



Dear USC Student,

Congratulations! You are taking an important step in educating yourself about money management. It is never too early to work on securing your financial future. This booklet is filled with expert advice, quick tips, helpful resources, and real-life examples to help you succeed in managing your money.

After reading this guide, you will learn how to:

- Create a budget, manage your money, build credit, save, and invest.
- Compare the different types of checking accounts, credit card offers, apartment leases, and car and house buying options.
- Develop a plan to pay off any student loans.
- Understand how to develop good financial habits that will help you throughout your lifetime.

There is always something new to learn about personal finance. The information in this booklet will help you understand your options and enable you to make informed decisions. The USC Career Center wishes you continued success as you make the leap from college to career to financial independence.

Fight On!

Erika Rodriguez

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IT'S YOUR FINANCIAL LIFE

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Managing Your Money

Your dual goals are covering your current needs and meeting your goals.

Nobody has to tell you that you should avoid spending more than you earn. But knowing what's right doesn't necessarily make it easy to do. What is essential, though, is avoiding a steady leak in your **cash flow**. That's the relationship—positive or negative—between your income and your spending. Debt, sometimes lots of it, is the inevitable result when more money is going out than is coming in.

One way to keep your cash flow positive is to develop a **spending plan** to provide some guardrails. It takes just three easy steps:

1. List your expenses.

It's easiest to use monthly amounts to simplify the calculation. So if you pay insurance premiums quarterly, divide the amount by three. And if you go to a grocery store every week, add up the numbers to estimate the monthly amount.

2. Add up your income.

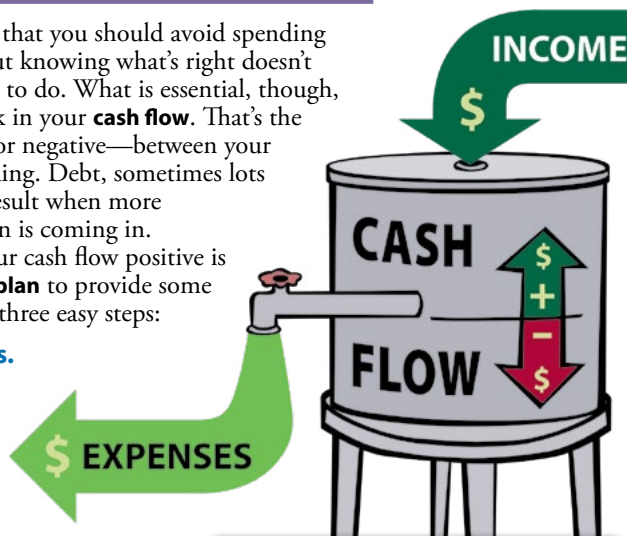
It's probably primarily from salary or wages, but if you have other regular sources add those. Don't include occasional gifts or irregular jobs.

3. Allocate your income

to your expenses, starting with your fixed essential costs.

If your living situation is more or less the same this year as it was last year, you can project your costs using what you spent in the past. Use old bank records and credit card bills to come up with some estimates.

It's a little harder to create a spending plan if you've just made a big transition—perhaps from school to a job or from living at home to having your own place. But it's worth the effort. The whole idea is to find an approach to managing your money that keeps your cash flow under control.



ONLINE RESOURCES

With a quick search you can find web- and app-based resources for creating a spending plan. By crosschecking suggestions on sites including Forbes, NerdWallet, and Consumer Reports, you can identify the ones that show up consistently as worth investigating. Most apps are free, though some may have a small monthly charge. And some are easier to use than others.



FIXED AND VARIABLE COSTS

As you put together the numbers, you'll want to separate expenses with **fixed costs**—meaning that they're the same or close to the same every month like rent, car payments, and phone plans—from those that vary. That way, if you have to reduce your spending, you can focus on the costs where you have flexibility. They typically include needs like food and clothing, and things that

are nice to have but not essential, like entertainment.

You'll do yourself a favor, now and in the future, if you include savings as one of the fixed costs in your spending plan.

Though it can be tough to save when you feel as if you're just hanging on to solvency by a thread, it's much harder to deal with a financial emergency without the resources that savings can provide.



FOLLOWING THE FLOW

To manage your money effectively, you need to know where it's actually going. You could discover it's not where your spending plan says it should go.

With an app, online tool, or a small notebook, track what you spend each day for several weeks, down to at least the last quarter. If you're using a debit card for most purchases, a lot of what you need to know is already part of the record. If you're unpleasantly surprised at what you discover, that could be a good thing if it pushes you to make some necessary changes in your spending habits.

LOOKING TOWARD THE FUTURE

The next step in taking control of your finances is making a financial plan. At this point in your life, the plan can be pretty informal—maybe just a list of the things you'd like to be able to afford in the next few years. Then you

can investigate ways to make them happen. It's a lot like setting career objectives and figuring out the path that will get you where you want to be next year and ten years from now.

In fact, your spending plan and financial plan work together. One of the issues with financial goals is that most of them require more disposable cash than what you earn from your job. By making saving and eventually investing part of your spending plan, you make reaching your goals more realistic. And by spending carefully and controlling your debt, you create a solid credit history. That makes it easier to borrow for the goals where that's often a necessity. Think a car, graduate school, maybe an apartment.

EMERGENCY FUNDS

An emergency fund is a financial safety net of two to six months of living expenses on deposit in a bank or credit union savings account or short-term certificates of deposit (CDs). These are **liquid assets**, which means you can access the money easily with little or no loss of value. You build your fund by including it as a regular expense in your spending plan, putting money into it every month until you reach your goal. If you have to use the money, it's important to rebuild the balance as quickly as you can.

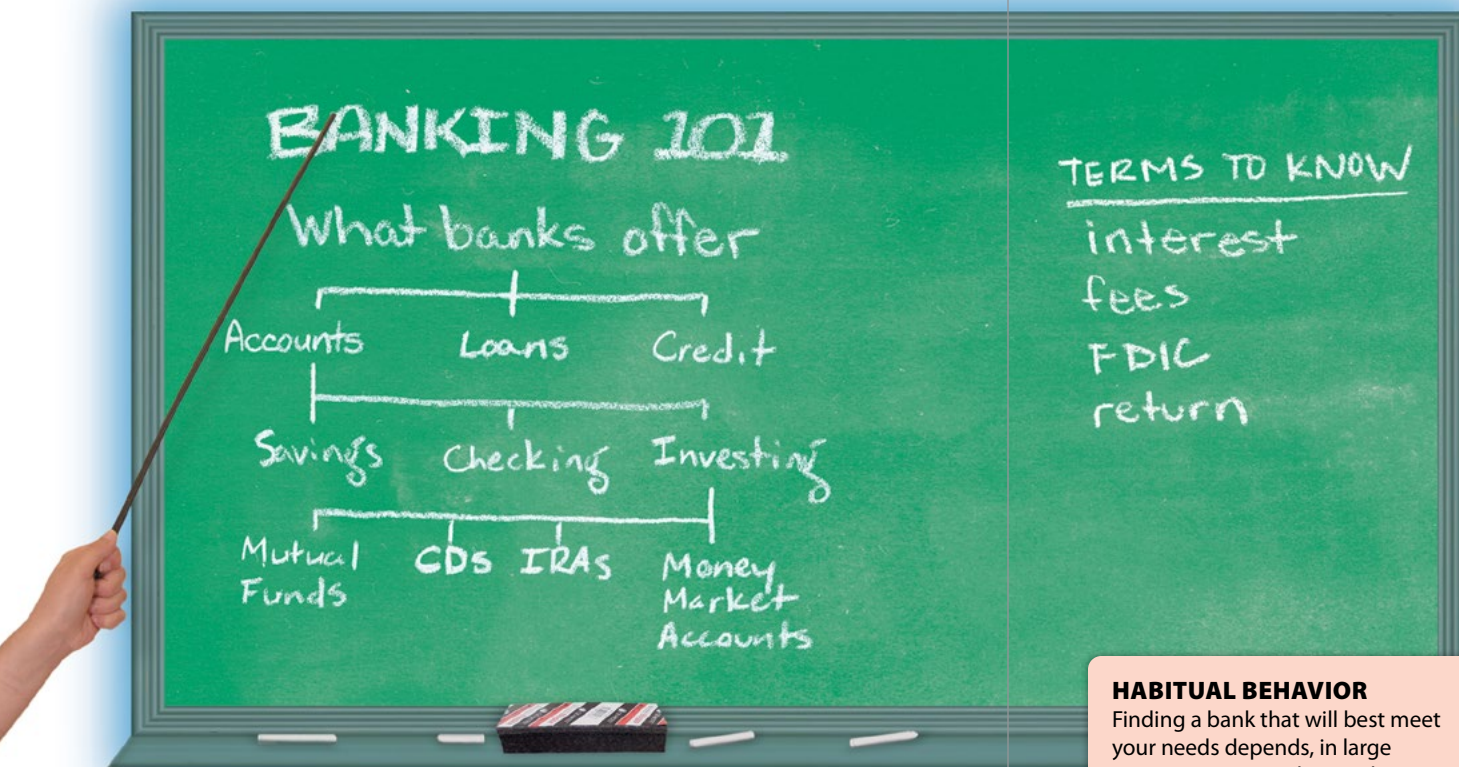


Banking Basics

It's hard to get by without a bank account.

When you think about life's necessities, finding a bank might not be top of your list. But unless you're paid in cash, pay all your bills in person, and aren't trying to save for the future, it's hard to think how you could get along without a bank or its not-for-profit equivalent, the credit union.

The catch is that if you've seen one bank, you haven't necessarily seen them all. The services you can get, and what those services will cost you, vary significantly from bank to bank. So does the way you're treated if you've got questions or problems.



GETTING CONNECTED

Chances are you do most of your banking online. In addition to the 24/7/365 convenience of not having to leave your home (or office) to check your balance, you can move money from one account to another, pay your bills, invest, and borrow through an online account. About the only thing you can't do is get your computer to give you cash—though that day may come.

Whether you use the online services offered by a brick-and-mortar institution or put your money in a **virtual bank** that exists only online, you can connect directly to your bank's secure network by logging onto its website and using your ID and password.

You'll want to take precautions to keep your online account safe. While it's possible to access a bank's website from almost anywhere there's an internet connection, it's never a good idea to handle financial transactions on an open, typically unencrypted, network even though the bank's network is locked. It's way too easy to be hacked. It's also smart to follow your bank's prompts to pick a strong password. Long is better than short, as is a random combination of letters, numbers, and symbols. You should also use two-factor authentication. In that case, each time you login using your password, you receive an email or text with a second code that lets you complete the sign-in.

YOU CAN BANK ON IT

You may have some uncertainties where money is concerned, like whether you'll be able to live on what you earn and whether you'll be more financially secure in the future than you are today. Banks can't solve those problems, but putting your money in a bank will provide one safety net in an otherwise uncertain world. Banks promise money deposited in their accounts is safe.

Here's the story: The **Federal Deposit Insurance Corporation (FDIC)**, a government agency, insures

accounts in its member banks, which include most banks in the United States. (There's separate, comparable insurance for credit unions.)

A \$250,000 insurance limit applies per depositor per bank. For example, if you had \$250,000 in a **certificate of deposit (CD)** in one bank and another \$250,000 in a CD in another bank, both accounts would be covered. But if you had \$300,000 in one CD, only \$250,000 would be insured.

You can actually qualify for more than the \$250,000 coverage at a single bank if your assets are in different types of accounts. For example, a business account and a personal account are insured separately. So is a trust account. And you qualify for up to half the coverage on an account you own jointly with someone else.

What's not insured is any money you invest through a bank that's not in a checking or savings account. For example, money in a mutual fund the bank sells is not insured, even if the name of the fund includes the name of the bank. But money in the bank's money market account is insured. The bank is required to tell you which accounts are insured and which are not. Be sure you know which are which.

PAY YOUR BILLS

Electronic bill payment is one of the most popular features of online banking. You access your account once or twice a month, key in the amounts you want to pay to a list of established payees or one you're adding, and indicate when you want each payment made. Others let you set the day on which a specific bill, such as your car lease, will be paid. You can have your bank pay certain bills automatically each month just by providing the payment information the bank needs and identifying the account to debit. Some banks pay these bills as they're due, rather than when they arrive. It's best to limit automatic payments to those that are exactly the same each time.

The bank handles the rest. The payments may be made electronically to some payees and by check to others, depending on arrangements the bank makes.

If you plan to pay electronically, it makes sense to look for a bank that doesn't charge a fee for the service.



HABITUAL BEHAVIOR

Finding a bank that will best meet your needs depends, in large part, on your spending and saving habits—or the ones you're trying to cultivate. The more you know about how you're likely to use your accounts, the more effective your search can be. To get started, ask yourself these questions:

- How many bills do you typically pay each month?
- How often do you withdraw cash at the ATM?
- Do you have enough cash available to meet a minimum balance requirement for a no-cost or interest-bearing checking account, and will you be able to keep that amount in your account?

Check It Out

Checking accounts take center stage in managing your day-to-day finances.

To cover your rent, pay your bills, buy your groceries, and repay your student loans, you almost certainly need a **checking account**. It's an easy, efficient way to transfer money in your account to the accounts of your payees. In most cases, you can authorize the payments electronically, and they're handled through an automated clearing house (ACH) network that links banks throughout the country and around the world.

CHOOSING AN ACCOUNT

Finding the checking account that's best for you may be more time consuming than you'd think. Accounts are available in several styles, with different features and at different costs, not only from bank to bank but within each bank. What you want is the best combination of cost, convenience, and services you can find. You can find a lot of what you need to know on the bank's website, though you may also want to talk to a customer service rep.

Cost refers primarily to the fees a bank charges for using an account. That often includes a monthly amount, often \$10 to \$12, which covers making transactions and using the ATM network. You'll want to check if there are monthly limits on the number of payments or withdrawals you're allowed and what each extra one costs, as well as other fees that could apply.

Some banks may offer reduced or waived fees to attract your business. And most won't charge for basic services if you keep a minimum balance in your checking account or a combination of accounts in the bank. The catch is that their minimum can seem pretty maximum. You may also qualify for free checking if your paycheck is direct deposited to your account, though the deposit may have to be for at least a minimum amount, such as \$500.

You may also be offered a no-frills or basic checking account. But be careful about the number of transactions and ATM visits that are included. You're likely to find the terms are too restrictive, and the fees can be steep if you exceed the limits.

For **convenience** and **service**, the primary consideration will probably be the sophistication and cost, if any, of its electronic banking system—including

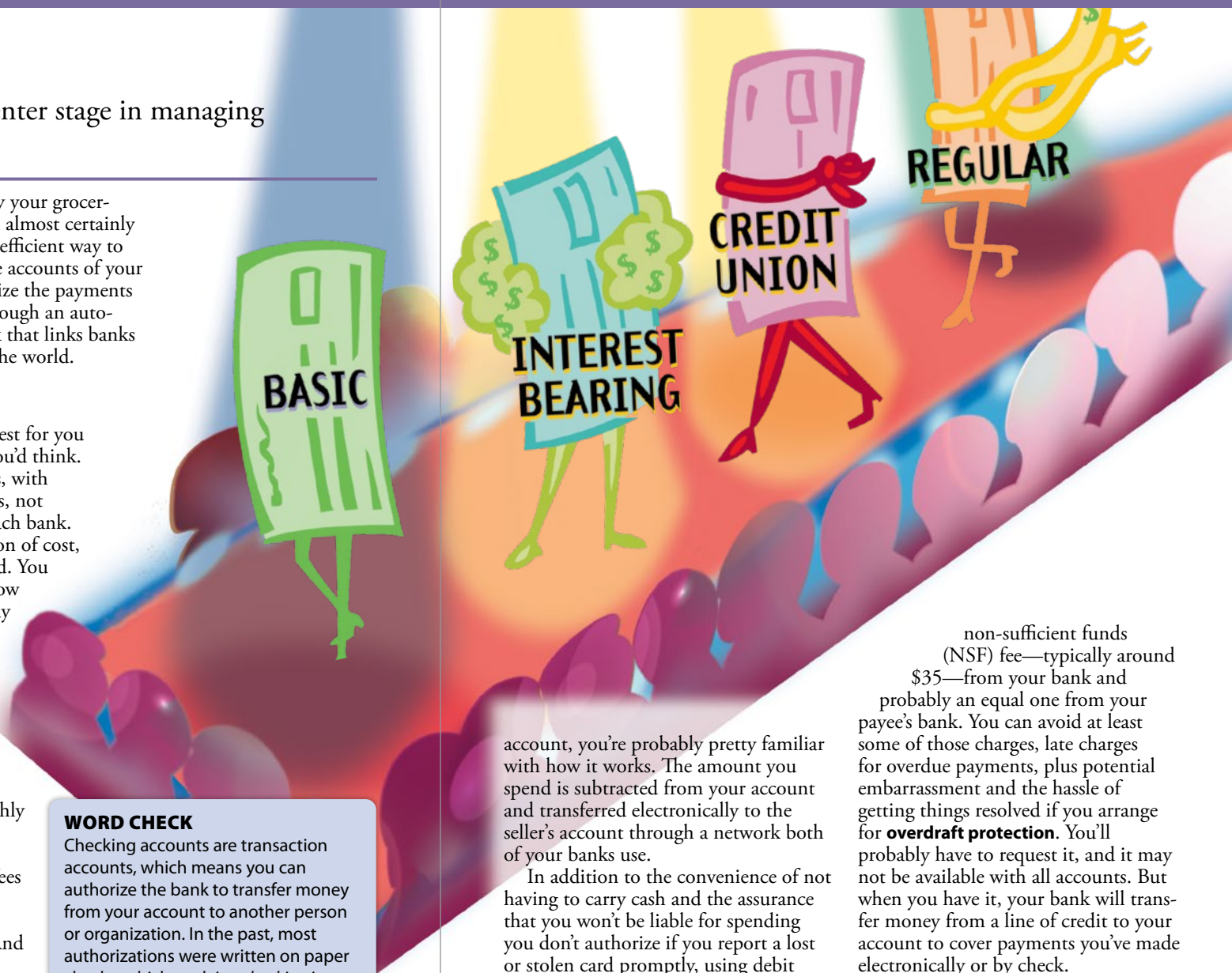
WORD CHECK

Checking accounts are transaction accounts, which means you can authorize the bank to transfer money from your account to another person or organization. In the past, most authorizations were written on paper checks, which explains *checking* in the account name. It has stuck, even though most transfers are handled electronically. A savings account, in contrast, is a deposit account. All you can do is make withdrawals or transfer money to another account in your name.

making deposits as well as payments—rather than whether there is a branch close to where you live or work. But figuring out how many ATMs are in a network and where they're located may also be a factor.

DEBIT CARDS

If you typically make purchases with a debit card linked to your checking



account, you're probably pretty familiar with how it works. The amount you spend is subtracted from your account and transferred electronically to the seller's account through a network both of your banks use.

In addition to the convenience of not having to carry cash and the assurance that you won't be liable for spending you don't authorize if you report a lost or stolen card promptly, using debit cards may help you manage your spending because the costs of your purchases reduce your bank balance rather than increase your credit card bill.

The risk, though, is that inserting or waving a card rather than taking money out of your wallet is relatively painless. And using your card regularly for a combination of large and small purchases increases the likelihood that you'll lose track of what you're spending. It's essential to check your online balance regularly to be sure you know how much cash you still have available.

OVERDRAFT PROTECTION

If you miscalculate and **overdraw**, which means you pay out more to cover your bills than you have available in your account, you could be hit with an

non-sufficient funds (NSF) fee—typically around \$35—from your bank and probably an equal one from your payee's bank. You can avoid at least some of those charges, late charges for overdue payments, plus potential embarrassment and the hassle of getting things resolved if you arrange for **overdraft protection**. You'll probably have to request it, and it may not be available with all accounts. But when you have it, your bank will transfer money from a line of credit to your account to cover payments you've made electronically or by check.

There's usually a charge when you overdraw, plus you'll owe interest on the amount that's transferred until you repay in full. So you should be careful not to treat it as a convenient backup for overspending. The interest and fees can add up quickly.

As helpful as overdraft protection can be when you need it to pay your bills, you'll want to avoid similar protection for your debit card transactions. The bank must ask you separately to agree to have it and may even push it as smart protection. Sure, it might be awkward to have a purchase turned down. But do you really want to pay a \$35 fee to buy a \$5 smoothie?

And just so you know, your payment protection remains in place even if you say no to debit card protection.

The Savings Route

Opening a savings account can help pave the way to financial security.

If you're building an emergency fund, saving for a big purchase, or getting money together to invest, using an insured savings account can put you on the right road. Most banks offer a variety of savings accounts. So do credit unions.

In addition to these basic savings accounts, other popular bank savings options are **money market accounts**, which combine savings with limited transaction privileges, and **certificates of deposit (CDs)**.

GETTING INTERESTED

With a savings account, you make money on the money in your account by earning **interest**, or a percentage of your balance, at a specific rate on a regular schedule. What you earn depends on the interest rate the bank pays—typically about the same rate that other banks are paying on similar accounts. That rate, in turn, depends on the rate that banks are earning on the loans they make and on what it costs the banks to borrow from each other.

REGULAR RULES

The most basic accounts, where you can deposit and withdraw money at any time, are called **regular savings**, or sometimes **statement savings accounts**. What that means is that any activity in the account—deposits, withdrawals, fees, or interest earnings—and your current balance are reported in a printed

or online account statement, usually once a month.

You earn interest on a regular savings account only if you keep at least the required minimum on deposit. If your balance is lower, some banks don't pay interest and others may charge a fee for holding your money. Unless you qualify for exemption from the fee—by being a full-time student or older than 65—you're stuck. The alternative is to look for an account without a required minimum or wait until you have the \$500 or whatever is required.

In reality, though, you don't put money in a regular account for the earnings. Whatever the interest rate is, it's likely to be the lowest one the bank offers. You just want to avoid having to pay to keep your money on deposit.

MONEY MARKET ACCOUNTS

Most banks offer hybrid accounts—part checking, part savings—called **money market accounts (MMAs)** or sometimes **money market deposit accounts**. They're similar to money market mutual funds, but have the advantage of FDIC insurance.

MMAs typically pay higher interest rates than regular savings accounts, and may offer **blended** or **tiered** rates, which means you can earn an even higher rate on large balances or on part of your balance over a certain level.

And you can usually make a limited number of electronic transfers or write a limited number of checks—often a total of three—against your account each month.

The catch is that there are substantial service fees if your account falls below the bank's minimum required balance. You may also forfeit your interest if the balance drops below the minimum, or you may face both penalties.

LUXURY MODELS

Certificates of deposit (CDs)—called **share certificates** at a credit union—are high-end savings accounts. They generally pay interest at a higher rate than other bank or credit union accounts, so it should come as no surprise that there are some strings attached.

What makes CDs different from regular savings accounts is that they're **time deposits**. That means that when you open a CD you agree to commit your money for a specific **term**, or period of time. You also agree that if you withdraw money from the CD before it **matures** when the term ends, you may forfeit some or all of the interest you would have earned.

Typical terms include six months, a year, two and a half years, and five years. But the term may be any period you and the bank agree on. The longer the term, the slightly higher the interest you're likely to earn. There may be a minimum deposit—often \$500—and

some banks may pay slightly higher rates for large deposits.

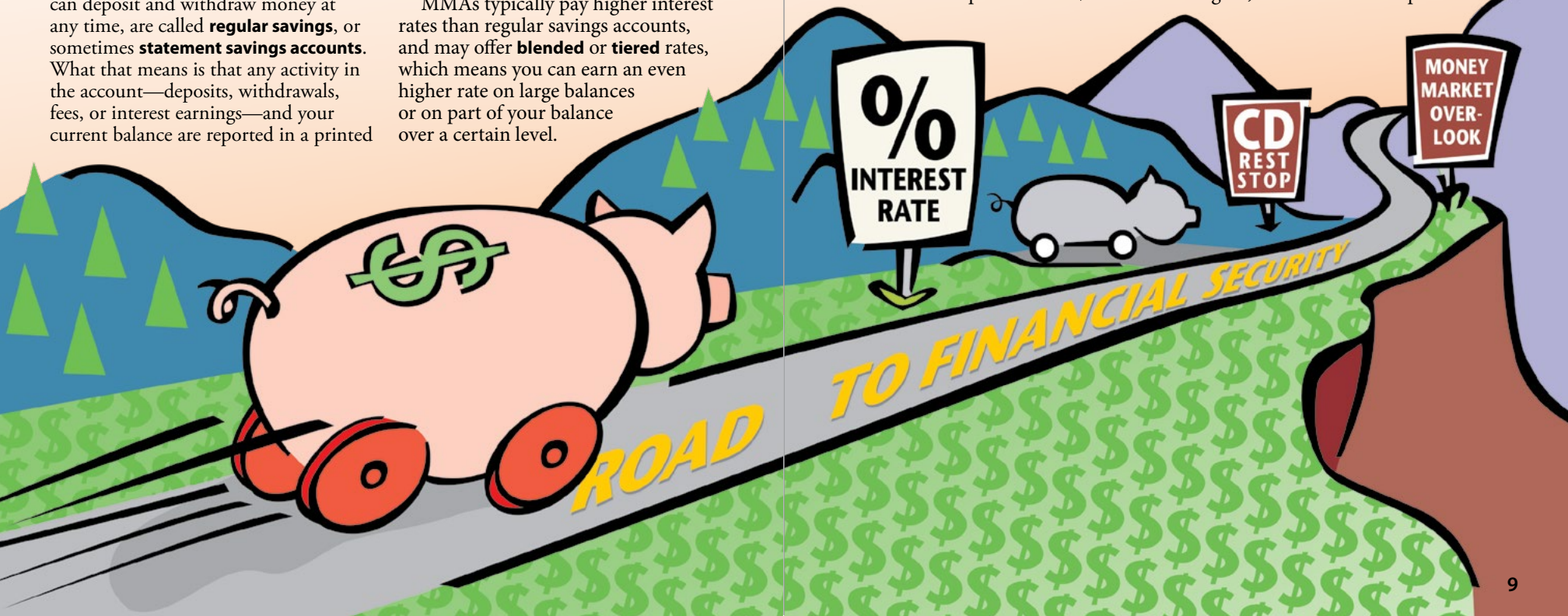
When a CD matures, you can roll over the money into another CD, transfer your money to a different account, or have the bank send you a check. But you must tell the bank what you want it to do by the deadline it sets, or the decision will be made for you. When the bank decides, your CD is usually renewed for the same term as the expiring one at the bank's current rate for a CD of that length and principal.

ISN'T IT INTERESTING?

When banks advertise the interest rates on their savings accounts, they tell you the **nominal rate** and the **annual percentage yield (APY)**. The nominal, or named rate, is the rate they pay. The APY is what you earn over the course of a year, expressed as a percentage of your principal.

What you actually earn depends on whether the account pays **simple** or **compound interest**. Simple interest is calculated annually on the amount you deposit. With compound interest, which can be paid daily, monthly, or quarterly, the interest is added to your principal to form a new base on which you earn the next round of interest.

How can you tell whether interest is simple or compound? If the nominal rate and the APY are the same, you're earning simple interest. If the APY is higher, the interest is compound.



Credit: Convenience with a Caution

Credit is handy, but it has some risks.

When you're financially independent, credit is likely to play a bigger and more important role in your economic life than it has before.

There's a lot that credit can do for you. If you need money—especially in an emergency—and you don't have the cash on hand, the immediate buying power of a credit card can be a lifesaver. And through credit arrangements like car and mortgage loans, credit makes it possible to pay for things you wouldn't otherwise be able to afford.

But there is another side to the story. Credit makes spending money easy—sometimes too easy. So you can get into credit trouble by spending more than you can easily repay.

THE BIG PAYBACK

The flip side of the buying power that credit gives you is that you've got to pay back the money you spend. It can be surprisingly easy to forget how much you've charged when all you've done is inserted or tapped your credit card.

In return for the privilege of using credit, you're required to pay a **finance charge**. For credit cards, this means that **interest**, which is calculated as a percentage of the amount you owe, accumulates on any unpaid balance.

GIVE YOURSELF A LITTLE CREDIT

If you don't have a lot of cash, being able to buy things on credit can be a big help when you're furnishing an apartment or buying clothes to wear to work.

Using credit can also make your daily life a lot easier. Most merchants require a credit card number to reserve a hotel room or airline ticket, or a car rental, and, of course, having a credit card is convenient for shopping online or by phone.

Credit also allows you to get the most out of your money over time by taking advantage of the classic "buy now, pay later"

philosophy. The most basic—and probably the most common—example is the **cash float** that credit cards provide. A cash float is the time between when you buy something with credit and when you pay the card issuer for that item.

For example, say you use a credit card to make an online purchase on October 31, and you receive a bill from your card company on November 24 that's due December 20. If you authorize an online payment from your account on the 18th, the bill will be paid almost seven weeks after you spent the money. Of course, you



THE NONCREDIT CARD

Whether you use your debit card and credit card with equal enthusiasm or the debit card is your go-to plastic, you'll want to be sure you understand how the cards differ. It can help you avoid some major surprises.

What's obvious is that while a credit card lets you make purchases with borrowed money, the money you spend with a debit card comes almost instantly out of the account to which it's linked.

But do you know happens if you purchase a defective product? If you used a credit card, you contact the card issuer and the issuer contacts the seller. If the problem isn't solved,

you don't have to pay. But with a debit card, it's your battle. You have to persuade the seller to refund your money.

What if you reserve a hotel room? With a debit card, the hotel puts a hold on your account for the cost of your stay. That remains until after you pay the bill, sometimes for several days after, reducing your available balance.

You should also avoid authorizing recurring debits from your account. Once the money is debited, it's almost impossible to recover. It can even be difficult and time consuming to stop continuing debits.

For loans, the finance charge usually includes fees for the cost of arranging the credit, as well as the interest expense.

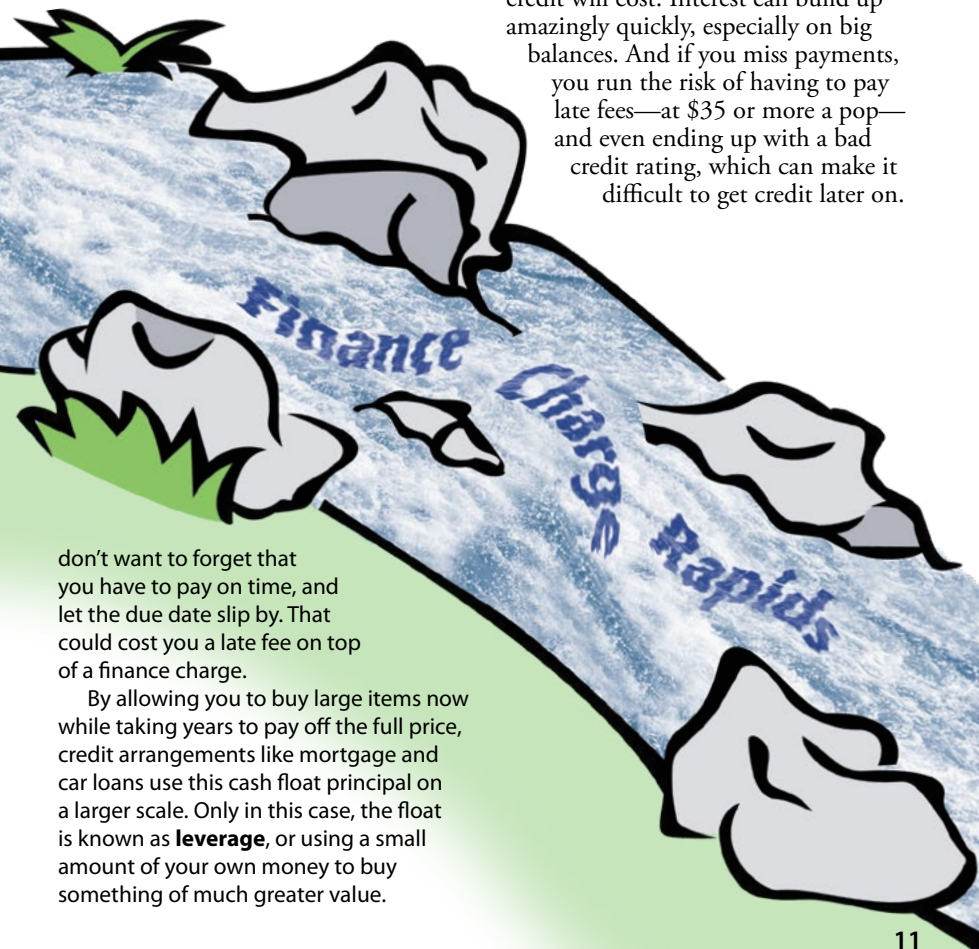
The problem with finance charges is that you can end up paying considerably more than your purchase originally cost. And while many credit cards don't

impose a finance charge if you pay back the credit you've used within a specific grace period, most loans and some cards start charging from the moment you start spending.

Each credit arrangement has its own particular features, but one thing is true in every case: The longer you take to pay back what you've spent, the more using credit will cost. Interest can build up amazingly quickly, especially on big balances. And if you miss payments, you run the risk of having to pay late fees—at \$35 or more a pop—and even ending up with a bad credit rating, which can make it difficult to get credit later on.

don't want to forget that you have to pay on time, and let the due date slip by. That could cost you a late fee on top of a finance charge.

By allowing you to buy large items now while taking years to pay off the full price, credit arrangements like mortgage and car loans use this cash float principal on a larger scale. Only in this case, the float is known as **leverage**, or using a small amount of your own money to buy something of much greater value.



How Credit Works

You've got to go in circles if you want to go places with credit.

Using credit is a snap. You buy a jacket or pay for dinner by simply handing over a credit card and signing a receipt. And then you don't have to pay the bill for several weeks, and you may choose to spread your payment over months—or even years.

But you want to be sure the way you're using credit is better for you than it is for the credit provider.

WHAT'S WHAT?

When you get a credit card, you're arranging to use what's known as **revolving credit**. That means you have repeated access to a limited supply of money, known as your **credit limit**. As you charge purchases, you use up part of that credit limit. But as soon as you repay any part of what you've used, you're free to use the amount again without having to reapply.

For example, if your credit limit on your credit card is \$1,000, and you charge \$400, you've still got \$600 to use. And if you repay the \$400 at the end of the month without charging additional purchases, your credit limit is back up to \$1,000 again.

WHO'S WHO?

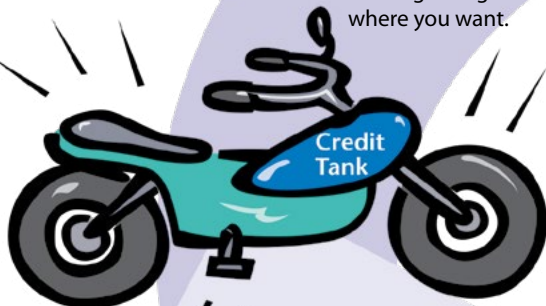
Buying on credit involves three parties: you, the seller you're buying goods or services from, and your **creditor**, the bank or other institution that puts up the money to make your purchase

BORROWER BEWARE

If your credit card bill invites you to skip a month's payment without penalty, the lender isn't doing you a favor. If you take the offer, you probably won't owe a late fee, but you will owe finance charges on your unpaid balance. And any purchases you make after the due date you skipped will probably accumulate interest from the day you make them.



- 1 Credit is the fuel that propels you through transactions and purchases. When you start a credit relationship, it's like having a full tank of gas to go where you want.



- 4 But if you refill your credit line by paying back what you've used, you'll be back at the beginning of the credit cycle and ready to get rolling again.

possible. When you sign a **credit agreement** you agree that the creditor will pay the bill for your purchase, and you'll pay back the money.

The merchant you buy from pays a fee, usually a percentage of the purchase price. Part of the cost of doing business is making it easy for people to buy—and that's what credit does.

THE PRINCIPAL IDEAS

In return for using borrowed money, called the **principal**, from the time you spend the money until payment is due—you agree to pay the creditor a finance charge. For credit cards, this really means the interest that accumulates on any unpaid balance, calculated as a percentage of the amount you owe. Other charges, like annual fees for the use of the card, or fees for paying late or exceeding your limit, are extra.

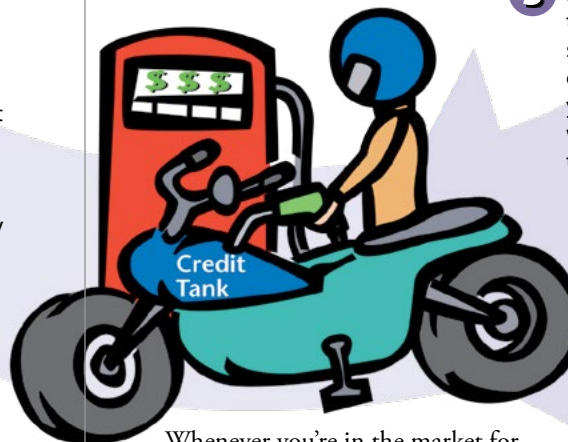
In most cases when you're considering a credit agreement, you won't be able to negotiate better terms with a creditor than whatever the standard offer is at the time. But that doesn't mean you can't find a good deal.



- 2 Once you're off and running, you can use credit to go places and do things. But as you use the credit your tank gradually gets emptier.

THE CREDIT CYCLE

- 3 If you put too much strain on your credit, you'll have to watch yourself. If you run out, you won't be able to get around the way you did before.



Whenever you're in the market for credit, doing some serious comparison shopping may help you find a lower interest rate, smaller fees, or some other way to save money.

VARIATIONS ON THE THEME

A **line of credit** is another type of revolving credit. Banks and other credit providers sometimes offer customers a line of credit to make it convenient for them to borrow larger amounts than they might be able to put on a credit card.

Often, when you have a line of credit, you get a pack of special checks that look just like regular checks. You use them the same way as conventional checks, and can write them for amounts up to the credit limit your lender sets. Or you can use money from the line to pay bills or move cash electronically. Either way, when you repay, you can use the amount again.

You might also have a line of credit that gives you **overdraft privileges** on your checking account. If you do, your bank will cover amounts you transfer online or by check, up to your credit limit, if you don't have enough money in your account to cover the transaction. You pay interest on amounts transferred from your line of credit, but you avoid the costs and embarrassment of insufficient funds.

CASH ADVANCES

As useful as credit cards can be, there are times when you need cash. If you don't have the money you need in your bank account, most credit cards allow you to get **cash advances** at ATMs. The only thing you have to do ahead of time is arrange for a personal identification number (PIN), just as you do with a debit card.

With most cash advance arrangements, you start owing interest from the moment you get the cash. And that interest will be charged at a higher rate than you pay on your regular card purchases. So they're almost never a good idea.

Getting Carded

Recognizing differences among cards can help you pick the right one out of the lineup.

It's hard to miss the obvious differences among the small plastic rectangles in your wallet. But it's equally important to understand the more subtle distinctions among the types of cards that are available.

WHAT'S IN A NAME?

Classic credit cards, with names like Visa and MasterCard, let you charge purchases up to your **credit limit**, a specific dollar amount that may be increased over time.

You have to pay back at least a minimum amount of your outstanding balance every month—though, of course, you can always pay more than the minimum. If you pay less, you'll find a penalty fee tacked onto your balance. If you don't pay the minimum for several months, the fees will mount and interest charges will continue to build. Before long, your borrowing privileges will probably be cut off.

CARD MANAGEMENT

You can track your credit card spending online at any time, so your monthly statement with the details of what you owe shouldn't take you by surprise. The **outstanding balance** includes any unpaid amount from the previous month, your new purchases, and any credits or fees that apply. The **minimum payment**, or the smallest amount you can pay to keep your card in good standing, is a percentage of the total balance plus fees. The **due date**, or last day you can pay and be on time is always the same, and must be at least 21 days after the statement is posted or mailed.

If you paid your previous bill in full and on time, and your card has a **grace period**, no finance charges will be added to the money you spent in the current month. As part of choosing a card, you'll want to ensure it does include this feature, since it can make your use of credit essentially free.

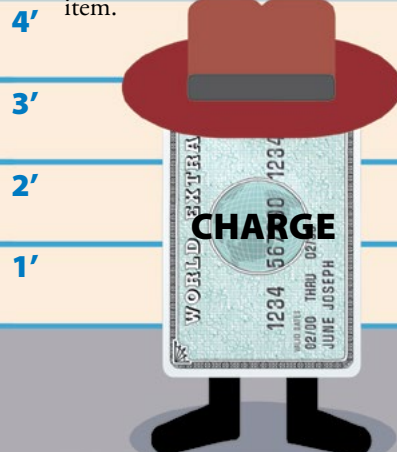
If your current balance includes an unpaid balance from the previous billing period, finance charges have been added to the old amount and to every charge during the current period. That's how possible credit problems start.

The Usual Suspects

The best reason to have different types of cards is that you can take the greatest possible advantage of what each offers.

For example, you may use one credit card for purchases you plan to pay off in full when the bill comes, and another for purchases, especially large ones, you plan to pay off over time.

That's one way to avoid interest on day-to-day charges while you're financing a big-ticket item.



Though they work like credit cards when you make a purchase, traditional American Express cards aren't actually credit cards at all, but **charge cards**. Their main attraction is that they don't have an official credit limit (though you may run into a situation where a large charge isn't approved).

A major feature of these cards is that you have to pay off whatever you spend each month. If you don't, you're likely to incur a finance charge. And you may find your account frozen so that you're unable to use your card, especially if you don't respond to a reminder that your account is overdue.

The company has a policy for handling delinquent accounts, so it pays to know the consequences of

CREDIT PROTECTIONS

You're responsible for the way you use your credit card and for paying off any debt that accumulates. But federal law protects you against a number of other potential problems you may encounter.

If you report a missing or stolen card as soon as you discover it's gone, you won't be responsible for charges you didn't authorize. By law, the most you could owe is \$50, and most issuers forgive that amount.

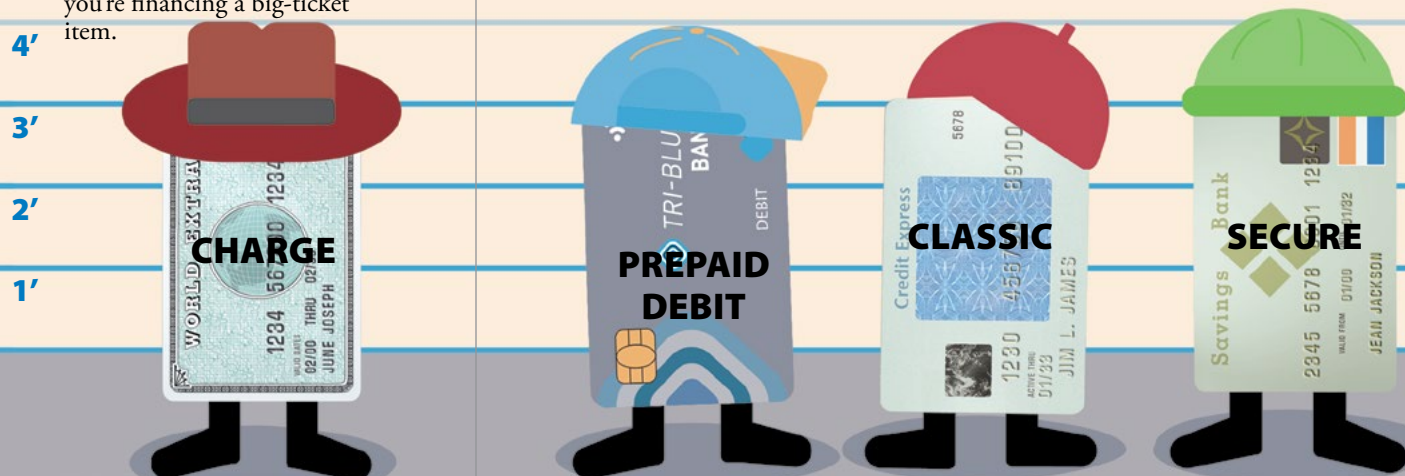
You can refuse to pay for defective merchandise or bad service if you notify the card issuer within 60 days of the date it was billed and have struck out when

trying to resolve the problem with the seller. Technically, the transaction must have cost more than \$50 and been made in your home state or within 100 miles of your home, but those rules don't apply to online purchases and are almost never enforced.

If there's a mistake on your bill—which isn't common but does happen—you have 60 days to notify the issuer. The issuer has 30 days to respond and up to 90 days to resolve the problem. But you can continue to use the card, and the issuer can't release a bad credit report about you if you pay the rest of your bill.

Similarly, you might use a debit card to avoid having to carry cash, saving your credit or charge card for more expensive purchases. Or you might use

a charge card for your regular expenses and a credit card for larger purchases so you can stretch these payments over time.



being late. You don't want to be inconvenienced or embarrassed by being unable to pay for a purchase, or charge a meal, because your card privileges have been revoked.

A SECURE START

If you're just starting to use credit—or if you're trying to recover from past credit problems—a **secured credit card** may help. You use the card just as you would a regular card, and there's nothing to identify it as a secured card to retailers or others who accept it. But the card is backed by a savings account at the bank that issues the card.

You can charge up to the amount you have in that account (or less if you choose a lower credit limit). You'll owe interest just as you would on a regular

card, but the money in your account guarantees your ability to make every payment. The account also earns interest, which may help offset the interest you'll owe on outstanding balances.

One problem with these cards is that they may include a number of fees that reduce the amount you are able to charge. And not all secured issuers report your card use, which would help you qualify for a regular credit card.

You should be wary of scams and shady deals if you've had credit problems. Steer clear of any offer that:

- Promises to get you credit regardless of your history, for a prepaid fee
- Requires you to call a 1-900 or other pay-per-call number
- Says that it can guarantee to repair your credit history

Loans

You can borrow and repay the money you need for specific expenses.

A loan is a type of credit that provides cash when you need money for a major expense, such as college tuition or a car, that costs more than you can afford with your savings and current earnings.

HOW LOANS WORK

When you apply for a loan, you ask a lender for a specific amount of money called the loan **principal** and agree to repay it, plus a **finance charge** figured as a percentage of the principal, over a fixed **term**, or period of time. These three factors determine what the loan will cost. In most cases, the larger the principal, the higher the finance charge, and the longer the term, the greater the cost.

You repay a loan, often described as **installment credit**, on a regular schedule, usually once a month, until the balance is \$0. That ends your access to the credit. If you need to borrow again you apply again. That's a major way loans differ from credit cards, which provide access to principal, up to a specific limit, over an extended period provided you repay at least the minimum you owe each month.

A loan's finance charge is primarily interest, and the rate that applies can be fixed or variable. A **fixed rate** remains in place from the day you take the loan, so each payment during the term is for the same amount. A **variable rate**

changes based on changes in a public index, such as the ten-year US Treasury note, to which it is linked. It can change monthly, annually, or on some other designated schedule.

Some loans are secured and others are unsecured. With a **secured loan**, you provide collateral. That's something of value that the lender has access to if you **default**, or fail to repay your loan. One example of loan collateral is the vehicle that secures a car loan. **Unsecured loans**, granted on your promise to repay, don't require collateral. But many unsecured loans require a cosigner who promises to repay if you default.

THE LOAN AGREEMENT

When you take a loan, you're given a document, called a **loan note**, which spells out the details of your arrangement, including the interest rate and any fees that apply. Signing means you agree to the note's provisions, so you need to read it carefully to be sure you know what's involved. The four key things the note covers are:

- How much you're borrowing
- What it will cost over the term
- When you have to repay



CAR LOANS

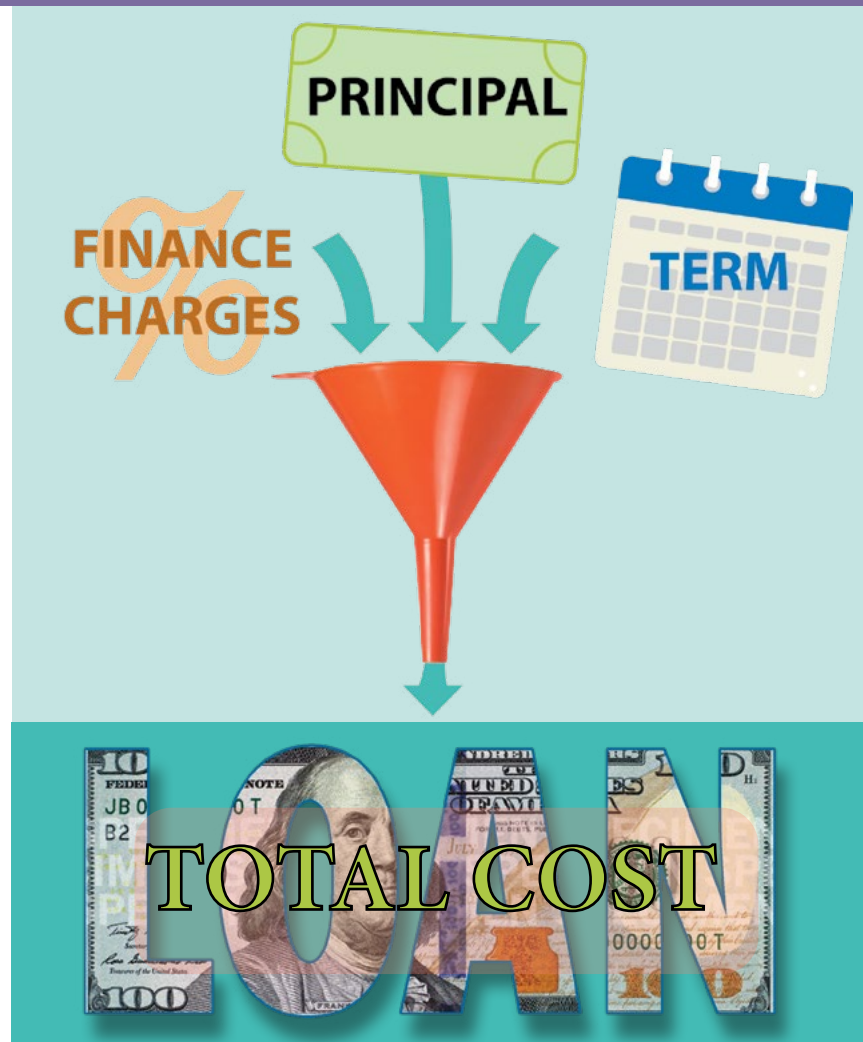
Depending on where you live, having a car may be a necessity. You may be able to make a deal with a family member or friend, maybe scoring a vehicle that's about to be traded in. But if you have to take a loan to buy, it may take some time.

One way to start the process is by investigating **preapproval**. You submit a short application to a bank or car dealer to find out how much the lender is willing to let you borrow. There may be a charge, but this process is often free.

In addition to your credit report, if you've established one, and the credit score that's derived from it, potential

lenders will look at your employment record by verifying where you work and asking for copies of recent paystubs and income tax returns. You may also be asked for access to your bank and credit account records and possibly for references.

Though choosing a used car may be less exciting than driving away in a new one, you can usually get more car for your money with a secondhand—or preowned, as dealers prefer to say—vehicle. If you make this choice, you'll want to check out the car's repair records and other history. A dealer should provide this information, but if a private seller lacks adequate records, you can find out what you need using the



- What happens if you don't pay

Since the interest rate is a major factor in determining what a loan costs, you may want to shop for a lender offering the best deal. What you want to know is the **annual percentage rate (APR)**. That's the total amount the loan will actually cost you each year, including interest, fees, and other

charges. Some lenders charge a lower interest rate but add higher fees. Others do the reverse. The APR lets you make an accurate comparison.

A lender is required to provide a full **truth-in-lending** disclosure before you agree to take a loan. It's the only place where you'll see, in dollars and cents, what the loan will actually cost over the term.

vehicle identification number (VIN) in the lower left corner of the windshield.

COLLEGE LOANS

If you took loans from the federal government to help pay your college tuition, or if you're thinking of borrowing graduate school costs, you may need a refresher on applying for Direct Loans using the Free Application for Student Aid (FAFSA). There's detailed information at <https://studentaid.gov>.

You take a new loan for each year you enroll in a qualifying program.

Each loan's fixed interest rate is set on July 1 of each calendar year for all loans made for the upcoming school year and typically varies from year to year. The first time you take a Direct Loan, you sign a **master promissory note** that covers your obligation for the initial and all subsequent federal loans.

TIP: FREE MONEY

Some employers will pay part of your graduate school tuition or, in increasing numbers, your outstanding student loans. Be sure to ask.

Repaying Student Loans

If you're on the ball, you can plan your repayment strategy.

If you owe money to the federal government for the Direct loans that helped cover the cost of your education, you're not alone. A majority of college graduates are in the same boat. Fortunately, there are a number of ways to structure repayment to make it affordable—something that's not always the case with private loans.

What you have to recognize, though, is that it's your responsibility to make the system work. That means two things: always paying what you owe each month on time and being sure you're in the right repayment plan for you.

REPAYMENT BEGINS

When you graduate, are enrolled less than halftime, or drop out, you have a six-month grace period in most cases before your first loan payment is due. During that period you'll hear from your loan servicer—the company that bills you and collects your payments—that you're enrolled in the **Standard Repayment Plan**.

That may be fine for you. The payments are fixed, and you'll pay off your loan within ten years. But it's also possible the payments will be more than you can comfortably afford. So early in the grace period you should use the loan Repayment Estimator at <https://studentaid.gov/manage-loans/repayment/plans> to find out which other plans you qualify for, an estimate of the monthly cost, and the conditions that apply.

If you think one of your alternatives would make it easier to keep up with your payments, you should tell the servicer you want to change plans.

It's your right to switch if you qualify, either initially or at some time in the future if your economic situation changes. The process may, but not always, be handled efficiently. But if it isn't, you'll have to press your case. If you need help, you can contact the National Consumer Law Center's Student Loan Borrower Assistance Project or the Consumer Financial Protection Bureau.

REPAYMENT ALTERNATIVES

Among the alternatives to the Standard plan are income-driven plans that link your monthly payment to your discretionary income, or what's left of your gross income after taxes and necessities including housing, food, and clothing. The plans differ in some ways, so one may suit you better than the others. But all will require smaller payments than the Standard plan, and all offer loan forgiveness after you've made payments for the required number of years, typically 20, though you may owe income tax on the amount that's forgiven. And any one is a good choice if you hope to qualify for Public Service Loan Forgiveness (PSLF).

Two other possibilities are the Graduated Repayment Plan, which has a 10-year term and payments that are lower in the initial years and higher later, and the Extended Repayment Plan, which has a 25-year term with either fixed or graduated payments.

Finally, if you have older loans, including FFEL Plus Loans or FFEL Consolidated Loans, you might consider the Income Sensitive Repayment Plan.

THINGS ARE CHANGING

You should be aware that major changes in the Department of Education and elsewhere in the government are likely to affect how you access information about student loan repayments and the way you switch repayment plans.

POSTPONING PAYMENTS

If it becomes hard for you to repay your federal student loans and you are unable to change your plan to reduce the monthly payment, you may find temporary relief by qualifying to suspend your payments for a limited time.

If you're in school at least half time, if you've taken parental leave, you're unemployed, unable to work, or if you're in the armed forces or the Peace Corps, you can apply for **deferment**. If it is granted and your loans are subsidized, interest isn't due on your loan principal while you're not paying. Unsubsidized loans will accrue interest,

however, which may be added to the balance you already owe.

If you don't qualify for deferment, you may request a **forbearance**. If it's granted, your payments will be suspended for a limited time, but interest will accrue on your loan and be added to your principal balance.

But suspending payments isn't a long-term solution to avoiding default and its negative consequences. So you'll want to work with your servicer to resolve your debt.

LOAN CONSOLIDATION

If, as students typically do, you took several federal loans, potentially with different interest rates and different servicers, keeping track of what you owe and to whom can be a challenge. One solution may be to consider taking a federal Direct Consolidation Loan. There's no charge, and you'll end up with a single monthly payment.

Consolidated loans have a fixed interest rate calculated as an average of the rates on the loans you're consolidating. The repayment term can be up to 30 years.

There are some potential drawbacks, such as the potential for paying more interest and the possibility of losing certain benefits, such as eligibility for loan forgiveness or the discount for regular electronic debit of your account. You'll want to weigh the limitations against the convenience of a single payment.

One warning: You may be offered loan consolidation deals from private lenders. You almost always make out better with the government option.

OTHER LOANS

If you've taken loans from private lenders, the terms of repayment may be less flexible than those of the Direct Loan program. But they must also be repaid.

SERVING THE PUBLIC

If you work in a qualifying public service job for 10 years, you may be eligible for loan forgiveness after making 120 payments in an income-driven plan. Be prepared, though. The rules are complex, and it can be hard to be sure you're on track. Check it out at studentaid.gov.



Building a Credit History

You start laying the foundation of your credit history the first time you borrow.

There's a vast—and constantly growing—amount of information about how consumers use credit. And you can be sure that when you apply for credit, whether it's as routine as asking for a new credit card or as significant as applying for a mortgage, potential creditors will check out your credit history.

MAKING HISTORY

The three major national **credit reporting companies**—Equifax, Experian, and TransUnion—collect two types of information about you. The first is how you use credit, from how much you owe on car loans, mortgages, and credit cards to the timeliness of your monthly payments. There's an incredible amount of data that falls into this category—about a billion items a month, which breaks down to an average of 11 items per credit user.

Credit reporting companies also store public information about you that might influence the way lenders evaluate your creditworthiness. This can include anything from records of bankruptcies and foreclosures to court judgments.

But credit bureaus don't gather any personal information that isn't directly credit-related, such as how much you

make, what you spend on rent or utilities, or anything you pay for in cash.

The companies make the information they've collected available—at a price—to creditors, banks, potential employers, landlords, and others who have a legal right to evaluate you based on your use of credit. Most information remains on your report for quite a while. Damaging activity can appear for up to seven years even if the account is closed or inactive.

And bankruptcies can stay on your report for up to ten years unless the state where you live imposes a shorter limit.

WHO'S KEEPING SCORE?

Did you ever wonder why it takes a retail store or an online credit card company just a minute or two to approve your application for credit? Did you know that you may be quoted one interest rate on a car loan while the next person to apply is offered a higher—or lower—rate? These kinds of things happen because credit decisions often come down to the **credit score** you're assigned by the credit reporting agency your potential creditor contacts.

All credit reporting agencies use a process called credit scoring, or credit modeling, to evaluate the risk you pose to a potential creditor. Your score depends on five main criteria:

- Your payment history, and specifically whether you pay on time
- The total amount you owe
- The length of your credit history
- The amount of new credit you have
- The types of credit you use

Creditworthy behavior in these categories works in your favor, while risky behavior works against you. And while there are general standards for the way the criteria are applied, there are no

fixed rules. Credit reporting companies aren't required to explain the way they arrived at your particular score, and you shouldn't expect them to do so. All they are required to provide are up to four reasons for the score, which the lender must tell you if you ask why your application was denied.

WHAT'S THE SCORE?

When you get a credit score, you're going for a high number. Approximately the top 20% of reports that are evaluated get scores over 780, while the lowest 20% get scores under 620.

Each lender sets its own standard for what qualifies as an acceptable score, and determines the interest rate for which you qualify based on your score. The best rates—in this case, the lowest rates—go to applicants with the highest scores. Applicants with low scores, sometimes called **subprime borrowers**, may be offered credit at higher rates.

Credit scoring has its advocates and its detractors. Those in favor say that, in addition to the advantage of speed, lenders get a better picture of your creditworthiness with this timely snapshot. That, they say, makes the system fairer. Critics argue that reducing all the information about you to a single score can provide a distorted picture. They also say that a lender can find it easier to say no on the basis of what appears to be a value-neutral system.

WHAT THE LENDER KNOWS

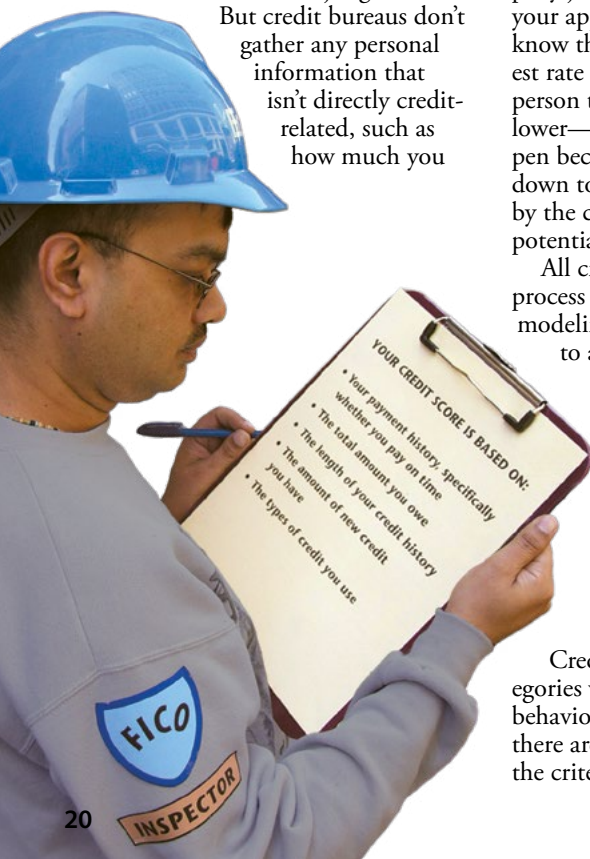
Lenders may go beyond your credit score in evaluating your application. For example, they may want to know the amount you earn, whether you've been at the same job for two years or more, and if you've lived at the same address for a while. In addition, lenders may be more willing to grant you credit if you already have banking or investment accounts with them.

STAYING ON TOP

Building a good credit history means developing good credit habits:

- Get a credit card and use it responsibly
- Make purchases every billing period, and pay them off in full and on time
- Apply gradually for additional credit

You can keep up to date on what the credit reporting agencies know about you by checking your credit report three times a year—once at each of the three major bureaus. It's free. All you have to do is log on to www.annualcreditreport.com and follow the instructions. You'll also find out how to correct errors or add explanations.



The Basics of Investing

Taking the plunge into investing can seem scary, but it doesn't have to be.

Investing is about putting your money to work. If you do it wisely, you have the potential to increase your **principal**, or the amount you've invested, over time. The money your investments produce can mean the difference between meeting your financial goals and settling for what you can afford.

Investing isn't the same as saving. When you save, you're putting money in a safe place to earn interest—a bank account, for example. That's fine for building an emergency fund or accumulating money for short-term goals. But your principal won't grow much faster than the rate of **inflation**, or the gradual increase in the prices of goods and services. That can leave you short on buying power.

While there are always risks with investing, there is the expectation that over time you'll beat inflation by a wide enough margin to achieve your financial goals.

CHARTING A COURSE

At its most basic, investing means buying financial products for

growth, income, or safety. You can choose:

- **Stocks, mutual funds, and ETFs** that invest in stocks
- **Bonds, mutual funds, and ETFs** that invest in bonds
- **Cash and cash equivalent investments**, including certificates of deposit (CDs) and US Treasury bills

To invest, you need an investment account. There are three major types, defined by the tax treatment of the account earnings: **taxable, tax-deferred, and tax-exempt.** You can use just one or all three, based on your goals and eligibility.

You can open a taxable account with a brokerage firm or mutual fund company. If your employer offers a retirement savings plan, you may be able to choose either a tax-deferred or tax-exempt account. And you are eligible for individual retirement and education savings accounts, and perhaps healthcare accounts.

CRYPTO INVESTING

Cryptocurrency is a medium of exchange that exists only in computer code, and uses a technology called blockchain which eliminates the need for intermediaries in transactions between buyers and sellers. You can buy many of the better-known cryptocurrencies on cryptocurrency exchanges, apps, and some online brokerage firms, usually for

INVESTING FOR BEGINNERS

If investing seems like an alien experience, try an experiment. Buy an index fund that tracks a broad segment of the stock market or a highly rated stock mutual fund that's investing for growth. Promise yourself that whatever happens for the next year or two, you won't sell the fund and you won't stop investing in it regularly.

Watch the fund over a period of time so you get used to some ups and downs. Check out what happened to your fund the last time the market tumbled. If you're not prepared, you might panic when the

price drops. If you sell, you may have to watch the price go back up again without you.

Each year, evaluate how well your investment has done compared with similar investments. Also consider what you had expected as a return, and what you would have earned if your money were in a savings account.

If the investment is meeting your objectives, hold onto it. If not, sell. By then, you'll be ready to consider your next move—and experienced enough to make it a confident one.

a fee. Since some currencies may cost tens of thousands of dollars per unit, you can invest in fractional shares worth a tiny percentage of their total current value. Crypto is highly speculative, extremely volatile, and is not regulated in the same way as other investments. Be sure to evaluate the reputation of any exchange on which you buy or store cryptocurrency.

START IT UP

You don't need a lot of money to be an investor. But you will need enough cash to buy your first shares of stock or open your first mutual fund. It's smart to set up an investment account so that you can contribute easily and keep track of your progress. A money market account with a brokerage firm or a mutual fund company is one way to go. If you've got the account earmarked for investing, you may be less tempted to spend the money on everyday expenses.

Once you have the account set up, decide on an amount you'll contribute every week or month, and stick to it. One idea is to have the money deposited directly from your paycheck or transferred from your checking account. It's even easier than paying a bill—except in this case you're paying yourself.

IMPACT INVESTING

As you invest to meet your financial goals, you may also want to choose investments that reflect your values or are designed to stimulate environmental, social or economic change at a local, national, or international level. There are a number of ways to combine doing what you believe is right or responsible and realizing a positive return. **Return**, in investment terms, is what you get back in relation to the amount you invest.

You can look for companies that manage their business in ways that you respect. For example, B Corporations are established to create a social, environmental, or community-based benefit through their business operations. Another approach is to screen out companies whose products or services are unacceptable to you or conflict with your values.

Or, you might investigate mutual funds and ETFs that establish the criteria that an investment must meet to be eligible for inclusion in the fund. There are also managed accounts with an environmental, social, or corporate governance (ESG) focus.

HELPFUL HINTS

There's no hard and fast rule about how much you should be investing, but it's smart to try aiming for 10% to 15% of your gross income. If you're contributing to a retirement savings plan at work, you can count the percentage you're putting in there as part of your total. And whenever you get a bonus, a gift, or other unexpected cash infusion, it's a good idea to put some or all of it into your investment account as well. That extra boost can make a big difference in what you'll have later on.

Investing in Stocks

The stock market has its ups and downs, but it can be a good ride.

When you invest in a stock, you're buying part of a publicly traded company. That piece, also known as your **equity** or ownership share in the company, means you're in a position to profit from the company's success—or lose money if its share price drops and you sell.

Despite the potential risk involved, stocks are one of the most popular types of investments, especially for long-term goals. It's for good reason: They've historically provided better returns than

any other kind of investment—almost twice as much as long-term government bonds and about two and a half times as much as cash since year-end 1925, according to Morningstar, Inc.

CREATING A PORTFOLIO

Suppose, for example, that price were no object and you could create an instant portfolio of six stocks. There are some basic principles you'd want to keep in mind to be sure that your portfolio turned out to be diversified.

UPS AND DOWNS

A stock doesn't have a fixed value and its market price changes in response to supply and demand. It can go as high as you and other investors are willing to pay to own it—usually because you expect it to be worth even more in the future. But it can also drop in value, sometimes to almost nothing, if the company that issued it isn't meeting investor expectations, or is part of an industry that's out of favor with investors, or if the market as a whole tumbles.

Some people hesitate to invest in stocks or stock mutual funds and ETFs because they think it's too risky. So they stick with investments they consider safe. The problem is that by skipping equity investments, you're missing out on a reliable source of long-term investment gains. While you can lose money in some years, investors who've held a portfolio of stocks or stock funds in any 15-year period since 1926 have always come out ahead. But it doesn't work if you sell every time prices drop.

FINDING YOUR STYLE

Investing in stocks is a matter of style. If you're a **buy and hold** investor, you're in for the long haul. You buy stocks you think will increase in value over time, and you hold onto them—even through price drops in down markets.

You may even buy more shares when the stock loses value, since you'll pay less per share than when the price is high. And if, from time to time, the price goes high enough and the stock **splits**, you end up with even more shares.

If you **trade**, you buy stocks you expect to increase enough in value in the short term so that you can sell them for a profit. With this approach, you may want to set some guidelines for when you should sell. For example, you

might decide you'll sell any stock whose price has increased 20% and reinvest in another promising stock.

Be sure that each of the stocks is from a different sector of the economy. You may want to avoid the sector your employer is in, or limit yourself to one company in that sector, so that you aren't depending on one industry for investment gains and your paycheck.

If you concentrate on companies that show promise of future growth, be sure to include at least one or two well-established companies, even if their growth rate is likely to be slower.

If the stocks that interest you have P/E ratios that are higher than the current average, you might look for one or two undervalued companies that show promise of long-term growth. You can find P/E figures on the websites of the companies that interest you.

Consider dividing your portfolio evenly among **large-cap** stocks (with market caps over \$10 billion), **mid-cap** stocks (with market caps between \$2 and \$10 billion) and **small-cap** stocks (with market caps below \$2 billion).

P/E RATIOS

Investors often use a stock's **price-to-earnings ratio (P/E)** to get a sense of its value in relation to other stocks in the same sector or in the market at large.

A P/E—which you find by dividing the current price per share by the company's earnings per share—that's much higher than the market average may be a warning that investors expect a higher return from the stock than it may be able to deliver. And a lower-than-average P/E may indicate either a company in trouble or one poised to produce a good return on investment.

standing and growth potential seem to deserve

- By **market capitalization**, or market cap for short, which is the price of one share of stock multiplied by the total number of existing shares



Investing in Bonds

Bonds can help balance your portfolio.

Bonds are **debt investments**. When you buy a bond, you're really lending money, or **principal**, to a company or government for a certain **term**, or period of time. The company or government—known as the **issuer**—promises to pay you interest on the principal, just as you would have to pay **interest** if you borrowed money from a bank. And when the bond matures at the end of its term, you're promised the principal back.

YOU INVEST IN BONDS



TYPES OF BONDS

Corporate bonds are issued by public companies to raise money for various purposes, from expansion to modernization. In general, these bonds pay higher interest than other bonds, but that interest is taxable unless you buy the bonds through a tax-deferred or tax-exempt retirement savings plan.

US Treasury bills, notes, and bonds are issued by the federal government to raise money for running the country. Since they're backed by the government's ability to levy taxes rather than just by corporate profits, these bonds are somewhat less risky—and tend to pay somewhat lower interest—than corporate bonds. You have to pay federal income taxes on the interest, but not state or local taxes.

Municipal bonds, often known as **munis**, are issued by state and local governments to raise money for various projects and expenses. Most municipal bond interest is free of federal income tax.

And if you buy munis from the state where you live, the interest you earn is tax free. But if you buy munis issued by another state, you have to pay state and local taxes on the interest. However, some muni interest is vulnerable to the alternative minimum tax (AMT).

Agency bonds are issued by various government agencies for specific projects. For example, **Ginnie Mae**, the **Government National Mortgage Association (GNMA)**, issues bonds to help finance affordable mortgages. Agency bonds tend to pay slightly higher interest than other government bonds because they pose a marginally higher risk. The interest these bonds pay is usually taxable on all levels.

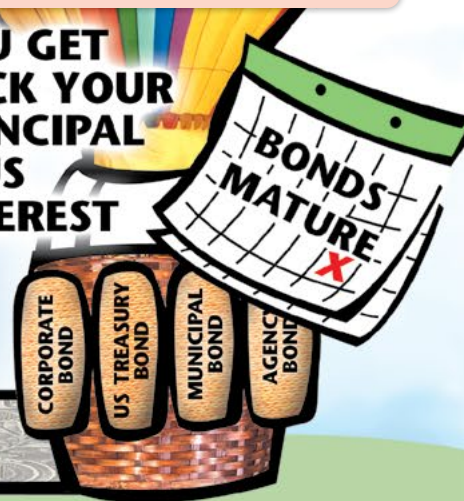
CLIPPING COUPONS

Zero-coupon bonds, sometimes called **zeros**, work a little differently than most other bonds. You buy them at a **deep discount**, for a price way below their par value. For example, you might pay \$11,000 for a \$20,000 zero-coupon bond. You don't receive any interest during the bond's term, but when it reaches maturity you get the face value that includes all the interest that accumulates over the years.

If you're investing for a particular goal with a predictable time frame—a child's college education, for example—the relatively low cost and big payout of zeros can make them a smart move.

But if you're just starting to invest and you don't have a definite goal for this portion of your investment portfolio, zeros may not be smart. You'd be tying up a lot of money for a long time, or risking a loss if you sell, since zero-coupon prices are volatile. And even though you don't get any interest until the bond matures, you still have to pay taxes on it each year.

YOU GET BACK YOUR PRINCIPAL PLUS INTEREST



BONDS

YOU CAN REINVEST

PRINCIPAL AT MATURITY

FOR WHAT IT'S WORTH

A bond's **par value** is the amount that you lend the issuer and the amount that you get repaid at maturity. In most cases, par value is \$1,000, but \$100 in the case of Treasury issues. But various market forces and investor attitudes can change bond prices just as they change stock prices. The only difference is that with bonds, these changes are always in relation to par value.

What happens to interest rates has the biggest single impact on what bonds are worth. As rates go up, the prices of existing bonds go down because they provide comparatively less income. For

example, if interest rates increase from 5% to 6%, you'd get \$10 more income per \$1,000 investment on a new bond than on an existing bond. As a result, an older bond becomes less attractive to investors than a newer, higher-paying one, and its market price will drop below \$1,000. When a bond sells below par, it is selling **at a discount**.

Similarly, if the interest rate drops, existing bonds paying the older, higher rate become more desirable because they provide more income. In that case, investors will pay more than \$1,000, or what's known as a **premium**, to own them.

BUYING TO HOLD

If you buy a bond when it's issued and hold onto it until it matures, it's one of the most straightforward investments you can make. You pay your money up front, and you know beforehand exactly how much you're going to earn, and when you'll get your principal back. This simplicity makes it a favorite with traditional investors.

Of course, investing this way makes you vulnerable to inflation. Since the interest a bond pays is usually fixed—the one exception is inflation-indexed Treasury notes and bonds—the amount you receive over time will buy less and less as time goes on. This becomes a

particularly pressing problem with long-term bonds, which is one of the reasons they typically pay a higher rate than short-term bonds. After all, there's got to be some incentive for tying up your money.

BUYING TO TRADE

You can also trade bonds actively through a broker on the **secondary market**. That means buying bonds that another investor is selling—or selling the bonds you own because there are investors who want to buy. Some investors regularly buy and sell bonds to try to make money on price fluctuations and interest rate changes.

Mutual Funds and ETFs

Pooling your money with other investors may bring swimming results.

When you invest in a **mutual fund**, your money gets combined with the money of the fund's other investors. The fund buys and sells individual investments for its portfolio to meet its **investment objective**, or the results it wants to provide for its shareholders.

If you choose an **actively managed fund**, a professional manager decides which investments to buy and when to sell based on what's happening in the financial markets and the fund's **investment style**. In most cases, the objective is to provide a stronger return than the market as a whole.

If you choose an **index fund**, which is passively managed, the goal is to replicate the market index to which the fund is linked. The portfolio, which includes the investments in the index, changes only when the components of the index change.

You can buy mutual funds and ETFs for any of your investment accounts. And if you participate in your employer's plan, you'll find mutual funds are most of investment choices the plan offers.

FUND FACTS

Mutual funds come in three basic varieties: **stock funds**, **bond funds**, and **money market funds**.

Stock funds invest primarily in stocks, though the stocks they buy vary from fund to fund. Most stock funds invest primarily for growth, but some, called growth and income funds or equity income funds, invest for current income as well by buying dividend-paying stocks.

Since most stock funds invest in dozens of companies, they're by nature **diversified** investments. Weak performances by some stocks that the fund owns may be offset by strong performances from others. That makes the fund more price-stable overall than individual stocks. However, if the stock market as a whole drops in value, the value of most funds invested in the market will drop as well.

Bond funds buy bonds. Investing in a bond fund provides current income, just as investing in individual bonds does. But you can invest smaller amounts and

get greater diversification by buying shares in a fund. And you can automatically reinvest your income to buy more shares in the fund, something you can't do with individual bonds.

But bond funds aren't bonds. Your shares in a bond fund don't mature at a particular time, they don't earn a fixed rate of interest, and there's no promise that you'll get your original investment back. Instead, the value of bond-fund shares goes up and down to reflect the changing values of its bonds in the secondary market.

Money market funds invest in short-term bonds and other debt investments, with the goal of maintaining a share price of \$1 per share. These funds pay interest, usually at about the same rate as short-term CDs.

MARKET PRICES

A mutual fund's **value**, or price per share, is based on the value of its **underlying investments**, which are the stocks or bonds it owns, and the number of shares it has issued. To find the fund's **net asset value (NAV)**, or the market value of one share of the fund, you divide the total combined value of its underlying investments, minus fund expenses, by the number of existing shares.

Both the underlying value and the number of shares change all the time. So each fund computes its NAV at the end of every business day. A big difference between mutual funds and individual

EXCHANGE TRADED FUNDS

Another approach to pooled investing is buying shares of exchange traded funds (ETFs). Each ETF tracks a particular market index, such as the Standard & Poor's 500 (S&P 500) and is listed on a stock market, where it trades throughout the day. The price moves up and down to reflect supply and demand, though it may not vary significantly from the fund's NAV.

ETFs tend to cost less to own than actively managed stock and bond funds and even some index mutual funds, a cost that's calculated as an **expense ratio**.

Another potential advantage is that you may have fewer short-term capital gains than you do with a mutual fund. One reason is that ETF portfolios tend to change only when the underlying indexes change.

Some investors use ETFs to achieve greater diversification at lower cost than they could by buying individual investments, but, like all investments, ETFs can lose value in a flat or falling market.

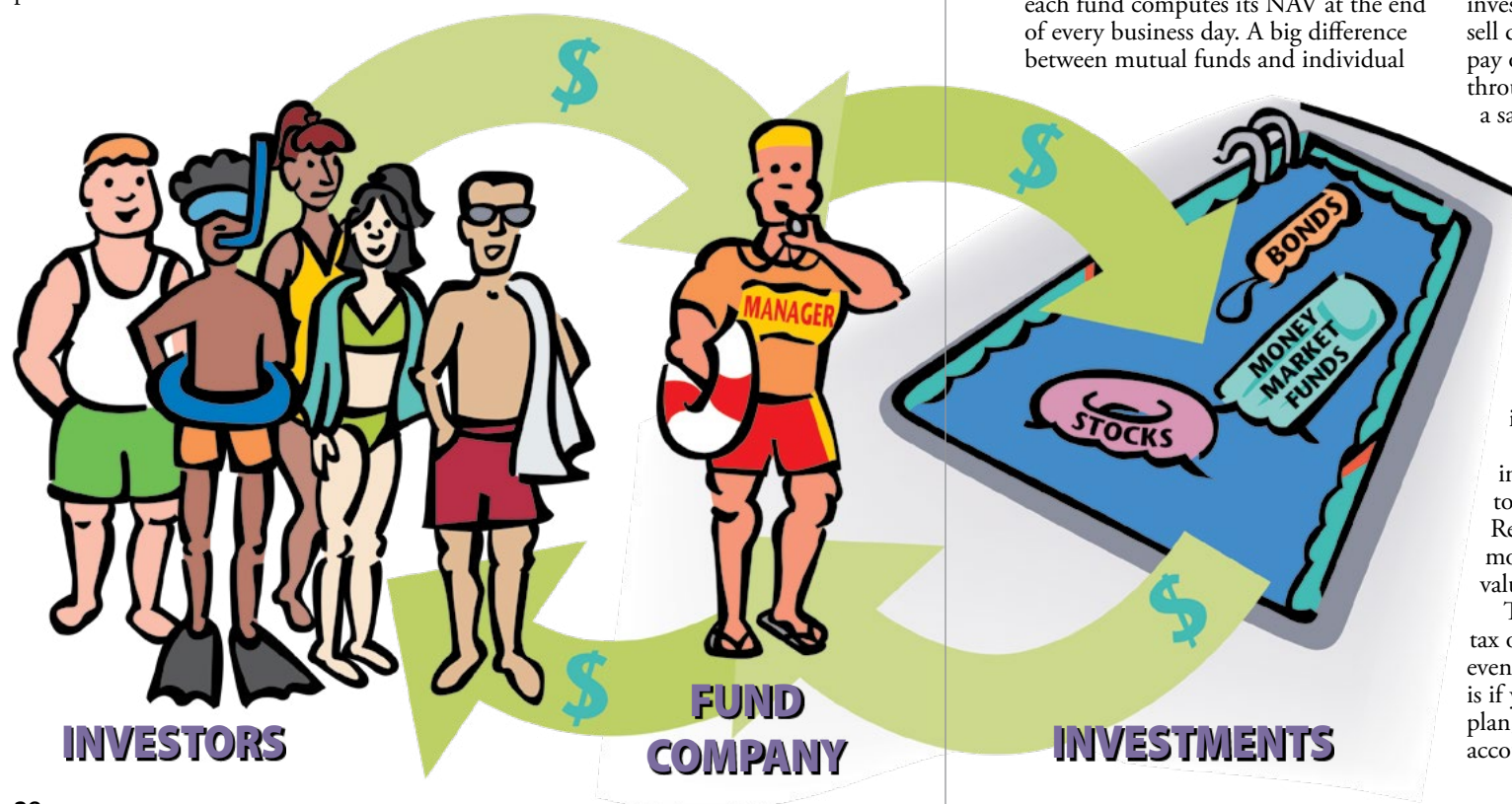
investments or ETFs is that a fund creates as many shares as investors want to buy and will buy back any shares investors want to sell. If you buy and sell directly with the fund, the price you pay or receive is the NAV. If you buy through an intermediary, there may be a sales charge.

TWO WAYS TO GET PAID

Mutual funds pay out their profits to their shareholders each year. **Income distributions** are paid from the dividends or interest the fund earns on its investments. **Capital gains distributions** are paid from any profits the fund makes by selling investments it owns.

You can take these distributions in cash or you can reinvest them to buy more shares in the fund. Reinvesting is an easy way to buy more shares, and can help build the value of your account.

There is one catch: You owe some tax on your distributions every year even if you reinvest. The only exception is if you own the fund through a 401(k) plan, IRA, or another tax-deferred account.



Meet Your 401(k)

If you're lucky enough to be introduced to a 401(k), you'll make a friend for life.



Even if you're just starting your first real job—actually, *especially* if you're just starting your first real job—it's time to start thinking about retiring. Specifically, how to ensure your financial stability and comfort after you're no longer earning an income. That's because you, like many people, will be responsible for supporting yourself during the 30 or more years you can expect to live after you retire. To do

that, you need a source of income that will stretch further than the safety net of Social Security and be more reliable than winning the lottery. Some—but increasingly few—employers offer traditional pensions, which pay you retirement income based on your final salary and time on the job. Others contribute to a cash balance, profit sharing, or other plan on your behalf. But most employers offer you,

instead, the opportunity to participate in a **tax-advantaged defined contribution plan**, such as a **401(k)**.

GETTING STARTED

If your employer offers a tax-advantaged plan, it's usually the most painless way to set aside money for the future. All you have to do is agree to have a percentage of your gross income withheld each pay period and added to the money already invested in your plan account. When your account is opened, you may have a choice between traditional tax-deferred 401(k) and a Roth 401(k). Your choice of investments is the same in either, but the tax treatment differs.

With the traditional account, your contribution is tax-deferred, which reduces your current taxable income. Eventually you'll be required to take withdrawals, which will be taxed at the same rate as your other income. With a Roth account, your contributions aren't tax-deferred, but your eventual withdrawals are exempt from tax if you're at least 59½ and the account has been open at least five years. Any earnings in either a traditional account or a Roth account accumulate tax deferred. That means the earnings are reinvested to increase the base on which additional earnings can accumulate, a process called **compounding**.

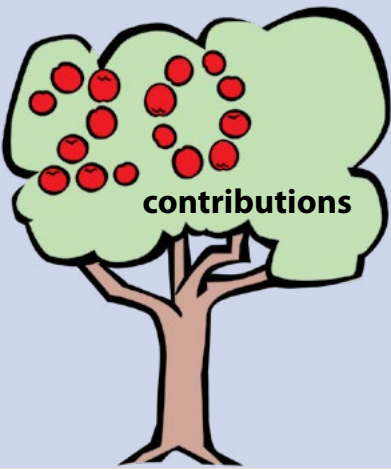
WHY NOW?

When compounding is involved, time is money. The more years that you add contributions to your plan, and the more years that any earnings increase your principal, the larger your account balance has the potential to grow. Of course, there are no guarantees about either the rate or the regularity of the earnings. They may be outstanding one year and dismal the next, or they may go through longer, but still alternating, periods of growth and decline. That's the reality of investing. Having time on your side means that bumps in the road, like a period when investment prices go down and your account value shrinks, may be setbacks. But they don't have to be fatal.

BRIGHT AND EARLY

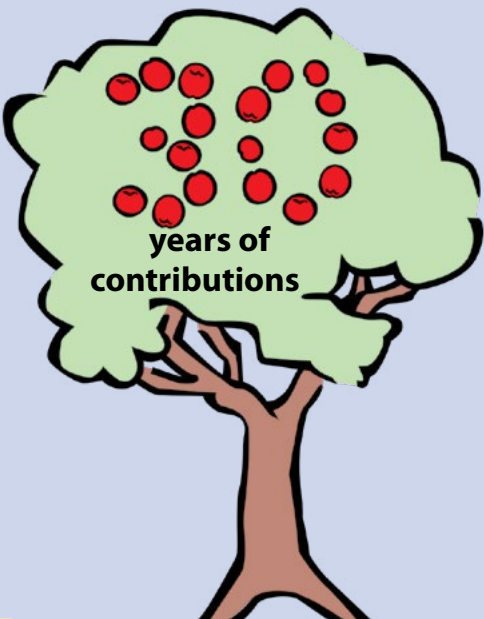
To show the impact of starting to invest as early as you can in a 401(k) or other retirement savings plan, compare the potential results if you began investing at different points in your working life. To keep matters simple, assume your employer doesn't match your contributions and you put in the same amount each year you participate.

Remember that returns are not guaranteed. Your return could be low, and you could lose as well as make money.



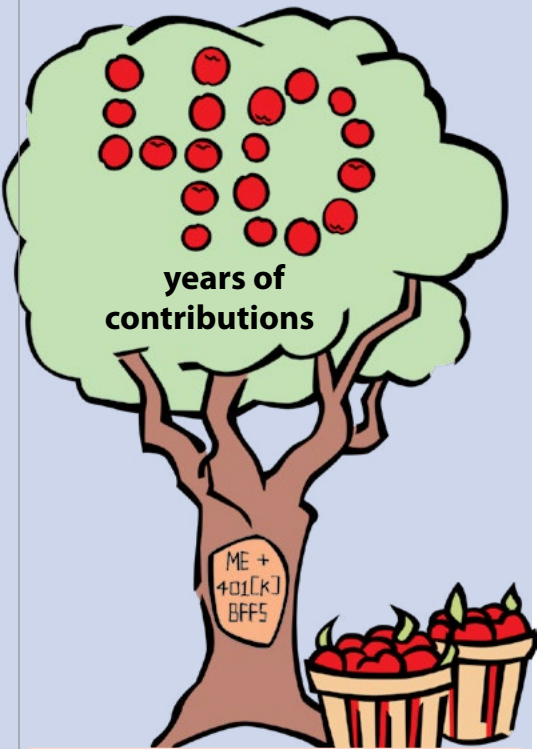
My contribution	\$100,000
Annual return	8%
Account value	\$247,114.61

You decide to enjoy the money you have while you're young, and you don't start contributing to your 401(k) until you're 45. If you contribute \$5,000 a year and average an 8% annual return, you'll have about \$247,000 in your account if you stop contributing at 65, based on a total contribution of \$100,000.



My contribution	\$150,000
Annual return	8%
Account value	\$611,729.34

When you reach 35, you realize it's time to get serious about the future, so you start contributing \$5,000 a year to your 401(k). Your investment return averages 8% a year. When you retire at 65, your account value will be about \$611,000, based on a total contribution of \$150,000.



My contribution	\$200,000
Annual return	8%
Account value	\$1,398,905.20

You start contributing to a 401(k) at 25, or as soon as you're eligible for a plan. You contribute \$5,000 a year for 40 years until you retire at 65. Your return averages 8%, so your account value is almost \$1.4 million, based on a total contribution of \$200,000.

A 401(k) BY ANY OTHER NAME...

401(k) plans are the most common, and best known, employer sponsored tax-advantaged plans. But they're not the only ones. If you work for a not-for-profit organization such as a school or college, a hospital, a cultural institution, or a charitable organization, your employer may offer a **403(b) plan**, sometimes known as a **tax-deferred annuity (TDA)**. Similarly, the plan a state or municipal government offers may be a **457 plan**, while federal government departments and agencies provide a **thrift savings plan**. And if you work for a small company—one with fewer than 100 employees—you may be part of a **SIMPLE plan**, an acronym for **Savings Incentive Match Plan for Employees**.

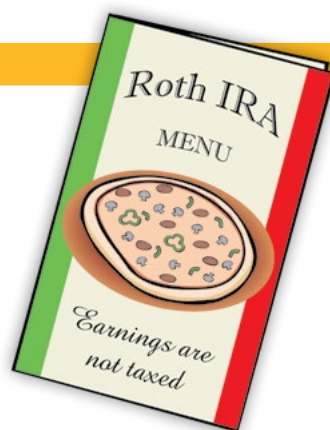
Introducing IRAs

The more you know about IRAs, the better you'll like them.

You should check out an **individual retirement account (IRA)**. You shouldn't have any trouble finding a **custodian** who'll hold the assets you put into your account. Banks, credit unions, investment companies, and brokerage firms all offer IRAs and are eager to have you as a client. The only requirement is that you have earned income. That's money you're paid for work you do.

Each year, you can contribute up to the annual cap the government sets in any investments available through your custodian. You just can't contribute more than you earn.

If you're participating in an employer's retirement savings plan, you can still contribute to an IRA. And if you're not in a plan, an IRA is a great substitute.



CHOOSING AN ACCOUNT

All IRAs are alike in one key way. Any earnings the investments in your account provide grow tax-deferred. That distinguishes them from earnings in taxable accounts, on which tax is due every year on the earnings that are paid. Tax-deferral means your account can compound faster than an account from which you withdraw to pay taxes.

But IRAs come in different styles, so you'll want to find the one that will suit you best. In a **traditional tax-deferred account**, earnings are deferred until they're withdrawn and then taxed at the same rate as your ordinary income. Normally, you don't withdraw before you're 59½ and must start withdrawing, if you haven't already, when you turn 73.

Some but not all IRA participants qualify to deduct their contributions to a traditional IRA. Anyone who isn't eligible for an employer plan can deduct, as can anyone whose adjusted gross income (AGI) is less than the limit the government sets each year. In both cases, whether you're single or married affects the limit.

In a **Roth IRA**, earnings are not taxed at withdrawal if you are at least 59½ and your account has been open at least five years. In addition, no withdrawals are ever required. But you have to be eligible, based on your AGI, to contribute to a Roth IRA.

Assuming you qualify for more than one type of IRA, what you'll want to consider is whether you're most likely to pay less tax over your lifetime by deducting your contributions now or being entitled to tax-exempt withdrawals later.

PICKING INVESTMENTS

Since IRAs are designed to meet your long-term financial needs, you'll want to have a plan for building your account. Unlike a 401(k) or similar plan, where you choose from a menu of investment options, in an IRA you have essentially free rein—though it does mean you take more responsibility for the outcome.

One approach is to buy mostly stocks and stock funds while you're just starting your career. They're designed to grow in value and may pay dividends that can be reinvested to increase your

account value. Over time, you may want to add income-producing investments for greater stability.

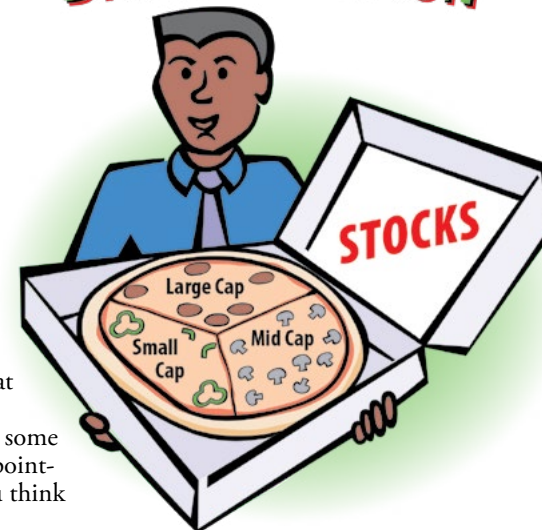
The key is to **diversify** at every stage, which means choosing a variety of investments within each category.

TRACKING PERFORMANCE

Investing in an IRA isn't—or at least shouldn't be—a one-time activity. As your portfolio grows, you'll want to keep track of how your investments are doing and whether your account is increasing in value. That means you need to be prepared to make changes, typically by selling some investments that have been disappointing and buying new ones that you think will make a positive contribution.

But you have to be realistic. If stocks, in general, are struggling to stay in positive territory as they sometimes do, selling the ones you have and replacing them with others may not improve the

DIVERSIFICATION



results. But you may want to replace an investment that's lagging in a growing market or one whose issuing company seems to be in serious financial trouble.

USING BENCHMARKS

One way to evaluate performance is by assessing how well an investment is doing in comparison with others that have similar characteristics.

Benchmarks help.

A benchmark is a market index, such as the S&P 500 or the Dow Jones Industrial Average, whose changing value reflects the activity of a particular financial market or market sector. The

S&P 500, for example, tracks the performance of 500 large US company stocks.

Benchmarks serve as standards against which to evaluate the performance of investments like the ones they track. But the evaluation is relevant only if that is the case. You can't evaluate a small new company by comparing it to one of the giants tracked by the S&P.

NAMING BENEFICIARIES

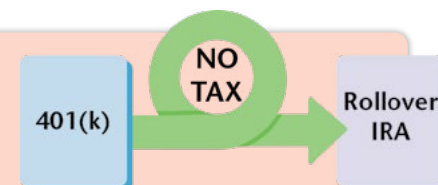
An essential part of opening an IRA is choosing a beneficiary to inherit the account if you should die. In fact, you'll probably want to name at least two: a primary and a contingent to inherit if the primary can't. With those designations in place, there should be no

question about who is entitled to the account at your death. And remember, you can always change your mind and update the designation.

For example, you might name a parent or sibling initially and change to your spouse or partner when you have one.

IRA ROLLOVERS

If you change jobs, you might leave your 401(k) account where it is or move it to your new employer's plan. But you might also consider rolling it into an IRA. Any of these choices is better than cashing out, paying taxes and penalties, and having to start over.



Buying Insurance

You can protect yourself against certain risks by recognizing the danger.

It's no secret that things that can go wrong through no fault of your own. You could be in a car accident, a fire could destroy everything in your apartment, or a thief could steal valuable property. You could also be seriously ill or unable to work. And, while it's something nobody likes to think about, you could die unexpectedly.

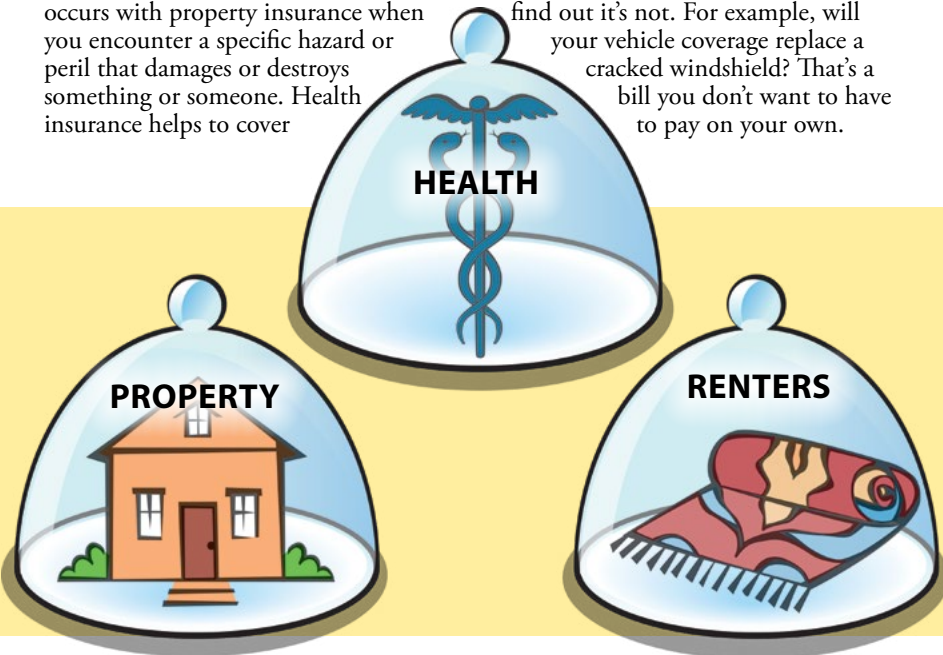
WHAT INSURANCE DOES

Most insurance works the same way. You buy a **policy** from an insurance company, which promises to provide financial relief if the need arises. That occurs with property insurance when you encounter a specific hazard or peril that damages or destroys something or someone. Health insurance helps to cover

medical expenses, and life insurance provides a death benefit to the beneficiary you name.

You pay a **premium**, or dollar amount, for the coverage, and, if you have a covered loss, you file a **claim**. If the insurer agrees it is responsible, it pays you for the portion of the loss that's more than your **deductible**. That's the amount you have to pay yourself before the insurer begins to pay its share.

You should always read a policy carefully before you sign it. It can be tedious but you don't want to assume something will be covered and then find out it's not. For example, will your vehicle coverage replace a cracked windshield? That's a bill you don't want to have to pay on your own.



PROPERTY INSURANCE

When you buy property insurance, you need different policies for different potential risks. And what you pay depends on the actual property, the amount of coverage you want, the insurer you choose, and these primary factors:

- Your credit history
- The deductible you choose
- Your history of filing claims

RENTERS INSURANCE

Despite what you might think, your landlord's property insurance covers

the building and its infrastructure, but nothing more. If a leaky pipe floods your living room, you're not responsible for repairs to the floors, walls, or plumbing. But the cost of repairing or replacing furniture, rugs, and your other wet possessions is yours.

Your property is insured even if it's not physically in your home, though the amount you can recover if it's lost or stolen depends on your policy. And there may be limits on coverage for valuable items.

You should take an inventory of your possessions, document the list with model names, serial numbers, written

HEALTH INSURANCE

When you're young and healthy, it's hard to be too worried about being sick or getting injured. But the reality is that no one has total immunity to illness and accidents. And medical treatment is very expensive, prohibitively so in some cases.

If your employer provides health insurance, sign up. In addition to coverage for illness and injury, most plans offer preventative treatments that can help you avoid health issues or catch problems early.

If your employer offers more than one type of plan, choosing among them can be complicated. Among the issues that you'll have to weigh are two factors that will affect the cost: the premium and the deductible. Generally speaking, higher premiums mean a smaller deductible and lower premiums mean a higher deductible.

So you'll have to ask yourself if you'll be able or willing to get the care you need if you're paying the full cost out of your own pocket until you pay all of the deductible.

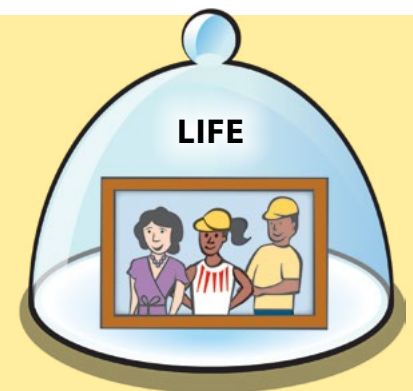
One alternative if you aren't eligible for an employer plan and are younger

than 26 is to be covered under a parent's policy. It's more convenient and usually cheaper than finding an individual insurance plan through your state's Affordable Care Act (ACA) marketplace, though that's also a reasonable approach. Finding the right plan for you will require some investigative work, but it's well worth your time.

There are health insurance policies you should avoid: policies for specific illnesses and accidental death, those described as short-term and individual plans offered outside the ACA marketplaces.

LIFE INSURANCE

If anyone depends on you for financial support, you need life insurance to provide a cash benefit if you should die. You'll have to choose between term and permanent insurance, decide on the amount of coverage you want, and pick the insurance company to provide the policy. There are lots of options, some better than others for younger people, so it pays to get some guidance from a fee-only agent who doesn't sell policies and will provide unbiased advice.



valuations of expensive items, and photos of anything unique.

VEHICLE INSURANCE

Insurance for your car, motorcycle, or other vehicle typically includes several types of coverage that include **collision** and **comprehensive** for damage to the vehicle and **liability** for injury to people and property. You may also want uninsured or underinsured motorist coverage in case your car is damaged by a driver without insurance.

Liability coverage is required in every state as a condition of registering the vehicle, though different minimums

CAR COVERAGE COSTS

What you pay for vehicle insurance depends on the type of vehicle, your age, your driving record, where you live, and the distances you drive regularly.

apply. More coverage is usually better than less. You might also want to add an **umbrella policy** that covers all types of liability.

Note that the insurance covers the vehicle, not just you, so unless the policy says otherwise, the protection is good as long as the person driving is doing so with your permission.

Asset allocation is a strategy for off-setting certain types of investment risk by investing specific percentages of your investment principal in different asset classes, including stocks, bonds, and cash. Asset allocation models and the asset classes they include vary based on objectives, timeframe, and risk tolerance.

Certificates of deposit (CDs) are time deposits. When you purchase a CD from a bank, up to \$250,000 is insured by FDIC. You generally earn compound interest at a fixed rate, which is determined by the current interest rate and the CD's term, which can range from three months to five years.

Compounding occurs when your investment earnings are added to your principal, forming a larger base on which future earnings may accumulate. As your investment base grows larger, it has the potential to compound faster.

Credit score is a number, calculated based on information in your credit report, that lenders use to assess the credit risk you will pose and the interest rate they will offer you if they agree to extend you credit.

Diversification is an investment strategy for offsetting certain types of investment risk that involves buying a number of different securities, mutual funds, or exchange traded funds (ETFs) in different categories or subclasses within a single asset class.

Finance charge, or total dollar amount you pay to borrow, includes the interest you pay plus fees if you take a loan. A finance charge is expressed as an annual percentage rate (APR) of the amount you owe, which allows you to compare the costs of different loans.

Inflation is the persistent increase in prices, often triggered when demand for goods is greater than the available supply or when unemployment is low and workers can command higher salaries. Moderate inflation typically accompanies economic growth. But the US Federal Reserve tries to keep inflation in check by decreasing the money supply, making it more difficult to borrow and potentially slowing expansion.

Interest is what you pay to borrow money using a loan or credit card. It is calculated as a percentage of the amount

you borrow, and figured at a fixed or variable rate. Interest is also what you earn on savings accounts, bonds, and certain other investments.

Liquid assets are accounts or securities that can be easily converted to cash with little or no loss of value. These include cash, money in bank accounts, money market mutual funds, and US Treasury bills.

Portfolio is the group or collection of investments that you own. Each time you purchase a new investment, you expand your portfolio, ideally making it more diversified.

Premium is the purchase price of an insurance policy. You may pay the premium as a single lump sum, in regular monthly or quarterly installments, or in some cases on a flexible schedule over the term of the policy or contract.

Return is the profit you make on an investment, usually expressed as a percentage of your investment cost. It includes any increase or decrease in the value of the investment plus any earnings you receive from the investment.

Risk is the possibility of losing principal or of losing buying power. All investments carry a certain level of risk. In general, the greater the risk of losing principal, the greater the potential return. In contrast, the lower the risk to principal, the greater the inflation risk.

Rollover is when you move your assets from one investment to another. For examples, if you move money from one IRA to another IRA, or if you move money from a qualified retirement plan, such as a 401(k), into an IRA, you are doing a rollover.

Roth IRA is a variation on a traditional individual retirement arrangement (IRA). Because contributions are made with after-tax dollars, the Roth IRA allows you to withdraw your earnings completely tax free any time after you reach age 59½, provided your account has been open at least five years.

Tax-deferred means you postpone paying income tax on earnings and in some cases on contributions to an investment account until you withdraw. You pay tax on your withdrawals at your regular tax rate.

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