



# Ten Tips to Financial Success

UNP-105

*Understanding and following sound money management practices can lead to financial success. These ten tips are designed to help you understand budgeting, investments, credit scores, savings, and other factors that can affect your financial health.*

**Tip 1: Avoid overspending on big-ticket items.** Often when you look at your budget, you find certain items that you naturally tend to spend more money on. The question you must ask is how much is too much? Anytime you spend too much of your income in one budget category, you will neglect another category important for survival and long-term financial security. Below is a chart with guidelines for how much of your income you should be spending in each category. If you find you are spending considerably more in any area than is suggested by the chart, you may be headed for trouble down the road.

**Tip 2: Avoid paying senseless fees.** Consumers are often unaware of the many fees they are required to pay continuously. These fees seem small by themselves, but over time they can add up to a large amount of money. If you accumulate \$20 a month in various fees over the course of a year, you give financial institutions \$240 of your hard-earned money. You can avoid paying most fees by taking the time to read the terms and conditions of each of your accounts.

**Tip 3: Manage your credit wisely.** One of the most important financial decisions you make in your life is how you use credit. Financial institutions base their decisions about your ability to repay borrowed funds based on your credit score. The score rates an individual's performance over several years. By understanding how the score is calculated, you can slowly build credit and your credit score. As your score improves, you will save thousands of dollars over time on loans, and you will be required to make lower payments on purchases.

Category	Percentage
Housing	30.0
Transportation (all expenses)	23.9
Food	10.8
Personal insurance	4.1
Personal taxes	5.7
Retirement	5.0
Entertainment	4.5
Health	3.9
Apparel products and services	3.3
Miscellaneous expenses	2.3
Education	2.1
Personal care products and services	1.0
Cash Contributions	.6
Reading	.5
Savings	2.3
<b>Total</b>	<b>100.0</b>

Type of Fee	Price Range
ATM fee	\$1 to \$3
Bank statement	\$5 to \$10
Payment by phone	\$5 to \$15
Monthly service fee (bank)	\$5 to \$12
Over draft	\$15 to \$45
Stop payment	\$15 to \$35
Insufficient funds	\$20 to \$30
Late fee	\$15 to \$39
Annual fee	\$25 to \$300
Application fee	\$10 to \$50
Over-the-limit	\$15 to \$40

Factors for Credit Analysis	Percentage of FICO Score
Paying bills on time	35%
Credit-to-debt ratio	30%
Length of credit history	15%
New accounts/ credit applications	10%
Credit mix (loans/credit cards)	10%

**Tip 4: Avoid spending lots of money on depreciating goods.** Depreciating items serve only a short-term purpose. Money spent on these items will not contribute in any way to your long-term financial stability. Over a three-year period, a new car will have depreciated so significantly that the owner will often owe more than the car is worth. Depreciating items can include cars, clothing, electronics, and furniture.

**Tip 5: Education pays.** Of the many investments you can make, the one with the greatest impact on long-term financial security is education. No other investment consistently provides as many financial benefits as does a college or a vocational degree. The average cost to attend a four-year public college is \$48,508. This amount covers books, lodging, food, tuition, and other miscellaneous expenses. A college graduate earns \$22,414 a year more than an individual with a high school diploma alone. In the first year of full employment, the college graduate will have received a 46.2 percent return on his or her investment. Over a lifetime of employment, the college graduate will earn on average an additional \$963,845 as a result of having received a college degree. This is an outstanding return for such a small initial investment.

**Tip 6: Take an interest in interest.** Various types of short-term loans are available for emergency situations. The principal purpose for these loans is to help the borrower deal with a cash flow shortage. A cash flow shortage is when someone has bills or other financial obligations due before he or she has acquired the money to pay them. In these instances, a short-term loan is taken to meet the obligation and then is repaid when the revenue is available. Short-term loans are usually for a period of less than six months. When a cash flow shortage occurs, make an effort to secure a loan at the lowest interest rate. If this is not possible, seek loans at a higher rate. Taking these types of loans should be a periodic and temporary occurrence, and the money should be spent only for necessary items. Consistently taking short-term loans and being unable to pay them in a reasonable time can be a sign of a budget imbalance.

Duration of Ownership	% of Depreciation New Car	\$50,000
Off the lot	20%	\$40,000
Year 2	15%	\$34,000
Year 3	15%	\$28,900

Type of Investment	Annual Rate of Return
Education (bachelor's degree)	46.2%
Home	7.7%
Cash deposit (CD)	3.9%
Car	-15.0%



Type of Loan	APR
Bank line of credit	5 to 15%
Credit card	6.5 to 29.9%
Cash advance	30 to 40%
Title loan	30 to 40%

**Tip 7: Credit scores matter.** In the 1950s, Fair, Isaac & Company was one of the first corporations to develop a mathematical model to determine how likely individuals were to repay debt. The model they came up with was called the FICO score. Even though it is not public knowledge exactly how each of the three credit bureaus calculates your score, we do know that the FICO method plays a role in each of the calculations.

One of the most important assets is a credit score. It is the chief indicator of ability to repay borrowed money. A good credit score can save you hundreds of thousands of dollars over a lifetime. Each of the three major credit bureaus uses its own scoring method. There is the FICO scoring method-Equifax has the BEACON score, Experian has the Experian/Fair Isaac Risk Model, and TransUnion has the EMPIRICA score. The chart below shows how a good credit score can get you a lower annual percentage rate (APR) and, as a result, save you lots of money. The example is based on a \$200,000 30-year mortgage.

**Interest Paid on a \$200,000 30-Year Mortgage**

Credit Score	APR	Monthly Payment	Total Interest 30 Years
720 to 850	5.79%	\$1,173	\$222,140
700 to 719	5.92%	\$1,189	\$227,888
675 to 699	6.46%	\$1,258	\$253,007
620 to 674	7.61%	\$1,413	\$308,670
560 to 619	8.53%	\$1,542	\$355,200
500 to 559	9.29%	\$1,651	\$394,362

**Tips 8: Plan for retirement; don't just let it happen.** If you are in the early stages of your career, begin to make plans for retirement. The sooner you begin to save for retirement the easier it will be. Your contributions will be smaller while you work and you will have more money to spend during retirement. The average person saves about 5 percent annually for retirement. Many employers contribute to this with a matching contribution. Any worker who does not meet his or her current financial obligations as well as save for retirement expenses is not engaging in sound financial planning. In order to receive a \$60,000 annual retirement income, a 30-year-old needs to save \$10,877 a year. This assumes that he or she will earn a 5 percent compounded interest on the money saved. Each individual's retirement plan will vary based on numerous factors and personal decisions. However, when you do retire, you should have no surprises about what your income level and quality of life will be.

**Tip 9: Insurance is a life saver.** There can be no financial security without insurance-always expect the unexpected. You never know when you might have a car accident or when a flood might damage your house. Most people will file multiple insurance claims during their lifetimes. Some of these claims will be minor, but many will not be. Insurance can and often does prevent financial ruin when life-altering events occur. Various types of insurance are available for purchase. The average individual spends 8 percent of his or her monthly income on health, life, home, car, and other insurances.

Desired Retirement Income	Annual Contribution	Total Contribution
\$20,000	\$3,625	\$126,875
\$40,000	\$7,251	\$253,785
\$60,000	\$10,877	\$380,709
\$80,000	\$14,503	\$507,605

Type of Insurance	Average Annual Cost
Health	\$1,800
Home	\$1,000
Car	\$800
Life	\$500

**Tip 10: It only takes one mistake to bring everything down.**

The different areas of financial planning often overlap. Paying your bills late will negatively affect your credit score. This can lead to higher monthly payments and an imbalance in the monthly budget. An imbalance in the monthly budget means less money for insurance and other important expenditures such as education. This scenario could go on and on. Essentially, an individual's financial plan is like a car: if one part goes out you may be able to drive a little farther but eventually other parts will begin to fail and the car will stop running. Everything in a financial plan must work properly in order for an individual to obtain true financial security. The good news is that with a little research you can work on your own financial plan and correct any problems you see.

**Financial Planning Pop Quiz:  
Test Your Money Management Skills**

1. What percentage of your income should be spent on housing each month? a. 50% b. 40% c. 30% d. 10%
  2. What is the most the bank will charge for an overdraft fee? a. \$45 b. \$35 c. \$25 d. \$15
  3. Which is not a way to improve your credit score?
    - a. Pay monthly payments on time
    - b. Reduce credit-to-debt ratio
    - c. Improve mix of credit card and loans
    - d. Review credit history
    - e. Pay down and cancel credit cards
  4. How much will a new \$50,000 car be worth after three years? a. \$48,900 b. \$38,900 c. \$28,900 d. \$18,900
  5. Which of the following has the greatest return on investment (ROI)? a. Home b. Education c. Car d. Certificate of Deposit (CD)
  6. On average, which of the following has the lowest interest rate? a. Credit card b. Cash advance c. Bank line of credit d. Title loan
  7. If your credit score increased from 674 to 675, how much interest would you save on a \$200,000 30-year fixed mortgage loan? a. \$55,000 b. \$45,000 c. \$35,000 d. \$25,000
  8. If you are 30 years old and want to earn \$60,000 a year when you retire, how much money would you have to save each year at 5% compounded interest? a. \$10,877 b. \$7,251 c. \$3,625 d. \$1,532
  9. How much does the average person spend annually on car insurance? a. \$1,800 b. \$1,000 c. \$800 d. \$500
  10. How are budgeting, credit score, interest rate, auto loans, and home loans connected?
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