

Unit 1:

Factors Affecting Family Finance

Read Chapter 1 in the text.

There are many factors that affect your financial situation. Some of them you have control over and some of them you do not. Understanding the factors can help you make decisions. Before we look at those factors, let's look at a couple of key concepts.

Financial Success

Think of someone you know personally that you think is a financial success (not Bill Gates). What is it about that person that makes you think they are a success? Many students tell me they think of someone who has managed their money well and now has enough to live comfortably. Financial success is different for everyone. Think about what you would need to have financial success. For one person it may mean a nice house, nice cars, vacations, etc. For someone else it may mean a lot of money saved and invested or being out of debt. In this class I will talk about saving and investing, but please don't think that I feel like that is the most important part of life. For many, having money saved is a big part of feeling like they are financially successful and that is why I talk about it a lot. But YOU will need to decide what you will need to become financial successful.

Financial Security

Most people think of financial success as having financial security. The text defines financial security as a "comfortable feeling that your financial resources will be adequate to fulfill any needs you have as well as most of your wants." In order to reach this state in life you will need to plan carefully and work toward this goal, if it is a goal you want to have. Now we will look at some of those factors that can help or hinder your progress toward becoming financially successful.

Unit 1:

Factors Affecting Family Finance

FACTORS NOT IN YOUR CONTROL

Economy

Business Cycle - Make sure you understand the Business Cycle from the reading. You may see questions about expansion, recession, and recovery on an exam. The Business Cycle is something we cannot control but plays an important part in the economy. It affects a lot of the other factors we will discuss.

Gross Domestic Product (GDP) - a measure of the total production and consumption of services in the U.S. It shows the economic activity and financial health of the nation. Less than 2% growth is considered low growth. More than 4% is vigorous growth. Vigorous growth can lead to accelerated inflation.

Index of Leading Economic Indicators (LEI) - a weighted average of 21 key economic components designed to predict economic conditions in the near term. It shows the future direction of the economy. A falling index for 3 consecutive months or more has been associated with slower economic growth.

Consumer Price Index (CPI) - a measure of the prices of a fixed market basket of consumer goods and services. Prices include 8 major groups: food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services (such as haircuts, funeral expenses, tobacco, etc). It includes items such as water and sewerage charges, auto registration fees, vehicle tolls, and taxes such as sales and excise taxes. It does not include income and Social Security taxes. Each month the Bureau of Labor Statistics records about 80,000 items each month to measure the price change in the CPI.

Inflation - inflation is a big player in the economy. As inflation goes up, purchasing power goes down (Purchasing Power is a measure of what one's income will buy) go to the following website and click on "inflation calculator" (located on the left hand side). Find out how much money it would take in 2005 to have the same purchasing power for \$1,000 in 1980. <http://stats.bls.gov>

Interest - the interest rate is another factor that we have little control over. A key concept is that as inflation goes up, interest rates usually go up.

Unit 1:

Factors Affecting Family Finance

FACTORS IN YOUR CONTROL

Interest

Yes, I have "interest" in both sections. This is because even though we can't change the interest rate, we can decide if we will pay interest or if we will earn it. We can also shop around for lower interest rates when borrowing and higher interest rates when saving.

Simple Interest - Simple Interest is interest on the principal only. It takes longer for your money to grow if you always take the interest out of your account.

Compound Interest - this is interest on interest. It's like FREE money! It works like a snowball at the top of a hill. If you leave the interest in your account you will also make interest on it!

Time

You can also control the amount of time you allot to saving and investing. One of the most important concepts I hope you learn from this class is that starting to save early will give you a huge advantage over those that don't. Read the information at the following site for an example of this concept: [Investing early pays off later on](#)

Education

While a good education does not guarantee a good income, it makes a good income much more likely. Research shows that those with a higher education are more likely to have a higher income than those who have less education. I am sure you all know of someone with little education that has a great income. However, you are more likely to have a higher income with more education. I assume that many of you are working toward a degree right now. That is great! Keep it up.

Career

The career that you choose also has a lot to do with the income that you will have. For most of you, it is time to start thinking about your career. USU Career

Services provides excellent help for finding that career. There are things you can start doing as a Sophomore or Junior such as networking and informational interviews. Don't wait until you are a Senior. Go to their website and click on "Plan a job search strategy" [USU Career Center](#).

Benefits

Benefits from an employer can play an important part in your financial success plan. As you go look for that perfect job, keep in mind that the benefit package is just as important as the salary. We often don't look as closely at the benefits as we do at the pay. Keep in mind that if you do not receive an item as a benefit, you will likely have to pay for it on your own with taxed dollars.

Compensation for time not worked - be sure to look at vacation leave, personal leave, and sick leave. Some companies also provide not only maternity leave, but leave for new fathers also. It is less common to find that in the United States as it is in some other countries. Employer-provided services - some companies provide services such as child care subsidies (they may even have an on-site day care), merchandise discounts, fitness programs, flexible work schedules, reimbursement of education, stock options, club memberships, or an automobile. These can be great perks.

Employee Assistance Programs (EAP) - the employer may hire an EAP company to provide free services to their employees. They will often include marital or financial counseling or legal services. Some employers realize that employees that have marital, financial, or legal problems are not as productive workers as those that do not have these problems. Therefore, they are willing to pay for their employees to receive help for these problems.

Insurance - you may be able to find health, life, and disability insurance as part of a benefit package. Health and disability insurance are especially good to get from an employer. Term life insurance is not as expensive to get on your own as health and disability insurance. They are all three important to have for most people and if you do not get them through work, you will need to pay for them out of pocket with taxed dollars.

Cafeteria Plans - these plans let you choose which benefits you want from a list of available options. Some of you may need to choose maternity benefits and others may not. This is a way to tailor your benefit package to meet your needs.

Flexible Spending Accounts (FSA) - allow you to put before tax dollars in an account to pay for certain expenses. FSA money can be used for the following three items:

1. Child care for children under age 13.

2. Dependent care for those physically and mentally incapable of taking care of themselves.
3. Qualified medical expenses.

These accounts allow you to pay for these items without paying taxes on the money first. Be careful with the amount you put into the account because it is a "use or lose" account. If you know you are going to spend a certain amount on childcare for one year, you might want to underestimate a little so as not to lose that money if something changes. These accounts work especially well for regular payments items such as to an orthodontist.

Be sure to check out the benefit package when you are applying for a job. You are interviewing the company as well as the company interviewing you. And remember that if these benefits are not paid by your employer, you will have to pay for them yourself with taxed dollars. A job with higher pay and fewer benefits may not be as good in the long run as a job with lower pay and more benefits.

Spend a few minutes deciding what it means to you to be financially successful. This class will provide you a lot of options to look at while making plans to become financially successful. The factors discussed in this unit will play an important part