DIVISION OF AGRICULTURE
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Volunteer Leader Training Guide

Six Ways to Increase Wealth

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Introduction

How did you learn to manage money? The majority of adults report learning to manage money from their parents or learning on their own after they got their first job. Most people have never had any training in financial management. There are several basic tools for financial management that can help you to make the most of your money.

Target Audience

- EHC leaders and members
- Adult audiences
- Young adult audiences

Objectives

Participants will gain knowledge about recommended personal financial management practices.

Handouts

- Six Ways to Increase Wealth
- Evaluation

Suggestions for Teaching

- Review the lesson guide and handouts.
- Make copies of handouts.

Additional References

- MP171, *Household Account Record*, and FSHEC42, *Financial Fitness Series: Shape Up Your Spending*
- FSHEC44, *Financial Fitness Series: Trim Your Credit Line*
- FSFCS55, *Credit Reports and Credit Scores*
- FSFCS43, *Build Your Savings*
- Free online courses – *Take the Road to Financial Security in Later Life* and *Investing for Your Future* at www.extension.org

Lesson

Basic money management techniques are important for all consumers. Here are five money management techniques that any consumer can use to increase their financial stability and start to build wealth.

1. Balance income and expenses
2. Calculate debt load
3. Check credit reports
4. Know your credit score
5. Save for emergencies
6. Plan for retirement

Balance Income and Expenses

One of the most important concepts in financial management is to balance income and expenses. This is best done by creating a spending plan. A spending plan matches your income with all of your expenses. It's a great tool for making sure you're using your resources to meet your financial goals.

As you develop your spending plan, be sure to include **fixed**, **variable** and **periodic expenses**. **Fixed expenses** are regularly occurring and are the same every time. What are some examples of fixed expenses? *(rent, mortgage, car payment)* **Variable expenses** occur on a regular basis but are not the same amount every week or month. What are some examples of variable expenses? *(groceries, utilities, entertainment)* **Periodic expenses** occur only occasionally. What are some examples of periodic expenses? *(car insurance, vacations, holiday spending)*

Total income minus total expenses should result in a positive number!

The idea of a spending plan is to match your income and expenses so that you don't end up with more expenses than income. A spending plan helps you anticipate future expenses. It allows you to look for ways to cut less important spending in order to save and invest for more important goals.

Calculate Debt Load

Is debt good or bad? It depends. Most financial experts consider home mortgages and student loans to be acceptable types of debt as long as consumers don't take on more than they can comfortably pay. Revolving credit can be a convenient way to pay and can help you build a good credit score. However, debt can easily get out of hand. Interest and fees add to the cost. If you're having trouble making monthly payments, you may have more debt than you can handle. Personal finance experts recommend that consumers have a debt load of no more than about 10 to 15 percent. If you owe more than this, you may be headed toward financial collapse.

Here's how to calculate debt load.

Step 1. List all of your loans (auto, student, furniture, personal, etc., except mortgage loans) and credit cards and the amount of the monthly payment. For credit cards, use the amount you usually pay each month. (If you pay your credit card balances in full each month, do not list them.)

Example: Car loan $300 + Student loan $150 + Credit card $75 = Total $525

Step 2. Divide the total amount of your monthly payments by your total net pay (take-home pay after taxes and deductions).

Example: $525 ÷ $2,500 = .21 debt-to-income ratio

Check Your Credit Report

Keep an eye on your credit history, and protect against consumer fraud by checking your **credit report** regularly. There are three major U.S. credit bureaus: Equifax, Experian and TransUnion. The credit bureaus gather information on your credit use and provide it to lenders and other businesses. The Fair Credit Reporting Act entitles consumers to a free annual copy of their credit report from each of the major credit bureaus. You can spread these out and check one report every four months. Be careful to enter the correct web address. Other similar sites charge for the credit report, including most of the web sites advertised on television.

Your credit report is free, but there is a small fee if you want to obtain your credit score. You don't need to check your credit score as often as you check your credit report. If you've never checked your credit score, you might want to know what it is. If it's low, there are things you can do to help improve your score over time. Check your credit score before you shop for home or car loans so you'll know if you qualify for the best rates.

Know Your Credit Score

Information about credit practices such as paying bills on time, credit limits, number of accounts, amount of debt, types of credit accounts, etc., is used to determine your **credit score**. Based on information in your credit report, points are awarded for items that show you are likely to repay debt. Your total number of points equals your credit score.

Lenders use your credit score to decide whether or not to give you a loan or what interest rate to charge you. Generally, the higher the score, the more likely the consumer will make payments on time. Credit scores are calculated using a variety of methods. Each of the major credit bureaus has its own credit score. There are two scores that combine information from the three agencies – FICO and VantageScore.

VantageScore is a joint credit score from all three major credit bureaus. VantageScore ranges from 501 to 990, with the higher scores representing lower risk. VantageScore is based on payment history, use of credit compared to credit limits, balances, types of credit, length of credit history, number of recently opened accounts and amount of available credit. You can find out more about VantageScore at www.vantagescore.com.

Many mortgage companies and other lenders use a credit score developed by Fair Isaac Corporation called FICO. FICO scores range from 300 to 850. Most people score in the 600s and 700s. If you have a FICO score above 700, you may qualify for more credit and lower interest rates. A score below 600 could mean high interest rates, low credit limits or even denial of credit. For details, visit the FICO web site at www.myfico.com.

Save for Emergencies

Saving is a critical component of building wealth. The most basic level of saving is an **emergency savings fund**. An emergency savings account is your safety net. It can help protect you in times of crisis so that a car repair bill, medical expense or job loss doesn't send you over the edge financially. Building an emergency fund can seem like an overwhelming task if you're starting from zero. Use the strategies in *Small Steps to Health and Wealth* to get started or to increase savings.

Most experts recommend saving at least 10 percent of your take-home pay. Start where you are and keep working toward your savings goal. Strive to increase the amount you are saving up to 10 percent of your take-home pay or more.

An emergency savings fund is a critical safety net for your financial security.

Set a goal to build an emergency fund of at least $1,000. When you've reached the $1,000 mark, set a larger goal. You should aim to have enough money so that you could cover at least three months of expenses in the case of job loss.

Plan for Retirement

Close your eyes and picture your retirement days. What do you see yourself doing? Traveling? Hobbies? Enjoying time with family? Most of us see ourselves enjoying life for many decades into our golden years. Financial stability is necessary for a comfortable retirement. Most Americans don't save enough for retirement. Here are some basic steps to **retirement saving**.

- If you or your spouse has an employer-provided retirement plan, take advantage of it. Maximize your contributions. Contribute up to the maximum amount your employer will match.

- Contribute to an Investment Retirement Account. Most banks offer these. Both you and your spouse can open accounts and make contributions. Not only are you saving for retirement, but there are also tax advantages for contributing to an IRA. *(If participants have questions about this, they can see www.irs.gov for details, ask their tax preparer or ask their accountant.)*

- Reducing debt goes hand-in-hand with saving. Work now to reduce debt so that you will have fewer expenses when you reach retirement age.

A wide range of saving and investment options are available for consumers. Take time to learn about saving and investing. However, it's important to remember to be cautious of anyone selling investment products. Be sure to use reliable information. A great source for unbiased, research-based information is the Cooperative Extension Service. Visit www.extension.org and search for the free online course *Investing for Your Future* or *Take the Road to Financial Security in Later Life*.

Conclusion

Most consumers have never had formal training in money management. Learning a few basic skills can help you increase wealth. Remember to:

1. Balance income and expenses
2. Calculate debt load
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4. Know your credit score
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Evaluation

Please complete your evaluation.