Household Finance 101: Budget, Debt, Savings

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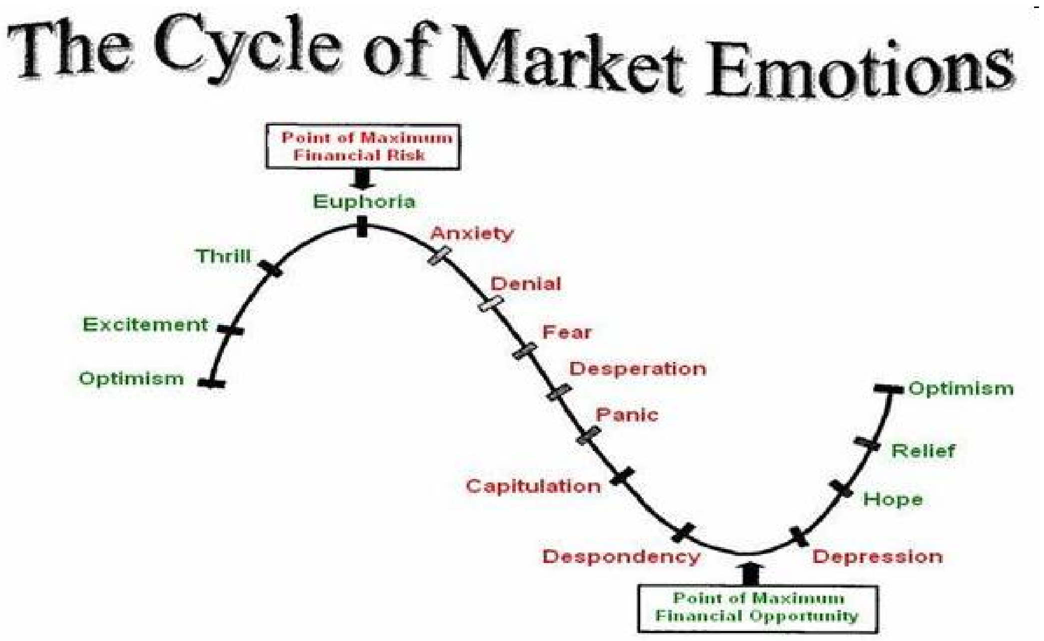
Money: Beliefs, Emotions

- Attitudes about money: how did you grow up and how did your parents handle money?
- Does more money make you a happier person?
- What percentage of lottery winners go broke or go through bankruptcy?
- Are you a spender or a saver?



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Americans are Choking on Debt!*

- The average U.S. household debt is $ 135,065 (includes mortgage debt, credit cards, student loans, other)
- The average U.S. credit card revolving debt is $ 6,741 (balance not paid off).
  - 189 million card holders average 3 cards; $ 1.1 trillion.
- Average US car loan debt: $27,630; avg payment $ 499. $ 1.16 trillion.
- Average student loan debt: $47,634. $ 1.5 trillion.

*Source: Nerd Wallet Harris Poll (2018)

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Choking on Debt……..Affluenza

- Six of ten millennials could not cover a $ 1,000 emergency without borrowing money.
- 52% of Americans could not cover the cost of a $ 1,000 emergency. (CC becomes emergency fund)
- Nearly half of Americans have no retirement savings whatsoever (IRA, Roth, pension, etc.)
- 29% of people aged 55 and older have no retirement savings.
- People aged 55-64 have an average of $ 80,000 in retirement savings.

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Consider $ 80,000 in savings at age 64

- $ 80,000 @ 5% = $ 4,000/year; @ 10% = $ 8,000/year
- SS income of $ 12,000 to $ 20,000/year.
- Question you must ask yourself is: can I make it on that?
- These are the kinds of questions you need to ask yourself.

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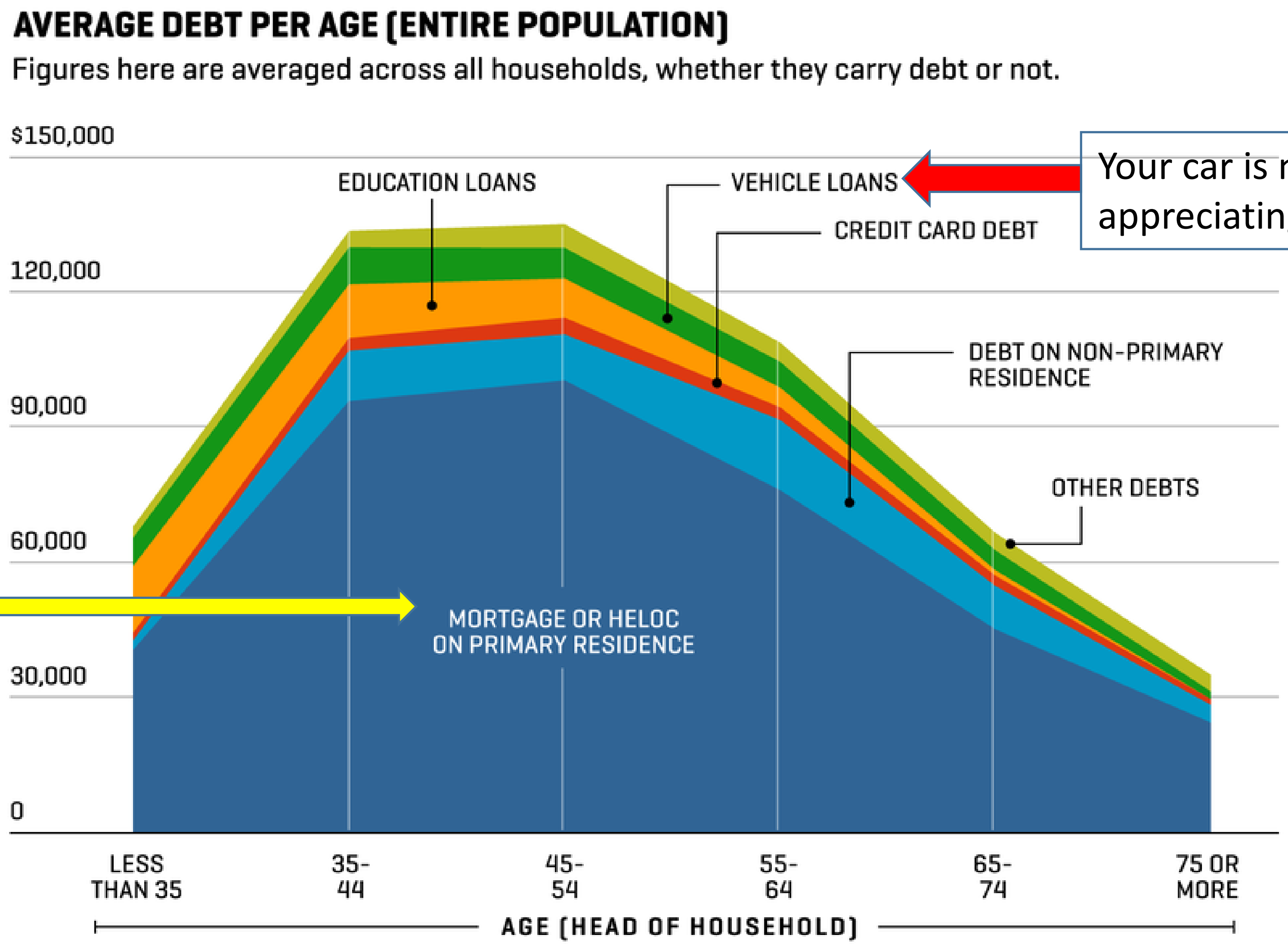
Debt by Age Group – Federal Reserve Data



Your car is not an appreciating asset!

Your home is an appreciating asset!

Take a Self Examination

- Questions to ask yourself/yourselves:
  - Number 1: Do I have an emergency fund?
  - Number 2: How much debt do I have?
  - Number 3: Do I have 3-6 month's worth of living expenses? (Job loss)
  - Number 4: Am I saving enough for retirement?
  - OTHERS:
    - What is my net worth?
    - How stable is my job/business?
    - Am I saving for a child's college or post-secondary education?
    - Am I saving for other wants and needs (car, vacation, etc.)?
    - Am I looking for a greater return on my investments?
    - What do I really know about the stock market, mutual funds, and bonds?
    - What is my age?
    - What is my tolerance for risk?

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What’s the Right Order? How Do I Prioritize?

- Emergency Fund
- Debt reduction/elimination (non-mortgage)
- 3-6 month’s worth of living expenses
- Save 15% for retirement
- Children’s college savings
- Pay off your mortgage early
- Save and give
- It’s a process. It takes time.

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Financial Freedom……from Debt!

- How would your life look if you had no debt?
- How would you like to know that you have the money in place to take care of an emergency w/o running to the "bank of the credit card"?
- In order to live your dreams, you must get your debt under control, or better yet, eliminated.
- Have you ever heard the phrase, or used it yourself: "I'll be working up to lunchtime the day of my funeral?"

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Debt Reduction Begins With a BUDGET!

- Budget tends to be a negative word………
- Budget = Discipline
- Budget = Control

  HOWEVER!

  - Budget can be a POSITIVE WORD
  - It helps you get where you are going!

We're all a product of the values with which we were raised.

Everyone has different values: what is important to one person is not necessarily important to another.

Suggestion: Find an online budgeting tool or create your own spreadsheet: Example is Every Dollar. Or, create your own spreadsheet.

<u>Most Americans live paycheck to paycheck; learn to live BELOW your means. THIS IS PARAMOUNT!</u>

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Issues with Budgeting

- Perspective Problems
  - Your perception – I can't do a budget!
- People Problems
  - Relationships
  - Couples
  - Spender vs. Saver
- Process Problems
- Anxiety is experiencing failure that hasn't occurred yet!

- Perspective Problem:
  - Apathetic
  - Procrastination
  - Denial
  - Must look in the mirror

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When Developing a Budget:
The "Four Walls" We Need to Protect:

- Housing/rent/payment
- Utilities
- Food and Clothing
- Transportation
- These items are non-negotiable

gg59193424 GoGraph.com

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The Things We Don’t Need

- Campers
- Boats
- Toys
- Expensive vacations
- In general; things non-essential to survival!
- Here’s the thing: you can have those things when you have the cash to pay for them.
- If swimming in debt now, it’s time to sell non-performing assets.

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Then Consider Your Choices - Budget

- Paying down debt, or buying stuff?
- Paying down credit card or taking a vacation?
- Disneyland? Example
- Making an extra annual mortgage payment or buying a remote control toy car?

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Budgeting - Tools

- First: track your monthly income and expenses
- Dig out old records if you do not remember. Do you have a filing system?
- Rent, utilities (electric, gas, water, phone, internet, TV, cell), insurance, giving, saving, credit card, student loans…….compile these all. Some months higher than others……
- Is there “too much month at the end of the money?”

- Use an Excel spreadsheet
- Software; some that is free
- A notebook and pencil or pen
- “Every Dollar”

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Finding Leaks and Slow Drips - Budgets

- Budgets: If you already have one, look at where the “leaks” are.
- Examine your budget; then examine your bank statement, cash spending, etc.
- Finding the leaks; using the leaky money to save for emergencies or pay down on debts.
- A review of “wants” and “needs” curve.
- Put it on a spreadsheet, a Big Chief tablet, or somewhere.

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Think about this: What Would You Do IF? Budget

- Someone gave you $ 500 in cash?
- $ 1,000 in cash?
- $ 5,000 in cash?
- $ 10,000 in cash?
- Write it down. For each. If married; you AND your spouse.

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Self-Directed Homework!

- Put together a list of items for your monthly budget and the amount for each item.

- Recommended amounts:
  - Housing – 25%
  - Food – 10-15%
  - Utilities – 5-10%
  - Insurance – 10-25%
  - Health – 5-10%
  - Transportation – 10%
  - Saving – 10%
  - Giving – 10%
  - Personal spending – 5-10%
  - Miscellaneous – 5-10%

Part I. Create an Emergency Fund

- When the credit card becomes the emergency fund……..
- Can the "leak" get converted into an emergency fund?
- It is the first mental "win"
- I CAN save!
- I CAN see the light!
- You've got a start on finding your way to financial freedom!
- Do you have an emergency fund?

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Saving for a $ 1,000 Emergency - $2500 is better!

- Tax refund – put it in savings
- Empty the change box
- Sell "stuff" – the trumpet, the guitar, the row boat; my case, a saxophone (not sold yet), pair of boots (not sold yet!), and a drum!
- Have a garage sale! Combine fun with money!
- Reduce the cable bill or cancel it
- Shop auto and homeowner's insurance
- Baby sit
- Walk someone's dog, clean a house, mow yards, clean off sidewalks
- Deliver pizza in the evenings
- Work a second job (20 hours @ $ 11.00/hour = $ take home/week/ $600/month)
- Do what ever it takes.
- A word on setbacks

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Setbacks

- Don’t give up……
  - We all have these challenges; you are not alone.
- A root canal and a new crown;
- A transmission in the car goes out
- Auto accident and you have a high deductible
- Emergency money gets depleted quickly.
  - DON’T DESPAIR!

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Where Do I Put the $ 1,000?

- Simply open a savings account at the bank if you do not already have one.
- The money needs to be liquid, so DO NOT invest in the stock market with this fund.
- Maintain discipline to not spend it unless and until an emergency occurs.

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Step 2: Get Out of Debt!

- Let’s reiterate what debt does:
  - Imprisons you to a life of payments.
  - A slave is always in debt to it’s master.
  - Robs you of your future….. “I’m going to have to work up to lunch the day of my funeral”.
  - Debt collection agencies are a part of your life if you don’t stay out of debt.
  - Mindset change. It’s like a diet.
  - Is some debt good?
  - A word on credit scores.

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Reducing/Eliminating Debt

- Make a list of all debts (non-mortgage first) starting from smallest to largest.
- Credit cards, medical bills, auto loans, department store cards, school loans, etc.
- Let's forget about the interest rates for now. That is less important when attacking debt.

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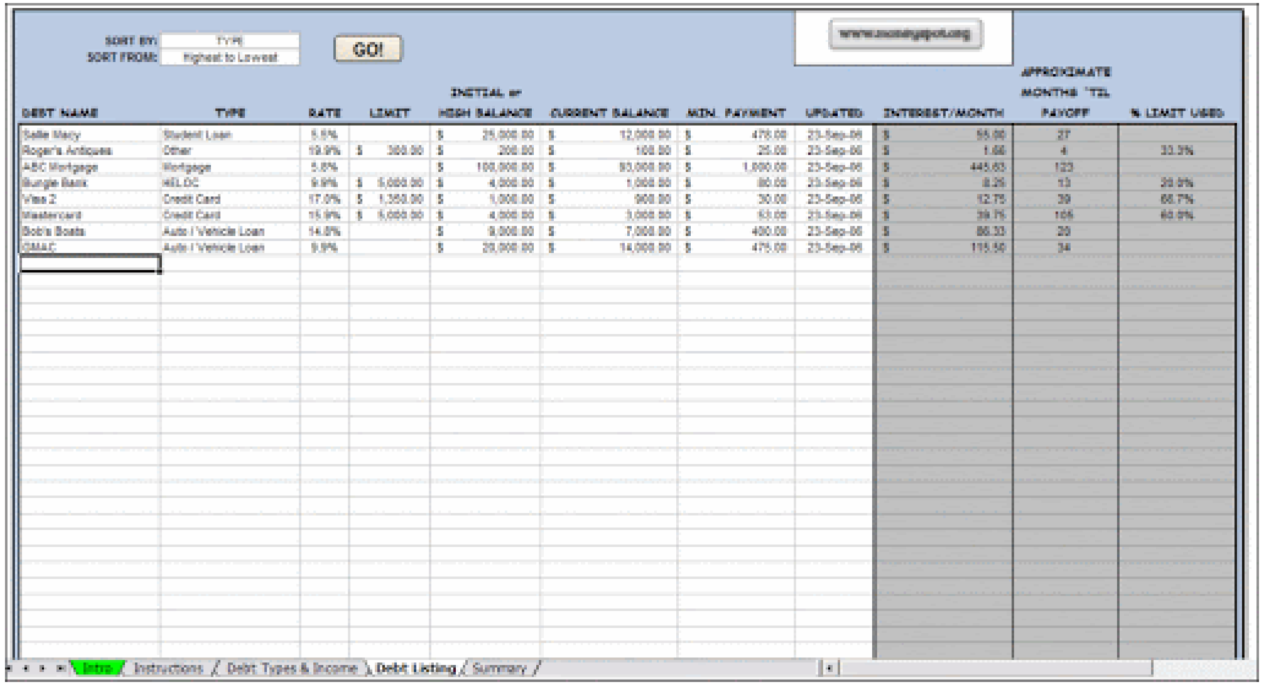
List of Debts:

- $ 1500 credit card
- $ 8250 second card
- $ 15,000 on car 1
- $ 35,000 on car 2
- $ 55,000 on student loan
- $ 125,000 on mortgage
- TOTAL: $ 239,750
  - Less the mortgage: $ 114,750



SORT BY: TYPE
SORT FROM: Highest to Lowest
GO!

DEBT NAME	TYPE	RATE	LIMIT	INITIAL or HIGH BALANCE	CURRENT BALANCE	MIN. PAYMENT	UPDATED	INTEREST/MONTH	APPROXIMATE MONTHS 'TIL PAYOFF	% LIMIT USED
Sallie Mae	Student Loan	5.5%		$ 25,000.00	$ 12,000.00	$ 475.00	23-Sep-06	$ 55.00	27	
Roger's Antiques	Other	19.9%	$ 300.00	$ 200.00	$ 100.00	$ 25.00	23-Sep-06	$ 1.66	4	33.3%
ABC Mortgage	Mortgage	5.8%		$ 100,000.00	$ 93,000.00	$ 1,000.00	23-Sep-06	$ 445.63	123	
Bungie Bank	HELOC	9.9%	$ 5,000.00	$ 4,000.00	$ 1,000.00	$ 80.00	23-Sep-06	$ 8.25	13	20.0%
Visa 2	Credit Card	17.0%	$ 1,350.00	$ 1,000.00	$ 900.00	$ 30.00	23-Sep-06	$ 12.75	39	66.7%
Mastercard	Credit Card	15.9%	$ 5,000.00	$ 4,000.00	$ 3,000.00	$ 53.00	23-Sep-06	$ 39.75	105	60.0%
Bob's Boats	Auto / Vehicle Loan	14.8%		$ 9,000.00	$ 7,000.00	$ 400.00	23-Sep-06	$ 86.33	20	
GMAC	Auto / Vehicle Loan	9.9%		$ 20,000.00	$ 14,000.00	$ 475.00	23-Sep-06	$ 115.50	34	

Intro / Instructions / Debt Types & Income / Debt Listing / Summary

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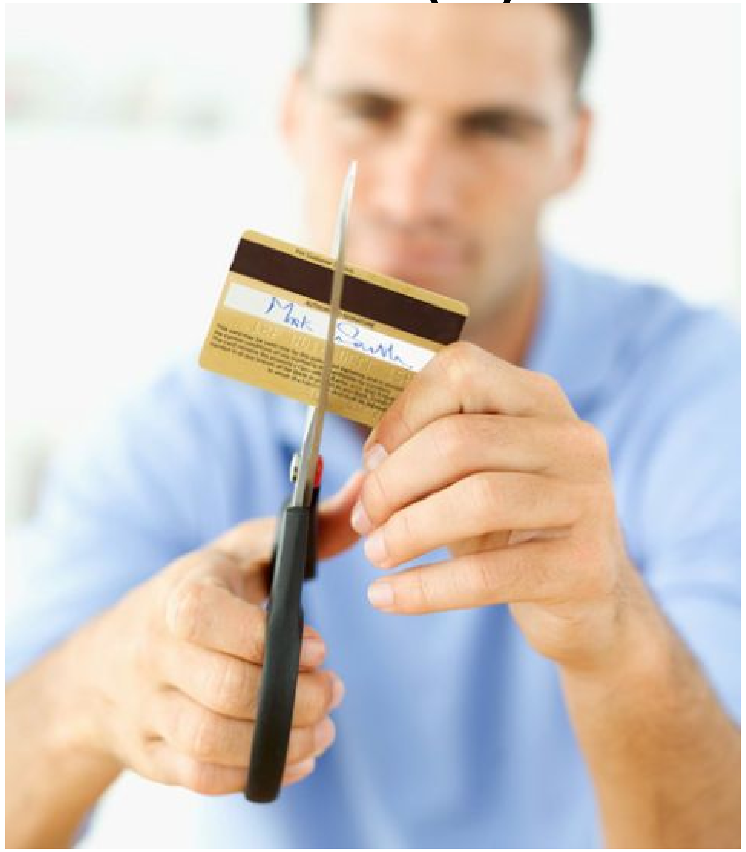
Side Note: Get Rid of the Credit Card(s)?

- Cut up the cards if you cannot control it. Part of the budget planning process.
- If you are not paying it off in full, every month, you are paying EXTRA for EVERYTHING!
- "But I need my card to build a credit score, or but I get points!"
- The "psychology" of plastic.
- I give you my card, I get it back
- I give you cash, <u>debit</u>, or a check, there is an emotional tie to that.



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Lesson: Structure of a loan

- Borrow $ 25,000 for a car
- 4.5% interest for 60 months
- ***You paid $ 2965*** in interest over five years.
- Plus you paid $ 25,000 for the car.
- After five years, the car is now worth $ 4,000.
- You gave up $ 21,000 + $ 2965 or $ 23,965. For the privilege of driving the car.
- Not including taxes, registration, insurance, tires, and maintenance. This easily amounts to another $ 1,000/year; maybe more.

First six months

PAYMENT DATE	PAYMENT	PRINCIPAL	INTEREST	TOTAL INTEREST	BALANCE
12/05/19	$466	$372	$94	$94	$25,000
01/05/20	$466	$374	$92	$186	$24,628
02/05/20	$466	$375	$91	$277	$24,254
03/05/20	$466	$377	$90	$367	$23,879
04/05/20	$466	$378	$88	$455	$23,502
05/05/20	$466	$379	$87	$541	$23,124

Last six months

07/05/24	$466	$457	$9	$2,947	$2,304
08/05/24	$466	$459	$7	$2,954	$1,847
09/05/24	$466	$461	$5	$2,959	$1,388
10/05/24	$466	$463	$3	$2,963	$927
11/05/24	$466	$464	$2	$2,965	$464
12/05/24	$466	$466	$0	$2,965	$0

Let’s instead……….

- Buy a $ 7,500 used car. It’s not what you really wanted, and you’ll probably have more maintenance costs, BUT:
    - If you can pay cash, or the difference in cash if you’re trading one in……..
    - Your taxes and insurance are lower.
    - MOST of the depreciation is out of the vehicle. It might be worth $ 1,500 at the end of it’s useful life, but you’ve only given up $ 6,000 plus other costs.
    - You could invest the rest.
    - You saved $ 17,500. Sock that money away in a mutual fund for five years.
    - $ 466/month in 12 months = $ 5592.
    - Invest in a mutual fund making 9% (easy to do). Next year, you have $ 6327.
    - If you do that for 48 months, you’ll have saved $ 27,269.
    - REMEMBER THE BIG THING: a car, unlike a home, is a depreciating asset!

Question Every Purchase……What Does It Mean for My Net Worth?

- You rent a house or apartment, you pay your bills, you survive.
- You qualify for a $ 30,000 car loan.
- No retirement savings.
- It is your only material asset besides furniture and clothes.
- You have $ 1,000 in the bank and owe $ 30,000 on the vehicle.

- Assets – car worth $ 25,000 and Personal items/savings =$ 5,000
- Total $ 30,000
- Debts:
  - Student loan of $ 40,000
  - Car debt $ 30,000

Your net worth is negative $ 40,000.

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Savings vs. Investing

- Savings is translated to mean "safe"
  - Save for emergency fund
  - Save for 3-6 month's expenses
- Investing is for "risk" capital
- Do not risk your capital for emergencies, job loss.
- WHAT are you investing for?
  - Investing is for building wealth; may be through retirement; if that is set, then other things.
  - Comes later; AFTER getting rid of debt.

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You Probably Need to Know Where You Are.....and Where You Are Going!

- Looking for the next "hot stock" or other investment vehicle probably not a good idea if you have a lot of debt.
  - It's too risky; even with mutual funds! Precious metals; likewise.
  - Get priorities in order first.
  - Look at paying down debt; save for emergencies, living expenses; then look to invest!
  - Calculate your net worth; minus liabilities.

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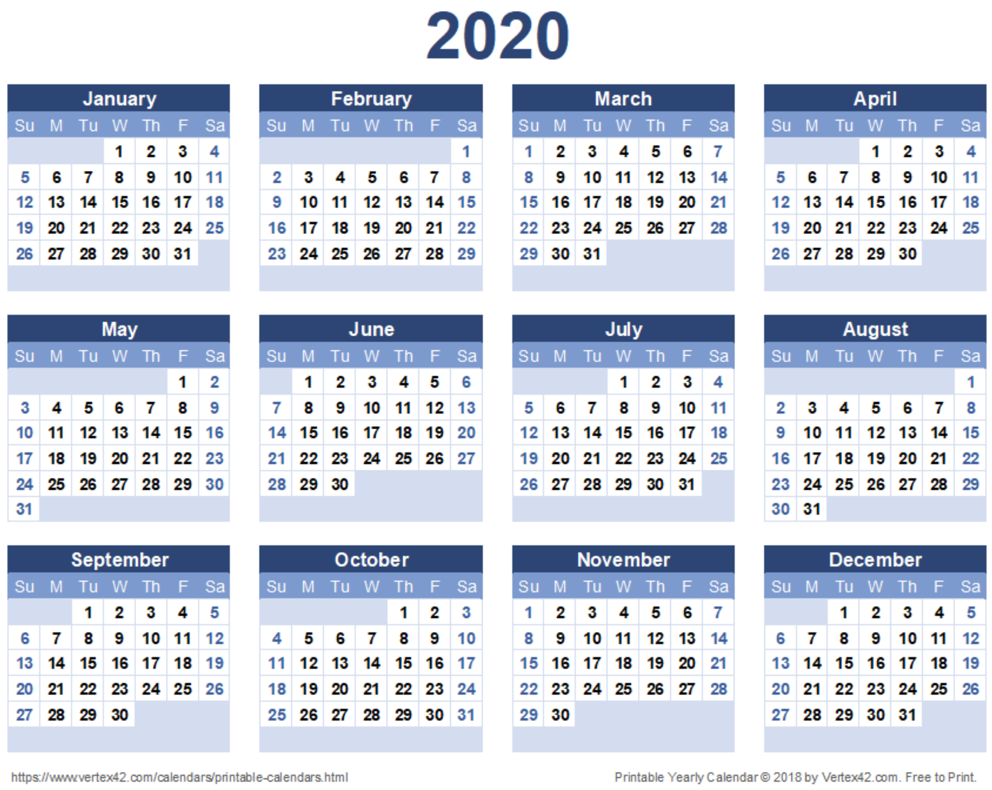
Part III. Save for 3-6 months of household income

- Doing so will give you financial peace of mind.
- It will give you a feeling of accomplishment.
- You know you will be able to handle job loss, if it occurs.
- Three months, or six?
- Considerations…….



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3-6 Months……continued

- Is your/are your job(s) relatively secure?
- Do you have large events coming up?
  - Expecting a baby?
  - House repairs?
  - Car repairs?
  - Commissions?
  - Bonuses?
  - Tax refund?

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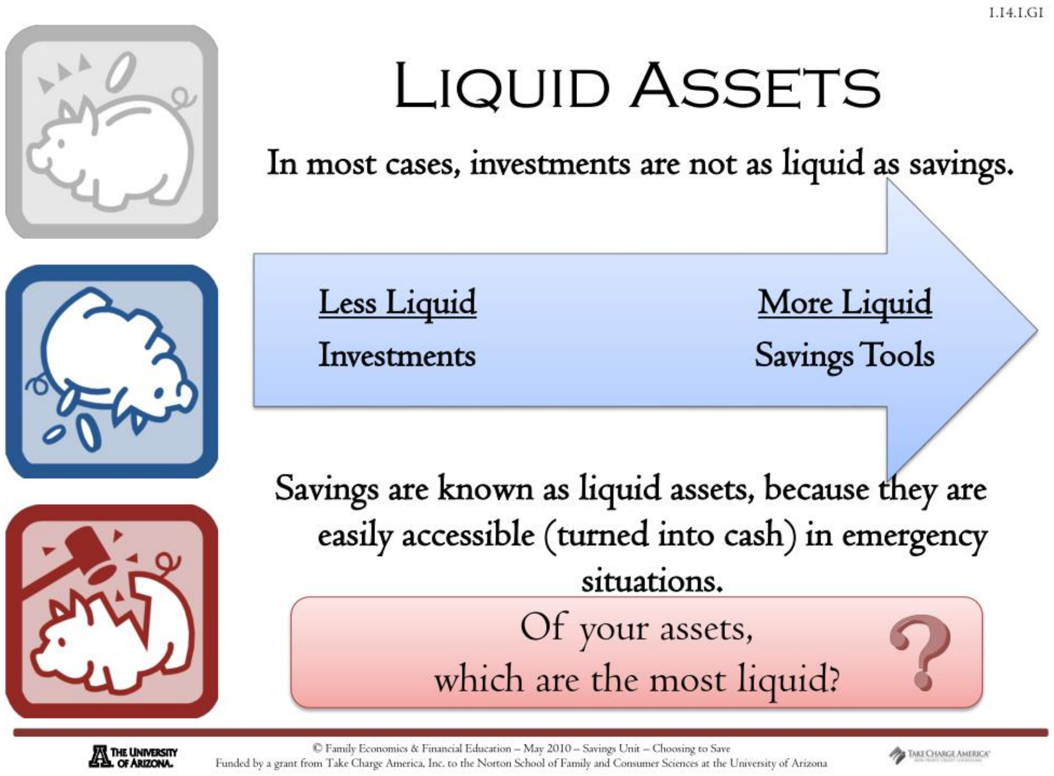
Liquidity of This Account

- There are a lot of investing avenues to look at.
- Passbook savings accounts (<.25%) – easy, quick to get to.
- Short term CDs (1-2%)
- Money market mutual funds (1.5-2.0%)
- All are low risk, low return funds
- More risky? Do I dare?



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Part IV. Investing for retirement

- Minimum of 10% should be saved; 15% is better.
- 401(k) or 403(b)? Pension? IRA? Roth IRA?
- Employer match?
- What is the investment vehicle? Likely mutual funds.
  - What is a mutual fund?
- Do you have a choice of investments?
- Lifecycle funds; or pick your own mutual funds?
- More risk = More reward
- How close are you to retirement?
- Compounding

THE RULE OF 72

$$\textit{Doubling Time} = \frac{72}{\textit{Interest Rate}}$$

Behold the Power of Compound Interest

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Age considerations – Stages of life

- Young (21-35) – invest very aggressively.
- Mid-career (36-50) – be moderately aggressive.
- Late-Career (51-60) – don't be afraid of SOME risk; probably get more conservative here; more bond funds.
- Approaching retirement (61-67); PROTECT THE NEST!

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The Key: Start Early, Save Often, and Save Regularly for Retirement

- If you learn **NOTHING ELSE** from this presentation, please know that this is **THE SINGLE MOST IMPORTANT** equation to creating wealth for retirement.
- You can never start too early.
- Rule of thumb: plan to replace about 70% of pre-retirement income.

- Google Nerd Wallet
- Retirement Calculator

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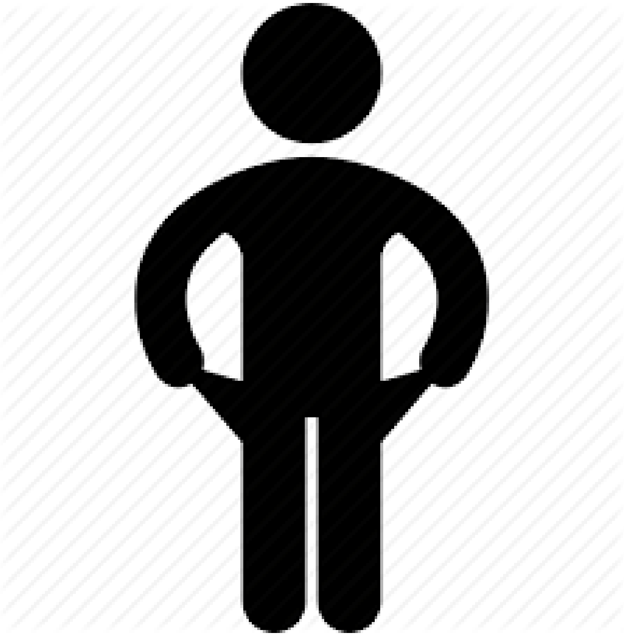
Scenario: Waiting to Invest for Retirement

- Two people
- 1 is 22, other 30. Both start at ZERO.
- 22 year old out of school, making $ 35,000 and 30 year old making $ 42,000.
- Each saves 10% of salary in a 401(k); Roth, other investment vehicle.
- 30 year old waited 8 years before he/she decides they better start saving for retirement.
- At age 67, each will have how much in their retirement account?
- Assumption: 2% annual pay raises; 3% inflation; 6% return on the investment vehicle.



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Save Early; Save Regularly

- 22 year old: just shy of $ 1.0 million.
- 30 year old, $ 690,000.
- $ 310,000 difference.
- Life expectancy 85 years. 18 years.
- 5% return during retirement
  - $ 50,000 per year for 22
  - $ 34,500 per year for 30
  - Does not include SS income.

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Change Retirement Contribution to 15%

- 22 year old will have $ 1.49 million
- 30 year old will have $ 1.03 million
- The power of compounding is the eighth wonder of the world.
- Did I say to start EARLY?
  - 22 - $ 74,500 annual
  - 30 - $ 51,500 annual
  - Another $ 20,000/yr in SS?

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Part V. Saving for Kids' College Education

- 529 Savings plans
  - Tax advantages – state only
  - Generally a low rate of return
  - Pretty safe
  - Easy to withdraw
- Uniform Gift to Minors Act (UGM) old…..new is:
- Uniform Transfer to Minors Act
  - In either case, once transferred to the child, custodian loses control

- In Kansas, after age 21
- Recommend the 529 plan as the most viable.
- Withdrawals are transferrable to another person
- Can only be used for educational expenses.

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Part VI. Paying Down the Mortgage

- This is the BIG ONE for most folks in terms of debt
- 15 or 30 year mortgages
- Conventional; FHA
- If held for a period of time it is an appreciating asset; probably your largest.
- Interest is deductible IF you itemize.

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When Should You Pay Down Your Mortgage?

- Only after all other debts are paid off.
- Exception: if you can budget one extra mortgage payment per year or 26 bi-weekly payments
- What is the rate of return on other investments?
- Many things to consider

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Extra Payments

- This step should only be considered AFTER your other debts are satisfied.
  - Remember: other loans are generally NOT appreciating assets!
- Check with your mortgage company if extra payments are allowed (should be).
- Make sure the mortgage company knows that it is to be applied to the principal of the loan.

- On 30 year mortgage:
- You'll pay off 4 years early
- You'll pay $ 12,000 less in interest.
- On 15 year mortgage:
  - You'll pay off 1.5 years early
  - You'll pay nearly $ 4,000 less in interest
- You'll pay $ 21,000 less on 30 year loan and end seven years early if you make two extra payments per year.

15 Year vs 30 Year Mortgage

- Illustration: 30 year mortgage; $ 150,000, amount (after down payment) and 3.25% interest.
- In 30 years, you'll have paid $ 85,000 in interest.
- Payment is $ 652.81/month
- 15 years, 3.0%, same $ 150K:
- $ 1,035.87 payment
- $ 36,457 in interest
- Paid off in 15 years

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Part VII. Invest and Give

- This is where non-retirement investment comes in.
- Risk capital!
- Also to be generous with your resources.

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