Financial Lessons for Those in their 20s, including learning the signs of impending financial troubles, the consequences of excessive debt, and the options for individuals with too much debt to handle.

This PowerPoint is a companion to our Teacher’s Guide available from www.DebtReductionServices.org/Education/Webinars. See the Teacher’s Guide in addition to the notes in this PowerPoint for guidance on facilitating the topic.

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Debt Reduction Services Inc (DRS) provides financial education services for its clients and its communities. DRS employees facilitate hundreds of workshops to thousands of individuals each year. Host organizations include schools and colleges, businesses and business associations, nonprofit agencies, government programs, churches, and more.

Contact Debt Reduction Services Inc with inquiries regarding free guest speakers or visit www.debtreductionservices.org/education/host-a-class.
When viewing the PowerPoint, you may use the links on this page and the blue Home button in the top right to navigate back and forth between sections.
Theory of Change
Once an individual, on their own through guidance from the facilitator, can recognize the gap between where he or she wants to be and where he or she currently is, that individual will be more likely to become motivated to change and start moving toward established goal.

For individuals in their 20s, their envisioned future might include:
• Enjoyable job
• Comfortable living
• Early retirement
• No debt, and especially no student loan debt
• Great friends
• Close Family
• World Travel
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Helping individuals in their 20s see where they are in relation to where they want to be might include questions like those that follow:

- **Enjoyable job** – Do you have a degree? Have you gone through the necessary training? Are you working (or volunteering) in the industry?
- **Comfortable living** – Are you living BELOW your means? At EVERY income, it’s the ONLY way. Making more money usually just means spending more money (since 60% of American households live paycheck-to-paycheck at just about every income level). Learn to be comfortable at ANY income level.
- **Early retirement** – Have you made a plan? Keys will include things like starting your own business, investing heavily using your 401(k) and/or Individual Retirement Account, purchasing a home in order to minimize the waste that renting entails, and minimizing major expenses in your 20s and 30s (such as expensive vehicles, entertainment packages and extensive travel).
- **No debt, and especially no student loan debt**: Are they making at least the minimum monthly payment on their student loan(s) or preferable more than the minimum due? If they’re still in college, are they at least paying the monthly interest so that it doesn’t compound? Do they pay off their credit card bill EVERY month IN FULL? Do they have a car or truck loan or do they save up to pay for their next “new-to-them” car/truck in cash?
- **Great friends**: Having great friends means being a great friend. This does not mean you have to visit foreign countries together, eat out for regularly, give expensive gifts to each other on birthdays, or otherwise spending money on each other. Keys to being a good friend haven’t changed much since we were in elementary school: spend time together, share and listen to each other’s challenges and successes, play, learn together, help each other, watch out for each other.
- **Close Family**: Tolstoy wrote in the 1873 opening of his novel, Anna Karenina, “All happy families are alike; each unhappy family is unhappy in its own way.” Psychologists and family counselors may disagree with this, but there are several commonalities in close families:
  - Acceptance, understanding, protection and respect (www.psychologytoday.com/blog/the-creativity-cure/201410/happy-families-are-not-all-alike)
  - **World Travel**: Many young people with good employment enjoy world travel. I say, “Bon voyage!” But be careful not to sacrifice your future comforts and peace of mind by spending your financial stability while in your 20s. If you don’t have a substantial rainy day fund, you’re not ready for world travel. Too many people return from such a wonderful excursion to encounter the reality of credit card debt, financial stress, and even strains on relationships.
**Theory of Change**

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How do you feel about where you are now, where you’re headed and where you want to be?

- This comparison is generally where the internal motivation comes from to make a change.
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Think of 3 things you will HAVE to do in order to reach your goals?
1. There can be generic, long-term steps or specific, short-term steps.
2. In order to get from here to there, what will you have to do? What are the obstacles you’ll have to get around or conquer?
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Commit to doing these three things.
• Say it out loud.
• Repeat it.
• Repeat daily.
• Share your commitment with a trusted friend or mentor and ask them to follow up with you weekly, monthly or quarterly.
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Chose one step and do it TODAY!
• Write it down now.
• Set a reminder in your phone or on your calendar.
• If you don’t do it today, you will likely never do it.
RECOGNIZE
If you answer any of these situations or if you do not think that they are even potential problems to begin with, then it is likely that deep trouble is already knocking on your door:

- **Debt**
  - You can’t make your standard student loan payment and/or are considering an extended repayment plan in order to lower your monthly payment.
  - Your car payment, insurance, fuel costs and maintenance are more than 15% of your net monthly pay.
  - You carry a balance on your credit card from one month to the next.
  - You have borrowed or are considering borrowing from family or friends to pay living expenses (e.g. rent, loan, utilities).
  - You have gone over your credit card credit limit.
  - You make only the minimum payments on your debts.
  - You have take out or are considering taking out a payday or title loan.
  - Your collective minimum loan payments (excluding mortgage) are more than 20% of your monthly income.
  - Your credit card interest rate has been changed to the much higher “default” (penalty) rate (typically in the 20% to 30% range).

- **Banking**
  - You do not regularly balance your account statements.
  - Your debit cards purchases are sometimes declined for lack of funds.
  - You have no checking account at a bank or credit union.
  - You have no rainy day fund to speak of.

- **General**
  - You frequently miss paying an obligation (bills, utilities, etc…).
  - You feel like you must work overtime to pay your living expenses.
  - You have delayed doctor visits for financial reasons.
  - You have pawned or are considering pawning possessions.
  - You have used or are considering using a rent-to-own store to acquire a piece of furniture, electronics, or appliance.
  - You lose sleep due to financial worries.
IDENTIFY
Is all debt bad? What makes debt potentially good, practical or bad?

- The cost of interest, grace periods, minimum payments and payoff projections are just a few factors in the equation.
- **Potentially Good Debt** is likely to increase the individual’s net worth or income (e.g. Home, Business, Education and, though rarely, a Commuter Vehicle).
- **Practical Debt** is any debt that is paid off without fee or interest of any kind (e.g. credit card debt that is paid off in full each month).
- **Bad Debt** encompasses all other debts.

Can you identify whether a debt is potentially good, practical, or just plain ol’ bad?
1. Home loan (potentially good)
2. Student loan (potentially good)
3. Business loan (potentially good)
4. Home repair (potentially good)
5. Credit card for travel (practical if paid off within a month)
6. Car loan (bad unless, as a commuter, it can increase income more than the cost of the car loan)
7. Snowmobile or ATV loan (bad)
8. Payday loan (bad)
9. Paycheck advance from employer (bad)
10. Appliance or furniture loan (bad, though in some rare cases it can be practical if there is truly no interest paid)
11. Credit card consolidation loan (practical, but usually bad)
12. Tax refund anticipation loan (bad)
PREDICT
On the handout, “It’s Not That Bad, Is It?” circle the consequences you think might happen if you got into too much debt?
• Have participants complete the activity
• Review answers and possible outcomes of excessive debts
  • All can be circled except
    • Go to Jail (the US did away with federal debtor’s prison in 1833, with most states following suit by mid-century. See https://en.wikipedia.org/wiki/Debtors%27_prison)
    • TV Repossessed (If purchased with a credit card, the items are not considered collateral, therefore not property to be repossessed by the creditor)
    • Denied Utilities Account (unless the back debts are owed to the utilities company. Otherwise, late payments lead to poor credit, which is not grounds for denying a utilities account but is for raising the security deposit)
    • Have College Degree Cancelled (Does not happen for financial reasons)
    • Be Kicked Out of College (unless somehow fees and/or debts are owed directly to the school)
What are the keys to getting out and staying out of debt?
1. Stop the Slide
2. Credit and Live by a Spending Plan
   • Consider having the participants repeat, “I Live by a Budget!” after you. Do it three times, louder each time. If you’re not confident or comfortable with such a request, skip this interaction.
3. Modify Spending Habits and Behaviors to match the spending plan

What are the basic components of a Spending Plan (budget)?
1. Establish and write down one to three motivational financial goals
2. Add your income
3. Subtract your expenses
4. Determine if you need to increase your income, reduce your expenses or both

What spending habits and behaviors might you need change in order to live below your mean?
What success have you or your acquaintances had in overcoming the negative spending behaviors listed below?
1. Impulse spending: create a goals card and place it in your wallet/purse
2. Sales spending: Remember that sales are occasions to spend money, not opportunities to save it. Nobody ever came home from shopping at a sale with more money in their savings account.
3. Bad timing spending: hungry, stressed, hurried, with kids)
4. Entitlement spending (“I deserve this” or “I work just as hard”)
5. Compensatory (making up for lack of time, drive or confidence)
How do people get out of debt or deal with too much debt? What are the consequences of the various options?

- **Pay as agreed:** Make the requested payments until the debt paid off. This is traditionally the best option. It builds credit and you typically pay the least amount of fees and interest.

- **Transfer debt from one credit card/loan to another while making minimum payments.** This is moving debt around, not paying it off. It may cause problems if the transfer does not happen on time or as expected. Just as bad if not worse, once you have the debt transferred, you may be tempted to run the original credit card back up to their high balances. Now you would have twice the debt.

- **Ask their creditors for lower interest rates.** This is a great first step and can have some seriously positive impacts on your monthly payments. However, if a creditor knows that you have multiple accounts, they are likely to refer you to a credit counselor. All credit card statements now list contact information for credit counselors in case of financial challenges.

- **Consolidate multiple debts into one loan:** This usually involves a debt consolidation loan, which often comes with a high interest rate, if even it gets approved (which is certainly not a given).

- **Use a nonprofit credit counseling agency:** Credit counseling agencies work to lower your interest rates and make repayment more affordable. Their debt management programs typically take three to five years to complete but can be paid off early with no penalty. FICO does not consider participation in a debt management program a negative in their credit rating model (www.myfico.com/crediteducation/whatsnotinyourscore.aspx)

- **Use a debt settlement company:** Debt settlement agencies, whether they are for profit or nonprofit, try to negotiate a lower balance on the debt(s) that you owe. Unfortunately, such efforts rarely succeed as advertised and can often (if not usually) end in a judgment against you and a garnishment of your wages.

- **File for bankruptcy:** Bankruptcy might be able to eliminate or dramatically diminish your financial obligations. The notable exceptions include child/familial support, student loans, recent back taxes and recently-incurred debts. Bankruptcy negatively affects your credit rating for up to 10 years.

- **Ignore the debts:** This can often lead to wage garnishments, loss of tax refunds, and ongoing collection calls and other financial struggles long into the future (sometimes decades) until the account obligations are satisfied.
EXPLAIN
A. Ask the students to identify and explain why most 20-something bankruptcy filers file?*
B. What do you think the most common reasons are for 20-somethings to file for bankruptcy?
   1. 45% had $20k-$49k in non-mortgage debt
   2. Most common debts: Credit card (73%), Medical (70%), Vehicle (60%), Student Loan (25%), Mortgage (24%), Payday loans (17%)
   3. Most common reason for filing: Job loss/Income reduction (36%), Medical expenses (26%), Overspending (13%), Overuse of Credit cards (10%), Divorce (9%)
   4. How much savings did they have in their accounts before filing for bankruptcy? 68% had $0 and 27% had less than $1,000.

*Based upon a survey by Debt Reduction Services Inc of well over 300 bankruptcy filers in their 20s from 2006-2013
RECOGNIZE
Ask the student what the following lenders/creditors all have in common? The answer is high interest rates and fees.

1. Title Loan (50%-100% APR)*
2. Rent-to-own Contract (100%-500% APR)*
3. Corner Finance Company (20%-50% APR)*
4. Checking Account Overdraft (10%-100% APR)*
5. Credit Card Cash Advance (20%-30% APR)*
6. Payday Loan (390%-800%+ APR)
7. Pawn Shop Loan (50%-100% APR)
8. Tax Refund Anticipation Loan (50%-500% APR)

*Young adults in particular are often unaware of these dangers because they can be marketed in deceptive (or borderline deceptive) ways. Since many of these loans are for less than a year, the APR may represent an annualized percentage rate.
COMPARE SOLUTIONS
Provide the students with the handout, “Which Repayment Option Rocks?” Ask them to rank, from best (1) to worst (5), the listed debt repayment options with regard to their impact on your finances.
Answers in order of best impact to worse:
1. Pay as agreed
2. Use a nonprofit credit counselor (non direct impact on FICO credit score - www.myfico.com/crediteducation/whatsnotinyourscore.aspx; temporary notation on credit report; 3-5 year pay off; enrollment and maintenance fees)
3. Settle your debts for less than the balance owed (judgment and garnishments)
4. File for bankruptcy (Typically takes bankruptcy filers 1-2 decades to catch back up with non-filers with regards to income and net worth: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1208151. Infers that the younger the filers, the less drastic the impact)
5. Ignore your debts

It can be debated that bankruptcy is worse than ignoring the debts. This would, of course, depend upon the size and types of the debt(s).
Returning to the Theory of Change

1. Ask the students to come up with ONE single step they can take today that will get them closer to their own financial goals.
2. Allow them to come up with their own answers.
3. Ask them to write it down, carry in their wallet and/or purse and post it where they can see it regularly.
4. If the students do not commit to it and do this one step within the next 12 to 24 hours, studies show that they will not likely take it at all… ever.
1. This is one of four workshops/webinars in our Financially Empowered series. We have multiple series of personal finance workshops and webinars available for free at www.DebtReductionServices.org/Education/Webinars.

2. Besides your first step from the previous slide, consider the following simple and easy steps to progress financially:
   • Open a savings account at a bank or credit union, especially if you do not have one.
   • Deposit an extra dollar in your savings account. In a week, try depositing $5.
   • What else can they come up with? Consider sharing your own commitments and goals.
We always recommend that facilitators be available to answer questions after the presentation. In fact, do not be afraid to wrap up five or ten minutes early in order to allow for questions, presentation evaluations, and/or surveys.

If you ever have questions about this presentation, please do not hesitate to contact us: Education@DebtReductionServices.org