Create a Budget, Ditch Your Debt, and Start Building for the Future


Interactive experience
Strategies, tools and tips

Two key budgeting topics

Creating a Budget

- Three core components
- A real-life budget
- Tips on essential saving

Managing Your Debt

- Good debt vs. Bad debt
- Prioritizing and paying down debt
- Ways to boost your credit score

OPENING

A budget can help provide freedom

Cover your essential living expenses

Ready for unplanned expenses

Pursue your wants and goals

OPENING

Optional Activity Slide

Do you currently have a budget in place?

A

No, but hope to get one started

B

Yes, but finding it difficult to maintain or follow

C

Yes, and it was well worth it

Create A Budget

Three components of a sound budget

1. Essential spending

2. Essential savings

3. Other wants and goals

Optional Activity Slide

Which of the following do you consider to be essential expenses?

Food

Healthcare

Car

Child’s education

Housing

CREATE A BUDGET

Essential spending

1.

- Housing
- Food
- Health care
- Transportation
- Child care
- Minimum debt payments
- Other financial obligations

50%

or less of your take-home pay

Source: Strategic Advisers LLC, a registered investment adviser and a Fidelity Investments company

Essential savings

- Save for retirement
- Create an emergency fund
- Save for unplanned expenses

15%
of your pretax income

3-6
months of living expenses

Other wants and goals

- Build a better retirement
- Save for a car, home, child’s education, or wedding
- Pay off big debts

CREATE A BUDGET

Optional Slide

Calculating key components of a budget

Scott

Estimated Effective Tax Rate: 7%

Income: $30,000 a year

Pretax income: $2,500 a month

Take-home pay	$2,139
Essential spending	– $1,105
Essential savings	– $85
Discretionary income	$949

Only considers federal taxes, not state and/or local taxes. Hypothetical examples are for illustrative purposes only.

Example scenario – Scott

Scott

Estimated Effective Tax Rate: 7%

Income: $30,000 a year

Pretax income: $2,500 a month

Take-home pay: $2,139 a month

Essential Spending

Rent	$695
Groceries	$85
Health care	$90
Transportation	$45
Utilities	$50
Credit card min.	$50
Student loans	$90
After-tax total:	**$1,105 or 52%**

Essential Savings

Retirement savings	$200
Pretax total:	**$200 or 8%**
Emergency savings	$85
After-tax total:	**$85 or 4%**

Other Wants and Goals

- Takeout
- Shopping
- Travel
- Gym membership
- Car savings

Only considers federal taxes, not state and/or local taxes. Hypothetical examples are for illustrative purposes only.

CREATE A BUDGET

Optional Slide

Example scenario – Heather

Heather

Estimated Effective Tax Rate: 10%

Income: $60,000 a year

Pretax income: $5,000 a month

Take-home pay: $4,095 a month

Essential Spending

Rent	$950
Car payment	$370
Car expenses	$100
Utilities	$70
Groceries	$180
Health care	$90
Credit card min.	$40
After-tax total:	**$1,800 or 44%**

Essential Savings

Retirement savings	$450
Pretax total:	**$450 or 9%**
Emergency savings	$0
After-tax total:	**$0%**

Other Wants and Goals

- Eating out
- Shopping
- Saving for a home
- Gym membership
- Traveling
- Charitable contributions

Only considers federal taxes, not state and/or local taxes. Hypothetical examples are for illustrative purposes only.

Optional Slide

Example scenario – Bill

Bill

Estimated Effective Tax Rate: 13%

Income: $90,000 a year

Pretax income: $7,500 a month

Take-home pay: $6,003 a month

Essential Spending

Mortgage	$1000
Car payment	$280
Car expenses	$100
Utilities	$85
Health care	$75
Groceries	$200
Daughter's tuition	$1500
After-tax total	**$3,240 or 54%**

Essential Savings

Retirement savings	$600
Pretax total:	**$600 or 8%**
Emergency savings	$300
After-tax total:	**$300 or 5%**

Other Wants and Goals

- Dining out
- Shopping
- Daughter's college expenses

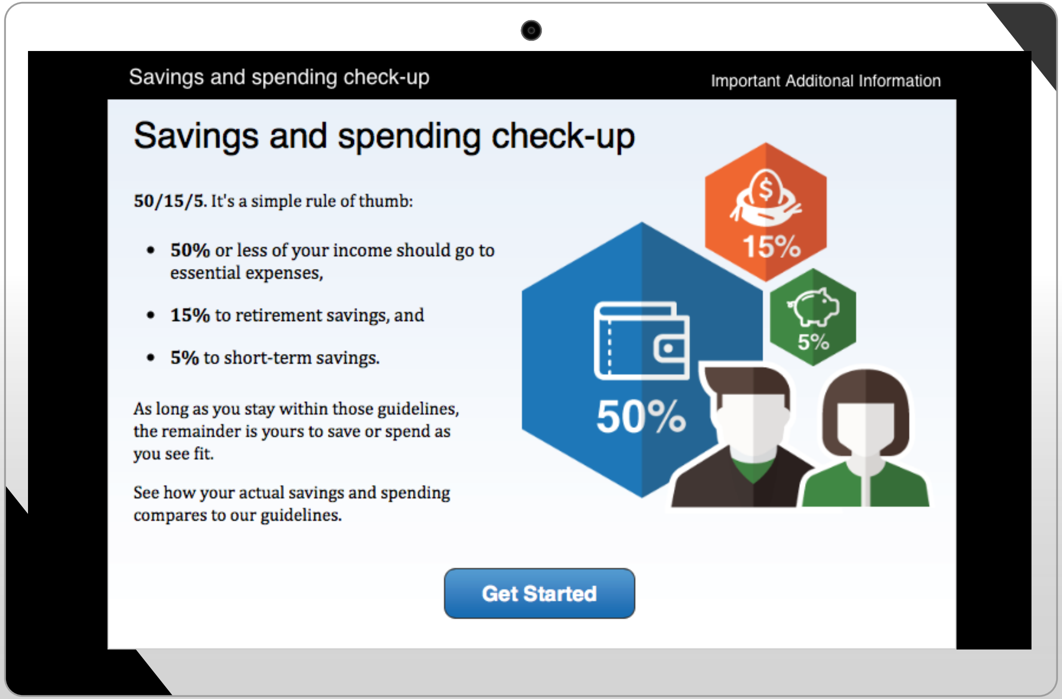
Only considers federal taxes, not state and/or local taxes. Hypothetical examples are for illustrative purposes only.

Create Your Budget

CREATE A BUDGET

Optional Activity Slide

Savings and spending check-up



For illustrative purposes only.

CREATE A BUDGET

How to approach essential saving

Estimate your future spending

- Review bank records and credit card statements
- Set fresh, new priorities

Make saving automatic

- Payroll deduction
- Direct deposit

Create an emergency fund

- Open a separate account
- Save as much as you can afford
- Make regular deposits every payday
- Don’t touch it; let it grow
- Use it only for emergencies

How Can I Afford Retirement?

Optional Activity Slide

How many years do you have until retirement?

A
0-5

B
6-10

C
10-20

D
20+

The power of compounding

Reinvesting money from an initial investment when it generates earnings

The longer your money stays, the harder each dollar works for you.

CREATE A BUDGET

Optional Slide

Annual salary
$40,000

6% pretax contribution
$2,400

Assumed annual return
7%

After 5 years,
balance could be
$14,320

After 15 years,
balance could be
$62,573

After 25 years,
balance could be
$157,494

Contributions for
40 years

Amount could reach
$497,103

Contributions for
50 years

Amount could reach
$1,012,281

For illustrative purposes only.
The hypothetical example is based on monthly contributions to a tax-deferred retirement plan and a 7% annual rate of return compounded monthly. Your own Plan account may earn more or less than this example, and income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.

CREATE A BUDGET

For plans without employer contribution

Retirement savings scenario

$40,000

Salary

6%

Save

$2,400

Annually

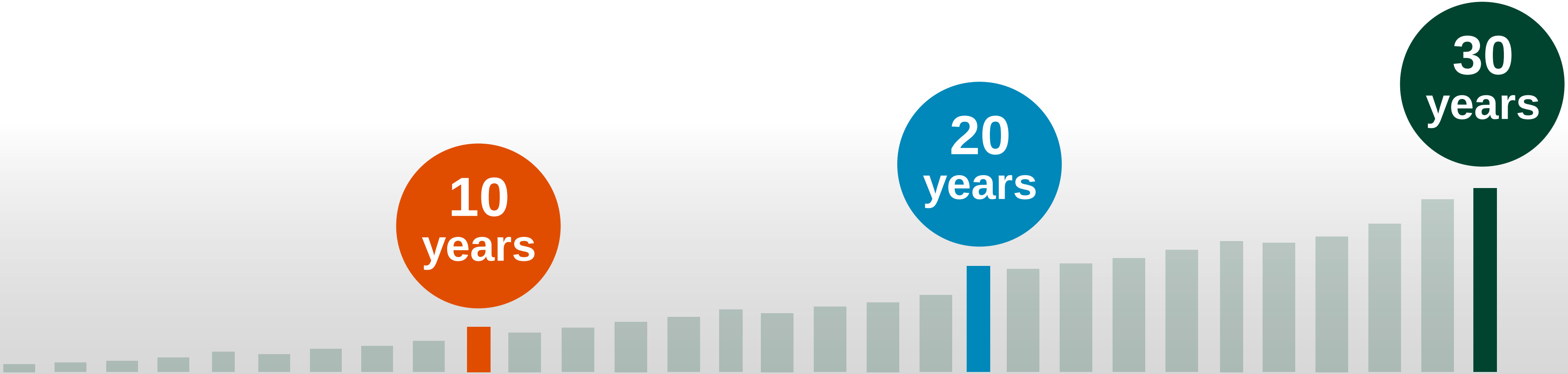
7% Return

The hypothetical example is based on monthly contributions to a tax-deferred retirement plan and a 7% annual rate of return compounded monthly. Your own Plan account may earn more or less than this example, and income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.

CREATE A BUDGET

For plans without
employer contribution

Retirement savings over time



$34,404

$102,081

$235,213

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CREATE A BUDGET

For plans with employer contribution

Retirement savings scenario

$40,000	6%	50¢	$1,200
Salary	Save	Match	Annually

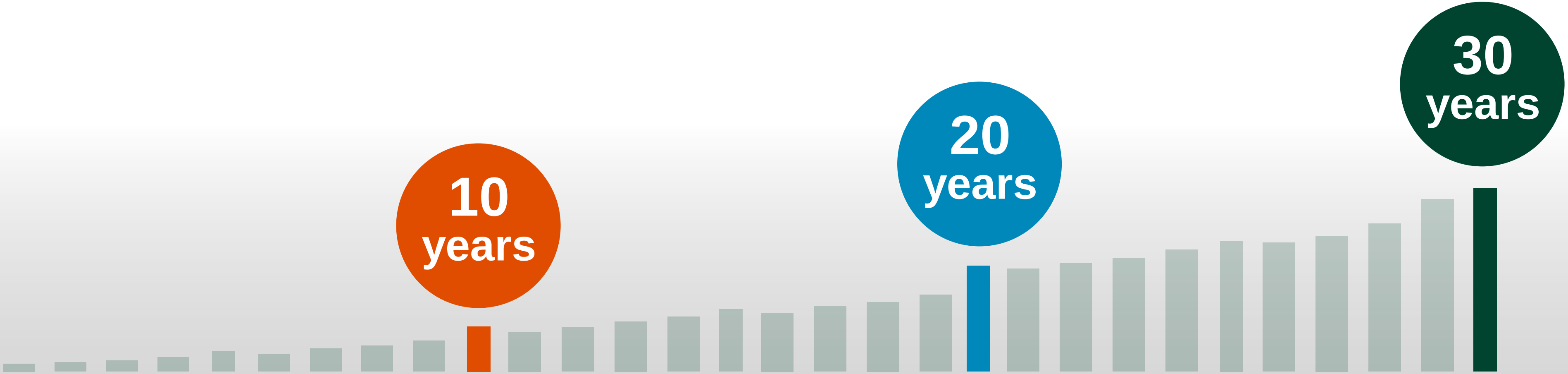
7% Return

The hypothetical example is based on monthly contributions to a tax-deferred retirement plan and a 7% annual rate of return compounded monthly. Your own Plan account may earn more or less than this example, and income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.

CREATE A BUDGET

For plans with employer contribution

Retirement savings over time



$51,606

$153,122

$352,819

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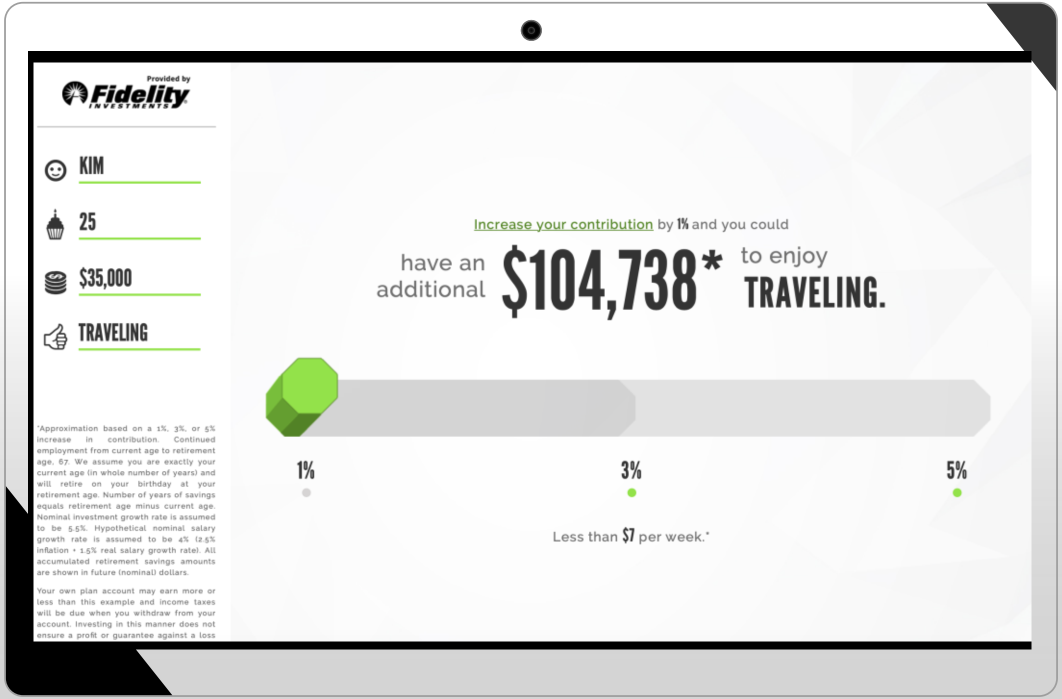
CREATE A BUDGET

Optional Activity Slide

The power of small amounts



Approximation based on a 1%, 3%, or 5% increase in contribution. Continued employment from current age to retirement age, 67. We assume you are exactly your current age (in whole number of years) and will retire on your birthday at your retirement age. Number of years of savings equals retirement age minus current age. Nominal investment growth rate is assumed to be 5.5%. Hypothetical nominal salary growth rate is assumed to be 4% (2.5% inflation + 1.5% real salary growth rate). All accumulated retirement savings amounts are shown in future (nominal) dollars. Your own plan account may earn more or less than this example and income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against a loss in declining markets.

CREATE A BUDGET

Optional Activity Slide

What's your #1 savings goal?

Retirement

A home

An education

Paying down debt

Building emergency savings

Something else

CREATE A BUDGET

Get started on your budget

1. **Plan for your essential expenses**

2. **Set up your essential savings**

3. **Use what's left for other goals and wants**

Source: Strategic Advisers LLC, a registered investment adviser and a Fidelity Investments company

Manage Your Debt

So why get better at managing your debt?

Contributes to financial peace of mind

Lowers your day-to-day stress

Benefits your credit rating

Set aside more money for your other goals

Optional Activity Slide

What is the #1 type of debt you are focused on paying down?

Student loans

Credit cards

Mortgages

Auto loans

Other

MANAGE DEBT

Make the most of the good debt

Good Debt

- Borrowing at a low interest rate
- Buys you something that grows in value or increases your earning power
- Student loans or a home mortgage

Get rid of the bad debt

Bad Debt

- Borrowing at a high interest rate
- Pays for something that decreases in value
- Credit card debt

MANAGE DEBT

Student Loans

Student Loans
(Good Debt)

- An investment in your career
- Rates on government loans are generally better than private loans
- No in-school interest payments with subsidized loans
- Possible tax breaks

TIP:
Target paying down private loans with a higher interest rate first

A Mortgage

A Mortgage
(Good Debt)

- Tax advantages
- Usually reasonable interest rates
- Good way to build equity
- Home insurance, property taxes, and repairs can add up

TIP:
Put no more than 28% of your gross income toward housing

Credit Cards

Credit Cards
(Bad Debt)

- $2,000 for a new TV
- 15% interest rate
- Minimum $40 payment each month
- 17 years to pay off
- Interest payments will eventually be more than double the purchase price

TIP:
Paying cards in full can save you thousands in interest

MANAGE DEBT

Auto Loans

Auto Loans
(Bad Debt)

- Rates can vary
- Cars tend to lose value over time
- A shorter term could save you money on interest

TIP:
Pay more than needed each month and retire your car loans early

4 steps for reducing your debt

1. Don’t scrimp on essential savings

2. Pay off high-interest-rate, then low-interest-rate cards

3. Pay off your most expensive student loans

4. Keep up with other regular mortgage, auto, and loan payments

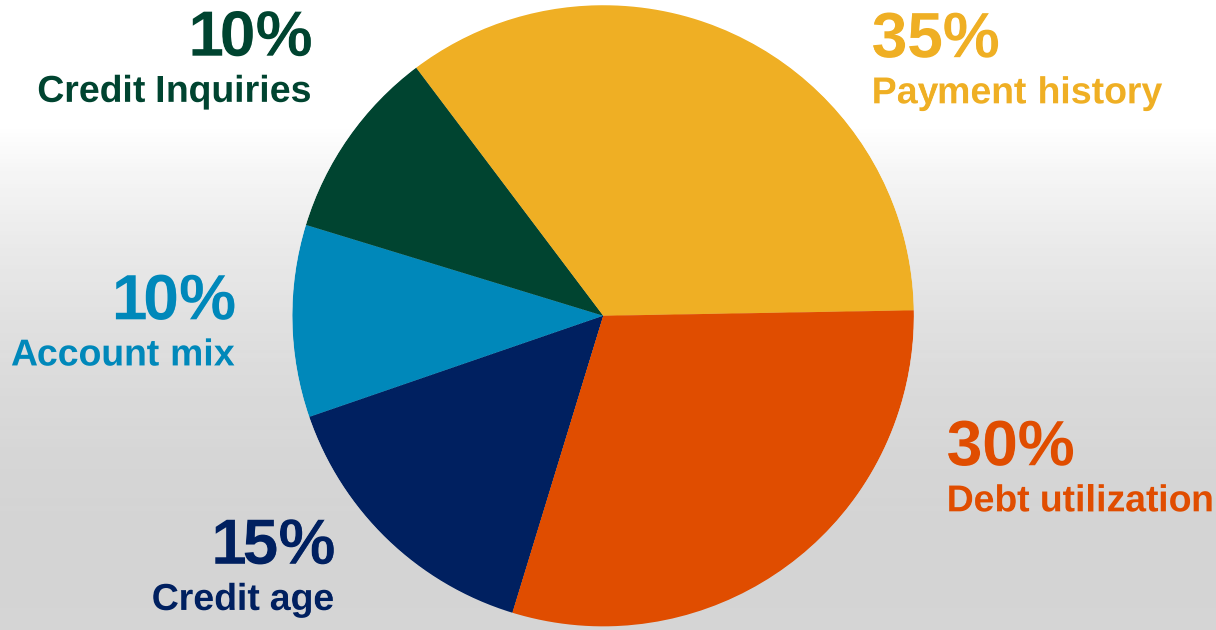
Credit scores and their impact

Credit Score	Rating
330–579	Very Poor
580–669	Fair
670–739	Good
740–799	Very Good
800–850	Exceptional

Source: https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/

MANAGE DEBT

What goes into your credit score?



Source: “What does FICO stand for? What is a FICO Score?” Credit.com, April 11, 2018.

Here's a plan for monitoring your credit

1

Synchronize your three free credit reports…

Equifax:	TransUnion:	Experian:
February	June	October

2

Check your credit score for free at

CreditKarma.com or **credit.com***

(Or, see if it's on your credit card statement)

*Equifax, TransUnion, Experian, creditkarma.com, and credit.com are not affiliated with Fidelity Investments.

MANAGE DEBT

How to manage your overall debt

1. Understand good debt vs. bad debt

2. Prioritize your payments (high interest vs. low interest)

3. Monitor your credit reports and scores

Paying off debt while saving

1 Set aside money for an emergency.

2 Contribute to a health savings account if you're eligible.

3 Don't pass up “free” money at work.

4 Pay down high-interest credit card balances.

5 Pay down private student loans.

6 Contribute beyond the employer match in a 401(k).

7 Pay the monthly minimum on government student loans, car loans, and mortgages.

Source: “How to Pay Off Debt–and save too,” Fidelity Viewpoints, Fidelity.com January 26, 2018.

MANAGE DEBT

Put your plan into action

1. Create a spending plan

2. Create a debt management plan

3. Use the resources on NetBenefits

Investing involves risk, including risk of loss.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

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