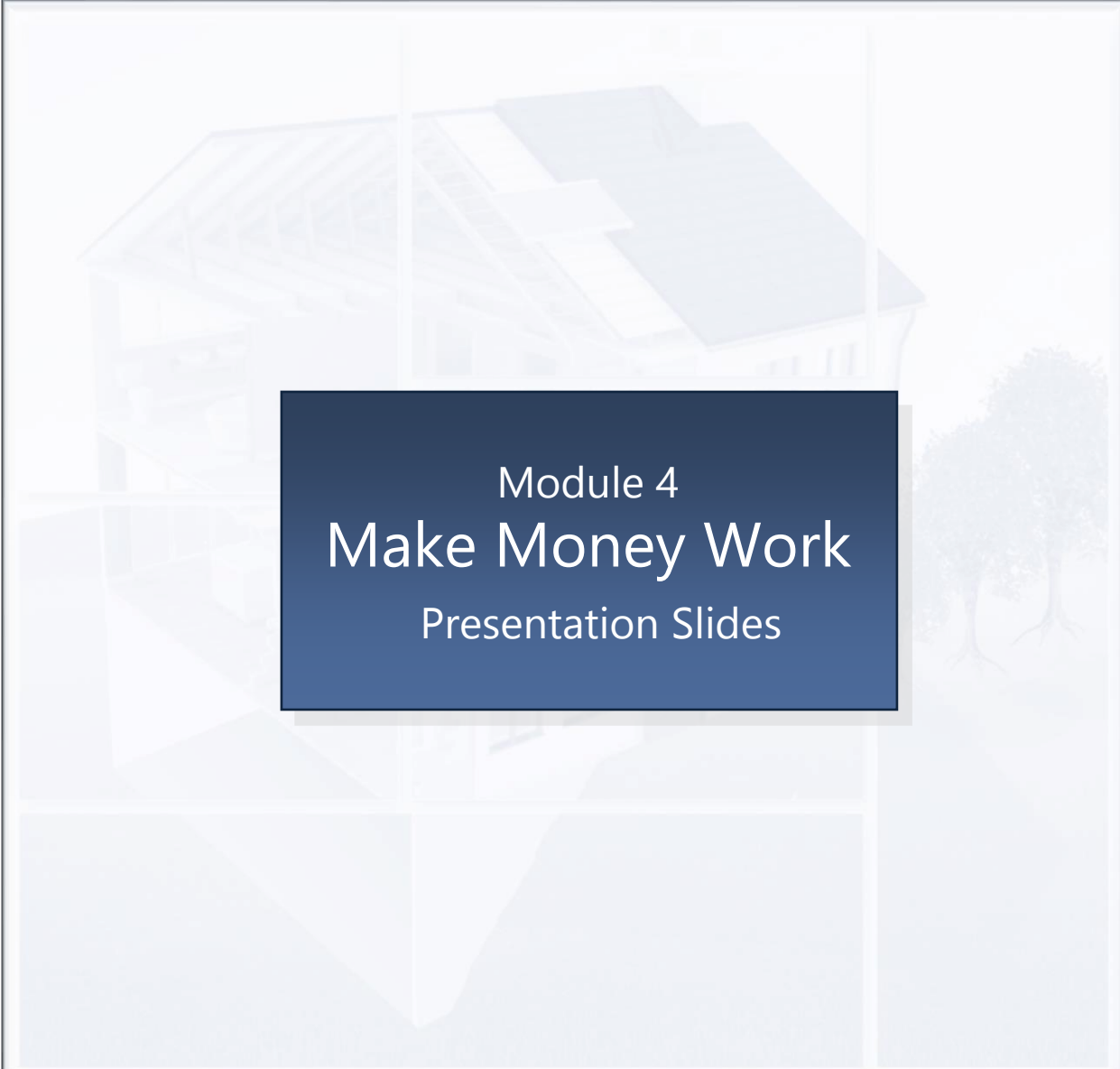


# Building Your Financial House

Set the Foundation of Your Future



Module 4  
Make Money Work  
Presentation Slides



# Building Your Financial House WELCOME

## Prior to Today's Session

**Building Your Financial House**  
Set the Foundation

**Self-Assessment and Track Your Progress**

**Pre-session Questionnaire**

1. Which of the following is the key to wealth?  
 A. Education  
 B. Income  
 C. Saving  
 D. Investing

2. Which of the following is the characteristic of saving?  
 A. It is a liquid asset.  
 B. It is a high-risk investment.  
 C. It is a low-risk investment.  
 D. It is a high-risk investment.

3. Which of the following is a broad-based asset?  
 A. Savings account  
 B. Money market deposit account  
 C. Certificate of deposit  
 D. Investment account

4. Which of the following assets can be considered an RRSP?  
 A. Stock in a public company  
 B. Insured vehicle  
 C. Real estate  
 D. Savings bond

5. How do you determine if a savings account is a RRSP?  
 A. Saving rates and getting a profit is an example of which investment strategy?  
 B. Capital preservation  
 C. Income  
 D. Growth and income  
 E. Growth

6. Net worth is:  
 A. Income less debts  
 B. Assets less debts  
 C. Assets less expenses  
 D. Income less expenses

## Today's Topics

- Working vs. Wealth
- Saving vs. Investing
- Time Value of Money
- Types of Assets, Uses, Risk, and Costs
- Investing Strategies and Accessibility
- Net Worth




## 5 Make Money Work

Much like adding an extra room in the attic, you can expand your money work through saving, investing and monitoring what you own.

- Differentiate between working and wealth
- Recognize that growing money starts with saving money
- Identify the power of compounding and time when building assets
- Distinguish between types of assets, their uses, risks, and costs
- Recognize net worth as a measure of wealth

KNOWLEDGE



Chat Box

What is the difference between saving and investing?



Saving vs. Investing

**Saving**

Saving is setting cash aside.

- Use now or in the short-to-medium term (one to four years)
- Liquid (easily turned into cash)
- Safe (no loss, guaranteed)
- Earns little interest (in exchange for safety)

Saving vs. Investing


**Investing**

Investing is using cash to buy/build assets for income or gain.

- Use in the future (five or more years)
- Less liquid (harder to turn into cash)
- Some risks (may lose value, not guaranteed)
- Future cash earnings or sell for profit

Chat Box

What challenges or roadblocks have you had when it comes to saving?



**roadblocks to saving**

unexpected expenses  
get in the way

where should I save?

no money left at the  
end of the month


procrastination

saving is too hard

i can't afford to save

inflation

i don't know how



**3. Pay Yourself First**

- Make it the first "expense"
- Off-the-top deductions
- Priority!

**2. No Amount Too Small**

The little things add up.  
Save spending leaks.

**1. Make the Commitment**

You can't complain about the results you didn't get from the things you didn't do.  
**MAKE IT A HABIT**

**Spending leaks!**

It's only a \$2 cup of coffee!


1 week	\$10
1 year	\$520
10 years	\$5,200
20 years	\$10,400

Chat Box


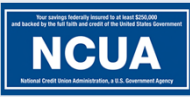
Please share any other saving strategies that you are using.



Where should I stash my cash?




Mainstream Financial Institutions

**Benefits**

- Safe
- Guaranteed
- Insured
- Liquid
- Cost
- Convenience
- Relationships

Mainstream Financial Institutions



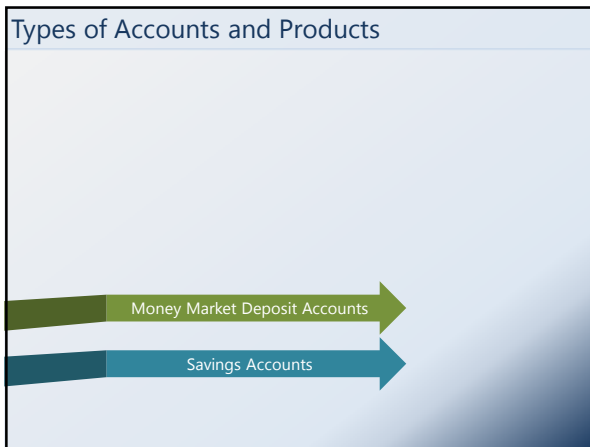
**Benefits**

- Safe
- Guaranteed
- Insured
- Liquid
- Cost
- Convenience
- Relationships



### Savings Accounts

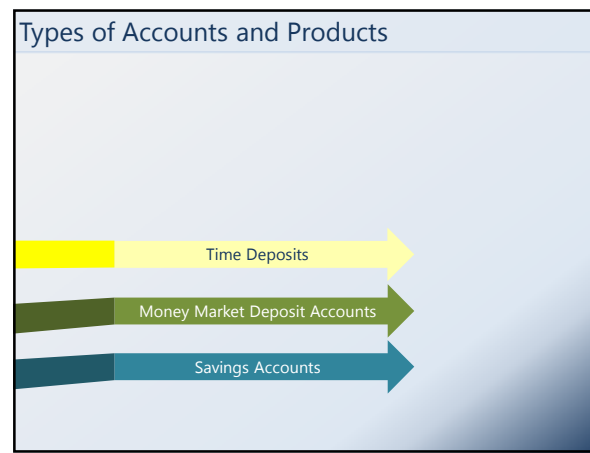
- General accounts
- Goal accounts (vacation club, Christmas or holiday club, young savers, etc.)
- May have ATM card
- Cannot overdraw!
- May have to maintain minimum balance
- Pays very low interest



### Money Market Deposit Account

MMDA

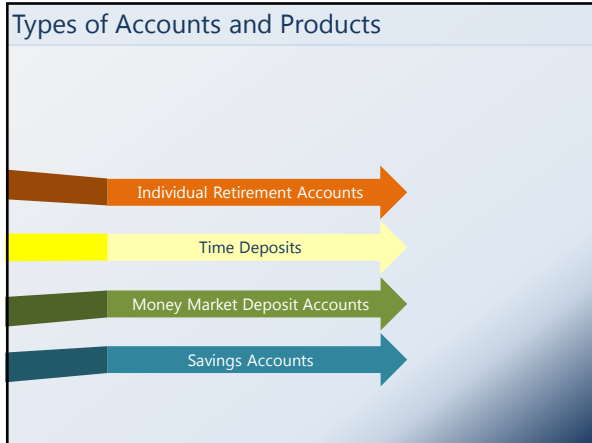
- Hybrid between savings and checking
- Limited check-writing privileges
- Higher opening and maintaining minimum balance
- Pays higher interest than general savings account



### Time Deposits

Certificates of Deposit (CD's)

- Money deposited for a fixed-amount of time
- Higher interest than savings or MMDA
- Typically pays higher interest for longer term
- Caution:
  - Penalties if withdrawn before maturity date
  - Automatic renewal



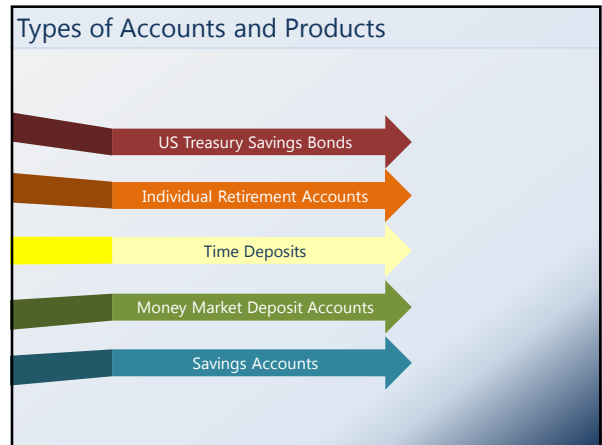
### Individual Retirement Accounts

IRA

- A 'bucket' that holds savings vehicles or investments for retirement
- Vehicles are savings account, MMDA, or CD's within the 'bucket'
- Interest depends on the vehicle inside

### Individual Retirement Accounts

Traditional IRA	ROTH IRA
<ul style="list-style-type: none"> <li>• Contributions may be tax-deductible</li> <li>• Earnings grow federal income tax-deferred</li> <li>• 10% early withdrawal penalty (or 50% late withdrawal penalty)</li> <li>• May use up to \$10,000 for first-time home purchase without 10% penalty (but may owe tax on earnings)</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions made with after-tax dollars</li> <li>• Earnings grow federal income tax-free</li> <li>• Access to contributions <i>after</i> five years without penalty or income tax on earnings</li> <li>• May use up to \$10,000 for first-time home purchase without 10% penalty (but may owe tax on earnings if less than five years)</li> </ul>



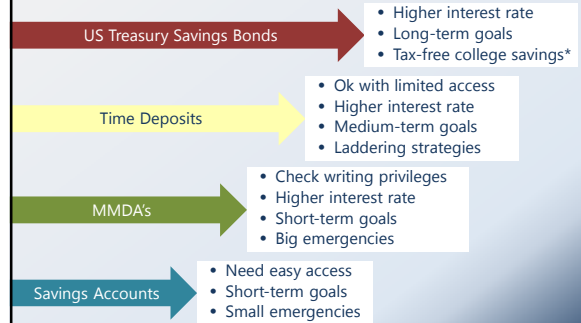
### US Treasury Savings Bonds

- Purchases and redemption of existing paper bonds now must be done online
- Series EE and I available at low minimum purchase (\$25/\$50)
- 30-year maturity
- Payroll Savings Plan direct from your employer
- Allocate tax refund (Series I-via Form 8888)
- T-bills, notes, and bonds

## How to Choose?



## Sample Uses



\*For qualified taxpayers, expenses, and eligible institutions

## Chat Box

What comes to mind when you hear the words invest, investing, and investment?



## Where Does Your Cash Come From?



**WORKING**  
YOU working HARD  
for money!

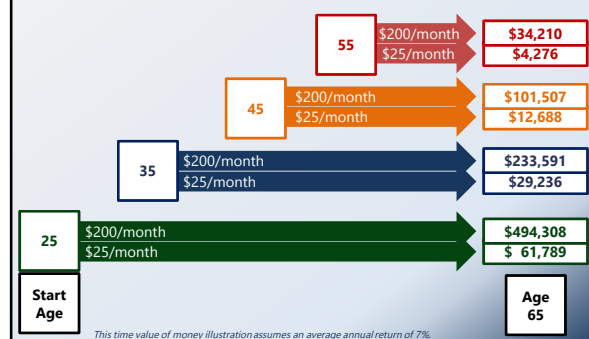
**WEALTH**  
(Ownership)  
MONEY working HARD  
for YOU!



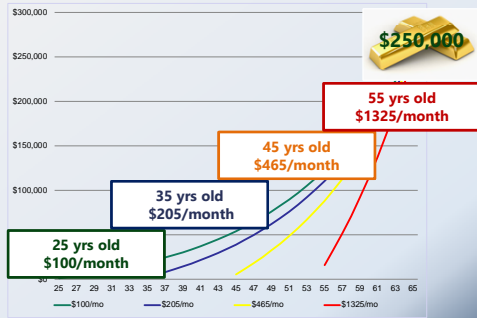
## Rules for building assets



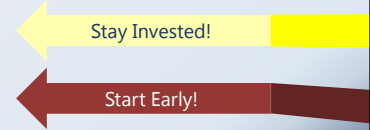
## Time Value of Money



## The Cost of Waiting



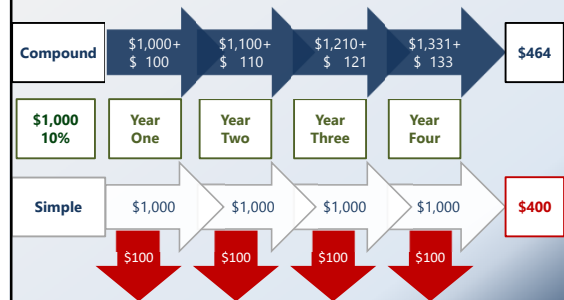
This time value of money illustration assumes an average annual return of 7%.



## The One Tree Forest



## Compounding Pays!



Did you know, if you divide 72 by annual rate of return, that is the number of years it will take to double your money?



## Fun Fact

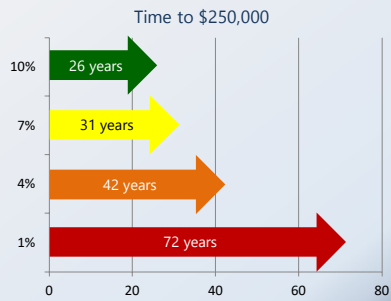
### Rule of 72

$72 \div \text{Rate of return (\%)} = \text{Number of years to double}$

- 4%  
 $72 \div 4 = 18$  years
- 7.2%  
 $72 \div 7.2 = 10$  years
- 10%  
 $72 \div 10 = 7$  years



### Rate of Return Matters!



This time value of money illustration shows number of years it will take to reach \$250,000 goal, saving \$200 per month at the state rates of return.



### Diversify – Mix it up!

Financial

Real property

Small business

Personal property

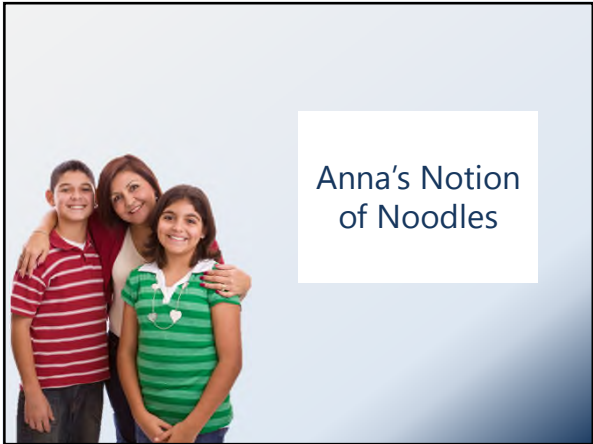
### Chat Box



No

No

### Financial Assets



### Taking the Fear Out of Stocks



**Investor**  
has cash



**Company**  
needs cash

### Taking the Fear Out of Stocks

### Taking the Fear Out of Bonds




**Investor**  
has cash




**City** needs cash

### Taking the Fear Out of Bonds

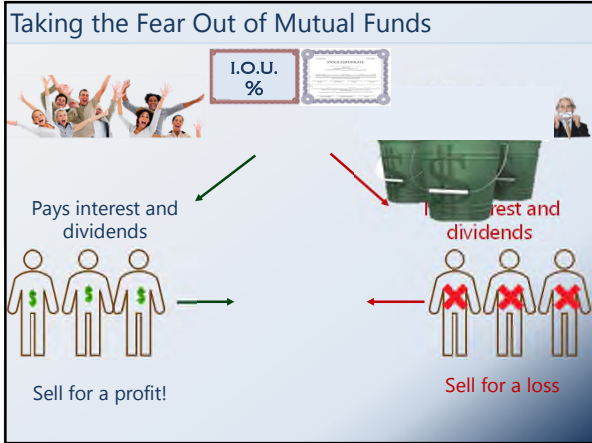
### Taking the Fear Out of Mutual Funds



**Investors**  
have cash



**Money manager**  
can invest their cash



### Investing Considerations

OBJECTIVES

What do you expect from this asset?

- Guaranteed value (safe principal)
- Cash payments/income (interest or dividends)
- Growth in value (sell for a profit)
- Growth and income (a little bit of both)
- Speculation (ok if you lose it all)

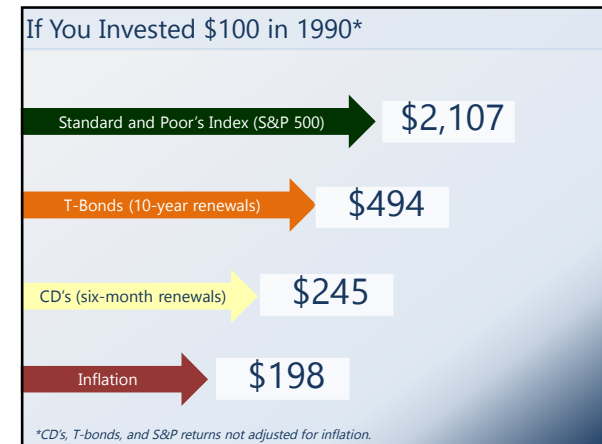
### Investing Considerations

What is your time frame?

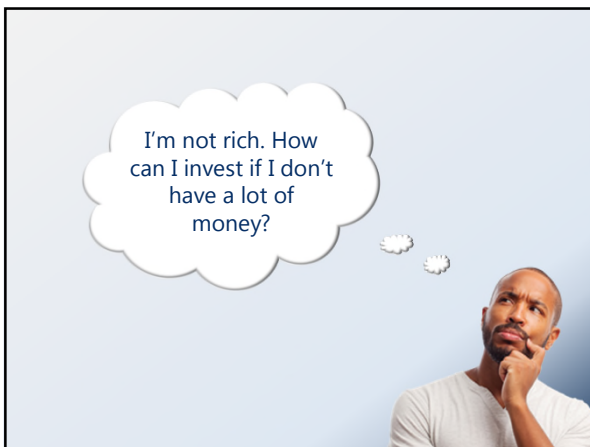
- Short-term (within one year)
- Medium-term (one to four years)
- Long-term (five years or more)

### Investing Considerations

- Market – “follow the leader”
- Company – “one bad apple”
- Liquidity – “get cash now”
- Interest Rate – “price of money”
- Diversity – “all eggs in one basket”
- Longevity – “outliving your money”
- Inflation – “worth less”



## Risk vs. Reward



## Accessible Investing

### Accessibility

- Employer retirement plans
- PA 529 college savings plan
- PA Achieving a Better Life Experience account (ABLE)
- Dividend Reinvestment Plans (DRIPS)
- Online trading platforms
- Mutual fund companies (direct)
- Traditional brokerage firms

## Monitoring Ownership

# JARGON ALERT!

Net Worth

What you have  
less  
what you owe!

Assets-Debts

## Monitoring Ownership

### Assets

- Cash and cash-like
  - Cash on hand
  - Checking/savings
  - MMDA's/CD's
- Financial assets
  - Stocks, bonds, mutual funds
  - Retirement accounts
- Real property (house/land)
- Small business
- Personal property
  - Automobiles
  - Home furnishings/clothing
  - Appliances/electronics
  - Jewelry, antiques, etc.

### Debts

- Secured debt
  - Mortgage loan
  - Automobile loan
- Unsecured debt
  - Past-due bills
  - Credit card
  - Personal loan
- Garnishments
  - Child support
  - Taxes
  - Student loans

## Monitoring Ownership

### Net Worth

What's your number?

- Barometer for progress
- Measure of "wealth"
- Can be positive or negative
- Calculate at least once every year

## Recap

- Working vs. Wealth
- Saving vs. Investing
- Time Value of Money
- Types of Assets, Uses, Risk, and Costs
- Investing Strategies and Accessibility
- Net Worth

ACTION

- Pay yourself first
- Save early, save often, and reinvest
- Assess and asset's use, expectations, pros, and cons when making an investing choice
- Investigate existing opportunities to invest
- Calculate net worth and monitor ownerships

## Complete Today

The image shows two screenshots of a questionnaire and session evaluation form. The left screenshot is titled "Post-session Questionnaire" and contains 7 numbered questions with multiple-choice options. The right screenshot is titled "Session Evaluation" and contains a table for rating the session's value, a section for "What you learned today," and a section for "What you will do next." The table has columns for "Overall," "Value," "Time," "Cost," and "Risk." The "What you learned today" section has a grid for listing items learned. The "What you will do next" section has a grid for listing actions to be taken.

Email the Post-Session Questionnaire and the Session Evaluation to:

Now, it's your turn!

Note: For best results, view in Adobe Reader DC or Nuance.





## Protect Your Potential Pre-Session Questionnaire

**Pre-session Questionnaire**

Circle the answer that you believe is correct.

- Which of the following is **not** a way to manage risk?  
 Adapt to risk  
 Increase risk  
 Avoid the risk  
 Change the risk
- Which of the following is **not** an example of when insurance is necessary?  
 Opening up a new credit account  
 Traveling with personal vehicles  
 Drinking an alcoholic beverage  
 Having your financial records at home
- Which of the following should be considered when building an emergency savings?  
 Have enough cash to cover major living expenses for three months  
 Put money into savings accounts only if you have jobs at the end of the month  
 Keep the money in a bank account so there is no cash to burn  
 Use it for anything or nothing you probably will not do
- Which of the following is **not** a health insurance option?  
 Life insurance  
 Health savings account  
 Health insurance  
 Life insurance
- You are a  Male. The best basic type of life insurance is term and permanent?  
 Term  
 Permanent  
 Permanent term  
 Permanent term
- Which of the following is **not** a way to protect your credit?  
 Credit freeze  
 Credit monitoring  
 Credit repair  
 Credit repair

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Email Spend Sensibly  
Pre-Session  
Questionnaire to:

Questions?



Thank You!