Get $mart About Your Money

PREPARED BY THE SEATTLE TIMES NEWSPAPERS IN EDUCATION DEPARTMENT

2008

Financial Education for Your Life

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Bellevue Community College

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Newspapers In Education
The Seattle Times
Inspiring Students To Learn

Introduction

"Get $mart About Your Money – Financial Education for Your Life" is not just about giving the facts. In teaching everyone about finances, we find that it's important to get them to change their behaviors.

Financial Education at Bellevue Community College was started in January 2007 out of a partnership of national and state organizations to spread objective financial education such that the citizens of Washington state can better achieve their financial goals and secure their financial future. Our training sessions have been given to more than 2,500 people. Our network of college instructors, along with the Washington Society of CPAs, will be mounting a statewide campaign in 15 colleges and universities this fall.

The materials contained here were excerpted from a set of six modules, funded by Investor Protection Trust and the Washington State Department of Financial Institutions, both strong supporters of our initiative. Thanks to our able team of curriculum developers who have extensive financial service industry experience and who teach college students: Molly Blume (a former banker), Alice Jenkins (an expert in real estate), and Margie Biliske (a CPA and certified fraud examiner).

Leslie Lum *— Financial Education at Bellevue Community College*

bellevuecollege.edu/financialeducation

The Washington State Department of Financial Institutions is dedicated to helping Washington residents get the information they need to make sound financial decisions.

It is our pleasure to sponsor this publication in Washington state schools who participate in The Seattle Times Newspapers In Education program. The earlier we learn the basics of money management, the sooner we can find financial freedom and stability in our lives.

It's never too early – or too late – to learn how to manage money wisely. Whether you are learning about the importance of saving and how to create (and live by) a budget, or discovering what you need to know before you go to school, buy a car, a home or decide whether you're ready to retire — getting the right information can help you avoid the nightmares of bad debt while making your dreams of financial freedom come true.

We hope you will find ways to apply the information within these pages to your every day life as you work to make your financial dreams come true.

Sincerely,

Scott Jarvis *— Director, Washington State Department of Financial Institutions*

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For more information: dfi.wa.gov, 360/902-8700, 1-877/746-4334, En Español 1-877/976-4422. Contact DFI Communications at 360/902-8731. To view this publication as a pdf go to **dfi.wa.gov/consumers/campaigns** and click on *Get $mart About Your Money*.

And thanks to:

JUMP$TART!
FINANCIAL SMARTS FOR STUDENTS
WASHINGTON COALITION
www.wajumpstart.org

CONTACT NIE:

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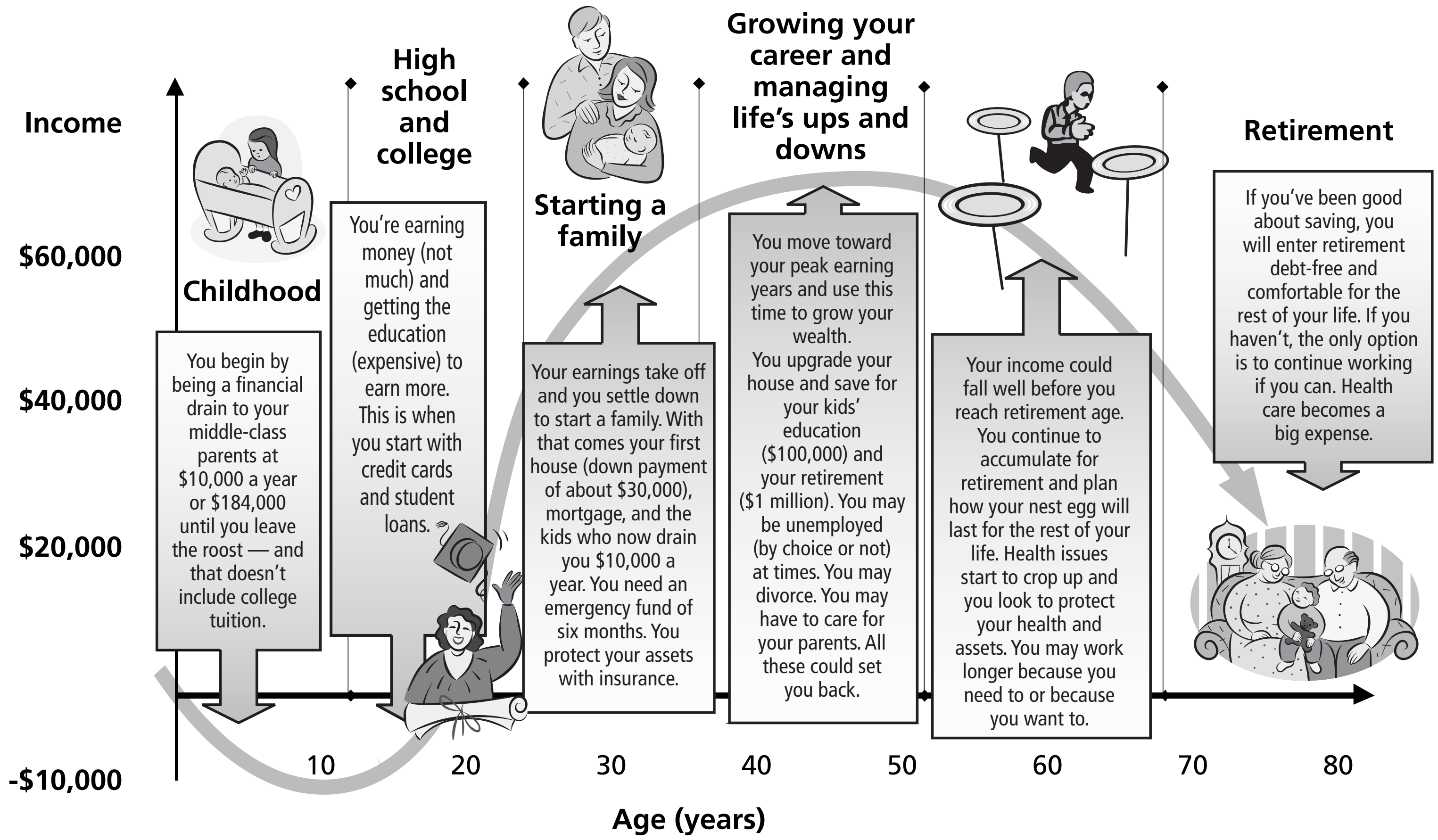
by e-mail: *nie@seattletimes.com*

on the Web: *seattletimes.com/nie*

A limited number of extra copies of this publication will be available upon request.

Your (financial) life

In our complex world, there are always a lot of choices. The path is also full of obstacles; you'll be more likely to avoid traps that can undermine your ability to attain your financial dreams if you know the road ahead. We rarely look at our lives from the long view — financially. This figure based on median income for the typical U.S. household shows the arc of your financial life.



Financial dreams / Financial nightmares

List all your financial dreams. You may have dreams which include being a millionaire, having a secure retirement and being able to travel. Dream away: The sky's the limit. Then, list your financial nightmares. Some of you have listed being homeless or unable to deal with a chronic illness. Keep these both in mind throughout your life. They help you achieve your financial goals.

List all your financial dreams

List all your financial nightmares

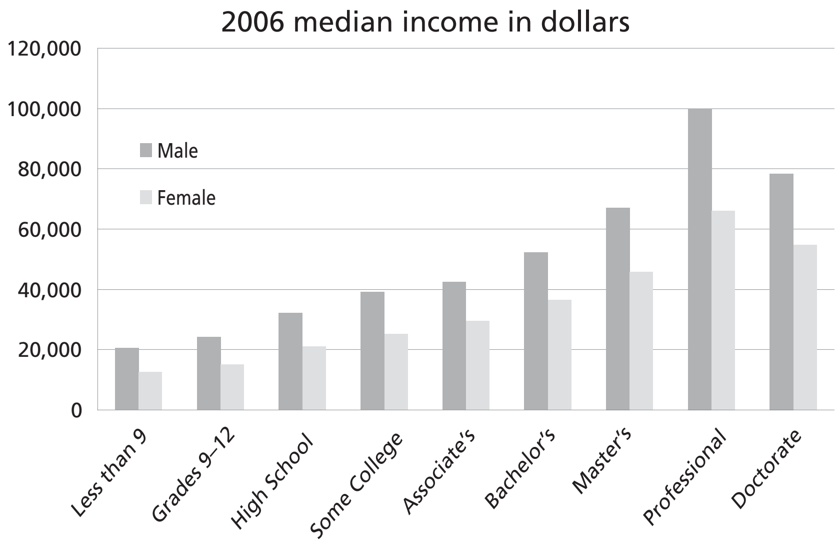
Your (financial) life

Washington state median income

WASHINGTON	2006 MEDIAN INCOME
Total:	63,705
2-person families	58,584
3-person families	66,252
4-person families	75,140
5-person families	68,562
6-person families	62,484
7-or-more-person families	61,212

Typical salary by education and gender

2006 median income in dollars



Source: U.S. Census

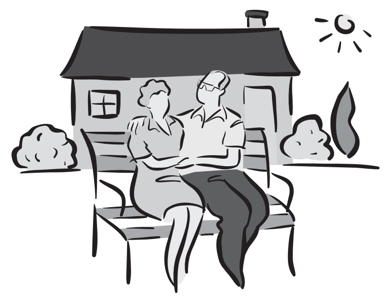
Things you should know

- ➤ The typical family in Washington state earns about $63,705. Salaries have been leveling off since 2000. Some experts believe that you may be the first generation to make less than your parents.
- ➤ Education can increase your earnings but you must finish your degree. A college degree will get you $10,000 to $20,000 a year more than a high school diploma. A professional degree (accountant, engineer, lawyer, etc.) will earn you the most. Education is a good investment.

- ➤ Males continue to make more than females. Some experts think that this is because females continue to do most of the caregiving for children and parents.
- ➤ 76 percent of people will get married and marriage can increase your wealth. At the same time, about 50 percent of first marriages end in divorce and divorce can cut into your wealth.

- ➤ You will change jobs more than your parents' generation. People across all educational levels are changing jobs more often. Between the ages of 18 and 40, folks change jobs, on average, 10 times or about every two years. This can have an impact on your retirement savings.
- ➤ You will face periods of unemployment. On average, between the ages of 18 and 40, people face five spells of unemployment which last a median of 2.4 months each. 14 percent of people have 10 or more spells of unemployment. Having an emergency fund is very important.

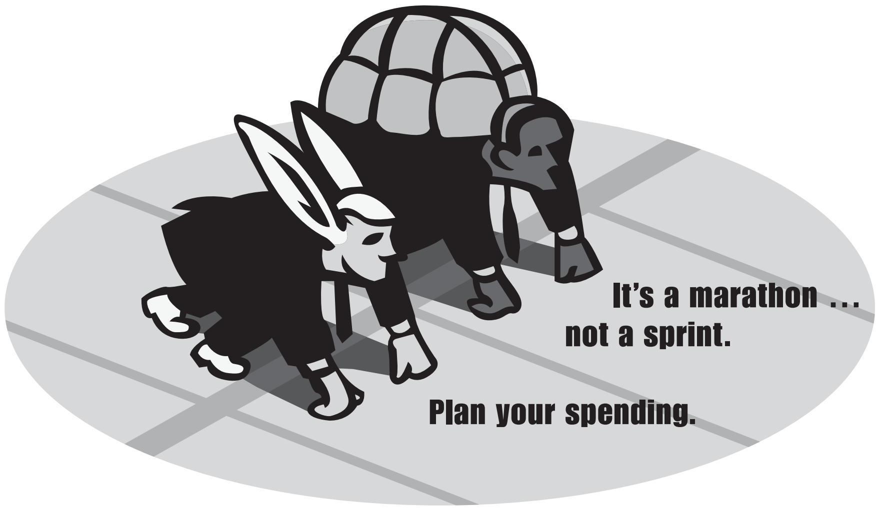
- ➤ If you follow the same road as most Americans, your salary will grow the most when you graduate and start off on your career. But it will start to decline at about age 50, well before you reach retirement age. You need to plan for this.



Setting goals

Set exciting goals

- ➤ Complete the Personal Financial Goals Worksheet on page six with at least one goal in each category to help you focus on your most important goals.
- ➤ Estimate the cost of each goal, and the dates you want to achieve them.
- ➤ Narrow your goals.
- ➤ Be aware of conflicting goals.
- ➤ Prioritize your goals.
- ➤ Start saving now on at least one goal. Don't delay!



The Jump$tart Coalition

The Jump$tart Coalition has developed 12 personal finance principles for people to use to plan their financial futures. If you follow these principles, they can help you with your personal financial affairs. Many of these principles can be put into action immediately.

- ➤ Map your financial future by setting goals with a plan to achieve them.
- ➤ Don't expect something for nothing.
- ➤ High returns equal high risks.
- ➤ Know your take-home pay.
- ➤ Compare interest rates.
- ➤ Pay yourself first by transferring money to a savings account to cover emergencies and long-term goals.
- ➤ Money doubles by the "Rule of 72."
- ➤ Your credit past is your credit future.
- ➤ Start saving young.
- ➤ Stay insured.
- ➤ Budget your money.
- ➤ Don't borrow what you can't repay.

For more information, see **www.jumpstartcoalition.org/principles.cfm.**

PERSONAL FINANCIAL GOALS WORKSHEET

Name(s):		Goals for: Saving, spending and credit
Date:	Year:	Months:

NON-MONETARY GOALS

Priority	Brief Description	Actions to Be Taken	Target Date for Completion
	Example: Lose weight — 10 pounds	Eat less and exercise more	Six months

SHORT-TERM MONEY GOALS (3-12 MONTHS)

Priority	Brief Description	Actions to Be Taken	Target Date for Completion	Cost Estimate	Savings Needed Per Month
	Example: Save for emergency-health, car, etc; college tuition, books; a regular savings/ investment program	Set up automatic monthly transfer from checking	3 months	$1,200	$400

LONG-TERM MONEY GOALS (ONE YEAR OR MORE)

Priority	Brief Description	Actions to Be Taken	Target Date for Completion	Cost Estimate	Savings Needed Per Month
	Example: Save for a wedding, a home by age 30 — down payment, a baby, for retirement, other ...	Increase contribution to savings program by 10 percent per year	Four years ... $15,000	$313	

Spending plan

The single most important habit that will help you achieve your financial goals is a spending plan.

- ➤ It helps you achieve all your financial goals.
- ➤ It can help you get control of your life.
- ➤ It can relieve stress and stop conflict in a family.
- ➤ The sooner you start the better, even if you don't have much money.
- ➤ It should be a lifetime habit.
- ➤ It can provide the discipline to save each month.

Creating a spending plan

1. List all your income.
2. Accumulate all your expenses (receipts, credit card bills, checking account register, etc.).
3. Categorize each expense as fixed, variable or discretionary.
4. Create a debt reduction plan. It's never too early to start paying off your student loan(s).
5. Consolidate all these into an annual spending plan.
6. Compare your spending to the recommended student budget.
7. Adjust your spending plan so you can meet your spending goals.
8. Live by your spending plan for three months and then check how you're doing.
9. Check your spending plan at the end of the year. Did you meet your budget?
10. Do it again for next year. Keep at it. It's a marathon, not a sprint.

COLLEGE SPENDING PLAN WORKSHEET	
INCOME	
Earnings	
Financial aid	
Scholarships	
Other	
FIXED EXPENSES	
Tuition	
Rent or college room and board	
Health insurance	
Fees	
VARIABLE EXPENSES	
Books, equipment, supplies, tutoring	
Groceries	
Cell phone, long distance calls	
Transportation (including trips home)	
Health care (prescriptions, doctor, dentist)	
DISCRETIONARY	
Snacks, drinks, restaurant meals	
Entertainment	
Personal care (haircuts, skin care, etc.)	
Clothes	
Miscellaneous (gifts, etc.)	

On the Web: For an online college student budget, check out: **edwise.org.**

Needs and wants

- ➤ List the last 10 things you bought.
- ➤ Classify them as needs and wants.
- ➤ Of your wants, what can you do without?
- ➤ Of your needs, could you have saved money on any item?

This activity helps you re-evaluate your spending. Every time you think of buying something, decide whether it is a "need" or a "want."

Saving tips for college students

- ➤ Walk, bike or use public transit.
- ➤ Comparison shop for your computer and keep it safe so it doesn't get stolen.
- ➤ Comparison shop your cell phone plan. Use calling cards if your plan doesn't include long distance.
- ➤ Go to free entertainment or get student discounts.
- ➤ Rent DVDs instead of going to movies.
- ➤ Being green fits with a good spending plan. Look for energy savings. Recycle and reuse instead of buying new; this includes clothing, appliances, books and furniture.
- ➤ Being healthy fits with a good spending plan. Cut your eating out in half. Share meals in restaurants or bring food home for another meal.

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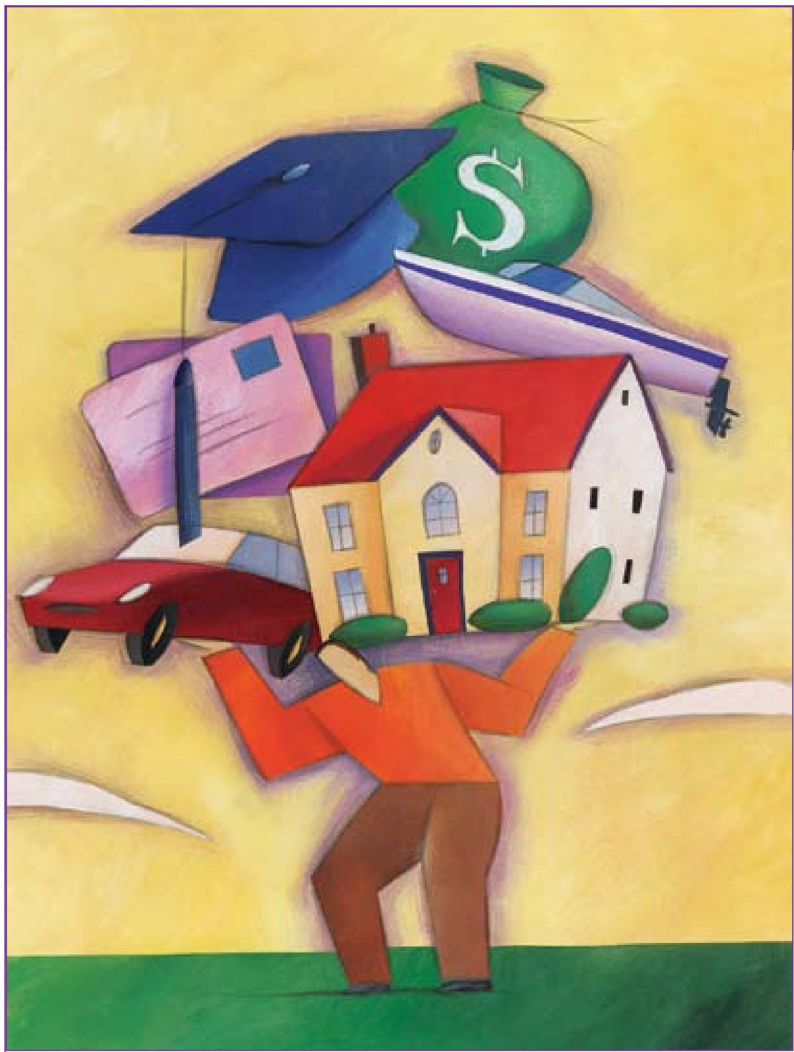

Bucking the debt generation —

Credit cards quiz — True or False?

1. **Credit cards can make it easier and more enticing for you to buy something you don't have the money to pay for.**
   TRUE. *So be careful when you use them. Only buy what you need.*

2. **You should have a minimum of five credit cards.**
   FALSE. *Two is enough.*

3. **Credit card interest rates change.**
   TRUE. *They certainly do. Typically they are seven to eight percent over the prime rate, which has gone from four percent to 20 percent in the past 30 years.*

4. **If you are late paying your bill, you pay a five percent annual charge.**
   FALSE. *No such luck. You will pay a late fee ($35); plus, if you do this often, your finance charges can be bumped up 10 percent over your current rate.*

5. **You should always pay your outstanding balance.**
   TRUE. *The best way to use your credit card is to only buy things you need and to pay in full on time every month.*

6. **If you lose your credit card, you are liable for all charges, so you should buy credit card insurance to cover for this.**
   FALSE. *You are only liable for $50.*

Credit card facts

- Credit card debt is **16 percent** of a college student's overall debt.
- Students have an average of **four credit cards.**
- 33 percent of students have **more than $2,000** in outstanding balances.
- Most students **underestimate** the amount of credit card debt they have.
- Most students **don't pay their credit card bills in full** at the end of the month.

Debit card facts

- Debit cards allow you to take money out of your bank account at ATMs or to buy items at a store. If you use them to buy, it may be more difficult to get a refund.
- They are like cash, as the money is deducted immediately from your bank account. If you don't have the money in your account, you can incur an overdraft charge, so be careful.
- Deposits usually post after 10 a.m. the next business day, so items bought in the evening may post to your account prior to the deposit you put into the ATM after 6 p.m. Check with your financial institution.
- You may incur a charge if you use an ATM that doesn't belong to your bank.
- Unlike credit cards, where your loss is limited to $50, if you don't report unauthorized transactions on your debit card, you could have much larger losses. So, review all your statements carefully and reconcile all charges.
- Contact your financial institution prior to traveling — in order to alert them to upcoming transactions.

Developing good credit habits

7. **Credit card companies will contact you by e-mail to let you know about discrepancies in your account.**
   FALSE. *This could be a form of identity theft/fraud called phishing. Credit card companies contact you by mail.*

8. **You should use your credit card as often as possible for cash advances.**
   FALSE. *Cash advances can cost you quite a bit more than regular transactions — even up to 30 percent. Read the fine print.*

Understanding Annual Percentage Rate (APR)

The APR takes into consideration the timing of your payments over the time of the loan.

	APR 10 PERCENT		APR 18 PERCENT	
MONTH	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
1			$7.96	$1.50
2			$8.02	$1.38
3			$8.09	$1.27
4			$8.16	$1.15
5			$8.23	$1.03
6			$8.30	$0.91
7			$8.36	$0.78
8			$8.43	$0.66
9			$8.50	$0.53
10			$8.58	$0.40
11			$8.65	$0.27
12	$100.00	$10.00	$8.72	$0.14
	$100.00	**$10.00**	**$100.00**	**$10.02**

- ➤ Annual percentage rate (APR) is the percentage cost of credit on a yearly basis.
- ➤ It is the key to comparing costs regardless of the amount of credit or how long you have to repay it.
- ➤ By federal law, this must be disclosed to you on all credit cards or loans.
- ➤ Always look at APR when you are comparison shopping loans.
- ➤ A credit card may have several APRs: for outstanding balances, cash advances, balance transfers and a penalty APR. Evaluate all of them before you sign up for the credit card.
- ➤ Read the fine print.

Credit card DOs

1. Credit cards make it easier to spend money you don't have. So if you have problems with spending too much, **use cash.**
2. Credit cards are a very expensive way to borrow money. **Pay all credit cards on time and in full.** If at all possible, do not maintain outstanding balances. Do not use features such as cash advance.
3. **Do not spend up to your credit limit.**
4. **Opt out of credit card offers** by calling Opt Out at 1-888-567-8688 or visiting: **optoutprescreen.com**.
5. Before you sign up for a credit card, **evaluate all fees and charges.**
6. **Keep only two credit cards** on you, to minimize potential loss or fraud.
7. **Keep a record of your account numbers,** their expiration dates and the phone number and address of each company in a secure place. Some fraud experts recommend that you photocopy the cards you carry with you.
8. **Protect your card and your account number.** Sign your credit card when it arrives. Don't lend your card to anyone. Don't give out your account number unless you know you are calling a company that is reputable. Shred incorrect receipts and copies.
9. **Save receipts** to compare with billing statements. Open bills promptly and reconcile accounts monthly, just as you would your checking account.
10. **Report any questionable charges** promptly and in writing to the card issuer. Do not pay for purchases where product was not delivered or was defective.
11. **Correct any billing errors** by contacting your credit card company as soon as possible.
12. If you use your credit card to shop online, **consider extra precautions with your personal computer.** Experts advise installing and periodically updating virus and spyware protection. Consider a "firewall" to stop thieves from secretly and remotely installing malicious software that can monitor your computer use and obtain sensitive account information.
13. **If you lose your credit or charge cards** or if you realize they've been lost or stolen, immediately **call the issuers.** Many companies have toll-free numbers and 24-hour service to deal with such emergencies. By law, once you report the loss or theft, you have no further responsibility for unauthorized charges. In any event, your maximum liability under federal law is $50 per card.

Work-spend rat race

An economic (life) decision

Q. **You are working 20 hours a week at $10 an hour and have been taking 15 credits. You decide to increase to 40 hours a week so you don't have to skimp on living expenses as much, but now you are taking 10 credits. Are you making a good financial decision?**

A. It seems like you're ahead $200 a week or $2,200 for the quarter, *but* you've just delayed receiving your degree by a quarter. If this continues for a long period of time you could delay for years. When you earn your bachelor's degree, your income can go up $10,000 to $20,000 per year, so you're putting off that extra $10,000 to $20,000 per year that you delay. Here's the additional bad news: The fewer credits you take, the less likely you are to stay in school. So if you drop out and don't finish, that decision can cost you $500,000 to $1 million over your lifetime, plus better health, increased life span and other great benefits that a college degree brings to its recipients.

WORK	PERCENT OF STUDENTS	AVERAGE BALANCE	ANXIETY*
Do not work during school year but work during vacations	19%	$ 942	3.3
Work 1–10 hours per week	12%	$ 782	3
Work 10–20 hours per week	34%	$ 926	3.4
Work more than 20 hours per week	31%	$ 1,661	2.4
Do not work at all	5%	$ 714	2.8

Source: Nellie Mae 2005 study of undergraduate students and credit cards

** Lower score means higher anxiety*

Most students work to pay for their education but some work to spend.

Students who work a lot of hours feel:

- They can't select courses they need because of conflicts with work hours.
- They study less.
- Work hurts their grades.
- They are more stressed.
- They are more likely to drop out.

Money saving tips

- Reduce discretionary spending.
- Keep records of ALL expenses for a month, including beverages and meals out.
- Comparison shop for purchases – food, transportation, cell phones, Internet access and insurance.
- Exercise reasonable budget control spending for birthdays and holidays.
- Reduce high-rate interest debt (credit cards or installment loans).
- Use payday loans wisely as interest rates can be high. In Washington State, you will pay 15 percent on the first $500 and 10 percent on amounts above $500. For example, a loan for $500 plus the $75 fee equals $575. A loan of $700 plus the $95 fee equals $795.
- Build an emergency savings fund, in a savings account or money market account, to avoid taking out loans for unexpected purchases.
- Ask your bank or credit union to automatically transfer money from your checking to your savings account — even as little as $10 - $20 a month. Sometimes you can arrange this at your place of employment.
- Put all your loose change into this savings account — it could add up to more than $30 a month.
- Look at your daily habits; and assess their cost, (coffee drinking, buying lunch, etc.).

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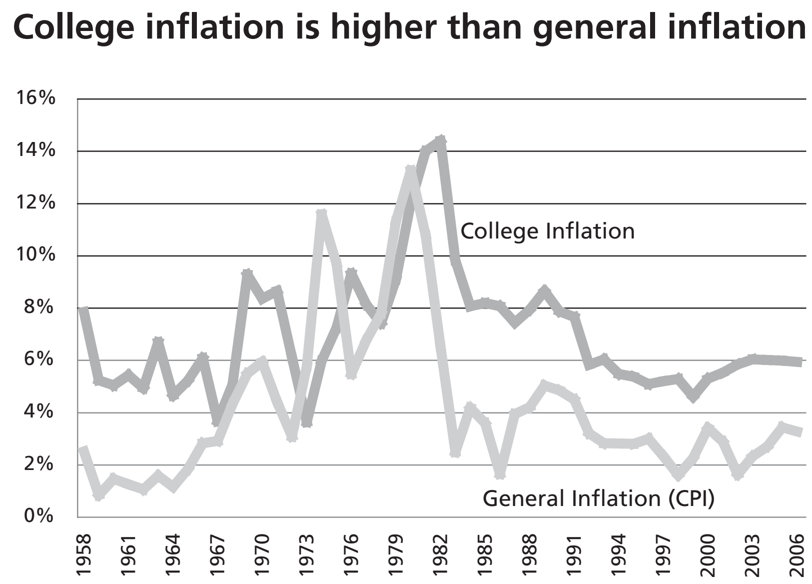
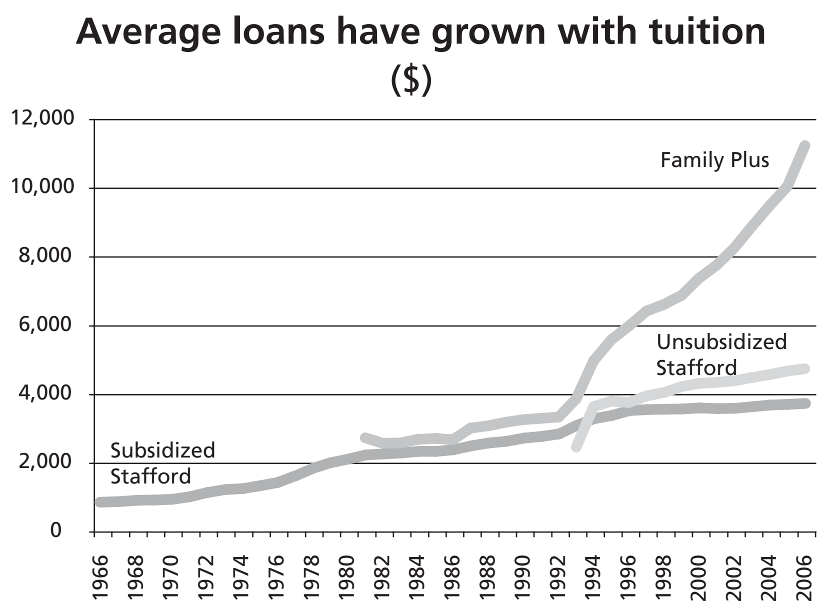
Paying for college

High inflation on college tuition is causing more families to borrow for college.



Source: Department of Education



Source: Department of Education

Programs to help pay for college

FAFSA – Free Application for Federal Student Aid

To apply for federal financial aid and most state aid programs, you must complete the FAFSA. Apply as soon as possible for the next academic year at **fafsa.ed.gov**.

Federal Aid Programs

Federal Pell Grant, Federal Supplemental Educational Opportunity Grant and the Teach Grant: These grants are for undergraduate students with financial need. They do not have to be paid back. The amount allocated for Pell Grants will be doubled by 2012. The Teach Grant requires that the graduate teach specific subjects at a high-need school.

Federal Work Study: Financially needy students can earn money to pay for educational expenses.

Federal Perkins Loan: These are low-interest loans for financially needy students.

Federal Stafford Loans: These loans are available to undergraduate and graduate students. There are two types of Stafford Loans: *subsidized* and *unsubsidized*.

Subsidized: The federal government makes the interest payments on your loan while you're in school and during certain other times. To qualify, you must demonstrate financial need.

Unsubsidized: You're always responsible for the interest that accrues on these loans. This is a non-need-based program; you can qualify as long as your education costs exceed the amount of financial aid awarded.

Federal PLUS Loans: This program offers two types of non-need-based loans: *parent PLUS* and *grad PLUS*.

Parent PLUS Loans are for parents borrowing on behalf of their dependent students.

Grad PLUS Loans are for graduate and professional students borrowing on their own behalf.

Washington State Aid Programs

The state of Washington has a variety of student aid programs that assist various groups including American Indian, low-income, teachers, foster youth and more. Examples are the Educational Opportunity Grant and Need Grants. For information, check out the Higher Education Coordinating Board Web site at **hecb.wa.gov** under *Paying for College*.

College Aid Programs

Colleges and universities may have grants and scholarships available to its students. Here are two examples:

Husky Promise: Guarantees full tuition at the University of Washington will be covered by grant or scholarship support if you are a low- or lower-middle-income student and a Washington resident. These do not have to be repaid.

Cougar Commitment Program: Washington State University commits to covering the cost of tuition and mandatory fees for students who otherwise could not afford to attend.

For more information about paying for college, go to **studentaid.ed.gov** or **nela.net**.

Saving and paying for post-secondary education

How much does it really cost?

Here are the average costs during 2006–2007 and 2005–2006 at two-year and four-year schools for full-time undergraduates, and the percent increase fomr one school year to the next.

	TUITION AND FEES				ROOM AND BOARD				TOTAL CHARGES			
Sector	2006 – 2007	2005 – 2006	$ Change	% Change	2006 – 2007	2005 – 2006	$ Change	% Change	2006 – 2007	2005 – 2006	$ Change	% Change
Two-Year Public	$2,272	$2,182	$90	4.1%	*	*	*	*	*	*	*	*
Four-Year Public	$5,836	$5,492	$344	6.3%	$6,960	$6,623	$337	5.1%	$12,796	$12,115	$681	5.6%
Four-Year Private	$22,218	$20,980	$1,238	5.9%	$8,149	$7,763	$386	5.0%	$30,367	$28,743	$1,624	5.7%

* Sample too small to provide meaningful information. **Note:** Four-year public tuition and fee levels are based on in-state charges only.
Source: "Trends in Students Aid 2006" © 2006 The College Board, www.collegeboard.com. Reproduced with permission.

Uncle Sam can help

	529 PLAN (A GET PROGRAM)	COVERDELL EDUCATIONAL SAVINGS
Maximum Contributions	Depending on state plan, could be up to $300,000	$2,000 per year
Restrictions on income of contributor	None	Phase out AGI over $95,000 (single) $190,000 (joint) filer
Age of beneficiary	No age restrictions	Under 18

Check out Washington state's 529 Guaranteed Education Tuition plan on the Web: get.wa.gov.

You can also draw on your Roth or regular IRA to pay for qualified higher education expenses without paying the 10 percent early withdrawal penalty.

Check to see if your employer provides tuition reimbursement.

Hope Credit

- ➤ A tax credit (a reduction in the amount of taxes to be paid for the year) of up to $1,500 per eligible student per year to families with students (taxpayer, spouse or dependent children) in the first two years of college or vocational school.

Lifetime Learning Credit

- ➤ A tax credit of up to $2,000 per return for adult learners: individuals returning to school, changing careers, or taking a course or two to upgrade their skills; and college juniors, seniors, and graduate and professional students.

Student loan DOs

1. Fill out the FAFSA to receive lower-cost grants and federal loans. Visit **fafsa.ed.gov.**
2. Save as much as you can in educational savings plans before you go to college.
3. Only borrow as much as you need.
4. Create a plan for repaying your loans when you first take them out. Include projected earnings based on your degree in that plan.
5. Stay in touch with your lenders to take advantage of options if you have trouble making payments.
6. Comparison shop if you need private loans. Consider APR, reductions for on-time payments, prepayment penalties and monthly payment amounts.

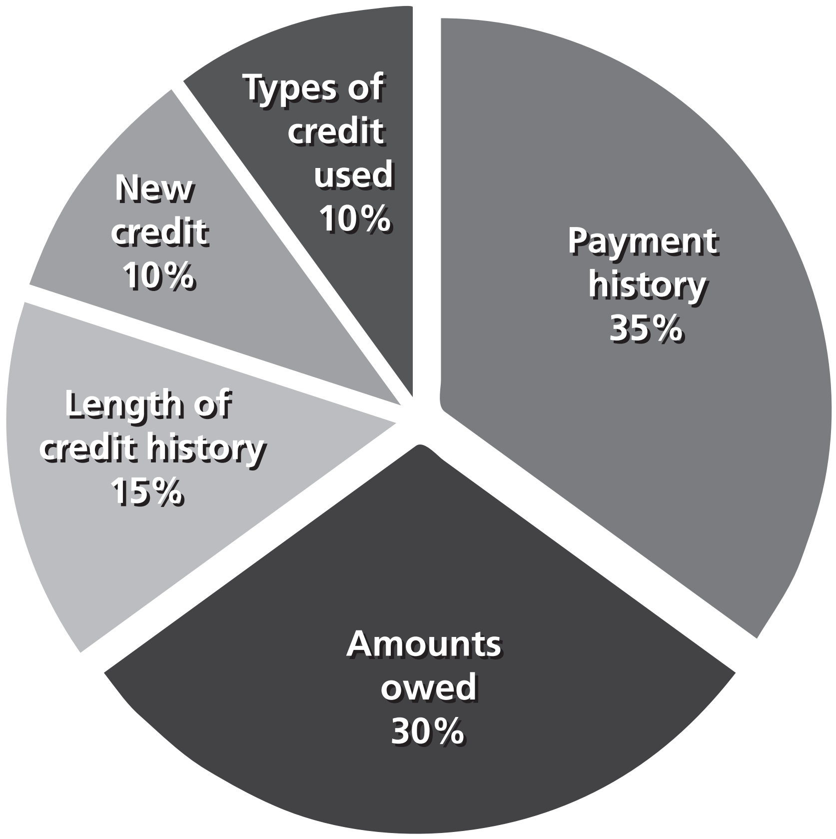
Maintaining good credit

1. **Check your credit report annually** by requesting a free credit report from annualcreditreport.com or contacting the three credit reporting services. Ask, in writing, that the credit rating service correct any errors.
2. **Opt out of pre-approved credit offers** by calling 1-888-5-OPT-OUT (1-888-567-8688) or visit **optoutprescreen.com**.
3. **Pay all your bills on time** and don't spend to your credit limit. Check to make sure that your creditors post your payments in a timely fashion.
4. **Establish an emergency fund** of three to six months.
5. If you've been denied credit, check to see if the lender has violated any laws. **File a complaint** if you feel this is the case.
6. **Maintain accurate records** and reconcile your accounts.

Coping with credit problems

1. **Stay calm** and work your way slowly and surely through the problem. Don't delay. Take action now and make it a priority.
2. If you feel that an error caused your credit problem, **tell the credit rating service.** Be diligent about monitoring your credit report.
3. **Seek financial counseling right away.** Use free counseling services that are listed in **usdoj.gov/ust**. Be aware that some credit counseling services (even though they claim to be nonprofit) may charge you fees.
4. **Make a list of all the debts you owe** with the creditor names and addresses. **Call** your lenders and creditors. Let them know you're having financial difficulties.
5. **Prepare a realistic spending plan** to pay down your debt.
6. **If you have savings, consider using it** to pay as many bills as you can. Consider selling some assets. Consider getting a second job to pay off your debt.
7. It might take longer than you thought for your financial crisis to go away. **Be persistent** with your creditors and payment plan.
8. As you start to pull yourself out of the financial crisis, remember to **set aside money for savings.**

Credit rating



Source: myfico.com

Payday loans

Payday loans are short-term consumer loans for small amounts, which need to be paid back on the date when the customer receives their next paycheck.

In Washington state, the maximum loan term is 45 days and the maximum loan amount is $700. The maximum fee that can be charged is 15 percent on the first $500 and 10 percent on amounts above $500.

Let's say you want to borrow $100 for 14 days. You write a personal check for $115. The check casher or payday lender agrees to hold the check until your next payday. At that time, the lender deposits the check or you redeem the check by paying the $115 in cash.

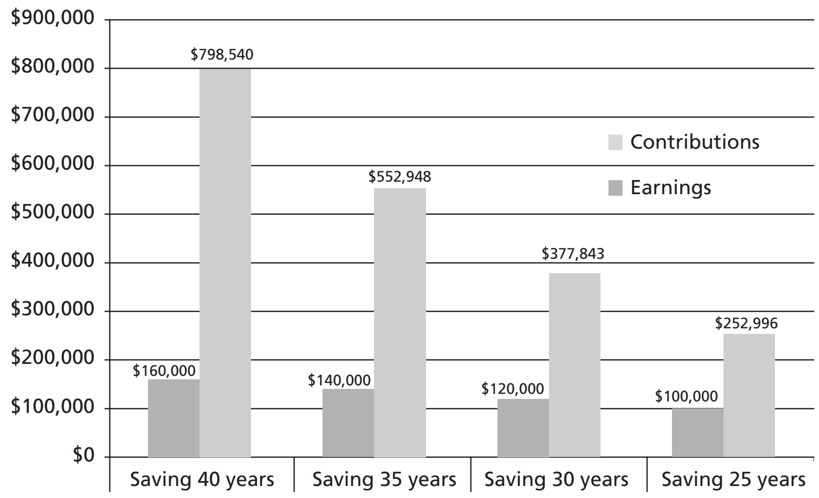
Using payday loans is significantly more expensive than other forms of credit.

If you feel that you have overcharged or been a victim of fraud, you can file a complaint with the DFI at 1-877-RING-DFI or at their Web site: dfi.wa.gov.

Grow your wealth with smart investing

Most of retirement savings comes from *earnings*, not *contributions*

Putting $4,000 per year to IRA at 7% return



The effect of saving every year

- ➤ You cut out candy and soda for savings of $25 every week.
- ➤ What will you have in 40 years?
- ➤ Contribute your earnings to a Roth IRA.

Time value of money

INTEREST RATE	SAVINGS PER WEEK	NUMBER OF YEARS	FUTURE VALUE
5%	$25	40	$152,602.02
5%	$50	40	$305,204.03
5%	$75	40	$457,806.05

Investing smarts

- ➤ The earlier you learn about investing, the more wealth you will accumulate.
- ➤ Put enough in your 401k to get the most out of your employer's match.
- ➤ Contribute as much of your earnings as you can to a Roth IRA.

The effect of a better return

INTEREST RATE	SAVINGS PER WEEK	NUMBER OF YEARS	FUTURE VALUE
8%	$25	40	$349,100.78
8%	$50	40	$698,201.57
8%	$75	40	$1,047,302.35

You can contribute any earnings to a tax-advantaged retirement account and take advantage of the time value of money. Don't borrow against your accounts or cash out when you leave an employer.

	401k	Roth IRA	Traditional IRA
Who is eligible	Determined by employer.	Anyone who had income from working and his or her nonworking spouse. There are income limits.	Anyone up to age 70½ with income from working and his or her nonworking spouse. There are no income limits.
Maximum you can contribute	$15,500 or maximum set by employer. $6,000 catch-up contribution for those 50 and over. Your employer may contribute a match, which makes this attractive.	Up to $10,000 ($5,000 each) combined contribution or $12,000 ($6,000 each) for those 50 and over.	Up to $10,000 ($5,000 each) combined contribution or $12,000 ($6,000 each) for those 50 and over.
Tax status of contributions	Contributions are pretax.	Contributions must be after-tax.	Contributions may be pretax up to certain income limits.
Tax status of earnings	Earnings are tax deferred. You pay ordinary income tax when you take the money out, therefore missing out on lower capital gains tax.	Earnings are tax free.	Earnings are tax deferred. You pay ordinary income tax when you take the money out, therefore missing out on lower capital gains tax.
Withdrawals	Withdrawals made before age 59½ will be subject to a penalty of 10 percent in addition to tax.	Contributions may be withdrawn without penalty.	Withdrawals made before age 59½ will be subject to a penalty of 10 percent in addition to tax.
Mandatory age for withdrawals	70 1/2	None	70 1/2

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Protect your money DOs

- **Check your credit reports at least once a year.** This is a good way to catch identity theft. Also, a study found that 25 percent of credit reports may have errors that can affect your ability to get credit. One free annual credit report is now guaranteed by law. Look to see if anything on the report is not correct and call to correct any errors. If you see something you do not understand, contact the credit report agency. The three credit companies you can contact about your credit report are:

  Equifax: equifax.com or (1-800-685-1111),
  Experian: experian.com or (1-888- 397-3742), and
  TransUnion: transunion.com or (1-800-888-4213).

- **Keep your personal financial information safe.** Only give your Social Security number and birth date to those who really need it, such as your employer or banking establishment. Do not share personal information on your social networking Web sites. Do not store personal financial information such as tax returns on the Web. Some clubs and services you apply for will ask for your Social Security number. Often they do not safeguard the information. You do not have to give it out.

- **Safeguard any information you have on your computer and at home.** Install antivirus software on your computer. Do not bookmark or save passwords for your financial institutions on your computer. Delete any e-mails that ask you for personal information. Web sites can be fake. If you do bank over the Internet, make sure that the Web site for your financial institution is authentic. Keep all financial information in a locked and secured area.

- **Avoid talking to strangers who call you to get information or try to sell you something.** Be especially careful when a caller asks for personal information. Have your telephone number added to the National Do Not Call Registry. You may register at **1-888-382-1222** or at **donotcall.gov**.

- **Minimize the number of credit cards you have** and opt out of credit card offers by calling Opt Out 1-888-567-8688 or going to the Web site: **optoutprescreen.com**. Call your credit card company immediately if your card is lost or stolen.

- **Keep track of your credit card spending** and check your statements very carefully. If you find a charge for something you did not buy, contact your credit card company immediately. (Fraudsters often start with a small charge to see if you are an easy victim and don't check your statements.)

- **Balance your checkbook every month.** Scam artists will also take your debit card information and use it. They will also forge checks. You need to report these to the bank to be protected. Open your bank statements to reconcile your records and double check your transactions.

- **Burn or shred financial records that you no longer have use for.** Anyone can go into your garbage to look for your personal information.

- **Take all your outgoing mail to a U.S. mailbox** and keep track of bills that should be incoming. Many personal mailboxes do not have locks. Thieves can steal your outgoing or incoming mail.

- **Avoid filling out forms for contests and clubs.** The "contest" may simply be a way for someone to collect your private information.

- **If you decide to shop online, work with large companies you know.** They want to protect their own reputation. When you use the Internet to buy from strangers, you don't really know if you will ever get what you paid for. The seller might simply disappear after they get your money.

If you feel that you have been a victim of fraud, file a complaint with the Washington State Department of Financial Institutions at **1-877-RING-DFI** or at **dfi.wa.gov**. You might stop others from being victimized.

Planning Financial Strategies for a Lifetime

	Protect your financial dreams	Avoid these financial nightmares
Twenties	• Set exciting goals • Establish good credit habits and history • Make a spending plan • Establish a record-keeping system • Get adequate auto, health, disability and property insurance	• Excessive credit card debt • Taking too much in student loans • No financial skills • Focusing on short-term satisfaction and not long-term needs
Thirties	• Own a home • Good credit score • Adequate property, life and liability insurance • Create wills • Education funds for children • Monitoring system for finances	• Unrealistic personal or family goals • Too much mortgage and other debt • No emergency fund or savings • Not enough insurance • Not involving family in financial affairs • Spending raises or windfalls and not taking advantage of the time value of money
Forties	• Expanded sources of income • Upgraded home • Allocate assets to education fund to meet time horizon • Monitor savings against retirement goals • Teach children about money management	• No savings for major replacements • Drawing home equity to spend • Neglecting to update insurance coverage • Excessive trading on investments • Not rebalancing portfolios • Not taking advantage of the time value of money by saving early
Fifties	• Pay for college for children • Expand investment portfolio • Renew retirement plans • Set estate plans with family • Plan for care of aging parents • Explore and evaluate options for long-term care	• Not saving enough for retirement • Children wanting excessive assistance • Not rebalancing portfolios • Drawing home equity to spend • Not anticipating decrease in income • Not anticipating medical or health expenses
Sixties	• Corral all sources on income for retirement • Asset allocate for adequate retirement income • Explore part-time or volunteer work • Plan housing for retirement • Comparison shop for gap health insurance	• Not having enough retirement funds • Too much debt to pay down before retirement • Having an out-of-date will • Failing to explore health care alternatives before retirement • No long-term care insurance to protect estate
Retirement	• Ensure adequate health insurance coverage • Determine options for care if disabled • Obtain reliable assistance to manage financial affairs • Fine-tune estate plan • Keep current on investment fraud	• Not using resources • Not developing an estate plan • Not funding leisure activities • Not adjusting spending to retirement income • Inadequate health coverage • Victimized by fraud because of lack of education

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