

Financial Literacy

Objectives

- Define financial literacy.
- Emphasize the importance of early awareness as it relates to financial literacy.
- Highlight important information regarding paying for college, budgeting, and building credit that counselors and mentors should share with students and families.
- Offer tips to counselors to share with students and families.
- Provide counselors with additional resources to offer students and families.

Materials

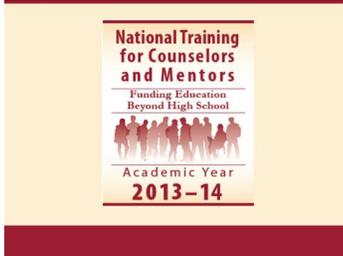
- PowerPoint Presentation
- Financial Literacy Resources Handout

Trainer Tips

- The instructor's guide is just that, a guide. If you feel more comfortable training from the PowerPoint presentation, feel free to do so.
- The material should allow plenty of time for questions.
- Some of the topics in this presentation (e.g., federal student aid) are covered in other NT4CM modules. Please refer to those modules if you would like to incorporate more information regarding those topics into this presentation.

Financial Literacy

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Financial Literacy

Financial Literacy Title Slide

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Session Topics

- Definition
- Early Awareness
- Money for College
- Budget
- Credit
- Resources

Session Topics

- Definition
- Early awareness
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- Budgeting
- Credit
- Resources

SLIDE 4

Definition

Financial literacy is the ability to understand money and how to manage it

- Enables individuals to make appropriate decisions regarding their finances

Definition

- Financial literacy is the ability to understand money and how to manage it.
 - Enables individuals to make appropriate decisions regarding their personal finances both now and in the future.

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Early Awareness

Students should:

- Start early when learning how to manage personal finances
- Educate themselves before making financial decisions
- Work consistently at making informed financial choices

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Early Awareness

- It's never too early for students to learn how to manage personal finances and to make wise choices to improve their financial situation.
- Students should read information about money management, research before making large purchases, and speak with informed sources before making financial decisions that have a significant impact on their future.
- Students must work consistently to make informed decisions related to personal finances.
 - For example, stick to a budget or keep a checklist of goals and priorities.

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Money for College – Cost of Attendance (COA)

- Families have to plan early to meet the many costs associated with college
- COA includes:
 - Tuition and fees
 - Room and board (meals)
 - Books and supplies
 - Transportation
 - Personal expenses

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Money for College – Cost of Attendance (COA)

- Families have to plan early to meet the many costs associated with college.
- COA for college includes:
 - Tuition and fees;
 - Room (housing) and board (meals);
 - Books and supplies;
 - Transportation; and
 - Personal or miscellaneous expenses.
- ➔ *Students and families often don't know what college costs. Before continuing, engage participants in a discussion of students' and families' perceptions of college costs. Some questions to pose include:*
 - *Do students consider the cost of transportation and personal or miscellaneous expenses when they consider college costs?*
 - *Do students and families tend to under or overestimate college costs? Why?*

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Money for College – Ways for Students and Families to Pay

- Federal student aid
- Other financial aid sources
- Savings
- Scholarships
- Loans

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Money for College – Federal Student Aid

- Money from the federal government for higher education
 - Grants, work-study, loans
- *FAFSA4caster* is an on-line tool that estimates a student's eligibility for federal financial aid

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Money for College – Federal Student Aid

Students apply for federal student aid by filling out the *Free Application for Federal Student Aid* (FAFSA) at www.fafsa.gov

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- *Do students and families look at college costs one year at a time, or for the student's entire college career?*
- *What are the advantages or disadvantages for students to consider costs for their entire education instead of one year at a time?*
- *How do you help students compare college costs?*

Money for College – Ways for Students and Families to Pay

- Federal student aid
- Other financial aid sources
- Savings
- Scholarships
- Loans

Money for College – Federal Student Aid

- Federal student aid is money (grants, work-study, and loans) from the federal government to help students pay for college.
- *FAFSA4caster* is an on-line tool that estimates a student's eligibility for federal student aid.
 - Students and families can use this estimate as a guide as they plan to meet college costs.

Note to Instructor: *You may want to review the information in the NT4CM Completing the FAFSA module to prepare for this discussion.*

Money for College – Federal Student Aid

- Students apply for federal student aid by filling out the *Free Application for Federal Student Aid* (FAFSA) at www.fafsa.gov.

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Money for College – Other Financial Aid Sources

- Colleges
- State higher education agencies
- Americorps
- Businesses and labor organizations
- Organizations, churches, and foundations
- U.S. Armed Forces
- Employers

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Money for College – Other Financial Aid Sources

- Colleges
- State higher education agencies
- Americorps
- Businesses and labor organizations
- Organizations, churches, and foundations
- U.S. Armed Forces
- Employers

Note to Instructor: Information about federal sources of financial aid is in the NT4CM module, Overview of Financial Aid Programs.

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Money for College – Savings

- Education IRAs (Coverdell Education Savings Accounts)
- Prepaid tuition plans
- 529 college savings plans
- U.S. savings bonds

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Money for College – Savings

- Education IRAs, also known as Coverdell Education Savings Accounts, are tax-deferred and allow savings up to \$2,000 a year per student.
 - Earnings can be withdrawn tax-free for educational expenses.

Note to Instructor: You may also want to point out to participants that other types of IRAs, such as Roth IRAs, also allow earnings to be withdrawn without penalty to cover certain educational expenses. However, the primary function of other types of IRAs is retirement savings.

Note to Instructor: Unless the U.S. Congress acts by the end of 2011, there will be significant changes to Coverdell Education Savings Accounts, including a reduction in the maximum annual contribution.

- Prepaid tuition plans are state-specific and rise in value at the same rate as college tuition.
- 529 college savings plans are tax-deferred accounts with high contribution limits and no parental income restrictions.

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Money for College – Scholarships

- Federal sources
 - <http://studentaid.ed.gov>
 - Private sources
 - Foundations
 - Organizations
 - Businesses and employers

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Money for College – Loans

- Federal Loans
- Home equity loans
- Private loans
- Repayment Options
 - StudentAid.gov

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- U.S. savings bonds are backed by the full faith and credit of the U.S. government.
 - Paper bonds may be purchased as gifts for a minor.
 - Mature slowly and at a low rate of return.

Money for College – Scholarships

- studentaid.gov links to federal sources such as the U.S. Department of Education and the U.S. Department of Health and Human Services.
 - Check the websites of these federal agencies for scholarship information.
- Consider private sources such as foundations, community organizations, churches, and local businesses and employers for scholarships.

Note to Instructor: More information about searching for scholarships and avoiding scholarship fraud can be found in the NT4CM module Searching for Scholarships.

Money for College – Loans

- To receive home equity or private loans, individuals have to prove that they are creditworthy.
 - These loans generally have higher interest rates than federal student loans.
 - ◆ Counselors should advise students and families to consider other payment options before loans (e.g., savings, paying out of pocket).

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Money for College – Financial Literacy Tips

Students and families should:

- Pay attention to state and federal aid deadlines and school deadlines
- Know what aid is available; for loans, know their rights and responsibilities
- Avoid financial aid fraud
- Develop money-saving strategies
- Compare college costs and aid packages

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Money for College – Financial Literacy Tips

- Students and families should:
 - Pay attention to college, state, and federal aid deadlines.
 - ◆ Vary by college and state.
 - Know what aid is available.
 - ◆ Counselors should discuss with students and families the difference between grants (usually need-based) and scholarships (usually merit-based).
 - For loans, students should know their rights and responsibilities.
 - ◆ Regarding loans, counselors should advise students and families to avoid borrowing the maximum amount offered and to borrow only what they can afford to repay.
 - Avoid financial aid fraud (e.g., paying to file the FAFSA).
 - Develop money-saving strategies.
 - ◆ Buy used textbooks, use student discounts.
 - Compare college costs and aid packages.
 - ◆ Counselors should remind students and their families that each college has a different cost of attendance, so when they compare schools, they should be careful to compare the same factors of cost (e.g., cost of books, transportation).

Note to Instructor: Included in the NT4CM resource materials counselors can use with their students are worksheets to compare costs and financial aid packages among colleges.

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Budget

Budget is a forecast or prediction of cash sources and expenses recorded on a daily, weekly, monthly, or yearly tracking tool

- Helps identify potential financial problems in time to change spending habits

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Budgeting

- Set important goals and review them on a routine basis
- Organize expenses, student loan papers, and other important documents
- Establish a realistic budget by figuring out spending patterns
- File financial records

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Budgeting

- Budgeting tips for families:
- Clip coupons or visit websites that offer coupons on-line
 - Buy generic brands of products
 - Discontinue premium cable channels
 - Purchase the monthly basic plan
 - Make majority of cell phone calls during off peak hours
 - Take lunch to school or work

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Budget

- A budget is a forecast or prediction of income sources and expenses recorded on a daily, weekly, monthly, or yearly tracking tool.
 - Helps identify potential financial problems in time for individuals to change their spending habits.

Budgeting

- Steps to budgeting:
 - Set goals and review them on a routine basis;
 - Organize expenses and important documents;
 - Establish a realistic budget by figuring out spending patterns;
 - Put budget on paper; and
 - File financial records.
- ➔ *Before proceeding, let participants know that an on-line budget worksheet is available at www.navigatingyourfuture.org under Calculators.*

Budgeting

- Budgeting tips for families:
 - Clip coupons or visit websites that offer coupons on line;
 - Buy generic brands of products;
 - Discontinue premium cable channels;
 - ◆ Purchase the basic plan.
 - Make majority of cell phone calls during off peak hours; and
 - Take lunch to work or school.

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Credit

Provision of money, goods, or services with the expectation of future payment

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SLIDE 19

Credit

Steps for students to build good credit:

- Set a realistic budget and stick to it
- Use credit wisely
- Make monthly payments for bills on time every month
- Pay balance in full to avoid interest charges

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Credit

Steps to good credit: (continued)

- Use credit card only in case of emergencies
- Review credit report once a year to check its accuracy

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Credit

- Credit is the provision of money, goods, or services with the expectation of future payment.
 - Good credit ensures the ability to purchase large items such as a home or car.
 - Credit can affect job opportunities.
- Good credit is developed over time, not overnight.

Credit

- Steps for students to build good credit:
 - Set a realistic budget and stick to it;
 - Use credit wisely;
 - Make monthly payments on time every month;
 - Pay balance in full to avoid interest charges;

Credit

- Steps to good credit: (continued)
 - Use credit cards only for emergencies;
 - Review credit report once a year to check its accuracy;
 - ◆ There are three major credit reporting agencies (Equifax, Experian, and TransUnion),
 - ◆ Students should annually review each report from each agency, and
 - ◆ Students can request one free copy of their credit report from each major credit reporting agency each year.

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Credit – Credit Report

Credit report

- Report of risk level, which tells financial lender how likely an individual will repay a loan and make timely, monthly payments

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Credit – Credit Report

- A credit report is a report of an individual's risk level.
 - Tells a lender how likely an individual will repay a loan and make timely payments.
- Lenders typically grant credit based on three Cs.
 - Character = how a person has handled past debt obligations.
 - Capacity = how much debt a borrower can comfortably handle.
 - Capital = a person's financial assets available to pay off debt if income is insufficient.

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Credit – Credit Report

Reasons students should review their credit report:

- Know what others (landlords, banks, potential employers) are finding out by viewing their credit report
- Note their credit score

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Credit – Credit Report

- Reasons students should review their credit report:
 - Know what others (landlords, banks, potential employers) are finding out by viewing their credit report; and
 - Check credit score.

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Credit – Credit Score

- Credit Score
 - Score creditors use to evaluate a person's potential to repay debt
- FICO score (most widely known score) can range from 300-850
 - Best Score = 750-850

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Credit – Credit Score

- A credit score is the score creditors use to evaluate a person's potential to repay debt.
- The Fair Isaac Corporation or FICO score (most widely known score) can range from 300-850.
 - Best scores typically fall in the range of 750-850.

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Credit – Identity Theft

Identity theft occurs when an imposter uses personal identifying information to obtain credit

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Credit – Identity Theft

- Identity theft occurs when an imposter uses personal identifying information to obtain credit.

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Credit – Identity Theft

Ways students can protect against identity theft:

- Leave important documents at home
- Keep documents with personal information in a safe place and shred them when no longer needed
- Avoid giving Social Security and account numbers over the phone unless they initiated the call
- Protect (personal identification numbers) PINs and computer passwords by using random combinations of letters and numbers

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- Ways students can protect against identity theft:
 - Leave important documents such as Social Security cards at home.
 - Keep documents with personal information in a safety deposit box.
 - Shred documents with personal information when no longer needed.
 - Avoid giving Social Security and account numbers over the phone unless they initiated the call.
 - Protect personal identification numbers (PINs) and computer passwords by using random combinations of letters and numbers.

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Resources

- Federal Student Aid (www.studentaid.gov) or 1-800-4-FED-AID (1-800-433-3243)
- MyMoney.gov (www.mymoney.gov) or 1-888-Money
- Federal Trade Commission's Consumer Protection (www.ftc.gov)
- FDIC Consumer News (www.fdic.gov)

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Resources

- The following are resources regarding federal financial education materials, money and credit management, and fraud prevention:
 - Federal Student Aid or 1-800-4-FED-AID;
 - MyMoney.gov or 1-888-Money;
 - Federal Trade Commission;
 - FDIC Consumer News;
 - Navigating Your Financial Future;
 - Institute for Financial Literacy; and
 - College Savings Plan Network.
- ➔ *Refer counselors to the Financial Literacy Resources handout for detailed information regarding these websites and toll-free numbers.*

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Resources

- Navigating Your Financial Future (www.navigatingyourfuture.org)
- Institute for Financial Literacy (www.financiallit.org)
- College Savings Plan Network (www.collegesavings.org)
- Young Americans Center for Financial Education (www.yacenter.org)
- JumpStart Coalition for Personal Financial Literacy (www.jumpstart.org)

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Questions



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Questions?

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