DEBTOR EDUCATION

PHONE COURSE

Module 1

Since you are emerging from bankruptcy, your current financial situation may not be the best. You may have a poor credit record, little or no savings, and some non-dischargeable debts.

Your credit record is a history of how well you paid back debts you had in the past. Missed payments, loan defaults, judgments, bankruptcy, and too much debt can all contribute to a poor credit record. In turn, this can lead to having to pay higher interest rates on future loans or not even being able to qualify for any loans at all.

It is also likely that you don’t have any money in a Rainy Day Fund, which is an account with funds to use only for an emergency. If this is the case, you currently don’t have the means to overcome financial crises such as hospitalizations, divorces, job losses, or natural disasters.

Depending on your situation, you may also have some non-dischargeable debts, which are debts that you will have to pay even once you emerge from bankruptcy. These could include taxes, alimony, child support, and student loans. Defaulting on these debts could result in stiff penalties.

However, you can obtain freedom from your debts and save for the future. There are ways to manage your finances effectively and to overcome your financial problems.

If you are completing a Chapter 7 bankruptcy, you can be relieved of many debts and make a clean start. If you are completing a Chapter 13 bankruptcy, you probably already have some guidelines for how to stay within a budget and pay back your creditors.

This course should help you accomplish the following five goals: first, develop a monthly spending and savings plan; second, achieve your savings goals; third, stay on track with your savings plan; fourth, use credit effectively; and fifth, prepare for financial setbacks.

We hope you learn a great deal from completing this course, and that you will use some of the tips provided to help you get back on your feet again.

Module 2

In this module, we will review your financial situation and set up a savings goal. To get on a path toward successful money management, the first step you should take is to start saving money each and every month.

Do you save money each month now, or do you spend more than you earn? To answer this question, you first must figure out how much money you bring in every month and how much money you spend every month.

Let's calculate your monthly savings rate. You may want to get out a piece of scratch paper right now. First, write down your gross income. This is the total amount of money written at the top of your paycheck (before taxes are taken out). If you do not have a paycheck handy, write down your best guess as to what your gross income is per paycheck. Now that you have written down your gross income, write down your actual take-home pay. This is the amount of money you actually take home after all of the withholding has been removed from your paycheck. It's the amount of money your check is precisely written for. For each paycheck, small amounts of money are removed from your paycheck to go toward federal taxes, state taxes, social security, disability, and Medicare. Your take-home income, or net income, is the amount of money you have left after these deductions. So, for example, your gross income before taking out the deductions could be $2,500 a month. After the deductions, the amount you are actually paid in your check is $2,000. The $2,500 amount is your gross income (or your income **before** deductions are taken out). The $2,000 amount is your net income or your actual take-home pay.

Now that you have written down the amount of take-home pay you bring in per paycheck, multiply this amount by the number of paychecks you receive in a month. For example, if you receive a paycheck twice a month and your take-home pay is $2,000 in each check, your monthly net income is $2,000 times two, which equals $4,000 for the month.

Now you know how much money you bring in every month. Let's calculate how much money you spend every month. Each month you will have two types of expenses: regular expenses and occasional expenses. Regular expenses are those that you have to pay regularly every single month; occasional expenses are those that come up once in a while throughout the year. An example of a regular expense would be a monthly mortgage payment or rent. An example of an occasional expense would be paying to fix a broken wash machine. Write down all of your monthly regular expenses now. These include: rent or mortgage, heating and electric service, water and sewer service, cable/satellite TV or streaming services, phone service, cell phone service, groceries, drug store purchases, entertainment, restaurant meals, gas and transportation costs, alimony, healthcare, and childcare. Estimate how much you spend on each of these items. An example might be $1,500 for rent, $200 for heating, $300 for water, $100 for phone service, $500 for groceries, $200 for gas, and $600 for healthcare. This equals $3,400 each month in regular expenses (in our example).

Now that you have listed all of your monthly regular expenses, write down some of the occasional expenses that you pay throughout the year. These could include: car insurance, renter's or homeowner's insurance, earthquake insurance, property taxes, gifts, or school tuition. For instance, during the entire year, you may pay $600 in car insurance, $400 in homeowner's insurance, $1,000 in property taxes, and $500 in gifts.

To add these up, you get $600 + $400 + $1,000 + $500 = $2,500. To find out how much these occasional expenses cost you each month, you would divide this total of $2,500 for the year by 12. In this example, this would total about $210 per month in occasional expenses.

Finally, add your monthly expenses to your occasional expenses. In this example, you have $3,400 in monthly regular expenses and $210 in monthly occasional expenses for a grand total of $3,610 of total monthly expenses going out every single month. If you subtract these total monthly expenses from the total monthly take-home pay in our example, which was $4,000, you end up with $390 left. So that is the total savings each month in our example: $390. The savings rate is $390 divided by the total monthly take-home pay ($4,000) which equals about 10%. So, in our example, the savings rate is 10%. About one out of every ten dollars is being saved.

Now that you have calculated your savings rate each month, the next question is, are you saving enough? If you aren't saving anything, the answer is definitely no. If you are saving a small amount, this question can only be answered by asking yourself how much you need. If you are nearing retirement, then you need more money to pay for your retirement. If you have several young children, then you need money to pay for their upbringing. The best way to see if you are saving enough is to calculate your financial need and see if you are saving enough to be able to meet this need. It may seem like a difficult task to try to save a lot of money over the course of many years, but the task of saving a little money each month is achievable. Every small amount you save can help you achieve your goal of financial stability.

The first step to take toward achieving this goal is to determine how much money you can save each month, ensuring that you have enough to pay for all of your monthly necessities. A reasonable amount of money to aim to save each month would be about 5% of your take-home pay. So, for example, if you bring home $1,500 a month, 5% of that is $75 a month.

Two easy tasks that will help you save money are: first, to set up a savings account, and second, to set up direct deposit of your paycheck into that savings account. If you earn a regular paycheck, use direct deposit to have your income directly transferred into your account. This will save you trips to the bank to deposit your paychecks and make it easier to save your money in the long run. Talk to your human resources department at work to help you set up direct deposit. Also, set up a separate savings account that earns interest. You can automatically transfer a certain amount of money from your checking account into your savings account every month. Then, don't spend any of the money in your savings account. Having a separate savings account will allow you to see your savings grow over time and help you resist the temptation to spend your savings.

Module 3

Now that you have established your monthly savings goal, there are two ways you can work toward achieving this goal: 1) by increasing your income and 2) by decreasing your expenses. There are several ways to increase your income: you can seek a pay raise in your current job, further your education, look for a new job, and/or take on an additional job.

Let's first discuss whether you can seek a pay raise at your current job. Are you paid what you are worth? And, would your employer possibly pay you more? If you feel that you are underpaid, you may wish to approach your employer and ask for a raise. Before asking for a raise, research to see if you deserve one. It is helpful to gather as much information as possible showing that your performance has been strong so that your employer can make an informed decision.

To determine whether you may merit a pay raise, you can first look at average payment rates for your position in your location. This will tell you whether you are underpaid relative to the local job market.

You should also determine whether you deserve a pay raise due to your level of job performance. If your past performance reviews have been positive, you have been achieving your job goals, and have been getting positive feedback from your supervisor, co-workers, clients, and customers, you may have a reason to ask for a raise at your next review.

Another way to seek a pay raise is to take on more responsibilities at work, either by applying for a new job or by informally taking on the responsibilities and asking for a raise later. You can also earn more pay by asking to work more hours (if you are paid on an hourly basis) or working evening shifts or on holidays.

If a pay raise seems unlikely for you at your current job, you feel that you would be able to earn more by looking for a job elsewhere, or you're really unhappy with your current job, you should check into what other job options might be available to you given your current skills and work experience.

Remember that it can look negative to future employers if you don't stay with a job long enough (say at least one to two years) to make a meaningful contribution at that workplace, but the average American switches jobs 11 times during his/her lifetime, so you shouldn't feel like you have to stay in a dead-end position if there might be something better available somewhere else.

Another way to possibly earn more money down the road is to further your education. Consider going to school part-time to get a high school diploma, taking the GED exam, or obtaining a college degree. Although the tuition will make it hard to save while you're going to school, you may make so much more money after you graduate that it will be worth the expense.

Another option that may help you earn more money is to obtain additional paying work. If you already have a full-time job, you could consider obtaining a part-time job to supplement your income. Some options might be: doing yard-work or snow-plowing, babysitting, pet-sitting, or getting a part-time or seasonal retail position.

If you believe you could benefit by changing jobs or finding an additional job, there are several ways to look for new employment. First, you can contact people you know in the industry and ask them if their organizations are hiring. Often, a friend or family member may be willing to help you locate a position.

Second, you can review websites that post available jobs such as indeed.com, careerbuilder.com, and linkedin.com.

Third, you can review company websites to see if they have any jobs posted.

Lastly, attending industry networking events and checking job listings provided by industry conferences can provide useful information.

Most of all, when you are looking for a new job, don't give up easily. It's hard to find a good job, and there are often many applicants for each job opening. A good job won't come and find you, but can make a big difference for you financially.

If you get laid off from a job, be sure to file for unemployment benefits with your state unemployment agency. These can help sustain you while you are applying for other jobs. It may take months to obtain a new position. Be sure to proofread your cover letter and resume or have a friend or family member review it before you send it to a potential employer. And, be sure to show up promptly for phone interviews or in-person interviews and consider sending a thank-you note to the interviewer afterward so he or she knows you are very interested in the position.

Module 4

Remember that the amount you save equals the difference between your income and your expenses. We just explained ways to raise your income. Now we will present ways to reduce your expenses. First, let's discuss how to spend wisely on two very important things: housing and food.

The biggest expense for most people is housing. First, you need to decide whether you should rent or buy a home. Then, whatever your choice, you should make sure that you don't overspend on housing.

For most people, if they can afford it, owning their own home is a better financial decision than renting. The simplest explanation for this is that with owning your own home, the monthly mortgage payments you make go toward paying down the amount you owe, and at the end of your mortgage term you own a house outright. On the other hand, if you rent, the monthly payments you make go to your landlord, and even if you rent for 30 years, you never end up owning the home or land that you occupy.

That argument does oversimplify things a little bit. There are other factors you have to consider when deciding whether to rent or buy. Let’s discuss some advantages to renting over buying a home. First, homeowners with mortgages pay interest on the amount of the mortgage to a bank or other lender while renters do not. Second, homeowners must bear all of the positive or negative effects of changes in home values. If the home value rises, an owner receives that value. If the home value falls, the owner bears the loss. To protect against losing money, if you’re going to buy a home, plan to hold onto it for at least seven years. Third, homeowners are also responsible for maintenance and insurance. Landlords bear these costs on rental units. Fourth, homeowners pay property taxes, but also receive a tax deduction for both those taxes and the mortgage interest that they pay. Lastly, renters have the ability to move without paying all of the expenses involved in selling a home.

A big advantage to buying a home is that mortgage payments can be a form of forced savings. By making mortgage payments over the life of a mortgage, you eventually will pay off the mortgage and own the property outright. Thus, you have forced yourself to save the entire amount of the mortgage.

You should consider these factors and determine whether it makes more sense for you to own or to rent. For many people, a key consideration is the forced savings aspect of home ownership. Owning your home in 15 or 30 years is a commendable goal.

If you choose to rent, there are several things you can consider to ensure that you spend your monthly rent money wisely. First, you should think about what kind of a home you really need. If you don’t have a large family or pets, renting an apartment or condo may be wiser than renting a house.

In considering which type of an apartment to rent, find a location where rent is less expensive. In many cities rent can be hundreds of dollars a month cheaper if you’re willing to live in an area farther from the city center or in a less trendy neighborhood.

In addition, think about renting an apartment in a building that may not have a lot of amenities (such as laundry machines in the apartment, a gym or pool in the common area, or underground parking). In fact, you could even offer services as a building manager in exchange for reduced rent.

Finally, if you’re planning on living alone, think about renting a larger place and finding a roommate to share the rental costs. In Los Angeles, for example, a typical one-bedroom apartment costs $2,100/month and a typical two-bedroom costs $3,400/month (or $1,700 per person per month). If you are a single person, you could save $400 per month by sharing an apartment. Also, if you get really strapped for cash, you could consider renting a room instead of an apartment, joining a housing co-op, or moving in with an older relative who may have a large home with unused rooms available.

Although renting may be a better option in the short run for many people, it's likely that you may choose to buy a home at some point, as about two-thirds of all Americans own their own homes. In selecting the right type of home, there are condominiums, town homes, and regular single-family homes. Condominiums are essentially apartments that you own. Technically, you own a share of the entire building. Townhomes are essentially attached houses while regular single-family homes stand on their own. Generally, single-family homes increase in value the most over time but if you prefer not to maintain your own home, condominium associations will take care of this for a fee. Also, if you don't need an entire single-family home for yourself, you may be better off buying something smaller (like a condo).

In deciding what property to buy, do your homework. It helps to obtain information about how much houses are selling for in the area to determine what your money can buy before you make a purchase. In addition, do your homework regarding the schools and crime levels in the area and also how long your work commute would be. Understand that real estate agents are only paid when a sale is made and may not always have your best interest at heart. Be sure to get a thorough inspection of any home that you may purchase so you know exactly what you are buying. Lastly, don't be afraid to negotiate. Sometimes an owner may want to sell a house quickly and may be willing to take less than the asking price.

Before you make the decision to purchase a home, you should determine how much you can afford to pay for one. To buy a home, most individuals have to get a mortgage, which is a loan for purchasing real estate. A mortgage requires you to pay back the amount of the loan and to pay interest. Interest is the percentage amount of the loan you have to pay in addition to the loan amount in exchange for getting to borrow the money. Generally, you should keep your monthly mortgage payments under 30% of your monthly gross income. For example, if your combined household income is $3,000/month, you should plan on paying no more than $900/month in rent or mortgage payments.

Once you have determined that you can afford to purchase a home, you should compare different mortgage options. Mortgages can vary based on length, interest rate, and repayment terms. Generally, you can choose either a 15-year mortgage or a 30-year mortgage. The 15-year options usually offer lower interest rates. In choosing a mortgage term, remember that the shorter the term, the quicker you pay off your house, and the more you force yourself to save each month. But, don't take on a mortgage that you can't afford to pay–a mortgage default and foreclosure can seriously impair your credit, and you could end up losing your home.

Mortgages also vary based on whether they are fixed-rate or adjustable-rate. Fixed-rate mortgages allow you to lock in the current interest rate and pay that for the life of the loan. With adjustable-rate mortgages, the interest rate changes throughout the life of the loan along with the market interest rate. You should check into how these adjustable rates are calculated and estimate whether the total cost of your loan will be greater or less than the total cost of a fixed-rate mortgage.

Lastly, mortgages can vary based on repayment terms. Talk to a qualified lender to learn more about these. In addition to interest rates, lenders may charge points on a mortgage which are additional fees. One point is equal to 1% of the loan amount. Be sure to determine the points charged when deciding on a mortgage. Also beware of interest-only mortgages. Interest-only mortgages have lower payments than regular amortizing mortgages but there is no forced savings advantage because you never pay down the amount of debt you owe.

Refinancing, or taking out a new loan to replace an existing loan, may be an attractive option for many homeowners because it can help decrease monthly payments. Refinancing is especially attractive if you can get a substantially lower interest rate and not pay points or closing fees. However, depending on how you refinance, you could make things worse down the road.

If you refinance merely by replacing your current loan amount with its current number of years, with a loan with the same amount and the same number of years, but only at a lower interest rate, then refinancing is probably good for you. You will lower your monthly payments, and if the refinancing fees are not too high, it may be worthwhile. However, if you refinance your current mortgage which has 15 years left on it, and replace it with another mortgage that requires 30 years of payments, then you may lower your monthly payment now, but you will end up making payments for 15 additional years. Although you may be able to make your payments now, it will take you 15 more years to pay off your house. We caution against such a refinancing option. Instead of refinancing, it may be possible to work with your lender to modify your mortgage if you are having trouble making the payments.

One last thing to discuss about mortgages is the reverse mortgage. A reverse mortgage is a special type of home loan that lets you essentially take out money that you have paid into your home over past years of payments. This is an option for seniors 62 years or older who may have paid off a large portion of their mortgage (or all of it), and now would like to get a steady monthly income stream to pay for living expenses or healthcare. However, there are fees imposed by the lender to set this up, and once the homeowner dies, there will be less equity in the home that can be given to surviving family members.

Now that we have covered housing, let’s discuss how to spend wisely on another necessity--food. We all need to eat. Thankfully, there are ways to spend less on food if you need to stay within a budget. The first golden rule is to cook for yourself most often and stay away from restaurants and fast-food places. You will almost always pay more money buying food at restaurants than if you bought the ingredients at a market and made the food yourself.

There are many ways to cut your grocery costs each month. First, select an inexpensive market. Costco, Sam's Club, Wal-Mart, and Super Target all offer very competitive prices, especially if you buy in bulk. It pays to go to a less expensive market, even if it is a mile or two farther from your home.

Second, make a list of everything you need to buy before you go to the market. This way you ensure that you buy only what is included in your budget. Resist the temptation to pick up random items that you don't need.

Third, shop when you aren't hungry. When you are hungry, it may be more difficult to prevent yourself from making impulse buys.

Fourth, clip coupons. Local newspapers and market mailers often contain coupons that could provide you with huge savings on your purchases. In addition, some markets offer to double coupons, helping to stretch your savings even further. Some markets will also allow you to load electronic coupons onto your membership card so you won't need to remember to bring them. And some markets accept expired coupons--it can't hurt to ask the clerk to accept them.

Fifth, buy larger amounts of items that are on sale and freeze or store leftovers for future use. For example, if you see that ground beef is 50% off, you can buy twice as much and freeze it for later. If you notice a sale item is out of stock, ask for a rain check so when you return next time, you can get the same discount.

Sixth, consider obtaining a grocery store membership card, which can provide huge discounts on your purchases.

Lastly, comparison shop and buy store brand items which are often cheaper and of similar quality as name brand ones. Also compare the cost of each item per unit weight so you know if it's better to buy a larger or smaller sized version of each item.

For individuals living on a fixed, lower income, you may be able to save a great deal of money on food if you sign up for food stamps. You can apply for food stamps by completing a state application form online. If you qualify, you will receive a card you can use to pay for food each month.

Module 5

In your home, you will have to pay for phone service, heat, electricity, and water. For some of these expenses, you may be able to save money by finding a more efficient plan or service provider. For others, the easiest way to save money might be to cut back on usage.

First, let's discuss paying for phone service. Is it worth it to have a cell phone and a landline? Do you need both? Having both services can cost as much as $150 a month, so eliminating one can save you a lot of money. If you travel often, then you may wish to get rid of your home phone and just use a cell phone. On the other hand, if your work provides you with a cell phone, or if you don't travel much, then you may not need a personal cell phone and you can just have a landline. Also, no matter what type of phone service you have, check your monthly phone bill closely to ensure there are no mistakes. If you have questions, call your phone company.

Whether you choose a cell phone or landline, you should find a way to cut costs on your phone bills. With your home phone, there are several ways to cut your costs.

First, don't pay for unnecessary services. Phone companies offer a variety of services that you may not need, including: call waiting, caller identification, three-way calling, call forwarding, voicemail, click-to-return (popularly called *69), and additional phone lines. These services are usually provided for a monthly fee. Ask yourself which of these services you really need, and call your phone company and cancel the ones you don't use.

Phone companies often bundle these services together and offer them at a lower overall price than what you would pay if you bought each service separately. It is a good idea to call your phone company once a year and review your usage and charges. A phone company representative could quickly tell you if you could get a better deal by purchasing a different type of service package or if the company is offering any special discounts. Although you may only save a small amount per month this way, over a year, it can add up.

In addition to not paying for unnecessary services, the second thing you should do is ask your phone company for discounts. If you are a low-income household, you may qualify for a low-income discount on your phone bill.

Third, consider switching to internet telephony. This is a phone service that uses your internet connection to make phone calls. Lingo, Skype, and Vonage are all companies that offer this service and have plans starting at about $25 a month.

For individuals living on a fixed income:
There are two programs that could help you save money on your phone service. Link-up America decreases the cost by up to 50% of installing a new phone service and Lifeline Assistance (lifelinesupport.org) reduces your monthly phone bill by up to 50%. If you are on Medicaid, Supplemental Security Income (SSI), or food stamps, you may qualify for these programs. In addition, you may be able to qualify if your income falls below a certain level. Contact your local phone service provider to ask them if you qualify.

If you decide that you need a cell phone, research the different types of plans available to find the best one for your needs. Often, cell phone plans charge a certain amount per month and provide a certain amount of data usage each month. Talk to several cell phone companies and find out which is the cheapest and still meets your needs. If you send a lot of texts, be sure to find a plan that includes unlimited texting.

If you find a different cell phone provider that would give you a better plan, ask your current provider to match that rate (if you would rather not switch). Often, companies will offer a better deal if they think a customer might switch away from them otherwise. If you prefer to switch to a new provider, you should be able to take your current phone number with you.

Let’s now turn to how you can save on energy expenses. Natural gas, electricity, and oil are used to power heating, air conditioning, electronics, kitchen appliances, and lighting. The easiest way to save money on energy is to conserve your usage.

The first thing you can do to save money on utilities is to monitor and reduce your heating and air conditioning use. If you can move the thermostat down to 68 degrees or below in the winter and up to 80 degrees or above in the summer, you can minimize your monthly heating/air conditioning bill. For each degree you set the thermostat higher in the summer or lower in the winter, you could save about 2% of your monthly bill. So, for instance, if your monthly heating bill is $200, and you decide to lower your thermostat by five degrees, you could save $20/month. Also, it helps to turn the thermostat down while you are sleeping in the winter, and to turn off your heating and air conditioning while you are away from home. In addition, ensuring that your home has adequate insulation and turning the heat/air conditioning off for unused rooms can also conserve usage and save you money.

Another way to conserve your usage of gas and electricity is to buy energy-saving appliances. You can buy LED light bulbs to save on lighting--they are the most energy efficient. Also, appliances marked with an Energy Star are recognized by the Environmental Protection Agency as energy-conserving. According to the EPA, using only Energy Star appliances could save you up to 1/3 of your monthly energy costs.

Lastly, you can also save on monthly energy bills by turning off lights when you leave the room, closing the refrigerator and freezer doors firmly, and unplugging electrical appliances when they are not being used (as many appliances consume energy even when they are not in use).

You can save money on your water bill by cutting back on your water usage. You can reduce your water usage by taking showers instead of baths and reducing your shower time. You can also only turn on the faucet periodically while shaving or brushing teeth. Fixing leaky faucets and running toilets can conserve water as well. In the kitchen, run your dishwasher only when it is full or clean dishes by hand.

Turning your lawn sprinklers off when it rains and adjusting your sprinklers so they water only needed areas also will save you money.

Installing low-flow showerheads and toilets can help. Contact your local department of water service to see if they can provide you with low-flow showerheads or a discount on the purchase of a low-flow toilet.

Lastly, there are low-income programs for gas, water, and electricity customers. These programs provide monthly discounts to families with lower incomes. Contact your utility provider to learn more about these programs.

Module 6

Now that we have discussed how to save money on the bare necessities, let's review how you can spend wisely on cars, clothing, and other items.

There are several helpful guidelines to follow when shopping for anything. First, buy only what you really need. Try this: wait three days after you see the item until you decide to buy it. For instance, if you see a new sweater at a department store and you think you would like to buy it, wait three days and then decide if you would still like to buy it. This way you are not buying on impulse, but rather making a well thought-out purchase.

Second, consider only buying something new if you are replacing something that is no longer working. For example, instead of buying a new TV set because the new TV has a bigger screen or a better picture, you could wait until your current television no longer works. Also consider fixing things that are no longer in good order before you replace them.

Third, compare prices before you make a purchase. It's easy to do this, as you can often get prices over the phone without having to actually visit a store. You can ask the retailer what the current price is for the item and you may also be able to negotiate the price over the phone. You can also ask the retailer if there will be any upcoming sales.

You should research which type and brand of an item to buy before you buy it. A helpful resource for learning about items you might buy is the Consumer Reports website, which provides information about product reliability, price, and value.

If you have a smartphone, you can get a scanner app that allows you to scan the item's bar code into your phone and compare the price in the store with the prices provided by on-line retailers. Oftentimes when you walk into a store, if you have the online price available, you can show the merchant the online price and ask them to match that price. Often, they will do that.

If you are buying an airplane ticket, consider buying your ticket on Tuesday or Wednesday because those are the days when airfares seem to be the least costly, and at least eight weeks in advance of your travel dates so you're more likely to get a better price.

Another good idea is to take advantage of sales or seasonal discounts. Clothing items are much less expensive once their season is ending. Cars may be less expensive at the end of the model year (which is now late-summer or fall), and holiday decorations and wrapping paper are much less expensive after Christmas. By buying these items when they are cheaper and holding onto them until they are needed, you could save a lot of money.

Now, let's talk about one of the biggest purchases most people ever make: buying a car. Before deciding to buy one or even to keep your current one, you should think about how many cars your household really needs.

If you live on your own and you can commute to work using public transportation, you may not even need a car. Compare the costs of car ownership with those of using public transportation and taxis. If you have a car, you must pay for car payments, gas, insurance, maintenance, parking, and depreciation (which is the car's lost value). If you don't have a car, you pay for public transit and taxis. The difference between owning and not owning a car, in terms of cost, can be enormous.

Let's review some of the costs of car ownership. Car expenses may include: payments (e.g., $300/month), gas ($150/month), insurance ($80/month), maintenance ($100/month), parking ($40/month), and depreciation ($200/month). This totals to $870/month.

The expenses you might have if you don't have a car would include: public transportation (e.g., $60/month) and cab rides ($60/month). This totals to $120/month. So, in our example, by not having a car, you could save $750/month or $9,000/year! That's a lot of money.

If you live in a city, you may be able to do without a car and rent a car here and there when you need one. There are several companies that allow you to rent cars by the hour. They advertise where the car is located and you can rent it on-line, pick it up and take it anywhere and return it where you got it. Prices are as low as $15/hour and include gas and insurance. Zipcar is one of these companies.

If you are a member of a household, you should run the calculations to see how costly it is to maintain two or more cars instead of one. If it is possible for one or more family members to carpool or use public transportation instead of driving their own cars, this could save the family hundreds of dollars a month. This is especially true if you are considering adding a teenage driver to your insurance policy, as insuring a new teenage driver can be expensive.

If you decide that you do need a car, when you are ready to buy one you should consider a few things. First, it is smart to purchase a car that gets good gas mileage and is reliable. Consumer Reports and Edmunds both provide car reliability ratings.

Second, buying a used car can save you a lot of money. A car usually loses up to 20% of its value each year (in “depreciation”), so if it costs you $28,000 to buy a new car, that car may only be worth $15,700 in three years. Since cars lose so much of their value in the first few years, it’s possible to purchase a model that is a few years old for 30% to 50% less than buying a brand new car of the same model.

Keep in mind that it is wise to research the history of a used car so you know what you are buying. The National Insurance Crime Bureau and www.CarFax.com are two resources that provide car history information.

Whether you decide to purchase a used or new car, it always helps to shop around and negotiate the best price. Most car sellers are prepared to negotiate so don’t be afraid to do so. It helps to ask a seller what the “out-the-door” price would be (or the total amount you pay to get the car, including taxes and licensing and all fees) so you can compare this with the “out-the-door” prices offered by other sellers. Also, be sure to negotiate the sales price and the loan terms separately, as some sellers will give you a great deal on one and a poor deal on the other.

Most car buyers do not pay cash for a new car, but instead take out a loan and make monthly payments for a certain amount of time until they pay off their car. You should determine how much your budget will allow you to pay each month and ensure that you do not buy a car that is too pricey for your budget. Some individuals choose to lease a car rather than buy one. The problem with leasing a car is that you still have to make monthly payments but you do not own the car when your lease is up. And, some lease agreements charge for maintenance costs and excessive mileage. Thus, leasing a car may not be preferable. You need to compare the options side by side for yourself on any car you are considering.

Another area where consumers spend a lot of money is clothing. When shopping for clothing, you may want to consider what items you really need before you go shopping and then only search for those items. Also, it helps to buy versatile clothing that can be used for different occasions. For instance, a black skirt could be worn to work, a wedding, or out to dinner, whereas a fancy red dress might only work for a wedding.

In deciding where to purchase clothes, value-oriented stores such as J.C. Penney, Sears, Wal-Mart, Marshall’s, Target, and Costco provide pretty inexpensive clothing options. These places may be especially useful for buying children’s clothes and casual outfits. Second-hand stores such as Goodwill, garage sales, and flea markets also are good places to buy clothing. You may want to set a clothing budget at the beginning of the year and when you have used up the money to pay for new clothes, stop buying new items for the remainder of the year.

You can also save money by making smart choices about the clothes you already own. First, if you have clothing items that you never wear, consider donating them to a charity (where you can deduct the value of your contributions from your tax return, if you itemize deductions) or selling the clothing to a second-hand store. Second, be sure to take care of your clothes so they last a long time. Keep wool covered so moths cannot create holes and follow washing or dry-cleaning directions so your clothes don't shrink or fade.

Now let's discuss how to spend wisely on gifts. There is always pressure to buy gifts for holidays and birthdays and the amount of money spent on these gifts over the course of the year can often exceed hundreds of dollars. There are several ways to ensure that your gift spending stays within your budget. First, for the holiday season, see whether your family members would be willing to draw names so that each person only buys one gift for the person whose name is drawn.

Second, set limits with others about what you both will spend such that neither person feels like he or she was outdone and both can afford the gift.

Third, consider giving your time instead of your money. Baking brownies, volunteering to babysit, or washing a car are great gifts that won't dent your checkbook. Parents especially may appreciate the babysitting.

Module 7

Earlier in the course we described how to achieve a monthly savings target. Then, we reviewed ways to increase your income and decrease your expenses. Now that you have a goal and have learned ways to achieve that goal, you should establish a concrete spending plan that will help you achieve long-term success.

Your final spending plan should consist of a monthly savings target and five or more concrete ways to achieve that goal.

Let's review an example of a finalized spending plan to see how this could work:

Jill, a married mother of two young children, is a pre-school teacher. She makes about $35,000 per year. She is married and her husband, John, is a sales rep making $45,000 per year. So together they make $80,000 per year, or about $6,600 per month. According to the guidelines we discussed earlier, they should plan on saving 5% of their pay, or roughly $330, each month. This is their monthly savings target. Right now they are breaking even each month. They determined they could do the following six things to achieve their monthly savings target:

1. Dine out once a month instead of weekly to save about $180 a month.

2. Carpool to work with a co-worker to share the cost of gas, saving $30 a month.
3. Stop subscribing to cable television saving $100 a month.
4. Use coupons at the market and buy more items on sale saving $20 a month.
5. Switch to a less expensive cell phone plan saving $25/month, and
6. Spend less on internet shopping, saving $50/month.

In total, if Jill and John can stick to this plan and deposit their savings into a savings account, they could save over $400 a month and meet their monthly savings goal.

You should sit down with your family and create a similar plan for yourself. Once you have your plan, put it in a visible place in your home so you are reminded of your goals.

Let's talk about a few ways to ensure that your plan will stay on track. First, set up a supportive environment. An old saying goes that if you do something for at least three weeks, it becomes a habit. The longer you can stick with your plan at the beginning, the more likely you'll be able to maintain it. There are several ways to help you stay with your plan. First, focus on achieving small goals and then build toward larger ones. It may help to set a smaller savings target at the beginning and then increase your target over time. If you are successful in a small way at the beginning, this will motivate you to continue saving more and more.

Also, don't be afraid to get help. You may want to tell your friends and family that you are trying to cut down on your spending. This way, they can support your choices and help you achieve your goals.

In addition, set up your physical environment to support your goals. If you were trying to lose weight, you probably wouldn't stock your kitchen cabinets with cookies and chips. The same principle applies in following a spending plan. If you are a big shopper, don't plan on going to the mall very often. If you tend to buy impulse items at the market, make a list first and only buy the items on the list. By setting up your physical environment to support your goals, it may be easier to follow the guidelines you have set up for yourself.

Another guideline you should follow is to avoid spending impulsively. As mentioned earlier, a good plan for avoiding impulse spending is to go home and wait three days before making a major purchase. This time will allow you to decide how badly you really need an item before you actually purchase it.

Another helpful habit is to only carry cash with you and only carry enough cash to pay for the things you really need. This way, if you notice something you want that isn't a necessity, you won't have the credit card available to pay for it. In addition, if you have to visit the ATM each time you want more money to spend, forcing yourself to run this extra errand may dissuade you from spending the money. Carrying only cash also can make you more aware of how much you are actually spending each week.

Sticking to a savings plan takes discipline and can be difficult. So, it doesn't hurt to reward yourself occasionally if you are moving in the right direction. A good way to do this is to determine for yourself what you would most want to spend money on and leave room in your budget to spend a pre-allotted amount of money on this one thing. For instance, if you are a huge baseball fan, leave $60/month for attending a ballgame in your hometown and plan on watching the rest of the games on TV. If you hate to cook, plan on eating out once a month at a reasonably-priced restaurant. If you love music, plan on setting aside $15/month to buy new songs.

Whatever you decide to do, be sure that you set a maximum amount of money you will spend on this one luxury and stay within your pre-set range. Also, don't give up your entire plan if you wind up spending a little more than you would have liked one week or one month. You may be able to return the purchases you spent your money on, or save more money the next month.

Sticking to a spending plan can be difficult and you may have to work at it for months before it begins to get easier. But you can do it.

Let's now talk a little about a monthly expense that applies to as many as 30% of all bankruptcy filers--student loan payments. According to Forbes magazine, the average student loan debt for individuals graduating recently is over $35,000. Although student loans are not generally discharged when going through bankruptcy, bankruptcy filers may file a special request to get their student loan debt forgiven. The individual going through bankruptcy may file it or his/her lawyer may file it. This document must be in a special format and must include the reasons why the student loan debt is causing undue hardship. In response to this filing, the judge will decide whether or not to forgive the student loan or some part of the loan. Usually, the individual's income and financial or medical circumstances, and whether the individual tried in good faith to make the loan payments are all considered. It can be worthwhile to talk to a lawyer about filing this suit, although most attorneys charge additional fees for preparing these documents.

Another helpful resource pertaining to student loans is the Public Service Loan Forgiveness Program. This program was developed as an incentive to attract quality workers to public service jobs. The program provides forgiveness on federal student loan debts for individuals who work in public sector jobs after they have made a minimum number of loan payments. If you have a large amount of student loan debt this may also be a helpful option to consider.

Module 8

Now we will look at a particular expense that we all have that takes a tremendous bite out of our earnings—taxes.

The taxes you will most likely have to pay every year are: federal income tax, state income tax, social security tax, Medicare tax, sales tax, and [if you own a home] property tax. Let's talk about how you can legally pay all of your taxes while ensuring that you don't overpay.

The federal government requires everyone over a minimum income level to pay income tax. Most states also impose state income tax. Together, federal and state income taxes are two of the largest expenses a person must pay each year and can exceed 30% of a person's earnings so it is important to understand them.

There are two key steps to determine how much income tax you must pay:

- First, you must figure out your taxable income.
- Second, you must look up your marginal tax rate.

Not all income is subject to tax. For example, child support payments are not taxable. Also, states and the federal government only tax you if you earn more than a minimum amount of income, which is determined in part by the size of your household. For example, currently a single person with no dependents does not have to pay federal income tax if he/she earns less than about $13,000 in a year. Your income above this minimum amount is your taxable income. So, a single person with no dependents who earns $25,000 in a year will have a taxable income of about $12,000 because he is only taxed on the amount above $13,000 for the year.

After determining your taxable income, the government applies a tax rate to determine how much tax you owe. As income increases, the tax rate increases also. The rate that is applied to each additional dollar you earn is called your "marginal tax rate." For example, an individual who earns $40,000 has a tax owing of about $4,600 or almost 12% of their income.

It helps to have an idea about how much income tax you may owe so you can plan for tax season. This can keep you from owing tax penalties or having a large amount due all at once. There are several ways that you can prepare for tax season.

First, withhold the right amount from your paycheck throughout the year. Employers are required to take money out of their employees' paychecks and send this money directly to the government. This money is called "withholding." This ensures that the government receives the money. To set your withholding amount, your employer will require you to fill out a W-4 form. Make sure you withhold enough money so that you don't have to pay penalties when taxes are due. However, you also want to make sure you don't withhold *too* much, because if you do, the government holds onto the money and returns it to you later, making it impossible to earn interest on the money while the government holds it.

To withhold the correct amount, look at your most recent tax return. If you owed tax on April 15th last year, you probably should increase your withholding. The IRS and your state have worksheets that you can use to calculate your correct withholding amounts.

Second, consider itemizing your deductions. When calculating your taxable income, the government allows you to subtract either a “standard deduction” amount or an “itemized deduction” amount from your gross income. The standard deduction is a fixed amount, and is determined by your tax status (i.e., if you’re single or married filing jointly). The itemized deduction is an amount you calculate based on certain expenses. When filling out your tax forms, calculate your itemized deduction. If it is higher than the standard deduction, use that instead of the standard deduction.

Payments that may qualify as itemized deductions include: state income tax, home mortgage interest payments, gifts to charities, certain local tax payments, and some losses. Because you need to prove your expenses, keep your receipts for these expenses.

Third, read and follow the instructions for the tax forms. By following the instructions, you will report only your taxable earnings and take advantage of all deductions and credits that apply to you. For example, child support payments you receive are <u>not</u> taxable and should not be included in your reported income. However, tips and cash payments for services are taxable and must be included.

If any of the following applied to you during the past year, you could receive a tax benefit:

- You had a dependent child or relative.
- You were self-employed.
- You paid student loan interest.
- You paid school tuition or fees.
- You adopted a child.

Only by reading the forms carefully will you see what you qualify for.

Fourth, consider getting help preparing your tax return. If you choose to complete the forms yourself and you meet certain basic requirements, you may be able to obtain help from a volunteer or use an internet filing service free of charge. You can also always call the Internal Revenue Service if you have questions. Their phone number is 800-829-1040.

You could also buy a computer program such as TurboTax which helps with tax calculations. These tax programs provide a relatively inexpensive way to do your taxes and allow you to calculate different tax scenarios.

If you would prefer to have an expert complete your forms, you can ask an accountant at a company such as H&R Block or Jackson Hewitt to complete the forms, but you will wind up paying a fee for their services and you will still need to provide them with all supporting documentation. Keep in mind that tax preparers may not be as motivated as you are to find ways to save you money. And, if you have a tax preparer help you, make sure to read the forms you sign and that you understand how everything is calculated. Also, if your spouse completes the tax forms, be sure you review those forms so you know how everything was calculated and you are aware of your family's tax situation.

Now, let's turn to sales and property taxes. Nearly everyone must pay sales tax on purchases they make. All states except Alaska, Delaware, Montana, New Hampshire and Oregon, collect state sales taxes and the state sales tax rates range from about 4% to 9%. In addition, many cities and counties add on local sales taxes. However, some items are not taxed. In many states, groceries and prescription drugs are not taxed. The less you buy overall, the less you pay in sales tax unless you happen to live in one of these lucky states that don't have sales tax.

Property tax is a large expense for property owners. Each year, a homeowner may have to pay 1% or more of the value of his/her home in property taxes. This can add up quickly. Thus, it is helpful to keep in mind that buying a lower-valued home not only saves the money on the purchase, but also saves on property taxes each year.

Module 9

Congratulations on completing over half the course. Now that we have discussed ways to save money and spend it wisely, it is important that you learn a few tips that can help you save your money effectively.

First, it's crucial that you start to save money as soon as possible so you will have more money later when you need it for large ticket items such as college tuition or retirement.

Saving early has two advantages. First, the earlier you start saving, the more years you have over which your savings will grow. Second, you will earn interest on your savings for a longer time period.

Let's consider an example of two people saving for retirement. Laura saves $200 each month, starting at age 30. Mike also saves $200 a month, but starts later, at age 50. If both earn the same return on their savings, when they are both 65, Laura will have about $179,000 and Mike will have only $48,000. In fact, to have the same amount as

Laura at age 65, Mike would have to save almost $800 a month, or four times as much because he started 20 years later.

As you can see, you will have much more for your retirement if you start saving earlier. This is due to compounding interest, which is essentially earning interest on interest. Basically, when you invest, you earn interest, and if you invest the interest, you earn interest on the interest. As time passes, compound interest allows your money to grow at an exponential rate.

As you might have guessed, compound interest can add up. In the previous section's example, Laura had $179,196 at age 65. Of this amount, over $36,000 was compound interest. To receive compound interest, you need to invest your savings. You will automatically receive compound interest as long as you have your savings invested.

Let’s discuss some of the most common investment options out there. The simplest investment option is the savings account. A savings account is an account at a bank where you have the right to withdraw your money at any time. Savings accounts are insured by the federal government up to $250,000. In part because savings accounts are very safe, they typically earn a very low interest rate, usually less than 1%.

A certificate of deposit (or CD) is like a savings account, except that you promise not to withdraw your money for a pre-determined amount of time (usually six or twelve months or sometimes longer) in exchange for receiving a higher interest rate than on a savings account. Your initial investment should be guaranteed by the federal government (or FDIC insured), so a CD is very safe. But, before investing in a CD make sure you can leave your money in for the time of the CD, because there can be stiff penalties for early withdrawal. CDs usually earn about 1% to 3%.

Another investment option is a bond. A bond is essentially a loan. If you buy a bond, you lend your money to the issuer of the bond to use, and in exchange the issuer will pay you interest. Bonds can be very risky or very safe. Rates of return will vary depending on how risky the bond is.

One common type of bond is the savings bond. Savings bonds are bonds issued by the federal government where you lend your money to the government. However, you pay a hefty penalty if you try to access your money before the savings bond matures. The savings bond carries very little risk, but provides little flexibility for an investor to gain access to the money before the bond matures.

Another investment option is a money market fund. A money market fund is like a savings account in that you can take your money out at any time. However, there are two differences. First, your money is invested in short-term bonds of various corporations (so you are lending your money to corporations, not to your bank). Second, the federal government does not insure against losses in money market funds.

In exchange for the slightly higher risk on a money market fund, rates of return on money market funds are somewhat higher than savings accounts, and are usually close to the rates of return you can earn on bonds. You can open a money market fund with most mutual fund companies.

A riskier investment option is stock. A stock is essentially a small ownership interest in a business. When you buy a company's stock, you become one of the many part-owners of that company. There are two ways you can make money by investing in stocks. The first is through the stock's appreciation in value. Over time, a stock's value will change. If you hold the stock until its value has increased, you can sell the stock and will have made money on your initial investment. The second way you can earn money by investing in stocks is through dividend payments. These are payments the company makes to its stockholders on a regular basis. (However, not all companies pay dividends. You have to look into which ones do.)

One thing to keep in mind about stocks is that investing in stocks is risky, and investing in individual stocks is even riskier. Even though many stocks increase in value over time, many also decrease in value. If this happens, you could lose some or even all of your initial investment. You can protect yourself somewhat against this risk by buying several different types of stocks (this is called diversification), but you will still be exposed to some risk.

Generally, stocks tend to appreciate in value 8% to 9% per year over the course of ten or more years. But it is also pretty common to see stocks lose 10% to 20% of their value over as short a time as one year. So, only invest in stocks if you can survive a big loss and you're planning to hold onto them for awhile.

A mutual fund is a package of investments that you can buy all at once. For example, you can buy one share of the Vanguard Index 500 Fund and end up owning a little of all the companies in the Standard & Poor's 500 Index. The advantage of a mutual fund is that you can invest in only one fund and get instant diversification.

Mutual funds invest in stocks or bonds, and the value of an investment in a stock or bond mutual fund will also fluctuate over time.

If you are thinking of investing in a mutual fund, beware of the fees that mutual fund companies may charge. There can be fees to invest your money or fees to withdraw your money—these are all called "loads." There may also be an annual management fee of as much as 1% to 2%. As a rule of thumb, you should not have to pay any fees to buy or sell, and the annual fee should be less than 1%.

Now that we have covered some investment options, let's discuss how to save for retirement. Once you have begun to save money, the first thing you should do is start to contribute to a retirement plan. Retirement plans are extremely smart investment options for most individuals for two reasons. First, the money invested in retirement plans is given preferred tax treatment by the government. This means that you will end up paying less tax on the money in retirement accounts, and more money will be left for you when you need it. Second, for some employer-sponsored retirement plans, your employer will “match” the amount you contribute–which in effect, multiplies your money just because you contribute.

Due to the tax advantages and employer matching programs, retirement plans are smart ways to invest. Unfortunately, many eligible workers don’t participate in these plans. Don’t be in this category of those left out. Some common retirement plans include: 401(k)s, 403(b)s, SEP-IRAs, Keoghs, Traditional IRAs, and Roth IRAs.

Employer-sponsored retirement plans include 401(k)’s, 403(b)’s and money purchase pension plans. You should contact your employer and ask what retirement plans are available.

In addition to plans offered by employers, there are also retirement plans for individuals who want to invest income on their own. These are called Individual Retirement Accounts (or IRAs) and provide investors with the same ability to wait to pay taxes on the money until the money is withdrawn. In addition, you can sometimes deduct your contribution from your tax return.

As a general rule, after you have taken advantage of retirement accounts from your employer, you should consider opening an IRA. The maximum amount you can invest in an IRA and the amount you can deduct from your taxes vary based on your income.

If your employer does not offer a retirement plan, look into opening an IRA or a Roth IRA. A Roth IRA differs from a regular IRA in how tax is calculated on your contribution. In any event, plan on leaving your money in the account for a long time because most accounts have penalties for withdrawing money before you reach retirement age.

Now that we have discussed how to save money for the future, let’s talk about how to avoid becoming the victim of a scam either now or in the future, so you don’t lose any of your hard-earned money due to fraud. There are many different ways people try to perpetrate fraud. One of the most common forms of fraud is identity theft, which refers to the situation where someone assumes your identity to commit a crime. Examples of this are when someone steals your credit card number and uses it to make purchases, or when someone obtains your social security number and opens up a credit card account in your name. To prevent these things from happening, never provide your credit card number to someone over the phone unless you made the phone call originally. Also, if you lose a credit card, be sure to call the card company to cancel or freeze the card immediately. Review your credit report at least once a year to ensure there is no unauthorized financial activity. Lastly, be sure to shred credit card receipts or bank statement receipts that contain your full account number.

Another common form of fraud is called email phishing. With this, people send email (or text) messages to you that look like they are coming from your bank, credit card company, or another company you do business with. The emails ask for your account information or other personal information and then, once they receive this information from you, these criminals use it to take your money. To prevent this, don't ever provide your bank account or credit card information via email or text message to anyone. If you receive an email like this, you should call the financial institution involved to verify that they need the information and if they actually do, you should provide it a different way.

Telemarketing scams are another common form of fraud. With these, individuals call you up and ask for money in exchange for providing some product or service, but they take your money without providing the goods in exchange. To avoid becoming a victim of these scams, do not provide your credit card information over the phone, but rather ask the seller to mail you information so you can verify that they are legitimate. It helps also to obtain the seller's name, business name, phone number, and street address before buying anything, and to discuss your purchase with a trusted family member or friend before you make it.

Another common form of fraud is mail theft. If you put a check in your mailbox for the mail person to pick up, criminals may come and take your check and use the account information on it to obtain money from your account. Instead of putting checks in an unsecured mailbox, it is preferable to mail them at the post office or local locked mailbox. It may also be better to download your bank and credit card statements from the internet rather than have them sent to you in the mail.

Ponzi and pyramid schemes are another form of fraud that can result in victims losing hundreds or thousands of dollars. With Ponzi schemes, an individual collects money from many different customers and promises each client a high return on their money. He/she then uses the money from other clients to pay some money to each client in "dividends" each month, but eventually often runs away with all of the remaining funds. To avoid getting taken advantage of by a Ponzi scheme, be sure you research any entity you invest money with. You can research individual brokers or firms by going to finra.org or the securities and exchange commission website: sec.gov. Also beware of investment firms promising really high returns on your investment that seem to be much higher than what funds invested in the overall stock market are paying at the time.

Another scam that occurs frequently is when individuals send emails asking for payment due to a hardship. One example of this is the "Nigerian letter scam." In the past, criminals have sent out emails to Americans asking them to send money or personal bank account information to Nigeria to assist Nigerians with transferring funds from Nigerian bank accounts. When the victim sends the bank account information, the criminal takes all the money from the victim and disappears. To prevent becoming a victim of these scams, never send personal bank account information or money to anyone you don't know.

Lastly, another fraudulent act that occurs frequently is when service providers overcharge for their services or charge for services never performed. This can happen when you go in for a medical procedure and your HMO charges you for medical services they never performed, or when you hire a contractor to work on your home and they take the money without completing the job, or when you order a product that never gets delivered. To prevent these things from happening, be sure to check your credit card bill and bank statements thoroughly each month to ensure you were only charged for legitimate services and products. Also, review any bills you receive to ensure everything listed on the bill is the right price. And lastly, if you hire somebody to do work for you, you may want to give them a deposit at the beginning of the job and wait to pay them the remaining amount that was agreed upon once the job has been completed successfully.

Module 10

Now let's talk a little about credit. What exactly is credit? Credit is your ability to borrow. When you have good credit, you are able to borrow cheaply. If you have very poor credit, you may not be able to borrow at all, or you will pay a lot of interest when you borrow. It is important to have good credit so that it isn't expensive to borrow.

Credit comes in many different forms. In each, you owe money to someone. Some examples are: unpaid bills, credit cards, mortgages, and personal loans.

With each of these forms of credit, you should be aware of several things. First, the interest rate is the rate that you are charged to borrow. Usually, you are not charged interest for the credit you receive for unpaid bills. Although you are required to pay those bills back quickly (usually within 30 days or less), or you may be charged penalties if you fail to pay within that time period. Mortgages carry interest, and rates vary, but market rates are usually around 3% to 7%. Credit cards have the highest interest rates, from 10% to 25%.

Second, you should be aware of whether you are repaying principal. You are repaying principal when you pay down the amount you owe. You repay the principal each month when you pay your regular rent and utility bills. With a standard mortgage, each payment you make includes a partial payment of principal, and a partial payment of interest. If you are not repaying principal (i.e., you have an interest-only loan), you are not making progress toward getting out of debt.

Third, you should be aware of fees associated with your debt. For many debts, you will owe a late penalty if you pay late. For others, you are charged fees to make the initial borrowing (e.g., points on a mortgage, or closing fees for a personal loan). Fees can add up to thousands of dollars.

Finally, some borrowing puts your house at risk. With a mortgage, if you do not pay, the lender can foreclose and ultimately you can lose your house. The same is true with a home equity line of credit. However, credit cards are "unsecured," which means that a credit card company cannot force you out of your house without first going to court and suing you for payment.

Generally speaking, there are two types of credit: open-end and closed-end. With open-end credit, the borrower spends however much money he or she would like to spend up to a pre-set limit, and then pays back the loan by making periodic payments.

With open-end credit, the borrower can borrow as much money as he or she would like to borrow up to the pre-set limit and then pay back the money (or a portion of the loan) each month. Most credit cards are open-end. This can be troublesome for some people, as some individuals may have a credit limit that may exceed what they can pay within their monthly budget. If these folks spend too much each month, they may wind up accumulating a great deal of debt, and may have a difficult time repaying the debt, as credit card interest rates are very high.

With closed-end charges, the company providing the loan determines how much the borrower needs to pay each month and the borrower must pay that amount each month until the loan is paid off. An example of using closed-end credit to make a purchase is when an individual buys a sofa from a furniture store, agrees to pay $200/month for a year, and at the end of the year the sofa is paid off and the borrower owns it "free and clear."

Now let's discuss the differences between credit and debit cards. A debit card allows the cardholder to pay for purchases by making direct withdrawals from the cardholder's bank account. With this type of card, the cardholder cannot spend more money than what is currently in his/her bank account. Thus, it is impossible to amass large amounts of debt by using debit cards. Individuals who may be tempted to spend more than their budgets allow may want to consider getting rid of their credit cards and using debit cards instead.

Although debit cards allow cardholders to make purchases in much the same way credit cardholders buy things, credit cards can come in handy for several reasons.

First, credit cards can be useful in case of an emergency where the cardholder may need to pay for medical care, transportation, or something else during a crisis. Second, many credit card companies offer rewards to cardholders in the form of frequent flyer miles, cash back, gas credits, or points toward gift purchases. Third, some credit cards offer rental car insurance coverage or other types of perks that may be useful. Lastly, with credit cards you are a little more protected against identity theft. Card companies often will notify you right away if they see a suspicious charge and you can reject the charges right then. With a debit card, this may be more difficult to do since the money is being withdrawn from your bank account. If you decide you would like to retain a credit card for one of these reasons, stick to only one card and ask the card company to establish a monthly spending limit that is within your budget. Also, consider getting a card that has no annual fee.

There are several important habits that you should get into when using credit.

First, don't bring on late penalties and fees. It can help to pay your bills on the day that they arrive. If you delay, you could end up accidentally paying late and then paying a lot more due to fees and penalties. In addition, if you get in the habit of paying late, this could hurt your credit history.

Second, don't borrow unless you really need to. Credit card companies and banks make it very easy for people to borrow. But that doesn't mean that you should take out a loan or charge up your credit card. It takes self-control, but you should only borrow when absolutely necessary, because of the risk that you could end up in debt.

Finally, check your credit report. You should check your credit report from time to time to ensure that there are no errors that will make it more expensive for you to borrow in the future. Everyone is entitled to at least one free credit report each year.

Module 11

Now that we have discussed credit in general, let's address how to use credit cards wisely. Credit cards can make shopping much easier. However, credit cards can also be expensive and a source of temptation. For several reasons, you may wish to have fewer credit cards or maybe only one.

First, having fewer cards will decrease your available credit, and thus any temptation to spend when you have available credit.

Second, by having only one card, it is easier to track and pay your bills–you are less likely to accidentally miss a payment or pay late fees or interest.

So which type of credit card is the best? There are several credit card characteristics that you should review before you determine which card to get. These features include: APR, grace period, other fees, and rewards.

APR refers to the annual percentage rate of interest you pay on your outstanding loan over the course of a year. The lower the APR, the better, especially if you tend NOT to pay back your entire amount due each month. Credit card APRs often range from 10% to over 20%--these are very high interest rates compared to other types of loans.

You should also try to find a card that offers a long grace period. A credit card's grace period is the amount of time between the moment you make your purchase and the moment you must begin paying interest on the purchase. With most credit card companies, you have a grace period that lasts up to one month. However, some may have shorter grace periods. It always helps to have a longer grace period, so you can have more time to pay your balance back without having to pay interest on it. Check your grace period–it's on your statement. If your credit card company has made it very short, call and ask to have it extended at least two weeks. They may do that for you.

Credit card companies often require cardholders to pay additional fees, some of which are only described in very fine print in the credit card agreement or brochure. Many card companies charge their cardholders annual fees, especially if the card provides rewards of some kind. Annual fees usually run from $10 to $100 per year. Other credit card companies charge a cardholder if the cardholder does not charge a minimum amount each year. Most also charge fees for making late payments and using the card to get cash advances. It's important that you carefully review the terms of a card before you start using it.

An advantage to some credit cards is that they offer rewards to cardholders. Usually, the amounts of the rewards are based on how much money is charged each month. Typical rewards include: frequent flyer miles, cash back, hotel points, gas credits, and points toward making catalog purchases.

You should choose the credit card that provides the best benefit for you. If you tend to carry over a balance from month to month (which hopefully you won't do that often in the future), finding a card with a low APR should be the most important thing. If you don't use your card to make very many purchases each month, you may want a card with no annual fees, as it doesn't make sense to pay a fee if you don't earn very many rewards from using the card. If you tend to use your card to make large purchases or pay for business expenses, you may want a card with a reward that would be useful for you. Cash back cards are often preferable because you can always use cash.

The smartest way to use your credit card is to make purchases with it and pay your entire bill each month. This way, you can stay within your budget and avoid paying the high interest rates charged by credit card companies. It helps to keep a record of what you spend each month using your credit card so you can pace yourself and ensure that you don't spend beyond your means.

Let's discuss an example that shows how important it can be to pay off your bill each month. If the interest rate is 16% and you charge $1,000 each month, and pay a minimum payment each month of $20, it will take you seven years to pay off the bill and you will pay an additional $660 in interest. This is a lot of money to pay in interest.

If a time comes when you spend more than you can pay during a month, pay as much as you possibly can toward your bill, rather than just the minimum required payment, to avoid paying too much interest, and to avoid having your credit card bills get out of hand.

Here are a few more tips for using credit cards wisely:

1. **Don't use your credit card as a means of obtaining a larger sized loan.** Since credit card companies charge such high interest rates, if you need a loan, it is almost always a better plan to obtain one some other way (maybe from a credit union or a bank).

2. **Getting offers for credit doesn't mean you're in a position to accept them.** Many individuals receive several credit card applications in the mail each month, even though many of these people don't have the means to charge up to the credit limit on these cards and pay off the balance in full each month.

3. **Check your credit card bills for errors every month.** It's highly likely that you will be mistakenly charged for something at some point, and it helps to review your bill to ensure you don't wind up paying for a mistaken charge. Sometimes a merchant may accidentally run your card through twice and charge you twice for a purchase. Other times a merchant may forget to credit your account for a return. It helps to review your bill closely to ensure you catch these errors. If you do, try to resolve them by calling the merchant first and if the merchant disagrees with your assessment, then, within 60 days of the purchase, you can write a letter to your credit card company disputing the charge.

4. **Don't be afraid to call your credit card company representative and make requests once in awhile.** Often, if you specifically ask for a longer grace period, or a lower interest rate or for a late fee to be waived, the company may grant your request. It never hurts to ask.

5. **Try to use a credit card only when necessary.** By paying with cash, check, or a debit card for most purchases, it is easier to keep track of your spending and stay within your monthly budget.

6. **Maintain credit card security**. Give out your number only when necessary, sign the back of the card, and get a card with a photo ID if possible.

7. **Lastly, take advantage of credit card alerts.** Many credit card companies will email or text you if you go above a pre-set limit that you set, or if your payment deadline is approaching. This can help you stay within your budget and avoid late fees.

Module 12

Now that we have talked about how to use credit wisely, let's focus on your credit report and why it's important to build a strong credit history.

A credit report is a record of your history of borrowing and repaying money. It shows a current snapshot of what you owe and who you owe, as well as information about your past payment history.

Credit reports contain: personal identification information (including previous and current addresses, employment information, and your social security number); past and current credit card accounts (the account numbers and types of accounts that are past due and in good standing); loans and repayment history (including late payment history);

mortgages; the numbers and types of inquiries made into your credit history; bankruptcies; child support payment history; and statements of disputes. The reports do not contain: your credit score, and information about savings accounts, checking accounts, or other investments.

Bankruptcies, late payments, missed child support payments, unpaid debts, and judgments are all signals to lenders that you may NOT be able to pay back a loan in the future.

Private businesses called “credit bureaus” maintain extremely large databases of information about individuals’ past loans and payments. These databases contain files on individuals, usually indexed by name, address, or social security number. When you request a credit report, you are requesting a copy of your file. Credit card companies, banks, and other agencies disclose information to credit reporting bureaus that record this information on your report.

The three main credit bureaus that keep track of your credit information and compile credit reports are: Equifax, Experian, and Transunion.

The credit bureaus calculate a credit score for everyone in their databases. Your credit score is a numerical value that represents your level of creditworthiness or how likely you are to repay a debt. Lenders use credit scores to determine whether they think it is a good idea to lend you money.

Each bureau calculates your score somewhat differently, although they base their formula off the so-called “FICO formula” originally developed by the Fair Isaac Corporation. The formula takes into account several factors: 1) how promptly you have made payments in the past, 2) the ratio of how much you have charged on your credit card to your monthly credit card limit, 3) your length of credit history, 4) categories of credit used, 5) amount of credit obtained in the past, 6) monies owed due to a court judgment or tax lien, and 7) the number of credit checks performed recently.

Credit scores range from 300 to 850, with higher values representing a more positive credit history. The median score of the U.S. population is about 700. This means half of the population has a score above 700 and half of the population has a score below 700. In general, a score below 600 is considered poor and a score above 700 is considered good.

Lenders review your credit report to determine if you are a good candidate for a loan. If you have a good credit history, you will more easily qualify for a loan such as a mortgage or a credit card. In addition, you may obtain credit on better terms (such as borrowing at a lower interest rate).

Also, most landlords run a credit check on prospective tenants. Landlords look for tenants who will pay the rent in full and on time. So, where there are multiple applicants for an apartment, the applicant with the best credit is most likely to get the apartment.

Lastly, sometimes your credit history may also affect your work opportunities. More and more companies today are checking candidates' credit histories to learn more about a job candidate and may base their hiring decisions on the information in these reports. So, it is helpful to have a strong credit history for all of these reasons.

There are five steps that you can take to improve your credit.

First, the best way to improve your credit is to pay your bills on time. As you start a trend of paying your bills on time, your credit history will improve. In general, payments that are 30 or more days late can negatively affect your credit score.

Second, pay down your debt. The higher the amount of debt you have, the worse your credit score will be, and the less willing a new creditor will be to lend you money. Bankruptcies strongly affect your credit score in a negative way. If you manage your debt such that you do not have to declare bankruptcy again, this will help your score.

Third, be proactive. If you accidentally miss a payment or make a late payment, call and ask your credit card company NOT to report it to the credit bureaus. Credit card companies sometimes will agree to this, especially if it is a one-time only request. You may also be able to set up a different payment schedule that might work better for you.

Fourth, keep your debts under control. Your credit score will improve if you charge 30% or less of your limit each month; as you charge more, your credit score will get worse.

Fifth, don't be hurt by credit bureau errors. Sometimes your credit report will contain incorrect information. Student loans are sometimes listed multiple times on a single credit report. You can contact the credit bureaus to have these types of errors corrected. There may be errors on one report or on all three reports. Sometimes the errors can be large and can result in your being unable to get a loan or credit card.

Lastly, realize that time is on your side. Most credit history records are erased after seven years. If you filed a chapter 7 bankruptcy, your bankruptcy will be erased after 10 years; if you filed a chapter 13 bankruptcy, your bankruptcy will be erased after seven years.

You are entitled to obtain a free credit report every 12 months without paying any fees. You can take advantage of this by calling 1-877-322-8228 or going to annualcreditreport.com. You can also get a free credit report if you were denied credit or your loan interest rate was raised.

If you notice any errors on your credit report, write to the credit bureau to fix the problem. Be persistent to ensure that the problem is fixed. It helps to send the credit bureau documentation supporting your case.

The government has established many laws to protect consumers' rights. Three of the most relevant and important ones are: 1) The Truth in Lending Act, 2) The Fair Credit

Reporting Act, and 3) The Fair Debt Collection Practices Act. The Truth in Lending Act requires disclosure of the Annual Percentage Rate and other fees by credit card companies in marketing to new customers. The Fair Credit Reporting Act sets up procedures for correcting credit report mistakes and protects credit report confidentiality. Lastly, the Fair Debt Collection Practices Act protects people against unlawful debt collection practices by third-party debt collectors.

There are several organizations that can help you assert your rights under these laws. The Federal Trade Commission (FTC) is a federal government agency that focuses on administering consumer protection laws. This agency provides useful information for consumers about how to get out of debt, save money, report fraudulent consumer practices, protect your credit record, and prevent identity theft. The phone number for the Federal Trade Commission is 1-877-FTC-HELP.

Also, the Federal Deposit Insurance Corporation provides information about how your savings are insured by the Federal Government and other important financial matters. The phone number for the FDIC is 1-877-ASK-FDIC.

Module 13

We have covered how to save money on everyday expenses and how to use credit wisely. Now, let's discuss how to set up a rainy day fund to ensure that you have a safety net in case of an emergency. A very important, but often neglected, part of personal financial planning is preparing for life's setbacks. At some point in life, most of us will experience one or more emergencies or personal hardships that make successful money management even more difficult than normal. In fact, many people who file bankruptcy (maybe even you) were forced into bankruptcy by unfortunate life situations such as health problems, job loss, or divorce.

Having a plan for dealing with these problems is as important as making smart spending decisions. There are four types of unexpected crises that you are likely to encounter at some point in your life. You should be prepared to handle all of them.

The first is job interruption. Many Americans experience periods of unemployment between full-time work stints. This can be due to temporary illness or disability, company layoffs, a reduction in work hours, or an inability to work due to other personal obligations. During these times, your income will be reduced or eliminated entirely, and you will have to find a way to live off your savings, your spouse's income, unemployment, or (if you work multiple jobs) income from your other job.

The second type of setback you may encounter is a family problem. Family problems can make it harder to meet your financial goals. For example, your work hours may be reduced if you must spend more time with family members or if the stress of a family emergency makes working more difficult. Also, you may incur large expenses from a family emergency such as a hospitalization, death, divorce, or car accident.

A third type of crisis you may encounter is a natural disaster such as a fire, flood, hurricane, tornado, or earthquake. These acts of nature can lead to thousands of dollars of damage.

Finally, important equipment can break down and result in repair or replacement costs. Car failure, or the breakdown of a major appliance such as a refrigerator or washing machine, can cost hundreds of dollars and can leave you without a way to get to work.

When a financial crisis arises, it may help to seek assistance from various agencies whose purpose it is to help families get through a difficult financial situation. Many organizations that offer pre-bankruptcy credit counseling also offer financial counseling that you can take advantage of even if you aren't in the process of going through bankruptcy. In addition, there are some charitable organizations that may be able to provide a small financial grant to families experiencing a crisis. These include: Net Wish, Salvation Army Family Emergency Services, and Modest Needs. Also, the Federal Trade Commission consumer website contains a lot of information that may be helpful when trying to cope with a financial crisis. The web topics included there are: dealing with scams, reducing debt, and repairing one's credit.

Another agency that helps consumers in times of financial crisis is the Consumer Financial Protection Bureau or the CFPB. This government agency was created in 2010 and serves to regulate financial service providers. It provides education to the public to help the public protect itself from abusive practices by financial institutions, and it enforces consumer financial laws to ensure banks are complying. It also researches and reports on consumer financial behaviors and financial service provider activities. The CFPB also takes complaints from consumers about mortgage issues, debt collection issues, credit reporting problems, bank services, credit card company issues, and student and payday loan activities. If you experience a problem related to any of these services, you can submit a complaint on their website at www.consumerfinance.gov and they will work with the involved agency to help you resolve the issue.

Knock on wood that you won’t have to experience too many financial setbacks, but since most people do experience one or more, let’s discuss how to prepare for them by setting up a rainy day fund.

A rainy day fund is money that you have available to help cope with emergencies and should be enough to pay for at least three to six months of your expenses. For example, if your family has monthly expenses of $3,000/month, you should have three to six times $3000, or $9,000 to $18,000 in your rainy day fund.

Your rainy day fund should be separate from your savings and retirement plans. If you can, you should avoid dipping into retirement plans or savings accounts because there can be hefty penalties associated with taking money out before you actually retire or before the accounts mature.

Because a rainy day fund consists of a lot of money, you should invest the money in it to earn interest. The best ways to do this are to put it in an interest-bearing savings account or a money market fund. Don't invest your rainy day fund in stocks or long-term bonds, because those are too risky.

Let’s now discuss a few other things, in addition to setting up a rainy day fund, that you can do to help put you in a better position should an unexpected crisis arise. First, purchasing insurance can help you immensely. If a natural disaster occurs or you get into a major car accident, or if you break your arm and can’t work, having insurance can protect you from financial collapse. By paying annual premiums for earthquake insurance, flood insurance, and/or homeowner’s insurance, you can ensure that if one if these things does occur, you will get reimbursement from the insurance company so you can rebuild or fix your home. If you pay for disability insurance, you will know that if you become disabled and can no longer work, you will receive monthly payouts to help keep you afloat. If you purchase even the most bare bones type of health insurance, it will likely protect you from owing thousands of dollars in medical bills due to a major health crisis.

A second thing that can help you deal with a financial crisis in advance is keeping good financial records. Records allow you to prove your credit history (in the event of a credit report error), verify employment information, and prove your insurance coverage (in the event of a loss).

You should keep tax records for at least seven years in case the government decides to audit you. These include: receipts, employment records, and copies of filed tax forms. Investment records (e.g., certificate of deposit statements, brokerage account statements, and bank account statements) are needed for tax reporting. Insurance policy information is needed to collect payment from an insurance company if you experience a loss. Passports and social security cards must be kept to show employers you are eligible for employment and to verify your identity. Loan statements and credit information should also be kept in case you need to verify your loan information for tax purposes or in case you need to confirm your credit history.

A third thing to do that will help you down the road should a crisis occur is to avoid spending money on unnecessary items during the periods when you are **not** experiencing a crisis. During these good times, avoid the temptation to upgrade to new technology, buy new household items, go on long vacations, etc. Also, if you get a bonus at work, a holiday gift, or a check from a family member, use that money to invest in a rainy day fund rather than spending it on unneeded items.

A fourth thing you can do to put yourself in a better position in case a crisis occurs is to sell any items now that you don’t need or use. If your kids have grown out of some of their clothes or you have old CDs you don’t listen to, or you own some furniture or appliances you don’t use, you can sell those on eBay or at a garage sale and use the money you earn to invest in a rainy day fund.

Let’s now discuss some things you can do to cope with a financial crisis once it has already hit you. First, sit down and evaluate your current expenses and cut out all of the ones that you aren’t absolutely required to pay. For example, cut off cable TV, cell phones, travel, spending on gifts, gambling, alcohol, or anything that isn’t absolutely necessary. This way you can accumulate some money to use in case you have to pay unexpected bills.

Second, negotiate with your creditors. If you have credit card debt, call your credit card company and tell them you are in a difficult situation financially and you need them to lower the interest rate on your card, or extend the due date, or waive the late fees. Ask to speak with a supervisor if you are initially told no. Credit card companies often would prefer to work out a payment plan with you rather than have you stop paying them entirely.

Third, consider taking on extra work on the side. If you can babysit, wait tables, mow the lawn, or clean houses, these odd jobs can bring in extra needed cash. You can also register with a temp employment agency so you can take a short-term job if one becomes available.

Fourth, consider doing whatever it takes to lower your housing costs. Housing is usually the biggest monthly expense most people have. If you can move to a cheaper apartment, sell your home and rent a smaller place, take on a roommate, or negotiate a lower rent with your landlord, you can start saving money immediately.

Lastly, take advantage of assistance programs. If you lost your job, be sure to sign up for unemployment and COBRA, which extends your health insurance after you get laid off. Look into applying for Medicaid, social security disability and other programs that can help you get back on your feet.

Module 14

One thing that can be extremely helpful in protecting yourself from loss due to an emergency is insurance. Buying insurance can help protect you from falling back into bankruptcy. Let’s review the different types of insurance that are available and what you should consider before you buy.

Insurance allows individual policyholders to spread risk. In other words, insurance is a way that a person can pay a little money (called a "premium") every year to protect against having to pay an extremely large expense that might arise in any single year. The advantage to buying insurance is that, for a relatively small amount of money each month or each year, you can protect yourself against the possibility of having to pay a lot later on.

Why might you want insurance? Let's take an example. Say you own a house worth $200,000, and in a fire, you would lose everything. You could buy homeowner’s insurance for $2,000 a year, and then if the house burned down you'd be able to rebuild it. You buy the insurance because for a smaller cost of $2,000 for each year, you are protected against a major loss of $200,000 all at once.

An important aspect of an insurance policy is its deductible. The deductible is the amount that you must pay before the insurance company will pay you anything. For example, if you have an auto insurance policy with a deductible of $500, and you get into a car accident and it costs $400 to repair your car, the insurance company will not pay you anything because you must pay the costs yourself up to $500. However, if you get into an accident that costs $800 to repair, you will receive $300 from your insurance company. You pay the deductible amount of $500 and the insurance company pays the rest--the $300.

Deductibles can be set either per occurrence or over the course of the year. When the deductible is set per occurrence, then for each accident, you pay the deductible and the insurer pays for losses above the deductible. When the deductible is over the course of the year, you must pay all expenses (for all events) until the total expense exceeds the deductible, and then the insurance company’s coverage kicks in. Auto insurance deductibles are usually per event; medical insurance deductibles are frequently over the course of the year. You need to read your policies carefully to see how your deductibles are treated. In addition to a deductible, insurance policies also have limits. A limit is the maximum amount the insurance company will pay. A higher limit will come with a higher premium.

When should you buy insurance and how much should you buy? The answers to these questions depend on several things.

First, do you need to protect against the risk involved? For example, if you are single and don't have children or dependent parents, there isn't anyone relying on your financial support and you don't need life insurance. If you died, no one would be negatively affected by the loss of your income.

Second, what is the cost of purchasing an insurance policy? Sometimes insurance is so expensive that it may not make sense for you to buy it. For example, in California it is expensive to obtain earthquake insurance. As a result, many homeowners do not buy earthquake insurance policies. Homeowners should instead put aside money in savings in case it is needed for repairing future earthquake damage.

Third, can you deal with financial disaster? If you have savings, then you can afford to pay for car repairs or be out of work for a short while. But, if you have very little in savings, then small financial problems could put you at risk of bankruptcy, and you may wish to consider buying insurance.

Fourth, what types of insurance does the law require you to have? Most states require drivers to carry insurance in case they get into an accident and cause harm to another person or another person’s property. In addition, the Affordable Care Act requires nearly all Americans to purchase health insurance.

The most common types of personal insurance are: health insurance, life insurance, disability insurance, homeowner’s insurance, and auto insurance. We will look at each of these in turn.

Medical insurance is arguably the most important insurance coverage that you can have. It protects you against health care costs such as doctor’s visits, hospitalizations, and prescription drugs. Emergency medical treatment is almost always covered, but "elective" surgeries may not be covered. Psychological counseling, drug or alcohol rehabilitation, and programs for quitting smoking may or may not be covered, depending on your health insurance policy. Before undergoing medical treatment, you should consult your policy to see if it will be covered.

You may be able to obtain health insurance from your employer. If your employer provides coverage, your premium is deducted from each paycheck. You can usually pay more to have your spouse and children covered by the policy as well. If you and your spouse/partner each can obtain health insurance from your employers, compare the benefits and costs of coverage from each employer and choose the better one.

If your employer (or your partner’s employer) does not provide health insurance, then you can purchase a policy directly from a health insurer. However, you may have to pay more than employer-provided insurance would cost because employers are often able to obtain coverage on better terms.

In addition to health insurance, another common type of insurance is life insurance. Life insurance protects against losses due to death. A life insurance policy pays the insured’s survivors or “beneficiaries” in the event of death.

There are two main types of life insurance policies: term and whole. Term insurance is simpler to understand--you pay a premium each year and if you pass away, your beneficiaries receive the pre-set benefit amount. A whole life policy combines term insurance with an investment account. You pay a fixed amount each year and you will have an “account value” that will build up. If you die, your beneficiaries receive the benefit, but if you survive, you will receive your “account value” at the end of your policy term (called the “maturity” date). Term insurance is much cheaper and probably a better option if you expect to pay for life insurance for less than 20 years.

Another type of insurance to consider purchasing is disability insurance. Studies have shown that one in four people who file bankruptcy do so due to a disability.

Disability insurance protects you and your family against your inability to work. Common disabilities include: back problems, emotional or psychiatric difficulties, and physical ailments of the hands, feet, arms, and legs. These problems can strike both high-income earners who may have to sit at a desk all day and blue-collar workers whose jobs may require strenuous physical activity.

There are three key aspects of a disability insurance policy: the type of disability covered, the elimination period, and the benefit period.

Depending on a policy's definition of "disability," only certain types of disabilities may be covered. For example, with a "total disability" policy, even if you are injured, you are not disabled if you are able to perform *any* job. This means that if you are a radio announcer and you lose your speaking voice, if you are otherwise physically capable of working (for example as a janitor or construction worker), you receive no benefit. Check each policy’s definition of “disability” to find out what is covered.

The “elimination period” is the time between when you become disabled and when you become eligible to collect disability benefits. You must wait until your elimination period ends and then you will start to receive payments. Elimination periods range from 30 days to two years, with 90 days being the most common. Lower premiums will come with longer elimination periods.

The benefits period is the time for which you can receive disability payments. It can range from as little as two years to as long as your entire post-disability lifetime. For a longer benefits period, you will have to pay a higher premium. Common benefits periods are five years, or until you reach age 65. The average time of disability is a little over three years, so a five-year plan is usually sufficient. No matter what your benefits period, if you recover from your disability, you will no longer receive benefits.

One misconception is that government disability coverage will protect you and that you do not need disability insurance. This is not the case. The federal government provides Social Security Disability Insurance (SSDI) to workers who have worked for a minimum number of years and paid Social Security taxes. SSDI only is available for a total disability, and if you have not worked for a long enough time, or if you have not paid Social Security tax, you will not be eligible. Even if you are disabled and eligible for SSDI, the amount of coverage provided by SSDI is probably not enough to replace your earnings. Most individuals receive between $500 and $2,000/month from SSDI.

Now let’s turn to homeowner’s insurance. Homeowner’s insurance, among other things, protects property from damage due to such things as fire, rain, snow, and hail. As with every other type of insurance, you must read your policy to see which “perils” (or causes of damage) are covered. Special types of risks may not be covered. Earthquakes and certain types of floods are often not covered. Homeowner's insurance is often required by mortgage lenders so you will likely have to purchase it if you own a home.

Finally, let’s talk about auto insurance. Auto insurance is required in most states to lawfully drive a car. Auto insurance protects you against paying the costs of auto accidents. It can include coverage for hospitalization and vehicle damage. Your policy may also include uninsured motorist coverage which provides coverage if you are in an accident with an uninsured driver.

When buying auto insurance, you should take advantage of any discounts that may be available to you, including: good driver, good student, senior, family discounts for buying from the same company, and a driver’s education course credit.

Also, with auto insurance, like with any other kind of insurance, make sure that what you are buying is what you need. For example, if you drive an old car that is not worth very much, you should not buy much in the way of collision coverage. It may be cheaper to buy a replacement car than to pay premiums each year in case you get into an accident that is your fault. The opposite may be true if you have a new, more expensive car.

Let’s discuss some tips about buying all types of insurance. First, ask yourself what type of coverage you need. If you have a rainy day fund, then you can afford to have higher deductibles so that you can pay lower premiums. On the other hand, if you are cash-strapped and will be unable to incur any form of losses without experiencing extreme financial difficulty, then you should consider paying higher premiums to get lower deductibles.

Second, shop around and do your research. There are countless insurance companies out there. Some are better than others; some are cheaper than others. Figure out how important customer service is and how much you trust a company in determining which company to use. The cheapest company may not be the best if you know that in the event of an accident, it will not be willing to pay the benefits that you are owed. On the other hand, the most expensive company may require extremely costly premiums. Research the reputations of the insurance companies you are considering to see how they treat their customers, including how quickly they settle claims. Also, ensure that the agent with whom you are dealing is licensed–you can check your state’s licensing website to verify this.

Third, make sure you are covered once and only once. Do not buy policies that overlap, where several different policies all provide similar coverage. Also, make sure that the dates on your policies are correct. If you allow yourself to go a day without coverage, that could be the day when an accident happens.

Fourth, take advantage of discounts. Insurance companies offer many different types of discounts. There may be discounts for buying on-line, being a good student or driver, or buying all of your different insurance policies from the same company.

Fifth, consider not paying for financing. Many insurance companies allow you to pay either the entire amount due at once, or to pay in installments. With installments, they will charge you a financing charge, and these charges can add up. You can save money by paying the entire amount due at once if you have that money available.

Module 15

Now that you have learned about how to save, how to use credit effectively, and how to purchase insurance wisely, let's quickly summarize all of the things you should plan on doing in the future.

First, if you are still in your working years, get the best paying job you can.

Second, save money every month, even if it's just a small amount. This is the best way to accumulate some money for a rainy day fund and to save for future financial needs such as retirement.

Third, continue paying off your debts, such as student loans, home mortgages and credit card bills. This will improve your credit record, and allow you start to earn interest on savings rather than pay interest on your debt.

Fourth, pay off your credit card balance in full every month. If you learn one thing from this course, learn this. Credit card interest rates are so high, if you only pay the minimum balance each month, you will wind up paying a large amount in interest over the course of many years before you pay off what you owe.

Fifth, avoid buying unnecessary items. If you can avoid buying items you will never use or items that are really not needed, you can reach your most important financial goals.

Sixth, buy the insurance you need. You need insurance to protect yourself and your family against large expenses arising from accidents and other unfortunate events.

Seventh, talk with your family about your finances. Your family can help you carry out your new financial plans. Also, if you have children, you should teach them about how to manage their finances successfully. That will help them a great deal when they are older.

Eighth, monitor your credit score. It's not only important to have a healthy financial status, but it is important to be able to verify this solid financial standing to lenders, landlords, and merchants.

Ninth, keep organized financial records. By keeping track of what you earn and what you spend, you will be the master of your own personal financial well-being. Good luck!