U.S.VETS Financial Literacy Overview

Financial literacy: The ability to understand and manage various aspects of personal finance effectively. It encompasses a range of topics including budgeting, saving, investing, managing debt, understanding credit, and assessing financial risks. Developing financial literacy is essential for achieving financial wellness, which refers to a state of overall financial health and stability.

Financial Wellness: Financial wellness involves having a good understanding of your financial situation and being able to make informed decisions to achieve your financial goals. It includes aspects such as having a stable income, managing expenses, saving for the future, and protecting yourself against financial emergencies. Improving financial wellness often requires developing good financial habits, setting realistic financial goals, and continuously educating oneself about personal finance.

Debt: Debt is money borrowed from a lender that needs to be repaid, usually with interest. While debt can be a useful tool for achieving goals like buying a home or investing in education, it can also become a burden if not managed properly. Understanding different types of debt, such as credit card debt, student loans, and mortgages, is crucial. Developing a strategy for managing and paying off debt, including prioritizing high-interest debt and avoiding excessive borrowing, is important for maintaining financial health.

Credit: Credit refers to the ability to borrow money or access goods and services with the promise of repayment in the future. A good credit history and score are essential for obtaining loans, credit cards, renting an apartment, or even getting a job in some cases. Understanding how credit works, including factors that affect credit scores and how to build and maintain good credit, is crucial. It's important to use credit responsibly, avoid taking on more debt than you can handle, and regularly monitor your credit report for errors or signs of identity theft.

Financial Risks: Financial risks refer to the potential for financial loss or uncertainty due to factors such as market volatility, unexpected expenses, job loss, or changes in economic conditions. Being aware of these risks and taking steps to mitigate them is essential for financial planning and security. This can include building an emergency fund, diversifying investments, obtaining insurance coverage, and creating a financial plan that accounts for potential risks and uncertainties.

The following pages will review key aspects of **Financial Literacy**, including:

1. ***Earning and Banking***
2. ***Budgeting and Financial Goals***
3. ***Credit and Debt***

Financial Literacy Part 1: Earning and Banking

Pay Stub VS. Paycheck

A Pay Stub is attached to your paycheck. It includes information like how much money you earned, the number of hours you worked, and the taxes you paid.

Your paycheck is the money your employer pays you for doing your job. In the past, a paper check was the only way to receive your pay. Now, pay is often received electronically, but it is still called a paycheck.

3 Most Common Payment Options Your Employer May Use to Pay You

- **Payroll Card** – The employer electronically transfers pay onto a small plastic card. The employee may use the card to purchase things or withdraw money from an ATM.
- **Direct Deposit** – The employer transfers the employee's wages directly into the employee's bank account.
- **Paycheck** – The employer writes a check to the employee with the total earned wages for that pay period. The employee may then deposit that check at the bank.

Financial Institutions

Banks - Banks are financial institutions that let customers keep money in accounts, providing safety from fire and theft. Banks lend money to customers for large purchases like homes and cars.

Online Banks - Some banks operate entirely online. If you're comfortable with your computer or smartphone, an online bank can help you earn higher interest rates on your savings. Online banks often charge less for services because they cost less to operate.

Credit Union - Credit unions offer similar services to banks, but credit unions are "not for profit" institutions. That means they exist to provide services to their members rather than to make money. You can join a credit union if you meet their requirements, and when you open an account, usually for a fee, you become a member and part owner.

Bank Account Requirements – Personal Information and Initial Deposit

Personal Information and Identification:

- Full name
- Current address
- Contact information
- Driver's license, state ID, or passport
- Social Security Number (US)
- Social Insurance Number (Canada)

Initial Deposit:

- The amount of money required to open your account will vary for different banks.

Financial Literacy Part 2: Budgeting and Financial Goals

A **Budget** is a spending plan that lists all your income and expenses for a specific period of time. A budget helps you see if you'll have enough money to pay for your expenses. If you won't have enough money to buy the things you really need, then you'll have time to adjust your spending.

Your **Income** includes money you earn from jobs that you work, tips you receive, and cash gifts you may receive. Your **Expenses** are things that cost money like groceries, rent, bills, and dining out or going to the movies.

Budgets

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How Do I Create a Budget?

- List all income sources for the month and combine them for your Total Income.
- List your expenses for this month and combine them for your Monthly Expenses.
- Compare your Total Income and Monthly Expenses.

Determine Wants and Needs

Understanding the difference between Wants and Needs is crucial for proper budgeting.

A “**Want**” is an optional expense. EX: A movie Ticket, the newest version of your phone,

etc. A “**Need**” is a mandatory expense. EX: A Medical Bill, Repairs to your car, etc.

Fixed or Flexible Expenses

Fixed Expenses cost the same amount every month. For example, if you sign a lease for an apartment, your monthly rent stays the same until the lease ends. Other examples include car payments and insurance payments.

Flexible Expenses vary in amount each month. For example, the amount you pay for utilities, like electric and gas, changes based on how much you use. Other examples include food, clothing, household and personal items, gifts, and charitable donations.

Financial Literacy Part 3: Credit and Debt

Credit Cards

Many people use credit card accounts to establish, improve, or rebuild their credit. Credit card accounts let you spend money that you don't have. Of course, you must agree to repay the money, including interest and fees.
Many companies offer credit card accounts, and there are many types of credit cards to choose from.

Credit Card Terms and Conditions

Introductory Rate: An introductory rate is a temporarily low interest rate meant to entice customers. The rate can be as low as 0% and may last for a few months. Sometimes, conditions must be met for you to get the low rate. For example, you'll only get the rate if you transfer a balance from another card or spend a certain amount of money in a time period, such as $1000 in the first 3 months.

APR: Credit card companies charge interest on purchases that are not paid off at the end of a billing cycle. The interest rate, or interest expressed as a percentage, is stated as a yearly rate called the annual percentage rate or APR.

The higher the APR, the more you pay each month in interest. The only way to avoid paying this interest is to pay your balance in full each month by the due date.

Grace Period: By law, a credit card company must provide you with at least 21 days to pay your credit card bill without having to pay interest. For example, let's say you were approved for a credit card and made one purchase for $50 on July 1st.

The following terms and conditions apply:

Billing cycle ends on July 15th.

Payment Due Date is August 5th.

Grace Period is 21 days.

APR is 23%

If you make no other purchases and pay $50 on or before August 5th, then your next bill will have a balance of $0. This means that you would not be charged interest on your purchase.

Fees: Creditors charge fees to provide you with their services. Fees may include:

- An **annual fee** for using the card and receiving benefits of any services it may offer – for example, rental car insurance coverage, travel discounts, reward points, etc.
- A **cash advance fee** for using your credit card to withdraw money at an ATM – because this is considered a short-term loan that you must pay back.
- A **balance transfer fee** for transferring debt from one credit card account to another.

Lenders may charge fees for late payments, spending over the credit limit, and making purchases in foreign countries. Fees add up quickly. Know all terms, conditions, and fees before agreeing to them, and then avoid transactions that result in fees.

Credit Types

Revolving Credit:

Revolving credit lets you borrow money up to a certain amount, known as the credit limit.

You can continue to borrow money up to the credit limit while you make monthly payments on the amount you already borrowed. Usually there is a minimum amount you must pay each month, and the lender charges interest and fees.

A credit card is an example of revolving credit.

Installment Credit:

Installment credit lets you borrow a specific amount of money. It is usually called a loan, and it is paid back in installments - the same amount each month - until it is repaid.

The lender specifies the payment period, or how long you have to repay the loan, and charges interest and fees. A student loan is an example of installment credit.

Service Credit:

Service credit is a way to pay companies for services they provide, such as electricity, cable television, gym memberships, etc.

You may be required to give a deposit at the start of the service or to sign an agreement that you will pay for the service. If you don't pay for services as promised, you may be charged fees and your service can be terminated

Credit Reports

What is your credit report?

Your credit report is a detailed description of your credit history that is prepared by a credit bureau. In other words, it is a summary of how you've managed credit and debt over the years.

Why is your credit report important?

Lenders use the information contained in it to decide whether to lend you money. You should know this information before you apply for credit. Companies that provide services may use your credit report to decide whether to offer you services or to require a downpayment for services.

Credit Score

Your **Credit Score** is affected by how long your accounts have been open and how long since you have used each account. Lenders would like to know that you have managed your credit accounts over a period of time.

Credit agencies must have enough information about your accounts to determine your score. This can take up to six months or more, depending on when your creditors report your information. There is no quick fix to establishing a solid credit history, but if you pay your debts responsibly, be patient, and practice the tips in this course, then it will happen.

To know if you have a good credit score, find the range that your score falls into. There is no standard set of ranges but typically if your score falls in the Fair (579 or below) or Very Poor (580-669) ranges, you may not get approved for credit. Work on improving your score before you apply, so you won't get rejected.

Loans

A loan can be secured or unsecured. A secured loan requires the borrower to give property back to the lender if the loan is not repaid as promised. For example, if you don't repay a home loan, then the lender can take back the house. If you miss car payments, then the lender can take back the car. Any property that is offered to secure a loan is called collateral.

An unsecured loan does not require the borrower to have collateral or give an asset back if the loan is not repaid. The lender can still try to collect what you owe. They can report missed payments to the credit bureaus, which will lower your credit score. They can even sue you in court. Examples of unsecured loans are credit cards, student loans, and some personal loans.

Knowledge Review

1. True / False Fixed income includes food, clothing, personal items, gifts, and charitable donations.
2. True / False Credit unions offer similar services to banks, but credit unions are "not for profit" institutions that provide services to their members rather than to make money.
3. True / False Installment credit lets you borrow a specific amount of money, and it is paid back in installments - the same amount each month - until it is repaid.
4. True / False Debt is money borrowed from a lender that needs to be repaid, never with interest.
5. True / False Your credit score is affected by how much money you make and the highest credit limit.
6. True / False A budget consists of your total income and monthly expenses. It helps identify if you have enough income to pay your expenses.
7. True / False Service credit never requires you to pay a deposit nor sign a contract.
8. True / False Developing financial literacy is essential for achieving financial wellness, which refers to a state of overall financial health and stability.
9. True / False The higher the APR, the more you pay each month in interest.
10. True / False To open a bank account you will need 2 forms of state issued ID, social security card, a pay stub and birth certificate.

Acknowledgement: I have read and understand the above.

Additional Foundational and Professional courses are available on ACCENTURE: Online Resource:
ACCENTURE LEARNING EXCHANGE:
Login Credentials will be provided upon request.

Signature: ____ Date:_______________

Staff Signature:____ Date: _______________