

Capital Readiness Program Lunch & Learn

Planning Your Financial Strategy

**Wendy K. Potratz CPA, MBA
University of Wisconsin
Professional Financial Consultant
Office of Business & Entrepreneurship**

Outline of Our Session

1. Prioritizing your financial goals and reaching them effectively

- Determine your current financial situation
- Develop personal financial goals

The starting place
and the end goal!

2. Saving to achieve financial goals

- Identify applications for different types of savings plans--both long-term & short-term

3. Borrowing for the purchase

- Short Term Loans vs. Long Term Loans
- Tips to make credit cards work for you, not against you

4. Look into the future – Retirement!

- This segment will provide a very broad overview of the topic of saving for retirement

5. Questions & Additional Template Applications

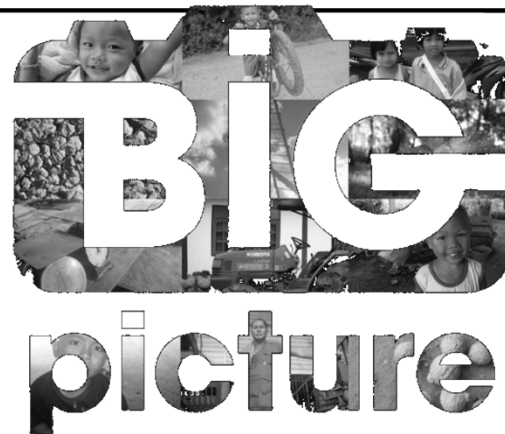
- Templates available for you through Gener8tor

Before We Dive In...

- I understand this may feel like a lot of information at once—don't worry!
- No need to take extensive notes—**you'll receive the full slide deck after the presentation.**
- For now, please focus on **engaging with the content and joining the conversation**—your attention and interaction are what matter most!



PRIORITIZING YOUR FINANCIAL GOALS AND REACHING THEM EFFECTIVELY



DETERMINE CURRENT FINANCIAL SITUATION

- Determine your current financial situation
- Develop personal financial goals

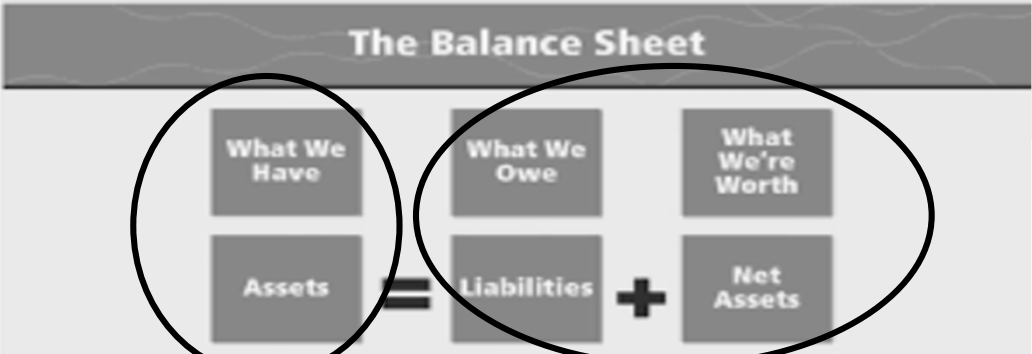


Name: _____

Date: _____

Personal Balance Sheet

Purpose: To determine your current financial position.



Assets

Liquid assets

Checking account balance	\$0.00
Savings/money market accounts, funds	\$0.00
Cash value of life insurance	\$0.00
Other _____	\$0.00
<i>Total liquid assets</i>	\$0.00

Household assets and possessions

Current market value of home	\$0.00
Market value of automobiles	\$0.00
Furniture	\$0.00
Computer, electronics, camera	\$0.00
Jewelry	\$0.00
Other _____	\$0.00
Other _____	\$0.00
<i>Total household assets</i>	\$0.00

Investment assets

Savings certificates	\$0.00
Stocks and bonds	\$0.00

Goal #1 in the Financial Planning Process

- **DETERMINE YOUR CURRENT FINANCIAL SITUATION.**

- Evaluate income, savings, living expenses, and debts.
- Maintain records of daily spending, prepare a list of asset and debt balances.
- Consider using a daily spending diary to match goals with current and future monetary resources.
- There are Apps that can help with this step!



Creating Your Personal Balance Sheet:

- PERSONAL BALANCE SHEET: WHERE ARE YOU NOW?
- Also called the **Statement of Net Worth** or **Statement of Financial Position**.
- **STEP 1: LIST ITEMS OF VALUE**
- **Assets: cash and other property of value (*what you own*)**
 - Liquid assets (*cash & savings*)
 - Real estate (*land & house*)
 - Personal possessions (*cars & jewelry*)
 - Investment assets (*401K*)

Personal Balance Sheet: Step 2

- **STEP 2: DETERMINE AMOUNTS OWED**
- **Liabilities: what you owe to others**
- Current liabilities (*less than 1 year...credits cards*)
- Long-term liabilities (*more than 1 year...mortgage*)



Personal Balance Sheet: Step 3

- **STEP 3: COMPUTE NET WORTH**
- **Net Worth = difference between total assets & total liabilities**

- Assets = Liabilities + Net Worth

Financing the Assets

- Well this equation can be restated as:

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$



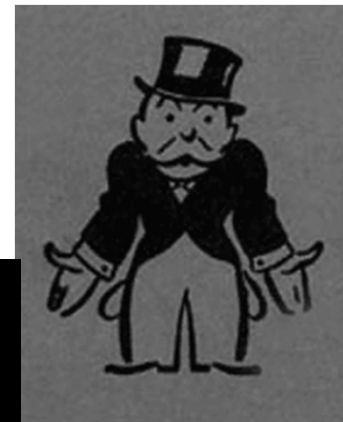
Net Worth Calculation

- Example
- If a household has \$193,000 of assets and liabilities of \$88,000, then the net worth would be \$105,000.
 - Assets – Liabilities = Net Worth
 - \$193,000 – \$88,000 = \$105,000

Net Worth Calculation

- Example
- If a household has \$193,000 of assets and liabilities of \$200,000, then the net worth would be **\$7,000 deficit**.
 - Assets – Liabilities = Net Worth
 - \$193,000 – \$200,000 = **-\$7,000**

Insolvency is the inability to pay debts when they are due.



Name:

Date:

Personal Balance Sheet

Purpose: To determine your current financial position.

Assets

Liquid assets

Checking account balance	\$0.00
Savings/money market accounts, funds	\$0.00
Cash value of life insurance	\$0.00
Other	\$0.00

Total liquid assets

\$0.00

Household assets and possessions

Current market value of home	\$0.00
Market value of automobiles	\$0.00
Furniture	\$0.00
Computer, electronics, camera	\$0.00
Jewelry	\$0.00
Other	\$0.00
Other	\$0.00

Total household assets

\$0.00

Investment assets

Savings certificates	\$0.00
Stocks and bonds	\$0.00



Let's Play!

Net Worth

- Net Worth is an indication of your current financial position on a given date.



- Ways to increase Net Worth:
 1. Increasing your savings
 2. Increasing the value of investments and possessions
 3. Reducing the amounts owed

Fine!

But how do we do that???

Increase income
Reduce spending

Which leads us to.....

The Cash Flow Statement: In's & Out's

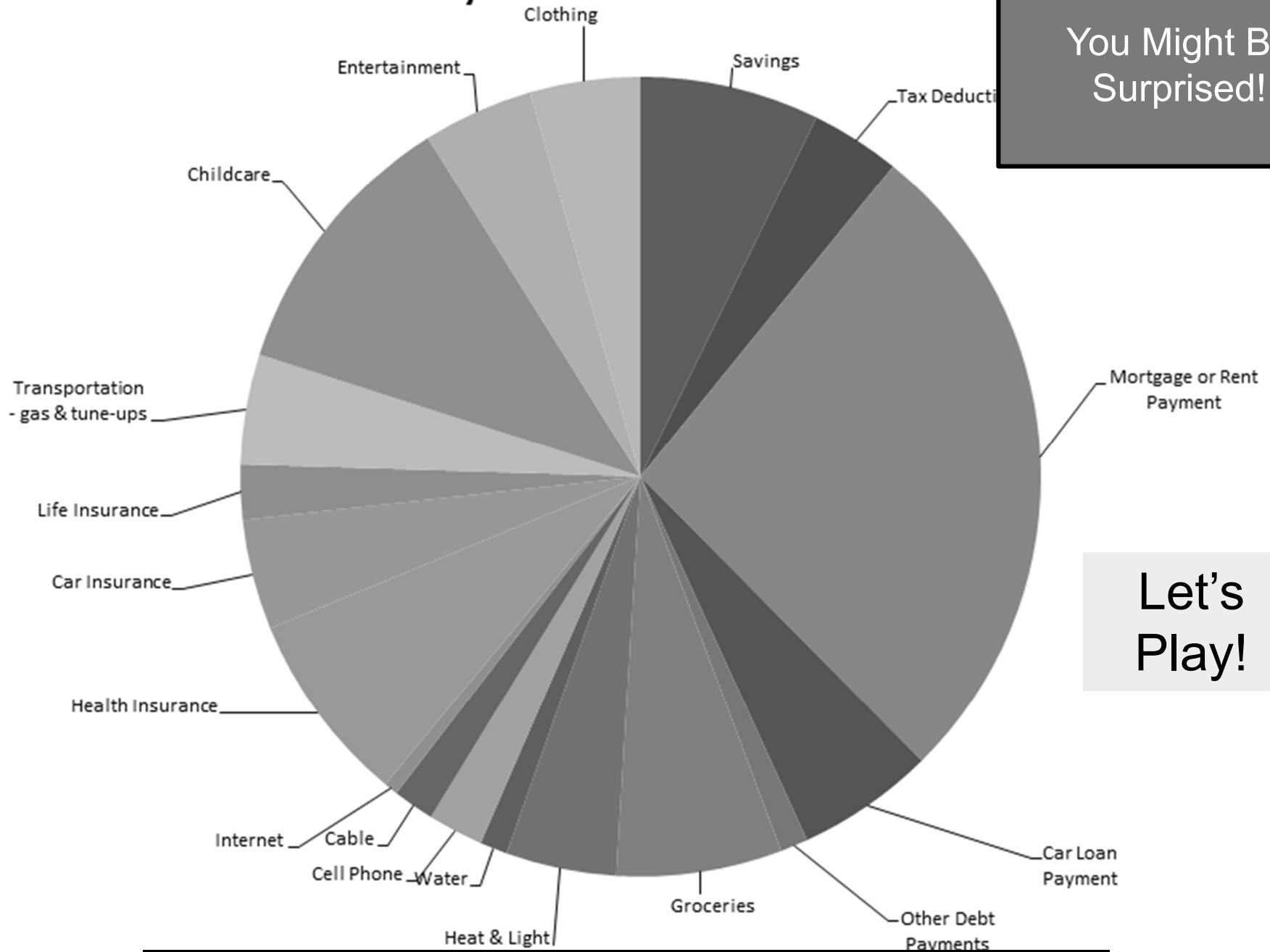
- **Step 3: Determine Net Cash Flow**
- The difference between income and outflows can be either a positive (surplus) or a negative (*deficit*) cash flow.
- A **deficit** exists if more cash goes out than comes in during a given month. This amount must be made up by withdrawals from savings or by borrowing.
- When you have a cash **surplus**, this amount is available for saving, investing, or paying off debts.



Monthly Budget

Where Does Your Money Go?

You Might Be Surprised!



Let's Play!

Where Does the Money Go?

When Outside Help is Needed

- National Foundation for Credit Counseling (nfcc)
- <https://www.nfcc.org/>

A better life beyond debt begins here.

Take the first step toward freedom from debt—with expert help, proven tools, and a plan made for you.

Connect with a counselor

Call (800) 388-2227 to get started.



DEVELOP PERSONAL FINANCIAL GOALS



Develop Personal Financial Goals

Buy a car



Buy a house

SAVE FOR
RETIRMENT!!



Continue Your
Education



Pay Down Debt



Get a weekly manicure



Go on a
dream
vacation



Develop Personal Financial Goals

- Categorize Your Goals
 - Short-Term (1-3): like purchasing a car
 - Mid-Term (4-8): like purchasing a house
 - Long-Term (8-15 or longer): like planning for retirement
- These goals will differ greatly depending on your life situation
- Prioritize the goals within each segment

Strategize to Achieve Your Goals!!



SAVING TO ACHIEVE YOUR FINANCIAL GOALS



Saving for Long-Term vs. Short-Term Goals

The option you choose for saving for your goals largely depends on the timing of those goals

- **Short-Term Goals**

- Savings Accounts
- Money Markets
- CDs
- Short Term Treasury Bills

- **Long-Term Goals**

- Company Retirement Plans
- 401Ks & IRAs
 - Roth vs. Traditional
- Personal investments into the stock market

Saving for Short & Mid-Term Goals

- We will save our discussion on long-term goals like retirement for later in the presentation.
- For now, let's look into the power of compounding when saving for short & mid-term goals with Checking, Savings, High Yield Savings accounts, Certificates of Deposit



Saving for Short & Mid-Term Goals

High Yield Savings accounts

- Also often called Money Market accounts
- Cons: Penalties for too many withdrawals

Certificate of Deposit (CD) - 3, 6, 9, 12 & 15 month

- Penalties for any withdrawals before they come due
- I use a combination of brick & mortar institutions and online for my CDs

FDIC Insurance

- **Federal Deposit Insurance Corporation**
- **Insurance by the government for free**
- **Not all financial institutions are (*insurance companies, credit unions*)**
- **A single bank account up to \$250,000**
- **If you had \$300,000 in one account, split it into two.**
- **Unlikely that you actually have that much in a bank account, but do keep it in mind.**

No worries about loss of principal due to stock market dips on any of these

The Power of Compounding!

Illustration: Ted & Sarah each contribute \$5,000 a year to a Roth IRA. Compare the total of the \$10,000 total annual contribution using compound interest vs. simple interest over just 3 years!

Simple vs. Compound Interest

Simple Interest		
Simple Interest Calculation	Simple Interest	Accumulated Year-end Balance
Year 1 $\$10,000.00 \times 9\%$	\$ 900.00	\$10,900.00
Year 2 $\$10,000.00 \times 9\%$	900.00	\$11,800.00
Year 3 $\$10,000.00 \times 9\%$	900.00	\$12,700.00
	<u>\$2,700.00</u>	

Compound Interest		
Compound Interest Calculation	Compound Interest	Accumulated Year-end Balance
Year 1 $\$10,000.00 \times 9\%$	\$ 900.00	\$ 10,900.00
Year 2 $\$10,900.00 \times 9\%$	\$ 981.00	\$ 11,881.00
Year 3 $\$11,881.00 \times 9\%$	<u>\$1,069.29</u>	\$ 12,950.29
	<u>\$2,950.29</u>	

Develop Personal Financial Goals

Growing Savings

- Understanding the impact compounding when it comes to savings
 - Worksheet exercises with compounding & growth
- Action Plan:
 - Revisit your savings/retirement plans
 - Include specifics: expected growth rates, how much you want to have at retirements, to pay for a car/house, etc.
 - Develop savings goals
 - Add to your strategic budget

Growing Your Savings With A Single Deposit

ENTER APPROPRIATE VALUES IN YELLOW CELLS

Amount of Deposit	10,000
Annual Interest Rate	9.00%
Years to Save	3
# of Compounding Periods in the Year *	1

Future Value = \$12,950



* Compounding Periods

- 1 for Annual Compounding
- 2 for Semi-Annual Compounding
- 4 for Quarterly Compounding
- 12 for Monthly Compounding
- 52 for Weekly Compounding
- 365 for Daily Compounding

Let's Play!

Growing Your Savings With a Series of Payments

ENTER APPROPRIATE VALUES IN YELLOW CELLS

Annual Interest Rate	6.0%
How Many Years Worth of Payments	10
Payment Amount	100
Initial investment	-
# of payments per year	12

Future Value = \$16,388



Actual Cash Invested + Interest

Total Cash Invested	Interest Received	Total
\$ 12,000	\$ 4,388	\$16,388

BORROWING FOR THE PURCHASE



Is It OK To Have Debt?

- **Debt in our Personal Finances**
 - **Often focus on the negative side of debt**
- **For good reason!**
 - **Too Much Debt = Not Able to Pay Bills**

~~DEBT~~



It /S OK To Have Debt!

As long as we are earning more than the cost of the debt, this is a positive equation

‘Earnings’ can be tangible or intangible



- **Tangible - Making actual money on an investment**

- **Intangible – The happiness & restored mental health a vacation may bring**

- **Mixed– Increased future earnings based on increased education**



Short Term Loans, Mid Term, Long Term Loans

- **Short Term – Revolving Credit**

- Credit cards

Common denominator of all types of loans:

- **Mid Term – Installment Loans**

- Car Loans
 - Education Loans

Keep your interest rate as low as possible!

- **Long Term – Installment Loans**

- Home mortgage
 - Vacation home mortgage

Keeping Your Credit Score High Helps to Keep Your Interest Rates Low

Credit Agencies

1. Equifax
2. TransUnion
3. Experian

What is a Credit Score?

- Numerical representation of your creditworthiness
- How likely are you to repay your debts!
- Part of the determinant in attaining a loan and also the interest rate you will pay
- Range 300-850

Formula essentially the same across agencies (*next slide*)

- Each might use slightly different percentages
- Sometimes there is a lag in the information making up the 5 different areas listed on the next slide
- Could be as much as 20 Points difference in score across the three agencies.

Five Variables of Credit Score Equation

1. **Payment history 35%**
 - Did you make your payments on time?
 - If late....how many times? How long past due??
2. **Credit utilization 30%**
 - How much debt you have
 - Also factors in the credit you have access to vs. how much you are actually using (*like on a credit card*)
3. **Length of credit history 15%**
 - The longer the history the better
 - Don't cancel cards!
4. **Credit mix 10%**
 - types of different types of debt you have
 - Revolving Debt = credit cards
 - installment debt = car loans, student loans, mortgages
 - The broader the mix the better
5. **Credit inquiries 10%**
 - New cards/debit
 - Requests for credit score.....even by you!

How to Build your Credit Score

- **Pay your bills on time**
 - Improving your payment history is the quickest way to improve your score.
 - If you do miss a payment—don't freak out. Just pay it as soon as possible
 - They not only monitor missed payments but also take into account the duration of the missed payments.
- **Review your credit report at least once a year**
 - There may be some errors on the report that you can address
 - There may be some loan issues that you are not even aware of!
 - Things like liens or Judgements against you
 - Resolve these!

How to Build your Credit Score

- **Use your credit card but pay it off in full each month.**
 - This helps with payment history, credit history, credit mix.
- **Keep your credit utilization at 30% or below**
 - This is the difference between how much you could borrow and how much have borrowed
 - Example- credit card limit
 - Example- amount allowed for a home loan
 - Trick – ask credit card company to increase your limit even if you don't use it!

Tips to make credit cards work for you... not against you!

**Think of them as short-term loans that you need to
pay off in 30 days or less.**

Before applying for a credit card, you should know:

- Interest rate
- Annual fees
- Rewards programs
- Sign-up bonuses
- Compare with other cards

***If you aren't sure, ask for a prequalification These do
not count against your credit report***

Tips to make credit cards work for you... not against you!

Some additional perks that can come with a card---but not all of them! Worth looking into

1. **Purchase protection benefit allows for reimbursements when your card is stolen**
 - Must be within a certain amount of time from the purchase date.
 - Within a certain dollar amount (usually under \$10,00)
2. **Extended warranty protection**
3. **Ability to Dispute transactions for a refund**
 - If you were not happy with your purchase (or never got it!)
4. **Travel insurance Benefit**
 - This can be a big one!
 - Trip cancellation & interruption
 - Medial expenses
 - Lost of stolen luggage reimbursement
 - Car rental damage
 - Emergency travel assistance
 - Identity theft benefits
5. **Signing bonuses & introductory rates or waiver of fees**

So....Credit Card or Debit Card?

	Credit Card	Debit Card
Charge Interest	Yes	No
Helps Build Credit	Yes	No
Offer Fraud Protection	Yes	Yes
Perks Available	Many Options	Few Options

Credit Card Calculations

The Effect of High Credit Card APRs

Annual Interest Paid	
ENTER APPROPRIATE VALUES IN YELLOW CELLS	
Average Annual Credit Card Balance	\$ 5,000
Annual Interest Rate (APR)	22.0%
Total Interest Paid Annually	
\$1,100	



Let's Play!

# Months to Pay The Balance	
ENTER APPROPRIATE VALUES IN YELLOW CELLS	
Average Annual Credit Card Balance	\$ 5,000
Annual Interest Rate (APR)	22.0%
Expected Monthly Payment	\$ 100
Months to Pay off Balance	
127	

JANUARY FEBRUARY MARCH
 APRIL MAY JUNE
 JULY AUGUST SEPTEMBER
 OCTOBER NOVEMBER DECEMBER

BUT WHAT ABOUT BORROWING FOR THE 'BIG' PURCHASES?



Mid/Long Term: Installment Loans

	Credit Card	Installment Loan
Lenth of loan	30 days	3, 5, 10, 20 or more years
Size of Loan	\$5,000 or less	Larger than \$5,000
Rate of Interest	Higher 18-22%	Lower 6%-10%
Consistent Payment Structure	No	Yes

The Impact of Debt

Traditional Monthly Loan

ENTER APPROPRIATE VALUES IN YELLOW CELLS

Loan Principal	\$ 100,000
Annual Interest Rate	4.00%
Loan Period in Years	10
Monthly Payment	\$1,012

Total Payment Over Life of the Loan	\$121,494
Principal	\$100,000
Interest	21,494
Total Payment Over Life of the Loan	\$121,494



Let's Play!

Amortization Schedule				
Date	Payments	Toward Interest	Toward Principal	Remaining Balance
1/01/Year 1				\$ 100,000
1/31/Year 1	\$1,012	333	679	99,321
2/28/Year 1	\$1,012	331	681	98,640
3/31/Year 1	\$1,012	329	684	97,956
4/30/Year 1	\$1,012	327	686	97,270
5/31/Year 1	\$1,012	324	688	96,582
6/30/Year 1	\$1,012	322	691	95,891
7/31/Year 1	\$1,012	320	693	95,198
8/31/Year 1	\$1,012	317	695	94,503

Summary: Dos & don'ts of credit

- **Don't** overspend
- **Don't** make *just* the minimum payment on your credit card
- **Don't** take cash advances from your credit card
- **Do** pay all of your loans & bills on time
- **Do** reach out to your card issuer if you are having trouble making payments

A LOOK INTO THE FUTURE....RETIREMENT!



Why Retirement Planning?

MISCONCEPTIONS ABOUT RETIREMENT

- My expenses will decrease when I retire.
- My retirement will only last 15 years.
- Social Security will pay for my basic living expenses.
- My pension benefits will increase to keep pace with inflation.
- Medicare will cover all of my medical expenses.
- There's plenty of time for me to start saving for retirement.
- Saving just a little bit won't help.

The Importance of Starting Early

Example of the power of starting early

- If from age 25 to 65 you invest \$300 a month (*at a 6% return*), then at age 65 you'll have a nest egg close to **\$600,000**.
- Wait ten years until age 35 to start investing \$300-a-month and you'll have just over **\$300,000** (***about half!!***) at age 65.
- Wait twenty years to begin investing \$300-a-month at age 45 and you'll have only **\$139,000** at age 65.



The Basics of Retirement Planning

- First, analyze your current assets and liabilities, and then estimate your spending needs and adjust them for inflation.
- Next, evaluate your planned retirement income.
- Finally, increase your income by working part-time, if necessary.
- Its never too late to start!
- Try to put away 10-15% of your income.

Let's Play!

Retirement Calculator	
ENTER APPROPRIATE VALUES IN YELLOW CELLS	
Current Age	25
Retirement Age	67
Death Age	85
Annual Rate of Return	5%
Monthly Withdrawal Amount	\$ 10,000
Base Amount to start with	\$ -
Total to accumulate in order to retire under scenario above	\$1,422,407
How much to save each month to fund the retirement scenario above	\$831



IDENTIFY STRATEGIES FOR ACHIEVING PERSONAL FINANCIAL GOALS



Identify Strategies for Achieving Personal Financial Goals

- Analyze spending habits
 - Identify areas for change
- Increasing cash inflows
 - Reflect on your career aspirations
- Pay off debt or use the cash for purchases/activities
- Action Plan:
 - Put your plan in writing
 - State your goals in measureable terms
 - Include a time-line of events
 - Use dollar amounts whenever possible
 - Enlist the assistance of a financial planner

RECOGNIZING SUCCESS!!!



Measure Success

- Financial planning decisions need to be assessed regularly
- Complete review should be done at least once a year
- More frequent reviews may be required for changing personal, social, and economic factors
- Regular reviews of decision-making process can help in making priority adjustments to achieve financial goals



Summary of Our Session

- **Prioritizing your financial goals and reaching them effectively**
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- **Saving to achieve financial goals**
 - Identify applications for different types of savings plans--both long-term & short-term
- **Borrowing for the purchase**
 - Short Term Loans vs. Long Term Loans
 - Tips to make credit cards work for you, not against you
- **Look into the future – Retirement!**
 - This segment will provide a very broad overview of the topic of saving for retirement
- **Questions & Additional Template Applications**
 - Templates available for you through Gener8tor

ANY QUESTIONS?



Or we can play with the numbers!!!!

Let's Play!

