**Module 8:** Building Wealth

# Building Wealth

*How to think and plan for the long term — even when it feels out of reach.*

"Building wealth" can sound like advice meant for someone else — someone who already has money to spare. But wealth-building is not about having a lot. It is about making deliberate choices with whatever you do have, and letting time do the heavy lifting. The most powerful financial tool available to anyone is not a high salary or a lucky investment. It is time. This lesson covers the mechanics of long-term wealth — how money grows, which accounts protect your gains from taxes, how homeownership works as a tool rather than a guarantee, the systemic history that has made wealth-building harder for some communities, how to make sure your assets reach the people you love, and how communities are building collective financial power.

### What You Will Learn in This Lesson

- ✓ How compound interest works for you — and why starting small still matters enormously
- ✓ The 401(k) employer match: the closest thing to free money that exists
- ✓ Roth IRA basics: how to open one, contribution limits, and why low-income earners benefit most
- ✓ Homeownership as a wealth-building tool — and when it is not
- ✓ The racial and systemic wealth gap: history and current realities
- ✓ Intergenerational wealth: life insurance, wills, and beneficiary designations
- ✓ Community wealth models: credit unions, CDFIs, and cooperative ownership

## Section 1: Compound Interest — The Force That Builds Wealth Slowly, Then All at Once

📖 **Compound Interest:** Interest that is calculated on both the original amount you saved or invested AND on the interest you have already earned. Your earnings earn earnings. This is what makes wealth grow exponentially over time.

### A Concrete Example

Suppose you invest $1,000 at age 25 and never add another dollar. At a 7% average annual return — roughly the long-term historical average for a diversified stock market index fund:

- At age 35, you have about $1,967
- At age 45, you have about $3,870
- At age 55, you have about $7,612
- At age 65, you have about $14,974

That single $1,000 became nearly $15,000 without you doing anything except waiting. Now imagine adding $25 or $50 every month. The numbers become life-changing.

### Why Starting Small Still Matters

Many people delay investing because they feel they do not have enough to make it worthwhile. This is the most costly mistake in personal finance — not because small amounts grow into large amounts quickly, but because every year you wait costs you compounding years you can never recover.

A person who invests $50 per month from age 25 to 65 at 7% ends up with about $131,000. A person who waits until age 35 to start the same $50/month habit ends up with about $61,000 — less than half, despite only starting 10 years later. Time is the ingredient money cannot buy back.

> **Start Now, Adjust Later**
>
> The specific amount you invest matters far less than the habit of investing consistently. Open an account this week and set up an automatic contribution — even $10 or $25 per month. You can always increase it later. You cannot get back the compounding years you have already missed.

## Section 2: The 401(k) Employer Match — The Closest Thing to Free Money

> **401(k):** A retirement savings account offered through many employers. You contribute a portion of your paycheck before taxes are taken out, and the money grows tax-deferred — meaning you do not pay taxes on it until you withdraw it in retirement.

### How the Match Works

Many employers will match a portion of what you contribute to your 401(k). A common structure is a 50% match on up to 6% of your salary. In plain terms: if you earn $40,000 per year and contribute 6% ($2,400), your employer adds another $1,200 — for free. That is an immediate, guaranteed 50% return on that portion of your contribution.

No investment, no savings account, and no tax credit will consistently give you that kind of immediate return. Contributing at least enough to get the full employer match is almost always the single highest-priority financial move available to a working person.

> ⚠ **Do Not Leave the Match on the Table**
> If your employer offers a match and you are not contributing enough to get all of it, you are leaving part of your compensation uncollected. This is money already budgeted for you that you are declining. Even if money is tight, prioritize contributing up to the match threshold before other savings goals.

### Vesting Schedules

> 📖 **Vesting Schedule:** The timeline over which your employer's contributions to your 401(k) become fully yours. For example, contributions might vest 25% per year over four years. If you leave after two years, you keep 50% of what your employer contributed.

Check your plan documents to understand your vesting schedule before making job change decisions.

## Section 3: The Roth IRA — Why Low-Income Earners Benefit Most

> 📖 **Roth IRA (Individual Retirement Account):** A retirement account you open yourself, independently of any employer. You contribute money that has already been taxed, it grows completely tax-free, and you pay no taxes when you withdraw it in retirement.

### Why Low-Income Earners Benefit Most

The tax benefit of a Roth IRA is largest when your current tax rate is lower than your expected future tax rate. If you are earning a modest income today, you are likely in a low tax bracket — meaning the taxes you are paying on your Roth contributions right now are low. As your career progresses and your income grows, your tax rate will likely rise. The Roth locks in today's low rate, permanently, on everything you contribute now.

### The Basics: Contribution Limits and How to Open One

- 2024 contribution limit: $7,000 per year (or $8,000 if you are 50 or older). You can contribute as little as $1 per month.
- Income limits: To contribute the full amount, your income must be below $146,000 (single) or $230,000 (married filing jointly) in 2024. Most people reading this lesson will qualify.
- Where to open one: Any major brokerage — Fidelity, Vanguard, Schwab, or Betterment — offers Roth IRAs with no minimum opening balance.
- What to invest in: For beginners, a low-cost index fund (a fund that tracks the overall stock market) inside your Roth IRA is the simplest approach. Look for funds with an expense ratio below 0.20%.

**Opening a Roth IRA Takes About 15 Minutes**

Go to Fidelity.com or Schwab.com, click "Open an Account," select Roth IRA, and follow the steps. You will need your Social Security number, bank account information, and a small initial deposit (as little as $1 at Fidelity). Set up automatic monthly contributions and let it run.

## Section 4: Homeownership as a Wealth-Building Tool — and When It Is Not

**Equity:** The portion of your home's value that belongs to you, not the lender. Equity = current home value minus what you still owe on the mortgage. Every mortgage payment builds equity.

### How Homeownership Builds Wealth

- Forced savings: Every mortgage payment builds equity. Rent payments build equity for your landlord.
- Appreciation: Over long periods, homes tend to rise in value, though not always, and not always quickly.
- Leverage: You control a large asset with a relatively small down payment. A 5% gain on a $200,000 home is a $10,000 increase on a $10,000 down payment — a 100% return.
- Tax benefits: Mortgage interest and property taxes may be deductible. Capital gains from selling a primary residence (up to $250,000 for individuals, $500,000 for couples) are often tax-free.

### When Homeownership Can Hurt

Buying a home is not always the right move. It can work against you when:

- You buy more house than you can comfortably afford, leaving no room for repairs, emergencies, or life changes
- You are likely to move within 3–5 years (transaction costs make short-term ownership expensive)
- You buy in a market with stagnant or falling prices
- You take on a loan with unfavorable terms, including high interest rates or adjustable rates you do not fully understand

**The 28% Rule**

A common guideline is to keep your monthly housing costs (mortgage, taxes, insurance) below 28% of your gross monthly income. Staying within this range helps ensure homeownership strengthens rather than strains your finances.

### Programs That Help First-Time Buyers

- FHA loans (Federal Housing Administration): Require as little as 3.5% down and are more accessible for buyers with lower credit scores
- State and local down payment assistance programs: Many offer grants or forgivable loans to first-time buyers — search "[your state] first-time homebuyer assistance"
- USDA loans: For buyers in rural and some suburban areas, these loans require no down payment

## Section 5: The Racial Wealth Gap — History, Reality, and What It Means for You

No honest discussion of wealth-building in America is complete without acknowledging that the system has not offered equal access to everyone. The racial wealth gap — the difference in average wealth held by white families compared to Black, Latino, Native American, and other families of color — is not an accident. It is the result of specific policies, enforced over generations.

### A Brief History

- Redlining: From the 1930s through the 1960s, the federal government and private banks drew red lines on maps around Black neighborhoods, denying mortgages and loans to residents regardless of their finances. This prevented entire communities from accessing the primary wealth-building tool of the 20th century: homeownership.
- Exclusion from New Deal programs: Social Security, the GI Bill, and other landmark wealth-building programs of the mid-20th century were structured in ways that largely excluded Black workers, particularly in the South.
- Destruction of Black wealth: Thriving Black communities — including Greenwood in Tulsa (1921) and Rosewood in Florida (1923) — were literally destroyed. Survivors received no compensation.
- Predatory lending: In the lead-up to the 2008 financial crisis, Black and Latino homeowners were disproportionately targeted for subprime and predatory loans, leading to disproportionate foreclosure rates and wealth loss.

### The Current Reality

Today, the median white family holds roughly eight times the wealth of the median Black family and five times the wealth of the median Latino family, according to Federal Reserve data. This gap reflects not individual choices but accumulated policy effects across generations.

Understanding this history matters for two reasons: First, it explains why wealth-building can feel harder for some communities — because structurally, it has been. Second, it points toward the power of collective and community-based approaches to building wealth, which we cover in Section 7.

## Section 6: Intergenerational Wealth — What You Leave Behind

> 📖 **Intergenerational Wealth:** Assets passed from one generation to the next — money, property, investments, or simply the absence of debt that allows the next generation to start further ahead. Ensuring what you accumulate reaches your family, not the courts, is a critical part of wealth-building.

### Life Insurance — The Foundation of Financial Protection for Families

Life insurance pays a tax-free sum of money (called the death benefit) to your chosen beneficiaries when you die. For people without significant savings or assets, it is the most direct way to provide for loved ones and prevent financial hardship after your death.

| Term Life Insurance | Whole Life Insurance |
|---|---|
| Covers a set period (10, 20, or 30 years) | Covers your entire life |
| Lower premiums — much more affordable | Much higher premiums |
| Best for most people, especially those with children or debt | Often sold as an investment; rarely the best use of money for lower-income buyers |
| No cash value — it is pure protection | Builds cash value over time (slowly, at high cost) |

For most people, term life insurance is the right choice. A healthy 30-year-old can often purchase a $250,000, 20-year term policy for $15–$25 per month. Use a comparison site like Policygenius.com to compare quotes.

### Wills and Beneficiary Designations

> 📖 **Will:** A legal document that specifies who receives your assets when you die. Without one, state law decides — which may not reflect your wishes and can create costly legal delays for your family.

However, many assets pass outside of a will entirely through beneficiary designations. These include retirement accounts (401(k), IRA), life insurance policies, and bank accounts with a "payable on death" (POD) designation.

⚠ **Beneficiary Designations Override Your Will**
If your will leaves everything to your current spouse, but your 401(k) still lists an ex-partner as beneficiary, your ex-partner receives the 401(k). Review and update your beneficiaries after every major life event — marriage, divorce, birth of a child, death of a beneficiary.

**Free and Low-Cost Will Options**
If your estate is straightforward, you can create a legally valid will using free or low-cost online tools such as FreeWill.com (free) or Nolo WillMaker (about $100). More complex situations — blended families, significant assets, minor children — may warrant working with an estate attorney.

## Section 7: Community Wealth Models — Building Wealth Together

Individual wealth-building strategies are powerful. But some of the most effective and equitable approaches to wealth are collective — built by and for entire communities rather than individuals acting alone.

### Credit Unions

A credit union is a nonprofit financial institution owned by its members. Unlike a bank, which answers to outside shareholders, a credit union returns its profits to members through lower loan rates, higher savings rates, and fewer fees. Credit unions are often more willing than banks to work with members who have limited or damaged credit history. To find one, visit MyCreditUnion.gov.

### CDFIs — Community Development Financial Institutions

📖 **CDFI (Community Development Financial Institution):** Mission-driven lenders — banks, credit unions, loan funds, and venture capital funds — certified by the U.S. Treasury, that focus on serving low-income and underserved communities.

CDFIs often offer small business loans for entrepreneurs who cannot access conventional bank financing, affordable mortgages for first-time buyers in underserved neighborhoods, and microloans (sometimes as low as $500) to help people start or grow a small business or build credit.

To find a CDFI near you, visit CDFIFund.gov and use the awards database, or search "CDFI [your city or state]."

### Cooperative Ownership

📖 **Cooperative (Co-op):** A business or housing arrangement owned collectively by its members, who share in both the costs and the benefits.

- Worker cooperatives: Businesses owned and democratically controlled by their employees. Profits are shared among worker-owners rather than flowing to outside investors.
- Housing cooperatives: Residents collectively own the building, giving members stable housing and the ability to build equity without the full cost of individual homeownership.
- Food cooperatives: Grocery stores owned by members who often receive discounts and a share of profits.

Cooperative models do not require individual capital to join and can be a meaningful pathway to economic stability and ownership for people excluded from traditional wealth-building systems.

## Section 8: Your Wealth-Building Plan

Wealth is built in small, consistent steps over long periods. Use this worksheet to open your first tax-advantaged account, name a beneficiary, and map out your compound interest numbers.

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### My Wealth-Building Plan

Wealth is built in small, consistent steps over long periods. Fill in what you can today — even $25/month is a real start.

#### Step 1 — Open a Tax-Advantaged Account

| Account Type | Best For | Where to Open | My Status |
|---|---|---|---|
| 401(k) — contribute to match | Capturing free employer match | Your employer's HR portal | [ ] Done [ ] Not offered |
| Roth IRA | Tax-free growth; low-income earners | Fidelity.com or Schwab.com | [ ] Opened [ ] In progress |
| Traditional IRA | Tax deduction now; taxed at withdrawal | Same as Roth | [ ] Opened [ ] N/A |

Account I opened or will open: ______ Target open date: ______

Monthly contribution amount: $ ______ Day of month auto-transfer is set: ______

#### Step 2 — Name a Beneficiary

- ☐ Logged into my 401(k) or IRA and confirmed beneficiary is current and correct
- ☐ Checked life insurance policy beneficiary designation
- ☐ Checked bank accounts — added Payable on Death (POD) designation if available
- ☐ Understood: beneficiary designations OVERRIDE my will — keep them updated after life changes

#### Step 3 — Compound Interest: My Personal Numbers

| Starting Amount | Monthly Addition | Years | Estimated Value at 7% |
|---|---|---|---|
| $ | $ | 10 years | |
| $ | $ | 20 years | |
| $ | $ | 30 years | |
| $ | $ | 40 years | |

Use a free compound interest calculator at investor.gov/financial-tools-calculators to fill in the right column.

#### Step 4 — Intergenerational Wealth

- ☐ Created a basic will (FreeWill.com is free; Nolo WillMaker ~$100)
- ☐ Considered term life insurance if I have dependents (compare at Policygenius.com)
- ☐ Told a trusted family member where my important documents are kept

#### Step 5 — Community Wealth Options I Will Explore

- ☐ Located a credit union in my area at MyCreditUnion.gov
- ☐ Searched for a CDFI (Community Development Financial Institution) at CDFIFund.gov
- ☐ Looked into cooperative housing, food co-op, or worker cooperative in my community

#### My Wealth-Building Commitment

The one account I will open this week: ______ Amount I will start with: $ ______

The beneficiary I will name or confirm: ______ By this date: ______

## Lesson Summary

- Compound interest is the force that builds wealth. A $50/month habit started at age 25 produces twice the result of the same habit started at age 35 — time is the ingredient you cannot buy back.
- Capturing your full 401(k) employer match is almost always the single highest-priority financial move available — it is an immediate, guaranteed return on your contribution.
- The Roth IRA grows tax-free and is especially powerful for lower-income earners who are in a low tax bracket now. Opening one takes 15 minutes and requires as little as $1.
- Homeownership builds wealth through forced savings, appreciation, and leverage — but only when bought within your means and held long enough to recoup transaction costs.
- The racial wealth gap is the result of specific historical policies, not individual choices. Community-based models offer alternative pathways to wealth for those excluded from traditional systems.
- Beneficiary designations override your will. Review and update them after every major life event. A basic will is free at FreeWill.com.
- Credit unions, CDFIs, and cooperatives are community wealth institutions that provide more equitable access to financial services and ownership.

## Next Steps and Action Items

*Wealth is built one account, one beneficiary, one automatic transfer at a time. Start with one step this week.*

1. Open a Roth IRA at Fidelity.com or Schwab.com. Set up an automatic monthly contribution — even $25. Select a low-cost total market index fund.
2. If your employer offers a 401(k) match and you are not capturing all of it, log into your HR portal today and increase your contribution to the match threshold.
3. Log into every retirement account you have and verify your beneficiary designations are current. Add or update them if needed.
4. Create a basic will at FreeWill.com. It takes about 20 minutes and costs nothing.
5. Use the compound interest calculator at investor.gov/financial-tools-calculators to see what your current savings rate will produce over 10, 20, and 30 years.
6. Look up a local credit union at MyCreditUnion.gov or a CDFI at CDFIFund.gov. Compare their rates on savings accounts or loans to your current bank.

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*LEAP Financial Wellness Series — Module 8 of 8: Building Wealth*

**You have completed the LEAP Financial Wellness Series.**

*The knowledge in these eight modules belongs to you now.*
*Use it — for yourself, your family, and your community.*