Inside Money: Managing income and debt
Kevin Collins
March 7, 2019
Agenda

- Why budgeting is important
- Budgeting basics
- What cash flow is and what it can tell you about yourself
- Make a budget
- The basics of debt, and when to use it
- The truth about credit cards
- Managing debt
- Personal financial action steps
What difficulties do you run into when budgeting?

A. Not enough money for bills
B. Not enough time to set a budget
C. Don’t want to know the specifics
D. Don’t know the way to create a good one
E. Don’t know where the money goes
The financial landscape

- Average saving rate as of November 2017: 2.9%\textsuperscript{1}
- U.S. real median family income is 2.4% lower today than its peak in 2007\textsuperscript{2}
- Average household net worth is rising—but so is household debt.\textsuperscript{3}
Challenges

- Limited income
- Cost of living
- Bills to pay
- Financial confusion
- Stuff to do
You are what you spend

- Housing — ? %
- Utilities — ? %
- Transportation — ? %
- Food — ? %
- Entertainment — ? %
- Debt — ? %
- Retirement — ? %
- Savings — ? %
- Healthcare — ? %
Budgeting basics

- Survival economics (non-negotiables vs. optionals)
- Lifestyle economics (getting the most for your money)
Budgeting basics

- Survival economics (non-negotiables vs. optionals)
- Lifestyle economics (getting the most for your money)

Budget allocations by percentage of net income:

- Housing 25-35%
- Charitable gifts 10-15%
- Transportation 10-15%
- Food 5-15%
- Savings 5-10%
- Utilities 5-10%
- Medical/Health 5-10%
- Personal 5-10%
- Recreation 5-10%
- Debt 5-10%
- Clothing 2-7%

Statistics from Dave Ramsey, "Total Money Makeover," 2013
Cash flow: The first step to an accurate budget

Income
- Expenses

Positive or negative?
# Making a budget

<table>
<thead>
<tr>
<th>Monthly take-home income = $ ____________</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expense</strong></td>
</tr>
<tr>
<td>Housing</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
<tr>
<td>Transportation</td>
</tr>
<tr>
<td>Food</td>
</tr>
<tr>
<td>Entertainment</td>
</tr>
<tr>
<td>Debt</td>
</tr>
<tr>
<td>Savings</td>
</tr>
<tr>
<td>Retirement</td>
</tr>
<tr>
<td>Child care</td>
</tr>
<tr>
<td>Medical/Health</td>
</tr>
<tr>
<td>Student loan</td>
</tr>
<tr>
<td>Emergency fund</td>
</tr>
<tr>
<td>Gifts/Donations</td>
</tr>
<tr>
<td>Vacations</td>
</tr>
<tr>
<td>Household products</td>
</tr>
<tr>
<td>Clothing</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
Long-term goals

- Retirement
- Education savings
- Second home
- Family needs
- Other

Compounding can help!

Budget allocations by percentage of net income

Statistics from Dave Ramsey, “Total Money Makeover,” 2013
Short-term goals

- Vacations
- Smaller purchases
- Financial cushion
- Wedding
- Down payment on house

Consider saving instead of borrowing

Budget allocations by percentage of net income

- Housing 25-35%
- Charitable gifts 10-15%
- Transportation 10-15%
- Food 5-15%
- Savings 5-10%
- Utilities 5-10%
- Medical/Health 5-10%
- Personal 5-10%
- Recreation 5-10%
- Debt 5-10%
- Clothing 2-7%

Statistics from Dave Ramsey, “Total Money Makeover,” 2013
Debt

Credit Card  Mortgage  School  Store
Vacation to Hawaii  Loan  Real Estate Loan  Credit Card
A New Bed  Business Loan  Auto Loan

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The two lives of credit

- Americans’ consumer debt is on the rise, growing 10% to $3.7 trillion since first quarter 2015
- Of this $3.7 trillion, $2.7 trillion was from non-revolving loans
- Credit card debt has grown 10% in the last decade
- 20% of insured working-age Americans have problems paying medical bills
What you owe

- What’s the balance?
- What’s the rate?

Manage your debt

- Pay more than the minimum
- Ask for a rate reduction
Savings and debt: The real examples

- How can one cup of coffee a week equal $2,100 in 10 years?
- How can savings insulate you from debt?
- Should I choose between saving and paying debt?
“Pay yourself first” and why it’s worth repeating

- Budgeting helps you save
- Saving lets you invest
- Investing helps you earn through compounding
- Compounded earnings are how you pay yourself in retirement
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The high cost of delaying

<table>
<thead>
<tr>
<th>Portfolio Totals</th>
<th>Cost of Delay</th>
</tr>
</thead>
<tbody>
<tr>
<td>$295,577</td>
<td>$276,655</td>
</tr>
<tr>
<td>$258,804</td>
<td>$241,964</td>
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<tr>
<td>$226,077</td>
<td>$189,222</td>
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<td>$36,773</td>
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<tr>
<td></td>
<td>$53,613</td>
</tr>
<tr>
<td></td>
<td>$69,500</td>
</tr>
</tbody>
</table>

Assumptions: 6.0% rate of return; monthly contribution of $187.50
This example is purely hypothetical and is not intended to predict or project performance. Investments pose risks and you can lose money.
Practical tips and takeaways

- Find out your cash flow
- Determine your negotiable/non-negotiable expenses
- Saving is an expense—pay yourself first!
- Set goals
- Make compound interest work for you
- Have fun, today and in the future
Helpful resources

TIAA.org/tools

Retirement Advisor

Offers a more comprehensive look at your retirement savings plan
Questions?
To schedule a one-on-one session with a TIAA Financial Consultant:

Call **800-732-8353**
Weekdays, 8 a.m. to 8 p.m. (ET)

Schedule online at
TIAA.org/schedulenow
Average saving rate as of November 2017: 2.9%¹
¹ US Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, November 2017,” December 2017

U.S. real median family income is 2.4% lower today than its peak in 2007²
² Department of Numbers, “U.S. Household Income,” accessed online February 2017

- Average household net worth is rising—but so is household debt.³
- According to the US Federal Reserve, Americans’ household net worth rose to record levels in the third quarter of 2017, but household debt is on the increase as well.³
³ Federal Reserve, “Financial Accounts of the United States,” December 2017

The rise in net worth can be attributed to the value of Americans’ real estate holdings.⁴
⁴ Wall Street Journal, “Net Worth of U.S. Households Rose to Record $86.8 Trillion in Fourth Quarter, Fed Says,” accessed online February 2017

But household debt continues to be impacted by increases in auto loans, student loans, and credit card debt.⁵

The median retirement savings for families is $60,000.⁶
⁶ CNBC, “Here's how much the average American family has saved for retirement,” September 2016
The average balance of retirement accounts for households ages 55-64 is $104,000. That translates to only about $310 a month from a lifetime annuity.\(^7\)


Roughly a quarter of Americans say they have virtually no retirement savings. In fact, only about one in five Americans say they are “very confident” about having enough money for a comfortable retirement.\(^8\)

8 Employee Benefit Research Institute, “The 2017 Retirement Confidence Survey,” March 2017

- Americans’ consumer debt is on the rise, growing 10% to $3.7 trillion since first quarter 2015\(^9\)
- Of this $3.7 trillion, $2.7 trillion was from non-revolving loans\(^9\)

9 Federal Reserve, “Consumer Credit, G.19 report,” January 2018

Credit card debt has grown 10% in the last decade.\(^10\)


16% of working-age American families have problems paying medical bills.\(^11\)

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