Inside Money:
Managing income and debt
Dave Croce
March 20, 2018
Inside Money: Managing income and debt

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 December 2016: 5.4%\(^1\)
- U.S. real median family income is 2.4% lower today than its peak in 2007\(^2\)
- Average household net worth is rising—but so is household debt.\(^3\)
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—? %
Savings—? %
Healthcare—? %
Retirement—? %
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?

### Cash flow worksheet

Begin building your budget by determining your cash flow

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary(ies) $</td>
<td>Mortgage/Rent $</td>
</tr>
<tr>
<td>Income from</td>
<td>Home/Renters Insurance $</td>
</tr>
<tr>
<td>Self-Employment $</td>
<td>Property Taxes $</td>
</tr>
<tr>
<td>Part-Time Employment $</td>
<td>Maintenance $</td>
</tr>
<tr>
<td>Alimony/Child Support $</td>
<td>Utilities (gas, el, water, etc.)</td>
</tr>
<tr>
<td>Dividends/Interest $</td>
<td>Cable/Satellite TV $</td>
</tr>
<tr>
<td>Royalties $</td>
<td>Telephone (home, mobile) $</td>
</tr>
<tr>
<td>Real Estate $</td>
<td>Food (groceries, meals) $</td>
</tr>
<tr>
<td>Tax Refund $</td>
<td>Child Care $</td>
</tr>
<tr>
<td>Bonuses $</td>
<td>Car Payment(s) $</td>
</tr>
<tr>
<td>Extraordinary Income:</td>
<td>Auto Insurance $</td>
</tr>
<tr>
<td>Grants/Prizes $</td>
<td>Entertainment (movies, nights out, etc.) $</td>
</tr>
<tr>
<td>Inheritance $</td>
<td>College Savings $</td>
</tr>
<tr>
<td>Social Security Benefits:</td>
<td>Clothing $</td>
</tr>
<tr>
<td>Disability Benefits $</td>
<td>Vacation $</td>
</tr>
<tr>
<td>Retirement Benefits $</td>
<td>Credit Card Payment(s) $</td>
</tr>
<tr>
<td>Survivor Benefits $</td>
<td>Other Debt (student loans, etc.) $</td>
</tr>
<tr>
<td>Other:</td>
<td>Medical/Dental $</td>
</tr>
<tr>
<td></td>
<td>Health Insurance $</td>
</tr>
<tr>
<td></td>
<td>Life Insurance $</td>
</tr>
<tr>
<td></td>
<td>Long-Term Care Insurance $</td>
</tr>
<tr>
<td></td>
<td>Disability Insurance $</td>
</tr>
<tr>
<td></td>
<td>Savings/Investments $</td>
</tr>
<tr>
<td></td>
<td>Your Contribution to Employer’s Retirement Plan $</td>
</tr>
<tr>
<td></td>
<td>Your Additional Contribution to Employer’s Retirement Plan $</td>
</tr>
<tr>
<td></td>
<td>$ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $</td>
</tr>
<tr>
<td>Total monthly income $</td>
<td>$ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $</td>
</tr>
</tbody>
</table>

Total monthly income = Total monthly expenses = Funds available: $
## Making a budget

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

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

Compounding can help!

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- Savings 5-10%
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- Medical/Health 5-10%
- Personal 5-10%
- Recreation 5-10%
- Debt 5-10%
- Clothing 2-7%

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

Statistics from Dave Ramsey, “Total Money Makeover,” 2013
The two lives of credit

- Americans’ consumer debt is on the rise, growing 6% 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

The 31-Year Loan
Credit card repayment:
$2,500 vs. $10,701.16

- Principal – $2,500
- Interest – $8,201.16
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
The high cost of delaying

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
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 December 2016: 5.4%¹
¹ US Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, December 2016,” January 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 fourth quarter of 2016, but household debt is on the increase as well.³

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

Sources

¹ US Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, December 2016,” January 2017
² Department of Numbers, “U.S. Household Income,” accessed online February 2017
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
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.\textsuperscript{7}

\textsuperscript{7} Investopedia, “The Average Retirement Savings by Age for 2016,” December 2016

More than 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.\textsuperscript{8}

\textsuperscript{8} Employee Benefit Research Institute, “The 2016 Retirement Confidence Survey,” March 2016

- Americans’ consumer debt is on the rise, growing 6% to $3.7 trillion since first quarter 2015\textsuperscript{9}
- Of this $3.7 trillion, $2.7 trillion was from non-revolving loans\textsuperscript{9}

\textsuperscript{9} Federal Reserve, “Consumer Credit, G.19 report,” February 2017

Credit card debt has grown 10% in the last decade.\textsuperscript{10}

\textsuperscript{10} NerdWallet, “2016 American Household Credit Card Debt Study,” accessed online February 2017

16% of working-age American families have problems paying medical bills.\textsuperscript{11}

\textsuperscript{11} National Center for Health Statistics, “Problems Paying Medical Bills Among Persons Under Age 65,” November 2016
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