

Building a Foundation for Financial Security

Multi-Craft Core Curriculum
Financial Literacy Section
Instructors Edition



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Unit 1: Introduction

Financial Challenges and Rewards in the Construction Industry



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The Construction Advantage

- Construction provides a pathway to a middle class lifestyle
 - Union construction work even more rewarding
- Minimum wage: \$7.25
 - Average production worker wage: \$17.06
 - Average construction worker wage: **\$22.40**
- Average weekly earnings in construction
 - Union: **\$1,123**
 - Non-union \$724



Source: US Department of Labor, Bureau of Labor Statistics, 2014

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“How are you gonna pay for that new truck?”

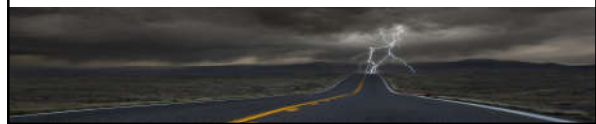
- Down payment
 - Smaller down, more in debt
- Financing
 - Credit history impacts amount
- Insurance
- Taxes



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Potential Pitfalls

- Rule of thumb: work 10 out of 12 months; 1500 hours/year
- Cyclical work
- Down time between jobs
- Weather
- Pay only when working



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Today's Agenda

- How to budget
- Building savings
- Managing/minimizing debt
- Long term financial planning



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Unit 2: Budgeting Basics



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Millionaires Gone Bankrupt

- Mike Tyson
- Fifty Cent
- Willie Nelson
- Donald Trump
- Stan Lee

Lesson: It's not how much you make but how much you spend.



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Budget Avoidance

- Why don't more people do it?



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What is a Budget?

- A **plan** based on what you expect to earn and what you expect to spend.
- Doesn't have to be perfect but **pays** to be close

Budgeting and being off is better than not budgeting at all.

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Budgeting priorities

- In order of *importance*:
 - Pay every day living expenses
 - Set aside money for savings
 - Pay down debt
 - Pay for long term \$\$ goals
 - Leave something for fun




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Budgeting 101: The Process

- Pick a time period: monthly
- First: Estimate income (net)
- Next: Subtract Expenses:
 - Fixed, monthly and annual
 - Variable
- Bottom line:
 - What's left is what you have to spend on other things



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Income

- Use **only regular** sources of income
 - Windfalls don't count in a budget
- Use take home pay (less taxes)
- For irregular paychecks, estimate based on prior years experience
 - Adjust to reflect better/worse job market
 - Adjust to reflect the normal or expected # of months you will work

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Your Paycheck: More than the Amount

- Review your paystub
 - Check the pay rate
 - Check the hours
- Deductions:
 - Union dues (if check off)
 - Social Security and Medicare: 7.65%
 - Federal and state income taxes



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Income Estimates

- Adjust for appropriate budget period
 - Convert weekly or bi-weekly pay to monthly
 - \$800/week = \$3,200/month
 - 4 paychecks "unaccounted for"

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Monthly Expenses

1. Fixed: Same amount every month
 - Rent, car payment, day care
2. Variable: Fluctuate but you can estimate
 - Utilities, phone bill, credit card payments

Either way, you **have** to pay them



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Non-Monthly Fixed Expenses

- Expenses you can plan for but aren't paid monthly
- Amounts are either known in advance or can be reasonably estimated
- Convert to monthly figure (prorate)
- Requires **discipline** to set aside to pay when due!

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Examples of Prorating Expenses

- Car insurance: \$500 for 6 months coverage
 - $\$500/6 = \83 ; budget @ \$85/month
- Water bill: \$40/quarter
 - $\$40/3 = \13 ; budget @ \$15/month

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What's Left?

Monthly Net Income minus
- Fixed monthly expenses
- Variable monthly expenses
- Prorated non monthly expenses

= **Discretionary money**



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Discretionary Money



- Money you have total control over
 - Spend at Starbucks; movies, dinner
 - Important but not *necessary* expenses
 - Pad your budget
 - Pay down debt
 - Add to savings

Not necessary but adds to your quality of life



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The Bottom Line

- If not enough discretionary cash or
- Expenses exceed income,
 - Go back to drawing board
 - Shave variable expenses
 - Consider fixed expenses
 - Increase income

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Budgeting Exercise

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Unit 3: Savings

- Financial peace of mind
- Prevents budget derailment



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“Stuff Happens” Fund

- Start with a small savings set aside first
 - \$500-\$1000
 - Intended to cover relatively small expenses not included in budget
 - Examples: doctor bills, car repair, appliance replacement



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Emergency Fund

- Build emergency fund next
 - 3- 6 months of income
 - Intended to pay bills during periods of
 - Unemployment, extended illness, major home/auto repairs
- Challenging to put together but possible
 - Start soon and don't give up



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Long Term Goals

- Set aside for large purchases and investments
 - Home down payment
 - New car
 - College fund
- Start after or at same time as your emergency fund



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Plugging budget leaks

Where can you find \$10/week?



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Savings Gimmicks

- Save it before you see it
 - Automatic transfers from checking to savings
- Save certain bills (\$5s or \$10s)
- Bank your rebates
- Ignore your raises
 - Budget based on less than you really earn

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Separate Savings Account(s)

- Keep separate accounts for different purposes
- Easier to manage and target for your goals

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Unit 4: Debt Management

“Most purchases on credit could be accomplished by accumulating cash first and then buying the item later but this often is not the time pattern consumers prefer.”

▪ Source: *Consumer Credit and the American Economy*, 2015



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Debt

- How much you owe based on what you have borrowed
 - Amount you have to pay back
 - Interest/fees to pay for the use of someone else's money
- Buying on *credit* means going into *debt*
 - *Credit* is how much an institution is willing to lend you
 - *Debt* is what you owe

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Sources of credit

- Revolving credit:
 - Usually varying amounts with no set time to repay
 - Credit cards
 - Store credit
- Fixed term credit:
 - Usually flat dollar amount over a set amount of time
 - Usually for large purchases
 - Mortgages
 - Auto loans
 - Student loans

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Sources to avoid

- Short term/high rate credit
 - Payday loans
 - Title loans
 - Pawn shops



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Credit cards

- The cost to use credit cards
 - Interest rates range from 10%-20%
 - Annual fees
- Credit card cycle
 - 28-30 day billing cycle
 - Minimum payment by due date (1-2% of balance)
 - Consequences of late payments
 - Late fees, interest rate spike
 - Still owe the money!



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Pay more than the minimum

- Example: \$5000 credit card balance at 14% interest rate
- Minimum payment:
 - \$117
 - 18 years to pay off
 - Total cost: balance plus interest: \$10,032
- Paying more than minimum:
 - \$172
 - 3 years to pay off
 - Total cost: balance plus interest: \$6,140

Assumes no additional purchases on the card

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Which Would You Payoff First?

- Don's Furniture store
 - Balance: \$2,000; Minimum payment: \$20
 - Interest rate: 22%
- Visa Bill
 - Balance: \$800, Minimum payment: \$15
 - Interest Rate: 11%
- Discover Card Bill
 - Balance: \$1,000, Minimum payment: \$25
 - Interest Rate: 15%
- Car Loan
 - Balance: \$5,000, Monthly payment \$300
 - Interest Rate: 6%

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Total debt payment \$460

➤ Highest rate first

- Don's Furniture: 22% \$120
- Discover: 15% \$25
- Visa: 11% \$15
- Car loan: 6% \$300

➤ Lowest balance first

- Visa: \$800 \$115
- Discover: \$1500 \$25
- Don's furniture: \$2,000 \$20
- Car loan: \$5000 \$300

Use *snowball effect* when each bill is paid off applying maximum amount to the next highest rate/lowest balance debt.

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Apply the Snowball Effect

- Continue paying same amount toward total debt each month
- Move on to maximum payment for next highest rate or next lowest balance until all are paid off.



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Beware credit card come-ons

- Zero or low initial interest rates
- Reward points
- Balance transfers
- Payment holidays (skipping payment)
- Don't get lured into taking on more debt than you would without the card



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Credit scores and Credit reports

- Credit scores/ratings
 - FICO Score between 300-850
 - Higher the better: 690+
 - Used as a basis for your credit terms
 - Based on your credit report
 - #1 factor: *Paying bills on time*



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Credit Reports

- Your personal credit/bill paying history
- Free report from federal government every 12 months.
 - Important to check to make sure error free

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Unit 5: Financial Resources

Where will you put your paychecks??



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Options for active use

- Checking account
 - Use for regular spending and expenses
 - Track deposits and withdrawals to avoid overdraft charges



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Monitor Checking Account Activity

- Keep track of outstanding checks and debit card swipes
- Reconcile account at least monthly
- Bounced check fees are costly
 - Average \$35 per overdraft
 - Top 3 banks: \$1 billion in overdraft fees in 1st 3 months of 2015



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Savings Accounts

- Keep savings accounts separate from checking account
- Take advantage of automatic transfer
- Use for emergency savings funds and long term goals
- Earns small amount of interest

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Options for long term savings

- Certificates of deposit
 - Vary in term and interest rate
 - 6 months to 5 years
 - Longer the term the higher the rate
 - Penalties for early withdrawal

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Options for long term savings

- Money market accounts
 - Savings account with checks
 - Higher initial deposit
 - Slightly higher interest rate

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Investments

- Bonds
- Stocks
- Mutual funds

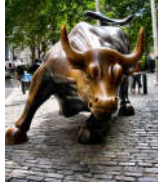


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Investments

➤ Bonds

- A loan to a company or government
- Set term to pay back
- Get money back plus fixed interest



➤ Stocks

- Own a share of a company
- Value changes as price goes up (or down)
- May pay dividends

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Investments

➤ Mutual funds

- Invest in a large group of investments
- Spread the risk
- Overall value goes up (or down)

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Proceed with caution

➤ Costs of investing

- Brokerage fees and services

➤ Risk and reward

- No guarantees
- Higher potential return the higher the risk
- Research investments first

• Lots of resources available to help

➤ Invest only after savings funds established

➤ Invest with money not needed for several years



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Unit 6: Retirement Planning

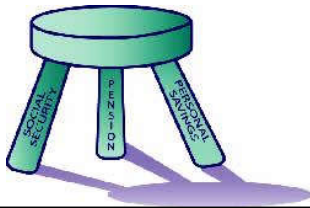
“Already? But I’m just getting started!!”



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Sources of Retirement Income

- The “three legged stool” of retirement security
 - Savings and investments
 - Pension/retirement accounts
 - Social security



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Pensions 101

- Traditional pension:
 - A “defined benefit” plan
- Fixed amount paid over a lifetime
 - Once the norm fewer and fewer around
 - More common in unionized settings



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Union Construction Pensions Plans

- Through collective bargaining with unions, multiple employers pay into a *single* pooled trust fund on behalf of a trade (Laborers, Carpenters, Plumbers, etc)
- Benefits are paid out of the fund to eligible workers
- Overseen by a joint board of trustees
 - Labor and Management



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Common Construction Pension Plan Features

- Negotiated \$/hour worked **paid in** but
- Set benefit **paid out for life**
- Service credits based on overall plan participation, not based on work for any single employer
- Benefits based more on work hours than earnings
 - Usually a fixed amount per credit year
 - Example: \$40/mo x 25 yrs = \$1,000/mo benefit
- Referred to as Taft-Hartley plans
- Specifics will be provided by plan administrator

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Defined Contribution Plans

- Really a retirement **savings** plan
- Based on contributions into the plan from the employee and/or employer
- Worker chooses investment options
- Examples:
 - Annuity Plans
 - **401K plans (most common)**
 - 457 Plans
 - 403B Plans



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401k Sample formula

- Worker contributes xx% of salary (or a specific amount of money)
- Employer may or may not contribute xx% of worker's salary (or a specific amount of money)
 - Example: Worker earns \$5,000/month
 - Worker puts in 7%: \$350/month
 - Employer puts in 5%: \$250/month
- Tax deferred on money going in or coming out (depending on type of 401k)

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Defined Contribution Plans

- How much \$ does the retiree get?
- Depends on what's in the workers' "pot" upon retirement



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Which is Better?

- Defined Benefit Plans (Pensions)?
- Defined Contribution Plans (Ex: 401K plans)?



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401k Plan Pitfalls

- Workers can **outlive their benefits**
- Workers shoulder all the **investment risk**
- Many workers tap into them too soon
- Workers **don't save enough** for long term financial security
- *Good to have a 401K, but better to have a pension*

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IRA: Individual Retirement Accounts

- Like a 401K because
 - A savings fund specifically for retirement
 - Self directed investments
 - Some tax benefits
 - 10% penalty for withdrawal before age 59 ½
- Unlike a 401K because
 - No employer involvement
 - Can invest it in any type of investment product

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Social Security 101

- *Safety net* program of the New Deal (1935)
- Workers of today support the retirees of today



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**Social Security Retirement Program
Old-Age, Survivors and Disability Insurance
(OASDI)**

- Funded through payroll deductions
 - Employer contributions
 - Employee contributions
 - Investment returns (interest income)

- Full benefits at age 65-67
 - Reduced benefits at age 62
 - Increased benefits up to age 70

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Social Security Retirement Benefits

- Fixed amount over lifetime
 - Adjusted for inflation

- Benefits based on a formula based on average 30yr lifetime earnings.

- Average retirement benefit is \$1,332/month
 - \$15,984/year (2015)*

- Replaces 34-40% of income



* Social Security Administration

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Unit 7: Final words of wisdom

- Take control of your money now!
 - The sooner the better

- Start a budget and stick to it

- Start savings for small and large emergencies

- Avoid debt and use debt wisely

- Think toward your future



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Don't squander opportunity

- Keep your skills sharp and work when you can
- Take advantage of the benefit of working union

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Many Resources for Education and Help:

- Union Plus program
- General financial websites, books and magazines (library)
- Savings education tools and programs
- Credit reports and credit scores
- Credit Counseling services
- Bankruptcy avoidance/assistance
- Homeownership
- Student loans



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