

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



CREATE A BUDGET



Cover your **essential**
living expenses



Prepare for
unplanned expenses



Pursue your
wants and goals

Three components of a sound budget



CREATE A BUDGET

1



Essential
spending

2



Essential
savings

3



Other wants
and goals



1



Essential
spending

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

50%

or less of your take-home pay



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.



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 – Heather



CREATE A BUDGET



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



CREATE A BUDGET



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?



EMERGENCY SAVINGS

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

Take control of
your debt



Why is it so important to get control of your debt?



**Affect your financial
peace of mind**



**Increase your
day-to-day stress**



**Impact your
credit rating**



**Derail
long-term goals**

What you should know about debt



TAKE CONTROL
OF YOUR 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.



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.



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



TAKE CONTROL
OF YOUR DEBT



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



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



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

Two strategies for paying down debt



TAKE CONTROL
OF YOUR 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

Credit scores and their impact



TAKE CONTROL
OF YOUR DEBT

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

What goes into your credit score?



TAKE CONTROL
OF YOUR DEBT



Set up a plan for monitoring your credit



TAKE CONTROL
OF YOUR DEBT

1

Schedule
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)

How to balance debt, saving, and investing



TAKE CONTROL
OF YOUR DEBT

Make all your
minimum payments



1

Pay off any credit
card debt



3

Weigh investing vs.
paying down debt



5

Build up a cash buffer



2

Fully fund your
emergency savings



4

Turn to your other
savings goals



6

Make room for retirement



How many years do you have until retirement?



RETIREMENT

A

0–5

B

6–10

C

10–20

D

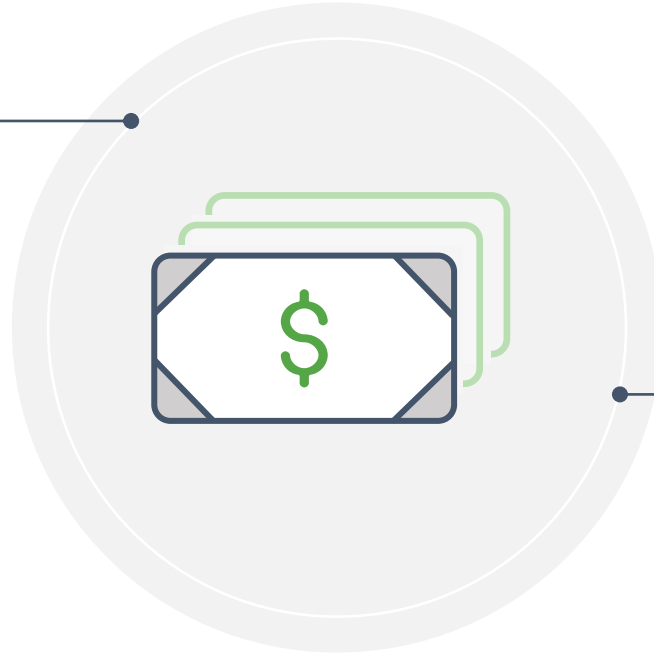
20+

The power of compounding



RETIREMENT

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

Annual salary

\$40,000

6% pretax contribution

\$2,400

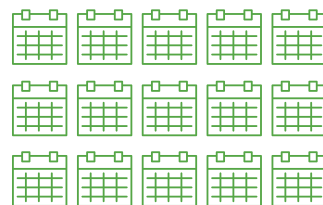
Assumed annual return

7%



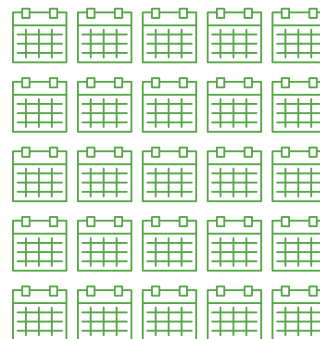
After 5 years,
balance could be

\$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.

What's your #1 savings goal?



RETIREMENT



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



Call for assistance at
800-294-4015
Contact your plan's financial advisor
Eric Weissman
650-260-8640
eweissman@sageviewadvisory.com

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