Overview

- Introduction
- Ten Suggestions for Managing Your Money During the Crisis
We need many components

- Financial literacy is an essential one
- It is the foundation (like water)
- Many components are beyond the control of the individual
1) “Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”

A) More than $102
B) Exactly $102
C) Less than $102
D) Don’t know
E) Refuse to answer

2) “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”

A) More than today  
B) Exactly the same as today  
C) Less than today  
D) Don’t know  
E) Refuse to answer

55% answered correctly

3) “Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.”

A) True
B) False
C) Don’t know
D) Refuse to answer

43%

answered correctly

1/3 of Americans can answer all Three Questions correctly.
Financial Fragility

Question

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

Source: 2020 TIAA Institute-GFLEC Personal Finance Index (P-Fin Index). The survey is a joint project of the TIAA Institute and GFLEC. The data was collected in January 2020.

Percentage of Americans

- 51% I am certain I could come up with the full $2,000
- 22% I could probably come up with $2,000
- 27% I am financially fragile
- 10% I could probably not come up with $2,000
- 17% I am certain I could not come up with $2,000
Managing Personal Finances During COVID-19

10 suggestions to manage money in the time of crisis
10 suggestions to manage money in the time of crisis

Learn what the national and local government is providing in this time of crisis
10 suggestions to manage money in the time of crisis

Learn about possible hardship adjustments in financial and other contracts
Revisit and create a budget to manage the new conditions imposed by the crisis
When creating your spending plan, remember...

- Set your goals for the budget. Have the budget help achieve them.
- Know what you have (your assets) and what you owe (your debt)
- Trade-offs and opportunity costs
- Needs vs. wants
- Make budgets realistic
- What expenses are contractual (required) and which are non-contractual (easy to reduce or eliminate)
- Change, add or remove categories as you need
- You may need to revisit or create a new budget
10 suggestions to manage money in the time of crisis

Rebuild over time a buffer stock of savings
Inflation reduces your purchasing power. Because prices go up, if wealth stays the same, we become poorer overtime.

Put your money to work.

Do not hold the bulk of your savings in checking or savings account, which yield Annual Percentage Rate (APR) significantly below U.S. inflation (about 2%)
Compound Interest

“Compound interest is the eighth wonder of the world. He who understands it earns it... he who doesn’t... pays it.”

- Attributed to Albert Einstein
Compound Interest and Saving

The importance of time when investing

Interest Compounding over 30 Years

Growth of $1

- 2%
- 4%
- 6%
- 8%
- 10%

$0 $2 $4 $6 $8 $10 $12 $14 $16 $18 $20

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

$1.81 $3.24 $5.74 $10.06 $17.45

Years
10 suggestions to manage money in the time of crisis

Take advantage of lower interest rates and plummeting stock markets
Diversification strategies allow you to reduce the risk of your portfolio by selecting assets and asset classes that have low correlation with one another.

Picking individual stocks requires significant time dedicated to due diligence and making educated guesses about future price movement.

Mutual funds typically have low expense ratios, and are easy ways to diversify within and among asset classes.
10 suggestions to manage money in the time of crisis

Take advantage of online technology to manage your money as well as to compare terms and search for the best offer available.
10 suggestions to manage money in the time of crisis

Manage debt
Manage Debt Wisely

- Prioritize debt repayment before investing as interest rate on debt is often much higher than return on most investments.
- Save for an emergency fund that is worth 2-3 months’ expense to avoid getting into further debt for lack of liquidity.
- Debt avalanche method: pay down the debt with the highest interest rate first, as their balance will grow the fastest.
- Budget for debt repayment in a realistic way. Making larger monthly payments means taking less time to pay off debt, which maybe a sacrifice worth making in the long run.
- If you can, always pay the balance on your credit card instead of minimum balance. The latter option will still accrue interest.
What is your credit card balance?

$1,000

What is the interest rate on your credit card?

18%

How is your minimum payment calculated?

2% of balance

Your minimum payment:  $20

Select a payment schedule based on:
- Minimum payment
- Fixed payment

What fixed payment could you make monthly?

$50

With a minimum payment:
It will take you 151 months to be rid of your debt.

In that time, you will pay:  

$1,396.76 in interest.

With a fixed payment:
It will take you 24 months to be rid of your debt.

In that time, you will pay:  

$197.83 in interest.
10 suggestions to manage money in the time of crisis

Protect your credit score
Credit scores are an assessment of our creditworthiness based on information in credit reports. You are entitled to a free report from each of the three credit bureaus each year: Experian, Equifax, Transunion.

Before deferring any payments on debts during the crisis check to see if and how it will affect your credit score.

Dispute any false information on your credit report, a low credit score means being denied for loans or having to pay higher interests. For long-term loans such as a mortgage, a small difference in interest rates leads to a significantly higher interest payments over the span of 15 or 30 years.

Source: https://www.myfico.com/credit-education/whats-in-your-credit-score
Set payment reminders or enroll in automatic payment to avoid interest and late fees

Keep balances low on all accounts. Generally, a good credit score requires spending within 30% of your total available credit

Avoid opening new credit cards or store cards, if you do not need them.
Watch out for fraud
10 suggestions to manage money in the time of crisis

Take care of yourself and your health
Thank you! Be well!

Questions?

#ItWontStopUS

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