STUDY GUIDE

FINANCIAL EDUCATION

Financial Planning Program

Personal Financial Planning is a process of defining goals, developing a plan to achieve the goals, and putting the plan into action. Goals should be SMART (specific, measurable, attainable, relevant, and time-bound); plans should be flexible; and putting the plan into action requires restraint and responsibility.

Delayed Gratification - To postpone satisfaction until a later time.

Goal - An aim or purpose; an end to which effort is directed.

Needs - Essentials to your health and security: water, food, shelter, and clothing. A condition requiring supply or relief; to be in need or want.

SMART Goals - Specific, Measurable, Attainable, Relevant, Time-bound goals.

DECIDE – Define your goal. Establish criteria for an acceptable outcome. Choose two or three good options. Identify pros and cons of the options. Decide the best option that matches criteria. Evaluate the results.

Values - A principle, standard, or quality considered worthwhile or desirable.

Wants - Non-essentials such as movies and eating out. Things that make life more interesting and fun but you can get by without. To desire greatly; wish for.

Cash Flow – A measure of the money you receive and the money you spend. The activity of money coming in and money going out.

Decision Making – The process of considering and analyzing in order to make a decision.

Opportunity Cost - Choosing one option may mean giving up altogether on another.

Restraint - The self-control to save your money for a future goal.

Budget - A plan for managing money during a given period of time. An itemized summary of estimated or intended expenditures for a given period along with proposals for financing them.

Cash Management - Cash management is making sure your expenses are less than your income. Living within your means is simple; spend less money than you make. Manage your cash and budget. -

Expenses - Something spent to attain a goal or accomplish a purpose.

Federal Income tax - A government levy on the members of a nation to meet its expenses.

Fixed Expenses - Expenses that do not vary.

Gross Income - For an individual, all income except as specifically exempted by the Internal Revenue Code.

Income - The amount of money or its equivalent received during a period of time in exchange for labor or services, from the sale of goods or property, or a profit from financial investments.

Medicare Tax - A federal tax used to assist in running a program under the U.S. Social Security Administration that reimburses hospitals and physicians for medical care provided to qualified people over 65 years old.

Net Income - Income after all expenses and taxes have been deducted.

Payroll Deductions - The sum of money to be taken out of an employee's paycheck to meet agreed-on obligations.

P.Y.F. - "Pay Yourself First' - the concept of treating savings, or paying yourself, as a fixed expense that you can make a regular part of your budget. Is the secret to getting what you want and becoming a disciplined saver.

Social Security Tax - Federal tax levied equally on employers and employees, used to pay for Social Security programs.

State Income Tax – State tax levied equally on employers and employees, used to pay for State programs.

Taxes - To place a tax on (income, property, or goods).

Variable Expense - A cost that does not remain fixed.

Bond - You lend money to a government or a company. In return, the borrower promises to repay you with interest on a certain date.

Capital Gain - A profit that results from a sale of a capital asset, such as stock, bond or real estate, where the sale price exceeds the purchase price.

Compounding - Earning on your balance plus the previously earned interest.

Diversification - Reducing risk by investing in a variety of assets.

Earned Interest - The amount of interest earned over a specific period of time from investments that pay the holder a regular series of mandated payments.

Inflation Rate- The percentage increase in the cost for the same items over time.

Dividend - An amount paid in cash or share of stock, based on the amount of stock shares owned.

Interest - The cost of borrowing or lending money that is usually a percentage of the amount borrowed or loaned. A charge for a loan, usually a percentage of the amount loaned.

Invest - Buying something with the expectation that it will make money for you.

Mutual Fund - A type of investment that is made up of a variety of stocks and/or bonds to meet a specific investment objective.

Rate of Return - The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security plus realized capital gains.

Savings - Depositing money into a financial institution and earning interest.

Stocks - A percentage of ownership in a company.

Time Value of Money - The concept that holds that a specific sum of money is more valuable the sooner it is received.

Annual Fee - A yearly fee charged by credit grantors for the privilege of using a credit card.

Fees - Charges to use credit. Examples: Annual credit card fee, Loan origination fee, over-the-limit fee.

Annual Percentage Rate (APR) - The total cost to use credit in a year. The cost of credit at a yearly rate.

Bankruptcy - A legal process to get out of debt when you can no longer make all our required payments. Bankruptcy is when one becomes financially ruined.

Credit - The amount of money or something of value that is loaned on trust with the expectation it will be repaid later to lenders. Credit means someone is willing to loan you money – called principal- in exchange for your promise to pay it back, usually with interest. Credit is a trust or promise to pay later for goods or services purchased today.

Credit History - A record of your behavior related to borrowing and repaying loans. A record of how one has paid credit accounts in the past.

Credit Report - A detailed record of your personal credit and financial transactions. A credit report is a record or file to a prospective lender or employer on the credit standing of a prospective borrower.

Credit Score - A rating used by credit reporting companies to help lenders decide whether and/or how much credit can be extended to a borrower.

Debt - The entire amount of money you owe to lenders. Debt is a liability or obligation in the form of bonds, loan notes, or mortgages owed to another person.

Finance Charge - The cost of consumer credit expressed as a dollar amount including interest and service fees.

Universal Default - Allows a credit card company to increase your interest rate if you make just one late payment.

Credit Card Benefits - Access to cash in an emergency; the ability to use the purchased product now; safety and convenience; to earn bonus points or miles.

Grace Period - Is a time frame in which a person can avoid finance charges by paying off a balance in full before its due date.

Loan Term - How long you have to repay a loan, often expressed in months. The agreed length of a loan.

Deductible - The amount of a loss that an insurance policy holder has to pay out-of-pocket before reimbursement begins.

Insurance - Protection against large-scale financial loss. Compensation for specific potential future losses in exchange for a periodic payment.

Insurance Premium - The periodic payment made on a n insurance policy.

Risk Management - Means that you use various ways to deal with potential personal or financial loss. The process of analyzing exposure to risk and determining how to best handle such exposure.

IRA - Individual Retirement Account. Contributions are often tax-deductible (often simplified as "money is deposited before tax" or "contributions are made with pre-tax assets"), all transactions and earnings within the IRA have no tax impact, and withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were not deducted)

ROTH IRA - contributions are made with after-tax assets, all transactions within the IRA have no tax impact, and withdrawals are usually tax-free.

401K - is the tax-qualified, defined-contribution pension account defined in subsection 401(k) of the Internal Revenue Code. Under the plan, retirement savings contributions are provided (and sometimes proportionately matched) by an employer, deducted from the employee's paycheck before taxation (therefore tax-deferred until withdrawn after retirement or as otherwise permitted by applicable law), and limited to a maximum pre-tax annual contribution.

ROTH 401K - contributions are made with after-tax assets.