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Participant Guide

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-Seniors' Resource Center
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## Welcome to AARP Foundation Finances 50+, sponsored by and developed in collaboration with Charles Schwab Foundation.

## WE'RE GLAD YOU'RE HERE

This program includes three 90-minute workshops. They are designed to work together to help you build on your good habits and understand what changes you an make to improve your financial situation. We encourage you to attend all three
.The first workshop is devoted to budgeting and goal setting
. The second explores how to take charge of credit and debt
3. The third focuses on developing a savings plan and protecting your assets.

Together, these three sessions will give you a good handle on where you stand financially, plus simple, hands-on ways to make measurable progress toward your financial goals.

## KNOWING AND DOING

This program combines knowing (information) and doing (activities). Knowing and doing are two distinct things. In combination, they enable you to developand stick to-habits that can have a positive impact on your financial situation.
The program includes a series of Action Plan worksheets designed to help you develop longer-term goals and strategies while putting what you learned into practice right away. You will start on some of these worksheets during the individual sessions and then complete them on your own. Others are designed to be done once you've gone through the program and are ready to develop your personal plan of action for budgeting, credit and debt, and savings.

An Action Plan containing the worksheets follows the three sessions in this vorkbook. After that you'll find a section called Resources, which contains financial ips relevant to this program and a list of online and local resources for more information. Finally, the Glossary explains terms that appear in this workbook

## PEER SUPPORT

The program is built on peer support. One important person in your support network is your workshop facilitator. The facilitator will discuss the material with you and help you and other members of your group work through the material during the session. Facilitators are volunteers who can offer options for the informed decisions you will make regarding actions you want to take; they are not financial experts.

You can also ask for a Money Mentor to work with you one-on-one after the session, to help with your Action Plan or other financial activities you decide on together: Like facilitators, Money Mentors are volunteers-not financial experts. Their role is to help provide general financial guidance and individual support and motivation, but they cannot make specific financial recommendations.

You'll have an opportunity to sign up for a Money Mentor at each of the three sessions. If you decide not to work with a Money Mentor, we encourage you to develop your own support network.

If you need further help understanding the information or deciding what to do next, please ask questions and provide feedback to your facilitator. If you have questions the facilitator cannot answer, check out the Resources section, including a list of local services in your community

We are happy you chose to participate in our program and wish you a bright financial future.

AARP Foundation
Charles Schwab Foundation

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## PROGRAM AT A GLANCE

Part 1:
The first workshop establishes the foundation that you will build upon throughout the course of the program. You will get a realistic assessment of your financial standing, set goals, and learn about budgeting.

Part 2:
The second workshop is dedicated to helping you assess your credit and debt situation while offering guidance for improving your credit and paying down your debt.

Part 3:
The final workshop is focused on building and protecting your assets by focusing on ways that you can save money while protecting yourself and your loved ones from financial fraud and abuse.

Action Plan:
This is where you put what you learn during the workshops into action with worksheets, a "Road Map," and other resources that will allow you to create a clear path toward building a better financial future. The Action Plan will be completed both during the workshops and individually with assistance from a Money Mentor or other support person.

Resources:
This final section includes a variety of supplementary information, tools and resources that you can turn to for further assistance.

## Fast Fact

According to the University of Michigan's Health and Retirement Study for $2008-2010, \mathbf{7 9 . 5 \%}$ of respondents over age 50 expect to continue working after age 65

WHERE YOU ARE. WHERE YOU WANT TO GO.

HOW TO GET THERE.

$\qquad$ -

In this first of three sessions, we'll help you get a handle on where you stand financially and give you some tools to manage your money on a day-to-day, week-to-week and month-to-month basis in order to have a long-term positive impact on your life. You will have an opportunity to identify realistic personal goals and learn how budgeting and other financial tools can help achieve those objectives. In short, you will better understand where you are financially, where you want to go and how to build a personalized Action Plan that will help you get there.

## Introduction/Overview

PROGRAM OVERVIEW
Finances 50+ is all about you. We hope it will help you see how you can take charge of your finances and work toward the goals you want for yourself and your family.

It is a big job to get your financial house in order, especially in difficult
economic times. But week by week, month by month and step by step, you will find you are making progress. Not only will this improve your own life, but it will also make a difference for those closest to you. The fact that you signed up for this program is proof that you have the desire and dedication to get the job done.
"Faith is taking the first step even when you don't see the whole staircase."

## Assessment

## SESSION AT A GLANCE

By the end of the session, you should

- Have a better understanding of where you stand financially
- Understand how key money decisions affect your life
- Know how to set realistic, attainable goals
- Understand some tools and techniques for effective budgeting

Using what you have learned, you will also identify goals and steps you can take to achieve them and initiate your Action Plan for improving your financial situation.

Discussion:

- What interested you about the program?
- What is one thing you hope to understand better after this workshop?
- What would make you consider this session time well spent?

You come to this workshop with a lifetime of experience. You've been cashing paychecks, paying bills, and managing your finances long before you stepped into this room. This portion of the workshop isn't about reinventing the wheel. It's about checking the map and plotting the route you want to take. You need an accurate understanding of where you are in order to make a reliable plan for getting to where you want you and your family to be. There are no right or wrong answers, only honest ones

## FINANCIAL SELF-ASSESSMENT

This exercise will help you see where you are practicing good financia management and where your current financial habits could use a tune-up. It will help you identify which problems you want to work on and which workshops within AARP Foundation Finances 50+ may best help you achieve your goals. You will not be asked to share your answers.

Instructions: Read each statement carefully. If the statement accurately describes your situation, mark an " $X$ " in the TRUE column. If the statement does not accurately describe your situation, mark an " $X$ " in the FALSE column.

| WORKSHEET A <br> Statement | True | False |  |
| :--- | :--- | :--- | :--- |
| $\mathbf{1}$ | I have a good idea of how much money I have and how much I owe. |  |  |
| $\mathbf{2}$ | I spend less money each month than I take in. |  |  |
| $\mathbf{3}$ | I set aside money every month for savings. |  |  |
| $\mathbf{4}$ | I use a budget to plan for and track my expenses. |  |  |
| $\mathbf{5}$ | I can accurately predict what my daily expenses will be-and how much I will spend next month. |  |  |
| $\mathbf{6}$ | I include my infrequent expenses (like property taxes or insurance premiums) |  |  |
| in my monthly budget. |  |  |  |

- 

Your answers to the previous questions should help you focus on your most pressing needs, whether it's budgeting and goal setting, managing credit and debt, or building your savings. If you believe you need help in more than one of these areas, start with the one you think is most important. After you start to make progress, move on to another area.

It's important to note that these concepts often overlap, and improving one particular aspect of your financial situation will likely have a positive impact on other aspects as well. Each of these areas will be addressed during this program

Group Discussion:
What did you find interesting or surprising about this exercise?

## NET WORTH

Recognizing where you stand financially gives you a foundation for improvement Where you stand financially is called your net worth. It is the value of all your assets (what you own), minus the total of all your liabilities (what you owe). Your net worth can be positive (you own more than you owe) or negative (you owe more than you own).

| WORKSHEET C <br> Statement | True | False |
| :--- | :--- | :--- |
| $\mathbf{1}$ | I have a good sense of how to prioritize my spending. |  |
| $\mathbf{2}$ | I have more savings now than I did at this time last year. |  |
| $\mathbf{3}$ | I have a retirement savings account. |  |
| $\mathbf{4}$ | I am regularly saving for a goal such as retirement or a major purchase. |  |
| $\mathbf{5}$ | If I were unable to work for 6 months, I would still be able to pay my bills. |  |
| $\mathbf{6}$ | I have tried to calculate how much money I need to save for retirement. |  |
| $\mathbf{7}$ | I regularly save at least $10 \%$ of my annual income. |  |
| $\mathbf{8}$ | Savings is included as a line item in my personal budget. |  |
| $\mathbf{9}$ | I understand the difference between saving and investing. |  |
| $\mathbf{1 0}$ | I know how to protect myself from financial fraud or abuse. |  |

If you answered FALSE on four or more questions, you may need to pay special attention to

| WORKSHEET B <br> Statement | True | False |
| :--- | :--- | :--- |
| $\mathbf{1}$ | I check my credit report at least once a year. |  |
| $\mathbf{2}$ | I always make my credit card and other loan payments on time. |  |
| $\mathbf{3}$ | I think carefully before I use my credit card (I don't use it to buy things I wouldn't buy with <br> cash or a debit card). |  |
| $\mathbf{4}$ | I shopped around for the best rate or benefits before opening my last credit card account. |  |
| $\mathbf{5}$ | I know how much interest I am being charged on each of my credit cards and other loans. |  |
| $\mathbf{6}$ | My credit card balances tend to go down every month. |  |
| $\mathbf{7}$ | I generally make more than the minimum monthly payment on my credit cards. |  |
| $\mathbf{8}$ | I keep my credit card balances well below their limit. |  |
| $\mathbf{9}$ | I have been free of debt collectors for at least a year. |  |
| $\mathbf{1 0}$ | I know what my credit score is and whether my score is considered good or poor. |  |
| If you answered FALSE on four or more questions, you may need to pay special attention to <br> MANAG/NG DEBT and REPAIRING CREDIT. We'II help you establish a plan to do this in Workshop \#2. | Total |  |

GROUP EXERCISE: ORSON'S NET WORTH
Orson, 61 , lives in a house he purchased 6 years ago for $\mathbf{\$ 2 0 0 , 0 0 0}$. The house is currently worth $\mathbf{\$ 1 9 0 , 0 0 0}$, with $\mathbf{\$ 1 5 0 , 0 0 0}$ remaining on the mortgage. Although his monthly payments are up to date, Orson is worried about what will happen if he loses his job. His monthly income just breaks even with his monthly expenses

Recently, the old gas furnace in Orson's home broke down for the last time. Orson lives in a city with brutally cold winters, and he decides to replace the furnace with a heat pump using a $\mathbf{\$ 1 0 , 0 0 0}$ line of credit offered by the heating and cooling company. He is still paying off $\mathbf{\$ 1 6 , 0 0 0}$ in medical debt incurred during his late wife's illness. Orson also owes his sister $\mathbf{\$ 6 0 0}$ for a personal loan she gave him while he was on unpaid leave to tend to his wife.

Orson has $\mathbf{\$ 1 , 0 0 0}$ in a checking account and $\mathbf{\$ 4 , 0 0 0}$ in a savings account. He has $\mathbf{\$ 1 0 0}$ in cash in his wallet. He regularly uses two credit cards. He owes $\mathbf{\$ 3 , 0 0 0}$ on one and $\mathbf{\$ 2 , 0 0 0}$ on the other. Orson drives a 1998 Honda Accord fully paid for, worth about $\mathbf{\$ 2 , 5 0 0}$. He owns furniture valued at $\mathbf{\$ 2 , 0 0 0}$ and a collection of snow globes valued at $\mathbf{\$ 1 , 0 0 0}$.
Orson wants to know how the expense of buying the new furnace will impact his net worth.

- Identify Orson's assets and liabilities
- What is Orson's net worth?

| WORKSHEET D | Value | Liabilities | Value |
| :--- | :--- | :--- | :--- |
| Assets |  | Mortgage |  |
| Home |  | Furnace line of credit |  |
| Car |  | Personal loan |  |
| Collectibles |  | Credit card |  |
| Furnishings/household items |  | Medical debt |  |
| Checking account |  |  |  |
| Savings account |  | Total Liabilities: |  |
| Cash |  |  |  |
| Total Assets: |  |  |  |

Group Discussion
What assets does Orson have available for spending, saving, or reducing debt?

Could he turn any non-monetary assets into monetary assets?

Although his net worth is positive, Orson feels strapped for cash. Why? What might he do about it?

Using just the numbers on the chart on the previous page, Orson's net worth is relatively easy to figure out. It's a bit harder for people who have liabilities or assets that can be easily overlooked-such as life insurance policies or jewelry However, using methods like budgeting, saving, and spending wisely can go a long way toward improving your financial situation.
In the Action Plan section, you will find a worksheet on page 83 that will allow you to calculate your net worth. Do it on your own or with a Money Mentor later, and use the information to see where you stand financially and decide how you can best work toward increasing your net worth.

## Goal Setting

You have goals and aspirations for the kind of life you want for yourself and your family. But when you are faced with managing debts and paying bills week in and week out, it might be hard to see how you will ever get there. Jus emember that allowing yourself to focus on the future can help you make the everyday decisions that get you there

Individual exercise:
Take a few minutes to think about what matters most to you. Whatever it is that you hold dear, use the space provided below to write down what it is and why it's important to you.
$\qquad$
$\qquad$
How would improving your financial situation benefit what matters most to you?
$\qquad$
$\qquad$

## GOALS

Think of achieving your goals as climbing a staircase. Take one step at a time and eventually you'll get to the next level.
It's important to remember that it requires planning. Just as you can't drive from New York to Chicago without looking at a map or reading road signs, you can't reach your goals by forging blindly ahead. Plotting a course by setting realistic, attainable goals and then checking the map-measuring where you started, where you are, and how to get to where you want to be-is the key.

## PRACTICAL PLANNING

Shortly after her divorce, Janet lost her father, and then she lost her job. She had mounting money problems. But Janet not only survived, she worked her way out of despondency, and now she says life is good again. How did this happen? She told me that late one autumn day, when she was at her lowest, she watched a squirrel storing up nuts for the winter. One at a time, he would take them to the nest, and she thought, "If that squirrel can take care of himself, with the harsh winter coming on, so can I. Once I broke my problems into small pieces, I was able to carry them, just like those acorns, one at a time."
Source: Story reported by former Detroit broadcast journalist Mort Crim

Individual exercise: Goal-Setting Worksheet
Take a moment to think about goals that, once accomplished, would significantly improve your financial situation. Try to be as specific as possible in identifying your goals as well as simple, effective steps you could use to work toward achieving them.

Turn to page 80 to write down your financial goals.
"A wise man should have money in his head, but not his heart."

Jonathan Swift

## Discussion

- What did you find interesting, surprising, or challenging about this exercise?
- Did writing down your financial goals and the steps you might take to achieve them help them seem more attainable?
- What are some things you must do to achieve your financial goals?
$\qquad$


## Budgeting

A budget serves as a starting point toward your goals. Everyone uses a budget in one form or another. We all have a general sense of how much money we have and what we can afford to spend. But writing down a budget is a good dea. It allows you to see the whole financial picture and decide how to prioritize your expenses to make the most of what you have.

Creating a budget and sticking to it can be difficult. Budgeting doesn't mean hat you have to live off bread and water or kick rocks for entertainment. It simply allows you to adjust your spending habits, look for other sources of income, and reduce expenses to give you more breathing room to live the life you want for yourself and your family

## GROUP EXERCISE: BALANCING BETSY'S BUDGET

Betsy, 58 , earns $\$ 2,000$ in monthly income (after taxes) and has about $\$ 2,200$ in monthly expenses. She needs to balance her budget so she isn't living beyond her means while racking up credit card debt or falling behind on her bills. Betsy would like to adjust her budget so she has no more than $\$ 1,800$ in expenses every month

Look at the following snapshot of Betsy's monthly income and expenses and help her decide where she can trim her budget. It's important to note that Betsy would like to keep some discretionary items.

Note: For the purposes of this exercise, you can choose to eliminate individual expenses. However, in most real-life cases it is often easier and more practical to cut down on certain expenses rather than eliminating them altogether.

| WORKSHEET E |  |  |
| :--- | :---: | :--- |
| Monthly expense | Monthly cost | Budget savings |
| Rent | $\$ 600$ |  |
| Utilities | 250 |  |
| Cable TV subscription | 50 |  |
| Local coffee shop | 50 |  |
| Newspaper subscription | 25 |  |
| Cell phone | 50 |  |
| Antique shopping | 100 |  |
| Home phone | 50 |  |
| Gifts for grandchildren | 75 |  |
| Internet | 50 |  |
| Hair salon | 50 |  |
| Restaurants | 75 |  |
| Auto insurance | 75 |  |
| Bingo entry fees | 50 |  |
| Gas | 100 |  |
| Medication | 50 |  |
| Groceries and |  |  |
| household items | 175 |  |
| Movie tickets | 25 |  |
| Credit card payments | 300 |  |
| (minimum) | $\mathbf{\$ 2 , 2 0 0}$ |  |
| Totals |  |  |

## Setting Priorities

Identifying spending and saving priorities (including paying down debt or creating an emergency fund) will be covered further in Part 2 and 3 of the program. In the meantime, here's one helpful way to distinguish between wants and needs in order to prioritize expenses (keep in mind that you can allocate your expenses to any or all of these categories):

1. Essentials: necessary monthly expenses such as rent/mortgage, groceries, transportation, basic utilities, medical expenses, etc.
2. High-interest debt: credit card balances, payday loans, etc.
3. Emergency savings: a rainy-day fund to protect against unplanned expenses, such as medical emergencies, unexpected car or home maintenance tax payments, etc
4. Savings goals: retirement, a down payment for a new car, or wherever else your financial goals or dreams may take you
5. Discretionary: non-essential, nice-to-haves such as entertainment, new clothes, or other "treat yourself" items

## BUDGET SUPPORT

Like dieting, sticking to a budget can be easier if you have a support system. Set yourself up for success by involving close family members or others you can count on for encouragement. Unless you live alone, involve others in your household in the budgeting process so everyone understands and contributes to maintaining the budget. Having those closest to you buy in to a budget plan can greatly increase your chances for long-term success. For support in sticking to your budget, consider:

## KEY TAKEAWAYS

I have a better understanding of where I stand financially.
I understand how money decisions affect my life.
I can see that setting a goal is an important step in taking control of my finances.
I know budgeting can help me create a plan that will allow me to reach my goal

## NEXT STEPS

You have already taken the most important step-the first one. Now you can keep that momentum going through the rest of the program. If you discovered in this session that you have particular areas you'd like to address-including learning how to best manage your debt, repair your credit, build savings, and protect yourself financially-more information and follow-up activities are at your disposal, including

## Action Plan (turn to page 75)

Money Mentors (visit aarp.org/finances50plus or send an email to
finances50plus@aarp.org for more information)
aarp.org/finances50plus

## Resources on page 103

Talk to your facilitator or host organization about the times, dates, and places of future workshops, including Parts 2 and 3 of this program.

## Discussion:

What did you find interesting, surprising, or challenging about this exercise?

- Did you learn anything about your spending habits?
- How can this information help you build toward your goals?
-Have you used or do you currently use a budget?
-What have you found to be helpful or difficult about budgeting?
- Any helpful methods or tips for sticking to a budget?


## ndividual exercise: Budget Worksheet

A crucial part of any financial strategy is the ability to plan and track the money you have and how you're spending it. This worksheet is intended o give you an understanding of your monthly income and expenses while llowing you to identify ways that you can best use your financial resources. Try to be as specific and detailed as possible.
Turn to page 84 to begin working on your budget

TAKING CONTROL OF CREDIT AND DEBT



## Introduction/Overview

This is the second of three sessions designed to help you get a good handle on where you stand financially while providing proven ways to help you reach your financial goals. This session focuses on credit and debt. You'll have a chance to develop straightforward, actionable methods to reduce debt and use credit wisely, including ways to weather and resolve a credit crisis and to repair credit when necessary.

As part of these sessions, we'll also touch on how to protect yourself and your loved ones financially, the importance of having a support system for successful money management, and establishing a plan to achieve your financial goals.

## SESSION AT A GLANCE

By the end of the session, you will:
Know how to find your interest rate and fees on your credit card statement

- Know how to obtain and read your credit report
- Understand what your debts are and some ways to manage them


## Understand your options in a debt crisis

Using what you have learned, you will also identify goals and steps you can take to achieve them and initiate your Action Plan for improving your financial situation.

CREDIT AND DEBT GO HAND IN HAND
Almost everyone needs credit and takes on debt at some point. It might be an auto loan to buy a car, a mortgage to buy a house, or an airplane ticket purchased with a credit card to see a family member in another city. Clearly, not all debt is bad-and it's often necessary. But debt is one of the most common ways to get into financial trouble. The key is to learn to manage it and not let it manage you.

Broadly speaking, credit is a form of trust-it lets you use things while you pay for them. Debt is an amount you owe. When you get goods or services on credit, you generally pay interest on top of the original cost.

Debt, including credit card debt, can influence your credit score. And your credit score can influence how your debt grows-because people with lower scores typically face higher interest rates on credit cards and loans.
"In God we trust; all others must pay cash."
American Proverb

## Discussion

-What would you like to get from this session?

- What would make you consider this session time well spent?
- What would make you recommend it to a friend?

This quick quiz is designed to assess your knowledge about credit and debt and get you thinking about what you want out of this session. We'll discuss these topics during the session.

## QUIZ: WHAT DO YOU KNOW ABOUT CREDIT

 AND DEBT?Instructions: Please determine whether the following statements are true or false. You will not be asked to share your answers, but keep your answers in mind as the session progresses. Make note of whether the statement is true or false as the facilitator discusses each one. There is an Answer Key in the Resources section on page 126 if you would like to learn more about each statement.

1. Most people spend less if they pay with cash rather than with a card.
2. You should check your credit report at least once a year.
3. As long as you make the minimum payment on your credit cards, it won't hurt your credit score.
4. You can get cash advances for free on your credit card.
5. You should compare at least three credit cards before deciding on one
6. It's OK for debt collectors to use threats-it goes with the job
7. Credit repair agencies are worth the fee they charge to clean up your credit report
8. People with poor credit scores can't get credit
9. The information in your credit report affects whether you can get a loan or insurance-and how much you will have to pay for it. It can even affect your employment or housing prospects.
10. If you make a credit card payment late or miss it altogether, your interest rate may go up.


## Understanding Credit and Debt

## Fast Fact

More than 50 million households carry credit card debt. For those households, the average credit card debt was $\$ 15,956$ as of 2011.
Source: American Bankers Association, reported on creditcards.com

MARJORIE'S STORY: ASSESSING YOUR FINANCIAL SITUATION
Marjorie, a 60 -year-old widow, works part-time as a receptionist at a trucking company. She brings home $\$ 1,400$ a month. One of her children, Rachel, 25, lives with her and contributes $\$ 1,100$ a month to household expenses with the money she earns cleaning houses. Marjorie and Rachel cover their everyday expenses (mortgage, car payments, food, medicine, utilities, property tax, and entertainment) from their paychecks. But for extras, Marjorie depends on her three credit cards. She uses them to pay for occasional trips and birthday and holiday gifts for her three children and six grandchildren. Being generous with her family is very important to her.

Marjorie considers herself financially responsible. She has managed to save an emergency fund of $\$ 1,000$. Although she has no idea what interest rate her cards charge, she feels good that she always pays the minimum owed each month-on time. Her house has gone down in value, but she has not missed a mortgage payment. Here is a snapshot of her financial situation, starting with her net worth
If you attended Part 1 , you will remember discussing the importance of understanding your net worth and cash flow-that is, the money you receive (inflow) and pay out (outflow).

| MARJORIE'S NET WORTH <br> Assets |  |  |  |
| :--- | :--- | :--- | :---: |
| Value | Liabilities | Value |  |
| Home | $\$ 185,000$ | Mortgage at 6\% interest <br> (APR, or annual percen- <br> tage rate-see page 128) | $\$ 155,000$ |
| Car | 6,000 | Student loan balance at <br> 5\% interest (APR) | 5,000 |
| Savings account | 1,000 | Car loan at 6\% <br> interest (APR) | 4,000 |
| Furnishings | 4,000 | Credit card 1 at 18\% <br> interest (APR) | 7,000 |
|  | Credit card 2 at 16\% <br> interest (APR)-maxed out | 2,000 |  |
|  | Credit card 3 at 20\% <br> interest (APR)-maxed out | 2,000 |  |
| Total | $\mathbf{\$ 1 9 6 , 0 0 0}$ | Total $\mathbf{\$ 1 7 5 , 0 0 0}$ <br> Net worth (assets minus liabilities) $\$ 21,000$ |  |


| MARJORIE AND RACHEL'S MONTHLY CASH FLOW AT A GLANCE <br> Inflow <br> Value <br> Marjorie take- <br> home pay <br> Rachel take- <br> home pay $\mathbf{\$ 1 , 4 0 0}$ |  |  |  |
| :--- | :--- | :--- | ---: |
|  | Mortgage | Value |  |
|  |  | Property taxes | $\$ 960$ |
|  |  | Utilities | 200 |
|  |  | Auto loan | Other car expenses, including <br> insurance, gas, maintenance |
|  | Student loan | 100 |  |
|  | Total minimum credit card payments | 275 |  |
|  | Medical bills | 200 |  |
|  | Clothing | 150 |  |
|  | Entertainment | 50 |  |
|  | Eating out | 50 |  |
|  |  | Miscellaneous | 50 |
|  |  |  | Total |

## Discussion:

- How is Marjorie doing?
- Do you detect any problem areas?


Most financial experts say that a person should pay no more than $\mathbf{2 8 \%}$ of his or her gross (before taxes) income on all housing costs-including mortgage, property taxes, and insurance. According to this general rule, total debt (including credit cards as well as housing) should not exceed $\mathbf{3 6 \%}$ of gross income. This is sometimes called the "28/36 rule."

## GOOD DEBT VS. BAD DEBT

Debt isn't always a problem. Certain types of debt can be used as financial
tools to provide opportunities. But it's critical to make smart decisions about if when, and how much to borrow.
How do you define "good debt"?
It carries a lower interest rate
It can help you build assets.
It may be tax deductible
How do you define "bad debt?"

- It usually carries the highest interest rates.

It can be the most costly over time.
It means you're borrowing to own something that loses value over time. Think of what happens when you drive a new car off the lot!

## Fast Fact

As of late 2011, Americans 50 and older still held almost $\$ 135$ billion in studen debt. More than $10 \%$ of these loans were delinquent

Source: Federal Reserve Bank of New York

## OPPORTUNITY HAS ITS COSTS

This kind of debt usually has a relatively low interest rate and may be tax deductible. Examples are mortgages and certain types of student loans. With mortgages, you are borrowing to own an asset that has value and usually goes up in value (though not always, as we have seen in recent years). With a student loan, you are borrowing in hopes of having greater value in the job market. And the interest you pay is usually tax deductible (although not to parents who have taken out a loan for their child).

Debt that can work against you:
Generally speaking, try to avoid debt that is high-cost and isn't tax deductible, such as credit cards and some auto loans.

Discussion:

- How would you characterize Marjorie's debts?

Education and mobility are two fundamental elements of daily life for many people. However, it's wise to carefully consider the risks versus rewards before taking on debt of any kind. Student loans and auto loans are just two prominent examples.

Consider:
Student loans carry a risk. Borrowers must consider whether they are likely to see the payoff they're hoping for. Will more education actually benefit you in the job market? If not, you could end up worse off (in debt) instead of better off.
According to the Federal Reserve Bank of New York, a study in the third quarter of 2011 showed that student loans have become the largest source of debt in the United States, surpassing credit card debt.

Student debt is held not only by young people but also by their parents and by older people who go back to school in search of new job skills.

- Auto loans are often considered "bad" debt because they involve a depreciating asset (the value of the car goes down over time). However, it may be a necessary debt for many people because their employment or living situation may depend on it

Most people have to borrow money in order to buy a car. When you're considering taking on an auto loan, be sure to shop around for the best possible terms. By maintaining good credit, a borrower may save money by qualifying for lower interest rates. This is one of the reasons you should monitor your credit reports which well discuss in greater detail later in this session.

In these circumstances-and any situation involving taking on additional debtyou should carefully consider whether the value you will get out of the item in question (a car financed through an auto loan, for instance) is equivalent or greater than what it will cost you to finance the item.

## UNDERSTANDING CREDIT CARD TERMS

Credit cards, while often useful, can quickly fall into the "bad debt" category. When someone pays only the minimum while continuing to charge new purchases, credit card debt builds

You probably get credit card offers in the mail every week. They often sound almost too good to be true. There's a reason for that-they usually are. But what they don't tell you in the big print can be found in the fine print. It isn't much fun to read, but you can learn a lot from it. Everything you need to make good choices is in the credit card application

Owning a card is a type of contract. As with any contract, you should first read the fine print. It can cost you a lot of money if you don't.

Every credit card application has a disclosure box. You can see an example on page 110 and review it at home or with your Money Mentor. When you think about getting a new card, compare different cards' disclosure boxes to see which is best for you.

Q'
Too many credit card offers in the mail? Opt out by visiting optoutprescreen.com

Here are the most important things you can find out from a credit card application: Annual Percentage Rate (APR) for purchases: Tells you your interest rate and, if there's an introductory rate, when and how much it will go up.

APR for Cash Advances and Penalty APR: These rates are higher than your usual interest rate. This means it's expensive to use your credit card to get a cash advance, and you get charged extra for paying late or going over your credit limit.
Fees: Your annual fee, finance charges, and any other fees, such as penalties for late payments or exceeding your credit limit.
Due dates: When payments are due, and the grace period for payments. The grace period is the amount of time before interest is charged on your current purchases (usually 21 days before your bill is due). Most credit cards have no grace period for cash advances

The credit card application must also include:
How cardholders will be notified if their interest rate goes up
How to protest a charge you did not authorize
How any reward system works, if it is a rewards card
Discussion:
Do you know the interest rate on your own credit cards? If you don't have the application form any more, how can you find out?

## CREDIT CARD DOS AND DON'TS

Before you pull out the plastic, make these basic guidelines part of your own credit management plan.

DO shop around for the right card. Look for low interest rates and no annua fee. Always read and understand the fine print.

DO keep track of every credit card purchase each month. Review you statements to make sure they are correct.

DO know the minimum finance charge when you carry a balance.
DO make sure you know what incentives or features you're signing up for such as rebates or cash back on purchases, frequent flyer miles, or car rental or travel insurance.

DON'T carry a balance if you can avoid it. It's best to pay off the entire balance before the end of the grace period so you don't have to pay interest.

DON'T pay bills late. Late fees are expensive and, over time, they accrue interest. They can also harm your credit rating. Spend only as much as you can afford-or less

DON'T use a credit card for purchases less than $\$ 10$. These small purchases can add up fast. Use cash instead.

DON'T pay for any extras you don't want or need.


## YOUR CREDIT CARD STATEMENT

You can find your interest rate and any fees you are charged on your credit card statement. Review your next statement and make sure you understand the terms.
There is a sample credit card statement on page 113, along with a key that explains various parts of the statement. The Consumer Financial Protection Bureau (CFPB) has a library of credit card agreements-the "terms and conditions" document that explains interest rates, fees, and other basic information. See consumerfinance.gov/credit-cards/agreements.

If you are working with a Money Mentor, you and your mentor can discuss your next statement to help you understand the charges.

FIVE QUESTIONS TO ASK YOURSELF BEFORE PAYING WITH A CREDIT CARD

1. Do I really need what I'm buying?
2. Can I pay for this when the bill comes?
3. Will I be happy paying for this on credit after the item is gone or the experience is over?
4. What will it cost if I don't pay in full?
5. Can I afford the monthly payments?

## WHAT ABOUT DEBIT CARDS?

Many bank accounts come with debit cards you can use in place of checks or cash. If you use a debit card linked to a bank account, be sure to keep track of what you spend so you don't overdraw your account and incur a fee.

Maybe you are thinking about a prepaid debit card account. You can purchase reloadable prepaid cards at many retail outlets without having a bank account. With a reloadable prepaid card account, you can only spend the money you have, so it can help you control your spending. Prepaid debit card accounts work like electronic bank accounts-you can use them at stores and ATMs. Although they have drawbacks, such as fees that can add up, prepaid card accounts are very convenient for some purposes, and they can be safer than carrying cash.

HOW TO CHOOSE A RELOADABLE PREPAID DEBIT CARD ACCOUNT
There are many cards available, so compare the choices before selecting one. These steps can help.
Compare the features to your needs: Do you need to receive federal or state benefits on the card? Do you want a savings account with the card? How about ATM access? Make sure the card has what you want.
Compare the fees: How often would you use the card? Would the way you use the card incur fees? Is a minimum monthly deposit required to waive the monthly fee, and, if so, can you meet the requirement?

Look for FDIC insurance: Find out if the debit card account is covered by the
Federal Deposit Insurance Corporation (FDIC). If it is, and you are named as the cardholder, your money is protected for up to $\$ 250,000$ (as of 2012) if the bank holding the money for the card goes under.

Learn more about choosing and using reloadable prepaid debit cards wisely at aarp.org/finances50plus.


## The Cost of Debt

## MARJORIE'S STORY: HOW DEBT GROWS

One Sunday, when she's trying to do a load of laundry to prepare for the work week, Marjorie's 20 -year-old washing machine breaks down. She calls a repair service the next day, only to learn that parts are no longer made for this older model, so it cannot be fixed. "Better get yourself a new one," the shop owner says.

So Marjorie goes to a department store and finds a new washer-dryer combo that does everything she wants it to. It costs $\$ 1,500$. She decides to get it nowafter all, her dirty clothes are piling up-and charges it, taking out a new store credit card (with a $\$ 1,500$ limit) at $18 \%$ interest

Marjorie appreciates the convenience of having the washer now. She doesn't think twice about buying it on credit. Nor does she think about how much interest she will pay over the long run. But take a look at how it will add up:

| THE COST OF MARJORIE'S WASHER-DRYER |  |  |  |
| :--- | :--- | :--- | :--- |
| If she pays only <br> the monthly <br> minimum payment <br> for washer-dryer | She will pay off <br> the cost of the <br> washer-dryer in <br> about | Interest charges <br> over that time <br> will be | And she will end <br> up paying a total <br> of |
| $\$ 37.50$ (declining <br> monthly until <br> paid off) | 153 months <br> (almost 13 years) | $\$ 1,673$ | $\$ 3,173$ |

In other words, by the time she pays off the $\$ 1,500$ loan at $18 \%$ interest, she will have paid more than double the purchase price for the washer-dryer.

Look back at Marjorie's cash flow on page 26. Add the minimum payment for the washer-dryer (\$37.50) to her current monthly credit card payment (\$275) and notice that the monthly minimum now stands at $\$ 312.50$. She's now spending more than she and Rachel bring in.

Discussion:

- Does Marjorie have other options for a washer-dryer?


## YOUR CREDIT REPORT

It may seem like an attractive option to consolidate one or more balances onto another lower-rate card. But be careful. If you decide to open a new $0 \%$ credit card to take advantage of a lower rate, be sure you understand its terms and conditions. Read the fine print of the offer letter and find out when and how much the introductory rate will go up. Take advantage of the introductory period to increase monthly payments and reduce your debt.

This is a form of debt consolidation-taking out one loan to pay off others. There are many companies that advertise debt consolidation services. Although it can be tempting, the debt remains, and so do the habits that created it. A reputable nonprofit credit counseling agency can advise you about this controversial topic. Visit $n f c c$.org to find a local agency.

Discuss:

- To reduce credit card debt, some people prefer to pay off the card with the highest interest rate first, because that has the most economic benefit, while others would rather pay off the card with the lowest balance first, even if it has a low interest rate, because it is psychologically satisfying to get rid of the debt and perhaps even destroy the card. What do you think?
- Are there ways you can accelerate your own payments or decrease balances? Work with your Money Mentor or on your own to evaluate your current debt and payments.

You can use a credit card payoff calculator to figure out the long-term costs of your credit cards or specific purchases.
(Find one at aarp.org/finances50plus)
¢'
Go to annualcreditreport.com for more information on getting your fre credit report and how to check it. Annualcreditreport.com is the only federally authorized site to get free reports. All other sites with similar names are really links to offers for a credit reporting service that may charge you a fee. You can turn to page 90 to begin your credit report worksheet.

One of the costs of debt is the effect it can have on a person's ability to get credit. Paying down debt can make you feel more in control. It can also help you improve your credit report and credit score, which lenders use to determine your "creditworthiness." A better credit report and credit score can make a difference in your life.
People who review your credit report may be lenders, credit card companies, and even employers and landlords. They use your report to determine if they should trust you with credit. Being creditworthy means they believe you'll pay back what you borrow on time, based on the way you've used credit in the past.

Check your own credit report regularly and understand what it says about you What it says can either help or prevent you from getting a job, a loan, or a lowe interest rate. If you see accounts listed in your name that you did not open, your credit report could tip you off to fraudulent use of your personal information. It can also contain errors that you will want to correct.
By law, each of the three main credit reporting agencies-Experian, Equifax and TransUnion-is required to provide you with your credit report free once a year. To stay up to date year-round, consider requesting a free report from one agency every 4 months on a rotating basis.

If information on your report is wrong, dispute it. Your credit report tells you how to do so. For a sample dispute letter, see page 117.

CREDIT REPORTING AGENCIES

| Equifax | Experian | TransUnion |
| :--- | :--- | :--- |
| 800-685-1111 | $888-397-3742$ | $800-916-8800$ |
| equifax.com | experian.com | transunion.com |

There are alternative credit reporting systems in the works to provide people with additional means of attaining credit information, but none is fully accepted yet.

## WHAT AFFECTS YOUR CREDIT?

Suppose Marjorie starts thinking about buying a newer car. Her current car is fine for getting to work and back, but it is 12 years old. To purchase a car, she would need to borrow more money. How does the lender decide whether to give her the loan?

The lender will rely heavily on her credit history. The lender will likely "pull" her credit report or request her credit score (for more on credit scores, see page 39).

Marjorie's credit report will include.

- Name, address, and other personal information-this has no impact on her credit score.
- Her existing credit, including credit card accounts, mortgages, car loans, and student loans, along with payment history
- Her public record, such as any court judgments against her or whether she has filed for bankruptcy within the previous 7 to 10 years. Fortunately, Marjorie has no court record.
- Inquiries from companies or persons who recently requested a copy of her report.

Find this information in the sample credit report on page 115 with your Money Mentor or on your own. Then obtain and review your own credit report.

## Discus

Is there likely to be anything on Marjorie's credit report that may be concerning to a lender?

- Do you review your credit report regularly? Why or why not?


## WHAT IS A CREDIT SCORE?

Your credit score is a number that helps lenders determine how likely you are to make your payments on time. It is a summary of your credit risk. Although it is related to your credit report, the score does not appear on your credit report

There are several agencies that create credit scores, but the one you hear about most is the $\mathrm{FICO}^{\circledR}$ score. It is called FICO after the original name of the company that compiles the score, Fair Isaac Corporation.

FICO ${ }^{\star}$ scores can range from 300 to 850 -the higher, the better. The median score is around 725 , but a score of 760 or higher typically gets you the best deal on interest rates.

| UNDERSTANDING YOUR FICO <br> ® |  |
| :--- | :--- | :--- |
| Score | SCORE |
| Evaluation |  | What it means.

Source: myfico.com


The two factors that most influence your credit score are
Whether you pay your bills on time: If you have paid bills late, had an
account referred to a collection agency, or declared bankruptcy in the previous 7 to 10 years, that information could show up in your credit report and may negatively impact your credit scores
Your outstanding debt: If the amount you owe is close to your credit limit, it will probably hurt your score.

## HOW YOUR CREDIT SCORE IS DETERMINED

Your credit score is based on five factors, each weighted differently


Source: www.scoreinfo.org

What are the two best things you can do to improve your credit score?

1. Pay your bills on time
. Keep your credit balances low.
©
Your credit score can save (or cost) you a substantial amount of money. Typically, the higher your credit score is, the lower your interest rate is likely be for a particular debt. Conversely, the lower your credit score is, the higher your interest rate and the more it will cost you to borrow money

See pages 92-93 for a worksheet on how to improve your score
Discuss:
How would the previous factors influence Marjorie's credit score?

What has likely happened to her credit score since we first looked at he situation? How do you think her score will affect her ability to get a car loan?

## Navigating Debt

## MARJORIE'S STORY: WHEN DEBT BECOMES A PROBLEM

Let's turn again to Marjorie. She is still thinking about a car but hasn't bought anything yet. She puts the decision on hold when she realizes how much the washer-dryer was adding to her monthly minimum payments. Then, as luck would have it, Marjorie breaks her leg and winds up in the emergency room Although she has health insurance through her job, she still owes $20 \%$ of the medical charges as copayments. In fact, once the medical bills are all in, Marjorie is appalled to discover she owes a total of $\$ 4,000$ out of pocket.

Now she feels overwhelmed. She does not know where to turn. She doesn't have the cash to pay the bills. Let's consider her situation.

Marjorie is not alone in feeling overwhelmed. Many people face financial crises at some time in their lives. The latest recession has been especially hard on a ot of people. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming. But the fact is that Marjorie's financial situation doesn't have to go from bad to worse.

First, before debt becomes a problem, there are some warning signs that might allow you to take corrective action.

Four Debt Warning Signs

1. Using a credit card when you're already carrying a balance on it.
2. Using a second credit card when the first is maxed out.
3. Not knowing if you can pay for the new purchases when the next bill arrives.
4. Buying more of or a better model of an item on credit than you otherwise can really afford if you paid cash.
Similarly, if you want to reduce your debt, look for the signs that you are on the right track
Four Signs You're on the Right Track
5. You've cut the number of cards you have to a minimum
6. You have a clear plan for paying your debt.
7. You'd make the same purchases even if you had to pay cash
8. Your balances are going down every month

¢
Before a debt situation becomes intolerable, look for a nonprofit credit counseling agency. A counselor could help you take control of your spending and work out an affordable repayment plan. To find a local nonprofit credit counseling service near you, contact the National Foundation for Credit Counseling, 800-388-2227, or visit $n f c c$.org.

## MARJORIE'S STORY: DEALING WITH A DEBT CRISIS

 Let's consider two ways Marjorie might respond to her problem.Path \#1: Marjorie panics and does nothing. The bills seem to be arriving so quickly that she stops opening them. She tells herself Rachel will have a better job someday, and they'll be able to hold on until then. Then the phone rings and there's a nasty-sounding debt collector on the other end of the line.

Path \#2: Marjorie calls the hospital and negotiates a payment plan for her medical debt. She also decides to cut expenses, such as the $\$ 175$ a month on eating out. Then she draws up a payment plan for her credit cards, deciding to pay off the highest-interest card (20\%) first. She visits a nonprofit credit counseling agency, which looks at her situation and informs her that she qualifies for a tax refund of $\$ 1,000$. She postpones the decision about a car definitely. Rachel talks to her boss and gets a few more hours of work so she an earn another $\$ 200$ a month
Discuss:

- Which scenario is best for Marjorie? Which do you think is more likely? Why?
- In \#2, what should Mariorie do with the $\$ 1,000$ refund?


## IF A DEBT COLLECTOR CALLS

If Marjorie follows the first path-the path of least resistance-she might eventually hear from a debt collector.
Collections agencies train debt collectors to try to get the debt repaid as quickly as possible. Unfortunately, some of their tactics can be abusive. If Marjorie finds herself in this situation, she needs to know her rights.

The Fair Debt Collection Practices Act states that debt collectors cannot:
Use or threaten to use violence or other criminal means to harm you, your reputation, or your property.

- Use obscene or profane language in an effort to abuse you.

Publish a list of consumers who have allegedly refused to pay their debts. In other words, creditors can't "out" you about your debts or tell third parties, such as your boss or neighbors, they're trying to reach you about a debt. These are illegal attempts to publicly embarrass you into paying.
Advertise your debt for sale.
Call or engage you in a phone conversation repeatedly to annoy, abuse, or harass you.
Contact you at inconvenient times (before 8 a.m. or after 9 p.m. your local time, or at work when it could affect your employment).
Continue to try to collect the debt after you have disputed it in writing. The debt collector must provide written verification of the debt before contacting you again about it.

- Call you without disclosing their identity.

If you think the debt collector has violated the law, you can contact the FTC which enforces the Fair Debt Collection Practices Act. The FTC watches for patterns of abuse among debt collectors. See ftc.gov, or call 877-FTC-HELP (877-382-4357).


## PROTECT YOURSELF

The following tips come from the Federal Trade Commission (FTC). The FTC advises consumers to be wary of any debt relief organization that:

- Charges any fees before it settles your debts
- Pressures you to make "voluntary contributions," another name for fees
- Touts a "new government program" to bail out personal credit card debt

Guarantees it can make your unsecured debt go away

- Tells you to stop communicating with your creditors
- Tells you it can stop all debt collection calls and lawsuits

Guarantees that your unsecured debts can be paid off for just pennies on the dollar

- Won't send you free information about the services it provides without requiring you to provide personal financial information, such as credit card account numbers and balances

Tries to enroll you in a debt relief program without spending time reviewing your financial situation
Offers to enroll you in a debt management plan (DMP) without teaching you budgeting and money management skills

Demands that you make payments into a DMP before your creditors have accepted you into the program

- Protect your financial assets while you're in a credit crisis. Avoid services tha claim they can "eliminate" debt or "fix" a credit score. You will spend a lot of money for these alleged services and may end up in a worse credit situation


## taking Charge

But what if Marjorie takes the second path? It requires more effort, but in the long run the effort will pay off and improve her financial health.

## Here are some things you can do if you find yourself in a debt crisis:

- Ask your creditors for more favorable lending terms: lower finance charges and/or a lower minimum monthly payment.
- Avoid "debt relief" or "debt settlement" companies. These services typically charge high fees, do little to relieve your debt, and could negatively affect you credit report. A debt management plan with a reputable credit counseling agency is the better choice. Also be aware that legitimate debt consolidationthrough a reputable company or organization-may be an option. For more information, see $n f c c$. org
- Debt consolidation (not to be confused with "debt relief" and "debt settlement") is an option if handled by a reputable organization such as a nonprofit with financial expertise. Even then, it should be considered as a last resort. While consolidating your debt may help you manage payments better, it's critically important to address the habits that led to building the debt in the first place


## KEY TAKEAWAYS

- I understand how to compare credit cards to find what's best for me, how to read a credit card statement, and how to obtain and read my credit report.

I know what my debts are
I understand better how to manage my debt and how to reduce debt.
I understand I have options when a credit/debt issue arises.

## NEXT STEPS

You've taken important steps toward improving your finances. We urge you to keep that momentum going through the rest of the program. If you discovered in this session that you have particular areas you'd like to address-including learning how to create a budget, set goals, build savings, and protect yourself financially-you can find more information and follow-up activities, including:

- Action Plan (turn to page 75)

Money Mentors (visit aarp.org/finances50plus or send an email to finances50plus@aarp.org for more information)
aarp.org/finances50plus
Resources on page 103
Talk to your facilitator or host organization about the times, dates, and places of future workshops, including Part 3, which comes next in the sequence. If you have not taken Part 1 of this program, you may take it at a future time.

Part 3
BUILDING-AND PROTECTING-YOUR ASSETS


## Introduction/Overview

## SESSION AT A GLANCE

By the end of the session, you will:
Know that spending wisely can be an effective way to save
Realize that you can save something-regardless of your financial situation
Understand how to protect yourself and your family from fraud, scams, and predatory financial practices

Know how to improve your financial situation-and have a plan for doing so

[^0]Do what you can."
Arthur Ashe

## Group Discussion:

- What interested you about this workshop?

Do you have any particular savings goals in mind?
-What would make you consider this session time well-spent?

## QUIZ: BUILDING-AND PROTECTING-ASSETS

This quiz is designed as a starting point for the material covered in this session. You will not be asked to share your answers
Instructions: Please answer the following statements as either true or false. Keep your answers in mind as the session progresses. There is an answer key in the Resources section on page 127 if you would like to learn more about each statement

| WORKSHEET A <br> Statement | True | False |  |
| :--- | :--- | :--- | :--- |
| $\mathbf{1}$ | I make most of my purchases with cash or a debit card. |  |  |
| $\mathbf{2}$ | I know the minimum required balance for my savings and/or checking accounts. |  |  |
| $\mathbf{3}$ | I know how much my bank charges for overdraft, ATM, and routine service fees. |  |  |
| $\mathbf{4}$ | I typically compare prices at different stores before I buy something. |  |  |
| $\mathbf{5}$ | I shop regularly at discount stores. |  |  |
| $\mathbf{6}$ | I look for coupons, sales, and other discounts on everyday items (such as groceries) that I need. |  |  |
| $\mathbf{7}$ | I have a "rainy day" or emergency savings fund to cover unpredictable events such as job loss, |  |  |
| medical emergencies, and house or car maintenance. |  |  |  |
| $\mathbf{8}$ | I have a 401(k) or other retirement account. |  |  |
| $\mathbf{9}$ | I put 10\% of my annual income toward savings. |  |  |
| $\mathbf{1 0}$ | Strangers are usually responsible for financial fraud and scams targeting people age 50 and older. |  |  |

Exercise: Most of the topic areas in the quiz will be covered later in this session. In the meantime, think about your answers to the quiz and what areas you would like to improve. Take a few moments to write down one goal inspired by your quiz answers that you can use for your Action Plan (see page 80) or otherwise pursue when the workshop is over. Share this goal and the steps you can take to achieve it with your Money Mentor or other support person. Imagine how rewarding it will be to share your progress!

Discussion:
What did you find surprising or interesting about this exercise?
Did this exercise tell you anything you didn't already know about your saving and spending habits?

## Savings

If you consume more calories than you burn, you'll gain weight. If you spend more money than you have, you're likely to fall into debt. On the surface, concepts like losing weight or saving money seem to be simple. But the reality is often much different.

For many people, saving money may seem unrealistic. After all, you can't save what you don't have, right? You might be surprised by the answer. Everyone can save something-regardless of their current financial situation.

Previous workshops on budgeting and managing debt have shown how to get started. Spending your money wisely is a meaningful way to save. Being conscious to avoid unnecessary or burdensome fees and charges-such as ATM fees or high-interest loans-is another way to save money.

Even if your income is fixed or you feel like you're simply living paycheck to paycheck, by spending wisely, targeting debt, and avoiding unnecessary fees, you're saving money. Every dollar you don't spend-by budgeting, avoiding fees, finding discounts, and paying off high-interest debt-is a dollar that you're saving for yourself and your loved ones days, weeks, months, and even years from now.

## GROUP EXERCISE: GRACE'S SAVINGS

Grace, 62 , was excited when her husband, James, retired 2 years ago. Then James became ill and their son Jimmy lost his job and moved (with his wife and two children) back in with Grace and James. In the last 6 months, James passed away and Jimmy and his family moved into an apartment. Grace is now living alone. Most of the family savings are gone-wiped out by medical bills and unexpected expenses.

Grace is working part-time handing out free samples at a bulk grocery store. The job pays just enough to cover her monthly expenses. Grace plans to rely on Social Security to supplement her income, but she wants to wait until she is eligible for full benefits in another 4 years. Her recent experience has taught he the importance of saving for a rainy day.

During a financial workshop at her local senior center, Grace completed a budget diary to look at her spending habits. After accounting for her bills, Grace wants to focus on nonessential expenses. Look at the following entries from Grace's budget diary and identify ways she could decrease expenses-and have more to save-by spending more wisely.

| GRACE'S BUDGET DIARY <br> Expense | Cost | Ways to Save? |
| :--- | ---: | ---: |
| $\mathbf{1}$ | Bought groceries at gourmet supermarket | $\$ 150.00$ |
| $\mathbf{2}$ | Monthly haircut at salon | 75.00 |
| $\mathbf{3}$ | Birthday card with $\$ 50$ for Jimmy |  |
| $\mathbf{4}$ | Fee for cashing payroll check at check store | 10.75 |
| $\mathbf{5}$ | Shoes for work at high-end department store | 74.99 |
| $\mathbf{6}$ | Fees for withdrawing money from <br> non-network ATMs | 12.00 |
| $\mathbf{7}$ | Meet friends at coffee shop | 7.50 |
| $\mathbf{8}$ | Gas for car | 60.00 |
| $\mathbf{9}$ | Penalty fee for paying credit card bill after due date | 40.00 |
| $\mathbf{1 0}$ Took grandchildren to pizza arcade | 75.00 |  |
| $\mathbf{1 1}$ | Prescription medication | 50.00 |

Group Discussion:
Does Grace need to cut expenses or just spend more wisely?
What are some methods of saving money that have worked for you?

TIP
Think in hours instead of dollars. Before buying something, calculate
how long it would take you to work to pay cash for the item. If a new jacket costs $\$ 100$, it would take 10 hours working at $\$ 10$ an hour-or about $10 \%$ of the monthly average Social Security benefit in 2012-to purchase the item. Ask yourself if the time, effort, and amount are worth the item you're considering.

Source: Social Security Administration (2012)

## TWO STEPS TO AVOID

The following options may be tempting, but if possible, try to avoid them.
Tapping Retirement Funds Early-If you tap your retirement funds, you could lose big. The taxes and penalties for early withdrawal of retirement funds are substantial, as are the implications for borrowing against your retirement funds. Try to avoid making withdrawals before you are $591 / 2$. If you withdraw money before age $591 / 2$, you will be faced with an early withdrawal penalty of $10 \%$, which can substantially reduce the money you have working toward your retirement goals Almost always, this is a bad choice.

Taking Social Security Early-Once you start claiming Social Security, you will receive monthly checks for life. However, if you file for benefits before you reach your "full retirement age" (as determined by the IRS), the amount you receive will be permanently reduced. Under the current rules, if you go on Social Security at age 62 , you will permanently lose $20 \%$ to $30 \%$ of the benefits you would receive if you waited until your full retirement age (if left untapped benefits continue to increase until age 70). In addition, if you earn income above a specified limit, the Social Security Administration will temporarily withhold a portion of your benefits until you reach full retirement age.
For example, John was born in 1949 and is eligible for $\$ 1,000$ in monthly benefits at age 66 . If he instead started taking his benefit at age 62 , he would receive only about $\$ 750$ per month, a $25 \%$ reduction that would continue for life. On the other hand, if John waited to age 70 to start taking Social Security, his monthly benefit would be $\$ 1,320$ per month, a $32 \%$ increase. The longer you wait to claim Social Security, the higher your subsequent monthly benefit amount will be as the potential amount you can receive increases until age 70. It's important to carefully consider your situation and the personal and financial goals you've set for yourself as you decide when to start taking your benefits.

You can find an easy-to-use Social Security Calculator to help determine what your potential benefits could be at different ages by visiting www.socialsecurity.gov/planners/benefitcalculators.htm.

## INCREASING INCOME/REDUCING EXPENSES

There are other ways to repay debt or meet necessary monthly expense without tapping retirement funds or taking Social Security early. Consider the ideas below

To Increase Income

- Is a part-time job possible?

Are you eligible for public benefits and/or government assistance programs? (For more information, visit the AARP Benefits QuickLINK in Online Resources, page 123).
Have you considered starting a small business out of your hobby (such as baking, knitting, child care services, or handyman work)?
Do you have anything you could sell, including an automobile
Can you rent an extra room out in your home?

- Have you considered a reverse mortgage through a reputable institution?

To Reduce Expense
Does it make sense to move?
Are there friends or family who could live with you and share expenses?
Can you refinance high interest debt?
Could you reduce your food costs?

- How can you cut energy costs?

Can you substitute less expensive generic or store-brand items for name-brand items that you purchase regularly?
Could you make fewer long-distance calls or use low-cost prepaid phone card for calls?
Can you substitute a generic for a name-brand prescription drug? Can you shop at thrift stores, discount stores, and sales for clothes?
Can you eliminate cable or subscription costs?
Can you reduce your entertainment costs by doing things like renting movies instead of going to the theater or cooking at home instead of going out to eat?
Can you re-evaluate your current insurance coverage by doing things like
cancelling unneeded policy features or shopping around for better rates?
Do you carefully review your monthly statements and recurring bills to make sure you're not being charged for services you don't use?

CUTTING COSTS
Here is an example of how several small cost-cutting measures can lead to large savings for you and your family in the immediate and long-term future.

| $\mathbf{1 2}$ Cost-Cutting Tips |  |  |
| :--- | :--- | :---: |
| $\mathbf{1}$ | Cut out one restaurant meal per week | $\$ 40-\$ 100$ |
| $\mathbf{2}$ | Make coffee at home | $\$ 20-\$ 50$ |
| $\mathbf{3}$ | Use coupons | $\$ 20-\$ 40$ |
| $\mathbf{4}$ | Rent a DVD (instead of watching a <br> movie at the theater) | $\$ 10-\$ 20$ |
| $\mathbf{5}$ | Buy generic drugs | $\$ 20-\$ 40$ |
| $\mathbf{6}$ | Downsize from premium to basic cable | $\$ 10-\$ 40$ |
| $\mathbf{7}$ | Use public transportation or carpool | $\$ 40-\$ 60$ |
| $\mathbf{8}$ | Keep tires inflated and engine tuned | $\$ 5-\$ 10$ |
| $\mathbf{9}$ | Explore basic phone plans (comparison <br> shopping with your current rate) | $\$ 20-\$ 30$ |
| $\mathbf{1 0}$ | Cut energy costs | $\$ 25-\$ 100$ |
| $\mathbf{1 1}$ | Get free checking | $\$ 5-\$ 10$ |
| $\mathbf{1 2}$ | Use only your bank's ATM | $\$ 5-\$ 10$ |
| Total Monthly Savings |  | $\mathbf{\$ 2 2 0}-\$ \mathbf{5 1 0}$ |

In 1 year, these simple cost cuts can add up to anywhere from about $\$ 3,000$ to $\$ 6,000$. In 10 years that's an additional $\$ 30,000$ to $\$ 60,000$ you can use to pay down debt or add to savings. As this exercise shows, little steps can make a big difference.

## SPENDING PRIORITIES

Saving money by spending money wisely is all about stretching your dollars to address your needs while putting your money to maximum use. To do so, it's important to prioritize expenses for both you and your family

1. Essential needs: These fall into the "must have" category. Needs include things like paying your rent or mortgage, taxes, child support, buying food, and paying for basic utilities and necessary medications.
2. High-interest debt: The quicker you can pay down high-interest debt, such as credit card balances, the more money you'll save in the long run.
3. Emergency savings: Life has a way of sneaking up on you. When it comes to emergency funds, it's not a question of if you'll need them but when. To prepare for the unexpected, such as the loss of a job, house or car repairs, medical emergencies, or traveling to see your child or grandchild receive a spe cial honor, even a small amount saved every week can go a long way.

Group Discussion:
When did you most recently have to deal with unexpected expenses? Did you feel prepared to handle the situation financially?
What could you have done differently before you had the unexpected expenses?
4. Retirement: You have many years ahead of you, and it's important to plan for the future you want for yourself and your loved ones. For many people over 50 , retirement still seems like a distant concept. With careful planning, careful spending, and careful savings-even a small amount every week-you will feel more confident about your future. For more information about retirement planning, see pages 120-121 in the Resources section.
5. Goals: Everyone has a vision-vague though it may be right now-about what they want to do and where they want to be in the next 5 to 10 years. This could include anything from a comfortable retirement to helping grandchildren get to college. Using what you learn in this program can help you get on the road to achieving those goals.

As you prioritize your spending and look for ways to increase your savings, take a moment to think about how your physical health might affect your financial health in the future. Consider the following statements:

1. I have looked into whether disability insurance makes sense in my situation. 2. I have health insurance to cover most of my medical expenses.
2. I have an advance health care directive and a basic will (including guardianship of any minor dependents).

If you answered "No" to any of these statements, you may want to conside seeking more information about how insurance and advance planning can help you and your loved ones prepare for the unexpected.

## "FREE" MONEY

When you're living week by week and month by month, it can easily feel like you have nothing to save. But there are several ways to capitalize on "free" money by making your money count. Among them:

Smart shopping: Whenever possible, take the time to compare prices for similar items at different stores. You'll often find that the exact same name brand tem-or one of comparable quality-can be found for less at discount stores.

Coupons, rebates, and sales: Be watchful for special offers and significant discounts. However, be cautious about buying items just because they're on sale. Ask yourself first if you truly need the item. Use coupons only for items you regularly purchase and don't forget to claim your rebates.

Buy in bulk: Certain recurring expenses (such as toilet paper or personal care tems), as well as nonperishable food and other high-use, long-term items can be purchased at a discount at bulk retail stores.

Warranties: Being mindful of the warranties on items you own could save you a lot of time, headaches, and money. Before you consider replacing something-such as a dishwasher or car parts-check the warranty. It's possible you could get the item fixed or replaced for free. However, be cautious about offers for "extended warranties" or service plans when purchasing an tem, as extra coverage may not be worthwhile.

Earned Income Tax Credit (EITC): You may be eligible for this tax credit that helps individuals with low to moderate incomes keep more of what they've earned. When an individual's EITC exceeds the amount of taxes owed, those who qualify and claim the credit can receive a refund.

401(k) match: If you currently work at a company that offers to match you $401(\boldsymbol{k})$ contribution, take advantage of the opportunity. To do otherwise literally means leaving money on the table. ${ }^{1}$

Group Discussion:
What are some other "free money" methods you've used?

## WHERE TO SAVE

On the subject of personal finance, one phrase that frequently pops up is "pay yourself first." Whenever possible, setting aside money in advance for emergency or retirement savings is critical-but not at the risk of defaulting on your bills. You should consider addressing your immediate/essential needs and debts first, then "pay yourself." By spending wisely-and consciously saving-you'll be able to put aside something for the future, week by week and dollar by dollar.
So where should you put your savings? In better economic times, there have been options that offer both safety and steady growth for your money
However, annual percentage yield (APY) interest rates (what an institution pays you for keeping your money with them) continue to remain very low for most conventional accounts. Still, there are options.

Savings/checking account: While there's little chance of growth by accruing interest in a weak economy, a conventional savings account with an FDIC-insured bank or a credit union insured by the National Credit Union Association (NCUA) is one of the safest places to keep your money. Debit cards connected to a savings/ checking account can be a useful budgeting tool (spending cash instead of using credit), while direct deposit can be a reliable and effective way to pay bills and receive income. Money in a savings or checking account is easy to access when needed

[^1] prior to age $591 / 2$ may be subject to a $10 \%$ federal tax penalty.

Money market account: Money market accounts typically offer a higher APY than a conventional savings account though they also generally require a higher minimum balance. Money in this type of account is also generally easy to access.

Certificates of deposit (CDs): CDs are "time deposits." Each has a specified time range (typically from 1 month up to 10 years) and usually a higher, fixed interest rate. The money placed in a CD "matures" (earns interest) until the specified time range is over. Penalty fees are typically charged for cashing in a CD before its maturity date. You will lose interest if you take the money out before the CD has matured, so these vehicles are best for money you don't plan to access for a while.

## - TIP

A major benefit of having a savings account, money market account, or certificate of deposit from an FDIC-affiliated institution or NCUA-insured credit union is that your money is guaranteed for up to $\$ 250,000$ (as of 2012).

Individual retirement account (IRA): A traditional IRA (as well as a Roth RA and other retirement accounts) is another method of saving that typically has certain tax advantages.

Investment account: Investment (or "brokerage") accounts typically involve investing in things like stocks and bonds-which have the highest potential for growth but also can carry substantial risk. Any investment in the stock or bond market-including mutual funds that include stocks and bonds-is subject to market volatility that can cause an investment to drop (or gain) value unpredictably
U.S. savings bond: A savings product issued and guaranteed by the U.S. government. The most common types are Series EE and Series I savings bonds. Savings bonds are a low-risk savings option. While paper bonds can no longer be purchased over the counter, you can purchase them online at treasurydirect.gou
"Beware of little expenses; a small leak will sink a great ship."

## SAVING AND INVESTING

The terms "saving" and "investing" are often used interchangeably, but there are mportant differences between the two. Saving provides funds for emergencies mportant differences between the two. Saving provides funds for emergencies and specific purchases in the near future (usually 5 years or less) and implies you will keep your money in a safe, insured account. Investing, on the other hand,
ocuses on increasing net worth and achieving long-term financial goals. Investing ocuses on increasing net worth and achieving long-term financial goals. Investing
involves more risk (potential loss of value) and is to be considered only after you have adequate savings. Here is a guide to help you distinguish between the two:

| SAVINGS VS. INVESTMENT DOLLARS <br> Savings $\mathbf{\$ \$}$ | Investing \$\$ |
| :--- | :--- |
| Safe | Involves risk |
| Easily accessible | Volatile in short time periods |
| Low return | Offers higher potential for return <br> (gain in value) |
| Used for short-term goals (0 to 5 years) | For mid- and long-term goals <br> (more than 5 years) |

-Q TIP
Consider setting up an automatic deposit to a savings account each month, so you won't be tempted to shortchange yourself when you're juggling bills and paying off debts.

## WHAT TO LOOK FOR

Comparison shopping applies to savings methods as much as it does to buying groceries, and there are several factors to consider when looking at your current accounts or opening a new one. Here are two of the most common:
Fees: Virtually all financial institutions charge fees of some sort. These can include things like ATM fees, annual fees, overdraft fees, and minimum balance fees. Find out if your bank or credit union charges these fees and how much they charge. If your financial institution offers ways to waive the fees, think about whether you can meet those requirements.

Interest rates: Most APY rates earned on savings have been hovering at historic lows in recent years. But it's still worth shopping around to find the best rates.

## Protecting Your Assets

Nobody expects to be victimized by financial fraud, scams, or predatory financial practices. On some level, we all think, "It can't happen to me." Of course, it can happen to anyone-especially in a digital era of rapidly evolving technology. Movie director Steven Spielberg, Nobel Peace Prize winner Elie Wiesel, baseball great Sandy Koufax, actress Zsa Zsa Gabor, and TV host Larry King were just a few of the financial victims of one man-Bernie Madoff.

That's a high-profile example. Far more common are everyday schemes that frequently target people over the age of 50 . In fact, financial fraud is considered by researchers to be one of the fastest-growing forms of elder abuse. But there are several ways to protect yourself-and your loved ones-from the devastating impacts that can result.

Fast Facts

- According to a 2011 survey by AARP Foundation, only $25 \%$ of fraud victims over the age of 55 reported the fraud to authorities, compared with $44 \%$ of victims under age 55 . The number of financial crimes involving victims 50 o older is chronically underreported because victims are too embarrassed and ashamed (or protective, if the crime was committed by a family member or friend) to report the abuse.
- Financial exploitation of older Americans has been called the "Crime of the 21 st Century" with an estimated 1 in 5 people over age 65 having been victimized. The actual number is likely far greater due to underreporting. And people over age 50 are particularly susceptible. It's entirely possible everyone attending this workshop will be targeted in one form or another-including via email, Internet, phone, direct mail, and in person-every single day.


## GROUP EXERCISE: RED FLAG DRILL

Group discussion:
-What are the "red flags" or warning signs in the following situations?
Do you know anyone who has been victimized by a fraud?

Angela, 66 , was taking her contacts out and getting ready for bed when the phone rang. She didn't recognize the number on the caller ID but figured that it must be important at this time of night. When she answered, this is what she heard: "This is an automated message from the Social Security Administration. There has been unusual activity on your account and we need you to verify information for security purposes." Angela was stunned. She relies heavily on Social Security and can't imagine what she would do if her monthly payment was disrupted or even delayed. The automated service asked Angela to type in her Social Security number and numerical date of birth at the prompt. She hastily did so. Feeling relieved, Angela hung up the phone and finished preparing for bed.

John, 74 , was surprised to see an email had arrived from his grandson. He was proud of Ryan-a "nice boy" away at college studying to be an accountantbut he hadn't heard from him in several months. John's jaw dropped when he read the message. The email was frantic and short: "Grandpa, I'm in trouble. I was traveling in Mexico with some friends and got arrested. It's a total misunderstanding but they won't let me go unless I pay $\$ 500$ for bail. I need you to wire the money to the bail account below as soon as possible. Mom and Dad would kill me if they found out. Please don't tell anyone." John sat stil for a moment. His mind was racing. Finally, he thought to himself, "I have to help Ryan."

Henry, 61 , is a divorcé who had limited contact with his two adult childrenboth of whom lived hundreds of miles away. Two years ago, Henry was forced to retire after an accident at the steel mill where he worked left him partially blind. Six months ago, his daughter Sarah-a single mother with two childrenmoved back to town to take care of him. It was an unexpected but welcome surprise for Henry. He quickly became dependent on Sarah for helping with daily chores and also relied on her to help pay his bills. He didn't mind when she complained about her "deadbeat boyfriend" or when she talked about suing the steel mill "for everything it has" because of the accident. It made Henry feel good to have someone he trusted close by and caring for him. Given his poor eyesight, Henry would sign checks Sarah presented to him without reviewing the amount. Sarah told him how much they were for, so why bother? Then one day the bank called and told Henry that is account was overdrawn. "There must be some mistake," Henry replied in confusion.

## WHAT TO WATCH OUT FOR

Financial fraud, scams, and predatory financial practices come in many different shapes, sizes, and disguises. In today's age, a potential fraudster could approach you in person, over the phone, in the mail, or via email, often offering promises of huge discounts, can't-miss opportunities, or "free" prizes I's important to be extremely careful about sharing sensitive persona information. Here are a few things to watch out for:

Social Security number: It's not often that a reputable source asks you to share your Social Security number (even then, they'll typically ask for only the last four digits). Be particularly vigilant of such requests that take place in any context other than face to face (phone, email, mail, etc.) or when the request come from an unknown source.

Account numbers: Be very cautious about sharing bank account and credit card numbers and PINs. There are a few occasions where this may be necessary-when making a purchase online through a reputable source, for instance-but be wary.
"Something for nothing": The old adage "if it sounds too good to be true, it probably is" applies to almost any offer for "free" prizes or drastic discounts. Such offers are increasingly prevalent in emails and online
"Act now!": Many companies-some reputable, many not-use a false sense of urgency to get you to act without thinking. Don't let a phrase like "don't let this opportunity pass you by" hook you into making rush judgments.

The catch: Always be on the lookout for "the catch" that explains why a deal seems too good to be true is just that. Even legitimate business operating legally can cause severe financial trauma. So-called "payday lenders," for instance, will lend money to people legally but at exorbitant interest rates that can quickly snowball into a huge financial burden.
Protect Your Identity-and Your Credit
Identity theft is an escalating issue in our digital age. The repercussions of having your identity stolen can be devastating and long-lasting-especially on your credit

## Fast Fact

According to a 2012 report by the Federal Trade Commission, identity thef was the number-one source of consumer complaints in 2011-the 12th year in a row it's topped the FTC's list. An estimated 10 million Americans or more have their identities stolen each year.

Protecting yourself from unauthorized activity is a big part of safeguarding your creditworthiness. Obtaining your credit report annually, checking it for errors, and disputing all errors and unauthorized activity are often your first steps in protecting your credit.

However, just as credit cards are a part of everyday life, unfortunately so is identity theft. It starts when someone uses your personally identifying information (your name, Social Security number, or credit card number) without your permission, to commit fraud or other crimes.

Can you protect yourself? Absolutely. Here are three simple yet effective steps you can take right now.

Be aware of how information is stolen, such as completing a phony change of address form to divert your billing statements to another location or using false pretexts to obtain your personal information from banks, telephone companies, and other sources.

Guard your personal and account information. Shred documents and paperwork that contain personal information and protect your PINs. Report stolen credit cards immediately. Don't give out personal information on the phone, through the mail, or over the Internet unless you made the initial contact and know who you're dealing with

Report suspicious activity immediately. See page 119 to find resources for reporting activity to the proper authorities.

There are many laws designed to protect your rights as a consumer and user of credit. For information on protecting your credit, see page 118 in the Resources section.

## WHOM TO WATCH OUT FOR

It's easy to be suspicious of strangers, but relatives, caregivers, friends, and neighbors are the culprits of financial crime more than half the time. Try to distance yourself from the emotional connections you may have long enough o clearly think through the situation. It's more important to look at the information being given (or asked for) rather than letting your emotions dictate your judgment.

Whether you're approached by a stranger or someone you know, it's importan to take your time, ask questions, and think carefully about the situation before aking action.

## LEARNING WHOM TO TRUST

Typically trustworthy sources include official government entities, reputable nonprofit organizations, and brand-name companies (those with established reputations). Even then, some scammers will say they represent reputable organizations when they don't have any connection. However, if you do a few imple things, you'll avoid a lot of trouble.

Do your homework: It usually only takes a few minutes to check up on an unfamiliar company or source. A phone call to the Better Business Bureau or a quick Internet search can go a long way toward saving you a massive financial headache. A list of helpful sources-including the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB)-can be found in Online Resources on page 123

Ask questions: It's your money (and/or personal information), so you owe it oo yourself to ask tough questions, as many as you can think of, even if you're dealing with a close friend or relative.

Take your time: Any decision worth making is worth taking the time to make it right. Don't be bullied into a rushed decision. Do research, ask questions, an understand what you're being asked and why. Ask yourself what the benefit is to you and what the possible benefit is to the other person. Trust your instincts. If you feel like something is wrong, you're probably right.
Ask for help: There are many reputable sources of assistance out there such as the FTC, CFPB, the Elder Financial Protection Network, and the National Center on Elder Abuse (see Online Resources on pages 123-124). If you need help with your financial affairs, consider a licensed, bonded, independent third party to provide assistance. In addition, some government agencies, nonprofit organizations, and counseling services may offer guidance at little or no cost.

## SGAM ALERT

Here are some of the most common scammers, along with tips on how to handle them.

Telemarketers: Ask to be removed from their call list, and then hang up. You can also add yourself to the national "Do Not Call" registry at donotcall.gov.

Advertisements: Remember that media outlets don't usually investigat claims made by their advertisers. Ignore those that seem to be after your money-such as ads for tax relief, credit counseling, gold coins, and buying real estate on the cheap.

Emails: Don't believe anything you read in an unsolicited email. Legitimat companies rarely ask for personal information by email.

Mail solicitations: Don't let a slick presentation woo you into doing something you'll regret. If you don't recognize the company, don't bite. Do your research and read the fine print. Write to the Direct Marketing Association to be removed from direct mailings at $d$ machoice.org. You can also avoid being inundated with credit card and insurance offers by visiting optoutprescreen.com.

## IF IT HAPPENS TO YOU

Tell someone: More to the point, talk to an official law enforcement agency. Fraud and scams are grossly underreported (some estimates are that only 1 in 25 cases of financial fraud against seniors is reported). Don't be taken in. The faster you report your suspicions, the quicker the perpetrator will be stopped and the easier it will be for you to repair any damage. For a list of state-by-state contacts for reporting suspected financial abuse, visit the National Center on Elder Abuse at ncea.aoa.gov.

Many people have been or will become victims of financial crimes. You should not feel embarrassed or alone if it happens to you. However, one of the most mportant steps toward safeguarding yourself and your family is to have faith in yourself.

Throughout this program, you've learned to identify goals and simple, effective methods to reach those goals. Next, you'll continue to put those methods and goals into action. Trust in yourself and all the thought and effort you've put into building a solid financial plan for you and your loved ones.

## KEY TAKEAWAYS

Spending wisely and avoiding unnecessary fees can be an effective way to save

- I know I can save something, regardless of my financial situation.

I can protect myself and my family from fraud, scams, and predatory financial practices.

- I know how I can improve my financial situation-and I have a plan for doing it.


## NEXT STEPS

You've taken important steps toward improving your finances. We urge you to keep that momentum going after the program. If you discovered in this session that you have particular areas you'd like to address-including how to budget, set goals, manage debt, build savings, and protect yourself financially-you can find more information and follow-up activities, including

- Action Plan (turn to page 75)

Money Mentors (visit aarp.org/finances50plus or send an email to
finances50plus@aarp.org for more information)
aarp.org/finances50plus

## Resources on page 103

Group Discussion:
Has the Finances $\mathbf{5 0}+$ program been helpful to you?
Has your attitude toward managing money changed since you started the program?
Do you feel more confident about what you can do to improve your financial situation?

Talk to your facilitator or host organization about the times, dates, and places of future workshops. If you have not taken Parts 1 and 2 of this program, you may take them at a future time.


The first step toward meeting any challenge is often both the hardest and the most important. By enrolling in the AARP Foundation Finances 50+ program, you've taken that difficult first step. What you learn-and are putting into practice-in this program can go a long way toward improving your financial situation. This segment is where you put all the information and methods you've learned into action.

The Action Plan ties together information from all three workshops, including concepts like setting goals, increasing your net worth, establishing a budget, improving credit, managing debt, and building savings. In completing this Action Plan, you are laying the groundwork for a more secure future for yourself and your loved ones.

Some portions of the Action Plan will be started or completed during a workshop. Others must be done on your own. As you build your Action Plan piece by piece, we encourage you to rely on your Money Mentor or another support person for assistance and encouragement. With time and persistence, you'll be well on your way toward accomplishing your goals.

To start, take a moment to review your Checklist on the following page.

## Action Plan: Checklist

This is where the rubber meets the road and you use what you've learned to improve your financial situation. This checklist allows you to track your progress in turning your Action Plan into a better financial reality for you and your loved ones. The first three segments (Goal Setting, Net Worth, and Budgeting) are crucial to the foundation of your Action Plan. The next three segments (Credit Report, Managing Debt, and Savings) allow you to refine your strategy and work on specific problem areas. Finally, the Road Map helps you tie the elements of your Action Plan together.
$\square$ GOAL SETTING: I have written down my goals and identified steps I'll take to a chieve them.

Writing down your goals can help you focus on what's most important to you. The more you are able to clearly picture your goals, the more real they will become and the more achievable they will be. Write down your goals on page 80-81.
$\square$ NET WORTH: I know my net worth.
This exercise gives you an understanding of how much you owe and how much you own. It's a simple calculation that helps give you a clear idea of your financial standing and can help you track your progress toward your goals Calculate your net worth on page 83.

BUDGETING: I have created a realistic budget that works for me
Your budget is the foundation for your everyday finances-it helps you spen more wisely, save more money, and get that much closer to achieving the goals you have set for yourself and your family. Complete your budget on page 84-89.

CREDIT REPORT: I have reviewed my credit report and identified ways to improve my credit score.

Your credit report is one of the most crucial tools you can have for assessing and improving your financial situation. Learn more about your credit report and what our credit score really means on page 39. Pages 90-93 will help you determine our credit action plan.
$\square$ MANAGING DEBT: I know how much debt I have and I have a plan for paying it down.
Debt can be one of the most difficult financial obstacles to overcome. But you can save money-and erase your debt more quickly-when you have a targeted plan for paying down your debt. Make your plan for managing debt starting on page 94.

## $\square$ SAVINGS: I have a plan for building my savings

Saving just a little bit now will steadily add up over time. It can help you in an emergency and keep you from going into debt unexpectedly. Create your savings plan on page 97.
$\square$ ROAD MAP: I have created a road map to guide me toward my financial goals. The summary of your Action Plan-and your guiding light for a better financial future for you and your loved ones. Create your Road Map on pages 100-101
all


## MY SAVINGS GOAL

Why it's important to me: Sacrifices I may need to make People who will support me: Realistic deadline for achieving this goal

THINGS I CAN DO TO ACHIEVE MY SAVINGS GOAL


Take a moment to reflect on what you took away from this section and how setting goals can help you improve your financial situation.
What I found interesting or useful:
$\qquad$

What I learned about myself:
$\qquad$

Things I can do to help me stick to my goals
$\qquad$

Consider using this information to inform the action steps you will take on your Road Map.

## Action Plan: Net Worth

I know my net worth.

## WORKSHEET 2: NET WORTH

It's hard to build something that will stand the test of time without first laying a foundation. Now that you've established the goals you would like to achieve, the first step toward achieving those goals is to have a clear understanding of your financial situation. That starts with calculating your net worth.

As you recall from the "Orson's Net Worth" exercise on page 8, your net worth is a combination of what you own and what you owe. Knowing what your ne worth is helps you establish a foundation for building an Action Plan that can set you on a path toward achieving your goals.

| MY NET WORTH <br> Assets | Value | Liabilities | Value |
| :--- | :--- | :--- | :--- |
| Cash |  | Home mortgage |  |
| Checking account \#1 |  | Home equity loan |  |
| Checking account \#2 |  | Credit card\#1 |  |
| Savings account\#1 |  | Credit card\#2 |  |
| Savings account \#2 |  | Credit card\#3 |  |
| Retirement account (IRA/401(k)) \#1 |  | Credit card\#4 |  |
| Retirement account (IRA/401(k)) \#2 |  | Medical debt |  |
| Money Market account |  | Vehicle loan(s) |  |
| Certificates of Deposit (CDs) |  | Sersonal loan(s) |  |
| Investment account \#1 (stocks, bonds, |  | Student loan(s) |  |
| mutual funds, etc.) |  | Aprniture loan(s |  |
| Investment account \#2 (stocks, bonds, |  | Electronics loan(s) |  |
| mutual funds, etc.) |  | Ousiness loan(s) |  |
| Home |  | Taxes due |  |
| Real estate (home or land) |  | Other: |  |
| Business ownership interests |  | Other: |  |
| Vehicle(s) |  | Other: |  |
| Furnishings |  | Other: |  |
| Clothing | Other: |  |  |
| Jewelry |  | Other: |  |
| Appliances |  | Other: |  |
| Electronics/TV/computer |  | Other: |  |
| Recreation items |  |  |  |
| Collectibles |  |  |  |
| Other: |  |  |  |
| Other: |  |  |  |
| Total Assets |  |  |  |

Total Assets

To chart your progress toward your goals, revisit your net worth statement periodically.

## Action Plan: Budgeting <br> have created a realistic budget that works for me.

Now that you've established your goals and gained a clear understanding of your net worth, you can combine that information into action with one of the most important building blocks for improving your financial situation: your budget.

## WORKSHEET 3: BUDGETING

To start, enter all of your incoming cash on an average monthly basis. This will give you a good idea of what you have to work with, financially, as you begin to build your budget.

| INCOME | Monthly total |
| :--- | :--- |
| Income (after taxes) |  |
| Wages/salary/bonus |  |
| Government benefits (Social Security, food assistance, etc.) |  |
| Child support/alimony |  |
| Interest income |  |
| Support from family or friends |  |
| Other: |  |
| Other: |  |
| Total Income |  |

Now it's time to calculate your expenses. Read through each of the expenses isted and write down a reasonable monthly estimate for all the expenses that apply to your situation.
Next, take a moment to think about whether the expense is a "must-have" or a "nice-to-have." Mark a " $W$ " in the Want or Need column if you consider the expense to be a Want and mark an " N " if it's a need.

Think back to what you learned from "Balancing Betsy's Budget" on page 12 as you are completing your budget. Remember, you can always ask for help from your Money Mentor or another support person if you need it

| MONTHLY EXPENSES | Current Estimate | Want or Need? |
| :--- | :--- | :--- |
| Expense |  |  |
| HOUSING AND UTILITIES |  |  |
| Rent/mortgage |  |  |
| Utilities (gas/oil, electric, water, etc.) |  |  |
| Home maintenance |  |  |
| Phone (cell phone, family plan, etc.) |  |  |
| Cable/satellite television service |  |  |
| Internet |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| LOANS AND CREDIT CARDS |  |  |
| Credit card payments |  |  |
| Personal loan payments |  |  |
| Student loan payments |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| SAVINGS AND INVESTING |  |  |
| Emergency savings |  |  |
| College/education savings |  |  |
| Retirement (IRA, Roth IRA) |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| TRANSPORTATION |  |  |
| Auto loan payments |  |  |
| Auto insurance |  |  |
| Gas and maintenance |  |  |
| Public transportation |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |

(Continued on next page.)
$\bullet$

| MONTHLY EXPENSES (Continued) | Current Estimate | Want or Need? |
| :--- | :--- | :--- |
| Expense |  |  |
| FAMILY AND PETS |  |  |
| Childcare |  |  |
| Child support |  |  |
| Allowances |  |  |
| Tuition and fees |  |  |
| Textbooks and supplies |  |  |
| Pet food and supplies, veterinarian |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| HEALTH AND GROOMING |  |  |
| Health insurance (monthly) |  |  |
| Medical visits, co-pays |  |  |
| Prescription medication |  |  |
| Other medical bills |  |  |
| Gym/health club |  |  |
| Grooming (hair, nails, etc.) |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| FOOD, CLOTHING, AND |  |  |
| ENTERTAINMENT |  |  |
| Groceries and household items |  |  |
| Eating out (all meals, snacks) |  |  |
| Tobacco/alcohol |  |  |
| Clothing, shoes, and accessories |  |  |
| Movies, concerts, other events |  |  |
| CDs, DVDs, other home entertainment |  |  |
| Newspapers, magazines, books |  |  |
| Clubs, sports, hobbies |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |


| MONTHLY EXPENSES (Continued) | Current Estimate | Want or Need? |
| :--- | :--- | :--- |
| Expense |  |  |
| NON-MONTHLY EXPENSES <br> (Divide by payment period-12 months, <br> 4 months, etc.-to get monthly average) |  |  |
| Income taxes not deducted from |  |  |
| payroll (federal and state) |  |  |
| Homeowner's insurance |  |  |
| Property taxes |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| MISCELLANEOUS |  |  |
| Travel and vacation |  |  |
| Gifts (family, friends, etc.) |  |  |
| Growth and enrichment (adult <br> education classes, workshops, <br> seminars, etc.) |  |  |
| Donations (church, other charities, etc.) |  |  |
| Other: |  |  |
| Other: |  |  |
| Other: |  |  |
| Subtotals: |  |  |
| Total Expenses: |  |  |

Net Income
Now that you have an estimated budget, you can get a more realistic idea of your monthly income and expenses. To figure out your net income, simply subtract your monthly expenses from your monthly income.

## Monthly income Monthly expenses Net income

If your monthly NEEDS exceed your monthly income, you may need to look for ways to supplement your income with part-time work or otherwise generate additional resources. For some helpful tips, see the "Increasing Income" section on page 59. In the meantime, take a moment to write down a few ideas for how to balance your income and expenses.

Balancing Your Budget
Action Steps:

## What will you do?

## When will you do it?

Consider using this information to inform the action steps you will take on your Road Map.

One way to increase your net income is to reduce unnecessary expenses. Look again at the WANTS and NEEDS you've identified in your budget. Use the table below to list any areas where you could adjust your budget to free up more money to meet your needs and goals while increasing your net worth in the process.

| ADJUSTING YOUR BUDGET "WANT" <br> Expense | Current cost | Possible savings |
| :--- | :--- | :--- |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Subtotals: |  |  |

Consider using this information to inform the action steps you will take on your Road Map.
Exercise: Budget Diary
Another way to get a detailed picture of how you spend your money in a given week is to complete a Budget Diary to better understand what your day-to-day expenses are, help you identify areas where you can spend more wisely, and allow you to establish a realistic and attainable budget.

Instructions: Carry a small notepad with you and write down everything you spend during the upcoming week. If you like, you can find an electronic worksheet to help you do this on the program website at aarp.org/finances50plus. This information is for you alone, so be as truthful and detailed as you can. After the week is over, take a few minutes to reflect on the experience using the following questions as a guide:
What I found surprising or interesting about this exercise:

## What I learned about how I spend money

## Areas where I can save money by spending more wisely

## Ways I can improve my spending habits:

Things I did during this exercise that will help me stick to a budget in the future:

## Action Plan: Credit Report <br> I have reviewed my credit report and identified ways to improve my credit score

Credit plays a big role in your daily life. Lenders, such as credit card companies will look at your credit report-and so might landlords and employers. As you work toward your financial goals, it's critical to review and understand your credit report. You may find errors you need to correct, or see behaviors you can improve. Your credit report can also help you look for signs of identity theft.

The good news is that it's easy for you to get your credit report. Each of the three main credit reporting agencies is required to provide you with your free report once each year.

## WORKSHEET 4: CREDIT REPORT

Here are the steps you need to take. Write down the date when you plan to complete each one.

## 1. Order your credit reports.

You can order all three reports online from annualcreditreport.com, by phone at 877-322-8228, or by mailing in a request form (see page 116).

You can obtain all three reports at once, or you can order one at a time. If you order one every 4 months, you can review your credit periodically throughout the year (be aware that the reports may have somewhat different information as a result).

## Deadline date:

$\qquad$ Completed:___ Yes __ No

## 2. Review your reports for accuracy.

Learn what information the reports will contain and how to read them. A credit report contains four types of records: public records, such as court judgments; credit accounts; inquiries from organizations that have asked for your credit history; and personal information. Make sure each account listed is accurate.

Deadline date: $\qquad$ Completed: __ Yes __ No

## 3. Dispute any inaccuracies

If necessary, write a dispute letter to the credit reporting agency that has the error on your report (see page 117 for a sample letter). Follow up to make sure the dispute is resolved.

You also have the right to add up to 100 words to the credit report as a personal statement to explain credit issues to potential employers and landlords.

Deadline date: $\qquad$ Completed: Yes __ No

Your credit score is linked to the information on your credit report, but it is not on the report. See Improving Your Credit Score below

Improving Your Credit Score
Now that you've read your credit report, you can start taking steps toward improving your credit score. Review the information below and then determine what action steps you will take to improve your credit score. These five tasks each address components of your credit score.

## Here are five tasks you can do to improve your credit score:

Task 1 Pay your bills on time. Your payment history accounts for about $35 \%$ of your score.
Task 2 Keep your credit card balances low. Ideally, you should keep the amount you borrow below $25 \%$ of your available credit limit. This accounts for about $30 \%$ of your credit score

Task 3 Increase the length of your credit history. This accounts for about $15 \%$ of your score.

Task 4 Minimize the frequency of new card requests. This accounts for $10 \%$ of your score.

Task 5 Keep a combination of different types of debt (such as mortgages and credit cards). This makes up the remaining $10 \%$ of your score.

Review the tasks on the previous page and pick two you want to work on. Write an action step for each task and include a date when you will take the action. Here are some examples

Step 1 Look into online bill payment tied to a designated date (days before the actual due date) to see if it can help you stay on top of your bills.

Step 2 You might pledge to use cash for more purchases starting on a specific date.

Step 3 Carefully review your existing accounts to get a sense of how long your credit history is. If you don't have credit in your own name, you could apply for a low-limit credit card to responsibly build your credit history.

Step 4 Resist the urge to apply for new cards or lines of credit. Instead plan to manage all purchases within existing credit limits.

Step 5 If you find that you absolutely need additional credit, consider a differen type of loan or line of credit than you already have. But be sure you can pay it back, because missing payments will hurt you more in this area than it can help you

Be as specific as possible. Remember, you can incorporate these steps into you Action Plan Road Map (see pages 100-101) to help you get to your goal.

## Task

## ction steps:

## What will you do?

## When will you do it?

## Action Plan: Managing Debt <br> Iknow how much debt I have and I have a plan for paying it down.

Managing debt is a critical step toward improving your financial situation. This section is intended to help you identify, prioritize, and plan how best to address any issues you may have. Use what you've learned in Part 2 of AARP Foundation Finances $\mathbf{5 0}+$ to inform this work toward achieving your goals.

Start by writing down all of your debt, along with the current balance and interest rate. Then prioritize each item according to your own situation and what you earned in Part 2.

Secured debt (such as a mortgage, home equity loan, auto loan, or other debt where an asset is pledged as collateral for the loan) is generally prioritized above other kinds of debt because you can lose the property (home, car, etc.) if you default on the loan. However, you can also save a lot of money in the ong run by paying down your high-interest, high-balance unsecured deb (credit cards, medical debt, personal loans, etc.) while still addressing your ther debt obligation

WORKSHEET 5: MANAGING DEBT
$\overline{\text { MY DebT }}$

| Type of credit/debt | Current balance | Interest rate | Priority \# |
| :--- | :--- | :--- | :--- |
| Home mortgage |  |  |  |
| Home equity loan |  |  |  |
| Auto loans |  |  |  |
| Student loans/tuition |  |  |  |
| Personal loans |  |  |  |
| Other loans |  |  |  |
| Medical debt |  |  |  |
| Credit card \#1 |  |  |  |
| Credit card \#2 |  |  |  |
| Credit card \#3 |  |  |  |
| Credit card \#4 |  |  |  |
| Other: |  |  |  |
| Other: |  |  |  |
| Other: |  |  |  |
| Total: |  |  |  |

Next, use the information from the table above to establish a 3-month plan for paying down your "unsecured" debt (credit cards, medical debt, personal loans, etc.). In the far left column on the next page, fill in your debts according to the priority order you have established. At the end of the third month, write down your new balance for those debts that you have prioritized (perhaps by highes interest rates and/or balances).

Once you have paid off a debt in full, use the extra money you had been applying to that debt and add it to the amount you are paying to the nex debt in your priority order. You won't miss the "extra" money and you'll pay off your debts faster.

| MY DEBT: 3-MONTH PLAN |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Unsecured debt <br> (by priority) | Current <br> balance | Current <br> minimum <br> payment | Payment <br> goal <br> month 1 | Payment <br> goal <br> month 2 | Payment <br> goal <br> month 3 | Balance <br> after 3 <br> months |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

Take a moment to reflect on what you took away from this section and how managing debt can help you improve your financial situation.

## What I found interesting or useful:

What I learned about myself:

## Things I can do to help me manage and reduce my debt

[^2]
## Action Plan: Saving <br> I have a plan for building my savings.

Saving money can seem like a daunting task. However, as you've learned during the course of the Finances 50+ program, you know that you can improve your financial situation. Saving is a habit. When you do it consistently-no matter how much or how little you put away-over time you will see your assets slowly begin to grow, and you'll want to continue saving.

Many people think they don't have enough money to save. But by spending wisely and keeping track of your money, you can put aside even a tiny amount every day. Using the following worksheet, pledge to yourself that you will save something every day, even if it's $\$ 1$ or loose change you found in your car. As the saying goes, "Pay yourself first."

Mark an " X " on each day that you save something, and write in the amount you saved that day. Keep your savings in one place (such as a jar in the closet) that is reasonably secure. Post your Savings Calendar where you will see it regularly (but where it can also be kept private if necessary), such as on your closet door or bathroom mirror.

Just think: If you put aside $\$ 5$ every day (perhaps by using money you might have spent on small items like a coffee drink or a magazine), you will save $\$ 175$ in the 5 weeks on your calendar. If you continue to save $\$ 5$ a day, you'll have more than $\$ 900$ in 6 months and $\$ 1,825$ a year from now. Step by step, day by day, and week by week, you can do it.

WORKSHEET 6: SAVINGS

| SAVINGS CALENDAR |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Week 1 | Week 2 | Week 3 | Week 4 | Week 5 |
| Monday $\$$ | Monday $\$$ | Monday $\$$ | Monday \$ | Monday $\$$ |
| Tuesday $\$$ | $\begin{array}{\|l} \text { Tuesday } \\ \$ \\ \hline \end{array}$ | Tuesday $\$$ | Tuesday $\$$ | $\begin{array}{\|l} \hline \text { Tuesday } \\ \$ \\ \hline \end{array}$ |
| Wednesday <br> \$ | Wednesday $\$$ | Wednesday <br> \$ | Wednesday $\$$ | Wednesday $\$$ |
| Thursday $\$$ | Thursday $\$$ | $\begin{aligned} & \text { Thursday } \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{\|l} \text { Thursday } \\ \$ \\ \hline \end{array}$ | $\begin{aligned} & \text { Thursday } \\ & \$ \\ & \hline \end{aligned}$ |
| $\begin{aligned} & \text { Friday } \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{\|l} \hline \text { Friday } \\ \$ \\ \hline \end{array}$ | $\begin{aligned} & \text { Friday } \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{\|l} \hline \text { Friday } \\ \$ \\ \hline \end{array}$ | $\begin{array}{\|l} \hline \text { Friday } \\ \$ \\ \hline \end{array}$ |
| $\begin{aligned} & \text { Saturday } \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{\|l} \text { Saturday } \\ \$ \\ \hline \end{array}$ | $\begin{aligned} & \text { Saturday } \\ & \$ \\ & \hline \end{aligned}$ | Saturday $\$$ | $\begin{array}{\|l} \text { Saturday } \\ \$ \\ \hline \end{array}$ |
| $\begin{aligned} & \text { Sunday } \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{\|l} \hline \text { Sunday } \\ \$ \\ \hline \end{array}$ | $\begin{aligned} & \text { Sunday } \\ & \$ \end{aligned}$ | $\begin{array}{\|l} \hline \text { Sunday } \\ \$ \\ \hline \end{array}$ | $\begin{aligned} & \text { Sunday } \\ & \$ \end{aligned}$ |
| Total: | Total: | Total: | Total: | Total: |

Take a moment to reflect on what you took away from this section and how creating a plan to build your savings will help you improve your financial situation.
What I found interesting or useful:

What I learned about myself:

## Things I can do that will help me save money now and in the future:

$\qquad$

Consider using this information to inform the action steps you will take on your Road Map.

## EXERCISE: SAVING FOR THE FUTURE

Now that you've worked on establishing a daily savings habit, it is helpful to think a little further down the road and how you can approach achieving long-term savings goals. Identify a few goals (such as saving for your emergency fund, retirement, or a specific purchase), fill in the blanks and then track your progress.

## Saving for:

Steps I can take:

Deadline date $\qquad$ Completed:__ Yes ___

Saving for:

Steps I can take:

Deadline date $\qquad$ Completed:__ Yes __ No

Saving for:

Steps I can take:

Deadline date: $\qquad$ Completed:__ Yes __ No

Consider using this information to inform the action steps you will take on your Road Map.

## Action Plan: Road Map

## I have created a road map to guide me toward my financial goals.

This is where you tie together everything you've learned in the Finances $\mathbf{5 0 +}$ program and through your years of experience managing your finances. Refer to your goal-setting worksheet on pages $80-81$ to help you think about the goals you want to achieve (some will remain the same; some may have changed). Think back to the exercise you completed on page 10 about what matters most to you and how improving your financial situation can help you achieve your life goal. This is where you want to go.

Now think about everything you've learned in this program and what you've accomplished already with other elements of your Action Plan. Think about how improving credit, managing debt, and building savings can help you get to your overall goal-then write down the steps you will take. This is how you will get there.

As the days pass, you can track your progress as you strive toward meeting your deadlines as you cross items off your "To Do" list. Step by step, day by day, week by week, you will see that your Road Map is leading you closer and closer to where you want to be.

## WORKSHEET 7: ROAD MAP

| My Credit \& Debt Goal: |  |
| :--- | ---: |
| Action Steps "To Do" List |  |
| Step 1 |  |
| Deadline | $\square$ Completed |
| Step 2 |  |
| Deadline | $\square$ Completed |
| Step 3 |  |
| Deadline | $\square$ Completed |
| Step 4 | $\square$ Completed |
| Deadline |  |
| Step 5 | $\square$ Completed |
| Deadline |  |

## My Savings Goal:

## Action Steps "To Do" List

Step 1

| Deadline | $\square$ Completed |
| :--- | ---: |
| Step 2 |  |
| Deadline | $\square$ Completed |
| Step 3 |  |
| Deadline | $\square$ Completed |
| Step 4 |  |
| Deadline | $\square$ Completed |
| Step 5 |  |
| Deadline | $\square$ Completed |
|  |  |

How improving my financial situation will help me achieve what's most important to me (my overall goal):

$\qquad$

## Why This Is Important to Me

My Support Team:


The resources in this section offer information about topics relevant to the program. The Online Resources section provides links to more extensive and in-depth information. As you continue working toward your goals, you may find it helpful to review these documents on your own or with a Money Mentor or other member of your support network.

If you have no computer at home, check to see if your local library offers free computer use. Many do. In addition, librarians can help you locate additional printed resources.

CONTENTS:
Resource 1: Six Tips for Getting Organized
Resource 2: Nine Things to Remember When You Can't Pay Your Bills
Resource 3: Reading Credit Card Agreements and Disclosures
Resource 4: Sample Credit Card Statement
Resource 5: Sample Credit Report and Request Form
Resource 6: Sample Credit Report Dispute Letter
Resource 7: Credit Protection: Know Your Rights
Resource 8: What to Do if Your Identity Is Stolen
Resource 9: Start Saving for Retiremen
Resource 10: 10 Retirement Planning Steps
Resource 11: Five Tips for Evaluating Websites
Online Resources
Local Resources
Answer Key

## Resource 1

## SIX TIPS FOR GETTING ORGANIZED

Getting your finances organized is the first step to getting them under control Once you know where to store and find important documents and bills, you'll feel better prepared for budgeting and saving. Here are some helpful suggestions.

1. Check your budget at least once a month and adjust expenses if necessary as bills come in. Be sure to collect and open your bills and keep track of them.
2. Contact your bank about online bill pay, which can help you keep track of your bills and transfer money between accounts if necessary to cover a bill. Alternatively, keep all your unpaid bills in one place and note due dates on your calendar. Check your balance regularly to ensure there are no unexpected charges on your account.
3. Set up a filing system, with one or more separate files for the following:

Household accounts (such as mortgage or rent statements and paid household bills, if needed for tax purposes)

Income, such as pay stubs and benefit statements
Savings and checking accounts
Credit cards and department store cards (be sure to save the terms and conditions documents that came with your cards)

## Other debts

Retirement and investment accounts
Children's account
Tax returns for each of the last 7 years, plus one for this year, and any related correspondence
Net worth worksheet-complete a new net worth worksheet (see page 83) periodically to keep track of your progress

## 4. Keep insurance policies, wills/trusts, birth/marriage certificates,

passports and other hard-to-replace documents in a fireproof safe box. If you have a computer, keep a back-up copy of the financial records in a passwordprotected area or on a separate drive.

5. Look into online recordkeeping. Many of your records may already be vailable on line, particularly bank and investment accounts. If so, make note of URLs and other contact information.
6. Shred sensitive documents (such as paid bills, old bank statements, old investment statements, and tax returns more than 7 years old) once they are no longer needed

## FOR MORE INFORMATION

Several reliable websites offer tips about shredding. Search online for shredding personal information" for help finding what and when to shred.

## Resource 2

## NINE THINGS TO REMEMBER WHEN YOU CAN’

 PAY YOUR BILLS1. Prioritize your debts. If there would be serious consequences for no paying a bill, such as losing your car or house, make sure you keep up with your payments or talk to your lender.
2. Budget for getting out of debt. Stick to your budget and try to include realistic amounts you can pay off each month.
3. Seek help immediately. Be willing to accept help when offered. Contact your bank or a U.S. Department of Housing and Urban Development (HUD)certified housing counselor for free or low-cost advice about avoiding foreclosure, for example. If you feel you need a lawyer, find out if there is free legal aid in your community.
4. Talk to your creditors. Let them know about your situation. Some might agree to a payment plan.
5. Consider reputable credit counseling. A reputable credit counselor can help you sort out your debts and start creating a repayment plan. Look for a local nonprofit credit counseling service by contacting the National Foundation for Credit Counseling, 800-388-2227, or visit $n f c c$.org.
6. Watch out for scams. Credit repair agencies are generally not worth the money. They may claim to repair your credit, but they would most likely charge you for things you could do yourself. Similarly, watch out for credit counseling agencies that charge hefty fees without doing much for you.
7. Avoid "debt relief" or "debt settlement" companies. These services typically charge high fees without really relieving you of the debt or changing the habits that led to it. In addition, your use of such a service may be noted on your credit report. A debt management plan with a reputable credit counseling agency is the better choice. Also, be aware that legitimate debt consolidationthrough a reputable company or organization-may be an option. For more information, see nfcc.org.

8. Consider the pros and cons of bankruptcy. Bankruptcy is complicated and it does not eliminate certain kinds of debt. But as a very last-resort option, it may be worth investigating the different types of bankruptcy to determine if any would help your situation. A nonprofit credit counseling agency or attorney may be able to help you look into it.
9. If a debt collector calls, be sure you know your rights. There are limits on what debt collectors can do and say. For example, they may not contact you at unreasonable times, harass you, or make false or misleading statements.

## FOR MORE INFORMATION

Visit the Consumer Financial Protection Bureau (CFPB) at consumerfinance.gov. The CFPB has information about mortgage help that includes a list of foreclosure prevention resources by state, as well as a list of legal aid by state
For information about bankruptcy and debt collection, see nolo.com or ftc.gov, and search for the term you want to learn about

READING CREDIT CARD AGREEMENTS AND DISCLOSURES
Every credit card comes with an agreement that clearly spells out the interest rates, fees, and penalties charged by the card, as well as your consumer rights and the process for disputing charges.

It's important to keep a copy of your credit card agreement so you understand how much interest each card charges, how to avoid triggering penalties, and so on. But if you don't have a copy of your credit card agreement, contact you credit card issuer to get one, or visit the Consumer Financial Protection Bureau (CFPB) at consumerfinance.gov/credit-cards/agreements/and search for your credit card agreement in their database. The CFPB is also a good place to go if you have an issue with your credit card provider or need to file a complaint.

Sample Credit Card Disclosure Box
Every credit card application has a disclosure box. You can find critical information about fees and interest rates in the fee disclosure box. When you think about getting a new card, compare the cards' disclosure boxes to see which is best for you. On the next page is an example of the kind of information you can find.

## SAMPLE CREDIT CARD DISCLOSURE BOX

## 位

As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement sent with the card. Account terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law.

| Annual Percentage Rate (APR) for purchases | $8.99 \%, 10.99 \%$, or $12.99 \%$ introductory APR for one year, based on your credit worthiness. <br> After that, your APR will be $14.99 \%$. This APR will vary with the market based on the prime rate. |
| :---: | :---: |
| APR for Balance Transfers | 15.99\% <br> The APR will vary with the market based on the prime rate. |
| APR for Cash Advances | 21.99\% <br> The APR will vary with the market based on the prime rate. |
| Penalty APR and When It Applies | 28.99\% <br> This APR may be applied to your account if you: <br> 1. Make a late payment <br> 2. Go over your credit limit <br> 3. Make a payment that is returned <br> 4. Do any of the above on another account that you have with us. <br> How long will the Penalty APR apply? If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due. |
| How to Avoid Paying Interest on Purchases | Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month. |
| Minimum Interest Charge | If you are charged interest, the charge will be no less than \$1.50. |
| FEES |  |
| Set-up and Maintenance Fees | NOTICE: Some of these fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $\$ 250$, your initial available credit will be only about $\$ 209$ (or $\$ 204$ if you choose to have an additional card). <br> Annual Fee: \$20 <br> Account Set-up Fee: $\mathbf{\$ 2 0}$ (one-time fee) <br> Participation Fee: \$12 annually (\$1 per month) <br> Additional Card Fee: $\mathbf{\$ 5}$ annually (if applicable) |
| Transaction Fees | Balance Transfer: Either \$5 or 3\% of the amount of each transfer, whichever is greater (maximum fee: \$100). <br> Cash Advance: Either \$5 or 3\% of the amount of each cash advance, whichever is greater. Foreign Transaction: 2\% of each transaction in U.S. dollars. |
| Penalty Fees | Late Payment: $\$ 29$ if balance is less than or equal to $\$ 1,000$. <br> $\$ 35$ if balance is more than $\$ 1,000$. <br> Over Credit Limit: \$29 <br> Returned Payment: \$35 |
| How We Calculate Your Balance | We use a method called "average daily balance (including new purchases)." |
| Loss of Introductory APR | We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill. |

Resource 4

## SAMPLE CREDIT CARD STATEMENT

Your credit card statement includes details on your current purchases, fees, charges, and any changes to your account terms. The numbered list below explains the various parts of a credit card statement. Your own statement might look different but will have the same information

Reading Your Credit Card Statement
The numbers here correspond to numbers on the sample statement.

1. The summary of account activity shows all the charges you're responsible for. If anything is past due, it will be listed here.
2. The payment information section shows your balance, minimum payment, and due date.
3. Note the late payment warning
4. The statement even tells you how long it could take to pay off your balance if you pay only the minimum
5. If your interest rate changes, it will show up here. You'll see on the next page that there was a late payment that triggered the penalty rate.
6. If there are changes to your account terms, you'll see them here. In this case, the interest rate went up.
7. This is a list of everything you charged and when
8. Each type of fee and interest charge is listed
9. Here is the year-to-date total of the total fees and interest charged to your card.
10. Finally, this is a summary of your rates for different types of transactions. This also includes your current rate. Remember, another part of the statement showed your interest rate was changing.



Source: $h$ ttp://www.federalreserve.gov/creditcard/flash/readingyourbill.pdf

## SAMPLE CREDIT REPORT AND REQUEST FORM

Your credit report says a lot about you-and what it says can help or hurt you A high score can help you get a better interest rate. A low score can keep you from getting a job, a loan, or a lower interest rate.
t is important to monitor your credit report so you can dispute any errors and dentify problems you need to correct.

By law, each of the three main credit reporting agencies-Experian, Equifax, and TransUnion-is required to provide you with your credit report free once a year. To stay up to date, consider requesting a free report from one agency every 4 months on a rotating basis.

You can also get a report from all three by contacting annualcreditreport.com or by calling 877-322-8228. This is the only authorized one-stop source of the annual credit report for all three bureaus. Watch out for scam companies that claim they are the one-stop source. You can also complete the form on page 116 and send it to the address listed on the form.

As this sample shows, your credit report includes personal information, your existing credit, your public record, and inquiries about you.

Each of the three credit bureaus offers a sample credit report with tips on how to read it. For sample reports, or for a copy of your own credit report, contact:

Equifax: 800-525-6285; equifax.com
Experian: 888-397-3742; experian.com
TransUnion: 800-680-7289; transunion.com
For more information, visit annualcreditreport.com.


Source: http://www.moneymattersmakeitcount.com/creditdebt/Pages/Credithistories.aspx

## EQEIFAX: experían I TransUnion

Annual Credit Report Request Form
You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies. - Gquifax, Experian and TransUnion.
For instant access to your free credit report, visit www. annualcreditreoortcon
For instant access to your free credit report, visit www.annualcreditreport.com.
For more information on obtaining your free credit report, visit www annualcreditreport.com or call $877-322-8228$.


Once complete, fold (do on tstaple or tape), place into a \#10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281
Atlanta, GA
$30348-5281$.



Fold Here


Month


Current Mailing Address:


Previous Mailing Address (complete only if at current mailing address for less than two years)
 ${ }^{31238}$

## Resource 6

## SAMPLE CREDIT REPORT DISPUTE LETTER

When you get your credit report, you'll find it includes information about how to report errors. Follow those instructions. You will need to tell the credit bureau(s) in writing what information you believe is inaccurate. If you find a dispute with one bureau's credit report, you will want to request reports from the other bureaus, as they may differ. This sample letter is a good guide.

Along with the letter, include copies (NOT originals) of documents that support your position. You may want to enclose a copy of your credit report with the items in question circled. Send your letter by certified mail, return receipt requested, so you can document that the credit bureau received your correspondence. Keep copies of your dispute letter and enclosures. You can use the sample letter to draft your correspondence. In addition, the bureaus offer online tools for handling disputes.

## Date

Your Name
Your Addres
Your City, State, Zip Code
Complaint Departmen
Name of Credit Burea
Address
City, State, Zip Code

## Dear Sir or Madam:

am writing to dispute the following information in my file. The items I dispute also are circled on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.
cosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records or court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.
Sincerely,
Your Name
List Enclosures


## Resource 7

## CREDIT PROTECTION: KNOW YOUR RIGHTS

Many federal laws protect your rights when you interact with your credit card company. For example, these laws protect you by

- Requiring that you be told clearly about fees and interest rate

Limiting fee and rate increase

- Prohibiting discrimination in availability of credit

Requiring that mistakes on your bill be corrected without damaging your credit score

- Allowing you to dispute errors in your credit file
- Limiting your liability to $\$ 50$ if your card is lost, stolen or used without your permission

You can file a complaint online with the Consumer Financial Protection
Bureau (CFPB), consumerfinance.gov/complaint.
The CFPB also has information about financial protection for older Americans at consumerfinance.gov/older-americans.

For information about consumer protection laws, visit
federalreserveconsumerhelp.gov.

## Resource 8

## WHAT TO DO IF YOUR IDENTITY IS STOLEN

Identity theft can wreak havoc with your finances, credit history, and reputation And it can take time and patience to resolve. According to the Federal Trade Commission (FTC), acting quickly is the best way to limit the damage

The FTC recommends four first steps if your identity is stolen.

1. Place a fraud alert on your credit reports, and review your reports. To place a fraud alert, contact any one of the three main credit reporting agencies That agency in turn informs the others on your behalf. This makes it harder for anyone to open more accounts in your name. Once you place a fraud alert, you can order free reports from each agency
2. Close the accounts that you know, or believe, have been tampered with used, or opened fraudulently.
3. File a report with the police in your local community or in the community where the identity theft took place
4. File a complaint with the FTC. You can file a complaint online. (On their website, $f t c . g o v$, see "File a Complaint" under the "Consumer Protection" tab.)

For more information, visit ftc.gov
Information to Place a Fraud Alert and Order Credit Reports:
Equifax: 800-525-6285; equifax.com
Experian: 888-397-3742; experian.com
TransUnion: 800-680-7289; transunion com

## START SAVING FOR RETIREMENT

It is never too early or too late to start thinking about saving for retirement
Retirement planning is an ongoing process. Each plan is unique, but everyone should make one. And the sooner, the better.

Getting Started
It's hard to save for retirement when you have other financial concerns, but if you break it down into manageable steps it will seem a lot easier. Here are some ideas to help you get started:

Make saving a habit. Decide how much you can set aside in your monthly budget toward your retirement savings-and stick to your goal. Consider making automatic contributions-contact your bank or financial institution to find out how.

Explore ways to save. How much you save and spend are the most important factors in achieving your retirement goals-even more important than how you invest. Look at your expenses and determine where you can cut back and how you can save more

Make the most of tax-advantaged retirement accounts. ${ }^{2}$ Investing in a ax-advantaged account, such as an individual retirement account (IRA)-or a 401(k) if available through your work-allows your earnings to grow tax-free, so that even small contributions can become more significant over time.

For more information, see Schwab MoneyWise ${ }^{\circledR}$ at schwabmoneywise.com and search for "retirement account", or visit aarp.org and search for "retirement planning."

## 10 RETIREMENT PLANNING STEPS

How can you prepare financially for your retirement? For help, follow these steps

1. Decide what you want to do in retirement. Write down your top five goals. Be realistic and practical.
2. Take stock of what you have. Don't think only about money. Think about your skills and hobbies, too. These help you enjoy life-and sometimes you can use them to earn money in retirement.
3. Evaluate your health. Schedule checkups and preventive exams. Ea healthy, exercise, and get enough sleep. Staying in close contact with family and friends will help you maintain your health physically and mentally.
4. Decide when to collect Social Security. The longer you wait to collect Social Security (generally until age 70), the more you will receive each month.
5. Network. Building your network can help you find opportunities-and perhaps a job. Do you enjoy using social media? If so, staying in touch via Facebook or LinkedIn can help you build relationships. If not, be socially active with friends and organizations.
6. Decide about a retirement job. Whatever your main reason for workingmoney, social connections, interests-don't wait until after retirement to make a decision about your employment prospects during retirement. The sooner you are comfortable with your decision, the better you can prepare.
7. Create a retirement budget. As you track income and expenses, think about whether you will be able to manage with less in retirement-or not-and plan accordingly.
8. Cut expenses. Any way you can trim expenses or spend wisely will help you save more for retirement.
9. Prepare for the unexpected. Don't get caught off guard. Consider how you'd pay for an extended illness, home repairs, or some other emergency, and put money aside. Make sure your insurance is adequate.
10. Stick to your plan. Get the support of friends, family, your network, or your Money Mentor to help you stay on track.


## Resource 11

## FIVE TIPS FOR EVALUATING WEBSITES

Not all online sources are equally valuable or reliable. Before trusting a website, consider these questions

1. Is the site accurate? Can information be verified from other sources? Are here obvious spelling mistakes or other errors?
2. What are the authors' credentials? If the website belongs to an institution, is it reputable? Is there a way to contact the author(s) or institution?
3. Is the information current? What is the date of the last publication or update?
4. Why is the information there? Is it meant to inform? Entertain? Sell? Is it fact or opinion?
5. Have you looked at other sources on the same topic before deciding to trust this one?

For more information, go online and search for "evaluating websites."

## Online Resources

## AARP Foundation Finances 50+: aarp. org/finances50plu

AARP Money: aarp.org/money
Tips, tools, and articles on everything related to your financial life
AARP Benefits QuickLINK: benefitscheckup.org/aarpkeybenefits
See if you qualify for public assistance and if you can save money on health care, medication, food, utilities, and more.

Schwab MoneyWise: schwabmoneywise.com
Find guidance on financial fitness and making the most of your money. Includes a financial fitness quiz.

Consumer Financial Protection Bureau: consumerfinance.gov
A wealth of information to help consumers with credit, debt, and asset protection.
Elder Financial Protection Network: bewiseonline.org
Information about protecting yourself and your money.
Federal Trade Commission: ftc.gov
Government agency charged with consumer protection. See the Consume Protection tab

Financial Literacy and Education Commission: mymoney.gov
Information on a wide range of financial topics from a number of federal entities
Medicare: mymedicare.gov
Official Medicare site with information about the parts of Medicare, what's new, and how to find Medicare plans, facilities, or providers

National Council on Aging: ncoa.org
Information about improving the health and economic security of older adults.
National Endowment for Financial Education: smartaboutmoney.org
An excellent wide-ranging resource about life events and financial decisions.
National Endowment for Financial Education: myretirementpaycheck.org Guidance on how to manage retirement income.


## National Foundation for Credit Counseling: $n f c c . o r$

he nation's largest financial counseling organization-a network of more than
700 community-based offices located in all 50 states and Puerto Rico.
Social Security: ssa.gov
Official site, including information and online applications.
U.S. Administration on Aging: ncea.aoa.gou

National Center on Elder Abuse. Includes links to finding state resources.

There's a lot of personal help available right in your own community. Here are some ideas. Check with a librarian or senior center if you need help finding local contact information.

## Public library

Social Security office
State, county, and city offices; local health and human services agencies
State attorney general's offices handle consumer complaints and consumer protection issues
Community colleges often have low-cost classes to prepare for various jobs and gain skills
Housing agencies offer information about affordable housing

## Job search programs

Local senior/community resource centers and trusted nonprofit organizations

Nonprofit credit counseling services: Find a local resource at $n f c c$. or or call 800-388-2227

AARP Foundation Tax-Aide programs: Find a local site at
aarp.org/applications/VMISLocator/searchTaxAideLocations.action
Area Agency on Aging: Find a local agency that offers advocacy and resources
to keep people independent at $n 4 a . o r g$
Community action agencies: Find a local resource a communityactionpartnership.com


## Answer Key

Quiz: What Do You Know About Credit and Debt? [Page 22]

1. True. An MIT study published in 2000 showed that subjects were likely to spend significantly more for an item paid with a credit card than if they paid cash. Bankrate.com also estimates that credit card purchases can end up costing users as much as $112 \%$ more than if cash had been used
2. True. You can get a report free once a year from each of the three credit bureaus. By staggering your free reports, you can even get a report from a different bureau every 4 months.
3.False. The most recent total balance, including carried balance, will show on your credit report. But it is not as bad as a late payment, which can really hurt your score.
3. False. There is an additional fee to get cash, usually determined by how much you borrow, and the interest rate for cash advances is usually higher than for regular purchases.
4. True. Interest rates and fees vary greatly. And don't forget that a low introductory annual percentage rate (APR) will most likely go away soon and be replaced by a significantly higher rate.
5. False. They can't threaten you with violence or take your property, unless there is a legal procedure, such as foreclosure, that allows you a reasonable opportunity to contest the debt. Also, they are not allowed to contact you at inconvenient times.
6. Probably not. They may simply charge you for what you could do yourself for free. Less reputable credit repair agencies may even act illegally.
7. False. They may be able to take out a secured credit card, or get a card at a higher rate of interest.
8. True.
9. True. And you'll also be charged a penalty fee

## Quiz: Building-and Protecting-Assets [Page 54]

1. This can help you control spending, because you can spend only what you
have, while avoiding the costs associated with credit card interest rates and fees.
2. This can help you avoid fees
3. Knowing how much banks charge for these fees can motivate your behavior to avoid them.
4. A good practice to help you save.
5. A good practice to help you save.
6. A good practice to help you save.
7. This can help you avoid charging emergency expenses to your credit card
8. If you have a retirement savings account at work, it is smart to take advantage of it, especially if your employer provides a match.
9. This may seem difficult, but saving something-even if it's less than $10 \%$ is a vital part of planning for retirement, goals, and unexpected events
10. False-Relatives, caregivers, friends, and neighbors are the most likely to perpetrate financial abuse of people 50 and older.

## Glossary

401(k) plan: A defined contribution plan in which an employer takes money directly from an employee's salary and places it in a tax-deferred retirement account. The employee doesn't pay taxes on this money until he or she withdraws it. Employers often match a percentage of employee contributions.

Annual fee: A charge imposed each year for using a credit card. It may also be called a membership or participation fee

Annual percentage rate (APR): The cost of credit on a yearly basis, expressed as a percentage (or finance charge interest rate) of the loan amount.

Annual percentage yield (APY): The amount paid on the principal of an interest-bearing investment or account in a year, expressed as a percentage (or growth interest rate)

Asset: A property that has monetary value, including personal possessions (such as houses, cars, and jewelry) and financial assets (for example, savings and investments).
Asset allocation: How your assets are divided among stocks, bonds, and cash. These three basic asset classes respond to the market differently. When one is up, another can be down. Asset allocation is a key to investing success. Also known as asset mix.

Bankruptcy: A legal process that helps consumers and businesses get rid of debts and repay their creditors. There are different types of bankruptcy. Because it affects future credit and because bankruptcy does not eliminate some debts, it is a last-resort option.
Bond: A type of investment that is similar to an IOU from a corporation or a municipal or federal government. Money is loaned, with interest, for repayment in full on a specific date.

Budget: A plan that estimates income and expenses in order to achieve financial goals.

Certificate of deposit (CD): An FDIC-insured investment made with a financial institution in which a specified amount is deposited for a specific period of time, at a preset, fixed interest rate.

Credit: Money that a lender may extend to a borrower. The borrower generally promises future payment with interest.

Credit builder loan: A loan designed to help improve one's credit report Loans are typically for small amounts and generally involve giving the lender money upfront or in regular payments over a period of time

Credit bureau: A company that collects and sells information about how people handle credit. The reports are made available to individuals and to creditors who profess to have a legitimate need for the information. The three major national credit bureaus are Equifax, Experian, and TransUnion
Credit card: A card that allows a person to purchase goods and services by paying with money borrowed from a creditor. The borrower then repays the credit card company, often with interest. There is usually a grace period before interest is charged on new purchases.

Credit counseling: Personal financial services that include budget counseling and education, debt management plans, financial literacy courses, and housing counseling

Credit report: A document containing financial information about a person, focusing on his or her history of paying obligations, such as mortgages, car payments, utility bills, and credit cards. Also includes current balances on outstanding debts, the individual's amount of available credit, public records such as bankruptcies, and inquiries about credit from various companies.

Credit score: A three-digit number that reflects the credit history detailed by a person's credit report.

Debit card: A card that allows an individual to transfer funds instantly from a bank account.

Debt: An amount owed
Debt consolidation: The process of taking out one loan to pay off many others, often to secure a lower interest rate or for the convenience of paying only one loan.

Disclosure box: Also called fee disclosure box. The standardized disclosure box appears on credit card applications and features relatively consistent erms and conditions for credit card offers so that consumers can compare cards.

Diversification: ${ }^{3}$ Lowering risk potential by spreading money across and within different asset classes such as stocks, bonds, and cash equivalents.

Earned income tax credit (EITC): A tax credit for low-income workers who meet certain requirements, and have earned income under a specified limit. Even workers whose incomes are too small to have paid taxes may qualify for the earned income credit.
Equity: The difference between a home's current appraised value and what you owe on it. For example, if your home is worth $\$ 200,000$ and you owe $\$ 147,000$, your equity is $\$ 53,000$.

Federal Deposit Insurance Corporation (FDIC): A government entity that insures deposits in banks and thrift institutions, assuring bank customers that their savings and checking accounts are safe. As of this printing, coverage is up \$250,000 per depositor per bank for individual, joint, and trust accounts, and for individual retirement accounts (IRAs). Business accounts are also insured.
Finance charge: The charge for using a credit card, including interest costs and other fees.
Grace period: The time during which you are allowed to pay your credit card bill without having to pay interest. The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers; instead, interest charges start right away.

Home equity loan: A loan based on the amount of equity a homeowner has in the property. The interest paid on a home equity loan may be tax deductible It is different from a home equity line of credit (HELOC). A home equity loan features a fixed rate, payment and term, usually 5 to 15 years.
Identity theft: The unauthorized use of your personal information, such as your name, address, Social Security number, or credit account information.

Individual retirement account (IRA): IRAs are retirement accounts with tax advantages. You may contribute up to the limit for each taxable year. Or, if you're age 50 or older, you can put aside more. But your contributions can't exceed your earned income. The investment growth is not taxed until you begin making withdrawals, usually after age $591 / 2$. Before then, if you take money out you will usually face a $10 \%$ penalty and pay taxes on the amount withdrawn
Installment credit: A type of credit in which the monthly payment is the same every month and the loan has a set time period. The most common forms of installment credit are mortgages and auto loans.

Interest rate: A percentage the borrower must pay in addition to the amount borrowed. For example, if $\$ 100$ is borrowed at a $10 \%$ interest rate, the borrowe may need to pay the lender $\$ 110$ over the course of a year (the amount
borrowed, plus $10 \%$ ). Generally, interest rates are higher when the risk is bigge for the lender.

Invest: To put money into something (such as a stock or mutual fund) in hopes of achieving a profit

Investment account: Also known as a brokerage account, an investment account allows you to invest in a wide variety of securities including stocks bonds, mutual funds, and fixed income products.

Liability: An obligation to make a payment or settle a debt (for example, a mortgage or car loan payment).

Minimum payment: The minimum amount a cardholder must pay to keep the account from defaulting. Often this amount is $2 \%$ of the outstanding balance

Money market account: Bank deposit accounts that permit a limited numbe of cash transactions per month and typically pay interest at rates similar to or slightly below the rate on short-term certificates of deposit (CDs) from the same institution. However, unlike CDs, you can take your money out at any time and earn interest until you withdraw it. Like bank products, money market accounts have the safety of Federal Deposit Insurance Corporation (FDIC) protection.

Mortgage: A form of debt in which one can own property by paying the entire price over time with interest-typically, a loan to buy a house.

Mutual fund: A type of investment that pools the money of many investors to buy various stocks, bonds, and/or cash equivalents.
Needs: Necessary expenses, or must-haves, such as your mortgage/rent, groceries, and transportation.

Net worth: A person's or an entity's value, calculated by subtracting what is owed (liabilities) from what is owned (assets).

Overdraft protection: Ensures that all checks you write and electronic transactions you authorize will clear, even if you spend more than the balance in your account. If you link a savings account to the checking account or qualify for an overdraft line of credit, money is transferred from that account or line of credit to cover the shortfall. You will pay interest if you use your line of credit.
Portfolio: The collection of investment assets you hold is called your investment portfolio.

Predatory lenders: Lenders who take advantage of borrowers by employing a variety of deceptive financial practices. They may ask for money up front, charge very high interest rates or excessive fees, steer borrowers into larger loans, hide costs, or use high-pressure tactics.

Prepaid debit card: Often compared with an electronic bank account, the card is loaded with a specific amount of money that is prefunded (or paid for) in advance. You can pay for things with a debit card without carrying cash around. Some cards must be used in a particular store for a limited amount of money. Other cards can be used anywhere that accepts the card's payment network (such as MasterCard or Visa). Some cards are reloadable, meaning you can add money to them.

Reverse mortgage: A special type of home loan that lets you convert part of he equity in your home into cash

Revolving credit: An account that requires a minimum payment each month, plus service charges on the remaining balance. As the balance declines, so does the service charge. The most common examples are credit cards and tore cards.

Secured debt: Debt that is attached to something tangible. Common examples of secured debt are mortgages and auto loans. If you fail to repay secured debt, you could lose the item attached to it. For example, if you do not pay your car loan, your car can be repossessed.

Social Security: America's earned benefit program for workers who worked in Social Security-covered employment, and for their families. Payroll taxes from employers and employees pay for the benefits.
Stock: In investing terms, stock is a share or shares in ownership of a company, and individuals usually purchase them (invest in them) in hopes of gaining a profit. There are many types of stock
Unsecured debt: Unsecured debt isn't attached to any kind of property or product. Common examples of unsecured debts are credit cards, medical bills, and store cards, where you do not have to put up any material as security for the debt.

Wants: Expenses that are nice to have but not essential, such as entertainment travel, and new clothing.


[^0]:    "Start where you are. Use what you have.

[^1]:    Withdrawals from tay-advantaged retirement accounts-such as IRAs and $401(\mathrm{k})$ s

[^2]:    Consider using this information to inform the action steps you will take on your Road Map.

