

Financial Readiness Workshop

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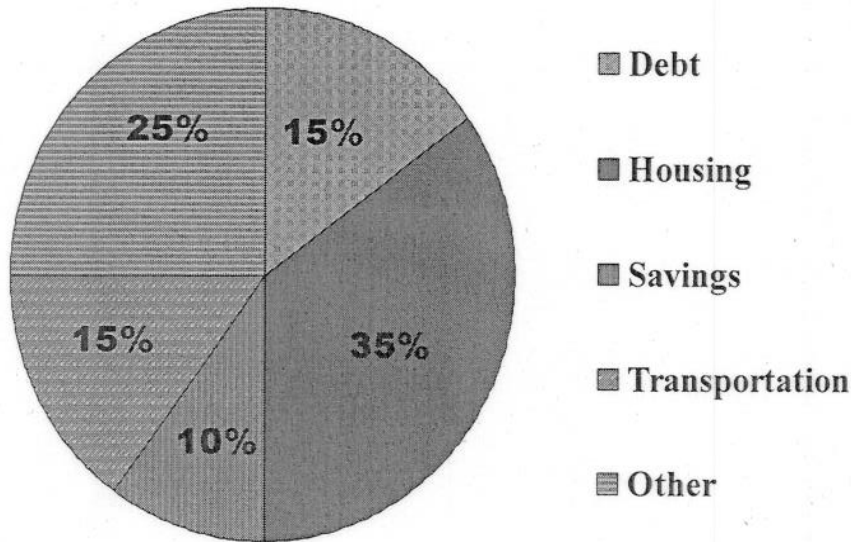
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State Employees' Credit Union®



Budget Guidelines

(From Net Income After Taxes)



35% Housing: Mortgage/Rent, Utilities, Home Owners Insurance, Taxes, and Maintenance.

15% Transportation: Car Payment, Auto Insurance, Tags, License, Car Tax, Gas, Parking, and Maintenance.

10% Savings: 10% Savings For 3-6 Months of Emergency Funds Maintain This 10% Throughout Life.

15% Debt: All Other Consumer Debt, Student Loans, Retail Cards, Credit Cards, Personal Loans, Medical Bills, and Tax Debt.

25% Other: Food, Clothing, Entertainment, Child Care, Medical, Tithing/Charity, and Vacation.

FINANCIAL PLANNING GUIDE

MONTH OF _____, 20____

CATEGORY	BUDGET AMOUNT	ACTUAL AMOUNT	DIFFERENCE
GROSS INCOME (Before Taxes):			
Wages and Bonuses			
Miscellaneous Income			
Income Subtotal			
LESS 30% INCOME TAXES			
NET INCOME (Spendable):			
EXPENSES:			
HOME:			
Mortgage or Rent			
Homeowners/Renters Insurance			
Property Taxes			
Home Repairs/Maintenance/HOA Dues			
Home Improvements			
UTILITIES:			
Electricity			
Water and Sewer			
Natural Gas or Oil			
Telephone (Land Line, Cell)			
TRANSPORTATION:			
Car Payments			
Gasoline/Oil			
Auto Repairs/Maintenance/Fees			
Auto Insurance			
Other (tolls, bus, subway, taxi)			
INVESTMENTS AND SAVINGS:			
401(K)or IRA			
Stocks/Bonds/Mutual Funds			
College Fund			
Savings			
Emergency Fund			

CATEGORY	BUDGET AMOUNT	ACTUAL AMOUNT	DIFFERENCE
DEBT PAYMENTS:			
Credit Cards			
Student Loans			
Other Loans			
HEALTH AND MEDICAL:			
Insurance (medical, dental, vision)			
Out-of-Pocket Medical Expenses			
Fitness (Yoga, Massage, Gym)			
FOOD:			
Groceries			
Eating Out, Lunches, Snacks			
CLOTHING:			
Purchases			
Cleaning			
FAMILY OBLIGATIONS:			
Child Support/Alimony			
Day Care, Babysitting			
ENTERTAINMENT/RECREATION:			
Cable TV/Videos/Movies			
Computer Expense			
Hobbies			
Subscriptions and Dues			
Vacations			
OTHER:			
Tithing/Charity			
Gifts			
TOTAL EXPENSES:			
SURPLUS / SHORTAGE: (Net Income minus Total Expenses)			

ARE YOU PREPARED FOR RETIREMENT?

SOURCES OF RETIREMENT INCOME

- Social Security
- Defined benefit pensions
- Tax deferred savings: IRAs, 401(k), 457, 403(b), etc.
- Taxable accounts intended for retirement, if any
- Other sources: income from part-time work or rental property, etc. Conservative approach does not include in analysis: could be temporary.

ESTIMATING SOCIAL SECURITY

- Warn young members that estimates are really overestimates!
- Use estimate from member's "Your Social Security Statement" sent annually to those over 25
- Use calculator on SS's website:
www.socialsecurity.gov/OACT/quickcalc/index.html

ESTIMATING PENSIONS

- For most* State and local government employees, use Retirement Systems estimator: www.treasurer.state.nc.us/estimator/caltest1.asp
- For other members, ask what they expect benefit to be (most will NOT be covered by a defined benefit plan)

*Some university faculty choose the Optional Retirement Program (ORP) in place of TSERS.

CALCULATE THE GAP

- How much total annual retirement income does member desire?
 - ◆ Rule of thumb: 70-100% of income, or
 - ◆ Estimated expenses during retirement
- Subtract estimated annual Social Security and pension (and other sources, if any)
- "Desired annual retirement income"

CREDIT REPORT INFORMATION

Credit Scoring System for the three major credit reporting agencies:

- ◆ Equifax 300-850
- ◆ Experian 330-830
- ◆ TransUnion 150-934

WHAT MAKES UP A CREDIT SCORE?

- ◆ Payment History – 35%
- ◆ Outstanding Debt – 30%
- ◆ Credit History (length of) – 15%
- ◆ Credit Inquiries (applications) – 10%
- ◆ Types of Credit – 10%

HOW TO ESTABLISH GOOD CREDIT

- ◆ Pay your bills on time
- ◆ Own only two to three credit cards
- ◆ Keep your balances low on credit cards and other revolving credit products
- ◆ Make infrequent requests for additional credit
- ◆ You may already be building your credit history!
- ◆ Example: Cellular phone and pagers
- ◆ **Never borrow or spend more than you can afford!**

NEGATIVE INFORMATION

REMAINS ON YOUR REPORT

- ◆ Accurate negative information – 7 years
- ◆ Bankruptcy information - 10 years
- ◆ Info. on criminal convictions – no time limit
- ◆ Default info. on government insured or guaranteed student loans – 7 years after guarantor actions
- ◆ Unpaid judgment or lawsuit – 7 years or until Statute of Limitations runs out

HOW TO GET YOUR FREE CREDIT REPORT

Contact Information:

Web: www.annualcreditreport.com

Toll Free Number: 1-877-322-8228

Annual Credit Report Request Service
PO Box 105281
Atlanta, GA 30348-5281

The Power of Compound Interest

Albert Einstein considered compound interest the eighth wonder of the world! Saving 10 percent of your salary seems insignificant, but one of the most important facets of financial planning is the use of the "power of compound interest." Time and consistency is the secret of growing a substantial retirement fortune using compound interest. You will see that even a small amount of savings over a period of time will grow beyond your wildest expectations. No amount is too small or insignificant to begin saving. The important thing to remember is to start early and save consistently. The following table gives an example of the cost of waiting.

**\$1 Per Day Invested at 12%
Compounded Annually Until Age 65**

Age Savings Begun	Total at Age 65	Cost of waiting
25	\$296,516	0
26	\$264,402	\$32,114
30	\$116,858	\$179,658

As you can see, waiting only 5 years to begin the plan carries a cost of nearly \$180,000. This is a significant example of the power of compounding. It is not necessary to have a fortune to invest. Consider the following:

Invest the Money Spent for One Soft Drink Per Day

Int. Rate	5 Years	10 Years	20 Years	30 Years	40 Years	50 Years
5%	\$696	\$1584	\$4166	\$8371	\$15,220	\$26,377
10%	\$805	\$2103	\$7560	\$21,713	\$58,422	\$153,685

If You Quit Smoking 1½ Packs of Cigarettes Per Day at 2002 Prices

Int. Rate	10 Years	20 Years	30 years	40 Years	50 Years
5%	\$11,664	\$23,328	\$75,213	\$143,724	\$254,391
10%	\$18,981	\$68,968	\$220,320	\$619,815	\$1,697,760

**Power of Tax Deferral
(Assumes \$100,000 invested, 33% tax bracket)**

	5 Years	10 Years	15 Years	20 Years
Bank CD 33% tax bracket	\$123,736	\$153,156	\$189,539	\$243,566
Tax Deferred Investment 33% tax bracket	\$137,009	\$187,714	\$257,184	\$352,365

The tax-deferred investment outperforms the taxable investment by \$108,799, which increases the effective yield of the tax-deferred investment by 44 percent over a 20-year period.

Mortgage

Karl's mortgage calculator

Basic mortgage calculator

Mortgage payment calculator

Mortgage payment table

How much can I afford?

Qualification calculator

Prepayment calculator

Balloon calculator

Mortgage duration

Canadian calculator

FHA 203(b) vs. Conv 95%

Misc

Cost of living

Estate tax calculator

Savings

Simple savings calculator

Tuition savings calculator

Lunch savings calculator

Smoking savings calculator

What's a million?

How wealthy are you?

Interest

APR calculator

APR calculator #2

Nominal and effective rate

Blended rate calculator

Car

Leasing payment calculator

Investment

Compounding calculator

Compounding calculator #2

What's your yield?

Investment comparison

Prepayment vs investment