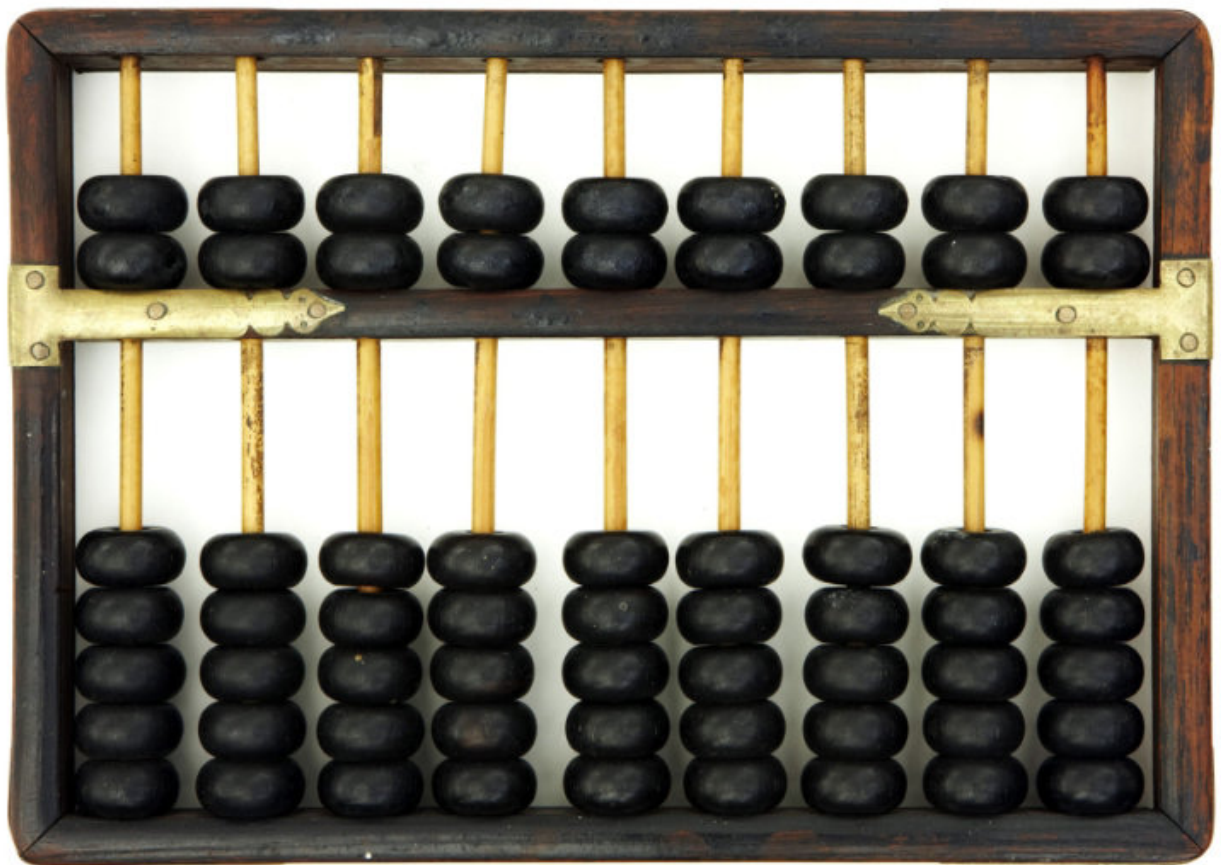


NATIONAL FINANCIAL LITERACY MONTH

FOUR IMPORTANT STEPS FOR GETTING AHEAD



The Mercadien Foundation's guide to improving financial capability and an exploration of the state of financial literacy today.

SPRING 2016

NATIONAL FINANCIAL LITERACY MONTH

The state of financial literacy and capability in our community is tenuous at best. The challenge affects everyone – men and women, young and old, across all racial and socio-economic lines. The problem cannot be ignored.

- Financial literacy, defined as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of well-being, is a long-standing issue that was publicly recognized in 1995 by the Jump\$tart Coalition for Financial Education. Many solutions have been proposed throughout the last two decades to improve the health and well-being of the US population with relatively little success or progress.
- Financial literacy and capability are priorities that have been established by the White House through the President's Advisory Council on Financial Literacy and Capability to encourage better understanding in these areas. These advisory councils have developed resources to be used by government agencies, employers, and other groups to encourage furthering education in the area of personal finance throughout the US.
- During the financial crisis of 2008, change seemed imminent, with states across the country getting on board to require personal finance courses as graduation requirements in K-12 education. Since 2008, subsequent survey data has not shown significant increases in financial literacy or capability, and in many cases, tests have shown students and individuals having less financial literacy and capability today, than any time in the last decade.
- The Mercadien Foundation delivers a free financial literacy program with the following goals:
 - **Research:** Identify issues, gather information, analyze results, and communicate findings.
 - **Convene:** Bring together critical stakeholders to explore and disseminate information on challenges, needs, best-practices, synergies, and resource sharing.
 - **Develop:** Create and identify programs, materials, and curriculum that advance financial capability.
 - **Support:** Raise awareness of and recognize excellence in financial literacy education through recognition and other communication tools.
- To accomplish these goals, the Mercadien Foundation has created:
 - **Money\$peak:** An extracurricular program for high school students that encourages more active participation in the personal finance curriculum through teamwork and competition. The program material parallels New Jersey State Curriculum Standard 9.2 in Personal Finance. This program is presented in collaboration with Rider University's Graduate School of Business.
 - **\$martWorkplace:** A workplace assessment program that recognizes employers for creating workplaces that foster improved financial capability among their employees. Strengthening employee knowledge leads to a more motivated and productive workforce and a stable economy.

The following four activities have been created to celebrate National Financial Literacy Month and give readers important financial lessons. These lessons are geared to help individuals and families develop a better understanding of their own personal finance and create actionable plans to support substantially more financially secure lives. While each lesson is brief, using them to better align your financial future is well within your grasp.

LESSON 1:

ASSESSING YOUR FINANCIAL SITUATION

Where in the world do we begin? Let's start with a snapshot of where we are today. There are many formulas and procedures for taking an in-depth look at your financial situation and they often seem complicated. We should all take a look at our finances regularly so we don't lose sight of our goals, and calculating our financial picture helps us keep ourselves on track. The two pieces of financial information we'll be putting together to look at are Net Worth and Monthly Income and Expense statements. Don't be intimidated to fill out the worksheets on the two following pages to get a good snapshot of your current financial situation.

So, how do we determine net worth? Net worth is simply what you own (your assets) minus what you owe (your liabilities). The end result is your net worth. In general, assets are made up of the following categories:

Cash: Actual cash, or things that can easily be converted into cash. Keep in mind that some easily liquidated cash equivalents may have an interest penalty (like certificates of deposit) if they haven't yet matured.

Real Estate and Property: Real estate and personal property that can't be sold quickly like residences (real property) or appliances, vehicles, and furniture (personal property). These assets generally depreciate in value significantly over time, so estimating a recent and realistic valuation for your net asset worksheet is important.

Retirement Assets: Tax-advantaged accounts like a 401(k) or 403(b), IRA, or pension funds. If money from these accounts is withdrawn before the age of 59.5, there is often an additional 10% penalty in addition to the regular income tax levied on the account, so you shouldn't look at these assets as resources to meet short-term needs.

Investments: Assets that can be cashed in or sold for their market value. With these assets, the markets will determine their value, which can fluctuate. Some investments have tax consequences when liquidated, so keep this in mind.

Loans: Loans you've made to someone else. This should only be included if you expect to actually collect this money at some point.

Liabilities are generally made up of these following categories:

Credit Card Debt: Credit card debt in the United States as of November 2015 was 3.4 trillion dollars. That's an average of more than \$15,000 per household, and with rates topping 15% APR or higher, this debt is very costly.

Medical or Legal Debt: Medical and legal debt are generally unplanned and can be the difference between financial solvency and bankruptcy, and many Americans are dealing with these types of debt. Medical bills are the biggest cause of US bankruptcies and 38% of all debt collected is medically related.

Mortgages: The balance of your mortgage is often found on your monthly statement, but if it's not the lender can let you know the outstanding balance. Don't forget to list second mortgages and home equity loans!

Loans: Including home equity loans, auto loans, student loans, retirement account loans, and others, these sometimes slip through the cracks when people are collecting their net worth information. Our handy worksheet helps out, so we don't miss any important information.

Back Taxes: No one likes to be in Uncle Sam's pocket, but millions of Americans owe the IRS back taxes. It's easy to tell yourself you'll "get to it tomorrow," but that can lead to major penalties and interest.

We've created the simple sheet on the following page to help calculate overall net worth.

Assets - What You Own		Liabilities - What You Owe	
Cash:			
Checking Accounts	<input type="text"/>		
Savings Accounts	<input type="text"/>		
Other	<input type="text"/>		
Total	<input type="text"/>		
Real Estate/Property:			
Principal Residence	<input type="text"/>		
Second Residence	<input type="text"/>		
Income Property/Land	<input type="text"/>		
Other	<input type="text"/>		
Total	<input type="text"/>		
Investments: (Market Value)			
Certificates of Deposit	<input type="text"/>		
Money Markets	<input type="text"/>		
U.S. Treasury Bills	<input type="text"/>		
Savings Bonds	<input type="text"/>		
Stocks	<input type="text"/>		
Bonds	<input type="text"/>		
Mutual Funds	<input type="text"/>		
Annuities	<input type="text"/>		
Traditional/Roth IRA	<input type="text"/>		
401k, 403b, 457 Plans	<input type="text"/>		
Pension Plans	<input type="text"/>		
Stock Options & Bonuses	<input type="text"/>		
Other	<input type="text"/>		
Total	<input type="text"/>		
Loans Receivable:			
Loan 1	<input type="text"/>		
Loan 2	<input type="text"/>		
Total	<input type="text"/>		
Personal Property: (Present Value)			
Cars, Trucks, Vehicles	<input type="text"/>		
RV/Boat	<input type="text"/>		
Electronic Equipment	<input type="text"/>		
Furnishings	<input type="text"/>		
Appliances	<input type="text"/>		
Collectibles & Antiques	<input type="text"/>		
Jewelry	<input type="text"/>		
Other	<input type="text"/>		
Total	<input type="text"/>		
Other Asset Items:			
		Current Debts:	
		Credit Card 1	<input type="text"/>
		Credit Card 2	<input type="text"/>
		Credit Card 3	<input type="text"/>
		Other Cards	<input type="text"/>
		Medical	<input type="text"/>
		Back Taxes	<input type="text"/>
		Legal	<input type="text"/>
		Child Support/Alimony	<input type="text"/>
		Other	<input type="text"/>
		Total	<input type="text"/>
		Mortgages:	
		Principal Residence	<input type="text"/>
		Second Residence	<input type="text"/>
		Income Property/Land	<input type="text"/>
		Other	<input type="text"/>
		Total	<input type="text"/>
		Loans:	
		Home Equity	<input type="text"/>
		Bank	<input type="text"/>
		Finance Company	<input type="text"/>
		Cars, Trucks, Vehicles	<input type="text"/>
		RV/Boat	<input type="text"/>
		Education/Student	<input type="text"/>
		Life Insurance	<input type="text"/>
		Personal	<input type="text"/>
		Retirement Accounts	<input type="text"/>
		Other	<input type="text"/>
		Total	<input type="text"/>
		Other:	
		<input type="text"/>
		<input type="text"/>
		<input type="text"/>
		<input type="text"/>
		Total Other	<input type="text"/>
Total Assets:		Total Liabilities:	

Monthly Income and Expense Statement	
Month of: _____	
Income	
Salary	<input type="text"/>
Spouse's salary	<input type="text"/>
Dividends	<input type="text"/>
Interest	<input type="text"/>
Investments	<input type="text"/>
Reimbursements	<input type="text"/>
Other	<input type="text"/>
Total	<input type="text"/>
Expenses	
Mortgage/Rent	<input type="text"/>
Auto loan	<input type="text"/>
Auto insurance	<input type="text"/>
Homeowners insurance	<input type="text"/>
Life insurance	<input type="text"/>
Childcare	<input type="text"/>
Philanthropic	<input type="text"/>
Gas/electric	<input type="text"/>
Phone	<input type="text"/>
Cable/Internet	<input type="text"/>
Food	<input type="text"/>
Pet supplies	<input type="text"/>
Healthcare	<input type="text"/>
Entertainment	<input type="text"/>
Gifts	<input type="text"/>
Clothing	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>
Total	<input type="text"/>
Income vs. Expenses	
Monthly Income	<input type="text"/>
Monthly Expenses	<input type="text"/>
Monthly Net Income	<input type="text"/>

Now that you've determined your financial position and your monthly income and expenses, take a good look at what you have written down and answer the following questions:

- How long will your savings last if you use them to pay current living expenses?
- Where are most of your assets? Are they mostly in one item or category, such as your house, business, or retirement plan?
- How much of your assets are liquid, or easy to turn into cash?
- Are your investments concentrated in one asset class or company, such as the stock of the company you work for?
- Do you have any unused personal property that could be sold?
- Are your assets greater than your liabilities?
- Are you behind in any of your payments?
- Is there a way to lower your interest payments by paying off any of your debts? Can you refinance any of your loans to lower the monthly payments?

If you're concerned about your answer to any of the above questions, perhaps it's time to make some changes!

Here are a few steps that can help change your life in a positive direction:

- Commit 20 minutes a week to reading about personal finance.
 - Don't try to learn it all at once. Choose a topic that interests you and stay on it until you're comfortable. This workbook is broken up into many sections that should each only take a few minutes to read. Start with an area that's pertinent today!
- Schedule a weekly date with your money.
 - The average millionaire spends an average of 9 hours a month managing their money. Take a lesson from them and set a date in your calendar to update your budget, pay bills, review accounts, and handle necessary and beneficial matters. It's helpful to make this date on a weekly basis.
- Automate what you can, especially savings.
 - If you spend first there often doesn't seem like enough left over! Treat savings like any other bill and set up automated payments. Spend only what's left over *after* you save. Don't force yourself to make the decision, automate it!
- Calculate the cost of your time.
 - What's your hourly rate? If you see something you're thinking about purchasing, make sure it's worth the hours of your time you'll have to fork over to bring it home.
- Set and keep clear goals.
 - Having clearly defined goals help to keep you motivated and on track. Saving for something big? Make the goals SMART (Specific, Measurable, Attainable, Relevant, and Timely) in order to increase your chance of meeting them!

Other Important Assets

Remember that your family has other important assets that don't show up on the net worth statement. Assets such as education, experience, skills and knowledge are hard to put a dollar value on, but don't overlook them as a resource.

Other Tools

There are terrific online tools and websites that can help you create a budget and reach your spending goals. Check out www.mint.com, a free, personal financial site from Intuit, the makers of Quickbooks.

LESSON 2:

REDUCING DEBT BY SETTING PRIORITIES

Managing expenses can seem like a scary thing, regardless of whether you're living on your own, with your partner for the first time, or are an experienced homeowner with kids. It's important to confront your finances and create an effective budget to help you get a grasp on your financial priorities.

The following tips can be useful to help create an effective budget and reduce spending so there's more room to pay down debt:

1. Get a clear understanding of your total debt and spending habits.

You already have a head start on this by having just completed Lesson 1. If you haven't already done this, fill out the Net Worth and Monthly Income and Expense sheets from the previous lesson. Without doing the cold-hard math, it's impossible to have a clear understanding of how much money is going out each month. Most people underestimate how much they spend, which is dangerous when it comes to keeping household finances in order.

The best way to identify your true expenses is to keep each and every receipt from all your expenses or to use a limited number of credit or debit cards that can easily be tracked online, and tally up the totals. After adding up all of your spending, you'll have an accurate idea of how much you truly spend. If you end up with a negative number, you know that you have to make some significant adjustments to pay down the debt you've accumulated. If you prioritize debt reduction and include paying down debt as a regular expense in your budgeting processes, you're far more likely to pay it down faster, saving yourself significant interest over the life of the debt repayment.

2. Cut non-essential expenses.

After completing step 1, if you find that a negative number was calculated, you're overspending. The simple solution is much easier said than done – it's time to slash spending. In particular, you'll probably need to sacrifice expenses from your "leisure" category; dining out, entertainment, non-essential shopping sprees, and so on, or find a way to increase income.

As tough as it may sound, it's only a temporary situation that'll help lead you to long-term financial stability. Redirect your leisure funds towards paying off debt and get your final number back into the positive.

3. Prioritize debt repayment.

Knowing how much debt you have, the interest rates, monthly amount due, and terms is important to know where to begin your repayment plan. Include auto loans, personal loans, payday loans, credit cards, and other debts. Don't worry about including mortgage loans or student loans at this time because they have relatively long terms and low APRs, so it is better to focus on paying off your high-interest debts first. This is the hardest step because it's a recognition of your actual situation, but is the only way to get out of it.

Once you have your full debt picture, prioritize which debt costs you the most. Select the debt with the highest interest rate to pay down first using any "extra" money you're created through your budget prioritizing in step 2.

4. Review and revise your budgeting tactics.

At the end of each month take a look at your budget and identify if any habits have changed. This will help determine if you're on track. If you're not, it's time to revise strategies! Identify where you're still overspending and keep a close watch on that area next month.

The entire idea behind budgeting is that it helps you manage money better on your own terms. As you get a better grasp of your rhythm, things should change for the better as your debt amounts are reduced. You'll be able to set more money aside for things like investments, an emergency savings account, and retirement.

5. Get help with additional tools.

If you're more the tech-type, try using an effective online tool to track your spending habits. Using a budget template is a great way to organize your finances so you can clearly see what's coming and going. There is a plethora of tools out there and finding one that you like shouldn't be any trouble at all.

LESSON 3:

SETTING RANGED FINANCIAL GOALS

Where do you want to be financially in ten years? What about in twenty? Where will you be when you turn seventy? The only way to decide for yourself is to make a plan and setting ranged goals is the only way to make it happen!

The latest reports on U.S. savings don't look encouraging. As the average savings rate for individuals still dwindles (at almost zero in some demographics), it may seem farfetched to give advice on how to plan and save. The truth still remains – the best way to make a purchase for most people is to save for it first. Below is a brief overview of the three kinds of savings goals and how you can use each to achieve your lifelong financial goals. Ranged goals need to work with our first two lessons, so make sure to be realistic when you're setting them.

Short-Term Goals

These goals are the easiest to save for because they're visible and are set to be achieved within two years. The key to succeeding with short-term goals is to make sure to be detailed in how you're going to achieve them, what they'll cost, and how the money will be used.

Let's say you want new bedroom furniture: Start by picking a price range you're comfortable with, the type of set you're saving for, and how much you'll putting away each week (or month) for that goal. As you get closer to the target, you may find that you can get a larger, more lavish set, or, quite possibly, you may have extra cash left over (from buying a set on clearance, for example) that might go to a longer-range goal. One of your first short-term goals should be to establish a rainy-day fund with three to six months of expenses in case of emergencies.

Mid-Term Goals

These are ambitions that can usually be realized within two to five years. Similar to short-term goals, they need to be specific and targeted with the amount you'll put away every month and what you plan on using the money for. Since the goals are set further away, however, be realistic and prepare for setbacks that may cut into your goals. You should also allow some cushion to keep from becoming frustrated with your goals. Mid-term goals shouldn't

interfere with or have much bearing on your short or long-range goals. These goals are specific and targeted for a timeframe that works independently of other goals for the most part.

Long-Term Goals

These are the goals that most of us are familiar with, requiring more than five years of commitment, and taking up to a lifetime to achieve. A large down payment for a house, college savings, retirement, or the capital to start a small business could easily fall into this category. They also seem to be those goals that are either absolutely necessary for later in life (retirement, for example) or those things that keep us committed to such a far-off goal. Regular savings is the only way to achieve these goals, so it is best to set aside that money before you ever see it (through an automated savings plan or a paycheck deduction.)

The slow economy doesn't have to deter you from setting realistic goals for a more stable and enjoyable future. A regular "checkup" of your plan and progress may be just what you need to keep yourself on track and motivated. For many, accountability with a spouse or friend can help keep disciplined in meeting savings goals.

Below is a helpful worksheet to detail a few goals in each range and begin saving:

Short-Term Goals				
Priority	Goal	Estimated Cost	Monthly \$ Goal	How to Achieve

Mid-Term Goals				
Priority	Goal	Estimated Cost	Monthly \$ Goal	How to Achieve

Long-Term Goals				
Priority	Goal	Estimated Cost	Monthly \$ Goal	How to Achieve

LESSON 4:

INSURING WHAT YOU'RE BUILDING

The basic concept of insurance is straightforward: Insurance allows individuals, businesses, and other entities to protect themselves against significant potential losses and financial hardship at a reasonably affordable rate by transferring the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance helps customers manage risk.

Now that you're working toward building a more financially sustainable future, insuring that future becomes more important. This may include:

- Protecting yourself against unforeseeable health expenses.
- Protecting your home against theft, fire, flood, and other hazards.
- Protecting yourself against a lawsuit.
- Protecting yourself in the event of disability.
- Protecting your car against theft or losses incurred because an accident.
- Protecting family after a death from loss of income or debt repayment.

There are many types of insurance available, and making decisions about which ones are right for you is difficult. To learn more about the various types of insurance, see the 6 days of insurance topics later in this informational toolkit where we detail types of insurances and why they're used. Below, fill in the chart to determine the areas where you have risk and whether or not those risks are insured. Also, keep in mind that insurance companies will often provide a significant discount for bundling policies, so if you're insured through multiple companies, see if it's worth migrating your risk management to a single company to reduce your premiums.

Do I have a:	Is it insured?	Do I have:	Should I have it?
Auto	Y / N	Long-term care insurance	Y / N
Motorcycle	Y / N	Health insurance	Y / N
RV/Trailer	Y / N	Wedding or event insurance	Y / N
Boat/PWC	Y / N	Life insurance	Y / N
ATV/Snowmobile	Y / N	Business insurance	Y / N
Pet	Y / N	Personal identity theft insurance	Y / N
Owned home	Y / N	Disability insurance	Y / N
Rented home or apt	Y / N		

Now that you've determined your current areas of insurance coverage (or areas that should be covered that aren't) it's probably time to make a call to your current insurance company or do a little online shopping for some quotes!

The next section is part 2: 30 Days of Financial Literacy: A Celebration of Financial Literacy Month, designed to give 30 additional short, daily lessons that will introduce you to various specific topics regarding your personal financial capability and will expand your ever-growing toolkit toward financial freedom!

30 DAYS OF FINANCIAL LITERACY:

A CELEBRATION OF NATIONAL FINANCIAL LITERACY MONTH

April 1

April is National Financial Literacy Month!

Life is hectic, the days are breezing by, taxes are due and you're late for your next meeting, take a few moments to consider the importance of National Financial Literacy Month. You and your wallet will appreciate it. Since 2004, the U.S. Senate has recognized April as National Financial Literacy Month in an attempt to encourage learning new financial skills, improve personal financial well-being, and reduce the stigma attached to talking about personal financial health.

We're taking a new approach to Financial Literacy this April with **30 Days of Financial Literacy**. Each day this month we'll be highlighting an interesting pearl of wisdom that deals with personal finance in the United States. Some days will be interesting facts, some will be helpful hints, and some will be shocking revelations. There will be something for everyone to consider and we hope you visit our website regularly to find out the next big thing about personal finance.



April 2

Rainy Day Funds

A rainy day fund is a reserved amount of money to be used when regular income is disrupted or decreased in order for typical life to continue. Major car repair? Loss of job? Medical emergency? Home repair? These are all "unexpected expenses" that can have a major impact on your household budget if there isn't money available to cover the shortfall.

Individuals who have a rainy day fund demonstrate that they're planning ahead for their financial future. Those who lack a rainy day fund, however, don't have money set aside to cover unexpected expenses in case of emergencies. Without a buffer against unplanned financial needs, unexpected expenses threaten your personal financial stability, as well as decreasing the stability of the economy as a whole.

Only 40% of people in the US have a rainy day fund. Are you one of them? If not, start saving toward a goal of three to six months of expenses.¹ Break the contributions into manageable "payments" to your rainy day account. Think: pay yourself first! Every Drop in the bucket counts!



April 3

Are you saving for retirement?

The National Foundation for Credit Counseling (NFCC) reports in the 2014 Consumer Financial Literacy Survey, “when it comes to retirement savings, about one in three U.S. adults (32%) still do not save any portion of their household’s annual income for retirement.”ⁱⁱ

There’s a lot of debate about “the magic number” – i.e., how much you need to save to live a comfortable life in retirement. There are many free online calculators available, each of them with different ideas about what your retirement savings should look like when you stop working and seemingly these calculators all see it quite differently. Why?



Making plans for the future depends on many variables. Will you work to 65 or 70? Shorter? Longer? Will the investments perform in the anticipated way? How long will you live in retirement? It’s all an educated guess, but getting a little extra education will go a long way.

April 4

When talking about saving for retirement, what is a replacement rate?

Simply, it’s the percentage of your salary that you’ll receive in retirement benefits after you stop working. If you make \$50,000 a year when employed and receive \$35,000 a year in retirement, your replacement rate is 70%. Generally, financial planners will recommend a 70% - 80% replacement rate as the comfortable level for most people to retire. This rate varies depending on the specific interests of the retiree. Do you want to travel in retirement or leave your heirs something extra? You may need to increase your replacement rate to meet your retirement planning goals.

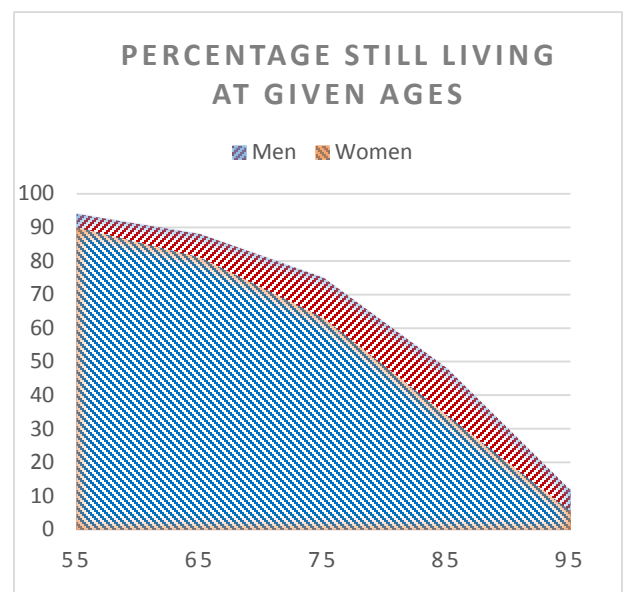
April 5

I won’t live forever; do I need to save for retirement?

The actuarial life table from the Social Security Administration show the percentage of people still living at given agesⁱⁱⁱ. You might be surprised to see the figures below.

	<u>Men</u>	<u>Women</u>
At age 55:	90 %	94%
At age 65:	81%	88%
At age 75:	63%	75%
At age 85:	34%	48%
At age 95:	5.4 %	11.7%

Have you considered the amount you’ll need to save and the length of time you’ll need your retirement savings to last?



April 6

IRS imposter scams:

In 2013, the FTC reported receiving 2,545 complaints about IRS imposter scams; in 2014 that number increased to 54,690. In 2014, the FTC received 109,063 complaints about tax identity theft, accounting for 32.8 percent of the 332,646 overall complaints about identity theft.^{iv} While identity theft cannot be prevented with absolute certainty, there are several steps that you can take to reduce the risk of having your identity stolen by a tax-scammer.

1. The IRS will always initially contact you by mail, not by phone or email.
2. If you owe money, the IRS will NOT demand payment via prepaid debit card or wire transfer.
3. Got a phone call? Don't give the caller any financial or personal information. Write down details like the name of caller and number they were calling from. Hang up with phone. Immediately contact the IRS at 1-800-829-1040 if you're concerned the call was real or call the FTC's Treasury Inspector General for Tax Administration at 1-800-366-4484.

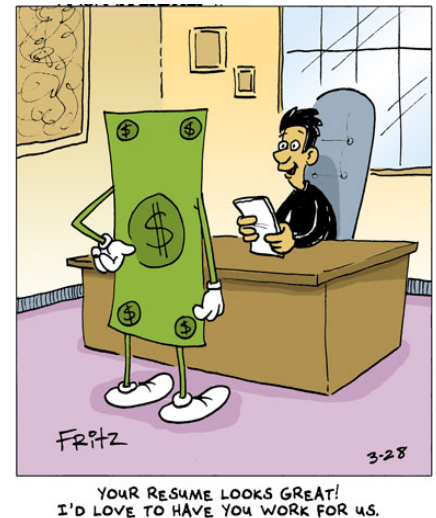


April 7

Give your money a job

When you're feeling like you have a few extra bucks in the bank, sometimes it's easy to splurge on something you shouldn't have. A few days later, a few big bills come due and you're in a tight spot trying to cover your expenses. When you earn money, plan how you're going to use it.

When you assign your money a task to accomplish, you know exactly what you "have" and what you "have left." If you use your budget to assign a job to your money, you won't find yourself in the tight spot because you'll know you have your monthly bills covered; car payment, rent or mortgage, utilities, groceries, and entertainment. Still have money left? Make sure you're saving for your rainy day fund or that big ticket item you've been wanting all year.



Inspired by the YouNeedABudget article, "Give Every Dollar a Job." www.youneedabudget.com

April 8

Be flexible, but responsible

When you're reviewing your monthly budget (you're are budgeting, right?) and find you've overspent in one category, it probably isn't the end of the world and it's important to remember that. You make a change to all kinds of plans and your money is no exception. You plan a beach day and it rains so you have to figure out another activity. No big deal. You overspend on "groceries," so you move a little money over from "eating out" or from "clothing and accessories."

When you're thinking about money, it's much better to think about the big picture rather than focus on the little details because it's easy to get discouraged. You won't feel like a failure because options are available to make the necessary adjustments and stay on track.



April 9

Are you ready to buy a house?

One of the biggest mistakes people make is the rush to buy property because they're convinced that every month they pay rent, they're throwing money away. So they buy a house with little to no money as a down payment, before realizing that the cost of owning and maintaining property is considerably more than paying rent — especially after their paltry down payment. If you have next to no down payment, and no reserve, it's incredibly difficult to maintain and keep your property if an unexpected expense occurs.

If you want to buy a house, save aggressively for a down payment. This will reduce mortgage payments and give you a jump start on building equity. Saving for a down payment is a great exercise even if you don't end up buying a house. The saved money could be used to start a business, pay for additional education, or give you the rainy day fund you've been putting off.^{vi}

Inspired by the Wisebread article by Nora Dunn, "5 Financial Lessons Everyone Should Learn in Their 30s," www.wisebread.com

April 10

8 wastes of money in America: Day 1 of a 2 day series

How often do you find yourself making purchases that you know are unnecessary and have a tendency to bust your budget every month? Knowing the facts about the biggest wastes of money in America might help you avoid problem spots that affect all of us.

- **Gambling:** The average American loses \$400 per year on gambling - \$119 billion in 2013. 27% of gamblers report spending more than 5% of their family income on gambling. In 2014, Americans spent \$65.5 billion on lottery tickets with sales having increased every year since the first state lottery in 1965.
- **Tobacco:** Smokers in the US spend a conservative average of \$1,600 a year on tobacco.
- **Alcohol:** The average American spends 1 out of every \$100 on alcohol. This might not mean that drinking is up, though; between 1982 and 2011, there was a 79% increase (adjusted for inflation) in alcohol pricing at restaurants and bars.
- **Credit Card Interest:** Average credit card debt is \$15,270 per US household, over \$850 billion across the country. With annual interest rates of over 15%, that's almost \$2,300 of interest annually per household on credit card debt before the principle is even reached.
- **Wasted Food:** The average American wastes \$529 in food each year by tossing unwanted snacks and meals according to the Natural Resources Defense Council. That totals to \$165 billion annually.
- **Bad Health Habits:** Sure, soda and candy are tasty treats, but they lower health quality. Nearly half of Americans drink soda daily and spent \$117 billion on fast food annually.



- **Expedited Shipping:** Sure, we understand the need to rush delivery when your spouse's birthday is just two days away and you don't want to be in the doghouse, but do we really need all of our purchases so quickly? If you do a lot of online shopping, this can be a major way to save.
- **ATM Fees:** It's not always possible to use your own bank's ATM, but there's a cost that comes with the convenience of using someone else's. The average out-of-network ATM fee was \$3.81 in 2011 and total ATM fees annually are more than \$7 billion.

Inspired by the Motley Fool article by Katherine Muniz, "20 ways Americans are blowing their money." www.fool.com^{vii}

April 11

8 more wastes of money in America: Day 2 of a 2 day series

Hopefully, after reading yesterday's post in this series, you've considered some regular purchases or wastes of money you could save in the future. Read-on for 8 more ways we Americans waste money and see where you might save some big bucks!

- **Unused Gift Cards:** In 2012, approximately \$2 billion in gift cards went unredeemed. In 2008, New York State collected \$9.6 million in taxes on unredeemed gift cards.
- **Gym Memberships:** The numbers are difficult to identify with certainty, but the International Health, Racquet, and Sportsclub Association reports that gyms sell memberships with an expectation that 18% will use the membership on a consistent basis. Do you have a gym membership? Do you go? Should you be going?
- **Designer clothing for babies and children:** You want your children to look great; they are a point of pride. This doesn't mean a costly shirt will last for five years for a child like it would for you. Kids outgrow clothes and shoes quickly (and get them stained and messy) so save some money and get them something you won't mind passing along in a few months.
- **Warranties:** Most products don't break during the two or three years that are covered by the warranty. Consumer Reports says that retailers keep more than 50% of what they charge for warranties, giving the consumer the short end of the stick.
- **Speeding and Traffic Tickets:** One in every six Americans receives a speeding or traffic ticket each year. That's about 41 million tickets a year or 100,000 a day. Costs vary, but the agreed average is \$150 annually, equaling more than \$6 billion in fines, not including the impact on insurance rates.
- **Premium Cable Packages:** HBO alone is around \$20 a month. Usually larger packages give some discounts, but it isn't getting any cheaper to connect to the shows you like. Time for a new hobby?
- **Daily Coffee Trips:** A recent survey by Accounting Principles finds that people who generally buy coffee throughout the week spend an average of \$1,092 on coffee each year.
- **Wasted Energy:** Business Insider estimates that Americans waste \$443 billion on wasted energy^{viii}. Energy Star says consumers can reduce their energy usage by a third if they follow the simple steps on their to-do list^{ix}.

Inspired by the Motley Fool article by Katherine Muniz, "20 ways Americans are blowing their money." www.fool.com^x

April 12

There are four major mistakes to avoid when planning for retirement:

ARE YOU READY TO RETIRE?



1. **Putting off saving** – we've all heard that the longer your money is working for you, the better the outcome for retirement, right? It's true. If you save \$3,000 annually assuming a 6% annual growth, the numbers are unmistakable. If you start at 20 years old, you end up with \$679,500, but if you wait until 45, you only end up with \$120,000. Those years make a big difference.
2. **Underestimating your retirement needs** – In order to estimate how much you'll need to accumulate, you'll need to estimate the expenses you're likely to incur in retirement. Do you intend to travel? Will your mortgage be paid off? Might you have significant health-care expenses not covered by insurance or Medicare? Try thinking about your current expenses, and how they might change between now and the time you retire.
3. **Ignoring tax-favored retirement plans** – Probably the best way to accumulate funds for retirement is to take advantage of IRAs and employer retirement plans like 401(k)s. These plans are so important because they combine the power of compounding with the benefit of tax deferred (and in some cases, tax free) growth. For most people, it makes sense to maximize contributions to these plans, whether it's on a pre-tax or after-tax basis. If your employer's plan has matching contributions, make sure you contribute at least enough to get the full company match. It's essentially free money.
4. **Investing too conservatively** – It's common for individuals approaching retirement to shift a portion of their investment portfolio to more secure income-producing investments, like bonds. Unfortunately, safety comes at the price of reduced growth potential and the risk of erosion of value due to inflation. Safety at the expense of growth can be a critical mistake for those trying to build an adequate retirement nest egg. On the other hand, if you invest too heavily in growth investments, your risk is heightened. A financial professional should be able to help strike a reasonable balance between safety and growth based on your individual needs and risk tolerance.

April 13

Borrowing from a 401(k)

Admit it: You've thought about digging into your 401(k) at least once. You may have thought, "Why should I carry this high-interest debt or delay my dream of home ownership? It's my money!" You're not alone. The Employee Benefit Research Institute reports that 21 percent of all 401(k) participants eligible for loans borrowed money from their accounts in 2012. While this may be a good idea if you are carrying high-interest debt or are trying to avoid bankruptcy or another situation that merits the loan, loans from a 401(k) have consequences. Pam Hess, former director of retirement research for Aon Hewitt Associates says, "Employees should be sure they're using the money to meet a need rather than a want, because even small loans can seriously diminish their long-term savings."



401(k) Loan Rules

- Employees may borrow up to half of their vested account balance up to a maximum of \$50,000.
- Most loans must be paid back over a 5 year period.
- If the loan is for the purchase of a primary residence, the term is typically 10 to 15 years.

Inspired by the Investopedia article by Rich White, "Sometimes it pays to Borrow from Your 401(k)." www.investopedia.com^{xi}

April 14

Wealthy people giving their money to charity instead of their kids:

Most people decide to pass their wealth to their children, but a few notable millionaires (or billionaires) are not planning to give their wealth to their kids.

- **Gene Simmons** – Guitarist and Vocalist with Kiss: "Every year my kids should be forced to get up out of bed and go and work and make their own money." While Simmons doesn't know how he'll pass on his fortune, he currently sponsors African children through ChildFund.
- **Bill Gates** – CEO of Microsoft: Gates founded the Bill and Melinda Gates Foundation in 1994 and intends to use his wealth to benefit society. Co-founder of the Giving Pledge with Warren Buffett, he says his fortune won't benefit his kids.
- **Pierre Omidyar** – Founder and Chairman of eBay: The Omidyar Network, Pierre's philanthropic investment firm receives donated eBay shares to promote social change and economic policy.
- **Warren Buffet** – CEO of Berkshire Hathaway: Plans to give most of his money to the Bill and Melinda Gates Foundation
- **Nigella Lawson** – Chef and Author: Lawson believes her children need to work to learn the value of money. She plans to pay for their education and then allow the kids to own their own living.



- **Michael Bloomberg** – Former NYC Mayor and CEO of Bloomberg LP: Has already donated more than \$1 billion to Johns Hopkins University and plans to gift more to the World Health Organization, Campaign for Tobacco-Freed Kids, and Centers for Disease Control and Prevention.
- **Bernard Marcus** – Co-founder of Home Depot: Marcus says, “An inheritance can be a terrible burden. If my kids want to be rich, they’ll have to work for it.” He plans to leave all of his home depot stock to the Marcus Foundation to support educational efforts and the disabled.

*Inspired by the BusinessInsider article by Megan Willett, “15 Tycoons Who Won’t Leave Their Fortunes to Their Kids.”
www.businessinsider.com^{xii}*

April 15

Why provide financial literacy resources in the workplace?

According to a MetLife’s Study of Annual Benefits Trends, nearly two out of three Americans feel their ability to achieve the American dream is no longer within their control and those financial worries can lead to stress on the job. The study found employers are aware that a distracted, stressed workforce – one that is preoccupied by money worries – is less likely to perform at desired levels.^{xiii}



Consider the effects of personal financial stress on workplace productivity:

- On-the-job errors
- Borrowing from retirement plan
- Long lunch breaks
- Taken paycheck advance
- Borrowed money from co-worker
- Frequent personal telephone calls
- Absenteeism
- Poor attitude
- Unenthusiastic about work

Now, more than ever, employers have the opportunity to help employees become more knowledgeable and take control of their personal finances. The MetLife study found employees admit that they need and welcome this support. Only a third (33%) of employees strongly agree that they are in control of their finances and 72% of employees expressed interest in various financial education opportunities in the workplace to address current, long-term financial security, or protection against the financial impact of an unforeseen event.^{xiv}

April 16

Credit Stats: The gruesome truth about credit in America

- Average credit card debt per U.S. adult, excluding zero-balance cards and store cards: \$4,878.^{xv}
- Average debt per credit card that usually carries a balance: \$8,220.^{xvi}
- Average debt per credit card that doesn't usually carry a balance: \$1,037.^{xvii}
- Average number of cards held by cardholders: 3.7 as of the end of 2009.^{xviii}
- Average APR on credit card with a balance on it: 13.18% as of August 2014.^{xix}
- Total number of credit card transactions in the U.S. in 2012: 26.2 billion.^{xx}
- Total number of credit card accounts in the United States:
 - Q3 2013: 391.24 million
 - Q3 2003: 457.64 million^{xxi}
- Total U.S. outstanding revolving debt: \$880.3 billion as of August 2014.^{xxii}
- The average 2012 Experian VantageScore among people aged:
 - 66 and over was 829.^{xxiii}
 - 47-65 was 782.^{xxiv}
 - 30-46 was 718.^{xxv}
 - 19-29 was 672.^{xxvi}



April 17

Debit stats: The rising popularity of debit in America

- MasterCard and Visa reported 572 million cards active in the United States as of June 30, 2013.^{xxvii}
- The number of consumer general-purpose credit cards with purchase activity in 2012 was 172.1 million, approximately the same as the number of consumer debit cards with purchase activity (173.9 million).^{xxviii}
- The number of business general-purpose credit cards with purchase activity in 2012 was 15.7 million -- much greater than the number of business debit cards with purchase activity (8.6 million).^{xxix}
- MasterCard and Visa debit purchase volume: \$1.588 trillion in the United States for the full year of 2012.^{xxx}
- MasterCard and Visa debit transaction volume: 40.8 billion in the United States for the full year of 2012.^{xxxi}
- Total number of debit card transactions in the U.S.: 47 billion in 2012, vs. 15.6 billion in 2003.^{xxxii}
- Credit card transactions accounted for 21 percent of the total number of noncash transactions in 2012, debit cards accounted for 38 percent, prepaid cards 7 percent, checks 15 percent and ACH 18 percent.^{xxxiii}
- The average debit card holder spent \$8,326 on the debit card in 2011, up from \$7,781 in 2010.^{xxxiv}
- More than 30 percent of debit transactions in 2011 were less than \$10.^{xxxv}
- Half of all noncash payments for fuel in 2012 were made with debit cards.^{xxxvi}



April 18

Tax Day is here (a bit late!)

Usually, Washington D.C. celebrates Emancipation Day (when Abraham Lincoln signed into law the bill ending slavery) on April 16th. With Emancipation Day falling on a Saturday this year, it'll instead be celebrated on April 15th, and, because it's a legal holiday in Washington, the IRS will be closed, giving tax filers an extra 3 days this year!

Now that your stress about W-2 and 1099 forms is over, this day is like any other because you were ahead of the curve and filed early (or filed your extension in time). Let's take a look back at some important milestones of the IRS over the past 150 years.^{xxxvii}

1862 - President Lincoln signed into law a revenue-raising measure to help pay for Civil War expenses. The measure created a Commissioner of Internal Revenue and the nation's first income tax. It levied a 3 percent tax on incomes between \$600 and \$10,000 and a 5 percent tax on incomes of more than \$10,000.

1872 - Income tax repealed.

1894 - The Wilson Tariff Act revived the income tax and an income tax division within the Bureau of Internal Revenue was created.

1895 - Supreme Court ruled the new income tax unconstitutional on the grounds that it was a direct tax and not apportioned among the states on the basis of population. The income tax division was disbanded.

1913 - Congress adopted a 1 percent tax on net personal income of more than \$3,000 with a surtax of 6 percent on incomes of more than \$500,000. The first Form 1040 was introduced.

1918 - The Revenue Act of 1918 raised even greater sums for the World War I effort. It codified all existing tax laws and imposed a progressive income-tax rate structure of up to 77 percent.

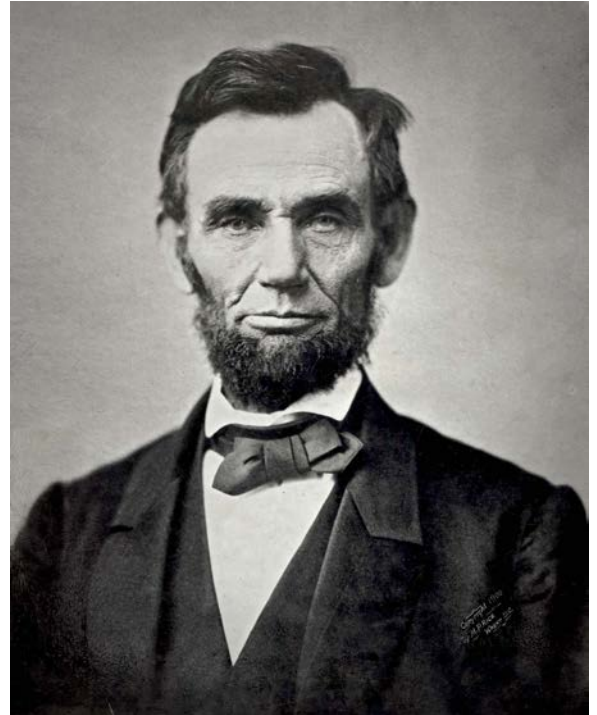
1931 - The IRS Intelligence Unit used an undercover agent to gather evidence against gangster Al Capone. Capone was convicted of tax evasion and sentenced to 11 years in prison.

1933 - Prohibition repealed. The IRS again assumed responsibility for alcohol taxation the following year and for administering the National Firearms Act. Later, tobacco tax enforcement was added.

1942 - The Revenue Act of 1942, hailed by President Roosevelt as "the greatest tax bill in American history," passed Congress. It increased taxes and the number of Americans subject to the income tax. It also created deductions for medical and investment expenses.

1943 - Congress passed the Current Tax Payment Act, which required employers to withhold taxes from employees' wages and remit them quarterly.

1944 - Congress passed the Individual Income Tax Act, which created standard deductions on Form 1040.



1954 - The filing deadline for individual tax returns changed from March 15 to April 15.

1974 - Congress passed the Employee Retirement and Income Security Act (ERISA), which gave regulatory responsibilities for employee benefit plans to the IRS.

1986 - Limited electronic filing began. President Reagan signed the Tax Reform Act, the most significant piece of tax legislation in 30 years. It contained 300 provisions and took three years to implement. The Act codified the federal tax laws for the third time since the Revenue Act of 1918.

2000 - IRS enacted reforms, ending its geographic-based structure and instituting four major operating divisions. It was the most sweeping change at the IRS since the 1953 reorganization.



2003 - IRS administered a mid-year refund program, this time providing an advance payment of an increase in the Child Tax Credit. Electronic filing reached a new high - 52.9 million tax returns, more than 40 percent of all individual returns.

April 19

Challenge: Pay this month's expenses with last month's income

It takes some determination to get a full month's worth of income saved to start this process, but it will reduce the stress in your life hugely. When a bill comes in or an expense comes up, you aren't juggling due dates and cash flow; the money is there and ready. If you maintain this cycle, you always have the money you need to cover the entire month without having to spend time and energy on figuring out which bill is most important and skimping on normal activities so you make it to the next paycheck.

Inspired by the YouNeedABudget article, "Live on Last Month's Income." www.youneedabudget.com^{xxxxviii}

April 20

Types of insurance – Day 1 of a 6 day topic

We all have some kind of insurance – property and casualty, health, liability, disability, life, or so many others – we use insurance to manage risk and preserve financial stability. Almost all of us have it, but many don't know how it works or what it really does for us.

Insurance allows individuals to protect themselves against significant and unforeseen losses and financial hardship at a reasonably affordable rate. The reason the rate is affordable is because the risk of loss is spread across all those with that same kind of insurance policy (this is called "pooling risk"). Insurance companies use statistical analysis to project the losses within the pool and charge the individual policy holders based on their probability of loss and the amount that would be lost if loss occurs. This is why your car insurance rate is higher if you've had several accidents – your statistical chances of having another accident (and therefore a loss) are higher.

We tend only to insure against significant loss because paying a premium for something that costs a small amount wouldn't present a financial hardship for most. Life insurance is a good example: Let's say you're the primary source of income for your family and you prematurely pass. Your family would have a very difficult time replacing your income and would likely face financial hardship. Life insurance would insure that your income would be replaced for your family.

Let's look at a few key insurance terms you should know:

- **Insurer:** An entity that accepts the risk of loss and compensates the insured in the event of loss in exchange for a premium.
- **Insured:** The entity transferring the risk of loss to an insurer through an insurance policy. This is the entity who will be compensated for loss by an insurer under the terms of the policy contract.
- **Bound:** Once the insurance has been accepted and is in place, it is called "bound".
- **Insurance Rider/Endorsement:** An attachment to an insurance policy that alters the policy's coverage or terms. This might add coverage for a specific collection or equipment on a homeowner's policy.
- **Insurance Umbrella Policy:** When insurance coverage is insufficient, an umbrella policy may be purchased to cover losses above the limit of an underlying policy.
- **Insurable Interest:** In order to insure something or someone, the insured must provide proof that the loss will have a genuine economic impact in the event the loss occurs. Without an insurable interest, insurers will not cover the loss.



April 21

Types of insurance – Day 2 of a 6 day topic

Property and Casualty Insurance:

- **Auto Insurance**
 - Rate depends on vehicle value, driving record, where and how much you drive, coverage, age and marital status, and even credit history and education.
 - Typically covers you and your spouse, relatives living in your home, and those you give permission to drive.
 - Usually covers personal injury, medical payments, uninsured and underinsured motorists, auto rental, emergency roadside assistance, and damages to your car like flood, fire, and vandalism.
 - Generally includes a deductible that you will pay out of pocket when filing a claim. Higher deductible usually means lower policy cost.
- **Homeowners Insurance** - Typically covers the structure, property and contents, and some personal liability.
 - **Six standard forms of homeowners insurance:**
 - **Broad form:** Broad coverage of dwelling and structures against loss of use. Usually covers against windstorm, hail, aircraft, riot, vandalism, vehicles, volcanic, explosion, smoke, fire,



lightning and theft, plus rupture of a system, artificially generated electricity, falling objects, and freezing of plumbing.

- **Special form:** Offers additional coverage for more causes of loss than broad form.
- **Contents broad form:** A renter policy that covers the personal contents of the property, but not the property (your landlord is responsible for that). This generally includes furniture, clothing, electronic devices, etc.)
- **Comprehensive form:** Combines special form with additional endorsements to provide open perils coverage on personal property, the dwelling, other structures, and loss of use.
- **Unit owner's form:** This policy is for those who live in a structure owned and insured by a condo association, townhouse association, homeowner's association, planned community, or other type of similar organization. The association covers the outside dwelling, not the contents of the unit, so this is important for personal property losses and liability.
- **Modified coverage form:** This insurance settles losses on a cash value basis for structures that tend to be older, where the replacement cost far exceeds the value of the structure. Offered when an insurer doesn't want to offer broad form, special form, or comprehensive form coverage because there may be an incentive to intentionally destroy the structure.



April 22

Types of insurance – Day 3 of a 6 day topic

Health Insurance: Without health insurance, accident or illness can wipe you out financially and put you in debt for years.

- There are four general types of health insurance:
 - **Indemnity or fee-for-service plan:** This plan typically reimburses you according to a schedule for medical expenses regardless of who provides the service. Usually covers hospital stays, surgeries, and major medical. Calculated as a percentage (90/10) or for actual expenses.
 - **Health Maintenance Organizations (HMO):** Most common insurance and most often provided by employers. Offer a wide range of comprehensive healthcare services for a fixed periodic payment. You select a primary care physician that acts as the gatekeeper. This is the HMO's attempt to control costs and quality of care through provider coordination. These tend to be the least expensive form of health insurance and often have restrictions. HMOs usually require you to select doctors and hospitals "in network" or the costs will not be covered. This can be a problem if you have a good relationship with an existing doctor who is not "in-network." Most preventative care services are covered.



- **Preferred Provider Organization (PPO):** PPOs are groups of healthcare providers that contract with insurance companies of employers to provide medical care at a reduced fee. Two main differences between HMOs and PPOs:
 - PPO providers are usually paid on a fee-for-service basis as services are needed, like a traditional doctor's visit.
 - You aren't required to use the PPOs providers or facilities. You will pay a higher co-pay or deductible for out of network providers, but you can go outside the network.
 - **Point of Service (POS):** This is a hybrid between the HMO, PPO, and indemnity plan. More flexible because it allows you to decide to use the POS plan physician to arrange in-network care (like and HMO), or go outside the network and pay a higher portion of the cost.
-

April 23

Types of insurance – Day 4 of a 6 day topic

Disability Insurance: Disability insurance can replace a portion of your income you were earning before you became disabled and unable to work after serious injury or illness.

- **There are two types of disability insurance:**
 - **Short term:** covers disabilities up to two years, but most policies pay up to six months on average.
 - **Long term:** covers disabilities for a longer period (usually more than six months), often until the claimant is 65 or until the claimant passes.
- **Depending on the policy, there may be several different definitions for disability:**
 - **Any occupation:** Disabled only if you are unable to perform any duties pertaining to any occupation.
 - **Modified any occupation:** Disabled if you are unable to perform any duties of any occupation where you've been trained, have experience, or have education.
 - **Own occupation:** Disabled if you are unable to engage in the principal duties of your own occupation (this definition is being eliminated by many companies).
 - **Loss of income:** Does not determine total or partial disability. Pays the insured in the event of a loss of income due to illness or injury.
- **Key terms to know when looking for disability insurance:**
 - **Benefit level:** How much of your pre-disability income your policy will pay.
 - **Benefit period:** How long the policy will pay you. This is usually between one and five years, but premium policies may cover until age 65.
 - **Elimination period or waiting period:** How long between when you become disabled and when your policy begins paying benefits. This is usually between 30 and 180 days.
 - **Non-cancelable:** Policies where the premium can't change and the policy can't cancel as long as you're paying the premium.
 - **Inflation protection:** Cost of living adjustment clause or rider that increases your benefits as costs rise.
 - **Presumptive disability:** You're presumed disabled even if you can perform certain tasks and you can do your regular job, if you suffer certain conditions like the loss of a limb, hearing, eyesight, or speech.
 - **Exclusions:** Sometimes, disabilities caused by preexisting conditions can be excluded, as could mental illness or stress-related disabilities. There are often exclusions to disabilities from "dangerous hobbies."

April 24

Types of insurance – Day 5 of a 6 day topic

Long Term Care Insurance: Long term care protects your assets in case you need to pay for home care, assisted living, or a nursing home. There are currently over 8 million people in the United States receiving long term care and this number will continue to grow.

- There are three types of care that are generally covered by long term care insurance:
 - **Skilled nursing care:** Usually 100 or fewer days for an acute medical condition that requires intensive medical attention.
 - **Hospice care:** Care provided to individuals who have fewer than six months to live because of a terminal condition. This care is provided at home or at a facility.
 - **Custodial care:** This is care for a person who will not recover from their chronic condition. Generally, this care is provided in an assisted living facility or at home. Usually between 100 days and several years.
- Long term care can be provided in several different settings:
 - **Facility care:** Care in a facility like an adult day center, assisted living facility, continued care retirement facility, or a nursing home.
 - **Home care:** Home care provides care in your home by a qualified professional.
 - **Respite Care:** Pays for services that enable a friend or family member who provides care giving a rest or vacation period. This can be provided at home or at a facility.
- Types of policies for long term care:
 - **Expense incurred:** Reimburse you for actual expenses incurred up to your fixed benefit amount (defined as a daily amount that you purchase with the policy).
 - **Indemnity:** Plans that cover up to a fixed amount regardless of what you spend (you may spend more or less than the policy offers).
 - **Cash:** With this type of policy, as long as the policy is triggered by the activities of daily living, you won't be required to incur expenses to receive benefits. If you were cared for by a relative (for free, presumably), you'd still be paid although expenses are not being incurred to receive care.



April 25

Types of insurance – Day 6 of a 6 day topic

Life Insurance: Life insurance policies are incredibly varied and work in remarkably different ways. Death benefits might be the same, but costs, durations, structure, and all kinds of other things vary greatly with these policies.

- **Whole life:** Provides guaranteed protection for the entire life of the insured (permanent coverage). The policy carries a cash value that grows tax deferred at a contractually agreed amount with a low interest rate until the contract is surrendered. The premium tends not to change (but is high) and the death benefits are guaranteed for the lifetime of the person insured. The investment accumulated through the investment portion of the policy is tax-free until it is withdrawn.
- **Universal life:** Like whole life, this is a permanent policy with cash value benefits based on current interest rates. During the contract term, the level amount of protection, cash values, and premiums can be adjusted up or down as the insured needs change. The interest rate is set

- periodically by the insurance company and is usually guaranteed not to drop below a certain level.
- **Variable life:** Variable life combines the protection and savings features of whole life with the growth potential of investment funds. Comprised of two components; general and separate account. The general account is the liability account of the provider. The separate account is comprised of various investment accounts in the insurance company's portfolio. These might include equity funds, money market funds, bond funds, or some combination. With this policy type, the cash and death benefit may fluctuate, lending the name "variable life."
 - **Variable universal life:** Combines the features of universal life with variable life, giving the insured the flexibility of adjusting premiums, death benefits, and the selection of investments. These policies are considered securities and are regulated by the Securities and Exchange Commission. With variable universal life, all investment risk lies with the policy owner, and there for the death benefit value may rise and fall depending on the success of the investments.
 - **Term life:** Term life is the most common type of life insurance policy. It usually is designed for beneficiaries against financial loss resulting from your death. The policy pays the face amount, but only provides this value for a definite, limited amount of time. These policies do not build cash value and typically, the maximum term value is 30 years. Term policies are useful when there is a limited time needed for protection and when the cost of the policy is a concern. Term life has the lowest policy cost of other types of life insurance. Initially, these policies provide more protection per dollar invested, but this value decreases as the policy and owner age.



April 26

Debt within your means

In your 20s, you (hopefully) learned the difference between good debt and bad debt. Regardless of the kind of debt you get into, it's important that you do it within your means so you can continue to make payments even if life throws you a curveball (remember that rainy day fund you've accumulated?).

A prime example of how people in their 30s overextend their debt capabilities is in buying property that they can't afford. Banks calculate the mortgage they'll lend you based on a simple equation that doesn't account for your other expenses and obligations. Some people get the biggest house the bank will allow them, before understanding all the other costs of owning property (like taxes, maintenance, repairs, utilities, etc), and then realize they're in over their heads. One unexpected blow can topple this house of cards.



The higher your debt, the fewer options you have, but sometimes taking on that debt is still worthwhile. Ask yourself how your debt will help you, and how it could possibly hinder you.^{xxxix}

April 27

You learned this in kindergarten:

Clean up your own mess

Financial mistakes or missteps are messy. Credit card debt is messy. Living beyond your means is messy. There are a thousand other financial messes, but the same principles that applied to cleaning up the crumbs from your afternoon snack when you were a child applies to your finances as well.^{xi}

We've all made financial mistakes. Some are big, some are small. Some are the result of horrible circumstances or bad luck, and some are the result of bad choices. Regardless of which camp you're in or why you're in a financial mess, it is up to you to clean it up. No one is going to do it for you, and when it's all cleaned up you'll never get yourself into that same mess again.



Inspired by the retired by 40 blog article "4 Personal Finance Lessons Everyone learned in Kindergarten," www.retiredby40blog.com

April 28

Don't seize every deal that comes your way

"Money is far more available for young people today than it was for their parents," says Anthony Humpage, CEO of financial education company Rich Dad Education. "But, it's available with strings. Very long strings." The internet is overstuffed with stories of signing up for a credit card "just to get the T-shirt" and ending up with \$10,000 in consumer debt, or piecing together a pile of student loans only to realize five years later repaying them will take another 30 years.

It doesn't have to be drastic: If you open a checking account that waives fees when you keep a minimum balance, but you can't manage to keep it, then there's another fee you owe every month.

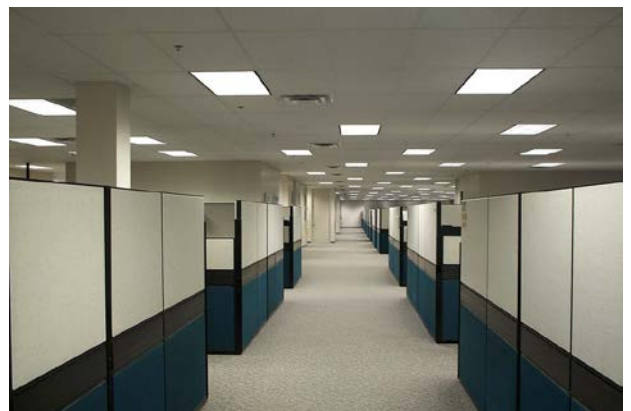
If you can't see the strings on a financial offer, take a closer look.^{xli}

Inspired by the Rich Dad Education article "6 Money Lessons You Should Have Learned Before College," www.richdadeducation.com

April 29

Top 15 Mass Layoffs of the last 25 Years in the US

When	Organization	Number of layoffs
1993	IBM	60,000
2008	Citigroup	50,000
1993	Sears Roebuck & Co.	50,000
2011	US Army	50,000
2009	General Motors	47,000
1996	AT&T	40,000



2005	US Air Force	40,000
2002	Ford Motor Company	35,000
2003	Kmart Corp.	35,000
2009	Circuit City	34,000
2001	Boeing Co.	31,000
2011	Bank of America	30,000
2010	USPS	30,000
2009	USPS	30,000
2002	USPS	30,000

Data from Washington Post^{xlii}

While earning money is an incredibly important part of good financial health, there are times when the flow of money ceases. Are you prepared to be cast into the market looking for a job? Are your buffer funds sufficient to cover your expenses during your search? If not, begin to save incrementally for emergencies. Experts recommend a rainy day fund with 3-6 months' worth of expenses to cover emergencies like the loss of a job or financial emergency.

April 30

Don't Stop Now!

As we wrap up National Financial Literacy Month, we hope you'll take some key topics that resonate with you into the rest of the year.

Can you answer these three financial questions?

1. Suppose you have \$100 in a savings account and the interest rate is 2% per year. After five years, how much do you think you'll have in the account if you leave the money to grow?
(A) More than \$102. (B) Exactly \$102. (C) Less than \$102.
2. Imagine the interest rate on your savings account is 1% per year and inflation is 2% per year. After one year, how much would you be able to buy with the money in this account?
(A) More than today. (B) Exactly the same. (C) Less than today.
3. Buying a single company's stock usually provides a safer return than a stock mutual fund.
(A) This is a true statement. (B) This is a false statement.

Did you get the answers correct? If you're not sure, the correct answers are:

- A.
- C.
- B.

The questions have been used for about a decade in this format to measure national financial literacy and were created by Wharton School of Business in collaboration with George Washington University.

We know it's not only April that's important for financial education and encourage you to take this opportunity to set three financial goals through the end of 2016. It's important to remember that proactive work toward a better financial future is the only way to make changes that have a positive effect on your life. Change takes time and all your financial woes don't go out the door the minute you decide to change your financial habits. There are resources all around you, but it's up to you to set those goals and stick to them. Ask a friend or family member to set three goals, too. Hold each other accountable and see the amazing changes!

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- ^{xi} White, Rich. Investopedia, *Sometimes it Pays to Borrow From Your 401(k)*. <http://www.investopedia.com/articles/retirement/08/borrow-from-401k-loan.asp>
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- ^{xiv} Metlife, *Employee Benefit Trends Study, 2014*. <https://benefittrends.metlife.com/benefits-breakthrough>
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^{xli} <https://richdadeducation.com/Newsroom/Article/02/>

^{xlii} <http://www.washingtonpost.com/blogs/on-leadership/wp/2015/01/28/the-biggest-mass-layoffs-of-the-past-two-decades/>



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