Haygood Consulting Co.

Financial Literacy

Study Guide

Soft Skills Coursework

Created by Haygood Consulting Co.

Financial Literacy Study Guide

Lesson 1: Essentials of Budgeting for Financial Literacy

Budgeting Importance

- **Definition**: Budgeting is like planning a road trip. It helps you map out where your money comes from and where it needs to go, so you can reach your financial destinations without running out of gas.
- **Example**: If you earn $2,000 a month, budgeting helps determine how much to spend on rent, food, fun, and savings.

Creating a Personal Budget

- **Definition**: The first step in creating a personal budget is setting the foundation for a house. You calculate your total monthly income to know how much you must work with.
- **Example**: Add up your paycheck, any side jobs, and other sources of income to see your total monthly earnings.

Fixed Expenses

- **Definition**: Fixed expenses are like a subscription service. They cost the same monthly amount, like rent or a car payment.
- **Example**: Your monthly rent is a fixed expense because it stays the same, making it easier to plan.

Variable Expenses

- **Definition**: Variable expenses change monthly, like gas for your car or eating out.
- **Example**: Some months, you might spend more on dining out, while other months, you cook at home more often.

Budgeting Apps

- **Definition**: Budgeting apps are like fitness trackers for your money. They help you monitor your spending and stay within your financial limits.
- **Example**: Using an app like Mint, you can set spending limits for groceries and get alerts when you're close to your budget.

Essential Information for Budget Creation

- **Definition**: To create a budget, you need to know your income and expenses, just like a chef needs to know what ingredients they have before they start cooking.
- **Example**: Sarah needs to list her income from her job and all her expenses, such as rent, food, and utilities, to make her budget.

Adjusting Your Budget

- **Definition**: If you're spending more than you earn, adjusting your budget is like pruning a tree. You cut back on unnecessary expenses to keep your finances healthy.
- **Example**: If you're spending too much on entertainment, you might decide to have movie nights at home instead of going to the theater.

Interactive Budgeting Exercise

- **Definition**: An interactive budgeting exercise is like a financial workout. It helps you practice making smart money choices and strengthens your budgeting skills.
- **Example**: In a budgeting workshop, you might work through different scenarios to learn how to adjust your spending and saving.

Accounting for All Income and Expenses

- **Definition**: When budgeting, it's important to track every dollar, just like a scientist records every observation in an experiment.
- **Example**: Keep receipts and note all your expenses, even small ones like coffee, to get a complete picture of your spending.

Using a Spreadsheet for Budgeting

- **Definition**: A spreadsheet is like a dashboard for your finances. It gives you a clear view of your income and expenses and where to make changes.
- **Example**: With a spreadsheet, you can easily see how much you spend on different categories and where you might need to cut back.

Reviewing and Adjusting Your Budget

- **Definition**: Regularly reviewing your budget is like checking your speed while driving. It helps you stay on track and adjust as needed.
- **Example**: At the end of each month, look at your spending and see if you need to spend less or save more.

Main Goal of Budgeting

- **Definition**: The main goal of budgeting is to ensure you're using your money wisely to reach your financial goals, such as saving for a vacation or paying off debt.
- **Example**: By sticking to a budget, you can save up for a down payment on a house or build an emergency fund.

Tools for Budgeting

- **Definition**: Tools like budgeting apps and spreadsheets are like navigational aids. They help you keep your financial journey on course.
- **Example**: You might use an app to track your daily spending or a spreadsheet to plan your monthly budget.

Allocating Funds

- **Definition**: Allocating funds means dividing your income among different expenses and savings, like distributing water to different plants in a garden.
- **Example**: You decide how much money to put towards rent, groceries, fun, and savings each month.

Budgeting App Usage

- **Definition**: People use budgeting apps to make managing money easier and more efficient, like using a calculator for math.
- **Example**: A budgeting app can help you see how much you spend on eating out and suggest ways to cut back.

Income Assessment

- **Definition**: Income assessment is like taking inventory in a store. You calculate how much money you have coming in each month.
- **Example**: Add up your salary, any bonuses, and other income to see your total monthly earnings.

Sample Budget

- **Definition**: A sample budget is a practice run. It shows you how to plan your spending and saving based on a typical financial situation.
- **Example**: A sample budget might show how someone with a similar income and expenses to yours manages their money.

Signs Your Budget Needs Adjusting

- **Definition**: If you're consistently overspending in a category, it's a sign that your budget needs fine-tuning, like adjusting the strings on a guitar.
- **Example**: If you're spending too much on clothes, you might need to set a stricter budget for shopping.

Budget Categories

- **Definition**: In a budget, groceries would fall under variable expenses because the amount can change each month.
- **Example**: You might spend more on groceries one month if you're hosting a party and less the next month if you're traveling.

Purpose of Learning Budgeting Skills

- **Definition**: The purpose of learning budgeting skills is to manage your finances effectively, like learning to drive so you can get where you need to go safely and efficiently.
- **Example**: With good budgeting skills, you can pay off debts, save for the future, and enjoy your money without stress.

By mastering the essentials of budgeting, you take control of your finances and make your money work for you. It's about planning, tracking, and adjusting as you go to ensure you're always moving towards your financial goals. Remember, a budget is a tool for freedom, not restriction!

Lesson 2: Essentials of Understanding Employee Benefits

Health Insurance Plans

- **Definition**: Health insurance plans are like different routes to the same destination. Employers commonly offer HMO (Health Maintenance Organization), PPO (Preferred Provider Organization), and high-deductible plans.
- **Example**: HMOs have a narrower network of providers, while PPOs offer more flexibility but may have higher costs.

Deductible

- **Definition**: A deductible is like the entrance fee to a theme park. It's the amount you pay out of pocket before your insurance kicks in.
- **Example**: If your health insurance has a $1,000 deductible, you pay the first $1,000 of covered medical expenses.

401(k) Plan

- **Definition**: A 401(k) plan is like a savings account for retirement. Employers offer it, and you contribute a portion of your salary, often with an employer match.
- **Example**: By contributing to your 401(k), you're building a nest egg for your future.

Traditional IRA vs. Roth IRA

- **Definition**: Traditional IRAs and Roth IRAs are like different tax flavors. Traditional IRAs give you a tax break now, while Roth IRAs offer tax-free withdrawals in retirement.
- **Example**: With a Roth IRA, you pay taxes on your contributions now, but your withdrawals are tax-free later.

Open Enrollment

- **Definition**: Open enrollment is like a shopping spree for benefits. Employees review their options and choose health insurance, retirement plans, and other benefits.
- **Example**: During open enrollment, you evaluate your needs and select the best benefits for you and your family.

Comparing Health Insurance Plans

- **Definition**: When comparing health insurance plans, consider coverage types, out-of-pocket costs, and network providers.
- **Example**: John weighs the pros and cons of an HMO (lower costs, but limited providers) versus a PPO (more flexibility, but higher costs).

High-Deductible Health Plans

- **Definition**: High-deductible plans are like a pay-as-you-go model. They have lower premiums but higher deductibles, making them suitable for healthy individuals.
- **Example**: Maria, who rarely visits the doctor, chooses a high-deductible plan to save on monthly premiums.

Employer Match in 401(k)

- **Definition**: An employer match is like free money. Your employer contributes to your 401(k) based on your own contributions.
- **Example**: If you contribute 5% of your salary, your employer might match that with an additional 5%.

Copayment

- **Definition**: A copayment is like splitting the bill. It's a fixed amount you pay for a covered healthcare service.
- **Example**: When you visit the doctor, you might pay a $20 copayment for the visit.

Contributing to a 401(k)

- **Definition**: Contributing to a 401(k) is like planting seeds for retirement. By putting a percentage of your salary into the plan, you're saving for the future.
- **Example**: Mark contributes 10% of his salary to his 401(k) to take advantage of the employer match.

HMO vs. PPO

- **Definition**: HMOs and PPOs differ in provider choice and costs. HMOs have a narrower network, while PPOs offer more flexibility.
- **Example**: HMOs require referrals for specialists, while PPOs allow direct access.

Choosing a High-Deductible Plan

- **Definition**: People choose high-deductible plans for lower monthly premiums. These plans work well for healthy individuals.
- **Example**: Lisa, who rarely uses healthcare services, opts for a high-deductible plan.

Understanding Premiums

- **Definition**: A health insurance premium is like a subscription fee. It's the amount you pay each month for coverage.
- **Example**: Paying your monthly premium ensures you have access to healthcare services.

Employee Benefits

- **Definition**: Employee benefits are like perks for working. They include 401(k) plans, health insurance, and paid vacation.
- **Example**: Free daily lunches and gym memberships are also common employee benefits.

Purpose of Understanding Benefits

- **Definition**: Understanding benefits helps you make informed choices. It's like reading the fine print before signing a contract.
- **Example**: By understanding your options, you can maximize your benefits and financial security.

Lower Deductibles

- **Definition**: Lower deductibles mean less out-of-pocket expense when you need healthcare.
- **Example**: Choosing a plan with a $500 deductible means you pay less before insurance kicks in.

PPO Advantage Over HMO

- **Definition**: PPO plans offer a wider network of providers and more flexibility than HMOs. It's like having access to multiple routes on your journey.
- **Example**: Maria prefers a PPO because she can see any specialist without referrals.

Benefit Enrollment Strategies

- **Definition**: Benefit enrollment strategies are like choosing the best path for your financial journey. Consider your unique health needs and financial goals.
- **Example**: Instead of blindly selecting benefits, evaluate options based on what matters most to you.

Purpose of Understanding Benefits

- **Definition**: Understanding benefits helps you make informed choices. It's like reading the fine print before signing a contract.
- **Example**: By understanding your options, you can maximize your benefits and financial security.

Remember, employee benefits are part of your compensation package, so take the time to explore and choose wisely. Whether it's health insurance, retirement plans, or other perks, understanding your benefits ensures you're on the right track toward financial well-being.

Lesson 3:

Lesson 3: Retirement Planning

Investing Early in a 401(k)

- **Definition**: Starting to invest early in a 401(k) is like planting a tree. The sooner you plant it, the more time it has to grow, thanks to compound interest.
- **Example**: If you start putting money in your 401(k) at age 25, it has more time to grow than if you start at age 35.

Setting Retirement Goals

- **Definition**: When setting retirement goals, it's like planning for a long vacation. You need to estimate how much it will cost for housing, healthcare, and fun activities.
- **Example**: Think about where you want to live, what hobbies you'll have, and what kind of care you might need.

Diversification in Investments

- **Definition**: Diversification means not putting all your eggs in one basket. Spread your investments across different assets like stocks, bonds, and real estate.
- **Example**: Instead of investing all your money in one company's stock, you buy a mix of different stocks and bonds.

Risk Tolerance

- **Definition**: Risk tolerance is like your comfort level on a roller coaster. Some people can handle the big drops, while others prefer a smoother ride.
- **Example**: If market ups and downs make you nervous, you might prefer safer investments like bonds.

401(k) with Employer Matching

- **Definition**: A 401(k) with employer matching is like getting a bonus. Your employer adds money to your retirement savings, matching part of your contribution.
- **Example**: If you put $100 into your 401(k), your employer might add another $50.

Traditional IRA vs. Roth IRA

- **Definition**: Traditional IRAs and Roth IRAs are like two different savings accounts with different tax rules. Traditional IRAs give you a tax break now, while Roth IRAs give you tax-free money when you retire.

- **Example**: If you think you'll be in a higher tax bracket when you retire, you might choose a Roth IRA.

Investing in 401(k) at a Young Age

- **Definition**: Investing in your 401(k) at a young age is like starting a race early. You have more time to build up speed (savings) before you reach the finish line (retirement).
- **Example**: Emily starts saving in her 401(k) at 25, so her money has 40 years to grow before she retires.

Planning for Retirement

- **Definition**: Planning for retirement is like preparing for a long trip. You need to think about when you want to go (retire), what you'll do, and how much money you'll need.
- **Example**: David wants to travel when he retires, so he's saving money now to afford his adventures.

Allocating Retirement Portfolio

- **Definition**: Allocating your retirement portfolio is like creating a recipe. You mix different ingredients (investments) based on your taste (risk tolerance).
- **Example**: Susan likes a little risk, so she includes some stocks in her retirement mix, along with safer bonds.

Opening an IRA

- **Definition**: Opening an IRA is like opening a special savings account for retirement that has tax advantages.
- **Example**: James opens an IRA to save more for retirement because his 401(k) has contribution limits.

Compound Interest

- **Definition**: Compound interest is like a snowball rolling downhill. The longer it rolls, the bigger it gets. Starting early gives your money more time to grow.
- **Example**: Investing $100 a month starting in your 20s can grow more than starting in your 30s, thanks to compound interest.

Good Retirement Plan

- **Definition**: A good retirement plan is like a well-balanced meal. It includes a variety of investments that match your risk tolerance.

- **Example**: You might have some stocks for growth, bonds for stability, and real estate for diversification.

Retirement Scenario Activity

- **Definition**: A retirement scenario activity is like a simulation game. It helps you practice making decisions based on different retirement goals and situations.
- **Example**: You might explore how retiring early or later affects your savings and investment choices.

Early Retirement Planning

- **Definition**: If you want to retire early, it's like aiming to finish a marathon faster. You need to train harder, which means saving more and investing wisely.
- **Example**: To retire at 55, you might need to save a larger portion of your income and choose investments with higher growth potential.

Understanding Risk Tolerance

- **Definition**: Understanding your risk tolerance is like knowing your spice limit. It helps you invest in a way that won't keep you up at night.
- **Example**: If you're risk-averse, you might choose bonds over stocks.

Common Retirement Goal

- **Definition**: A common retirement goal is to have enough money to cover all your expenses without working.
- **Example**: You might aim to have enough saved to maintain your lifestyle, cover healthcare costs, and enjoy hobbies.

Choosing a Roth IRA

- **Definition**: Choosing a Roth IRA over a traditional IRA is like paying for a vacation in advance. You pay taxes now, but you don't have to worry about them later.
- **Example**: If you expect to be in a higher tax bracket when you retire, a Roth IRA lets you withdraw money tax-free.

Saving for Retirement Young

- **Definition**: Starting to save for retirement at a young age is like starting a garden early in the season. You give your plants (savings) more time to grow.
- **Example**: The earlier you start saving, even if it's a small amount, the more you'll have due to compound interest.

Asset Allocation

- **Definition**: Asset allocation is like organizing your closet. You decide how much space (money) to give to each type of investment (clothes, shoes, accessories).
- **Example**: You might put 60% in stocks, 30% in bonds, and 10% in real estate.

Goal of Retirement Planning

- **Definition**: The goal of retirement planning is to prepare for a financially secure future. It's like building a house. You need a solid foundation (savings) and a good plan (investments).
- **Example**: By saving and investing wisely, you aim to have enough money to enjoy your retirement comfortably.

Remember, retirement planning is about looking ahead and preparing for the future. It's never too early to start, and the more you learn and save now, the better off you'll be when it's time to retire.