



# Life Learning with Houston Highway Credit Union

COMMUNITY FINANCIAL FITNESS, YOUNG ADULT-ADULT  
THE WAY TO BUILD YOUR PERSONAL VALUE IN FINANCIAL EDUCATION

# Decisions: Be Aware

- ▶ Decisions, decisions. With so many choices available to us, how can we be sure we're making the right decision? Wise consumer buying starts with a plan. Using a systematic purchasing strategy will provide you with an ability to make more effective purchases. Comparative shopping techniques help with carefully consideration of price, product attributes, warranties, and store policies.



# Making Decisions



What are you trying to decide?



Identify the issue (s)



What are the options?  
Alternatives?



What are the consequences of each?



What is the best course of action for each?



How will you evaluate the outcome (s)?

# Why Decisions are Hard

## **loss of income (48%)**

Unemployment (24%)

Illness (16%)

Other (divorce, death) (8%)

## **overextension (25%)**

Poor money management

Emergencies

Materialism

Need for instant gratification

# Strategies for Decision Making Consider

What have you  
used before?

How well did they  
work?

What were the  
issues when using  
them... barriers  
and/or strengths?

What influences  
you to use that or  
those strategies?

# Think about



## **deciding to spend your money:**

Do I really need this item?

Is it worth the time I spend making the money to buy it?

Is there a better use for my money right now?



## **deciding on the right purchase:**

What level of quality do I want (low, medium, or high)?

What level of quality do I need?

What types of services and repairs does the dealer offer?

Should I wait until there is a sale on the purchase (car, tv, phone, etc..) I want?

Should I buy a new or a used item (car, home, tv, phone, etc.) ?

If I buy a used item, should I buy it from a dealer, store or from a private party?

Should I choose an item with a well-known name even if it costs more?

Do I know anyone who owns the item I want?

Are the warranty and the service contracts on the item comparable with warranties and service contracts on similar items?

What do consumer magazines say about the type of item I want?



# Being Independent: On Your Own

- ▶ A common goal is to live on one's own. However, the challenges of independent living are often quite different from their expectations. A reality check for young adults as you explore the costs associated with moving, obtaining furniture and appliances, and renting an apartment. In preparation for living on their own, one is reminded of the budgeting process. Consider various fixed and flexible expenses. In addition, strategies for both flexible expenses (variable costs that change depending on level of consumption), such as entertainment, restaurants, and vacations, and fixed expenses (those that need to be paid every month), such as rent and apartment insurance.

# Living on Your Own

Prepare an itemized list of every major object in your bedroom, including furniture, linens, and creature comforts. Then, estimate the cost of each item.



Now what are the actual cost of those items.



Did you under-estimate the cost? Over-estimate?



# Moving out or Remodeling—there are costs



**WHAT ARE THE COST TO  
FURNISH THE ROOM, THE  
APARTMENT, THE REMODEL?**



**WHERE MIGHT YOU FIND  
ALTERNATIVES BESIDE NEW?**



**REMEMBER THIS FOR WHEN WE  
GET TO BUDGETING....**

# Making Money:

ASSESS YOUR PERSONAL INTERESTS, ABILITIES AND  
CAREER GOALS.

# Based on your personal situation, answer the following questions



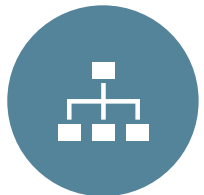
1. What topics of study do or did you enjoy most in school?



2: What skills do you do well? What do you feel to be your most distinguishing skill or area of specialty?



3: What are your interests away from school or work?



4: Describe a situation in which you helped organize the work of others.



5: Describe a situation in which you worked with a team to achieve a goal.



6: Describe the kind of job you might like.



# Evaluating the current employment market

	Career 1	Career 2
What are the physical surroundings, work hours, and mental and physical demands of this type of work?		
What training and educational background is needed for this area of employment?		
Will these career areas be in demand in the future?		
What is the starting and advancing salaries?		
What makes this career attractive to you?		

# Create a Resume



A resume is a personal data sheet commonly used to apply for a job. It lists your skills and experience so that future employers can see what you have already done and whether your experience meets the job's requirements



**Education:** degrees, programs, certifications, locations, dates



**Work Experiences:** titles, organizations, dates, responsibilities



**Other Experiences:** volunteer, organizations, responsibilities



**Honors/Awards**

# Learn How to Read Pay Stubs

THE BANANA BREADBOX

EMPLOYEE PETER SMITH

SSN 999-99-9999      PAY PERIOD 8/06/09 TO 8/12/09

PAY DATE 8/15/09      CHECK NO. 3259 NET PAY \$349.21

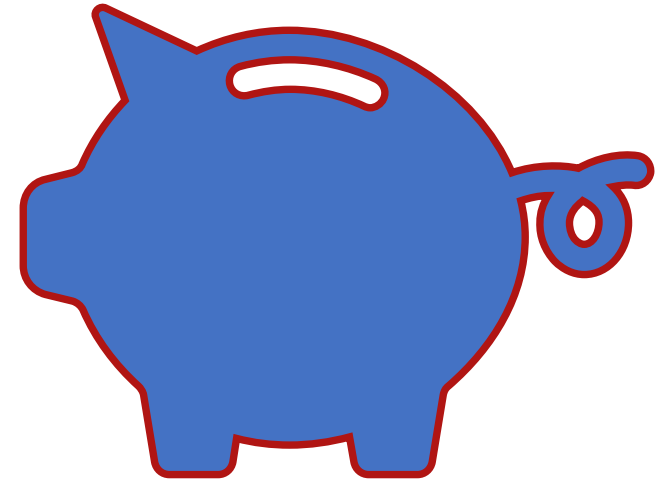
Earnings		Taxes Withheld		Other Deductions	
Description	Hrs. Amount	Tax Type	Current YTD	Description	Amount
Regular	448	Federal	49.95 385.62	401K	
Overtime		Soc. Sec.	27.79 361.09	Health	
Current	448	Medicare	6.50 84.45	Dental	
YTD	5824	State	14.56 182.28	Vision	

So what is missing? What is not being covered?



# Budgeting

- ▶ A personal budget is a financial plan that allocates future income toward expenses, savings, and debt repayment. “Where does the money go?” is a common dilemma faced by many individuals and households when it comes to budgeting and money management. Effective money management starts with a goal and a step-by-step plan for saving and spending. Financial goals should be realistic, be specific, have a timeframe, and imply an action to be taken. Learn to develop your own personal financial goals and budget.



# Budgeting: what are your goals?



EDUCATIONAL



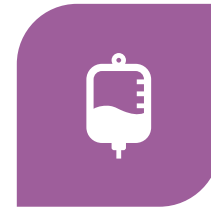
SOCIAL



FINANCIAL



FAMILY



HEALTH



RECREATIONAL

# Importance/Value of Goals

Choose the two goals from each category that are the most important to you.



Identify each goal as short-term (1–4 weeks), medium-term (2–12 months), or long-term (1 year or longer).



# Prioritize your goals



**LIST AND PRIORITIZE SIX OF YOUR MOST IMPORTANT GOALS.**



**AFTER EACH GOAL, IDENTIFY WHAT YOU COULD BE DOING NOW TO WORK TOWARD THE GOAL,**



**AND WHAT RESOURCES (IF ANY) YOU NEED TO ACHIEVE EACH GOAL.**

# Goal1 (do this for each goal)

What I can be  
doing now to  
work toward  
this goal:

The resources I  
need to  
achieve this  
goal are:

# setting up and maintaining a personal budget



After you've completed your planning, try to stick to your budget for one month.



At the end of the month, record your actual income and your actual expenses.



Calculate the difference between what you thought you would earn and what you actually earned, and what you thought you would spend and what you actually spent.



# My Budget

Income Source	Budget	Actual	Difference
Job 1			
Job 2			
Other			
Total:			

Expenses	Budget	Actual	Difference
<b>Fixed Regular</b>			
Rent			
Car payment			
Car insurance			
<b>Fixed Irregular</b>			
Food			
Utilities			
Savings			
Bus/Gas			
Parking/Tolls			
Repairs			

# My Expenses for My Budget

Other Expenses	Budget	Actual	Difference
Medical			
Clothing			
Entertainment			
Household			
Personal			
Tuition/Work Supplies			
Health—Spa, Gym, Nails, Hair			
Other monthly payments			
<b>Total of All Expenses</b>			

Expenses  
Continued...



# Rework a Budget; take this scenario and work it into your lifestyle

- ▶ her planned income and expenses Gabrielle works part-time at a greeting card company and part-time at a record store. The net monthly income from her first job is \$600. The net monthly income from her second job is \$800. Her planned fixed monthly expenses include: ■ \$200 for rent (she shares an apartment with two friends) ■ \$175 for car payment ■ \$220 for car insurance Her planned flexible expenses include: ■ \$100 (to save for going to trade school) ■ \$150 for food ■ \$40 for gas and oil ■ \$50 for clothes ■ \$60 for entertainment ■ \$30 for personal items
- ▶ What would you change? Why? Your personal goals...
- ▶ How does your budget look in this scenario?



# Signs to Let You Know You are Getting into Trouble

You don't know how much you owe.

You often pay bills late.

You get a new loan to pay old loans.

You pay only the minimum balance due each month.

You spend more than 20% of your net income (after paying rent or mortgage) on debt maintenance.

You would have an immediate financial problem if you lost your job.

You're spending more than you earn, using your savings to pay for day-to-day expenses.

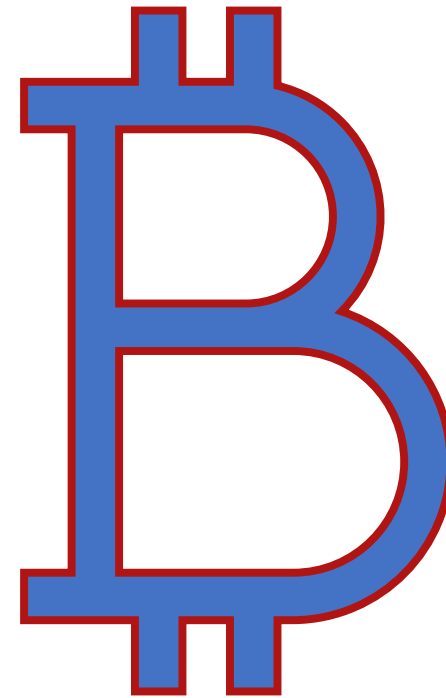
# What Do You Do?

## **take another (close) look at your budget**

- ▶ Trim your expenses.
- ▶ Be realistic about what you can afford.

## **contact your creditors**

- ▶ Tell them why you can't pay, that you intend to pay, and when/how much you will be able to pay.
- ▶ You may be able to work out a new payment schedule.
- ▶ If possible, continue to make the minimum payments.



# Credit Counseling; check your financial institution

- ▶ Program that offers information on financial and consumer topics. All cities with populations of 50,000, and 1,500 locations nationwide.
- ▶ Reviews your income.
- ▶ Helps you set up a realistic personal budget.
- ▶ May contact your creditors and make arrangements for reduced payments on your bills.
- ▶ Helps you plan for future expenses.
- ▶ Services, depending on location, may be available for no charge or reasonable fee.
- ▶ Listed in yellow pages under “credit counseling” or call (800) 388-2227 for a location nearest you. Or you can visit NFCC online at [nfcc.org](http://nfcc.org).



# Or You Can..

## **loan consolidation**

- ▶ You make only one payment, usually lower than the total amount of your monthly debt payments.
- ▶ Best to use only when combined with credit counseling.
- ▶ If you own a home, consider your spending habits carefully before you take out a home equity loan. You could end up with a loan and large credit card bills if you don't change your spending habits.

## **watch out for “credit repair” companies**

- ▶ Offer for-profit counseling.
- ▶ Offer debt consolidation loans.
- ▶ Offer debt counseling.
- ▶ Some advertise they can erase a poor credit history (no one can do this).



# Bankruptcy...

STAYS ON YOUR  
CREDIT REPORT 10  
YEARS

# Buying a Home? Or Rent?

- ▶ For many, buying a home is the single most important financial decision they will make in their lifetime. However, the process of becoming a first-time homebuyer can be overwhelming and requires a foundation for basic home-buying knowledge. Information on buying a home and where and how to begin the process. Compare rent versus purchase.

# Buy a Home or Rent? Consider...



**Home: exterior and interior facilities and construction**



**Mortgage: amount, terms (length and interest rate), reliability of institution**



**More costs: credit report, inspections, application and appraisal fees, loan origination fee, monthly payment, early payoff fee, points and prepay ability**

# Credit

- ▶ In today's world, credit is integrated into everyday life. From renting a car to reserving an airline ticket or hotel room, credit cards have become a necessary convenience. However, using credit wisely is critical to building a solid credit history and maintaining fiscal fitness. While most students have a general idea about the advantages and disadvantages of credit, this lesson provides an opportunity to discuss these issues in more detail. Young people and others commonly wonder how to establish credit. In this chapter, we will learn about the creditworthiness factors of character, capital, and capacity in order to help them gain an understanding of how to start and maintain a credit record. This chapter will also introduce different types of credit: single-payment credit, installment credit, and revolving credit. Finally, this section will educate us about how much credit might be appropriate for their situation.



# Use Credit? Yes, No... Factors to Consider

## **advantages:**

- ▶ Able to buy needed items now
- ▶ Don't have to carry cash
- ▶ Creates a record of purchases
- ▶ More convenient than writing checks
- ▶ Consolidates bills into one payment

## **disadvantages:**

- ▶ Interest (higher cost of items)
- ▶ May require additional fees
- ▶ Financial difficulties may arise if one loses track of how much has been spent each month
- ▶ Increased impulse buying may occur

# The Three C's

## character—will you repay the debt?

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- ▶ Have you used credit before?
- ▶ Do you pay your bills on time?
- ▶ Do you have a good credit report?
- ▶ Can you provide character references?
- ▶ How long have you lived at your present address?
- ▶ How long have you been at your present job?

## capital—what if you don't repay the debt?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- ▶ What property do you own that can secure the loan?
- ▶ Do you have a savings account?
- ▶ Do you have investments to use as collateral?

## capacity—can you repay the debt?

Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

- ▶ Do you have a steady job? What is your salary?
- ▶ How many other loan payments do you have?
- ▶ What are your current living expenses? What are your current debts?
- ▶ How many dependents do you have?

# Your Responsibilities

## Borrow

- Borrow only what you can repay.

## Read and understand

- Read and understand the credit contract.

## Pay

- Pay debts promptly.

## Notify

- Notify creditor if you cannot meet payments.

## Report

- Report lost or stolen credit cards promptly.

## Give

- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.



# Build a Credit History





# Read Your Credit Report

AT LEAST EVERY YEAR

# Types of Credit

## **single-payment credit**

Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged.

- ▶ Utility companies, medical services
- ▶ Some retail businesses

## **revolving credit**

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

- ▶ Retail stores
- ▶ Financial institutions that issue credit cards



# Continued...

## **installment credit**

Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included.

- ▶ Some retail businesses, such as car and appliance dealers

Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments.

- ▶ Commercial banks
- ▶ Consumer finance companies
- ▶ Savings and loans
- ▶ Credit unions



# How Much Can You Borrow? The 20-10 Rule

**never borrow more than 20% of your  
yearly net income**

- ▶ If you earn \$400 a month after taxes, then your net income in one year is:

$$12 \times \$400 = \$4,800$$

- ▶ Calculate 20% of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

- ▶ So, you should never have more than \$960 of debt outstanding.
- ▶ Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%, but other debt should be included, such as car loans, student loans and credit cards.

# Continued...

**monthly payments shouldn't exceed  
10% of your monthly net income**

- ▶ If your take-home pay is \$400 a month:

$$\text{\$400} \times 10\% = \text{\$40}$$

- ▶ Your total monthly debt payments shouldn't total more than \$40 per month.
- ▶ Note: Housing payments (i.e., mortgage payments) should not be counted as part of the 10%, but other debt should be included, such as car loans, student loans and credit cards.

# Applying for a Credit Card

## **costs:**

- ▶ Annual Percentage Rate (APR)
- ▶ Grace period
- ▶ Annual fees
- ▶ Transaction fees
- ▶ Balancing computation method for the finance charge

## **features:**

- ▶ Credit limit
- ▶ How widely the card is accepted
- ▶ What services and features are available



# Comparing Credit Cards Consider

- ▶ Type of account
- ▶ Annual fee
- ▶ Grace period
- ▶ Annual Percentage Rate (APR)
- ▶
- ▶ Credit limit
- ▶ Minimum monthly payment
- ▶ Finance charge calculation method
- ▶ Late payment fee, other fees
- ▶ Other features

# Credit Card Do's and Don'ts

## **shop around**

- ▶ Look at various sources.

## **read and understand the contract**

- ▶ Read the contract carefully.
- ▶ Don't rush into signing anything.
- ▶ Once a contract is signed, get a copy of it.
- ▶ Know the penalties for missed payments.

## **know your cost**

- ▶ Figure out total price when paying with credit.
- ▶ Make the largest payments possible.
- ▶ Know the penalties for missed payments.
- ▶ Buy on installment credit only after you have evaluated all other possibilities.
- ▶ Don't be misled into thinking small payments will be easy.

# Financial Services

Choosing a place to have a working relationship with your money

Consider: type—ATM, hours, funds insured, types of accounts, fees (daily balance, maintenance charge), interest rates, services and/or products, minimal balance without fees/costs; costs of printing checks, bounced checks, stopping checks, checking on balances: ATM, teller, online; withdrawal feels, special services; deposits—how and where

LOTS TO CONSIDER IN THIS RELATIONSHIP



# Let's talk about a statement from your financial place...

LOOK AT NOT ONLY YOUR BOTTOM LINE BUT THE COST OF SERVICE;  
CAN YOU SAVE MORE/PUT MORE IN TO AVOID THIS SERVICE COST

# Needs to Consider With A Car; new or used?

## **ownership (fixed) costs:**

- Depreciation (based on purchase price)
- Interest on loan (if buying on credit)
- Insurance
- Registration fee, license, taxes

- ▶ Check warranties, implied and written
- ▶ Check for service contracts
- ▶ Check for re-calls

## **operating (variable) costs:**

- Gasoline
- Oil and other fluids
- Tires
- Maintenance and repairs
- Parking and tolls



# Maybe a Lease?

## advantages

- Smaller initial outlay than down payment when buying on credit
- Monthly lease payments may be less than monthly finance payments
- Lease agreement provides detailed records for business purposes
- Oftentimes, all service charges related to maintenance are included in lease, so there is no additional outlay of money for regular maintenance

## disadvantages

- No ownership interest in the vehicle
- Must meet requirements similar to applying for credit
- Additional costs occur (such as for extra mileage, certain repairs, ending lease early)

## discussion of leasing vs. buying

- You must decide which option makes the most sense for your situation.
- Do you have cash available for a down payment?
- How much of a monthly payment can you afford?
- How long do you plan to keep the car?

# Need a Loan for that Car?

## **variables include:**

- Annual Percentage Rate (APR)
- Length of the loan
- Monthly payments
- Total finance charge
- Total to be repaid



# Truth in Lender Act Must Tell You

- Amount financed
- What charges are included in amount financed
- Total finance charge, in dollars
- Annual Percentage Rate (APR)
- Payment schedule
- Total amount of payments
- Total sales price
- Prepayment penalty, if any
- Late payment penalty, if any
- Security interest
- Insurance charges

# Types of Auto Insurance Coverage

## **liability (40–50% of premium)**

- Bodily injury coverage
- Property-damage coverage (e.g., to another person's car)

## **collision (up to 30% of premium)**

- Pays for the physical damage to your car as a result of an accident
- Limited by deductible

## **comprehensive (about 12% of premium)**

- Pays for damage caused by vandalism, hailstorms, floods, theft, etc..

## **medical**

- Covers medical payments for driver and passengers injured in accident

## **uninsured motorist**

- Reimburses you for bodily injury in accidents caused by uninsured drivers

## **towing and labor**

## **rental reimbursement**

- Pays a specific amount per day to rent a car while yours is being fixed



# How Insurance Rates are Set

## **personal characteristics**

- Age
- Sex
- Marital status
- Personal habits (e.g., smoking)
- Type and frequency of vehicle use (e.g., commuting)

## **geographic location (often classified by zip code)**

- “Rural” usually lowers rates, “urban” usually raises rates

## **driving record**

- Accident with death, bodily injury, or property damage in excess of \$400 may trigger surcharge on premium for 3 years
- Number and kind of moving violations (and total of associated points)
- Number of years insured with the company

## **vehicle characteristics**

- Damage, repair, and theft record of type and model of car
- Age of car



# So How Do I Make This Happen?

SAVING AND INVESTING



# Ever heard of the 50/30/20 rule?

- ▶ This is a simple rule on how you should spend your after-tax money.
- ▶ 20% Savings.
- ▶ 30% Wants, such as shopping, dining out, and hobbies.
- ▶ 50% Needs, such as groceries, utilities, housing, insurance and car payment.

# Overview

- ▶ Saving just 35 cents a day will result in more than \$125 in a year. Small amounts saved and invested can easily grow into larger sums. However, a person must start to save. Learn the basic knowledge of saving and investing. The process starts with setting financial goals. Next, a commitment to saving is discussed. Various savings plans are available to consumers. These include regular savings accounts, money market accounts, and certificates of deposit (CD). Explore interest rates, fees, balance requirements, and deposit insurance. Investing takes saving one step further in a person's financial plan. Bonds, stocks, mutual funds, real estate, and retirement accounts are also reviewed.



# Pay Yourself First

## ► A little can add up!

► Save this each week ... at % interest ... in 10 years you'll have

► \$7.00	5%	\$4,720
► 14.00	5%	\$9,440
► 21.00	5%	\$14,160
► 28.00	5%	\$18,880
► 35.00	5%	\$23,600

► You can buy ... two fast food meals or one movie ticket (and a candy bar) or save \$7.00 this week.

► You can buy ... two small cheese pizzas or one large pepperoni pizza, delivered or one new CD or save \$14.00 this week.

► **What can you give up to save for your financial goals?**

# Types of Savings Accounts

## **passbook account**

- ▶ Depositor receives a booklet in which deposits, withdrawals, and interest are recorded.
- ▶ Average interest rate is lower at banks and savings and loans than at credit unions.
- ▶ Funds are easily accessible.

## **statement account**

- ▶ Basically the same as a passbook account, except depositor receives monthly statements instead of a passbook.
- ▶ Accounts are usually accessible through 24-hour automated teller machines (ATMs).
- ▶ Interest rates are the same as passbook account.
- ▶ Funds are easily accessible.

## **interest-earning checking account**

- ▶ Combines benefits of checking and savings.
- ▶ Depositor earns interest on any unused money in his/her account.



# Money Market Accounts

## **what they are and how they work**

- ▶ Checking/savings account.
- ▶ Interest rate paid built on a complex structure that varies with size of balance and current level of market interest rates.
- ▶ Can access your money from an ATM, a teller, or by writing up to three checks a month.

## **benefits**

- ▶ Immediate access to your money.

## **trade-offs**

- ▶ Usually requires a minimum balance of \$1,000 to \$2,500.
- ▶ Limited number of checks can be written each month.
- ▶ Average yield (rate of return) higher than regular savings accounts.

# Certificate of Deposit

## what they are and how they work

- ▶ Bank pays a fixed amount of interest for a fixed amount of money during a fixed amount of time.

## benefits

- ▶ No risk
- ▶ Simple
- ▶ No fees
- ▶ Offers higher interest rates than savings accounts.

## trade-offs

- ▶ Restricted access to your money
- ▶ Withdrawal penalty if cashed before expiration date (penalty might be higher than the interest earned)

## types of certificates of deposit

1. **Rising-rate CDs** with higher rates at various intervals, such as every six months.
2. **Stock-indexed CDs** with earnings based on the stock market.
3. **Callable CDs** with higher rates and long-term maturities, as high as 10–15 years. However, the bank may “call” the account after a stipulated period, such as one or two years, if interest rates drop.
4. **Global CDs** combine higher interest with a hedge on future changes in the dollar compared to other currencies.
5. **Promotional CDs** attempt to attract savers with gifts or special rates.

# Choosing What is Right for You!

**factors that determine the dollar yield on an account:**

**Interest rate (also called rate of return, or annual yield)**

- ▶ All money earned comes from this factor.

**the following factors reduce money earned and can even turn it into a loss:**

**Fees, charges, and penalties**

- ▶ Usually based on minimum balance requirements, or transaction fees.

**Balance requirements**

- ▶ Some accounts require a certain balance before paying any interest.
- ▶ On money-market accounts, most banks will pay different interest rates for different size balances. (Higher balance earns a higher rate.)

**Balance calculation method**

- ▶ Most calculate daily. Some use average of all daily balances.



# Rule of 72

**How many years will it take to double my money?**

72 DIVIDED BY  
= YEARS TO DOUBLE A SUM OF MONEY  
INTEREST RATE

**At what interest rate will my money double in a set number of years?**

72 DIVIDED BY  
= INTEREST RATE REQUIRED  
YEARS TO DOUBLE  
INVESTMENT



# Bonds

## **what they are**

- ▶ A bond is an “IOU,” certifying that you loaned money to a government or corporation and outlining the terms of repayment.

## **how they work**

- ▶ Buyer may purchase bond at a discount. The bond has a fixed interest rate for a fixed period of time. When the time is up, the bond is said to have “matured” and the buyer may redeem the bond for the full face value.

# Types of Bonds

## **Corporate**

- ▶ Sold by private companies to raise money.
- ▶ If company goes bankrupt, bondholders have first claim to the assets, before stockholders.

## **Municipal**

- ▶ Issued by any non-federal government.
- ▶ Interest paid comes from taxes or from revenues from special projects. Earned interest is exempt from federal income tax.

## **Federal government**

- ▶ The safest investment you can make. Even if U.S. government goes bankrupt, it is obligated to repay bonds.



# Mutual Funds

## **what they are**

- ▶ Professionally managed portfolios made up of stocks, bonds, and other investments.

## **how they work**

- ▶ Individuals buy shares, and fund uses money to purchase stocks, bonds, and other investments.
- ▶ Profits returned to shareholders monthly, quarterly, or semi-annually in the form of dividends.

## **advantages**

- ▶ Allows small investors to take advantage of professional account management and diversification normally only available to large investors.



# Stocks

## **what they are**

- ▶ Stock represents ownership of a corporation. Stockholders own a share of the company and are entitled to a share of the profits as well as a vote in how the company is run.

## **how earnings are made**

- ▶ Company profits may be divided among shareholders in the form of dividends. Dividends are usually paid quarterly.
- ▶ Larger profits can be made through an increase in the value of the stock on the open market.

## **advantages**

- ▶ If the market value goes up, the gain can be considerable.
- ▶ Money is easily accessible.

## **disadvantages**

- ▶ If market value goes down, the loss can be considerable.
- ▶ Selecting and managing stock often requires study and the help of a good brokerage firm.



# Real Estate

## ways to invest

- ▶ Buy a house, live in it, and sell it later at a profit.
- ▶ Buy income property (such as an apartment house or a commercial building) and rent it.
- ▶ Buy land and hold it until it rises in value.

## advantages

- ▶ Excellent protection against inflation.

## disadvantages

- ▶ Can be difficult to convert into cash.
- ▶ A specialized type of investment requiring study and knowledge of business.

**capital gains:** profits from the sale of a capital asset such as stocks, bonds, or real estate. These profits are tax-deferred; you do not have to pay the tax on these profits until the asset is sold. Long-term capital gains occur on investments held more than 12 months. Short-term capital gains occur on investments held less than 12 months.

# Retirement Plans



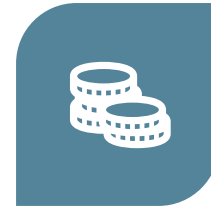
## **WHAT THEY ARE AND HOW THEY WORK**



PLANS THAT HELP  
INDIVIDUALS SET ASIDE  
MONEY TO BE USED  
AFTER THEY RETIRE.



FEDERAL INCOME TAX  
NOT IMMEDIATELY DUE  
ON MONEY PUT INTO A  
RETIREMENT ACCOUNT,  
OR ON THE INTEREST IT  
MAKES.



INCOME TAX PAID  
WHEN MONEY IS  
WITHDRAWN.



PENALTY CHARGES  
APPLY IF MONEY IS  
WITHDRAWN BEFORE  
RETIREMENT AGE,  
EXCEPT UNDER  
CERTAIN  
CIRCUMSTANCES.



INCOME AFTER  
RETIREMENT IS USUALLY  
LOWER, SO TAX RATE IS  
LOWER.



# Types

## **Individual Retirement Account (IRA)**

- ▶ Allows a person to contribute up to \$3,000 of pre-tax earnings per year. Contributions can be made in installments or in a lump sum.

## **Roth IRA (also called the IRA Plus)**

- ▶ While the \$3,000 annual contribution to this plan is not tax-deductible, the earnings on the account are tax-free after five years. The funds from the Roth IRA may be withdrawn after age 59, if the account owner is disabled, for educational expenses, or for the purchase of a first home.

## **401(k)**

- ▶ Allows a person to contribute to a savings plan from his or her pre-tax earnings, reducing the amount of tax that must be paid. Employer matches contributions up to a certain level.

## **Keogh Plan**

- ▶ Allows a self-employed person to set aside up to 15% of income (but not more than \$35,000 per year).

# Remember Through All Your Financial Life... Privacy is Important

- ▶ Know that is by law that financial institutions protect your information
- ▶ Many databases: ■ Employment information ■ Credit reports ■ Tax information (IRS/state tax boards) ■ Criminal records ■ Social service records (welfare, Medicaid, etc..) ■ School records ■ Medical records
- ▶ To amend your records, Contact the agency in question ■ Await administrative review of request ■ If request is denied, you can request a court review
- ▶ Fair credit reporting act: gives consumers the right to dispute inaccurate information and permits them to insert their own version of disputed information into a credit report.

# To Get a Copy of Your Credit Report

Experian Consumer  
Assistance Center P.O.  
Box 749029 Dallas, TX  
75374-9029 1-800-643-  
3334 [experian.com](http://experian.com)

■ Equifax Credit  
Information Services  
P.O. Box 105873  
Atlanta, GA 30348 1-  
800-685-1111  
[equifax.com](http://equifax.com)

■ Trans Union Consumer  
Relations P.O. Box 390  
Philadelphia, PA 19064-  
0390 1-800-916-8800  
[transunion.com](http://transunion.com)



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