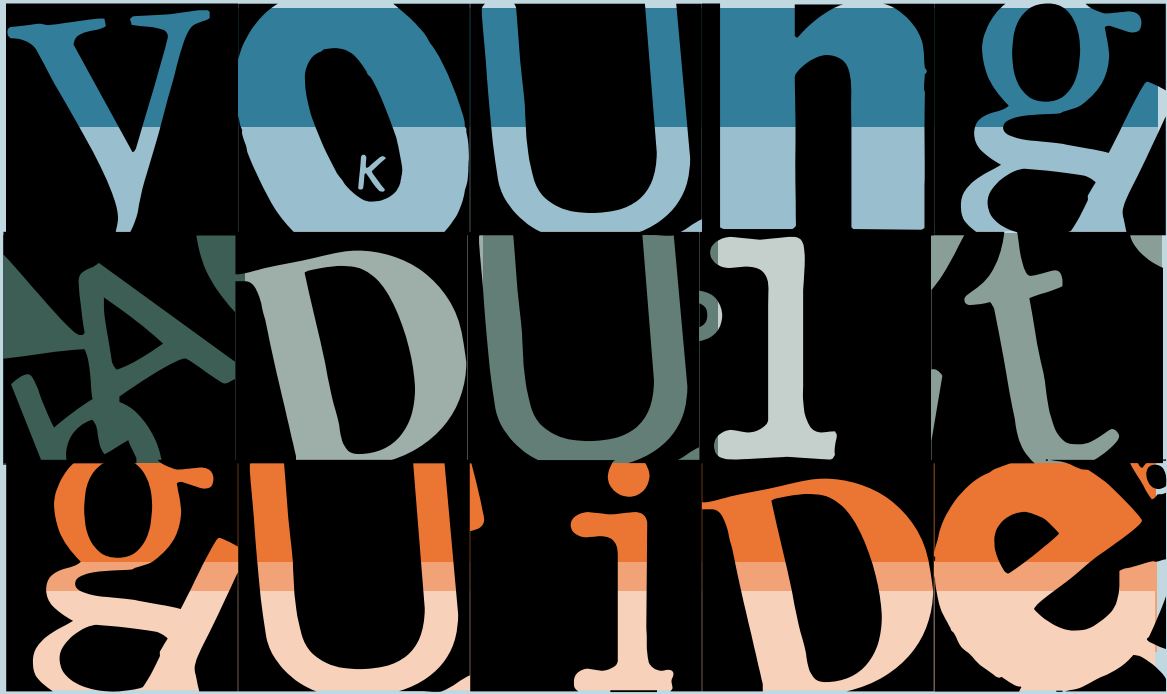


P A S E



PARTNERSHIP FOR AFTER SCHOOL EDUCATION



# YOUNG ADULT GUIDE to Saving and Investing for Retirement

Partnership For After School Education

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*Dollars & Sense: Building Financial Dreams* is made possible by a grant from the FINRA Investor Education Foundation.

## Introduction

### WELCOME

Welcome to the *Dollars & Sense Young Adult Guide to Saving and Investing for Retirement*. Created by the Partnership for After School Education (PASE) with valuable input and guidance from the Dollars & Sense Advisory Committee, this guide provides reference material for young adults beginning to think about saving for retirement. This guide was developed as part of the “Dollars & Sense: Building Financial Dreams” initiative, which seeks to bring financial literacy training to young adults in low- and middle-income areas in New York City.

This guide provides a wide variety of information and resources for young adults beginning to work towards building their financial futures. It is intended as a supplement to the “Dollars & Sense: Building Financial Dreams” curriculum and builds off topics and ideas introduced in that course.

This project would not have been possible without the hard work and support of many individuals, especially Ken Andrichik, Yvonne M. Brathwaite, Peter Brookman, Anthony Davis, Ken deRegt, Emily Feinstein, Jonathan Feldman, Elizabeth Fisher, Angel Folgar, Kenyatta Funderburk, Janet Gumbs, David Kelley, Janet Kelley, Collis Klarberg, Kyla Kupferstein, Ellen O'Connell, Alison Overseth, Elizabeth Rodriguez, Kevin Roe, Julia Rominger, Diane Schweitzer, Marcia Smith, Roy Swan, Maria Seiler, and Tony Zisa.

### IMPORTANT NOTE

The banks and websites listed in this guide are provided only as a convenience to the reader. Inclusion in this guide does not indicate any sort of endorsement from PASE, the FINRA Investor Education Foundation, or the Dollars & Sense Advisory Committee.

## Planning for retirement? but I'm so young!<sup>1</sup>

### YES, RETIREMENT IS MANY YEARS OFF, BUT...

- o You will likely have to pay for more of your own retirement than earlier generations.

### FORTUNATELY...

- o **Time is on your side** - you can do a lot with a little amount of money
- o If you put \$1,000 a year from age 20 to age 30 into an IRA with a 7 percent return compounded annually and never put in any more money, you will have \$157,838 when you are thinking to retire at age 65. That's a total contribution of \$10,000, which can be broken down to \$83.33 a month.
- o Compare this to your friend, who doesn't start saving at all until age 30 and then puts in \$1,000 a year for 35 years - s/he'll have just \$147,913 at age 65. That's a total contribution of \$35,000.
- o Your friend has less money than you despite putting in more than three times as much money.
- o Time is on your side-you can afford to take more risk.

<sup>1</sup> Saving Fitness: A Guide to your Money and Your Financial Future;  
U.S Department of Labor Employee Benefits Security Administration.  
<<http://www.dol.gov/ebsa/pdf/savingsfitness.pdf>>.

## “SPEND” to SAVE<sup>2</sup>

### THE FIRST STEPS TO GAINING CONTROL OF YOUR FINANCES ARE DEVELOPING A SPENDING AND SAVINGS PLAN.

#### STEP 1:

Figure out your income. Add up monthly income: wages, average tips or guaranteed bonuses, alimony or child support payments you receive, investment income, unemployment benefits, etc. Don't include things you can't count on, such as lottery winnings or gifts from parents or others.

#### STEP 2:

Add up your expenses. Add up monthly expenses: mortgage or rent, car payments, average food bills, alimony or child support you pay, medical expenses, entertainment, etc. Determine an average for expenses that vary each month, such as clothing, or that don't occur every month, such as car insurance or self-employment taxes. Review your checkbook, credit card records, and receipts to estimate expenses. You probably will need to track how you spend cash for a month or two. Most of us are surprised to find out where and how much cash “disappears” each month.

#### STEP 3:

Include savings as an expense. Better yet, put it at the top of your expense list. Here's where you add in the total of the amounts you need to save each month to accomplish the goals you wrote down earlier.

#### STEP 4:

Subtract income from expenses. What if you have more expenses (including savings) than you have income? Not an uncommon problem. You have 3 choices: cut expenses, increase income, or both.

#### STEP 5:

Cut expenses. There are hundreds of ways to reduce expenses, from clipping grocery coupons and bargain hunting to comparison shopping for insurance and buying new cars less often. You also can find lots of expense-cutting ideas in books and magazine articles.

#### STEP 6:

Increase income. Take a second job, improve your job skills or education to get a raise or a better paying job, make money from a hobby, or jointly decide that another family member will work.

## Income & Expenses WORKSHEET<sup>3</sup>

**INCOME:** Money coming to you. Example: wages, child support, Social Security, gifts, etc.

**EXPENSES:** Money that you will spend. There are two kinds of expenses: fixed and flexible.

**FIXED EXPENSES:** Expenses where the cost remains constant or fixed over a long period of time. Example: rent and daycare.

**FLEXIBLE EXPENSES:** Expenses that can vary based on your behavior. Example: utilities and entertainment.

Once you know your sources of income and what your expenses are, you can place them into a monthly Income and Expenses Worksheet which will help you develop a more realistic budget. See the sample Income and Expenses Worksheet. In this example, is the person coming out ahead this month? Yes! And he has already put money aside for savings. So where might one put that extra cash? How about a retirement fund or continue to build up your savings. Remember savings should always be listed as an expense. Take some time to fill out your personal budget on the next page. Did you come out ahead at the end of the month?

### SAMPLE BUDGET

MY INCOME	MONTHLY AMOUNT
Wages	\$2,000
Child Support/Alimony	300
Interest/Dividends	
Social Security	
Other	
Public Assistance	
<b>TOTAL INCOME</b>	<b>2,300</b>

MY EXPENSES	MONTHLY AMOUNT
<i>Fixed Expenses:</i>	
Rent/Mortgage	\$700
Property Taxes/Insurance	
Trash Collection	
Car payment	
Car insurance	\$150
Other loan payments	
Child Support/Alimony	
Health Insurance	
Day care/elder care	\$375
<i>Flexible Expenses:</i>	
Savings	\$75
Gas/Oil	
Electricity	
Water	
Telephone	\$50
Food	\$400
Transportation/Gas	
Car Maintenance	
Education	
Personal Expenses	\$125
Entertainment/Other	\$225
<b>TOTAL EXPENSES</b>	<b>\$2,200</b>

<sup>3</sup> Personal Financial Management: Participant Manual; JP Morgan Chase, 2005. <[http://www.chase.com/cm/shared/crb/page/financial\\_education\\_main.html](http://www.chase.com/cm/shared/crb/page/financial_education_main.html)>.



## WHAT, WHY AND HOW OF BUDGETING<sup>4</sup>

WE ALL ARE FAMILIAR WITH THE WORD BUDGET, BUT UNDERSTANDING THE RATIONALE AND HOW A BUDGET WORKS, ENABLES YOU TO PUT YOUR BUDGET INTO PLAY.

### WHAT IS A BUDGET?

- o A savings and spending plan.
- o A plan for meeting expenses in a given period of time.

### WHY BUDGET?

- o Provides control of your financial situation.
- o Helps you build *assets* and improve your quality of life.
- o Reduces money-related anxiety.

### HOW CAN I TELL IF I HAVE A GOOD BUDGET?

- o Provides for achievement of goals.
- o It's balanced, which means that income and spending (including savings) are equal.

## DECREASE DAILY SPENDING<sup>5</sup>

Here are some strategies for decreasing the amount you spend on a daily basis. Remember that how “hard” or “easy” these strategies are depends on the individual. So pick the methods that work best for you.

### STRATEGIES FOR DECREASING DAILY SPENDING

- o Open a checking account to enable direct deposit and avoid check cashing fees.
- o Carry only small amounts of cash in your wallet.
- o Limit use of debit card; keep track of your debit card purchase receipts to get a firm grip on your debit card spending.
- o If available, use direct deposit so the money goes directly into your account.
- o Control or limit the use of credit cards.
- o Write down your savings goals and refer to them often as a reminder.
- o Buy only what you need and use a shopping list to prevent “impulse” buying.
- o Use coupons.
- o Take your breakfast & lunch to work instead of eating out.
- o Shop around to get the best deals on big-ticket purchases like cars and appliances.
- o Pay your bills on time to avoid late fees, extra finance charges, utilities being turned off, eviction, repossessions, and the costs of a bad credit rating.

# SAVING VS. INVESTING<sup>6</sup>

It is important to have a basis for understanding of the core differences between saving and investing. Stated most simply, saving is setting money aside for a future goal, while investing is taking steps to make your money grow.

## SAVING

- o **Initial step.** You can't put into play any money for investing until you have your expenses under control and you've met your basic savings needs such as an emergency fund.
- o **Postpones spending.** You can't get back the money from that latte or cute pair of shoes. Savings helps money add up.
- o **Usually has safety features.** If you deposit your money into an insured bank or credit union account, the initial dollar amount you deposit and any interest you earn is protected up to \$100,000. In short, you put \$100 into a savings account; you can always get your \$100 out.

## INVESTING

- o **Long term process.** Intended to provide income or benefit in the more distant future.
- o **Exchanges money for something with expectation of receiving a profit.** For example, when you invest your money in stocks, bonds, mutual funds, or real estate you hope to earn a return.
- o **Has risk factors.** When you invest, you take risk. The initial dollar amounts on some investments can rise or fall with no guarantee of returns. But by starting early, you have more time to recoup and learn from mistakes. Sometimes you have to make hard decisions on where to cut back on expenses so that you can save more. A first step is decreasing daily spending.

<sup>6</sup> Money Management: Saving vs. Investing; Citigroup Financial Education Curriculum. <[http://www.citigroup.com/citigroup/financialeducation/curriculum/pdf/mm\\_sav\\_inv.pdf](http://www.citigroup.com/citigroup/financialeducation/curriculum/pdf/mm_sav_inv.pdf)>.

## SAVINGS OPTIONS<sup>7</sup>

The simplest and most well-known way to begin earning money on your savings is to open a savings account at a financial institution. In general, savings options are characterized by low risk on the principal and high liquidity. Let's look at some common savings alternatives.

Note that the accounts are listed in ascending order, based on traditional rates of return.

### SAVINGS ACCOUNT

A deposit account that pays interest but cannot be withdrawn from by check writing.

- o Access your money at any time.
- o Earn interest.
- o Pay no fees if you maintain a minimum balance.
- o Move money easily from one account to another.
- o Have your savings insured by the FDIC up to \$100,000.
- o The National Credit Union Administration (NCUA) insures credit union accounts up to \$100,000.
- o Both the FDIC and the NCUA provide up to \$250,000 in insurance for IRA savings accounts.

### MONEY MARKET ACCOUNT

A deposit account that offers a higher rate of return but often requires a higher minimum balance to avoid fees.

- o Access your money at any time.
- o Earn interest.
- o Pay no fees if you maintain a minimum balance.
- o Move money easily from one account to another.
- o Have your savings insured by the FDIC up to \$100,000.
- o May offer check-writing services.

### CERTIFICATE OF DEPOSIT

Interest-bearing deposit that requires a minimum dollar amount to open the account and remains in the bank for a fixed period, but generally earns a higher rate of return.

- o Earn interest during the term (3 months, 6 months, etc.).
- o Have your savings insured by the FDIC up to \$100,000.
- o Must leave the deposit in the account for the entire term or incur an early-withdrawal penalty.
- o Receive the principal and interest at the end of the term or can easily "roll over."

### INDIVIDUAL DEVELOPMENT ACCOUNT

A special savings account that matches the funds saved in the account in order to encourage families with incomes below a certain amount to save money on a regular basis.

- o For individuals whose income is below a certain level.
- o Generally opened at a local bank.
- o Deposits often matched by a foundation, government agency or other organization.
- o Can be used for buying a first home, education/job training, or starting a small business.
- o Training on budgeting, saving and managing credit are frequently part of IDA programs.

<sup>7</sup> Building Wealth: A Beginner's Guide to Securing Your Financial Future; Federal Reserve Bank of Dallas, 2007. <<http://www.dallasfed.org/ca/wealth/3.html>>.

## OVERVIEW OF INTERNET BANK ACCOUNTS

An Internet bank account is an account that's only offered online. The major advantage of an internet bank account is the Annual Percentage Yield (APY) they offer their customers. Online banks have fewer expenses than traditional banks. For example, they do not have to pay rent. By banking online, you save the bank money which it ideally passes on to you in the form of higher savings rates.

### WHAT TO LOOK FOR BEFORE YOU OPEN AN INTERNET BANK ACCOUNT

There are differences between online banks and you have to make sure you get the right one. Just like you would compare the most common features of a traditional bank (in person banking) you should research an internet bank account in order to decide which online bank best matches your needs. Secondly it is important to be familiar with the drawbacks of online accounts.

### KEY CONSIDERATIONS FOR INTERNET BANK ACCOUNTS

Not every bank offers the same features, so you have to decide their level of importance.

1. **APY.** What is the rate? This is usually the most important feature for online banking.
2. **Access to the money.** How quickly can you have your money if you want to use it?
3. **Number of linked accounts.** Can you set up all of your accounts online and transfer money back and forth through your internet bank account?
4. **Additional products and services.** Can you buy CDs, get a mortgage, or pay bills online?
5. **Customer service options.** How easy will it be to get questions answered?
6. **Security.** Is the bank FDIC or NCUA insured? To determine if a bank is insured, call the FDIC toll-free at 1-877-275-3342, or use the "Bank Find" feature at [www.fdic.gov/deposit/index.html](http://www.fdic.gov/deposit/index.html). For credit unions, visit [www.ncua.gov/data/directory/cudir.html](http://www.ncua.gov/data/directory/cudir.html) to check NCUA's current credit union directory.
7. **Fees.** What fees does the bank charge to maintain the account?

### ONLINE BANK ACCOUNT DISADVANTAGES

The high returns associated with online accounts can come at a cost. You need to know what are the tradeoffs to avoid unpleasant surprises. Here are a few things to consider before you use online bank accounts.

### CUSTOMER SERVICE WITH ONLINE BANK ACCOUNTS

With a traditional bank, you can do your banking in person and you will likely have some familiarity with the staff at your local bank. It's easier to get good service if you know the staff and they know you. You can also pick and choose who you deal with. However, if your online bank account offers any phone service, you have to take your chances with their toll-free number.

### TECHNICAL DIFFICULTIES

Sometimes online banking websites go down. When this happens, there is no backup branch that you can go to and the phone lines will be clogged. To protect yourself, you may want to keep an account at a local bank with some emergency cash so you won't be penniless while they fix the problem.

### SPENDING FROM YOUR ONLINE BANK

Not all online banks provide traditional check writing services. Therefore it may be difficult to access your money. If check writing is an important feature for you, do your research to locate online banks that provide that option.

# COMPOUND INTEREST<sup>8</sup>

Regardless of where you choose to put your money - cash, stocks, bonds, real estate, or a combination of places - the key to saving for retirement is to make your money work for you. Compounding investment earnings is what can make even small investments become larger given enough time.

## UNDERSTANDING INTEREST

- o Simple Interest - Interest just paid on the principle
- o Compound Interest - Interest on interest

## SIMPLE VS. COMPOUND EXAMPLE

**\$5,000 INVESTED FOR FIVE YEARS AT 5% INTEREST**

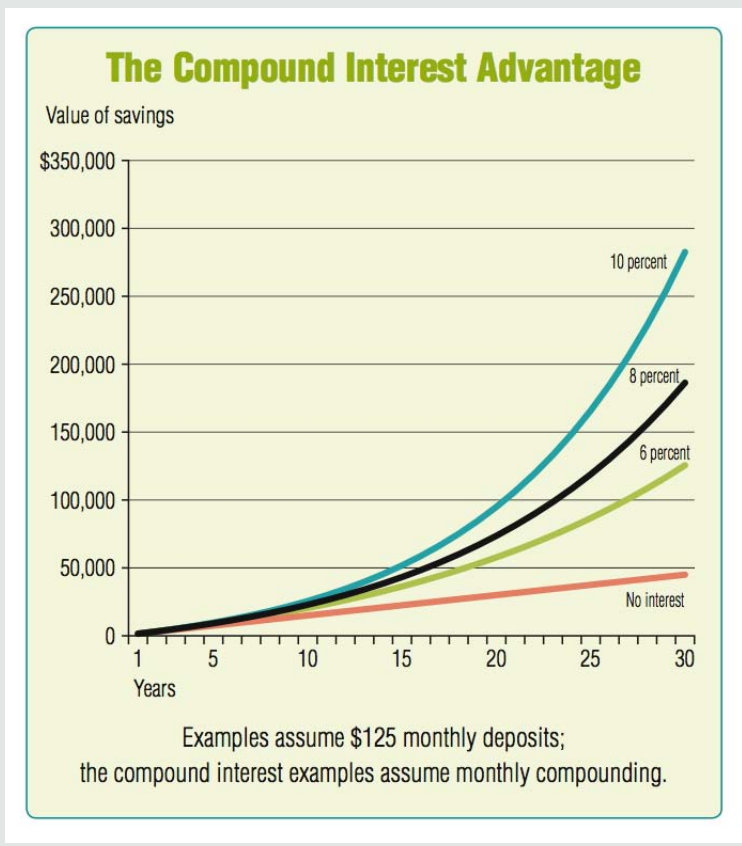
Year	Simple		Compound	
	Balance	Interest	Balance	Interest
1	\$5,000.00	\$250.00	\$5,000.00	\$250.00
2	\$5,250.00	\$250.00	\$5,250.00	\$262.50
3	\$5,500.00	\$250.00	\$5,512.50	\$275.50
4	\$5,750.00	\$250.00	\$5,788.13	\$289.40
5	\$6,000.00	\$250.00	\$6,077.53	\$303.88
<b>Final</b>	<b>\$6,250.00</b>		<b>\$6,381.41</b>	

## THE POWER OF COMPOUNDING

- o Money you put into a savings account earns interest. Then you earn interest on the money you originally put in, plus on the interest you've accumulated. As the size of your savings account grows, you earn interest on a bigger and bigger pool of money.
- o The real power of compounding comes with time. The earlier you start saving, the more your money can work for you.
- o For every 10 years you delay before starting to save for retirement, you will need to save three times as much each month to catch up as risk factors.

<sup>8</sup>U.S Department of Labor Employee Benefits Security Administration

# THE COMPOUND INTEREST ADVANTAGE<sup>9</sup>



## TAKE ADVANTAGE OF COMPOUND INTEREST

The chart shows how compound interest at various rates would increase the savings compared with simply putting the money in a shoebox where it would earn no interest. When does compounding really start to pay off? From this graph you can see how compounding has a greater effect after the investment and interest have increased over a longer period. That is why we encourage people to start saving when they are young!

<sup>9</sup>Federal Reserve Bank of Dallas

# EVALUATING SAVINGS OPTIONS<sup>10</sup>

No particular savings alternative is “best” for a particular individual or family. Maybe, a combination of options would help you meet your savings objectives. Some characteristics about a savings option may be more important to you than others. To help you find out, here are some questions to consider.

**1. Is a minimum deposit required?**

Some accounts require a minimum deposit to open.

**2. Is there a minimum balance to maintain**

If you fall below that minimum balance, will fees be charged for transactions and/or for keeping account open?

**3. Is the principal safe?**

Is the account FDIC or NCUA insured? Remember with investments such as stocks, bonds, mutual funds, real estate, your principal is not guaranteed.

**4. What is the interest rate?**

Interest rates are competitive so here is where banks can compete for your business. Is it a variable rate?

**5. How frequently is the interest compounded?**

What is the timeframe for compounding? Moreover how is it compounded? For example, a savings account that promises 4% monthly compounding might be compounding daily. They are compounding 1/30th of 4% each day.

**6. Is the return guaranteed?**

Savings accounts and CD's generally guarantee their return. Investments do not.

**7. Can funds be withdrawn without penalty or loss of interest?**

CD's and bonds have fixed timeframes. If withdraw before, you will pay a penalty.

**8. What other fees apply?**

Fees may apply to usage of bank card.

<sup>10</sup> Money Mechanics, Saving and Investing; Pm-1462; Iowa State University Extension, August 2006. <<http://www.extension.iastate.edu/Publications/PM1462.pdf>>.

# EVALUATION OF SAVINGS OPTIONS QUESTIONNAIRE

Finding the right savings accounts requires some research. Use this grid to help lay out your research on various savings accounts within a bank or amongst different banks. While this information can often be found on line or through bank brochures, sometimes the best way to get this information is speaking in person with a bank account representative.

	Minimum Deposit Required?	Minimum Balance Required?	Is the principal safe?	How often is interest compounded?	Is the return guaranteed?	What fees apply to the account?	Able to withdraw funds without penalty or loss of interest?
Bank #1							
Bank #2							
Bank #3							
Bank #4							

## BUILDING BLOCKS OF RETIREMENT: 3-LEGGED STOOL

**Imagine a 3-legged stool. Each leg of the stool comprises part of your retirement income.**

- LEG 1= Social Security income
- LEG 2= Employer-sponsored plan
- LEG 3= Personal Savings and Investments

What happens if you don't have one of these legs? The stool becomes unstable.

**Therefore you need to have a balanced retirement plan.**



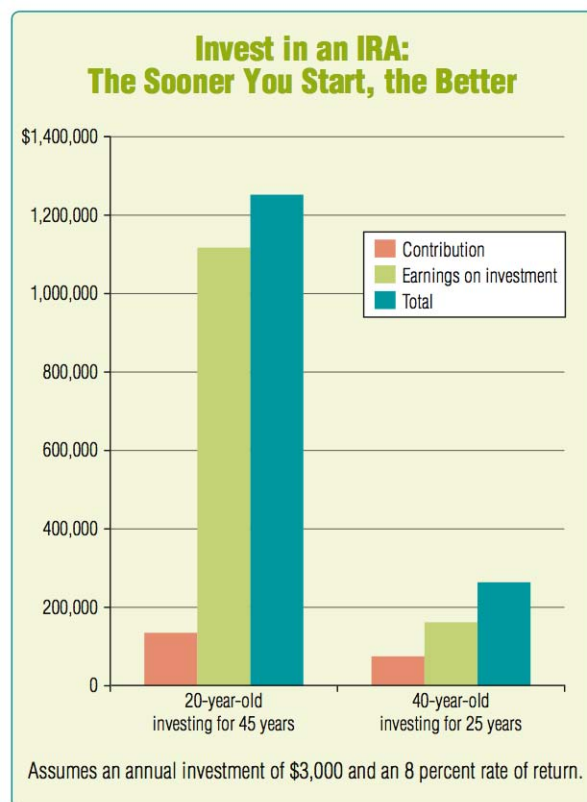
# PLANNING FOR RETIREMENT <sup>11</sup>

The easiest (and most likely) way most of us will be investing is through our retirement plans.

## TIME IS ON YOUR SIDE

Retirement probably seems vague and far off at this stage of your life. Besides, you have other things to buy right now. Yet there are some crucial reasons to start preparing now for retirement.

- o You'll probably have to pay for more of your own retirement than earlier generations. The sooner you get started, the better.
- o You can start small and grow. Even setting aside a small portion of your paycheck each month will pay off in big dollars later.
- o You can afford to invest more aggressively. You have years to overcome the inevitable ups and downs of the stock market.
- o Developing the habit of saving is easier when you are young.



<sup>11</sup>Federal Reserve Bank of Dallas

# HOW MUCH TO SAVE FOR RETIREMENT<sup>12</sup>

It is very difficult to save adequately for retirement if you don't at least have a rough idea of how much you need to save every month. There are numerous worksheets and software programs that can help you calculate approximately how much you'll need to save. Professional financial planners and other financial advisors can help as well.

## HOW MUCH RETIREMENT INCOME WILL I NEED?

An easy rule of thumb is that you'll need to replace 70 to 90 percent of your pre-retirement income. If you're making \$50,000 a year (before taxes), you might need \$35,000 to \$45,000 a year in retirement income to enjoy the same standard of living you had before retirement. Think of this as your annual "cost" of retirement. The lower your income, generally the higher the portion of it you will need to replace.

## WHAT OTHER SOURCES OF INCOME WILL I HAVE?

96% of working Americans count on Social Security as part of their retirement plan. For the average worker, Social Security replaces roughly 40% of pre-retirement income. Therefore one will need to have pensions, savings, and investments.

Social Security mails statements to workers age 25 and older showing all the wages reported and an estimate of retirement, survivors and disability benefits. You can request a statement by visiting the Social Security Administration's Web site at <http://www.ssa.gov> or by calling **800-772-1213** and requesting a free Personal Earnings and Benefit Estimate Statement. Important to note that full social security benefits are paid out at age 67 for all people born after 1960.

## WILL YOU HAVE OTHER SOURCES OF INCOME?

For instance, will you receive a pension that provides a specific amount of retirement income each month? Is the pension adjusted for inflation?

## WHAT SAVINGS WILL I NEED FOR RETIREMENT?

You'll need to build a nest egg sufficient to make up the gap between the total amount of income you will need each year and the amount provided annually by Social Security and any pension income. This nest egg will come from your retirement plan accounts at work, IRAs, annuities, and personal savings.

## WHAT ADJUSTMENTS MUST BE MADE FOR INFLATION?

The cost of retirement will likely go up every year due to inflation - that is, \$35,000 won't buy as much in year 5 of your retirement as it will the first year because the cost of living usually rises.

## WHAT WILL MY INVESTMENTS RETURN?

Any calculation must take into account what annual rate of return you expect to earn on the savings you've already accumulated and on the savings you intend to make in the future. You also need to determine the rate of return on your savings after you retire. These rates of return will depend in part on whether the money is inside or outside a tax-deferred account.

## HOW MANY YEARS DO I HAVE LEFT UNTIL I RETIRE?

The more years you have, the less you'll have to save each month to reach your goal.

## HOW MUCH SHOULD I SAVE EACH MONTH?

Once you determine the number of years until you retire and the size of the nest egg you need to "buy" in order to provide the income not provided by other sources, you can calculate the amount to save each month. Here are three retirement calculator websites: 1) [www.choosetosave.org](http://www.choosetosave.org) 2) <http://www.finra.org/RetirementCalculator> 3) [www.bankrate.com](http://www.bankrate.com).

<sup>12</sup> U.S. Department of Labor Employee Benefits Security Administration

# INVESTMENTS SPECIFICALLY FOR RETIRING<sup>13</sup>

There are various forms of financial investments designed specifically for retirement. Whether you work for a company that offers some form of plan, are self-employed, or ready to establish your own retirement account, there is an investment option for you.

## DEFINED BENEFIT PLAN

Usually the employer funds the plan - commonly called a pension plan - though in some plans workers also contribute. Paid a lump sum upon retirement or a guaranteed monthly benefit. Once more common, not all companies offer defined benefit plans.

## 401(k) & 403(b) PLANS

Employer-sponsored retirement plans that allow you to set aside pre-tax dollars directly from your paycheck, reducing your taxable income. Your earnings also grow tax-deferred, meaning you don't pay taxes on your earnings until you withdraw money. You can contribute up to \$15,500 to a 401(k) or similar employer-sponsored retirement plan.

## Individual Retirement Accounts (IRAs)

An investor-established, tax-deferred account, set up to hold and invest funds until retirement. There are different types of IRA accounts, including:

- o **Traditional IRAs** - Can contribute up to \$4000/year (\$5000 if over 50) with contribution and earnings tax-deferred until withdrawals. Penalty incurred if withdraw early (before 59 1/2). Pay later: in this case you defer taxes now and pay taxes later.
- o **Roth IRAs** - Funded by after-tax earnings; cannot deduct contribution from current income. After 59 1/2, can withdraw contributions tax-free. Pay now: in this case you pay taxes now and do not pay taxes when you withdraw.
- o **Simplified Employee Pensions (SEPs) and Savings Incentive Match Plan for Employees (SIMPLE IRAs):** Retirement programs for self-employed people or owners of small companies allowing them to defer taxes on investments intended for retirement. The most attractive feature of the SEP plan is the high maximum contribution -up to \$45,000 annually. The contributions and earnings grow tax-free until they are withdrawn. Withdrawals before the age of 59 1/2 are subject to penalty. Small businesses and self-employed individuals who do not otherwise have an employer-sponsored retirement plan which can set up a SIMPLE IRA. Employees can then contribute up to \$10,500 (2007 limit, is subject to change) to a SIMPLE IRA.

o **Contribution limits can change.** For the most accurate information on IRA, SEPs and Simple IRAs, you can visit <http://www.irs.gov/formspubs/article/0,,id=117542,00.html>.

# USING EMPLOYER-BASED RETIREMENT PLANS<sup>14</sup>

**Does your employer provide a retirement plan? If so, grab it! Employer-based plans are the most effective way to save for your future. You'll gain certain tax benefits and any money the employer contributes is free money. Employer-based plans come in one of two varieties (some employers provide both): defined benefit and defined contribution.**

## DEFINED BENEFIT PLANS

These plans pay a lump sum upon retirement or a guaranteed monthly benefit. The amount of payout is typically based on a set formula, such as the number of years you have worked for the employer times a percentage of your highest earnings on the job. Usually the employer funds the plan—commonly called a pension plan—though in some plans workers also contribute. Most defined benefit plans are insured to a limited extent by the Pension Benefits Guaranty Corporation (PBGC), a federally-initiated corporation. For a complete overview of what is covered, see <http://www.pbgc.gov/workers-retirees/benefits-information/content/page13181.html>.

## DEFINED CONTRIBUTION PLANS

Unlike a defined benefit plan, the defined contribution plan does not guarantee a specified amount for retirement. Instead, the amount you have available in the plan to help fund your retirement will depend on how long you participate in the plan, how much is invested, and how well the investments do over the years.

In many defined contribution plans, you are offered a choice of investment options, and you must decide where to invest your contributions. This shifts much of the responsibility for retirement planning to you, the worker. Thus, it is critical that you choose to contribute to the plan once you become eligible (usually after working full-time for a minimum period) and that you choose your investments wisely.

The federal government does not guarantee how much you accumulate in your account, but it does protect the account assets from misuse by the employer. Employers fund some types of defined contribution plans, though the amount of their contributions is not necessarily guaranteed.

# INDIVIDUAL RETIREMENT ACCOUNTS <sup>16</sup>

- o **Traditional individual retirement account (IRA)** lets you build wealth and retirement security. The money in the IRA grows tax-free until you retire and are ready to withdraw it. You can open an IRA at a bank, brokerage firm, mutual fund or insurance company.

Money invested in an IRA is deductible from current-year taxes if you are not covered by a retirement plan where you work or your income is below a certain limit.

You don't pay taxes on the money in a traditional IRA until it is withdrawn. All withdrawals are taxable, and there generally are penalties on money withdrawn before age 59 1/2.

However, you can make certain withdrawals without penalty, such as to pay for higher education, to purchase your first home, to cover certain un-reimbursed medical expenses or to pay medical insurance premiums if you are out of work.

- o **A Roth IRA** is funded by after-tax earnings; you do not deduct the money you pay in from your current income. However, after age 59 1/2 you can withdraw the principal & any interest or appreciated value tax-free. Other rules for withdrawing money from a Roth IRA are less stringent.
- o **Contribution Amounts.** You can contribute up to \$4,000 a year to an IRA, as long as you earn \$4,000 a year or more. A married couple with only one person working outside the home may contribute a combined total of \$8,000 to an IRA and a spousal IRA. Individuals 50 years of age or older may make an additional "catch-up" contribution of \$1000 a year, for a total annual contribution of \$5,000.

You can contribute to a traditional IRA if you (or your spouse) are covered by an employee-sponsored plan. However you may not be able to deduct all your IRA contribution.

- o **To learn more about contribution limits** for IRA's please see IRS Publication 590 <http://www.irs.gov/pub/irs-pdf/p590.pdf>.

# HOW TO MAKE THE MOST of a defined contribution plan<sup>17</sup>

- o Study your employee handbook and talk to your benefits administrator to see what plan is offered and what its rules are.
- o Join as soon as you become eligible.
- o Put in the maximum amount allowed.
- o If you can't afford the maximum, try to contribute enough to maximize any employer matching funds. This is free money!
- o Study carefully the menu of investment choices. Some plans offer only a few choices, others may offer hundreds.
- o Plan fees and expenses reduce the amount of retirement benefits you ultimately receive from plans where you direct the investments. It's in your interest to learn as much as you can about your plan's administrative fees, investment fees, and service fees. Read the plan documents carefully. For more information on fees, call the Employee Benefits Security Administration (EBSA) toll-free at 866-444-EBSA (3272) and request the booklet "A Look at 401(k) Plan Fees."

## As you plan to invest for retirement, some hints to consider <sup>18</sup>

- o **Define your goals.** Be as precise as you can (date, amount of money needed, etc.).
- o **Have money to invest.** Investment money should not be dollars you need for emergencies or risk protection. An adequate emergency fund should contain a minimum of 2 to 3 months' expenses.
- o **Seek advice.** The library has many periodicals such as Money, Business Week, Barron's, and The Wall Street Journal as well as investment advisory services such as Weisenberger Investors Service, Standard and Poors, and Morningstar; all good sources of information about mutual funds, stocks, and bonds. Stock brokers, insurance agents and financial planners can also provide valuable information on alternative investments. Always be sure to check the background and disciplinary history of investment professionals before you agree to do business with them. Visit [www.finra.org/brokercheck](http://www.finra.org/brokercheck) to learn how.
- o **Follow through.** Set aside a fixed amount on a regular basis for your investment program (e.g., \$100 per month).
- o **Diversify.** Select several different types of investments, if possible.
- o **Stay within your "risk zone."** Don't invest in anything that leaves you feeling uneasy. An investment that makes you uncomfortable or one that you don't understand is not a good one for you.
- o **Be realistic.** Very few ever "make a killing" on Wall Street. Deals that sound too good to be true usually are. Don't be taken in by fast-talking salespersons with speculative products.
- o **Be prepared to change as situations change.** As you achieve some goals and set new ones, be prepared to revise your investment portfolio. Changes in the economy and tax laws may also call for an overhaul of your plans.
- o **Keep records.** These are important not only for tax purposes but also to help you to analyze the performance of your investments.
- o **Review your investments periodically.** While few investments perform well all of the time, those that are not helping you reach your goals should be removed from your portfolio and replaced with others.
- o **Use automatic deductions** from your payroll or your checking account for deposit in mutual funds, IRAs, or other investment vehicles.
- o **Roll over retirement account money if you change jobs.** If you're the type of person who will keep track of an old employer's plan-and if the plan has low fees and good choices-you might consider leaving your investment where it is. Otherwise, rolling retirement money into an IRA or your new employer's plan is a good idea.

<sup>18</sup>O'Neill, Barbara. *Saving and Investing for Retirement*; FS430: Rutgers NJAES Cooperative Extension, 1997. <<http://njaes.rutgers.edu/pubs/publication.asp?pid=FS430>>.

## COMMON INVESTMENT PROS & CONS

**STOCKS:** Shares owned in a company

### PRO

- o **Best Returns:** Historically, stocks have provided the highest long-term total return on investment. Over time, stocks typically gain an average of about 10% year.
- o **Variety of choices:** Can choose from host of companies based on your risk tolerance.
- o **Dividend Income:** Can receive quarterly payments from companies' profits if the company pays a dividend.

### CON

- o **Volatility:** Prices affected by corporations' prospects and market factors over which the company has no control (including interest rates, political situations, weather, investor psychology).
- o **Short-Term Declines:** Result of the volatility, these losses can keep investor up at night.
- o **Oversight:** Requires time and reliable research to monitor stocks and make informed choices.

**BONDS:** A “loan” that the investor gives to a corporation or the government for a specific time period and with a fixed or variable rate of return.

### PRO

- o **Interest Income:** Earn fixed interest (the yield) off your investment.
- o **Low Volatility:** Market value fluctuates primarily based on changes in interest rates.
- o **Variety of Terms:** Can purchase short (6-month) and long term (20 year) bonds.

### CON

- o **Interest Rate:** The prices of bonds fall when interest rates rise, and they rise when rates fall. The longer a bond's maturity, the greater the interest rate risk. You can reduce-but not eliminate-interest rate risk by investing in shorter-term bonds.
- o **Call:** Bonds can be redeemed, “called”, by issuer earlier than maturity date. When a bond is called, investors must reinvest their money-sometimes at a lower yield.

**MUTUAL FUNDS:** A professionally managed pool of money from a group of investors that is invested in some combination of various stocks, bonds, and other investments. An investor buys shares in these funds.

## PRO

- o **Diversification:** A single fund can hold 100+ different securities. Reduces the risk of serious loss due to problems in a single company or industry sector.
- o **Professional Management:** Most of us don't have the time or expertise to manage investments daily, research new options. Each fund has an investment advisor who manages the funds operations.
- o **Liquidity:** Shares in a fund can be bought and sold in a business day providing easy access to money.
- o **Convenience:** Most funds offer services that make investing easy, including automatic purchase plans, reinvestment of dividends, easy transfers among funds within the same family of funds, and extensive record keeping.

## CON

- o **Diversification "Penalty":** Just as diversification can help lower your risk of loss, it can also flatten your returns.
- o **Potentially High Costs:** Operating costs and sales commissions can reduce return on investment. Compare the costs of funds.
- o **Lack of Control:** The fund's manager-not you- decides what to buy or sell and when.

**REAL ESTATE:** Physical property owned for the purposes of investment, including rental, personal property or business property.

## PRO

- o **Access:** Living in primary investment.
- o **Tax Break:** Can deduct property tax and mortgage interest from taxes, generally resulting in lower taxes.

## CON

- o **Depreciation:** Property can go down in value resulting in loss.
- o **Liquidity:** Sale of property can take long time depending on market, lenders, closing schedule, etc.

**RETIREMENT ACCOUNTS:** A wide variety of investments designed specifically for retirement.

## PRO

- o **Tax Impact:** If through employer, money put is pre-tax so lowers overall tax bill. If through IRA, can deduct contribution (up to maximum limit of \$4000) from taxes.

## CON

- o **Accessibility:** Can't access money until specified retirement age without incurring fees.

# STRATEGIES TO REDUCE RISK or “don’t put all your eggs in one basket”<sup>19</sup>

“Don’t put all your eggs in one basket” How does this saying apply to managing risk in the investments? While an investor cannot control all risk (e.g., that associated with the securities market and economy as a whole), there are strategies an individual investor can use to reduce risk.

**Diversification is a technique for managing risk.** In the simplest terms, it means that not all your investment dollars are placed in any one type of investment.

- o **Why diversify?** Because at any given time one investment or type of investment might do better than another. Diversification lets you manage your risk in a particular investment or category of investments and decreases your chances of losing money. In fact, the factors that can cause one investment to do poorly may cause another to do well.
- o **Within a category of investments.** You can do this by investing in pooled arrangements, such as mutual funds. These investments typically give you a small share of different individual investments and will allow you to spread your money among many stocks, bonds, and other financial instruments, even if you don't have a lot of money to invest. Your risk of losing money is less than if you buy shares in only a few individual companies. For example, if you had invested heavily in Enron, you would have lost your investment when the company went bankrupt in 2001.
  - o Divide your stock investments among large company stocks, small company stocks, international stocks, blue-chip stocks, and growth stocks.
  - o Divide your stock investments among industries such as utilities, energy, technology, financial, transportation, and health care.
  - o Divide your money in bonds and CDs among investments with different maturities.
  - o Divide your mutual fund investments among money market funds, income funds, growth funds, and global funds.
- o **Among types of investments - “Asset Allocation.”** Think of this as keeping a healthy, balanced diet. The best thing for your body is to eat from the different food groups. The best thing for your money is to be spread out in different kinds of investments. Therefore you should invest some of your money in cash, some in bonds, some in stocks, and some in other investment vehicles. Studies have shown that once you have diversified your investments within each category, the choices you make about how much to put in these major categories is the most important decision you will make and should define your investment strategy.

<sup>19</sup> Retirement: Secure Your Dreams, Growing Your Nest Egg: Risk and Return; PM 1821; Iowa State University Extension, April 2001. <<http://www.extension.iastate.edu/Publications/PM1821.pdf>>.

## STOCK BROKERS<sup>20</sup>

A good stockbroker can be an essential element in achieving success with investments and in the stock market. A stockbroker, also known as a registered representative, account executive, financial consultant, or securities salesperson, is an employee of a brokerage firm. Both the brokerage firm and stockbroker need to be licensed by the state securities agency in each state in which the stockbroker will be transacting business with customers.

### TYPES OF STOCKBROKERS

There are two general categories of brokerage firms: full-service and discount firms. A full-service firm and its stockbrokers recommend specific securities and give advice on securities to fit the investor's financial situation. A discount brokerage firm and its stockbrokers make securities purchases and sales at a lower commission but generally do not provide specific securities advice. You should choose the type that suits your needs.

### CHOOSING A STOCKBROKERS

In selecting a stockbroker, the following suggestions can be helpful:

1. Ask for Advice: Look for a well-trained specialist, as in the selection of an accountant or lawyer. Get recommendations from someone who has had a successful relationship with a broker.
2. Do the Research: Brokerage firms have pamphlets describing their services, the securities available and exchanges where traded, purchase recommendations, and the costs and commission charges. Make certain that the services provided can accommodate your investment objectives.
3. Check the Background of Brokers and Securities Firms: You can do this before doing business with them by using FINRA BrokerCheck at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or by calling toll-free 1-800-289-9999.
4. Consider your Needs: You should feel at ease with your stockbroker since you will be providing personal information about your finances and investment goals. The stockbroker should listen to your expectations and understand your needs. Based on the information provided, the stockbroker can develop an investment strategy tailored to your needs.
5. Evaluate Fees: Make sure that the broker's fees are commensurate with the services provided. Excessive fees can greatly diminish returns.

### CHOOSING A STOCKBROKERS

As investment decisions are made with the help of your stockbroker, keep these factors in mind:

- o It is your money being invested and you have the final decision regarding how and when the investment should or should not be made.
- o Read and understand the prospectus and other information given to you by your stockbroker.
- o How does this security purchase help you reach your investment goals? Always understand what risks are involved.
- o Any questions should be fully answered by your stockbroker. Continue to make contact until answers are obtained. Do not approve any purchase until your questions are satisfactorily answered.
- o Keep track of your investment through review of the quarterly and annual company report, and financial information in newspapers and periodicals. Review all confirmations and account statements you receive from the brokerage firm. Ask your stockbroker to explain anything you might not understand or answer any questions you might have from your review.

<sup>20</sup> Iowa Insurance Division  
([http://www.iid.state.ia.us/investor\\_ed/selectbrok.asp](http://www.iid.state.ia.us/investor_ed/selectbrok.asp)).

## STOCK QUOTES\*

Finding stock quotes is easy and free! You can access this information in newspapers such as the New York Times or Wall Street Journal. Cable television news stations (CNN, MSNBC, Fox News, etc.) frequently feature stock “tickers” at the bottom of the screen, and there are now cable television stations dedicated entirely to financial news, such as CNBC and Bloomberg Television.

There are also many internet sites that allow you to check stock prices. On many of these websites you can even create a personal portfolio with your stocks and monitor them every day! Here are just a few of the many websites you can use:

- o FINRA Market Data Center: [www.finra.org/marketdata](http://www.finra.org/marketdata)
- o The Wall Street Journal: [www.wsj.com](http://www.wsj.com)
- o The New York Times: [www.nytimes.com](http://www.nytimes.com)
- o The NASDAQ: [www.nasdaq.com](http://www.nasdaq.com)
- o Google: [finance.google.com](http://finance.google.com)
- o Yahoo: [finance.yahoo.com](http://finance.yahoo.com)
- o AOL: [money.aol.com](http://money.aol.com)
- o MSN: [moneycentral.msn.com](http://moneycentral.msn.com)

## SAMPLE PAYCHECK & STUB

Jane Smith		123-45-6789		02/15/07		02/29/07		876543	
Employee Name		Social Security Number		Period Beginning		Period Ending		Check Number	
<b>Earnings</b>	<b>Hours</b>	<b>Current Amount</b>	<b>Year to date</b>	<b>Deductions</b>	<b>Current Amount</b>	<b>Year to Date</b>			
\$6	80	\$480	\$1,444.00	Federal	\$4.81	\$14.43			
				FICA	\$29.76	\$89.28			
				State	\$13.55	\$40.88			
				City	\$4.80	\$14.40			
				401(k)	\$20.00	\$40.00			
\$6.00	\$480	\$72.92	\$407.08	\$1,444.00	\$1,245.01				
Pay Rate	Current Amount	Current Deductions	Net Pay	Year to Date Earnings	Year to Date Net Pay				

VOID

PASE 120 Broadway New York, NY 10271		2/29/07 Date	876543 Check Number
<b>Pay to the order of:</b>		Jane Smith 111 Broadway, Apt. 16A New York, NY 11205	
		<b>\$480.00</b> Amount	
Deposit Account 978645231	Deposit Amount \$480	_____ Authorized Signature	

## TAXES & YOUR PAYCHECK STUB

**A paycheck stub is attached to your paycheck and explains in detail what happens with your salary. It tells you how much money was taken out for which taxes, social security and other benefits such as a retirement plan.**

Your **net pay** is the money you will actually receive from your paycheck. It is your money after everything has been deducted. Here is an explanation for some of the deductions you may see on your pay stub.

### **FEDERAL stands for Federal Income Tax.**

This money goes to the Federal (national) government. When you file your annual income tax return, you may be entitled to get some of this money back.

### **FICA stands for Federal Insurance Contribution Act.**

This money is taken out of your paycheck for Social Security.

### **STATE stands for State Income Tax.**

This money goes to your state government.

### **CITY stands for your City Income Tax.**

For example, anyone who lives in one of the 5 boroughs in New York City pays money to the city government.

### **401(K) refers to**

the money you are taking out of your check for your retirement account before taxes. In this example, \$20 was taken out of this person's paycheck before the balance was subject to the taxes listed above.

### **CURRENT AMOUNT and CURRENT DEDUCTION**

refers to the total amount earned and taken out within this pay period.

### **YEAR TO DATE refers to**

the total amount earned or taken out from your paycheck since the beginning of the calendar year (January 1). Year to date earnings in this case refer to how much this person has earned from January 1- February 29. Year to date Net Pay refers to how much this person actually received in their paycheck after taxes from January 1 - February 29.

## A CLOSER LOOK AT CREDIT & DEBT <sup>20, 21</sup>

**A debt can be a barrier to savings. Let us look at credit, the impact of debt on your credit and how to access your credit history and score.**

### WHAT GOES INTO DETERMINING YOUR CREDIT SCORE?

- o Your bill-paying history.
- o How many accounts you have, what kind, and how long you have held the accounts.
- o Late payments.
- o Outstanding debt.
- o Collection actions brought against you.
- o Unused portions of lines of credit.

### HOW CAN I ESTABLISH A CREDIT HISTORY?

- o Apply for a credit card from a local store and establish a pattern of paying bills on time.
- o Apply for secured credit card. You have to put the money up front for the card. You then can borrow 50-100 percent of your account balance.
- o Get a co-signer - someone with an established credit history to co-sign on a loan. In doing so, this person is agreeing to be accountable for paying back the loan if you are unable.

### WHAT GOOD CREDIT GETS YOU?

- o **Your Credit History Determines Your Credit Rating** - Lenders look to your credit history and score at credit bureaus to determine your credit rating.
- o **Good Credit Helps You Get Loans** - With good credit, banks and other lenders are more likely to offer and approve you for mortgages, credit cards, and other loans.
- o **Good Credit Keeps Your Interest Rates Low** - With good credit, the interest rates offered to you for purchases, such as a home or car, are kept low. It allows you to “shop around” to find the best rate.

### HOW DO YOU MAINTAIN GOOD CREDIT?

- o Pay bills on time the most important thing to do to maintain good credit is pay your bills on time and pay the minimum on your credit card bill, at the very least.
- o Review your Credit History and Score
  - Review your credit history for accuracy.
  - Three free credit reports per year (see page #for more information).
  - With the prevalence of identity theft, check your credit history regularly to prevent fraud.

<sup>20</sup> www.SaveAndInvest.org

<sup>21</sup> What You Need to Know About Credit. Federal Trade Commission.  
<http://www.ftc.gov/bcp/online/pubs/credit/gettingcredit.pdf>

## CREDIT RATING\*

Under federal law, **you have the right to receive a free copy of your credit report** once every 12 months from each of the three nationwide consumer reporting companies - Equifax, Experian, and TransUnion. These free credit reports can be requested through the internet, by phone or by mail. Credit reports requested online are viewable immediately upon verification of identity. Free credit reports requested by phone or mail will be processed within 15 days of receiving your request. You can also purchase a credit score through any of these companies if you would like to check your report more than once a year. You can also receive a free credit report from Equifax, Experian and TransUnion through a central source, [annualcreditreport.com](http://annualcreditreport.com).

Annual Credit Report Request Service  
 P.O. Box 105281  
 Atlanta, GA 30348-5281  
 1-877-322-8228  
[www.annualcreditreport.com](http://www.annualcreditreport.com)

Equifax  
 P.O. Box 740256  
 Atlanta, Georgia 30374  
 1-800-525-6285  
[www.equifax.com](http://www.equifax.com)

Experian  
 P.O. Box 9532  
 Allen, Texas 75013  
 1-888-397-3742  
[www.experian.com](http://www.experian.com)

TransUnion  
 P.O. Box 6790  
 Fullerton, CA 92834  
 1-800-680-7289  
[www.transunion.com](http://www.transunion.com)

\*Inclusion in this guide does not indicate any sort of endorsement from PASE, FINRA Education Foundation, or the Dollars & Sense Advisory committee.

## What to do when you are in debt?

### 1) CONTACT YOUR CREDITORS<sup>22</sup>

If you are having trouble paying off your debts call your creditors immediately and try to work out a modified payment plan that reduces your payments to a more manageable level. Do not wait for creditors to turn your accounts over to a debt collection agency.

### 2) DEBT SETTLEMENT<sup>23</sup>

With debt settlement, a third party, i.e. a debt settlement agency, or you negotiate with your creditors to reduce your debt balance, sometimes by as much as 50-75%. You must pay the debt settlement company a fee for this service. The fee structure should be transparent, but check for any hidden fees.

### 3) DEBT CONSOLIDATION

Debt consolidation is the process in which multiple debts are consolidated into a single amount. A debt consolidation firm will first analyze your present debt amount and then negotiate with your creditor(s) to reduce your debt amount by 30-60%. In most cases interest rates are reduced and late fees and hidden taxes can also be waived. The revised consolidated debt amount is divided into monthly installments. There are fees associated with this service.

### 4) CREDIT COUNSELING<sup>24</sup>

If you have not been able to successfully follow your budget or you can't work out a repayment plan with your creditors, you may want to contact a credit counseling agency. Credit counselors discuss your entire financial situation with you and help you develop a personalized plan. Reputable credit counseling organizations can advise you on managing your money and debts, and help you develop a budget. Their counselors are certified and trained in consumer credit, money and debt management and budgeting. These organizations do charge fees and some fees may be hidden so do your homework.

### 5) DEBT MANAGEMENT PLAN

If you can not follow the plan your credit counselor laid out, the credit counseling agency may recommend that you enroll in a debt management plan (DMP). In a DMP you deposit money each month with the credit counseling organization, which uses the deposit to pay off your debt. You are required to make regular, timely payments.

You should sign up for this plan only after a certified credit counselor has thoroughly reviewed your financial situation and offered customized advice. Credit counseling services can continue to help you create a budget and teach you money management skills while your DMP helps you to reduce your debt.

### 6) THE LAST RESORT- BANKRUPTCY

Personal bankruptcy is generally considered the debt management option of last resort because the results are long-lasting. If you choose to do this you will be issued a court order that states that you don't have to repay certain debts. However, this will stay on your credit report for 10 years and can make it difficult to obtain credit, buy a home, get life insurance or sometimes get a job.

<sup>22</sup> Facts for Consumers Knee Deep in Debt; Federal Trade Commission, December 2005  
<<http://www.ftc.gov/bcp/online/pubs/credit/kneedeep.shtmFTC>>

<sup>23</sup> Debt Consolidation Care from [yesdebtfree.org](http://www.yesdebtfree.org)  
<<http://www.debtconsolidationcare.com/debt-solution.html>>

<sup>24</sup> Federal Trade Commission

# IMPORTANT QUESTIONS TO ASK when choosing a credit counselor <sup>25</sup>

**A) WHAT SERVICES DO YOU OFFER?**

Look for an organization that offers a range of services and whose staff is trained and certified in consumer credit, money and debt management, and budgeting. Counselors should discuss your entire financial situation and help you develop a personalized plan. Avoid organizations that that push a DMP as your only option.

**B) ARE YOU LICENSED TO OFFER SERVICES IN MY STATE?**

**C) DO YOU OFFER FREE INFORMATION?**

**D) WILL I HAVE A FORMAL WRITTEN AGREEMENT OR CONTRACT WITH YOU?**

Don't commit to participate over the telephone or over the Internet. Get all promises in writing and read all documents carefully before you sign them. If you are told you need to act immediately, remember you do not.

**E) WHAT ARE THE QUALIFICATIONS OF YOUR COUNSELORS? ARE THEY ACCREDITED OR CERTIFIED BY AN OUTSIDE ORGANIZATION? IF SO, WHICH ONE? IF NOT, HOW ARE THEY TRAINED?**

**F) HAVE OTHER CONSUMERS BEEN SATISFIED WITH THE SERVICE THEY HAVE RECIEVED?**

**G) WHAT ARE YOUR FEES? ARE THERE SET-UP AND/OR MONTHLY FEES?**

**WATCH OUT! BE WARY OF CREDIT COUNSELING AGENCIES THAT...**

- Charge high up front or monthly fees for enrolling in credit counseling or a DMP.
- Pressure you to make “voluntary contributions” which is another word for fee.
- Won't send you free information about the services they provide without requiring you to provide personal financial information, such as credit card account numbers and balances.

Credit counseling agencies can be found all over the Internet. However, we advise that you meet with a counselor in person so you can completely understand the process.



# SOME HELPFUL FINANCE WEBSITES\*

1. [http://apps.finra.org/Investor\\_Information/Smart/401k/000100.asp](http://apps.finra.org/Investor_Information/Smart/401k/000100.asp) - FINRA's introduction to 401(k) investing.
2. [www.nefe.org](http://www.nefe.org) - The National Endowment for Financial Education: Offers a wide range of financial education resources.
3. [www.fdic.gov/consumers/consumer/news/cnspro5/index.html](http://www.fdic.gov/consumers/consumer/news/cnspro5/index.html) - Created by the Federal Deposit Insurance Corporation: An introduction to personal finance targeted toward young adults.
4. [www.fl2010.org](http://www.fl2010.org) -- Financial Literacy 2010: Provides basic information and teaching guides on investing and saving.
5. [www.aba.com/consumer+connection/young\\_adults\\_main\\_page.htm](http://www.aba.com/consumer+connection/young_adults_main_page.htm) - American Bankers Association Consumer Connection: A wide range of personal finance resources for young adults.
6. [www.bankrate.com](http://www.bankrate.com) - Free rates calculators that allow you to determine the interest your savings will earn or how much you need to put away to meet a specified savings goal.
7. [www.econedlink.org](http://www.econedlink.org) - Internet-based basic economic education lesson plans. Sponsored by the National Council on Economic Education.
8. [www.MoneySKILL.org](http://www.MoneySKILL.org) - A free personal finance course for teachers.
9. [www.investoreducation.org](http://www.investoreducation.org) - Learning resources for teachers, young investors and older investors, as well as investing basics.
10. [www.cardweb.com/cardlocator](http://www.cardweb.com/cardlocator) - Search, locate, and apply for credit cards. Helps you to find a credit card that fits your needs.
11. [www.smgww.org](http://www.smgww.org) -The Stock Market Game: Gives students the chance to invest a hypothetical \$100,000 in a real-time stock market, simulated on the Web. Currently free to use in New York City.
12. <http://www.fool.com> - The Motley Fool: Financial advice website that can help you do everything from open a basic savings account to trade stocks online.
13. <http://www.ftc.gov/gettingcredit> - Federal Trade Commission: Offers accessible information on understanding all issues related to credit.
14. <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/creo3.shtm> - Federal Trade Commission: Information on building credit score.
15. <http://www.ftc.gov/bcp/menus/consumer/credit.shtm> - Federal Trade Commission: Information on using loans wisely.
16. [www.SaveandInvest.org](http://www.SaveandInvest.org) - FINRA Education Foundation: Information to confidently manage finances and protection from investment fraud.

\* Inclusion in this guide does not indicate any sort of endorsement from PASE, FINRA Education Foundation, or the Dollars & Sense Advisory committee.

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\* Inclusion in this guide does not indicate any sort of endorsement from PASE, FINRA Education Foundation, or the Dollars & Sense Advisory committee.

# GLOSSARY

- o **Aggressive growth securities:** Stocks, bonds, and mutual funds that have capital growth as their main objective.
- o **Annual Percentage Yield (APY):** APY is the amount of interest the customer will earn on a yearly basis expressed as a percentage. The APY includes the effect of compounding. The more the customer's money compounds, the higher the APY, and the more the interest the customer will receive.
- o **Annuity:** A contract between a financial services firm and an investor whereby the company, in exchange for a single or flexible premium, guarantees a fixed or variable payment to the investor at a future time.
- o **Appreciation:** The increase in value of an asset.
- o **Asset:** A resource having economic value that an individual or corporation owns with the expectation that it will provide future benefit.
- o **Asset allocation:** Strategy for selecting various investment vehicles in order to spread risk among stocks, bonds and cash equivalents.
- o **Bank statement:** A document, issued by a bank to its customers, listing details of debit and credit transactions over a given period with a resultant balance of the account.
- o **Blue chip:** Stock of a large, national company with a solid record of stable earnings and/or dividend growth and a reputation for high quality management and/or products. More generally, anything of very high quality.
- o **Bond:** A debt security or "loan" to a corporation or the government for a certain period of time. The bond certificate requires the corporation or government to repay the holder of the bond on a specific date with a fixed rate of interest.
- o **Bond rating:** A measure of the quality and safety of a bond, based on the issuer's financial condition. More specifically, an evaluation from a rating service indicating the likelihood that a debt issuer will be able to meet scheduled interest and principal repayments. Typically, AAA is highest (best), and D is lowest (worst).
- o **Broker:** An individual or firm who acts as an intermediary between a buyer and seller, usually charging a commission.
- o **Capital:** The money, property, and other valuables which collectively represent the wealth of an individual or business.
- o **Capital gains:** The amount by which an asset's selling price exceeds its initial purchase price. A realized capital gain is an investment that has been sold at a profit. An unrealized capital gain is an investment that hasn't been sold yet but would result in a profit if sold. Capital gain is often used to mean realized capital gain.
- o **Capital loss:** The decrease in the value of an investment or asset. The opposite of capital gain.
- o **Cash value life insurance policy:** A life insurance policy which in addition to providing a benefit upon the death of the policy holder, also accumulates cash value over time enabling benefits to be paid out before death.
- o **Caveat emptor:** Latin phrase meaning "Let the buyer beware."
- o **Certificate of Deposits (CDs):** A type of interest bearing deposit that requires a minimum dollar amount to open the account and requires that the deposit remain with the bank for a fixed time period.
- o **Checking account:** An account which allows the holder to write checks against deposited funds.
- o **Club account:** A type of savings account a customer "joins" to save money for a special reason, such as holidays or family vacations. Club accounts usually require the customer to make regular deposits.

- o **Collectibles:** Physical objects such as fine art, stamps, antiques that are purchased as an investment.
- o **Commission:** Broker or agent fee for carrying out a transaction.
- o **Commodity:** A physical substance, such as food, grains, and metals, which is interchangeable with another product of the same type, and which investors buy or sell. The price of the commodity is subject to supply and demand.
- o **Commodity Futures Trading Commission:** Regulatory organization for futures contracts and commodities.
- o **Common stocks:** An investment where each share of stock represents a portion of ownership in a corporation. Common stocks usually carry voting rights and often earn dividends.
- o **Compound interest:** Interest earned not only on the initial principal but also the accumulated interest of prior periods.
- o **Credit rating:** A rating used by banks, insurance companies, mortgage companies and other financial institutions making loans which they use to judge an individual or company's credit worthiness. Depending on how many points the applicant gets when his/her personal details are run through the rating system, the financial institution will either accept or reject the risk. Financial institutions rely on highly computerized credit rating systems, and co-operate with each other in providing details of bad credit risks. Hence the concept of the 'black list'.
- o **Defined Benefit Plan:** A company retirement plan, such as a pension plan, in which a retired employee receives a specific amount based on salary history and years of service, and in which the employer bears the investment risk. Contributions may be made by the employee, the employer, or both.
- o **Defined Contribution Plan:** A company retirement plan, such as a 401(k) or 403(b), in which the employee elects to defer some amount of his/her salary into the plan and bears the investment risk.
- o **Discount broker:** Brokers who buy and sell at commission rates lower than a full-service broker, but typically provide fewer services such as research and advice.
- o **Diversification:** Spreading the risk of loss by investing in a variety of savings and investment options.
- o **Dividends:** Part of a company's profits it gives back to shareholders that own stock in the company.
- o **Dow Jones Industrial Average (DJIA):** A market indicator that averages blue chip U.S. stocks in different categories.
- o **Earned Income Tax Credit (EITC):** A refundable Federal income tax credit for working individuals and families that earn below a certain amount. Sometimes also referred to as the Earned Income Credit (EIC).
- o **Economic indicators:** Regularly reported statistics that evaluate business conditions and economic trends. Some of these statistics include employment, stock prices, money supply, and consumer confidence.
- o **Economics:** The study of management, distribution, and consumption of goods and services.
- o **Economy:** A system of regulations and rules by which a country's production and consumption activities are managed.
- o **Education IRA:** The name for a tax-deferred investment account which contains funds to be applied to future education-related expenses. The name is misleading, as an Education IRA is not actually an IRA and is not related to retirement in any way. Contributions are not tax-deductible but all deposits and earnings can be withdrawn without additional penalties or taxes.
- o **Employer-sponsored retirement plan:** A saving/investment plan approved by the Internal Revenue Service (IRS) that allows an individual to place funds in a tax-sheltered account for the purpose of funding all or part of one's retirement.
- o **Equity:** Your total assets minus total liabilities; your net worth.

- o **Exchange:** Central location where buyers and sellers unite to execute transactions.
- o **Expenses:** Money that you will spend.
- o **401(k) Retirement Plan:** A defined contribution plan offered by a corporation to its employees, which allows employees to set aside tax-deferred income for retirement purposes. In some cases, employers will match their contribution dollar-for-dollar.
- o **403(b) Retirement Plan:** A retirement plan similar to a 401(k), but one which is offered by non-profit organizations, such as universities and some charitable organizations, rather than corporations.
- o **408(k) Retirement Plan:** A simpler alternative to a 401(k) available only to companies with 25 or fewer employees, which gives employees the opportunity to make contributions to their accounts with pre-tax dollars and reduce their current year's net income.
- o **FDIC (Federal Deposit Insurance Corporation):** Agency of the federal government created to guarantee bank deposits.
- o **Federal Reserve System (Fed):** Sets forth economic policies that affect the nation as a whole. The Fed maintains accounts for government agencies, regulates the buying and selling of government securities, lends money to banks, monitors and audits banks, controls the circulation of money, and many other tasks.
- o **Financial advisor:** A professional who provides financial information and advice. May include an employee benefits staff member, credit counselor, bank employee, broker, financial planner, accountant, insurance agent or attorney.
- o **Financial Industry Regulatory Authority (FINRA):** A self-regulatory organization that oversees the activities of the U.S. broker-dealer profession.
- o **Financial institution:** Entities that provide financial services. Usually refers to banks, credit unions, brokerage houses, savings and loan institutions.
- o **Financial market:** Markets consisting of exchanges that serve as a central location where buyers and sellers get together in person, by telephone, or by computer terminal to trade stocks, bonds, commodities, options, futures contracts, and other securities.
- o **Financial plan:** A systematic course of action for identifying financial goals, figuring net worth, estimating income and expenses, and using credit wisely.
- o **Fixed expenses:** Expenses where the cost remains constant or fixed over a long period of time.
- o **Flexible expenses:** Expenses that can vary based on your behavior.
- o **Fraud:** The use of intentional misrepresentation of truth for illegal gain.
- o **Government securities:** Securities offered and insured by the federal government, including treasury bills, notes and bonds.
- o **High grade bond:** A bond with a rating of AAA or AA, the two highest ratings.
- o **High quality corporate securities:** Stocks, bonds, and mutual funds that are issued by companies with a long history of favorable returns and growth.
- o **Income:** Payment received as a result of investments, interest, or work.
- o **Index:** A statistical indicator providing a representation of the value of the stocks or bonds which constitute it.
- o **Index fund:** A passively managed mutual fund that tries to mirror the performance of a specific index, such as the S & P 500.

- o **NASDAQ:** A computerized stock exchange that allows brokers to trade stocks electronically.
- o **National Association of Securities Dealers Automated Quotation (NASDAQ):** A computerized system that allows brokers to trade stocks electronically.
- o **Net asset value (NAV):** The dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. This is calculated at the end of each business day.
- o **Net worth:** The value of a person's assets, including cash, minus all liabilities. The amount by which the individual's assets exceed their liabilities is considered the net worth of that person.
- o **New York Stock Exchange (NYSE):** The second oldest stock market in the United States, which provides daily trading in over two thousand stocks involving millions of shares. The NYSE is responsible for setting policy, supervising member activities, listing securities, overseeing the transfer of member seats, and evaluating applicants.
- o **No-load fund (NL):** A mutual fund purchased directly from the fund and does not have a sales charge.
- o **Opportunity cost:** The cost of passing up the next best choice when making a decision. For example, if an asset such as capital is used for one purpose, the opportunity cost is the value of the next best purpose the asset could have been used for. It is not treated as an actual cost in any financial statement.
- o **Par value:** The nominal dollar amount assigned to a security by the issuer.
- o **Passbook:** Book issued by a bank or savings institution to record deposits, withdrawals, and interest earned in a savings account.
- o **Pay yourself first:** An established amount saved each payday and put into savings rather than immediately spending the money.
- o **Pension plan:** A qualified retirement plan set up by a corporation, labor union, government, or other organization for its employees.
- o **Portfolio:** Collection of investments held by an individual or organization.
- o **Preferred stock:** Capital stock which provides a specific dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of liquidation.
- o **Price:** Monetary value at which a good or service is bought or sold.
- o **Principal:** 1) The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest). 2) The part of a monthly payment that reduces the outstanding balance of a mortgage. 3) The original investment.
- o **Private company:** A company owned exclusively by an individual, family, or small group of people.
- o **Prospectus:** Legal document that details an investment company, including fund operations, investment objectives, fees, and earnings record.
- o **Public company:** A corporation that sells shares of ownership in the company to the general public.
- o **Real estate:** Physical property owned for the purpose of investment, including rental property, personal property, or business property.
- o **Return:** Total increase or decrease of an investment; includes income plus capital gains or minus capital losses.
- o **Risk (investment):** The possibility that an investment will lose value.

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- o **Risk versus return:** This refers to the tradeoff between risk and return. The more risk an investor takes in an investment, the higher the expected return on that investment. There is also a higher risk of possibly losing the entire amount invested.
- o **Roth IRA:** A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all.
- o **Savings:** Income withheld from current spending for future use.
- o **Savings account:** An account used to set aside money, which pays interest, but cannot be withdrawn by check writing.
- o **Security:** An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt or equity.
- o **Securities and Exchange Commission (SEC):** Independent federal agency that governs the securities industry and enforces securities laws.
- o **Short-term goal:** Goal that will be achieved within 5 years from today.
- o **Simple Interest:** The interest calculated on a principal sum, not compounded on earned interest.
- o **Simplified Employee Pension IRA (SEP):** A retirement program for self-employed people or owners of small companies allowing them to defer taxes on investments intended for retirement. Also known as a SEP account.
- o **Speculative stock:** A stock with extremely high risk relative to potential return.
- o **Stockbroker:** A financial representative who handles the buying and selling of securities
- o **Stock market:** Market in which sellers of stock trade shares with buyers of stock.
- o **Stocks:** Shares owned in a company. The price of stocks may vary depending on how well the company performs. The value of the investment may increase or decrease.
- o **Stock symbol:** Abbreviation of a company name; used to simplify reporting on stock reports (also called ticker symbol or stock abbreviation).
- o **Tax-deferred:** Income whose taxes can be postponed until a later date. Examples include IRA and 401(k).
- o **Time Value of Money:** The idea that a dollar now is worth more than dollar in the future, even after adjusting for inflation, because a dollar now can earn interest or other appreciation until the time the dollar in the future would be received.
- o **Trade-off:** Something foregone by choosing one option over another.
- o **Treasury bond:** A debt obligation of the United States Government backed by its full faith and credit and issued with various maturities.
- o **Transaction costs:** Costs incurred when buying or selling assets, such as commissions.
- o **U.S. Savings Bonds:** A type of Treasury security. They are a long-term investment option backed by the full faith and credit of the U.S. government and can be purchased at a financial institution for as little as \$25 or through payroll deduction.



The Partnership for After School Education (PASE), a New York City-focused organization, promotes and supports quality after school programs for youth, particularly those from underserved communities, enabling them to identify and reach their full potential.

## **ABOUT AFTER SCHOOL EDUCATION**

Every day in New York City, more than 500,000 young people in low-income communities are provided safe and enriching environments in after school programs run by community-based agencies. PASE recognizes the crucial role these programs play in fostering young people's intellectual, emotional, physical and spiritual growth. PASE believes that academic skills should be integrated into all aspects of an after school program; that parents, youth and community members need to have input into program development; and that programs should make a commitment to be inclusive, foster cultural diversity, and build community.

## **PASE PROGRAMS AND OFFERINGS:**

PASE works with more than 1,400 community-based agencies enabling a critical exchange of resources and ideas among agencies, educators, funders and other partners. PASE is New York City's premier provider of professional development for after school staff and youth-serving agency leaders. In its programs and initiatives, PASE promotes quality in after school programs and functions as a strong voice for youth. Specifically, PASE programs include:

- o Professional development and training opportunities
- o Demonstration projects which incorporate innovative programmatic practice
- o Conferences, forums and publications on research, evaluation, curricula and best practices
- o Advocating for more resources for the field

### **PASE Board of Directors**

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**FOR MORE INFORMATION, PLEASE VISIT OUR WEB SITE: [WWW.PASESETTER.ORG](http://WWW.PASESETTER.ORG)**



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