DEPARTMENT OF LABOR AND INDUSTRY

Financial Literacy Apprentice Workbook

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For more information contact:

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INTRODUCTION

1. Overview

1.1 Background

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

Financial literacy includes both financial education *and* new or changed behaviors that show you have learned to make informed financial judgments. No one is born knowing this -- and the best time to learn is right now. Time after time, people of even modest means who begin this journey reach financial security and all that it promises: buying a home, educational opportunities for their children, and a comfortable retirement. If they can do it, so can you. You just need to know a few basics, form a plan, and be ready to stick to it. No matter how much or how little money you have, the important thing is to educate yourself about your opportunities.

This short course for Minnesota registered apprentices is a starting point for that, but does not provide financial advice or direction – those decisions are your own. You are encouraged to consult with people you trust, your financial institution, and financial professionals before making major decisions.

The course is distributed to apprentices and employers/sponsors. As an apprentice, you can go through this course by yourself or with trusted family/friends, or your employer/sponsor may present this or a similar financial literacy course at some point during your apprenticeship.

1.2 Financial planning, course navigation

As shown at right and in the table below, the overall field of financial planning has multiple dimensions. This basic financial literacy course focuses on Stability and Surplus, and touches on Expansion.

The course has two sections: Orientation and Evaluation, and Action, with learning modules under each.

Each module teaches key financial terms and ideas, provides guidance and tips, and includes relevant worksheets and exercises so you can put your learnings into practice.

Financial Planning “Pyramid” Elements	Financial Literacy Course Contents	
0 Repair: Credit counseling, debt consolidation, tax and legal help		*Not covered in this course. If you’re unable to pay for your basic expenses or are facing a financial crisis, you may need to get outside help. Learn how to find a reputable credit counselor from the Minnesota Department of Commerce.*
1 Stability: Required expenses (food, rent, etc.), taxes, and routine debts	✓	Everyone needs stability, and moving through the course modules in sequence will help you ensure yours.
2 Surplus: Emergency fund, goal saving, retirement fund	✓	Once you’re financially stable, you can start saving for emergencies, your goals, and retirement. Modules in the **Orientation** section ensure you have the basics in place, and modules in the **Evaluation** and **Action** sections focus on longer-term planning for success.
3 Expansion: Home purchase, start a business, invest	✓	If you’ve advanced through the modules in the **Evaluation** and **Action** sections, your good work and financial discipline will position you to achieve much bigger wins. *See the Learn More links above, or work with your financial institution or a financial planning consultant.*
4 Retirement: Strategies for taxation, distribution, social security, pension		*Not covered in this course. See the Learn More links above or work with your financial institution or a financial planning consultant.*
5 Estate planning: What you leave behind		*Not covered in this course. See the Learn More links above or work with your financial institution or a financial planning consultant.*

2. Learn More

To learn more once you've finished this short course, below are some free, public resources that offer helpful information and guidance. Some of the modules from these resources were used to shape content for this short financial literacy course.

2.1 Comprehensive resources and educational tools

1. **Consumer tools from the U.S. Consumer Financial Protection Bureau:** This federal agency regulates the offering and provision of consumer financial products or services under the federal consumer financial laws, and educates and empowers consumers to make better informed financial decisions.
   - Basic and advanced information on the website, with numerous downloadable educational tools and guides. Content covers every stage of life plus special groups or circumstances such as people in the military, Tribal communities, elders, and people who need help from others.
   - Topics range widely and include credit, loans, fraud and scams, transfers, banking services, and similar, as well as comprehensive guides to major financial decisions like buying a house, disasters and emergencies, saving for retirement, and others
   - The website also offers a range of comprehensive tools for financial professionals working with consumers, including Your Money, Your Goals with a thorough Financial Empowerment Toolkit

2. **Money Smart from the Federal Deposit Insurance Corporation (FDIC):** A free financial literacy course. The FDIC is a public agency created by Congress in 1933 during the Great Depression to protect consumers from losing their money when banks collapsed. The FDIC preserves and promotes public confidence in the U.S. financial system by insuring the money we keep in banks, reducing other risks, and limiting the effect on the economy and the financial system when a bank or thrift institution fails.
   - Money Smart covers topics such as borrowing money wisely, planning to achieve financial goals, how to use banking products effectively, housing and mortgages, retirement planning, and others
   - Money Smart for Adults has 11 modules, with downloadable PDFs for participant guides, PowerPoint slides, instructor guides, and train-the-trainer videos
   - Money Smart online provides the same information through a game-based online course, and you can earn a certificate of completion for successfully finishing each module

3. **MyMoney.gov from the Federal Financial Literacy and Education Commission:** This website was created by more than 20 Federal entities that are coordinating and collaborating to strengthen financial capability and increase access to financial services for all Americans.
   - The website is organized around five building blocks for managing and growing your money (the "MyMoneyFive"): Earn, save and invest, protect, spend, and borrow
   - Under each category is an overview, actions you can take, hints and tips, and resources to download

4. **Consumer information (or consumer.gov) from the U.S Federal Trade Commission (FTC):** The FTC works to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them.
   - Resources include guides, worksheets, blogs, media, reporting information, and others
   - Topics include money and credit, managing debt, homes and mortgages, privacy and identity, frauds and scams, jobs and making money, health and fitness, etc.

2.2 Credit

5. U.S. Federal Trade Commission's Consumer.gov, including credit history, credit reports, and the high costs of payday loans and cash advances
6. U.S. Consumer Financial Protection Bureau, information on credit reports and scores, and on credit cards

2.3 Investments, retirement

7. Guides and tools for savings and investments at Investor.gov from the U.S. Securities and Exchange Commission (SEC) is an online resource to provide investors with unbiased information on investment decisions and on protecting themselves from securities fraud or abuse
8. Information for investors from the Minnesota Department of Commerce
9. Types of retirement plans from the U.S. Internal Revenue Service
10. Retirement plan regulations and your rights from the U.S. Department of Labor

2.4 Financial planning tools, money trackers, and calculators

11. Many banks and credit unions offer free tools to the public; they may be especially useful when tied to your own account
12. Financial Industry Regulatory Authority (FINRA): Savings, loans, retirement, and others
13. Investor.gov from the U.S. Securities and Exchange commission (SEC): Retirement, social security, mutual funds, 529 college savings plans, and others

2.5 Registered financial professionals

14. U.S. Securities and Exchange Commission, investment professional lookup
15. Financial Industry Regulatory Authority (FINRA), BrokerCheck. To protect investors and ensure the market's integrity, FINRA is a government-authorized not-for-profit organization that oversees U.S. broker-dealers.
16. Minnesota Department of Commerce, investment professional lookup

3. Recognition and Thanks

This resource was prepared by the Minnesota Department of Labor and Industry. Content for this basic financial literacy course drew heavily on federal and state financial literacy resources, and benefited greatly from the expertise and guidance from volunteer financial professionals. Of particular value were those listed below in alphabetical order; we appreciate and thank them all.

- Apprentice and Employer/Sponsor Advisory Teams of volunteers from around Minnesota and across industries provided invaluable guidance and insights for this effort to provide additional resources to registered apprenticeship programs
- Consumer information, U.S Federal Trade Commission (FTC)
- Consumer tools and protections, Minnesota Department of Commerce
- Consumer tools, including the *Your Money, Your Goals Financial Empowerment Toolkit*, U.S. Consumer Financial Protection Bureau (CFPB)
- *Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges*, U.S. Government Accounting Office, Report to Congressional Committees, June 2011
- Investor.gov, U.S. Securities and Exchange Commission (SEC)
- *Money Smart*, Federal Deposit Insurance Corporation (FDIC)
- MyMoney.gov, Federal Financial Literacy and Education Commission
- Personal finance information, Financial Industry Regulatory Authority (FINRA)
- Steven Woolery, financial associate with Thrivent Financial Services https://connect.thrivent.com/steven-woolery/

ORIENTATION, EVALUATION

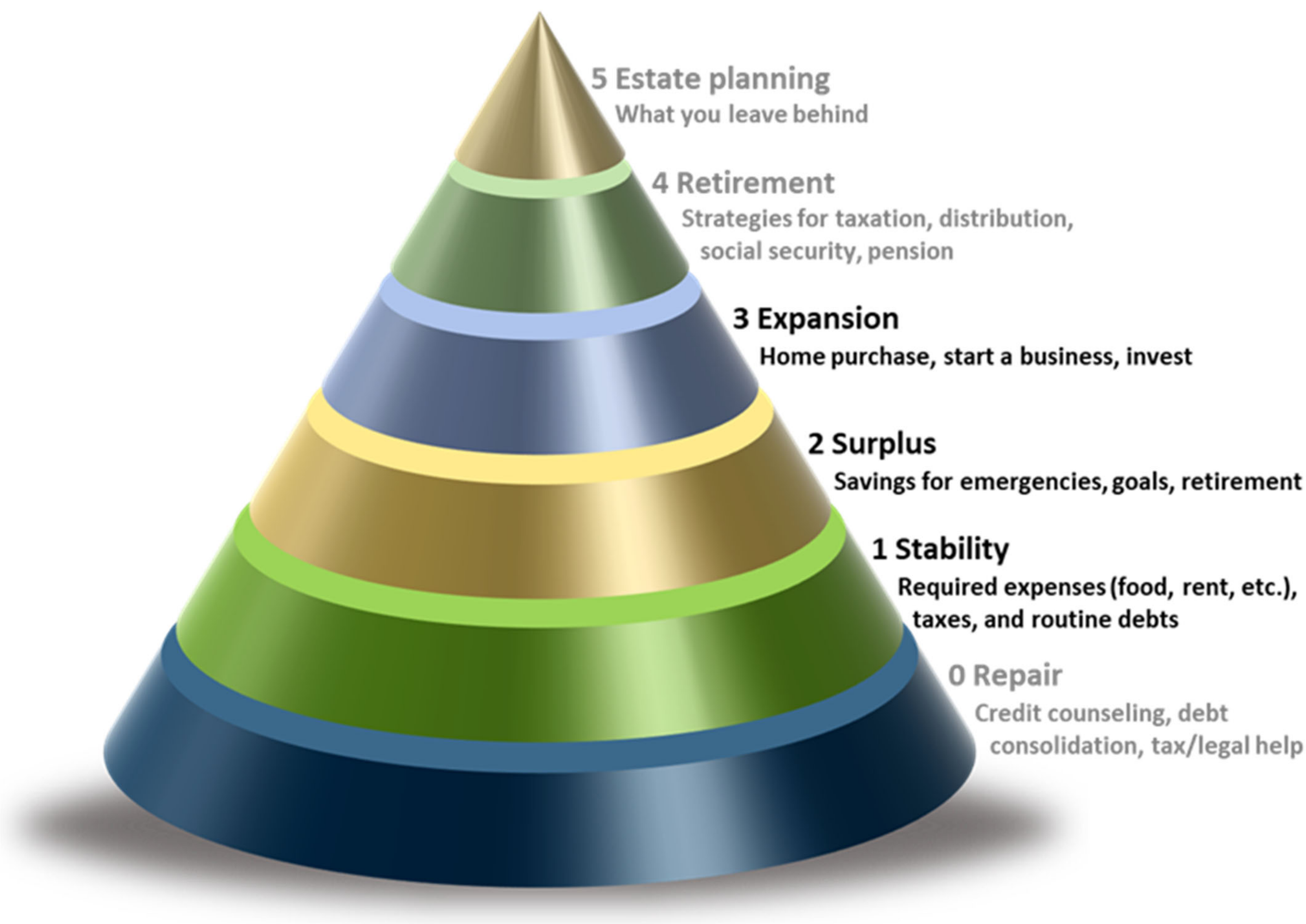
4. Your Current Financial Situation

4.1 Overview

To achieve **stability**, the first step in financial planning is understanding your current financial situation.

That means taking an honest look at your personal finances: how much you are making and how much you are spending. From that information you can start looking at your priorities.

Before planning and taking action, you need to understand your monthly cashflow. It's not unusual for people in their first well-paying job to spend until they run out of money in their bank account. This leads to "budgeting by feel' where they only have a vague idea of how much they are spending.



4.2 Important concepts

- **Net worth:**
  - If you wanted to calculate your net worth, add up the value of everything you own or control (these are your *assets*). Then subtract all of the money you owe through loans and other obligations (these are your *liabilities*). The result is your net worth.
  - It's common for young people to have a negative net worth -- most haven't been working very long so they don't have many assets, and some may be burdened with student loans and other debts.

- **Cash flow:**
  - To figure out your monthly cash flow, first add up all your monthly sources of income. Then add up all your monthly expenses. Finally, subtract your total monthly expenses from your total monthly income. The result is your monthly cash flow.
  - Unlike your net worth, <u>your cash flow *must be positive*</u>*.* If you spend more than you make you risk a financial crisis.
  - **A simple and quick way to analyze your cash flow is using the worksheet on the next page.**

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Remember, the only purpose of a cash flow analysis is to support* your own *financial planning as an individual or a family.

The most important result of this exercise is to <u>know</u> your financial situation so you can make more informed financial decisions.

4.3 Worksheet: Monthly Cash Flow

Enter your information in the right column, and see instructions below to perform the calculations.

	Monthly Income	Amount
Income	Job 1	
	Job 2	
	Housing subsidy, if any	
	Food support (SNAP or other)	
	Child or spousal support	
	Self-employment business income	
	Other income	
	Total monthly income ***(to calculate, right-click on sum cell and update field)***	$ 0.00

	Monthly Expenses	Amount
Housing	Rent or mortgage	
	Renter's insurance or homeowner's insurance	
	Utilities (electricity, gas, water, etc.)	
	Internet, cable, and phones	
	Other housing expenses, such as property taxes	
Food	Groceries and household supplies	
	Meals out	
	Other food expenses	
Transportation	Public transportation and taxis	
	Gas for car	
	Parking and tolls	
	Car maintenance (like oil changes)	
	Car insurance	
	Car loan	
	Other transportation expenses	
Health	Medicine	
	Health insurance	
	Other health expenses such as for medical visits, copays, eyeglasses, etc.	

Continued on next page

Personal and Family	Childcare	
	Child or spousal support	
	Money given or sent to family	
	Clothing and shoes	
	Laundry	
	Donations	
	Entertainment (movies, amusement parks, etc.)	
	Other personal or family expenses (personal care, etc.)	
Finance	Fees for cashier's checks and money transfers	
	Prepaid cards and phone cards	
	Bank or credit card fees	
	Other fees	
Other	School/education costs, such as supplies, tools, tuition, student loans	
	Other payments, such as credit cards and auto savings	
	Other expenses this month	
	Total monthly expenses *(to calculate, right-click on sum cell and update)*	$ 0.00

Total income		**Total expenses**		**Monthly balance**
$ 0.00	**—**	**$ 0.00**	**=**	**$ 0.00**

To calculate, right-click on each of the three numeric cells above and update field)

- **If your income is more than your expenses, you have money left to save or spend to meet your goals**
- **If your expenses are more than your income, find ways to cut your expenses (or increase your income) to avoid a financial crisis**

5. Credit

5.1 Kinds of credit

When you use credit to buy something, it costs you more than if you paid cash.

If your cash flow analysis shows your expenses are higher than your income, or if you face a significant challenge or opportunity, you may need to borrow money. Worse, you may fail to pay your obligations on time and therefore hurt your credit score.

The use of credit is pervasive today and it's both easy to get and easy to accidentally abuse – so it's important to understand credit and credit scores. There are many circumstances where credit is both useful and advisable, but these tend to be exceptions rather than the rule. A key learning is that when you use credit to buy something, it costs you more than if you paid cash.

There are no absolute rules about using credit -- each person decides based on their own needs. Below are some ways to think wisely about credit.

Example 1: You need a tool for a job that costs more than the cash you have right now. But using that tool generates extra income that allows you to pay off the credit card you used to buy it, and the tool will provide extra income into the future.

- This is an example of using credit for *leverage*, meaning you are taking on a debt to increase your income.
- This is probably a good use of credit, but even using credit for leverage can be abused. The 2008 financial crisis was caused by people who used credit for leverage, and they did make money, but they were wrong in their assumptions about the safety of their borrowing.
- To smartly use leverage you need to balance your potential gains against the chance that things might not go as planned. There are *always* risks and you need to be honest with yourself about those risks. If your plan depends on *everything* going your way, it's probably not a solid plan. Little in life goes perfectly, even if something succeeds in the end, there are usually problems and hurdles to be overcome along the way. If your plan can handle at least some setbacks, *then* it might be a risk worth taking.

Example 2: You're a little shorter on cash than you expected this week. You typically pick up some groceries on Friday, then go out with friends on Saturday. But this week you don't have enough cash for both expenses, so you just use a credit card and figure you'll catch up next month.

- This is an example of *deficit spending*.
- Running low on cash and using credit to cover normal expenses is a red flag -- you could be heading toward financial problems. You may need to consider cutting back on your spending to prevent this from happening.
- Deficit spending leads to a vicious cycle: your expenses are too high and you run out of cash, so you use a credit card – but that increases your expenses even more so you run out of cash faster, which yet again causes you to use more credit. This is an unsustainable cycle that can eventually lead to bankruptcy.
- However risky, you may face situations where deficit spending is the best of several bad options. For example, you need to use credit to buy gas so you can get to work. If this becomes common for you, however, it's time to think about how to lower your expenses.

5.2 Credit reporting

Note: The majority of this subsection is from the U.S. Federal Trade Commission, Consumer.gov.

5.2.1 Credit history, credit report

When people talk about your credit, they mean your credit history. If you have a credit card or a loan from a bank, you have a credit history. Your credit history describes how you use money and looks at:

- How many credit cards you have
- How many loans you have
- Whether you pay your bills on time

Companies collect information about these and use it to prepare your credit report. Your credit report is a summary of your credit history. It lists:

- Your name, address, and Social Security number
- Your credit cards
- Your loans
- How much money you owe
- If you pay your bills on time or late

Businesses want to know about you before they lend you money or give you a credit card, and look at your credit report to learn about your history. Some employers look at your credit report when you apply for a job, and cell phone companies and insurance companies look at your credit report, too.

A credit reporting company collects your information and prepares a report about you. The three big credit reporting companies are TransUnion, Equifax, and Experian. The law says you can get a free copy of your credit report every year, one from each of these three companies, if you:

- Call Annual Credit Report at 1-877-322-8228 or go to AnnualCreditReport.com
- The website provides detailed information about credit reporting, and may include opportunities to get more frequent free reports

5.2.2 Credit score

Each of the three big credit reporting companies has its own way to calculate your credit score. They look at:

- How many loans and credit cards you have
- How much money you owe
- How long you have had credit
- How much new credit you have

A credit score is a number based on your credit history, but it does not come with your free credit report – you must pay extra for it.

- A high credit score means you have good credit. A low credit score means you have bad credit. Different companies have different scores. Low scores are around 300 and high scores are around 700-850.
- It’s important to know what is in your credit **report**, and the report is free. Your credit **score** is a number that matches your credit history in your report. If your credit report shows your history is good, your score will be good. While it may sound appealing to know your credit score, check the cost carefully and make sure you don’t accidentally sign up for a monthly services you probably don’t need.

5.2.3 Good credit, bad credit, no credit

If you have <u>good credit</u>: ✔ **You pay your bills on time** ✔ **You don't have big loans**	**That means:** • You have more loan choices • It is easier to get credit cards • You pay lower interest rates • You pay less for loans and credit cards
If you have <u>bad credit</u>: ✔ **You pay your bills late** ✔ **You owe lots of money**	**That means:** • You have fewer loan choices • It is harder to get credit cards • You pay higher interest rates • You pay more for loans and credit cards
If you have <u>no credit</u>: • **You never borrowed money from a bank or credit union** • **You've never had a credit card**	**That means:** • You have no bank loan choices • It's very hard to get credit cards • You pay high interest rates • Loans and credit cards are hard to get and cost a lot

5.2.4 Checking, improving your credit

An important reason to get your credit <u>report</u> is to find problems or mistakes and fix them. You might find:

- Somebody else's information in your report by mistake
- Information about you from a long time ago
- Accounts that are not yours, which could mean that someone stole your identity

If the information is wrong:

- Write a letter to the credit reporting company saying that you have questions about information in your report
- Explain which information is wrong and why you think so
- Say that you want the information corrected or removed from your report
- Send a copy of your credit report with the wrong information circled
- Send copies of other papers (bills, statements, etc.) that help you explain your opinion
- Send this information by Certified Mail and ask the post office for a return receipt; the receipt is proof that the credit reporting company got your letter
- The credit reporting company must check it out and write back to you

If the information is right – but not so good – you can try to improve your credit history. While it takes time to improve your credit history, here are some ways to help rebuild your credit:

- The most important thing you can do is pay your bills by the date they are due
- Pay off the amount you owe, especially on your credit cards; owing a lot of money hurts your credit history
- Do not get new credit cards if you do not need them; a lot of new credit hurts your credit history
- Do not close older credit cards even if you aren't using them; having credit for a longer time helps your rating
- After six to nine months of this, check your credit report again using one of your free annual reports and see what has improved and where you may still need to work on improving your credit

If you have no credit history, you need to pay bills that are included in a credit report:

- Some utility companies put information into a credit report, so having utility bills in your name can help build credit
- Many credit cards put information into credit reports
  - Sometimes, you can get a store credit card that can help build credit
  - A "secured" credit card can also help you build your credit. These cards require you to keep cash equal to your transaction limit on deposit with the credit card company. Some transactions like booking a hotel room may require you to have a credit card, so if you have limited or bad credit a secured credit card may be the only way to access certain services.

5.3 Additional resources for information about credit

- U.S. Federal Trade Commission, Consumer.gov, including credit history, credit reports, managing debt, and the high costs of payday loans and cash advances
- U.S. Consumer Financial Protection Bureau information on credit reports and scores, and on credit cards

6. External Influences

Messages about money can be so widespread you don't even realize they are influencing your decisions. Most people are influenced in some way, and those influences can be productive or unproductive.

External influences impact financial choices. Use strategies to stay focused on your goals.

Exercise

6.1.1 Reflection: Your external influences

Below are examples of common external influences that may affect your financial decisions. For each, make a couple of notes about what they're telling you to do with your money, and how aware you are of their influence.

External influence	What are these telling me? How aware am I of these messages?
Advertisements	
Media: social media, television, radio, newspapers, magazines, etc.	
Celebrities	
Peers, friends	

Each of these external influences likely sends you messages about using money that are both productive and unproductive in helping you meet your goals. It's important to think about and recognize both types of messages. It's also important to remember that because we all come from different families, cultures, and communities, the messages we receive will look different for each of us. Consider:

- It's human nature to notice what other people have and feel envious
- You may feel like you have to spend money just to "keep up"
- We are all influenced by advertisers that spend billions of dollars a year to make us want things and influence how we use our money, often in ways we aren't aware of consciously
- Social pressure and advertising can lead to purchasing things on impulse that aren't in your spending and saving plan and can derail your efforts to achieve your goals

6.2 Strategies for staying focused on your priorities

Here are some strategies for staying focused on your priorities by blocking unproductive messages and resisting impulse spending. Keep these in mind when you encounter those powerful external influencers, and create more of your own ways to protect yourself and meet your goals. *(Note: Primary content and images for this subsection are from [Money Smart](#).)*

Recognize the tactics used to influence you to spend money: Advertisers and influencers are *purposefully* trying to get you to spend more money than you've planned. For example, they may give you a sense of false urgency or make it too easy to spend money.

- Recognize these tactics so you will know how you may be influenced
- Develop strategies to block or resist messages that conflict with your plans

Notice when and where you're tempted: Start paying attention to when and where you feel like making an impulse purchase.

- Try jotting down notes for a week – you could use paper or the notes app on a mobile device
- Once you've figured out what triggers your impulses, see if you can identify any patterns and go from there

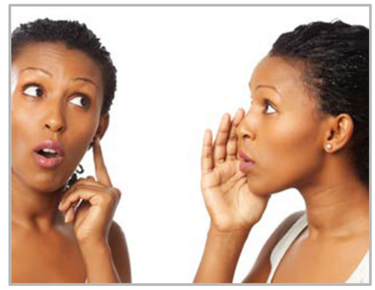
Set yourself up for success by controlling your environment: It helps to avoid temptation altogether when possible.

- Do some people you follow on social media tempt you to spend money or derail your effort on your goals? If so, consider unfollowing or blocking them. Unsubscribe from mailing lists that create urgency by sending you lots of deals or coupons – you can shop for deals when you're actually ready to purchase something.
- Check customer reviews.
- Use a list when you go shopping and stick to the list. Find a way to help you stay focused, such as: If it's not on the list, it doesn't exist!

Build in a pause: You may be tempted to spend money on something you don't really need right now. Force yourself to pause so you can be sure it's not just an impulse.

- If you add an item to an online cart, shut down the browser before you purchase it. You can always come back later to buy it.
- If you're tempted to buy something you don't really need in a store, build in a pause. Don't put the item in your cart. Tell yourself you can come back at the end of your shopping trip to get it.
- Don't save your payment information at online retailers. Sometimes having to go find and input your payment information gives you enough time to resist the impulse.

Talk yourself out of it: When you're tempted to make a purchase that isn't in your spending and saving plan, try asking yourself:



- Is this a want or is it a need?
- Does it help me reach my goals?
- Is this in my spending and saving plan?
- If it isn't, can I plan for this expense by creating a savings goal?
- If I spend this money now, will it affect my ability to achieve my goals?
- Is there a way I'd rather spend this money?

Talk yourself out of it by reminding yourself of your goals.

Calculate how many hours or days of work an item "costs":

- Start with your hourly wage, or if you are a full-time salaried employee, calculate your hourly wage by dividing your annual salary by 2,080 hours
- Take the cost of the item and divide it by your hourly wage to get the number of hours you have to work to pay for it
- For example, if an item costs "48 hours of work" (=six full days of work), that can help you decide whether to postpone buying it now and instead set a financial goal to save money to buy it later

$	÷	$	=	Hours you have to work to pay for item
cost of item		hourly wage		

ACTION

7. Risks and Opportunities

Your cash flow is not "fixed" – you can do things to change it, as can outside forces beyond your control. While most people understand this general idea, if they don't inventory their personal risks and opportunities, they can't plan to address them.

Life is volatile: Things can improve and get better, but things can also get worse. You may not have control over all the ups and downs, but good financial planning now lets you take advantage of the good times and help protect you when times are tough.

In addition, even the simplest exercise of thinking and looking at risks and opportunities may let you discover new possibilities – it forces you to look around the environment and say, What if…?

Example: You are renting a two-bedroom apartment but live alone. One way to look at this situation is that the larger unit is costing you more than you need to spend; that's a risk, so it might be better to move into a smaller apartment. But another way to see this is that you could rent out the other bedroom; that would allow you to pay less than you would for a one-bedroom apartment, which is an opportunity.

Whatever your choice, going through the process and then making your decision positions you to end up with more money in your pocket. That said, you might also think that the difference is too small to care about or not worth the hassle. As you will see in later modules, however, those small amounts add up fast and can mean the difference between surviving a rough patch the road, or not. Even more importantly, those extra funds can help get you something you *do* care about.

Exercise

7.1.1 Your risks and opportunities

Look at the examples in the tables below, then make your own notes about risks and opportunities.

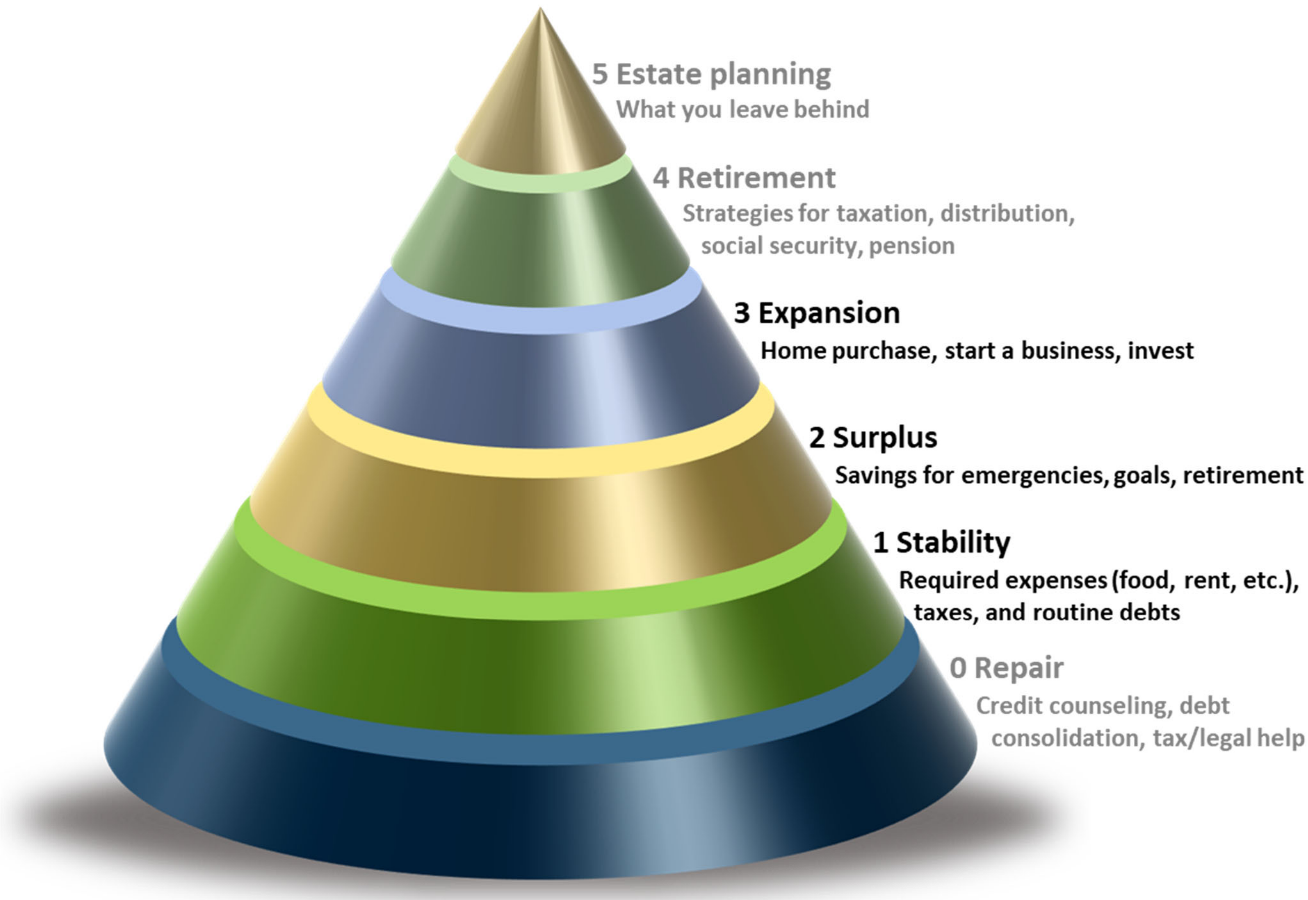
Risk	Harm
Getting laid off	*Lose income, lose health benefits*
Car breaks down	*Unexpected expense, (temporarily) lose reliable transportation for work*

Opportunity	Benefit
Get a raise	*More income*
Lower Internet and TV costs	*Reduced expenses*

- **Now consider this: What can you change or reorganize fairly quickly to reduce your risks and increase your opportunities?** *(Use the space below to make some notes)*

8. Values, Goals, and Budgets to Achieve Them

Now that you understand your cash flow situation, how credit works, how to manage external influences, and your own risks and opportunities, you can use those learnings to start shaping your own financial future – which includes planning how to use ***surplus*** income.



8.1 Budgeting to meet your goals

After doing the risks and opportunities exercise you have some things you want to address – in fact, you may have so many things that it's hard to know where to start.

- As a general rule, begin with any issues that could affect your ability to earn an income
- As a close second, create an **emergency fund** to cover unexpected expenses and possible interruptions to your income such as a layoff, serious illness, major car or home repair, and similar

People often see the word "budget" as a restriction. Instead, think of your as your plan to allocate your resources to achieve your goals.

The most obvious benefit of an emergency fund is to keep you from having to rely on credit to solve problems. There are other reasons, too, that affect your quality of life.

Example: You are not getting along with your boss at work. This is stressful, and as a lower-level employee you may feel powerless to do anything about it. An emergency fund will not solve that problem, but if you know you have saved three months' worth of expenses, you may be less emotionally affected. Having an emergency fund gives you options, allows you to step back from the stress, and gives you the space to make wiser decisions.

If you get paid bi-weekly, there are two months each year when you get three paychecks instead of two. You can take advantage of this "extra" paycheck to put some money into your emergency savings fund and have a cushion in lean times.

Ask yourself this question: How differently would I feel every day if I knew I didn't *have* to work for 6 months?

Of course, the purpose of an emergency fund isn't to encourage you to quit whenever you face a conflict, but the normal response when people answer that question is "relieved." Stress may be less about the immediate problem than about how empowered you feel to do something about it.

You can find numerous guides on how big an emergency fund should be, but it's usually 3-6 months of normal expenses, enough money to cover your yearly insurance deductibles, and some for unexpected expenses such as car repairs, etc. There are many approaches, so decide based on your personal situation. Someone who can live with family members rent-free needs far less than someone who owns a home and has two children. You could use a checklist like the Cash flow Worksheet to know each potential expense is covered, or perhaps simply set money aside each month until you feel more relaxed and empowered about life. The "best" approach is whatever works for you!

It's best to separate your emergency fund from your regular savings accounts. Even the most disciplined people have trouble building emergency reserves in an account they use all the time. Most major banks let you manage multiple accounts online, and many employers can split direct deposits among multiple accounts. However you do it, this is a great hands-off way to build an emergency fund.

8.2 Being guided by your personal values

Personal values are what's important to each of us -- the beliefs, characteristics, and behaviors that motivate us and guide our decisions. Our personal values show up in our beliefs, relationships, and decisions about people, things, and places.

Understanding your values (and those of your spouse/partner) can help you set achievable financial goals.

Exercise

8.2.1 Practice: Brainstorm your own values, hopes, and dreams

Values question	Your ideas...
List values that are most important to you. *Examples:* family/ friends, freedom, happiness, health, reputation, self-respect, spirituality, stability, status, etc.	
What are your hopes, wants, and dreams? Thinking about your values and the risks and opportunities you identified, list things you'd like to change and dreams you have. They can be short term (less than six months to achieve) or long term (more than six months to achieve).	*Things I'd like to change:* *Dreams I have for myself / my family:*

Aligning behavior with values: Getting clear on your own values (and those of our spouse/partner) helps you:

- Set realistic goals
- Make spending decisions that will help you meet your goals

8.3 SMART goals

What kind of future do you want? Which of your risks do you need to tackle right away? What opportunities can you go after? Whether short, medium, or long term, goals are your desired results. Setting goals helps you prioritize how you use your money so it goes toward what matters to you, and track your progress toward your hopes and dreams. Developing a plan will help you visualize how you can reach the goals you set.

Note: Significant portions of this subsection were drawn from FDIC Money Smart for Adults, and CFPB Your Money, Your Goals Toolkit.

Use the acronym S.M.A.R.T. to remember that goals should be Specific, Measurable, Achievable, Relevant, and Time-bound.

To ensure your goals are...	Ask yourself…
Specific	What exactly do I want to accomplish? What specific actions do I need to take to meet this goal? You're more likely to meet a specific goal than a general one. For instance, it's much easier to plan a trip to Boston than it is to plan a trip "to the east coast."
Measurable	How much? How many? How will I know when I've met my goal? You should be able to track your progress toward meeting the goal. For instance, "Save $25 a week" is measurable, but "Save more money" is not.
Achievable	Is this realistic? You might want to get out of credit card debt tomorrow or become a millionaire within a year, but for most of us those are unrealistic goals. That doesn't mean that your goals should be easy. Your goal may be a stretch for you, but shouldn't be extreme or impossible. If the goal feels like too much of a stretch, try breaking it down into smaller, more achievable goals.
Relevant	Why is this important to me? Is this something I really want? Set goals that matter to you and are a priority in your life. This makes it more likely you will prioritize the time and effort it takes to achieve them.
Time-bound	When will I reach this goal? Goals should have a clearly defined time frame, including a target date or deadline. You can also combine periodic and final deadlines, such as monthly and end dates. Including a time frame helps ensure goals are measurable and that you're taking steps to reach the goal by the target date.

Exercise

8.3.1 Practice: Setting goals

Scenario: Chris is 8 months into her apprenticeship and her old car has gotten her back-and-forth to work most days -- and when it hasn't, she's been able to get a ride from her sister or another apprentice who lives nearby. As she looks to the upcoming fall and winter, however, she sees a big risk. When her mechanic friend last got it running again, he said the next time it wouldn't be worth fixing.

With upcoming classes and work sites all over the region, she can't rely on others to drive her around. One friend advised her to just get another old car, but this far along in her program -- and doing well -- she knows how important it is to be at work every day, on time, and ready to learn.

Chris has done a little more homework, too. She's estimated her monthly cashflow, confirmed she has pretty good credit, checked on some prices for reliable used cars, and looked on her bank's website for loan information. To afford the monthly payments and have a little to spare, she figures she needs at least $2,000 for a down payment and thinks she can sell her old car for $500-650.

Chris thinks she can limp along with her car for another 4-5 months and use that time to save $350-400 each month for the down payment – and also practice setting aside money for her future car payments.

Ask yourself…	What you know…
Specific • What does Chris want to accomplish? • What specific actions does she need to complete to meet this goal?	*Think short- and long-term. More detail is always better.*
Measurable • How much money does she need? • How will she know when she's met her goal?	*Think short- and long-term for both of these questions.*
Achievable • Is this goal something she can actually reach? • Is it too big of a stretch? Not enough? Just right?	*If you were in this situation, what's realistic, attainable?*
Relevant • Why is it important to her?	*What's important, meaningful, relevant?*
Time-bound • When will she reach this goal?	*Be conservative with time estimates; it's always better to be ahead of yourself than to get into trouble...*

Now look at your notes above and write a SMART goal for Chris, making sure it meets all the requirements (specific, measurable, achievable, relevant, and time-bound):

If you receive a tax refund, you could save part of it for emergencies or unexpected expenses, set it aside for predictable annual expenses, or put it toward meeting one of your goals. Think through your options for how to make saving a priority when you get a tax refund.

Exercise 8.3.2 Action: Set a SMART goal for yourself

- Think about your values, hopes, and dreams
- Consider what you've learned about cashflow, credit, risks, and opportunities
- Think about short-, medium-, and long-term goals
- Remember that SMART goals are Specific, Measurable, Achievable, Relevant, and Time bound

My SMART goal is:

To make sure your goal is SMART, use the table below to describe what makes your goal specific, measurable, achievable, relevant, and time bound.

SMART characteristic and questions to ask yourself	Your answers
Specific: What will I achieve? Who will benefit from the goal? What specific thing will I accomplish?	
Measurable: How much? How many? How will I know when it's done?	
Achievable: Is this goal something that I can actually reach? Do I have the tools and support I need to accomplish this?	
Relevant: Is this something that I really want? Is now the right time to do this? Why is this goal important to me?	
Time bound: When will I reach this goal? Is the time frame reasonable? (You will want to have both short- and long-term goals)	

Exercise 8.3.3 Action: Putting goals into action

1. Write down the SMART goal you're saving toward.
2. Figure out the total amount you need to save to reach that goal.
3. Decide how many weeks you have to save.
4. Divide the total amount by the number of weeks. That is your savings target.
5. Think about ways you can cut expenses to match the total amount you need to save per week.

	Example	**Your information**
Savings SMART goal	*Save $1,000 for an emergency fund within 10 months (about 40 weeks)*	
Total amount needed	*$1000*	
Weeks to reach goal	*40*	
Weekly amount to save *(total amount divided by the # of weeks)*	*$25*	

- **Remember:** Setting SMART goals helps you achieve your hopes and dreams for the future by providing a realistic plan to follow.

Keep it going: If you get a raise at work, bank the increase. If you pay off your car, keep paying the same monthly amount into your own savings account. If you're not sure you'll remember to make the deposits, ask your bank about automated transfers.

Exercise

8.3.4 Action: Budget worksheet

- If it would be helpful for you, use the budget worksheet below
- Use your cash flow results to enter your income and current expenses
- If your expenses are higher than your income, use this worksheet to plan how to reduce your expenses this month; then use those results to plan future months
- Enter your information in the right column, and see instructions below to perform the calculations

MONTH ________________________________ **YEAR** __________________________

	My income this month	Amount
Income	Paychecks (salary after taxes, benefits, and check cashing fees)	
Income	Other income (after taxes), for example child support	
	Total monthly income *(to calculate, right-click on sum cell and update)*	$ 0.00
	How I plan to spend my money this month	**Amount**
Housing	Rent or mortgage	
Housing	Renter's insurance or homeowner's insurance	
Housing	Utilities (electricity, gas, water, etc.)	
Housing	Internet, cable, and phones	
Housing	Other housing expenses, such as property taxes	
Food	Groceries and household supplies	
Food	Meals out	
Food	Other food expenses	
Transportation	Public transportation and taxis	
Transportation	Gas for car	
Transportation	Parking and tolls	
Transportation	Car maintenance (like oil changes)	
Transportation	Car insurance	
Transportation	Car loan	
Transportation	Other transportation expenses	
Health	Medicine	
Health	Health insurance	
Health	Other health expenses such as for medical visits, copays, eyeglasses, and others	
	Continued on next page	

Personal and Family	Childcare	
	Child or spousal support	
	Money given or sent to family	
	Clothing and shoes	
	Laundry	
	Donations	
	Entertainment (movies, amusement parks, etc.)	
	Other personal or family expenses (personal care, etc.)	
Finance	Fees for cashier's checks and money transfers	
	Prepaid cards and phone cards	
	Bank or credit card fees	
	Other fees	
Other	School/education costs, such as supplies, tools, tuition, student loans	
	Other payments, such as credit cards and auto savings	
	Other expenses this month, including those that come one or more times per year	
	Total monthly expenses ***(to calculate, right-click on sum cell and update)***	$ 0.00

Total income		**Total expenses**		**Monthly balance**
$ 0.00	**—**	**$ 0.00**	**=**	**$ 0.00**

To calculate, right-click on each of the three numeric cells above and update field)

9. Cost of Money

This module explores the profound impact of interest on both saving and borrowing, and offers a simple approach to making better financial decisions.

9.1 Rule of 72: Savings

The Rule of 72 is a simple method of understanding how money grows over time. It provides a rough approximation of how many years it will take to double the value of your money at a given rate of return.

How it works: For any amount of money, divide 72 by the rate of return (interest rate), and the result is *approximately* the number of years it will take to double an investment.

Terms like APR, rate of return, and growth rate have little real meaning to most people, making it hard to decide how much and where to save or borrow. A good way to understand the impact is to think in terms of <u>time</u>.

Example 1:

- You have $1,000 in a savings account that earns 1% interest
- 72 divided by 1 is 72: That's about the number of years it would take to double your money from $1,000 to $2,000 through interest alone

Example 2:

- You have $1,000 in a savings account that earns 10% interest
- 72 divided by 10 is 7.2: That's about the number of years it would take for $1,000 to become $2,000
- No bank is currently paying a 10% interest rate (although they have in the past), but getting 2% isn't impossible. So if you find that rate and divide 72 by 2, the answer is 36 years to double your money through interest. The difference between a 1% return and a 2% return doesn't seem like much, but think about the difference in years: Would you like to double your money in 36 years, or wait for 72 years?

Example 3, another way to look at it:

- At 1%, you turn $1,000 dollars into $2,000 dollars in 72 years
- But at 2%, you turn $1,000 into **$4,000** in 72 years: 72 divided by 2% gives you 36 years to double from $1,000 to $2,000, and then you double that again from $2,000 to $4000 over the next 36 years

Exercise

9.1.1 Practice: Rule of 72 and your savings

Now use your own information to practice using the Rule of 72 for your savings and the interest rates you might get when you invest a larger amount and don't touch it. Use a calculator for this and enter the interest rate as a whole number, not as a percent.

Starting savings deposit	Rule of 72		Interest rate in %		Years to double your savings	Double amount: original + earned interest
$5,000	*72*	÷	*5*	=	*14.4*	*$10,000*
$10,000	*72*	÷	*8*	=	*9.0*	*$20,000*
	72	÷		=		
	72	÷		=		

9.2 Rule of 72: Borrowing

Taking what you learned in the Credit module, think about the Rule of 72 from a bank's perspective.

Example 1: You may have to pay up to 20% on a credit card, so consider how long it takes the credit card company to double their money if you buy something for $1,000: 72 divided by 20 is 3.6, so in 3.6 years you have paid the card credit company $2,000 for your $1,000 item.

Example 2: If it's hard to be disciplined about credit, think about the costs over time.

- Paying for a $5 sports drink on a credit card seems harmless, but would you pay $10 for the same drink? How about $20.00?
- Perhaps you pay off that credit card within a month so it doesn't cost you double, but if you don't pay off your credit card immediately those costs add up fast
- If you keep running credit card balances, you are likely paying double many times over -- people with bad credit habits could end up paying $50 for their $5 sports drink!

Exercise

9.2.1 Practice: Borrowing costs

Now use your own information to think about purchases you are considering and the interest rates you would have to pay if you borrow money to make those purchases. Use a calculator for this and enter the interest rate as a whole number, not as a percent.

Starting loan amount	Rule of 72		Interest rate in %		Years to double <u>the bank's earnings</u>	What you might actually pay for your original purchase
$1,000	*72*	÷	*20*	=	*3.6*	*$2,000*
$5,000	*72*	÷	*15*	=	*4.8*	*$10,000*
$10,000	*72*	÷	*5*	=	*14.4*	*$20,000*
	72	÷		=		
	72	÷		=		

10. Retirement Primer

With so many types of retirement accounts, the topic is too complex for this short financial literacy course. The information below, however, will help you know what questions to ask as you think about retirement savings. As always, remember that all investing carries risks, so make sure you fully understand the terms and conditions of any investments before participating.

It's important to balance between your short- and long-term needs. A retirement account is a great way to save for the future, but tapping it before retirement could have negative consequences.

Many employers offer employees the opportunity to participate in a retirement plan. If that's the case with your employer/sponsor, as an apprentice you are also eligible. The terms vary widely but there are some common elements. Broadly speaking, a retirement account is an investment or savings account that encourages you to save now by offering tax breaks. In the most common type of retirement savings, the federal government lets you save a portion of your gross income (amount before taxes) *now*, and pay taxes much later in life when you are probably making less money and therefore in a lower tax bracket.

As an employee benefit, many employers also match some percentage of the money you put in; these programs are popular because you can quickly build up large savings. Most employers have a way for your portion to be taken out of your paycheck automatically, making it extra easy to save.

What you need to know:

- ➢ Most retirement accounts have severe penalties for taking out the money before retirement age
- ➢ Retirement investments may move up or down in value, so ideally you want to take out your money at an opportune moment – not in a rush
- ➢ You need to fully understand all the rules – like fees and penalties – before investing
- ➢ Retirement accounts should *not* be used to save for a short-term need or problem, and certainly should not be used as an emergency fund
- ➢ Retirement money is meant for you to live off of *in retirement* – when you are not working; it is replacement income for later in life

With your own experience and new knowledge from earlier modules in this course, think about what happens in this scenario:

- A person has little or no cash available, and is faced with a serious personal problem or financial crisis that only money can solve
- They have a big pile of money in a retirement account that will make the problem go away, but there are huge fees for taking out the money early

Various government agencies regulate how retirement plans work, primarily the Internal Revenue Service (IRS) and the U.S. Department of Labor, and give employees certain rights related to retirement plans.

What's are some possible outcomes? You might think it depends on the crisis, but even that is an acknowledgment that losing money in fees and penalties is a foregone conclusion if the stakes are high enough.

Key learnings:

- ➢ *Know* your financial situation by doing the cash flow analysis, keep your credit good, plan and budget carefully, set meaningful goals and save to achieve them -- and ensure that one of those goals is an emergency fund so you have cash on hand when you need it

- If you decide to start saving for retirement:
    - Talk with your employer, bank, or financial professional about options
    - Get answers to all your questions before deciding how to proceed
    - Invest what you can afford, and consider automatic payments into that account – you can change that amount as needed over time
    - Check out the resources below and in the Learn More section above

10.1 Resources

Retirement funds and regulations

- U.S. Internal Revenue Service, information about types of retirement plans
- U.S. Department of Labor, retirement plan regulations and your rights

Information about registered financial professionals

- U.S. Securities and Exchange Commission, investment professional lookup
- Financial Industry Regulatory Authority (FINRA), BrokerCheck. To protect investors and ensure the market's integrity, FINRA is a government-authorized not-for-profit organization that oversees U.S. broker-dealers.
- Minnesota Department of Commerce investment professional lookup

Financial planning tools, money trackers, and calculators

- Many banks and credit unions offer these free tools to the public, and they may be especially useful when tied to your own account
- Financial Industry Regulatory Authority (FINRA): Savings, loans, retirement, and others
- Investor.gov from the U.S. Securities and Exchange commission (SEC): Retirement, social security, mutual funds, 529 college savings plans, and others

An automatic savings system can help you reach your goals. If you have set up a bank account and direct deposit for your paycheck, you can automatically deposit some of every paycheck into a savings account. For example, if your weekly paycheck is $700, you can have $50 auto-deposited into a savings or retirement account. Over time, you may even "forget" about that $50 because you don't see it in your checking account. This makes it easier to reduce your spending just a little to account for having $50 less per week. If you don't use that money, you'll have $2,600 plus interest by the end of the year – real money to help achieve your goals. Ask your employer and bank about direct deposit and other options for automatically saving some of your paycheck.