



Personal Finance

HOSTED BY: ASI

Overview of Today's Presentation



1. What is financial literacy and why it's important



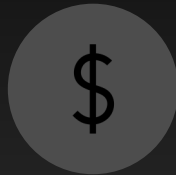
2. The basics of budgeting



3. Accounting basics to use in budgeting



4. Introduction to understanding the Financial Markets and Investing



5. Other tips to know for handling money in college and beyond

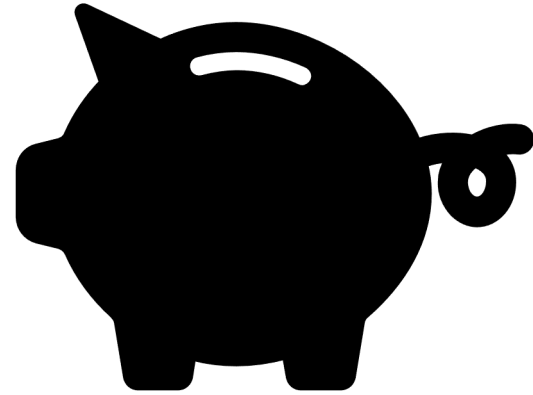


6. Extra Resources

What is
Financial
Literacy?

What is Financial Literacy?

The possession of skills that allows people to make smart decisions with their money.



What is personal finance?

The basics
of
budgeting



Budgeting
for College
Students

What is a budget?

What is a budget?

1. it is a plan for your money, not a restriction on spending

2 it is a plan for what you'll do with your money- what's coming in, what's going out

3. It will give you a sense of control to follow a plan because you give your money *purpose*



Why would you
need a budget
now?

The first step is to define
your financial goals.



How to Create a Budget



Gather
Financial
statements



Create
List of
monthly
expenses



Calculate
Income



Determine
Fixed and
variable
expenses



Total
Monthly
Income and
Expense



Adjust
expenses

Gathering Financial Statements

Bank statements

Investment accounts

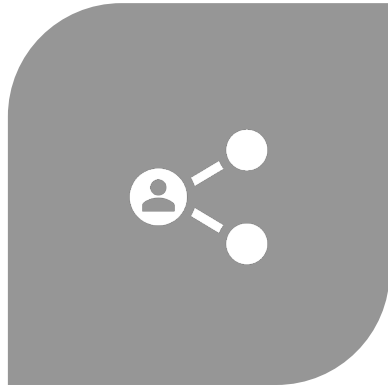
Any Bills + Credit card bills

W-2s, W-4s, and 1099s

Receipts from the last three months

Loan statements

Creating a List of Monthly Expenses



SPLIT THEM INTO NEEDS AND WANTS

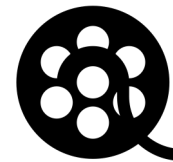
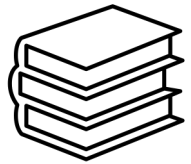


NEEDS ARE EXPENSES YOU CANNOT GO ON WITHOUT

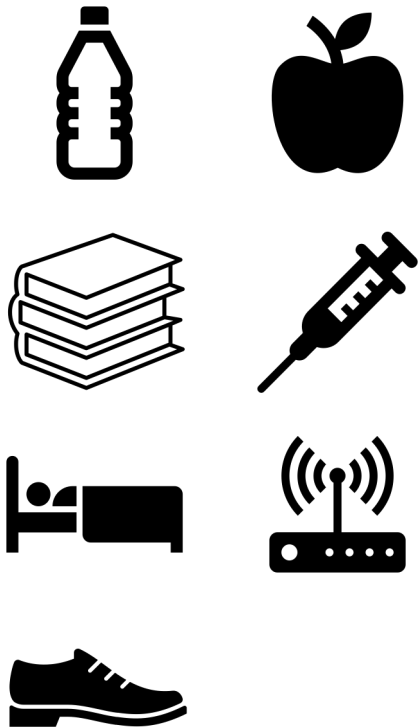


WANTS ARE EXPENSES THAT CAN BE THOUGHT OF LIKE "FUN MONEY"

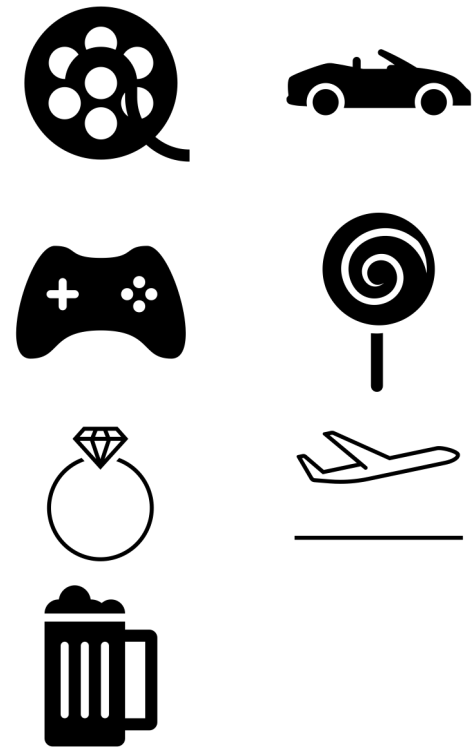
Split these into Needs and Wants



Needs



Wants



Calculating Income

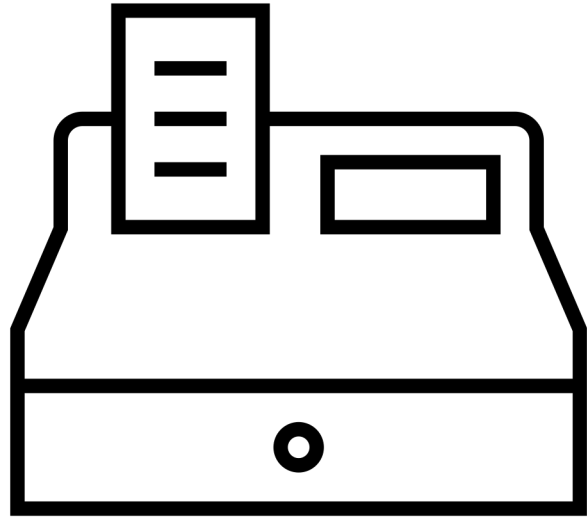
Figure out after-tax
income if you work

Track other
sources of revenue
(i.e grants,
scholarships, etc)

Determine Fixed and Variable Expenses

Fixed expenses- expenses that you pay the same amount for each time (i.e car payments)

Variable expenses- changing from month to month (i.e groceries or transportation)



Total Monthly Income + Expense

The goal: $\text{income} > \text{expense}$

Savings and Debt Repayment

Emergency fund and Savings funds- a **bank account** with money set aside to cover large, unexpected expenses

401(k)- retirement savings plan that employers offer

Roth IRA- retirement savings account that you can open yourself

Credit card payments

Excess payments on mortgage

Excess payments on student loans

401k

Advantages:

- **Contribution limit.** You can invest up to \$19,000 a year
- **Employer match.**
- **No income level limit.**
- **Tax break.**

401(k) cont.

Disadvantages:

- Fewer options for mutual funds.
- Waiting period
- Required minimum distributions(RMDs)

Roth IRA

Advantages:

- Tax-free growth.
- More investing options
- Set up apart from an employer
- No required minimum distributions (RMDs).
- The spousal IRA.

Roth IRA (cont)

Disadvantages

- Contribution limit.
- Income limits.

Choosing a budgeting plan

1. **zero-based budget:** which is when *all* your income minus *all* your expenses equals zero.
2. **envelope system:** “enveloping” your expenses
3. **50/30/20 budget:** 50 for needs, 30 for wants, 20 to savings and debt repayment
4. **80/20 budget:** 80 for both needs and wants, 20 to savings and debt repayment
5. **Sub-savings accounts method:** separate savings accounts and separated for specific purposes

Zero-Based Budgeting

From Zero to Hero



January			
Income			
Source	Estimated	Actual	Difference
Income 1	\$5,000.00	\$5,000.00	\$ -
Income 2	\$3,000.00	\$3,000.00	\$ -
Side Hustle 1	\$1,000.00	\$ 850.00	\$ (150.00)
Side Hustle 2	\$ 300.00	\$ 600.00	\$ 300.00
Bonus	\$ -	\$ 250.00	\$ 250.00
Total	\$9,300.00	\$9,700.00	\$ 400.00
Expenses			
Expense Name	Estimated	Actual	Difference
Giving	\$ 930.00	\$ 970.00	\$ 40.00
Saving	\$1,000.00	\$1,400.00	\$ 400.00
Housing	\$2,000.00	\$2,000.00	\$ -
Utilities	\$ 250.00	\$ 190.00	\$ (60.00)
Food	\$ 400.00	\$ 400.00	\$ -
Insurance	\$ 250.00	\$ 250.00	\$ -
Personal Development	\$ 50.00	\$ 35.00	\$ (15.00)
Personal Care	\$ 100.00	\$ 100.00	\$ -
Debts	\$3,500.00	\$3,500.00	\$ -
Children	\$ 300.00	\$ 400.00	\$ 100.00
Clothing	\$ 150.00	\$ 150.00	\$ -
Transportation	\$ 100.00	\$ 175.00	\$ 75.00
Medical/Health	\$ 50.00	\$ -	\$ (50.00)
Household Items	\$ 120.00	\$ 80.00	\$ (40.00)
Recreation/Fun	\$ 100.00	\$ 50.00	\$ (50.00)
Total	\$9,300.00	\$9,700.00	\$ 400.00
Balance	\$ -	\$ -	

Zero-based budget

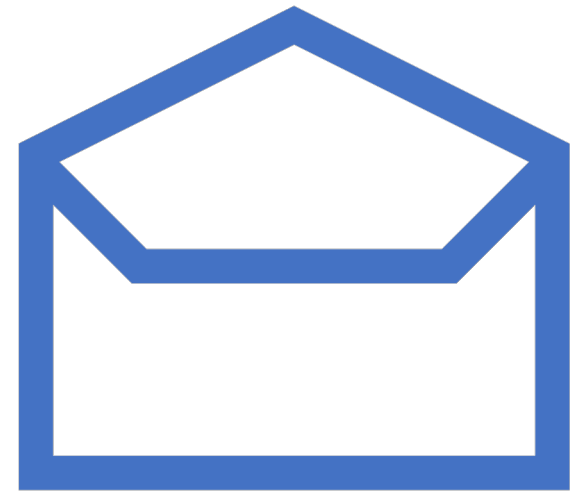
Monthly income: \$3,000

Rent	\$1,000
Groceries	\$375
Eating out	\$75
Bills	\$250
Insurance	\$100
Gas	\$250
Clothing	\$75
Entertainment	\$100
Emergency fund	\$150
Retirement	\$175
Credit card payments	\$125
Student loan payments	\$125
Travel fund	\$100
Other	\$100

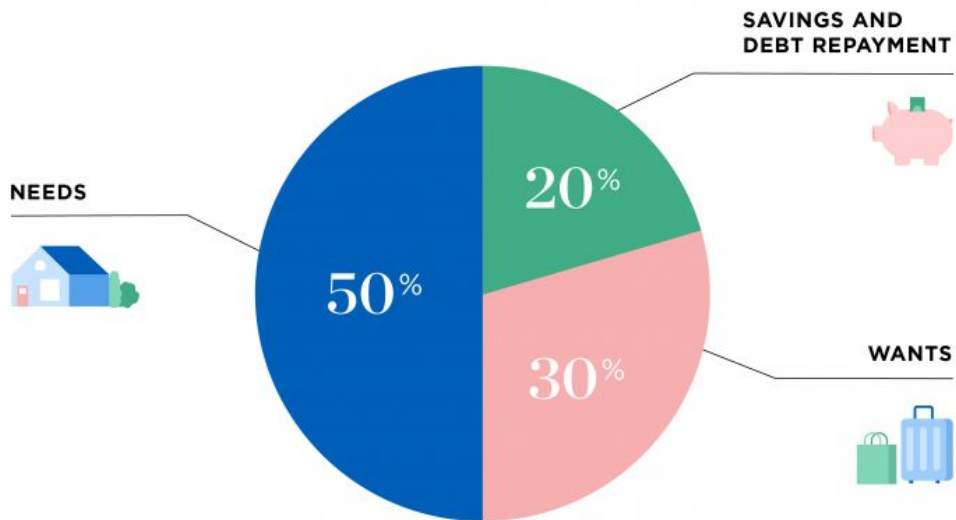
Amount left: \$0

Envelope System

Spend only what you've put in
each envelope



The 50/30/20 Budget Rule



50/30/20

50 %- need, 30 % for wants, 20 % for savings and debt repayment

80/20



Simplified version of 50/30/20.



- it's a great to start to learn how to budget, and then learn how to be flexible with your savings

Sub-savings account method

Passively accomplish financial goals

How to set it up:

1. Set your savings goal (and make sure you make it accurate)
2. Create the account with your bank (and open up a savings account if you haven't!)
3. Automate your sub-savings account

Physically creating the budget



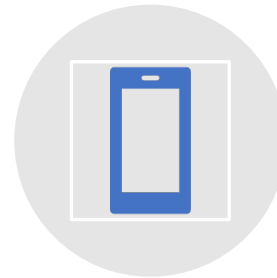
paper and pencil/
buying envelopes



spreadsheets



online websites

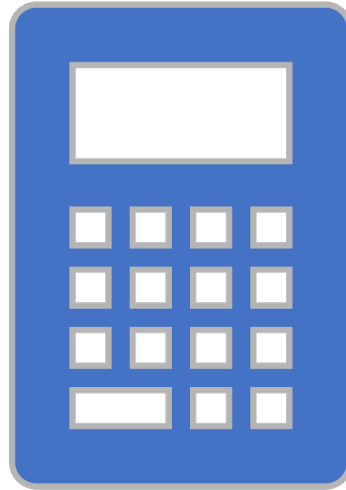


mobile apps

Last Tips for Budgeting?

1. Do the budget with other family members, or put on music
2. Every month is different, so adjust as needed
3. Start with the most important categories first
4. Pay off your Debt (debt snowball method)
5. Don't be afraid to edit to trim the budget
6. Make a schedule for when you need to work on it
7. Create a buffer in your budget
8. Do not try to use the credit card as much if it's harder to keep track of bills
9. Track your spending (this is where the apps come in handy)

Any questions?



Accounting in Daily Life

Assets, Liabilities, and Equity



Assets= resources with an economic value that someone owns that will provide a future benefit



Liabilities= a duty or responsibility to others that requires settlement by an exchange that will provide a future benefit



Equity/ Shareholders' equity= represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off

Personal Bookkeeping



RECONCILIATION (TWO SETS OF RECORDS)



WHERE ACCOUNTANTS LOOK AT CASH FLOWS, EXPENSES, INVENTORY, ETC. YOU ARE LOOKING TO SAVE

Accounting Principles to Use in Budgeting

1. Expense Recognition Principle- defines the point in time at which the accountant records a transaction as an expense
2. Matching Principle- each item of revenue should have a corresponding item of expense.
3. Costing Principle- using the historical cost of an item to calculate the actual cost of the item
4. Objectivity Principle- require that accountants should only use factual and verifiable data.
5. Timeliness Principle- refers to the need for accounting information to be presented to the users in time to fulfill their decision making needs.

Accounting Ratios for Personal Budgeting

Liquidity Ratio- determine on ability to pay off current debt

Savings Ratio- how much saved over a time period

Tax Burden- determining your federal income tax

Housing Ratio- how much you can really afford to spend on a home

Debt-to-Asset Ratio- determines borrowing ability

Solvency Ratio- repay all the existing debt with its existing assets

Mortgage Payment- estimates how much you need to borrow

Investing Ratio- guide for asset allocation in investment portfolio

Retirement Savings Ratio- savings and income

Accounting Ratios for Personal Budgeting

Liquidity Ratio- assets divided by monthly expenses

Savings Ratio- annual savings divided by gross annual income

Tax Burden- annual income multiplied by your tax bracket

Housing Ratio- total housing expenses and divide by monthly gross income

Debt-to-Asset Ratio- liabilities (or debt) divided by assets

Solvency Ratio- net worth divided by total assets

Mortgage Payment- $2.5 \times$ Primary Income

Investing Ratio- $120 - \text{Age}$

Retirement Savings- $25 \times$ Primary Income

Personal Balance Sheet

As of: 7/16/2015

Assets		
Cash		
Checking Accounts	Schedule 1:	5,000
Savings Accounts	Schedule 1:	-
CDs (certificates of deposit)	Schedule 1:	-
Other Cash		
	Total Cash	5,000
Investments		
Life Insurance (cash surrender value)	Schedule 2:	-
Brokerage Accounts (non-retirement)	Schedule 3:	-
Securities (stocks, bonds, mutual funds)	Schedule 4:	-
Investment Real Estate (market value)	Schedule 5a:	-
Treasury Bills/Notes		
Other Investments		
	Total Investments	-
Personal Property		
Primary Residence (market value)	Schedule 5a:	200,000
Automobiles (present value)	Schedule 3:	
Bullion (silver, gold, etc)	Schedule 3:	
Jewelry, Art and Collectibles	Schedule 3:	
Other property	Schedule 3:	
	Total Property	200,000
Retirement		
Retirements Accounts (IRA, 401k)	Schedule 6:	20,000
Pension and Profit Sharing	Schedule 7:	-
Social Security (\$/month * 240)		-
Other Assets		-
	Total Retirement	20,000
Notes and Accounts Receivable		
Notes and Accounts Receivable	Schedule 8:	-
Other Notes		-
	Total Notes	-
Total Assets		225,000
Liabilities		
Mortgages on Real Estate	Schedule 5a:	-
Mortgages on Investment Real Estate	Schedule 5b:	-
Credit Accounts, Bills Due, etc.	Schedule 10:	1,000
Student Loans		-
Accounts Payable		-
Loans and Notes Payable to Bank and Others	Schedule 11:	-
Loans on Life Insurance	Schedule 2:	-
Loans on Profit Sharing / Pension	Schedule 7:	-
Loans on Retirement Accounts	Schedule 6:	-
Unpaid Taxes (current year)		-
Other Liabilities	Schedule 12:	-
Total Liabilities		1,000
Net Worth (Assets - Liabilities)		224,000

What is a personal financial statement?

Any Questions?



Understanding Basic Finance and Stocks

Vocabulary

Stock Exchange- secondary markets

NASDAQ- National Association of Securities Dealers Automated Quotations

DJIA- AKA “The Dow“ is the Dow Jones Industrial Average (DJIA) not to be confused with the Dow Jones

NYSE- New York Stock Exchange

S+P 500- Standard & Poor's 500, an index of the 500 largest U.S publically traded companies

Components of the S&P 500

#	Company	Symbol	Weight	Price	Chg	% Chg
1	Apple Inc.	AAPL	6.697806	111.99	-0.01	(-0.01%)
2	Microsoft Corporation	MSFT	5.640204	203.60	-0.43	(-0.21%)
3	Amazon.com Inc.	AMZN	4.817424	3,111.00	-5.22	(-0.17%)
4	Facebook Inc. Class A	FB	2.33442	266.11	-0.50	(-0.19%)
5	Alphabet Inc. Class A	GOOGL	1.659594	1,514.00	-1.76	(-0.12%)
6	Alphabet Inc. Class C	GOOG	1.622474	1,515.00	-5.72	(-0.38%)
7	Berkshire Hathaway Inc. Class B	BRK.B	1.534799	217.93	0.00	(0.00%)
8	Johnson & Johnson	JNJ	1.402849	147.68	-0.10	(-0.07%)
9	Visa Inc. Class A	V	1.232392	200.51	-0.17	(-0.08%)
10	Procter & Gamble Company	PG	1.226231	138.00	-0.14	(-0.10%)
11	JPMorgan Chase & Co.	JPM	1.102504	100.90	-0.17	(-0.17%)
12	NVIDIA Corporation	NVDA	1.09797	485.12	-1.46	(-0.30%)
13	Mastercard Incorporated Class A	MA	1.064589	330.14	-0.01	(-0.00%)
14	Home Depot Inc.	HD	1.063039	276.09	-0.24	(-0.09%)
15	UnitedHealth Group Incorporated	UNH	1.04703	301.48	0.00	(0.00%)
16	Verizon Communications Inc.	VZ	0.892834	59.80	0.01	(0.02%)
17	Walt Disney Company	DIS	0.872161	131.74	-0.01	(-0.01%)
18	Adobe Inc.	ADBE	0.830584	473.00	1.65	(0.35%)
19	salesforce.com inc.	CRM	0.809219	242.99	-0.11	(-0.05%)
20	PayPal Holdings Inc	PYPL	0.808969	183.63	-0.37	(-0.20%)
21	Netflix Inc.	NFLX	0.766206	481.42	-0.61	(-0.13%)
22	Merck & Co. Inc.	MRK	0.764316	84.48	0.00	(0.00%)
23	Intel Corporation	INTC	0.751341	49.27	-0.01	(-0.02%)
24	AT&T Inc.	T	0.746586	28.97	-0.03	(-0.10%)
25	Comcast Corporation Class A	CMCSA	0.726701	44.91	0.24	(0.54%)
26	Pfizer Inc.	PFE	0.717755	36.45	0.38	(1.05%)
27	Bank of America Corp	BAC	0.711465	25.52	0.02	(0.08%)
28	Walmart Inc.	WMT	0.702132	136.95	0.25	(0.18%)
29	Coca-Cola Company	KO	0.700503	51.06	0.00	(0.00%)
30	PepsiCo Inc.	PEP	0.676979	135.35	-0.46	(-0.34%)

More Financial Market Lingo

Stocks/shares- represent ownership equity in the firm,

ETFs- exchange traded funds

Bonds- fixed income instruments

- Stability, Income, Security, and Tax Savings

Should you Invest in Stocks ?

1. Do it if you're ready to face the risk.
2. If you're not ready to do the research or have the time, you can look into a robo-investor.
 - Wealthfront- 500 to get started
 - M1 finance- 100 to get started
 - Betterment- no minimum starting balance whatsoever
3. Investing yourself- look into investing in companies w/ fractional partial shares
4. Look into Stock apps- Public, Robinhood

Any Questions?



Other Tips

Credit

Your Credit Score

Your Credit Score

FICO- scores calculated using many different pieces of credit data in your credit report by the FICO data analytic companies

Three Credit Bureaus- Equifax, Experian and TransUnion

What goes into a FICO? -35% payment history, 30% amounts owed, 15% length of credit history, 10% new credit and 10% types of credit used

Why does it matter?

Credit Report

- details of who you are as a consumer
- it includes: the basics, information on creditors you've dealt with, and other companies or individuals that have also requested your report (**inquiries: these are super important for your lenders!**)
- look for unfinished business: paying off debt, closing accounts with lenders, etc

Credit Cards



- Credit cards can be both good and bad.
- Credit cards are useful in building a good credit history.
- Credit cards are dangerous when they're used to make purchases you cannot afford
- Before purchasing an item on credit (by way of taking on debt), consider the real cost, accounting for interest paid over time.

Ways to Improve Your Credit Score

Step 1: Check your credit report for errors

Step 2: Remove negative marks

Step 3: Deal with past due bills

Step 4: Always pay bills on time

Step 5: Pay down your balances

Step 6: Increase your limits

Step 7: Don't close old accounts

Step 8: Become an authorized user

Debit Cards

Checking Account: Many banks and credit unions offer no-fee checking accounts to college students.

Overdraft fees: Charges you receive from your bank or credit union when it covers a payment, electronic transfer or withdrawal you've made that exceeds the amount of funds available in your checking account

Benefits:

- You don't create debt with the interest
- Look into it if you want to be debt free

Drawbacks:

- Spending more than you have, which leads to overdraft fees
- Harder to resolve charges

Tax Benefits for students

1. American Opportunity Tax Credit (AOTC)
2. Lifetime Learning Credit (LLC)
3. Student Loan Interest Tax Deduction
4. Qualified Tuition Programs
5. Tuition and Fees Deduction

Mobile Banking Safety

1. Watch out for cyberattack types
2. Fake Banking Apps
3. Multiple steps in authentication
4. Avoid using public wi-fi

Taking out student loans

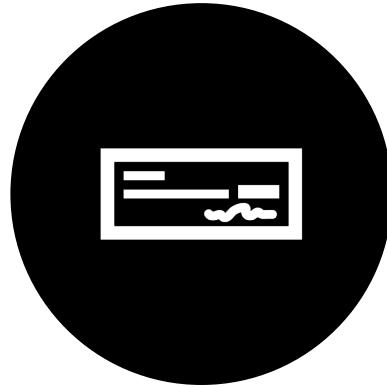
Taking out student loans

- Non-loan options
- Estimate your monthly payments
- Understand what your payment options mean
- Borrow federal first loans first before private loans
- Assess repayment using the Repayment Estimator

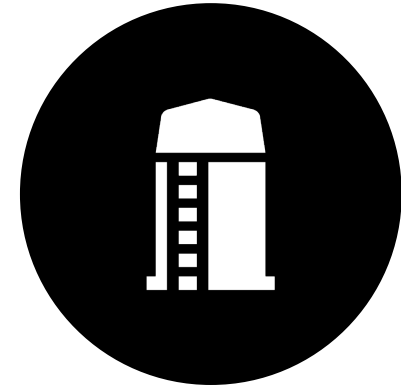
How to pay off your student loans the right way



PAY MORE THAN THE
MINIMUM



MAKE AN EXTRA LOAN
PAYMENT EACH MONTH



PUT DOWN A LUMP-
SUM PAYMENT

Student Tips to Save

1. Skip full-price textbooks (rent used textbooks, and try to sell last semester's books!)
2. Save on transportation (taking public transit is good for your wallet + the environment)
3. Never go grocery shopping when you're hungry
4. Always carry your student ID with you, you never know which places offer student discounts
5. Meal plan instead of eating out
6. Looking into possibly graduating earlier (make use of the degree planner and meet with your advisors!)

Student Tips to Save (cont)

7. Open a checking account (especially if you plan on using a debit card)
8. Opt out of overdraft "protection." The typical bank overdraft fee is \$35. To avoid that fee, make sure your debit card declines your purchase if you lack sufficient funds. (Optional!)
9. Check subscription payments and make sure you have the cheapest option.
10. Don't get a pet

Any Questions?

Extra Resources

For Personal Financing Information

Wells Fargo

MyMoneyCoach

Investopedia

Alison

The Balance

NerdWallet

Budgeting Apps

Personal Capital

PocketGuard

Mint

Goodbudget

Budgeting Websites

Mint

Personal Capital

BudgetPulse

Buxfer

MoneyStrands

Moneytrackin'

My Spending Plan

BudgetSimple

SavvyMoney

Calculators for Personal Finance

[50/30/20 Budget Calculator](#)

[Loan Calculator](#)

[College Savings Planner](#)

[A list of Different Calculators](#)

Scholarship Sites

[Fastweb](#)

[Collegenet](#)

[Scholarships](#)

[FinAid](#)

[Scholarship Monkey](#)

[SallieMae](#)

[Unigo](#)

ASI

Videos on Financial Literacy

Zoom Link for Office Hours

Email is ASIVPF@calstatela.edu



THANK YOU!
