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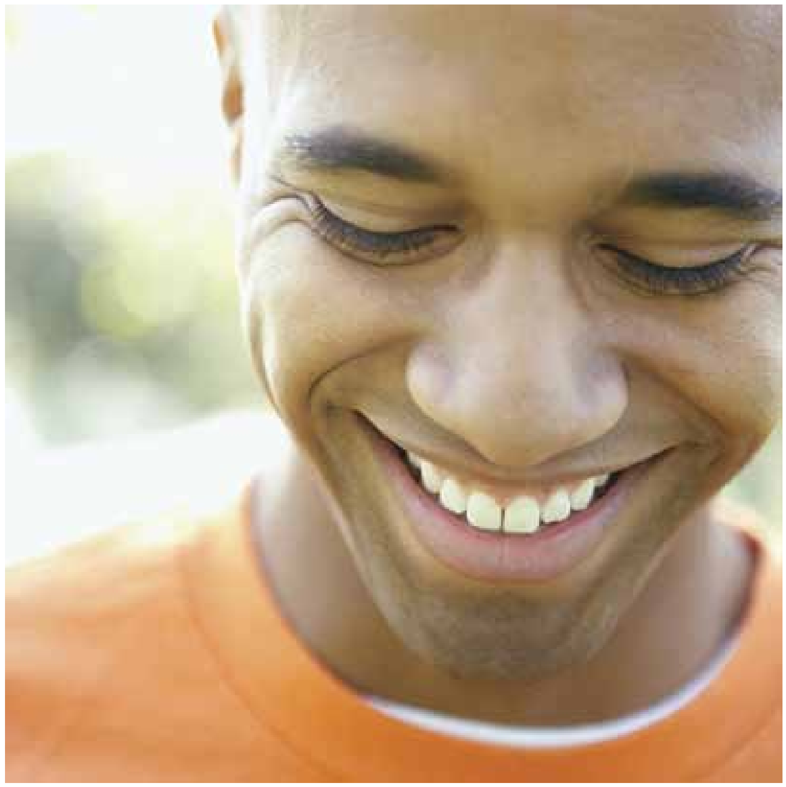

Schwab MoneyWise®

# Financial Essentials for Young Alumni

Own your tomorrow

# Dear Graduate

**Congratulations on your graduation!**
You've worked hard to earn your diploma, and now new doors are opening for you as you pursue your dreams.

Leaving high school to start a career or continue your education is a big milestone and an exciting time in your life. And it will bring a variety of financial opportunities and challenges as well. In fact, you may be asking yourself, How much money should I be saving? Are student loans bad? What do I need to know about credit?

We're here to help. This guide offers clear and straightforward financial guidance to help you prepare for what's ahead so that you can put your best foot forward.

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Charles Schwab Foundation and Boys & Girls Clubs of America are proud to support you. And remember, schwabmoneywise.com has lots more information as you continue your lifelong journey toward achieving your dreams.

Best wishes to you, Graduate!

BOYS & GIRLS CLUBS Alumni & friends

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# Choosing the Right Accounts

OUR TWO CENTS

Checking and savings accounts are accessible, safe places to keep your money, but they will not grow your wealth significantly.

Saving and investing are easier and more convenient with the right accounts. These can range from basic savings, checking, and brokerage accounts to specific accounts for retirement or for your kids. It's a good idea to learn about what's available and how each account can help you reach your goals.

## Savings accounts

A savings account is a good way to start putting money aside for your goals. You can open a savings account at a variety of financial institutions, including commercial banks, savings and loan associations, and credit unions. You can deposit as much as you like in a savings account. Your money is FDIC-insured up to $250,000 per account holder, per bank.

With a savings account, you also have the opportunity to earn interest-expressed as annual percentage yield (APY).

**Important things to consider:**

- Interest rates, benefits, and terms of savings accounts vary from institution to institution as well as from account to account, so be sure to compare rates and fees before opening one.
- Some accounts require a minimum balance and have limits on withdrawals, payments, and transfers, while others charge fees.
- Think of a savings account as a place to safely park your money, and a checking account as a place from which to easily retrieve it. However, neither is a place to grow your wealth.

## Checking accounts

Most banks, savings and loan associations, and credit unions also offer checking accounts. These accounts give you flexibility in depositing and withdrawing your money. As with savings accounts, there's no limit on how much you can deposit in a checking account. And your money is FDIC-insured up to $250,000 per account holder, per bank.

**Important things to consider:**

- As with savings accounts, the terms and conditions of checking accounts can vary from bank to bank. Sometimes a single bank will offer more than one type of checking account. As you compare banks and types of accounts, pay special attention to minimum balance requirements, fees, and limits on checks and ATM withdrawals.
- Some checking accounts offer interest on the money deposited.
- Many checking accounts offer overdraft protection, though this can be tricky. If you regularly spend more than what is in your checking account, you could quickly chip away at your savings.

## Money market savings accounts

This is a high-yield, FDIC-insured bank account.

Interest rates for money market accounts are typically higher than those on interest-bearing checking accounts.

**Important things to consider:**

- Withdrawals from money market accounts are usually limited to six per month, three of which can be made by check.
- Often a high minimum balance must be maintained to avoid fees.
- A money market account is not the same as a money market fund; the latter is a type of mutual fund.

## Brokerage accounts

This is an account through a brokerage firm that holds your investments and allows you to buy and sell securities such as stocks, bonds, mutual funds, and exchange-traded funds. Cash not invested is generally held in a money market fund.

**Important things to consider:**

When choosing a brokerage firm, keep in mind that you're not choosing a person, you're choosing a professional firm. Don't base your decision on a specific broker. Rather, look at the firm's reputation and breadth of services. If you're interested in investing online, check out a potential broker's site for the services, technology, and level of security it offers.

## Retirement accounts

When it comes to saving for retirement, there's nothing like a tax-advantaged account. Not only will your earnings grow tax-free, but you may also be able to deduct your contribution from your taxable income. Add the power of compounding, and you have an effective formula for growing your savings.

Types of retirement accounts

There are several types of retirement accounts, each suited to a different personal scenario and need:

- Individual Retirement Accounts (IRAs)
- Employer-sponsored retirement accounts: 401(k)s
- Small business retirement accounts

Whichever type of retirement account works best for you, make a commitment to saving as much as you can each month and stick with it. A helpful way is to make retirement savings part of your budget.

## Accounts for kids

The type of account you choose for a child will depend on your goals. If you want to give a gift of money to a minor—and introduce them to the world of investing—a custodial account can be a good choice. A custodial Roth or traditional IRA can provide a way to give a child a head start on retirement, provided the minor has earned income.

If you want the money to help pay for a child's college education, two of the best choices are a 529 college savings plan or an education savings account (ESA). If your primary objective is to transfer a large amount of wealth to a child, the best solution is a trust.

### Which type of account is right for you?

| If you want to... | Then consider... |
|---|---|
| Start saving and investing for a child's education. | A 529 plan or an education savings account. |
| Give a child a gift of money while also teaching investment skills. | A custodial account. |
| Help a teen (who has earned income) start saving for retirement. | A custodial Roth or traditional IRA. |
| Transfer a significant amount of wealth to a child. | A trust—we recommend that you consult with an attorney. |



Keep Learning: http://bit.ly/CSRightAccts

# Why You Should Save and How Much

Save early and often.

OUR TWO CENTS

Think of saving as paying yourself first. Consider setting up an automatic deposit to a savings account each month so you won't be tempted to shortchange yourself.

Whether you're working toward a short-term goal or retirement, the sooner you start, the better.

Here's why: The earlier you start saving, the smaller the percentage of your income you need to save. Conversely, the longer you wait, the larger the amount of your salary you're going to have to put away each year to reach your goal.

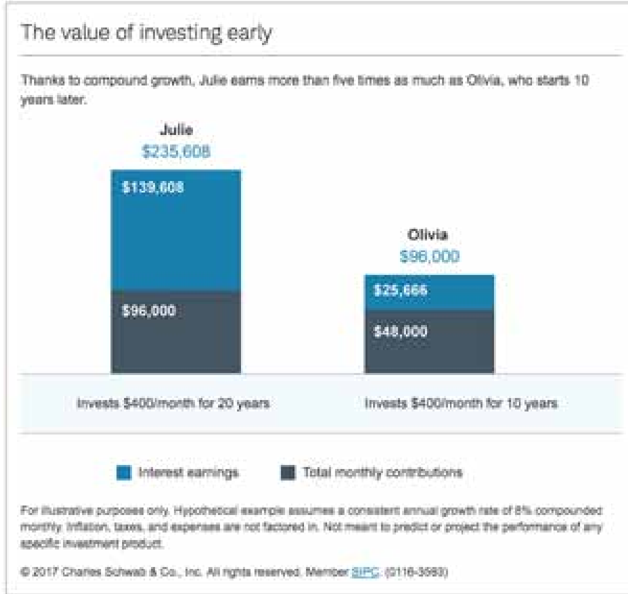
**Start with 10%—and go up from there**

Saving 10% of your income can be a good guideline for getting started, especially if you're under 30. However, the later you begin to save, the more you should set aside

**Consider this example:**

Let's say that two sisters, Julie and Olivia, each save $4,800 a year. Julie starts to invest immediately and puts away a total of $96,000 over 20 years. At that point, she stops saving and leaves her money to grow for the future. At that point, Olivia begins to save the same amount for 10 years.

If each sister makes a consistent annual interest rate of 8%, their results, which you can see below, will be very different. What made the difference? The power of time and compound interest.




**Find out what it will take to reach your goals**

No matter what you're saving for—a car, a vacation, a down payment on a house, or retirement—determine what it will take and how long it will take to reach your goals. Use our Savings Calculator or Retirement Calculator for an easy way to get started.

**Make saving a habit**

Once you've gone through the budgeting process and understand where your money goes each month, start thinking about saving for the future. People who learn to save when they are young have a valuable head start. But no matter where you are in life, it's never too late to get on the right path.

Keep Learning: http://bit.ly/CSsavings

# Eight Savings Fundamentals

## Where should you put your money first?

OUR TWO CENTS

Try adding one of these steps per paycheck. Just like going to the gym for the first time, saving more than you're used to can be a shock to your system. Building up to your ideal amount feels more manageable and can help your new saving habit stick.

You may have several savings goals. Where should you start? Here's a way to prioritize goals that can make saving seem more manageable.

We recommend that you start with the first four Savings Fundamentals and complete them in order. After you have a handle on the first four, move on to the last four and complete them according to your personal priorities.

1. **Contribute to your company's retirement plan up to the maximum employer match.** Even if money is tight and you have multiple priorities, make it your first goal to contribute at least enough money to get all the matching funds your company offers.

2. **Pay off nondeductible, high-interest-rate debt like credit cards.** If you no longer have to pay 13% interest (or whatever high rate you owe on debt), you can keep that money for other things.

3. **Create an emergency fund to cover at least three months of essential living expenses.** This will help you keep from dipping into long-term investments or borrowing at unattractive rates when you need cash in a hurry. And remember, you may want to save even more in your emergency fund if you think you might be changing jobs within the next year or are anticipating any other significant life changes.

4. **Contribute the maximum allowed to tax-advantaged retirement accounts.** For example, if you're saving only enough to capture the match in your company's retirement plan, increase it to the maximum allowed. Consider funding an IRA and contributing to a tax-advantaged Health Savings Account. The more you set aside, the more secure your future may be.

5. **Save for the down payment on a home.** If you've mastered Savings Fundamentals one through four and your personal circumstances are right for buying a home, start saving for a down payment.

6. **Pay down tax-deductible, high-interest-rate debt such as a mortgage.** Reducing debt—even if it's a tax-deductible mortgage, home equity line of credit, or student loan—can enhance your ability to save.

7. **Save for a child's education.** To handle rising college costs, make the most of tax-advantaged college savings plans.

8. **Keep investing.** To stay ahead of inflation, your money needs to earn more than many traditional savings accounts pay. The first step to long-term investing success is to get going right away.

Keep Learning: http://bit.ly/CS8Savings

# Make the Most of Your Paycheck

## Where does it all go?

OUR TWO CENTS
Spending more than you're making each month will only cost you later, especially if you're putting the overflow on high-interest credit cards. Cutting down now means living better later.

Before you can decide what to do with your money, you need to know what you're working with. The first thing to get straight is the difference between your income and your take-home pay. The reality: what you think you're making—your annual salary—isn't the whole story.

Your employer will deduct taxes from every paycheck—take a close look at your pay stub and you'll see what we mean. Most pay stubs break out earnings, gross pay, deductions and net pay. Your net pay is the amount of money you're actually getting with each check, after taxes and other deductions for things like insurance, 401(k) contributions, and perhaps commuter costs have been taken off. This is your starting point as you decide how to use your income to cover your bills, pay off your debts and still have some fun.

**TIP**

**Get the most from your yearly bonus.**

You worked hard to earn your bonus, so it's tempting to want to spend it all. But before you get a new wardrobe, consider paying yourself in other ways such as chipping away at debt or adding to your savings. Just don't forget to get yourself a little something special. After all, you earned it.

**Living within your means**
To stay on top of your expenses and make the most of every paycheck, you'll have to be realistic about what you need and what you don't. It helps to put it all on paper. Here's how to get started:

- Make a list of your needs and the dollar amounts that go with them. These are necessary expenses, such as rent, transportation, groceries, utility bills, student loan payments, car payments, etc.
- Then list your wants and estimate how much they could cost you each month. These are the extras you can live without, such as entertainment, dining out, travel and even clothes.
- Now, add these two categories together, and then subtract the total from your monthly net pay.

If you have enough money to cover everything, you're set. If you don't, you may have to make some trade-offs, like eating out less often. The thing to remember is that you are in control of the money you earn each month. There's nothing wrong with splurging on a new TV or concert tickets as long as you're willing to pass on something else to pay for it.

**Making more of your money**
Little, everyday expenses can eat away at your take-home pay fast, but ideally, you won't blow your whole paycheck every month. By setting some goals and saving for them, you can do more with what you earn. A goal can be short- or long-term, practical or purely fun. The point is to know what you want and be deliberate about how you're going to get it. If you take seriously and make it part of your monthly plan, you'll end up in good shape financially now and in the years to come.

Keep Learning: http://bit.ly/CSMakeMost

# Payroll Taxes

## Understanding your take-home pay

OUR TWO CENTS

It's important to understand personal exemptions and mark the right number of allowances on your tax forms. Do your research to avoid losing money or, even worse, getting in trouble with the IRS.

An employer is required to withhold and/or pay payroll taxes on an employee's behalf. These include state and federal income taxes, as well as Social Security and Medicare taxes. While your employer may handle many of the details, it's important for you to understand the common tax-related documents and forms so you'll know what you're paying and why.

Here are some of the IRS forms you should be familiar with:

**Form W-4** - When you begin a new job, you'll be asked to complete a Form W-4. Filling out a W-4 helps the employer calculate the correct amount of federal income tax to withhold. To complete the W-4, you must determine the number of withholding allowances to claim, which in turn determines the amount of federal (and often state) taxes withheld from each paycheck. The IRS website offers a useful withholding calculator for determining the appropriate number of allowances.

**Form W-2** - A W-2 reports an entire year's earned income (including all tips and bonuses). Tip income should be tallied daily, reported to employers monthly and included on an annual income tax return, where it's reported as wages. Employees usually receive at least three copies of the W-2: one for filing with the federal tax return, one for filing with the state tax return and one for filing away in their own records.

**Form 1099** - A 1099 is an annual statement detailing earnings other than wages, salary and tips. You might receive a 1099 form if you receive interest, dividends or capital gains distributions. Forms are sent from those who paid the earnings, such as a bank, mutual fund company or brokerage firm.

**TIP**

**Is your tax refund big or small? It might be time to readjust.**

It may feel like a win to get a large refund from the government every April, but it just means that you're overpaying to begin with. On the other hand, if you withhold too little, you could find yourself owing a lot at tax time.

Keep Learning: http://bit.ly/CSPayTax



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# Create a budget you can keep

OUR TWO CENTS

Give your savings a boost by including it as a line item in your budget. If you're carrying a balance on a credit card, add the maximum payment you can afford to your budget as well.

A budget is a written plan that helps you keep track of how much you earn (your income) and how much you spend (your expenses). It's perhaps the single most important tool for understanding how to manage your money, because it clarifies exactly where your money is going.

You can also use your budget to figure out how much you can save and invest. To get started, follow these three essential steps:

**Step 1: Plan**
Planning a budget involves identifying your income and figuring out spending priorities and trade-offs. Basically, you're establishing a cash flow plan that lets you know how much you can spend each month—and how much you can save.

TIP

**When it comes to budgeting, zoom in.**

Try to create a budget for each day or each week (or each pay period) to get a better sense of how much you can safely spend. Also, view **Surprising Costs** to see where you can save on frequent small purchases.

**First, divide your expenses into two categories.**
A simple but effective way to look at your expenses is to divide them into nondiscretionary (your needs) and discretionary (your wants) categories.

- **Nondiscretionary expenses** are the "must haves," such as your mortgage or rent, groceries, transportation, insurance premiums and taxes. Be sure to include debt payments such as credit cards and auto loans. You may find it helpful to include your savings and investing goals as line items in your nondiscretionary category (for example, retirement savings, education expenses or medical care costs).
- **Discretionary expenses** are the "nice to haves," the extras such as restaurants, entertainment, travel and even clothing.

Don't forget to set aside money for upcoming big-ticket items that come once or twice a year, such as insurance premiums and real estate taxes—they can be easy to forget when creating a monthly budget.

**Then list your sources of income.**

Where is your money coming from? Your regular wages are most likely your primary source of income. But don't forget to add in other sources such as bonuses, gifts, income from rental property, interest or investment income, government checks or any other source.

**Step 2: Create**
Now put some real numbers into your plan. Add up your income, itemize your expenses and do the math.

**Coming up short? Prioritize.**

This is where you may have to prioritize in order to reach your goals.

For instance, can you cut back on entertainment in order to save more? Would it be more economical to take public transportation than pay high gas prices?

Our monthly budget planner can help you more easily calculate your expenses and allocate your income.

**Step 3: Keep track**
Keeping your budget up to date and sticking to it are often the hardest parts—but they're also keys to success. So once your budget is complete, monitor it regularly.

Here's a simple idea: Try carefully tracking your spending for 30 days. Does it match your projections? Do you need to change your daily spending habits to meet your longer-term savings goals?

**Budgeting tip**
If you're having trouble staying on track, use the spending tracker to record spending every day for a week. It will help you see precisely where your money is going day by day—and give you ideas on where to make changes.

Keep Learning:
- http://bit.ly/CSCreateBudget
- http://bit.ly/CSSpendTracker
- http://bit.ly/CSBudgetPlanner

# Understanding Your Credit Score

## A closer look

OUR TWO CENTS

The three main credit reporting agencies—Experian, Equifax and TransUnion—are required to provide you with a free copy of your credit report once a year. To stay up to date, request a free report from one of these agencies every four months on a rotating basis and check your report for accuracy. Just go to AnnualCreditReport.com for more information.

Whenever—wherever—you're trying to get credit, your credit score plays a part. Trying to rent an apartment? Your landlord may well check your credit score. Need a car loan? Your dealer or bank will check your credit score. Buying a house? Your mortgage interest rate will be affected by your credit score.

With so much resting on your credit score, you can't afford to ignore it. Here are some basics to help you understand what to look for and why.

**What is a credit score?**

Your credit score is a number that helps lenders determine how likely you are to make your payments on time. It really is a summary of your credit risk, based on information from a variety of sources such as credit card companies you deal with, banks where you have loans—almost anyone who has issued you credit.

### Understanding your FICO® Score

| Score | Evaluation | What it means |
| --- | --- | --- |
| 800+ | Exceptional | Your score is well above the national average, and you will most likely have no problem getting credit. |
| 740–799 | Very Good | Your score is above the national average and demonstrates to lenders that you are an exceptional borrower. |
| 670–739 | Good | Your score is average to above average and demonstrates that you are a dependable borrower. |
| 580–669 | Fair | Your score is below average. Some lenders might approve loans with this score. |
| 579 and lower | Poor | Your score is well below average and demonstrates that you are a risky borrower. |

Source: myfico.com



There are several agencies that create credit scores, but the most widely used are FICO® scores created by Fair Isaac Corporation.

FICO® scores can range from 300 to 850—the higher, the better. The median score is around 725, but a score of 760 or higher typically gets you the best deal on interest rates.

**How to boost your score**

Here are five things you can do to improve your credit score:

- Pay your bills on time. Your payment history accounts for about 35 percent of your score.
- Increase the length of your credit history. This accounts for about 15 percent of your score.
- Keep your credit card balances low. Ideally, you should keep the amount you borrow below 25 percent of your available credit limit. This accounts for about 30 percent of your credit score.
- Minimize the frequency of new card requests. This accounts for 10 percent of your score.
- Keep a combination of different types of installment debt (such as car loans and mortgages) and revolving debt (like credit cards). This makes up the remaining 10 percent of your score.

## How your credit score is determined

Your credit score is based on five factors, each weighted differently.

- 35% Payment History
- 30% Amount Owed
- 15% Length of Credit History
- 10% New Credit
- 10% Types of Credit Used

Source: Scoreinfo.org



**TIP**

**Your credit score goes a long way.**

Having a good credit score is the key to getting a car loan, mortgage, or other funding. You can request a copy of your credit report from credit agencies for free once a year to check your own history. If your report includes negative entries that are more than 7–10 years old, ask the credit reporting agencies to remove them.

Keep Learning: http://bit.ly/CSUnderstandCredit

# How Credit Can Help—and Hurt

## Using credit wisely

OUR TWO CENTS

Already have a high balance? Consider putting your credit cards away and using cash or a debit card until you've paid the balance down. At the same time, make plans to pay off your balance as soon as possible.

Credit is a powerful tool. It's convenient and especially useful in emergencies. But it's also easy to let it get out of hand. Why should you be concerned? Consider this example:

If you had $3,000 of credit card debt with an annual interest rate of 14%, and you paid off $100 per month (and had no additional charges), it would take you approximately 38 months to pay off your balance. And, more importantly, you would end up paying over $700 in additional interest—almost a quarter of the original debt.

**The cost of credit card debt**

| | |
|---|---|
| Original Debt | $3,000 |
| Interest Rate | 14% |
| Monthly Payment | $100 |
| Months to Pay Off Debt | 38 |
| Cost of Interest on Debt | $716.72 |

- In this scenario, you would pay over $700 in interest alone.
- This assumes no new debt is added to the original figure.
- This debt would take 38 months to pay off, or more than three years.

Source: Schwab Center for Financial Research. Assumes an interest rate of 14%. The amounts shown do not reflect any fees or penalties. This example represents a hypothetical debt scenario and is for illustrative purposes only.


TIP

**Think twice before closing a credit card.**

Your credit score is based partially on your utilization ratio, which is the amount of debt you have compared to your available credit limit. So if you close cards but still carry the same amount of debt, your utilization rate is likely to go up and your credit score may go down.

**Make your own calculations.**
If you have credit card balances, you might be surprised to see how much those balances are really costing you. Use our cost-of-debt calculator to determine the total cost of not paying off your balance in full every month. And think of what you could be saving if you didn't have to pay interest.

**Think about your credit rating.**
How you use credit not only has cost implications, but it can also directly impact your overall credit rating. Lenders can view your entire credit history when deciding whether to issue a car loan or home mortgage. Landlords and employers often have access to credit reports as well, so credit can even impact your ability to get an apartment or job.

What's more, this information can be tied to you for years, so if you make poor financial decisions when you're young, they could haunt you well into the future.

Learn more about understanding your credit score.

**Follow these credit card dos and don'ts.**
Credit cards can be useful for many purchases, and they certainly are easier to use than checks. But before you pull out the plastic, make these basic guidelines part of your own credit management plan:

| Do: | Don't: |
|---|---|
| Shop around for the right card. Look for features and rewards that best meet your spending needs. Always read and understand the fine print. | Don't pay bills late. Late fees and interest payments are expensive, and overdue balances can also negatively impact your credit rating. Charge only as much as you can afford—or less. |
| Pay off the entire balance on time every month. | Don't use a credit card for purchases less than $10. These small purchases can add up fast. Use cash instead. |
| Know the minimum finance charge in case you occasionally have to carry a balance. | Don't carry a balance if you can avoid it. It's best to pay off the entire balance before the end of the grace period so you don't have to pay interest. |
| Consider using your credit card for emergencies only. | |
| Keep track of every credit card purchase each month so you don't overspend. | |

Keep Learning: http://bit.ly/CSHowCredit

# Good Debt vs. Bad Debt

## Understanding the difference.

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OUR TWO CENTS

As a general rule, try not to borrow money or use your credit cards for vacations or things that depreciate in value, such as cars and home appliances.

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It might sound strange, but not all debt is “bad.” Certain types of debt can actually provide opportunities to improve your financial future.

To make smart decisions about if, when, and how much to borrow, you need to understand the difference between “good” and “bad” debt, and how to manage it. That way, you can avoid being part of the negative 2016 debt statistics in America:

- Consumer debt is $12.25 trillion.
- Americans are paying an average of $6,658 in interest per year.
- The average household with debt owes $15,310 on their credit cards.
- Nearly 80% of American families have a credit card, and almost half carry a balance on their credit cards.

**TIP**

**It pays to pay off debt.**

While it’s important to save, it’s even more important to pay off non-deductible, high-interest debt, like your credit card balance, as fast as possible. Using your savings to pay off this kind of debt can actually be the most cost-effective way to help spend less over time.

**It’s not all bad**

Good debt should ideally be low cost and have potential tax advantages. Here are two examples:

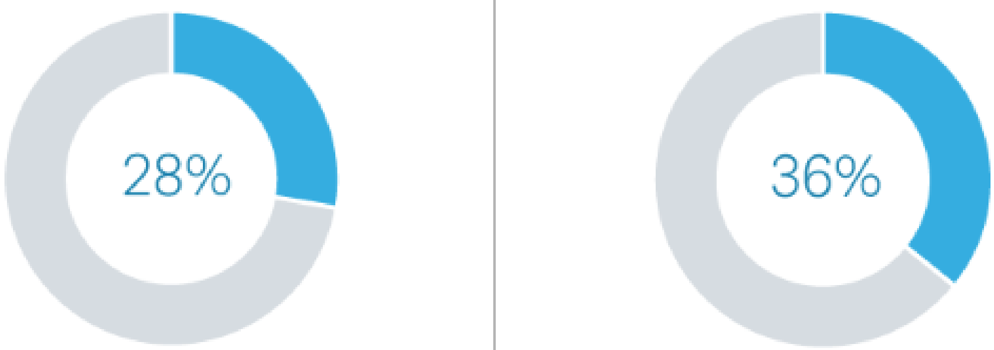
- With **mortgages and home equity lines of credit,** you’re borrowing to own a potentially appreciating asset, and it may be tax-deductible. You can deduct the interest on mortgage debt of up to $1 million on your primary and/or secondary residence, whether the loan is to purchase the home or make major improvements. The same is true on up to $100,000 of home equity debt, such as a home equity line of credit, which can be used for any reason. (As always, be sure to check with your tax advisor.)
- With **student loans**, rates are comparatively low, and interest can be tax-deductible, depending on your income. Benefits include enhanced career opportunities, which will increase your earning potential in the long run.

**Debt that can work against you**

Generally speaking, try to avoid debt that is high cost and isn’t tax-deductible, such as credit cards and some auto loans.

- **High interest rates** will cost you over time. Credit cards are usually necessary and are helpful as long as you pay them off every month and aren’t accruing interest.
- If you purchase **a new car,** you’re borrowing on something that immediately loses value as soon as you drive it off the lot. A used car is usually more cost effective, but still loses value over time. Do your research to make sure you’re getting the best APR possible and choose a vehicle you can truly afford.

## Safe debt guidelines




**Housing Debt**
should not exceed 28% of pre-tax Income

**All Debt**
should not exceed 36% of pre-tax Income



### Guidelines to help manage debt

| If your debt is... | Then... |
|---|---|
| 30% or less of your pre-tax income | You're in great shape |
| Between 31% and 36% | You're doing OK |
| Between 37% and 40% | Beware, you're on the borderline |
| More than 40% | Red flag warning |



Keep Learning: http://bit.ly/CSGoodBadDebt

# Organize Your Financial Life

## Prepare now to make life easier down the road.

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OUR TWO CENTS
Just as items get lost in a messy room, a disorganized financial life makes it easy to lose track of where your money goes. Creating a system that makes sense can help ensure your money is doing what it should.

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Managing your finances can feel like putting together a complicated puzzle, but it's easier than you think. Just take the time to set up the right tools and get organized, and the pieces will start falling into place.

**Open the right accounts**

Banks offer incentives to open an account, such as reward points, cash back, and other perks. However, an account that offers reward points may also charge fees. And a low or even 0% introductory rate will probably default to a higher rate later on. Take the time to comparison shop and find the features that are right for you.

Also consider linking your savings and checking accounts to automatically save each month. You'll be amazed at how quickly it will add up.

**What to look for:**

- A checking account that pays interest
- No or low minimum balance requirements
- Unlimited free checking
- Free ATM withdrawals

**What to avoid:**

- Monthly fees
- Fees for insufficient funds
- Limits on online transactions, deposits, or ATM withdrawals—and fees if you exceed the limits

Bankrate.com has an easy account comparison tool to help you find the best deal for your situation.

**Set up a system**

Keeping all financial details in one place and organized will help them make more sense. By creating a system now, you won't have to think about it later.

Here is an example of what to group together:

**Bank accounts**

- Checking account statements
- Savings account statements

**Insurance policies**

- Car
- Disability
- Health
- Homeowner's/renter's
- Life

**Debt**

- Car loan statements and paperwork
- College loan statements and communications
- Credit card statements
- Personal loan statements

**Retirement**

- Annual Social Security statements
- Retirement account statements (e.g., 401(k), IRA)

**Personal**

- Birth certificate
- Divorce decree
- Marriage certificate
- Passport
- Prenuptial agreement

**Household**

- Final settlement statement (needed when you sell)
- Home improvement receipts
- Lease (if you rent)
- Mortgage payment receipts
- Rent payment receipts or canceled checks
- Security deposit receipt
- Title or deed to your home (if you own)

**Retirement**

- Annual Social Security statements
- Retirement account statements (e.g., 401(k), IRA)

**Taxes**

- Current year's tax return
- Tax returns from the past seven years, along with backup receipts for at least the last three years (longer if there are any unusual circumstances)

**Investments**

- Statements for your children's accounts
- Taxable brokerage accounts (keep annual statements and trade confirmations)

Keep Learning: http://bit.ly/CSOrgFinancial



(0218-8506)
Investing involves risk, including possible loss of principal.

The information on this website is for educational purposes only. It is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, consult with a qualified tax advisor, CPA, financial planner, or investment manager.

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(0316-0885)

# Setting Goals

## Set goals and start tracking your progress toward them.

OUR TWO CENTS

Apps and online tools are especially useful for visual learners. See where your money is going at a glance—and get real-time alerts when you're at risk of going over your budget.

What do you want from your money—a down payment on a house, a new car, or a comfortable retirement? Take time to think about what's most important to you and what you want your money to achieve.

Once you've determined your goals, write them down. Think of them as a road map—and then take one step at a time toward your destination.

Here's a simple two-step approach:

1. Divide your goals into three categories: short term (less than one year), medium term (one to five years), and long term (more than five years).

2. Attach a dollar amount to each goal. For instance, a short-term goal might be a vacation. How much will it cost? The more specific you are about your goals, the more motivated you'll be to work toward them.

Decide how much you can put toward each goal per month. Then use our tools to help you estimate how long it will take to reach each goal.

Be sure to track your progress regularly. It can be very gratifying to watch your savings build toward a goal.

TIP

**Take your money out from under your mattress.**

If you're saving up to buy something in less than five years, put your cash somewhere safe, like a savings account, CD, or money market account. If you're putting money away for your golden years, start by creating an investment plan that can help you achieve your retirement goals.

Keep Learning: http://bit.ly/CSSetGoals

# Tips for First-Time Renters

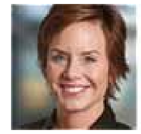
## Things to know before signing a lease

Renting a first apartment can be exciting. But along with the excitement comes the responsibility of signing a contract. Whether you're cosigning a lease or just offering guidance, here's a list of important things to consider:

- **Landlords often require first and last month's rent, as well as a security deposit.** Encourage your kids to find out how much a landlord can legally charge for a deposit. (Each state has different limits, ranging from one month's rent to no statutory limit.)
- **Where will the security deposit be kept?** Depending on local and state regulations, the money you put down (last month's rent and security deposit) may be required to be placed in an interest-bearing account. Be sure to inquire about this before signing the lease.
- **Rental agreements should always be in writing.** Keep receipts for all cash deposits and record the condition of the apartment when moving in.
- **Look into renters insurance.** This relatively inexpensive coverage for the cost of personal property could prove critical someday.
- **Know renters' rights.** There are many great online sources about how renters can protect themselves. Encourage your kids to be informed.

Keep Learning: http://bit.ly/CSRenters

# Are you Prepared for a Financial Emergency?



Ask Carrie

Key Points

- 40 percent of Americans are not prepared to pay for a $400 emergency expense.
- Having an emergency fund is only the first step in preparing for an unexpected financial need. Managing debt and having the right insurance are equally important.
- Keep your emergency fund and other short-term money safe in a checking, savings, or money market account.

Dear Readers,

What would happen if you were hit with an unexpected medical bill, a layoff, or your adult son or daughter needed a quick loan to get out of a financial jam? According to the Federal Reserve's Report on the Economic Well-Being of U.S. Households in 2017, 40 percent of respondents said they wouldn't be able to cover a $400 emergency expense. **Nearly 80 percent of American workers say they live paycheck to paycheck.**

To draw attention and support for the millions of Americans who find themselves in a similar precarious financial situation, the consumer organization America Saves has declared February 25 to March 2, 2019, America Saves Week. As a financial professional I fully support their efforts, and would like to take this opportunity to offer some practical advice to you—or to anyone you know who is facing a savings shortfall.

**Five ways to prepare for a financial emergency**

**1. Build up a cash reserve.** I'm sure you've heard it before, but have you done it? To protect yourself, you really should have enough cash available to cover a minimum of three months of essential expenses; for some people, six months is even better.

It may sound like a lot all at once, but you can build it up slowly. Your goal is to spend less than you earn, and make monthly deposits to your emergency fund a part of your budget. Make it even more of a sure thing by setting up automatic payments to this account. Then commit to not touching this money unless there's a real financial emergency.

**2. Reduce your consumer debt.** Do this now before an emergency strikes so you won't be faced with missing any payments. By this I mean debt such as credit card balances. Focus on bringing those down to zero—and keeping them that way—while you conscientiously keep paying your mortgage, student loans, or car payments.

**3. Have credit available.** While this may sound like the opposite of point #2, it's really not. It actually has more to do with keeping a good credit rating so that if you need to rely on credit for a short period of time, you'll have it available. This includes paying your bills on time as well as keeping your credit card balances low.

If you own your home, consider establishing a home equity line of credit. A HELOC can provide an additional cash resource to back up your emergency savings. You only pay interest on the money you use. Of course, you have to pay it back, but the payment schedule and interest rate may be more favorable than using a credit card. To be clear, though, borrowing against your home is effectively a second mortgage and can increase your risk if not used wisely. It's not a substitute for an emergency savings account.

**4. Have adequate insurance.** Health insurance is an absolute must, as well as automobile and homeowners insurance if you own a vehicle and your home. But don't forget to plan for deductibles and maximum out-of-pocket expenses. These can be significant (depending on your policy and your health) and factor into how much you should have in emergency savings.

Once you have the basics covered, you should also consider personal liability insurance, disability insurance, and long-term care insurance. This sounds like a lot of insurance (and a lot of additional expense), but sound insurance planning can help you avoid a financial catastrophe and ultimately reduce the size of the emergency savings you may need.

**5. Keep your short-term money safe.** Any money that you believe you might need in the next three years should not be in the stock market. Good choices for your emergency fund (and other money that you may need soon) are checking, savings, and money market accounts, and possibly short-term bonds or CDs in the mix. The bottom line is that cash or cash equivalents may not earn much over the long term, but they will give you the most flexibility and protection from a loss in the short term.

**What to do if you find yourself in a financial jam**

Even the best-laid plans can be upended by an unexpected crisis. If you find yourself struggling financially, here are a few things you can do to help ease your burden until things get better.

First, carefully examine your expenses and reprioritize your spending. Cut out everything but the essentials—things like mortgage or rent, food, utilities, and insurance. Pay the minimum on outstanding credit or loan balances. If you're unable to pay a bill, contact your creditors right away. They may be willing to negotiate a payment schedule or waive late fees. I'd suggest trying to do this yourself before signing up for a debt management or consolidation scheme. Some of these programs may overpromise and under-deliver and force you to incur additional costs.

Finally, even if it's possible to borrow from your 401(k) or take a distribution from your IRA, I'd consider this a last resort. While present circumstances may be difficult, I'd counsel anyone to avoid jeopardizing their future retirement unless absolutely necessary. You may not appreciate the full costs until much later.

**Prepare now**

There is no time like the present to get started. You can start small, but be consistent. With focus and determination, you can protect yourself from the unexpected. It only makes good sense because financial emergencies can happen to anyone—even to you.

*Have a personal finance question? Email us at askcarrie@schwab.com. Carrie cannot respond to questions directly, but your topic may be considered for a future article. For Schwab account questions and general inquiries, contact Schwab.*

*(0219-9BH6)*

Keep Learning: http://bit.ly/CSPrepareEmergency

# Saving for an Emergency

## Create a financial safety net

Saving for a rainy day is just as important as saving for a specific goal. This is the best way to protect yourself financially in case of illness, injury, or other unexpected events.

**How much do you need for an emergency?**

It's a good idea to keep three to six months of essential living expenses easily accessible in case of an emergency. Keep in mind that you may want to save even more in your emergency fund if you might be changing jobs within the next year or are anticipating any other significant life changes.

**Where to deposit your emergency fund.**

In order to have fast access to your emergency cash, keep it in something safe and liquid such as one of the following:

- **Interest-bearing checking accounts** may provide a slightly lower yield than money market funds, but you can write checks for any amount and may have easy ATM access to cash. And they're FDIC-insured up to $250,000 per account holder, per bank.
- **Money market savings accounts** may offer limited checkwriting privileges (over certain minimums) while generally providing higher yields than a checking account. Often the number of withdrawals is limited.
- **Money market funds** typically pay more than bank accounts (checking and savings accounts). While money market funds are considered to be a stable investment, they are not FDIC-insured, and it's possible to lose money invested in a fund.
- **Short-term CDs** are also FDIC-insured up to $250,000, and CDs typically offer higher yields than money market funds or interest-bearing checking accounts. Although money invested in a CD is locked up until it matures, you can always withdraw early and pay a penalty if you really need the cash.

**A home equity line of credit** can also be a good backup in case of emergency. However, it should always be used cautiously and only if you've built substantial equity in your home. Also, you can borrow against it when needed.[1]

### The cost of not having an emergency fund

| If you… | Then you… |
|---|---|
| Withdraw 401(k) money before you're eligible | Pay early withdrawal penalties (10% or more) |
| Live off credit cards | Pay up to 18% interest (or more) |
| Postpone monthly payments | Pay late penalties; damage credit rating |
| Sell securities | Lose money if it's a bad time in the market |

To make sure you're getting the best value, do some comparison shopping when choosing a bank or financial institution for your emergency fund. Review and compare the following:

- Minimum balance requirements
- Service fees
- Interest rates
- How often the bank pays interest

And be sure the bank you choose is FDIC-insured. Learn more about the types of accounts available.

Keep Learning: http://bit.ly/CSSaveEmergency



Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although the fund may seek to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.

1. With home equity loans and lines of credit, the financial institution will take a deed of trust to secure the debt. You could lose your home if you do not meet the obligations in your agreement with the financial institution.

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