



## Millennial Money Minute

### What's More Important: Oxygen or Money?

#### *The 10 Simple Secrets to Financial Literacy, by Caitlin Chen*

If you're wondering what the right answer is, well, money ranks right up there with oxygen. If you have no oxygen, you cannot survive. If you have no money, you cannot survive either, because most everything we need to sustain life besides oxygen, requires money.

So why is it that such an important subject such as Financial Literacy, not taught in school? Well, I cannot speak for the individuals who create the school's curriculum but as a financial expert, I would like to share with you the 10 simple secrets to financial literacy regardless of your age or economic status.

#### **1. Pay Yourself First.**

As long as you have income, regardless of how much it is, you should always save at least 10% of your net income. You should first build up your liquid savings account to cover at least 8 months of expenses. Then once that is built up, then start funding your retirement account. As a realist, I know that 10% may not be possible for some people, but you must set aside at least a small portion and make a commitment to never to use this money saved up, unless it's a real emergency. If you keep making excuses as to why you cannot save, then you can go on for decades without ever saving a dime. Then if you ever lose your job or get into a financial bind, there will not be an emergency fund to hold you over until you recover from your financial set-back.

#### **2. Spend less than you make (Budgeting)**

it may sound like I'm preaching common sense, but this is the main reason why people get into debt that they find difficult to get out of. First, you need to write down exactly how much your monthly net income is, then deduct your fixed expenses such as: your 10% savings, rent, mortgage, insurance, utility bills, loan payments, food, gas, etc. You should also set aside a fixed amount of money each month for entertainment and discretionary spending and stick to that same amount every month. Then, what you have left over can be used to increase the contribution in your retirement account or to save for a long-term goal such as purchasing your first home, an investment property or business you've always dreamed of having.

### **3. Avoid paying unnecessary fees such as overdraft fees**

One of the main mistakes consumers make with today's technology is to rely solely on your online banking to check your most up to date balance. The problem with that is, your pending charges may not always immediately register which will distort the amount of the available balance. Hence, if you did not write down what you had spent over the course of the day, you may think you have more money than you actually have. So, if you swipe that debit card again, it will overdraw your account, triggering a hefty overdraft fee or fees depending on how many times you attempt to use your card after you were already overdrawn. The only way to avoid this type of confusion is to always keep a manual running log of how much money you spent and therefore, you will know exactly how much money you have left over in your account at any given moment. Make sure you also keep track of those automatic monthly debit transactions to ensure you'll have enough funds on the day it is scheduled to be debited.

### **4. Eliminate the habit of eating out**

Brown Bag your lunch instead of eating out every day, just because you have a habit of doing so. With today's high cost of eating out, one meal at a restaurant can equal 3 days' worth of groceries. On the other hand, when shopping for groceries or household necessities, try going to the store once a week. Not only are you going to save yourself some time and gasoline, but you're less likely to spontaneously spend money on merchandise that catch your attention at the store, but don't really need.

### **5. Use Cash Only instead of Credit Cards**

One of the best ways to better understand the value of your money is to go back to putting cash in separate envelopes allocated for each category of expenses. This strategy will help you spend less because once you run out of cash, then you'll either have to go with less expensive alternatives or get creative in order for you to stay on budget. On the other hand, when you're armed with a credit card, you'll most likely spend above your allocated budget thinking you'll just pay for it later.

### **6. Be practical when shopping**

When shopping for clothing, shoes, accessories, purses, etc., be more practical and don't just settle for the name brand or the more expensive item because you think it must be better quality given that it's more expensive. Regardless of how much you spend, you may get tired of wearing the same thing or carrying the same purse for years. Therefore, it's not practical for you to spend 5X's the amount of money when you can purchase something similar for less, if you're going to end up donating it to charity in 3 months anyways. For the ladies, I'm sure there are stuff in your closet you spent

quite a lot of money for that you probably only wore once or twice and haven't touched in years ever since.

#### **7. Maintain your health by eating healthy and exercising**

Doctor and Hospital Bills are one of the biggest reasons why people go bankrupt. It doesn't matter how much those bills end up to be, the billing department still expects you to pay it off in a timely manner. Otherwise, it will end up in the collections department which will adversely affect your credit which you've spent your entire life trying to keep clean. The best way to avoid going to the doctor or hospital for illnesses is to be diligent in getting your regular checkups, eating healthy and staying physically fit.

#### **8. Maintain Proper Insurance**

Always make sure your payments are made on time for your home, auto and health insurance or life insurance. There is nothing worse than realizing your insurance lapsed when you actually need it. Of course, you may not need your insurance for long periods of time but having them in effect will give you the peace of mind you need to live a relaxed and stress-free life.

#### **9. Pay off your credit card with the lowest balance**

If you do have balances on multiple credit cards, I suggest you first pay off the one with the lowest balance first. By focusing on the one with the lowest balance first will give you that sense of accomplishment much sooner when you do pay it off. It will then motivate you even more to get the others paid off by allocating the money you used to pay off the first one towards the second one, which will help you pay off the second one faster, creating a snowball effect. For each of the credit cards you pay off, you can continue to build up the amount you used to pay off the other credit cards towards the remaining ones. By using this strategy, you will clear off all of your debt much faster.

#### **10. Make the most of your credit score**

Achieving the best credit score can help you save a great deal of money on interest when shopping for a major purchase such as a car or home. In order to maximize your fico score, there are five different areas with different weightings that you can collectively work on to improve your score.

- Payment History – 35% of your score is calculated based on whether or not you pay your bills on time. Getting those bills paid on time is extremely crucial in maintaining good credit

- Ratio of balances to your credit limit – 30% of your credit is based on the ratio of the amount of money you owe to the actual credit limit. With installment loans, it is the ratio of the loan balance to what the original principal is. The most important aspect is to make sure you try to keep your credit utilization to 30% or less for each revolving credit account.
- Length of credit history – 15% of your score is based on the length of time you've had the credit. The longer the trade line has been in existence, the better your score will be. Therefore, if you want to close a credit card account, close the one you've had the least amount of time.
- Types of credit – 10% of your score is based on the types of trade lines you have. The more diversified your credit mix, the better. For example, the three main types of loans are: mortgages, installment loans (i.e. auto and student loans) and revolving credit such as a credit cards. If you only have an installment loan, then it's a good idea to go get yourself a credit card as well. You can avoid paying any interest on the credit card by just paying off your balance when you receive the bill. Keep in mind, if you have a credit card that gives you rewards, you'll reap an extra benefit.
- Avoid too many inquiries – 10% of your score is based on the amount of new credit you have. Avoid applying for new credit unless you have to. If in the case you've been turned down a couple of times for credit, do not keep applying because the more inquiries on the report, the lower your score will become. Instead, get yourself a free credit report and see what's on it that's affecting your credit by going to [www.annualcreditreport.com](http://www.annualcreditreport.com) . You are entitled to receive a free credit report once a year. If you find out about some debts you still owe from long ago, contact the creditor to negotiate a settlement. By removing the negatives on the report will significantly increase your score.

Make a commitment throughout the year to follow these simple steps towards financial literacy and you'll be surprised how much better you will feel by eliminating your financial stress.