

Introduction to Personal Finance

These modules are designed to give you a brief overview on how to navigate the confusing world of finance, as well as give you some tips on how to best manage your finances.

Why is Personal Finance Important?

Take a look at these startling statistics:

- The average American carried \$5,589 in credit card debt at the end of 2021 (Experian, 2022)
- 56% of Americans can't cover a \$1,000 emergency expense with savings (CNBC, January 2021)
- 58% of Americans are living paycheck to paycheck after inflation spike (CNBC, June 2022)



HELPFUL HINT

Look for these symbols throughout. They give helpful information that is often overlooked!

How to Use These Modules

These modules:

1. **Are basic intentionally.** Research the areas you feel less confident in.
2. **As a customizable guide.** There is not a one size fits all method to personal finance. Use the information provided, research, and take action on what is best for you.
3. **Are designed for encouragement.** Use the information to take control of your financial health and protect your future.

Topics Covered

Income & Expenses
Budgeting
Bank Accounts
Credit Cards
Retirement Planning
Mortgages
Student Loans
Federal Income Taxation
Insurance

Key Terms

Income & Expenses

- Income
- Disposable Income
- Expense
- Need
- Want
- Withholdings

Budgeting

- 50/30/20 Budgeting
- Envelope System
- Pay Yourself First
- Zero-Based Budgeting

Bank Accounts

- Bank
- Credit Union
- Checking Account
- Savings Account
- Interest Rate
- Deposit
- Withdrawal
- FDIC Insurance
- Debit cards

Credit Cards

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- Monthly Statements
- Minimum Payment
- Credit Scores
- Creditworthiness

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- Homeowner's insurance
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- Claim

Retirement Planning

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- Roth IRA
- 401 (k)
- Tax-deferred growth
- Tax-free growth
- Contribution limits
- Growth strategies

Mortgages

- Mortgage
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- Principal
- Interest
- Fixed rate mortgage
- Variable rate mortgage
- Preapproval
- Appraisal
- Downpayment

Student Loans

- Direct Subsidized
- Direct Unsubsidized
- Direct PLUS
- FAFSA
- Private Student Loan
- Repayment period

Federal & State Tax Basics

- Gross income
- Adjusted gross income
- Taxable Income
- Tax Rates
- Tax Liability Refund
- Deduction
- Tax Credit

Income & Expenses

This module will explain the key concepts related to income and expenses.

Income

Income is the money earned by an individual from any given source.

Gross income is your total pay before taxes and fees are taken out.

Disposable income is the money you earn after taxes and fees, also called after-tax income.

Income can be earned from:

- Hourly wages/salary
- Bonuses
- Investment dividends/distributions
- Rental income
- Profit-sharing
- Side businesses



HELPFUL HINT

Try not to rely on a single source of income! Having multiple sources of income can improve your financial stability and overall wealth.

Remember, your "take home" pay from most jobs will be different than your gross pay. Governments typically **WITHHOLD (or take out)** federal/state income tax, Social Security and Medicare taxes, while companies can withhold various amounts for retirement, benefits, and other items.

Expenses

An expense is anything you spend money on.

Expenses can be categorized into needs and wants. **Needs** are basic things required to live. **Wants**, however, are not necessary to live, but provide extra comfort and enjoyment.

Examples of Needs

- Rent / Mortgage
- Food
- Transportation / Gasoline
- Utilities
- Insurance
- Phone/Internet

Examples of Wants

- Gaming consoles
- Luxury furniture
- Latest model phones
- Dining out regularly
- New car



HELPFUL HINT

Although something may be considered a want, it does not mean it is not important. Wants play an important role in your quality of life.

Needs can and have changed over the years. Previously, phones and the internet would have been considered a luxury. Now, they are widely considered necessities.

Key Terms to Remember

Gross Income
Disposable Income
Withholdings

Expenses
Needs
Wants

Extra Resources to Explore

Utilize these resources to gain further insight on income & expenses!

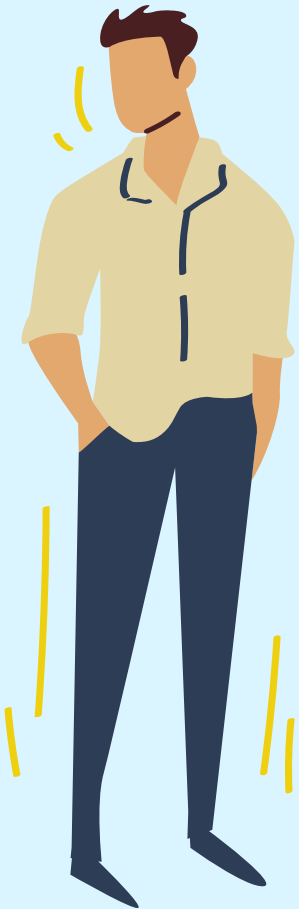
Personal Income: <https://www.investopedia.com/terms/p/personalincome.asp>

Increase Income: <https://www.indeed.com/career-advice/starting-new-job/how-increase-income>

Benefits to Multiple Income Sources: <https://www.forbes.com/sites/theyec/2020/02/25/five-benefits-of-having-multiple-sources-of-income-as-an-entrepreneur/?sh=1c3360bd43bb>

Needs vs. Wants: <https://www.thebalance.com/how-to-separate-wants-and-needs-453592>

Example



This is John.



John is a 22 year old IT analyst who just graduated from a four year college and landed his first full-time job at Advanced Technologies.



JOHN ACCEPTED THIS POSITION WITH THE FOLLOWING INFORMATION:

- **\$50,000 PER YEAR BASE SALARY BEFORE TAXES**
- **RETIREMENT, INSURANCE PACKAGES INCLUDED**
- **PAID TIME OFF AND SICK LEAVE INCLUDED**



JOHN'S SALARY WILL BE TAXED, AND HE WILL LET HIS EMPLOYER TAKE OUT MONEY FOR RETIREMENT AND INSURANCE (MORE ON THAT LATER).



John has ordinary expenses like any other person. He has to pay rent, insurance, phone bills, grocery, car payments, internet, and utilities to survive daily life.



He also has a few hobbies. His most expensive is golfing and his club membership. He also has a gym membership and a streaming platform subscription.

Budgeting

This module will explore the importance & key concepts of budgeting.

Why Budgeting is Important

A budget is a financial tool used to track income and expenses to better manage your finances.

Remember, budgeting uses your *after-tax income*. This can be anywhere from 60-70% of your gross income!

Many people view budgets as a scary, rigid tool with no flexibility. It doesn't have to be this way! If you fail to follow a budget for a month, try again the next month, and the next!



DID YOU KNOW?

You should keep 3-6 months of emergency expenses in "liquid" cash, meaning easily accessible in a savings account!

50/30/20 Budgeting

Categorizes spending into 3 buckets

- **50%** of after-tax income goes to **needs**
- **30%** of after-tax income goes to **wants**
- **20%** of after-tax income goes to **debt repayment, savings and investments**
- Is a type of pay yourself first budgeting, just with set amounts to allocate
- Be sure to use **AFTER** tax income

The Envelope System

Use "**envelopes**" to separate spending into categories (rent, groceries, insurance, etc.)

- **Cannot spend more** than the allotted amount
- **Rigid** by nature
- Cash is traditional; **digital apps** exist that mimic the paper system

Pay Yourself First

YOU decide how much to allocate to savings/investments, the rest is flexible

- **Start** with savings/investments
- **Then** go to need spending
- **Lastly** go to want spending

Zero-Based Budgeting

Utilize every dollar towards an expense

- **Every dollar has a purpose**
- Spending proportions are flexible
- **Zero dollars left** at the end of each month

Which budget should I choose?

Ask yourself the following:

1. Am I disciplined enough to follow flexible budgets, or do I need a rigid system?
2. How much effort am I willing to give to track spending?
3. Do I prefer tangible cash, or online/mobile budgeting?
4. Am I willing to pay to have a financial coach or planner help me through the budgeting process?

These questions should be **balanced** and considered against the variety of budget options available. Make sure you value your personal and emotional health as well as your financial health.

You may even need to try more than one budget to see what best fits your lifestyle. **Trying one is better than trying none!**

Problems to Overcome when Budgeting

1. **The All-or-Nothing Mentality:** the thought of tracking EVERY penny for months is unrealistic. Get a good idea of where your money is going, and adjust your spending habits is the big picture
2. **Labor-Intensive Tracking:** Paper receipts and physical cash is no longer the norm; apps and other programs are available to make modern budgeting easier
3. **Paying in Cash is Better:** People who spend in cash (including debit cards), not credit, usually spend less. Keep this in mind.
4. **Keep Disciplined but Flexible:** Unexpected expenses will always occur. Budget some in, but always remember that life changes, so can your budget!

Options for "Extra" Money

If you find that you have "extra" money left over after spending it within your budget, consider investing it, saving it, spending it, or giving it to charity!

Extra Resources for Budgeting

50/30/20 Budgeting: <https://www.nerdwallet.com/article/finance/nerdwallet-budget-calculator>

Envelope Budgeting: <https://www.investopedia.com/envelope-budgeting-system-5208026>

Pay Yourself First: <https://www.thebalance.com/the-pay-yourself-first-budgeting-method-453955>

Zero-Based Budget: <https://www.ramseysolutions.com/budgeting/how-to-make-a-zero-based-budget>

General advice on how to choose a budget and best practices:

<https://www.nerdwallet.com/article/finance/how-to-choose-the-right-budget-system>

<https://consumer.gov/managing-your-money/making-budget#what-to-know>

<https://www.nerdwallet.com/article/finance/budgeting-tips>

Example

John has decided to get control of his finances using 50/30/20 budgeting. His net income, after taxes (just Federal), is \$42,393.

Monthly income is then \$3,532.75

The Needs, 50%: \$1766.38	Running Total
Rent: \$900 for 1 bed, 1 bath	\$900
Utilities: \$250 for electric, water, sewer, trash	\$1150
Food: \$300 groceries	\$1450
Car Payment: \$150 (used, old Honda civic)	\$1600
Car Insurance: \$60 (takes advantage of discounts)	\$1660
Phone/Internet: \$100 (uses a package deal)	\$1760, at budget

The Wants, 30%: \$1059.83	Running Total
Golfing: \$400 (club fees and golfing supplies)	\$400
Gym Membership: \$30 (24 hour gym)	\$430
Streaming Services: \$60 (3 different platforms, substitutes cable)	\$490
Fast Food: \$100	\$590
Video Games/computer parts: \$200	\$790, under budget

The Finance, 20%: \$706.55	Running Total
Retirement Contribution: \$300	\$300
Emergency Savings: \$200	\$500
Student Loan Debt: \$206.55	\$706.55, at budget

John has roughly \$276.21 "extra" in his budget.
What should he do?

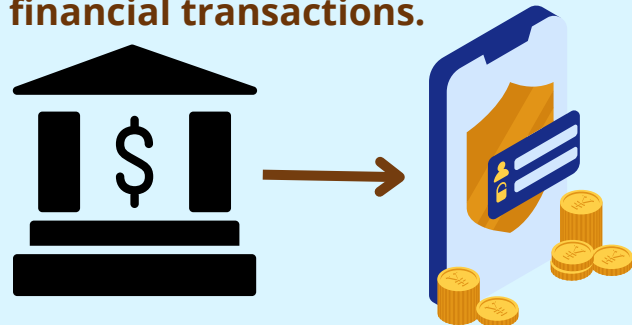
1. He could pay extra on his student loans or car, whichever is higher interest
2. He could spend it on wants, or save it!

Bank Accounts

This module explains the basics of banks and bank accounts.

What is a bank?

A bank is a for-profit financial institution that accepts deposits, makes loans, and handles other financial transactions.



There are thousands of banks in the U.S.! Many large banks offer online services, as do many regional and local banks!

What is a credit union?

A credit union is a non-profit financial institution that is founded to serve its members.

- Credit unions offer many of the same services and products as banks, including the accounts mentioned below!



HELPFUL HINT

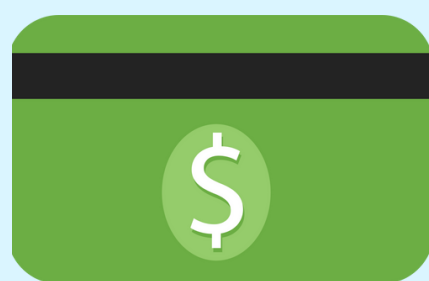
If you are unsure of which institution to choose, research! Check online reviews, set your priorities, and inquire with the institution itself.

Checking Accounts

A checking account is a **flexible** account that is common to nearly all financial institutions.

Checking Accounts:

- Allow you to **make deposits** (add money to) your account
- Allow you to **make withdrawals** (take money out of) your account
- Spend money using **debit cards, electronic transfers or paper checks**
- Are great for daily/weekly spending



Checking Accounts utilize DEBIT cards, not to be confused with credit cards.

Checking accounts are designed for ease of access to the money inside. There are usually no transaction limits, and many institutions offer free accounts!



HELPFUL HINT

Utilize BOTH checking and savings accounts for their intended purposes! Using the same financial intuition allows for easy transfer of money between accounts, too.

Savings Accounts

A **savings account** is a **less flexible** account that is designed to hold money that you don't plan to spend right away.

Savings Accounts:

- Typically have **transaction limits**
- Generate **more interest** than checking accounts
- Are great for **emergency savings** and "**nest eggs**" that can still be accessed relatively easily

How do I open a checking or savings account?

There is a lot to consider when choosing an institution. Researching the following will be extremely helpful!

Research:

- Interest rates
- Limited transactions number
- Fees
- Debit card availability/service
- Customer service ratings
- Reputation
- Minimum balance requirements
- Physical or online
- FDIC Insurance

Be ready to provide:

- Name
- Address
- Phone Number
- DOB
- Social Security Number (or other identification depending on the situation)
- Email
- Government Issued ID

What is FDIC Insurance? If an institution is FDIC insured, the Federal Deposit Insurance Corporation will protect the depositor against loss of deposits, typically up to \$250,000.

Extra Resources for Bank Accounts

Consumer Financial Protection Bureau: <https://www.consumerfinance.gov/consumer-tools/bank-accounts/>

What if I don't have a SSN? <https://www.consumerfinance.gov/ask-cfpb/can-i-get-a-checking-account-without-a-social-security-number-en-929/#:~:text=You%20are%20not%20required%20to,%2C%20address%2C%20and%20ID%20number.>

Guide to checking accounts: <https://www.investopedia.com/personal-finance/complete-guide-checking-accounts/>

Guide to savings accounts: <https://www.forbes.com/advisor/banking/savings/what-is-a-savings-account/>

How to choose a financial institution: <https://www.investopedia.com/how-to-choose-a-bank-5183999>

Example

Since John graduated and joined Advanced Technologies, he decided to switch banks for a more convenient experience. His new bank is Professionals Regional Bank (fictional). Here are a few details of his accounts.

Basic Checking

- FDIC Insured to \$250,000
 - Earns 0.05% APY up to \$100,000 balance, then 0.01% on anything over
 - No fees if minimum balance of \$300 is met
 - No transaction limits
 - Debit card provided (VISA), \$5 replacement fee, waived if due to theft
 - Checks: \$20 for pack of 100
 - Can utilize ACH and other wire transfers
-

Basic Savings

- FDIC Insured to \$250,000
 - Earns 0.5% APY up to \$50,000 balance, then 0.01% on anything over
 - No fees if minimum balance of \$1000 is met
 - 8 limited transactions per month (withdrawals/deposits/transfers)
 - Can utilize ACH and other wire transfers
-

John has directed his employer to deposit his entire paycheck (\$3532.75) into his checking account. John will then disperse the money, from his budget, into savings and retirement accounts.

Each month, John will transfer at least \$200 into his savings account.

Credit Cards

This module will explain the basics of a credit card, credit scores, and best practices when using credit cards.

What is a credit card?

A credit card is a card that allows you to access a line of credit offered to you by a bank or financial institution.

Credit Cards

- Have a **credit limit** (the amount you can spend using that card at any given time)
- Have the card issuer (bank, etc.) cover the transaction total each time it is used
- Send you a **monthly statement**, on which is your **total balance**, **minimum payment due** and **due date**
- **Charge interest** for purchases when you don't pay in full each month. This interest is called **APR**, or the Annual Percentage Rate

Visa, Mastercard, Discover, American Express, and many other processing companies handle financial transactions for credit cards. Merchants (stores) are usually charged fees for the use of cards, which is why many businesses have credit card usage fees.



HELPFUL HINT

Credit cards are way different than debit cards! While debit cards allow you to access your own money in a checking account, credit cards use other people's money to cover your purchase initially, which you then must repay.

Credit Card Best Practices

1. **Always pay in full each month to avoid interest charges**
2. **At minimum, pay the minimum balance to avoid extra charges to your account**
3. **Avoid using more than 30% of your credit limit (this can hurt your credit score)**
4. **Avoid opening too many lines of credit in a short amount of time**

Types of Credit Cards

Many credit cards give **rewards**, or something for each purchase.

- **Cash Back:** usually either
 - Flat rate on all purchases (2% everywhere)
 - Tiered rates (grocery stores get 5% whereas gas stations get 2%)
 - Rotating (this month, grocery stores get a bonus, next month, auto part stores get a bonus)
- **Travel cards:** Typically give you "points" or miles that can be used to travel with airlines or hotels, often specific airlines and hotels

Student Credit Cards

- Designed for students with little or no credit, generally with zero fees and no credit history requirement

Low-interest Cards

- Designed for those who can't pay the full balance each month. However, they charge less interest for longer periods of time

Credit Scores

A person's credit score is a number between 300 and 850 that explains someone's creditworthiness. The higher the score, the more likely it is that lenders will issue a loan or credit.

Credit Scores are usually dependent on the following:

- **Payment history (10% weight)**
 - Paying on time is preferred
- **Total amount owed (30%)**
 - Credit utilization: total % of available credit being used
- **Length of credit history (15%)**
 - Longer credit history = less risky
- **Types of credit open (10%)**
 - Car loans, mortgage, credit cards, etc.
- **New credit (10%)**
 - Number of new accounts applied for, called inquiries (more inquiries usually hurts your score)
- **Other factors** (dependent on the company)

Improve your credit by doing the following:

- *Pay bills on time*
- *Use less than 30% of your limit on any given credit card (lower is better)*
- *Pay down high balances before the billing cycle ends*
- *Ask for higher credit limits (lowers your credit utilization)*
- *Add to your credit mix*
- *Limit the number of new accounts applied for (reduce inquiries)*
- *Keep old accounts open, even if no longer used*



HELPFUL HINT

- Excellent: 800 to 850
- Very Good: 740 to 799
- Good: 670 to 739
- Fair: 580 to 669
- Poor: 300 to 579

Extra Resources

Consumer Financial Protection Bureau on credit cards and credit reports:

<https://www.consumerfinance.gov/consumer-tools/credit-cards/>

<https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/>

Credit Card Debt Resources <https://consumer.ftc.gov/articles/settling-credit-card-debt>

Common Credit Card Terms <https://www.cnbc.com/select/common-credit-card-terms/>

Types of Credit Cards <https://www.experian.com/blogs/ask-experian/what-are-the-different-types-of-credit-cards/>

Fraud: The Case for Credit Cards and which card to use: <https://money.usnews.com/credit-cards/articles/credit-cards-vs-debit-cards-what-should-i-use>

Example

John avoided credit cards throughout college. Now, he is ready to look at some offerings from a major credit card provider and his bank (all fictional).

Option 1: Professionals Regional Bank Starter Card	Option 2: Credit Source Silver Cash Back Card
APR: 17.5%	APR: 16%
Annual Fees: \$75	Annual Fees: \$100
Credit Limit: \$1500	Credit Limit: \$2500
Rewards: 1% cash back on all purchases	Rewards: 2% cash back on gas and restaurants, 1% on all other purchases
Late Penalties: \$0 on missed payments for 1 year	Late Penalties: Extra 2% added to next statement plus \$20 fee
Special Features: Cash back is matched for the first year, free fraud protection, 24 hour card replacement, more lenient on approval for low/no credit applicants	Special Features: Earn triple cash back in the first year if paid on time, free fraud protection, 24 hour card replacement, online card payment services available

John has a tough decision on which card to choose for daily purchases. He is concerned about missing a payment, and was only going to use the card for small purchases to get cash back and build credit.

He chooses to stick with Professionals Regional Bank and get their starter card.

Retirement Planning

This module will explain the power of compound interest, the most common retirement accounts, and growth strategies to fit your needs.

The Power of Compound Interest

While simple interest is earned at the same rate over time in a savings account, retirement accounts earn compound interest, which allows you to earn interest on the interest earned over the life of the investment.

Example: You invest \$6,500 for 10 years in a savings account that pays 6% simple interest. After the tenth year, you would have \$10,400 (earned interest of \$3,900 ($\$6,500 \times 6\% \times 10$ years) plus the principal of \$6,500). However, if the interest was compounded, you would have \$11,640.51, which is a difference of \$1,240.51. This may not seem like much, but because the future value depends on the rate and the time factors, it will be a game changer when planning for retirement.



HELPFUL HINT

Most financial experts suggest that you save between one and two million dollars for retirement, due to rising costs of living and increasing life expectancy.

Three Common Retirement Accounts

Traditional IRA

- Contributions are tax deductible
- Tax-deferred growth
- Taxed as ordinary income at time of withdrawal based on current tax bracket
- 10% penalty for funds withdrawn before age 59 1/2
- Contributions limited to \$6,000/year, but those age 50+ can contribute up to \$7,000/year
- Must start removing funds at age 72

Roth IRA

- Contributions are not tax deductible
- Tax-free growth
- Withdrawals during retirement are tax-free
- Tax penalty based on tax bracket on gains earned if withdrawn before age 59 1/2
- Contributions limited to \$6,000/year, but those age 50+ can contribute up to \$7,000/year
- Contributions are not allowed if income exceeds \$137,000 as a single taxpayer or \$203,000 as a married taxpayer.

401(k)

- Offered as a benefit through employer
- Contributions are tax deductible
- Taxed-deferred growth
- Taxed as ordinary income at time of withdrawal based on current tax bracket
- 10% penalty for funds withdrawn before age 59 1/2
- Contributions limited to \$20,500/year, but those age 50+ can contribute up to \$26,000/year
- Employers may choose to match employee contributions. If so, it is highly recommended that employees max out their employer's matching policy.
- According to 2019 data from the Vanguard investment firm, the average employee contribution is 7%, while the average employer contribution is 3.7%.

Growth Strategies

Aggressive

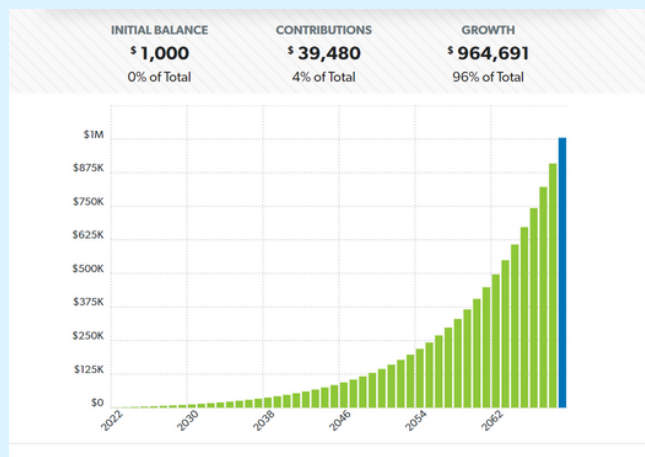
- High risk with potentially large returns
- Recommended for young investors

Moderate

- Medium risk with average returns
- Recommended for middle-aged investors

Conservative

- Low risk with potentially lower returns
- Recommended for elderly investors



If you invest \$1,000 at age 20, expect to retire at age 67, and assume a 10% growth rate, you would have approximately one million dollars upon retirement.



HELPFUL HINT

Set up automatic transfers from your checking account to your retirement account so you don't miss out on growing your nest egg.

Example

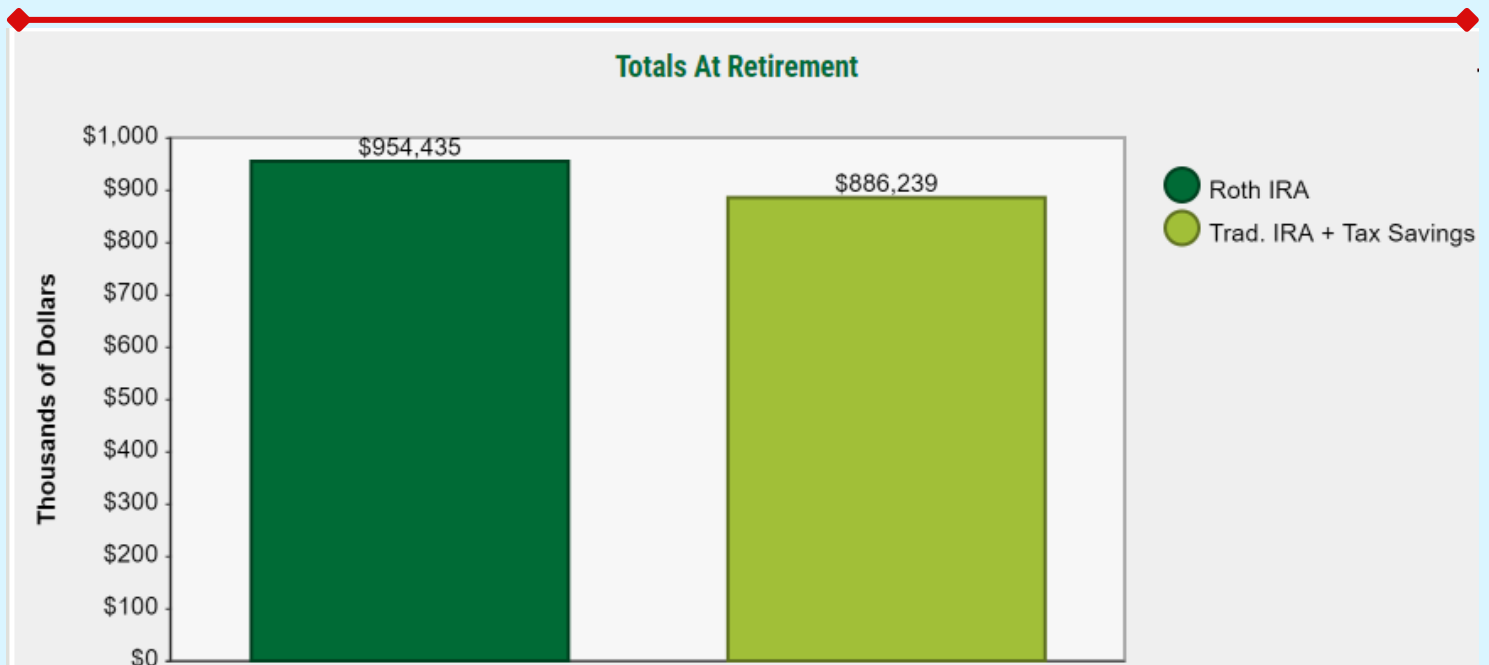
As mentioned in the Budgeting portion of this handout, John plans to contribute \$300 a month to retirement. Which route should he go?

John's Employer, Advanced Technologies

- Does not offer matching contributions. It does, however, offer a package where the employer pays fees associated with Traditional and Roth IRAs.
- If John's employer offered a match, he would instead choose a 401(k)

Basic Information for John

- John will retire at 65, he is currently 22
- 43 year investment period
- Assume \$300 contribution never increases/decreases monthly
- Chooses a moderate investing strategy (about a 4.92% rate of return)
- John stays in the same tax bracket now and at retirement



ROTH IRA

- Total of \$954,435 saved for retirement
- Using the 4% rule of withdrawal:
 - First year of retirement: \$38,177.40
- Tax free

Traditional IRA

- Total of \$886,239 saved for retirement
- Using the 4% rule of withdrawal:
 - First year of retirement: \$35,449.56
 - Minus 22% Federal Taxes: leaves \$27,650.66 (John has no state income tax)

Mortgages

This module will explain the four parts of a mortgage, common types of mortgages, the preapproval process, and extra advice on mortgage strategy.

What is a mortgage?

A mortgage is a loan acquired from a lender, typically a bank, that is used to fund the purchase of a property.

It is an agreement between the homebuyer and the lender to pay back the amount borrowed plus interest.



The Four Parts of a Mortgage

1) Collateral

The financial institution will require your home to be offered as collateral in case you default on the loan. This protects the lender and holds the homebuyer accountable.

2) Principal

Initially, this is the amount borrowed from the financial institution and represents the remaining balance throughout the life of the loan.

3) Interest

Based on the interest rate and the principal amount, the interest represents the cost of borrowing money from the lender.

4) Taxes & Insurance

Property taxes and home insurance will be included in the monthly mortgage payment, which will accumulate in an escrow account until the time comes for the lender to transfer those funds to pay the property taxes and insurance premiums due.

Common Types of Mortgages

Initially, monthly mortgage payments will apply largely to the interest; however, over the life of the loan, payments will increasingly apply to the principal, thus increasing your equity in the home.

30 or 15 year Fixed-Rate Mortgage:

- Same interest rate over the life of the loan
- Predictable monthly payments

30 year Adjustable-Rate Mortgage (ARM):

- Same interest rate to start out (usually 5-10 years)
- After the teaser period, the interest rate will vary depending on current economic conditions.
- Subject to changes in inflation, which could lead to drastic increases in mortgage payments.

Approval Process

Mortgage Preapproval

- The lender will review the prospective homebuyer's income, assets, and credit to determine the amount of money the homebuyer qualifies to borrow.
- The lender will issue a mortgage preapproval letter to the homebuyer.
- The homebuyer can attach the preapproval letter to their offer on a house. This will notify the seller of their ability to go through with the sale.



HELPFUL HINT

Save time by getting preapproved prior to home shopping. This will ensure that you are shopping within your budget.

Final Mortgage Approval

- An appraisal to check the value of the home
- An inspection to make sure the home is safe to occupy
- A title company will verify the title of the home



HELPFUL HINT

In today's seller's market real estate market, getting preapproved prior to submitting an offer on a house has never been more important since sellers may not consider offers without a preapproval letter.

Mortgage Tips & Tricks

- **Putting down at least 20% of the purchase price will result in a more competitive rate and you will avoid paying private mortgage insurance (PMI), which is a monthly fee to protect the lender against defaults on loans arranged with a small down payment.**
- **Presenting yourself to the lender as a trustworthy borrower (i.e., strong credit score, stable income, and minimal debt) that will repay the amount borrowed may allow you to obtain a lower rate, since your personal circumstance is considered when determining the interest rate on a mortgage.**

Example

Fast forward 10 years, John is tired of apartment living. He has saved around \$30,000 for a house down payment and closing costs.

What can John afford?

- **Using this calculator:**

<https://www.wellsfargo.com/mortgage/home-affordability-calculator/>

- At \$50,000 per year salary, \$350 in debt per month, \$30,000 saved for a down payment
 - At 20% down, John could afford a house worth \$149,320 based in Fort Wayne, IN
 - His monthly payment would be \$900, the same as his rent!
-

Should John continue renting, or buy a house?

- It depends!
- Buying a house builds equity over time. It also comes with greater maintenance expenses and responsibilities. It is also generally more long-term in nature than renting.
- Renting allows people more flexibility and less worry regarding maintenance and responsibilities.
- John could get a 3 bed 2 bath home that needs a little work for \$900 per month, or a 1 bed 1 bath apartment that is ready to go for \$900 per month

Student Loans

This module will explain important information about student loans, such as the differences between federal student loans and private student loans, how to get a student loan, and crucial pieces of information to remember.

What is a student loan?

A student loan represents an amount borrowed from either the federal government or a private lender to fund the completion of higher education requirements.



Types of Federal Student Loans

Federal Student Loan:	Offered to:	Financial Need Based? Builds interest while in school?	Amount you can borrow:
Direct Subsidized Loan	Undergraduate students	Yes No	\$5,500 to \$12,500 per year if undergrad
Direct Unsubsidized Loan	Undergraduate or graduate students	No Yes	\$5,500 to \$12,500 per year if undergrad, up to \$20,500 per year if grad student
Direct PLUS Loan	Graduate students and parents of dependent, undergraduate students	No, but requires a credit audit Yes	Remainder of college costs if grad student or parent of dependent undergrad

A Direct Consolidation Loan will incorporate all of your federal student loans into one, single loan from one lender, making it easier to monitor and pay your debt. Also, know that the loan fee for undergraduate federal student loans is 1.057%.

Benefits of a Federal Student Loan

- Fixed interest rate that is lower than other loans
- Repayment period begins 6 months after leaving college
- Flexible options for repayment
- May be eligible for loan forgiveness if working in a certain field
- Government will pay interest on select loans if you have financial need

Keep in mind that you can only use the loaned funds for expenses related to education, which include, but is not limited to, off-campus housing, groceries, and transportation.



To obtain a federal student loan:

- Complete the FAFSA
- Work with your financial aid office to apply any aid
- Verify your understanding of the loan's terms and conditions through entrance counseling
- Sign the promissory note

HELPFUL HINT
To take advantage of lower interest rates, maximize your federal student loan aid prior to taking out private loans.

Private Student Loans



HELPFUL HINT
Only borrow money that you need to avoid paying interest on funds that were not necessary to borrow. Remember, you can always borrow more later as needed.

- Issued by a private organization or a bank
- Higher interest rates compared to federal loans
- May have to start repayment process while attending school
- Most build interest while enrolled in school
- May contain annual caps, which restrict the aid available
- Interest rate may vary depending on your credit history as well as your cosigner's credit history

Though federal student loans offer a grace period of up to 9 missed monthly payments, private student loans may only allow up to 1 missed monthly payment before defaulting on the loan, which could wreak havoc on your credit history.

Example

John graduated recently with a bachelor's degree in IT. Unfortunately, due to income limits, John did not qualify for any federal student loans; therefore, he got private ones. Here is some information regarding financing his education:

John attended a four year, in-state college.

- Total loan amount: \$30,000
- Fixed interest rate: 4.25%
 - Interest builds during school
- Interest payments required during school; principal payments required starting 6 months after graduation
- 1 missed payment grace period; 2 missed payments incurs fees & late penalties
- 15 year payback period

John's Estimated Monthly Payment: \$226, according to lender Sallie Mae

Here is what helped John with student loans:

- John's total cost of attending school was \$45,000. He got \$15,000 covered with scholarships!
- John plans to use the "extra" \$276 per month (in his budget) to meet the \$226 monthly payment required by his lender. He currently only budgeted \$206.55!
- He paid interest during school. This means he has less to pay overall through the life of the loan.

Federal Income Taxation

This module will explain the basic tax formula, elucidating topics such as gross income, deductions, taxable income, tax credits, and prepayments.

Basic Tax Formula

Gross Income

- Deductions for Adjusted Gross Income (AGI)

Adjusted Gross Income (AGI)

- Greater of Standard Deduction or Itemized Deductions
- Deduction for Qualified Business Income

Taxable Income

* Tax Rates

Income Tax Liability

- Tax Credits
- Prepayments

Net Tax Due (or Refund)

	Taxable Income		Tax Bracket
	Over	But Not Over	
Single Individuals	\$0	\$10,275	10% of the taxable income
	\$10,275	\$41,775	\$1,027.50 plus 12% of the excess over \$10,275
	\$41,775	\$89,075	\$4,807.50 plus 22% of the excess over \$41,775
	\$89,075	\$170,050	\$15,213.50 plus 24% of the excess over \$89,075
	\$170,050	\$215,950	\$34,647.50 plus 32% of the excess over \$170,050
	\$215,950	\$539,900	\$49,335.50 plus 35% of the excess over \$215,950
	\$539,900	Over	\$162,718.00 plus 37% of the excess over \$539,900
Standard Deduction \$12,950			
Married Filing Jointly & Surviving Spouses	\$0	\$20,550	10% of the taxable income
	\$20,550	\$83,550	\$2,055.00 plus 12% of the excess over \$20,550
	\$83,550	\$178,150	\$9,615.00 plus 22% of the excess over \$83,550
	\$178,150	\$340,100	\$30,427.00 plus 24% of the excess over \$178,150
	\$340,100	\$431,900	\$69,295.00 plus 32% of the excess over \$340,100
	\$431,900	\$647,850	\$98,671.00 plus 35% of the excess over \$431,900
	\$647,850	Over	\$174,253.50 plus 37% of the excess over \$647,850
Standard Deduction \$25,900			
Married Filing Separately	\$0	\$10,275	10% of the taxable income
	\$10,275	\$41,775	\$1,027.50 plus 12% of the excess over \$10,275
	\$41,775	\$89,075	\$4,807.50 plus 22% of the excess over \$41,775
	\$89,075	\$170,050	\$15,213.50 plus 24% of the excess over \$89,075
	\$170,050	\$215,950	\$34,647.50 plus 32% of the excess over \$170,050
	\$215,950	\$323,925	\$49,335.50 plus 35% of the excess over \$215,950
	\$323,925	Over	\$162,718.00 plus 37% of the excess over \$323,925
Standard Deduction \$12,950			
Head of Household	\$0	\$14,650	10% of the taxable income
	\$14,650	\$55,900	\$1,465.00 plus 12% of the excess over \$14,650
	\$55,900	\$89,050	\$6,415.00 plus 22% of the excess over \$55,900
	\$89,050	\$170,050	\$13,708.00 plus 24% of the excess over \$89,050
	\$170,050	\$215,950	\$33,148.00 plus 32% of the excess over \$170,050
	\$215,950	\$539,900	\$47,836.00 plus 35% of the excess over \$215,950
	\$539,900	Over	\$161,218.50 plus 37% of the excess over \$539,900
Standard Deduction \$19,400			

*See IRS Notice 1016 or Circular E (Publication 15 and 15-A) for withholding amounts that should be made through payroll.

Example: You are a single taxpayer with \$50,000 in salary, \$3,000 of ordinary dividend income, and \$1,000 of child support. How much revenue will be included in your gross income?

$$\$50,000 + \$3,000 = \$53,000$$

Assuming you take the standard deduction since you have no other deductions, what is your tax liability?

$$53,000 - 12,950 = 40,050 = \text{Taxable Income}$$

$$\text{Tax Liability} = \$1,027.50 + (\$40,050 - \$10,225) * 12\% = \$4,600.50$$

Gross Income

- Includes all revenue, such as wages, interest, capital gains from selling stock, and business income, unless a certain tax law states otherwise.
- Includes long-term capital gains and qualified dividends, even though these items are taxed at preferential tax rates.
- Tax-exempt interest, child support, welfare, and gifts are examples of items excluded from gross income.
- Gross income is not the same as taxable income; gross income will be greater than taxable income.
- Taxable income is used to compute your tax due/refund, as depicted by the tax rate chart above.

Deductions/Tax Credits/Prepayments

Deduction - Dollar-for-dollar reduction of taxable income. Only allowed if a certain tax law approves the deduction. Two classifications of deductions — for AGI or from AGI.

For AGI Deductions:

- Business expenses (if owner and if expenses are directly related to business)
- Student loan interest (up to \$2,500)
- ½ self-employment taxes

From AGI Deductions:

- Standardized Deduction
 - Every taxpayer is entitled to the standard deduction, which is as follows for 2022:
 - \$12,950 for single taxpayers
 - \$25,900 for married filing joint (MFJ) and qualified widow(er) taxpayers
 - \$19,400 for head of household (HH) taxpayers
 - Additional standard deduction for age (+65) and/or blindness
 - \$1,750 for single or HH taxpayers
 - \$1,400 for MFJ or qualifying widow(er) taxpayers
- Itemized Deductions include, but are not limited to:
 - Medical expenses (in excess of 7.5% of AGI)
 - State or local income taxes (limited to \$10,000 for MFJ)
 - Mortgage interest and charitable contributions
 - Gambling losses (to extent of winnings)
- Deduction for Qualified Business Income
 - Applies to taxpayers with qualifying business income from most flow-through businesses

Tax Credits - Dollar-for-dollar reduction of tax liability.

Tax credits include, but are not limited to:

- Child Tax Credit (max. = \$2,000/qualifying child, but reduced by \$50 for each \$1,000 of AGI above \$200,000 if single or HH taxpayer, \$400,000 if MFJ)
- American Opportunity Tax Credit (max. = \$2,500/student)
- Lifetime Learning Credit (max. = \$2,000/tax return)
- Earned Income Credit helps low-income workers offset employment taxes
- Business Tax Credit encourages the hiring of specific people (i.e., previously unemployed) and research and development
- Foreign Tax Credit reduces the tax liability for US citizens taxed on worldwide income to avoid double taxation

Prepayments - Dollar-for-dollar reduction of tax liability.

Examples include withholdings, estimated tax prepayments, and prior year overpayment of taxes applied to the current year's tax liability.

Example: You are a MFJ taxpayer with \$100,000 in salary, \$5,000 of ordinary dividend income, and no qualified business income. You paid \$2,000 in student loan interest, \$8,000 in state income taxes, \$4,000 in mortgage interest, and \$10,000 in charitable contributions. You and your partner also have 2 qualifying children under age 17 and \$4,000 in withholdings from employee wages. What is your tax due?

$$\begin{aligned} \text{Gross income} &= \$105,000 \\ - \text{For AGI deductions} & \quad (\$2,000) \\ \text{AGI} &= \$103,000 \\ - \text{MFJ standard deduction} & \quad (\$25,900) \\ \text{Taxable income} &= \$77,100 \end{aligned}$$

$$\begin{aligned} \text{Tax Liability} &= \$2,055 + (\$77,100 - \$20,550) * 12\% = \$8,841 \\ - \text{Child tax credit} & \quad (\$4,000) \\ - \text{Prepayments} & \quad (\$4,000) \\ \text{Tax Due} &= \$841 \end{aligned}$$



HELPFUL HINT

Tax credits are more helpful than tax deductions in reducing your tax liability because tax credits reduce your tax liability dollar-for-dollar, while tax deductions only reduce your tax liability by the rate your taxable income is taxed at for each dollar in deductions.

Insurance

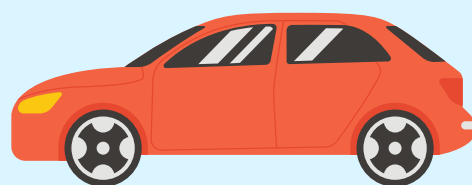
This module will explain the idea behind insurance as well as the most common types of insurance, such as automobile insurance, health insurance, and homeowners insurance.

Why do we have insurance?

Life is full of risks – something that we can never escape. For instance, no one plans for a house fire, a car accident, or the diagnosis of a critical illness. These risks, and the financial consequences attached, affect everyone and are simply a part of life. Insurance attempts to mitigate those risks by collectively pooling together the risks each person carries and spreading them out among policyholders that pay cyclical premiums for their insurance policy. This way, when an incident does occur, the insurer is able to tap into the funds previously paid by the insured to cover the financial losses of a policyholder. In addition, a deductible payment (amount varies) may be required by the insured to claim funds for losses covered by the insurance provider.

Automobile Insurance

- Required by law in every state except NH
- Required extent of car insurance, and thus cost, differs by state
- Indiana requires at least PLPD (bodily injury liability coverage and property damage liability coverage) as part of the state-mandated car insurance, protecting both parties in an accident
- National average cost of car insurance premiums is \$1,682 annually
- The average cost of car insurance premiums in IN is \$1,256 annually (sixth lowest in the nation)



There are a multitude of factors that insurance companies use to determine the cost of car insurance premiums including, but not limited to, infrastructure conditions, weather, traffic, crime, minimum state coverage required, and the rate of insured drivers.



HELPFUL HINT

When evaluating insurance policies, choosing a higher deductible will lower your recurring premium payments. A higher deductible may be better for those on a tight budget who may not be able to afford pricey premium payments. However, a lower premium payment may lower your policy limit that will be assured by the insurance company if you suffer a loss.

Your health care plan will most likely have a list of exclusions and limits, so it is important to understand the terms and conditions of your policy. For example, you might only be able to receive a referral to a specialist within your permanent state of residence.

Health Insurance

- Most people are covered under an employer-sponsored plan
- May be purchased privately as well
- U.S. government offers healthcare to the elderly (Medicare), low-income (Medicaid), and the military
- Adding supplemental insurance (at additional cost), such as dental insurance, will increase your health care coverage



Homeowners Insurance

- Covers the house and its contents from damage and theft, liability if an injury occurs on the premises, and moving expenses, if necessary.
- Two different types of coverage provided include "replacement cost" or "actual cash value".
 - Replacement cost provides used goods to replace the lost items.
 - Actual cash value provides a replacement up to the entire cost of the items.



If renting, you may want to consider purchasing Renters Insurance, which covers your belongings from damage and theft, liability if an injury occurs on the premises, and moving expenses, if necessary. Typically, the landlord pays for the insurance of the physical property, since it is not in your possession.

Example

Unfortunately, John hit a deer with his vehicle while traveling on a major highway. John did the following:

- Immediately pulled over and turned on hazard lights. He was not injured.
- Contacted local authorities to file an accident report and an officer en route
- Took pictures of the accident, called roadside assistance, and got his vehicle towed to the nearest body shop

John paid \$60 per month in car insurance and he did not have full coverage. Instead, he only had "PLPD" or bodily injury and property damage. Therefore, hitting a deer is NOT covered by insurance!

- John had to pay \$500 for towing
- \$3500 estimate for body shop repairs
- John decides to total the car and instead get a new one (the old Honda Civic was only worth \$4000, making it not worth the \$3500 repair bill in his opinion)

If John had full coverage, his costs may have been the following:

- Instead of \$60 payment, a \$100 monthly payment
- Towing is covered
- \$300 deductible, all other costs covered
- Monthly premiums not increased due to no fault

Important question from this example: Is the extra \$40 per month worth full coverage? You be the judge! Each type of coverage has a purpose.

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