Personal Finance in College

Gaining Financial Independence
Steps in Creating a Budget

1. Determine Take-home Income
2. Determine Savings Contributions
3. List Fixed Expenses
4. Calculate Variable Expenses
5. Automate Payments When Applicable
Budget Components

Income
• Take-home pay from work; tips; any other compensation.

Savings
• Set aside at least 10% of your total income.

Fixed expenses
• Bills you pay the same amount each month (rent, car payment, insurance); for bills you pay annually, divide by 12 to enter monthly amount.

Variable expenses
• Bills where the amount varies each month (e.g. utilities based on usage), including incidental expenses (coffee, movies, events).
• Bottom line: Anything left over can be used to purchase “wants.”
Budget Step 1
• Enter your income – Total net (take-home) pay, tips, and any other compensation.

Budget Step 2
• Plan your savings – Set aside at least 10% of your income before you purchase any “wants.”

Budget Step 3
• List fixed expenses – Rent, car payment, insurance. Account for annual fixed expenses (gym memberships, auto registration, etc.) by dividing the annual payment by 12.

Budget Step 4
• Calculate variable expenses – Coffee, movies, special events. Track variable expenses for a month and adjust accordingly.

Budget Step 5
• Set up your budget to automate and organize your finances online. This step will ensure that you can accurately monitor your budget and make adjustments.
Set up Automated Accounts

- Choose a financial institution
- Set up checking and savings accounts
- Set up direct deposit for your paychecks
- Automate your bill payments
- “Pay yourself” first by contributing to savings via automatic transfer
- What’s left over?
Third-party Financial Tracking Systems

- Allow you to connect all accounts on a single dashboard.
- Pose two types of risk:
  - Advertising exposure
  - Account compromise
- Carefully review advertising before buying to ensure that products are right for you.
- Vary your user names and passwords between accounts to protect yourself from attackers.
Major Expenses – Renting a Home
Costs Involved in Renting a Home

Housing Expenses Should Be No More Than 31% of Your Gross Income

Expenses Include:
- Rent
- Renter's insurance
- Parking or garage fees
- Any scheduled maintenance or amenities fees

31%
Other Monthly Expenses Associated with Renting

- Utilities
  - Gas/Electric
  - Water
  - Trash removal
- Cable or Satellite TV
- Internet
- Security Systems
- Appliance Maintenance
Up-front Rental Investment

- First and last months’ rent
- Security deposit
- Additional up-front fees:
  - Utility setup charges
  - Moving costs
  - Furniture and appliance costs
- Be mindful of emotional purchases!
Qualifying to Rent

- Landlords look at several factors:
  - Income
  - Credit history
  - Rental history
  - Criminal background
  - Pets
- Managing your finances well and staying out of trouble will help you qualify.
Tips for Finding a Rental

- Budget first
- Are you “rent-ready?”
- Research your target location
- Decide on features you need
- Locate a few options
- Develop and practice your contact etiquette
- Inspect the property closely
- Take photo series or video
- Know what you’re signing
- If you’re a good tenant – negotiate!
Questions to Ask Yourself

• Do I know the features I need?
• Do I have enough money for the up-front investment?
• Do I have furniture, bedding, equipment?
• Can I pay the rent without a single late payment?
• Do I have references and proof of income?
• Can I deal appropriately with landlords and agents?
• Do I understand tenant rights and responsibilities?
• Can I fill out a condition report accurately and fully?
• Can I keep good records?
• Can I manage household tasks?
• Can I get along with neighbors?
Major Expenses - Automobile
Costs Involved in a Vehicle Purchase

Common Purchase Costs
- Down Payment
- Vehicle Title
- Vehicle Registration
- Vehicle Documentation
- Sales Tax

Common Ongoing Costs
- Vehicle Loan Payment
- Vehicle Registration
- Insurance
- Maintenance & Repairs
- Gas
Lease or Purchase?

- Lease
  - Renting a vehicle over a longer term
  - No equity and no ownership
  - Usually lower down payment and monthly payments
  - Mileage restrictions and potential excess wear charges
  - Potential “reacquisition fee”
- Mostly benefits business owners looking for tax advantages
Lease or Purchase?

• Purchase
  › Buying a vehicle to own
  › You own the vehicle outright when the loan is paid off
  › No mileage and wear restrictions; but mileage and wear affect the vehicle’s value
  › Usually a higher down payment and monthly payments
• Best option for those looking to reduce their auto expenses long-term
Initiating a Vehicle Purchase

• Budget Before Buying
• New cars lose 10-30% of value immediately
• Use the 20-4-10 guideline:
  › At least 20% down payment
  › No longer than 4 months financing term
  › Payment no higher than 10% of your gross income
• Evaluate financing options
• Plan well in advance so you’re not rushed into a decision
Factors in Determining Vehicle Affordability

- Purchase Price
- Monthly Payment and Interest Rate (if financed)
- Cost to Insure
- Fuel Costs
- Maintenance Costs
Tips for Buying a Vehicle

• Budget first.
• Consider the features you need.
• Do your research.
• Buy used.
• Buy fuel-efficient.
• Shop around for the best financing terms.
• Ask about vehicle history and warranty terms.
• Negotiate.
• Get insurance immediately upon purchase.
Identifying And Reducing Your Expenses
Expense Types

Fixed
Same Payment Amount Every Month

Periodic
Scheduled Payments Outside Monthly Payment Routine

Variable
Routine Expenses that are Different Each Time You Pay
Fixed Expenses

• Payment remains the same month-to-month
• Examples:
  › Rent/mortgage
  › Car payment
  › Insurance premiums
  › Monthly gym memberships
• Fixed expenses are easy to track and include in your budget
Periodic Expenses

- Payable at intervals other than monthly
- Examples:
  - Car registration
  - Quarterly subscriptions
- Plan for periodic expenses by budgeting toward the expense
- Calculate how much to save monthly for each periodic expense
Variable Expenses

- Routine expenses that vary in amount each month
- Examples:
  › Groceries
  › Eating out
  › Entertainment
  › Personal care
- Tips to keep variable expenses under control:
- Open a separate checking account with a set amount to spend on variable expenses
- Track spending using a spreadsheet or mobile app
Consider Carefully: Do I really need this expense?

• If NO:
  › Stop
  › Sell
  › Cancel

• If YES:
  › Reduce
  › Negotiate
  › Transfer
  › Manage
Evaluate Expenses and Assess Options

Reduce
- How often do I incur this expense? Can I cut back?

Negotiate
- Can I get a better deal?

Transfer
- Can I lower expenses by switching service providers?

Manage
- Can I manage this expense more effectively?
Rent Negotiation

• Research rents in your area
• Be a ‘no-hassle’ tenant
• Offer multiple months’ rent up front in exchange for lower rate
• Opt out of shared amenities
• Be clear that you’re ready to move out
• Offer your landlord something in exchange
• Set appropriate expectations
Reducing Home Ownership Expenses

- Mortgage: refinance your loan
- Property taxes: consider an updated appraisal
- Maintenance: preventive maintenance can save money long-term
Reducing Utility Expenses

- Electric, Gas, Water: look for ways to reduce consumption; explore discount options
- Cell Phone: buy less expensive phones; review your bill for unnecessary services; prepaid or no-contract plans
- Landline Phone: negotiate for bundle packages
- Internet & Cable: negotiate rates; bundle services; switch providers
Reducing Transportation Expenses

- Vehicle Loans: refinance; buy a used car; pay down high-interest loans
- Vehicle Leases: good for small business owners
- Fuel: shop for low prices; keep tires inflated; practice defensive driving.
- Car Maintenance: stick to the regular service schedule.
- Public Transport: check out available options; buy monthly or quarterly passes.
- Insurance: go online to compare value and prices.
Reducing Loan & Debt Expenses

• Don’t have debt in the first place!
• Consolidation loans
• Never go into debt to pay for living expenses
• Avoid opening and canceling credit cards frequently
• Schedule regular calls with creditors to inquire about interest rate reductions
Reducing Fees & Charges

Account Fees
• ask the bank to waive them.

Credit Card Fees & Interest
• negotiate; pay on time; never exceed credit limit.

Late Fees
• set up autopay to avoid any late fees.

Overdraft Fees:
• explore overdraft protection; monitor your account and budget.
Reducing Variable Personal Expenses

Groceries: coupons
• buy in bulk.

Vitamins/Supplements
• look for generics; compare labels.

Subscriptions
• multi-year plans often discounted.

Personal Care
• shop sales; use beauty school apprentices.

Education
• scholarships; employer subsidies; reduced membership prices; used books.
Reducing Variable Personal Expenses

Heart Health & Fitness
• gym specials; generic prescriptions; wait for frame and lens sales.

Hand Kids & Caregiving
• coupons and memberships for activities; coordinate care with family, friends, neighbors.

Claw Pets
• buy food in bulk; free or discount vaccination clinics.
Continue Your Financial Education

Register at:
https://evolve.financialeducatorscouncil.org/unlv-olc-registration/

For those already registered, visit:
https://evolve.financialeducatorscouncil.org/course-home/