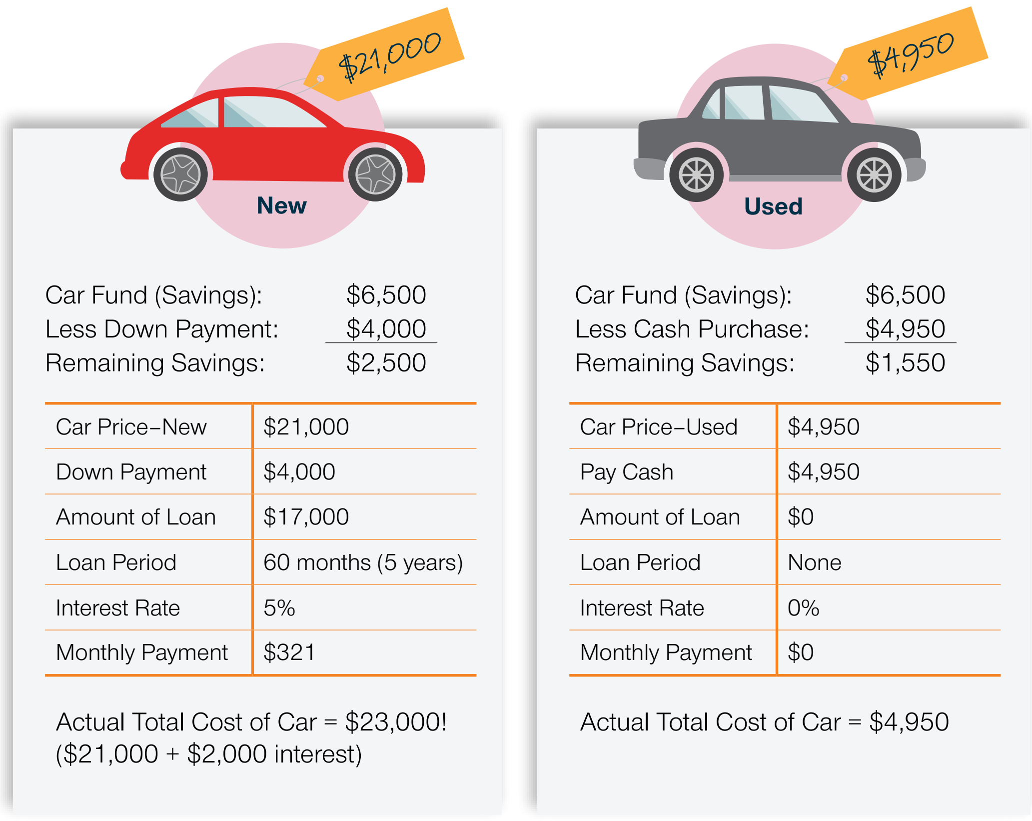
**LESSON 3**

**Decision-Making**
Staying on track to reach financial goals involves making trade-off decisions for spending on things we don't really need. Understanding how to make smart spending, saving, and investing decisions now helps set you up for a more secure financial future.

WHAT'S THE
### Big Idea?

If we keep our focus on what we really need rather than what we want when we buy things, we'll have more money in the long run and a more secure financial future.

# Car Purchase Analysis




**New**

Car Fund (Savings): $6,500
Less Down Payment: $4,000
Remaining Savings: $2,500

| Car Price–New | $21,000 |
| --- | --- |
| Down Payment | $4,000 |
| Amount of Loan | $17,000 |
| Loan Period | 60 months (5 years) |
| Interest Rate | 5% |
| Monthly Payment | $321 |

Actual Total Cost of Car = $23,000!
($21,000 + $2,000 interest)

**Used**

Car Fund (Savings): $6,500
Less Cash Purchase: $4,950
Remaining Savings: $1,550

| Car Price–Used | $4,950 |
| --- | --- |
| Pay Cash | $4,950 |
| Amount of Loan | $0 |
| Loan Period | None |
| Interest Rate | 0% |
| Monthly Payment | $0 |

Actual Total Cost of Car = $4,950

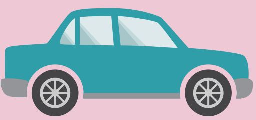
**Remember** that recurring costs (gas, maintenance, insurance) and unexpected costs (repairs) will add expenses to your monthly budget.

DECISION-MAKING GAME SHEET 2

# Is It Covered?

Car **insurance** is required by law in all but two states. But would it be a good idea to buy it even if you didn't have to? Simulate seven years of insurance payments and driving experience and see what happens!

Each year, you will pay the $2,000 cost of a car insurance policy (already printed on your game sheet). In real life, insurance costs increase over time, but so do the costs of accidents and lawsuits.



**Directions**: For each year, roll two dice, add the numbers together, and look at the chart to see what your cost of accidents and lawsuits would have been without insurance. Record that amount on the Dice Roll Chart. After seven years, compare the cost of auto insurance with the cost of not having auto insurance.

| Dice Total | Result |
|---|---|
| 2 | Lose a $2,000,000 lawsuit |
| 3 | Pay for a $4,500 repair |
| 4 | Pay a $5,500 medical bill |
| 5-6-7-8-9 | No accidents or lawsuits |
| 10 | Pay for a $6,000 repair |
| 11 | Pay for a $7,500 repair |
| 12 | Pay $60,000 in hospital costs to accident victim |

| Year Number | Auto Insurance Cost | Cost of Accidents and Lawsuits |
|---|---|---|
| 1 | $2,000 | |
| 2 | $2,000 | |
| 3 | $2,000 | |
| 4 | $2,000 | |
| 5 | $2,000 | |
| 6 | $2,000 | |
| 7 | $2,000 | |
| **TOTAL** | $14,000 | $ |

# Spotlight on Starting a Small Business

Owning a business is an aspiration that many people have. And it brings unique financial considerations. For instance, your income will likely be less predictable than a paycheck. The business may require significant up-front capital, funded with cash or borrowed money. And there is no guarantee the business will generate the profits you need. Despite the challenges, owning a business can be personally and financially rewarding.

Starting a business requires tremendous planning. A business plan includes a specific definition of the product or service, the target market, expected market share, promotional plans, competition, pricing, operations, organization, staffing needs, and much more. Even if you aren't good at budgeting in your personal life, it's an essential skill for a business owner. Learning from mentors such as other entrepreneurs, as well as paid advisors, will greatly improve your odds of success.

An early consideration is how you will cover your own expenses while the business gets established. While most people should have an emergency fund covering three to six months of expenses, an entrepreneur may need 12 or more months of cushion, depending on the type of business. Having a spouse with a steady income can also help.

A business involves diligent management. You will need to keep the business finances separate from your personal accounts. That includes a separate bank account and, if needed, a credit card. You need accounting records, tax records, and payroll records if you have employees. Business taxes can be much more complex than an individual tax return. You should consider hiring experts such as a tax accountant, bookkeeper, and payroll service—before your business outgrows your ability to manage it all. For most businesses, at some point you will also need legal advice.

In addition to advisors for the business, small business owners will likely be well served to consult a financial advisor for themselves. An advisor can help you think about how much financial risk you are comfortable taking. How much income would you want to generate by a certain point before deciding it might be time to go back to steady full-time employment?

Additionally, small business owners will have to address financial needs that may have previously been facilitated by an employer. This includes various types of insurance, such as health care, disability, and life insurance. It is important to keep saving for retirement, so an owner should consider whether to create a plan through the business or outside it. These choices also involve tax considerations and become more complex if you hire employees. These are among the decisions a financial advisor can help address.

# Inflation

It's important to learn how the value of money can change in the future. Inflation is the increase in the price of goods and services over time, which means that long-term financial goals could cost more than they do today. Read these steps to determine how inflation can affect your purchasing power in the future.

## 1. Know the power of your purchase

Inflation causes money to lose value over time, and as money loses its value, your purchasing power is less. If your purchasing power is less, your long-term financial goals will cost more.

## 2. Remember why inflation is important

When you start saving for a goal, keep in mind that it will probably cost more in the future. Factoring in the effect of inflation can help you make sure you save enough for your long-term goal.

**Know-It Note**

- Inflation is an economic force that reduces purchasing power, meaning that a dollar buys less than it used to.
- Inflation is expressed as a percentage increase. If the price of an item was $100 on January 1, 2019, and $110 on January 1, 2020, the annual inflation rate for that item was 10%.

## 3. Figure out your time horizon

When you're planning for a financial goal with a long-term time horizon, you need to consider and plan for the effects of inflation.

## 4. Make a plan

Plan to start investing early and consider your time horizon (the length of time between now and when you'll achieve your financial goal), and you'll have a better chance of having enough money when you need it.

## 5. Consider your future

Part of planning ahead is considering what major purchases may come up down the road. What will it cost to buy a home in 10, 15, or 20 years? You might know the price of something today, but because of inflation, it could change a lot in the future.

# Inflation

LESSON 1

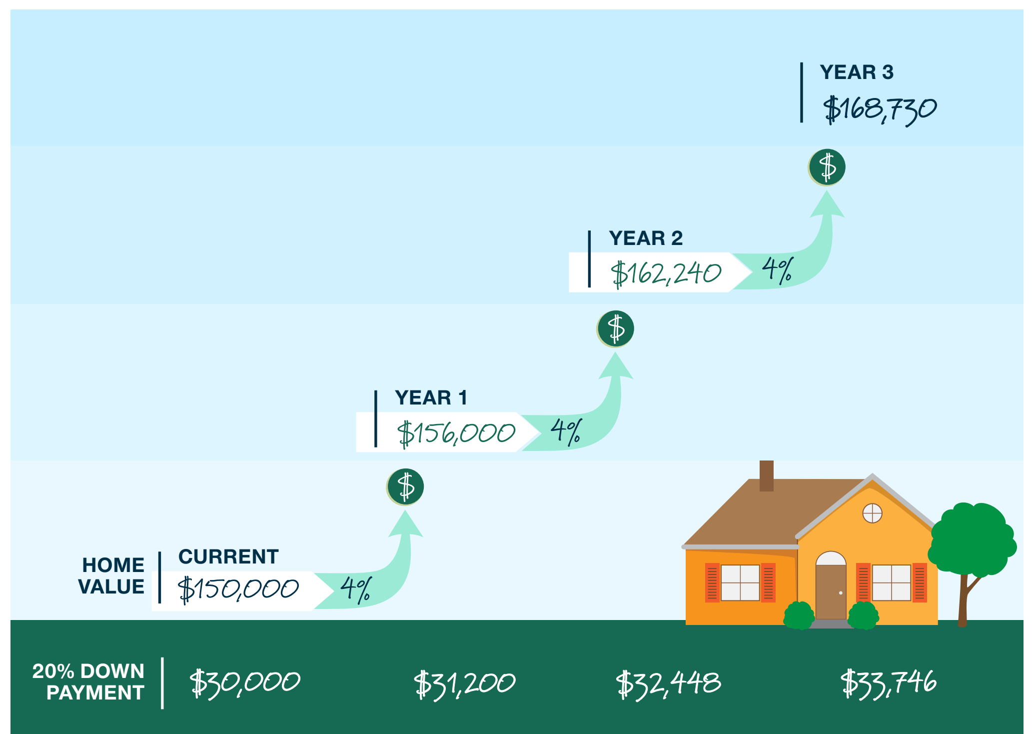
Inflation is the increase in the price of goods and services over time, which means that long-term financial goals will likely cost more than they do today.

## A Place of My Own

Some financial goals have an immediate time horizon, while others happen over months, years, and even decades. For financial goals with a longer time horizon, it's important to understand how inflation can affect the cost of your future goal.

**Inflation**—the increase in prices of products and services over time—causes money to lose some of its value over time. This process indicates that prices were (generally) lower in the past and can be expected to be (generally) higher in the future. How does this affect how you save for long-term purchases like a home or college? You will have to save more because it will be more expensive in the future. This is typically done through investing your money versus keeping it in a savings account, which will not grow enough to keep pace with inflation for long-term financial goals.

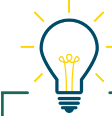
Consider buying a home that costs $150,000 today that you are planning to put 20% as **down payment** and borrowing the rest. Three years from now, the house will likely have gone up in value—which means your down payment would also rise. So if the price of a $150,000 home increases 4% per year, it will cost almost $169,000 in three years. At that point a 20% down payment will be $33,800, not 30,000!



**To calculate the effects of inflation over several years:**

1. First, **convert the percentage** to a decimal (2% is equivalent to .02.).
2. Then **add 1 or 100%** to the percentage increase (So for a 2% inflation rate, use 1.02%.).
3. Finally, **multiply the decimal** times the current cost.
4. For inflation over more than one year, **multiply the calculation for year 1** by the decimal. Repeat this operation—multiplying the result by the decimal once for each year.

**Example:** A $200 item has a projected 2% inflation rate. After three years, the cost will be $212.24 (rounded to the nearest cent). Year 1: $200 x 1.02 = $204; Year 2: $204 x 1.02 = $208.08; Year 3: $208.08 x 1.02 = $212.24.



WHAT'S THE

## Big Idea?

When you're planning for a financial goal with a long-term time horizon, you need to consider and plan for the effects of inflation.

# Spotlight on Homeownership

When you own your home, it becomes not just a place to live—it's an asset you own that carries value, similar to your investments in stocks and bonds (more to come on that in the Asset Allocation section next).

Owing a home can be a powerful wealth building tool. Over time, you will build equity in your home—the difference between its value and any loans tied to it. The goal is to eventually pay off your mortgage, reducing your housing costs in the future. Equity in your home can also provide a source of cash if necessary, through a type of loan called a home equity line of credit.

However, there are risks to consider. Purchasing more home than you can afford can inflict financial hardship and limit future spending. It is the largest purchase that most people will make in their life, and it's important to understand how it will impact your budget in the years ahead. Before purchasing a home, give some thought to these six considerations:

**1) Are you ready to buy a house?**

Answering the following questions can help you determine if you are ready to buy a home. If any of the answers are "no," you may want to consider waiting.

- Am I planning on staying in the home for at least the next three years, as opposed to moving or relocating?
- Can I afford maintenance and repairs that the property may need?
- Am I willing to lose equity if the housing market goes down, recognizing that I also have the potential to build equity over the long term?
- Do I know my current credit score, which will affect the interest rate of my loan?
- Do I have an emergency fund of three to six months of living expenses?

**2) Determine how much house you can afford.**

- How much do you feel comfortable paying each month for mortgage payments, taxes, and insurance?
- Meet with a lender to get preapproval for a loan, but take the amount a lender says you can afford with a grain of salt. It's most important that you feel comfortable with the overall cost of the home and your total monthly payment. Many experts recommend keeping mortgage payments below 28% of your gross monthly income.

**3) Save for a down payment and closing costs.**

How much you have to pay up front on a home can vary widely by region and the type of mortgage. Ideally, you want to put down at least 20% of the home purchase price to avoid having to pay private mortgage insurance (PMI).

If you don't have 20% saved now, set a target time frame (say, 18 months) to save for your down payment and adjust your budget to set aside enough to help you hit that target. If you can't avoid PMI, be sure to include it in your calculation of monthly costs.

Additionally, there are a variety of costs in real estate transactions, such as title insurance, inspections, lender fees, and transfer taxes. A lender will also usually require prepayment of a portion of annual taxes and insurance (called escrow). These closing costs can be significant, so make sure to plan ahead.

**4) Shop for a mortgage.**

A small difference in your interest rate can mean thousands of dollars in savings over the life of your loan, so make sure to get estimates from two or three lenders. You will need to choose between a fixed rate or an adjustable rate mortgage.

- Fixed rate mortgages give the borrower the same interest rate for the life of the loan, which means you'll owe the same amount each payment. These mortgages are typically offered in 15- or 30-year terms.
- Adjustable rate mortgages typically offer a low initial interest rate, but the rate will fluctuate—up or down—after three, five, or seven years, depending on the terms. The interest rate may change annually for the length of the mortgage. Your monthly payment will change as the rates increase or decrease.
- Your choice will depend on factors such as how long you plan to stay in the home and the difference in the rates. You need to consider both the initial rate and how high it could potentially go. Be careful not to overextend yourself based on an initial rate that could change.
- Ask to compare the interest rates and total payments for the life of the loan on a 15-year versus 30-year mortgage. You could potentially save a significant amount by choosing a 15-year mortgage, but the higher monthly payment reduces your financial flexibility.

**5) Review your insurance coverage**

Homeowners insurance is required by your lender while you have a mortgage on the house, and you want it even if you have no mortgage. It typically covers damage to the home and belongings due to theft, fire, or natural disaster, as well as liability for someone injured on your property.

**6) Plan for additional costs**

Make sure you uncover all ongoing costs of owning your home. These can include:

- Neighborhood association fees
- Trash pickup costs
- Utility bills
- Maintenance costs (e.g., HVAC service)
- Real estate taxes
- Unexpected repairs
- Homeowners insurance

**INFLATION ACTIVITY SHEET 1**

# When Prices Rise

For many people, owning a home is one of their biggest long-term financial goals and the reality of inflation is an important consideration when planning for rising housing prices, along with all the other expenses that come with homeownership, like property taxes, utilities (gas, electric, water), and insurance. Additionally, there are unexpected costs, like a roof repair. Although many mortgages have payments that stay the same for the life of the loan, all the other costs could increase due to inflation.

Your housing budget is $1,150 per month. If you take inflation into account, will this be enough for all your housing costs? If not, how much will you need to budget?

**Hint:** Inflation is an economic force that reduces purchasing power, meaning that a dollar buys less than it used to. Inflation is expressed as a percentage increase. If the price of an item was $100 on January 1, 2019, and $110 on January 1, 2020, the annual inflation rate for that item was 10%.

Directions to calculate inflation are on page 25 (second page of Money & Inflation Lesson 1).

MONTHLY HOUSE BUDGET

| Expense Type | Current Year Cost | Projected Annual Inflation Rate | Cost Three Years From Now |
|---|---|---|---|
| Mortgage | $600 | None | ______ |
| Property tax | $300 | 2% | ______ |
| Gas | $100 | 1% | ______ |
| Electricity | $50 | 2% | ______ |
| Water | $25 | 3% | ______ |
| Insurance | $50 | 5% | ______ |
| TOTAL | $1,125 | | |

Answer Key (third column): Mortgage, $600; Property tax, $318.36; Gas, $103.03; Electricity, $53.06; Water, $27.32; Insurance, $57.88; Total: $1,159.65. Your housing budget of $1,150 is sufficient for the current year, but it will be less than your projected costs in the third year, when you will have to increase your housing budget to $1,160 per month.

# Higher Education Cost

## The Higher Cost of Higher Education

Due to inflation, college gets more and more expensive every year. Today, the average tuition at a state college is $10,400 per year for in-state students. If room and board is considered, the total cost is about $22,000. Out-of-state and private colleges are even more expensive. And consider this inflation fact: The price of tuition has been increasing at a rate of about 6% per year!

**Directions:** Take a look at the example below of how the cost of college has changed for the different family members.

COST OF TUITION INCREASE

| Family Member | Year | Costs* | Average Annual Percentage Increase |
|---|---|---|---|
| Grandpa | 1971 | $405 | N/A |
| Grandma | 1972 | $430 | 6.1% |
| Dad | 1990 | $1,910 | 8.6% |
| Mom | 1993 | $2,540 | 10.0% |
| April | 2015 | $9,430 | 6.2% |
| Nikki | 2019 | $10,440 | 0.5% |

6% per year

*One-year public college tuition and fees
https://finance.yahoo.com/news/average-cost-college-jumped-incredible-122000732.html.

**INFLATION ASSESSMENT**

# Show What You Know

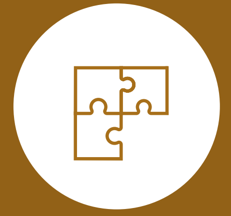
**Directions:** Calculate the annual percentage increase for the items below. (Remember: To find a percentage increase, subtract the original price from the new price and divide the difference by the original price. Don't forget to convert your answer to a percentage.)

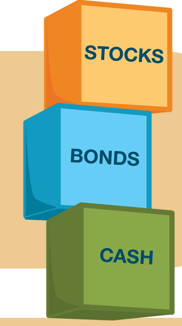
| ITEM | 2020 Price (Price Today) | 2019 Price (1 Year Ago) | Inflation Rate |
|---|---|---|---|
| Winter coat | $76.22 | $74.00 | ______ % |
| Gasoline (1 gallon) | $2.73 | $2.60 | ______ % |
| Theme park admission | $82.39 | $77.00 | ______ % |
| Pencils (1 dozen) | $2.31 | $2.10 | ______ % |

Answer Key (rounded): Winter coat, 9.8%; Gasoline, 5%; Theme park admission, 7%; Pencils, 10%.

# Asset Allocation

Asset allocation is how your money is divided among stocks, bonds, and cash according to your financial time horizon and is key to achieving long-term financial goals. Read how to achieve your long-term financial goals in these five steps below!






## 1. Understand the building blocks

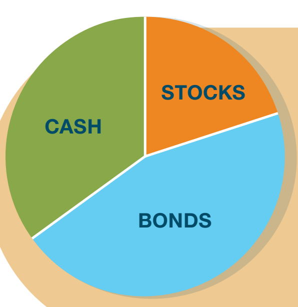
There are three basic building blocks to developing an asset allocation strategy: cash, bonds, and stocks. Each investment type has a risk (the danger of losing money) but also a reward (the chance to make money).

## 2. Sort out your goals

Plot your goals along your time horizon to figure out whether your goal is a short-, medium-, or long-term goal.

## 3. Ask the important questions

How long do you have to save for each of your financial goals? How long do you need your money to last? For goals like college and retirement, your money will need to last over several years. Asking these questions will put you on the right path to making choices that pay off.




## 4. Pay attention to your time horizon

Remember, your investment mix can shift based on your time horizon. When you get closer to needing your money, you will most likely need to rebalance your investment "building blocks" to reduce your risk.

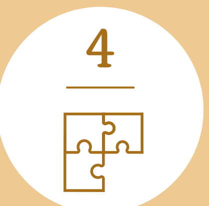
## 5. Know your options

Think about the things you would like to spend money on now and in the future, and figure out which investment strategy will help you achieve your financial goal: saving, investing, or both? It's never too early to start planning for long-term financial goals. They may seem far off now, but planning today will help you have a secure financial future.

### Know-It Note

- Each investment type has a risk (the danger of losing money) but also a reward (the chance to make money). Long-term goals can accept higher risk than short-term goals because they have more time to recover any losses.
- Bonds – low to moderate risk of losing money but won't be enough to reach long-term goals by themselves.
- Low-risk choices are safer (especially in the short term), but the trade-off is that you have less chance of a big payoff.
- Cash – low risk of losing money but won't be enough to reach long-term goals by itself.
- High risk means you have a greater chance of losing money, but if you do gain, you can gain a lot. The most appropriate time for riskier choices is in the medium or long term.
- Stocks – high risk but has potential to earn the most money over time but also potential to lose money too.

# Asset Allocation




**LESSON 1**

**Asset Allocation** is how your money is divided among stocks, bonds, and cash according to your financial time horizon and is key to achieving long-term goals.

## Taking a Sensible Risk

There are three basic building blocks to develop an **asset allocation** strategy: **cash**, **bonds**, and **stocks**. Each investment type has a risk (the danger of losing money) but also a reward (the chance to make money).

### BUILDING BLOCKS FOR ASSET ALLOCATION

#### CASH

Cash is money kept in savings, checking, or other accounts at a financial institution like a bank. These accounts have a low reward because they pay little or no interest, but they are also low risk because bank accounts are insured by the federal government.

#### BONDS

Bonds are like a loan to a company and the company promises to pay the loan back plus interest. Because interest rates on bonds are higher than rates given by cash accounts, the reward is higher. But there is also a risk of losing money if the company goes out of business.

#### STOCKS

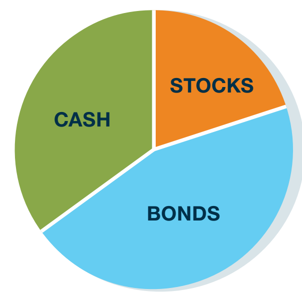
Stocks give you part ownership of a company. The value of your share in the company can go up or down depending on changes in the **stock market**. Over time, stocks have given the highest financial rewards, but there is the risk of losing some or all of your investment if the company does poorly or goes out of business or if the stock market declines.

Smart **asset allocation**—or having the right combination of cash, bonds, and stocks—is one key to successful investing. But strategies can shift depending on your **time horizon**.

***The closer you get to needing your money, the more you should reduce the risk of losing it.***

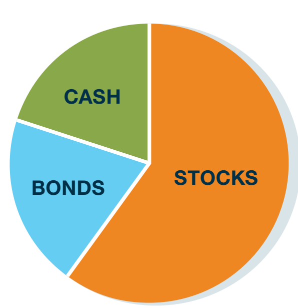
## ASSET ALLOCATION MIX

### SHORT-TERM TIME HORIZON




A financial goal with a short-term time horizon means that you'll need your money soon. Reduce risk by limiting the amount you have in stocks and investing more in cash and bond options, which are less risky.

### LONG-TERM TIME HORIZON




A financial goal with a long-term time horizon means that you won't need your money right away and can accept more risk by investing more in stocks (stocks have the potential to earn more money, but they can also lose more money too).

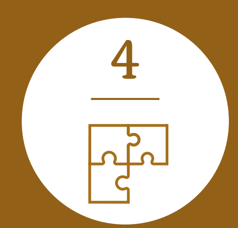
An easy way to get started investing is to use **mutual funds**. Mutual funds are a collection of different stocks, bonds, and other investments. Since the mix of investments in mutual funds comes in different shapes and sizes, it meets the needs of different investment strategies. Some mutual funds have only bonds, some have only stocks, and some have a mix.

WHAT'S THE
**Big Idea?**

Having an asset allocation strategy based on your time horizon helps you save for long-term financial goals by using three major building blocks: cash, bonds, and stocks.

**ASSET ALLOCATION ACTIVITY SHEET 1**

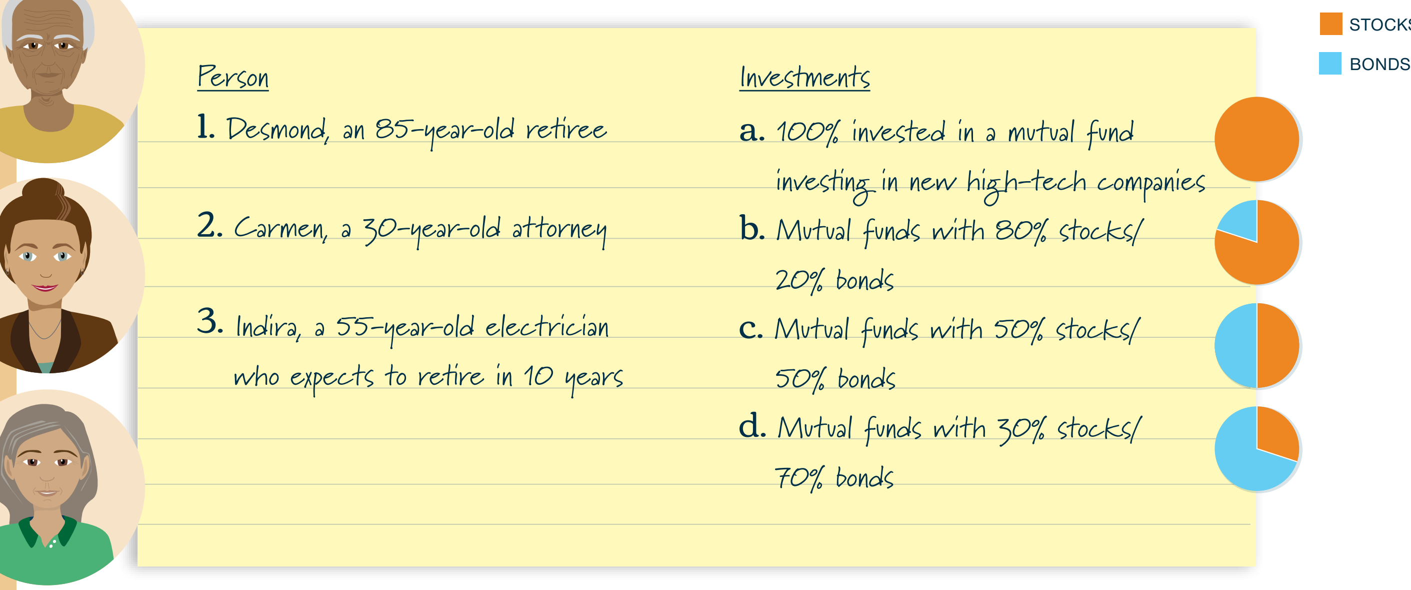
# Can You Handle the Risk?




All investments have risks. For example, if you own stock in a company that goes out of business, that stock will lose value and you'll lose money. On the other hand, if you buy stock in a company that really takes off, your stock will go up in value and you'll make money.

Many young people are willing to deal with higher-risk investments because even if they lose money, they have many years to make up for the loss. Someone who is closer to retirement will typically reallocate to lower-risk investments, since they will need to withdraw their money soon.

**Directions:** Match the person with the appropriate investments.




STOCKS
BONDS

**Explain your thinking:**

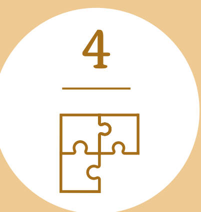
Desmond:

Carmen:

Indira:

Answer Key: (1) d. Desmond needs the income and relative safety that a higher percentage of bond funds gives him because he doesn't have income from a job anymore. He keeps a smaller percentage of stocks to guard against the effects of inflation. (2) b. Carmen can afford to accept the higher risks but higher potential reward of stocks because she has a high-paying job and has many years until retirement to weather the ups and downs of the stock market. (3) c. Even if the stock market declines over the next 10 years, Indira still has a good-sized investment in bonds that will give her a secure income as she enters retirement.

# Asset Allocation




## Finding the Right Mix

You may feel that saving/investing for retirement is something that you can deal with "down the road." This is dangerous thinking because delaying the start of retirement saving lessens one key attribute that you now possess—time.

If you are like many people, you may believe that there are better uses for your money right now than saving for retirement. The problem is, there will always be competing demands for your money and, without committing to beginning retirement savings early, you run the significant risk that you will continue to push your saving further and further into the future.

It is important to think of your retirement plan as not just "saving," but also "investing." Saving refers to the act of regularly setting aside an appropriate amount of money for retirement. Investing refers to how you are going to put that money to work for you.

There are a variety of different retirement plans that may be applicable to your situation. Many employee-offered 401(k) or similar plans that enable you to contribute to the plan via payroll deduction. And as noted before, in many cases, the employer will also contribute on your behalf, typically by "matching" some portion of your contribution. If you do not have access to an employer offered plan, you have other options, such as an IRA account, that exist independent of your employer.

Regardless of the type of plan, you will need to make a decision about how you invest the money within the plan. Most plans offer a variety of different investment options. As a general rule, young individuals should have a significant portion of their retirement balance invested in the stock market (typically through mutual funds offered within your plan).

401(k) CONTRIBUTION

Annual Salary $50,000

401(k) Contribution per year

Your Contribution (12%) $6,000

Company Contribution $1,500

TOTAL $7,500

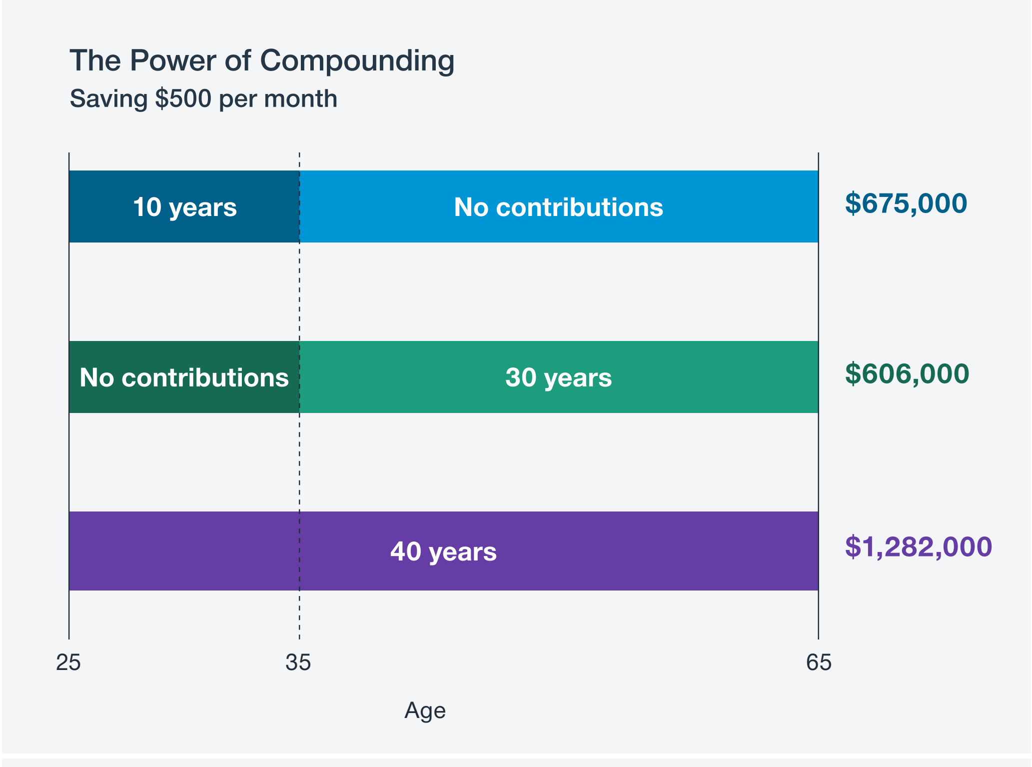
**LESSON 2**

**Asset Allocation**

Long-term goals may seem far away, but starting to save early is important and you'll need a mix of investments to achieve them.

## Spotlight on Saving Early for Retirement

Starting early and saving regularly for retirement can be a powerful means to building wealth and establishing financial security. The younger you start and the sooner you get on track, the more flexibility you'll have later.




This chart is for illustrative purposes only and is not meant to represent the performance of any specific investment option. Final account balances rounded to nearest thousand. Assumes $500 invested each month in a tax-deferred account and a 7% annual rate of return. Source: T. Rowe Price.

WHAT'S THE
### Big Idea?

Even though some of your financial goals seem a long way off, if you start investing early *and* consider your time horizon when choosing investments, you'll have a better chance of having enough money when you need it.

# Investment Returns Become More Consistent Over Time

During short periods of time, such as one- or three-year periods, some asset classes, such as stocks, can be very volatile. Asset classes that are less volatile, such as cash, offer more consistent returns during short periods of time. However, less-volatile asset classes tend to underperform over longer periods of time. Over longer time periods, such as 20- or 30-year periods, volatility becomes less of a risk and returns become more consistent. This chart shows the best and worst years for each asset class between 1976 and June 30, 2021. The best 30-year period for stocks generated an annual return of 13.3%, while the worst 30-year period generated a 9.3%.

Stocks: Best Year
Stocks: Worst Year
Bonds: Best Year
Bonds: Worst Year
Cash: Best Year
Cash: Worst Year

80.0
60.0
40.0
20.0
0.0
-20.0
-40.0
-60.0

1 Year
3 Years
5 Years
10 Years
20 Years
30 Years

**Past performance cannot guarantee future results.**

Stocks = S&P 500 Index; Bonds = Bloomberg Barclays U.S. Aggregate Bond Index; Real Estate = FTSE Nareit All Equity REITs Index; Cash = 3-Month U.S. Treasury Bill. Source for Bloomberg Barclays index data: Bloomberg Index Services Ltd. Copyright © 2021, Bloomberg Index Services Ltd. Used with permission.

Analysis by T. Rowe Price. It is not possible to invest directly in an index.

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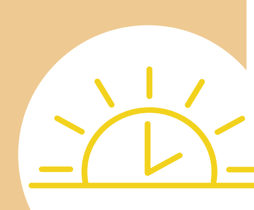
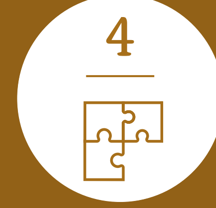
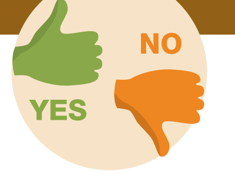
## ASSET ALLOCATION ASSESSMENT

Having an asset allocation strategy that is in sync with your time horizon is key to achieving long-term goals.






# Show What You Know




1. If you were heading off to college in a year, which is a short-term time horizon, would it be a good idea to invest the college fund 100% in stocks?

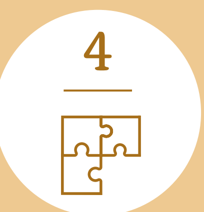
2. To reach long-term goals, why should a person invest in a mix of stocks and bonds and not just in a savings account?

3. Why is it a good idea to review your asset allocation as you get older?

4. Why would a younger person want to have a higher percentage of stocks in their portfolio than a person getting close to retirement age?

Answer Key: (1) No. Stocks go up and down. If the stock market had a major decline, the value of the fund might not be enough. For goals with a short-term time horizon, low-risk investments are best. (2) A savings account alone will not earn enough money to outpace the effects of inflation on purchasing power or enable one to reach long-term goals. Stocks offer the chance of higher returns but can also lose value. Bonds offer a steady flow of interest income but tend to have lower investment returns than stocks. (3) As people age and get closer to retirement, they usually want to increase their overall percentage of bonds. They should periodically check their allocation percentages to make sure they're close to their target. If, for example, stock values increase a lot, they might want to sell some stocks and buy more bonds. (4) With investments, risk means that there is a chance that the value of the investments will decline. As people approach retirement, there isn't as much time to recover from significant investment losses, and income from investments is an important source of income for retirees.

# Picking the Right Kind of Account




Just as it's important to have the right mix of stocks, bonds, and cash for your goal, it's important to use the best account for your goals. Many accounts come with tax advantages, such as 401(k) retirement saving accounts and 529 savings accounts, which can ultimately help you save money on your taxes and enable you to put more toward your goal.

## 529 Savings Account

529 Savings Accounts, also called 529s, are accounts specifically designed to help you save for education expenses in a tax-advantaged way. Here's how it works:

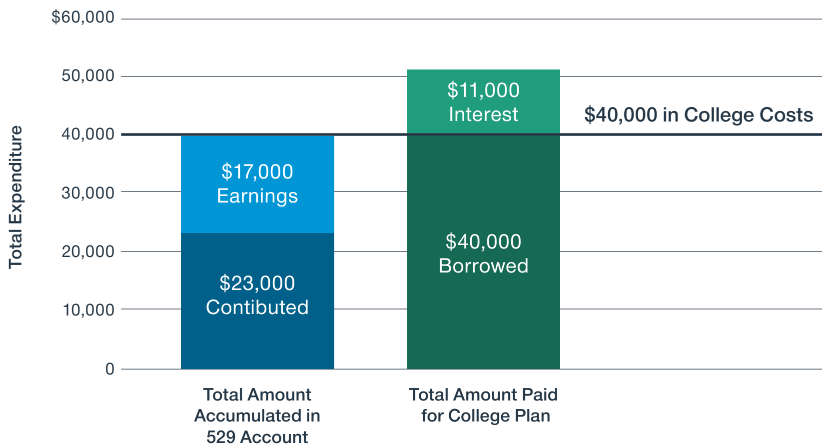
1. **You create and control an account on behalf of your beneficiary. That could be yourself or another future student.**
2. **You make contributions to your account using after-tax dollars.**
3. **Any earnings you accrue are tax-deferred while invested and tax-free when used for qualified educational expenses.**

This means you can use your full balance for expenses like tuition and fees, room and board, and books and supplies at any eligible public or private college, university, or vocational school anywhere in the U.S.

**A 529 plan can also be used tax-free to cover certain tuition expenses at K-12 public, private, or religious schools. In addition, certain education loan payments are now considered qualified expenses that can be paid using a 529 plan.**

### Saving vs. Borrowing

Saving for education can lead to much lower total expenses compared with borrowing. Consider the example below of saving in a 529 plan versus borrowing to cover $40,000 in college costs.




Figures are pretax and rounded to the nearest $1,000.

**Assumptions:** To cover $40,000 of college costs, you would need to save $105 monthly before college for 18 years at a 6% average annual rate of return compounded monthly. When borrowing $40,000, assuming a 5% average annual interest rate, you would pay $424 a month for 10 years after college. All 529 withdrawals are assumed to be for qualified educational expenses at the beginning of college; 529 contributions, interest accrual, and loan repayments occur monthly, at the end of the month. This chart is for illustrative purposes only and does not represent any specific investment.

## Retirement Savings Accounts

Many employers offer a 401(k) retirement plan. These provide an easy way to automate your retirement savings and take advantage of any matching contribution your employer may offer. That's free cash your employer is offering, so be sure to contribute enough to receive the full match. Also, your contributions are tax-deductible, which reduces your taxable income each year that you contribute.

If you don't have a 401(k) or other retirement plan at work, consider opening an IRA. If you're self-employed or own a small business, there are several tax-advantaged options, such as a SEP-IRA or Small Business 401(k), that let you set aside a percentage of your income for retirement.

Traditional IRAs offer tax-deductible contributions similar to 401(k)s. However, a Roth IRA or Roth 401(k) offers different tax benefits. Contributions made to Roth IRAs and Roth 401(k) accounts do not lower today's taxable income, but withdrawals from them are tax-free after age 59½ if you have held the account for at least five years.

T. Rowe Price's research shows that, for many young investors, the benefits of tomorrow's tax-free retirement withdrawals with a Roth IRA outweigh the benefits of today's tax deduction with a Traditional IRA. Roth contributions can be a good choice if you aren't paying much in income taxes today.

T. Rowe Price recommends saving 15% of your salary, which includes any match from your employer, for retirement. We know this isn't easy, and if it's not feasible, aim to save at least enough to receive any company match from your employer or 6% if your employer doesn't offer a match. Then increase your contributions 1% to 2% each year until you reach 15%. If your employer doesn't offer a retirement plan, open an IRA account on your own.

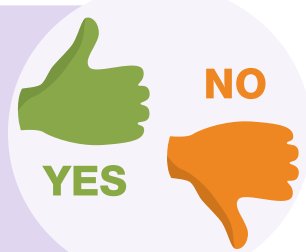
Check in regularly to make sure your retirement savings are on track. Visit T. Rowe Price's Retirement Income Calculator to see how you're doing.

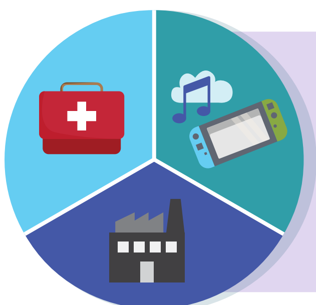
# Diversification

Ever heard the old saying, “Don’t put all your eggs in one basket”? That’s the idea behind diversification, which is really just another way of saying you should be putting your money in different types of investments to help reduce the risk of losing your money. Learn how to diversify your finances with these four easy steps!

## 1. What’s risk got to do with it?

Risk is the possibility of losing some or all of your investment. How much risk you are willing to accept is your risk tolerance. Several factors, such as age, income, and your financial goals, can affect your tolerance level. Note that your risk tolerance can change over time based on economic and/or personal life events.



## 2. Spread it around

You don’t want your financial future to be dependent on a single investment. The prices of stocks go up and down for many different reasons. Because it’s impossible to know what the future holds, it’s important to diversify your investments so that bad times for some companies don’t sink your whole portfolio.

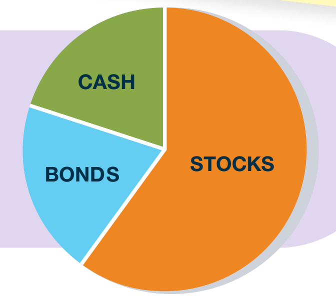
**Know-It Note**

Remember to invest in:

- Stocks from different industries: Sometimes, events happen that help or hurt almost all the companies in a specific sector.
- Stocks from different parts of the world: Consider a mix of companies based in the U.S. and other countries.
- Stocks from different-sized companies: It’s good to have a mix of funds with the stocks of small, medium, and large companies.

## 3. Remember to rebalance; pay attention

Remember to rebalance your investment mix to ensure that your portfolio still fits your financial goals, time horizon, and risk tolerance. Not adjusting it may lead to increased risk and exposure to investment losses.



## 4. Stay focused on long-term goals

Maintain a long-term approach focusing on your long-term financial goals by having a well-diversified portfolio. This will help your investments grow over time by reducing the overall risk of your investments.

*All investments are subject to market risk, including the possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.*

# Diversification

## Investment Choices

Typically, if you have a long-term financial goal (like retirement), and have more time before needing your money, then you should be investing more in stocks. Stocks have the potential to earn more money, but also have a greater risk of losing some or all of your investment. To help reduce the risk of losing your money, a diversification strategy should be applied to your investments.

Diversification means having lots of different kinds of investments (different types of stocks, different types of bonds, etc.) to minimize the risk of losing some or all of your money. For example, if you invest in only one type of company or industry and people stop buying those products, you could lose all the money you have invested. Instead, if you spread your investments across different companies and industries—and people stop buying products in one type of company, you might lose only the money you invested in that particular company/industry—but not all of it. Mutual funds are good options for their ability to invest in many different stocks offering some built-in diversification. Also, understand that diversification cannot guarantee that your investments will make money or protect against loss if the market goes down.

If you use a mutual fund as part of your diversification strategy, make sure to research the mutual fund to understand the different types of stocks it holds. The last thing you want is to have most of your money invested in one type of company or industry. For example, if you only invest in companies that make candy and they lose a lot of money because bad weather wipes out the sugarcane crop, then you will likely lose a lot of money, too, when their stock plummets. However, if your investments are spread over different types of industries and companies, such as technology companies, health care companies, manufacturing companies, etc., then your investment will be diversified, and your losses will likely be less because the fund spreads your money across different types of stock.

**LESSON 1**

### Diversification

Ever heard the old saying "Don't put all your eggs in one basket"? That's the idea behind diversification, which is really just another way of saying you should be putting your money in different types of investments to help reduce risk.

WHAT'S THE

### Big Idea?

Diversifying your investments by owning different types of companies can help reduce the risk of your investments losing value when economic or political events hurt a particular industry or company.

# Diversification

## DIVERSIFICATION MIX

### DIFFERENT INDUSTRY SECTORS

Sometimes events happen that help or hurt almost all the companies in a specific industry. For example, if the price of oil declines, many stocks in the oil industry could suffer.

### INTERNATIONAL STOCKS AND DOMESTIC STOCKS

Consider a mix of companies based in the U.S. and other countries.

### STOCKS OF DIFFERENT-SIZED COMPANIES

It's good to have a mix of funds with the stocks of small, medium-sized, and large companies.

**LESSON 2**

**Diversification**

When it's time to invest your hard-earned money and help it grow for the future, you don't want to make your financial future dependent on a single investment.

WHAT'S THE

**Big Idea?**

Mutual funds offer some built-in diversification because they have more than one stock in them; however, there are many different types of mutual funds, and it's important to understand what types of investments they hold.

**DIVERSIFICATION ACTIVITY SHEET 1**

# Spread It Around!

## Economic Scenarios

The prices of stocks go up and down for many different reasons. If a company introduces an exciting new product or has good earnings results, the stock of that company usually increases. The opposite happens with bad news for that company.

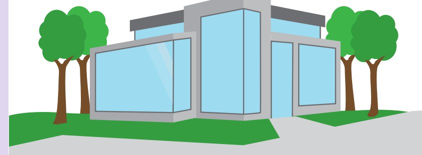
Sometimes, news affects an entire industry. If more people are buying products online, the stocks of companies that sell their products through retail stores might decline. Political unrest or a natural disaster in one country might cause many stocks located in that country to decline. Then there are events that cause most stocks to increase or decrease. Prospects for good economic times usually lift most stocks, while fear of hard times depresses the price of most stocks.

Because it's impossible to know what the future holds, it is important to diversify so that bad times for some companies don't sink your whole portfolio.

This chart shows how mutual fund **returns** can change from year to year depending on factors such as economic conditions.

**PERFORMANCE CHART**

| Type of Fund | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Small Biotechnology Companies** | + 17% | - 37% | + 22% | + 10% | + 32% |
| **Medium-Sized Airline Companies** | + 19% | - 28% | + 22% | + 5% | + 11% |
| **Large Companies From Many Industries** | + 11% | - 6% | + 20% | + 7% | + 8% |
| **International—Large Consumer Products Companies** | + 6% | - 2% | + 17% | - 5% | + 6% |



Review the chart above, then read through the five scenarios on the next page.

**DIVERSIFICATION ACTIVITY SHEET 1**

# Spread It Around!

## Economic Scenarios

(Continued)

Read the five scenarios for each year, and match them to the mutual fund Performance Chart on the previous page. Notice how the economic scenarios impact whether the returns are positive or negative.

**Year 1**: All four funds had positive returns in a fairly stable market environment.

**Year 2**: The world entered a major economic recession, which caused a broad decline in global markets.

**Year 3**: Markets everywhere had significant gains, thanks to a broad-based global economic recovery.

**Year 4**: The U.S. experienced moderate economic growth, but other economies around the world declined.

**Year 5**: While all five funds had positive returns, the biotechnology fund soared, thanks to the introduction of exciting new biotechnology products.

Considering the industry fluctuations from year to year, explain why it is important to have a diversified portfolio.

________________________________________________

________________________________________________

________________________________________________

________________________________________________

Answer Key: Answers will vary but should explain that the stocks of different types of companies perform differently depending on economic conditions. With a diversified portfolio, losses in some areas can be offset by gains in others.

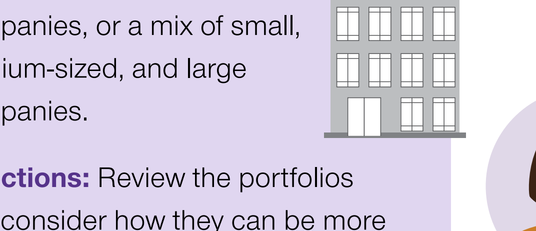
# Can This Portfolio Be Saved?

## Diversified Portfolio

As an investor, you want to make sure that your stock **portfolio** is adequately diversified.

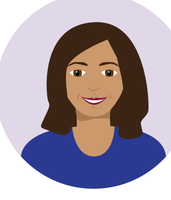
The stock portion of three different portfolios is presented on the right.

The stocks in the companies they own are not spread out among different industries and don't have a good mix of domestic and international companies, or a mix of small, medium-sized, and large companies.



**Directions:** Review the portfolios and consider how they can be more diversified among different industries. Now go to the next page and find a list of recommended stocks to pick from.

(Continues on next page)



Ms. Mehta

| Company | Industry | Size | Domestic or International |
|---|---|---|---|
| **LMN Pharmaceutical** | Health Care | Small | Domestic |
| **NVM Bank** | Financials | Large | International |
| **JL Therapeutics** | Health Care | Small | Domestic |
| **Magnum Bank** | Financials | Large | Domestic |
| **GR Biomedical** | Health Care | Medium | Domestic |

Mr. O'Connell

| Company | Industry | Size | Domestic or International |
|---|---|---|---|
| **Magnum Bank** | Financials | Large | Domestic |
| **Gilmore Systems** | Technology | Large | Domestic |
| **Ledman Applications** | Technology | Large | Domestic |
| **TLT Dynamics** | Technology | Large | Domestic |
| **GR Biomedical** | Health Care | Medium | Domestic |

Ms. Jackson

| Company | Industry | Size | Domestic or International |
|---|---|---|---|
| **LLL Electric and Gas** | Utilities | Medium | Domestic |
| **TLT Dynamics** | Technology | Large | Domestic |
| **Giant Manufacturing** | Manufacturing | Large | International |
| **YY Products** | Consumer Goods | Small | International |
| **Northwest Gas** | Utilities | Large | Domestic |

# Can This Portfolio Be Saved?

## Diversified Portfolio

(Continued)

**Directions:** Use the Recommended Stock List to help diversify the portfolios on the previous page. Consider substituting up to three stocks in each portfolio to make sure that their investments contain stocks in different industries.

Remember, having a mix of stocks helps minimize the risk of losing money because your investments are spread over several industries.

(Continues on next page)

**RECOMMENDED STOCK LIST**

| Company | Industry | Size | Domestic or International |
|---|---|---|---|
| **NVM Bank** | Financials | Large | International |
| **Overlord Exploration** | Energy | Small | Domestic |
| **LLL Electric and Gas** | Utilities | Medium | Domestic |
| **Samson Development** | Real Estate | Small | Domestic |
| **Giant Manufacturing** | Manufacturing | Large | International |
| **Peter Networks** | Telecommunications | Medium | Domestic |
| **GR Biomedical** | Health Care | Medium | Domestic |
| **Crown Mining** | Materials | Large | Domestic |
| **TLT Dynamics** | Technology | Large | Domestic |
| **YY Products** | Consumer Goods | Small | International |

These are the changes I would make to each person's portfolio. (Explain your thinking.):

**Ms. Mehta**

**DIVERSIFICATION ACTIVITY SHEET 2**

# Can This Portfolio Be Saved?

## Diversified Portfolio

(Continued)

**Directions:** See instructions on page 53 to make changes to the portfolios shown here.

These are the changes I would make to each person's portfolio. (Explain your thinking.):

**Mr. O'Connell**

______________________________________________

______________________________________________

______________________________________________

______________________________________________

______________________________________________

**Ms. Jackson**

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______________________________________________

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______________________________________________

Answer Key: Ms. Mehta's financial assets are too heavily concentrated in the health care and financial industries. Consider subtracting JL Therapeutics, LMN Pharmaceutical, and Magnum Bank and adding three stocks from the following: Overlord Exploration, LLL Electric and Gas, Samson Development, Peter Networks, Crown Mining, and YY Products.

Mr. O'Connell's financial assets are too heavily concentrated in large, domestic companies in the information technology industry. Consider subtracting Magnum Bank, Ledman Applications, and Gilmore Systems and adding three stocks from the following: Overlord Exploration, LLL Electric and Gas, Samson Development, Giant Manufacturing, GR Biomedical, and YY Products.

Ms. Jackson has a fairly diversified portfolio already, but her assets are too heavily concentrated in utilities. Consider subtracting Northwest Gas and adding one of the domestic companies.

**DIVERSIFICATION ASSESSMENT**

# Show What You Know

You don't want your financial future to be dependent on a single investment. You've learned the concept of diversification as a strategy to reduce risk of your investments losing value when negative events hurt a particular industry or company.

(Continues on next page)

1. You have worked for a popular social media company for 15 years. During that time, you participated in the company's stock ownership plan, and the value of your account now totals $600,000. This represents 80% of the value of your total investments. The company is doing very well and expects to do well in the future. Are your investments diversified? Explain the risk in this scenario.

2. What types of stocks should you consider owning to help you diversify your investments?

   a) Large, medium-sized, and small companies

   b) Domestic and international companies

   c) Companies in a variety of industries; for example, health care, energy, technology, etc.

   d) All of the above

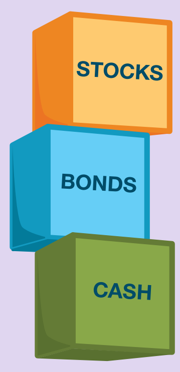
3. Why might an investor want to own stock in companies located outside the U.S.?

Answer Key: See next page.

**DIVERSIFICATION ASSESSMENT**

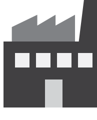
# Show What You Know

(Continued)




**4.** Why is it important to diversify your investments?

**5.** Why should an investor consider buying a stock mutual fund rather than buying the stock of a single company?



Answer Key: (1) The portfolio is not diversified, so some of the stock should be sold so that mutual funds in many types of companies can be purchased. (2) d. (3) To diversify. If the U.S. economy slows, economies of other countries might be picking up and the stocks of companies based overseas might be better performers. (4) To reduce risk. (5) If someone invests in one or even just a few stocks, then if those companies go bankrupt or lose value, the investor can lose a tremendous amount of money.

# Show What You Know

## Congratulations!

You've had the opportunity to learn about taking the proper financial steps to succeed in achieving your long-term financial goals. We hope what you've learned about saving and making wise spending decisions will help you plan for a successful future.

1. List two examples of goals that have a short-, medium- and long-term time horizon.

| Short Term (1–4 years) | Medium Term (5–10 years) | Long Term (11–30 years) |
| --- | --- | --- |
| | | |
| | | |

2. How can a budget help you meet your goals?

3. Why do you have to consider inflation when you plan financial goals?

# Show What You Know

(Continued)

**4.** Why do you need to consider diversification when you invest money?

**5.** Why would you want to adjust your allocation of cash, bonds, and stocks as you get older and have a shorter retirement time horizon?

**6.** What would you suggest to a person whose only investment is $500,000 of stock in the company she works for?

Answer Key: (1) Answers will vary. Short: Groceries, a new jacket. Medium: College, car. Long: Buying a home, retirement. (2) Remember that Savings = Income - Expenses. Keeping a record of your income, expenses, and savings can help you find opportunities to reduce your expenses, increase your income, and save more money. (3) If you don't consider inflation, you might find that something you've been saving for over the long term has gone up in price and you can't afford it. Diversification reduces risk. (4) Without adequate diversification, the value of your investments might suffer if a certain company or type of company declines in value. (5) As people get closer to retirement, they tend to allocate more to bonds and less to stocks. This reduces their risk, since they will need the money pretty soon and won't have a lot of time to bounce back if their stocks decrease in value. (6) Having an investment in the stock of a single company is risky. If the company's business doesn't do well, then the stock will lose some or all of its value. If a person's investments are diversified, then a loss in one company won't be as devastating.

# Building Wealth: Obstacles, Barriers & Race

**Explore tools and strategies for generating financial stability, plus analyze obstacles that drive financial inequity, including the racial wealth gap.**

# Wealth Building and its History

INTERGENERATIONAL WEALTH

## Sharing of Wealth

Intergenerational wealth refers to financial assets that are handed down from generation to generation. Over time, wealth can grow even more from factors like interest, inflation, and appreciation.

## Disruptors of Intergenerational Wealth

**Slavery-Based Economy:** From 1619–1865, white landowners built immense wealth by enslaving people of African descent and profiting from their unpaid labor. This wealth has been passed on for generations and still benefits white Americans today. Economists estimate that the amount of wealth white Americans have accumulated from 200 years of profit gained from unpaid labor, including interest, starts at $1 trillion.

**Sharecropping:** When slavery was abolished, white landowners created a system known as sharecropping. While Black people were legally barred from owning land, one of their only options was to farm the land of white landowners. The landowners controlled the accounting in a predatory manner, funneling most of the agricultural wealth to white landowners and creating invented debt for the Black workers, forcing them into debt and creating more profit for the landowners.

**Freedman's Bank:** In 1865, the government established a bank for newly emancipated Black people, many of whom gained wages by joining the Army. White managers mismanaged the bank. When it collapsed in 1874, millions of dollars in African American wealth was taken away—and could not grow for future generations.

**"Settling" the West:** With the Homestead Acts of the 1860s, the government forced Native Americans off their land and granted it to "settlers" for free. The vast majority of land was given to white homesteaders, while most Black people were blocked from receiving homesteading grants. Today, more than one-third of the U.S. population is descended from homesteaders, benefiting from the intergenerational wealth the Homestead Acts provided, while poverty on Native American reservations remains much higher than the national average.

**Tulsa Race Massacre:** In the early 20th century, Black people built a prosperous neighborhood in Tulsa, Oklahoma. In 1921, white residents—many given weapons by city officials—destroyed and burned Black people's businesses and homes, causing more than $30 million of damage in today's dollars. Ten thousand Black people were left homeless. The U.S. government and insurance companies provided no compensation to survivors of this massacre. Black Americans whose property and wealth were destroyed in similar riots by white mobs received neither support nor compensation.

## Intergenerational Impact

There are many more economic policies that created systemic barriers to intergenerational wealth. While any family's intergenerational wealth can be impacted by many forces, including economic downturns, wars, and natural disasters, discriminatory practices have been consistently used against people of color, creating economic inequality and less access to intergenerational wealth.

# Intergenerational Wealth in Action

**Scenario:** For Lucas's birthday, his parents paid off his outstanding college tuition and his grandfather gave him stocks. He's looking to sell the stocks when the market is good so he can put a down payment on a house.

**Scenario:** Janelle works as a receptionist during the day and goes to school part-time at night. She rents an apartment and puts the rest of her paycheck toward her student loan. After a tree hit her windshield, she can't make any loan payments until she can pay off the credit card bill.

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## Discussion Questions

1. How does intergenerational wealth impact Lucas in contrast with Janelle?

2. What might happen if Janelle encountered a second unexpected expense?

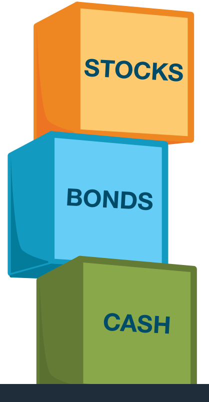
# Wealth-Building Toolbox

To build wealth for a secure life, it's important to use a variety of strategies. Check your knowledge by matching the wealth-building tools in the Word Bank with their definitions.

| WORD BANK | | |
|---|---|---|
| Income | Savings Account | Emergency Fund |
| Budgeting | Homeownership | Insurance |
| Retirement Planning | Investing | Credit |

| | | |
|---|---|---|
| ______ Considering how many years you expect to work, how long you need your money to last afterward, and setting up tax-advantaged accounts, such as a 401(k) or IRA | ______ Purchasing one's home, such as by taking out a mortgage loan to pay off over 15–30 years | ______ Money received in exchange for work or through investing |
| ______ Money set aside for unplanned expenses | ______ A bank account used to hold money securely until it's needed for purchases or emergencies—unlike a checking account, which is used for everyday expenses | ______ Buying stocks or bonds with the expectation that they will be worth more money over time (to decrease the risk, it's best to buy a mix of different types) |
| ______ A contract guaranteeing financial compensation for certain losses (such as medical bills or car accidents) in exchange for paying a premium (a fixed amount, often paid monthly) | ______ The ability to obtain something of value before payment, based on an agreement to pay for it later; may involve paying interest on the original amount | ______ A plan for how to distribute income between types of expenses and savings |

# Building Wealth Scenarios: Getting Started




Building wealth helps people live comfortable and secure lives. Practice using the tools of wealth-building by applying them to these common scenarios.

**Directions:** In pairs, read aloud each scenario, with each partner acting out one character. Then, discuss how to handle the situation. Use the Wealth-Building Toolbox terms and refer to the box below to write down your plan on the lines provided.

## TOOLS FOR BUILDING WEALTH

- Commit to being in charge of your finances. Make a plan and stick to it.
- Create a budget. Follow it. Save as much as you can.
- Build an emergency fund. Putting money aside for emergencies can help you avoid debt if an unexpected expense comes up.
- Understand credit. If you use a credit card and don't pay off the whole bill when it's due, you end up paying more in the long term, because you are charged interest on your debt.
- Grow your money. Invest in the stock market (with a mix of investments to balance out the risk). Also, buying a home with a mortgage (a loan) is a way to build home equity and gain value as you pay off the loan. But make sure you don't invest money you need for your living expenses or take on a mortgage that will be too expensive to pay off.
- Save for retirement. Because of compound interest, starting to save money early means your money can grow tremendously over the decades.

## SCENARIO 1 PLANNING FOR EXPECTED EXPENSES

***Ugh, this keeps happening to me! I run out of money and have to choose between paying my phone bill and buying enough groceries. How do you stay on top of your bills?***

Well, what do you do when you get your paycheck?

***I don't know, I just spend it.***

You need a plan for saving your money, and then growing the money you save. You can:

______________________________________________

______________________________________________

______________________________________________

## SCENARIO 2 PLANNING FOR UNEXPECTED EXPENSES

***Whoo hoo, I just invested all my savings in the stock market!***

Wait, what? ALL of your savings? What will you do if, like, your car gets smashed up?

***I don't know. How can I plan for unexpected expenses so I'm protected?***

______________________________________________

______________________________________________

______________________________________________

# Building Wealth Scenarios: Growing Wealth

## SCENARIO 3 COLLEGE & STUDENT DEBT

***I got in to my TOP college choice! One problem—it's super expensive, and I'd take on a huge student loan of $200,000. But I assume I'll get an amazing job after!***

I just looked up a loan like that: It could take you 20 years to pay off, and you could end up paying $300,000 with interest. That's $1,300 a month, on top of your other expenses like rent and food—and fun! You think you'll be able to pay that back?

***Whoa, that's more money than I expected. I also got in to a good college that would require a $25,000 loan.***

***Maybe I'll*** ______________________________

______________________________

______________________________

## SCENARIO 4 DEPRECIATING VS. APPRECIATING ASSETS

***I have some savings—it could be fun to buy a really nice car!***

Is it worth it? Isn't your job right next to a train stop?

***Hmm. True. If I used public transportation, I could put my savings toward a down payment for an apartment.***

Yeah, then your money would be growing in value as your home grows in value. Unlike a car, which is worth less as the years pass. So which choice do you think is better for you and why?

______________________________

______________________________

______________________________

## SCENARIO 5 ASSET ALLOCATION

***I want to invest, but how do I decide how much money to put in stocks vs. bonds?***

Well, one of the main ways to decide is to consider how soon you'll need the money. Stocks are riskier—you could lose money—but you also have more of a chance of gaining money than with bonds. What do you want to use the money for?

***For retirement—40 years from now.***

With decades to go, do you think you would choose a riskier investment like stocks or a safer investment where you might earn a lot less, like bonds?

______________________________

______________________________

# Building Wealth Scenarios: Retirement

## SCENARIO 6 JOB BENEFITS

***You'll never believe it—I got TWO job offers today!!***

Wow, CONGRATS! How are you going to decide? Those jobs you applied to seemed similar.

***Well, one pays about $3,000 more, so I'll probably just go with that one.***

Do the jobs come with benefits, like health insurance and a 401(k) retirement account?

***The other job offers a 401(k)...oh hey, this says they'll add 3% of my salary into it!***

Over time, that could REALLY add up. So which job are you going to pick and why?

______________________________________________

______________________________________________

## SCENARIO 7 HOW DOES TAX FIGURE IN?

***My company said my retirement account is tax-advantaged. What does that mean?!***

You know how you pay taxes on your income? The average American pays about 30% of their income in taxes. But with certain retirement accounts, like a 401(k) or Traditional IRA, that money is taken out of your salary before taxes. It grows for decades, tax-free. Then when you retire, you pay taxes on the money as you withdraw (take it out). Why do you think that's helpful?

______________________________________________

______________________________________________

______________________________________________

## SCENARIO 8 RETIREMENT ACCOUNTS

You look upset—what's going on?

***I checked the balance of my retirement account and I'm not on track to have enough by the time I retire. I had set it up so that 3% of my paycheck went into my 401(k), and my company only matches (also puts in) 3%. What else can I do?!***

Did you know you can save more than your company matches? And have you thought of opening an independent retirement account?

***No, I didn't know I could do that. What kind of account should I open, and how much should I save?***

______________________________________________

______________________________________________

______________________________________________

# Using Wealth-Building Tools

How can you get the most out of important financial tools? Read on for some tips.

## INCOME & COLLEGE

**Earning a college degree can increase your income.**

If you are considering taking on a student loan for college, figure out what the average salary is for the job you want and make sure you'll have enough extra cash after expenses to make loan payments. Otherwise, choose a more affordable college.

## INVESTING

**Stocks tend to yield more money over time but also have more of a chance of losing money than bonds.**

If you're investing for a far-off goal, like retirement, you can have more stocks than bonds in your mix because there's plenty of time for any temporary losses to balance out with how the stock market generally grows over time because of inflation, innovation, and more.

## RETIREMENT PLANNING

**Putting 10% to 15% of your income each year into a retirement account will help you live comfortably when you retire.**

If your employer offers a 401(k), you contribute to it by setting a certain percentage of your paycheck to be transferred directly into the account.

There's another tax-advantaged retirement account called an IRA, which is separate from an employer. You can put $6,000 a year into it. People can have both types of accounts.

# Analyze Financial Growth

Homeownership and investing in a retirement account are powerful tools to help you build financial security.

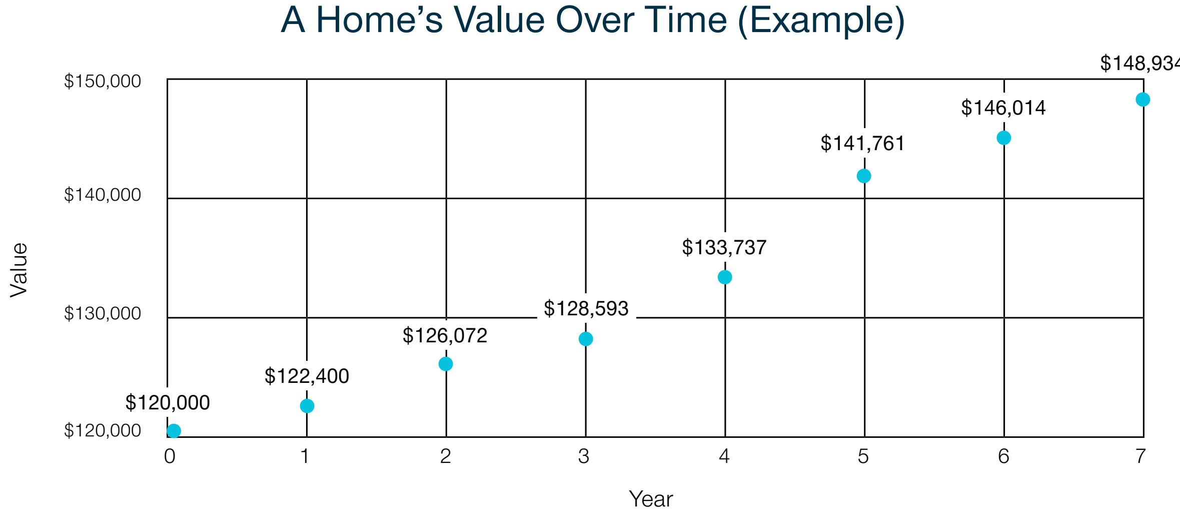
1. Many people retire (stop working for a salary) at about age 65. So how do they pay for their expenses? One important strategy is to begin investing money in a retirement account that increases in value over time with the stock market. It's a good idea to start saving for retirement as soon as you get your first adult job, so your money has decades to grow.

Consider this. Persons A and B are both age 40, with very different account balances. Both accounts had an average annual rate of return of 7%. Examine the table below, which shows the power of compounding interest, then answer the questions that follow.

| Name | Age they started investing in their retirement account | Amount they invested each year | Balance in their 401(k) retirement account at age 40 |
|---|---|---|---|
| Person A | 20 | $6,000 | $336,000 |
| Person B | 30 | $6,000 | $112,000 |

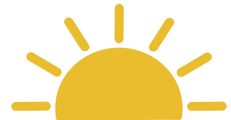
a. Person A's retirement savings grew by $____________.
b. Person B's retirement savings grew by $____________.
c. Reflect: How does this table show that starting to save for retirement early in your career is important?

2. Examine the graph below, then fill in the caption explaining what the data demonstrate.




The original value of the home was $____________. After seven years, the home's value was $____________.
That means, after seven years of appreciation (increase in value), the home's value increased by $____________.
Reflect: Why are homes an effective way to produce intergenerational wealth?

## NOTES



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