Manager's Handbook For

Providing Financial Literacy Guidance

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Introduction

This handbook gives guidance on how to spot different mistakes people make in managing their money and suggest practical ways that they can overcome the problems. Here is some background to help you understand the issues you may encounter.

What Is Financial Literacy?

Financial Literacy, also called Financial Capability, Personal Finance, Micro-Economics, and other terms, means having the **skills and knowledge to make informed and effective decisions about money**. Examples of skills include activities such as how to make a budget, track spending, read a credit report, shop and apply for a loan. Examples of knowledge include things like knowing and understanding Annual Percentage Rate (APR), credit and a credit score, the need and value of insurance, and secured compared to unsecured loans.

Many topics are included under the umbrella of financial literacy. The list makes more sense when you recognize the goal of preserving and growing personal wealth is what connects them. This handbook addresses:

- Controlling the cash flow: planning and tracking spending (budgeting)
- How to save and what to do with the saved money
- The magic of compound interest- working for you, working against you
- How and why to choose and use banking institutions
- Using checkbooks and debit cards- how to avoid overdrafts
- What credit is and how to achieve good credit
- How to monitor credit and fix credit report problems
- Credit cards – using them wisely
- Loan basics – terminology, types of loans, shopping for loans
- Insurance – why it's needed
- Avoiding common types of fraud

Beyond Skills and Knowledge

In addition to the type of learning covered in this handbook, making good decisions requires keeping up with day-to-day economics as reported in newspapers and magazines. Nationally, it means watching trends in interest rates or stock markets, or changes in federal tax laws. At the state and local level, tax or regulatory changes may affect money decisions. The real estate markets change and financial businesses offer opportunities for accounts. The factors that tell how and when to apply financial skills and knowledge come from the changing world we live in. It's necessary to pay attention to what's going on in the world.

The final consideration for making good financial decisions can't be found in a book or learned from the newspaper. They are individual choices that come from selecting personal goals and ambitions which require money to achieve. These commonly reflect the indivduals stage of life:

- paying for advanced education
- a wedding
- raising children
- buying a house
- retirement

The goal of financial literacy is to have the available money to meet as many needs and wants as possible over a lifetime. Self-knowledge is needed for that.

Becoming Financially Literate – A Little History With Practical Considerations

Through the ages, people learned how to handle their finances from their family. In an agricultural community, personal wealth came from learning how to farm, fish, log, or manage other natural resources. Skills were passed down from parent to child. Bartering made money less needed. The world still has places that do not use money and the rural areas of America still rely on agricultural resources to supplement household finances. You may be working with people from this type of background who do not have a lot of experience with money and financial institutions.

As people moved to cities and specialized into professions, the need to use and understand money as a common trading currency grew. In the past 150 years, the concept of "Hhome Economics" was developed. This included teaching household budget management. Since the mid-1990s, the classes have been most commonly called "Family and Consumer Science" and now includes community engagement information. Only about 10% of US high school students take such classes. Some high schools offer short courses in financial literacy, but follow-up studies show that they have been very ineffective. School curriculum is being adjusted and Texas now starts financial education in Kindergarten, but it will still take more than a decade for the results to be seen. Macro-economic classes are common, but people have trouble translating that to micro-economics. Don't be surprised to be working with people who have no formal education in personal finance.

Most people still learn money management from parents, who may not have the skills and knowledge themselves. Currently, 57% of Americans have less than $1,000 in savings and around 40% have no savings at all. The Federal Reserve has calculated that the average American has about $16,000 in credit card debt, $30,000 in car loans, and $50,000 in student loans. Chances are good that you are working with people who are drowning in debt.

Money, Culture, and Emotions

Talking about personal finance is the last big American taboo. Combining America's regard for self-sufficiency and independence with a reluctance to talk about money means that people won't ask for help when they get into financial trouble. Furthermore, many feel shame that they are not more successful, either at making money or managing money. You may find that people are more receptive to learning money handling information when they are presented as 'tips and tricks' or ways to optimize getting the most out of money.

It shouldn't be a surprise that different cultures can view money differently. For example, in some cultures, people view money as belonging to the whole family, which can pressure those employed to give their money to other family members. Others have what can seem like a superstitious approach to making financial decisions. There are variations by religion as well. For example, Islamic laws guide such financial topics as profit sharing and loss bearing, and prohibit interest paid on any loan as usury. The potential for cultural variations means that you need to be careful about assumptions and values. One option is to take a practical 'this is how it usually works best' approach to presenting the information.

Finally, money can cause deep emotion. Some people equate wealth with personal worth. Others equate wealth with greed or worldliness and poverty with virtue. Money is frequently used to control people; abusive family situations can include withholding money from spouses. Worry over money is one of the top causes of divorce. Some people think money and possessions bring happiness, then feel cheated when they aren't happy with their stuff. The emotions can cause internal conflicts and prevent good decision making. Teaching financial literacy skills and knowledge in a supportive group environment can help, as can giving the information before serious problems occur.

Money Management: Identifying Problems, Providing Solutions

Monitoring Cash Flow by Tracking Spending

Problem/Symptoms: Being overdrawn, being broke, or having a large credit card debt.

Some people are not aware of how much money they are spending day to day. They may visit ATMs frequently which can mask the amounts being spent. Most people are simply not aware how small purchases add up to real money.

Solution/Technique: Challenge them to try tracking their spending for one or two weeks. Save the paper receipts, scan them on cell phone, track expenses on an app or by looking at debit card transactions. At the end of the week, total the spending and evaluate if the spending was worth it. Could the expense have been skipped? How much money could have been saved? Use the activity to evalute needs versus wants.

Controlling Cash Flow by Creating a Spending Plan (Budget)

Problem/Symptoms: The money always runs out before the month does, leaving important bills unpaid. The person borrows money, asks for an advance on pay or takes out a loan to pay standard bills.

Solution/Technique: Plan the spending in advance and allocate the money for the must-pay bills such as rent, insurance, gas, utilities, food. Combine with tracking spending to look for ways to cut spending. Use a paper spreadsheet (lots of free templates on line), a website designed for budgeting, or an app. Planning spending and putting away emergency money and savings is the absolute key to getting ahead in life, no matter what income a person has.

Creating an Emergency Fund and Saving for Big Purchases

Problem/Symptoms: Basics may be covered but unexpected emergencies pop up, causing the person to occassionally borrow money, ask for an advance on pay or take out a loan/run up a credit card.

Solution/Technique: Expect 'unexpected' emergencies. Go back to the spending plan and add or increase the line for savings (see above). Use past emergency spending to guide how much is probably going to be needed in the future.

Here are some starting guidelines for how much to have tucked away, from Intuit's Kimmie Greene:

> **In the 20s:** Aim to save 25 percent of overall gross pay. Include when calculating savings any retirement account contributions, matching funds, cash savings or invested money.
>
> **By age 30:** Have the equivalent of the annual salary in savings.
>
> **From there on, every 5 years:** Keep putting the equivalent of salary in savings/investments. A good goal is to have 10 times the final salary in savings to retire by age 67.

How Interest Snowballs

Problem/Symptom: Debt builds faster than efforts to pay down the bill. Credit card owner is surprised that amount owed is way beyond what was expected.

Solution/Technique: First, understand how interest rates are calculated and why it's called 'the magic of compound interest'. Compounding works for you for savings accounts and against you for loans. Use on-line calculators to see how amounts accumulate or write out simple math examples, like the one in the appendix.

Second, pay down the balance as fast as possible starting with the highest interest rate debts first. Consider taking out a loan to pay off a credit card balance if there's an interest rate that's better than the card's, but watch for origination fees that will wipe out the savings.

Choosing and Using Financial Institutions

Problem/Symptom: Cash checking places and grocery or convenience stores are used for banking services, costing more than is necessary to pay for the service.

Solution/Technique: Shop for a financial institution that meets the individual needs. Generally speaking, credit unions are more favorable to consumers but there are many factors to consider, such as location/hours, interest rates, costs & fees, service areas.

One of the benefits of having a banking institution is that there will be customer service representatives who will answer banking questions and help manage accounts. This can include balancing check books and figuring out overdrafts.

Using Checkbooks and Debit Cards Correctly

Problem/Symptom: Checks bounce and debit cards are refused. Overdraft fees pile up Bills aren't paid on time, causing service problems.

Solution/Technique: Understand how the financial institution being used clears the transaction. Although it might seem that computers make actions instantaneous, no institution clears all transactions immediately; it is necessary to track the balance and outstanding transactions. Use a checkbook ledger; they are free from the bank.

Maintaining Good Credit

Problem/Symptom: Credit score is low, resulting in high insurance rates, applications for housing is being denied, requested loan rates are high or loan applications are turned down.

Solution/Technique: Improve credit rating by understanding what credit is and how it works. Credit is the *ability* to borrow, not what has been borrowed so far. Borrowing money actually decreases credit because it means there's less discretionary money that could be used to pay back loans.

Understand how to get a high credit score:

History of paying back loans on time (35%)
How much unused credit you have (you haven't maxed out credit) (30%)
How long you have had credit (15%)
How many times you've asked for credit recently (inquiries) (10%)
How varied the types of credit you have (e.g., car, student, credit card) (10%)

Monitoring/Correcting Credit Reports

Problem/Symptom: Application for credit has been turned down for seemingly no reason. Creditors asking for money that wasn't borrowed. Credit score is lower than expected.

Solution/Technique: Get a copy of all three major credit reports and look for errors or unexpected activity. If mistakes are found, work with credit agencies to correct them. If evidence of identity theft is discovered, file police reports, freeze credit, and start working on untangling problems - the FTC has detailed instructions.

Using Credit Cards Wisely

Problem/Symptom: Snowballing credit card bills becoming overwhelming.

Solution/Technique: Start by understanding how interest compounds if credit card bills aren't paid in full (see compound interest section above). Get a copy of the credit card statement and review it in detail; find the interest rate and late fees entries. Create a budget and look for opportunities to redirect money to credit card payoff (see spending plan section above). Lock cards away but don't cut them up; that actually decreases credit score by the lowering credit limit used in the formula to assess unused credit(see credit section above).

Understanding Loan Alternatives

Problem/Symptom: Large amounts of interest are being paid to payday lenders, title loans, rent-to-own plans. Credit cards are used to finance large items. The money spent on debt is big and growing.

Solution/Technique: Start by understanding how interest compounds (see compound interest section above). Understand that lenders set interest rates based on the risk that they'll lose their money, so by improving credit, you'll qualify for better interest rates and a wider range of loans (see maintaining good credit above). Learn that a secured loan has something of value that the lender can take instead of money and that this type of loan should have lower interest than an unsecured loan. Shop for loans, including asking your bank/credit union about emergency loans or other types of loans they may offer.

Maintaining Proper Insurance Coverage

Problem/Symptom: Tickets from lack of car insurance. Not getting medical help because of no health insurance. No renter's insurance.

Solution/Technique: Understand what insurance does, It creates a way to compensate for something you can't afford to lose or pay for. Stop and think about how much trouble it would cause to lose key things: your health, your car, your personal items. Understand that different companies and coverages cost different amounts and you can shop for the one that's best for you.

Avoiding Common Types of Fraud

Problem/Symptom: Unauthorized charges appearing on credit card bills, Unexpected money taken from bank accounts. Unauthorized accounts opened.

Solution/Technique: Understand the most common ways that fraud occurs: through loss of personal information by theft or trickery. Computer fraud is a growing problem

APPENDICES

Compound Interest

Assume you put $100 in an account that pays 5% per year, and you leave it alone. Here's what happens:

Year 1 results	Year 2 results	Year 3 results	Year 4 results	Year 5 results
$100 original $5 interest	$100 original $5 interest $5 from y1 .25 interest	$100 original $5 interest $5 from y2 .25 interest $5 from y1 .25 interest .25 from y2 .01 interest!	$100 original $5 interest $5 from y3 .25 interest $5 from y2 .25 interest .25 from y3 .01 interest $5 from y1 .25 interest .25 from y3 .01 interest .25 from y2 .01 interest .01 from y3 too little!	$100 original $5 interest $5 from y4 .25 interest $5 from y3 .25 interest .25 from y4 .01 interest $5 from y2 .25 interest .25 from y4 .01 interest .25 from y3 .01 interest .01 from y4 too little! $5 from y1 .25 interest .25 from y4 .01 interest .25 from y3 .01 interest .01 from y4 too little! .25 from y2 .01 interest .01 from y4 too little! .01 from y3 too little!
$105	**$110.25**	**$115.76**	**$121.54**	**$127.60**

Note: all the pennies actually get together and create a bigger amount that is NOT too little to create interest. This chart is just to show pictorially how the interest compounds.

A key point: you must go through the slow growth years to get to the exciting years. The sooner you start, the sooner you get there.