Workplace Education Series

Managing my money:

Budget, emergency savings, and debt basics

For beginners or those looking for a refresher

Agenda

Create a **budget**

Build an **emergency savings** fund

Take control of your **debt**

Create a budget

A budget can help you take control of your financial situation

Cover your essential living expenses

Prepare 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

Three components of a sound budget

1. Essential spending
2. Essential savings
3. Other wants and goals

Essential spending

1

Essential spending

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

50%

or less of your take-home pay

Essential savings

2

Essential savings

Emergency savings fund

- 3–6 months of living expenses
- Try to set aside 5% of take-home

Goal: Try to save **15%** of your pretax income for retirement *(includes both employee and employer contributions)*

You could lose money by investing in a money market fund. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Before investing, always read a money market fund's prospectus for policies specific to that fund.

Other wants and goals

3

Other wants and goals

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

Example scenario – Scott

CREATE A BUDGET

Scott

Estimated Effective Tax Rate: 7%*

Income: $35,000 a year
Pretax income: $2,917 a month
Take-home pay: $2,712 a month

Essential Spending

Rent	$855
Groceries	$200
Health care	$90
Transportation	$45
Utilities	$200
Credit card minimum	$200
Student loans	$90
After-tax total:	**$1,680** or **62%**

Essential Savings

Retirement savings	$150
Pretax total:	**$150 or 5%**
Emergency savings	$85
After-tax total:	**$85 or 3%**

Discretionary Income

Take-home pay	$2,712
- Essential spending	$1,680
- Essential savings	$235
= Discretionary income	**$797**

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

Example scenario – Heather

Heather

Estimated Effective Tax Rate: 10%*

Income: $50,000 a year
Pretax income: $4,167 a month
Take-home pay: $3,750 a month

Essential Spending

Rent	$950
Car payment	$370
Car expenses	$100
Utilities (including phone)	$160
Groceries	$250
Health care	$90
Credit card minimum	$200
After-tax total:	**$2,120 or 57%**

Essential Savings

Retirement savings	$250
Pretax total:	**$250 or 6%**
Emergency savings	$0
After-tax total:	**$0%**

Discretionary Income

Take-home pay	$3,750
- Essential spending	$2,120
- Essential savings	$250
= Discretionary income	**$1,380**

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

Example scenario – Bill

Bill

Estimated Effective Tax Rate: 13%*

Income: $90,000 a year
Pretax income: $7,500 a month
Take-home pay: $6,525 a month

Essential Spending

Mortgage	$2,000
Car payment	$500
Car expenses	$100
Utilities (including phone)	$200
Health care	$75
Groceries	$300
Credit card minimum	$500
After-tax total:	**$3,675 or 56%**

Essential Savings

Retirement savings	$500
Pretax total:	**$500 or 7%**
Emergency savings	$200
After-tax total:	**$200 or 3%**

Discretionary Income

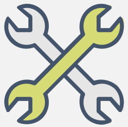
Take-home pay	$6,525
- Essential spending	$3,675
- Essential savings	$700
= Discretionary income	**$2,150**

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

Build an emergency savings fund

Why is an emergency savings fund so important?

Emergencies can cost money, and last a long time.



Car repair

Medical bill

Job loss

Without an emergency savings fund, you might be forced to:

- Take money out of your workplace savings account (401(k), 403(b), etc.)
- Use a credit card or resort to a payday loan

How much should you have in your emergency savings fund?

Start small if necessary:

$500–$1,000

Goal: **3–6 MONTHS**
of ESSENTIAL EXPENSES:

- Housing
- Groceries
- Transportation
- Health care
- Child care
- Debt

How can I find the money for my emergency savings fund?

1

FIRST, see where your money is going by looking at:

- Bank statements
- Credit card bills
- Use of cash (ATM)

2

NEXT, review your spending priorities for opportunities to save money.

Then compare how much you earn with how much you spend, and see if you've freed up some money for your emergency savings.

Creating an emergency savings fund

How do I set up my emergency savings fund?

- Automate savings
- Separate account
- Accessible and liquid
- Start today

1. The national average money market account annual percentage yield (APY) was 0.08% as of Oct. 18, 2021, according to the Federal Deposit Insurance Corporation (FDIC).

2 & 3. You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Example scenario – Rebecca

EMERGENCY SAVINGS

Rebecca

Emergency car repair: $500 on credit card

Income: $50,000 a year
Take-home pay: $3,000 a month
Current spending: $3,000 a month

Current Monthly Spending

Rent	$1,400
Groceries	$200
Memberships	$150
Commuting	$120
Utilities	$200
Dining Out	$180
Debt	$600
Necessities	$150
Total:	**$3,000**

Changed Monthly Spending

Rent	$1,400
Groceries	$200
Memberships	$125
Commuting	$80
Utilities	$200
Dining Out	$155
Debt	$600
Necessities	$150
Total:	**$2,910**

Savings

- $90 a month for the emergency savings fund
- $90 x 12 months = $1,080 for the emergency savings fund in one year

Hypothetical examples are for illustrative purposes only.

Take control of your debt

Which type of debt do you want to pay down now?

Student loans

Credit cards

Mortgages

Auto loans

Medical debt

Payday loans

*Debt.org, “Key Figures Behind America's Consumer Debt.” May 13, 2021, https://www.debt.org/faqs/americans-in-debt/

What you should know about debt

Take a strategic approach

Keep your debt-to-income ratio below 36% if you can

Borrow at a low interest rate.

Try to minimize the length of the loan term (how long you have it).

Borrow for things that increase your future earning power.

Credit cards

TAKE CONTROL
OF YOUR DEBT

Tim
25 years old

- $2,000 balance
- 25% interest rate
- Calculated minimum monthly payment ($45)
- Over 10 years to pay it off
- $3,680 in interest ($5,680 total cost)

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

Hypothetical examples are for illustrative purposes only.

Student loans

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

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

A mortgage

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

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

Auto loans

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

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

Managing medical debt

If you can, try to limit medical debt by:

- Enrolling in an HSA (if eligible)
- Knowing medical costs in advance
- Negotiating costs
- Arranging a payment plan

If you're currently dealing with medical debt:

- Create a payment plan with your doctor's office
- Consider hiring a medical billing advocate
- Apply for financial assistance
- Investigate hardship plans

*Analysis of 2020 CARES activity matched with HSA offering, enrollment, and balance. Average HSA balances determined using quarter start/end assets across entire 2020 plan year.

Beware the payday loan

TAKE CONTROL
OF YOUR DEBT

- A payday loan is a short-term loan to get you to the next paycheck
- Usually charges high interest rates and is due within weeks
- Can be hard to pay back on time—creating the “payday loan trap”

AVOID taking payday loans if you can

If you’re already in a payday loan situation:

- Make paying it off a priority
- Set up a debt payment plan or consider a personal loan
- Contact a consumer credit counseling service

*_What Is a Payday Loan and How Does It Work?_, Ben Luthi, Experian, January 3, 2019.

Two strategies for paying down debt

1. **AVALANCHE** METHOD

Pay off the loan with the highest interest rate first.

Then apply payments to the loan with the next highest interest rate.

Benefit: May save the most interest

2. **SNOWBALL** METHOD

Pay off the smallest loan first.

Then apply payments to the next smallest loan.

Benefit: Helps build momentum

Avalanche method: Start with the highest interest rate

Paula

Prioritizing how to pay off debt from several loans

Loan 1 = **$20,000** at **20%** interest; min payment: **$450**

Loan 2 = **$100,000** at **6%** interest; min payment: **$1,000**

Loan 3 = **$10,000** at **3%** interest; min payment: **$100**

Paula uses the **avalanche method** by paying down the **highest interest rates first.**

FIRST:
Increases monthly payment on Loan 1 from $450 to $550, shaving two years off payoff time, and saving more than $5,750 in interest.

NEXT:
After paying off Loan 1, adds the $550 payment to the $1,000 minimum payment on Loan 2.

FINALLY:
After paying off Loan 2, devotes all loan-payment money—$1,550 per month—to Loan 3.

Total interest paid is $45,340—$12,000 less than by paying minimums—**paying off debt in 9 years instead of 12.**

Hypothetical examples are for illustrative purposes only.

Snowball method: Start with the smallest loan

TAKE CONTROL
OF YOUR DEBT

Wilson

Prioritizing how to pay off debt from several loans

Loan 3 = $10,000 at **3%** interest; min payment: **$100**
Loan 1 = $20,000 at **20%** interest; min payment: **$450**
Loan 2 = $100,000 at **6%** interest: min payment: **$1,000**

Wilson uses the **snowball method** by paying down the **smallest loan first**.

FIRST:
Increases monthly payment on Loan 3 from $100 to $200.

NEXT:
Once Loan 3 is paid off, pays an extra $200 per month to Loan 1, for a total of $650 per month.

FINALLY:
When Loan 1 is paid off, pays an extra $650 per month on Loan 2 on top of the minimum $1,000.

Total interest paid is $51,000– $6,000 less than by paying minimums—**paying off debt in 10 years instead of 12**.

Hypothetical examples are for illustrative purposes only.

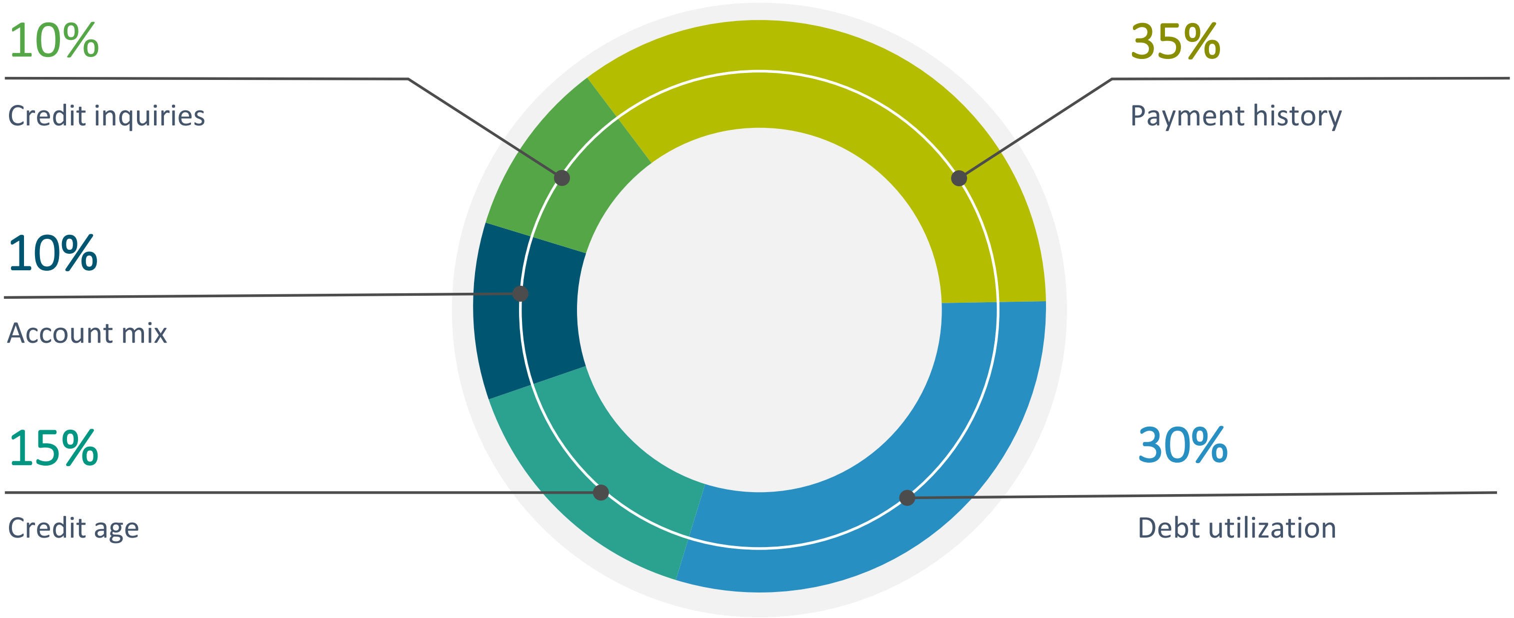
Credit scores and their impact

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

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

What goes into your credit score?

TAKE CONTROL
OF YOUR DEBT



Source: "*What does FICO stand for? What is a FICO Score?*" Credit.com, October 20, 2021.

Set up a plan for monitoring your credit

1 Schedule 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.

How to balance debt, saving, and investing

1. Make all your minimum payments
2. Build up a cash buffer
3. Don't pass up “free” money at work
4. Pay off any credit card debt
5. Fully fund your emergency savings
6. Weigh investing vs. paying down debt
7. Turn to your other savings goals

Make room for retirement

How many years do you have until retirement?

A 0–5

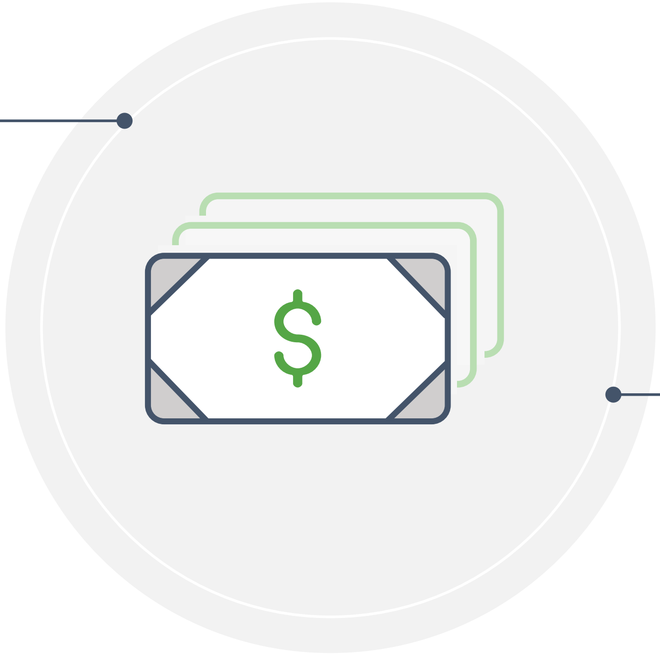
B 6–10

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.

Example of compounding

RETIREMENT

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.

This hypothetical example assumes the following: (1) starting annual gross salary of $40,000, [with a salary increase of 1.5% each year]; (2) pre-tax contributions of 6% of salary [monthly] at the beginning of the period for 50 years; (3) An annual rate of return of 7%. (4) The ending values do not reflect taxes, fees or inflation. If they did, amounts would be lower. Earnings and pre-tax contributions are subject to taxes when withdrawn. Distributions before age 59½ may also be subject to a 10% penalty. Contribution amounts are subject to IRS and Plan limits. Systematic investing does not ensure a profit or guarantee against a loss in a declining market. This example is for illustrative purposes only and does not represent the performance of any security. Consider your current and anticipated investment horizon when making an investment decision, as the illustration may not reflect this. The assumed rate of return used in this example is not guaranteed. Investments that have potential for 7% annual rate of return also come with risk of loss. The ending values do not reflect taxes, fees or inflation. If they did, amounts would be lower. Earnings and pre-tax contributions are subject to taxes when withdrawn. Distributions before age 59 1/2 may also be subject to a 10% penalty. Contribution amounts are subject to IRS and Plan limits.

Retirement savings scenario

RETIREMENT

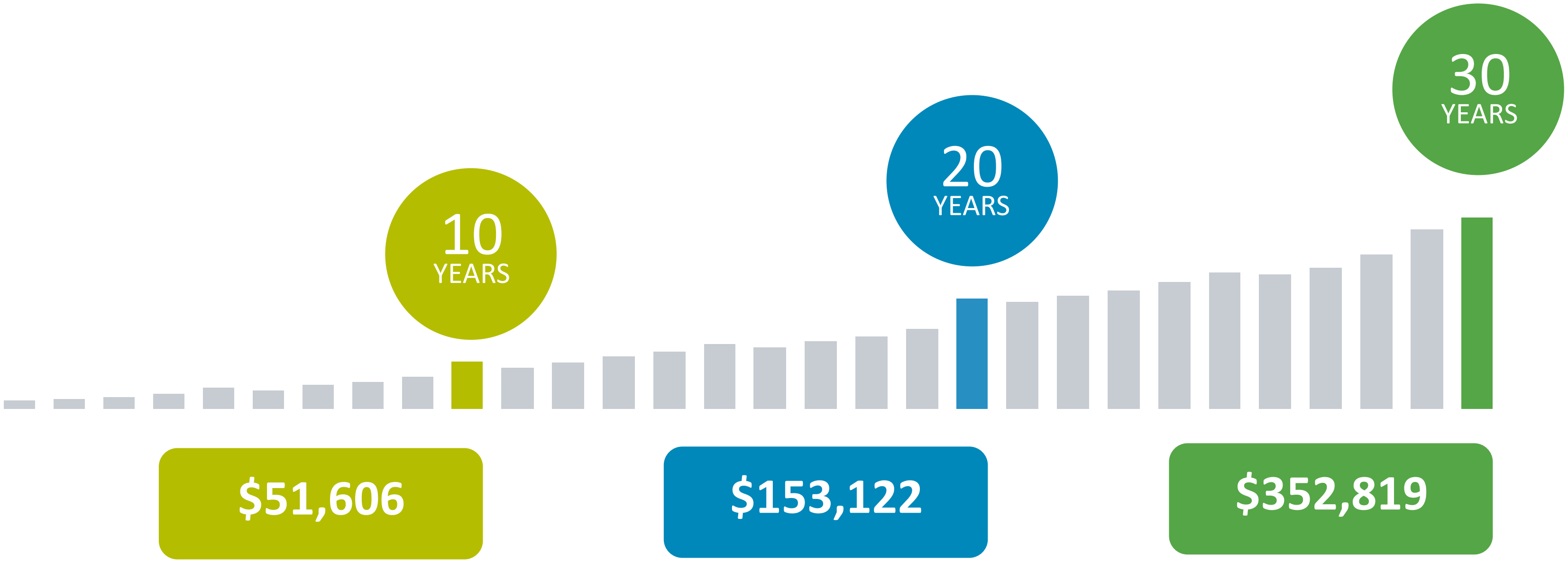
$40,000	6%	50¢	$1,200
Salary	Save	Match	More

7% Return

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 over time

RETIREMENT



For illustrative purposes only.
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What’s your #1 savings goal?

- **Retirement**
- **A home**
- **An education**
- **Paying down debt**
- **Building emergency savings**
- **Something else**

Take the next steps

Put your plan into action

NEXT STEPS

1

Create a saving and spending plan

2

Create a debt management plan

3

Use the resources on **NetBenefits.com**

4

For professional help, call **800-603-4015**

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