DOLLAR SENSE FIELD GUIDE

An Overview of Personal Finance for Young Adults

1. *BUDGETING*

Budgets are the cornerstone of personal finance. Learning to create and follow a sound budget is essential to building a successful financial future. The function of a budget is simple: it aids expense planning and makes you accountable for your spending. Budgets do this by breaking down costs into essential and nonessential groups and allowing you to create realistic financial goals. The predictability of a stable budget allows you to see the impact of both large, one-time expenses and small, recurring fees on your finances. Once highlighted, these expenses become easier to evaluate and, if necessary, avoid. Budgets allow you to adjust spending without wondering how it will affect your ability to meet your needs.

Creating A Budget

Average American's Budget	vs.	Recommended Budget
3%	Savings	10%
13%	Food	10%
34%	Housing and Utilities	30%
13%	Spending Money	15%
7%	Health Care	7%
17%	Transportation	10%
11%	Personal Insurance and Pensions	13%
2%	Education	5%

The first step to creating a budget is making a list of mandatory expenses. Rent, utilities, insurance and any other regular bills can be gathered from previous months to determine average costs. Typically, the cost of these necessities will use up the majority of monthly income. (If mandatory costs are greater than monthly income, a serious cash flow issue must be addressed.) Monthly income not used for necessities then goes into nonessentials. Nonessential spending can be divided up into as many categories as you see fit. The more categories, the more control you can have on how money gets used. Categorized spending makes it easier to divert funding from non essentials to essentials when needed and to avoid using credit to make ends meet. You should review your budget monthly to ensure you are following it. Adjustments can be made if pay or expenses change—a budget allows you to instantly see the impact of altering your expense choices.

Saving

Ultimately, the major goal of budgeting is saving money. Whether the money will fund a long-awaited purchase or be stored away in retirement investments, people hope to end the month without spending their entire income. Saving is an extremely important habit to develop. It is usually a good idea to predetermine an amount you would like to save each month and adjust your nonessential spending accordingly. The saved money can be used to cover a surprise expense or can be strategically used to reduce personal debt. Many people find it helpful to create a savings plan on top of their budget. Usually, a savings plan consists of a set contribution rate, a minimum balance and a goal. As mentioned, how much you save can be a fixed part of your budget. A minimum balance is the amount reserved for serious situations like a health emergency or temporary unemployment. The goal of a savings plan is simply to reach the target amount required for a desired expense. Savings plans allow you to see your monthly progress and help keep nonessentials from dominating your budget. Many people implement a savings plan when funding a vacation or saving for a car or home. Just like any other part of a budget, savings goals can be divided into multiple parts; however, the more goals, the longer each will take to fund.

Maintaining A Budget

A budget encourages you to spend and save properly. The more importance you place on a budget, the more you will be compelled to follow it. A budget is a self-imposed guideline that helps you stay on track. Respecting your personal budget is the first step to following it successfully.

2. REPAYING DEBT

As industries and cultural values in America have shifted over the past 25 years, college attendance and college tuition have both climbed to new heights. Graduating with five-figure debt is now the norm; more and more students find themselves carrying the weight of their loans into a seemingly impenetrable job market.

Debt Use

The first thing to understand is that debt is not always a bad thing. Loans and credit allow you to take advantage of property or business opportunities long before you would be able to access them outright. Student loans are often referred to as "good debt" because they allow you to take advantage of higher pay for longer. Instead of saving for a decade before going to college, you can take out a loan and build a career earlier in life. What would take you a decade to earn before college could be earned in half the time after graduation.

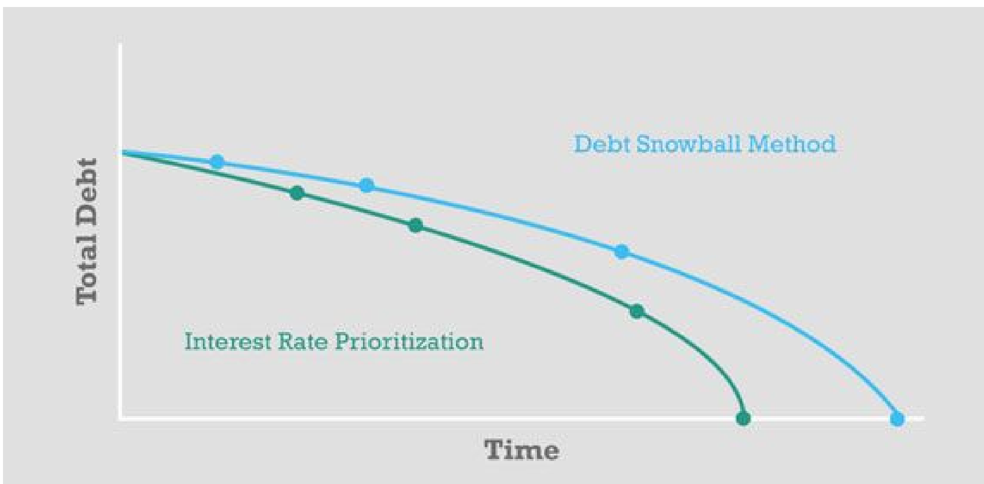
> Opinions of what constitutes "bad debt" vary, but most consider it money borrowed to fund a depreciating asset. Clear examples of this are taking out loans for expensive food, fashionable clothing or vacations.

Debt Growth

The most harmful part of debt is its ability to create new debt. Not only do credit cards and loans generate interest that you have to cover by the following payment, but debt mismanagement can lower your credit score. A low score can force you to take on a higher interest rate for the next major purchase, increasing your expected debt. Debt can be a very useful tool, but, if not properly respected, it can become crippling. If you allow debt to grow, it can consume your life, requiring more and more money just to cover interest payments. Eventually, growing debt can lead to bankruptcy, which remains a red flag on a credit report for up to 10 years.

Repayment

When it comes time to pay off your loans, budgeting is essential. By developing a strict budget, you can better control debt and even adjust the speed at which your loan is paid. If you commit funds to early repayment, you can prevent interest from gathering, and thereby save money. For loans, there are typically two approaches to repayment. The first is interest rate prioritization; it targets loans according to highest interest rate. The second is often referred to as the "Debt Snowball" method; it eliminates debts with the lowest current balance. The first method saves the most money, while the second allows you to get a sense of progress much quicker.



Aside from these basic strategies, you can also try to take advantage of other approaches. Many people consolidate their loans into one or two larger loans with a single fixed rate. Consolidation can cost you some flexibility and benefits, but it will usually eliminate variable interest rates, making budgeting much easier. (Note: banks may have restrictions for the types of loans they can combine.)

Under normal circumstances, it is best to pay off credit card debt before anything else. Credit cards usually have (by a wide margin) the highest interest rates and are relatively small compared to student debt or a car loan.

Alternatively, you may choose to invest your extra money instead of making additional payments. This strategy could work if your investment return outpaces your loans' interest rates. However, early loan repayment is a completely riskless investment; while money invested in the market could have a higher return, it could also lose value and put you in a worse position than before. Debt has become a cornerstone of many young people's finances. If you have debt, it is essential to keep it from regaining control once you have reined it in. Fortunately, as your debt decreases, a smaller portion of your budget needs to be spent on interest payments. Disciplined debt reduction, therefore, eventually allows access to more money and more flexible budgeting. Wise debt management may be the most important part of building a successful financial future.

3. EMPLOYMENT

For most people, getting a good job is one of the biggest goals of life. Considering the average full-time employee spends over 40 hours a week for more than 40 years of his or her life working, finding suitable employment is a must.

Getting A Job

It is unlikely that you will land your dream job right away after high school or college. In fact, it is unlikely that, when entering the job market, you will even know what your ideal career is for a number of years. Good jobs have to be earned through hard work and personal growth. Even a job that seems unimportant right now can be essential for positioning skills for your future development and establishing your credibility as a good worker. Inexperience in locating and understanding a position is the biggest problem facing workers entering the job market. Payment is not everything; the importance of working hours, benefits and vacation time should not be ignored during your job search.

Resumes

Your First Assignment: Know Your Budget

Everyone has bills and debts to pay off, but a potential employer is not going to know how much compensation you require to meet your budget. When deliberating over a job offer, consider whether the pay is sufficient to meet your needs. (Remember that the job might change your expenses: increased commuting costs, upgrades to wardrobe, higher benefit rates, etc.)

The standards for resumes vary widely among different fields, and resume style guides change over time as well. You should research what constitutes a current, professional layout and choose both style and content accordingly. In general, resumes should include the following things (not exhaustive):

- Name, address, email and phone contact information
- Most recent education level completed
- A report of work history and experience from the past 10 years (use discretion for the number of jobs listed this way; the last four or five is usually enough)
- Professional skills It is important to realize that (almost) everyone has an online presence. Social media profiles are often (at least partially) accessible to the public and have been getting more and more attention from potential employers. You should consider everything an employer can learn about you (prior to an interview) as part of your resume and should make sure you do not discredit your professional image with your social media profiles.

Interviewing

Interviews are your chance to sell yourself as a quality future employee. Much like resumes, the standards and guidelines of preparing for an interview change with industry, job level and present work culture. You should never underestimate the importance of the interview and spend plenty of time researching proper etiquette for meeting with a potential employer. Some things helpful to contemplate prior to an interview (not exhaustive):

- Personal strengths and weaknesses
- Professional goals for the future
- Reasons for wanting to work at the company
- Influential experiences had an other jobs (both successes and mistakes)

Switching Jobs

No job is perfect, and a time will probably come when you want to switch jobs. It may be a simple change of employer or it could be a total change of career. Logical reasons to leave a position can vary greatly and may be personal or professional, including:

- Complete lack of professional growth
- Significantly inadequate pay
- Repeated conflicts with coworkers or boss
- High possibility of being fired or laid off
- Major life change (changing cities, getting married, having a child)

Changing jobs can be beneficial, but it also can be a disruption if you don't do it carefully. Most people try to wait to land a new job before quitting their old one to minimize any wage gaps. In addition, current employment can be a big plus when looking for a job. Not only does it give you more flexibility in waiting for a job opening, but also it also demonstrates that you are employable.

> Chasing down a better opportunity can help advance your professional goals, but changing jobs frequently can make it more difficult to find work. Employers spend large amounts of money training workers on the promise that they will eventually make up for the expenses by staying with a company. If you repeatedly change jobs after just 12-24 months, HR teams may begin screening you for being too unreliable.

Promotions

More ambiguous than creating the ideal resume or preparing for the perfect interview, earning a promotion can be the most difficult part of a job. Despite the challenge, promotions are often preferable to transferring to a new company and learning a new system and corporate culture. Though everyone's situation is different and many companies have infrequent opportunities for advancement, there are some tactics that can help you improve your position.

- No matter how unfulfilling your current work, try to have outstanding performance.
- Learn a new skill that increases your value to your company or can help you get a new position within the company.
- While confidence is important for requesting a wage increase, it is not a good idea to talk constantly about deserving a raise.
- It is unwise to get outside job offers just to force your employer to counter-offer with a raise. Even if you are successful, it may damage your perceived loyalty to the company and your chances at future advancement. If no direct promotion is available, you may

consider transferring to a different job within your company. This can limit the hassles of changing benefits and work locations, while still providing a different work experience.

Questions to Ask when Considering a Job Position:

Why do you want to leave your current position? Are those issues likely to recur at this new job?

Is this job any closer to your professional goals and plans?

What are your impressions of the company? What do other employees say about working there?

How picky can you afford to be about taking the job if it is offered? (If you are out of work, this may be the biggest factor.)

Is there growth potential? Could this position lead to others within the company?

Do you have any experience with the type of work? Do you think you are capable of doing it effectively? Do you think you can enjoy it?

How will the job's requirements and compensation affect your budget?

4. ***INSURANCE***

Young adults often have difficulty coming up with the money for everything they want and need to start an independent life. Many look to stretch their budget by removing expenses they deem unnecessary. Unfortunately, too often insurance is left on the cutting room floor. Despite its initial costs, insurance can be one of the most important tools for preventing financial disasters.

Health Insurance

Arguably the most important insurance at any stage of life, many young people ignore health insurance because it is expensive and they feel it will likely go unused for the next 5-10 years. Odds aside, if you fall victim to a disease, medical expenses can grow every year and last for decades. While one-time injuries can put you into serious debt if you are uninsured, long-term diseases will almost certainly cause bankruptcy. Ignoring health coverage is never a responsible option. Typically, young adults will have three options for health coverage:

- Insure through their employer
- Insure through their parents (must be under 26 years old)
- Purchase individual coverage Most people will find that insuring through an employer is the optimal choice.

Typically, policies are sold at a group rate and payments are taken directly out of your pay, making budgeting easier. If you are under age 26, paying for insurance through a parent's plan may be preferable to a higher-priced plan that you purchase by yourself. Health insurance should prevent debt from medical treatment, so it is important to consider your potential needs. Some high-deductible plans have convenient, cheaper premiums, but can leave you exposed to large expenses by not limiting your total out-of-pocket costs.

In Case You Were Wondering...

Premiums are the regular payments made to receive insurance coverage.

A *deductible* is the amount you will have to pay for care before insurance begins paying for you.

Auto Insurance

Everyone should have auto insurance, and almost every state requires it. The insurance industry is extremely competitive, but there is more to consider than just premium costs. You should research customer reviews and consider the coverage amount. Car accidents can get extremely expensive, so it is important to have enough coverage for potential liabilities.

Life Insurance

Young, unmarried people often ignore this type of insurance. But even when a spouse or children are not involved, some form of life insurance greatly helps survivors. Fortunately, for young adults, life insurance is generally inexpensive, as young people are a low risk to the insurance company.

Renters Insurance

The need for renters insurance varies from person to person. Many young people disregard it, believing they do not own enough valuables to merit insurance. However, while you may think you are just playing the odds of your computer or TV being stolen, consider what would happen if a fire wiped out everything you owned. Even a wardrobe of reasonable clothing can easily cost over a thousand dollars to replace. The biggest incentive to get renters insurance is that it is inexpensive. Policies that provide $20,000 worth of coverage can often be found for a little more than $10 a month. Rates depend on the amount of coverage you need and the location of your residence. Renters insurance can be an easy way for you to keep a catastrophe from sending you back to square one.

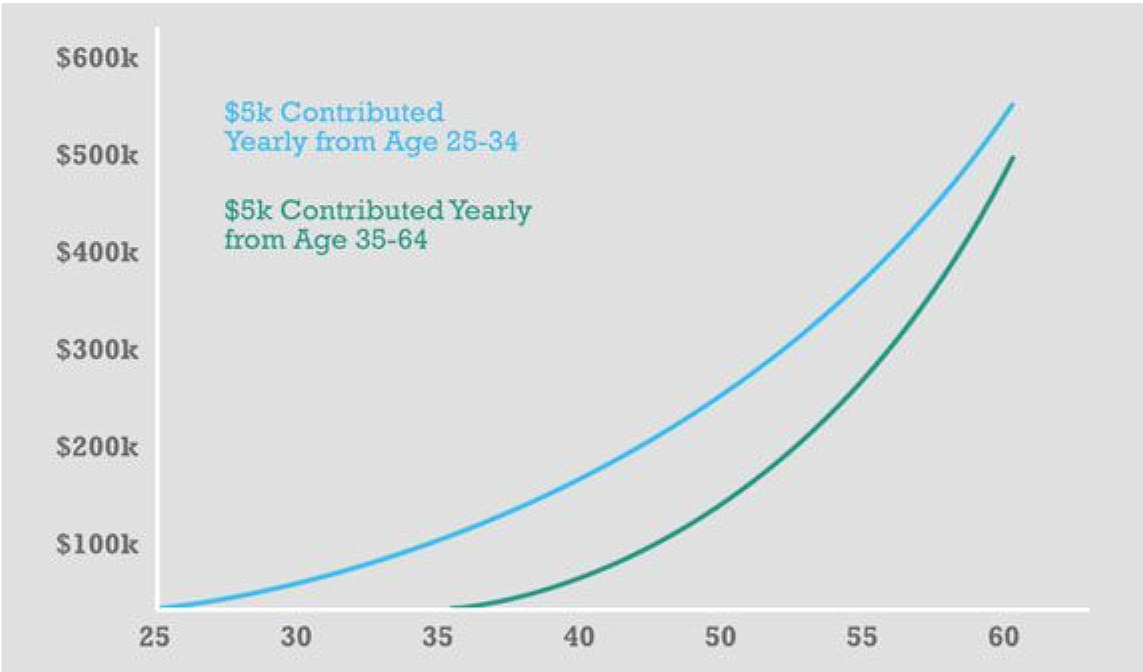
5. ***INVESTING***

For many young adults, loan payments, credit card debt and life expenses seem to dissolve every paycheck they receive. Putting money aside for investment can seem impractical and almost impossible. Many individuals choose to delay investing because they feel it will be easier to do later in life. However, investments made shortly after college allow increased return and can greatly relieve pressure on future retirement planning.

Time And Investments

Time is the fuel of investment growth; the more time you have, the better. An extra 10 years of investment growth can make a sizeable difference when it comes time for you to retire. Ideally, people would try to invest the majority of their money when they are young. Unfortunately, because young people earn less and need to accumulate property, that is usually unrealistic.

Any money spared for investment, however, could easily pay for itself several times over in the future.



The chart above shows how investing $5,000 a year (at 7 percent) for the first 10 years (between ages 25-35) ends up being more valuable than investing $5,000 a year for the next 30 years (between ages 35-65). The ability for investments to compound over time allows young adults to amplify the benefits of their disciplined planning. Time is essential to investing, and retirement funds should seek to take advantage of as much of it as possible.

Investment Accounts

The easiest way to start investing is through a company-sponsored retirement plan. A 401(k) is a particularly powerful tool for young investors because contributions can be automatically withheld from a paycheck, and the account requires little management. Additionally, 401(k)s are government-sanctioned plans and are allowed to grow in a tax-free environment—their value can compound much faster than normal accounts. If the employer matches 401(k) contributions, an employee should take full advantage of it. Though your 401(k) cannot be used until you retire, your employer is essentially offering to put free money into it. Having matched 401(k) contributions is like getting a pay raise as a reward for retirement planning. If your company does not offer a 401(k), you can consider setting up an individual retirement account (IRA) with a brokerage firm. An IRA is similar to a 401(k), but does not receive matched contributions and must be created outside of work. Since both accounts have contribution limits, people who max out their annual contributions to a 401(k) will often put any additional retirement money into an IRA. Each account comes in two different varieties: traditional and "Roth." Contributions to traditional accounts are tax deductible, with their value getting taxed upon distribution. Roth accounts are the opposite: contributions are made after being taxed, but their distributions are made tax-free. Investments in both accounts grow tax-free.

Remember: Debt is the opposite of an investment; it grows costs instead of value. Paying off debt early lowers your future expenses and can be thought of as a risk-free investment. For example, if you have $4,000 you would like to invest in a fund that grows at 6 percent, but are holding on to $3,000 worth of credit card debt with an 11 percent APR, the two accounts are going to suffer a net loss. If, however, you paid the credit card debt and used the remainder for investment, you would have net growth.

Risk And Return

Nothing is certain with the market, and all investments take on some level of risk. The potential for return is typically proportional to the amount of risk to an investment. Younger investors have a long timeline and are usually willing to take on more risk. Even if their volatile investments suffer short-term losses, they have more time to recoup their losses than someone nearing retirement. This changing level of "risk tolerance" is important to understand. Young adults who put off investing do not just miss time for their investments to grow, but potentially lose the most aggressive investment growth they will ever be able to use.

Stocks	A share of ownership in a company. They typically carry the highest risk and return of any common investment.
Bonds	A loan made to a company or government. The holder of the bond is paid back the bond value plus interest. On average, bonds are a lower risk than stocks but have less return.
Mutual Funds	A professionally managed fund with pooled resources from many individuals. Success and losses directly affect investors' accounts. Highly diversified mutual funds are considered safer than individual stocks, but have more restricted returns.
Exchange Traded Funds (ETFs)	A package of assets that are bought and sold in shares. Most are designed to track a market index (e.g. Dow Jones, gold prices). ETFs generally provide more efficient returns than mutual funds, but can hold more risk.
Certificates of Deposits (CDs)	A type of savings account at a bank that has very low interest and restricted rules on withdrawal, but is insured against loss by the FDIC.

6. ***CREDIT SCORES***

A credit score is a means for a bank or credit company to get a simple summary of your "credit worthiness," or the likelihood you can repay a loan. There are multiple types of credit scores, but the "FICO credit score" is currently the standard used by most banks and lenders. A FICO score can fall between 300 and 850, with a higher score being better. Credit scores are typically used to determine a loan's interest rate, or, if low enough, are used as grounds to deny a person a loan. Individual creditors have different standards, but a score between 620 and 720 is generally considered "good," with scores below ranking as "poor" and scores above ranking as "excellent."

Calculating The Score
FICO credit scores are based on five weighted factors:

Payment History (35%) - The largest factor of a credit score, payment history is a record of how consistent you have been with making your credit card or loan payments on time. Canceled or closed credit account history will still factor in your score, though your recent activity will have more influence on your score than older activity.

Relative Debt (30%) - This factor compares how much credit you are using compared to how much is available to you. Generally, higher debt will mean a lower score, but distribution of debt can matter too. Having $1,400 on a card with a $1,500 limit looks worse than $2,000 on a card with an $8,000 limit. "Maxed out" cards can cause significant damage to your score and should be avoided.

Length of Credit History (15%) – This factor takes into account the length of ownership of credit accounts and their activity. Unless they are causing problems, holding on to older credit cards can be valuable, at least until newer accounts have matured a bit.

Variety of Credit (10%) – This factor considers the number and types of accounts you hold (e.g. mortgage loans, credit cards, retail accounts). Having a diverse background can give credibility, but owning too many at once can make you look like a credit risk.

New Credit Applications (10%) – Applying for new credit shows up as a "credit inquiry" on a report. Applying for multiple lines of credit over a brief period can make you look desperate for credit and lower your score.

Getting A Report
Three bureaus—Equifax, Experian and TransUnion—are generally used to check a credit history and credit scores. Though they charge for access to credit scores, all are required to provide each person with one free credit report every year. Credit reports help show your credit history and reveal the underlying issues that are affecting your credit score.

All three credit bureaus use the same address and website to process requests:
www.annualcreditreport.com

877-322-8228
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Using this website or mailing address is the only way to receive an official free credit report. These bureaus will never contact you for information or request that you check your credit history; any other company looking for personal info or trying to charge for a credit report should not be trusted.

Getting FICO credit reports counts as a "credit inquiry." Repeatedly requesting these credit reports can make it look like you are being denied lines of credit. Managing a credit score is a good thing, but you should resist the urge to constantly monitor changes in your scores.

True FICO

The FICO score is a proprietary model issued by the Fair Isaac Corporation, but it is not the only credit scoring system. The three credit reporting companies each have their own proprietary scores that, though similar, are not FICO scores. Because FICO is used by over 90 percent of lenders, it is best to base decisions on its scoring system, not a different one. Your FICO score is not accessible through the three credit companies, but it can easily be obtained directly from the Fair Isaac Corporation (www.myfico.com). FICO scores are always promoted or labeled as being official "FICO."

It is important to understand that all scores are calculated using the credit reports provided by Experian, Equifax and TransUnion. Each time you request a FICO score, you must choose which bureau's records you would like to use as a basis. All FICO scores are calculated with the same methodology; however, since each bureau gathers credit information separately, different FICO scores can vary by several points. (TransUnion and Equifax's FICO scores are often called "EMPIRICA" and "BEACON," respectively.)

Though each person is entitled to their free annual credit reports, credit scores (whether FICO or not) will likely cost money to access. Though this may feel like an unnecessary expense, it can be very helpful to have an accurate estimation of your FICO score—particularly when purchasing or leasing a vehicle. **Be suspicious of "free scores" offered by websites**. These services will usually enroll you in a "credit monitoring" program that charges monthly fees in exchange for access to a useless, non-FICO score.

Raising the Score

Credit scores cannot be significantly improved overnight; it takes time to repair them. More than anything, credit scores require consistent budgeting and faithful repayment. Making payments on time and reducing credit card debt can take months to turn into a habit, but a credit score cannot have meaningful growth until you control your payment history and relative debt.

Other things to consider:

- When creating a budget, try to set aside money to reduce credit card debt, not just meet the minimum payments.
- Unless debt is extremely centralized, attempting to lower relative debt by applying for more credit cards will not work as a short-term solution. Aside from being more difficult to manage additional cards, the inquiries and new lines of credit will cause drag on other factors of your credit score.

- Having a diverse credit history is good, but that does not mean it is wise to open credit accounts purely to enhance a credit score. Borrowed money generates interest and extraneous credit cards will not improve credit diversity if you don't use them. Having just one or two credit accounts may make a score more susceptible to fluctuations, but it will not directly harm it.
- Try to avoid declaring bankruptcy. Although a very useful tool for those truly surrounded by debt, bankruptcy will stay as a red flag on your credit report for the next 10 years.
- Although important, credit scores are not everything. Many banks will look at a full credit report and consider recent activity. Loans are given out according to a loan officer's discretion. It is possible for you to explain your situation and demonstrate that you are improving credit reports.

7***. VEHICLE OWNERSHIP***

A vehicle is often the first purchase a person makes that requires a loan, and potentially becomes his or her first exposure to any number of short-term and long-term financial problems. Vehicle markets, models, finance deals and insurance practices are in constant flux. Every year, millions of words are printed that describe the best way to go about shopping for various types of cars. The Internet is a great resource for tips on how to get the best deal and can provide you with valuable information on vehicle models and maintenance costs. Research everything you can about buying a car before you make a purchase.

Leasing a Car

If you lease a vehicle, (lease terms are typically two or three years long), you are renting it from the dealer for a fixed monthly rate. At the end of the term, you usually have the option to return the car or purchase it outright. You must keep the car in good condition (no excess wear and tear, limited mileage), but standard repairs and maintenance will usually be provided by the dealer. Because leasing rates are typically lower than auto loan payments on the value of the vehicle, leasing can be a good option if you have a steady source of income, but do not currently have enough money for a sizable down payment on a car. Additionally, a lease can be good if you like to change cars every few years.

Gap Insurance

If the vehicle is totaled during a lease, insurance may not pay the full value declared by the lease. Gap insurance is a specific insurance policy that "fills the gap" between an auto insurance settlement and total money owed to the dealer. If you decide to rent, you should see if gap insurance is included in a lease. If it isn't, it can be purchased from insurance companies at competitive rates.

Buying a Vehicle

If you are committed to owning it for several years, buying a car is usually a better deal than leasing it. There is a lot of debate over whether it is better to buy new or used. New cars depreciate much faster than used cars, but you know you are getting a vehicle in perfect working order. Used cars can be a riskier investment, but are usually a better deal (miles per dollar) than new vehicles. If looking at a used or recertified vehicle, you should always check the vehicle history and have it looked at by a third-party mechanic. If a dealer will not let the vehicle be checked out by someone else, it is best to just walk away.

Documentation and Itemized Lists

Whenever a price is negotiated, you should get the offer (along with additional fees) in an itemized list before purchase. Having this document will give you power when negotiating with other dealers and can be used as a guarantee when you return to the original dealer. Almost everything is negotiable at the dealer. An itemized list may expose additional fees that can be challenged or reduced. You should feel free to ask questions about the charges, as some dealers will take off these charges when pointed out as a way to incentivize signing.

Lease to Own

As mentioned earlier, at the end of a lease period, you usually have the option to return the vehicle or purchase it. The sale (or "residual") price of the vehicle will have been determined when the lease was signed and is not negotiable. The residual will be much less than the car's original sticker price, but probably more than if the lease payments had been used to purchase a car directly. Though the total cost is higher, leasing to own can make getting a permanent car easier if you do not have access to a large down payment.

Plan for Expenses

If purchasing a used vehicle, you should prepare for the potential of hidden costs. Getting a car inspected and checking its vehicle history report can help eliminate the surprise of immediate vehicle repairs but, ultimately, you need to be aware that used vehicles will probably need work done much sooner than a new car.

Additionally, even a new or leased car brings extra costs. Many people forget about sales tax on a vehicle (if charged when registered) or underestimate how much their insurance rates will change when they transition from an older vehicle to a newer one. It is essential to research and anticipate all budget changes created by switching vehicles.

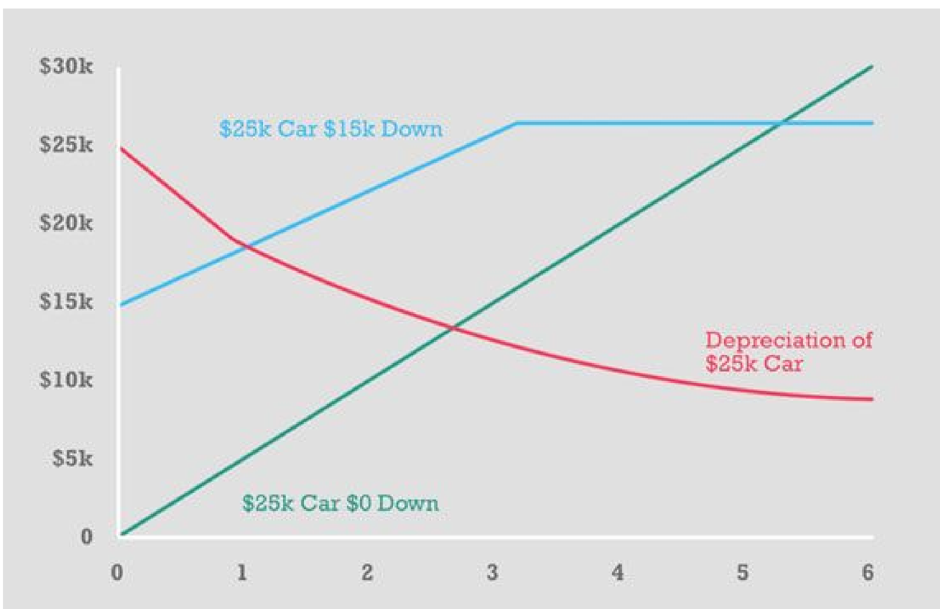
Regular maintenance for vehicles includes:

- Oil changes
- Tire rotation/replacement
- Brake maintenance
- Belts and spark plugs
- Battery replacement

Getting A Loan

For most people, it is necessary to take out a loan to purchase a car. However, the process of finding the right loan can become as confusing as the process of finding the right car. There are few constant rules about getting an auto loan, but some things should be clear to a buyer:

- As a car buyer, you should learn as much as possible about the loans available to you. Banks and online services can offer quotes or estimates quickly and easily (although you should check to make sure they are reputable financiers). Some dealers will match APRs with competitors, so bringing a copy of competitor rates can help empower you.
- Dealers can make substantial money from selling a financing plan, so it is important that you never let yourself get pushed into a bad deal. You should be aware of the loans available to you and what interest rate your credit score dictates. You may find a better rate at a dealer, but you never need the dealer to provide a loan—dealers are looking to sell them.
- In general, the smaller the loan, the better. Going into severe debt and not being able to make payments over a car is foolish. Vehicles are depreciating assets. That means while a car loan continues to grow in total cost, the car itself is losing value. Owning a working vehicle may be a necessity of adult life--owning an expensive vehicle is not.



Some Tips When Buying:

Always compare prices among dealers.

Shop with another person who can help keep you from getting overexcited and walking into a bad deal. If possible, ask a car-savvy friend to shop with you; if the car is used, have your mechanic check the vehicle before you buy it.

Check to see if manufacturers are running special deals. If they are, the dealer might not be offering them upfront in hopes of pocketing the discount difference.

Don't ever sign if you are unsure about a deal, and always be ready to walk away. Do not let a dealer convince you that you need them to get a car. Dealers need people to buy their cars to get paid. Period.

Never trade in a car you are leasing, even if the dealer says they will take care of the lease for you. In all likelihood, the process will cost you far more than it should. Wait until your lease is up before buying—it will save you a lot of money.

Have some idea what your old car is worth when trading in. You will not get full market value for it, but try to negotiate. Keep the trade-in negotiations separate from those of the new car's price. When the two negotiations involve each other, you are likely to get a worse deal.

If you find a salesperson who got you a great deal, be sure to promote him or her (and the dealer) to friends or others online. A good sales rep/dealer deserves to get as much business as you can send them, and other buyers want to know whom they can trust.

Making as big of a down payment as possible will save the most money, especially if the vehicle is used.

Even "recertified" vehicles may have had extreme damage in the past. Always check the vehicle history report.

The sticker price/first offer is often too much. It just makes sense for the dealer to try to list the car for as much as possible. It never hurts to try negotiating.

Get an itemized list of all charges before you agree to buy.

Never disclose your maximum budget unless you absolutely have to. As soon as a dealer knows this, they can tailor a plan to meet that amount and will be less likely to offer a good deal.

Learn how to drive manual transmission (stick shift). This will free up options for you when shopping. Generally, manuals get better gas mileage and sell for hundreds less than automatics. However, manuals do have the added cost of maintaining a clutch and are inconvenient to drive in heavy traffic.

8. ***TAX BASICS***

If you earned income in a single state, do not have additional income and report few deductions, filing taxes can be relatively simple. For others, forms can become a maze of letters and numbers, directing attention to another sheet filled with more boxes and lines for seemingly unrelated information.

The difficulty of figuring out a tax return depends entirely on the individual filing. Factors that can complicate a return include:

Extra Forms or Filing

- Income earned in multiple states
- Investment income

Deductions

- Interest paid on student loans
- Charitable donations
- Mortgage interest
- Having a child

Filing
Tax forms are due on April 15 each year. There are multiple ways to approach tax returns. You can:

- Mail or e-file your taxes after prepping them
- Mail or e-file your taxes after using tax software
- Pay a tax service to prepare and file your taxes for you

Basic federal tax forms, like the 1040-EZ, are usually less complicated than state taxes. Many tax services or software companies currently offer free federal filing when you purchase their state filing services. State taxes will have to be filed in every state where you earned income, unless the amount is exceptionally low (determined by state). Since each state can have its own rules about tax exemptions, many people who recently changed residencies find it beneficial to use a tax service instead of trying to familiarize themselves with the forms and laws of multiple states.

> Tax services are everywhere and most people will be fine using a chain or franchise company. The tax service industry is competitive and you can shop around for the lowest rates.

For many people, the fees charged by tax services are worth the saved time and hassle. For some, these services increase tax returns by revealing unused exemptions. Even if you wish to save money by filing taxes yourself, it can be prudent to use a tax service every few years (or after a major life event) to ensure you are still filing your taxes correctly and that all major deductions are being used. Taxes must be filed each year, but returns can be re-filed up to three years later if you discover that deductions were missed.

Required Paperwork
Whether using a filing service or filling out forms independently, taxes will require the same information. You will need to get a yearly earnings statement, commonly called a W-2, from every employer who had you on payroll that year. Tax forms will also require you to list the value of your savings and the amount of money you made from outside sources, taxable investments and account interest.

> If you made charitable donations during the year, you can have the value deducted from your taxable income. Charities are required to send a record of tax-deductible donations to every donor who gave $250 or more. Deductions are limited to 50 percent of income for cash gifts made to most charities.

9. ***HOUSING***

Changes to surroundings can be unsettling, just as financial commitments can be stressful. Purchasing a home entails both of these things. Many question whether homeownership is really worth the trouble. Could the benefits be so great? Is renting that much worse? How and when do I need to decide between the two?

Housing Culture

People have a seemingly infinite variety of housing options when they look closely enough, but, for most, the choices come down to either renting a living space or buying a house.

In this country, many people equate homeownership with social or financial maturity. Homeownership is considered the clear option for those that can afford it. This is a social stigma that received some reconsideration following the 2007 housing crisis but still carries considerable weight.

Whether renting or buying, housing always costs a lot of money in the long term. A house has the capacity to return some of its value to an owner, but it is not totally efficient. Money put into mortgage interest, closing costs, basic repairs and homeowners insurance does not stay with the value of the house--it is lost as an expense.

No matter what your age, you should not feel pressured by social norms into buying a house. The perceived need to own a home, whether to live in or flip for profit, has pushed thousands of people into financial ruin. Deciding to rent or buy is a matter of personal priorities, logic and careful budgeting.

Insurance Rates

An additional cost of homeownership is the high cost of insurance for those used to paying for renters insurance. Renters insurance is affordable because it only requires the insurance company to pay for property owned within the apartment. Homeowners insurance must be able to cover the actual structure of the house. When considering homeownership, you should always factor insurance costs into your budget.

Benefits of Renting

Renting is the superior choice if you do not have enough resources for home financing or if you have considerable uncertainty in your near future. Apartments allow for flexibility, (usually) greater choice in location and relatively low financial commitment. In particular, location can be a benefit—driving into work from suburbs can generate significant expenses over a year.

Apartments also require considerably less time and energy for upkeep. You do not own the unit and usually can rely on the property owner for repairs or yard maintenance. This can make renting extremely appealing if you are busy and do not want to add property management to your list of responsibilities.

Benefits of Homeownership

For people who want to make the commitment, homeownership can provide a number of its own benefits. Most notably, money you put into buying and maintaining a house is money you contribute to owning something tangible. Once a mortgage is paid off, the monthly costs of a house drop significantly and you can save much more money than if you were renting.

Houses also tend to give you more space and more control over that space. You can make additions, paint walls and install appliances without requiring a landlord's approval. Families with young children can especially benefit from extra storage space and rooms.

What about condominiums?

Condominiums (usually just called "condos") are a hybrid of homeownership and property rental. Condos are sold like houses, but the buyer only owns the inside of the unit or building. The outside of the building, including the yard, is maintained by the condominium association—a board of elected condo residents. The board collects monthly fees from condo owners to pay for the maintenance and make decisions about property appearance. Condos, therefore, feature the dual benefits of property ownership and low maintenance, but also require both purchase and monthly payments.

Investing and Property

Though an initial comparison may make a house look like an investment while rent is a short-term gain but a long-term loss, this is not necessarily the case. If you rent a cheap apartment and invest the money not spent on homeownership, you could have a portfolio that grows to surpass the value of the house you were considering.

Many might try to argue that houses too are an investment that grows in value, but this is not necessarily true. Houses kept in good condition (and in a consistently nice neighborhood) will usually have prices that only slightly outpace inflation. Though putting work into home improvements can boost the selling price of a house, property does not usually gain much real value. Additionally, it is important to recognize that houses are not meant to be retirement plans!

Home Commitment

Overall, purchasing a house is best for families that need space and plan to stay in one location. Houses require a big commitment of time and money, but can provide excellent benefits. If, however, you have an uncertain future, houses can generate severe losses. Realtors, inspections and closing costs all need to be paid for during every housing transaction.

Homeownership is not something that everyone needs to pursue. The decision to buy a home should always be made on your own terms, after you have closely considered both needs and budgeting. With a logical approach and fiscal discipline, you can discover the housing option best suited to match your life.

10. ***ESTATE PLANNING***

Organizing an estate is probably the last thing most 20-somethings want to be doing with their free time. Most believe they simply do not own enough property to justify setting up a last will and testament. However, estate planning is meant to support survivors and any instructions for care or property distribution can be extremely helpful.

Many people assume they can write a general description of their last wishes and keep it stored in a desk or computer. State law regarding the authority of these handwritten, non-notarized or "holographic" wills varies widely, with many states openly refusing to acknowledge them in any form.

Setting up Beneficiaries

The simplest part of estate planning is setting up official beneficiaries of retirement and insurance accounts. Naming beneficiaries is easy because it typically requires nothing more than writing down a beneficiary's personal information on an account form.

Life insurance policies require a beneficiary, while retirement accounts may only recommend that you name beneficiaries. If no beneficiaries are named on a retirement account, its assets are added to the estate and divided according to the last will.

What's a Trust?

Trusts are special documents that create a new legal entity capable of holding and distributing property. There are dozens of different varieties of trusts, but all of them have similar parts. A *grantor* creates a trust, imbues it with property and determines its functions and guidelines. A *trustee* is the person who manages the trust and makes sure the guidelines are followed. The *beneficiaries* are those who are meant to receive property from the trust.

"Living trusts" are often used in lieu of a will because they allow very specific control over the distribution of property. A simple will is much cheaper to create, but its property transfers are both public and able to be overturned in court.

Wills

For most young people, two documents are required to make a sufficient estate plan: **a last will** and **a living will**. Last wills need not be detailed or complex; they only need to list your wishes for the general distribution of your property. Wills should be drafted by a legal advisor and signed with two witnesses present.

A living will is a legal document that declares your wishes considering your medical treatment (or management of property) while incapacitated. Living wills, like last wills, should be notarized and stored with a third party. Many times, local counties will offer to hold a copy of a resident's living will in exchange for a small fee.

It is important to realize that both last wills and living wills are not automatically changed by marriage, divorce or birth of a child. It is important to update both of these documents upon marriage and imperative to list a replacement guardian once you have children.

Give your Financial Advisor at McCarthy Grittinger Financial Group LLC a call if you have any questions.