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
A budget can help provide freedom

- Cover your essential living expenses
- Ready for unplanned expenses
- Pursue your wants and goals
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
Which of the following do you consider to be essential expenses?

- Food
- Healthcare
- Car
- Child’s education
- Housing
Essential spending

1. Housing
2. Food
3. Health care
4. Transportation
5. Child care
6. Minimum debt payments
7. 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
Calculating key components of a budget

**Scott**
Estimated Effective Tax Rate: 7%

Income: $30,000 a year
Pretax income: $2,500 a month

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-home pay</td>
<td>$2,139</td>
</tr>
<tr>
<td>Essential spending</td>
<td>- $1,105</td>
</tr>
<tr>
<td>Essential savings</td>
<td>- $85</td>
</tr>
<tr>
<td>Discretionary income</td>
<td>$949</td>
</tr>
</tbody>
</table>

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%

<table>
<thead>
<tr>
<th>Essential Spending</th>
<th>Essential Savings</th>
<th>Other Wants and Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Retirement savings</td>
<td>• Takeout</td>
</tr>
<tr>
<td>Groceries</td>
<td>Pretax total: $200</td>
<td>• Shopping</td>
</tr>
<tr>
<td>Health care</td>
<td>$200 or 8%</td>
<td>• Travel</td>
</tr>
<tr>
<td>Transportation</td>
<td>Emergency savings</td>
<td>• Gym membership</td>
</tr>
<tr>
<td>Utilities</td>
<td>$85 or 4%</td>
<td>• Car savings</td>
</tr>
<tr>
<td>Credit card min.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>After-tax total:</strong></td>
<td><strong>$85 or 4%</strong></td>
<td></td>
</tr>
<tr>
<td>$695</td>
<td>$85</td>
<td></td>
</tr>
<tr>
<td>$85</td>
<td>$200 or 8%</td>
<td></td>
</tr>
<tr>
<td>$90</td>
<td>$200 or 8%</td>
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<tr>
<td>$45</td>
<td>$85 or 4%</td>
<td></td>
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<td>$50</td>
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<tr>
<td>$50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$90</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total after-tax:</strong></td>
<td><strong>$1,105 or 52%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Income: $30,000 a year
Pretax income: $2,500 a month
Take-home pay: $2,139 a month

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## 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

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$950</td>
</tr>
<tr>
<td>Car payment</td>
<td>$370</td>
</tr>
<tr>
<td>Car expenses</td>
<td>$100</td>
</tr>
<tr>
<td>Utilities</td>
<td>$70</td>
</tr>
<tr>
<td>Groceries</td>
<td>$180</td>
</tr>
<tr>
<td>Health care</td>
<td>$90</td>
</tr>
<tr>
<td>Credit card min.</td>
<td>$40</td>
</tr>
<tr>
<td><strong>After-tax total:</strong></td>
<td><strong>$1,800 or 44%</strong></td>
</tr>
</tbody>
</table>

### Essential Savings

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement savings</td>
<td>$450</td>
<td>$450 or 9%</td>
</tr>
<tr>
<td><strong>Pretax total:</strong></td>
<td><strong>$450 or 9%</strong></td>
<td></td>
</tr>
<tr>
<td>Emergency savings</td>
<td>$0</td>
<td>$0%</td>
</tr>
<tr>
<td><strong>After-tax total:</strong></td>
<td><strong>$0%</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Other Wants and Goals

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

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## Example scenario – Bill

**Bill**  
Estimated Effective Tax Rate: 13%

<table>
<thead>
<tr>
<th>Essential Spending</th>
<th>Income: $90,000 a year</th>
<th>Pretax income: $7,500 a month</th>
<th>Take-home pay: $6,003 a month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>$1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car payment</td>
<td>$280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car expenses</td>
<td>$100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>$85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care</td>
<td>$75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Groceries</td>
<td>$200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daughter’s tuition</td>
<td>$1500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>After-tax total</strong></td>
<td><strong>$3,240 or 54%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Essential Savings</th>
<th>Retirement savings: $600</th>
<th>Pretax total: $600 or 8%</th>
<th>Emergency savings: $300</th>
<th>After-tax total: $300 or 5%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Other Wants and Goals</th>
<th>Dining out</th>
<th>Shopping</th>
<th>Daughter’s college expenses</th>
</tr>
</thead>
</table>

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Create Your Budget
Savings and spending check-up

50/15/5. It's a simple rule of thumb:

- 50% or less of your income should go to essential expenses,
- 15% to retirement savings, and
- 5% to short-term savings.

As long as you stay within those guidelines, the remainder is yours to save or spend as you see fit.

See how your actual savings and spending compares to our guidelines.
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?
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.
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: $497,103

Contributions for 50 years: $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.
Retirement savings scenario

$40,000 6% $2,400
Salary Save Annually

7% Return

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Retirement savings over time

For plans without employer contribution

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Retirement savings scenario

$40,000
Salary

6%
Save

50¢
Match

$1,200
Annually

7% Return

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For plans with employer contribution

Retirement savings over time

CREATE A BUDGET

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.

10 years: $51,606
20 years: $153,122
30 years: $352,819
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.
What’s your #1 savings goal?

- Retirement
- A home
- An education
- Paying down debt
- Building emergency savings
- Something else
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
What is the #1 type of debt you are focused on paying down?

- Student loans
- Credit cards
- Mortgages
- Auto loans
- Other
Good Debt

Make the most of the 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

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

- 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

(Tip)

- 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

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

Auto Loans
(Bad Debt)

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

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>330–579</td>
<td>Very Poor</td>
</tr>
<tr>
<td>580–669</td>
<td>Fair</td>
</tr>
<tr>
<td>670–739</td>
<td>Good</td>
</tr>
<tr>
<td>740–799</td>
<td>Very Good</td>
</tr>
<tr>
<td>800–850</td>
<td>Exceptional</td>
</tr>
</tbody>
</table>

Source: https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/
What goes into your credit score?

- Payment history: 35%
- Debt utilization: 30%
- Credit age: 15%
- Account mix: 10%
- Credit inquiries: 10%

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: February
   TransUnion: June
   Experian: 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.
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.

Put your plan into action

1. Create a spending plan
2. Create a debt management plan
3. Use the resources on NetBenefits