Money Management 1-2-3:
TWO: Achieving Financial Goals

The way you manage your money during your working years will profoundly affect the way you live out your later years. Key goals during this time should be to increase assets, build a retirement nest egg and protect what you have. To do all that, you'll also have to avoid the temptation to live a lifestyle beyond your means.

Updating your budget

Your budget, or spending plan, isn't set in stone—it needs to change along with your income, expenses and goals. Online tools (*https://www.nerdwallet.com/article/finance/free-budget-spreadsheets-templates*) and apps (*https://www.forbes.com/advisor/banking/best-budgeting-apps/*) allow you to revise your numbers quickly and easily. Don't forget that savings should always be an "essential" expense in your budget. If your income goes up, put at least half your raise toward savings.

Dealing with debt

If you have debt other than a mortgage, earmark any windfall (a tax refund or bonus, for example) for paying it off. If you can't make ends meet because you have too much debt, a credit counselor may be able to help you reduce your monthly payments through an agency-administered debt management plan (DMP). To find an accredited non-profit agency, contact the National Foundation for Credit Counseling at NFCC.org or 800-388-2227.

If you are receiving calls from collectors, don't ignore them. Doing so could allow the collector to get a "default judgment" against you and garnish your wages, levy your bank account, or put a lien on or seize your property (state law determines the actions that can be taken against you). Learn about your rights and how to protect yourself in National Consumer Law Center's Surviving Debt publication (*https://library.nclc.org/book/surviving-debt*).

Servicemembers and veterans

Military families have many of the same financial goals and responsibilities as civilian households

but may face some unique challenges, such as frequent moves and deployment. Servicemembers and veterans also are often the targets of abusive lending practices and financial scams. On the positive side, current and former military are eligible for many government-sponsored benefits, qualify for numerous types of nonprofit assistance programs, and have some special financial protections under the law.

These resources can help military families manage and protect their money, understand their rights, and find help or file a complaint, if necessary.

- Military OneSource (https://www.militaryonesource.mil/financial-legal/personal-finance/)
- Department of Defense Office of Financial Readiness (https://finred.usalearning.gov)
- Veterans Benefits Administration (https://benefits.va.gov/benefits/financial-literacy.asp)
- Consumer Financial Protection Bureau (CFPB) (https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/)
- Financial Industry Regulatory Authority (FINRA) (https://www.finra.org/investors/military)

Taxes

If you meet eligibility guidelines, you may be entitled to the Earned Income Tax Credit (EITC), which returns money to low-income workers. You must file a federal income tax return in order to claim the EITC, even if your income is so low that you normally would not file. EITC income guidelines change—typically every year. For more information, read Consumer Action's Get Credit for Your Hard Work (https://www.consumer-action.org/english/articles/get_credit_for_your_hard_work_eng) or visit the IRS website (https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit-eitc).

In order to qualify for the EITC, you must have a Social Security number (SSN) for yourself and each of your children. You can begin the application process online, at the Social Security Administration website (https://www.ssa.gov/number-card/request-number-first-time).

If you expect to qualify for the EITC in the current tax year, you can ask your employer to include a portion of your credit in each paycheck instead of waiting for a tax refund. Fill out IRS Form W-5 and give it to your employer.

If you purchased health insurance from a government "marketplace" (or "exchange"), you will receive IRS Form 1095-A in January. All you have to do is enter the form information when prompted by the tax preparation software, or provide it to your tax preparer. If you received an advance premium credit for health insurance purchased through the marketplace (HealthCare.gov or your state's exchange), you

Tax preparation

Many taxpayers find that they are capable of completing their tax returns on their own by using online tools that walk them through the process. The IRS's Direct File service (available for the 2025 tax season) enables eligible filers to prepare and file their taxes at no cost. For those who want to complete their taxes on their own but don't qualify to use Direct File, there are other tools available for a fee (https://www.nerdwallet.com/p/best/taxes/tax-software).

The Volunteer Income Tax Assistance (VITA) program offers free basic tax preparation for low-income, disabled, elderly and limited-English-speaking taxpayers. VITA sites can also help you open a bank account or get a low-cost prepaid card, which enables you to get your refund in as little as 10 days when you e-file your return. Learn more about VITA at the IRS website (https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers) or 800-906-9887.

If you use a paid tax preparer, avoid "refund anticipation" checks, loans, prepaid cards, or any other product that the preparer offers you to get your refund immediately. These products do not deliver your refund much faster, and they take a big chunk out of it in unnecessary fees. After your return is filed, you can check the status of your refund using the IRS's Where's My Refund tool (https://www.irs.gov/wheres-my-refund).

might receive a bigger tax credit or you might have to repay some or all of the credit you received, depending on if your income for the year was lower or higher than you estimated when signing up for coverage. If you had employer-sponsored or individual health insurance during the year, nothing will be different about your taxes.

If you owe taxes, contact the IRS to arrange a payment plan if you cannot pay the entire amount all at once. You will still have to pay late fees and interest, but those who do not make arrangements with the IRS risk having their wages garnished, having a tax lien filed against them, or having valuables and assets seized.

If your tax problem is causing financial difficulty or has not been resolved through normal channels, contact the Taxpayer Advocate Service online (*https://www.irs.gov/taxpayer-advocate*) or at 877-777-4778.

Saving for a purpose

There are strategies for making saving easier. One of the best is to set up an automatic transfer from your checking account to your savings or investment account every payday. If you never see the money, you won't miss it.

Save as early and as consistently as possible, even if it's only a little each week or month. Thanks to the power of compound interest (or reinvested investment gains), someone who saves smaller amounts early in life can end up with more money than someone who saves larger amounts later in life.

Take advantage of employer-sponsored retirement savings plans such as a 401(k) or 403(b). The money comes out of your check before taxes are calculated, so the reduction in your paycheck will be smaller than the amount you contribute. Many employers also match employee contributions up to a limit—free money for you!

Take advantage of non-employment-sponsored tax-advantaged retirement savings plans, too, if you qualify. There are two kinds of individual retirement account (IRA):

- A traditional IRA provides a tax break on contributions for qualified savers. Taxes are paid only on withdrawals (called "distributions"), which must begin by age 73.
- Contributions to a Roth IRA are made with after-tax dollars, but withdrawals are tax-free (including accrued account earnings). You can contribute indefinitely, and there are no distribution requirements.

Get IRS Publication 590-A (*https://www.irs.gov/forms-pubs/about-publication-590-a*) for the latest IRA rules, income limits and exceptions.

Although most experts recommend saving for retirement rather than college if resources are very limited, it's a good idea to learn about state-sponsored 529 college savings plans and other college savings options. A good place to start is TIME's How to Start Saving for Your Kids' College (*https://time.com/personal-finance/article/how-to-start-*

saving-for-your-kids-college/) and SavingForCollege.com's College Savings Options: The Best Way to Save for College (https://www.savingforcollege.com/article/6-ways-you-can-save-for-college).

As you decide where to put your money, keep timing in mind. Funds that you may need soon or suddenly, such as the money in your emergency fund, should be in a liquid (quickly accessible) account. These include savings accounts, money market accounts and possibly short-term certificates of deposit (CDs). Such accounts typically earn very little interest, but your goal here is safety and liquidity rather than growth.

CDs earn higher interest than savings accounts, but you must commit to leaving your money in the account for a specified period. The longer the term, the higher the interest rate. Very short-term CDs—the kind that might be appropriate for an emergency fund—pay very little interest. If you withdraw the money early, you'll pay a penalty. Visit Bankrate.com (https://www.bankrate.com/banking/cds/cd-rates/) to compare interest rates.

Your deposit accounts at any FDIC-insured bank and at all federal credit unions are insured up to $250,000 per depositor per account type. Learn more about FDIC insurance and find out which institutions are covered at FDIC.gov (https://www.fdic.gov/resources/deposit-insurance/understanding-deposit-insurance/). Credit union members can visit MyCreditUnion.gov (https://mycreditunion.gov/share-insurance) for similar information.

U.S. savings bonds are guaranteed by the government and can be purchased online in denominations ranging from $25 to $10,000. When you buy a savings bond, you loan the amount you paid for the bond to the federal government. Over time (up to 30 years), the savings bond earns interest. After 12 months, you can cash in the bond for its face value plus the interest it has earned (though you will lose the last three months of interest if you cash in the bond sooner than five years). You may qualify for tax savings on bonds used to pay for education. For more information, visit SavingsBonds.gov.

Individual development accounts (IDAs) help low-income families save for education or job training, to buy a home or to start a business. Visit the Prosperity Now website (https://prosperitynow.org/map/idas) to find local programs.

If you are on public assistance, ask your benefits counselor how much you can save without jeopardizing your benefits.

Investing

When you invest, you accept some risk in exchange for the opportunity for greater rewards. Generally speaking, as the opportunity for higher returns increases, so does the risk of losing some or all of your money. While it might seem tempting to avoid all risk, you will need your savings to grow at a rate that far outpaces inflation if you want it to last you a lifetime. That is not possible with savings or money market accounts, savings bonds and CDs. The key is understanding and managing your risk.

Whether you save for retirement through your employer or on your own, you will have to make investment choices. The Securities & Exchange Commission's (SEC) investor website (https://www.investor.gov) and the FINRA site (https://www.finra.org/investors#/) are good places to start learning about investing. The book Investing for Dummies, by Eric Tyson (https://www.amazon.com/Investing-For-Dummies-Eric-Tyson/dp/1118884922), is a reader-friendly beginner's guide to investing, as is Consumer Action's publication Investing Basics: Get started putting your money to work for you (available in English, Spanish, Chinese, Vietnamese and Korean) (https://www.consumer-action.org/english/articles/Investing_Basics).

Generally speaking, the longer your investment time frame and the more you diversify (spread out) your investments, the lower your risk. In other words, investing in 20 different stocks for 20 years is less risky than investing in one single stock for one year.

Many individuals achieve diversification by investing in mutual funds. Mutual funds are portfolios of stocks, bonds and other securities in which the public can buy shares. Each investor shares in the fund's gains, losses and expenses. You can lose money in mutual funds, too, but they are generally much safer than individual stocks.

When choosing a mutual fund, look for one that has good long-term performance, charges no

"load" (fee) to purchase, and keeps annual management and miscellaneous fees to a minimum. Learn more in Investopedia's How to Choose the Best Mutual Fund (https://www.investopedia.com/investing/how-pick-best-mutual-fund/). How to invest: An essential guide (https://www.getrichslowly.org/how-to-invest/) explains how to build a low-fee portfolio by investing in index funds—a particular kind of mutual fund.

Similar to a mutual fund, an exchange-traded fund (ETF) pools investors' money and uses it to buy a portfolio of investments. But, unlike mutual funds, ETFs can be traded on the stock exchange, with prices fluctuating throughout the day. (Mutual funds trade only once a day, after the market closes.) And unlike many mutual funds, ETFs have no minimum investment requirement. Learn more about ETFs from Investopedia (https://www.investopedia.com/terms/e/etf.asp) and in the SEC's Mutual Funds and ETFs: A Guide for Investors (https://www.investor.gov/sites/investorgov/files/2023-09/mutual-funds-ETFs_2_0.pdf).

Many people who invest in mutual funds do so through a brokerage account they open with a brokerage firm (for example, Charles Schwab, Fidelity, Vanguard or E*Trade). It's easy to open an account, and many brokerages don't require a minimum deposit to do so—but you'll need to fund the account to make investments. You can deposit money as you are able, or you may be able to schedule automatic transfers from your bank account. Many mutual funds have low initial investment requirements, and, after making your first investment in the fund, you may be able to set up automated investments of the amount and frequency you choose.

If you choose to hire a financial adviser, be aware that many earn a commission from the investments you purchase, regardless of whether or not those investments do well. There are also fee-only advisers, who provide advice but do not profit off the purchase of investments. FINRA describes what to expect when you open a brokerage account, explains the difference between different types of investment professionals, and lets you check out a broker before you hire (https://www.finra.org/investors/investing/working-with-investment-professional). Consumer Reports offers a free online Investment Company Guide (https://www.consumerreports.org/money/investment-companies/buying-guide/).

Renting vs. homeownership

In the U.S., the greatest source of wealth for most households is the value of their homes. In addition to building equity (ownership) in their property, homeowners benefit from valuable tax breaks that make buying a home more affordable.

The cost of owning a home includes the monthly mortgage payment, property taxes, insurance, repairs and maintenance. You'll also need to save up a down payment before you can qualify for a home loan.

Renting typically entails less upfront cash (a security deposit and first and last months' rent, but no down payment or closing costs), offers greater freedom to move around, and allows you to avoid the cost of repairs, maintenance

and property taxes. However, you lack the freedom to do what you want with the property, you don't build equity or benefit from housing-related tax deductions, and you always run the risk of having to move out.

If you don't already own a home, consider buying one if you can comfortably afford it, and if you don't plan to move within the next five years or so.

Learn more by enrolling in a first-time homebuyers class. To find one, visit the Department of Housing and Urban Development (HUD) website (https://www.hud.gov/topics/buying_a_home) or call 800-569-4287. The CFPB offers Buying a house: Tools and resources for homebuyers (https://www.consumerfinance.gov/owning-a-home/). HUD-certified counselors can inform you about state and local homebuyer assistance programs. You can also find information about homebuyer assistance programs on the HUD website (https://www.hud.gov/program_offices/administration/grants/grantssrc).

Mortgages

A mortgage is a loan used to purchase real estate. If you do not repay the loan as promised, the lender can foreclose and you could lose the property.

There are fixed-rate mortgages, where the interest rate and monthly payment stay the same for the length of the loan. And there are adjustable-rate mortgages (ARMs), which may be more affordable for first-time homebuyers because they start out with a lower introductory rate and payment. However, the interest rate—and payments—can increase at intervals during the life of the loan. So, before choosing an adjustable-rate (or variable-rate) loan, find out how high the interest rate and payment could go, and be sure you can afford the increase. A mortgage can last any length of time, but 15 years and 30 years are most common.

Banks, credit unions, mortgage companies and other institutions make mortgage loans. There are also some government agencies, such as the Veterans Administration (VA) and the Federal Housing Administration (FHA), that offer special loan programs that may be easier to qualify for.

Many factors influence a lender's decision to approve or decline your mortgage application. But in general, the more you have saved for the down payment, the less debt you have, and the higher your credit score, the more likely you are to get the loan. Learn more in HUD's Looking for the Best Mortgage publication (https://www.hud.gov/sites/documents/BOOKLET.PDF), the Federal Trade Commission's Shopping for a Mortgage FAQs (https://consumer.ftc.gov/articles/shopping-mortgage-faqs), and the CFPB's Mortgages webpage (https://www.consumerfinance.gov/consumer-tools/mortgages/).

Successful homeownership

Successful homeownership means:

- Paying your mortgage on time
- Maintaining sufficient homeowners insurance
- Paying your property taxes as required
- Staying current on dues if you are part of a homeowners association
- Maintaining your home well
- Being financially prepared for necessary repairs and upgrades
- Protecting your equity and avoiding foreclosure

Many homeowners eventually refinance their mortgage or take out a home equity loan (second mortgage) to take advantage of lower interest rates, shorten the repayment period (to get out of debt sooner and save on interest charges over the life of the loan), lengthen the repayment period (to reduce monthly payments), or tap the equity in their home. In any case, compare loans carefully, and watch out for loans that contain unfavorable terms (a prepayment penalty, for example) or low initial payments that jump to unaffordable levels. Check loan rates at Bankrate.com, and borrow only from a reputable lender.

While a low-cost home equity loan or line of credit can be a good financial choice, there are risks. If you can't repay the loan as promised, you could lose your home. A home equity line of credit (HELOC) can be particularly risky because it functions like a credit card with a very high limit.

At the first sign you might miss a mortgage payment, contact a housing counseling agency for help avoiding foreclosure. Find an agency through HUD online (https://hud4.my.site.com/housingcounseling/s/?language=en_US) or at 800-569-4287.

Insurance

If you don't have adequate insurance, you could suffer a loss that would be difficult or impossible to recover from. These are some widely needed types of insurance:

- Auto insurance: This coverage protects you and others from financial loss as the result of an accident, theft or other peril. Forty-nine states require drivers to carry a minimum amount of liability insurance. If you have an auto loan, the lender may also require collision and comprehensive coverage.
- Renters insurance: This protects you from loss of or damage to your possessions due to theft, fire or other covered perils. It also typically includes some liability coverage for accidents and injuries that occur in your home. Renters coverage is relatively inexpensive. (Your landlord's insurance does not cover your possessions.)
- Homeowners insurance: Homeowners insurance covers damage to your home and possessions and your liability if anyone is injured on your property. It also provides some other types of protection, such as coverage for theft of your belongings away from home. Coverage for damage caused by a flood or earthquake typically must be purchased separately.
- Health insurance: If you do not have coverage through an employer or a government program, you should obtain it on your own. Under the Affordable Care Act, you may be eligible for a subsidy that makes coverage more affordable. Visit HealthCare.gov for more information.
- Disability insurance: This insurance replaces a percentage of your income if you are unable to work due to an illness or accident. There is short-term disability and long-term disability insurance. If your employer doesn't offer coverage, consider purchasing an individual long-term disability policy.
- Life insurance: If anyone (a spouse, partner, children or parents, for example) depends on you for financial support, then you should consider buying life insurance, which pays money (a "death benefit") to your beneficiaries when you die. There is term insurance, which ends after a certain number of years of paying premiums; if the death benefit is not paid out during the life of the policy, there is no value left at the end of the term (typically, between 10 and 30 years). And there is permanent (also known as cash value) insurance, which is intended to provide coverage throughout your entire life and includes a savings component. "Whole" and "universal" are types of permanent/cash value insurance. Term is less expensive than permanent insurance, and may be more appropriate for some families. Consumer Reports (https://www.consumerreports.org/life-insurance/how-to-choose-the-right-amount-of-life-insurance/) and Investopedia (https://www.investopedia.com/term-life-vs-whole-life-5075430) offer information that can help you decide which type of insurance, and how much, would be right for you.

How much of which types of insurance is needed varies from person to person.

You can buy insurance from: an insurer that sells directly to consumers; an insurance company agent; an independent broker; and websites that sell policies for multiple insurers or that connect customers who request a quote online with participating agents. Shop around—the difference in coverage and price (premiums) among insurers can be hundreds of dollars.

Learn more about insurance by visiting the Insurance Information Institute online (https://www.iii.org/insurance-basics/life-insurance/shopping-for-insurance-1).

About Consumer Action

www.consumer-action.org

Through education and advocacy, Consumer Action fights for strong consumer rights and policies that promote fairness and financial prosperity for underrepresented consumers nationwide.

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