FINANCIAL FITNESS: YOUR TRAINING PLAN TO TRIM DOWN DEBT

A WEBINAR FOR EMPLOYEES FROM YOUR EMPLOYEE ASSISTANCE PROGRAM

January 11, 2023

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OBJECTIVES

– Outline how to set a financial goal
– Review the basics of budget building
– Explore strategies to reduce debt
– Understand credit and the importance of strengthening it

SECTION 1

SET A FINANCIAL GOAL

IMPORTANCE OF FINANCIAL FITNESS

Preparedness

- Emergencies
  - Health
  - Accident
  - Major repairs
  - Pets
- Job loss
  - Unemployment resources
  - Economic development

Improved credit

- Purchasing power
- Home buying
- Lower interest rates

Earning interest instead of owing it

Long-term planning

- College
- Retirement
- Long term care
- Estate planning

Less stress

- Financial stability allows you to focus on living life

A GOAL WITHOUT A PLAN IS JUST A WISH

A financial plan is imperative to your **overall financial well-being** and is critical for **long-term success.**

Yours should include:

Estate planning:
Wills, trusts, longevity planning, etc.

Improving credit

Saving/ investing in retirement

A budget:
Understanding cash flow needs

Debt reduction:
Earning interest instead of owing it

SET A FINANCIAL GOAL

Write down your goals!

Put them where you can read them every day.

Find a financial mentor or coach

Set at least 3 types of goals:

- **Short-term:** Monthly
- **Mid-term:** 6-12 Months
- **Long-term:** 5-10 Years

Track your progress

SECTION 2

TONE UP YOUR BUDGET

CREATE A STEP-BY-STEP BUDGETING PLAN

Track and categorize expenses

Evaluate your spending

Pinpoint how to reduce debts

You need to be living on 70-75% of your net income

CALCULATE YOUR EXPENSES AND PROFIT

Expenses

Anything you spend money on that does not make money for you

Profit

What is left over after you subtract your monthly expenses from the monthly net income

Net income
– Expenses
= Profit

SECTION 3

ENGAGE YOUR DEBT IN ACTIVE RECOVERY

UNDERSTAND INTEREST

Interest is money paid at a set rate for the use of money lent (the cost of delaying the repayment of a debt)

Those who owe, pay it. Those who own, earn it.

The average stock market rate of return from 2001 to 2021 was approximately 7.5%*

You can guarantee yourself a 15% rate of return

The average credit card interest rate in America for 2022 was 15.13%#

Where is your money best spent?

Pay your debt! Increase cash flow!

"Compound interest is the 8th wonder of the world.

He who understands it, earns it; he who doesn't, pays it."

– Albert Einstein

*SP500 Annual Returns
#CreditKarma

ROLL-DOWN DEBT REDUCTION

- Review your plan with a mentor
- Pay yourself first
- Make a list of all debts
- Sort debt by lowest balance owed
- Pay off, or as much as you can, the smallest debt first

- Pay the minimum payment on larger debts
- Repeat steps 5 and 6 (AKA: the snowball method) until you are debt free
- Feel confident as you pay things off

TIPS FOR PAYING OFF DEBTS AND INCREASING CASH FLOW

Consider leveraging assets

- TSP loans: Be careful!
- Cash-back home refinance

Utilize roll-down debt reduction

Look at zero-transfer credit cards

Reduce TSP contributions to the match

Get some traction

Consider dipping into emergency fund

SECTION 4

WEIGH YOUR CREDIT

THE IMPORTANCE OF GOOD CREDIT

You need good credit if you plan to borrow money for major purchases, such as a car or home.

A higher score means better terms on loans, lower interest rates, and the ability to borrow more.

Landlords may check your credit when deciding if they'll rent you an apartment or determining your security deposit amount

Insurance companies could use your credit scores as factors in determining your rates

Utility companies often check your credit before deciding to let you open an account or borrow equipment

Prospective employers might use information found in credit reports to make a hiring decision

TYPES OF CREDIT

Revolving

Maximum borrowing limit

Requires a minimum payment each month or pay any amount outstanding up to the full amount

Example:
Credit cards

Charge Cards

Like credit cards only you must pay the balance in full every month

Examples:
Store credit cards like Macy’s or Ashley Furniture

Service

Contracts with service providers; May or may not be reported to the credit bureaus

Examples:
Utilities, cable, cell phone, internet, gym membership

Installment

Loans for a specific sum of money (plus interest and fees) that you agree to pay monthly over a specified time

Examples:
Mortgages, student and car loans

CREDIT REPORTS

Three credit bureaus

Equifax

TransUnion

Experian

You are entitled to receive:

One free credit report a year from each bureau, and the CARES Act allows for **a free weekly credit report** through December 2023

CREDIT REPORTS

Four credit report areas

Personally-identifiable information	Check spelling for accuracy
Credit accounts	Includes accounts opened/closed, current balance, payment and late payment history
Credit inquiries	**Hard inquiry** Lender checks report to determine lending May impact your score **Soft inquiry** Lender checks report for accuracy, not to determine lending Will not impact your score
Public records and collections	Information from courts and collection agencies Bankruptcy: Chapter 7 = 10 years; Chapter 11 = 7 years

DISPUTE INCORRECT INFORMATION

Visit:
consumer.ftc.gov

Federal Trade Commission: Responsible for fair credit reporting

– **Step 1:** Inform the credit reporting company, in writing, of inaccuracies. Include copies of supporting legal documents and a copy of your report with circled items.

  A sample dispute letter is available at the website on the left

  - Company must investigate, typically within 30 days unless they find your dispute frivolous
  - If there's an error, the company will typically alert the three bureaus
  - At the end of the dispute, the reporting company must give a report to you and to anyone in the last six months who may have used an inaccurate report

– **Step 2:** Essentially repeat step 1, but inform the information provider

  (i.e., the person, company, or organization that provides information about you to a credit reporting company)

SECTION 5

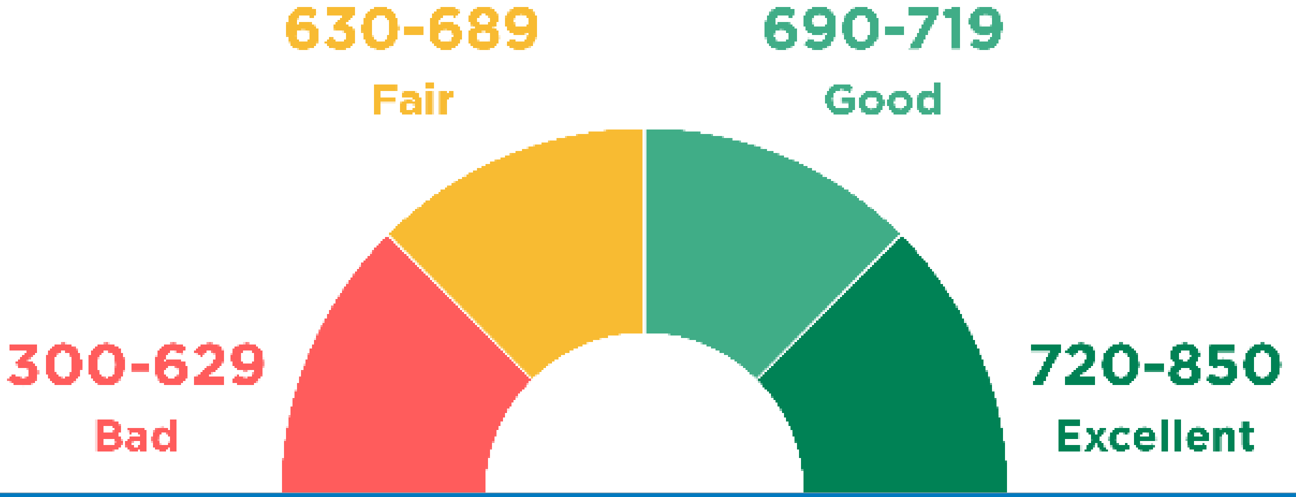
STRENGTHEN YOUR CREDIT

WHAT IS A CREDIT SCORE?

– It’s a number between 300–850 that depicts a consumer's creditworthiness based on credit history, number of open accounts, total debt, and repayment history, among other factors

– Lenders use credit scores to determine the probability that an individual will repay loans in a timely manner

– The FICO scoring system is used by many financial institutions



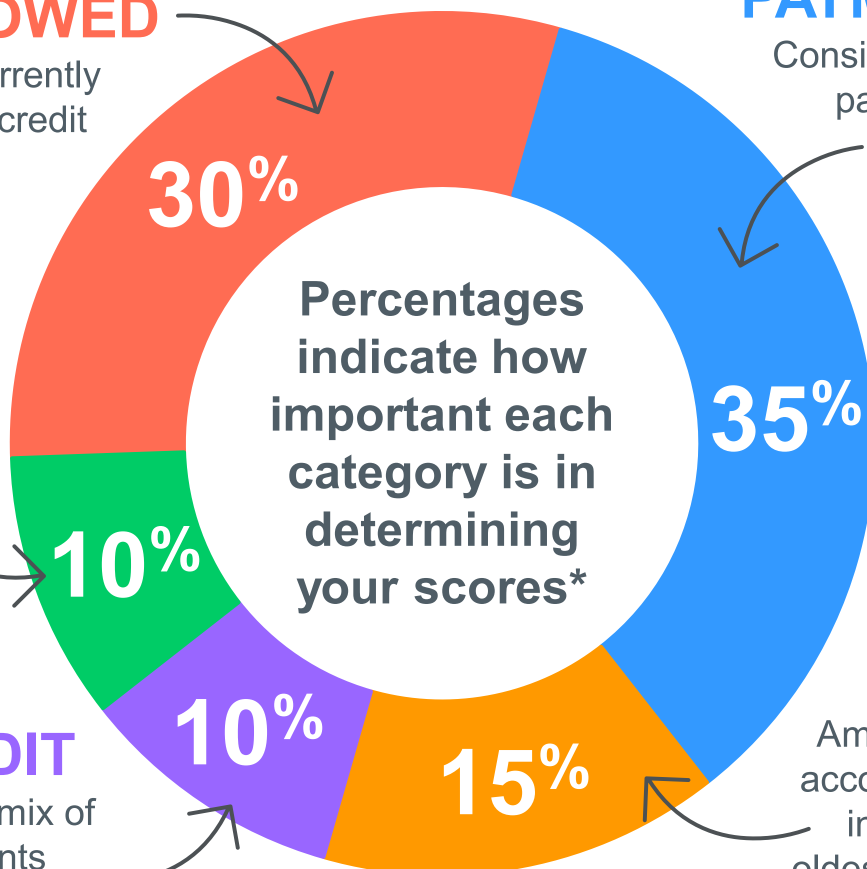
HOW YOUR SCORE IS CALCULATED

There are five ingredients in a credit score:

AMOUNT OWED
How much you currently owe vs. available credit

PAYMENT HISTORY
Consistency of on-time account payments vs. delinquencies (including bankruptcies)

NEW CREDIT ACCUMULATION
Number of recent credit inquiries and newly-opened accounts



LENGTH OF CREDIT
Amount of time your credit accounts have been active, including the age of your oldest and newest accounts

TYPES OF CREDIT
Installment loans and your mix of retail and credit card accounts

*Experian, Equifax, and TransUnion scores

IMPROVE YOUR CREDIT

PAY ON TIME!

Eliminate credit card balances

This increases your utilization

Get collections cleared

Small unpaid bills can hold down your score

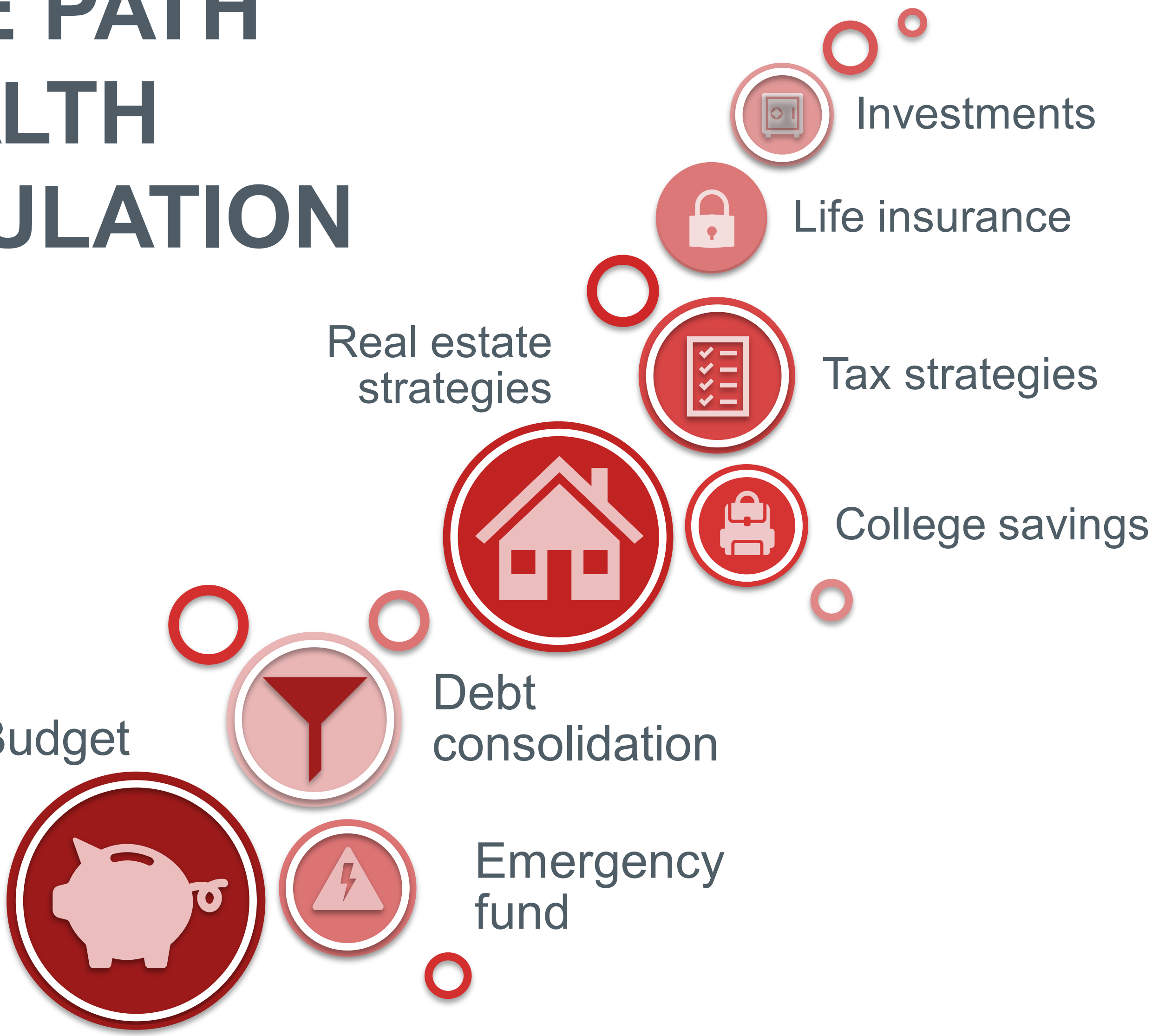
Leave old debt on report

Removing paid-off cards from your report doesn't do much

Shop for rates

Shop for a mortgage or big purchase within a 15 to 45-day window to avoid multiple hard inquiries

LAY THE PATH TO WEALTH ACCUMULATION



SUMMARY

- **Set financial goals**
  - If you have no destination, how do you know if you are on track?
- **Create a budget**
  - This is your roadmap to success and a scoreboard to keep track
- **Focus on debt**
  - You are losing interest by carrying debt
  - Pay off debt efficiently, so money can go towards earning interest
- **Understand credit**
  - Credit is important for many things
  - Improve it by making on time payments and carrying as little revolving debt as possible

RESOURCES

Books

- *The One Week Budget*
  - T. Aliche, 2021
- *The One-Page Financial Plan*
  - C. Richards, 2021

Websites

- 360FinancialLiteracy.org
- AnnualCreditReport.com
- Consumer.ftc.gov
- Credit.org
- IFEonline.org
- Mint.com (+ free app)
- MyMoney.gov
- PracticalMoneySkills.com

Online Articles

- A Free Excel Household Budget Template
  - free-financial-advice.net/create-budget.html

Podcasts

- Marriage, Kids, and Money
  - marriagekidsandmoney.com/mkmpodcast
- So Money
  - podcast.farnoosh.tv

Free Apps

- Credit Karma
- Debt Payoff Planner/Tracker
  - In-app purchase options
- Nerd Wallet

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YOUR TRAINING PLAN TO TRIM DOWN DEBT

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