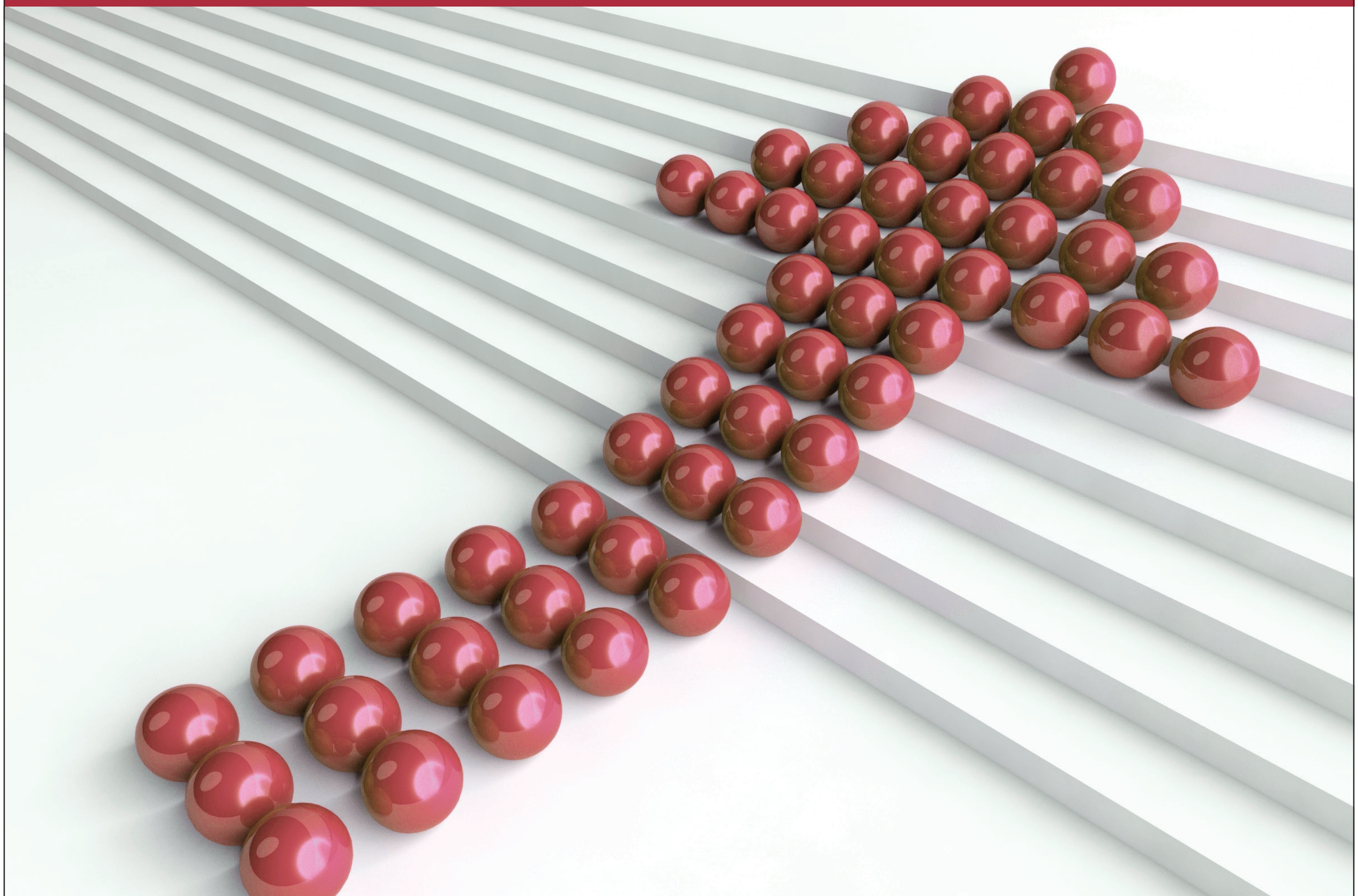
GREENPATH FINANCIAL WELLNESS SERIES

STEPS TO FINANCIAL FREEDOM



"Empowering people to lead financially healthy lives."

GreenPath™ financial wellness

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CHECK YOUR KNOWLEDGE

Look for this icon throughout the workbook for important information.

STEPS TO FINANCIAL FREEDOM

STEP 1: YOUR MONEY PERSONALITY

Have you ever wondered why you use money in a particular way? Many forces impact the development of your money personality. You make purchases to fulfill desires and to make yourself feel a certain way. Some spending influences include: advertising, media, society, friends, family, and easy credit.

One way to evaluate your approach to money is to identify your attitudes about money. Where do you fit?

Hoarder	The hoarder likes to save, budget and prioritize
Spender	The spender likes to spend
Planner	The planner is the nitty-gritty, take-it-one-step-at-a-time type
Dreamer	The dreamer hatches passionate schemes, but has no idea how to make them come true
Merger	The merger wants to pull all of the couple's money together
Separatist	The separatist wants at least some of his/her own money
Risk-taker	The risk-taker loves adventurous investing
Risk-avoider	The risk-avoider goes for the sure thing

You might find that your approach to money includes more than one profile. Take some time to discover your money personality by answering the following questions about how you spend your time and money:

1. What products and services do you enjoy spending your money on?
2. In what ways are you a "good" spender?
3. What changes would you like to make in your spending habits?

When you understand your money personality and attitudes toward money, you can make adjustments and changes as needed to help you achieve your goals.

STEP 2: SETTING GOALS

Before you can create a plan for spending and saving, financial goals must be set. Goals reflect your values and provide direction for planning. Setting goals will help you balance your needs and wants.

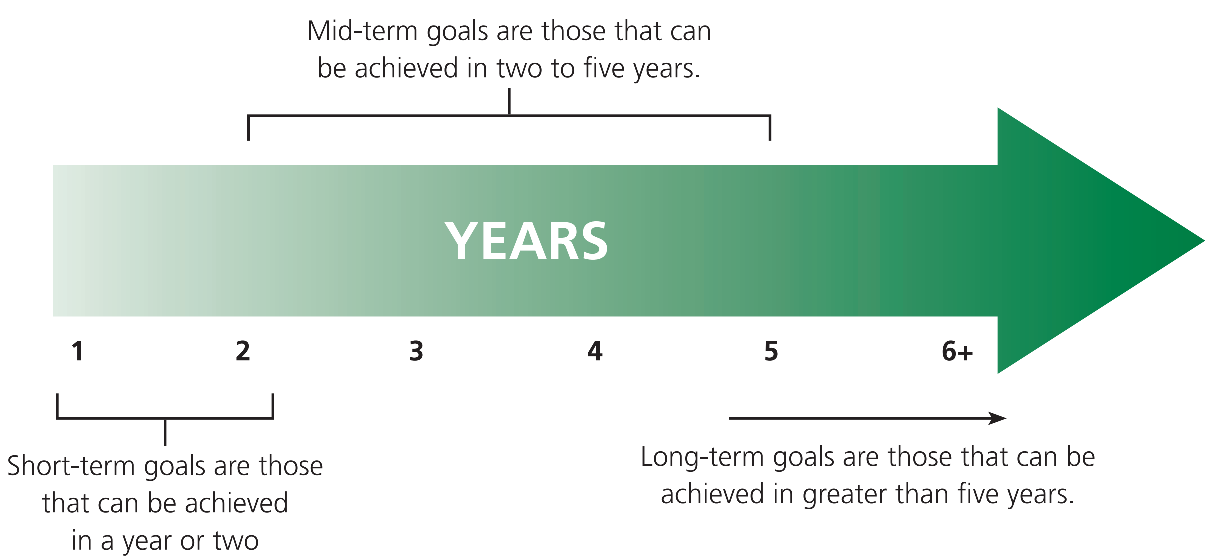
Characteristics of Financial Goals:

- Specific – Goals should be specific. How much do you need to save? How long of a time frame do you have before you need the money? How many pay periods are available to save the money? For example, you might need to save $5,000 over 2 years for a down payment to buy a house. If you get paid once each month, you would have to save $208.33 each pay period to achieve your goal.

- Measurable – You will have to measure and monitor your progress. How will you do this? Do it in a way that makes sense to you. As you save money throughout the year, you can do this by your pay schedule or monthly. While saving you can track it on a computer, write it down, or even have funds directly go into a savings account. In any event, measure your progress as you move towards achieving your goal.

- Reasonable and Realistic – Set goals that are reasonable and realistic. Don't try to save too much each period and end up sacrificing other parts of the budget. You might have to lengthen your time frame to achieve a goal and decrease the amount you save each time. Remember, saving is a lifelong process and a consistent, systematic approach will pay off.

Take some time to set your financial goals. Short-, mid-, and long-term goals are important. Although the time frame that you put on your goals may vary, here are some rules of thumb:



Answer the following questions to help you list out and prioritize your short, mid and long-term goals:

1. What are some goals you would like to accomplish within the next 1 to 2 years?

2. What are some goals you would like to accomplish in the next 2 to 5 years?

3. What are some goals you would like to accomplish in more than 5 years?

After your specific goals are identified, complete the financial details. Here are two examples:

SAMPLE GOALS				
Goal	**Short-, Mid- or Long-Term**	**Total Amount Needed**	**Months until Goal is Reached**	**Amount to Save each Month**
Taking the family on a weekend vacation	Short	$600	12	$50
Saving for a down payment on a new home	Mid	$3,600	36	$100

Goals change continuously over a lifetime. If a change is needed to a current goal, make the adjustment. As goals are reached, new ones should be established.

STEP 3: BUDGETING – YOUR SPENDING PLAN

Budgeting is the cornerstone to anyone's personal financial plan, whether you're saving a lot of money already or you're behind on your financial obligations. A budget tells a financial story and yours will be a successful one by planning, tracking and adjusting.

In its most basic form the budget includes income, expenses and debts. Income and debts are usually easy to identify and list. It's the expense side of the budget that always seems to be the most challenging for people. Don't forget to include periodic expenses in your budget such as car insurance or property taxes.

Financial experts have guidelines for recommended monthly expenses. After you create your budget, compare your spending to the guidelines below:

RECOMMENDED MONTHLY EXPENDITURES	
Category	**% Monthly Take-Home Pay**
Mortgage/Rent	25-35
Food	18-23
Consumer Debt	10-20
Savings	7-10

Keeping track of your income, expenses and debts will allow you to continually monitor your budget as you move toward accomplishing your goals. Most people tend to underestimate their expenses by about 25%, this is why tracking your expenses is an important step of budgeting. Remember, your budget is like a muscle. If it is not worked and exercised, it will get weak. So, exercise your budget every week to keep your finances strong.

STEP 4: SAVING TO ACHIEVE

Whether you have short-, mid-, or long-term goals, saving money is the key to achieving all of them.

Make Savings Part of Your Budget

Have you heard the saying, "Pay yourself first?" This slogan suggests that you save money for yourself when you get paid before you pay your bills. When you plan to save, the "expense" called savings becomes a routine bill that you "pay" each month. With this bill, the recipient is you! You can achieve your goals by making saving a part of your personal financial budget.

Start with an Emergency Savings Account

Most financial experts agree that keeping 3-5 months of income in an emergency savings account is solid financial guidance. Having a safety net, like an emergency savings account, can help minimize your worry, protect you against uncertainty, prevent the need to liquidate assets, and give you access to cash rather than credit. Create your emergency savings before you begin investing for other financial goals.

Save to Make Most Purchases

Periodic expenses are the trickiest expenses in the family budget. These expenses don't occur each week or each month. Instead, they occur at different times during the year. When you plan your annual budget, pay particular attention to your periodic expenses. These generally include expenses such as car repairs and maintenance, gifts, entertainment, house repairs and maintenance, clothing, vacation and insurance. Estimate how much money you will spend in the following year in each category.

You might have other expenses in your budget that you identify as periodic. Reviewing old credit card or financial statements is a good way to determine what you purchased last year and how much you spent. Once you calculate how much you expect to spend in each of the categories next year, divide each number by 12 to determine the monthly amount for each expense. Remember, you should treat periodic expenses as monthly expenses in your budget. By planning ahead and working off a monthly spending plan, you will be able to avoid peaks and valleys with your finances.

STEP 5: USE CREDIT WISELY

The word "Credit" comes from the Latin word for "Trust." This means that someone trusts someone else to repay the money loaned.

With more and more choices for credit, more rebate offers, coupons, and hotel reservations; the average person has tough decisions to make regarding the wise use of credit.

Good Debt, Bad Debt

Credit itself is neither a positive nor a negative thing; it can either be used wisely or recklessly. Unwise use of credit can lead to serious financial problems. Therefore, consider the advantages and disadvantages of credit transactions. Credit adds flexibility to your financial planning and allows you to have the things you need and want by buying now and paying later. When treated as a privilege, credit can help you have and enjoy more. However you need to control credit or it can control you!

Credit	
Advantages:	**Disdvantages:**
• Helps improve one's general way of living • Gives ability to take advantage of sales • Enables the purchasing of large or expensive items and paying for them over time • Replaces the need to carry large sums of cash • Makes managing overall expenditures more effective • Provides establishment of a credit rating • Can help beat inflation • Helps handle financial emergencies • Provides method for keeping savings intact	• Commits future earnings • Provides a false sense of financial security • Decreases cash savings • May include paying finance charges and/or interest in addition to the cost of the product or service • Promotes temptation to overspend • Presents opportunity for credit cards to be lost or stolen

Review Your Credit Report

If you have ever applied for a credit card, a personal loan or insurance, there's a file about you. This file contains information on where you work and live, how you pay your bills, and whether you've been sued, or filed for bankruptcy.

Companies that gather and sell this information are called Consumer Reporting Agencies (CRAs). The most common type of CRA is the credit bureau—the three main CRAs are Experian, Equifax and TransUnion. The information CRAs sell about you to creditors, employers, insurers and other businesses is called a consumer report.

The Fair and Accurate Credit Transactions Act of 2003 (FACT Act)

The Fair and Accurate Credit Transactions Act of 2003 is a United States federal law, passed by the United States Congress on November 22, 2003, as an amendment to the Fair Credit Reporting Act. The act allows consumers to request and obtain a free credit report once every twelve months from each of the three nationwide consumer credit reporting companies (Equifax, Experian and TransUnion). In cooperation with the Federal Trade Commission, the three major credit reporting agencies set up the website, *www.annualcreditreport.com*, to provide free access to annual credit reports. If there is incorrect information on a credit report, you have the right to file a dispute. After an investigation by the credit bureau, they will remove it from your credit report if it is proved to be incorrect.

Experian **1-888-397-3742** **PO Box 2002 Allen, TX 75013**
Equifax **1-800-685-1111** **PO Box 740241 Atlanta, GA 30374-0241**
TransUnion **1-800-916-8800** **PO Box 1000 Chester, PA 19022**

Handling Debt Problems

Many people face a financial crisis at some point in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is having financial difficulty, consider these options: realistic budgeting, credit counseling or debt consolidation. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

Realistic Budgeting

The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Writing down all your expenses — even those that seem insignificant — is a helpful way to track your spending patterns, identify the expenses that are necessary and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, transportation, food, health care, insurance and education.

Credit Counseling

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by your counselor. As part of the repayment plan, you may have to agree not to apply for – or use – any additional credit while you're participating in the program.

Debt Consolidation

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before considering this option. These loans typically require your home as collateral. If you can't make the payments — or if the payments are late – you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

Contacting Your Creditors: Remember to contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector.

STEP 6: HOME SWEET HOME

If you're like most Americans, owning your own home is a major part of the American Dream. Buying a home is typically the largest purchase most people will ever make. Finding and financing a home can involve complex decisions, but help is available via Housing Counselors.

Saving for a home purchase takes commitment, research, and sacrifice. It is an emotional time for the homebuyer who will experience excitement, pride, achievement, fulfillment, and independence. The advantages of owning your own home are well documented. You:

- Build equity (or ownership) in property, which you may sell at a profit
- Can deduct mortgage interest on your tax return
- Are protected against rent increases (though not property tax increases)
- Can rent your property to produce income
- Can often get more living space for less money
- Can borrow against home equity

So where do you start? Set goals and budget to save the money needed to achieve your American Dream.

Budgeting and Goal Setting

Managing your money will always be a lifetime project. It becomes even more important as you prepare to buy a house. Buying a house takes a lot of energy and preparation, so strong organization can help make the process go smoothly.

How Much House Can I Buy?

Knowing how much you can afford as a monthly mortgage payment is an important starting point because it allows you to estimate how much house you can buy. Use the following chart to calculate monthly principal and interest payments.

MONTHLY PRINCIPAL & INTEREST PAYMENTS	
Interest Rate	**Interest Rate Factor (per $1000 financed for 30 years)**
6%	$6.00
7%	$6.66
8%	$7.34
9%	$8.05
10%	$8.78
11%	$9.53
12%	$10.29
13%	$11.07
14%	$11.87

So the principal and interest on a $100,000 loan at 10% interest would be calculated like this:

$8.78	X	100	=	$878.00
10% interest factor		loan amount in thousands		monthly payment

To arrive at the rest of the monthly payment, take 1/12 of the annual property taxes and insurance and add it to the monthly principal and interest. That will equal the total monthly payment: principal, interest, taxes and insurance (often referred to as PITI).

Qualifying Ratios

As a part of the qualifying process, the lender will use ratio calculations to determine whether you have adequate stable income to support the monthly mortgage payments. There are two ratio calculations performed by the lender: the housing debt-to-income ratio and the total monthly debt-to-income ratio.

Lenders usually assume you can afford to spend 28% of your total income on your mortgage (principal and interest), property taxes and homeowners insurance. But even if you meet this test, you can still be turned down if your mortgage expenses and other regular debt payments such as auto and student loans are more than 36% of your total income.

Calculate your ratios:

Expected Housing Expenses	Remaining Debt Expenses	Monthly Income	Housing Ratio	Debt Ratio
$800	**$300**	**$3000**	**0.27**	**0.37**

Example 1: Housing Ratio- $800 (Housing Expense) / $3000 (Monthly Income) = .2666 or 27% Housing Ratio

Example 2: Debt Ratio- $1100 (Housing and Remaining Debt Expenses) / $3000 income= .3666 or 37% Debt Ratio

The amount of the loan you can actually qualify for is based on the value of the property and the interest rate, along with your credit standing, annual income and net worth.

STEP 7: INVEST FOR YOUR FUTURE

Once you have your emergency savings account funded you will begin to diversify your savings through other types of investments. Which investments you choose will be based on a number of factors including your goals, your tolerance to risk, the risk of the investment, and what life stage you are in.

RISK/REWARD LEVELS		
Scale	**If you are:**	**Consider:**
Higher Risk-Higher Return Potential	Planning far ahead for financial goals. Willing to accept greater risk for potentially higher rewards.	International Stock Funds Specialized Stock Funds
	Planning ahead for financial milestones and goals.	Growth Stock Funds Value Stock Funds
	Getting closer to goals, but still need some accumulation.	Bond/Income Funds Balanced/Hybrid Funds
Lower Risk-Lower Return Potential	Being careful about conserving assets and your goals are near term.	Savings U.S. Treasuries Money Market Funds

MAKING THE INVESTMENT CHOICE	
Stocks	When you buy a stock, you buy part of a company. The advantages of investing in stocks include higher potential returns over time than most investments offer and returns that historically have outpaced inflation.
Bonds	Bonds are loans you make to corporations or governments. A bond is basically an IOU that says if you buy a bond with a stated face value, the issuing company will pay you a set amount of interest and the face value at maturity.
Mutual Funds	A mutual fund is an investment vehicle that enables its shareholders to pool their funds as a single investment account using professional management. Each fund is managed toward a particular investment objective, such as growth, income or asset preservation. The mutual fund's prospectus will explain the fund's investment objective and tell you what securities the fund holds.

RETIREMENT SAVINGS PLANS	
401(k) AND 403(b) Plans	A 401(k) is a retirement plan that allows you to make deductible contributions that will grow tax-deferred until you withdraw them. (403(b) in government and tax-exempt organization)
Individual Retirement Accounts (IRAs)	Individuals with income from employment can deposit up to 10% of their earnings (to a specified limit) each year into a special account set up by banks, brokerages or financial advisors. IRAs are self-directed, which means you choose how the money is invested. Contributions may be deductible on your tax return.
Roth IRA	Contributions are not deductible, but if the account is open for at least five tax years, withdrawals of original contributions and investment earnings are tax-free if you are at least 59 ½, become disabled, or withdraw up to $10,000 for first-time home buying expenses.
Annuities	Under an annuity contract, you make an up-front payment – or series of payments – in return for a stream of income in the future, often at retirement.

The earlier you start saving, the more you will benefit from compounding interest. This is the interest earned on interest payments already built up in an investment fund. The earlier you begin, the larger your nest egg will grow.

STEP 8: TAKE ADVANTAGE OF TAX ADVANTAGES

There isn't much you can do to avoid taxes altogether. But you can take advantage of a number of strategies to pay less tax. Tax-deferred and tax-free investments, year-end tax planning, and taking full advantage of the tax laws all save you money on April 15th.

TAX ADVANTAGES	
Tax-Free	Tax-Free means that no tax is due.
Tax-Deferred	Tax-Deferred means you don't owe tax on your earnings now, usually because you don't have the use of the money.
Selling Securities	You can avoid taxes on some or all of your capital gains by selling securities on which you are losing money, especially if you think they're not worth holding on to.
Home Equity Loans	Since interest on many home equity loans is deductible, while interest on consumer loans and credit cards is not, it may pay to use your home equity credit if you need to borrow money.
Paying Expenses with Pre-Tax Dollars	Many employers offer flexible spending plans that let you exclude a fixed dollar amount from your salary to pay certain medical and dependent care expenses. Since the money is not included in your salary for tax purposes, you pay less tax.
Giving to Charity	If you itemize on your tax return, you can deduct charitable contributions, both cash and non-cash.

Some of these strategies may not be ones that you can implement. Consult your tax professional to determine if other tax-saving options are available to you.

STEP 9: INSURANCE

Along with your emergency savings account, insurance is a key component to building a strong financial foundation. An emergency fund normally can't prepare you for a catastrophic loss or illness. For these costly emergencies, people need insurance.

INSURANCE		CONSIDER:
Life Insurance	Life insurance is designed to provide income for dependents, or other loved ones, should your death cause them financial hardship.	Do you have any life insurance? Do you have enough?
Health Insurance	Basic coverage pays all or part of specific hospital, surgical and physician charges. Major medical coverage picks up where basic coverage leaves off, providing coverage for more serious illnesses and injuries.	Do you and your spouse pay for family health insurance through your work? Is the annual amount that the secondary plan pays for deductibles and copays greater than the premiums you pay out of pocket?
Auto Insurance	Auto Insurance may pay for damages to your car and for injuries to you and your passengers.	Can you increase your deductible to reduce your premium? Do you have enough in your emergency savings to cover the deductible in case of an accident?
Disability Insurance	Disability Insurance provides income to replace part of the income you may lose if an accident or illness leaves you disabled.	Do you have disability insurance through your employer? Is it short-term or long-term coverage? Do you have money in your emergency savings to pay your expenses during a short-term disability?
Homeowners Insurance	Homeowners Insurance pays for damage to or loss of your home and your belongings.	Do you have enough coverage? Does it offer replacement coverage?
Renters Insurance	Renters Insurance pays for damage or loss of your covered belongings while you're renting a home or apartment.	If you rent, do you have insurance to protect your personal belongings?
Long-Term Care	Long-Term Care Insurance pays for nursing homes, home health care, or other services for seniors or people with disabling conditions.	Have you reviewed your future health insurance needs?
Umbrella (Personal Liability Insurance)	This coverage supplements the liability insurance carried under auto or dwelling policies.	Is this coverage something you need?

STEP 10: KEEP GOOD RECORDS – A MUST!

Home Files

The following information should be in your home filing system:

- Information on credit cards, debit cards, checking accounts, savings accounts, other savings investments and copies of contracts
- Copies of insurance policies
- Information on motor vehicles and drivers licenses
- Copies of birth, marriage, death, divorce and citizenship papers
- Copies of will, last instructions, and location of safe deposit box keys
- Tax records for last six years
- Records of pension plans, education, health records and employment
- Current household inventory; list everything you own, what the cost is, and approximately how old it is. Add pictures or a video of rooms/major items, and keep all receipts.
- Copies of all owner's manuals, warranties and guarantees
- Medical Records

Write a Financial Plan

A financial plan is a blueprint that evaluates your current assets and debts, identifies the things you want or need to provide for, and lays out a strategy to pay for them.

A successful plan can:

- Beat inflation
- Minimize taxes
- Manage the unexpected
- Provide money for special expenses
- Enrich your retirement

The financial planning process includes the following steps:

1. Examining your current situation and understanding your needs
2. Gathering information

3. Setting your objectives
    a. Gaining/Preserving wealth
    b. Providing protection
    c. Minimizing taxes
4. Developing a plan
5. Proposing solutions
6. Implementing the plan
7. Reviewing the plan and repeating the process

GOOD ADVICE

As you go forward and follow the steps to financial freedom, keep a few things in mind:

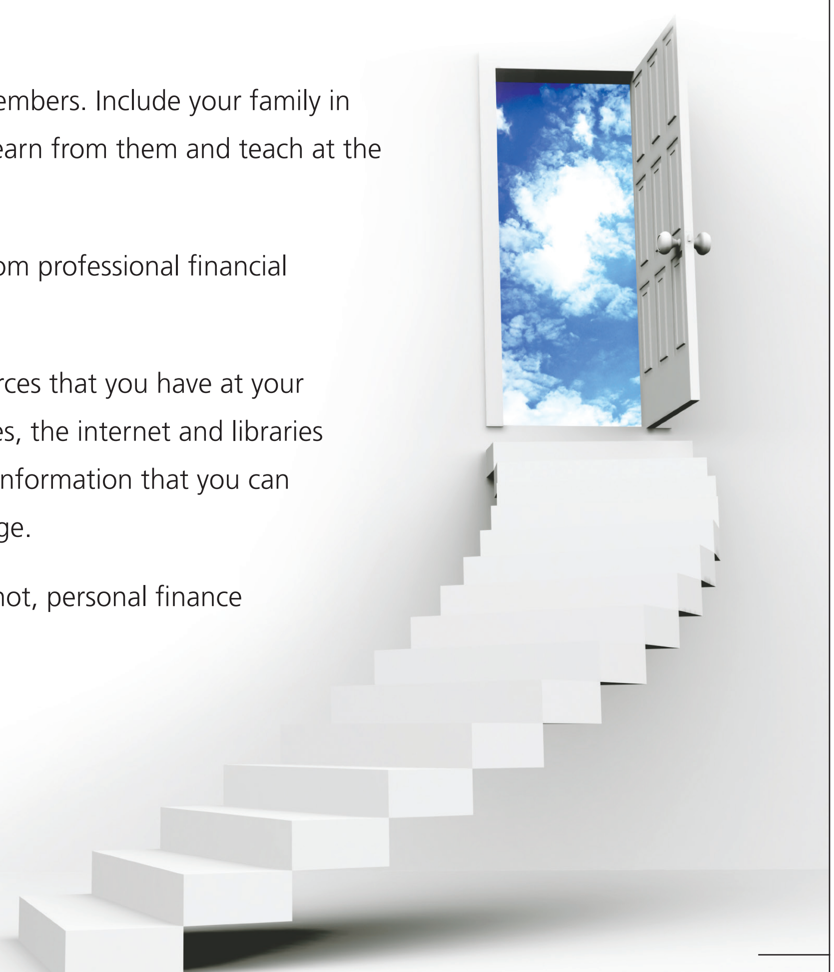
FIRST: learn as much as you can on your own. Learning is lifelong and you will be faced with financial issues throughout your life. Learn all that you can about your personal financial issues.

SECOND: communicate with family members. Include your family in the financial planning effort. You will learn from them and teach at the same time.

THIRD: be smart and seek guidance from professional financial experts as needed.

FOURTH: use all of the available resources that you have at your disposal. Books, newspapers, magazines, the internet and libraries are great sources of personal financial information that you can use to enhance your financial knowledge.

FINALLY: have some fun. Believe it or not, personal finance can be fun.



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financial wellness