Building Wealth

A Beginner's Guide to Securing Your Financial Future

Federal Reserve
Bank of Dallas

A new look for Building Wealth!

We've updated the characters and the content to be relevant to the financial choices we face in today's economy.

Building **Wealth:** *A Beginner's Guide to Securing Your Financial Future* offers introductory guidance to individuals and families seeking help to develop a plan for building personal wealth. While a comprehensive discussion of accounting, finance and investment options is beyond the scope of this workbook, it presents an overview of personal wealth-building strategies. For more information and assistance, consult the resource guide at the back.

All Building **Wealth** materials are available at buildingwealth.org, including an online guide, a tablet guide and classroom lesson plans.

For additional copies of this workbook (also available in Spanish), order online at buildingwealth.org or call 800-333-4460.

Building **Wealth**

A Beginner's Guide to Securing Your Financial Future

You can create personal wealth. It's possible to meet your financial goals. By choosing to budget, save and invest, you can pay off debt, send your child to college, buy a comfortable home, start a business, save for retirement and put money away for a rainy day. Through budgeting, saving and investing, building credit and controlling debt, all these goals are within your reach.

Defining Wealth

Some people consider themselves wealthy because they live in a very expensive house and travel around the world. Others believe they are wealthy simply because they're able to pay their bills on time. What we are talking about here is financial wealth and what it means to you.

Building wealth requires having the right information, planning and making good choices. This workbook provides basic information and a systematic approach to building wealth. It is based on time-honored principles you probably have heard many times before—budget to save; save and invest; build credit and control debt; and protect the wealth you accumulate.

Some people might define wealth as:

- being able to put my kids through college.
- having enough money to buy a house.

What is your definition of wealth?

1. ____

2. ____

3. ____

You have defined wealth.
How do you acquire it?

1 Learn the Language

If you make a good income each year and spend it all, you are not getting wealthier. You are just living high.

Thomas J. Stanley and William D. Danko,
The Millionaire Next Door

You want to create personal wealth, right? So does Anthony.

Anthony is 35 and works for a manufacturing company. He looked at his finances and realized that at the rate he was going, there wouldn't be enough money to meet his family's financial goals. So he chose to embark on a personal wealth-creation strategy. His first major step was to pick up a copy of this workbook for guidance. Anthony began by learning the language of wealth creation. The first lesson was to understand the meaning of assets, liabilities and net worth. They make up this very important formula:

ASSETS – LIABILITIES = NET WORTH

A wealth-creating ***asset*** is a possession that generally increases in value or provides a return, such as:

- A savings account.
- A retirement plan.
- Stocks and bonds.
- A house.

Some possessions (like your car, household furnishings and clothes) are assets, but they aren't wealth-creating assets because they don't earn money or rise in value. A new car drops in value the second it's driven off the lot. Your car is a tool that takes you to work, but it's not a wealth-creating asset.

A ***liability***, also called debt, is money you owe, such as:

- A home mortgage.
- Credit card balances.
- A car loan.
- Hospital and other medical bills.
- Student loans.

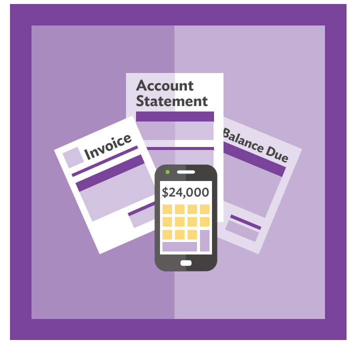
Home Equity

The market value of a home is an asset; the mortgage is a liability. Let's say your house is worth $120,000, but your mortgage is $80,000. That means your equity in the home is $40,000. Equity contributes to your net worth.

Net worth is the difference between your assets (what you own) and your liabilities (what you owe). Your net worth is your wealth.

To calculate how much he is worth, Anthony used the following formula: **Assets – Liabilities = Net Worth**. He made a balance sheet listing all his assets and all his liabilities. He listed his wealth-building assets first.

Anthony discovered his net worth is $24,000.



Anthony's Balance Sheet

Wealth-building assets	**Amount**
Cash	$ 1,500
Savings account	1,000
Stocks, bonds and other investments	5,000
401(k) retirement plan/IRA	25,000
Market value of home	0
Other assets	
Market value of car	14,000
Total assets	**$ 46,500**
Liabilities	**Amount**
Home mortgage	$ 0
Home equity loan	0
Car loan balance	13,000
Credit card balances	3,000
Student loan	5,000
Miscellaneous liabilities	1,500
Total liabilities	**$ 22,500**
Net worth	**$ 24,000**

ASSETS

(MINUS)

LIABILITIES

(EQUALS)

NET WORTH

Figure Your Net Worth

Using Anthony's balance sheet as an example, complete the blank balance sheet on page 33. Be sure to add any assets or liabilities you have that are not listed on Anthony's sheet.

Remember that net worth is your wealth.

Are you where you want to be?

2 Budget to Save

It takes as much energy to wish as it does to plan.

Eleanor Roosevelt

What would you like your net worth to be?

5 years from now? $ ____________________

10 years from now? $ ____________________

Set Financial Goals

Most people who have built wealth didn't do so overnight. They got wealthy by setting goals and pushing themselves to reach them. Anthony set two short-term goals: (1) to save $3,000 a year for three years to have $9,000 for a down payment on a house, and (2) to add $500 to his emergency fund in one year. Anthony also set two long-term goals: (1) to save and invest enough to have $25,000 in 15 years for his children's college education, and (2) to have $5,000 a month to live on when he retires in 30 years.

$ Tip: Financial Goals

A personal wealth-creation strategy is based on specific goals.
In preparing your goals:

- Be realistic.
- Establish time frames.
- Devise a plan.
- Be flexible; goals can change.

What are your short-term and long-term goals?

My short-term goals are:

1. ____________________

2. ____________________

3. ____________________

My long-term goals are:

1. ____________________

2. ____________________

3. ____________________

You have set short- and long-term goals.

How do you meet them?

Develop a Budget and Live by It

When it comes to reaching your financial goals, are you doing or wishing? The difference is doers put action to their goals. And doers are much more likely to reach their goals and achieve their dreams.

If you are a doer, you are more likely to:

- Track spending.
- Live within your means.
- Stick to a budget.
- Pay off credit cards in a timely way.
- Deposit money into savings each month.
- Make regular contributions to retirement savings.

To maximize your wealth-creating ability, you want to be a doer, like Sonya.

Sonya is a single parent with one child. She budgets in order to live on her modest income and tracks where every dime goes. Saving is very important to her. When her son was born, she started investing every month in a mutual fund for his college education. Sonya is a homeowner, has good credit and never loses sleep over paying her bills. Sonya controls her future.

Gabby, by contrast, doesn't put action to her dreams. Gabby has a good job, makes good money and lives a pretty comfortable life, but her bank statement tells a different story. She has no savings or investments, owns no property and has no plans for retirement. Plus, she's got a lot of credit card debt, lives from paycheck to paycheck and doesn't budget.

You can choose to be like Gabby, or you can follow Sonya's road to wealth creation by learning to budget and save.

A budget allows you to:

- Understand where your money goes.
- Avoid overspending.
- Find money for saving and investing to build your wealth.

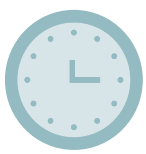
To develop a budget, you need to:

- Calculate your monthly income.
- Track your daily expenses.
- Determine how much you spend on monthly bills.

Track Day-to-Day Spending

One day, Gabby realized that to create wealth she had to become more of a doer, like Sonya, and plan her financial future. To start, Gabby looked at her finances to see how much money she made and how she was spending it. She set a goal to save $125 a month to put toward her wealth-creation goals. First, she calculated her income. Then she added up her monthly bills.

She also kept track of her daily spending, whether by cash or debit card, check or credit card. Here is a page from her notebook.



Gabby's Day-to-Day Spending

Date	Expense	Cash/debit/check	Charge
1/2	Breakfast, Get-N-Go	$ 5.50	
1/2	Coffee	3.75	
1/2	Lunch		$ 6.75
1/2	Gas for car		46.00
1/2	Drinks with friends	10.00	
1/2	Groceries		50.00
1/2	Dinner	15.00	
1/2	Music	10.00	
1/3	Breakfast, Moonlight Diner	8.50	
1/3	Coffee	3.75	
1/3	Dress		50.00
1/3	Movies	15.00	
1/3	Dinner	18.00	
1/4	Breakfast, Get-N-Go	5.50	
1/4	Coffee	3.75	
1/4	Birthday present		20.00
1/4	Lunch		15.00
1/4	Household supplies	30.00	
1/4	Coffee	3.75	
1/4	Pizza	15.00	

Track Your Daily Spending

Using Gabby's spending log as an example, record your daily expenses on the blank day-to-day spending form on page 34. Include everything you purchase—whether with cash, debit card, check or credit card.

You know how to track where your money is going.
Do you need to make a change?

Get a Handle on Income and Expenses

Gabby used the information from tracking her day-to-day expenses to develop a monthly budget. When Gabby reviewed her budget, she realized she was spending more than she earned. This means she was building debt, not wealth. Gabby knew if she were ever going to save $125 a month, she had to cut her expenses, earn more money, or both. She worked overtime at her company, which increased her take-home pay. She bought fewer clothes, discontinued premium cable TV channels, carpooled to work to cut gas consumption and reduced her spending on eating out and entertainment. Tracking her expenses paid off. Gabby successfully developed a budget that enables her to save $125 each month.

Here is her budget. If Gabby sticks to it, she will have $125 a month that she can:

- Put in a savings account.
- Invest in a 401(k) retirement plan at work.
- Invest in an individual retirement account (IRA).
- Invest in stocks, bonds or mutual funds.
- Use to pay off debt.

These are just some of the wealth-building choices available when you budget to save.

Tip: Saving

To help you maintain the discipline to save:

- Save every month.
- Have savings automatically deducted from your paycheck or checking account.
- Base your budget on what's left.

In other words, get on automatic pilot and stay there.

Gabby's Monthly Budget

	Current income	Income changes	New budget
Take-home pay	$ 2,600		$ 2,600
Overtime pay		$ 40	$ 40
Pension, Social Security benefits			
Alimony/child support			
Other income			
Total income	**$ 2,600**	**$ 40**	**$ 2,640**

	Current expenses	Spending changes	New budget
Rent	$ 750		$ 750
Renter's insurance	30		30
Utilities	155		155
Telephone	100		100
Cable TV/Internet service	75	$ –20	55
Insurance (life, disability)	0		0
Charitable donations	0		0
Credit card payment	200		200
Groceries	200		200
Clothing	130	–30	100
Day care/tuition	0		0
Car loan	300		300
Car insurance	75		75
Gas for car	145	–20	125
Meals out & entertainment	425	–50	375
Miscellaneous daily expenses	100	–50	50
Total expenses	**$ 2,685**	**$ –170**	**$ 2,515**
Monthly net (income – expenses)	**$ –85**		**$ 125**
Available to save or invest	$ 0		**$ 125**

Budget to Save

Using Gabby's budget as an example, track your income and expenses on the blank monthly budget sheet on page 35. Identify changes you can make to increase your income or decrease your expenses. Then develop a new budget that includes more savings. Be sure to make changes that you can live with from month to month.

You know how to successfully budget to save.

How will you invest your savings?

3 Save and Invest

Take the power of compound interest seriously—and then save.

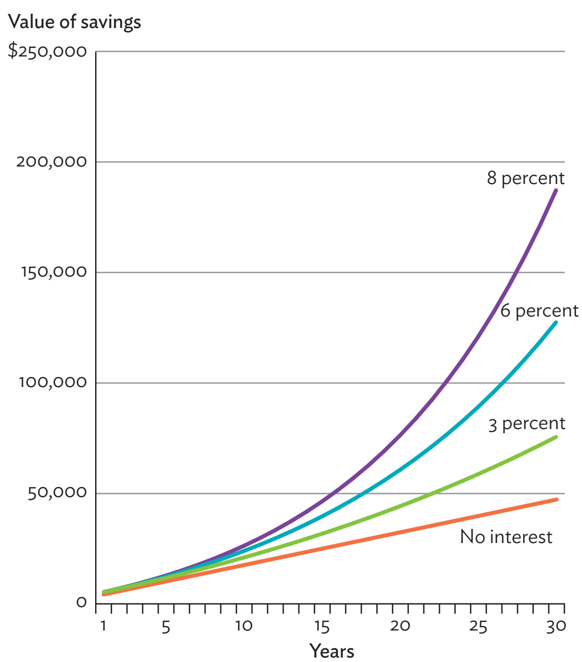
Dwight R. Lee and Richard B. McKenzie,
Getting Rich in America

You have budgeted and identified an amount to save monthly. Where are you going to put your savings? By investing, you put the money you save to work making more money and increasing your wealth. An ***investment*** is anything you acquire for future income or benefit. Investments increase by generating income (interest or dividends) or by growing (appreciating) in value. Income earned from your investments and any appreciation in the value of your investments increase your wealth.

Get Guidance

There is an art to choosing ways to invest your savings. Good investments will make money; bad investments will cost money. Do your homework. Gather as much information as you can. Seek advice from licensed or registered advisers. States require licensing or registration for brokers, investment advisers and insurance salespeople, so check with your state securities regulator before trusting any investment adviser. Also, check out the Wealth-Building Resource Guide on page 30 for helpful sites.

The Compound Interest Advantage



Examples assume $125 monthly deposits; the compound interest examples assume monthly compounding.

Take Advantage of Compound Interest

Compound interest helps you build wealth faster. Interest is paid on previously earned interest as well as on the original deposit or investment. For example, a $5,000 investment earning 6 percent interest for a year earns $308 if the interest is compounded monthly. In just five years, the $5,000 will grow to $6,744.

Let's see how interest compounds on Gabby's savings. Assume that Gabby saves $125 a month for 30 years and the interest on her savings is compounded monthly.

The chart to the left shows how compound interest at various rates would increase Gabby's savings compared with simply putting the money in a shoebox. This is compound interest that you earn. And as you can see from Gabby's investment, compounding has a greater effect after the investment and interest have increased over a longer period.

There is a flip side to compound interest. That is compound interest you are charged. This compound interest is charged for purchases on your credit card. Chapter 4, "Build Credit and Control Debt," discusses this type of interest.

Understand the Risk-Return Relationship

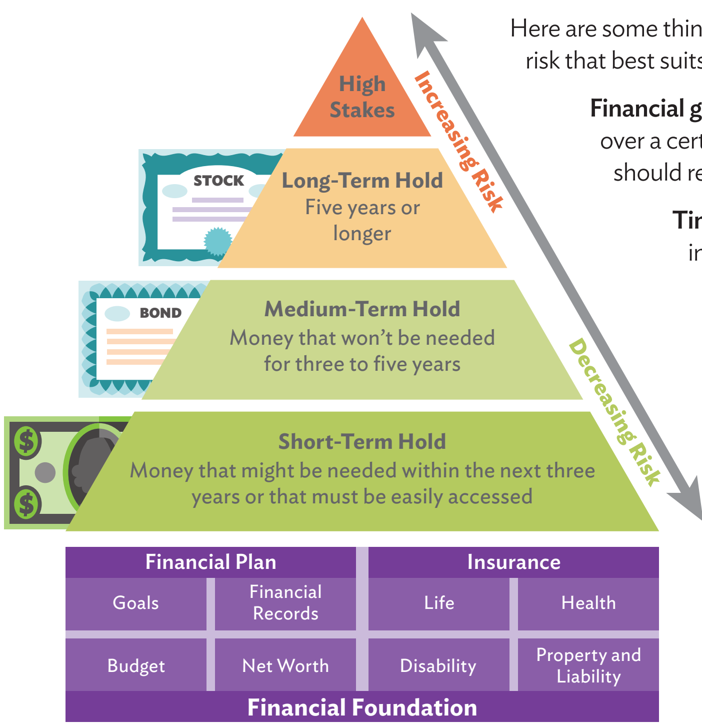
When you are saving and investing, the amount of expected return is based on the amount of risk you take with your money. Generally, the higher the expected return, the higher the risk of losing money. For less risk, an investor will expect a smaller return.

For example, a ***savings account*** at a financial institution is fully insured by the Federal Deposit Insurance Corp. up to $250,000. The return—or interest paid on your savings—will generally be less than the expected return on other types of investments.

On the other hand, an investment in a stock is not insured. The money you invest may be lost or the value reduced if the investment doesn't perform as expected.

After deciding how much risk you are able to take, you can use the investment pyramid to help balance your savings and investments. You should move up the pyramid only after you have built a strong foundation.

The Investment Pyramid: How Much Risk Do You Want to Take?



Here are some things to think about when determining the amount of risk that best suits you.

Financial goals. How much money do you want to accumulate over a certain period of time? Your investment decisions should reflect your wealth-creation goals.

Time horizon. How long can you leave your money invested? If you will need your money in one year, you may want to take less risk than you would if you won't need your money for 20 years.

Financial risk tolerance. Are you in a financial position to invest in riskier alternatives? You should take less risk if you cannot afford to lose your investment or have its value fall.

Inflation risk. This reflects savings' and investments' sensitivity to the inflation rate. For example, while some investments such as a savings account have no risk of default, there is the risk that inflation will rise above the interest rate on the account. If the account earns 5 percent interest, inflation must remain lower than 5 percent a year for you to realize a profit.

NOTE: Information not intended as specific individual investment advice.

SOURCES: Adapted from National Institute for Consumer Education, Eastern Michigan University; AIG VALIC.

Tools for Saving

A good first step toward saving is to open a savings account at a bank or credit union. With a savings account, you can:

- Take advantage of compound interest, with no risk.
- Keep your money safer than in your pocket or at home.
- Take advantage of direct deposit of your paycheck.
- Monitor your balance online.

Financial institutions offer a variety of insured savings accounts, each of which pays a different interest rate. Among them are:

- General savings accounts, which earn interest and allow access to funds at any time and movement of money from account to account.
- ***Money market*** accounts, which earn interest, may offer check-writing services and impose no fees with a minimum balance.
- ***Certificates of deposit*** (CDs), which are purchased for a specified term and return principal and interest at the end of the term (early withdrawal penalties apply).

Tools for Investing

Once you have a good savings foundation, you may want to diversify your assets among different types of investments. ***Diversification*** can help smooth out potential ups and downs of your investment returns. Investing is not a get-rich-quick scheme. Smart investors take a long-term view, putting money into investments regularly and keeping it invested for five, 10, 15, 20 or more years.

Bonds—Lending Your Money

When you buy bonds, you are lending money to a federal or state agency, municipality or other issuer, such as a corporation. A bond is like an IOU. The issuer promises to pay a stated rate of interest during the life of the bond and repay the entire face value when the bond comes due or reaches maturity. The interest a bond pays is based primarily on the credit quality of the issuer and current interest rates. Firms like Moody's Investor Service and Standard & Poor's rate bonds. With corporate bonds, the company's bond rating is based on its financial picture. The rating for municipal bonds is based on the creditworthiness of the governmental or other public entity that issues it. Issuers with the greatest likelihood of paying back the money have the highest ratings, and their bonds will pay an investor a lower interest rate. Remember, the lower the risk, the lower the expected return.

A bond may be sold at face value (called ***par***) or at a premium or discount. For example, when prevailing interest rates are lower than the bond's stated rate, the selling price of the bond rises above its face value. It is sold at a premium. Conversely, when prevailing interest rates are higher than the bond's stated rate, the selling price of the bond is discounted below face value. When bonds are purchased, they may be held to maturity or traded.

Savings bonds. ***U.S. savings bonds*** are government-issued and government-backed. Unlike other investments, you can't get back less than you put in. Savings bonds can be purchased in denominations ranging from $50 to $10,000. There are different types of savings bonds, each with slightly different features and advantages. Series I bonds are indexed for inflation. The earnings rate on this type of bond combines a fixed rate of return with the annualized rate of inflation.

If you have paper U.S. savings bonds, you can register them online at TreasuryDirect, www.treasurydirect.gov. Then, you won't have to worry about losing the paper copy.

Treasury bills, bonds, notes and TIPS. The bonds the U.S. Treasury issues are sold to pay for an array of government activities and are backed by the full faith and credit of the federal government. ***Treasury bills*** are short-term securities with maturities of three months, six months or one year. They are sold at a discount from their face value, and the difference between the cost and what you are paid at maturity is the interest you earn. ***Treasury bonds*** are securities with terms of more than 10 years. Interest is paid semiannually.

Treasury notes are interest-bearing securities with maturities ranging from two to 10 years. Interest payments are made every six months. ***Treasury Inflation-Protected Securities (TIPS)*** offer investors a chance to buy a security that keeps pace with inflation. Interest is paid on the inflation-adjusted principal.

Bills, bonds and notes are sold in increments of $1,000. These securities, along with U.S. savings bonds, can be purchased directly from the Treasury through TreasuryDirect at www.treasurydirect.gov.

Some government-issued bonds offer special tax advantages. There is no state or local income tax on the interest earned from Treasury and savings bonds. And in most cases, interest earned from municipal bonds is exempt from federal and state income tax. Typically, higher-income investors buy these bonds for their tax benefits.

Stocks—Owning Part of a Company

When you buy ***common stock***, you become a part owner of the company and are known as a ***stockholder***, or ***shareholder***. Stockholders can make money in two ways—receiving dividend payments and selling stock that has appreciated. A ***dividend*** is an income distribution by a corporation to its shareholders, usually made quarterly. Stock ***appreciation*** is an increase in the value of stock in the company, generally based on its ability to make money and pay a dividend. However, if the company doesn't perform as expected, the stock's value may go down.

There is no guarantee you will make money as a stockholder. In purchasing shares of stock, you take a risk on the company making a profit and paying a dividend or seeing the value of its stock go up. Before investing in a company, learn about its past financial performance, management, products and how the stock has been valued in the past. Learn what the experts say about the company and the relationship of its financial performance and stock price. Successful investors are well informed.

Mutual Funds—Investing in Many Companies

Mutual funds are established to invest many people's money in many firms. When you buy mutual fund shares, you become a shareholder of a fund that has invested in many other companies. By diversifying, a mutual fund spreads risk across numerous companies rather than relying on just one to perform well. Mutual funds have varying degrees of risk. They also have costs associated with owning them, such as management fees, that will vary depending on the type of investments the fund makes.

Before investing in a mutual fund, learn about its past performance, the companies it invests in, how it is managed and the fees investors are charged. Learn what the experts say about the fund and its competitors.

Stocks, bonds and mutual funds can be purchased through a full-service broker if you need investment advice, from a discount broker or even directly from some companies and mutual funds.

Invest for Retirement

Have you ever thought about how much money you will need when you retire? Will you save enough today to meet your future needs at prices higher than today's due to ***inflation***? Many people don't save enough for retirement.

Rule of 72

The Rule of 72 can help you estimate how your investment will grow over time. Simply divide the number 72 by your investment's expected rate of return to find out approximately how many years it will take for your investment to double in value.

Example: Invest $5,000 today at 8 percent interest. Divide 72 by 8 and you get 9. Your investment will double every nine years. In nine years, your $5,000 investment will be worth about $10,000, in 18 years about $20,000 and in 27 years, $40,000.

The Rule of 72 also works if you want to find out the rate of return you need to make your money double. For example, if you have some money to invest and you want it to double in 10 years, what rate of return would you need? Divide 72 by 10 and you get 7.2. Your money will double in 10 years if your average rate of return is 7.2 percent.

The chart on this page illustrates why it's better to start saving and investing for retirement early in your career. A 20-year-old who begins investing $3,000 each year toward retirement will have a nest egg over $1.2 million at age 65 if that investment earns an average annual rate of return of 8 percent. If you wait until you are 40 to start investing, the results are much lower.

Individual Retirement Accounts

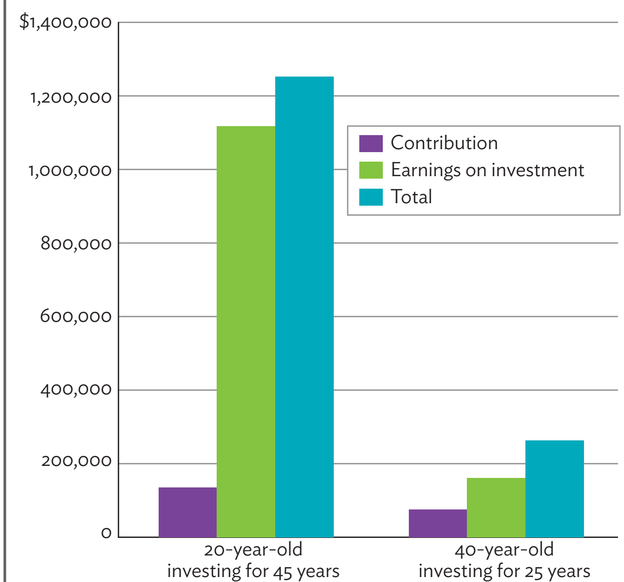
An ***individual retirement account (IRA)*** lets you build wealth and retirement security. The money you invest in an IRA grows tax-free until you retire and are ready to withdraw it. You can open an IRA at a bank, brokerage firm, mutual fund or insurance company. IRAs are subject to certain income limitations and other requirements you will need to learn more about, but here is an overview of what they offer, with the maximum tax-free annual contributions as of 2016.

You can contribute up to $5,500 a year to a traditional IRA, as long as you earn $5,500 a year or more. A married couple with only one person working outside the home may contribute a combined total of $11,000 to an IRA and a spousal IRA. Individuals 50 years of age or older may make an additional "catch-up" contribution of $1,000 a year, for a total annual contribution of $6,500. Money invested in an IRA is deductible from current-year taxes if you are not covered by a retirement plan where you work and your income is below a certain limit.

A traditional IRA is tax-deferred, meaning you don't pay taxes on the money until it is withdrawn. All withdrawals are taxable, and there generally are penalties on money withdrawn before age 59½. However, you can make certain withdrawals without penalty, such as to pay for higher education, to purchase your first home, to cover certain unreimbursed medical expenses or to pay medical insurance premiums if you are out of work.

A ***Roth IRA*** is funded by after-tax earnings; you do not deduct the money you pay in from your current income. However, after age 59½, you can withdraw the principal and any interest or appreciated value tax-free.

Invest in an IRA: The Sooner You Start, the Better



Assumes an annual investment of $3,000 and an 8 percent rate of return.

Another retirement savings account funded with after-tax earnings is ***myRA***. It is specifically designed for people who don't have a retirement savings plan through work or who lack other options for saving.

There is no cost to open a *my*RA, no minimum balance and no fee to maintain an account. You can schedule a one-time deposit or regular deposits directly from a paycheck or a checking or savings account. You can also direct all or part of your federal tax refund to your *my*RA. A *my*RA is invested in a U.S. Treasury savings bond, which will not lose value, and earns the same rate of return as the Government Securities Fund for federal employees (2.04 percent in 2015). Annual contribution limits are the same as those for traditional IRA accounts.

Not only can you deposit money in a *my*RA account risk-free, you can withdraw your contributions without tax and penalty whenever you wish. However, interest earned can only be withdrawn without tax and penalty under certain conditions. At any time, you can choose to transfer or roll over the account balance of your *my*RA.

If you don't transfer or roll over the account once it reaches its maximum balance of $15,000 or its 30-year life span, the balance will be transferred automatically into a private sector Roth IRA.

401(k) Plans

Many companies offer a ***401(k) plan*** for employees' retirement. Participants authorize a certain percentage of their before-tax salary to be deducted from their paycheck and put into a 401(k). Many times, 401(k) funds are professionally managed and employees have a choice of investments that vary in risk. Employees are responsible for learning about the investment choices offered. By putting a percentage of your salary into a 401(k), you reduce the amount of pay subject to federal and state income tax. Tax-deferred contributions and earnings make up the best one-two punch in investing. In addition, your employer may match a portion of every dollar you invest in the 401(k), up to a certain percentage or dollar amount.

As long as the money remains in your 401(k), it's tax-deferred. Withdrawals for any purpose are taxable, and withdrawals before age 59½ are subject to a penalty. Take full advantage of the retirement savings programs your company offers—and understand thoroughly how they work. They are great ways to build wealth.

Qualified Plans

If you're self-employed, don't worry. There is a retirement plan for you. A ***qualified plan*** (formerly referred to as a Keogh plan) is a tax-deferred plan designed to help self-employed workers save for retirement.

Check the IRS website—www.irs.gov—for current information on tax-deferred investments.

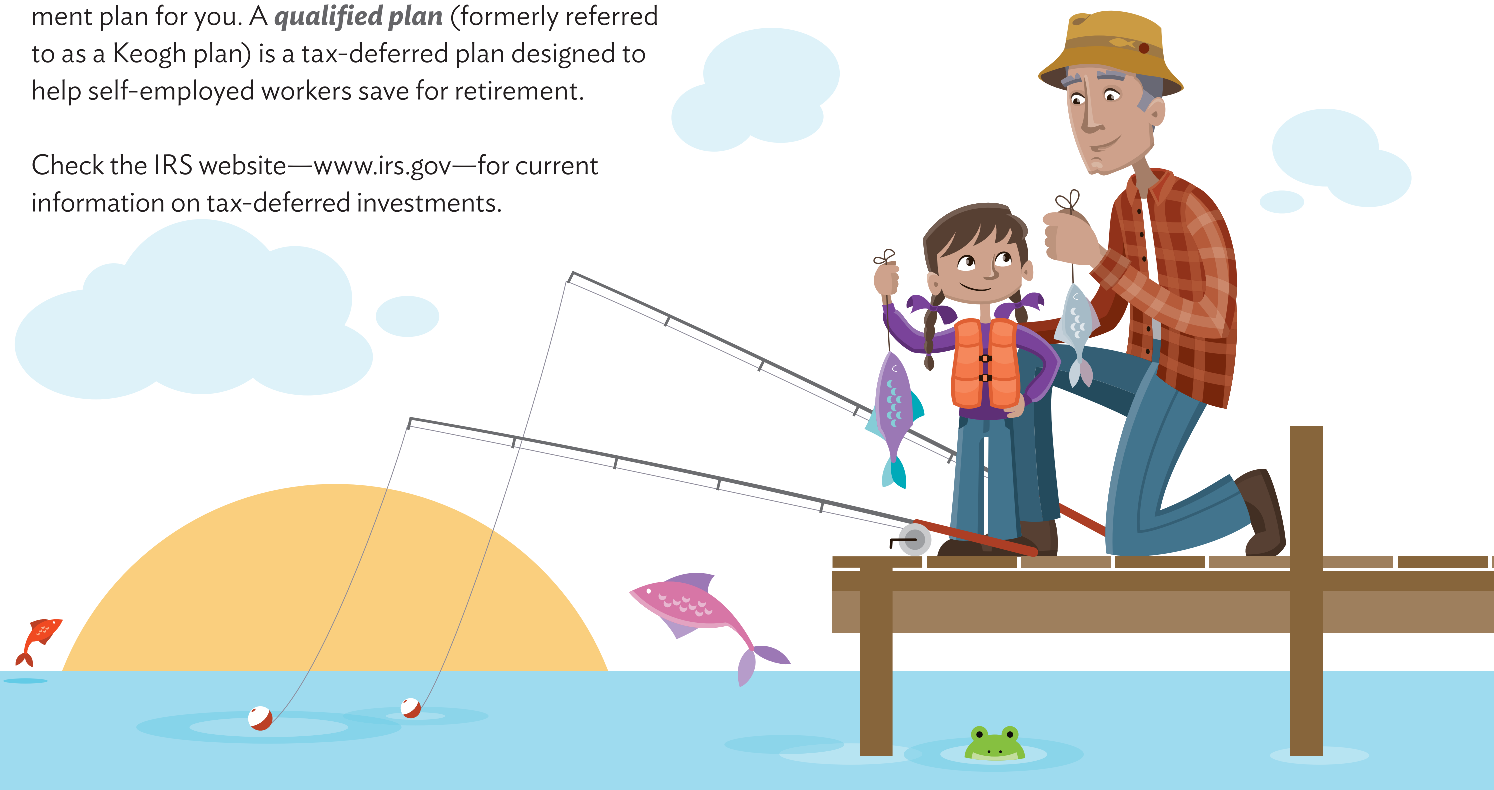
How Much Extra Savings Is a Tax-Deferred Investment Worth?

If you pay taxes, which most of us do, a tax-deferred investment will be worth the amount you invest multiplied by the tax rate you pay. For example, if your federal tax rate is 15 percent and you invest $3,000 in an IRA, you'll save $450 in taxes. So in effect, you will have spent only $2,550 for a $3,000 investment on which you will earn money. A good wealth-creation plan maximizes tax-deferred investments.

Tip: Investing

Remember, when investing:

- Find good information to help you make informed decisions.
- Make sure you know and understand all the costs associated with buying, selling and managing your investments.
- Beware of investments that seem too good to be true; they probably are.
- Investigate financial professionals *before you invest*. Your state securities board provides free services to check credentials.



Individual Development Accounts

In some communities, people whose income is below a certain level can open an individual development account (IDA) as part of a money-management program organized by a local nonprofit organization. IDAs are generally opened at a local bank. Deposits made by the IDA account holder are often matched by deposits from a foundation, government agency or other organization. IDAs can be used for buying a first home, paying for education or job training, or starting a small business.

Training programs on budgeting, saving and managing credit are frequently part of IDA programs.

Find an IDA program near you: cfed.org/programs/idas.

Other Investments

Investing in Your House

Remember Anthony in Chapter 1, who started reading this workbook to create wealth? Practicing what he read, Anthony reduced his debt, increased his savings and is now ready to buy a house. He has a sizable down payment saved, so right from the beginning he will have equity in his home.

Equity, in this case, is the difference between the market value of the house and the balance on Anthony's mortgage. As Anthony pays his mortgage, he increases his equity. Plus, over time, his house may rise in value—giving him more money if he chooses to sell it. Knowing that the more equity he has in his house, the wealthier he will be, Anthony takes a 15-year mortgage rather than the more traditional 30-year mortgage. This will enable him to own his house in 15 years. Of course, Anthony will make higher monthly payments on his mortgage than he would have, but he will build equity quicker and ultimately pay less interest.

By making higher monthly payments, Anthony not only will own his house outright in 15 years, but he will save $56,126 in interest payments. Making higher monthly payments, of course, means budgeting. Anthony chose to budget extra money each month out of his paycheck—and make wise spending choices—so he can do just that.

Building Equity Faster—A Comparison

Mortgage term	30 years	15 years
Loan amount	$118,000	$118,000
Months to pay	360	180
Annual percentage rate	4.0%	3.0%
Monthly payment	$563	$815
Total interest	$84,806	$28,680
Interest savings	–	$56,126

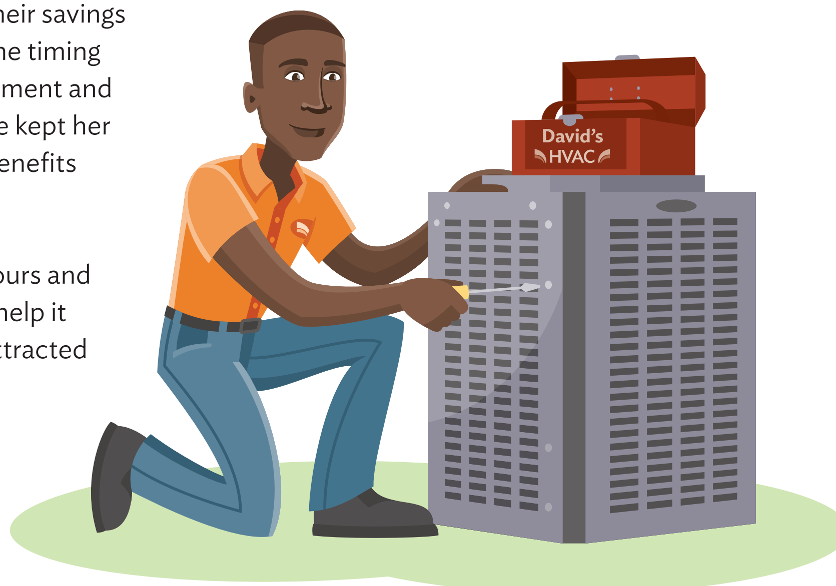
Start Your Own Business

You can also start and invest in your own business as part of a wealth-creation plan. This requires planning, know-how, savings and an entrepreneurial spirit. Starting a small business can be risky, but it is one of the most significant ways individuals have to create personal wealth.

David had a dream—he wanted to own a business. After serving in the military, he knew that with a little extra training, he could use his skills to start a heating, ventilation and air conditioning company. He and his wife saved every month until they reached their savings goal to start their business. When they felt the timing was right, they bought a van, tools and equipment and set up shop in an old warehouse. David's wife kept her job so they would have steady income and benefits while the business got off the ground.

For the next five years, David worked long hours and put all the income back into the business to help it grow. He gave his customers good service, attracted more customers and paid close attention to his expenses. By the sixth year, the business was profitable and David and his wife were well on the way to owning a successful, ongoing enterprise that will increase their personal wealth.

None of this would have been possible without budgeting and saving. David was able to use the couple's savings to invest in his talents and entrepreneurial spirit.



Plan your investment strategy.

List the investment options you are going to learn more about and weigh them against your wealth-creation goals, time frame and risk tolerance.

1. ______________________________

2. ______________________________

3. ______________________________

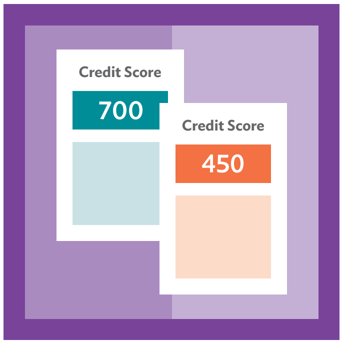
4. ______________________________

You budget, save and invest to build your wealth.

How do you build your credit?

4 Build Credit and Control Debt

The only reason a great many American families don't own an elephant is they have never been offered an elephant for a dollar down and easy weekly payments.
Mad Magazine



Your Credit History Is Important

It's difficult to pay cash for your car, home and college education, so these are typically bought using credit. That is why it's important to have a plan to build and maintain a good credit history. Good credit saves money; bad credit costs money. Think of credit as a tool to be used wisely. Employers, landlords and insurance companies will use credit history to determine whether you are a good risk. A good credit history will result in getting the lowest interest rates for loans and other services, which will put you in a better position to increase your savings and increase your wealth.

Remember the definition of net worth (wealth)?

ASSETS – LIABILITIES = NET WORTH

Liabilities are debts. Debt reduces net worth. Plus, the interest you pay on debt, including credit card debt, is money that cannot be saved or invested—it's just gone.

If credit is not used wisely, debt can easily get out of hand and may result in late payments. The most important part of your credit history is your track record of paying your bills on time.

Know What Creditors Say About You

If you have used credit, you will have a credit report that shows everything about your payment history, such as any late payments. When making the decision whether to extend credit, lenders use credit reports, credit scores and other information, such as employment and income history.

What's on Your Credit Report?

Consumers have the right to receive annually a free copy of their credit report from each of the three major credit reporting companies:

Equifax:	**Experian:**	**TransUnion:**
800-685-1111;	888-397-3742;	800-888-4213;
www.equifax.com	www.experian.com	www.transunion.com

These three nationwide consumer credit reporting companies have set up a toll-free telephone number and one central website for ordering free reports: 877-322-8228; www.annualcreditreport.com

Know the Score

- The Federal Reserve Board publishes a guide to credit reports and scores for consumers: www.federalreserve.gov/creditreports
- The Federal Trade Commission outlines the steps to dispute credit report information and has a sample dispute letter available at ftc.gov.

The information in your ***credit report*** is used to create your ***credit score***. (For a small fee, you can get your credit score from any of the three credit reporting companies or from www.myFICO.com.) A credit score is a number generated by a statistical model that objectively predicts the likelihood that you will repay on time. Employers, insurance companies, potential landlords, banks and other lenders use credit scores. The higher your score, the less risk you represent to the lender.

A credit report that includes late payments, delinquencies or defaults will result in a low credit score and could cause you to have to pay higher interest rates or be declined altogether. The most important factor in a credit score is the payment history. This history shows whether payments were made on time or late. Recent delinquent payments are more damaging, compared with late payments from many years past. Also, the severity of the delinquency is a factor. For example, a payment made 30 days late has less impact on your credit score than a payment made 60 days late. Another major factor in the credit score calculation is the amount owed on credit accounts. A recommended guideline is to keep your balance at less than half the total credit available on the credit line. This ***utilization rate*** is an important factor in the credit score calculation.

Factors not considered in a credit score include age, race or ethnicity, income, job, marital status, education, length of time at your current address and whether you own or rent your home.

An important first step in getting the credit you deserve is to check your credit report. Review your credit report at least once a year to make sure all information is accurate. If you find an error, the Fair Credit Reporting Act requires credit reporting companies and those reporting information to them to correct the mistake.

Beware of credit repair services that claim they can erase your bad credit. Many of these are scams. There's no quick fix, but you can improve your credit with time and effort and dedication to your plan.

But how do you establish a credit history if you've never used credit?

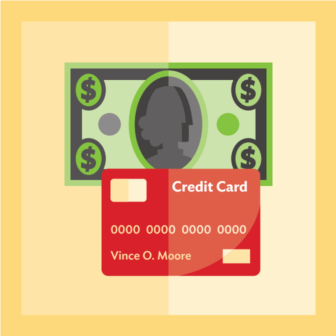
Consider a ***secured credit card***. This type of card will require a deposit, usually equal to your credit limit. After you have used the secured credit card for a year or more, never maxing out your credit and always paying on time, the credit card provider will typically offer an unsecured card.

Another type of starter account may be a retail store card or gas card. Before you apply, make sure the card provider will report payments to the credit reporting companies. Some cards, such as ***prepaid debit cards***, do not report payments to the credit reporting companies.

If you decide you no longer need a credit account, pay it off and stop using it, but don't close the account. You need those older accounts to show you have a long history of paying on time.

Tip: Building Good Credit

- Develop a budget and stick to it. Getting a new credit card does not mean you have more income.
- Save money so you're prepared for a rainy day. Three to six months of living expenses are recommended.
- Pay your bills on time.
- Keep your credit card balances low or aim to pay them off monthly.
- Check your credit reports annually and dispute any incorrect information.



Taking on Debt

A big part of building wealth is making wise choices about credit and debt. Keep in mind your bottom line, your net worth, when making decisions about credit. Remember, Assets – Liabilities = Net Worth, so when you take on additional debt, you're reducing your net worth. Ask yourself, "Am I building *wealth* and increasing my net worth, or am I building *debt* and reducing my net worth?"

Are You Ready to Take On a Credit Obligation?

If you don't have a budget, or spending plan, you're not ready to take on debt. Before you take on credit obligations, it's very important to have a good foundation, including your emergency savings, a budget, your financial records and goals, and insurance to protect your assets. See the Investment Pyramid on page 9. Do you have a strong financial foundation?

The Tale of Two Spenders and the New TV

Remember Sonya? She saved up for the "extras." When she had enough money in her savings account, she bought a new TV for $1,500. She paid cash.

Her friend Vince is an impulsive spender. He seeks immediate gratification using his credit cards, not realizing how much extra it costs. Vince bought the same TV for $1,500 but financed it on a store credit card with an annual interest rate of 22 percent. At $50 a month, it took him almost four years to pay off the balance.

While Sonya paid only $1,500 for her new TV, Vince paid $2,200—the cost of the TV plus interest. Vince not only paid an extra $700, he lost the opportunity to invest the $700 in building his wealth.

Doers, like Sonya, are smart about using credit cards as a tool. When doers use credit, they pay off their balances every month. When a credit card balance is not paid off monthly, it means paying interest—often 20 percent or more a year—on everything purchased. This is compound interest that you *pay*. It's not the magical kind of compound interest that builds wealth (see Chapter 3); that's the compound interest that you earn.

When you get credit, a loan or a credit card, you repay the ***principal***, which is the amount borrowed, plus ***interest***, the amount charged for lending you the money.

Cost of Credit

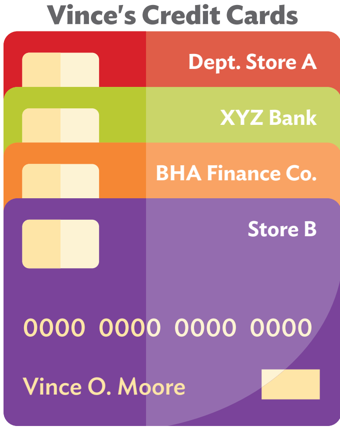
Before you borrow, learn everything about the loan, including interest rate, ***annual percentage rate (APR)***, ***finance charges***, fees and penalties for late payment or early repayment.

Remember, your credit score determines your cost of credit.

Take Steps to Control Your Debt

To manage debt, you need to know how much you have and develop strategies to control it. When Vince decided to reduce his $3,500 credit card debt, he analyzed his debt, developed a strategy and took action:

- He listed the balance, interest rate and monthly interest on each credit card.
- He checked his credit score and shopped for the best rate on a new credit card. Then he transferred all his balances to that card.
- He cut up the old credit cards and used the interest he saved to pay down his principal balance sooner.



Vince's Credit Cards	Debt	Interest rate	Monthly interest*
Dept. Store A	$ 1,500	22%	$ 27.50
XYZ Bank	$ 1,250	17%	$ 17.71
BHA Finance Co.	$ 500	19.5%	$ 8.13
Store B	$ 250	15%	$ 3.13
Total	$ 3,500		$ 56.47

*Interest rate divided by 12 months multiplied by the amount of debt.

What is your credit card debt situation?

Credit card	Debt	Interest rate	Monthly interest*
Total			

*Interest rate divided by 12 months multiplied by the amount of debt.

My strategy for reducing credit card debt includes:

1. ____________________
2. ____________________
3. ____________________

$15,000 Car Loan for 5 Years

Lender	Interest rate	Total interest
Pixley Bank and Trust	6.5%	$2,609.53
XYZ Savings and Loan	7.5%	$3,034.15
Joe's Auto Sales	15.0%	$6,410.94

$15,000 Car Loan at 6.5 Percent Interest

	3-year	4-year	5-year
Number of payments	36	48	60
Payment amount	$460	$356	$293
Total paid	$ 16,550	$ 17,075	$ 17,610

Save Money by Choosing the Right Loan

If you have good credit, you may want to take out a loan to purchase a car or a house or to cover educational expenses—all are investments in the future. But regardless of how the money is spent, a loan is a liability, or debt, and decreases your wealth. So choose loans carefully.

Shop and negotiate for the lowest interest rate. The interest you save can be invested to build wealth. Take a look at the table on the left. It may be obvious which lender will charge the lowest interest. What's not obvious is that your credit score may determine which interest rate you are offered. Obtain your credit score well before you plan to apply for a loan. Use an online auto loan calculator to compare rates. You can save interest expense by increasing your monthly payments or choosing a shorter payment term on your loans. The table also shows how shorter terms with higher payments would affect the total amount and interest on a $15,000 car loan.

Beware of High-Cost Credit

People can get deep in debt when they take out a loan against their paycheck or car title. These loans generally come with very high, double-digit interest rates. For example, borrowers may write a postdated check in exchange for money. When they get paid again, they repay the loan, thus the name ***payday loan***. Borrowers who can't repay the money are charged additional fees for an extension, which puts them even deeper in debt. Borrowers can continue to pay fees to extend the loan's due date indefinitely, only to find they are getting deeper in debt because of the steep interest payments and fees.

Predatory lenders often target seniors and low-income people they contact by phone, mail or in person. After her husband died, 73-year-old Bess needed financial help and fell victim to a predatory lender. Bess was struggling to make ends meet on her fixed income. To pay off her bills, she took out a $5,000 loan that carried a high interest rate and excessive fees. Soon Bess found she was even deeper in debt, so she refinanced the loan once, then again, and again, paying fees each time.

Bess's children discovered her situation and paid off the loan.

$ Tip: Borrowing

- Don't borrow from Peter to pay Paul.
- Never respond to a solicitation that makes borrowing sound easy and cheap.
- Always read the fine print on any loan application.
- Seek assistance from family members, local nonprofit credit counseling services or others to make sure a loan is right for you.

Date	Description	Amount	Balance
6/1	Deposit	$ 1,350	$ 6,000
6/1	Mortgage	750	5,250
6/8	Cable TV	50	5,200
6/10	Utility	150	5, 050
6/15	Deposit	1,350	6,400
6/15	Auto loan	325	6,075

Keep Your Good Name

Every month, go back to your budget and plan carefully to ensure your bills are paid before their due dates. Setting up direct deposit and putting bills on auto debit can help you keep your good name. Sonya, the doer, makes sure she pays her bills on time. Sonya gets paid twice a month. She has her paycheck set up for direct deposit so she doesn't have to scramble to get to the bank on payday. With her first paycheck each month, she pays her mortgage (which she has set up on auto debit), cable TV and utility bills. Out of the second check, Sonya makes her car payment (also on auto debit) and has a monthly deposit automatically made to her savings account. Sonya has found that "autopilot" really simplifies budgeting and saving.

Guard Your Identity

Just as you protect the security of your home with locks for your windows and doors, you should take steps to protect your identity. Secure your financial records, Social Security number and card, account numbers, and all passwords and PINs (personal identification numbers). A periodic check of your credit report can alert you if someone is illegally using credit products in your name. If you suspect unauthorized access, contact the three major credit reporting companies (see box on page 16) and place a fraud alert on your name and Social Security number.

$ Tip: Protect Your Identity

- Shred or destroy your bank and credit card statements and all other private records before tossing them in the trash.
- Give out your Social Security number only when absolutely necessary, and never carry both your Social Security card and driver's license in your wallet.
- Pick up mail promptly from your mailbox, and never leave outgoing mail with paid bills in an unsecured mailbox.
- Don't give out personal information on the phone, through the mail or on the Internet unless you're sure you know with whom you're dealing.

You increase assets and decrease liabilities to build wealth.

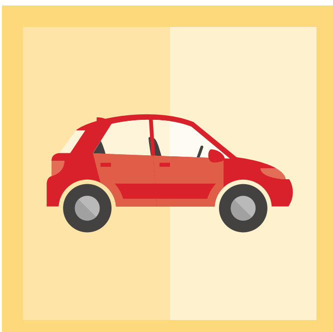
How do you protect it?

5 **Protect** Your **Wealth**

It is unwise to be too sure of one's own wisdom. It is healthy to be reminded that the strongest might weaken and the wisest might err.

Mahatma Gandhi

After working hard to create personal wealth, you need to protect it. People acquire insurance to protect themselves from major financial loss. Insurance is simply a promise of reimbursement for a loss in return for a premium paid. When shopping for insurance products, consumers should match their needs with what the product offers and seek out the best deal. A solid credit history is also important because insurers use credit information to price some types of insurance policies. You can buy insurance to cover all kinds of risks, but basic needs can be met with property, health and life insurance.

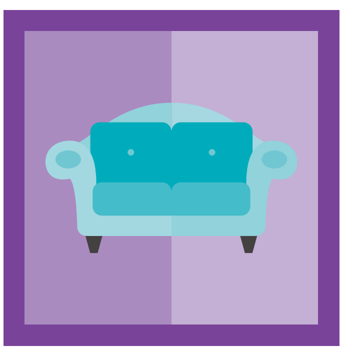


Property Insurance

Auto Insurance

State laws require that all motor vehicles have ***liability*** insurance to cover injury to other people or damage to their property. If you have a loan on your vehicle, your lender will also require physical damage coverage on it.

You may select a higher ***deductible*** (the amount you pay out of pocket before insurance kicks in) and receive a more affordable rate on the ***insurance premium*** (the cost of the policy). If you have your emergency savings in place, you will feel more confident about taking out a higher-deductible policy, which will lower your premium costs.



Home Insurance

If you are renting your home or apartment, you should purchase renters or contents insurance to cover your possessions against loss from fire or theft. Your landlord's insurance will only cover damage to the building, not its contents. Also, if someone is hurt in your rented home, that liability is yours, not the landlord's.

Homeowners insurance covers your home and possessions. The personal liability coverage in a homeowners policy protects you from loss resulting from any injuries that may occur on your property. Your mortgage lender will require you to carry a certain amount of insurance coverage as long as the mortgage is in place. You may also consider a higher-deductible insurance plan to save money on your homeowners coverage.

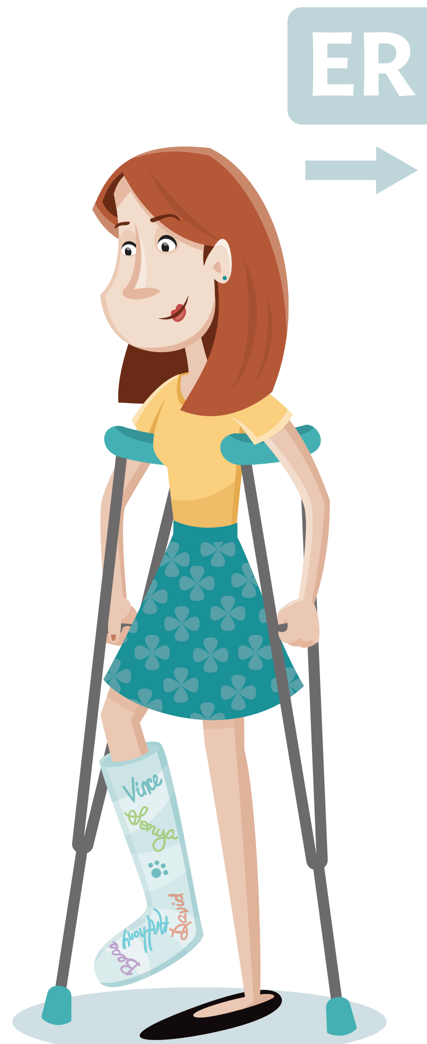
Standard homeowners coverage insures your home and its contents against loss from such risks as fire and theft. You may require special insurance for flood, earthquake or other risks specific to your area. Contact your state department of insurance for more information on insurance in high-risk areas.

Another type of household protection, a ***home warranty***, is a service contract that protects the homeowner from unexpected costs for repair or replacement of major systems. These might include heating and air-conditioning, plumbing, electrical systems or a water heater. Sellers will sometimes provide a one-year home warranty to give potential buyers added confidence. The homebuyer then has the option of renewing the warranty at the end of the year.

Health Insurance

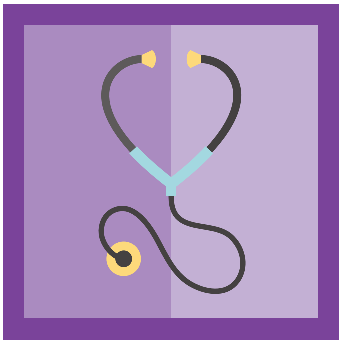
Medical Insurance

No one wants to worry about a trip to the emergency room wiping out everything they've saved toward their financial goals. Studies show unexpected medical expenses are the leading cause of bankruptcy in America. Research also tells us that many people cut back on their medications trying to keep medical costs low—a practice that will likely lead to worsening health and higher costs. Many households have significant levels of debt because they didn't have medical insurance or because they didn't have savings to pay the expenses that weren't covered by their health plan. Late payments and defaults on medical debt may be reported on credit reports and affect a person's credit score.



Whether you are shopping for health insurance on the Healthcare.gov marketplace or completing the annual enrollment in your employer's health insurance plan, consider your budget and short-term savings balance. Medical insurance pays for some, but not all, of your doctor, hospital and prescription drug costs. Do you have enough emergency savings to cover the deductible and out-of-pocket copays? When you estimate the number of copays for doctor visits in a year, you might find that the health plan with the lowest premium is not such a good deal. Choose your medical coverage/deductibles carefully, and consider your household circumstances. For example, if your kids participate in sports, be sure you are covered in the event of an injury.

The Affordable Care Act requires that most Americans obtain health insurance or pay a penalty (the individual mandate). The penalty, or per month fee, is added to your personal income taxes due for the tax year and could reduce your tax refund. Families earning between 100 percent and 400 percent of the federal poverty level are eligible for a premium tax credit if they are not eligible for employer-provided coverage and if they enroll in the Healthcare.gov marketplace for coverage during the enrollment period. Payments of the premium tax credits go directly to the insurance company selected by the enrollee to pay a share of the monthly premium.



People eligible for Medicaid may enroll anytime throughout the year. Parents can also apply for Children's Medicaid (CHIP) for their children year-round. Every state provides free or low-cost health insurance for children in low- to moderate-income households. For more information about state programs, contact the U.S. Department of Health and Human Services at 877-Kids Now (877-543-7669) or go to www.insurekidsnow.gov.

Basic medical coverage can promote preventive health care, which is very important for you and your children. Your family's health is an asset. Protecting your health and having basic medical insurance coverage can give you peace of mind to focus on achieving your other life goals.

People who are insured through their employer should consider participating in a ***flexible spending account (FSA)*** if it is offered. An employer–sponsored FSA allows employees to save pretax dollars in an account to cover deductibles, copays, prescription and over-the-counter drugs, and other health expenses not covered by insurance. Employees need to plan their FSA spending so they have enough saved to cover their uninsured medical expenses but not more than they can use in one year plus two and a half months. On March 15 every year, money left in an FSA from the previous year is forfeited.

Even if you have health insurance, you should make sure your emergency savings account is adequate to provide a safety net against unexpected medical costs.

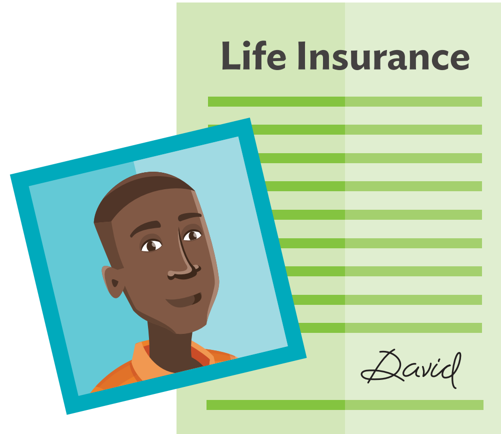
Disability Insurance

Statistics show that you have a higher risk of becoming disabled than of dying before age 65. Disability insurance helps you pay living expenses if you are sick or injured and unable to work for a long time. Your employer may offer this insurance in its benefits plan. Consider buying this protection even if you have to pay for part of the premium.

Buy Insurance Wisely

Insure U, a website sponsored by the National Association of Insurance Commissioners representing insurance regulators from across the United States, has more information on buying all types of insurance at www.insureuonline.org.

Life Insurance



The need for life insurance depends on a person's circumstances. In the event of your death, life insurance pays money to the person you choose (your beneficiary). Life insurance helps give financial protection to your children, spouse, parents or even your business.

While some types of life insurance offer savings and investment components to keep the future cost of premiums lower or to increase the death benefit, they are not a substitute for a savings or investment plan. Low-cost term insurance, often available through your employer, can offer protection for young families.

Personal accident insurance may also offer a cushion to families if a member dies or is seriously injured in an accident. This kind of insurance is often available through your employer or other provider at relatively low cost.

Long-Term Care Insurance

If you or a family member became very ill and needed a nursing home, who would pay for it? You would, until all your assets and those of your spouse are exhausted. Only then would government assistance help cover these needs. Long-term care insurance is not medical insurance, but it pays for such health-related items as nursing home, assisted living or in-home care.

Generally, the need for long-term care comes late in life, but insurance premiums are much less expensive when you are younger. Some employers offer access to long-term care insurance for employees to purchase, but most consumers have to find coverage themselves. Shopping for long-term care insurance takes research, common sense and attention to the policy's details.

$ Tip: Protecting Your Wealth

There are many types of property, health and life insurance, so do your research and seek good advice.

- Take advantage of group insurance through your employer or other associations you may have.
- Anticipate the needs of your family and decide how much you can afford to pay.
- Shop around and get at least two quotes.
- Consider a higher deductible to lower your premium.
- Ask about other discounts that may be available (for a good driving record, safety equipment, multiple policies with the same provider, etc.) to reduce your cost of coverage.
- Review your insurance coverage annually to make sure you have appropriate coverage as your situation changes.
- As with all investments, be sure to get all the facts before parting with your hard-earned money.

Review

Has your definition of wealth changed?

Now that you've read this workbook and thought about the information it contains, how would you define wealth? In the space provided, write your definition. Then compare it with the definition you wrote back on page 1.

Wealth is:

____

____

____

Reset your financial goals.

Now, write your financial goals and compare them with your original goals, on page 4.
Keep these new goals with your definition of wealth. Periodically refer to your goals and measure your **Assets – Liabilities = Net Worth** to make sure your wealth-building program stays on track.

My short-term goals are:

1. ______________________
2. ______________________
3. ______________________

My long-term goals are:

1. ______________________
2. ______________________
3. ______________________

What are your key wealth-building strategies?

Now, write your own strategies for building wealth. Keep in mind the following:

- Educate yourself about money.
- Establish financial goals.
- Create a budget.
- Save each month, using automatic deduction.
- Take advantage of compound interest.
- Take advantage of tax-deferred investments.
- Research and learn about the best investments for you based on your financial goals, time horizon and tolerance for risk.
- Build credit; use it wisely.
- Control debt.
- Protect your wealth.

My strategies for building wealth are:

1. ______________________
2. ______________________
3. ______________________

My strategies for building credit and controlling debt are:

1. ______________________
2. ______________________
3. ______________________

Keep your definition of wealth and your goals firmly implanted in your mind, and use your wealth-creating and debt-controlling strategies every day.

Start budgeting, saving and investing today.
Every day counts in building wealth.

Glossary

Accrued interest Interest that has been earned but not received or recorded.

Amortization Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.

Annual percentage rate (APR) The annual rate that is charged for borrowing (or made by investing), expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. The APR includes any fees or additional costs associated with the transaction.

Appreciation An increase in the value or price.

Asset Anything an individual or business owns that has commercial or exchange value.

Auto debit The deduction from a checking or savings account of funds that are automatically transferred to a creditor each month. Some lenders offer interest rate discounts if loan payments are set up on auto debit at the beginning of the loan.

Balance The amount owed on a loan or credit card or the amount in a savings or investment account.

Balance sheet A financial statement showing a "snapshot" of the assets, liabilities and net worth of an individual or organization on a given date.

Bankruptcy A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.

Beneficiary The person designated to receive the proceeds of a life insurance policy.

Budget An itemized summary of probable income and expenses for a given period.

Capital Cash or other resources accumulated and available for use in producing wealth.

Cash flow Money coming to an individual or business minus money being paid out during a given period.

Certificate of deposit (CD) A type of savings account that earns a fixed interest rate over a specified period of time.

Collateral Assets pledged to secure a loan.

Common stock A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.

Compound interest Interest computed on the sum of the original principal and accrued interest.

Credit The granting of money or something else of value in exchange for a promise of future repayment.

Credit card A plastic card from a financial services company that allows cardholders to buy goods and services on credit.

Credit report A loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.

Credit reporting company An organization that compiles credit information on individuals and businesses and makes it available for a fee.

Credit score A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.

Credit union A cooperative organization that provides financial services to its members.

Creditor A person, financial institution or other business that lends money.

Debit Charges to an account.

An investment in knowledge always pays the best interest.

Benjamin Franklin

Glossary

Debit card A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account.

Debt Money owed; also known as a liability.

Debt service Periodic payment of the principal and interest on a loan.

Deductible The amount of loss paid by an insurance policyholder. The deductible may be expressed as a specified dollar amount or a percent of the claim amount.

Delinquency The failure to make timely payments under a loan or other credit agreement.

Direct deposit The electronic transfer of a payment from a company to an individual's checking or savings account. Many employers offer direct deposit of paychecks.

Diversification The distribution of investments among several companies to lessen the risk of loss.

Dividend A share of profits paid to a stockholder.

Equity Ownership interest in an asset after liabilities are deducted.

Face value The principal amount of a bond, which will be paid off at maturity.

Fair market value The price a willing buyer will pay and a willing seller will accept for real or personal property.

Federal Deposit Insurance Corp. (FDIC) A federally chartered corporation that insures bank deposits up to $250,000.

Finance charge A fee charged for the use of credit or the extension of existing credit. It may be a flat fee or a percentage of borrowings. The finance charge may include the cost of carrying the debt itself along with any related transaction fees, account maintenance fees or late fees charged by the lender.

Finance company A company that makes loans to individuals.

Financing fee The fee a lender charges to originate a loan. The fee is based on a percentage of the loan amount; one point is equivalent to 1 percent.

Flexible spending account An employer-sponsored account that allows employees to save pretax dollars to cover qualified medical or dependent care expenses.

Foreclosure The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

401(k) plan A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.

Health savings account A tax-advantaged personal savings account, set up to be used exclusively for medical expenses; must be paired with a high-deductible health insurance policy.

High-deductible health plan A health insurance policy that requires the policyholder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health insurance plans.

Home warranty A service contract that protects a homeowner from unexpected costs for repair or replacement of major systems.

Individual development account (IDA) A type of savings account, offered in some communities, for people whose income is below a certain level.

Individual retirement account (IRA) A retirement plan, offered by banks, brokerage firms, mutual funds and insurance companies, to which individuals can contribute each year on a tax-deferred basis.

Inflation A sustained increase in the prices of goods and services.

Installment plan A plan requiring a borrower to make payments at specified intervals over the life of a loan.

Insurance premium The amount of money required for coverage under a specific insurance policy for a given period of time. Depending on the policy agreement, the premium may be paid monthly, quarterly, semiannually or annually.

Interest A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also, money earned on a savings account.

Interest rate The percentage charged for a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings account.

Investment Anything one acquires for future income or benefit.

Investor An organization, corporation, individual or other entity that acquires an ownership position in an investment, assuming risk of loss in exchange for anticipated returns.

Leverage The ability to use a small amount of money to attract other funds, including loans, grants and equity investments.

Liability (1) Money an individual or organization owes; same as debt.

Liability (2) A kind of insurance for the policyholder's legal obligation to pay for either bodily injury or property damage caused to another party.

Lien A creditor's claim against a property, which may entitle the creditor to seize the property if a debt is not repaid.

Liquidity The ease with which an investment can be converted into cash.

Load The fee a brokerage firm charges an investor for handling transactions.

Loan A sum of money lent at interest.

Management fee The fee paid to a company for managing an investment portfolio.

Market value The amount a seller can expect to receive on the open market for merchandise, services or securities.

Glossary

Maturity The time when a note, bond or other investment option comes due for payment to investors.

Money market account A type of savings account offered by a financial institution.

Mortgage A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.

Municipal bond A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.

Mutual fund A pool of money managed by an investment company.

myRA A retirement account with no minimum balance and no fees that is funded by after-tax earnings. The myRA program was developed by the U.S. Department of the Treasury for working Americans who are not currently saving for retirement.

Net worth The difference between the total assets and total liabilities of an individual.

Par value The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.

Payday loan A loan taken out against the borrower's paycheck. In exchange for money, the borrower writes a postdated check. This type of loan generally comes with a very high interest rate.

Predatory lending Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.

Prepaid debit card An alternative to traditional debit cards that are tied to a checking account, prepaid debit cards are typically tied to a direct deposit or a savings account. These cards charge monthly fees and/or usage fees and do not report payments to the credit reporting companies.

Pretax A person's salary before state and federal income taxes are calculated.

Prime rate The lowest interest rate on bank loans, offered to preferred borrowers.

Principal The unpaid balance on a loan, not including interest; the amount of money invested.

Promissory note A written promise on a financial instrument to repay the money plus interest.

Qualified plan A tax-deferred retirement plan for the self-employed.

Return The profit made on an investment.

Revenue bond A type of municipal bond backed by revenue from the project the bond finances.

Risk The possibility of loss on an investment.

Roth IRA A retirement plan funded by after-tax earnings, so no taxes are due when the money is withdrawn at retirement.

Savings account A service depository institutions offer whereby people can deposit their money for future use and earn interest.

Secured credit card Requires a cash deposit that becomes the credit line. Secured credit cards are offered by many banks and credit unions and usually report payments to the credit reporting companies. Charges typically include an annual fee and higher interest rates than unsecured credit cards.

Stock option The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.

Stockholder or shareholder A person who owns stock in a company and is eligible to share in profits and losses.

Tax-deferred Phrase referring to money that is not subject to income tax until it is withdrawn from an account, such as an individual retirement account or a 401(k) account.

Term The period from when a loan is made until it is fully repaid.

Terms Provisions specified in a loan agreement.

Treasury bill A short-term investment issued by the U.S. government for a year or less.

Treasury bond A government security with a term of more than 10 years; interest is paid semiannually.

Treasury Inflation-Protected Security (TIPS) A Treasury bond or note that is tied to inflation so that the principal amount of the investment increases or decreases according to the annual inflation rate.

Treasury note A government security with a maturity that can range from two to 10 years; interest is paid every six months.

U.S. savings bond A nontransferable, registered bond issued by the U.S. government in denominations of $50 to $10,000.

Utilization rate For credit cards, the percentage of an available credit line that is being used. Current account balance ÷ available credit = utilization rate.

Wealth-Building Resource Guide

Introduction

The following resources can be used to learn more about building personal wealth. The list includes sources of information on financial literacy for adults and youth, budget and debt management, and consumer protection. This guide is not intended to be all-inclusive; there are many additional national, state and local resources that can provide additional information on building wealth for a more secure financial future.

Personal Financial Education

AARP
888-687-2277
www.aarp.org

America Saves
202-387-6121
www.americasaves.org

American Bankers Association
800-226-5377
www.aba.com/consumers

American Council of Life Insurance
202-624-2000
www.acli.com

American Financial Services Association Education Foundation
888-400-7577
www.moneyskill.org

American Institute of Certified Public Accountants
888-777-7077
www.360financialliteracy.org

American Savings Education Council
202-659-0670
www.choosetosave.org

The Beehive/One Economy
202-393-0051
www.thebeehive.org

CFED
202-408-9788
www.cfed.org

Consumer Financial Protection Bureau
855–411–2372
www.consumerfinance.gov/your-money-your-goals

Fannie Mae
800-732-0643
www.fanniemae.com

Federal Citizen Information Center
800-333-4636
www.consumer.gov
www.pueblo.gsa.gov

Federal Deposit Insurance Corporation
877-275-3342
www.fdic.gov/consumers/consumer/moneysmart

Federal Reserve Board
212-720-6134
www.federalreserveeducation.org

Freddie Mac
703-903-2000
www.freddiemac.com
www.freddiemac.com/creditsmart
www.freddiemac.com/homeownership

Internal Revenue Service
800-829-1040
www.irs.gov

Louisiana Cooperative Extension
225-578-4161
www.lsuagcenter.com

State of Louisiana – Office of Financial Institutions
225-925-4660
www.ofi.state.la.us

National Credit Union Administration
703-518-6300
www.mycreditunion.gov

National Endowment for Financial Education
303-741-6333
www.nefe.org
www.smartaboutmoney.org

New Mexico Regulating and Licensing Department Financial Institutions Division
505-476-4885
www.rld.state.nm.us/financialinstitutions

New Mexico State University Cooperative Extension Service
505-646-3015
http://extension.nmsu.edu

Texas AgriLife Extension Service
979-845-7800
http://agrilifeextension.tamu.edu

Texas Department of Banking
512-475-1300
www.dob.texas.gov

Texas Society of CPAs
800-428-0272
www.valueyourmoney.org

U.S. Department of Labor Women's Bureau
www.dol.gov/wb/

U.S. Department of the Treasury
800-722-2678
www.treasury.gov

U.S. Financial Literacy and Education Commission
800-333-4636
www.mymoney.gov

U.S. Social Security Administration
800-772-1213
www.ssa.gov

Women's Institute for Financial Education
www.wife.org

Women's Institute for Secure Retirement
202-393-5452
www.wiserwomen.org

Financial Education – Youth

American Financial Services Association
www.afsaonline.org

Banking on Our Future
www.bankingonourfuture.org

Council for Economic Education
www.councilforeconed.org

Federal Reserve Board
212-720-6134
www.federalreserveeducation.org

Jump$tart Coalition for Personal Financial Literacy
www.jumpstart.org

Junior Achievement
719-540-8000
www.ja.org

National Endowment for Financial Education
303-741-6333
www.nefe.org

North American Securities Administrators Association
202-737-0900
www.nasaa.org

Sallie Mae
888-272-5543
www.salliemae.com

Texas Council on Economic Education
www.economicstexas.org

U.S. Department of the Treasury TreasuryDirect
800-722-2678
www.treasurydirect.gov/indiv/tools/tools.htm

Budget and Debt Management

Consumer Credit Counseling Services, a division of Money Management International
Locations in Louisiana, New Mexico, Texas and other states
866-531-3433
www.cccsintl.org
www.moneymanagement.org

Consumer Credit Counseling Services of Greater Dallas, Inc.
Locations in New Mexico, Texas and other states
800-249-2227
www.cccs.net

Credit Coalition Houston Area
713-224-8100
www.creditcoalition.org

Green Path Financial Wellness
Locations in Texas
800-550-1961
www.greenpath.com

Homeowner's HOPE ™ Hotline
888-995-4673
www.995hope.org

National Foundation for Credit Counseling
Various locations across U.S., including Texas, Louisiana and New Mexico
800-388-2227
www.debtadvice.org
www.nfcc.org

Operation HOPE Inc.
877-592-4673
www.operationhope.org

Wealth-Building Resource Guide

Consumer Protection

Consumer Financial Protection Bureau
855-411-2372
www.consumerfinance.gov

Federal Deposit Insurance Corporation
877-275-3342
www.fdic.gov/consumers

Federal Reserve Consumer Help
www.federalreserveconsumerhelp.gov
888-851-1920

Federal Trade Commission
202-326-2222
www.ftc.gov

Investor Protection Trust
www.investorprotection.org

Louisiana Department of Insurance
800-259-5300
www.ldi.state.la.us

Louisiana – Office of the Attorney General
800-351-4889
www.ag.state.la.us

National Association of Insurance Commissioners
www.naic.org

National Consumer Protection Week
www.ncpw.gov

New Mexico Insurance Division
855-427-5674
www.osi.state.nm.us

New Mexico – Office of the Attorney General
505-827-6000
www.nmag.gov

Texas Department of Insurance
800-578-4677
www.tdi.state.gov

Texas – Office of the Attorney General
800-252-8011
www.oag.state.tx.us

Texas State Securities Board
888-663-0009
www.texasinvestored.org

U.S. Securities and Exchange Commission
800-732-0330
www.sec.gov

Books Quoted in Publication

Getting Rich in America: 8 Simple Rules for Building a Fortune and a Satisfying Life
Dwight R. Lee and Richard B. McKenzie
1999, Harper Business

The Millionaire Next Door: The Surprising Secrets of America's Wealthy
Thomas J. Stanley and William D. Danko
1996, Longstreet

Direct Deposit and You

If you receive any federal benefits checks, such as Social Security, Supplemental Security Income, Veterans Affairs or other government checks, you are required to enroll in direct deposit. Not only is it safer (no direct deposit has ever been stolen), it is far more convenient, and it gives you more control over your money than a mailed check. Call the toll-free Go Direct helpline at 800-333-1795, or go to www.GoDirect.org for more information.

Electronic Transfer Account

For a low-cost option for direct deposit, consider an ETA account. The Electronic Transfer Account, or ETA℠, allows you to have your federal benefit, wage, salary and retirement payments deposited directly into your bank account—automatically, electronically and safely. Open a low-cost ETA at a federally insured bank, credit union, or savings and loan. Financial institutions offering the ETA have decals in their windows or lobbies identifying them as certified ETA providers. To find an ETA provider in your area, visit the ETA website, www.eta-find.gov, or call toll-free, 888-382-3311.

Tools for Building Wealth—Balance Sheet

Figure Your Net Worth

Complete this balance sheet to determine your net worth. Use the example of Anthony's balance sheet on page 3. Be sure to add any assets or liabilities you have that are not listed on Anthony's sheet.

ASSETS

(MINUS)

LIABILITIES

(EQUALS)

NET WORTH

My Balance Sheet Date

Wealth-building assets	Amount
Cash	$
Savings account	
Stocks, bonds and other investments	
401(k) retirement plan/IRA	
Market value of home	
Other assets	
Market value of car	
Total assets	**$**

Liabilities	Amount
Home mortgage	$
Home equity loan	
Car loan balance	
Credit card balances	
Student loan	
Miscellaneous liabilities	
Total liabilities	**$**

Net worth (assets – liabilities)	**$**

Remember that net worth is your wealth.

Tools for Building Wealth—Spending

Study Your Spending Habits

Record your daily expenses on this blank day-to-day spending form. Use the example of Gabby's form on page 6. Include everything you purchase—whether with cash, debit card, check or credit card.

My Spending Habits

Date	Expense	Cash/debit/ check	Charge

Do you need to make a change?

Budget to Save

Track your income and expenses on this blank monthly budget form. Use the example of Gabby's budget on page 7. Identify changes you can make to increase your income or decrease your expenses. Then develop a new budget that includes more savings. Be sure to make changes that you can live with from month to month.

My Monthly Budget

	Current income	Income changes	New budget
Take-home pay			
Overtime pay			
Pension, Social Security benefits			
Alimony/child support			
Other income			
Total income			

	Current expenses	Spending changes	New budget
Total expenses			
Monthly net (income – expenses)			
Available to save or invest			

How will you invest your savings?

Building Wealth: *A Beginner's Guide to Securing Your Financial Future* is produced by the Community Development Department and the Communications & Outreach Department, Federal Reserve Bank of Dallas, 2200 N. Pearl St., Dallas, TX 75201-2216.

Content Curator and Writer
Julie Gunter

Content Contributor
Molly Hubbert Doyle

Project Manager
Stephen Clayton

Editor
Jennifer Afflerbach

Graphic Designer and Art Director
Samantha Coplen

Graphic Designer and Illustrator
Darcy Taj

Web Designer
Demere O'Dell

Alfreda B. Norman
Senior Vice President

James Hoard
Assistant Vice President

Tom Siems
Assistant Vice President

Roy C. Lopez
Community Development Officer

Carol Dirks
Director, Publications

Princeton Williams
Supervisor, Economic Education

All **Building Wealth** materials are available at buildingwealth.org, including an online guide, a tablet guide and classroom lesson plans.

For additional copies of this workbook (also available in Spanish), order online at buildingwealth.org or call 800-333-4460.

Building Wealth

Federal Reserve Bank of Dallas
2200 N. Pearl Street
Dallas, TX 75201
800.333.4460

11/2017

dallasfed.org
@Budget2Save