Create a Budget, Ditch Your Debt, and Start Building for the Future
Interactive experience

Strategies, tools and tips
Two key budgeting topics

Creating a Budget
- Three core components
- A real-life budget
- Tips on essential saving

Managing Your Debt
- Good debt vs. Bad debt
- Prioritizing and paying down debt
- Ways to boost your credit score
A budget can help provide freedom

Cover your essential living expenses
Ready 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
Create A Budget
Three components of a sound budget:

1. Essential spending
2. Essential savings
3. Other wants and goals
Which of the following do you consider to be essential expenses?

- Food
- Healthcare
- Car
- Child’s education
- Housing
Essential spending

CREATE A BUDGET

1. Source: Strategic Advisers LLC, a registered investment adviser and a Fidelity Investments company

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

50% or less of your take-home pay
Essential savings

- Save for retirement
- Create an emergency fund
- Save for unplanned expenses

15% of your pretax income (includes your contributions and any employer contributions you may receive)

3-6 months of living expenses
Other wants and goals

- Build a better retirement
- Save for a car, home, child’s education, or wedding
- Pay off big debts
### Calculating key components of a budget

- **Income**: $30,000 a year
- **Pretax income**: $2,500 a month

**Estimated Effective Tax Rate**: 7%

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-home pay</td>
<td>$2,139</td>
</tr>
<tr>
<td>Essential spending</td>
<td>– $1,190</td>
</tr>
<tr>
<td>Essential savings</td>
<td>– $85</td>
</tr>
<tr>
<td>Discretionary income</td>
<td>$864</td>
</tr>
</tbody>
</table>

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

**Scott**

Estimated Effective Tax Rate: 7%
Example scenario – Scott

**Scott**
Estimated Effective Tax Rate: 7%

<table>
<thead>
<tr>
<th>Essential Spending</th>
<th>Essential Savings</th>
<th>Other Wants and Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$695</td>
<td></td>
</tr>
<tr>
<td>Groceries</td>
<td>$150</td>
<td></td>
</tr>
<tr>
<td>Health care</td>
<td>$90</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>$45</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>Credit card min.</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td>$90</td>
<td></td>
</tr>
<tr>
<td><strong>After-tax total:</strong></td>
<td><strong>$1,190 or 56%</strong></td>
<td></td>
</tr>
<tr>
<td>Pretax income</td>
<td>$2,500 a month</td>
<td></td>
</tr>
<tr>
<td>Take-home pay</td>
<td>$2,139 a month</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>$30,000 a year</td>
<td></td>
</tr>
<tr>
<td>Estimated Effective Tax Rate: 7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Retirement savings: $200 or 8%
- Emergency savings: $85 or 4%
- • Takeout
- • Shopping
- • Travel
- • Gym membership
- • Car savings

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: $60,000 a year
Pretax income: $5,000 a month
Take-home pay: $4,095 a month

Essential Spending

<table>
<thead>
<tr>
<th>Item</th>
<th>After-tax total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$950</td>
</tr>
<tr>
<td>Car payment</td>
<td>$370</td>
</tr>
<tr>
<td>Car expenses</td>
<td>$100</td>
</tr>
<tr>
<td>Utilities</td>
<td>$70</td>
</tr>
<tr>
<td>Groceries</td>
<td>$180</td>
</tr>
<tr>
<td>Health care</td>
<td>$90</td>
</tr>
<tr>
<td>Credit card min.</td>
<td>$40</td>
</tr>
<tr>
<td>After-tax total</td>
<td>$1,800 or 44%</td>
</tr>
</tbody>
</table>

Essential Savings

<table>
<thead>
<tr>
<th>Item</th>
<th>After-tax total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement savings</td>
<td>$450</td>
</tr>
<tr>
<td>Pretax total</td>
<td>$450 or 9%</td>
</tr>
<tr>
<td>Emergency savings</td>
<td>$0</td>
</tr>
<tr>
<td>After-tax total</td>
<td>$0%</td>
</tr>
</tbody>
</table>

Other Wants and Goals

- Eating out
- Shopping
- Saving for a home
- Gym membership
- Traveling
- Charitable contributions

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: $6,003 a month

Essential Spending

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>$1000</td>
</tr>
<tr>
<td>Car payment</td>
<td>$280</td>
</tr>
<tr>
<td>Car expenses</td>
<td>$100</td>
</tr>
<tr>
<td>Utilities</td>
<td>$85</td>
</tr>
<tr>
<td>Health care</td>
<td>$75</td>
</tr>
<tr>
<td>Groceries</td>
<td>$200</td>
</tr>
<tr>
<td>Daughter’s tuition</td>
<td>$1500</td>
</tr>
<tr>
<td>After-tax total</td>
<td>$3,240 or 54%</td>
</tr>
</tbody>
</table>

Essential Savings

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Pretax total:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement savings</td>
<td>$600</td>
<td>$600 or 8%</td>
</tr>
<tr>
<td>Emergency savings</td>
<td>$300</td>
<td>$300 or 5%</td>
</tr>
</tbody>
</table>

Other Wants and Goals

- Dining out
- Shopping
- Daughter’s college expenses

Only considers federal taxes, not state and/or local taxes. Hypothetical examples are for illustrative purposes only.
Create Your Budget
Savings and spending check-up

CREATE A BUDGET

Savings and spending check-up

50/15/5. It's a simple rule of thumb:

- 50% or less of your income should go to essential expenses,
- 15% to retirement savings, and
- 5% to short-term savings.

As long as you stay within those guidelines, the remainder is yours to save or spend as you see fit.

See how your actual savings and spending compares to our guidelines.

Get Started
How to approach essential saving

Estimate your future spending
• Review bank records and credit card statements
• Set fresh, new priorities

Make saving automatic
• Payroll deduction
• Direct deposit
Create an emergency fund

1. Open a separate account
2. Save as much as you can afford
3. Make regular deposits every payday
4. Don’t touch it; let it grow
5. Use it only for emergencies
How Can I Afford 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.
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

Contributions for
40 years
Amount could reach
$497,103

After 25 years, balance could be
$157,494

Contributions for
50 years
Amount could reach
$1,012,281

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 scenario

$40,000  6%  $2,400
Salary  Save  Annually

7% Return

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.
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.
The power of small amounts

Approximation based on a 1%, 3%, or 5% increase in contribution. Continued employment from current age to retirement age, 67. We assume you are exactly your current age (in whole number of years) and will retire on your birthday at your retirement age. Number of years of savings equals retirement age minus current age. Nominal investment growth rate is assumed to be 5.5%. Hypothetical nominal salary growth rate is assumed to be 4% (2.5% inflation + 1.5% real salary growth rate). All accumulated retirement savings amounts are shown in future (nominal) dollars. 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 a loss in declining markets.
What’s your #1 savings goal?

- Retirement
- A home
- An education
- Paying down debt
- Building emergency savings
- Something else
Get started on your budget

1. Plan for your essential expenses
2. Set up your essential savings
3. Use what’s left for other goals and wants

Source: Strategic Advisers LLC, a registered investment adviser and a Fidelity Investments company
Manage Your Debt
So why get better at managing your debt?

- Contributes to financial peace of mind
- Lowers your day-to-day stress
- Benefits your credit rating
- Set aside more money for your other goals
What is the #1 type of debt you are focused on paying down?

- Student loans
- Credit cards
- Mortgages
- Auto loans
- Other
Make the most of the good debt

- Good Debt
  - Borrowing at a low interest rate
  - Buys you something that grows in value or increases your earning power
  - Student loans or a home mortgage
Get rid of the bad debt

- Borrowing at a high interest rate
- Pays for something that decreases in value
- Credit card debt
Student Loans

(Good Debt)

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

**TIP:**
Target paying down private loans with a higher interest rate first
A Mortgage

A Mortgage
(Good Debt)

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

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

TIP:

Paying cards in full can save you thousands in interest

$2,000 for a new TV
15% interest rate
Minimum $40 payment each month
17 years to pay off
Interest payments will eventually be more than double the purchase price
Auto Loans

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

TIP:
Pay more than needed each month and retire your car loans early
4 steps for reducing your debt

1. Don’t scrimp on essential savings
2. Pay off high-interest-rate, then low-interest-rate cards
3. Pay off your most expensive student loans
4. Keep up with other regular mortgage, auto, and loan payments
## Credit scores and their impact

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>330–579</td>
<td>Very Poor</td>
</tr>
<tr>
<td>580–669</td>
<td>Fair</td>
</tr>
<tr>
<td>670–739</td>
<td>Good</td>
</tr>
<tr>
<td>740–799</td>
<td>Very Good</td>
</tr>
<tr>
<td>800–850</td>
<td>Exceptional</td>
</tr>
</tbody>
</table>

Source: [https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/](https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/)
What goes into your credit score?

- 35% Payment history
- 30% Debt utilization
- 15% Credit age
- 10% Account mix
- 10% Credit Inquiries

Source: “What does FICO stand for? What is a FICO Score?” Credit.com, April 11, 2018.
Here’s a plan for monitoring your credit

1. Synchronize your three free credit reports…
   - Equifax: February
   - TransUnion: June
   - Experian: October

2. Check your credit score for free at [CreditKarma.com](http://CreditKarma.com) or [credit.com](http://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 manage your overall debt

1. Understand good debt vs. bad debt
2. Prioritize your payments (high interest vs. low interest)
3. Monitor your credit reports and scores
Paying off debt while saving

1. Set aside money for an emergency.
2. Contribute to a health savings account if you're eligible.
3. Don't pass up “free” money at work.
4. Pay down high-interest credit card balances.
5. Pay down private student loans.
6. Contribute beyond the employer match in a 401(k).
7. Pay the monthly minimum on government student loans, car loans, and mortgages.

Put your plan into action

1. Create a spending plan
2. Create a debt management plan
3. Use the resources on NetBenefits
Investing involves risk, including risk of loss.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

The PDF of today’s presentation available for download should not be circulated any further and this content is only current for the next 30 days.

© 2019 FMR LLC. All rights reserved.
Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

874314.1.5