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Horizon Federal Credit Union

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# Personal Finance

Managing your personal finances includes earning, budgeting, savings, protecting, and wisely spending your money. Effectively managing your personal finances is crucial to develop a bright financial future. This includes understanding how credit works, differences in checking and savings accounts, creating a budget you can follow, paying your bills on time, and more.

## Choosing a Financial Institution

The first step in managing your personal finances is opening an account at a financial institution. Choosing the right institution may mean the difference in hundreds of dollars each year in fees and interest. The best bank for you may not even be a bank at all, but rather a credit union. Credit unions are member-owned, not-for-profit institutions. As such, they generally offer better interest and fewer fees while still providing the same services as traditional banks. Joining a credit union requires you to belong to a certain group, and for many, the requirement is simply living, working, or attending school within a geographic area. At Horizon, anyone who lives, works, attends school, or worships within Bradford, Centre, Clinton, Columbia, Lycoming, Montour, Northumberland, Potter, Sullivan, Tioga, or Union Counties can join.

### Types of Accounts

Savings Accounts are typically the first type of account an individual would open, perhaps by your parents while you were still a baby. Savings accounts are an interest-earning liquid account, which means you can easily deposit into and withdraw from the account at any time.

Checking Accounts are an individual's primary transactional account. They offer you the ability to pay merchants, individuals, and companies either by writing a check, automatic or electronic debit, online bill pay, debit card, or payment services such as Cash App and Venmo.

Money Market Accounts are similar to savings, but usually require a higher minimum balance in exchange for a higher interest rate. Interest rates are often tiered, which means the higher your balance, the higher the interest rate.

Certificates are a savings option which offer higher interest rates than savings or money market accounts. In exchange for the higher interest, individuals are required to keep the money deposited for a specific period of time. Penalties are charged if you withdrawal before the certificate's maturity date, the date you are allowed to withdrawal from or make changes to the account.

### Account Fees and Restrictions

When choosing an account, it is important to be aware of any fees or restrictions associated with the account. A Minimum Balance is the amount you are required to keep at all times in your account. Financial institutions will charge a monthly, and sometimes even daily, fee if your account falls below. Some accounts, such as certificates, require a minimum balance to open the account.

**Horizon Tip:** Unless you are receiving great rates and benefits, or can safely maintain to keep a large balance in the account, avoid any accounts that require a minimum balance.

Banks generate a lot of their revenue through charging fees to their customers. Some accounts charge a monthly maintenance fee just for the privilege of having the account. Institutions may also charge monthly fees for other convenient services such as paper statements, debit cards, and online bill pay.

**Horizon Tip:** Do your research and find out which services you use most, and if the financial institution charges a fee.

Fees are also charged to individuals based on how they utilize their account. One of the most common fees is for Non-Sufficient Funds (NSF). This occurs when an individual overdrafts, or withdrawals more money than he/she currently has available in their account. Most banks will allow the transaction, up to a set dollar amount, causing a negative account balance. The bank will then charge their customer a fee; sometimes when the NSF occurs, and other times each day until the customer makes a deposit to bring the account balance positive.

**Horizon Tip:** Payments do not deduct from your account automatically. Keep a record of your transactions and running balance to keep from overdrawing your account.

Another common fee is charged every time an individual utilizes an ATM machine which is not owned or operated by their financial institution. Additionally, the bank who operates the ATM you use may add a surcharge to the amount of your withdraw. These foreign ATM fees are usually small amounts, but can quickly add up, especially if you frequently use other banks' ATMs.

**Horizon Tip:** Look for an account that offers at least a handful of free foreign ATM fees each month. Some large convenience store chains offer surcharge-free ATM transactions. You can also avoid ATMs altogether by selecting the cash back option when you make a purchase at many large grocery store chains.

### Banking at Your Convenience

Waiting at a branch to see a teller was the only option to withdraw cash until ATMs became common in the 1980s. Today, convenient alternatives to access your account makes a trip to the branch less necessary. When investigating accounts, first determine how important convenient services are to you, whether the financial institution offers these services, and if there is a cost associated for using them.

- Online and Mobile Banking enables you to view account information, transfer between accounts, and even pay bills using your computer or smart phone.
- Mobile Deposits enables you to use your smart phone to take a picture of a check and deposit it into your account.
- Debit Cards enables you to make a purchase online or at a store with the amount automatically debited from your checking account.
- Direct Deposit enables your paycheck to be automatically deposited into your account by your employer.

## Savings

Experts suggest having an emergency savings fund, a set amount of money which can be used to cover large, unexpected expenses such as a major car repair, home appliance replacement, medical expenses, or job loss. An emergency fund provides you with a financial cushion to avoid relying on credit cards or high-interest loans.

An emergency fund should equal six months of your expenses. For example, if your monthly expenses total $3,000, then your savings should be $18,000. According to recent surveys, only 3 out of 10 people in the U.S. have a six-month emergency fund. What's worse, about half of Americans wouldn't have available cash to cover an unexpected expense of just $500.

Saving for your future is a vital component to managing your personal finance; here are some tips to start building your savings account:

- Make sure savings is part of your monthly budget.
- Make savings automatic. Split your direct deposit to have a portion automatically deposit into your savings account. If that is not an option, schedule an automatic transfer from your checking account to your savings account.
- Save extra money; including pay increases or reduction in expenses.
- Save found money. A lot of people save loose change in a container. This becomes "found money" when it is time to cash it in. Put it right into your savings account.
- Let your money work for you. Savings accounts pay interest on the money you deposit. Look for accounts that offer the best interest rate without a lot of restrictions. Just by keeping your money in the account, it is working for you to earn additional money.
- Out of sight, out of mind. If the sight of money in your savings accounts seems too tempting, consider opening a separate account. An online savings account is a perfect way to limit your access.

## Interest

Interest is the fee charged for the use of money. When you deposit money, the financial institution pays you interest so they can utilize your money to lend to other individuals. Interest rates are displayed as a number to decimal points, followed by APR, Annual Percentage Rate, or APY, Annual Percentage Yield. The difference between the rate and yield depends on how frequently interest is compounded.

Compound Interest, is the processing of adding interest earned to the original principal, and calculating the interest payment based on the new combined amount. When interest is compounded, your balance will grow quicker than if receiving simple interest which is calculated only on the principal amount. Interest can be compounded as frequently as daily, but can also be compounded monthly, quarterly, or annually. The more frequent the interest is compounded, the more money you will earn.

In each instance below, $10,000 was deposited into a 60-month certificate earning 3.00% APR.

| Compounding | Daily | Monthly | Annual | Simple Interest |
|---|---|---|---|---|
| Balance | $ 11,618.27 | $ 11,616.17 | $ 11,592.74 | $ 11,500.00 |
| APY Earned | 3.05% | 3.04% | 3.00% | 3.00% |

## Budgeting Your Money

A great way to effectively manage your personal finances is to create and follow a budget. A budget requires you to forecast your monthly income and expenses and manage both to make sure you are not spending more money than you are earning.

Income is money you can reasonably guarantee each month from your job. Income should always be budgeted as net income, after all taxes, benefits, etc. have been deducted. For part-time work or jobs which you receive a majority of your pay through tips or commission, be careful not to overestimate your income. A change in hours worked or sales could reduce your pay.

Fixed Expenses are expenses which remain constant each month, such as rent, car payment, or student loan.

Variable Expenses are expenses in which the amount may change each month. Groceries, utilities, and auto fuel are examples of variable expenses.

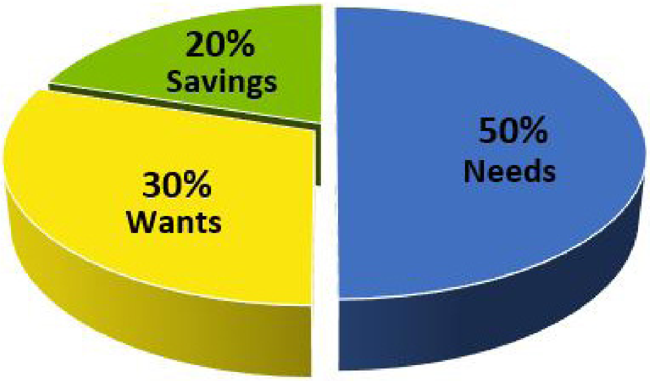
Discretionary Expenses are expenses which are not required and considered a luxury. They include entertainment, gym membership, and eating out.

Tips to creating a successful budget:

- Keep a buffer amount in your checking account. This helps to avoid your account falling into the negative.
- Payment due dates are just as important as payment amount. Paying bills on time helps build your credit score. Payments due the beginning of the month, especially automatic payments, may be withdrawn from your account prior to your pay being deposited. If you have a lot of payments coming due the beginning of the month, you will need to increase your buffer amount.
- Adjust your budget throughout the month to compensate for variable expenses. Was there a spike in the price of gas or food? You may have to adjust your discretionary spending to account for changes in expenses you cannot control.
- Sacrifice discretionary expenses before anything else. The truth is that cable and daily coffee stops are wants, not needs. A $4 coffee each day equals $120 monthly, or nearly $1,500 annually.

- Budget monthly for large expenses. Don't let your car insurance payment surprise you every six months. Divide the total into monthly amounts you can budget and put that away into a separate savings account each month. Do the same for other large expenses such as vacation and holiday spending.
- Save for the future. Don't forget to budget 5% - 10% each month for the future.

**Horizon Tip:** When creating a budget, consider the 50/30/20 Rule:




**50% of your income** should be allotted towards needs; including rent, utilities, groceries, transportation, etc.

**30% of your income** should be allotted towards wants, or discretionary spending.

**20% of your income** should be committed to saving and paying off existing debt.

## SAMPLE BUDGET

| MONTHLY INCOME | Amount |
|---|---|
| Monthly Take Home Pay | $3,425 |
| | |

| MONTHLY EXPENSES | Amount |
|---|---|
| Rent | $ 975 |
| Renters Insurance | $ 20 |
| Electric | $ 65 |
| Gas Heat | $ 20 |
| Auto Insurance | $ 110 |
| Auto Gas | $ 100 |
| Auto Loan | $ 325 |
| Cell Phone | $ 95 |
| Entertainment | $ 100 |
| Food | $ 400 |
| Student Loans | $ 550 |
| TV/Internet/Media | $ 85 |
| Credit Card Payment | $ 100 |
| Savings | $ 300 |
| TOTAL MONTHLY EXPENSES | $ 3,245 |
| DIFFERENCE | $ 180 |

## Tracking Your Income and Expenses

Some deposits and payments may take a couple days to apply to your account balance. That is why it is important to keep a record of your transactions and compare it to your bank account statement on a regular basis to avoid overdrawing your account.

Electronic Funds Transfers (EFT) are electronic payments between financial institutions which typically clear your account within 24 hours.

Automatic Clearing House (ACH) payments, a type of EFT, are direct deposit of payroll, tax refunds, government benefits, and interest payments.

Paper checks are issued by individuals and companies, and may take two to five days to become available in your account after you deposit the check. This is why most individuals set up direct deposit with their employer to ensure their pay is immediately available on payday.

The tools you use to track your balance and budget are entirely up to you. You can record transactions on paper using a check register or ledger, on a computer spreadsheet, computer software, or mobile app.

**Embark on your financial journey with Horizon today!**

Give us a call at 570-326-3636

Visit us online at horizonfcu.org

Visit your nearest branch location