

PA Bankers Career Development & Internship Experience Program

Financial Literacy

Duncan Campbell, President & CEO

PA Bankers Association

What is Financial Literacy and Why is it Important?

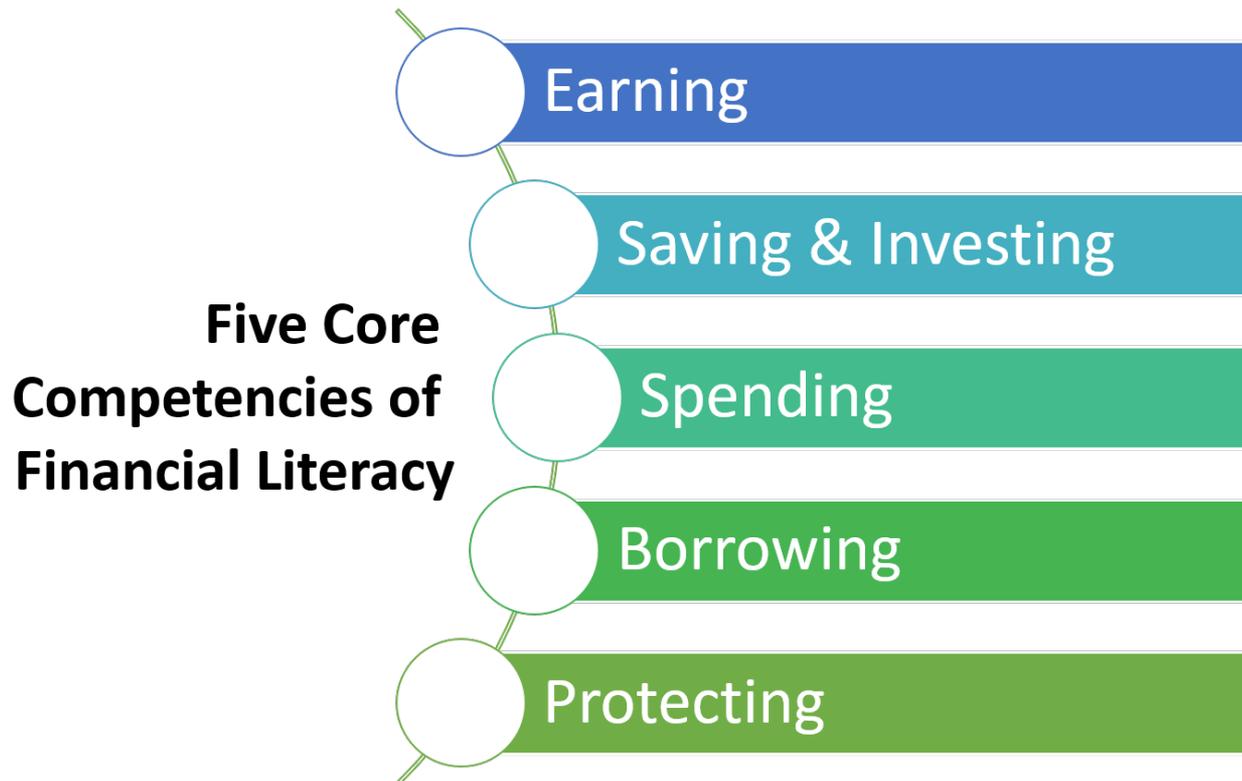


Financial literacy is the ability to understand and use various financial skills, including personal financial management, budgeting and investing.



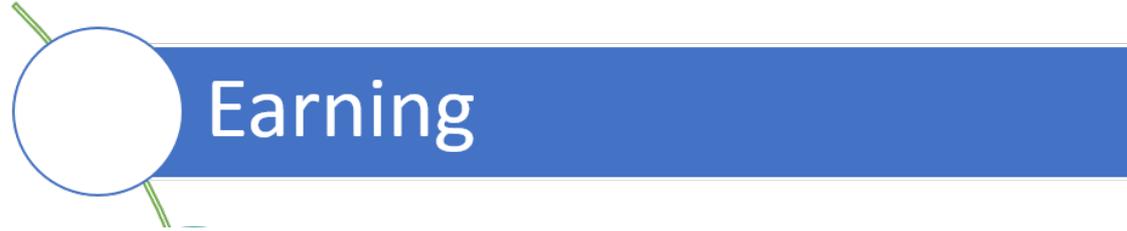
Financial literacy has a material impact on families as they try to balance their budget, buy a home, fund their children's education, or ensure an income for retirement.

Core Competencies of Financial Literacy



These core competencies deliver most of what you need to know to reach for a life of financial security and freedom.

Core Competencies of Financial Literacy



Bringing money home from a job, self-employment, or return on various investments. Most individuals earn money via employment in the form of a paycheck. The average employee pays between 28-30% of their gross income in taxes and other deductions before receiving their net income or take-home income.

Core Competencies of Financial Literacy



Saving & Investing

Deals with the understanding of financial institutions and services available to you. You should have a saving and a checking account to manage your own financial transactions. Start **SAVING EARLY** and **PAY YOURSELF FIRST** to help you understand the concept that saved money grows over time which also leads you to explore long-term investments for retirement planning.

Core Competencies of Financial Literacy



Spending is probably the most important concept, because it is a personal reflection of your values, lifestyle, and your financial behavior.

Differentiating between **NEEDS** and **WANTS** is the basic concept of controlling spending. Budgeting is the most powerful and impactful tool you can adopt to control spending to allow for saving and investing.

Core Competencies of Financial Literacy



Borrowing

Acquiring **debt** to create assets. Most students borrow **student loans** to finance their educational goals. With a financial plan for repayment, they can turn this investment in their education to their advantage.

Mortgages or loans to buy homes are another form of borrowing or acquiring debt to create assets.

Business loans to create self-employment opportunity or build a business, and real estate investments, are also good examples of how borrowed money can be turned into assets and wealth accumulation.

Core Competencies of Financial Literacy



Protecting

"Protecting" deals with insurance, ID theft, and retirement planning. The idea is to stay protected at all levels in your life; on personal, health, and social levels. You will need to understand risk management, insurance coverage, identity theft protection, fraud, and scams, in order to master self and family financial protection in life.

Money Management

Money Management Tools

For many people, better money management is all it takes to reduce their spending, improve their ability to invest and save, and achieve financial goals that once seemed impossible.

Even if you feel like your finances are stuck in a bad place with no way out, there are a number of things you can do to improve your situation. Here are seven to get you started.



Money Management Tools

Track your spending to improve your finances.

- If you don't know what and where you're spending each month, there's a good chance your personal spending habits have room for improvement.
- Better money management starts with spending awareness. Using a money management app to track spending across categories and see for yourself how much you're spending on non-essentials such as dining, entertainment, and even that daily coffee. Once you've educated yourself on these habits, you can make a plan to improve.



Money Management Tools

Create a realistic monthly budget.

- Use your monthly spending habits, as well as your monthly take-home pay, to set a budget you know you can keep.
- There's no use setting a strict budget based on drastic changes, such as never eating out when you're currently ordering takeout four times a week. Create a budget that works with your lifestyle and spending habits.
- You should see a budget as a way to encourage better habits, such as cooking at home more often, but give yourself a realistic shot at meeting this budget. That's the only way this money management method will work.

Money Management Tools



Build up your savings—even if it takes time.

- Create an emergency fund that you can dip into when unforeseen circumstances strike. Even if your contributions are small, this fund can save you from risky situations in which you're forced to borrow money at high-interest rates or possibly find yourself unable to pay your bills on time.
- You should also make general savings contributions to strengthen your financial security in the event of a job loss. Use automatic contributions to grow this fund and reinforce the habit of putting away money.

Money Management Tools



Pay your bills on time every month. Paying bills on time is an easy way to manage your money wisely, and it comes with excellent benefits: It helps you avoid late fees and prioritizes essential spending. A strong on-time payment history can also life your credit score and improve your interest rates.



Cut back on recurring charges. Do you subscribe to services you never use? It's easy to forget about monthly subscriptions to streaming services and mobile apps that charge your bank account even when you don't regularly use these services. Review your spending for charges like these and consider canceling unnecessary subscriptions to hold onto more money each month.

Money Management Tools

Save up cash to afford big purchases.

- Certain kinds of loans and debt can be helpful when making major purchases, such as a house or even a car that you need right now. But for other big purchases, cash offers the safest and cheapest buying option.
- When you buy in cash, you avoid generating interest and creating a debt that requires months—or, often, years—to pay back. In the meantime, that saved money can sit in a bank account and accumulate interest that can be put toward your purchase.



Money Management Tools



Start an investment strategy. Even if your ability to invest is limited, small contributions to investment accounts can help you use your earned money to generate more income.



Find out if your employer offers 401(k) matching, which essentially serves as free money. Consider opening a retirement account or other investment account.



The path to better finances starts with changing your own habits. Some of these changes will be easier than others, but if you stay committed to this transformation, you'll end up with great money management skills that will serve you throughout your life—and in the meantime, you'll have more money in your pocket.

Budgeting

The foundation of good money management is having a good budget.

Benefits of Budgeting



- Gives you control over your money
- Keeps you focused toward your financial goals
- Helps you stay aware of where your money goes
- Helps you save for expected and unexpected costs
- Clarifies areas where you can save money

What is a Budget?

A finance plan that allocates future personal income toward expenses, savings and debt repayment.



Why Budget?



When you hear the word '**budget**,' you may think it means you have to restrict what you spend money on.

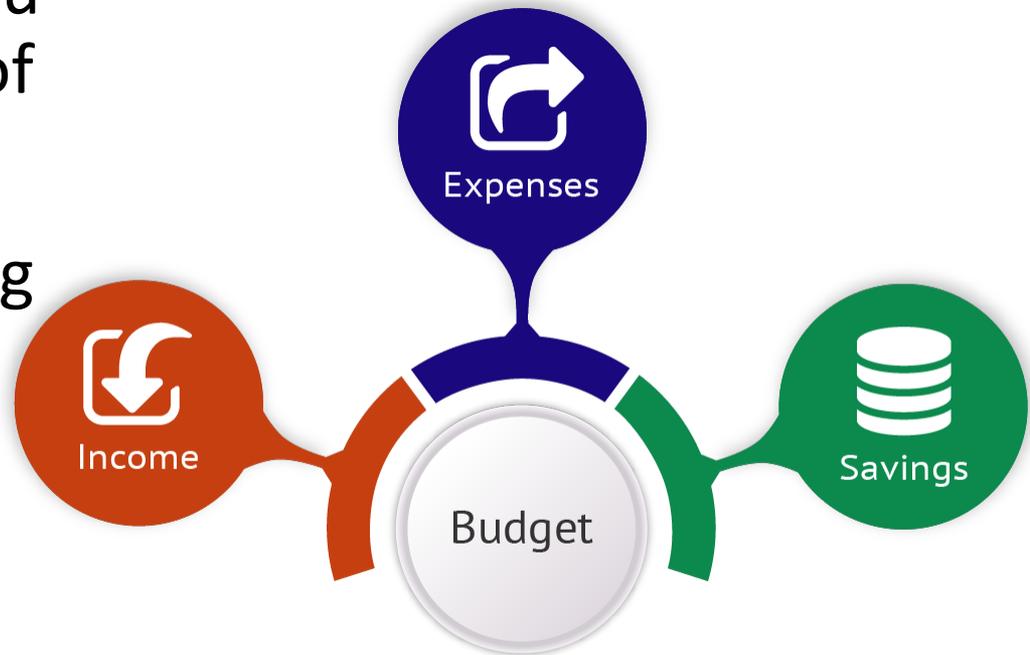
A **budget** is simply a way to understand how much money you have and what you currently spend money on, and then developing a plan to identify how to allocate income to benefit you now and in the future.

Components of a Budget

Income - Money you earn from a range of sources

Expenses - Outgoing funds you pay to others

Savings - Anything you have left over after paying your expenses



Developing a Budget



- Understand your money and how you spend it
- Make tough decisions about spending priorities
- Budget with a lifestyle in mind
- Build a budget that allows you to save

Budgeting with a Lifestyle in Mind

Clarify the life aspects you give priority, and then split them into 3 areas:

- Items that create meaning and bring you joy
- Things you want, but that can wait
- Things you would like to have, but aren't essential



Things to Remember about Budgeting



- Make sure your list reflects your priorities
- You can always adjust your goals as your priorities change
- Budgeting takes time, patience and effort
- If your first attempts don't go as planned, don't give up
- Look for ways to make tracking spending easier – like mobile apps

What Happens Without a Budget

- **Overspending**
- **Falling into a debt cycle**
- **Limited spending power**
- **Limited savings and investments**
- **Lack of future security**

Budgeting is ...

- Budgeting is about saving money
- Better budgeting helps you end up with more money to manage
- An accurate budget brings discipline and order to your finances
- Use your budget to guide important decisions
- Earning more than you spend is the way to a low-stress, comfortable life!



Identifying and Reducing Your Expenses

Expense Types



Fixed

Same
Payment
Amount
Every Month



Periodic

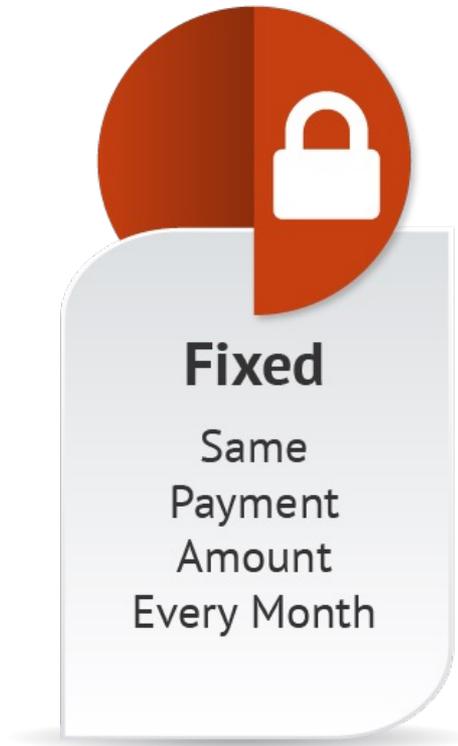
Scheduled
Payments
Outside Monthly
Payment
Routine



Variable

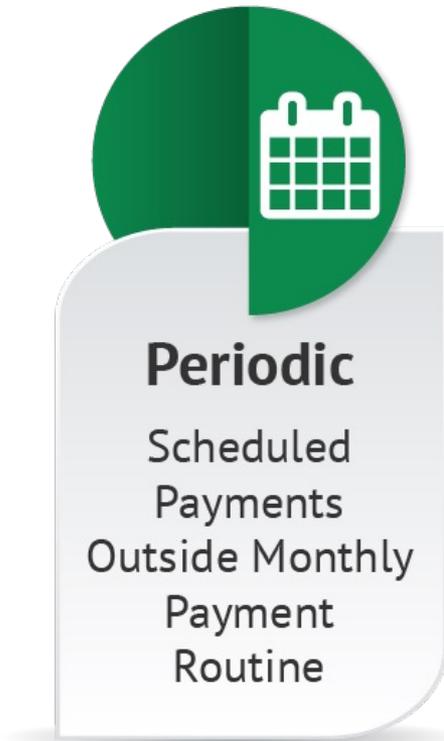
Routine
Expenses that
are Different
Each Time
You Pay

Expense Types - Fixed



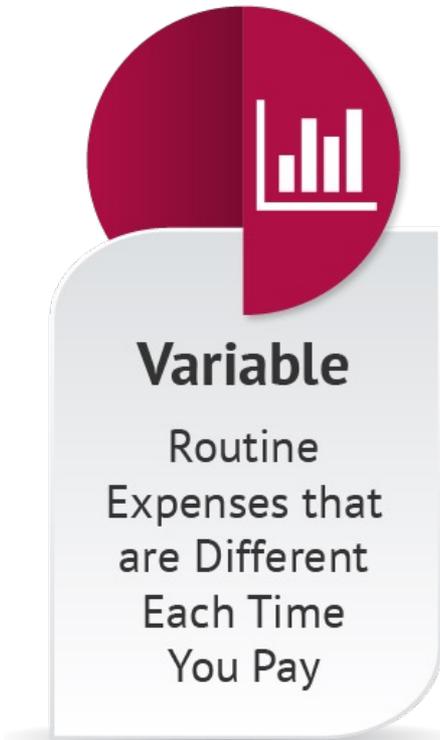
- Examples:
 - Rent/mortgage
 - Car payment
 - Insurance premiums
 - Monthly gym memberships
- Fixed expenses are easy to track and include in your budget

Expense Types - Periodic



- Examples:
 - Car registration
 - Quarterly subscriptions
- Plan for periodic expenses by budgeting toward the expense
- Calculate how much to save monthly for each periodic expense

Expense Types - Variable



- Examples:
 - Groceries
 - Eating out
 - Entertainment
 - Personal care
- Tips to keep variable expenses under control:
 - Open a separate checking account with a set amount to spend on variable expenses
 - Track spending using a spreadsheet or mobile app

Create Your Budget & Automate

Budget Components

- **Income** - Take-home pay from work; tips; any other compensation.
- **Savings** - Set aside at least 10% of your total income.
- **Fixed expenses** - Bills you pay the same amount each month (rent, car payment, insurance); for bills you pay annually, divide by 12 to enter monthly amount.
- **Variable expenses** - Bills where the amount varies each month (e.g., utilities based on usage), including incidental expenses (coffee, movies, events).
- **Bottom line** - Anything left over can be used to purchase “wants.”



Steps to Create a Budget



Detailed Budget Steps

Step 1



Enter your income – Total net (take-home) pay, tips, and any other compensation.

Step 2



Plan your savings – Set aside at least 10% of your income before you purchase any “wants.”

Step 3



List fixed expenses – Rent, car payment, insurance. Account for annual fixed expenses (gym memberships, auto registration, etc.) by dividing the annual payment by 12.

Step 4



Calculate variable expenses – Coffee, movies, special events. Track variable expenses for a month and adjust accordingly.

Step 5



Set up your budget to automate and organize your finances online. This step will ensure that you can accurately monitor your budget and make adjustments.

Where to Start?



A **budget** also helps you realize when you need to reduce your spending or what income you need to generate to support your desired lifestyle or financial goals.

With the information in your **budget**, you can put a solid plan into place that is easy to follow and will assist you to prepare for the future.

Budget Example

Monthly Budget (1 of 3)

Expense	Budgeted	Actual Amount	Savings/Loss
ATM fees/banking charges			
Automobile			
Gas			
Loan payments			
Maintenance			
Parking fees			
Cable TV			
Online video streaming subscriptions (Netflix, Hulu Plus, etc)			
Cell phone			
Data plan			
Misc., apps, etc.			
Child care			
Clothing, shoes			
Credit card payments			
Entertainment			
Drinks			
Concert tickets			
Movies			
Music downloads			
Video games			
Magazines/books			
Other			
Food and Beverages			
Coffee/tea			
Energy drinks			
Fast food			

Monthly Budget (2 of 3)

Expense	Budgeted	Actual Amount	Savings/Loss
Eating out			
Groceries			
Sodas			
Snacks			
Insurance			
Auto			
Health			
Rental/Home			
Internet at home			
Laundry/drycleaning			
Pet care			
Public transportation			
Rent/mortgage			
School supplies			
Books			
Electronics			
Paper, toner			
Software			
Other			
Student loan payment			
Toiletries, personal care			
Tuition			
Utilities			
Electricity/gas			
Trash			
Water			

Budget Example

Monthly Budget (3 of 3)

Expense	Budgeted	Actual Amount	Savings/Loss
Other			
Other			
Other			
TOTAL EXPENSES			

Income	Budgeted	Actual Amount
Family support		
Gifts		
Pay from jobs (after taxes, plus tips)		
Scholarships		
Work-study pay		
Other		
Other		
TOTAL INCOME		

Income Minus Expenses	Amount
Your total monthly income	
Your total monthly expense	
Subtract your expenses from your income and see if you are over or under budget	

[Budget Template](#)

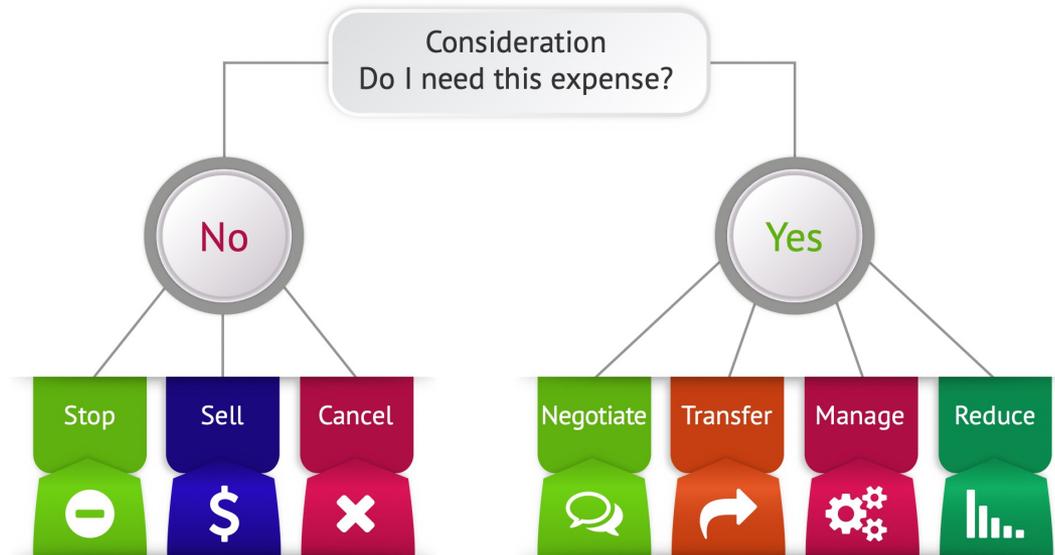
Expense Considerations

Consider Carefully – Do I really need this expense?

- When looking to trim expenses from your budget, it's easier to start with variable spending (dining out, movies, entertainment, etc).
- These expenses are much easier to “shave” than your fixed expenses.
- There are also options that can help you reduce your fixed payments.



Evaluate Expenses and Asset Options



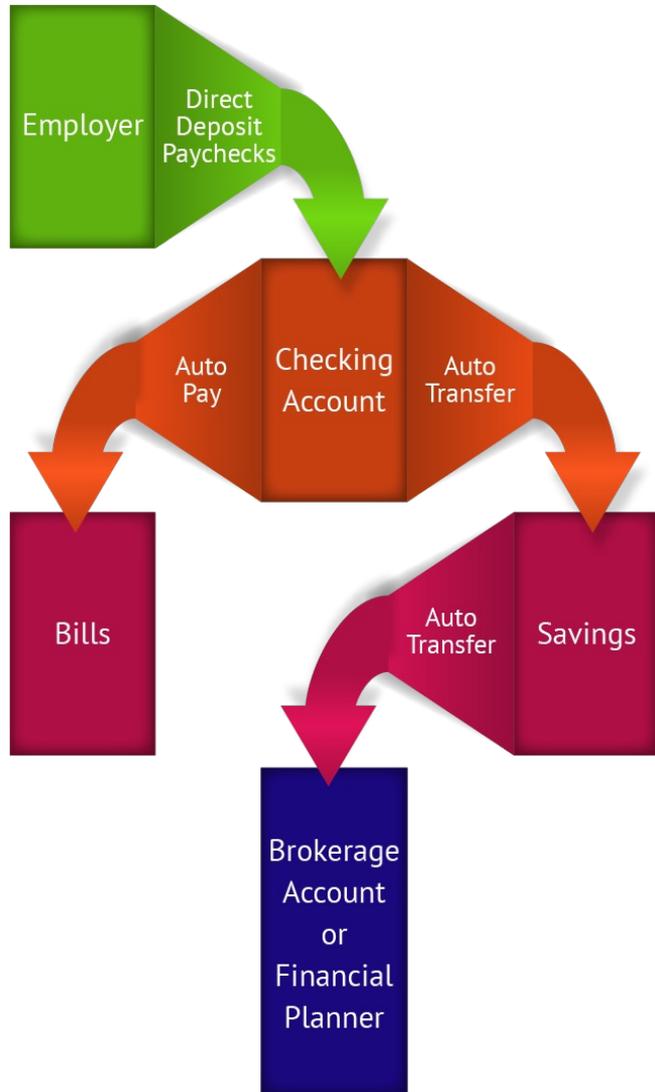
Negotiate – Can I get a better deal?

Transfer – Can I lower expenses by switching service providers?

Manage – Can I manage this expense more effectively?

- **Reduce** – How often do I incur this expense? Can I cut back?

Set up Automated Accounts



- Choose a financial institution
- Set up checking and savings accounts
- Set up direct deposit for your paychecks
- Automate your bill payments
- “Pay yourself” first by contributing to savings via automatic transfer
- What’s left over?

Thank you!

www.pabankers.com