Financial Literacy Questionnaire

Please note that Transmodal Performance Group ("TPG") disclaims all liability for any type of loss or hardship due to the following of this advice. TPG does not endorse any type of financial service or instrument. The following information is only to be used for an educational purpose and to give you a foundation. Only you or you and a financial planner should make decisions about your money.

QUIZ

Please answer each question with true or false.

1. If you are able to only devote a small amount of money to an emergency fund, it is better to use that money for something else. _______
2. Social Security is designed to completely fund your retirement. _______
3. Making a budget requires you to give up on buying items for a collection or hobby since those items are not necessities. ______
4. If someone steals your credit card, you most likely will not have to pay for the fraudulent charges._____.
5. You should always ask for a bank fee to be refunded._____
6. All debts are forgiven in bankruptcy.______
7. Money put into a Roth IRA is not taxed, if at all, until it is taken out. ______
8. Regardless of financial position, one should never have more than one credit card.______
9. You can ask your payroll supervisor to have money automatically withdrawn from your pay into more than one account. ______
10. It is never too soon to start to save for retirement. _____
11. A budget may be changed from time to time to reflect changes in your life. ____
12. You may be penalized for working and receiving Social Security payments. _____
13. It is best to rely solely on a 401(k) account for retirement planning. ________
14. If someone steals your debit card, he or she has access to your savings account. _____
15. You have no choice in 401(k) fund selection. ____
16. Most experts agree that you should fund the emergency fund with $1,000 prior to using additional resources to pay off debt. ______
17. Credit cards traditionally have a lower interest rate than car loans. _______
18. A person's assets are liquidated under a Chapter 13 bankruptcy. ______
19. Making multiple purchases in a short period of time on the same credit card will hurt your credit score.______
20. You should check your credit at least once a year. _______

ANSWERS

1. If you are able to only devote a small amount of money to an emergency fund, it is better to use that money for something else. FALSE, see Section 6.
2. Social Security is designed to completely fund your retirement. FALSE, see Section 7.
3. Making a budget requires you to give up on buying items for a collection or hobby since those items are not necessities. FALSE, see Section 2.
4. If someone steals your credit card, you most likely will not have to pay for the fraudulent charges. TRUE, see Section 4.
5. You should always ask for a bank fee to be refunded. TRUE, see Section 3.
6. All debts are forgiven in bankruptcy. FALSE, see Section 4.
7. Money put into a Roth IRA is not taxed if at all until it is taken out. FALSE, see Section 7.
8. Regardless of financial position, one should never have more than one credit card. FALSE, see Section 4.
9. You can ask your payroll supervisor to have money automatically withdrawn from your pay into more than one account. TRUE, see Sections 6 and 7.
10. It is never too soon to start to save for retirement. TRUE, see Section 7
11. A budget may be changed from time to time to reflect changes in your life. TRUE, see Section 2.
12. You may be penalized for working and receiving Social Security payments. TRUE, see Section 7.
13. It is best to rely solely on a 401(k) account for retirement planning. FALSE, see Section 7.
14. If someone steals your debit card, he or she has access to your savings account. FALSE, see Section 5.
15. You have no choice in 401(k) fund selection. FALSE, see Section 7.
16. Most experts agree that you should fund the emergency fund with $1,000 prior to using additional resources to pay off debt. TRUE, see Section 6.
17. Credit cards traditionally have a lower interest rate than car loans. FALSE, see Section 4.
18. A person’s assets are liquidated under a Chapter 13 bankruptcy. FALSE, see Section 4.
19. Making multiple purchases in a short period of time on the same credit card will hurt your credit score. FALSE, see Section 3.
20. You should check your credit at least once a year. TRUE, see Section 3.

If you missed more than 5 of these questions, you are encouraged to read the following information.

1. Introduction

All of you unquestionably work hard. It is important that the money you earn is used in the most beneficial way. The following should be used solely as an educational tool and will hopefully help you to think more effectively about what to do with your income.

2. Budgeting

One of the easiest and best ways to manage your finances is to set a monthly budget and hold yourself accountable to it. Oftentimes, people think that the phrase "living on a budget" means to live on only the most basic necessities; however, this assumption is not necessarily true. Though a budget sets or suggests limits, it is possible to have "fun items" included in your budget. Budgeting is a great way to save money for a big ticket item or to fund a hobby. There is nothing wrong with enjoying your money.

To formulate your budget, you must know how your money is spent. Collect credit card and debit card statements as well as receipts where cash was used. Divide the recorded purchases into certain categories such as utility bills, entertainment, groceries, restaurant food, gas, gifts, car payment, ect. After categorizing where you spend money, consider whether or not you are able to limit your spending in each category, Then, set the budget for that category at the amount you want/need to spend each month. Remember to budget for gift items that you may have to buy at different times of the year or other items that do not occur on a monthly basis. By placing a set amount of money aside each month for such items, your finances will not stressed when it comes time to purchase the items.

Be sure to have a category set up for "Savings". Many financial advisors state that one should save around 10% of what he/she takes home each month. This should be separate from any money set aside for retirement or any money placed in your 401(k).

A budget should be a living document; meaning that it should be changed from time to time when necessary. If you are consistently over spending or under spending in certain categories, change the amounts to be more accurate. Though the budget should be realistic, always look for ways to cut back on spending and instead save money.

3. Take Control

When it comes to your money, you must be in the driver's seat. You should know exactly how much you are being charged and why. Look over bills and other statements to verify that the amounts are correct. If they are not correct or if you do not understand what you are being billed for, politely call the person who sent you the bill and ask for it to be clarified and reversed.

Moreover, banking is a competitive market where banks want your business. If there is a fee, such as an overdraft charge, checking fee or another miscellaneous charge, always ask for it be explained and then reversed. Banks will often reverse the fee if you call and explain why you were not aware of the charge. If your bank charges you fees for using an ATM of another bank, find a financial institution that does not charge for ATM usage and funnel money into that account by linking your main bank account with the new account. That way you may use the most convenient ATMs at no fee to you.

Being in control of your finances also means being a smart shopper. Before making large purchases, research the prices. This includes on-line research to find what the best price is or when the biggest sale occurs. It is okay to ask a sales associate when the best time to buy an item is, especially if you acknowledge that you are willing to buy it from that sales associate. Doing simple research could save you a lot of money.

It is also important to check your credit score once a year and prior to making big purchases, such as a car or home. Many websites will allow you to check your credit once for free. Some credit card companies will tell you your credit score every month. The purpose of doing so is two-fold. First, you are verifying that all your debts are correct. Then, by verifying your credit score, you will have a better idea of the interest rate that institutions will give you; which will help you budget accordingly and prepare. A credit score is made up of a combination of your history in paying debts on time, the amount of credit you are using compared to the amount that is authorized, the amount of time each account has been open, the frequency that you open new lines of credit (i.e. do you open multiple accounts at once or one every once and awhile) and the different types of debt you owe. Be aware that “pulling” your credit score too often may hurt your score.

4. Debt

Debt is the amount of money you owe to another person or entity. Debt almost always carries an interest rate, the rate at which the debt increases usually per year. Although you may not need to pay the debt at a certain time, the interest is often added onto the principle amount and then multiplied by the interest rate going forward. Credit Cards and car loans tend to have a higher interest rate than mortgages. It is beneficial to pay off debt that carries a higher interest rate before a lower interest rate debt. This should be done after you have paid the minimum payment required on each debt. For instance, if you have $900 to spend on paying down debt and you have a $4,000 credit card bill with a 15% interest rate and an $80,000 loan at 4%, you should first pay the minimum amount required on each account and then use the remaining amount to pay down the credit card.

Although credit cards are becoming a popular tool, one must have self-control. Credit cards are an expensive form of debt due to their traditionally high interest rate. Like most debt, the interest rate gets added onto the principal, and thus you will be paying the interest on the interest. Furthermore, credit card companies require you to pay a minimum amount each month. If you are unable to pay this amount, the entire debt is considered in default. Defaulting will raise a red flag with other creditors and may increase your interest rate while still leaving you accountable for the defaulted amount. Moreover, it is never a good idea to take out cash from your credit card’s line of credit. Cash amounts carry a very high interest rate and are the last amounts to be paid off.

Although credit cards may be very damaging to an undisciplined debtor, they do have significant upsides. Credit cards provide protection in the case of fraudulent activity. They allow you to see exactly what you spend your money on and when. Often, banking companies will break down charges via category if requested. Furthermore, credit cards often have reward programs that may be redeemed for cash. If a person pays their credit card without incurring interest and the credit card does not have an annual fee, it is possible for the card holder to “make money” by using the card instead of cash or a debit card. When selecting a credit card, it is important to research a number of different cards and analyze what benefits they have. Do not select cards that have an annual fee. If a card has a low introductory interest rate, make sure that you are aware of the regular rate and when it will revert to the regular rate from the introductory rate. Many cards have an introductory rate of 0% for one year. If you know you can pay off the purchase within 12 months, opening a credit card account with an introductory 0% interest rate and then buying the item is a great way to receive an interest free loan for a year. Although there are many different opinions on credit cards, most advisers believe that you should have more than one credit card. Select a card that gives you the best benefits at the lowest rate.

You may be asked to co-sign or guarantee a loan for someone. In this situation, it is important to know what recourse the creditor has against you if the main debtor fails to pay. If you have secured the loan, the creditor may be able to seize some of your assets as well as hold you accountable for the full amount of the loan. When asked to co-sign, always do thorough and independent research on the terms of the agreement.

Bankruptcy is often an option of last resort for debtors who are unable to pay their debts. For individuals, Chapters 7 and 13 of the Bankruptcy Code are the most common ways of filing for personal bankruptcy. Under Chapter 7, most of your assets are liquidated and then most of your debts are forgiven. There are some assets that the government will not liquidate; or rather the bankrupt may keep them. Coincidently, some debts may not be forgiven such as student loans, taxes and child support to name a few. This non-forgiveness is true for Chapter 13 as well. Under Chapter 13, your debts are adjusted into a manageable payment plan without your assets being sold. Besides the obvious draw-backs of bankruptcy, a person may only file for bankruptcy every seven years and the debts that were not forgiven in the previous bankruptcy will not be forgiven in a future bankruptcy. Further, a person will then have a hard time finding credit at a reasonable rate. If you are considering filing for bankruptcy, it is important to work with an attorney or financial adviser who is highly skilled in this realm.

5. Savings Account

Most banks offer a savings account free of charge if you have a checking account with them. A savings account allows you to store money that you do not need immediately. This type of account has a small interest rate, which will allow the money to keep up with inflation or rather the buying power from year to year. Savings accounts are very beneficial, especially for people who wish to separate money from their checking account without having the money tied up where he/she would have difficulty withdrawing it. Often, debit cards are not tied to savings accounts; which means that in the event of theft of your debit card, your savings will be safe.

Moreover, savings account deposits are insured by the Federal Deposit Insurance Corporation (FDIC), a government entity, up to $250,000 per person, per banking institution. While insured by a different institution for the same amount, credit unions usually offer a better interest rate than banks.

The drawback to a savings account is that historically there are better places to store money where the rate of return is higher. Additionally banks will charge a “small” fee and suspend interest payments if you withdrawal money from the account more times than they allow in a certain period. Even with these drawbacks, a savings account is the best way to store money safely while still being able to access it in an emergency.

6. Emergency Fund

One never knows what tomorrow will bring. Therefore, it is important to have a decent amount of cash or cash equivalent stored in an account that is separate from other accounts, yet easily accessible. The reasoning behind an emergency fund is that even if your ability to incur revenue stops; your living expenses do not. The opinions of financial experts differ on the recommended amount to save. Some say the account should contain six months of living expenses, while others say it should be two to three months of take home pay., Although their opinions on amount differ, experts agree that you first should save $1,000 in your emergency account, then pay off all high interest debt, such as credit cards, before you resume building your emergency account. Attempting to save can be very intimidating, but remember that saving is a marathon and not a sprint. Saving may take a long time, therefore, it is important that you are consistent in saving. Discuss with your payroll supervisor the option of automatic withdrawals from your paycheck into your emergency saving account. This allows you to automatically deposit a set amount without having to make a decision regarding the money and without having to exercise self-control to not spend it. As stated, remember that saving takes time. Do not be discouraged if you are only able to set aside small amounts at a time.

7. Retirement

Retirement is a goal that most everyone has. However, more and more people are working well past retirement age, whether by choice to remain somewhat busy or due to their financial situation. It is important to know that it is never too early to start saving for retirement. It is important to work backwards in contemplating what retirement will look like. First, decide at what age you wish to retire and whether you will receive a revenue source from a part-time or seasonal job and for how long.

You should research your expected social security monthly check amount. Remember, social security was designed to encourage older citizens to retire and thus allow a younger workforce to thrive. The checks are designed to only supplement your retirement; not fully fund it. Also, make sure you understand the consequences of taking early retirement under social security. Although appealing, the teh early payments will not make up for the reduction in payments if you believe you will live past a certain age. Moreover, if you plan on working past retirement, you may be penalized for earning more than a certain amount and taking social security benefits at the same time.

Although it is hard to sacrifice the present for the future, you need to save for retirement. There are multiple ways of doing so. While the investment carries risk, a 401(k) is a very popular way to plan for retirement. TPG currently deposits 3% of your salary into a 401(K) account and an additional 2% if the company elects to do so based on its financial condition. The 3% is yours, even if you are no longer with the company; whereas the 2% requires you to stay with the company for five years. You may elect to contribute any additional percentage to your 401(k). This amount is deducted from your paycheck without you having to perform any additional steps. The amount taken out of your paycheck to go into the 401(k) is not taxed, but will be taxed when you take it out of your 401(k) account. However, if you take that amount out prior to retirement age, you will be penalized by paying a higher tax rate. Moreover, the amount you take out is counted as income. If you work full time and take out money from your 401(k) account, you may be surprised at the amount of tax owed for that tax year. It is highly advisable that you elect to take a certain percentage of your income out of your paycheck. A 401(k) account is invested in funds that you are able to choose from via a list of funds. Each fund is tailored to a certain aspect of the economy and carries a certain level of risk. Those who are closer to retirement age should elect to invest in less risky funds. Young individuals should feel comfortable in choosing funds that carry more risk but also the potential for a greater reward. Your 401(k) fund selection should be evaluated to determine what changes need to be made based on your view of the market, your age and the performance of the fund(s). This decision should be made between you and a person with great understanding of financial conditions. Your payroll supervisor has all the necessary forms to accomplish these transactions.

Traditionally, a 401(k) is an excellent way to save for retirement, although the saying that you should never put your eggs in one basket is true to this situation as well. It is important to explore other ways to save. A Roth IRA or Individual Retirement Account/Arrangement will allow you to select from a wide option of investments such as stocks, mutual funds, SPRD funds, bonds and exchange traded funds. A Roth IRA will also allow you to withdraw money and the earnings without tax or penalty at an earlier age than a 401(k). The downside to a Roth IRA is that the money is taxed prior to being deposited into the account and there are limits to the amounts you are allowed to contribute.

A certificate of deposit (CD) is another way to plan for retirement while at the same time keeping the money available if needed in an emergency. A CD requires you to deposit money with the bank and agree to not withdraw it for a set number of months or years. The more money you deposit and the longer you and the bank agree to keep it deposited, the higher the interest rate. Since most deposits with banks are insured up to $250,000 by the federal government, the risk of loss is usually zero. The drawbacks are that the interest rates on CDs have traditionally had a lower rate of return compared to other investments and if the money is withdrawn prior to the stated time, there is a penalty.

8. Conclusion

As stated, it is our hope that you use this information to remind yourself that managing your money is extremely important. Please utilize a financial planner if you have any questions.

Transmodal Performance Group