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
- Good and bad debt, and how to manage it
- 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 February 2015: 5.8%\(^1\)

From 2005-2013\(^2\)

- U.S. real median family income has lowered by 8.34%\(^2\)
- Median family net worth declined 36%\(^3\)
Challenges

- Limited income
- Cost of living
- Bills to pay
- Financial confusion
- Stuff to do
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)

Recommended budgeting 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

Inside Money: Managing income and debt
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><strong>Gross Salary/ies</strong> $</td>
<td><strong>Mortgage/Rent</strong> $</td>
</tr>
<tr>
<td><strong>Income from</strong></td>
<td><strong>Home/Renters Insurance</strong> $</td>
</tr>
<tr>
<td>Self-Employment $</td>
<td><strong>Property Taxes</strong> $</td>
</tr>
<tr>
<td>Part-Time Employment $</td>
<td><strong>Maintenance</strong> $</td>
</tr>
<tr>
<td>Alimony/Child Support $</td>
<td><strong>Utilities (gas, el, water, etc.)</strong> $</td>
</tr>
<tr>
<td>Dividends/Interest $</td>
<td><strong>Cable/Satellite TV</strong> $</td>
</tr>
<tr>
<td>Royalties $</td>
<td><strong>Telephone (home, mobile)</strong> $</td>
</tr>
<tr>
<td>Real Estate $</td>
<td><strong>Food (groceries, meals)</strong> $</td>
</tr>
<tr>
<td>Tax Refund $</td>
<td><strong>Child Care</strong> $</td>
</tr>
<tr>
<td>Bonuses $</td>
<td><strong>Car Payment(s)</strong> $</td>
</tr>
<tr>
<td><strong>Extraordinary Income:</strong></td>
<td><strong>Auto Insurance</strong> $</td>
</tr>
<tr>
<td>Grants/Prizes $</td>
<td><strong>Entertainment (movies,�ights out, etc.)</strong> $</td>
</tr>
<tr>
<td>Inheritance $</td>
<td><strong>College Savings</strong> $</td>
</tr>
<tr>
<td><strong>Social Security Benefits:</strong></td>
<td><strong>Clothing</strong> $</td>
</tr>
<tr>
<td>Disability Benefits $</td>
<td><strong>Vacation</strong> $</td>
</tr>
<tr>
<td>Retirement Benefits $</td>
<td><strong>Credit Card Payment(s)</strong> $</td>
</tr>
<tr>
<td>Survivor Benefits $</td>
<td><strong>Other Debts (student loans, etc.)</strong> $</td>
</tr>
<tr>
<td><strong>Other:</strong></td>
<td><strong>Medical/Dental</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Health Insurance</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Life Insurance</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Long-Term Care Insurance</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Disability Insurance</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Savings/Investments</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Your Contribution to Employer’s Retirement Plan</strong> $ 403(b)/401(k)/401A/</td>
</tr>
<tr>
<td>$</td>
<td><strong>Your Additional Contribution to Employer’s Retirement Plan</strong> $ 403(b)/401(k)/</td>
</tr>
<tr>
<td>$</td>
<td><strong>Taxes (venir, state, local, Social Security)</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>IRAs, After-Tax Annuities</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Pension Contribution</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Alimony/Child Support</strong> $</td>
</tr>
<tr>
<td>$</td>
<td><strong>Other</strong> $</td>
</tr>
<tr>
<td><strong>Total monthly income</strong> $</td>
<td><strong>Total monthly expenses</strong> $</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><strong>Housing</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Food</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Entertainment</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Savings</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Retirement</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Child care</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Medical/Health</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Student loan</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Emergency fund</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Gifts/Donations</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Vacations</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Household products</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>$</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

| **Total**                | $ | % | $ | % |
Long-term goals

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

Use the power of compounding!

Recommended budgeting by percentage of net income

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- Charitable gifts 10-15%
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- 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
Short-term goals

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

Saving instead of borrowing will save you money.

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- Utilities 5-10%
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- Personal 5-10%
- Recreation 5-10%
- Debt 5-10%
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Statistics from Dave Ramsey, “Total Money Makeover,” 2013
What is an example of “good debt”?

A. Student loans
B. Car loan
C. Mortgage
D. Vacation expenses
The two lives of credit

- Americans’ consumer debt is climbing back to the highest levels since we exited the Great Recession.\(^8\)
- 9.91%—debt as a percentage of disposable personal income\(^9\)
- Loans are on the increase: Revolving credit has risen to 3.3%, nearly double the rate of growth in the average American’s income.\(^8\)
- More than 35% of Americans have unpaid medical, utility, mortgage and other bills with collections agencies.\(^10\)

### 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

<table>
<thead>
<tr>
<th>Portfolio Totals</th>
<th>Cost of Delay</th>
</tr>
</thead>
<tbody>
<tr>
<td>$295,577 \n+212,327</td>
<td>$-18,922 \n$83,250</td>
</tr>
<tr>
<td>$276,655 \n+195,655</td>
<td>$-36,773 \n$81,000</td>
</tr>
<tr>
<td>$258,804 \n+180,054</td>
<td>$-53,613 \n$78,750</td>
</tr>
<tr>
<td>$241,964 \n+165,464</td>
<td>$-69,500 \n$76,500</td>
</tr>
<tr>
<td>$226,077 \n+151,827</td>
<td>\n$74,250</td>
</tr>
</tbody>
</table>

Hypothetical final portfolio values at age 65

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
tiaa.org/tools

Retirement Advisor

Offers a more comprehensive look at your retirement savings plan
Questions?
Contact a Financial Consultant

Call 800-732-8353
Weekdays, 8 a.m. - 8 p.m. (ET)
to schedule a one-on-one session with a TIAA Financial Consultant

Schedule online at

tiaa.org/schedulenow
Average saving rate as of February 2015

From 2005-2013 U.S. real median family income has lowered by 8.34%  
2Department of Numbers, US Household Income 2014 Census ACS Data, deptofnumbers.com/income/us/

Median family net worth declined 36%

The average or "personal" savings rate for Americans was at 5.8% as of February 2015.  

According to the US Federal Reserve, Americans’ household net worth rose, but household debt is on the increase as well. The rise in net worth is due in big part to the gaining value of Americans’ real estate holdings. But as consumer credit continues to expand, driven by growth in student loans and auto loans, debt may continue to weigh down on peoples finances.

The Federal Reserve also reports that millions of Americans haven’t saved any money for retirement, and those who did don’t have enough squirreled away: the median balance of retirement accounts is less than $60,000.

The Federal Reserve announced in April that 47% of American households had a zero or negative savings rate in 2013, down 1 percentage peak point in 2010. The average American household savings account balance was $3,800 as of mid-year 2014. A quarter of households had no savings whatsoever, in big part due to debts. The average household carries nearly $7,000 in credit card debt.

American’s consumer debt is climbing back at the highest levels since we exited the Great Recession.

**Sources**

5Board of Governors of the Federal Reserve System, FEDS Notes, “Deleveraging and Recent Trends in Household Debt,” April 2015

6The Motley Fool, “The Typical American Has This Much in Retirement Savings: How Do You Compare?” January 2015
fool.com/retirement/general/2015/01/10/the-typical-american-has-this-much-in-retirement-s.aspx

7The Daily Beast, “47% of American Can't Save Any Money,” April 2015
thedailybeast.com/articles/2015/04/14/47-of-americans-can-t-save-any-money.html#

8The Motley Fool, “Is the Average American's Debt a Problem Again?” February 2015
fool.com/how-to-invest/personal-finance/credit/2015/02/06/is-the-average-americans-debt-a-problem-again.aspx
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8The Motley Fool, “Is the Average American's Debt a Problem Again?” February 2015 fool.com/how-to-invest/personal-finance/credit/2015/02/06/is-the-average-americans-debt-a-problem-again.aspx

More than 35% of Americans have unpaid medical, utility, mortgage, and other bills with collections agencies
10Urban Institute, “Delinquent Debt in America,” July 2014 urban.org/research/publication/delinquent-debt-america
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