9 Things Every College Student Should Know About Money
Thing 7 Presentation Transcript

The Most Important Bill You Need To Pay Is You.

Number Seven - The Most Important Bill You Need To Pay Is You.

More shoes?

Penny thinking: I really want those shoes I saw on campus Saturday, but I don't need them.

And I just paid off my credit card!

TOPICS

1. SAVINGS

Savings.

BUILD YOUR NEST EGG

You need to start building your nest egg through savings.

Penny: Hmmm, yikes! Checking account balance is $17.52 and savings is zero!

PAY YOURSELF FIRST?

Of all the "9 Things" the most important one of all, at least as far as I'm concerned, is to get into the habit of paying yourself first. Save money. It is a habit that you should consider to be a lifelong habit. One that will pay significant dividends for you down the road and really the one thing that I really wish I would have learned early on in life. You can get a lot of second chances in life, but you can never be young again and get back those years that you could've been saving and creating wealth for yourself down the road.

HOW TO SAVE

So start saving now! It's easiest to start with a round number so I always say start with 10%. But basically, start with whatever you can! Keep the money in a savings account, or if not a savings account, in an investment vehicle, really even better, that is earning the highest amount of interest that allows you to sleep at night and then dollar cost average into it. That means make regular deposits into that investment and let that money grow.

SELF ASSESSMENT M/C

What should you do if you can't save 10% or your net income?

2. EMERGENCY FUNDS

Emergency funds.

WHY NEEDED?

So let's talk about an emergency fund. Well, I guess first of all-why do you need an emergency fund? It's because life is going to throw you curves. You're going to put together this great plan and there's going to be something that's going to come up that is not going to be anticipated. Then you're going to have very few options; either taking money out of your savings that you have been paying yourself first with--which means you're probably pulling it out of your retirement or your wealth creation fund or you're going to have to sell off your assets. So in order to avoid that, you should create an emergency fund that has backup money in it when unforeseen things that happen to all of us, happen to you.

HOW TO SAVE

Emergency funds should be put into a separate account. That account needs to be fairly liquid, so you can't lock it up into some long-term investment that you can't get your hands on because you don't know when an emergency is going to occur that you actually need funds for. Instead, put it into a separate fund. Don't just mix it into your regular checking or savings account because then you're going to have a tendency to spend it. It has a defined mission and that mission is: you define what it is that is considered to be an emergency and you don't touch those funds until that emergency threshold is passed. Otherwise you'll never get anywhere.

A lot of people like to start with 10%, it's easy. So basically what we're talking about now is 20% of your income is gone because you're going to put 10% into savings and you're going to put 10% into your emergency fund. That all needs to be a part of your plan. If you can't afford 10%, then you can start smaller, some people like to call them baby steps, and try to work yourself up to 10%.

The thing about the emergency fund is you don't have to keep funding it forever. Figure out what your goal is, and let's say your goal is to have 3 months' worth of income set aside in an emergency fund or some people like to use 6 months, whatever you decide your goal is and once you hit that goal, then you don't have to keep funding that emergency fund. It's not like retirement that you just keep piling money into until you're ready to retire. This one has a shorter horizon and once you get it filled up then you don't have to keep contributing to it unless of course you have to tap it and then replenish it.

Where to keep your emergency funds? That's going to be a personal decision for you. Again, my biggest concern would be that they are liquid enough to where you could get at them in a hurry if you needed to. When to use the emergency funds? Again, you're going to have to create that threshold, you're going to have to decide when that threshold has been exceeded and you actually pull those funds out.

SELF ASSESSMENT T/F

Money from your emergency fund should be used to pay monthly bills.

3. PLANNING FOR RETIREMENT

As promised earlier, planning for retirement.

LIFE IS A HIGHWAY

Instructor Brad: Life is a highway, a race. And it's always looking in the rear view mirror wondering if you've made good decisions along the way.

BRAD'S TIMELINE

Retirement is normally your biggest expense in life, so you must understand your retirement options and start planning early. It's really hard to teach this starting early and planning ahead thing, because you just have no idea how fast time goes. I mean this is a timeline that we put together. Which you know, I graduated from high school right in the late 70s and went to Pittsburg State in the early 80s. And by 1995 I had got a good job working with the Department of Education. In 2001, I became a Sooner. In 2005 we presented the very first presentation of the 9 Things, and then I got some chickens, and we'll talk about that a little more about that subject in a later *Thing*, but the bottom line is--it all seems like it was yesterday, and life goes by so quickly that if you don't start planning, you're going to blink, and it's going to be gone. You've got to be prepared, and retirement is one of those things you can't let sneak up on you.

RETIREMENT CONSIDERATIONS FAQ Interaction

WHO PAYS FOR RETIREMENT? Classroom Interaction

Penny: Who pays for and governs retirement funds?

PENNY'S DILEMMA

Penny thinking: I don't really have any savings yet…
So how am I going to pay for retirement when I don't even have a job-yet???
and all I've been thinking about is a new pair of shoes!

SELF-ASSESSMENT M/C

Which agency administers Medicare?

INDIVIDUAL RETIREMENT ACCOUNT

What are some basic types of retirement plans and personal saving for retirement? Well some of the most popular are an individual retirement account. An IRA, and basically and IRA is a retirement account that you open with your employer or with an individual brokerage firm, but you've designated as an IRA, and that is a tax designation so that when you fill out your personal income tax return, if you qualify, then you would take a tax deduction in order to make contributions to that individual retirement account. But, it is all you. It's not the employer, it's not anyone else. It is your personal retirement account.

INDIVIDUAL RETIREMENT ACCOUNT Click each form

IRA–designed to grow on a tax deferred basis until withdrawn at retirement or at age 59 ½.
Roth IRA-IRA that offers a future tax advantage

EMPLOYER SUPPORTED PLANS

Alright let's talk about employer supported plans versus we were just talking about individual. Employer supported plans typically are tax-exempt. It's where the employer contributes funds to be invested on behalf of the employer for future retirement income. A typical way to call these is pension plans, but there's sort of a different perception of pension plans. And I think it makes it a little clearer when you differentiate between the two. There's one type that's called defined benefit. And when I think about a pension plan I think about defined benefit. And a defined benefit basically guarantees you a specific monthly benefit when you retire.

Typically the way it works is you put money into this retirement plan, your employer puts money into the retirement plan, there's a formula that takes place. It's typically two percent a year, for however many years you're an employee. So if you work there for 25 years at 2

percent a year, you would get 50% of your salary when you retire. It's a little more complicated than that, but that's basically what it is.
A defined benefit defines the output for the owner of the plan. So basically you have locked in what is owed to you through that pension plan going forward.

Now, more and more companies have moved away from defined benefit plans, because of their expense. And they have moved toward something that is ever-increasingly popular, because it doesn't lock the employer into the guaranteed benefit that the defined benefit does. And that's called a defined contribution plan.

In a defined contribution plan typically both the employer and the employee put money into an account, like a 401k or a 403b-- there's different tax designations for it. But the amount of money that you get during retirement is not set. In other words, you've got choices when you put that money into your plan and where it goes. There's going to be different investment vehicles. Whatever your employer offers; they might have a large stock fund, they might have a growth fund, they might have an international fund. They might have a targeted retirement date fund.

You have to decide where that money's going to go, and then the performance of that fund will determine how much money you will have at retirement. So you're a lot more tied to the stock market. You have to take on a lot more responsibility as to where that money is going to be invested.

Defined contribution a lot of times is great because it's more portable. *But it also puts the onus on you of making sure that you're making wise decisions and that you have enough money to retire on when you get to that point.* This is one of the main reasons I've included the STARS program in this course. I really want you to get some exposure to the stock market so when it comes to reviewing and choosing your actual retirement benefits slash options, you'll have a better understanding of how this all plays together.

MOST COMMON TYPES

Defined Benefit-pays a specific monthly benefit upon retirement
Defined Contribution-employee and/or employer contribute specified amounts to retirement plan BUT amount paid during retirement depends on the investments performance

FEDERAL PROGRAMS

Alright, let's talk about some federal retirement plans. One that everyone talks about. Social Security. Is Social Security going to be around when you guys get ready to retire? Well, I would say in its current form, no. There's not, the way the program is currently structured, there's not going to be enough people paying into Social Security as compared to the people trying to withdraw from Social Security, and the models just not going to work. Social Security got off track years ago. When it was first created, they created the FICA, the Social Security tax, and the money came in from people who were employed. Basically it was explained to them that this money is going into a retirement fund for you and when you get ready to retire, you're going to have this Social Security income that's going to be available to you for the rest of your life. That would have been great if they'd taken the money and invested it, and locked it away. And that would have been there for you when you retire. The problem is that they didn't lock it up and the legislators started spending the money.

And so the way that Social Security has actually worked, is that people paying in every year actually pay the Social Security for those taking money out. Which was fine while there was more people working than there were retired. But now that we're going into the baby boomer generation, there's going to be all of these baby boomers retiring, and there's fewer people in the workforce that are going to be paying in. And now we're going to have more people taking out than we have putting in. So, there is a mathematical problem that is going to have to be dealt with, with Social Security. Otherwise the Social Security program is not going to be financially viable so, I'm firmly convinced that they'll figure it out and they'll come up with a plan. These commitments have been made to people so they need to keep their promise. But somebody's going to have to tackle this hard question of social security so that it will be around for you guys in years to come.

SSI's a little different, it's called Supplemental Security Income. SSI pays for adults who are disabled, and it will also pay for children with very limited income and resources so it's a Supplemental Social Security program. And it is there basically with a specific need in mind to help those people who are disabled or disadvantaged. Again, there's a lot of debate on Social Security, and how long those funds are going to be available.

My advice to you right now is I don't think I'd put Social Security income in my retirement plan. Then, if they do get it changed to where it's financially viable again, that will just be a happy extra little addition to whatever plan it was that you put together without Social Security in it.

The final federal program is Medicare. Right now Medicare is for people age 65 or older to help them supplement their health care. Again, Medicare is one of those things you pay into your whole life and you get a benefit when you turn age 65. Medicare is very expensive. It is one of those things that is probably going to have to be overhauled, eventually in order to remain financially viable. But right now, depending on where you are at in your retirement path, you guys are very early on in your retirement path. Watch the politics of Medicare to determine if it's going to be there for you when you retire or if you need to take other steps in your plan to make sure that you have health insurance as you begin to age and get into that stage where you need additional help. So pay attention to the up and coming Health Savings Accounts which may be something to consider in your future and just don't forget to keep abreast of Medicare related issues as you get older.

PENNY'S REALIZATION!

Penny: Wow, I didn't realize how important this information is to my future! I really need to consider planning for my financial future--starting now!

REFLECTION

How are you going to prepare for your financial future?

GLOSSARY REMINDER

Penny: Now let's review all the glossary terms as they will be on the quiz and final exam.