Personal Financial Planning for College Students

Manage Your Money Today
Maximize Your Money in the Future

Guidebook & Workbook

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UNIVERSITY of LOUISIANA LAFAYETTE

B.I. Moody III College of Business Administration

INTRODUCTION & OVERVIEW

Money cannot buy happiness. But money can create options and opportunities for you.

The purpose of this book is to help you take control of your finances – both today and in the future – to help you have all the options and opportunities to create the life you want.

This book provides some finance theory and concepts that will help you develop a long-term financial plan; it provides some cases that will help you think about your own financial health and priorities; and it provides some exercises that will help you put some numbers to your own situation so you can better appreciate both the benefits and consequences of different financial decisions.

We encourage you to approach this book with an open mind and an open heart. And we encourage you to make this experience as personal as possible. Everybody is different – and everybody has different financial knowledge, different financial foundations and different financial futures. We have tried to use concepts and examples that provide a variety of perspectives that will help you see yourself in this work. But it's unlikely that we've been able to completely capture your unique situation. That's where you have to help. Make this experience about you and your future. Customize this experience for yourself so you can take control of your financial future and create all the options and opportunities that you've ever imagined for yourself.

We cannot promise that going through this book and all of its exercises will make you a billionaire or even a millionaire. But we do promise that mastering the tips and tools in this book will help you sleep better at night, will make you less anxious about money, and will help you make decisions that take your life forward. This book is designed to help you turn money from a source of stress to a source of control. Now relax, prepare to think, and enjoy the financial planning journey to come.

PURPOSE & AUDIENCE

The purpose of this book is to help college students – undergraduate students, graduate students and even non-students – become more comfortable talking about finance and thinking about personal finance. Ultimately, the goal is to help you become confident and self-sufficient with managing your own finances – from borrowing and budgeting to saving and investing.

The primary audience for most of this book is undergraduate college students. Being a college student is a unique experience in life: It may be the first time you're on your own, the first time you're working or the first time you're responsible for your own finances. Many aspects of life – and of financial planning – will be new to you. This book is designed to help you navigate your finances so that you can have and incredible college experience – and a successful post-college life – without having financial issues be too much of a burden on your dreams, goals and lives. This books is designed to help you make the most out of college. This book is for you.

There are certain sections in this book that may be more relevant to older readers (such as insurance and retirement planning) and certain content that will be useful to everyone (such as budgeting and saving). In some situations, we ask you to imagine your future self, perhaps 1 or 5 or 10 years in the future; exercises such as these can be useful to readers of all ages, regardless of how experienced you are with financial planning. Try not to limit yourself – challenge yourself to think creatively about your present situation and about your goals and dreams for your future self. This book is about you.

There are 6 chapters in this book. Chapters 1 and 6 try to help you think about money and financial planning. We talk about behaviors, emotions and actions; we talk about the philosophy of money; we challenge you to think about your own personal relationship with money. In Chapters 2, 3, 4 and 5, we talk about the technical aspects of financial planning. Chapter 2 is about Budgeting, Income & Expenses; Chapter 3 covers Borrowing & Debt Management; Chapter 4 covers Saving & Investing for your future; and Chapter 5 introduces Insurance, Taxes, Retirement and other Special Topics that you will want to think about, both now and later. The first two chapters are the most critical chapters to taking control of your finances today. Chapter 3, 4 and 5 are more about the future; the sooner you think about them, the better off you'll be. And Chapter 6 ties many of the previous chapters together, from thinking about money to preparing a budget and thinking about investing. Everything is connected. Anything you can take away from this book will make your future better.

This version of the book is written by faculty at The University of Louisiana at Lafayette. As such, there are specific UL Lafayette references and examples in the book, where appropriate. However, the concepts and examples are universal and should be applicable to you wherever you are, whatever your age, and regardless of whether you are in school.

This book is a public good. Nothing in here is proprietary. Please print it, copy it, share it, use it.

AUTHORS & COLLABORATORS

Most of this book was written by Brian Bolton (brian.bolton@louisiana.edu). Brian is a Professor of Finance and the Dwight W. Andrus, Jr. / BORSF Eminent Scholar Endowed Chair in Finance in the Moody College of Business Administration at the University of Louisiana at Lafayette. Brian joined UL Lafayette in 2019 after serving at IMD Business School in Lausanne, Switzerland, Portland State University in Oregon and the University of New Hampshire. Brian earned his PhD in finance from the University of Colorado at Boulder and his MBA in finance and strategy from the University of Texas at Austin. As of 2020, Brian is a *CERTIFIED FINANCIAL PLANNER™* candidate.

Brian has been teaching finance, economics, business and leadership since 1999 and loves his job because he gets to learn from hundreds of amazing students every year. And he loves taking what he learns from his students in the classroom into the finance laboratory for his research pursuits. Most of Brian's research is focused on the relationships between the different stakeholders – or owners – within a firm and how to design systems that optimize those relationships to maximize the value of any firm. In 2015, he published his first book *Sustainable Financial Investments: Maximizing Corporate Profits and Long-Term Economic Value Creation*, which studies the short-term and long-term tradeoffs associated with making investments with natural, human, social and financial resources. Brian is currently writing another book titled *A Culture of Ownership*, studying how organizational culture is created and how it can be managed to create value for individuals, companies and societies.

Brian wanted to write this *Personal Financial Planning* book because all students can learn more about personal finance, financial health and financial planning. All adults and humans can learn more, too. As student loan debt has increased, as various economic and social crises of the 21st century have challenged all of us and as the world has become increasingly more complex and more inter-connected, it has become more and more difficult for many people to take control of their finances and to achieve financial independence. Everyone – from high school students to college students to college professors – can learn more and can do better. So that's what this book is about – helping everyone take control of financial situation and get on a path to financial independence.

When you read "I" or "my" in this book, that is coming from Brian's perspective. But Brian (I) has received significant help in this book getting into your hands. Dr. Bill Ferguson, Professor of Insurance and Finance and the G. Frank Purvis, Jr./BORSF Eminent Scholar Endowed Chair in Insurance and Risk Management at the University of Louisiana at Lafayette, wrote the insurance section in Chapter 5 and provided feedback on other sections throughout the book. Christine Williams, Maria Slater, Rachel Sam, April Jones, Kendall Laster, Mary Farmer-Kaiser, Philip de Mahy, Badar al Hamdani, Elizabeth Green, Monica Long and many others have provided suggestions, content and direction to this entire project. If you ever see them around campus or have them in class, be sure to thank them for their contributions. Consistent with Brian's passion for learning from his students, as you will note in the Appendix, dozens of former and current students have contributed their thoughts and suggestions on how to best navigate college.

And this is the last time Brian will refer to himself in the third person. From now on, he is I.

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1. Nothing is free. You have to sacrifice something to receive something good. Every benefit has a cost.

2. Be mindful of short-term vs. long-term tradeoffs. Is a short-term indulgence worth a long-term sacrifice? Top Ramen costs $0.25 per meal. Gourmet ramen can cost $20 per meal. You decide what your priorities are.

3. Debt can change your life – both for the better and for the worse. Don't let debt destroy your life and determine your future.

4. Interest is your friend – if you are receiving it. Interest if your enemy – if you are paying it.

5. Save and invest as early as you can. Small savings today can create enormous opportunities in the future.

6. Financial advisors and other professionals can provide excellent guidance to you – but they do not exist to be your friends. You need to own your financial situation so you can know when to reach out for help and to know what you can do for yourself.

7. Other specialist advisors may be able to provide services that you cannot do yourself – tax accountants, insurance advisors, lawyers. They can help you execute your plans effectively.

8. Insurance seems really boring – until you need it. It is usually a very small price to pay for a lot of peace of mind.

9. The University is a medium-sized city. It has amazing resources and amazing people to help make your life better. Use them. Ask questions. Seek help. Take advantage of every opportunity that the University offers you while you are in school – because you won't have those same opportunities once you graduate.

10. Don't assume that your parents or friends know everything about finance. By the time you finish this guidebook, you will know more about personal finance than 75% of Americans.

And, because we like you, here is one more free rule for you that should govern everything you do:

11. Always make sure that what you do with your money aligns with your personal values.

CHAPTER 1

TAKING CONTROL OF YOUR FINANCIAL FUTURE: GOALS, VALUES & FINANCIAL PLANNING

Let's start with a thought exercise. We will do a lot of thought exercises throughout this book. There are never any "right" or "wrong" answer to these exercises. These are just to help you think about your own personal financial health and plans. As you go through this book, and as you write down your thoughts on these exercises, you may want to write down the date when you responded; your feelings about many of these exercises will change over time, and that's okay. We want you to explore and grow as you go through this book – and you may want to re-visit many of these exercises so you can think about different issues from different perspectives as you do grow.

So, here's thought exercise #1:

> What is money? What does money mean to you?
>
> In the space below, write down as many words, phrases, song lyrics, tweets, feelings, or stories that help define what money means to you.

_____

_____

_____

_____

_____

_____

_____

_____

You can use space on another sheet if you need more room.

Now that you have this list, go through it and put a + next to the items that elicit a positive feeling or sentiment and a – next to the items that elicit a negative feeling or sentiment.

Do any of these statements conflict with each other? Do any inspire you?

Now store this list away – and come back and revisit it periodically to see if you want to add new items or remove some old thoughts that you feel are no longer accurate. Thinking about of what money means to you will be a big part of your journey through this book.

THINKING ABOUT MONEY – THE LOTTERY

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $500.

What would you do with that $500? Write down up to 3 things you would do with your winnings:

1. _____

2. _____

3. _____

Now, let's say your Lotto ticket was a much, much bigger winner. This time you won $100,000.

What would you do with that $100,000? Write down up to 3 things you would do with this bounty:

1. _____

2. _____

3. _____

There are no 'right' or 'wrong' responses here. Your answers are your answers and nobody else's.

The point of this is to help you think about your values and priorities. As you think about your values and priorities, the following questions may help you refine what your values really are:

- What decisions have you recently made that directly align with this value?
- What did you gain from that decision?
- What was the next best alternative?
- What other options were available?
- Did one of the alternatives better fit with your values and circumstances?
- What was the cost of your decision? Did one of the other alternatives have a lower cost?

Sometimes the decisions you make – and the values you express – will have a direct financial cost: maybe you pay $5 for a value meal at a fast-food restaurant or $10 for a movie. Many other decisions will not have a direct and obvious financial cost; in finance, we refer to this cost as the "opportunity cost." An opportunity cost is the value of doing something else. Think of everything you do as a choice: when you pay $5 for a value meal, you have not only made that choice, but you have also made the choice *not* to give that $5 to charity or to save that $5. That's not wrong, that's not right – that's simply your choice.

Only you can decide if you are making the best choices for your values.

You are paying opportunity costs all the time, whether you realize it or not. You have limited resources – both time and money – and you are constantly making decisions about how to spend your time and your money. These choices express your values. Importantly, these choices indicate what is important to you; they also indicate what is less important to you. Every time you make a choice on how you spend your time and your money, you are simultaneously making the decision not to do something else with your time and money.

For each of the following activities, think about the benefits and the costs of doing each:

Activity #1 – You choose to spend 3 hours studying at the library for an exam in 2 weeks.

Benefits: _____

_____

Costs: _____

_____

Activity #2 – You choose to spend 1 hour exercising at the gym.

Benefits: _____

_____

Costs: _____

_____

Activity #3 – You choose to spend 4 hours on the weekend volunteering at the animal shelter.

Benefits: _____

_____

Costs: _____

_____

Now, ask yourself…. Are the benefits of these choices greater than the costs of these choices?

In theory, we should only be making decisions to do things where the benefits are greater than the costs, no matter how abstract or unmeasurable the benefits and costs may be. Happiness, purpose and peace of mind can be very important values – only you can decide what your values are.

MINDFUL DECISION-MAKING

Impulses are the enemy of financial planning – but impulsive behavior is very much a part of being human. And that's why we want to make an effort to be thoughtful and intentional about what we do with our time and our money.

The purpose of being thoughtful and intentional in making a financial plan is to be sure that your actions align with your goals and values. To be mindful of you financial (and even non-financial) decisions, take a moment to remove any impulses and think about the decisions you're making.

To be mindful of your decisions, ask yourself these questions:

1. What am I getting – either now or in the future?

2. What am I giving up – either now or in the future?

3. Are there other options that better fit with my values, goals and circumstances?

Think about your college investment. Your college education may be the biggest and most expensive investment you will ever make – perhaps even more expensive than buying a house.

- Most of you have to pay thousands and thousands in tuition…plus living, family and other expenses.
- Many of you will be doing this for 3-5 years, some of you will be in college for 5-6 years.
- Many of you will continue on to 1-2 years – or more – of grad school.
- Many of you will not be able to work full-time while in college.

So why are you doing this? What are the benefits?

I'm a college professor, so I am obviously a big believer in the benefits in education and in college – for you as individuals and for the benefit you provide to society. But only you can decide whether the benefits of this experience are greater than all of the costs and sacrifices you are incurring in order to receive these benefits.

When you decided to attend college, it probably was not an impulse decision. You and your family had probably been thinking about it for many years. You analyzed many factors, comparing the benefits and costs of every possibly scenario. This was perhaps the most mindful – both personal and financial – decision you've ever made.

What if you made all of your decisions with that kind of thoughtfulness? What if you were able to eliminate impulsiveness from all of your financial decision-making?

Obviously, that's probably ridiculous. You're not going to prepare notebooks of analysis thinking about whether to buy a taco on a Friday night. But how might you add a little more thoughtfulness to many of your day-to-day decisions?

- Only make purchases with a credit or debit card. Don't use cash. Cash is tangible, but it can be difficult to monitor. Seeing all of your debit or credit card purchases online or in your monthly bank statement can help you manage and analyze your expenses.
    - Or, if you think differently, perhaps you ONLY make purchases with cash. Some people feel more intrinsic pain when spending cash, precisely because it is tangible. When the mafia invented casino chips, it was precisely to make it simple for us to throw away chips because losing chips wasn't as painful as losing cash was to people.
    - You have to figure out which type of person you are and which approach will make you the most thoughtful and mindful…and which approach will cause you the most

pain when you spend money. A brief figurative shock can be very helpful if it slows down your impulse purchasing habits – find what works for you.

- Wait 24 hours before making any purchase. Apply this rule even to your Friday night taco craving. That's right – make yourself wait. And it's even easier with most other purchases. Take your time and force yourself to think about how that purchase aligns with your goals and personal values.
    - For purchases over a certain larger dollar amount – say, $100 – force yourself to wait a week or a month before buying it.
- Delete any apps from your phone that enable no-touch or one-touch purchases. The technology is amazing – but that technology is also designed to get you to spend more money, not to help you achieve your personal and financial goals.
- Commit to saving more. For every purchase you make, whether it's for a taco or something online, commit to moving 50% of the purchase price into your savings account.

There are many other strategies and tricks you can play on yourself to incorporate more diligence and mindfulness to the decisions you make with your money. You do not want to become a robot – but you also don't want to be broke forever. Challenge yourself to find a nice mindfulness balance.

WHAT'S IMPORTANT TO YOU – YOUR VALUES

Let's think about your values. We will do this regularly throughout this book, constantly encouraging you to make sure that the decisions you make are aligned with the values you hold dear.

We've provided you with a list of 12 common values. In the space below the list, add 4 more that you think are important. Then, from this full list of 16 values, rank them. Give the value that's most important to you a 1 and give the value that's least important to you a 16.

_____	Education	_____	Family
_____	Friends	_____	Saving for the future
_____	Charity	_____	Personal appearance
_____	Travel	_____	Entertainment
_____	Freedom	_____	Creativity
_____	Religion	_____	Physical fitness
_____	_____	_____	_____
_____	_____	_____	_____

As with most exercises in this book, this list and the rankings are just for you. You should re-visit your thoughts periodically to see how your thinking evolves as you think more about your personal financial planning and financial health.

Let's put these values to work – it's easy enough to make lists and claim what we think is important, but it's an entirely different matter to actually be faced with making decisions to see what we value.

For each of the following scenarios, think about whether or not you would take the opportunity.

Scenario #1 – A store you love is going out of business and has a great deal on an item that you really like…but that you don't need right now.

Do you buy it? **YES** **NO**

Scenario #2 – A family member offers to either put a $5,000 down payment on a new car for you, after which you'll make the required loan payments, or deposit $5,000 into your or your children's college fund.

What do you choose? **NEW CAR** **COLLEGE FUND**

Scenario #3 – You are saving up to buy a new computer, but your friends invite you on a spring break trip that will wipe out your computer savings.

What do you choose? **COMPUTER** **TRIP**

Scenario #4 – You usually donate $25 a month to a local charity in additional to putting $25 a month into a savings account. But this month you only have $25 to use.

What do you do? **CHARITY** **SAVINGS**

Let's think about Scenario #4. We've only given you two options. Both of those are valuable to you, so you could make a mindful case for either. But are there any other options? Are there other creative, mindful alternatives that you could consider?

What if you split the $25 and give $12.50 to charity and $12.50 to savings?
What if you put $25 in savings this month and commit to giving $50 to charity next month?
Are there any other expenses in your budget that are less important to you than charity and savings?

I ask myself this last question all of the time – it's a great check of reminding myself of what's truly important to me and what my values are.

By now, you might be worried that financial planning and being mindful is designed to take the fun out of life. That's the exact opposite of what it's designed to do.

Yes, being mindful is designed to remove some of the impulsiveness from how you spend (or waste) your money. But the purpose of that is to make sure you're only spending your hard-earned money on things that really are important to you…on things that you value and that make your life better.

Personally, I like to treat myself to nice things and to small indulgences. Most of us do. This might be as simple as a meal at a nice restaurant or a new pair of shoes or an annual vacation. I value these things. I also value donating some of my income to a few charities that are important to me. So, one rule that I impose on myself is this: When I spend money on a small or large indulgence, I commit to donating that same amount to charity. Whether that's $30 at a restaurant, $100 on a new pair of shoes or $500 on a nice trip, I commit to donating the same amount to charity. This helps me be more mindful about how I spend my money – it also helps me align what I do with my hard-earned money with the beliefs, priorities and values that are extremely important to me.

WHY FINANCIAL PLANNING?

Now that we've jumpstarted our brains to begin thinking about how we relate to money, let's take a break and talk about what we're trying to do with this book. That is…Why do you need to worry about financial health and financial planning?

- 60% of Americans do not have $1,000 saved up to cover an emergency.
- 44% of Americans do not have $400 saved up to cover an emergency.
- 33% of American adults have $0 saved for retirement.
- 60% of Americans carry credit card debt, totaling over $1 trillion in the U.S.
- 70% of Americans live paycheck-to-paycheck.
- The average American has $5,200 in savings.
    - Men have $7,000 in savings. Women have $2,000 in savings.
    - Black Americans have $1,000 in savings. Hispanic Americans have $1,500 in savings. White Americans have $7,140 in savings.
- The average Social Security benefit for retirees paid out $1,350 per month ($16,200 per year).
- 55% of Americans "always" or "sometimes" worry about their finances – with 40% saying that "running out cash" is their biggest concern.
- Financial issues are cited as the leading cause of both divorce and stress in America.
- And, the National Endowment for Financial Education found that only 24% of millennials demonstrate basic financial literacy.

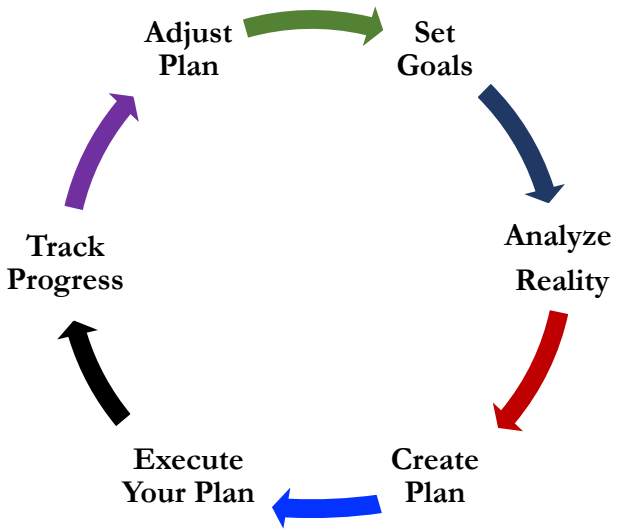
This book is designed to help improve those numbers – or to at least help put you on the 'right' side of each statistic. We do not mention these numbers to shame your or embarrass you, we introduce these numbers to point out some of the socio-economic dynamics that you will face as you work to achieve your personal and financial goals. We cannot change many of these socio-economic dynamics with this book in the short-term; but we can help you become better prepared to put yourself in a better personal and financial position in the long-term.

Now let's remind ourselves about some of the rewards that come from financial planning:

- ✓ Ability to maintain or improve your standard of living
- ✓ Controlled spending allows you to live well today AND tomorrow
- ✓ Accumulate wealth—Remember, whatever your income, you can spend it or save it
- ✓ Hope of avoiding much of the havoc that money problems wreak on your personal life
    - ✓ Conflict over money is the leading cause of divorce in today's society.

So, what are we going to do – what do we mean by "financial planning?"

For better or worse, financial planning is a constant, lifelong process…but it gets easier over time and it gets much more rewarding over time.



1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses. and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**

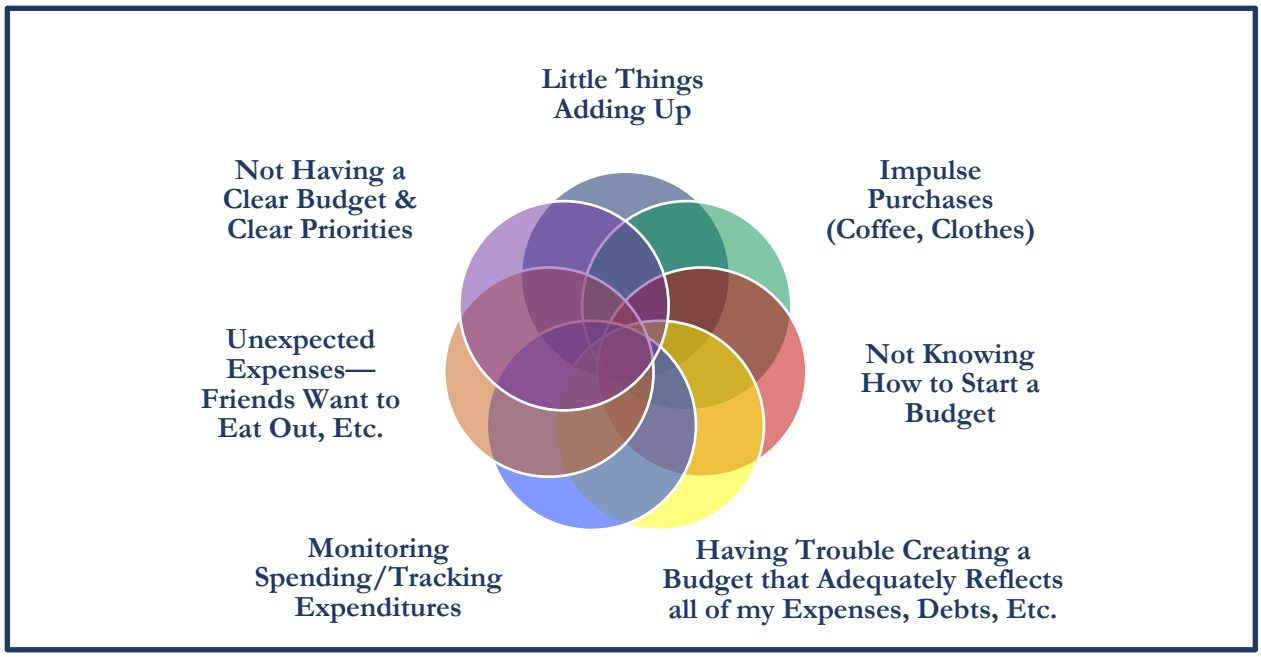
As a college student, this may seem very abstract right now. You may not have any financial goals – you may not even know what financial goals are. That's okay – we're here to help. You will get more and more comfortable with the terminology and the process as you go through this journey. You will do a lot of introspection, thinking about your personal values and your personal dreams. You will do a little bit of math, converting your values, dreams and goals into numbers. You will also be converting your actions and behaviors into numbers. Much of this may be uncomfortable for you – I am always embarrassed to see how much I spend each month on coffee. But dealing with that discomfort is essential for being able to change your behavior and improve your situation.

We will talk about income in the next chapter. You know better than anyone that as a student your income if usually much less than you want it to be. But that will change – both as you discover more opportunities for creating income and as your earning potential increases with your degree and expertise. Be patient yet be persistent. You will get there. You will make your dreams happen.

HAVING THE RIGHT MENTAL ATTITUDE

Here's one more statistic that we didn't include on the list above: only one-third of American adults have a budget or a financial plan. Just by reading this far and doing a tiny bit of thinking about your financial goals and situation, you are already ahead of most people. Congratulations! But you're not done. Our next task will be to begin the financial planning process and to create your financial plan.

But first, let's analyze why you – or the other two-thirds of Americans – have not created a financial plan, yet. What's holding you back? Why haven't you begun to take control of your financial future?



There are certainly other reasons you might include on this graphic – perhaps you've never had to worry about your own finances, perhaps you've never had the knowledge necessary or perhaps you've thought you'd never have enough month to worry about financial planning. One purpose of this book is to help you overcome these barriers. We want to give you the tools and confidence to take control of your financial future – and that journey begins now.

We've already talked about your values and priorities a little bit; we'll return to these concepts throughout this journey. But, the biggest goal of this book is to help you learn – so our next objective is to help you get started in knowing how to create a budget. Once you have a budget, based on your goals and your current situation, and once you start executing your budget or financial plan, many of the other reasons in this graphic will take care of themselves and go away. We will cover budgeting and expense management in Chapter 2.

Having the right mental attitude is essential to financial planning. Earlier, we talked about "mindful decision making." Being mindful about the financial decisions you make is critical to achieving your goals. But financial planning can be much more personal than just being mindful of the decisions we make. For many people, financial planning uncovers deeper issues. That's okay.

That can be healthy. Financial planning is about you and not anyone else. As you go through this journey, please remind yourself of the following bits of advice.

- There is no shame in talking about money. There is no shame in financial planning.
- There is no ego in talking about money. There is no ego in financial planning.
- You will make mistakes. Don't beat yourself up. Move on and improve next time.
- You are not alone. We are all going through similar issues.
- To be vulnerable is to be human. Let yourself be vulnerable. That is how we grow.
- To be resilient is to be human. Challenge yourself to be resilient. That is how we progress.
- You cannot change your past. You can only change your future. Focus on your future.

WHAT ARE YOUR FINANCIAL DREAMS?

We started this journey asking you to think about what you would do if you won $100,000 in the lottery. That's fun – but it's not very realistic (especially since, in Chapter 5, we are going to encourage you to avoid playing the lottery). So, let's finish this chapter by thinking about some more realistic dreams.

Please take 30 seconds to think about this question: What are your financial dreams?

When we think about a vague question like that, we typically think about big, grand ideas: becoming a millionaire, retiring by the time I'm 40, travelling the globe, buying my first house, buying my parents a house, or something less sexy like becoming financially self-sufficient.

Dreams like these are great – don't let go of them. But they aren't particularly actionable – they're vague and it's difficult to develop a plan for how you might achieve them. We will begin developing your financial plan in the next chapter, so let's develop some ideas for what will be in that plan.

Imagine that you were able to save $100 next year – What would you do with that $100?

1. _____

2. _____

3. _____

Imagine that you were able to save $1,000 next year – What would you do with that $1,000?

1. _____

2. _____

3. _____

Imagine that you were able to save $10,000 next year – What would you do with that $10,000?

1. _____

2. _____

3. _____

Don't wait around for other people to be happy for you.
Any happiness you get,
You've got to make yourself.

– Alice Walker

Chapter 1 Summary
Taking Control of Your Financial Future

In the space below, please write down 5 things you learned in this chapter that will help you take greater ownership of your financial future in order to achieve your goals and dreams.

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to take control of my financial future. I hereby pledge to my future self to regularly monitor my financial situation to make sure that what I am doing with my money aligns with my personal values, my financial goals and my dreams for creating a better life for myself.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

CHAPTER 2

BUDGETING:
INCOME, EXPENSES & CASH FLOW

This will be the math chapter. Sorry.

But we have to do some math to figure out how you're going to achieve the financial dreams you identified at the end of the previous chapter.

> *A journey of a thousand miles begins with a single step.*
>
> Famous Chinese proverb (Laozi)

In that last exercise in Chapter 1, you came up with three lists of what you would do with $100, with $1,000 and with $10,000. Take a minute to review those previous lists. Now pick one item from those lists to think about here. And, then fill in the following blanks:

In the next year, I want to save $ _____ in order to _____

_____.

_____.

Now, how are you going to save this money?

In the next year, I want to save $ _____ by doing the following: _____

_____

_____.

Coming up with dreams and goals is the fun part. You're all good at that – after all, you're in college right now because you have big dreams and goals. The difficult part is developing the plan to come up with the money – or time or energy – necessary to make those dreams and goals happen.

This chapter is about that plan – developing a financial plan and a budget to set you on a course to achieve all of your personal and financial goals. This will not be easy. You will have to think about yourself, frequently confronting painful experiences or behaviors. You will also have to think about your future – it's always difficult for anyone to plan for the future because we have no idea what the future will bring. Whenever you face these difficulties, take a deep breath, go for a walk, re-center your mind…and then come back to this exercise and remind yourself that you will be better off after going through this journey. The purpose of this journey is to help you take control of your future. This journey will help you achieve your goals and dreams. I promise you, it will all be worth it.

TYPES OF BUDGET PLANS

If you search for "types of personal budgets," you will find a near infinite number of suggestions. That is obviously overwhelming. However, if you study this plethora of budget plans, you will see that they are all very similar – just will slight differences to help you think about the budgeting process. They all end in the same place – measuring your net cash flow – but they take slightly difference routes to get you there. The math is generally the same – but each helps you think about your income and expenses in slightly different ways.

Regardless of the method, budgeting involves three common steps:

(1) Estimate your income, or what you expect to receive in paychecks and gifts.
(2) Estimate your current and future spending needs.
(3) Subtract (2) from (1) to estimate Net Cash Flow and what you can add to Savings.

We'll introduce just five of these methods here – but please feel free to modify and personalize any of these to better suit your own unique situation:

THE ENVELOPE METHOD

- Identify your main expense categories – food, bills, entertainment, rent, and others.
- Pretend that you put money for each category into its own envelope. If it helps, actually put the cash for each category into an envelope.
- The amount that each category has in its envelope is the maximum you can spend for each category during each period.
- You cannot spend more than what's in an envelope. Once an envelope is empty, you cannot spend any more on that category.
- If you spend less than what's in an envelope, you cannot move or loan funds to another envelope.
- If you have money left in any envelopes at the end of the month, put it into savings. Do not carry it over to the next month.

ZERO-BASED BUDGETING

- Start with your total income, either actual or expected.
- Then allocate every single dollar to some purpose.
  - Essential expenses such as rent, food and phone are easy.
  - Include savings, debt repayment, insurance and investments.
- Your Net Cash Flow – or Income minus Expenses – will always be $0.00 because every penny has been assigned to a specific expense or purpose.

50 / 30 / 20 METHOD

- This is similar to the Envelope Method but with broader categories.
- Allocate 50% of your income to "needs."
- Allocate 30% of your income to "wants."
- Allocate 20% of your income to savings and debt repayment.
- This may be a difficult method while you're still in school and income is low, but it can be a great method after you graduate to take you through your 20s.

PAY YOURSELF FIRST

- This is essentially a reverse budget – where the first item you consider is savings.
- Pick a number that you want to save each month – and then as soon as you get paid, move that amount into your savings account or into investments….pay your future self first.
- Then you can apply one of the other methods for the balance of your budget.
  - You could employ a 20 / 50 / 30 budget, where you start with the 20% being moved to savings, then budgeting for needs and wants.
  - You could move all non-savings funds into their own envelopes – then, at the end of the month, with any remaining cash in envelopes, move that to savings. You may end up moving money to savings twice each month – which is great.
  - You could create a zero-based budget on top of your savings. Again, you might have one line-item devoted to savings here, too, and you could end up saving twice.

THE VALUES-BASED BUDGET

- You first allocate a portion to your essentials: food, rent, phone.
- Then you allocate your income to different values that are important to you: charity, family, friends, health, education, well-being, your future and others.
- This could be coupled with the Envelope, Zero-Based or 50 / 30 / 20 methods, such that your values define the categories. Your values become both "needs" and "wants."
- Be sure to include "your future" as a value – that's where you'll do your saving to help you meet your personal and financial goals.

Which budget approach is best for you? Only you can determine that. But please do something – any budget approach, even an imperfect one, is better than no budget approach. And be patient: start with one approach and you'll perfect your planning over time.

Play around with some of the above methods – try one for 3 months, then try another for the next 3 months, and so on. You'll find the one that works for you, or perhaps you'll create your own based on some of the approaches that you like. We all think and behave differently, we all have different backgrounds and values, and we all have different situations and resources – you have to find or create the budgeting approach that best helps you meet your long-term personal and financial goals.

Keep in mind that NO budget method will help you earn more money, nor will any budget plan magically reduce your spending. Only you can do that. That comes from your values, your behavior and your actions.

BUDGETING 101
INCOME – HOW MUCH DO YOU MAKE?

All of the budget models that we looked at in the previous section have one thing in common: they compare your INCOME to your EXPENSES. Ultimately, that's all that budgeting is – a systematic approach to comparing your Income to your Expenses. If your Income is greater than your Expenses, that's great – it allows you to save today in order to have bigger and better opportunities in the future. If you Income is less than your Expenses, that could be a problem – it forces you to borrow (either from your savings or from a lender); in doing so, you sacrifice a little bit of your future opportunities in order to do something today.

One thing is clear about any budget: If you don't have any income – either today or in the future – you're going to have big problems. So, let's talk about income.

Income, perhaps obviously, is money that you receive or earn. If you have money, you can do stuff – that's how our society works. The more money you have, the more stuff you can do.

Most of you are in college for many reasons, and one of those reasons might be "to earn more" or "to increase your earning potential in the future." Hopefully your experience helps you do that.

For now, think back on the past 2-3 years and identify 5 different sources of income. Write these down in the space below. Don't include dollar amounts, just list the sources – work, family, scholarship. If you've had different jobs, list them separately. Feel free to list more than 5 in the surrounding space if you want to.:

1. _____

2. _____

3. _____

4. _____

5. _____

The purpose here is simply to begin writing down all of your cash inflows and outflows. Your income is an inflow – we'll focus on outflows in a little while.

Think about your next 2-3 years. On the left, list your most likely sources of income, just like you did above. We'll call this your Planned Income. On the right, be creative – think about jobs you've never done or sources of income you've never considered. We'll call this your Possible Income.

PLANNED INCOME	POSSBILE INCOME
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____
4. _____	4. _____
5. _____	5. _____

What did you come up with for your Possible Income? How creative were you? Uber, Lyft, scholarships, work-study, other on campus work, residential advisor, intern, become a tutor, IT consultant (on campus or otherwise – you know more than you may think), freelance writer, freelance photographer, blogger, brand ambassador for the University or for a local business, research assistant, campus tour guide, research study participant, bus driver, landscape maintenance, errand runner.

Perhaps you listed food service or barista in your Planned Income – what about delivering for Waitr or Uber Eats?

Perhaps you listed childcare in your Planned Income – what about senior care or pet care (or even both at the same time)?

Could you share your house or apartment with 1 or 2 more people? That might give you an excuse to spend more time at the library or at work.

Take a minute to think about how often you have to explain to your parents and other family members how to use Facebook, Snapchat, Tik Tok, Twitter, Instagram or anything else – what if you could get paid for this advice? No, your family members might not pay you – but most local business owners are your parents' age and just as needy. Find a business that you like and convince them to pay you to run their social media platforms.

Could you even start your own business? It wouldn't have to be much – turn your hobby into income. You can sell your design creations on Etsy, create your own app, start your own food truck or catering service.

There are many, many opportunities to earn extra cash. You may not be able to pursue them all – perhaps you don't own a car or you live on campus – but you can probably pursue more than you think. And, don't forget about on-campus jobs and opportunities; ask around, because there are probably a lot more low-commitment opportunities to earn a little more cash than most people realize.

BUDGETING 101
CASH TODAY vs. CAREER IN THE FUTURE?

When I was a sophomore in college, I was assigned a mentor for a semester. My mentor was about 30-years old and he had been the quarterback of my university's football team just a few years before, which I thought was pretty cool. He gave me a lot of good advice, but there's one specific piece of advice that he gave me that sticks with me today: at some point you're going to want to switch from having a 'job' to having a 'career.'

The thing about this advice is this: there's nobody in this world who can tell you when to make that switch – not me, not your family, not your boss, not some former-QB mentor guy.

One of the best jobs I had in college was refereeing intramural basketball games – I made $10 an hour for hanging out at the gym and blowing a whistle. It was easy and it paid very well. I never had any desire to make officiating a career, but as a college sophomore I was more concerned about

buying food next week than I was about advancing my career – both because I wasn't sure what I wanted to do with a career, and because there weren't a lot of professional jobs available for a 20-year old college sophomore.

By the time I was a junior, I had a better idea what I wanted to do for a career, and I was able to get a part-time job at the end of my junior year; I continued this internship for 9 months, through the summer and halfway through my senior year. It was decent experience, it probably looked good on my resume and it helped me learn the finance business. But it paid $4 an hour.

The $4 an hour (before taxes) that I was making at this internship did very little to help my financial situation….in the short-term. Given that I still enjoyed eating and doing other college things, I continued refereeing and making $10 a game. Some weeks I would only work 4 games as I didn't have the time to focus on school and the internship and refereeing – but it worked out to be the perfect balance. At the time I needed cash and I needed work experience – now that you are in college, it may be less feasible to take on this kind of extra work. You may already be employed full-time in a career or working toward a job pivot in the near future.
I mention this because many of you will continue to be faced with decisions about supplemental income during your college career. You can make a lot of money waiting tables or bartending; but it may not help your resume look more impressive. Should you take a non-paid internship or should you keep waiting tables? Only you can decide.

Our advice on helping you decide: don't stress about it. Perhaps you can do what I did and take the job that looks good on a resume, while still keeping some hours at the higher-paying job. Keep your options open, keep earning as much money as you can, keep building your future career. You'll know when the time is right to focus on one versus the other.

That same mentor I had when I was a sophomore also gave me one other piece of advice that I've lived by since then: you may not always know what you want to do with your life, but always keep progressing and moving yourself forward. Keep working towards something and you'll be okay.

Effort leads to progress.
Progress leads to options.
Options lead to opportunities.
Opportunities lead to money.

BUDGETING 101
EXPENSES - HOW DO YOU SPEND MONEY?

Now that we've talked about your income options and strategies, and that we've spent some time being mindful about what we value and the decisions we make, let's get to some actual financial decision-making: budgeting our income and our expenses.

First, let's do an exercise, another list. And let's think about your expenses – or the money that you own that you are choosing to give away in exchange for stuff or services.

Take a look at your most recent bank statement or debit card account statement.

List 10 of your most recent purchases here – include the item and the estimated or actual amount:

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____
5. _____ _____
6. _____ _____
7. _____ _____
8. _____ _____
9. _____ _____
10. _____ _____

In this list, you probably have 3 types of expenses:

- Fixed Expenses, or those that are the same every month, like a car payment, rent, gym membership or media subscription.
- Variable Expenses, or those that change from month to month, but always exist, like food, utilities, entertainment and possibly your phone (or maybe your phone is a fixed expense).
- Periodic Expenses, or those that might only happen 1 or 2 times a year, like tuition, spring break and possibly insurance (if you pay it twice a year).

Did you include all of your most recent expenditures in the list above? Go back and make sure.

Now go back through this list and try to come up with 4-6 general 'categories' for each expense. You can make up whatever categories you want, but here are some common ones: food, phone, entertainment, school, housing, charity, gifts, indulgences. Maybe you have 8 categories – that's fine. Write down the category to the left of the number in the list above.

Now let's classify each of these as "recurring" or "non-recurring." Recurring means it's an expense that happens regularly – perhaps weekly, perhaps monthly – and will continue to occur regularly into the future; rent, phone, food might all be recurring. Non-recurring means it's an expense that does not happen regularly; something like tuition might be non-recurring, even though you're likely to be paying it 2-3 times a year until you graduate. Gifts, entertainment, charity and indulgences might all be non-recurring expenses.

As with most exercises in this book, the categories you choose and whether you classify an expense as recurring or non-recurring is entirely up to you. There are no 'right' or 'wrong' responses. The purpose of these categories and classifications is to help you analyze what you are doing with your money. As we go through this chapter, we'll work on being mindful and analytical about how we spend our money, including thinking about expenses as non-discretionary and discretionary or required and optional.

The list above only includes 10 of your most recent purchases. Now let's make another list. Think back to all the purchases you've made over the past 12 months – and list the 5 biggest purchases you've made or expenses you've incurred.

What are the 5 largest purchases you've made or expenses you've incurred in the past year?

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

Again, as we did with the 10 most recent expenses, go through this list of 5 expenses and categorize them into one of your expense categories and classify them as recurring or non-recurring. If you're like most students (and professional adults), most of your largest expenses are non-recurring – but that's up to you to figure out.

So, what's the purpose of these lists?

The purpose of these lists is to help you identify and think about all of the money that is leaving your bank account. You probably work very hard, possibly in a job that you don't love, possibly with a jerk boss who isn't qualified to be your assistant – and you're choosing to give up that money in exchange for all of these purchases.

Is it worth it? Are you getting your money's worth? How important are these expenses?

BUDGETING 101
THINKING ABOUT SPENDING LESS

Let's face it – life is expensive. And being a student can be doubly expensive – because you have to incur certain expenses to further your education AND because being a student takes time away from your ability to work and earn money. That stinks.

But you're in school for a reason – you're in school to advance your social and professional opportunities and to maximize your career options once you graduate from school. You're making a long-term investment: you're making a big sacrifice now in order to reap enormous rewards in the future. You are going to make that investment pay off.

If you want to achieve your financial goals and to save money for your future and to give yourself the most wonderful opportunities in your future, as long as you're still in school and your work opportunities are limited, cutting back on your expenses is probably the best way to save money to help you achieve your financial goals.

So, what can you do to cut back on your expenses?

Take a look at the follow list of money-saving ideas and circle the ones that you realistically think you could do in the next 3-6 months.

Move to a better bank account	Spend your free time volunteering
Give up your television	Avoid the mall
Give up a subscription	Only walk to places within 1 mile
Sign up for free customer loyalty programs	Cancel magazine subscriptions
Always make a shopping list	Eat breakfast
Stop eating out	Eat leftovers
Shop at a thrift store	Bring your lunch to work or school
Shop at a yard sale	Only go to free entertainment events
Stop buying new video games	Take public transportation
Cut your coffee purchases in half	Carpool
Drink more water	Pack food for road trips
Avoid convenience stores	Eliminate cell phone services
Avoid fast food	Eliminate cable services
Avoid alcohol	Spend 10 hours a week at the library
Quit smoking	Learn about employee offers at work
Buy food and staples in bulk	Only drive within 3 MPH of the speed limit
Make a gift for friend or family member	Drive a different route to work
No online purchases	Eat less meat
Cancel unused memberships	Use coupons
Share your dreams with a close friend	Exercise more
Shop for new car insurance	Pay bills online through your bank

Many of these ideas are obvious money savers – using coupons, avoiding fast food, canceling unused memberships. Many others are less direct money savers, where the financial savings come from how you use your time or how you think about money. If you drink more water, you're less likely to drink other beverages that cost more. If you spend more time in the library or volunteering, you'll have less time to spend at the mall or online, where you might spend out of boredom or stress. If you exercise more, you'll also have fewer opportunities to spend out of boredom – and you'll be less stressed and feel healthier….which may make you want fast food less. If you take a different route to work, you might be less likely to stop at a fast food joint less. If you drive slower, you'll save gas and reduce the likelihood you'll get a ticket…keeping your insurance rates lower.

We encourage you to re-visit the above list over the next few weeks or months and re-think where you might be able to save money.

For now, look through all of the items that you have circled and identify the 5 items that you are most likely to achieve in the next 3-6 months. On the following page, write down what these 5 items are and write down how much you'll be able to save each month. If you can't identify 5, just write down the ones you can commit to; but really challenge yourself to come up with 5.

And then once you have your list and have added up your monthly savings, sign the pledge to yourself. Make this a commitment – a commitment to your future self that you are pledging to invest in your future self, starting now.

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

==========

TOTAL MONTHLY SAVINGS **$**

My Pledge to My Future Self:

I hereby pledge to my future self to save the above amount each month, beginning today. These savings are not "found money" and I will not spend it on other items. I pledge to move this amount into my savings account each month. I pledge that I will not touch this money until I have clear long-term plans for how this money will make my life better 5-10 years into the future.

_____ _____

Signature Date

Do you spend money when you're stressed out?

Do you spend money when you're anxious?

Do you spend money when you sad or depressed?

Do you spend money to compete with others?

Do you spend money for status?

Do you spend money to feel in control of things?

As always, there are no 'right' or 'wrong' responses to these questions. If you're like most people, you answered 'yes' to several. And that's okay – as we know from many other emotional situations and perspectives, simply acknowledging that an issue exists is the first step to addressing that issue.

Of course, many of the expenses we incur are necessary for living our daily lives: food, shelter, phone, medicine. And we know that many people respond to temporary emotions by spending money; the cliché "retail therapy" is popular because it's real for many people. This behavioral response to life's issues is not limited to money; many people also eat to excess, drink alcohol or do drugs to deal with personal challenges. While spending money may not have the same physically damaging impact as these responses, it certainly can do damage to your long-term happiness.

It's certainly okay to occasionally spend money on yourself to help you feel better or to celebrate significant accomplishments. Being mindful of what money you're spending and why you're spending that money is the key to determining how much it will affect your future.

One popular model for thinking about the connection between your emotions and your spending habits is the A + B = C model.

+	A	Activating Event
+	B	Belief
=	C	Consequences

The A/Activating Event triggers some emotion, negative or positive. This could be a grade or a relationship or really any thought that leads to you taking some action or making some choices.

The B/Belief represents how that Activating Event makes you feel. The Belief is you internalizing that event and choosing to respond to it in some way. The actual "belief" can represent a thought, an opinion or an expectation. The key is that how we think about the Activating Event leads to some response.

The C/Consequences represents our behavior. It represents the response. The Consequences can be good or bad.

As you think about yourself and your money habits, simply recognizing the A + B = C sequence is the critical first step. When the Consequences are positive, take note of that and try to replicate that feeling and attitude with your future financial decisions. This might be something like rewarding yourself with a nice dinner after getting an A on a Final Exam.

When the Consequences are negative, we want to make the effort to analyze what we are doing and why we are doing it. The A + B = C model might involve the following thought exercises.

1. Identify the A + B = C sequence. Notice what the A/Activating Event was and notice what your emotional response is.
2. Identify that emotional response. What is your instinct to deal with it?
3. Try to figure out the underlying B/Belief that is creating your emotional response.
4. Decide if your Belief is rational or irrational…if it's a reasonable response to the Activating Event of if you are overreacting for some reason. Take a minute to ask yourself if your Belief is logical and if it is helping your get somewhere or accomplish something.
5. Decide what you're going to do the next time you get the negative emotion in order to avoid any negative Consequences. Be specific. Have a plan. Stick to that plan.

The purpose here is not to beat yourself up for having an emotional reaction to a certain situation; the purpose is for you to take control of your emotions and your responses that you can decrease the likelihood that you will experience negative consequences in the future.

Obviously, this model is not specific to money management – but it certainly applies to how you think about your money and how you spend your money.

Here's another challenge for you:

- Once a month, when you're in a calm and balanced mood, go through the past month of expenses.
- Identify which expenses or purchases were emotionally driven. Identify which could fit with this A + B = C framework. (Your cell phone bill is probably not emotionally driven; but some of your food and online purchases might be.)
- Apply the A + B = C framework to these purchases. Analyze them. Identify the Belief and understand why this Belief is triggering some negative reaction.
- Make a plan for not letting a similar Activating Event lead to a negative Belief that triggers negative Consequences for you in the future.

The math of personal financial management and health is relatively simple: spend less than you earn and save or invest whatever is left over. Btu that is much easier said than done – and that's because we are complex human beings with amazing minds and powerful hearts. Our beautiful complexity sometimes gets in the way of us letting managing our finances be as simple as it can be. The good news is that the amazing minds that create some of our problems can also be put to work to alleviate these same problems.

RECOGNIZE — ANALYZE — THINK — PLAN — COMMIT — IMPROVE

Use your amazing mind to take control of your financial planning. Use your amazing mind to own your financial future. Use your amazing mind to give yourself the most incredible opportunities your future self could ever dream of having.

BUDGETING 101
DETERMINING YOUR NET CASH FLOW

Now we can put all this together.

- We've talked about your income, or the money that comes in and adds to your wealth.
- We've talked about your expenses, or the money that goes out and subtracts from your wealth.
- And, we've talked about some mental strategies that you can utilize to try to take the emotion out of financial planning to give yourself a stronger sense of ownership and control over your financial future.

We need to do some math to see what all of this means…about today and about the future.

Ultimately, what we care about is Cash. We've talked about money. Money is our unit of exchange. Money is currency. Money lets us do stuff. Money gives us options and opportunities.

And Cash is what we care about.

We have a very simple calculation for determining changes to your Cash:

+ Total Income that you receive in a month or a year
– Total Expenses that you pay out in a month or a year
= Net Cash Flow

If your Income is greater than your Expenses – CONGRATULATIONS! This can become savings towards options and opportunities for your future self.

If your Income is less than your Expenses – then you have a problem. But this is a common problem for students. There are a number of ways you can deal with this in a given period:

- Borrow from your savings account – save money from positive months for leaner months.
- Find opportunities to increase income (Uber, selling old clothes, part-time job)
- Delay paying certain expenses, while being mindful of any penalties
- Adjust expenses by finding alternatives (free concerts, public transportation, borrow books)
- Do without certain things if absolutely no money is available – this is probably less painful than you think
- Borrow from a bank or other lender – we'll discuss this in the next chapter.

If your Income is less than your Expenses – make a promise to yourself to change this. Make a plan to take actions that either increase your Income or decrease your Expenses.

What can you change?
How can you increase your Income?
How can you decrease your Expenses?
When can you make these changes?

BUDGETING 101
NET CASH FLOW & TRACKING YOUR INCOME & EXPENSES

Having the right mental attitude is critical to managing your financial future. And there's a lot that you can do to think properly about money and to remove any emotions from your financial decision-making.

But financial management involves a lot of math, too. Two will never be greater than three, no matter how awesome your attitude and mental perspective are.

So, let's do some math. You have already done a lot of the hard work in previous sections – you've already gathered and analyzed your recurring and non-recurring expenses. You've thought about what categories you should assign expenses to. And you've thought about some strategies for reducing your expenses in the future.

The last thing we have to do is put all of your income and expenses number together to determine the two most important numbers:

- Your monthly Net Cash Flow
- Your monthly Savings.

You want both of these numbers to be greater than zero. But that might not be the case for you in every month – it's certainly not the case for me in every month. Thus, in addition to just looking at monthly income and expenses, we want to project what these numbers might mean for a full year of income and expenses.

The budget template on the next page asks you to fill in two columns:

(1) Your monthly income and expenses. Go all the way through, including all income and expenses you have for the current month. You can use last month or next month if that makes the numbers easier. And do the math down to the bottom to determine "Net Cash Flow," or Total Income minus Total Expenses.

(2) Your annual income and expenses. For some accounts, this may be as simple as multiplying the monthly number by 12 (like for insurance or phone expenses). But there may be others that are seasonal, increasing or decreasing in certain months. Perhaps your income is highest in summer. Perhaps your school expenses are highest in August and January. Take your time, think through the income and expenses you might have during the next 12 months. You won't be able to get this exact. Don't worry about this. The purpose is to get a good sense of what the next year might look like for you, give or take a few dollars.

    My trick with budgeting is to overestimate my expenses and underestimate my income. This helps me be conservative in my planning – then, when I'm wrong, it will be a nice surprise.

The budget template on the page following that is a little trickier: it asks you to do the exact same exercise for your future self. Try to estimate your annual expenses for 2 years from now, for 5 years from now and for 10 years from now. Sure, the 5 and 10 years from now columns will be huge guesses. But thinking through that now will help you be more thoughtful about your future and your financial goals, especially when we discuss that specifically in Chapter 6.

The Appendix includes these same budget templates for each month; we encourage you to go through this same exercise on a monthly basis to customize your budget for precisely when your income and expenses occur during the year.

	EXAMPLE	THIS MONTH	THIS YEAR
INCOME			
Job #1 -	$ 1,000.00		
Job #2 -	100.00		
Job #2 -	75.00		
Other -	30.00		
Other -	-		
Other -	-		
TOTAL INCOME	**$ 1,205.00**		
EXPENSES			
Savings	$ 25.00		
Rent or Housing	400.00		
School - Tuition & Fees	150.00		
School Supplies	50.00		
Phone Bill	100.00		
Insurance - Car	100.00		
Insurance - Home	25.00		
Insurance - Health	-		
Food - Grocery	200.00		
Food - Restaurants	50.00		
Coffee	25.00		
Subscription #1	19.99		
Subscription #2	9.99		
Subscription #3	9.99		
Clothing & Shoes	-		
Entertainment (music, movies)	25.00		
Gym, Yoga, Fitness	-		
Other -	-		
Other -	-		
Other -	-		
TOTAL EXPENSES	**$ 1,189.97**		
NET CASH FLOW or ADDITIONAL SAVINGS	**$ 15.03**		
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")	**$ 40.03**		

	2 YEARS FROM NOW	5 YEARS FROM NOW	10 YEARS FROM NOW
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

What you just did required a lot of math, a lot of thinking and introspection and a lot of creative thinking. Believe it or not, most human beings – including most adults in America – have never done the exercise you just did…in their entire lives. And this might be one of the reasons so many people struggle with personal financial management (and also why financial issues are frequently cited as the leading causes of stress, divorce and other problems).

Congratulate yourself – Be proud of what you just did!

But don't stop here. Effective financial management is a constant process that will always be with you. The good news is that – like most investments – the more you put into it early in your journey (now), the easier it will get in the future and the less you'll have to worry about it in the future.

Let's review the budgets you just prepared.

What was most the most difficult aspect?

Was the "THIS YEAR" budget easy or difficult?

What did you learn?

What did you learn about your future self – what did you learn with the 2, 5, and 10 years from now budgets?

What plans, goals and dreams did you use in making these budgets?

What problems do you foresee? Do you have persistent negative Net Cash Flow?

What can you do about these problems?

What can you do to increase your Income?

What can you do to decrease your Expenses?

What about your emotional state as you estimated the numbers? Were you anxious? Did you feel shame? Did you feel fear?

Looking back on your budgets, what's your emotional state now?

As always, only you can answer questions about you. But we want to help you answer the last question. It's okay if your Expenses are consistently larger than your Income and you have negative Net Cash Flow. Most students do. Hopefully this exercise helps you feel a little bit of control. Hopefully this helps you feel motivated and inspired to take control of your personal financial situation. Like most problems in life, financial issues won't resolve themselves without you taking them head-on. You're working through this book to better understand what you can do to fix any problems and to maximize your future opportunities.

Relax, keep thinking, keep working and keep making plans to create a better future for yourself.

YOUR FINANCIAL NET WORTH

Accounting…Assets…Liabilities…Financial Statements…Taxes…

If you fell asleep just reading that previous line, you're not alone. Accounting is one of the most challenging pursuits for most college students, for most graduate students and for most adults. That's also why it's one of the most in-demand majors – good accountants will always have job opportunities because they do work that other people hate.

One very valuable service that accounting provides is calculating Net Worth.

Think of Net Worth as your Financial Value – when you hear that someone is a millionaire, it generally means that their Net Worth is a million dollars or more. Your Net Worth is a single number as of a single day – it's a snapshot of your personal financial value as a single point in time.

Calculating your Net Worth can be very simple: we add up the financial value of everything that you own, we subtract from that the financial value of everything that you owe, and then we have your Net Worth.

+	**Assets**	=	**Stuff You OWN**
–	**Liabilities**	=	**Stuff you OWE**
=	**NET WORTH**	=	**Your Financial Value**

Conceptually, that's not that complex – But actually doing the analysis and the math to determine everything you own and everything you owe can get pretty painful pretty quickly.

So, we'll start simple.

ASSETS – The things you OWN are your Assets.

- Your car, phone, computer, clothes, music equipment, furniture, textbooks, checking account, savings account, investments – items like these are your Assets.
- When we determine your Net Worth and your Assets, we generally only consider *tangible* and *monetary* assets – we do not consider things like "intelligence" and "earning potential" or other *intangible* assets.

LIABILITIES – The things you OWE are your Liabilities.

- Your student loan, car loan, credit card balances – items like these are your Long-Term Liabilities. You cannot eliminate them – you have to repay them even if you get rid of the benefit associated with them (such as graduating or selling your car).
- Your phone bill, insurance bill, cable bill – items like these are your Short-Term Liabilities. They exist on a monthly or periodic basis. You could stop them anytime, but then you lose the benefit of the service associated with them.
- We add up your "Long-Term Liabilities" and your "Short-Term Liabilities" to get your total "Liabilities".

Now let's do some math:

Net Worth Activity #1 – If you buy a $10,000 car using $4,000 cash and a $6,000 loan, how much does your Net Worth change?

Answer: Zero dollars, no change in Net Worth (assuming the car is still worth $10,000).

Your tangible assets increased by $10,000 (the car), while your cash (checking or savings) decreased by $4,000 and your Liabilities increased by $6,000 (the car loan). Your Assets increased by $6,000 ($10,000 minus $4,000) and your Liabilities increased by $6,000.

Net Worth Activity #2 – If you take out a $10,000 student loan to pay for the next 12 months of school, how much does your Net Worth change?

Answer: **– $10,000**, Net Worth decreases by $10,000.

Have your tangible or financial Assets increased? No…not yet.
Have your Liabilities increased? Yes, you now owe some lender $10,000 for the student loan.

You think/hope/plan on your education increasing your earning potential or well-being, and you anticipate your future income or happiness being a small price to pay for this loan – but, when you take out the loan, your Net Worth decreases by the amount of the loan. Sorry.

Net Worth Activity #3 – Your employer gives you a $3,000 end-of-summer bonus for all the great work you did. You use some of this bonus to pay-off $2,000 of your student loan and you put $1,000 into a savings account. How much does your Net Worth change?

Answer: **+ $3,000**, Net Worth increases by $3,000.

The value of your tangible assets hasn't changed. But the value of your monetary assets has increased by the $1,000 you put into your savings account. Your Assets increase by $1,000. And your Liabilities decrease by $2,000 after you decrease your loan balance by $2,000.

The morals:

- Increasing Assets is good.
- Increasing What you OWN is good.
- Increasing Assets increases your Net Worth.
- Decreasing Liabilities is good.
- Decreasing What you OWE is good.
- Decreasing Liabilities increases your Net Worth.

Now let's re-visit Net Worth Activity #1. You have a car, that you paid $10,000 for, and you owe $6,000 on the car loan – if you paid $4,000 in cash, has your Net Worth really stayed the same?

Maybe. We all know the cliché that cars lose 10% of their value as soon as you leave the dealer (or whatever number the cliché tells you that you lose).

So, if you paid $10,000 for a car that depreciated in value by $1,000 as soon as you got behind the steering wheel, has your Net Worth really stayed the same?

No, not really. Your Net Worth has actually depreciated by $1,000.

+	$10,000	New Car
–	$ 1,000	New Car Depreciation
–	$ 4,000	Cash Payment for New Car
–	$ 6,000	Car Loan
=	– $ 1,000	Change in New Worth

Most other physical assets depreciate – or lose value – as soon as you take ownership of them: cars, trucks, computers, phones, clothes, shoes and most others. Yes, they still have some value: you could sell them on eBay or Craig's List or in a garage sale at a pawn shop for something. But that "something" will almost always be less than what you paid for them.

This is why we want to be very careful about what we buy and what our expenses are – yes, many expenses are necessary for day-to-day living (phones, food…), but we all make plenty of other purchases that are not essential (wants, not needs) and immediately decrease our Net Worth. New shoes, a fun Friday night and a nice trip make us happy in the short-term – but is that happiness worth decreasing our Net Worth and future well-being in the long-term? You have to decide.

We all have living expenses, some that are essential and some that may be more discretionary. And analyzing these expenses is oftentimes the most painful part of financial planning – but it's where most of us can make the most progress towards our goals. One reason it's the most painful is because expenses – buying stuff – frequently makes us very, very happy. My latte habit makes me smile and makes every morning more productive and enjoyable. But my latte habit takes money away from other activities and goals that may lead to even more productive and enjoyable outcomes.

My latte habit decreases my financial Net Worth. Does it make my life better? Well, only I can answer that (and the answer is 'probably not as much as I think it does').

Now let's switch from my latte addiction to your financial Net Worth. Think of all of the stuff that you own – your car, your computer, your checking and savings accounts, your clothes…everything else. In the table below, list your 5 most valuable assets – the 5 assets that are worth the most.

YOUR TANGIBLE & FINANCIAL ASSETS		
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
YOUR TOTAL ASSETS		**$**

When we make these lists, for now, only lists tangible items, such as cash, investments or anything you could sell online or at a pawn shop. If you have money in a retirement account, either at work or an independent IRA, you can decide whether you include that money in this list. Maybe include it with an asterisk. Yes, the money is yours and it is an asset – but it is restricted. You want to avoid thinking of it as money you can use to buy a house a take a vacation; you want to wait until retirement to touch that cash. But it definitely is an asset that increases your financial Net Worth.

Now let's do the same for everything that you owe – your Liabilities. Think of all of your financial obligations – student loan, car loan, next month's bills …anything else. In the table below, list your 5 most costly or burdensome obligations – the 5 liabilities that are worth the most.

YOUR SHORT-TERM & LONG-TERM LIABILITIES		
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
YOUR TOTAL LIABILITIES		**$**

Now let's calculate your Net Worth – also known to accountants as Equity. Take the amounts from the two tables above, subtract your Liabilities from your Assets to determine your Net Worth.

+	**Your Assets**	=	_____
–	**Your Liabilities**	=	_____
=	**Your Net Worth**	=	
=	**Your Financial Value**		

What's the number? Are you a millionaire, yet?

No? That's okay – just keep working. Keep working to make it happen.

Is your Net Worth positive? If so, that's great. Keep working to increase it.

Is it negative? That's okay – that's normal for college students and graduate students. If your Net Worth is negative, what are you going to do about it? Can you reduce your expenses? Can you increase your income which can help you increase your savings? Will your salary increase once you graduate? How long will it take you to get your Net Worth to be positive?

This last question may be very abstract right now – it's okay if your answer is "I have no idea." But one of the goals of this book is to help you come up with a plan for increasing your Financial Value and your Net Worth. By the time you get to the end of this book, your goal should be to come up with a financial plan for your future – for both the short-term (the next 1-2 years) and for the long-term (the next 3-5 years.

Hope is beautiful and is an essential part of us being human. But hope is not a strategy – you need to develop a strategy that will help guide your financial future. Develop a plan to own your financial future….starting right now. Please use the following table to more formally calculate your Net Worth to help yourself think about your future financial strategy. Returning to this table and exercise several times a year is a big part of a long-term financial strategy – and a big part of you achieving all of your personal goals and dreams.

YOUR NET WORTH

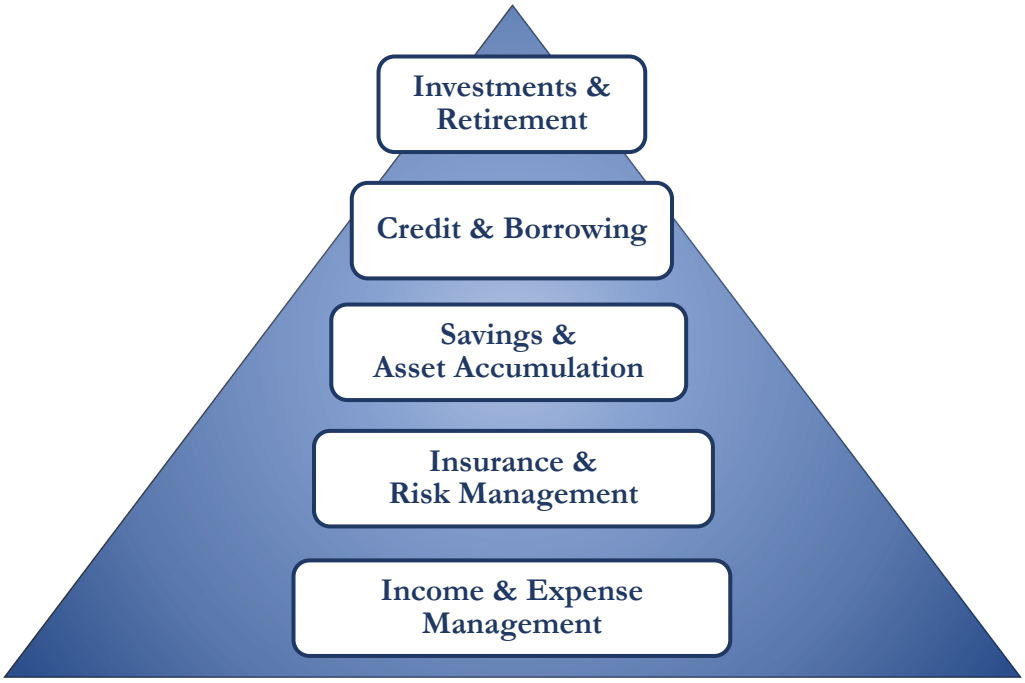
Statement of Financial Position
aka Personal Balance Sheet

ASSETS		**LIABILITIES**	
Checking Account	$	Credit Cards	$
Savings Account	$		
Other Bank Accounts or CDs	$	Auto Loans	$
		Student Loans	$
Investments	$	Property Loans	$
Retirement Funds	$	Other Loans	$
Personal Property		**Total Liabilities**	**$**
(Value is market value, not original cost)			
Home	$		
Cars or Trucks	$		
Jewelry	$		
Household Items	$		
Computer, Phone & Technology	$		
Musical Equipment	$		
Clothing & Shoes	$		
Other Personal Property	$		
Total Assets	**$**		

NET WORTH & EQUITY	
+ Total Assets	$
- Total Liabilities	$
Current Net Worth	**$**

THE PLAN FOR THIS BOOK

By now, you've pretty well figured out what the plan for this book is – to help provide you with the knowledge, skills, perspective and confidence to take control of your financial future. We have already talked a fair bit about how your personal values, your future goals and your behavior impact your financial well-being. That is pretty much the plan for the entire book.



In this first chapter, we've focused on how your values and goals interact with your income and expense management. In the next chapter, we'll focus on borrowing money (to help you pay for your goals) and debt management. We start with these two chapters because they focus on issues that all people – and especially collge students – need to manage. In Chapter 4, we'll talk about building wealth – via savings and investing – in order to give you the means to finance all of your future hopes and dreams. Building wealth may not be a priority for you just yet, as your focus is on paying for school, getting through class and managing your expenses; but we want to get you thinking about Saving and Investing to help you see how much you can change your future by developing habits that help you save in your teens and early-20s rather than waiting until you're over 30 to do so. From there we'll focus on a few special topics that you'll want to think about before too long – like insurance, retirement and home ownership – even if they seem completely unrelated to your financial life right now. That's okay – read, think, learn and dream, and you will be well prepared to take control of those issues before they take control of you. And then in the final chapter, we'll tie everything together, revisiting many of the themes we've covered in this chapter – such as values, behaviors and goals – and then using that as a launching pad to help you achieve all of your personal dreams and financial goals into the future.

There are no 'right' or 'wrong' answers to most of the issues in this book. Financial planning is about you, about your situation and about your goals. Yes, this will require you to think creatively about both your present and your future – but that's okay. That's how you make dreams come true.

And, as we've already mentioned, just by getting to the end of this chapter, you've already done more financial planning than most people twice your age have done in their entire lives. That's quite an accomplishment. Congratulations.

Be proud of yourself – but don't stop here. Keep reading, keeping thinking and keep planning. You'll thank yourself later…when the work you put in today leads to new options and opportunities that you'd never imagined yourself having just a few years in the future.

Relax, have fun, and enjoy this journey.

CHAPTER 2 SUMMARY
COMMIT TO IMPROVE YOUR FINANCIAL FITNESS

In the space below, please write down 10 commitments that you will be willing and able to make over the next 12 months to improve your income and expense habits.

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

Chapter 2 Summary
Budgeting: Income, Expenses & Cash Flow

In the space below, please write down 5 things you learned in this chapter that will help you increase your Net Cash Flow, either by increasing your Income or decreasing your Expenses

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to continuously work to increase my Net Cash Flow. I pledge to make the sacrifices necessary – over both the short-term and the long-term – to increase my Income and decrease my Expenses in order to increase my Net Cash Flow and my future opportunities.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

CHAPTER 3

BORROWING & DEBT MANAGEMENT

When people pile up debts they will find difficult and perhaps impossible to repay, they are saying several things at once. They are obviously saying that they want more than they can immediately afford. They are saying, less obviously, that their present wants are so important that, to satisfy them, it is worth some future difficulty. But in making that bargain they are implying that when the future difficulty arrives, they'll figure it out. They don't always do that.

Michael Lewis in *Boomerang*

Let's start this chapter with a couple quiz questions:

Assume you graduate with $10,000 in student loan debt. You are paying 5% annual interest on this debt. Assume you make monthly payments for the next 10 years and completely pay off this debt.

During these ten years, how much interest will you pay:

(A) $231.95

(B) $1,268.41

(C) $2,727.86

(D) $12,392.84

For these 120 months, you will send a payment to your bank or lender. If you make the exact same payment each month, that payment will be $106.07. The bank will take this $106.07 and apply some of it to the interest that you owe – 5% each year – and some of it to your principal balance. Your principal balance is $10,000 when you graduate, but it will decrease each month as you repay a little bit of it. As the amount that is still outstanding decreases, the amount of interest that you owe will decrease, too – so each time you make a new payment, you will be paying less-and-less interest and more-and-more of the outstanding principal balance. Of course, if you miss a payment, your balance will increase and you will end up paying more interest on the balance…and then interest on that interest.

If you make payments of $106.07 each month for the next 10 years, your total payments will be:

$106.07 x 12 = $12,727.86

Since the total amount that you borrowed was $10,000, we can subtract this amount from the total amount that you paid of $12,727.86 to find that the difference of $2,727.86 represents the total amount of interest that you paid during these ten years to repay your student loan. Thus, the correct answer to our first quiz question is (C) $2,727.86 of interest.

Let's try a similar but slightly different quiz question:

Assume you graduate with $10,000 in credit card debt. You are paying 18.99% annual interest on this debt. Assume you make monthly payments for the next 10 years and completely pay off this debt.

During these ten years, how much interest will you pay:

(A) $231.95

(B) $1,268.41

(C) $2,727.86

(D) $12,392.84

Common sense tells us that the answer is (D) $12,392.84 of interest. If the answer to the first question was $2,727.86 when the interest rate was only 5%, the answer to this question has to be higher since we now have a much higher interest rate of 18.99%.

And common sense is correct: In order to pay off your credit card debt of $10,000 over the next 10 years, you will have to make monthly payments of $186.61. During these 10 years, you will make total payments of $22,392.84 in order to pay off your $10,000 balance – the difference of $12,392.84 is the amount of interest that you paid on your loan. Is that worth it to you?

GOOD DEBT vs. BAD DEBT

When finance people say "debt" they are referring to borrowing money – money that will have to be repaid. And we frequently refer to debt as either "good" or "bad."

Perhaps the math problems in the previous section highlight the difference between "good debt" and "bad debt." Intuitively, you probably recognize the student loan as "good debt" and recognize the credit card debt as "bad debt." But what makes that so?

Technically, there's no specific difference – it's simply a subjective interpretation.

- Does the debt change your life?
- Does the debt give you greater earning power?
- Does the debt help you cover life-threatening emergencies?
- Does the debt allow you to invest in something you wouldn't otherwise be able to?
- Does the debt help you increase your net worth or future net worth?

If you answered "yes" to these questions, then you're talking about "good debt." Student loan debt accomplishes all of the above, except perhaps the life-threatening emergencies. Some other examples of "good debt" might include a mortgage on a house, a small business loan and maybe a home-equity line of credit (but perhaps not – more on this in Chapter 4).

A couple more questions you should ask yourself are these: What sacrifices and opportunities are associated with the debt? Are the opportunities more valuable than the sacrifices? When the opportunities created by the debt are greater than the sacrifices associated with the debt, you're probably talking about good debt.

"Bad debt" is typically directly tied to "wants" rather than "needs." We all have many, many wants that we think would change our lives – we see celebrities driving their fancy cars and wearing amazing clothes; we all dream of traveling the world, having lots of toys and living a life of luxury and pleasure. But, unfortunately, we cannot all do that. Sometimes life stinks. And most of us have to work really hard just to get by from day-to-day. None of us are entitled to living a life of luxury and pleasure – most of us have to earn it. And earning it typically involves delaying gratification, sacrificing many wants today, waiting for that life of luxury and pleasure, and figuring out what is really essential in life and what is not necessary at all. "Bad debt" typically involves enjoying today and enduring some hardship in the future.

Think of the math problems we did to open this chapter. Let's analyze these.

If you borrow $10,000 for your education, and you end up paying a total of $12,727.86, are you okay with that? Think about this another way: What if you had $25,000 of cash in your bank account – would you be willing to pay $12,727.86 cash for your education? That's over half of your cash. The answer is probably yes – because that education is likely to increase your net worth and future earning potential by way more than $12,727.86 (plus all of the intangible benefits you get with higher education, like knowledge and friends and purpose). Your student loan is probably "good debt."

Now what about the $10,000 you put on your credit card? The question doesn't specify what you bought with this $10,000, but let's assume it's the same stuff most people put on their credit cards: nice clothes, cool shoes, lots of really fun Friday nights, an enormous TV and a few really fun trips. In the end, after you're done paying off this loan, you will have spent $22,392.84 for all of this stuff…even though the price was only $10,000. If you had $25,000 of cash in the bank, would you spend over 90% of that cash for these cool shoes and fun trips that are only worth $10,000? You're probably shaking your head "no" right now; that's what I'm doing. I certainly don't want to sacrifice an additional $12,392.84 of my future to buy this stuff today. I can wear my ugly shoes and take a simple road-trip to the beach. When you buy $10,000 of short-term wants and end up paying over $22,300 for them, that's "bad debt." It's might make today more fun, but it can destroy your future.

There are some types of debt that might be somewhere between "good" and "bad." What if you have to put your school textbooks on a credit card? If that's the only way you can buy those books that are essential elements of investing in your future, then even that credit card debt might be good. What about a car loan? If you buy in a 1966 Mustang that will only go up in value, then it's good debt. If you buy a low-priced, possibly used, economy car that's essential for you to get to work or take care of your family, then it's probably good debt. If you buy a tricked out jeep or sports car just for fun, when you could have spent $10,000 less to satisfy your needs, then that's bad debt.

The key difference is "needs" vs. "wants." Good debt pays for needs, bad debt pays for wants. And you're smart – you know what the difference is between needs and wants.

STUDENT LOANS & FINANCIAL AID
THE NITTY-GRITTY OF THIS KIND OF GOOD DEBT

The best investments I've ever made have been to invest in myself and in my education. My undergraduate degree and my graduate degrees enabled me to obtain jobs that I would not have been eligible for without those degrees. Those jobs led to more opportunity and more money.

But paying for my education was not easy. I was fortunate: my parents contributed to my undergraduate degree. But I did work part-time through both undergraduate and graduate schools and I took out student loans. One of the happiest days in my financial life was the day I entirely paid off my college student loans – I was 29 years old and on my way to even more professional responsibility and freedom.

Paying for college is rarely easy. Many students will earn scholarships and stipends to cover some of the cost. Some students are fortunate to have family members help cover some of the cost. But, for the rest of us, we have to rely on a mix of sources – family, work and loans. In this section, we'll talk about student loans and financial aid – but we want to remind you that this information is general information that may or may not apply to you. Please stay in constant contact with your financial aid advisors – both on campus and with your lenders – to fully understand your financial aid rights and responsibilities. We all have different situations and different needs; only you can completely understand your situation. Be proactive and take control.

Entire books have been written about this process and about helping you find the best programs and loans for you. We are not going to attempt to do the same here. What we talk about here will be specific to Federal Student Loan Programs – the general ideas will apply to other types of student loans (such as private lender loans), but the specific policies will certainly differ.

What do you do first?

The first step in the federal financial aid process is to review and complete the FAFSA – the Free Application for Federal Student Aid (available at fafsa.gov). From this, the federal government will create your Student Aid Report (SAR). This will summarize the information you included on your FAFSA and will put it in a standardized format. The SAR *will not* tell you how much financial aid you are eligible to receive; only your school can do that.

How much do you need to borrow?

While you may think the answer is "everything," the Federal Loan Program and your school will use the following calculation to determine the "need-based" financial aid you are eligible for:

+ COA = Cost of Attendance
– EFC = Expected Family Contribution
= Financial Need

Each school is responsible for reporting its Cost of Attendance (COA). For students attending school for half-time or more, the COA is the estimate of tuition, fees, room, board, books, supplies, transportation, loan fees, and other miscellaneous expenses (including computer needs, childcare, disability-related costs and study-abroad costs).

Each individual will determine their own Expected Family Contribution (EFC). This calculation will be determined based on the information on your FAFSA and SAR. Your family's income, your family's taxes, your family's assets and your family's benefits (such as social security and unemployment) are the primary factors that determine your EFC.

Need-based aid includes Federal Pell Grants, other Federal grants, Federal subsidized loans, Federal Perkins loans and Federal work-study. Each of these has different terms, different eligibility requirements and different repayment responsibilities. Talk to your financial aid office about the details of each and what you might be eligible to utilize.

Beyond "need-based" borrowing, each student is eligible to apply for "non-need based aid."

- Direct unsubsidized loan
- Federal PLUS Loan
- Teacher Education Access for College and Higher Education (TEACH) Grant

+ COA = Cost of Attendance
– Financial Aid Awarded So Far
(includes all sources: school, scholarships, other…)
= Eligibility for Non-Need Based Aid

Note that non-need based aid is not based on any Expected Family Contribution (EFC). Thus, you may be able to obtain non-need based aid to replace contributions from family members, lessening the overall burden for you and your family – though perhaps only in the short-term.

With only a few exceptions, all loans you obtain through financial aid – whether federal, state or private, need based or non-need based – must be repaid. As we will talk about shortly, the good news is that you typically pay lower interest and you have a variety of flexible repayment methods. In the following chapter on Savings & Investment, we will talk about how great compound interest is – your interest earns interest, which you get to keep. That's really cool – for saving and investment. It stinks when you're a borrower – because you have to pay interest on your interest. This is true for student loans, just as it is for all other loans.

This discussion applies to all students, whether undergrad or graduate students. However, things can be a little different for students in graduate school. As many of you well know, there are a number of significant differences between obtaining financial aid or student loans as a graduate student relative to obtaining aid as an undergraduate student. If you go on to graduate school, be sure you understand that the student loan rules and opportunities will be different – and likely more restrictive – for you.

The following table gives you some idea of what the full, true cost of your student loan will be over the complete term of repayment. This tables provides a variety of common student loan balances, five reasonable interest rates and three possible repayment terms of 5, 10 and 20 years.

Total Amount You Will Repay On Your Student Loan

Assume You Pay Off Your Student Loan in: 5 years

Your Interest Rate	Student Loan Balance $5,000	$10,000	$20,000	$30,000	$50,000
4%	$5,525	$11,050	$22,100	$33,150	$55,250
5%	$5,661	$11,323	$22,645	$33,968	$56,614
6%	$5,800	$11,600	$23,199	$34,799	$57,998
7%	$5,940	$11,881	$23,761	$35,642	$59,404
8%	$6,083	$12,166	$24,332	$36,498	$60,829

Assume You Pay Off Your Student Loan in: 10 years

Your Interest Rate	Student Loan Balance $5,000	$10,000	$20,000	$30,000	$50,000
4%	$6,075	$12,149	$24,299	$36,448	$60,747
5%	$6,364	$12,728	$25,456	$38,184	$63,639
6%	$6,661	$13,322	$26,645	$39,967	$66,612
7%	$6,967	$13,933	$27,866	$41,799	$69,665
8%	$7,280	$14,559	$29,119	$43,678	$72,797

Assume You Pay Off Your Student Loan in: 20 years

Your Interest Rate	Student Loan Balance $5,000	$10,000	$20,000	$30,000	$50,000
4%	$7,272	$14,544	$29,087	$43,631	$72,718
5%	$7,919	$15,839	$31,678	$47,517	$79,195
6%	$8,597	$17,194	$34,389	$51,583	$85,972
7%	$9,304	$18,607	$37,214	$55,822	$93,036
8%	$10,037	$20,075	$40,149	$60,224	$100,373

There are many advantages or benefits to using federal financial aid to finance your education:

- The interest rate is usually much lower than you would get on credit cards or private loans. The interest rates in the above table are reasonable student loan rates as of mid-2020.
- You don't need a credit check or family co-signer on most federal loans.
- You don't have to begin repaying your loans until you finish your degree or drop below half-time.
- If you demonstrate need, the government will cover the interest on some loans while you're in school and for some time afterwards (except for federally unsubsidized loans for grad students).
- If you repay your loans responsibly, it will increase your credit score and improve your borrowing opportunities for the future.

There are also two more big advantages that we'll discuss in a little more detail here: (1) federal student loans offer a number of flexible repayment plans, and (2) if you go on to pursue select professions, the government will forgive some or all of your federal student loans.

Federal Student Loan Repayment Options

The good news is that the Federal Student Loan Program offers a significant number of repayment options on how you can choose to repay the loans that you obtain for school. The (potentially) bad news is that not all borrowers and loans are eligible for each of these options. Before you get too excited about any of the below repayment options, you should do your research on the Federal Student Loan Program's Loan Simulator and you should talk to your campus financial aid office.

With that bit of advice, here are some the different repayment plans available for some loans:

Standard Repayment Plan

- Payments are a fixed amount each month and your loans should be repaid within 10 years.
- This is the model that has been used in all examples in this book.
- This will usually have the lowest overall cost over the life of the plan – because it has the least flexibility…and we always have to pay for flexibility in finance.
- This plan is not a great option for students who will be seeking Public Service Loan Forgiveness (PSLF), discussed below.

Graduated Repayment Plan

- The "graduated" does not refer to your status in college but refers to how repayments are made.
- You will make smaller payments initially – presumably as your income is lower – and the payments will increase over time, typically every two years within a 10-year period.
- This is not a great option for students who will be seeking PSLF.

Extended Repayment Plan

- Payments may be fixed – as with the Standard Plan – or variable – as with the Graduated Plan – to ensure that your loan is paid off within 25 years.
- Your monthly payments will be lower than with either of the above options, but you will pay more total overall interest during the life of the loan, making the total cost higher.
- This Plan is not eligible for Public Service Loan Forgiveness.

Pay-As-You-Earn Repayment Plan (PAYE)

- Your monthly payments are 10% of your discretionary income, which is a calculation based on your salary and the cost of living where you reside – but it will never be more than you would have paid under the 10-years of the Standard Repayment Plan.
- Payments are recalculated each year, based on your income and your family size – because your spouse's loan balance might be combined with yours.
- If your loan is not fully repaid within 20 years, it is forgiven. Gone. Written off.
    - But you will probably owe income tax on the amount of loan that is forgiven.
- This Plan is a good option if you are seeking Public Service Loan Forgiveness.

Revised Pay-As-You-Earn Repayment Plan (REPAYE)

- Your monthly payments are 10% of your discretionary income, which is a calculation based on your salary and the cost of living where you reside.
- Payments are recalculated each year, based on your income and your family size – because your spouse's loan balance might be combined with yours.
- If your undergraduate loan is not fully repaid within 20 years or your graduate loan is not fully repaid within 25 years, it is forgiven. Gone. Written off.
    - But you will probably owe income tax on the amount of loan that is forgiven.
- This Plan is a good option if you are seeking Public Service Loan Forgiveness.

Income Contingent Repayment Plan (ICR)

- Your monthly payment will be the lesser of:
    - 20% of your discretionary plan; or,
    - The amount you would pay on a standard plan over 12 years, adjusted annually as your discretionary income may change.
- If your loan is not fully repaid within 25 years, it is forgiven. Gone. Written off.
    - But you will probably owe income tax on the amount of loan that is forgiven.
- This Plan is not eligible for Public Service Loan Forgiveness.

There are other options, most similar to the above, with minor adjustments, such as when you received your loan or how your file your taxes (single or married). The entire repayment process can get pretty overwhelming very quickly with all of the various differences between programs.

As always, only you can determine which plan is best for you based on your income situation, family situation and personal preferences. Here are a few reminders to sort things out:

- Flexibility is never free. It may be necessary, but you will pay for it.
- You will pay interest. And, you will pay interest on the interest. If you graduate with $30,000 in student loan debt – which is about the average in the U.S. – and have a 6% interest rate, you will make payments totaling $39,769 if you repay in 10 years and you will make payments totaling $51,326 if you repay in 20 years. Again, flexibility can be expensive.

If you've learned nothing else in this chapter, you should know that not all debt is created equal – there's good debt and bad debt. We generally think of student loan debt as good debt because it enables you to have more career options and higher salaries than you otherwise would have had without the loan – it did so for me. However, while the loan provides you with this wonderful opportunity, it is your responsibility to turn your education into the best investment you've ever made. And some – but certainly not all – of that will relate to the career you follow after graduation.

Student Loan Forgiveness for Certain Careers

Despite what you may hear from commentators and cynics, the government does make a lot of investments in the future of its citizens. These investments can create new and amazing opportunities for you and your future.

One of these future-focused investments is the lower interest rate on subsidized student loans the government offers to millions of Americans. But, for many Americans, it goes even one step further: if you choose a career that the government deems public service, the federal government will forgive a portion or all of your student loan debt.

- **Teacher Loan Forgiveness** – If you teach full-time for 5 consecutive and complete academic years in a low-income elementary school, secondary school or educational service agency (like a regional school district), you may be eligible to receive either $5,000 or $17,5000 of student loan debt forgiven.
    - If you are a math, science or special education teacher, you might be eligible for $17,500 of loan forgiveness.
    - Other teachers might be eligible for $5,000 of loan forgiveness.
    - Note – if your loan is in default or you have not been making the required payments during those 5 years of teach, you might not be eligible for loan forgiveness.

- **Public Service Loan Forgiveness** – If you are employed by a federal, state, local or tribal government, and you have made 120 qualifying payments on your loan (10 years), then you may be eligible to have the remaining balance on your student loan forgiven.
    - If you work for a qualifying non-profit organization, you might be eligible.
    - If you are serving with AmeriCorps or the Peace Corps, you might be eligible.
    - If you work for labor unions, partisan political organizations, for-profit government contractors, and some religious organizations you might not be eligible.
    - Amounts forgiven are not considered taxable income, so you will not owe income taxes on any forgiven loans.

Note that this is just a summary of the programs and primary conditions – be sure to read the fine print and consult a financial aid advisor to better understand that advantages and disadvantages to each of these programs.

Should you choose your career based on the potential ability to have your student loan forgiven? As always, only you can determine that. We generally advise that you should choose the career that provides you with the most joy and purpose. Most of you will be spending then next 30-40 years in your chosen career, and this career will hopefully bring enormous joy and purpose to your life. Can you put a price or value on that joy and purpose?

CREDIT CARDS
SELLING YOUR FUTURE TO PAY FOR TODAY

First and foremost, when you receive a message or letter telling you that "You've been pre-approved for our credit card!", that does not mean you're special. You've only been pre-approved because

they want your money. They want to take advantage of you. They do not want to help you and they do not want to be your friend. Ignore it. Shred it. Throw it away.

The term "credit" is one of the most common terms in finance. When someone – a store or a bank or a credit card – gives you "credit," they're giving you money – or, they're loaning you money that you have to pay back….with interest.

The words "credit" and "interest" sound like good things – in most uses, they are good things. A professor might give you credit for writing a great paper. You might take an interest in someone at a party. You might earn interest on your savings account.

But, in finance, these words can be super dangerous – and that's how lenders get you! These words should come with a warning; instead they are used to entice you into buying stuff today…in exchange for paying a lot more in the future.

We have already talked about good debt and bad debt. We have already determined that most credit card debt is bad debt. We have already looked at some of the numbers about the true, full cost of using a credit card.

If you're not scared straight yet, keep paying attention.

Let's assume you have a great deal and your credit card company is only charging you 15% interest. This 15% number is called the "Annual Percentage Yield" or APR. For each $1.00 that you put on your credit card, you will be paying $0.15 additional per year in interest. And, if you don't pay off your credit card at the end of the year, you will pay $0.15 for each dollar still on your balance in each subsequent year.

What does that mean? It means that, if you pay off that $1.00 in 5 years, the total cost to you of that $1.00 purchase will be $1.43. Imagine you buy a $5.00 latte with your credit card – if you take 5 years to pay that off with your credit card, you will have paid $7.14 in total.

How does that feel – is a $5.00 latte really worth $7.14?

Maybe you still think it is. Okay, what if you find some shoes online that cost $100. Maybe they're on sale and you're getting a great deal. But, if you put that on your credit card and take 5 years to pay for them, that "great deal" will end up costing you $143. Not such a great deal anymore.

And these numbers get even more painful if you take longer to repay. If you take 10 years instead of 5 years to pay for your $5.00 latte, the true, full cost will end up being $9.68. Those $100 shoes will end up costing you $194. You get to keep shoes worth $100 and the bank gets $94.

The tables on the following page show you the true, full cost of paying for a purchase with your credit card assuming different credit card balances and different interest rates, assuming you repay over either 5 years or 10 years.

What is the Full, True Cost of Using a Credit Card

Assume You Pay Off Your Credit Card in: 5 years

Annual Percentage Rate (APR) that the Bank or Lender Charges You	Amount You Put on Your Credit Card				
	$10	$100	$1,000	$5,000	$10,000
6%	$11.60	$116	$1,160	$5,800	$11,600
7%	$11.88	$119	$1,188	$5,940	$11,881
8%	$12.17	$122	$1,217	$6,083	$12,166
9%	$12.46	$125	$1,246	$6,228	$12,455
10%	$12.75	$127	$1,275	$6,374	$12,748
11%	$13.05	$130	$1,305	$6,523	$13,045
12%	$13.35	$133	$1,335	$6,673	$13,347
13%	$13.65	$137	$1,365	$6,826	$13,652
14%	$13.96	$140	$1,396	$6,980	$13,961
15%	$14.27	$143	$1,427	$7,137	$14,274
16%	$14.59	$146	$1,459	$7,295	$14,591
17%	$14.91	$149	$1,491	$7,456	$14,912
18%	$15.24	$152	$1,524	$7,618	$15,236
19%	$15.56	$156	$1,556	$7,782	$15,564
20%	$15.90	$159	$1,590	$7,948	$15,896

What is the Full, True Cost of Using a Credit Card

Assume You Pay Off Your Credit Card in: 10 years

Annual Percentage Rate (APR) that the Bank or Lender Charges You	Amount You Put on Your Credit Card				
	$10	$100	$1,000	$5,000	$10,000
6%	$13.32	$133	$1,332	$6,661	$13,322
7%	$13.93	$139	$1,393	$6,967	$13,933
8%	$14.56	$146	$1,456	$7,280	$14,559
9%	$15.20	$152	$1,520	$7,601	$15,201
10%	$15.86	$159	$1,586	$7,929	$15,858
11%	$16.53	$165	$1,653	$8,265	$16,530
12%	$17.22	$172	$1,722	$8,608	$17,217
13%	$17.92	$179	$1,792	$8,959	$17,917
14%	$18.63	$186	$1,863	$9,316	$18,632
15%	$19.36	$194	$1,936	$9,680	$19,360
16%	$20.10	$201	$2,010	$10,051	$20,102
17%	$20.86	$209	$2,086	$10,428	$20,856
18%	$21.62	$216	$2,162	$10,811	$21,622
19%	$22.40	$224	$2,240	$11,200	$22,401
20%	$23.19	$232	$2,319	$11,595	$23,191

Is it really so important that you have to have that latte or those shoes that you're willing to give the bank that much money?

Is it really so important that you have to have that latte or those shoes that you're willing to give up a big chunk of your future earnings to pay for them?

How much of your future are you willing to give up in exchange for something today? How much pain are you willing to endure in the future in exchange for a little pleasure today?

What are the morals here?

- Try to only use your credit cards for "needs" and not "wants."
- Find the best interest rate possible.
- As with any debt, repaying sooner rather than later is always better.

Now, credit cards don't have to be dangerous, under 1 big assumption: If you pay off your credit card balance at the end of each month, you can turn using your credit card into a positive strategy.

Why? Because credit card companies don't make you pay immediately – they end your "billing cycle" on a certain date, typically the end of the month, and then give you a few more weeks before expecting repayment. This grace period can be very beneficial to you.

- Imagine buying those $100 shoes on June 5th.
- The credit card company may end your cycle on June 30th and send you a bill or statement at that time.
- You might be expected to pay your bill on or around July 25th.
- Thus, you bought something on June 5th but didn't pay for it until July 25th – that's 50 days.

These numbers and dates are made-up but they are typical. Your experience might be slightly different, but you can count on similar types of windows and obligations. If you pay off the entire $100 bill on July 25th, you've just taken a 50-day, interest-free loan from your credit card company – Congratulations! But, of course, if you don't pay the balance in full on July 25th, then you start owing interest (and, in most cases, the credit card company will start that interest-meter on June 30th, not July 25th…and then you start selling your future needs to pay for your present wants.

Does your credit card allow you to take cash advances? If so…NEVER EVER use this option!

Cash advances are the most dangerous of all credit card features. They function kind of like making a purchase with a credit card, but they have even more levels of danger.

- You may be charged fees – similar to the $3.00 or $4.00 fee at an ATM, except these fees may be much larger, as high as $10 or even 1% of your cash advance for larger amounts.
- Interest begins accruing immediately and not at the end of the billing cycle. Thus, if you take a $100 cash advance on June 5th instead of buying the $100 shoes, the credit card company starts the interest-meter on June 5th, not on June 30th as it does for normal purchases.
- Most credit card companies charge a much higher interest rate on cash advances than on purchases. My credit card charges me 15.99% on purchases and 24.99% on cash advances. If I take a cash advance of $100 and pay it off over 5 years, the true, full cost will be $176 and not $143.

What about penalties? Yes, that's right – credit card companies love to make you pay penalties. When you receive your monthly statement, the credit card company will indicate a "Minimum Payment Due." This is, perhaps obviously, the minimum amount you must pay by the due date to avoid a penalty. If you do not make this payment, then you owe a penalty – frequently 25% or 40% of the minimum amount due. Do everything possible to avoid ever missing a minimum payment due so you never have to pay this penalty.

Finally, what about annual fees? Many credit cards charge you an annual fee simply for the privilege of using their card.

NEVER EVER pay an annual fee on a credit card! There are hundreds or thousands of credit card options available. You can certainly find one that does not make you pay an annual fee. Find one.

Note – for some businesses, there are credit cards that have unique benefits, such as purchase insurance or fraud protection; it may be worthwhile to pay an annual fee to get these benefits in some rare cases, but it will almost never make sense for individuals.

You may have noticed that I referenced "my credit card" above. That's right, I have a credit card. In fact, I have three. I use one for automatically paying my recurring bills – utilities, cable, phone. I use another for periodic discretionary purchases, like a latte. And, I use the third for big non-recurring purchases, such as airplane tickets. I do this to make budgeting easier and to assign my purchases to different accounts in my mind – even if all 3 cards are tied to the same checking account. For how my brain works, this makes sense. This process helps me with the accounting and it prevents me from running up large balances on any single card without knowing what those actual purchases are for. For many people, having and using 3 credit cards would be very dangerous because they would run up balances on each without knowing what they're doing. If you are one of these people, do not use more than 1 credit card….out of sight might be out of mind, but it will still accrue interest.

Finally, to assure you that I am not being a hypocrite as I simultaneously warn you about using a credit card and tell you about my own credit card usage, here are a few more ways I use my cards:

- I have been using credit cards for more than 25 years and I have never paid an annual fee.
- I have never paid any interest on credit cards – for over 25 years, I have paid off the entire balance on each due date ("Minimum Payment Due" means nothing to me – I always pay the "Statement Balance").
- I have never taken a cash advance from a credit card.

I'm not going to tell you to never use a credit card. But, as with everything, you have to understand both the advantages and disadvantages associated with using one. If the disadvantages and risks are greater than the advantages, then don't use one. Only you can determine how your mind works and any risks associated with your behavior – and only you can determine if having a credit card is too dangerous for you.

Banks and credit card companies have beautiful offices and buildings. That's good for them – but, I don't want to pay for those offices.

YOUR CREDIT SCORE: ONE OF THE STRANGEST & MOST IMPORTANT NUMBERS IN YOUR FINANCIAL LIFE

Let's start with three simple "yes" or "no" questions:

(1) Have you ever heard of a "credit score?"

(2) Do you have a clue where it comes from?

(3) Do you know how important it is?

We're going to assume that your answers to questions (2) and (3) are "no." We're here to help.

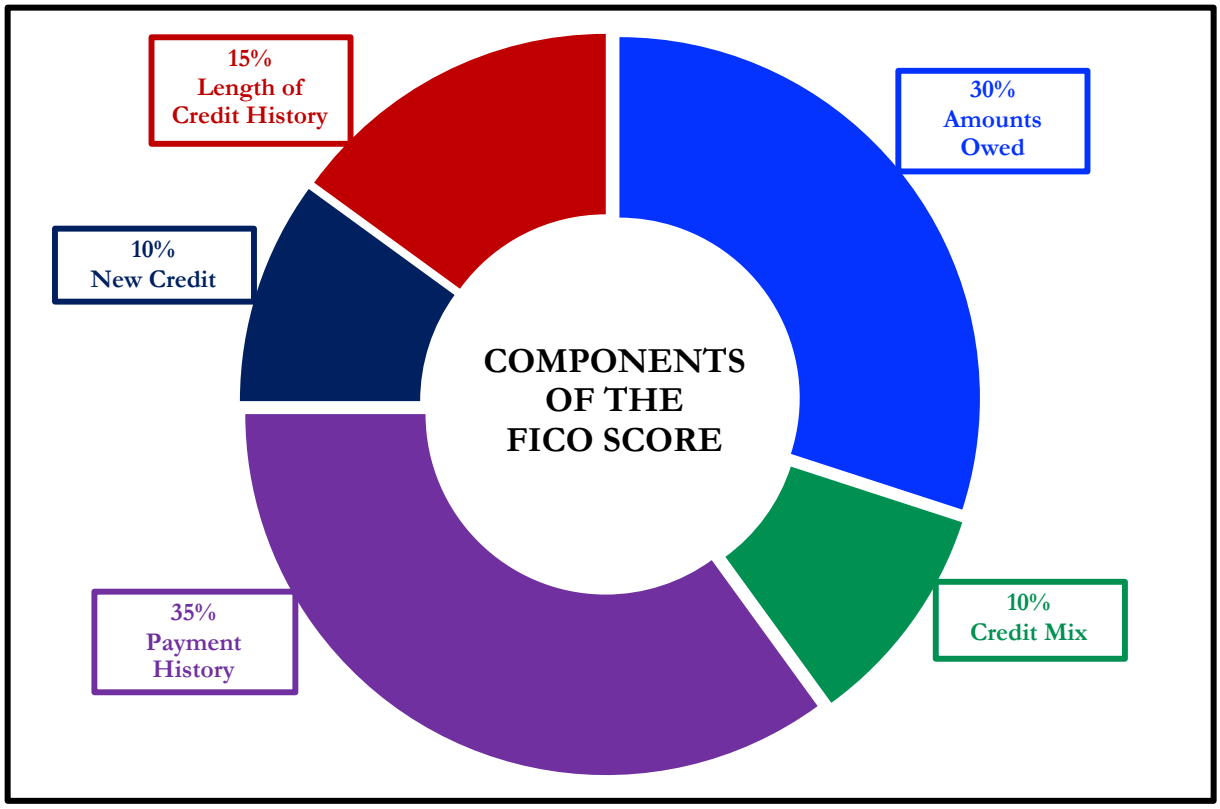
But first, a little history. Borrowing has not always been easy for all people. Prior to the 1950s, banks and other lenders were very particular about which individuals and companies they lent money to. Many of these practices were racist and sexist. Many of these practices were based on relationships and not necessarily on the ability of a potential borrower to repay. Government regulators and many lenders were eager to create a uniform, objective and consistent process to evaluate a potential borrowers' ability to repay. Two individuals, Bill Fair and Earl Isaac created such a process in the late 1950s – they named their company "Fair Isaac Company" and they called their product the FICO Score. After a while of fine-tuning their scoring system and working with lenders and regulators to establish its objectivity, the FICO Score became widely used during the 1970s. Its use continued to expand and by the early 2000s it became the gold standard around the world for lenders to determine whether or not a potential borrower is worthy or borrowing money – and to help lenders determine what interest rate to charge a borrower.

That's both good news and bad news. The good news is that we have one global standard, that is relatively objective, for evaluating whether or not an individual is a high risk or a low risk. Using one single number eliminates much of the objectivity from the lending process. The bad news is that this one single number is far from perfect as it can be systemically biased. Does your SAT or GRE score properly convey how intelligent you are? No, of course not. But universities use them more than any other number to determine whether or not to admit you – perhaps because it's easy for them, perhaps because they haven't found anything better. The same logic applies to your FICO Score – it's not perfect, it does have some biases, and it does have some weird features. There's no way that it can fully and accurately represent your ability to repay a loan. But, like it or not, it's the best we have and almost every lender uses it.

Note – There are other credit scores out there. The FICO Score is not the only one that exists. But it is the most popular, used by over 90% of lenders. Thus, while what we talk about here is specific to the FICO Score, the general principles apply to the other scores in use, too.

So, how is your FICO Score determined?

There are 5 distinct, mostly objective, categories that the FICO Score includes.



What does each category mean? Let's evaluate them:

35% Payment History – This is perhaps this simplest category, as it looks at how well you repay all borrowed amounts on credit cards, retail accounts, auto loans, utilities and phone bills, other installment loans and other debts. The better you are at repaying, the better your Payment History. Pay your bills on time.

30% Amounts Owed – The amount you owe is not simply about how much money you owe, but it's also about how much of your available credit you use. If you have a credit card limit of $5,000 and your balance is $4,000, that's worse than having a limit of $20,000 and a balance of $10,000. There are many trade-offs within this category and it can be confusing. Owing a larger amount can be helpful to your Score if you always make the required payments. – this indicates good credit behavior.

15% Length of Credit History – This is also pretty simple – the longer your history of paying bills and loans, the better off you'll be. Yes, this does bias against younger borrowers – but if your behavior in the other categories is strong, you should be okay. Be patient – you'll build your history.

10% Credit Mix – Perhaps ironically, it can be better to have 5 different accounts that you repay regularly than it is to have just 2 different accounts. The greater the variety of accounts you have, the more opportunity you have to indicate that you are a low credit risk. Of course, if you have 5 accounts and you miss your payments, that will be doubly bad. Pay your bills on time and the Credit Mix will take care of itself.

10% New Credit – Opening a large number of new accounts in a short period of time may indicate that you are a higher risk. So, is the moral to never open new accounts? No – because then you can never indicate that you are a low risk. Be mindful of opening too many accounts in a short period of time, pay all your bills on time, and the New Credit category will not be a big issue.

So, are you more confused now than you were two pages ago? That's okay – this is a very confusing and seemingly contradictory number. How are you supposed to indicate that you are a low risk if you can never get credit to be able to repay your bills?

Do not fret – there will always be small, incremental ways that you can indicate your ability to repay your bills. Always pay your phone bill; always pay your utility bills; always pay your insurance bill. Get a credit card while you're a student and intentionally only put $25 or $50 a month on it, repay it at the end of the month and that will look great to your credit score.

This is very much similar to all of the job postings many of us see that advertise something confusing like "Entry Level Position – Experience Required." How can you gain any experience if every position already requires experience? Everything you do can count and give you credit towards building your credit – be consistent, pay all of your bills on time, be patient and your FICO Score will slowly improve over time.

There are many paradoxes here.

- Having more credit can be a good thing – but only if you repay.
- Using your parents' credit can be a good thing for now – but it won't help you build your credit history.
- Using a credit card can be dangerous – but it may be the best way to demonstrate your ability to repay your debts and be a low-risk borrower.
- Credit costs are higher for higher risk borrowers – which makes them even higher risk in the future.
- You have to have credit to establish a good credit history – but you may not be able to get credit without a decent credit history.

Is it confusing? Yes.
Is it meant to be confusing? Possibly.
Is it biased? Possibly.

But it is reasonably transparent and there are certain rules-of-thumb that we can all use to increase our credit score: pay all bills on time, be consistent with all payments, be conservative and mindful of opening new accounts

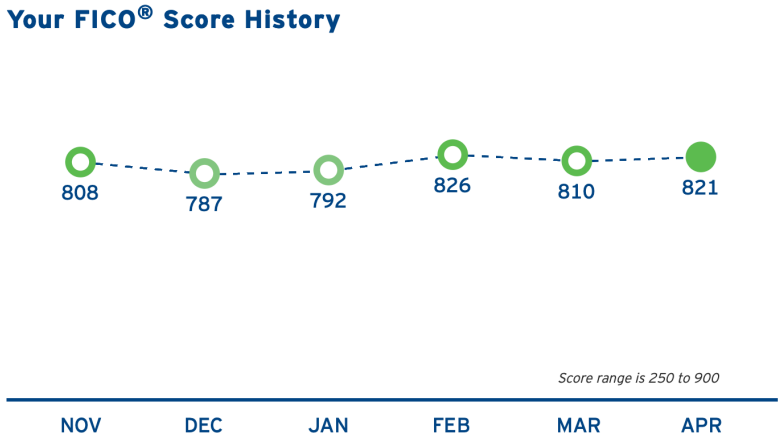
Ultimately, your FICO Score will become an actual number – between 250 and 900. Why those ranges? Who knows? It doesn't matter. What matters is how your Score compares to different risk levels. The average FICO Score for Americans is just over 700. The average in Louisiana is 677, the second lowest in the 50 U.S. states; only Mississippi has a lower average FICO Score. Your job is to help us change this – work to improve your credit behavior and help Louisiana's average FICO Score improve to being above the average.

The specific Score is what matters, but there are five general levels or categories of Scores that you should be aware of:

Below 580	**Poor, or High-Risk**
580-669	**Fair, or Moderate Risk**
670-739	**Good, or Average Risk**
740-799	**Very Good, or Low Risk**
800-900	**Exceptional, or Very Low Risk**

In case you're curious, below is a six-month graphic of my FICO Score. You'll notice several things.

- It's currently Exceptional…but it's far from perfect. That's okay – because the above paradoxes make it very difficult to know how to make it perfect. And, at this level, there's no financial benefit to making it better.
- It has varied quite a bit over the past six months – decreasing around the holidays as I made more credit card purchases…even though I paid every balance in full, without incurring any interest costs or penalties. In reality, I was not a higher risk.
- Even when it dropped down below 800, it didn't matter. I didn't pay more on my car loan or on my credit cards.



Do I care what my FICO Score is? Yes, a little, but I don't obsess over it. I don't really care if it's 787 or 821 – even at 787, it's good enough. There's no additional benefit to me to getting it higher – and I have no clue what I should do to make it higher. It might become a concern if it dropped below 700 and I tried to take out a new loan for a car or a house – then I might have to pay a higher interest rate. And it would certainly be a concern if it dropped to below 600, in which case I might be denied credit or I might have to pay a much higher rate.

If your FICO Score is below 600, you definitely want to take steps to improve it. The above graphic showing the 5 components of your Score can help you find a few ways to improve your Score.

So, what's the moral to you? Establish a credit history, pay all your bills on time, work to get your FICO Score up above the average of 700 and everything will take care of itself. You can always check your Score to see where it is, and if you ever get concerned you can contact one of the three credit bureaus – Experian, Equifax and TransUnion – to get your credit report, which is the primary resource for calculating your credit score. If you see anything on your credit report that is not yours or is wrong, you can appeal to the bureaus and work with them to have it corrected. Be responsible, be proactive, and, as always, take control of your financial future and you'll be better off for it.

MAKING DECISIONS ABOUT PAYING DEBT

Back in Chapter 1, we asked you what you would do if you won the lottery. Let's try that exercise again, but now with different numbers and different options.

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $10,000.

What would you do with that $10,000? Please rank the following 4 things:

1. Spend the $10,000 on a trip around the world _____
2. Spend the $10,000 on a home entertainment system _____
3. Put all $10,000 in a savings or investment account _____
4. Pay off $10,000 of high-interest rate debt _____

If you've been paying attention throughout this chapter, hopefully you would pay off the debt first. It is the biggest burden on your life – both today and in the future. Paying it off, getting rid of that burden, will free you up to begin working towards your goals and dreams – without worrying about increasing interest rates or debt collectors. As you'll learn in the next chapter, your second choice for putting the $10,000 should be to put it in savings. When you deposit money into a savings account, it earns interest; and if you leave it in the account long enough, the interest earns interest, which is like free money to you (that's called "compound interest;" stay tuned for more on that).

Nothing in this book can guide you on whether a trip around the world or a home entertainment system if a better use of your lottery winnings. You have to decide that yourself. But we do know you shouldn't do either until you've paid off your debt and at least established a savings account.

Now let's look at that $10,000 of debt that you're paying off a little more closely:

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $10,000.

You've decided you're going to pay off $10,000 of debt with your winnings. Very smart.

Which debt would you pay off first? Which debt would you pay off last? Please rank the following 4 types of debt in terms of which you would pay off first:

1. Student loan debt with an annual interest rate of 5% _____
2. Credit card debt with an annual interest rate of 18.99% _____
3. A finance company or pawn shop loan charging 3% per month _____
4. An auto loan with an annual interest rate of 7.50% _____

By now, you've probably noticed that many of the activities in this book do not have 'right' or 'wrong' answers. That's intentional – many finance decisions are situational and personal.

But this one is not situational or personal. This one absolutely has 'right' and 'wrong' answers.

What's the right answer or ranking for paying off these 4 different types of debt?

#3 should be paid off first. It has the highest interest rate (36% per year) and it probably has the highest potential 'other costs,' such as someone coming to physically collect the debt.

#2 should be paid off second, simply because the interest is so high. Pay off your credit cards every month to avoid the high interest rates, plus any late fees or maintenance fees.

#4 should be paid off third. This is actually a form of 'good' (or at least 'decent' debt). The rate isn't super high, and with an installment loan like this, assuming you make regular monthly payments, you can establish good credit history and increase your credit score.

#1 should be paid off last. The student loan has the lowest interest rate and the most negotiable repayment terms. You should pay it off eventually, but other debt may take priority. Making regular payments can help improve your credit score, which is a good thing.

If you said you should pay off the student loan before the auto loan, that's okay. That can be a personal decision. Yes, the auto loan has the higher interest, but it also has a shorter term. Seeing this shorter term may help make the end real for you. For many people, there can be something very empowering about retiring debt – and this empowerment can gain momentum and inspire you to completely pay off other debts.

By now you've also probably learned that personal finance is both a math game and an emotional or mental game. Maximizing the opportunities you create for yourself through financial planning requires doing the math on some different options, but it also requires you managing your emotions to best align your action and behavior with your short- and long-term goals. Retiring an outstanding debt can be one of the most powerful personal finance investments we can make. It gives you control. It gives you confidence. It gives your plan purpose. And all of those are very good things.

FINISHING HOW WE STARTED
HAVING THE RIGHT ATTITUDE ABOUT DEBT

Michael Lewis is one of the best modern day finance writers. He writes stories and books about really big finance issues in ways that are readable and enjoyable for even the most novice student of finance. And the reader always learns something from his books.

His book *The Big Short* about the 2008 Financial Crisis was turned into a wonderful movie (of the same name); if you haven't seen the movie, it's a great way to better understand one of the biggest shocks to the financial systems in history (your parents, bosses and professors lived through this Crisis, and seeing this movie might help you better understand their boring stories about how that Crisis changed their lives forever).

He followed that with a book titled *Boomerang*, which was a simple and brilliant study of how five different nations dealt with the 2008 Financial Crisis and the following turmoil the hit each country in the following years. One of the biggest causes of the Crisis was debt: money that individuals, companies and nations borrowed, with the obligation to pay it back in the future, hoping that that borrowed money would change their futures. Lewis ends the book with the quote at the beginning of this chapter – as a warning to people to be mindful and careful about how we borrow money. Good debt can be great, bad debt can be disastrous. We have to know the difference.

> ***When people pile up debts they will find difficult and perhaps impossible to repay, they are saying several things at one.***
>
> Our actions reveal our values. We'll talk about this a lot in Chapter 6. When you borrow money, you are telling the world about your values.
>
> ***They are obviously saying that they want more than they can immediately afford.***
>
> We have to borrow because we can't afford something. If we're borrowing for good debt, that's probably fine; if we're borrowing to indulge and live a life we haven't earned, then that could lead to serious problems.

They are saying, less obviously, that their present wants are so important that, to satisfy them, it is worth some future difficulty.

We are saying we are willing to trade current wants or needs for future sacrifices. The "some future difficulty" represents what we'll have to sacrifice. If we bought $10,000 of wants with our credit card, we're saying we're willing to sacrifice an additional $12,300 of future earnings in order to enjoy that $10,000 today. That's obviously a very, very large sacrifice.

But in making that bargain they are implying that when that future difficulty arrives, they'll figure it out. They don't always do that.

Where are you going to get that additional $12,300 from in the future in order to pay off today's $10,000 of fun? "Oh, I'll find the money – I'll figure it out." With your student loan, you have a clear plan and path towards figuring it out: the degree will help you get a much better job that you would otherwise have, and you'll be able to pay off your student loan with your increased income. That makes sense. But is spending $100 on a fun Friday night worth paying $223 for that night over the next 10 years? Where are you going to get that additional $123? Will that fun night increase your earning power? It's easy to say that you'll figure it out in the future – but that can be very difficult in reality. Be careful.

Use debt very wisely and very cautiously. You are in college to change your life. Debt can also change lives – for the better or for the worse. You're smart. You know the difference between "needs" and "wants." Use this knowledge to make smart decisions about using "good debt" and "bad debt."

Chapter 3 Summary
Borrowing & Debt Management

In the space below, please write down 5 things you learned in this chapter that will help you more effectively utilize borrowing and debt in order to achieve your goals and dreams.

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to take manage how I use debt today and in the future. I pledge to minimize the bad debt I incurs that will compromise my future. I pledge to be mindful and strategic about the good debt I use and to have a plan for how good debt will help me achieve my goals and dreams.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

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CHAPTER 4

SAVING & INVESTING

Let's start this chapter with a few quiz questions – these are easy questions because there's not really 'right' or 'wrong' answers; please just pick the answer you prefer based on your own situation or preferences.

#1 Which would you rather we give you:

(A) $100 in cash today
(B) $100 in cash in 12 months

#2 Which would you rather we give you:

(A) $100 in cash today
(B) $500 in cash in 12 months

#3 Which would you rather we give you:

(A) $100 in cash today
(B) $120 in cash in 12 months

#4 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $1,000,000 in cash in 12 months

#5 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $5,000,000 in cash in 12 months

#6 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $1,200,000 in cash in 12 months

These questions are designed to get a sense of your risk tolerance. Financial management is about making trade-offs, usually between benefits today vs. costs in the future or costs today vs. benefits in the future. Much of what finance does is put a price on time – the finance industry is built around trying to structure investments that satisfy people's preferences and risk tolerance over time.

When you deposit $100 in a checking or savings account at a bank, that makes the bank happy. Now the bank has an additional $100 that it can use to make a car loan or a student loan or a credit card loan – and, as we all know very well from the previous chapter, the bank is going to charge us interest on that loan. The bank can do this because money is limited and it is doing us a favor by giving us that loan – so we have to pay for that favor.

Of course, your $100 deposit is valuable to the bank. You shouldn't be giving your money to the bank and doing it a favor without you charging the bank for giving it the ability to use your money. Thus, the bank is (usually) going to pay you some interest on your $100 deposit. If you have money deposited in any bank, savings and loan or credit union account and they are not paying you interest, you might want to look for another place to store you money – your money is valuable, both to you and to any financial institution, and that institution should be paying you for you doing it a favor.

But what's the right rate for the bank to pay you to use your $100 deposit? And what's the right rate for the bank to be charging individuals and companies that borrow from it?

Determining the right rates to charge on everything is very complex – but, in general, it's about opportunities and risk. What other opportunities do you have to use your $100? What other loans could the bank be making? What is the risk of the bank not repaying you're your $100? What is the risk of a student not repaying its student loan to the bank?

While we said that there are not any 'right' or 'wrong' answers to these six questions above, there are some questions that have some responses that most people will have in common.

Questions #1 and #4: Most of you probably answered (A). If you have $100 today, you can spend it, use it, save it, invest it and enjoy it. Why would you wait 12 months for that $100? Most of us wouldn't – and there's usually no great reason to wait.

Question #2: Most of you probably answered (B), suggesting that you would be willing to sacrifice a little bit in the short-term – give up $100 today – to earn a much great reward in the not-too-distant-future - $500 in just 12 months. That's a sacrifice most of us would be willing to make.

Question #5: In theory, the answer should be identical to your answer to Question #2. The only difference is that the numbers are much bigger, exactly 5 times bigger. But these bigger numbers make it feel like you're making a much bigger sacrifice. The idea of getting $5,000,000 in 12 months is super-exciting…but the idea of giving up $1,000,000 today might feel very painful, much more painful than just giving up the $100 you had to give up in Question #2.

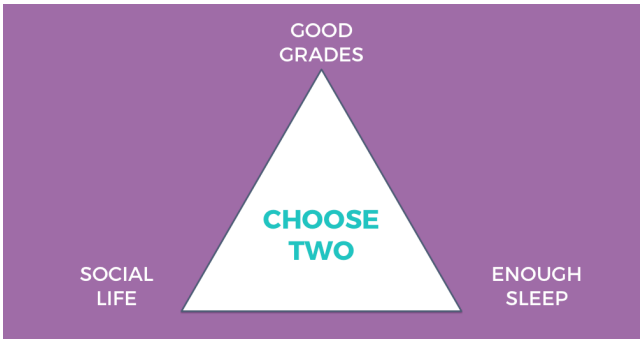
Questions #3 and #6: These are the tricky ones. Here the reward-to-sacrifice ratio is much smaller, and we have to think harder and maybe do some math to figure out whether we prefer (A) or (B). There really is no way of knowing – or of us telling you – which you should prefer.

And this reward-to-sacrifice ratio is what saving and investing are all about.

Let's focus on Questions #3 and #6 and think about all of the questions you might want to know before deciding whether you'd prefer (A) or (B). Here are some of the things I need to know:

- What can I do with the $100 or $1,000,000 today?
- Do I have any immediate needs in the next 12 months – school tuition, medical expenses, food – that I cannot otherwise afford?
- If I take the $100 (or $1,000,000) today and invest it and earn 21%, then I will have more than $120 (or $1,200,000) in 12 months. Can I find an investment – with a similar or lower amount of risk – where I can earn 21% or more?
- Can I borrow money today and pay less than 20%? If I borrow $100 today, owing 10% interest, repay ($100 x .10) + $100 = $110 in 12 months, my net profit is $10 cash.
- What is the likelihood that the payer will still be able to pay in 12 months? Can I trust them to make that payment in the future?

Certainly, there are other issues you might be concerned about. We all have different situations and different issues that we might need to think about. The point of this is to highlight the notion that financial planning – and finance in general – constantly involves tradeoffs between the present and the future. This is not new to you – college is all about making sacrifices and determining tradeoffs.



Nothing is free. If you want something in the future, you have to give up something today. If you want something today, you have to sacrifice something in the future. We can guide you on the math and concepts that might help you figure out what tradeoffs make sense, but ultimately only you can decide what your immediate needs are and what risks you're willing to take.

For me? With Question #3, I would definitely wait for the $120 in twelve months – that's a 20% return and I'm unlikely to earn that much elsewhere. And the $100 is a small enough number that it's not going to change my life significantly. With Question #6, I would probably wait for the $1,200,000 in twelve months. That's still a 20% return that I would be unlikely to earn elsewhere – but $1,000,000 today is a big enough number that it might change my life significantly. Maybe I can take care of my parents with it; maybe I can start my dream business; maybe I can give a big portion to charity and change lives; maybe I can retire. It might not be logical, but if it makes sense to me an aligns with my values, then taking the $1,000,000 today makes sense. The decision – always – comes down to making the trade-off between now and the future. When and how do I benefit the most?

SAVING & INVESTING
WHAT'S THE DIFFERENCE?

Before we continue with numbers and math and thought exercises, let's take a break and go through some conceptual definitions. You may be confused by the terms "saving" and "investing." That's understandable – this book was written by a finance professor who is occasionally sloppy with differentiating between the two terms. And I apologize for that.

At a fundamental level, there isn't much difference. The money belongs to you, and you give it to some financial institution to hold for you, and that institution may or may not pay you some interest or return in the future.

SAVING

- The money belongs to you.
- Done at a bank or credit union through deposited money.
- Risk – very, very low risk. The U.S. government guarantees all savings deposits up to $250,000. That is, if your bank goes bankrupt, your deposited money is still safe.
- If you deposit $10,000 into a savings account, it will always be worth at least $10,000. You can go to the bank and withdraw your $10,000 whenever you want.
- Interest Rates (or, rates of return) – Typically relatively low, because the risk is typically relatively low. Historically, savings rates have been between 2-4% per year. Since the 2008 Financial Crisis, savings rates have been much lower, between 0-1% per year.

INVESTING

- The money belongs to you.
- Typically done in the stock markets through a broker or agent. "Investing" can also refer to owning real estate or other creative assets, like Bitcoin or rare art.
- Risk – can range from pretty low risk to extremely high risk. In finance, "risk" refers to certainty or uncertainty of future returns. With investing, nothing is guaranteed. Some investments are relatively safe and have a consistent, but low (4-6%) annual return. Other investments are much more speculative with much more unpredictable returns.
- Losing all of your money (-100%) is a possibility; so is doubling (+100%) or tripling your money (+200%). Historically, publicly traded stocks in the U.S. have averaged 10-12% annual returns over the past 100 years. Will that continue? Maybe – but nobody knows.

  During the COVID-19 public health and economic crisis of early-2020, many stocks experienced unprecedented and extraordinary returns during a very short period of time. Tesla, the well-known automaker, saw its stock price fall by 63% in one month, followed by a 150% increase in the next month. That's a whole lot of risk, volatility and uncertainty.

- If you invest $10,000 today, it may or may not be worth $10,000 tomorrow. The value could go up or the value could go down. Over the last 100 years, on average, the value of investments has increased by 10-12% each year. Out of these 100 years, investments have increased in value 75% of the time and have decreased in value 25% of the time. Investments have increased in value over the long-term but have occasionally decreased in value from year-to-year. That's risk, volatility and uncertainty.

What will the future hold for saving and investing? Nobody knows. Perhaps the only thing that we do know is that lower risk investments typically have lower returns, and higher risk investments may lead to higher returns in the future.

So, are saving and investing the same thing? Yes, essentially. Whether you "save" or "invest," the money still belongs to you and you typically control it. The interest or return you receive will likely be determined by where you store that money and how much risk you're willing to take.

SAVING & INVESTING
WHAT'S THE DIFFERENCE – IN NUMBERS

Now let's take a quiz on the difference between saving and investing.

Imagine that you save $1,000 a year for the next 40 years. You deposit this money in a traditional savings account at a bank. The bank pays you 3% annual interest on your savings. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $1,000 a year for the next 40 years. You decide to invest it in a well-diversified stock market fund. This fund will earn an average annual return of 10%. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $5,000 a year for the next 40 years. You deposit this money in a traditional savings account at a bank. The bank pays you 3% annual interest on your savings. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $5,000 a year for the next 40 years. You decide to invest it in a well-diversified stock market fund. This fund will earn an average annual return of 10%. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

If you look at the possible answers in the four questions above, you'll see that they are the same. So those of you that are skilled with multiple-choice questions will be able to narrow down the options by comparing across the four questions.

- The first question has the smallest savings amount ($1,000 per year) and the lowest interest rate (3% per year) of the four, so it must have the lowest dollar amount in 40 years. Thus, (A) $75,401 must be the answer to the first question.

- The last question has the largest savings amount ($5,000 per year) and the highest interest rate (10% per year) of the four, so it must have the highest dollar amount in 40 years. Thus, (D) $2,212,963 must be the answer to the first question.

  Like any good multiple choice exam, it's impossible to use common sense to decide between the second and third questions and (B) and (C). So, you either have to solve the problem or guess. I'll save you the trouble:

  (B) $ 377,006 is the answer to the second question, with $1,000 per year at 10%
  (C) $ 442,593 is the answer to the third question, with $5,000 per year at 3%

  For our purposes, it doesn't matter if you got any of the answers correct, though hopefully you now see why (A) and (D) make sense.

The purpose of these questions it to highlight how much better off you can be by saving a little bit more and by looking for savings accounts or investments that pay a higher interest rate. And the purpose is to get you to think about what it will take to achieve certain financial milestones.

Is it easy to save $1,000 a year? That's $83 per month. That might seem impossible for you now as your school expenses take priority. But once you graduate, you should be earning more income and you'll have fewer school expenses. It might not be possible now, but it should be possible soon.

Is it easy to save $5,000 a year? That's $4167 per month. Obviously, that's much more difficult. But, again, once you graduate and are earning a regular income, you might be able to employ some of the money-saving strategies introduced in Chapter 2 to help you save more as you earn more. (As a student, you're probably living a very low-expense lifestyle. Now imagine that you're earning $20,000 more per year than you're earning now; if you can maintain your current student very low-expense lifestyle for the next 10 years, saving $5,000 per year will be much easier than it seems right now.)

Is 3% a realistic interest rate to earn on a savings account? Maybe not. As of mid-2020, most savings accounts are earning less than 1%. But, historically, 2-4% has been the average interest rate paid out on savings accounts – so maybe there's hope that you'll be able to average a 3% interest rate on your savings accounts over the next 40 years.

Is 10% a realistic return on investments? Possibly. Historically, over the past 100 years, 10% has been the average return investors have earned by investing in the stock market. We will talk more about this and possible returns later in this chapter. But it's certainly possible to average 10% during the next 40 years until you retire.

The following table compares how much you'll have saved by investing anywhere from $1,000 to $5,000 per year for the next 40 years at a variety of different interest rates. The four answers to the multiple-choice questions above are highlighted simply for comparison purposes.

How Much Will You Have By Saving or Investing Annually for 40 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year $1,000	$2,000	$3,000	$4,000	$5,000
1%	$48,886	$97,773	$146,659	$195,545	$244,432
2%	$60,402	$120,804	$181,206	$241,608	$302,010
3%	$75,401	$150,803	$226,204	$301,605	$377,006
4%	$95,026	$190,051	$285,077	$380,102	$475,128
5%	$120,800	$241,600	$362,399	$483,199	$603,999
6%	$154,762	$309,524	$464,286	$619,048	$773,810
7%	$199,635	$399,270	$598,905	$798,540	$998,176
8%	$259,057	$518,113	$777,170	$1,036,226	$1,295,283
9%	$337,882	$675,765	$1,013,647	$1,351,530	$1,689,412
10%	$442,593	$885,185	$1,327,778	$1,770,370	$2,212,963
11%	$581,826	$1,163,652	$1,745,478	$2,327,304	$2,909,130
12%	$767,091	$1,534,183	$2,301,274	$3,068,366	$3,835,457
13%	$1,013,704	$2,027,408	$3,041,113	$4,054,817	$5,068,521
14%	$1,342,025	$2,684,050	$4,026,075	$5,368,100	$6,710,125
15%	$1,779,090	$3,558,181	$5,337,271	$7,116,361	$8,895,452

Many of your eyes may gravitate to the lower-right corner of the above table – and you may get pretty excited. That's great – make that $8.9 million your goal. Or, why not round it up to $10 million – you can get to $10 million with a 15% annual return by simply increasing your annual savings amount up to $5,621. That may be unrealistic now, but keep it as your goal.

Even if you are fortunate enough to control your ability to save $5,621 each year – maybe you get a cushy job, maybe you become a miser with your spending – unfortunately you will not be able to lock-in a 15% return for the next 40 years. Based on historical returns during the past 100 years, obtaining an annual return of 15% over a 40-year period is highly unlikely. But obtaining an annual return between 8% and 12% might be more realistic.

If you can obtain an 8% return for the next 40 years, notice that you will become a millionaire simply by saving about $4,000 per year. Drake would be proud. If you are fortunate enough to obtain an 12% return for the next 40 years, you'll become a millionaire by saving just over $1,300 per year; saving $4,000 per year would end up having $3,000,000 in your nest egg when you retire.

There are two morals to this discussion:

- The amount you save matters – save and invest as much as possible as early as possible.
- The return you get on your savings matters – taking on some risk by investing can dramatically change your future prospects.

Let's do one more quiz question while working with this 40-year time horizon.

Assume that you have two investment choices:

(1) Invest $5,000 per year for the next 10 years and then nothing else for the next 30 years.
(2) Invest $2,800 per year for the next 40 years.

If you earn 8% per year for all 40 years, which option gives you a larger nest egg in 40 years?

If you just add up the amounts that you're saving, the comparison isn't even close:

(1) $5,000 x 10 = $50,000
(2) $2,8000 x 40 = $112,000

That's a $62,000 difference. That's $62,000 of less cash that you have to enjoy with option (2). That's $62,000 more that you can enjoy for yourself – on clothes, trips, a couple cars – if you invest more early on in your career.

So which option is better?

Perhaps you've figured out that we probably wouldn't be doing this example if (2) was better. And you're right. Option (1) provides you with a larger nest egg in 40 years.

(1) $5,000 per year for 10 years will become $728,867 in 40 years earning 8% interest.
(2) $2,800 per year for 40 years will become $725,358 in 40 years earning 8% interest.

As with all of the examples in this book, there is a moral or teachable moment here: The more you can invest earlier on, the better off you're going to be.

That's due to compound interest, or interest-on-interest. When you deposit your first $5,000, it will earn $5,000 x .08 = $400 of interest in the first year. Then, in the second year, that $400 of interest will earn $400 x .08 = $32. $32 is the interest that your interest earned. This will continue for the next 40 years. The $400 of interest that you earned in the first year will become worth over $8,000 39 years later when you retire – all due to the interest earning interest. It's not magic, it's math.

So far, all of the above examples have assumed you have a 40-year horizon for investing. That's a really long time – and it can be very abstract for a 20-year old to think about saving today (and sacrificing today) simply to increase their wealth 40 years into the future.

How Much Will You Have By Saving or Investing Annually for 10 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year				
	$1,000	$2,000	$3,000	$4,000	$5,000
1%	$10,462	$20,924	$31,387	$41,849	$52,311
2%	$10,950	$21,899	$32,849	$43,799	$54,749
3%	$11,464	$22,928	$34,392	$45,856	$57,319
4%	$12,006	$24,012	$36,018	$48,024	$60,031
5%	$12,578	$25,156	$37,734	$50,312	$62,889
6%	$13,181	$26,362	$39,542	$52,723	$65,904
7%	$13,816	$27,633	$41,449	$55,266	$69,082
8%	$14,487	$28,973	$43,460	$57,946	$72,433
9%	$15,193	$30,386	$45,579	$60,772	$75,965
10%	$15,937	$31,875	$47,812	$63,750	$79,687
11%	$16,722	$33,444	$50,166	$66,888	$83,610
12%	$17,549	$35,097	$52,646	$70,195	$87,744
13%	$18,420	$36,839	$55,259	$73,679	$92,099
14%	$19,337	$38,675	$58,012	$77,349	$96,686
15%	$20,304	$40,607	$60,911	$81,215	$101,519

How Much Will You Have By Saving or Investing Annually for 20 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year				
	$1,000	$2,000	$3,000	$4,000	$5,000
1%	$22,019	$44,038	$66,057	$88,076	$110,095
2%	$24,297	$48,595	$72,892	$97,189	$121,487
3%	$26,870	$53,741	$80,611	$107,481	$134,352
4%	$29,778	$59,556	$89,334	$119,112	$148,890
5%	$33,066	$66,132	$99,198	$132,264	$165,330
6%	$36,786	$73,571	$110,357	$147,142	$183,928
7%	$40,995	$81,991	$122,986	$163,982	$204,977
8%	$45,762	$91,524	$137,286	$183,048	$228,810
9%	$51,160	$102,320	$153,480	$204,640	$255,801
10%	$57,275	$114,550	$171,825	$229,100	$286,375
11%	$64,203	$128,406	$192,608	$256,811	$321,014
12%	$72,052	$144,105	$216,157	$288,210	$360,262
13%	$80,947	$161,894	$242,840	$323,787	$404,734
14%	$91,025	$182,050	$273,075	$364,100	$455,125
15%	$102,444	$204,887	$307,331	$409,774	$512,218

INVESTING – HOW DO YOU DO IT?

If you have never had any direct exposure to investing or to anyone who has invested, then it can seem quite overwhelming just to get started. And, if your understanding on how to invest has been shaped by your grandparents telling you how they used to invest a few decades ago, then you're going to be very pleasantly surprised at how easy it can be for anyone to invest – whether you have $50 to invest or $50,000 to invest. Of course, it being 'easy' can also make it dangerous; moving money around can come to feel like an app or video game, but with this version you actually could be losing everything. Be very careful.

In the past 20 years – coinciding with access to technology permeating society – it has become easier and easier to make investments in the stock markets or other securities markets. The first thing you need to do is find a registered and regulated broker – a company that is certified to make investments on your behalf. The finance industry is one of the most regulated industries in the world – because the government wants to protect your money. You wouldn't hand over your paycheck to some shady stranger offering to make investments out of their van; the government wants to make sure that you don't give your paycheck to any shady strangers on the internet.

Registered and regulated brokers – entities you should be able to trust – will be members of FINRA (the Financial Industry Regulatory Authority, www.finra.org), which has been authorized by the U.S. government to be an independent regulator of all securities dealers in the U.S. On their website, you can perform a "BrokerCheck" to see if a firm you're considering is registered; if they are not, you should probably find another firm. You may also want to find a firm that is a member of the SIPC (Securities Investors Protection Act, www.sipc.org), which has been charged by Congress to recover or protect investors' fund in the event that your brokerage firm faces financial difficulty or bankruptcy. While we cannot guarantee the integrity of any individual company, all of the large brokerage firms that you have heard of are likely members of both.

- Large, multinational full-service financial institutions, such as Citigroup, JP Morgan Chase, Bank of America, Wells Fargo, UBS, Goldman Sachs, Morgan Stanley and others.
- Large, multinational specialty brokerage firms such as Fidelity, Charles Schwab, Edward Jones, Raymond James, TD Ameritrade, e-Trade, RBC and others.
- Specialist platforms targeting different audiences, such as Robinhood, Betterment, SoFi, TradeStation, FirstTrade, M1 Finance, USAA (for past and present members of the U.S. Armed Forces), TIAA-CREF (for educators) and others.

Twenty years ago, you might have to go to four different firms to get your banking, investing, insurance and retirement needs taken care of. That's not the case anymore; most of the firms listed above offer most or all of these services. That may or may not mean you want to use one firm for everything. You may find that one-firm approach keeps things simple for you and that the costs are not prohibitive; or you may find that using 3 or 4 firms that specialize and can each provide you more customized products is better for you and cheaper. Only you can decide.

Now, what should you invest in?

- The good news is that there are tens of thousands – literally – of options that you could very easily make with a simple phone call or a few clicks on your phone or computer. There are so many options out there to choose from that you should be able to find an investment that excites you and performs well for you.
- The bad news is that there are tens of thousands of options that you can choose from – which can be overwhelming and can make it difficult to find the right investments for you.

Don't fret – the good news outweighs the bad news here. You can be methodical and ask yourself a number of key questions which will help you filter down what investments are right for you.

Before you begin investing, you have to get comfortable with one critical premise: investing is risky and there are no guarantees that you will get your money back. Once you get comfortable with that idea, which we will talk more about, ask yourself the following questions:

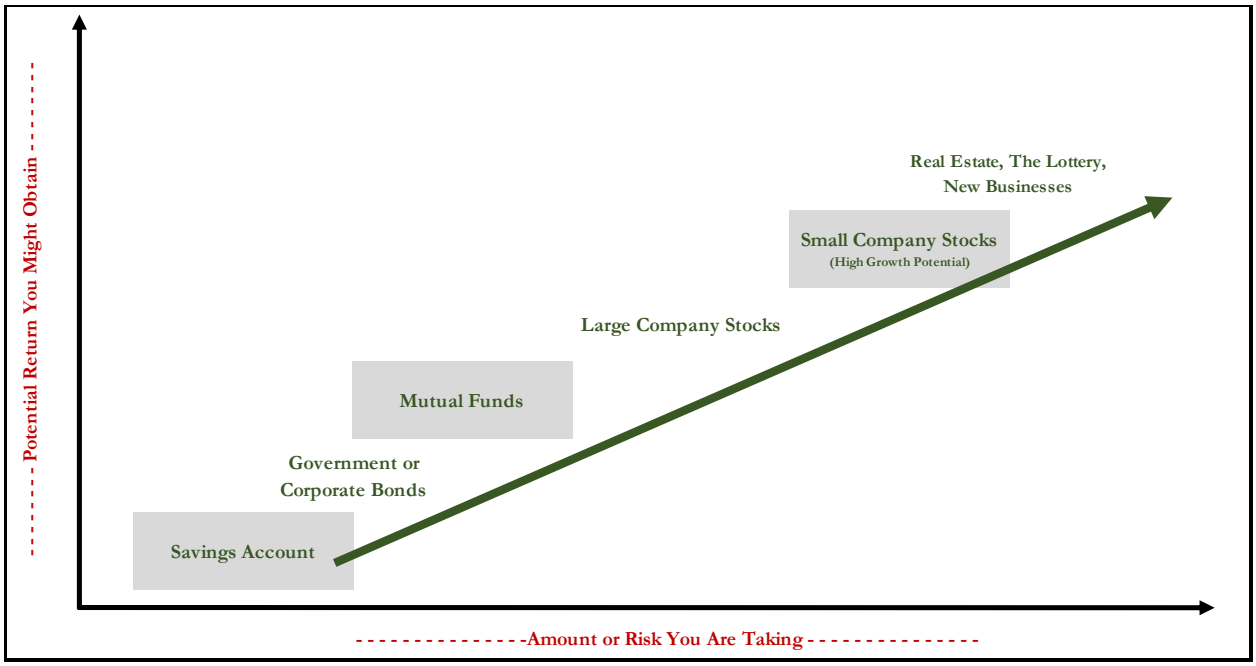
- How much risk can you handle? If you invest $100 and it loses value down to $90 over the next few months, how will you feel? The next section talks about risk in more detail and has you measure your own risk tolerance. Your risk tolerance will help you figure out which investments will work for you – and which will make you lose a lot of sleep.
- Do you want to investment in specific companies – like Apple, Tesla or Home Depot? Doing this can help you develop more knowledge and a closer relationship with your investment – but it may also expose you to greater risk of losing money. If this risk scares you, there are funds you can invest in that do not have such risk exposure.
- Are you investing for the short-term (1-2 years) or the long-term (more than 2 years)? That is, when do you need your money back?
- Do you want to invest in companies that you know or would you be willing to invest in a company that you've never heard of (assuming it's a good company)?
- Do taxes matter? We will talk about taxes in the next chapter – but your tax situation might dictate which investments are best for you.

We are not going to go through all of these questions, but we will try to give you some very generic perspective on the types of investments that are available to you.

And I am not going to give you specific investment advice – because I don't know you and I don't know what your specific goals are. However, I will make one investment suggestion that most relatively people can use as a foundation for beginning to invest: invest in *Standard & Poor's 500 Index Fund* or *Exchange Traded Fund*. The S&P 500 is a basket of 500 of the largest companies in the U.S., comprised of stocks from 11 different industries or sectors. It has a large number of companies and it is well diversified. It is not as sexy or exciting as picking one stock and gambling on it – for better or for worse. But the S&P 500 is a great investment for most people to use as the foundation for an investment strategy: decent returns, good diversification, low cost, relatively low risk, and very low maintenance. An S&P 500 index fund or exchange traded fund is the most popular investment among finance professors who make their livings by studying this stuff. For more detail on why we do this and what the benefits are, Google "warren buffet hedge fund bet" and learn what one of our most successful investors thinks of the S&P 500 as an investment.

Beyond that one piece of advice, there are obviously many other investments you could consider. The following table addresses some of the key issues that may help you decide where to invest your precious savings.

What Investment Options Are Available to You?			
Type of Investment	**Potential Return**	**Amount of Risk**	**Comments**
Stocks - Large Companies with reliable income	Moderate - Historically 5-8% per year	Moderate. Losses are possible, but should be temporary	Good for long-term investors. Might provide regular income, which you would pay taxes on.
Stocks - Large Companies with less reliable income	Moderate - Historically 7-10% per year	Moderately High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Stocks - Smaller Companies with high potential for growth	High - Historically 10-12% per year	High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Bonds - Corporate	Moderate - Historically 3-6% per year	Moderately low. Losses are unlikely.	Good for long-term investors. Will provide regular income, which you would pay taxes on.
Bonds - Government	Moderate - Historically 1-5% per year	Low. Losses are unlikely. You will get your money back.	Good for short- and long-term investors. Will provide regular income, but you won't pay taxes.
Mutual Funds - Either Stocks or Bonds	Moderate - Could be as low as 3-4% or over 10%.	Moderate. Huge gains are unlikely, losing everything is unlikely.	Mutual funds pool money to make lots of investments; your risk is lower but won't own any specific company.
Real Estate	Who knows? Nobody knows.	Very High. Be prepared for anything.	Very sensitive to the overall economy. And the entry price can be very high.
Yourself + Your Education	Enormous	Very low if you work hard. Very high if you're lazy.	Without question, the best investment you can make. You get to determine how much this investment pays off.
The Lottery	Negative	Very High	See the next Chapter - You should expect to lose all of your money.



When you're just getting started with investing, there are a couple approaches you can take:

1. Start with a small amount of money – whether that's $20 or $2,000 – and just go for it. Pick a few investments, track them regularly and be prepared to buy more or sell more should you feel comfortable doing either.
2. Talk to a financial advisor. Note that they will not (or should not) tell you which specific investments to make, but they will work talk through your options with you and help you better understand the differences in the above table. This will help you be a little more confident when you're staring out – but advisors are not free. You will pay them.

Entire books have been written with hundreds of investing tips. Before you listen to too much of that advice, ask yourself one simple question: If this person is so smart, why are they writing books instead of living on an island in the Caribbean? Only you can figure out what advice is best for you. But here are a few things to think about when you are ready to begin investing your savings – my excuse for sharing this with you is that it's my job and I don't want to live on an island.

- I have never added any banking or investing apps to my phone, in part for privacy/risk reasons, but also to make it less easy to lose money. I only do any investing or trading on my desktop, where I'm focused and mindful of what I'm doing.
    - If that's not an option for you, and if your phone is your only technology platform, that's fine; just be very careful and avoid the temptation to treat your investment account like a game.
- I check my investment account at least 5 times a week, every morning, just to check to make sure there are no surprises. I trust the system and my brokerage, but I've never been comfortable having an "out of sight, out of mind" attitude with my money.
    - In fact, I check all of my financial accounts at least 5 times a week – including checking, savings, investment and retirement accounts plus all three credit cards. This helps make sure there are no surprises. It also helps me be aware of what's happening in each account, which comes in handy when I'm trying to decide whether to get my pizza fix at Costco or at CENTRAL Pizza.
    - Checking all of these accounts takes maybe 2 minutes a day. For me, that's a very small price to pay for knowing exactly what's happening with my money. Only you know what's best for you. Take control and own your own investments.
- If you invest based on personal relationships, be prepared for losses…both in terms of financial losses and potentially relationship losses. Supporting your family and friends can be wonderful – but try not to get emotionally attached to the outcome of that investment.
- Nobody, and we mean absolutely nobody, knows how any investment is going to do. If someone tries to tell you that they have an inside tip on an investment that is going to perform incredibly well, they're either doing something illegal or they're lying. They don't know. Nobody does. Investing involves predicting the future. Nostradamus died penniless – even he couldn't predict the future. Don't let anyone tell you they have the perfect investment for you – because they have no clue. They don't know what the future will hold.

RISK
HOW MUCH CAN YOU HANDLE?

Let's take a simple quiz:

> Imagine that you have $1,000. You want to make sure that you still have $1,000 next year.
>
> What is the safest thing you can do with that $1,000?
>
> (A) Hide it under your mattress or in a safe in your closet.
> (B) Put it in a savings account at a local bank or credit union.
> (C) Invest it in the stock market, picking specific companies that you like.
> (D) Give it to me so that I can start my own flying car company.

The answer to this quiz is either (A) or (B), depending on how much you trust your roommates or how much you trust financial institutions.

The answer is definitely not (C) or (D) – both of those options are very risky. Investing in stocks or the stock market, in general, is risky; the companies have no obligation to return your $1,000 to you. You invest in stocks hoping that the value of the stocks will go up – and that has been the case, on average, over the past 100 years. But there is no guarantee that any stocks you invest in will increase in value – or even maintain their current value – over the next 12 months.

And, well, you don't know me and you have no reason to trust my ability to build a flying car company. There's no chance you're getting your $1,000 back if you choose (D).

But, "safety" is not always what you want. We've already seen examples in this chapter showing that investing has created more value than saving. That's true, on average and over a long, 100-year period. From year-to-year, the value of any investment can go up or it can go down. Yes, on average, stock market investments have increased in value by 10-12% per year. This includes some years where the value increases by 25% or 30%...but it also includes some years where the value decreases by 30% or 40%. And, unfortunately, you have no idea what is going to happen next year.

This is risk. We have no idea what is going to happen with stock market investments over the next 1, 2, 3 or 5 years because they are risky investments. Higher risk and higher return go hand-in-hand nearly all of the time in finance. Hiding money under your mattress and putting money in a savings account in a bank have very low levels of risk – but, they have very low returns, too. If you hide $1,000 under your mattress, it should be worth exactly $1,000 one year from now.

So, how much risk should you be taking with your savings and investments?

As always, only you can decide that. We will provide some rules-of-thumb later, but first let's take a simple quiz to help you think about your appetite for taking risks with your money.

Please answer the following 3 questions as honestly as you can.

Question #1
Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $100 cash.

(B) If the silver dollar comes up heads, I'll give you $200.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

Question #2
Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $10,000 cash.

(B) If the silver dollar comes up heads, I'll give you $20,000.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

Question #3
Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $100 cash.

(B) If the silver dollar comes up heads, I'll give you $220.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

You know how we have been saying that there are no "right" or "wrong" responses in this book? Well, that's only kind of true here – only you can decide what you want to do, but this is a case where there are answers that most people "should" choose.

In Questions #1 and #2, you should be indifferent between (A) and (B). In both cases, the amount of money that you expect me to give you is the same: $100 in Question #1 and $10,000 in Question #2, assuming my silver dollar is fair and not rigged.

But research has shown that most humans prefer (A) to (B). Why? Because we hate losing money. And, option (A) is a sure thing – you're guaranteed of something. Most people do not want to risk 'losing' this something based on the flip of a coin.

Did you choose the same answer in both Questions #1 and #2? Finance theory says you should – but not all people do. More people choose (A) in #2 than in #1 – because the 'loss' is much bigger in #2. We internalize that 'loss' and the chance of the coin coming up tails scares us. We want to avoid that pain, so we frequently take the sure thing in order to avoid that pain.

If you chose (B) in #1 or #2, then you surely chose (B) in Question #3.

But did you choose (A) in #1 and #2 but (B) in Question #3? With (B) you expect to receive $110 (50% chance of $0 + 50% chance of $220), while with (A) you only expect to receive $100 – but there is still a chance that you'll end up with $0. Does that scare you? Or does the slightly higher potential cash prize in (B) make you willing to take the risk and hope that the coin comes up heads?

Did you choose (A) in Question #3? That's okay. But take a minute to think about yourself: If a 50% chance at $220 is not enough incentive to entice you to take the risk, how much would you need to receive for the silver dollar coming up heads in order to choose (B)?

Ultimately, there is not a right or wrong answer to this. Finance theory may think you should choose a specific response, but only you can choose which options you like best. If the promise of the sure thing excites you and the possibility of ending up with nothing scares you, regardless of how high the potential upside might be with (B), then going with (A) is the right option for you. Option (A) might help you be less anxious and might help you sleep better at night. Those are good things.

This simple exercise helps you identify your level of risk tolerance. A financial advisor – or even a financial health & planning guidebook – can help you explore your different savings and investing options based on how much risk you are willing to expose your money to, but only you can decide how much risk you're willing to take and what you're comfortable doing.

There are dozens of useful exercises and quizzes available to help you determine your personal risk tolerance – all of you will have different levels of desired risk. One common rule-of-thumb is this: if you make an investment and it causes you so much anxiety that you can't sleep at night, then that investment is probably too risky for you. The Appendix includes an exercise called the Global Portfolio Allocation Scoring System (PASS) for individual Investors, which asks you a few questions to help you determine your risk tolerance. It's a very popular tool, in part because it quantifies your risk tolerance – it puts a number on it. Please take a look at it when you get a chance.

But not everyone needs to put a number on their risk tolerance; when financial advisors are working with clients, they don't always do that. What they do is assess general levels of risk tolerance, ranging from high to low. The following figure is a simple one that captures the subtle but significant differences between different levels of risk. Think about yourself and your own goals, attitudes and plans to see what level of risk tolerance you have.

You will figure out your risk tolerance over time, as you make investments and find yourself very comfortable or very anxious about the level of risk that you're taking. You'll know. And your risk tolerance will change over time – as you get older, as your family situation changes, as you have children, as you change jobs or careers. That's normal – but then be sure to change your investment portfolios and goals accordingly.

As promised, here are a few rules-of-thumb that may help you think about your risk appetite and how that might guide your savings and investing decisions:

- Risk & Return usually go hand-in-hand: higher risk usually leads to higher returns. But not always. Risk is called "risk" because it's risky and nothing is guaranteed.
- When do you need your money? The sooner you will need your money – for a big purchase, for a new house, for a wedding, for retirement – then the less risk you'll want to take.
- In general, the younger you are, the more risk you can handle.
- In general, the older you are, the less risk you should take.
- What happens if your investments lose 40% of their value next year? How would you feel?
- Do you have a lot of high-interest rate debt, such as credit card debt? If so, you might want to pay this off before investing in anything.
    - Getting rid of debt with an 18.99% interest rate is equivalent to earning a guaranteed 18.99% return – which is pretty awesome.
- Do you have 3-6 months saved up in an "Emergency Fund?" If not, perhaps you save up until you do – and then look to make riskier investments.

I am biased because I am a finance professor. I study investing and I teach investing. My perspective on risk may be meaningless to you. Do not take my advice on what level of risk you should take.

Personal finance is very personal. It is about you. Do not compare yourself to other people. Do not expect 'experts' and advisors to make all your decisions for you. Your goals belong to you. Only you know what is best for you. Only you can determine how much risk you want to take.

Be thoughtful, be prudent. Avoid doing things that you know are stupid and that you know will cause you stress. But don't be afraid of taking risks just because they scare you. You have already taken many, many risks in your life. Taking informed and measured risks will continue to open many doors and opportunities for you – in both your personal and financial lives.

> *Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.*
>
> – Mark Twain

Chapter 4 Summary
Saving & Investing

In the space below, please write down 5 things you learned in this chapter that will help you become a better saver and investor today and in the future.

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to take control of my financial future by choosing to use my excess Net Cash Flow to increase my saving and investing. I pledge to align my saving and investing choices with my financial goals so that the sacrifices I make today lead to clear and significant benefits in the future.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

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CHAPTER 5

INSURANCE, TAXES, RETIREMENT and OTHER SPECIAL TOPICS

This chapter is titled "Special Topics" because we couldn't figure out a better name. These topics are as "critical" as they are "special." Do not assume that these topics do not apply to you; most of these topics apply to all of you. Some of these topics – insurance and taxes, specifically – comprise entire degree programs. There is no way we can do those topics justice with a few pages in this book. But we wanted to introduce these topics to put them on your radar, to make sure you are regularly thinking about then, and for you to have as a resource when any of these issues become of more immediate concern to you.

In the opening pages of this book we gave you a Top 10 List of key takeaways from this book, and one of those key takeaways was to encourage you to avoid hiring too many financial advisors and helping them buy their next vacation home; that advice may not apply for some of these topics. Insurance, taxes and retirement are areas where even the most experienced and confident financial planners can frequently benefit from professional advisors. You might not want to rely on them so much that you pay for their next home, but you do want to make sure that you know what you're doing and are not exposing yourself to serious financial risk. When you need help, get it.

INSURANCE
WHAT DO YOU NEED & WHEN DO YOU NEED IT?

"Insurance"
"Risk Management"
"Protecting What You Have"
"Protecting What You've Earned"
"Taking Care of Your Loved-Ones"

If you're over 24 or 25-years old, then this section may be the most important section in the book for you. If you're 18 or 19-years old, it may not seem immediately relevant to you; but it will soon become extremely important and it will have a direct impact on your financial health and flexibility, for the rest of your life. Most people do not really know what insurance is, what it does, and what it can and cannot do for you – only that you may have to have some. Some students already have exposure to some kinds of insurance – but there you still have plenty to learn about certain types of insurance. One scary reality of life is that you, like legions of others, likely will end up spending more out of your own pocket for insurance and insurance-related items – for the rest of your life – than you will pay for each and every other category of personal expenses, except for housing. You will have insurance on your cars, your homes, your life, your health, your prescriptions, your teeth, your eyes, your potential disability from work, your pension or retirement plans, and your business – to name just a few. We do this because we are risk averse.

Understanding insurance can seem overwhelming to many people. But, understanding insurance also will help you to make better business decisions, whether you ultimately go to work for someone else or for yourself. And, understanding insurance can help you be a better citizen, as many politicians often foster and take advantage of public ignorance or common misconceptions about insurance (even their own) to better their own personal situation, or just to get re-elected, rather than working for the long-term best interests of the public they are supposed to serve.

The previous chapter was the sexy stuff – investing and turning a few thousand dollars a year into a multi-million dollar retirement portfolio. That's fun to dream about. Few people dream about insurance…but many people have nightmares resulting from not having insurance, or not having the right insurance, when they need it most. We want to help you avoid those nightmares.

Insurance is protection. When something bad happens – and very bad things frequently do happen – insurance exists to protect you against the financial and emotional pain caused by those bad things. You have worked hard to get to where you are, to acquire all of the possessions you have and to have the career earning potential that you have - insurance is there to help you make sure you don't waste that effort and lose it all.

In this Chapter we will discuss three different types of insurance coverage:

1. Property and Casualty Insurance (protecting your car, home, and other stuff) – commonly known as "Liability" insurance;
2. Health Insurance (protecting your physical and mental wellbeing); and,
3. Disability and Life Insurance (protecting your income).

There are many, many other specific types of insurance we could talk about – flood insurance, earthquake insurance, insurance against identity fraud, business insurance. We will not talk about all of them. Professionals actually can be your best friends here – an insurance agent or broker can explain the different types of coverage, your options, and your obligations. But you still will make all the decisions. Some types of insurance are required by law (such as automobile liability insurance), some are required by lenders (such as homeowner's, or automobile collision and/or other-than-collision insurance), while others may help you satisfy your own personal unique needs (such as renter's insurance, disability insurance or life insurance). You will have to decide what you want to protect, and an agent can help you identify your options. But, as always – the agent or broker is providing you a service, for which you pay. You are buying an insurance product; sometimes this product makes your life better, other times it may not or may not seem to be making your life better. You should shop around, to identify a trusted agent or broker with whom you establish a good working relationship because there is tremendous competition and great disparity among level of service, available coverages, and cost across all insurance companies and competitive markets. Become an informed consumer, and take control of your money, your budget, and your future.

Property & Casualty Insurance
Protecting What You have

Let's begin our discussion of property and casualty insurance with a simple activity:

Think of your five most valuable assets; think of 'personal use' assets, not financial assets or other intangible assets. Think of things; think of your stuff. This could be your car, your phone, a watch, jewelry, a media center, your clothes – whatever you own that would be most expensive to replace.

In the space below, write down these assets on the left with their replacement value on the right.

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

==========

YOUR TOTAL PERSONAL USE ASSETS **$**

Now refer back to the Balance Sheet and Net Worth exercises you did in Chapter 2 when you determined how much Cash and overall Net Worth you have.

- If a thief broke into your home, and stole all the assets you have listed above, would you have enough cash to replace them?
- Is your Net Worth more, or less, than the value of those stolen items?
- What would your Net Worth be after all those items are stolen?
- What future opportunities – school, vacation, even work – would you then have to sacrifice?
- How much time, energy and stress will you have to expend to get your life back to normal?

Property and casualty insurance exists to help minimize your financial and emotional pain when your personal assets are damaged, lost, stolen or otherwise compromised. But, of course, insurance is not free. Let's quickly take a look at how insurance works. We will first consider the basic example of insuring your car, but the general process can be very similar for other assets and types of insurance.

Personal Automobile Insurance

Assume that you just bought yourself a new car for $15,000.

- You agree to an insurance contract with an insurance company - your "insurance policy." You agree to make pre-specified periodic payments (to pay "premiums") in exchange for the insurance company paying out in the event of a covered accident, theft, or some other loss during the policy period. Property/casualty insurance policies typically provide you coverage for a policy period of one (1) year, which may be renewed or extended.

- You will negotiate options available in your insurance policy with the company. They will offer you a figurative buffet of options – and you must pick and choose which of these options you want coverage for (and for which you are willing to pay). Your agent or broker also can help you out a lot here - it's part of the service they offer

- In the case of car insurance, all states have laws mandating that drivers maintain certain minimum automobile liability coverage (liability insurance pays for bodily injury or property damage losses that you may cause to somebody else – to *other* people). You typically must be able to show "proof of insurance" that you own an auto policy with at least your state's minimum liability coverage in place to even get or renew a drivers' license, to get/renew your auto license tags or vehicle inspection, to buy or sell a vehicle, and most importantly: to legally drive on any states roads, and avoid any tickets or penalties for not having bought at least that required coverage.

    - Typical car insurance policies have three levels of coverage, which you might see quoted as something like as "15/30/25" coverage. The first figure means that $15,000 will be the most your insurance company would ever pay out on your behalf to any one person you may have injured in any single auto accident for any bodily injury loss you may have caused that person (such as, for them to pay their medical bills or to repay their lost wages because the accident forced them to miss work.
    - The second figure means $30,000 is the most your insurer would ever have to pay out in total for any/all bodily injury losses incurred by all of the people you may have injured in that same single accident, regardless of the total number of people you may actually have caused injuries to in the accident.
    - Finally, the third figure means $25,000 is the most that your insurance company would ever pay out for all property damage that you may have caused or be found responsible for causing (such as to the other driver's car, to a business owner if you ran off the road and hit their sign or building, or to both the other driver and that business owner if you hit that car).
    - Should the financial damages – directly or indirectly – that you cause in an accident exceed the amounts provided in your policy (such as 15/30/25 example above) then all amounts over the coverage would be paid by you out of your own bank account. What if you don't have enough in your bank account to cover the damages? Your

future earnings and wages could be garnished – taken by legal authorities and you might have to declare bankruptcy.
    - What if you choose to drive without any automobile insurance? Most states have a "No Pay/No Play" law: if you do not have at least the required state minimum coverage in place at the time of your accident, then if you yourself had any bodily injury losses at all as the result of that accident, then you must cover all claims out of pocket and you give up the right to any insurance claims, even if you were not responsible for the accident. That is, if you do not have your own insurance and someone else runs into you, then you do not get to benefit from their insurance coverage. This is a potentially enormous penalty.
    - What's the moral here? While all states have minimum amounts of automobile coverage that you are legally required to have, you may want to spend a little more on your periodic payments in order to obtain even higher levels of coverage. Insurance is all about risk management – paying a little bit today in order to avoid paying a lot in the future. The costs of paying a little more today for higher levels of coverage may very well be much, much less than the potential costs of having to cover accident costs out of pocket for most drivers.

- Any insurance policy will specify what your "premium" or payment responsibilities are:
    - You generally must always have paid for your insurance coverage before you incur a covered loss. You may choose to pay the entire premium due when you first buy your policy, or to make periodic premium payments during your period of coverage. You typically must pay premiums semi-annually or annually, but you can negotiate more flexibility on how you pay your premiums.
    - In the event of an event that is covered by your insurance policy, you typically will pay a "deductible" to share in any loss to your own property. You may negotiate your deductible level with the insurance company. The higher your deductible, the lower your premium payments.
    - Choosing to buy a higher deductible results in lower premiums. That's good news - and you can use your deductibles to save even more. You should determine your deductible level by comparing its' cost, and the likelihood of an event occurring – because you pay your deductible each time you make a claim.

It's easy for us to focus on two items when we're looking at the cost of insurance: the premium payments and the (potential) deductible payments … because that's money we have to pay out of our own pockets. So, where do these numbers come from? How is the cost to you determined?

Few professionals are better with numbers, math and statistics than insurance companies. They have decades of data, about millions and millions of customers and their behavior. These data supply insurers with billions of pieces of information about our collective behavior. They use those data to calculate how frequently claims will be filed, and how much an average claim will be. If an auto insurance company has 1,000 customers, they do not know exactly which of those 1,000 customers will get into an accident this week, but they can estimate with reasonable accuracy how many of those 1,000 customers will get into an accident this week and how much damage likely will be done.

Thus, insurance is a form of risk-sharing. The losses of the few are spread out and shared among the many. If I get into an accident this year, and you do not, your premium payments essentially would

be used to help pay for the repairs made to my car (thank you). You paid your premiums, but you did not need to receive any direct benefit this year - but you did have that valuable protection if you had needed to use it. If you were to get into an accident next year or the year after, while I did not, you will benefit from me paying my premium and sharing the cost of you getting your car repaired (you're welcome). So, where do the premium payments come from?

The billions of pieces of data showing our past behavior help insurance companies estimate the following general equation, for each of us and for each insurance policy:

What does "Probability or Frequency of Loss" mean to you? It's the likelihood you're going to have an accident and make a claim. An 18-year old driver is much more likely to have an accident than a 50-year old driver. Analyzing decades of data have helped insurance companies determine what the likelihood of you having an accident is. This likelihood is based on many factors including, among others: your years of driving experience, your driving record or history of accidents, your vehicle and it's safety features, and maybe even your credit history or grade point average. If you're like most people, you may believe you're a much better-than-average driver; unfortunately, you can only demonstrate that by actually keeping your driving record and claim history clean over time. The insurance company will be the final judge; and the data will not lie.

What does "Expected Severity of Loss" mean to you? This is the potential cash payment that the insurance company might have to make, and it's pretty simple: insuring a $60,000 Cadillac Escalade will have a higher Expected Severity of Loss than a $15,000 Toyota Corolla.

Let's put some numbers to your hypothetical insurance policy.

	Year 1	Year 2	Year 3		Year 4	Year 5
Auto Insurance Premium	$ (1,200)	$ (1,200)	$ (1,200)	Early in Year 4, you total your car by driving into a light pole while sending a text to a friend.	$ (1,350)	$ (1,350)
Deductible	$ -	$ -	$ -		$ (500)	$ -
Coverage from Claim	$ -	$ -	$ -		$ 12,000	$ -
Net Insurance Cash Flows	**$ (1,200)**	**$ (1,200)**	**$ (1,200)**		**$ 10,150**	**$ (1,350)**

This example obviously makes many assumptions, including:

1. Your annual premium is $1,200, or $100 per month, for the first 3 years. This may be unrealistically low for you. Keep a clean record, get good grades, and you may get there.
2. You have a $500 deductible for your collision coverage. This means that if you collide with anything – another vehicle, a tree or even a light pole – you will have to pay the first $500 of any loss before the insurance company would pay anything toward fixing your car.
3. You agreed to a policy with $12,000 of collision coverage – the most the insurance company would pay, after you pay your $500, to reimburse you (or your lender) for the lost outstanding value of your totaled car, or toward getting you into another car.
4. After your accident, your policy premium increases by more than 10% per year. This is common, especially for younger drivers, following a claim or negative event in your driving history.

This example and these numbers are all made up, but they are somewhat realistic. They highlight the key tradeoff we all make with all kinds of insurance: we pay a relatively small, affordable amount regularly in exchange for potentially receiving a much larger payment in the event of loss we likely could not otherwise bear to pay. Rational individuals are willing to pay a certain small loss (the premium) to avoid having to pay an uncertain large loss (to replace your car or rebuild your house). You likely would pay $1,200 per year to protect your $12,000 vehicle, and more if it was to protect your $150,000 house.

One dynamic that you should always pay attention to – for automobile insurance and for all other forms of insurance that you pay for – is the tradeoff between your premium and your deductible (D). The lower you want your deductible to be, the more you will have to pay in annual premium. Take a look at the following table – which premium-deductible combination would you prefer?

	Option #1	Option #2	Option #3
Annual Auto Premium	$1,000	$1,500	$2,000
Monthly Premium Payment	$83.33	$125.00	$166.67
Deductible per Claim	$500	$250	$100

Some people believe there is no absolute 'right' answer to which of the above options would be best for you, because it all depends on you, your unique financial and driving situation, and your own personal preferences. Some people are scared because they would not have $500 readily available in savings or an emergency fund that they could use in the event a loss claim, so instead they are willing to pay a little bit more each month to "buy down" that scary deductible to a level they perceive would be more readily achievable or reasonable. In fact, for most people, there is a 'best' option: Option #1. It has the lowest total expected cost for you as a driver over the long-term. Yes, it may be intimidating to think you'll have to pay $500 for a claim, but the monthly savings you enjoy over time will usually more than make up for it.

As with any tradeoff in finance or insurance, you get what you pay for, and nothing is free. Moreover, "cheap" is always more expensive. You never know the true quality of your insurance until you have to use it – but then it is too late to make any changes!

This same logic and process applies to most other types of Property & Casualty Insurance.

- Renter's Insurance
- Homeowners' Insurance
- Other Vehicles – ATV or golf cart
- Boat
- Flood
- Earthquake
- Your legs, your voice, your hair or your smile.

That's right, you can insure your legs, voice, hair, or smile! Rihanna, Taylor Swift, and Cristiano Ronaldo have reportedly each insured their legs for millions of dollars. Bruce Springsteen insured his voice. Beyoncé and Pittsburgh Steeler strong safety Troy Polamalu insured their hair. America Ferrara and Julia Roberts have insured their smiles. Drew Brees and many NFL, NBA and other star professional athletes insure their playing contracts. You can do the same. If it's valuable to you, you can insure it, for a price. The insurance industry is, and always has been, a fantastic place for creative people to build exciting careers by helping others identify potential exposures to loss, and develop solutions to help them recover should a major loss happen.

Renter's Insurance
A Special Kind of Property Insurance

Renter's Insurance can be very important and quite useful to many college students. Renter's Insurance, as the name implies, is a special kind of home insurance policy designed specifically for folks who do not own the actual home or other structures that they are renting. The average cost of Renter's Insurance is actually relatively low - typically $15 to $30 per month for most renters. Why is it so low? Because you are only insuring your stuff, not the actual home and other structures. The landlord is the one who is responsible for having insurance on the building. If a major loss to the landlord's dwelling or other structures does occur, the renter would generally suffer a loss just of their personal property (i.e., their bed/mattresses, couches, tables, chairs, other furniture, dishes, lamps, clothing, sheets, bedding, towels, and personal items like laptops, TVs, game system, or any other personal stuff the renter moved in with). Your landlord is not going to pay to insure and protect your stuff, but it's also not your responsibility to insure their stuff, either.

You may think your personal stuff is covered under your parents' homeowners insurance policy back home – and technically it is, anywhere it is in the world – but, the actual dollar amount of coverage your parents' homeowners policy typically provides for your property is limited when your stuff is located at any "secondary residence" (such as your dorm room or apartment). Typically, the maximum your parent's home policy will pay out typically is strictly limited to a total of $1,000 for all of your property located at any secondary residence. Thus, you should consider purchasing your own personal Renter's Insurance policy if it would take more than $1,000 to replace all the stuff you have in your home away from your parent's home.

Renter's Insurance, like all other types of homeowners' insurance, also provides you coverage for certain "additional living expenses" to help you pay for alternative housing should you be temporarily displaced from the place you were renting due to its damage by fire, hail, wind, or other

issue. Further, Renter's Insurance policies provide $100,000 of comprehensive personal liability protection should you be found responsible for certain "bodily injury" or "property damage" losses you unintentionally caused someone not residing with you while at your home. What's the moral here? Again, the short term costs are typically very minor compared to the long-term costs you might be exposed to for anything that could happen to your stuff and your rental property..

Thought Exercise

Now let's conclude this section with another simple thought-exercise. Think back to your auto insurance. If your parents currently pay for your insurance as part of a family policy, you can get a copy of the first few pages of the policy (the "declarations" pages) from them and. What you're your premiums? Why might your premiums be so high? You need to understand your policy, because it is likely your parents will not be paying for it forever. And when you do begin paying for it yourself, it will feel like a very large expense indeed, with very little obvious benefit. But each time you feel this way, take a look at the examples above, and you'll be reminded of how much having insurance benefits you if you were to have a loss event or claim, whether the event is your fault or not. No matter how good or careful a driver you are, or think you are, everything can change in the blink of an eye.

What can you do to lower your automobile insurance premiums? How can you get this fixed expense lower, without sacrificing essential coverage and flexibility that insurance provides? Write down 5 activities that you can do yourself to lower your auto insurance premium.

1. _____

2. _____

3. _____

4. _____

5. _____

Health Insurance
Protecting Your Physical & Mental Well-Being

Few issues in America today are as controversial and politically divisive as talking about health insurance. Most people believe that protecting their health is extremely important; where people disagree is on who should pay for it. Should the government pay for health care, or should individuals pay for their own health care? We will not settle that debate here.

What we will do here is briefly discuss your health insurance needs, options, and questions. Most of you have benefited from healthcare in your lives, even if you were never responsible for making your own health insurance decisions before. Many of you are/have been covered under your parents' policies, as current (2010) law allows you to be through your age 26 – unless you have a real job, and are then required to use the health insurance available from your employer, if any. Many of you currently receive coverage from your employer. These programs may or may not be sufficient for your needs – and universities rarely provide sufficient health coverage to college students. But you know this – and you know that you need to seek other options to care for your own and your family's health care needs while you pursue your degree.

What is certain is that health insurance can be extremely beneficial to you:

- In 2018, the average American incurred over $5,300 in health care expenses.
- The average 19-34 year old incurred over $2,500 in annual health care expenses.
- Women aged 19-34 incurred more than twice the annual expenses of men aged 19-34, $3,450 to $1,612.
- Patients with cancer, heart disease, diabetes, or stroke had average annual health care expenses of almost $20,000.
- More than 25% of Americans aged 18-24 will make an emergency room visit in a year. More than 7% will make two (2) emergency room visits in a year. The average emergency room visit costs more than $1,300.
- 23% of millennials say they have been diagnosed with depression, anxiety, ADD/ADHD, or alcohol or drug addiction.
- More than half of millennials – 54% – have been diagnosed with a chronic illness, including arthritis, asthma, cancer, diabetes, heart disease, high blood pressure, anxiety, obesity, or depression.
- More than half of millennials – 53% – take over-the-counter medicines regularly.
- 44% of millennials pay for some, or all, of their health care expenses using a credit card. Can you afford to pay for a $1,300 emergency room visit out of your bank account?
- Can you afford to pay $2,500 in annual health care costs out of your bank account?
- Can you afford to pay for your medications, your dental visits, your glasses, and your therapy needs out of your bank account or savings?
- The overwhelming majority of Americans live "paycheck-to-paycheck" with little or no savings for emergencies, let alone retirement. Unexpected health care expenses are the leading cause of personal bankruptcy in the US.

Health insurance exists to help you with both expected and unexpected healthcare needs. Much like automobile insurance, health insurance covers you against significant health care expenses by sharing costs. Who will pay for these costs is the current big debate – but, regardless of how that debate is

settled, individuals, companies and governments will likely continue to share in paying health insurance expenses. Companies certainly pass the cost of healthcare for their workers on to consumers through higher prices. Individuals, of all ages, certainly will continue to need emergency and routine healthcare. Sadly, healthcare costs will continue to rise, at annual growth rates significantly higher than ordinary inflation, as they have each and every year since Truman was President (1944-52).

Health insurance also works similar to automobile insurance in the sense that you (or, your parents, the University, your company or the government) pay monthly or annual premiums for coverage from an insurance company, and you also pay out-of-pocket for your medical or hospital visits. Here's what else you may need to know about health insurance:

- As with property and casualty insurance, most plans require you to pay a "premium." This is frequently paid by individuals directly, or indirectly through say your employer or your parents' employer; this is akin to the student health fee you pay the University. The premium is the payment required just to be eligible to receive coverage for health care expenses. Health insurance premiums may also entail sharing of the cost of your healthcare too, but between you and your employer. Some employers pay all of their employees' healthcare premiums (and some don't pay for anything!), while most employers only pay a portion (40-80%) of their employees' premiums; but the employee must pay the rest, and even may have to pay 100% of the cost to provide coverage for their spouse and/or dependents.
- Under most plans, you will have a "deductible" representing the minimum amount you yourself will have to pay yourself during the entire year (not per event, like with auto insurance), out of your own pocket before your health insurance company contributes anything. Typical health insurance deductibles start around $500 per person and can exceed $10,000 with some plans.
- As with the automobile insurance examples previously, you can lower your annual deductible by agreeing to pay a higher premium; or, you can get a lower premium by being willing to pay a higher deductible.
- Deductibles do not carry over from year-to-year. If you have a $1,000 deductible this year, but you only spend $900, your contribution resets to $0 when the next year begins.
- Under most plans, you may have to pay a modest office charge or access fee for each medical visit or treatment, plus a "co-pay" amount above your deductible, thereby sharing even more of your health care cost with your insurance company. Co-pays provide you with an incentive to try to live a healthier lifestyle and avoid using healthcare costs (but accidents happen to anyone). These shared costs above your deductible are sometimes called "coinsurance" expenses.
    - Everything you pay, besides the premium, is considered an out-of-pocket expense.
    - Your plan probably has a "annual out-of-pocket maximum," which is the absolute maximum you would have to pay out-of-pocket each year for your healthcare, after your deductible is met and after all coinsurance is paid.
- Co-pay and coinsurance payments do not count toward your annual deductible, but your employer may possibly offer as an employee benefit a Flexible Spending Account (FSA), or something similar, where you could have up to $10,000 of your pre-tax wages withheld but dedicated for use to pay your deductible and coinsurance healthcare expenses. FSAs work on a "use-it-or-lose-it" basis, so you need to carefully estimate what you have withheld so as not to withhold too much and give free money to your insurance company.

- Health care plans are even more diverse than automobile and other property and casualty plans. You may have different premiums, annual out-of-pocket maximums, co-pays and other terms for emergency room visits, routine health care, prescriptions, therapy, vision care, dental, and other services. Healthcare premiums are frequently bundled, so you or your employer will make one monthly or annual payment, but you will likely make different payments for different types of visits, and for different persons in the case of families. It can get very complicated, very quickly.

We could go on discussing tips, structures and tradeoffs forever. Health care is controversial, very complicated and highly personal, probably more than any other type of insurance. Talk with your parents, talk to friends, talk to your human resource professionals at work and talk to your insurance agent to better understand what your options are, and what programs may be available to help you.

Be proactive. Take control of your situation. Eat right, exercise, hydrate and get proper sleep – you are responsible for your own health. And stay vigilant – your needs and your plan details will change over time, likely year-to-year, so be sure to monitor your coverage as your situation changes.

Disability & Life Insurance
Protecting Your Income & Your Loved-Ones' Futures

The final two categories of insurance we will cover here relate to unpleasant situations that, hopefully, will not directly apply to you for a very, very long time. But you still need to plan ahead, now. Things can change in the blink of an eye.

1. Disability Insurance - Protection against your loss of income due to your injury or illness
2. Life Insurance - Protection for your loved ones or others if you die and are no longer there to provide your economic resources to them as before

Earlier in this chapter we asked you to make a list of your most valuable assets. One asset you probably left off that list is certainly your most valuable asset of all: You. Your human capital. Your brain. Your knowledge. Your skills. Your ability to be innovative, to develop amazing projects, your ability to create tons of value for yourself, your employer, and even society as a whole. This human capital will soon be reflected in your income, the cash flow that helps you to achieve all your goals and dreams. Your single greatest asset in life is your ability to support yourself.

Imagine you've been out of school for 3 or 4 years. You have a great job. You're making more money than you thought you'd be making at that point. Now imagine that you had to take 6-months off from work – perhaps due to your own illness or injury, perhaps because of pregnancy, or perhaps because of a family situation.

What do you do?
How do you pay your bills?

Before you dismiss this possibility and nonchalantly say "oh, I'll figure it out," consider this:

- Over 25% of Americans will face an illness or event that causes them to miss more than 3 months of work at some point in their career, and there is a 33% chance that this may happen to someone before their 35th birthday.
- Over 50% of Americans over 35-years old can expect to miss more than 3 months of work at some point later in their career.
- Over 60% of all individual bankruptcies result from individuals losing their income due to illness or a disabling event.
- Do not be misled by the terms "illness," "injury" or "disability." This does not only apply to individuals in dangerous jobs. Stress, depression and carpal tunnel syndrome are common illnesses office workers may experience as a result of their job.
    - Over 25% of time missed due to disability is associated with pregnancy.
    - Beyond pregnancy, over 90% of time missed from work due to disability is associated with an illness, and not an injury.

Disability Income Insurance

Most of us cannot afford to miss significant time off away from work and without income, as was made painfully clear to just about everyone during the 2020 economic shutdown associated with the COVID-19 pandemic that saw unemployment rise to over 25% in some areas of the country. However, even in normal times, the statistics above indicate many of us will be forced out of work not because of unemployment or layoffs, but as a direct result of an illness, injury, or other common adverse health experience.

Some of you may be fortunate to have generous employee benefits sponsored by an employer, either in the form of sick leave, paid-time off, or maybe even short- or long-term disability insurance. If not, then you may want to consider purchasing your own personal short-term disability or long-term disability insurance coverage (STDI and LTDI).

How does disability insurance work? You pay an annual or periodic premium, and in exchange, your insurance company will make periodic cash payments to you to replace your lost income if you lose your ability to be able to work and support yourself in your standard of living. In general, if you don't work, you don't get paid – period. This is especially true for hourly workers, but it eventually applies to salaried workers as well. An alternative to this is private disability insurance, obtained either through your employer or on your own from your own pocket.

Disability insurance will never provide you with 100% of your pre-disability income. STDI policies typically provide 75-80%, and LTDI typically provides only about 40-50%, of your pre-disability income. Yes, you usually must pay income taxes on the amount of disability income you get, but getting some money is still better than getting nothing.

There are many options you can buy to suit your own unique needs. STDI policies typically provide benefits for only a specified period of time, usually 30 days to 6-9 months. Your benefits begin only after a specified waiting period. LTDI policies specify much longer potential payout durations (1-, 5-, 10- or 20-years, or even for the rest of your life).

That's good news; but the bad news is the cost of disability policies, especially LTDI policies, can be very high – which is a reflection of their importance and utility to people. The reason should be obvious: the longer you may want to receive a disability benefit payout, the higher the cost. As with any insurance policy, the more risk you bear yourself, the less risk you are asking an insurance company to take on for you, so your premium will be lower. But, the biggest single cost factor in disability insurance is how bad your disability from work is – in other words, what will trigger the policy to pay out to you.

As we have alluded to several times, there are always tradeoffs in finance and insurance. We know the price you pay for insurance is based on the probability of you making a claim and the potential size or payout on that claim – we first learned this talking about automobile insurance. This is true of all kinds of insurance plans, including disability plans to protect your lost income. This is also true for life insurance.

Life Insurance

If you decide to purchase a life insurance policy, you may pay a relatively small periodic payment – the younger you are when you put a life insurance policy in place, the lower your premiums generally are, for the rest of your life. In exchange for premium, you designate one, or more people, to be your "beneficiary" to receive a potentially large and significant payout when a certain type of event occurs. But with life insurance there is a very important catch: the "certain type of event" when benefits are triggered to pay out is your death. You will not get any payout when you die; rather, it will be your loved ones, family members, your favorite charity, whoever you named – that will get the payout on your behalf after you die. Life insurance isn't really for you, it's for your family.

If you do not plan on ever getting married, or having children, then you may not think you need to purchase life insurance – and that may be true. But you can buy certain kinds of life insurance that will give you yourself greater financial flexibility as you grow older. For those thinking about marriage or kids, if you want to be sure your loved-ones are financially taken care of if you were to die, then you should consider purchasing life insurance.

Life insurance policies are designed to satisfy two basic economic needs: the need to protect your economic earnings against loss and the need to build a "savings"-type component inside the policy for future policyholder flexibility. There are two basic types of life insurance plans to consider (among many other variations of plans), and they satisfy your economic needs differently.

- **"Term life" insurance** policies pay your beneficiaries if your death occurs within a certain period of time, such as within the next 5, 10, 20, or 25 years. Parents, for example, often choose term life insurance if they want to provide financial protection for their children to be able to go to college or into early adulthood, but not necessarily afterwards (because those children would then be finished with college, and/or old enough to be able to provide for themselves at that point). Term insurance policies are a fundamental building block that provides you with protection to replace your economic earnings stream only, and they do not build any savings or cash value. Term insurance generally is the lowest cost option for life insurance available at any age – especially for younger people and college students. Virtually all life insurance policy premiums are based on your risk of death when you buy the policy (which obviously increases each and every year you grow older). Term insurance

offers the biggest bang for your buck if you need coverage for a limited period of time (or, you know, term), but if can be very expensive for older people to buy.

- **"Whole life" insurance** provides a benefit payout regardless of when your death occurs (that is, for your 'whole' life. Whole life costs more than term insurance at any age because you are buying more than just pure protection, you also are buying a cash value feature (savings within the policy). Your whole life premiums are fixed by your insurance company for the life of your policy, and the interest rate you may either earn or pay on your cash value within the policy also is fixed. "**Universal**" **life** insurance is a special type of coverage related to whole life insurance that gives policyowners much greater flexibility by giving them the direct control to vary their premium payments, as well alter the policy benefit value, so as to better meet their own individual situation over the entire life of the policy. Suze Orman believes we should only ever buy term insurance – because paying for insurance for your entire life provides diminishing benefits to your loved ones after you die.

We have all seen movies and read mystery novels, that highlight potentially perverse incentives that may be associated with life insurance policies. Most are pure Hollywood, but sadly, a few are true and based on actual fact. The mere existence of even a modest life insurance payout may motivate certain types of people to do horrible things – but after all, people have been killed in a robbery that netted the perpetrator only pocket change, a watch or a pair of shoes. So, don't worry about that negative stuff. If you do ever get worried your loved-ones may take a look at your life insurance and begin to think you're worth more dead than alive, you really have two choices: make sure they never know about your life insurance in the first place or challenge yourself to always try to live your life to be the kind of person worth more to your loved ones alive.

Many employee benefits programs include some amount of life insurance paid for you, but this is typically a relatively small multiple of your salary (say, 50% or maybe 200%, and it is likely to be simple group term insurance, as explained above (that is, your employer will only provide you a benefit while you're working for them). Employer-provided life insurance is generally limited to a payout of only $50,000 with no adverse income tax consequences to the employee.

Many people need larger benefits for their family members. As with everything else in the world of insurance, life insurance is least expensive when you're least likely to make a claim – such as when you're young and healthy. Depending on the kind of insurance you purchased now, your premiums for that policy likely will remain low for the rest of your life, and you likely will be able to build up a relatively large life insurance nest egg over your (hopefully) very long life.

The brief overview of insurance we have provided in this book was not intended to be exhaustive. There are many other types of insurance we haven't talked about that may impact you or that you may want or need to consider – such as workers' compensation, unemployment insurance, identity theft insurance, or flood insurance to name just a few. Do your research and think about how you can protect your most valuable assets – even if your most valuable asset is you: your ability to work and support yourself, your family, your legs, your voice, your hair, or your smile. Establish a relationship with your insurance agent. Learn your options. Own your financial future by taking control of your finances today. Your future self will thank you for it.

Before we do one more insurance-based exercise, take a few minutes to reflect on what you've learned about insurance over the previous pages.

- What are the tradeoffs you should consider in choosing an insurance plan?

- What have you learned that you can share with your parents, your siblings, and your friends?

- What types of insurance are "needs" for you? Which types are "wants?"

- What can you do within the next 3 months to better protect your most valuable resources?

Insurance Summary
One Final Activity

If you're feeling overwhelmed at this point, that's normal. Insurance is extraordinarily complex – in part because insurance companies want to provide many different options for individuals, in part because insurance is very personal for everyone. The good news is that everything will make more sense as you begin taking care of your own insurance needs, and start planning to achieve your long term goals and dreams.

One thing that should be clear to you is that your insurance needs and insurance options will change over your lifetime. The insurance you need when you're 20-years old is very different than the insurance you will want when you're 60-years old.

So, let's finish this chapter by thinking through those different insurance needs over your lifetime. Please go through the following five life stages, and identify all of the types of insurance you likely will want and need during that stage; yes, you can list types of insurance coverage more than once.

What types of insurance coverage will you need **during college?**

_____

_____

What types of insurance coverage will you need **during your early years of working, when you're single with no children?**

_____

_____

What types of insurance coverage will you need **during your mid-years of working, if you're married with 2 or 3 children?**

_____

_____

What types of insurance coverage will you need **during your later years of working, when your children are in college and you begin looking towards retirement?**

_____

_____

What types of insurance coverage will you need **during your retirement years?**

_____

_____

INCOME TAXES
WE ALL HAVE TO PAY THEM – BUT WE DON'T HAVE TO OVERPAY THEM

You've all heard the warning from Benjamin Franklin: Nothing in life is certain except death and taxes. We talked a little bit about death in the preceding section, so let's talk about taxes now.

Here's the point that we frequently forget about paying taxes: we only pay income taxes on income that we've earned. Tax planning – much like insurance planning – can become incredibly complex very quickly, so you are well-advised to consult with a professional as your personal and financial situations become more complicated.

Taxes are critical to the functioning of society. They pay for police, firefighters, the military, education and many other investments that have helped developed nations become incredibly prosperous. Of course, it's easy to complain about taxes: perhaps we don't like how efficiently governments use our precious tax money or perhaps we don't like the specific policies governments are pursuing with our tax money. You can fight those issues in your own time – but until changes are made, you have to pay taxes on almost all income you receive.

Here are a few pieces of tax planning advice that may help you get through college and beyond.

- The primary tax codes that you need to follow are set by the federal government – through the Internal Revenue Service (IRS) – and your state government. The different jurisdictions will have different policies and rates, but generally have similar processes. Be sure to follow the rules of both.
- While in college, you may not have to file (and pay) your own taxes if your parents choose to consider you a "**dependent**" or "**qualifying relative**." Talk to your parents to confirm whether or not they are including you as a dependent on their tax returns.
- If your income is below a certain limit, called the **"standard deduction**," you will not owe any federal income taxes – but you still have to file a tax return to tell the IRS this. In 2021, the standard deduction is $12,550 for single taxpayers, $18,800 for heads of households (single, with at least one dependent) and $25,100 for married couples.
- "**Tax avoidance**" is the act of paying as little tax as possible, given the laws that exist. Avoiding taxes is a good thing. "**Tax evasion**" is the act of not paying taxes that you owe; it is illegal and it will get you into big trouble. Pay all of the taxes that you owe…but not a penny more.
- The IRS offers a lot of "**credits**" and "**deductions**" for many different situations (including for students investing in education. A credit is a direct reduction of the amount of taxes you owe; a deduction is a reduction of your taxable income, or the basis on which your taxes are calculated. Check with a tax professional or with tax preparation software to make sure you are getting all of the credits and deductions you are entitled to.
    - The **American Opportunity Credit** can pay for the first $2,000, plus 25% of the next $2,000, you spend on tuition, books and other essentials if you are eligible.
    - The **Lifetime Learning Credit** can pay for 20% of your tuition and certain related expenses, up to a $2,000 credit, if you are eligible.
    - Most students are eligible for a $4,000 deduction (or reduction in taxable income).
    - All students should be aware of credits and deduction and should try to time their school expenses to make sure you are getting every available benefit. For example, it may be better to pay $10,000 in each of two years rather than $20,000 in one year.
- Some scholarships and grants are treated as taxable income, some are not. Contact your financial aid or scholarship office to make sure you understand which applies to you.
- You have probably heard of "**tax brackets**" and "**marginal tax rates**." The U.S. uses a progressive tax structure, where each additional dollar of income that you have may be taxed at a higher rate. In 2020, there are seven tax brackets that range from 10% on the lowest income and up to 37% on the highest income.
    - If your income is $20,000, most of this will be taxed at 10% and some will be taxed at 12%. Considering the standard deduction, your average federal tax rate may be less than 10%.
    - If your income is $1,000,000, not all of this will be taxed at 37%. Some of your income will be taxed at 10%, some will be taxed at 12% and so on…up until you're in the 37% bracket where most of your income will be taxed. Overall, your average federal tax rate will end up considerably below 37%.

- Your personal situation may entitle you to a number of tax deductions and/or credits. The tax code is extremely complex, in part, because all of our situations are unique. Below are some of the more common issues that may apply to you; as always, check with a professional advisor or preparation software to ensure you're engaging in tax avoidance not tax evasion:
    - Child tax credits for parents.
    - Child day care and similar costs credits for dependents.
    - Earned income tax credits for lower incomes.
    - Charitable contribution deductions for gifts to non-profits.
    - Deductions for un-reimbursed medical expenses, property taxes and interest paid on a mortgage (but not if you're renting – the landlord gets the deduction).
    - Saver's credit for contributions to an Individual Retirement Account (IRA – see below) for lower income levels.

The U.S. federal tax code book is several thousand pages long. We obviously cannot do it justice in 1 or 2 pages here. We will conclude with just a few pieces of advice:

1. Keep all records and documents related to every dollar you earned, including keeping records of tips and other cash earnings you received.
2. Keep all records and documents related to every dollar you spent with respect to school, home, work and children – and possibly other tax related issues. The more you learn about the tax code, the more you will know what to keep.
3. Within 2 or 3 years of filing your own taxes and learning what rules and opportunities apply to you, you will be able to figure out how to be strategic about income and expenses in order to maximize your income and minimize the taxes you pay. That's legal and that's very good.
4. Stay in regular contact with the payroll people in your company's human resources office. They will not give you tax planning advice, but they can help you better understand issues that they deal with all of the time. They will be your friends.
5. When in doubt, talk to a professional. The potential costs of not following the rules could be enormous, including fines and/or time in prison. It's not worth it. Get help.

RETIREMENT
WHAT ARE YOUR OPTIONS?

You're young. You're worried about figuring out where your classes are. You're worried about exams and projects. You're focused on your thesis. You're worried about what you're going to do this weekend.

Old people like me talking about retirement is a sure-fire way to get one of these: 🙄 (and probably one of these, too 🤓). That's okay – we understand. You have about a thousand other priorities and experiences to enjoy before even thinking about retirement….or, at least you think you do. If you wait until you're 60 to begin thinking about financing your retirement, it will be too late; if you start thinking about financing your retirement when you're 20, you might be able to retire when you 50. You decide. And don't forget that you may have family members that you're deciding for, too.

Now here's a simple quiz help you think about this decision.

Which of the follow options do you prefer?

(A) Begin saving for retirement when you're 22 years old, saving $4,519 a year for 40 years and retiring at 62 with $2,000,000.
(B) Begin saving for retirement when you're 32 years old, saving $12,158 a year for 30 years and retiring at age 62 with $2,000,000.
(C) Begin saving for retirement when you're 42 years old, saving $34,919 a year for 20 years and retiring at age 62 with $2,000,000.
(D) Begin saving for retirement when you're 52 years old, saving $125,491 a year for 10 years and retiring at age 62 with $2,000,000.
(E) Working forever.

Personally, I prefer (A) or maybe even (B). I absolutely hate (D) and (E).

Of course, for many of us, saving $4,519 per year at age 22 might not be possible – as you're dealing with a beginning salary, some student loan debt and other obligations. The point of this is not to get you to commit to saving excessively in your 20s just to pay for your 60s. The point of this is to emphasize one simple thing: the earlier you start saving, the better off you'll be. So please think about it – try to find a way to save as much money as you can, as early as you can. Interest on interest (or compound interest) is your friend here; the longer you save, the more it helps you and the bigger your portfolio grows. Win-win-win!

Or, maybe you don't need to save $2,000,000 – depending on your needs and lifestyle, that may be too much. Perhaps rather than focus on a single dollar amount, maybe you want to focus on a single age – maybe an age when your children will be in college or on their own, an age when you're ready to be done with work and an age when you might have the financial resources to retire. Let's say this age if 55 years old. How much will you have saved at 55 with the above assumptions?

Assuming the same savings amounts about, here's what you'll have when you turn 55:

(A) Saving $4,519 beginning at 22 years old, you'll have $1,004,355 at age 55.
(B) Saving $12,158 beginning at 32 years old, you'll have $967,084 at age 55.
(C) Saving $34,919 beginning at 42 years old, you'll have $856,309 at age 55.
(D) Saving $125,491 beginning at 52 years old, you'll have $415,375 at age 55.
(E) If you never start saving for retirement, you'll never have $1,000,000 for your retirement – but, if you keep working forever, perhaps you won't need it.

However you slice it, saving earlier creates the most options and the most wealth for you. If you can, do it – save early. If you cannot save as much as you want early in your career, still save something – and then try to make up for the savings you missed when you are able.

Imagine you have the following savings strategy:

Age 22-27	Save $2,500 per year
Age 27-32	Save $5,000 per year
Age 32-40	Save $7,500 per year
Age 40-62	Save $10,000 per year

What do you think of this strategy? How does this compare to the strategies above?

First, you probably think this savings approach is much more realistic, as it gives you 5-10 years before you are socking away large amounts of your precious income. And then as your salary grows (presumably), you'll be able to save a little bit more. Second, it's way better financially – you'll have almost $2,400,000 when you retire at 62. You would have almost $2,000,000 when you turn 60, so you could work two years less and have the same retirement fund with just a little bit more strategic retirement savings planning.

You can change the numbers and do all sorts of different scenarios to see what your progress is to different goals. Maybe you'll earn an annual bonus and think about getting a new boat – before you buy that boat, do the math or talk to a financial advisor to see how much that boat will take away from your future retirement. Again, the moral to all of this is simple: begin saving as much as possible for your retirement as soon as you possibly can. Your future self will thank you.

So, how does your present self do this? How do you save for retirement?

The bad news is that your company is unlikely to give you a pension that guarantees you a salary after you retire. Pension plans were standard and popular until the 1970s, but few companies provide them now. Why not? Because being obligated to pay you a salary after you leave the company commits the company to paying you cash for an indefinite period of time…when you're no longer doing anything for the company. A pension is called a "defined benefit" plan, where you and the company know exactly what you will get paid each month in retirement, even if neither knows how long this payment stream will last (it will generally last until you die). Because of the obligation and uncertainty, most companies have stopped offering defined benefit plans; governments, universities and union-heavy businesses are the most common places you'll still find such pension plans today.

That's the bad news – you should not expect to have your company pay you in retirement.

The good news is that there are still lots of options for how you can fund your retirement. If you're fortunate, your employer may offer you a "defined contribution" plan; this is also called a 401(k) retirement plan (or sometimes a 403(b)). This plan is similar to the savings strategy we outlined on the previous page: you determine what you're going to save and it's invested in (typically) your choice of different investments, and then you wait. There are also two other unique and good aspects of these.

First, because they feel guilty about eliminating standard pensions plans and because they want you to accept their job offer, many companies will offer a "company match" to whatever you choose to contribute to your savings. What does this mean? Let's say you decide to put 10% of your salary from each paycheck into your 401(k) account; your company may choose to match a portion of this. Many companies will "match 50% of employee contributions up to $5,000" or something like that. This is wonderful – this match is not quite "free money" (because you have to work for it), but it is like a bonus. It has the effect of increasing your gross compensation by the amount of the employer match.

Let's look at this on an annual basis:

(1)	Your Salary	$40,000	
(2)	Your 401(k) Contribution	$4,000	10%
(3)	Your Company Match	$2,000	50% up to $5,000
(4)	Your Net Salary	$36,000	(1) - (2)
(5)	Your Net 401(k) Savings	$6,000	(2) + (3)
	Your Gross Compensation	**$42,000**	(4) + (5)

(1)	Your Salary	$65,000	
(2)	Your 401(k) Contribution	$6,500	10%
(3)	Your Company Match	$3,250	50% up to $5,000
(4)	Your Net Salary	$58,500	(1) - (2)
(5)	Your Net 401(k) Savings	$9,750	(2) + (3)
	Your Gross Compensation	**$68,250**	(4) + (5)

(1)	Your Salary	$150,000	
(2)	Your 401(k) Contribution	$15,000	10%
(3)	Your Company Match	$5,000	50% up to $5,000
(4)	Your Net Salary	$135,000	(1) - (2)
(5)	Your Net 401(k) Savings	$20,000	(2) + (3)
	Your Gross Compensation	**$155,000**	(4) + (5)

Please note that we have being a little sloppy with the terms "Net Salary" and "Gross Compensation." Any accountants reading this will be annoyed that we're using the wrong terms here – and that's because we have not included income taxes in the above examples. We typically refer to a "Net Salary" as your salary less taxes and all other deductions, whereas the above is only adjusted for your 401(k) contribution.

Also note that this is optional – your employer cannot require you to contribute to your 401(k) plan while you're employed with them. But then, of course, you will not receive the 50% match (because the match only matches what you contribute). You can opt-in or opt-out at any time. You can increase your contribution or you can decrease your contribution. You can change what you invest in periodically. So, that's the first good thing about defined contribution, 401(k) or 403(b) plans – your company might match your contributions with contributions of its own, effectively giving you a retirement savings bonus.

The second good thing about 401(k) and 403(b) plans is that they are tax-deferred plans. What does that mean? It means you don't pay income tax on the income that you have moved into the retirement plan. You will only pay income tax on them when you are retired and you begin withdrawing the money from the retirement plan.

Consider the third example above where your salary is $150,000 (yes, it might seem like a dream today, but continuing to dream about that salary is the first step to making it a reality).

- Your annual salary is $150,000.
- You move 10% of this, or $15,000 into your 401(k) retirement account.
- You pay income taxes on $135,000, row (4) or Your Net Salary Above.
- You do not pay income taxes on the $15,000 that you contributed to your retirement account, nor do you pay income taxes on the $5,000 company match – at least, not yet.
- The $20,000 that is contributed to your retirement account today is invested and grows – tax free – until you are in retirement and you begin withdrawing money from the account.

As with many of the discussions in this book, we have neglected to include the fine print; everything we have said is reasonable and accurate, but there are some details that we have left out in order to keep this conversation general and simple (like, at what age "retirement" happens and what "mandatory minimum withdrawals" are and what penalties you might have to pay for taking money

out of a 401(k) plan). Don't worry – this shouldn't affect your thinking today and you'll easily be able to figure out the details or consult a financial advisor later when you need to.

So, what do you do if you are self-employed or if you work for a company that doesn't offer a company sponsored defined-benefit plan (or even offers one but doesn't offer a match)? What do you do? Can you still plan for retirement?

Yes, you can. As you may know, the terms 401(k) and 403(b) come from the U.S. government's tax code. The U.S. government, through the tax code, wants to encourage individuals, families and corporations to financially prepare for retirement….so that it takes less pressure of the government and Social Security to support people in retirement. The tax code is the law that allows us to avoid paying taxes on our 401(k) contributions until we're retired and withdrawing money – that's good.

The government and the tax code have established a number of other programs designed to incentivize individual retirement planning. We'll only discuss two here because they are the most common plans used by individuals, and especially for individuals who are self-employed, who work at small businesses or who have non-corporate jobs.

The IRA, or Individual Retirement Account, is the most common way people without company-sponsored retirement benefits can obtain tax benefits for saving for retirement. And, the Roth IRA is very similar, with one significant difference. We'll briefly compare and contrast these two types of programs here:

	Traditional IRA	Roth IRA
Key Selling Point	Allows you to make ***pre-tax*** contributions to your retirement account (similar to the 401(k)).	Allows you to make ***after-tax*** contributions to your retirement account.
Your Contributions Grow:	Tax deferred. You will pay income tax on the contributions when you withdraw.	Tax free. You already paid income tax on the contributions.
Current Year Tax Benefits:	Yes, your Taxable Income is reduced by the amount of your contribution.	No, your Taxable Income is not reduced by the amount of your contribution.
Maximum Contritbution: (as of 2019)	$6,000 (or $7,000 if you're over 50 years old)	$6,000 (or $7,000 if you're over 50 years old)
Contribution Eligibility:	No restrictions - you're all eligible.	Cannot have Gross Income over $139,000 for a single tax filer or over $206,000 for married filers (2020 limits).
Most Appropriate For:	Individuals who expect to be in the same or a lower tax bracket in retirement.	Individuals who expect to be in a higher tax bracket in retirement.

Which should you choose? As always, it depends. But, unlike many other situations in this book, there may actually be a best option for you. If you're a high income earner, you may not be eligible for a Roth IRA. And, we can make all sorts of guesses about your future income and future tax brackets going 30 and 40 years into the future – your guesses about those numbers would be just as good as mine. We could also make reasonable and realistic assumptions showing that the two plans are identical and neither one is necessarily better nor worse for you.

Here's on mental trick that may help you decide. If you choose a Roth IRA, your Taxable Income this year will be higher and you'll owe more in taxes. If you choose a Roth IRA, you will be less likely to get a tax refund from the IRS next spring. But, over the life of the fund, you should probably be paying about the same total amount in taxes – the big difference is whether you would rather pay higher taxes now or higher taxes in the future?

Imagine you get a $1,000 tax refund next spring. What would you do with that $1,000 check? If your instinct is to save, re-invest or contribute that $1,000 to retirement, then the Traditional IRA is the best choice for you; you have the financial discipline to focus on the long-term. If your instinct is to take that $1,000 and buy a new TV, take a trip or otherwise treat it like free money, then the Roth IRA is the best choice for you; you may not currently have the financial discipline to focus on the long-term right now (and you're less likely to waste any tax refund you get when you're in your 60s).

Even better: Do everything. Take advantage of the 401(k) or 403(b) that your company offers. Invest in a Traditional IRA. And invest in a Roth IRA. You'll be more disciplined, you'll save more, and you won't have to second-guess whether you've chosen the right plan for you.

Whatever you do: Begin saving for retirement as soon as you can. The sooner you save, the more options you'll have and the more opportunities you'll create for yourself. If you can't save in your 20s, start in your 30s. Don't wait until you're in your 40s or 50s. Your retirement years will be here sooner than you think. Don't wait. Your future self will thank you.

THE LOTTERY
TEMPTING, BUT DANGEROUS

We present this brief discussion of the lottery to emphasize that it should not be a part of your financial plan. If you want to gamble on it, go ahead; but nobody should ever expect any lottery (or other gambling) winnings to provide for their financial future.

In Louisiana, the Constitution mandates that 35% of the value of each Lottery ticket you purchase goes towards funding K-12 public education in the state. This is the second highest percentage of revenue among all U.S. states. From its inception in 1991, the Lottery has contributed $3.7 billion to public education.

That's great – for public education. But, that may not be super for the people who play the Lottery and who have given the state that $3.7 billion.

In addition to the 35% that is automatically funneled to public education, just over 11% of each ticket is used for commissions and bonuses to retailers who sell Lottery tickets (5.6%) and for the overhead and operations of the Lottery (5.7%). That leaves 53.7% to be paid out to winners.

Imagine that you and 9 friends each buy $10 worth of Lottery tickets – and imagine that the 10 of you are the only ones playing.

+	$100.00	Total Lottery Revenue
–	35.00	Public Education
–	5.60	Lottery Retailers
–	5.70	Lottery Operations
+	$53.70	Cash Money for Lottery Winner

You invested $10.00 and now you have a 10% chance of winning $53.70. Your "expected" winnings are$5.37 (= $53.70 x 10%). This is why many view the Lottery as a tax on the poor. Many people who have low-income and very precious discretionary income choose to put that precious income into the lottery, hoping for the win. But when your expected winnings are 53.7% of what you spent, it might be a gamble that many people cannot afford to take.

Yes, there is the chance that you will invest $10 and receive $53.70 – it's precisely that "chance" that make the Lottery so intriguing. Anything is possible – including you winning.

Let's revisit a couple of the coin-flip risk-aversion questions we considered in the previous chapter. Now, instead of a coin-flip, option (A) is a sure thing and option (B) will be determined by some random draw where you have a 10% probability of winning.

Question #1
Which of the following options do you prefer:

(A) A 100% guarantee of winning $10.

(B) A 90% chance of winning $0
+ a 10% chance of winning $53.70

Which do you choose: (A) or (B)?

Most people will choose (A) because it's a sure thing; the possible gains in (B) are not large enough to tempt us and the high probability of getting nothing scares us.

But then consider when it's not just you and 9 friends, but thousands and thousands of people investing a relatively small amount of money to create a Lottery pool in the thousands or millions of dollars, it gets even more intriguing. Your chance of winning gets smaller as the pool gets larger, so your "expected" winnings get smaller, too.

Question #2
Which of the following options do you prefer:

(A) A 100% guarantee of winning $10.

(B) A 99.9999% chance of winning $0
+ a 0.0001% chance of winning $5,370,000

Which do you choose: (A) or (B)?

This is why people play the Lottery – for the possibility of that $5,370,000. And, when the possible winnings are so disproportionately large relative to the investment, in our silly minds there is very little difference between having $10 and having $0. Our silly minds do not think about the probable winnings but they think about the possible winnings. Yes, that's irrational. Yes, that's poor financial planning. If you do this often enough, you will go broke.

Is the Lottery a bad investment? Yes, it's a terrible 'investment.' Your expected returns are negative – you should expect to lose money playing it. And it is not part of a financial plan. But… Should you play the Lottery? As always, only you can decide that. But you have been warned.

Having said all that, let's imagine that you do win a multi-million dollar Lottery pool. You will have to decide: Do you take the lump-sum payment or do you take the 30 annual payments?

A recent example might help. The Mega Millions was advertising a $500,000,000 Lottery pool. If there were one single winner, they would have been faced with the following decision:

(A) Take $19,250,000 per year for 26 years. This is where the advertised $500,000,000 pool comes from: $19,250,000 x 26 = $500,500,000.

(B) Take a one-time, lump-sum payment of $359,400,000.

Which do you do? With (A), the value of the cash payments you receive is larger. But with (B), you get more money sooner and you can invest it or enjoy it sooner. If you've been paying attention through this book, you know there is a 'right' finance answer.

And here it is. The difference comes down to interest rates. It turns out that 2.63% is the key interest rate here: If you think that you can invest the lump-sum of $359,400,000 and earn an average return of more than 2.63% per year over the next 26 years, then take the lump-sum. If you do not think you can earn 2.63% per year over the next 26 years, then take the annual payments (called an "annuity"). Of course, self-restraint may be an issue here, too – if you're concerned that

you'll waste the lump-sum buying things that no human being ever needs to buy and you're concerned you'll blow the entire $359,400,000 in 5 years, then you might want to take the annuity as it will impose some self-control on your spending behavior.

Now, for even more bad news: Whatever you win in the Lottery is subject to state and federal income tax, meaning your $359,400,000 lump-sum might be closer to $250,000,000. That sounds fine when you're winning such large amounts. But let's go back to the $10 that you and your 9 friends invested in the Lottery earlier in this section; your "expected" winnings of $5.37 on your $10 investment were before-tax, meaning your true after-tax "expected" winnings will be under $4.00. Trading $10 for an expected $4 is very poor financial planning.

YOUR CAREER
A FEW PIECES OF PERSONAL FINANCE ADVICE

While much of this book has focused on encouraging you to think about your long-term future, it's okay to focus on the short-term and enjoy today. And, certainly while you are in college, you absolutely have to prioritize the short-term demands of your program. Our purpose with this book is to help you to manage what you do in the short-term so that you can maximize what you do in the long-term. So, please keep taking care of yourselves in the short-term and keep living for today.

But also, please occasionally thinking about your future – because your future will be here sooner than you think. You want to be prepared for it. Before you know it, you will be graduating and beginning your next great adventure and your next great investment in yourself. Many of you will begin new jobs and careers. Some of you will soon be starting families, travelling the world, and starting your own businesses. Before you know it, you will move from pursuing your goals and dreams to actually living your goals and dreams – and we want you to be as prepared as possible for that next great stage of your life.

What can we tell you – in a *Personal Financial Planning* guidebook – that will help you prepare for your future jobs and careers? Perhaps not much. But we're still going to try.

Here are some issues that you can be thinking about, with respect to maximizing your long-term jobs and careers, while you're still in school and focused on managing your short-term obligations.

- Many jobs claim that "experience is required." Yet it can be very difficult for many college students to acquire relevant experience. Consider an internship, even if it's unpaid. The experience you earn can become very valuable in the future.
    - Should you give up a high-paying job that may be unrelated to your future career (such as waiting tables or bartending) to take an unpaid internship? As painful as it may be (in the short-term), yes, you might have to at some point. Or, perhaps you could do both, working to adjust your hours so lighten the workload.
- When preparing to find a full-time job, use as many campus resources as possible. Talk to your professors. Do mock interviews. Get your resume reviewed. Campus has phenomenal resources designed to make your future awesome – take advantage of all of them.
- When considering a full-time job, always look at the benefits it offers. That is, what non-salary perquisites does the company offer? Health care? Retirement plan? Childcare?

Maternity and paternity leave? Other paid time off? Tuition reimbursement? When considering such benefits, a $40,000 offer might be better for you than a $50,000 offer.

- One of the best investments you can make during your college years that will help you find a full-time job is to network. Go to career fairs, alumni events and every recruiting event possible. Right or wrong, "who you know" can be as (or more) important than "what you know." Networking will open up many new relationships that can benefit you in the future.
- Don't fear rejection or failure. Life is full of both. That's okay. What matters is what you learn from it and how you recover. Your "recovery rate" following negative experiences can help sure you learn and build on such experiences to better create the future you want.
- Don't procrastinate. Begin to understand the process and expectations during your first and second years on campus. The more you learn early on, the more prepared you'll be when it comes time to put your job hunting skills into practice. As a professor, there is little more disappointing than talking to a student who has done nothing to prepare for finding a job and who is about to graduate. The longer you wait, the fewer options you have. Maximize your options by starting early.
- Create your own opportunities. If you have a vision for what you want to do but you don't see any job postings for that vision, make your own career. Create a side-hustle, freelance or start your own business. This can help you develop amazing skills that you can then use to market yourself for all sorts of opportunities. Ten years ago, the job "social media manager" didn't exist; now just about every company has one. Don't wait for someone else to create your future for you; design it and create it for yourself.
- Develop a relationship with 2 or 3 faculty members. It doesn't have to be much: go to office hours, ask questions in class, send them professionally written emails. Do enough to leave a positive impression with them and to make them remember who you are. At some point in the future, many of you will need a letter of recommendation for a job (or possibly even for grad school). They might not do it if they have no clue who you are.
- Start practicing being professional and mature right now.
- Create a LinkedIn page. Clean up your Instagram, Facebook, Twitter and other accounts. Assume that everything you do is part of the public record and is part of your application process. Don't make it easy for employer to pass on you.

Finally, we have all heard the cliché that "if you find a job you love, you'll never work a day in your life." Is that true? Maybe, maybe not. Most of us go through times when we have to endure jobs that do not give us purpose, joy, happiness or fulfillment. Most of us go through times when making money is the only thing that matters. For me, it was working at The Gap at the mall in Dallas; there was no purpose or joy, but there was enough money to help me pay some bills while I was building my resume and working towards something that did give me purpose and joy. I didn't figure out what I wanted to do with my life until I was 29. But, ever since the first night I taught a college class as an adjunct instructor, I have had the greatest job in the world for me.

Be patient and keep working hard… eventually you'll find the greatest job in the world for you, too. Once you get there, all the hard work will become the greatest investment you've ever made: the investment in yourself and your future.

Own it. Create it. Control it.

MY ALL-TME FAVORITE FINANCIAL PLANNING EXERCISE

Let's finish this chapter with an exercise that I frequently use in workshops and consulting as the first exercise we do. It's an exercise that integrates everything we've thought about throughout this book. Yes, it's a very abstract exercise – but that allows you many creative liberties. The key is that you only take these creative liberties in telling this story here – over time, and in real life, you will want to be as intentional, strategic and personal as possible with living this exercise.

What does retirement look like to you? Tell the full story of your retirement…

When do you retire? Where will you live? Who are you with? What do you do?
Think about other issues, such as health, hobbies, work, travel, charity and relationships.

You're young. Retirement may feel like a long time off. But if you can think about what you will need and do in retirement, that can help you design the financial plan that will help you get to retirement – and the financial plan that will help you live the life you want to live.

In the space below, tell the full story of your retirement…and then make a plan to make it happen.

Chapter 5 Summary
Insurance, Taxes, Retirement & Your Career

In the space below, please write down 5 things you learned in this chapter that will help you better manage your insurance, income tax, retirement and career planning.

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to take control of my financial future by proactively planning for my financial future, incorporating insurance, income tax and retirement strategies before small problems can become very large issues.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

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CHAPTER 6

YOUR FINANCIAL GOALS & DREAMS

If you can't fly then run,
If you can't run then walk,
If you can't walk then crawl.
But whatever you do,
You have to keep moving forward.

– Dr. Martin Luther King, Jr.

We are going to start this chapter by getting into the philosophy and psychology of personal finance. Don't worry – we're not going to invoke Freud or Descartes; we're simply going to think about how you think about money. This philosophical discussion will then help us understand how we deal with money as individuals – and then we can we that foundation to help us develop a plan for our financial future.

Let's start with a couple simple fourth-grade exercises.

> In your mind, please define the word "*VALUE.*"
>
> You probably came up with some definition like "the monetary cost or price of an item" or "the intrinsic worth of something."
>
> Now, in your mind, please define the word "*VALUES*."
>
> For this word, you probably came up with some definition like "beliefs that have intrinsic desirability" or "principles and standards deemed to be important, useful, or beneficial."

You probably came up with slightly different definitions for the two words. For *VALUE,* you are probably thinking about dollar amounts and prices; for *VALUES*, you are probably thinking about more qualitative aspects.

There probably is a common theme across your definitions – a them relating to worth and importance, in some sense. But, of course, the two words are the same word!

In finance, we put a higher monetary price on things that are more intrinsically desirable to us. That's not an opinion, that's a fact. You can say you "value" eating healthy, but your actions and your bank account are saying something different every time you pick up some fast food – at least in this moment, you are prioritizing tasty, convenient and inexpensive food over food that's good for your heart and your waistline. Only you can judge yourself for how you spend your money.

Money matters – and how we spend our money is an expression of what's important to us. That is, every time we make a purchase or swipe a debit card, we are putting a financial value on our personal values. Your money should be valuable to you – you should only be giving up your valuable money on items that are important to you….that is, you should only be giving up your valuable money on items that are more important to you than your money.

So, let's perform a little self-test to see if that's what happening.

Check your memory or bank account and fill in the list of 10 purchases you've made recently, or 10 times that you've given up your valuable money for something more valuable – maybe it's a phone bill, maybe it's a Van Gogh, maybe it's a burger and fries.

List 10 of your most recent purchases here – include the item and the estimated amount:
(Yes, you did this back in Chapter 1 – but let's do it again, to refresh and to update if necessary.)

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

6. _____ _____

7. _____ _____

8. _____ _____

9. _____ _____

10. _____ _____

Now take a look at your list. What do you think? Are all of the things you've been giving up your money for intrinsically desirable to you? Are all of the things you've been giving up your money for valuable to you? You'll get to grade yourself on the following page.

Now let's put each of these 10 expenditures into one of three different categories:

Category 1 – Essential…stuff you need to live your life (rent, food, gas, phone)

Category 2 – Discretionary…stuff you could live without or change (online subscriptions, entertainment, travel, clothes, shoes)

Category 3 – Extravagance & Indulgence…stuff that you probably don't ever need, that nobody ever needs, and that add little value to your life (multiple magic sets, ferret obedience training for your ferret, professional bass fishing equipment (for most of us))

After you categorize each of the above 10 expenditures, take a walk or break and then come back to the list in a little while. Review your list and the categories again – make sure you have each item with the proper category.
Are you comfortable with how much money you're spending on Category 2 and 3 items? Most of (hopefully) do not have very many Category 3 items, but we all have plenty of Category 2 items.

Are you comfortable with how much money you're spending on Category 2 items?

Do you have any Category 1 items that really could be Category 2 items?

- Think about how much you spend on lattes – Is that Category 1 or 2? Or 3?
- Think about any recent clothes or shoes purchases – Were those essential?
- Think about food – How are you spending money on food? What about alcohol? Is the food and alcohol you're buying more important to you than cash? (This is why happy hour was invented…well, it's one of the reasons).

SOME FINANCIAL BEHAVIOR MATH

As you know by now, managing your finances is all about trade-offs…managing your finances is about making sacrifices in the short-term that helps you create opportunities for yourself…

managing your finances is frequently about delaying gratification and giving up small amounts of happiness today in exchange for much larger amounts of happiness in the future.

Let's think about this a different way and put some math to this. For me, one of the most valuable things I own is my time. I control my time – I decide what I do with my time and how I spend my time. As the cliché suggests, "time is money;" my time is valuable to me because it creates options, opportunities, happiness, joy and money. I don't want to use my limited time doing things that do not bring me happiness or make my life better.

Like most people and probably like you, I spend a lot of my time working. That is, I sell my time to my employer. This is my choice. I could quit. But, among other things, I value the paycheck the University gives me. The paycheck is more valuable to me than my time; I am willing to sell my time to the University in exchange for my paycheck. And, this paycheck allows me to make all the Category 1 expenditures I have to plus some Category 2 purchases that bring joy to my life.

I enjoy an occasional mocha latte – and I'm a nerd. I know my mochas are a Category 2 or 3 purchase. Every time I spend $5-6 on a large mocha, my brain instinctively calculates how long I have to work, how much of my time I have to sell to UL Lafayette, in order to buy that mocha.

So now let's do the same with your list of purchases above. But first you need to go back to Chapter 2 and recall how much money you currently make per hour of work (or, if you're unemployed, estimate how much you'll earn per hour in the near future). The first thing we'll do is calculate your after-tax hourly earnings – after paying federal income taxes (FICA) and all of the other taxes.

Then we do a little math, using assumptions about what each 'need' or 'want' costs. From there, we simply estimate how long you have to work to be able to afford each of your above purchases (or any other purchases).

Chapter 2 was about Budgeting and comparing Income to Expenses. We all know how to do that. In this chapter, we are focusing on goals, plans, dreams and how you think about money. So, that's what we're doing with this exercise.

The tables on the following pages have already done the math for you, calculating how many hours you have to work to afford many common needs and wants. Your income might be slightly different from what's in the table and some of the costs in the table might not be the same as what you pay. That's okay – the tables are just provided to hopefully give some general guidance for everyone. You can easily do the math for yourself, using your exact income and expense numbers.

Now take a look at the following tables – the first table has different columns for income levels that might be typical for undergraduate and graduate students, the second table has income levels that might be more aspirational for most of you in the years following graduation.

As you look through these tables, try to identify some expenses that you have and think about whether you would classify these expenses as 'wants' or 'needs.' And then think about how much of your own time and energy you have to spend to get those 'wants' and 'needs.'

What stands out to you?

How Much Money Are You Currently Earning?							
Your Hourly Wage		**$7.25** an hour	**$10.00** an hour	**$12.50** an hour	**$15.00** an hour	**$20.00** an hour	**$30.00** an hour
Annual Salary (2000 hours per year)		$14,500 per year	$20,000 per year	$25,000 per year	$30,000 per year	$40,000 per year	$60,000 per year
Your After-Tax Earnings, per hour of work		**$6.16**	**$8.50**	**$10.31**	**$12.00**	**$15.60**	**$22.50**
How Many Hours Do You Have to Work to Be Able to Afford All of Your Needs & Wants?							
Monthly Savings Goal #1	$25	4.06	2.94	2.42	2.08	1.60	1.11
Monthly Savings Goal #2	$150	24.34 hours of work	17.65 hours of work	14.55 hours of work	12.50 hours of work	9.62 hours of work	6.67 hours of work
Cell Phone Bill - 1 Month	$85	13.79	10.00	8.24	7.08	5.45	3.78
Car Insurance - 1 Month	$125	20.28	14.71	12.12	10.42	8.01	5.56
Tank of Gas	$30	4.87	3.53	2.91	2.50	1.92	1.33
Utility Bill - Winter	$25	4.06	2.94	2.42	2.08	1.60	1.11
Utility Bill - Summer	$150	24.34	17.65	14.55	12.50	9.62	6.67
Yoga - 1 Class	$20	3.25	2.35	1.94	1.67	1.28	0.89
Yoga - 1 Month Membership	$55	8.92	6.47	5.33	4.58	3.53	2.44
Air Pods	$159	25.80	18.71	15.42	13.25	10.19	7.07
New Phone - Samsung	$400	64.91	47.06	38.79	33.33	25.64	17.78
New Phone - iPhone	$700	113.59	82.35	67.88	58.33	44.87	31.11
New Computer - HP or Dell	$1,000	162.27	117.65	96.97	83.33	64.10	44.44
New Computer - Macbook	$2,500	405.68	294.12	242.42	208.33	160.26	111.11
Sorority-Fraternity Dues - 1 Semester	$450	73.02	52.94	43.64	37.50	28.85	20.00
Apartment - 1 Month	$450	73.02	52.94	43.64	37.50	28.85	20.00
Textbooks - 1 Semester	$500	81.14	58.82	48.48	41.67	32.05	22.22
Room & Board - 1 Semester	$4,000	649.09	470.59	387.88	333.33	256.41	177.78
Tuition - 1 Semester (In-State)	$6,000	973.63 hours of work	705.88 hours of work	581.82 hours of work	500.00 hours of work	384.62 hours of work	266.67 hours of work
Taco Bell Cheesy Roll-Up	$1.00	0.16	0.12	0.10	0.08	0.06	0.04
Coke or Diet Coke, 20-ounces	$1.59	0.26	0.19	0.15	0.13	0.10	0.07
Red Bull, 12-ounces	$2.59	0.42	0.30	0.25	0.22	0.17	0.12
Starbucks Drip Coffee, grande	$2.75	0.45	0.32	0.27	0.23	0.18	0.12
Starbucks Mocha Latte, venti	$6.00	0.97	0.71	0.58	0.50	0.38	0.27
Shrimp Poor Boy at Olde Tyme	$11	1.78	1.29	1.06	0.91	0.70	0.49
Crawfish Etouffee at Don's	$15	2.43	1.76	1.45	1.25	0.96	0.67
Netflix Premium - 1 Month	$16	2.60	1.88	1.55	1.33	1.03	0.71
Parking Permit - Campus	$40	6.49	4.71	3.88	3.33	2.56	1.78
Parking Citation - Campus	$50	8.11	5.88	4.85	4.17	3.21	2.22
Speeding Ticket	$100	16.23	11.76	9.70	8.33	6.41	4.44
OWI Ticket	$500	81.14	58.82	48.48	41.67	32.05	22.22
Cell Phone Case	$35	5.68	4.12	3.39	2.92	2.24	1.56
Video Game - Each	$65	10.55	7.65	6.30	5.42	4.17	2.89
Video Game Console	$400	64.91	47.06	38.79	33.33	25.64	17.78
New Pair of Crocs	$35	5.68	4.12	3.39	2.92	2.24	1.56
New Pair of Air Jordans	$175	28.40	20.59	16.97	14.58	11.22	7.78
Extensions - Nails, Acrylic	$35	5.68	4.12	3.39	2.92	2.24	1.56
Extensions - Eyelash	$160	25.96	18.82	15.52	13.33	10.26	7.11
Extensions - Hair	$175	28.40	20.59	16.97	14.58	11.22	7.78
Chevy Silverado Lift Kit	$899	145.88	105.76	87.18	74.92	57.63	39.96
Emergency Room Visit	$1,300	210.95	152.94	126.06	108.33	83.33	57.78
Used Toyota Camry	$15,000	2,434	1,765	1,455	1,250	962	667
New Cadillac Escalade	$80,000	12,982	9,412	7,758	6,667	5,128	3,556
New House	$250,000	40,568 hours of work	29,412 hours of work	24,242 hours of work	20,833 hours of work	16,026 hours of work	11,111 hours of work

How Much Money Are You Currently Earning?							
Your Hourly Wage		**$40.00** an hour	**$50.00** an hour	**$62.50** an hour	**$75.00** an hour	**$125.00** an hour	**$250.00** an hour
Annual Salary (2000 hours per year)		$80,000 per year	$100,000 per year	$125,000 per year	$150,000 per year	$250,000 per year	$500,000 per year
Your After-Tax Earnings, per hour of work		**$34.00**	**$42.50**	**$51.56**	**$60.00**	**$97.50**	**$187.50**
How Many Hours Do You Have to Work to Be Able to Afford All of Your Needs & Wants?							
Monthly Savings Goal #1	$25	0.74	0.59	0.48	0.42	0.26	0.13
Monthly Savings Goal #2	$150	4.41 hours of work	3.53 hours of work	2.91 hours of work	2.50 hours of work	1.54 hours of work	0.80 hours of work
Cell Phone Bill - 1 Month	$85	2.50	2.00	1.65	1.42	0.87	0.45
Car Insurance - 1 Month	$125	3.68	2.94	2.42	2.08	1.28	0.67
Tank of Gas	$30	0.88	0.71	0.58	0.50	0.31	0.16
Utility Bill - Winter	$25	0.74	0.59	0.48	0.42	0.26	0.13
Utility Bill - Summer	$150	4.41	3.53	2.91	2.50	1.54	0.80
Yoga - 1 Class	$20	0.59	0.47	0.39	0.33	0.21	0.11
Yoga - 1 Month Membership	$55	1.62	1.29	1.07	0.92	0.56	0.29
Air Pods	$159	4.68	3.74	3.08	2.65	1.63	0.85
New Phone - Samsung	$400	11.76	9.41	7.76	6.67	4.10	2.13
New Phone - iPhone	$700	20.59	16.47	13.58	11.67	7.18	3.73
New Computer - HP or Dell	$1,000	29.41	23.53	19.39	16.67	10.26	5.33
New Computer - Macbook	$2,500	73.53	58.82	48.48	41.67	25.64	13.33
Sorority-Fraternity Dues - 1 Semester	$450	13.24	10.59	8.73	7.50	4.62	2.40
Apartment - 1 Month	$450	13.24	10.59	8.73	7.50	4.62	2.40
Textbooks - 1 Semester	$500	14.71	11.76	9.70	8.33	5.13	2.67
Room & Board - 1 Semester	$4,000	117.65	94.12	77.58	66.67	41.03	21.33
Tuition - 1 Semester (In-State)	$6,000	176.47 hours of work	141.18 hours of work	116.36 hours of work	100.00 hours of work	61.54 hours of work	32.00 hours of work
Taco Bell Cheesy Roll-Up	$1.00	0.03	0.02	0.02	0.02	0.01	0.01
Coke or Diet Coke, 20-ounces	$1.59	0.05	0.04	0.03	0.03	0.02	0.01
Red Bull, 12-ounces	$2.59	0.08	0.06	0.05	0.04	0.03	0.01
Starbucks Drip Coffee, grande	$2.75	0.08	0.06	0.05	0.05	0.03	0.01
Starbucks Mocha Latte, venti	$6.00	0.18	0.14	0.12	0.10	0.06	0.03
Shrimp Poor Boy at Olde Tyme	$11	0.32	0.26	0.21	0.18	0.11	0.06
Crawfish Etouffee at Don's	$15	0.44	0.35	0.29	0.25	0.15	0.08
Netflix Premium - 1 Month	$16	0.47	0.38	0.31	0.27	0.16	0.09
Parking Permit - Campus	$40	1.18	0.94	0.78	0.67	0.41	0.21
Parking Citation - Campus	$50	1.47	1.18	0.97	0.83	0.51	0.27
Speeding Ticket	$100	2.94	2.35	1.94	1.67	1.03	0.53
OWI Ticket	$500	14.71	11.76	9.70	8.33	5.13	2.67
Cell Phone Case	$35	1.03	0.82	0.68	0.58	0.36	0.19
Video Game - Each	$65	1.91	1.53	1.26	1.08	0.67	0.35
Video Game Console	$400	11.76	9.41	7.76	6.67	4.10	2.13
New Pair of Crocs	$35	1.03	0.82	0.68	0.58	0.36	0.19
New Pair of Air Jordans	$175	5.15	4.12	3.39	2.92	1.79	0.93
Extensions - Nails, Acrylic	$35	1.03	0.82	0.68	0.58	0.36	0.19
Extensions - Eyelash	$160	4.71	3.76	3.10	2.67	1.64	0.85
Extensions - Hair	$175	5.15	4.12	3.39	2.92	1.79	0.93
Chevy Silverado Lift Kit	$899	26.44	21.15	17.44	14.98	9.22	4.79
Emergency Room Visit	$1,300	38.24	30.59	25.21	21.67	13.33	6.93
Used Toyota Camry	$15,000	441	353	291	250	154	80
New Cadillac Escalade	$80,000	2,353	1,882	1,552	1,333	821	427
New House	$250,000	7,353 hours of work	5,882 hours of work	4,848 hours of work	4,167 hours of work	2,564 hours of work	1,333 hours of work

Let's go through a simple activity to force you to think about the tradeoffs you are always making – whether you think about it or not – every single time you give someone some of your hard earned money for something. Is it worth it? How long do you have to work for each need and each want?

Let's pick an income column – say, the second column with and hourly wage of $10.00 per hour. After paying federal and state income taxes, and adjusting for deductions and credits and anything else, you should probably take home (after tax) between 80-90% of your hourly wage. The above table assumes that you take 85% of your hourly wage home as cash.

The top of the table presents a couple savings goals – if you commit to paying yourself before you make any other payments or purchases, you will need to work for just about 3 hours to save $25 and you will need to work 17.65 hours to save the larger goal of $150. Start small – commit your first 3 hours to saving the $25 and then try to save more if you're able.

Many of the items in the middle section would be considered 'needs' by most college and graduate students. Some of these – such as tuition and textbooks – are not flexible. Or are they? Could you save more money by renting textbooks? Could you search for a scholarship – either on campus or even back home – that could reduce your tuition costs. And for many of the other 'needs,' you may or may not be able to reduce the costs. But a mindful consumer thinks about all of these issues. If you only go to yoga class twice a month, don't buy the monthly membership; if you go 3 or more times a month, don't pay by the class. Or, better yet, are there free yoga classes you could utilize – perhaps at the Student Fitness Center or perhaps by creating an online group with friends (just as we did during COVID-19). It's your money, value it. Only trade it for things that make your life better…and after you've asked yourself how much time and energy that will cost you. Be creative. Take control of your money and how you spend it.

The bottom section is all about your 'wants.' You should never purchase any of these without being fully aware of how much you have to work to afford it.

- Is a soda worth 11 minutes of work?
- Is a mocha latte worth 43 minutes of work?
- Is that crawfish etouffee worth almost 2 hours of work?
- How many hours of work are you willing to endure, considering all that you're giving up to do it, considering how inconvenient it is, considering what a jerk your boss is…in order to buy some new shoes, to spend an afternoon at the salon, to play some video games or to Netflix and chill?

You may have noticed some items in the bottom section that nobody would consider 'wants.' Parking tickets, speeding tickets and an OWI citation are certainly not wants – but they are discretionary. You can avoid them. Most people only incur them because they're being lazy or irresponsible. My time is valuable. I would never choose to trade 12 hours of work just to drive a little faster. I would much rather trade those 12 hours of work for some of the true 'wants' on this list that I really do want. Think about what you're doing and do what you can to avoid these costs.

Now let's go back through the list of 10 recent purchases from a couple pages ago – or just scroll down the preceding table to identify some expenses that you didn't even think about. Now go through your list of the table and identify 5 expenses that you could avoid – or at least decrease.

Fill in the table by listing these 5 expenses and by listing the amount you spent on each. Then, in the far right column, do the math and figure out how many hours of work you will save simply by avoiding or reducing that discretionary expense. And then add up the two columns to get Totals.

List 5 Avoidable Expenses	Money Saved	Hours of Work Saved
1. _____	$ _____	_____ hours
2. _____	$ _____	_____ hours
3. _____	$ _____	_____ hours
4. _____	$ _____	_____ hours
5. _____	$ _____	_____ hours
==========		
TOTAL SAVINGS	$ Money Saved	Hours of Work Saved

I remember the first time I did this exercise that I estimated saving over 20 hours. This blew me away. At the time, I was working about 15 hours a week. This exercise helped me get rid of over a week of wasted spending – it helped me get rid spending that wasted about 30% of all the time I worked in a month. Yes, this means I was wasting way too much money. But it also meant I wasn't even thinking about it.

Be mindful. Only you own your money. And only you own your time. Value both your time and your money as the scarce and precious assets that they are. Take control of your future by owning your present. If you don't own today, nobody else is going to do it for you.

WHAT IS MONEY & WHAT DOES IT MEAN TO YOU?

All of you have different financial goals and plans – and all of you have different attitudes towards money. At this point, you should have lots of tools for helping you think about money and for helping you plan your financial future. Now, you need to take your personal values and your financial values and put together a financial plan for your future.

Back in Chapter 1, in the first exercise in this book, you defined what money means to you. Think back to what you wrote down in that exercise. Now that you're almost done with this book, how would you define 'money?' Does it mean the same thing it meant back when you first began this journey in Chapter 1? What does money mean to you know?

Money is a unit of exchange. Take a $20 bill. What can you do with it? You cannot really do anything with it – except you can trade or exchange it for stuff that others have told you is worth $20 or less. Money only has value because we can trade it for stuff that is important to us.

Back when people lived in a hunter-gatherer society, there was no money. You took care of yourself, your survived based only on what you could get and produce for yourself. Then we advanced to a barter system, where we traded one good for another; you might trade a cow for 25 bushels of potatoes. This trade defined the value or price of each good, relative to one another. This worked well enough, but it wasn't perfect – what if I didn't want 25 bushels of potatoes?

Thus, we introduced currency as our unit of exchange. Currency – that $20 bill – is issued by governments and is recognized as legal tender to trade stuff. Now, I can sell my cow for money or I can buy 25 bushels of potatoes with money, but the logic is the same as it was in the barter system: I only give up my cash for things that are important to me and that have value to me; I only give up my $20 bill for things that I value at $20 (or more).

Where did I get that $20 from? For most of us, we get our money from our employers, in exchange for the work (or value) we provide to our employer. The same logic applies there: I'm willing to sell my work, time and energy for that $20, so that I can ultimately us that $20 to purchase something that has value to me – like a bushel of potatoes. Having money as that unit of exchange (currency) is much more efficient than me trading my work, time and energy directly for a bushel of potatoes. Money provides me more options for what I trade my work, time and energy for.

SOME MORE BEHAVIOR MATH

Taking ownership of your financial future frequently requires you to be a nerd.

That's okay – many nerds drive really nice cars. Bill Gates, Rosario Dawson, Elon Musk, Neil de Grasse Tyson, Tina Fey, Stephen Colbert, Serena Williams, Trevor Noah, Mark Zuckerberg, Oprah Winfrey, Calvin Broaddus, Jr., Rashida Jones, T. Boone Pickens and Drake – They're all nerds and they all have really nice cars (I'm assuming).

So, let's do some math that may or may not hit home with you.

Imagine you spend $1.99 every weekday on a soda at a convenience store for class.

- That's $9.95 each week.
- That's $39.80 each month.
- That's $517.40 in a year.

Imagine that you spend $5.00 four times a week on a café latte from your favorite coffee shoppe.

- That's $20 each week.
- That's $80 each month.
- That's $1,040 in a year.

Imagine that you spend $25 every Friday night and another $25 every Saturday night with friends.

- That's $50 each week.
- That's $200 each month.
- That's $2,400 in a year.

What could you do with an additional $517.40 or an additional $2,400 each year?

Think about what you could do – and then think about whether sacrificing your soda or latte fixes are worth achieving your long-term personal and financial goals. Think about what else you could sacrifice in your life – habits and patterns that you see in your life that seem to be disconnected from what you really want to achieve in life.

Sure, little luxuries help make life a little more enjoyable. So maybe you don't go cold-turkey but you just cut these habits in half. Getting 3 sodas a week instead of 5 saves you over $200 a year. Getting two lattes a week – or 5 regular drip coffees – instead of 4 lattes saves you over $500 a year. And cutting your weekend entertainment expenses in half can save you over $1,000 a year.

Every nerd celebrity listed above achieved their success my making enormous sacrifices early in their lives or careers – and those relatively small and insignificant sacrifices paid enormous dividends for them in the long-term.

Be a nerd. Do your math. Count all of your expenses. Analyze all of your expenses. And then figure out where you can make small sacrifices that will have a big impact on your long-term goals.

YOUR VALUES DRIVE YOUR ACTIONS
YOUR BEHAVIOR DRIVES YOUR FINANCIAL FITNESS

Throughout this book, we've encouraged you to think about your goals, your dreams and your long-term plans…over 1-year, 2-years, 5-years and 10-yers. The dreams you have for your future reflect your individual values.

We began this chapter defining values and discussing how "personal values" and "financial value" are essentially the same thing – that is, you only exchange money (financial value) for things that you believe are important or intrinsically desirable (personal values). Your personal values guide your sense of what is acceptable and what is not acceptable to you.

There are many, many things that shape your values – your parents, other family members, your religion, your teachers, pop culture, the things you need and the experiences you have in life. Your values are uniquely yours – they are highly personal. And your values will determine what you do with your money and what your financial goals are.

Now let's work through a brief exercise to connect three very much related items: your personal values, financial values and the realities of everyday life. There are many things in life that we may not explicitly think of as representing our values – such as paying bills or having insurance. But of course, such things do represent our values – think about life without a phone, air conditioning or car insurance? You value those items because life without them might become very difficult.

Below is a list of 10 items that represent experiences, bills and choices we will all face in our lives.

Go through this list and rank them in terms of their importance to you – with 1 representing the most important item to you and with 10 representing the least important item to you.

_____ Saving $5,000 to purchase a car in 4 years.

_____ Buying $100 of lottery tickets.

_____ Paying your bills on time to increase your credit score.

_____ Paying $1,000 a month to rent a nicer apartment.

_____ Paying $100 a month for adequate auto insurance.

_____ Giving $100 a month to a family member.

_____ Investing $100 a month in a retirement account.

_____ Giving $100 a month to charity.

_____ Paying $200 for some amazing new shoes.

_____ Opening a savings account and committing to save $50 a month.

As usual, there are no 'right' or 'wrong' answers here – although there might be some items above that should be lower priority for all young people trying to execute a financial plan.

Your rankings above reflect your values – your personal values determine what you place monetary value on and what your priorities are. Most of us constantly have to make tradeoffs – with how we spend our time and with how we spend our money. These tradeoffs, or sacrifices, are rarely fun but they are essential to living your best life and to executing your financial plan.

Most of us do not explicitly connect our personal values with our financial plan. And then, at the end of the month or when we look for money to execute that plan, we cannot find it. When you look in your wallet or check your online bank statement and you see that you have much less money than you think, the cause it likely that you're not paying attention to your spending – and you're not explicitly prioritizing your values.

The bad news is that we all experience times when we have much less month that we thought we'd have. The good news is that to solution to this problem is staring at you in the mirror.

Change your behavior, change your actions, make sure that what you're doing with your money aligns with what you want to be doing with your life.

If you track your spending and behavior as we discussed in Chapters 1 and 2, you'll get much better at being mindful of where your money is going. And if you track your spending month-after-month and year-after-year, you'll have lots of data to evaluate your behavior (and your expressed values).

As you go through, you're likely to find patterns that you don't love….patterns that deviate from your financial plan and your personal goals:

- Are you saving as much money each month as you need to be?
- Are you investing as much money each month for the long-term as you want to be?
- Are you aware of where your largest cash outflows are going?
- Are you aware of where your smallest cash outflows are going? Can you track every penny?
- Are you frequently spending money on things that you rarely use – and do not need?
- Are you putting expenses on a credit card, thinking you'll be able to pay it off eventually?
- Are you selling items when you're short on cash?

For most of us, when we get off track with our financial plans it's because of our spending – it's because we're not monitoring our spending and because we're prioritizing wants over needs.

As you look back on your spending and on these patterns, analyze yourself. Ask yourself the following question that may help you explore what behavior or spending alternatives you have.

1. Why am I buying this? Is this a want or a need?
2. What do I hope to gain from this purchase? Do I value this decision?
3. What will I have to give up by taking this action? Is today's gain worth tomorrow's loss?
4. What alternative options are available? Do any of the alternatives better fit with your values and situation?

YOUR FINANCIAL GOALS

Let's do a simple thought exercise, with 3 questions that may be very difficult to answer.

Please note that this exercise is not about money or about financial planning. This exercise is simply about you and your future.

Think about your goals and dreams for your future. What do you want to do? What do you want to achieve? What do you picture for your future?

In 1 year, I want to: _____

_____

_____

_____

In 5 years, I want to: _____

_____

_____

_____

In 10 years, I want to: _____

_____

_____

_____

Only you know what you want to do, what your goals are and who you want to be. If you're like most people, what you want to do will require you to use money, to use time or to use energy.

Given that money creates options, prudent financial planning will help us achieve those goals.

There are many tools we can use to help connect our goal-setting with our financial planning. Here are a couple approaches that may work for you.

Goal-Setting & Financial Planning Framework #1

The DECIDE Steps

D — **Define your objective**
What do you want to achieve?

E — **Establish your criteria**
Which features must you have?
Which features would you like to have?

C — **Choose the promising options**
Use your criteria to research and find two to three potential options.

I — **Identify the pros and cons**
Compare the features for each option side-by-side. Make a chart to easily compare.

D — **Decide what's best**
Which option meets your criteria and gives you the most value?

E — **Evaluate the results**
Honestly assess the outcome. Did you find out anything afterward that would have changed your decision?

The SMARTER Goals Guide

S — **SPECIFIC**
How much money does this goal really require?
What are all of the costs involved?

M — **MEASURABLE**
How will I know that I have succeeded?
What data can be tracked to measure success?

A — **ACHIEVABLE**
How can I get the resources to achieve the goal?
Is the goal a reasonable stretch – not too hard, not to easy?
Are my planned actions likely to lead to the goal?

R — **RELEVANT**
Is this a worthwhile goal for me right now?
Am I willing to commit to this goal, even if it means giving up other goals?

T — **TIME-BOUND**
What is the deadline?
What is the order of events?
What needs to happen first, second…last?

E — **EVALUATE**
What are the checkpoints to know I'm on track?
What might limit my ability to reach this goal?
How could I plan for the possibility of setbacks or barriers?

R — **RE-ADJUST**
What do I need to do differently?
What can I keep doing the same?
What have I learned to help me with future goals?

You have the best chance of success if you make reasonable goals and allow for flexibility. You want your goals to be a "just right" challenge – hard enough to push you out of your comfort zone but easy enough that you have a high chance for success. Start small, celebrate each achievement, and keep pushing yourself to achieve more.

Goals come in all sizes and time frames. Small goals that you can achieve in the next few months are easier to visualize. Your longer-term goals – such as a future career or retirement – might not be

quite as tangible or defined. Think in terms of being on a boat in the sea, seeing an object that's far away – the initial image is blurry, but as you keep moving towards it, the details become clearer.

Right now, your money habits may not seem like a big deal, but habits stick. Good habits can help you achieve your goals and bad habits can take you somewhere that you do not want to go. Don't get fooled into thinking that there's plenty of time to change your habits later. If you find it hard to make sacrifices and save today, what makes you think it will get easier as you get older?

If you have habits that you would like to change – or if you want to avoid picking up bad habits – practice making small adjustments now. The more you do it, the easier it becomes.

And think back to Chapter 5 when we talked about saving & investing: making small changes, sacrifices or investments now can have enormous benefits and payoffs in the future.

Ask yourself: Do your habits align with your goals? Are your habits helping you move closer to the future that you hope to attain or are they moving you farther away? If they're not moving you closer to the future you want, what can you do today to make changes today that will have enormous benefits and payoffs for you in the future?

CONNECTING YOUR HABITS WITH YOUR GOALS

A little earlier, you identified your financial goals for the next 1, 5 and 10 years.

Now that you've spent a little time with the DECIDE and SMARTER frameworks, let's think about how you might actually achieve those financial goals.

What money habits would help you achieve the financial goals above?

In the next 1 year, I could build a habit of: _____

_____

In the next 5 years, I could build a habit of: _____

_____

In the next 10 years, I could build a habit of: _____

_____

How do you stick to your goals? It's never easy – or, it shouldn't be easy if your goals are ambitious and challenging enough. Do you make any New Year's resolutions? How often do you stick to them for the full year, or even through January?

We can use some of the same strategies for our financial planning goals that we use with our resolutions, though hopefully with more success:

- Tell other people about your goals.
- Post your goals on Instagram, Facebook or Twitter.
- Create your own website or blog to track your progress.
- Put inspiring pictures and encouraging notes in prominent places – and in places where you might be most likely to cheat (such as in your car or on your computer).
- Ask a friend, partner or family member to check in with you on your progress.
- Create a social or online group with friends who are also trying to achieve difficult goals.
- Review your goals regularly and adjust them as necessary (but don't look for excuses).
- Anticipate challenges and be mindful about how you address them.
- Leave room for flexibility – but not too much room.
- If you get off track, get back on. Never give up.

SAVING – ACHIEVING YOUR GOAL TO SAVE MORE

As we've discussed throughout this book, much of financial planning revolves around two issues: spending money vs. saving money. Yes, there's more to it than that, but if you can take control of you spending and saving habits, you will be a long way to achieving your goals.

Saving money is simply the act of setting money aside today to use it in the future – maybe you want to buy a computer, but a carl, plan a vacation, whatever. Most of us cannot pay for these kinds of large purchases with our monthly income; we have to save over months or years to afford them.

But saving money creates options and opportunities – and that's what personal and financial goals are all about.

So, what can you do to save more? Here are a few strategies:

- Open a separate savings account with your bank or credit union. Do not try to "save" within your checking or regular account.
- Move a set dollar amount or percentage from each paycheck into this savings account before you pay any other expenses; make saving for your future your most important expense.
- Make a game it. Put graphs or posters around your room with your savings from each of the past 12 months. Challenge yourself to save more next month.
- Track your progress. Go back to the budget exercises in Chapter 1 and review them to see where you could be spending less. And then when you spend less, commit to putting that savings into your savings account (that is, don't think of it as found money to be spent).
- Use an app that is designed to save more for you.
    - Some apps will link to your credit or debit card and round up each purchase and move the different to savings. If you spend $4.50 on a latte, $5.00 will be deducted from your checking account and the $0.50 will be moved to your savings account.

- Some apps turn saving into a lottery-style game, where you receive opportunities to win cash or prizes; the more you save, the more you can win.
- Simple, Chime, Qapital, Long Game, Dobot, Digit, Tip Yourself, Current and Acorns are some of the most popular apps that offer a variety of ways to help you save more, invest more and spend less.

WHAT'S YOUR FINANCIAL FITNESS?

- In an emergency, would you be able to get cash quickly?
  - Could you find $100 quickly?
  - Could you find $300 quickly?
  - Could you find $1000 quickly?

- What is your progress towards your savings and investing goals?
  - What is your progress towards your 1-year, 2-year, 5-year and 10-year life goals?

- How do your liabilities compare to your assets?
  - Are your liabilities more or less than your assets?
  - What liabilities could you pay off by this time next year?

- How do your short-term decisions affect your long-term goals?
- How do your priorities affect your behavior?
- How do your values affect your net worth?

If you are like most people, your financial fitness is not as perfect as you would like it to be – or, as healthy as you will soon make it. And there's nothing wrong with that – being a college student is a transitional period, in many ways. You're probably more financially independent than you've ever been. You're giving up income-earning opportunities in order to spend a lot of money on your education. You're making a huge investment in yourself. Your focused on your future….your future job and career opportunities and your future life adventures. Your financial fitness will get better.

For now, try to come up with 5 things you can do in the next 6 months to improve your financial fitness. Can you create an emergency fund? Can you decrease your credit card balance? Can you earn a little extra income? Can you change your spending habits? Can you map out your short- and long-term goals? Can you save more? What can you do in the next 6 months?

Please come up with these 5 things – or more – on the following page.

1. _____

2. _____

3. _____

4. _____

5. _____

Now, look at this list and explain to yourself – and to your family – why each of these is so important. Keep this list handy and constantly think about how you can achieve each of these goals. And constantly remind yourself how much better off – personally and emotionally, not necessarily financially – when you accomplish each of these financial fitness goals.

The purpose of these goals – and this book – is to help you own your future and to help you achieve your goals and your dreams. Just as you've done by investing in college to change your life and to create new opportunities for you and your family, invest in improving your financial fitness can similarly change your life.

Financial planning requires effort, intentionality and commitment. Just as your degree will do for you and your family, having a financial plan and pursuing that plan will create options, opportunities, happiness and peace of mind for you and for your future. Your future self – and your family – will thank you. Celebrate your successes and enjoy living your dreams.

There is freedom waiting for you,
On the breezes of the sky,
And you ask 'What if I fall?'
Oh but my darling,
What if you fly?

– Erin Hanson

Chapter 6 Summary
Your Financial Goals & Dreams

In the space below, please write down 5 things you learned in this chapter that will help you take greater ownership of your financial future in order to achieve your goals and dreams.

1. _____

2. _____

3. _____

4. _____

5. _____

My Pledge to My Future Self:

I hereby pledge to take control of my financial future. I hereby pledge to my future self to regularly monitor my financial situation to make sure that what I am doing with my money aligns with my personal values, my financial goals and my dreams for creating a better life for myself.

_____ _____

Signature Date

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

SPACE FOR NOTES, THOUGHTS, PRACTICE & PLANNING

THE STUDENT ADVICE WALL

Financial Planning & Financial Health
Suggestions from Other Students

Make a plan. Weekly, Monthly, Yearly, Five Year Plan. Schedule out your plan and how to achieve them. Invest early for your future. Don't be afraid of failure. Keep pressing on.

Check your bank account(s) every three days. Make sure to have a checking and a savings account. If you have $50 in your checking account, assume you only have $25. If you have $200, assume you only have $100. This sets you up to put money into savings every month. Calculate four months' worth of savings and make that your first savings goal. While saving your four months' expenses, learn about how to open an IRA.

Make a monthly budget and get a planner.

Start investing early. Make compound interest be your friend.

Make buying a home a priority – turn your rent payments into investments.

Always have a savings account for emergencies and unforeseen problems.

Pay yourself first. Pay your bills second. Spend on discretionary and impulse items last.

Be mindful about taking out loans. Only borrow what you absolutely need. And then have a clear plan for repaying your loans.

Work while in school. It can be tough to balance, but that leads to discipline and creating priorities.

Get a graduate or research assistant position.

Investing will protect your money against inflation and will help you build a nest egg that can lead to many opportunities once you graduate.

Pay yourself first.

Save all $1 and $5 bills. Only spend $10 and larger bills. This will automatically create a savings account with your $1 and $5 bills, but it can also create discipline and teach you that you may not need to spend as much as you think.

Do the math. Before buying something, calculate the price-per-use. If it's an item you won't use much, try to spend as little as possible.

I try to save at least 10% of every paycheck.

The sooner you start investing for your future, the more money you'll have to retire with or use later in life.

Live within your mean. I know, it sounds obvious, but I'm always surprised at how many people do not.

If you're working at a place that offers a 401(k) or 403(b) retirement plan, always try to get the maximum matching contribution that your employer offers.

Recognize the connections between spending, saving and investing and your emotions. Don't let emotions drive your spending. Do let values and goals drive your saving and investing.

Find a personal desire or driver that gets you excited about financial planning. Make it a game. Reward yourself. Compete with yourself.

Prioritize your spending. Make a budget with specific items – and classify them all as needs and wants.

Get a credit card. It is essential to building credit. It can help you track your spending. But never forget it is not free money.

Don't be scared. The more you face financial planning and focus on your goals, the less you will be stressed or intimidated by finances.

Be cautious of food spending. Grocery bills can get very high very quickly. And eating healthy foods can be more expensive than eating junk. Always have a plan and be mindful of what you are spending.

Never throw out food. You wouldn't throw cash into the trash, why do the same with food?

Use spreadsheets to create graphs and charts that can help you visually appreciate your spending and financial planning. We all get sick of looking at numbers all the time. Pictures can help.

Take advantage of restaurants and stores that offer student discounts. Do not be afraid to ask places because they do not always advertise. The same goes for online purchases and streaming services.

Avoid brand name items. For most of your purchases, generic and store-name items are just as good (and for some items, they are identical). Don't pay for the brand name and all of its fancy advertising.

Create separate bank accounts for different purposes – bills, personal purchases, emergency funds, savings goals.

Invest in experiences – such as travel and time with friends and family.

When you're in your early 20s, you have the fewest responsibilities you will ever have. This is the time to HUSTLE! Work. Save. Invest. Skip extracurriculars. Sacrifice now and you will reap the benefits later.

Do not buy a new car. Always buy a used car. And then drive it until the wheels fall off.

Budgeting does not have to be complicated. Just start with Income - Expenses. Then you can get more complicated, but do not let it intimidate you.

Use free apps, such as Mint. They can help you figure out which expenses are not necessary.

Always read the fine print on debt. Understand how interest rates work. Even if you pay off a portion of your credit card balance, you may be charged interest on the full amount. Make sure you know what you are signing up for.

Pay yourself first and pay your bills second.

Have mad money. Treat yourself. Include this in your budget. Set money aside for it. If you budget for impulse spending, then you will likely stick to that budget – and you will feel less guilty about treating yourself because it was always part of your plan.

Think about retirement – now. Think about what it will take you to retire as early as possible. It might feel very far away now, but thinking about retirement will help you understand how you want to live your life and what's important to you.

If you get tips at work, allocate your tips differently. Maybe use your cash tips for your credit cards. And then use your paycheck on essentials.

Get the cheapest books and school supplies possible. Do your research. Your faculty do not care about this – and there is little difference between books.

Get a Roth IRA as soon as possible.

Start saving for retirement as soon as possible. Understand what you will need in retirement – such as health care, and understand what you will need to be able to have the retirement you want.

Think long-term.

Save. Do not be intimidated by the fancy book examples that use big numbers. The book may suggest saving $1,000 a month. Ignore that if you want. Saving $10 a month has huge benefits. Have discipline and focus on your own situation.

Debt can snowball into a nightmare if you are not careful. This is why I use my credit card as a debit card – always paying the balance in full each month.

I wish someone had explained credit to me sooner. Make sure you understand the costs you are undertaking, but also understand the benefits of building a credit history as soon as possible.

When you pay yourself first, you won't miss a penny. Do it.

When you put money away for retirement, you won't miss a penny. Do it.

Your spending habits will change over time, and they will continue to change. Make sure you account for these changes in your long-term planning.

Eat in as much as you can. Learn to cook. I can spend $20 on a whole week's worth of food, which is the same I might spend on one meal out.

At some point in college, I convinced myself that paying for something in cash wasn't technically spending money because the balance in my checking account did not change. I justified a bunch of silly purchases with this logic and I wasted a ton of money because of this.

Make a budget. Keep track of how much spend and exactly where it goes.

Treat a credit card like a debit card, meaning only spend money that's already in your account. Pay it off every month – and then treat yourself to some fun with the points or rewards you earn.

Think of budgeting as a tool to take control of your finances. It's not a tool to punish you – it's a tool to empower you.

What is the interest rate you're earning on your savings? 0.0%? 0.1%? That's not much – it's less than inflation. Saving is important, but investing and potentially earning much higher interest rates is the key to building wealth.

A few years ago, I wish I would have looked into cryptocurrency as an investment option. Hindsight is always 20/20, but be open to considering lots of different investment options.

Find a mentor. Nobody knows everything – not even you. So open yourself up to talking to others and learning from others. And they will learn from you, too.

Talk to you boyfriend/girlfriend/spouse/partner about money. Talk about your goals and your values. It can be very good for your financial planning – but it will be way, way, way better for your relationship. Trust me!

Never stop learning, never stop growing. Your situation will change, and the options available to you will change, too. Always stay open-minded about what you want and how you can achieve it.

Be strategic about using zero-interest credit cards and promotions – and then transfer to lower rate cards when necessary.

It took me two years to pay off my debt; and it was an enormous weight off my shoulders once it was gone.

How badly do you really need that 4-wheeler or ATV if you don't own a house yet? Know what your goals are and make sure you're spending aligns with those.

Peer pressure is tough. But don't let peer pressure dictate your spending. The earlier your take ownership of your own situation and spending, the longer and more you will reap the benefits.

For saving: eating out on weekdays adds up, try to maintain it to only weekends.

Brew your own coffee.

Cook. Buying food on campus is expensive.

Buy as many of your textbooks used as you can!

McGraw Hill has ambassador programs you can apply for where you can get cash rewards and free or discounted books. Plus it looks great on a resume.

When shopping, eating out, or going to entertainment events, be sure to ask if there's a student discount. A lot of places have them.

If you are on a tight budget you need to resist the urge to buy things you want but do not need.

It can be ok to put 1 or 2 little charges on your credit card to build up credit but please do not rely on it. Set it to automatic draft so that you never forget a payment.

New students should make sure they don't overbook their schedules. Too many activities and obligations can be both distracting and stressful. And stress can lead you to spend money without thinking.

Use your money wisely - notice I said "use" and not "spend". The word "use" is to represent money as a tool, not anything else; because that's all money is, a tool. Pay attention to the words you speak and the thoughts you believe about this. It could lead you to either Financial Abundance or Financial Poverty. If you understand this knowledge, you will go a long way.

Ask someone who took the class before you if the professor actually used the book. In my experience many professors ask you to buy the book but never use it during the semester, essentially wasting hundreds of dollars.

Look for part-time jobs that offer benefits/401-k plans. Part-Time Bank teller will help grasp concepts of personal finance!

Start a low limit credit card to begin establishing credit.

Open a Fidelity Investment account and deposit small amounts and invest as you can.

Save money. Graduate School is expensive especially if you, like me, are a first-time graduate in your family. I would try to save money so you don't have to work and go to school. I worked all through undergrad and masters and it really puts a strain on schoolwork. If I could have not worked it would have been a better experience! But I did what I had to!

I would say take out student loans if you see yourself struggling to pay bills. My senior year in undergrad I didn't have to work because I saved enough to take the year off, from working that is. I had less stress and could focus more on schoolwork and making connections. I could attend career fairs without having to miss work or rush through them because I had to be at work!

Another tip I would give would be to have time management! Many grad students can't handle the school load because they have bad time management. If you work and attend grad school, you need to be on top of your game. It requires sacrifices to be made, but it pays off in the end!

Research student loans BEFORE signing the papers! Many students are first time graduate students in their family and don't know how to pay for school or what options are available. See what grants and scholarships you quality for.

Many students have to take out loans, but don't know where to start or how to go about applying. Yes, there is FASFA, but those are not the only sources of loans and grants – especially for graduate students. There are different rules and different options than exist for undergraduate students.

Be smart with your money, no matter the circumstances of how you are paying for graduate school, it is a privilege to attend a university and you owe it to yourself to wisely manage your funds.

If you have a job, make sure to save. Life starts to come to you really fast as you approach graduation, so be prepared by saving early.

Financial responsibilities will only get larger from the time you start grad school, so take advantage of your current situation and save for your future.

Make sure to know who your financial advisor is and make sure they know you. Regularly keep in contact with them so you know what is going on with your payments for scholarships and other things.

Save money for trips. Graduate school can be a great time to expand your experience and network by traveling for conferences, internships, and other events.

Hold off buying books until after the first day of class. Sometimes professors have specifications that are not on the book website. If there is homework due on the first day, email your prof to ensure you're buying the right book and edition.

Explore all book buying options - different websites (bookstore, amazon, chegg) as well as different options (buy, rent, ebook) to get the best deal!

Make a budget before you start grad school and adjust it each semester as you know better what your needs are.

Set aside an emergency fund for emergencies and a separate "fun" money fund for when a festival or cool concert is coming to town! Do not mix the two funds.

Track your spending. Decide how much you want to spend before you go out for the night or go shopping. Knowing an amount to stick to will help keep you accountable.

Take advantage of free campus services (tutoring, counseling, gym, computer rentals).

Seek out campus or community jobs after getting a handle on your coursework and homework requirements.

If you have a savings account, don't dip into it just because you want to. Know the value of leaving your savings untouched unless you absolutely need it.

Use a debit card instead of a credit card.

Always have 3-6x your monthly living expenses in your savings account.

Rent books online through Amazon. It's 10x cheaper and easy to return.

Know how to budget well – I knew nothing when I was an undergrad and it really hurt me.

Limit the number of meals that you eat out.

When going out with friends, eat at home first and only get a drink. Make going out about being with your friends and not about spending money on food.

Ask your professors or mentors if they know of any departmental scholarships you could apply for – there are a lot more scholarships out there than you realize.

Student discounts at a lot of restaurants and retail stores.

Make a budget and don't online shop too much…at least not until the end of the month.

Always buy the experience.

Start a Roth IRA in grad school if you can.

How to budget – I erred on the side of not buying anything because I was scared I would run out.

Communicate openly and clearly with your spouses, partners and family so there are no surprises. You are all in this grad school experience together – share both the good news and the bad news about financial issues.

Realize that your parents, family and friends don't always know everything about finance. Help them learn about your situation so you can all benefit.

APPENDIX

Key Resources – For Now and For Later

ON-CAMPUS RESOURCES

UL Office of First Year Experience	ofye@louisiana.edu
UL Lafayette Graduate School	gradschool@louisiana.edu
UL Lafayette Financial Aid Office	finaid@louisiana.edu
UL Lafayette Career Services	career@louisiana.edu resume@louisiana.edu explore@louisiana.edu

UL Lafayette Internships – Contact the specific department. Most departments and/or majors on campus have dedicated internship offices and can help you understand the process and get started on your internship journey.

ONLINE RESOURCES

Dave Ramsey – A Proven Plan for Financial Success

Suze Orman – Financial Solutions for You

Planet Money

Freakonomics

NerdWallet

Khan Academy

OTHER FINANCIAL PLANNING RESOURCES

There are hundreds and hundreds of other personal finance sites around the interwebs. Search on your own, find an approach that works for you and let us know that you like so that we can include those sites and perspectives in future versions of this book.

APPENDIX

Some Select Activities from the Book For You to Practice

What is money? What does money mean to you?

Write down as many words, phrases, song lyrics, tweets, feelings, or stories that help define what money means to you.

Now that you have this list, go through it and put a + next to the items that elicit a positive feeling or sentiment and a – next to the items that elicit a negative feeling or sentiment.

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $500.

What would you do with that $500? Write down up to 3 things you would do with your winnings:

1. _____

2. _____

3. _____

Now, let's say your Lotto ticket was a much, much bigger winner. This time you won $100,000.

What would you do with that $100,000? Write down up to 3 things you would do with this bounty:

1. _____

2. _____

3. _____

Activity #1 – You choose to spend 3 hours studying at the library for an exam in 2 weeks.

Benefits: _____

_____

Costs: _____

_____

Activity #2 – You choose to spend 1 hour exercising at the gym.

Benefits: _____

_____

Costs: _____

_____

Activity #3 – You choose to spend 4 hours on the weekend volunteering at the animal shelter.

Benefits: _____

_____

Costs: _____

_____

We've provided you with a list of 12 common values. In the space below the list, add 4 more that you think are important. Then, from this full list of 16 values, rank them. Give the value that's most important to you a 1 and give the value that's least important to you a 16.

_____ Education

_____ Friends

_____ Charity

_____ Travel

_____ Freedom

_____ Religion

_____ Family

_____ Saving for the future

_____ Personal appearance

_____ Entertainment

_____ Creativity

_____ Physical fitness

_____ _____

_____ _____

_____ _____

_____ _____

Now that you have this list of 16 values, take a minute to think how these values might impact your spending and your financial planning.

What can you do to ensure your planning is aligned with your values?

Scenario #1 – A store you love is going out of business and has a great deal on an item that you really like…but that you don't need right now.

Do you buy it? **YES** **NO**

Scenario #2 – A family member offers to either put a $5,000 down payment on a new car for you, after which you'll make the required loan payments, or deposit $5,000 into your college fund.

What do you choose? **NEW CAR** **COLLEGE FUND**

Scenario #3 – You are saving up to buy a new computer, but your friends invite you on a spring break trip that will wipe out your computer savings.

What do you choose? **COMPUTER** **TRIP**

Scenario #4 – You usually donate $25 a month to a local charity in additional to putting $25 a month into a savings account. But this month you only have $25 to use.

What do you do? **CHARITY** **SAVINGS**

Imagine that you were able to save $100 next year – What would you do with that $100?

1. _____

2. _____

3. _____

Imagine that you were able to save $1,000 next year – What would you do with that $1,000?

1. _____

2. _____

3. _____

Imagine that you were able to save $10,000 next year – What would you do with that $10,000?

1. _____

2. _____

3. _____

In that last exercise in Chapter 1, you came up with three lists of what you would do with $100, with $1,000 and with $10,000. Take a minute to review those previous lists. Now pick one item from those lists to think about here. And, then fill in the following blanks:

In the next year, I want to save $ _____ in order to _____

_____.

_____.

Now, how are you going to save this money?

In the next year, I want to save $ _____ by doing the following: _____

_____

_____.

_____

_____.

Let's think about your next 2-3 years. List the income you plan on earning over the next 2-3 years in the top list. And list the possible income you could earn in the second list – be creative.

PLANNED INCOME

1. _____

2. _____

3. _____

4. _____

5. _____

POSSBILE INCOME

1. _____

2. _____

3. _____

4. _____

5. _____

Think back to all the purchases you've made over the past 12 months – and list the 5 biggest purchases you've made or expenses you've incurred.

What are the 5 largest purchases you've made or expenses you've incurred in the past year?

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

Now go back through this list and make sure that each of these purchases aligns with both your personal values and your future goals.

Do they?

If not, what can you do to get back on track?

Take a look at the follow list of money-saving ideas and circle the ones that you realistically think you could do in the next 3-6 months.

Move to a better bank account	Avoid the mall
Give up your television	Only walk to places within 1 mile
Give up a subscription	Cancel magazine subscriptions
Sign up for free customer loyalty programs	Eat breakfast
Always make a shopping list	Eat leftovers
Stop eating out	Bring your lunch to work or school
Shop at a thrift store	Only go to free entertainment events
Shop at a yard sale	Take public transportation
Stop buying new video games	Carpool
Cut your coffee purchases in half	Pack food for road trips
Drink more water	Eliminate cell phone services
Avoid convenience stores	Eliminate cable services
Avoid fast food	Spend 10 hours a week at the library
Avoid alcohol	Learn about employee offers at work
Quit smoking	Only drive within 3 MPH of the speed
Buy food and staples in bulk	limit
Make a gift for friend or family member	Drive a different route to work
No online purchases	Eat less meat
Cancel unused memberships	Use coupons
Share your dreams with a close friend	Exercise more
Shop for new car insurance	Pay bills online through your ban
Spend your free time volunteering	Organize a potluck dinner with friends

For now, look through all of the items above that you have circled and identify the 5 items that you are most likely to achieve in the next 3-6 months. Write down what these 5 items are and write down how much you'll be able to save each month. Once you have your list and have added up your monthly savings, make a pledge to yourself. Make this a commitment – a commitment to your future self that you are pledging to invest in your future self, starting now.

1. _____ _____

2. _____ _____

3. _____ _____

4. _____ _____

5. _____ _____

==========

TOTAL MONTHLY SAVINGS **$**

	EXAMPLE	THIS MONTH	THIS YEAR
INCOME			
Job #1 -	$ 1,000.00		
Job #2 -	100.00		
Job #2 -	75.00		
Other -	30.00		
Other -	-		
Other -	-		
TOTAL INCOME	**$ 1,205.00**		
EXPENSES			
Savings	$ 25.00		
Rent or Housing	400.00		
School - Tuition & Fees	150.00		
School Supplies	50.00		
Phone Bill	100.00		
Insurance - Car	100.00		
Insurance - Home	25.00		
Insurance - Health	-		
Food - Grocery	200.00		
Food - Restaurants	50.00		
Coffee	25.00		
Subscription #1	19.99		
Subscription #2	9.99		
Subscription #3	9.99		
Clothing & Shoes	-		
Entertainment (music, movies)	25.00		
Gym, Yoga, Fitness	-		
Other -	-		
Other -	-		
Other -	-		
TOTAL EXPENSES	**$ 1,189.97**		
NET CASH FLOW or ADDITIONAL SAVINGS	**$ 15.03**		
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")	**$ 40.03**		

	2 YEARS FROM NOW	5 YEARS FROM NOW	10 YEARS FROM NOW
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

	JANUARY	FEBRUARY	MARCH
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

	APRIL	MAY	JUNE
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

	JULY	AUGUST	SEPTEMBER
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

	OCTOBER	NOVEMBER	DECEMBER
INCOME			
Job #1 -			
Job #2 -			
Job #2 -			
Other -			
Other -			
Other -			
TOTAL INCOME			
EXPENSES			
Savings			
Rent or Housing			
School - Tuition & Fees			
School Supplies			
Phone Bill			
Insurance - Car			
Insurance - Home			
Insurance - Health			
Food - Grocery			
Food - Restaurants			
Coffee			
Subscription #1			
Subscription #2			
Subscription #3			
Clothing & Shoes			
Entertainment (music, movies)			
Gym, Yoga, Fitness			
Other -			
Other -			
Other -			
TOTAL EXPENSES			
NET CASH FLOW or ADDITIONAL SAVINGS			
TOTAL CHANGE IN NET WORTH or TOTAL CONTRIBUTION TO SAVINGS (Add "Savings" to "Net Cash Flow")			

What do you own?

What are your assets – including tangible and personal use assets (like cars and phones) and financial assets (like checking, savings and investment accounts)?

YOUR TANGIBLE & FINANCIAL ASSETS		
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
YOUR TOTAL ASSETS		**$**

What do you owe?

What are your 5 largest financial obligations (student loan, car loan, next month's bills, anything)?

YOUR SHORT-TERM & LONG-TERM LIABILITIES		
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
==========		
YOUR TOTAL LIABILITIES		**$**

YOUR NET WORTH

Statement of Financial Position
aka Personal Balance Sheet

ASSETS

Checking Account	$
Savings Account	$
Other Bank Accounts or CDs	$
Investments	$
Retirement Funds	$

Personal Property

(Value is market value, not original cost)

Home	$
Cars or Trucks	$
Jewelry	$
Household Items	$
Computer, Phone & Technology	$
Musical Equipment	$
Clothing & Shoes	$
Other Personal Property	$
Total Assets	**$**

LIABILITIES

Credit Cards	$
Auto Loans	$
Student Loans	$
Property Loans	$
Other Loans	$
Total Liabilities	**$**

NET WORTH & EQUITY

+ Total Assets	$
- Total Liabilities	$
Current Net Worth	**$**

In the space below, please write down 10 commitments that you will be willing and able to make over the next 12 months to improve your income and expense habits.

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

Back in Chapter 1, we asked you what you would do if you won the lottery. Let's try that exercise again, but now with different numbers and different options.

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $10,000.

What would you do with that $10,000? Please rank the following 4 things:

1. Spend the $10,000 on a trip around the world _____
2. Spend the $10,000 on a home entertainment system _____
3. Put all $10,000 in a savings or investment account _____
4. Pay of $10,000 of high-interest rate debt _____

Now let's look at that $10,000 of debt that you're paying off a little more closely:

Imagine that a friend gave you a Lotto Scratch-Off ticket. And you won $10,000.

You've decided you're going to pay off $10,000 of debt with your winnings. Very smart.

Which debt would you pay off first? Which debt would you pay off last? Please rank the following 4 types of debt in terms of which you would pay off first:

1. Student loan debt with an annual interest rate of 5% _____
2. Credit card debt with an annual interest rate of 18.99% _____
3. A finance company or pawn shop loan charging 3% per month _____
4. An auto loan with an annual interest rate of 7.50% _____

In the space below, write down 5-10 things you can do over the next 1-2 years to improve how you use debt and how you borrow money in order to achieve your goals and dreams.

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

Let's start this chapter with a few quiz questions – these are easy questions because there's not really 'right' or 'wrong' answers; please just pick the answer you prefer based on your own situation or preferences.

#1 Which would you rather we give you:

(A) $100 in cash today
(B) $100 in cash in 12 months

#2 Which would you rather we give you:

(A) $100 in cash today
(B) $500 in cash in 12 months

#3 Which would you rather we give you:

(A) $100 in cash today
(B) $120 in cash in 12 months

#4 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $1,000,000 in cash in 12 months

#5 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $5,000,000 in cash in 12 months

#6 Which would you rather we give you:

(A) $1,000,000 in cash today
(B) $1,200,000 in cash in 12 months

Imagine that you save $1,000 a year for the next 40 years. You deposit this money in a traditional savings account at a bank. The bank pays you 3% annual interest on your savings. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $1,000 a year for the next 40 years. You decide to invest it in a well-diversified stock market fund. This fund will earn an average annual return of 10%. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $5,000 a year for the next 40 years. You deposit this money in a traditional savings account at a bank. The bank pays you 3% annual interest on your savings. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Imagine that you save $5,000 a year for the next 40 years. You decide to invest it in a well-diversified stock market fund. This fund will earn an average annual return of 10%. How much do you have in your account when you retire in 40 years?

(A) $ 75,401
(B) $ 377,006
(C) $ 442,593
(D) $ 2,212,963

Question #1

Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $100 cash.

(B) If the silver dollar comes up heads, I'll give you $200.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

Question #2

Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $10,000 cash.
(B) If the silver dollar comes up heads, I'll give you $20,000.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

Question #3

Imagine I have a silver dollar that I'm going to flip, and I make you this offer:

(A) I will give you $100 cash.

(B) If the silver dollar comes up heads, I'll give you $220.
But, if the silver dollar comes up tails, I won't give you anything.

Which do you choose: (A) or (B)?

Global Portfolio Allocation Scoring System (PASS) for Individual Investors					
	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Earning a high long-term total return that will allow my investments to grow faster than the inflation rate is one of my most important objectives.	**5**	**4**	**3**	**2**	**1**
I would like an investment that provides me with an opportunity to defer paying taxes on any gains far into the future.	**5**	**4**	**3**	**2**	**1**
I do not need my investments to provide a large amount of current income.	**5**	**4**	**3**	**2**	**1**
I am willing to tolerate some sharp down-swings on my investments in order to seek a potentially higher return than would normally be expected from more stable investments.	**5**	**4**	**3**	**2**	**1**
I am willing to risk a short-term loss in return for a potentially higher long-run rate of return.	**5**	**4**	**3**	**2**	**1**
I am financially able to accept a low level of liquidity in my portfolio; I can wait for several years before needing cash from my investments.	**5**	**4**	**3**	**2**	**1**

Scoring System:

Higher scores are associated with higher risk tolerance.
Lower scores are associated with lower risk tolerance.

Total Score: 6-10	Very low tolerance for risk - find safe, low return investments.
Total Score: 11-15	Moderately low tolerance for risk - find safe but balanced investments
Total Score: 16-20	Balanced tolerance for risk - balance safe + risky investments
Total Score: 21-25	Moderately high tolerance for risk - find risky but balanced investments
Total Score: 26-30	Very high tolerance for risk - find risky, high potential return investments

Write down 5-10 things you can do over the next 1-2 years to improve how much money you save or what you can do to begin investing, even if you only have a few dollars to invest.

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

What can you do to get your automobile insurance premium amount lower? How can you get this fixed expense lower, without sacrificing the essential coverage and flexibility that insurance provides? Write down 5 activities that you can do yourself to lower your auto insurance premium.

1. _____

2. _____

3. _____

4. _____

5. _____

Please go through the following 3 life stages and identify all of the types of insurance that you will want and need during that stage; yes, you can list types of insurance coverage more than once.

What types of insurance coverage will you need **during college?**

_____

_____

What types of insurance coverage will you need **during your early years of working, when you're single with no children?**

_____

_____

What types of insurance coverage will you need **during your mid-years of working, when you're married with 2 or 3 children?**

_____

_____

Which of the follow options do you prefer?

(A) Begin saving for retirement when you're 22 years old, saving $4,519 a year for 40 years and retiring at 62 with $2,000,000.

(B) Begin saving for retirement when you're 32 years old, saving $12,158 a year for 30 years and retiring at age 62 with $2,000,000.

(C) Begin saving for retirement when you're 42 years old, saving $34,919 a year for 20 years and retiring at age 62 with $2,000,000.

(D) Begin saving for retirement when you're 52 years old, saving $125,491 a year for 10 years and retiring at age 62 with $2,000,000.

(E) Working forever.

Fill in the table by listing these 5 expenses and by listing the amount you spent on each. Then, in the far-right column, do the math and figure out how many hours of work you will save simply by avoiding or reducing that discretionary expense. And then add up the two columns to get Totals.

List 5 Avoidable Expenses	Money Saved	Hours of Work Saved
1. _____	$ _____	_____ hours
2. _____	$ _____	_____ hours
3. _____	$ _____	_____ hours
4. _____	$ _____	_____ hours
5. _____	$ _____	_____ hours
==========	==========	==========
TOTAL SAVINGS	$ Money Saved	Hours of Work Saved

Go through this list and rank them in terms of their importance to you – with 1 representing the most important item to you and with 10 representing the least important item to you.

_____ Saving $5,000 to purchase a car in 4 years.

_____ Buying $100 of lottery tickets.

_____ Paying your bills on time to increase your credit score.

_____ Paying $1,000 a month to rent a nicer apartment.

_____ Paying $100 a month for adequate auto insurance.

_____ Giving $100 a month to a family member.

_____ Investing $100 a month to a retirement account.

_____ Giving $100 a month to charity.

_____ Paying $200 for some amazing new shoes.

_____ Opening a savings account and committing to save $50 a month.

Think about your goals and dreams for your future. What do you want to do? What do you want to achieve? What do you picture for your future?

In 1 year, I want to: _____

_____

_____

_____

In 5 years, I want to: _____

_____

_____

_____

In 10 years, I want to: _____

_____

_____

_____

What money habits would help you achieve the financial goals above?

In the next 1 year, I could build a habit of: _____

_____

_____

In the next 5 years, I could build a habit of: _____

_____

_____

In the next 10 years, I could build a habit of: _____

_____

_____

Try to come up with 5-10 things you can do in the next 6 months to improve your financial fitness. Can you create an emergency fund? Can you decrease your credit card balance? Can you earn a little extra income? Can you change your spending habits? Can you map out your short- and long-term goals? Can you save more? What can you do in the next 6 months?

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

MY ALL-TME FAVORITE FINANCIAL PLANNING EXERCISE

What does retirement look like to you? Tell the full story of your retirement…

When do you retire? Where will you live? Who are you with? What do you do?
Think about other issues, such as health, hobbies, work, travel, charity and relationships.

In the space below, tell the full story of your retirement…and then make a plan to make it happen.

CONGRATULATIONS!

IF YOU CAN APPLY AND MASTER 10% OF WHAT YOU HAVE COVERED IN THIS BOOK, YOU WILL BE AHEAD OF 75% OF ALL AMERICANS.

AND YOU WILL BE WELL ON YOUR WAY TO OWNING YOUR FINANCIAL FUTURE.

IF YOU CAN APPLY AND MASTER 80% OF WHAT YOU HAVE COVERED IN THIS BOOK, YOU WILL INDEED OWN YOUR FINANCIAL FUTURE.

Keep living these principles and these goals.
Share what you have learned with your family and friends.
Make adjustments to your plan when situations change.
Make adjustments to your plan when your goals change.
Own your financial future – starting now.
Let money be a force that empowers you, not a weight that burdens you.

Live your life. Do not live anyone else's life.
The more you own your financial future, the more you will be able to fully live the life you want to live.

Be proud of yourself.
Celebrate your success.
Celebrate your accomplishments.
Enjoy the journey.

Live a great life.