



PERSONAL FINANCE

Advice With A Slice

March 6, 2024





Advice with a Slice

Series Info

Wilson 126 4:30-5:30PM

Future Dates and Topics

3/20 – Sell Products, Services, and Yourself!

3/27 – Project Management

4/03 – How to Improve Your Toolkit



Personal Finance Overview

- Budgeting
- Taxes
- Choosing Financial Institutions
- Consumer Credit and Scores
- Insurance
- Investing Fundamentals
- Building a portfolio
- Retirement Planning



Budgeting

Why Budget?

- Planning
- Tracking
- Discipline
- Saving/Investing/Retirement

Basic “Income and Expenses”

- Income (with tax impacts)
- Expenses
 - Fixed expenses (e.g. “rent”)
 - Variable expenses (e.g. “utilities”)
 - Discretionary expenses (e.g. “fun”)

Budgeting (cont'd)



INCOME		
Gross Pay	\$60,000	Include guaranteed gross pay here. Try not to include incentive pay, bonuses, commissions, etc.
Fed Income Tax	\$6,000	Use a free online "tax calculator" based on the city and state in which you'll be earning this money.
State Income Tax	\$0	Depends on state. CA/NJ/NY/DC: 9%-13%, TN/TX/FL: 0%
FICA/FUTA/SUTA	\$4,800	FICA: 7.65% FUTA: 6% (first \$7K) SUTA: depends on state
After Tax Pay	\$49,200	
After Tax Pay/Mo.	\$4,100	
401(k)/IRA*	\$100	This is optional and varies. You should begin planning for retirement 401K/403B/IRA programs immediately.
Healthcare*	\$300	Completely variable, based on being on a parent plan v. employer plan v. open-market plan.
TAKE HOME/MO.	\$3,700	
MONTHLY EXPENSES		
OneTime/Start-Up	\$5,000	Consider first and last month's rent, security deposit, wardrobe, furniture, moving expenses, etc.
Rent	\$1,200	
Utilities	\$300	Consider heat, water, electric, gas, trash, cable, internet, cell phone.
Food -Groceries	\$250	
Food - Eating out	\$200	Consider frequency per month X average per meal.
Entertainment	\$500	Consider frequency per month X average per event.
Transportation - Gas	\$125	Consider commute and pleasure.
Transportation - Uber	\$150	Consider frequency per month X average per ride.
Clothes	\$300	Highly variable.
Memberships	\$150	Consider gym, streaming services, digital services, shopping clubs, discount memberships.
Other	\$0	Use these lines to add any other items specific or unique to your situation. Petcare, medicines, hobbies, vices!
Other	\$0	
Other	\$0	
Other	\$0	
Other	\$0	
TOTAL EXPENSES/MO.	\$3,175	
Savings	\$525	"Savings" is a leftover figure. Once calculated, you should plan to pull it out FIRST.

Taxes



- Progressive Income Tax
 - Gross income
 - Adjusted gross income
 - (Subtracts adjustments, e.g. retirement contributions, health savings accounts, etc.)
 - Taxable income
 - (AGI minus standard or itemized deductions)
- Marginal Tax Rate
- Effective Tax Rate

Taxes (cont'd)



Federal Income Tax Example

- Gross Income: \$80,000
- Income Adjustments: \$10,000
- Standard Deduction: \$13,850
- Taxable Income: \$56,150 (22%)

2023 Federal Income Tax Brackets - Single Filer		
<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Tax Owed</u>
\$0 to \$11,000	10%	10% of taxable income
\$11,001 to \$44,725	12%	\$1,100 plus 12% of amount over \$11,000
\$44,726 to \$95,375	22%	\$5,147 plus 22% of amount over \$44,725
\$95,376 to \$182,100	24%	\$16,290 plus 24% of amount over \$95,375
\$182,101 to \$231,250	32%	\$37,103 plus 32% of amount over \$182,100
\$231,251 to \$578,125	35%	\$52,831 plus 35% of amount over \$231,250
\$578,126 or more	37%	\$174,237 plus 37% of the amount over \$578,125

Federal Income Tax: \$7,661 (14%)

Banks/Financial Institutions



One Stop Shop

- e.g. USAA

Integrated Retail Bank/Mobile Platform

- e.g. Bank of America

Personal Service

- e.g. Renasant Bank, Reliant Bank (Nashville TN)

Fees to consider

- Account fees
- Brokerage Fees
 - Trading fees
 - Wealth management fees
- ATM fees

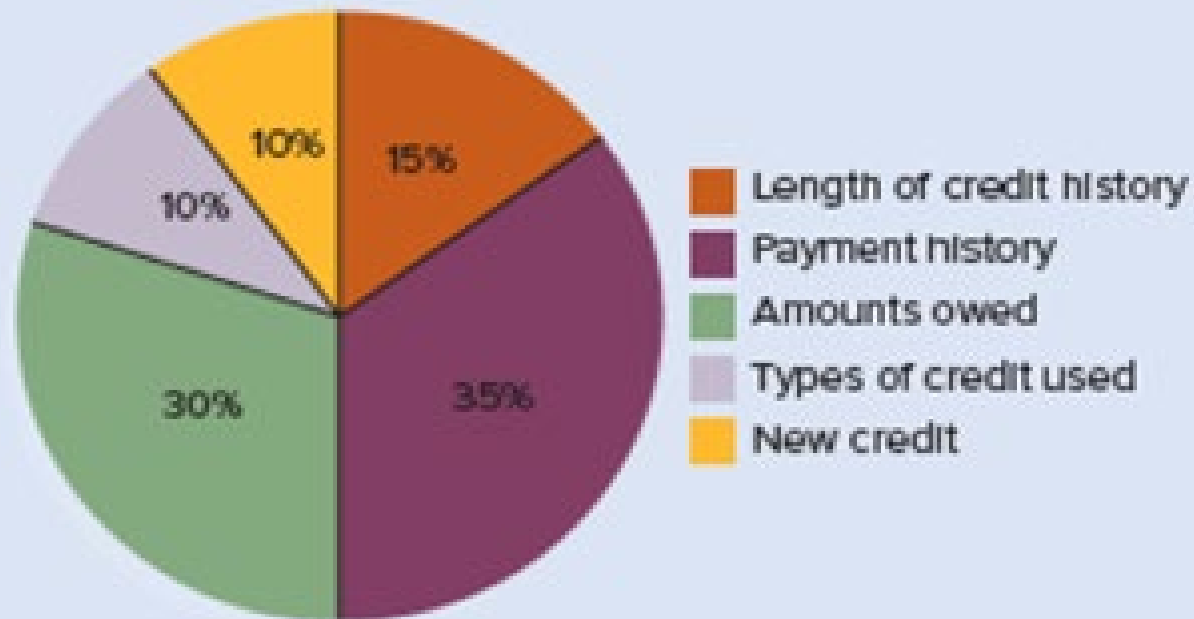
Credit Scores – What are they?



- A credit score is an algorithm-based number between 300 – 850 that depicts a consumer's financial discipline
- Based on data banks submit to the three main credit bureaus (Experian, Equifax and TransUnion)
- FICO, Vantage and other providers develop algorithms to generate a score. They all do the same thing.
- Lenders use credit scores to evaluate the probability that an individual will repay loans or other obligations in a timely manner - a Discipline Rating
- Non-bank data (cell phone, rent and Buy-Now-Pay-Later) increasingly available for evaluation

WHAT'S IN YOUR FICO SCORE?

The data from your credit report is generally grouped into five categories. The percentages in the pie diagram reflect how important each of the categories is in determining your FICO score.



Source: "How My FICO Scores Are Calculated," FICO website www.myfico.com/CreditEducation/WhatsInYourScore.aspx. This information is provided by the Fair Isaac Corporation.

What's
In Your
FICO
Score ?

Credit Scores – What They Mean



800 – 900 EXCEPTIONAL

740 – 799 VERY GOOD

670 – 739 GOOD

580 – 669 FAIR

250 – 579 RISKY

- Used (with your permission) by utilities, insurers, banks, landlords and **employers** to qualify and market to individuals
- Can affect borrowing rate and the term of your loan.
 - Mtg Rates - 1.50% difference between 620 and 800
 - Auto Rates - 12% difference between 500 and 800

Credit Scores – Best Practices



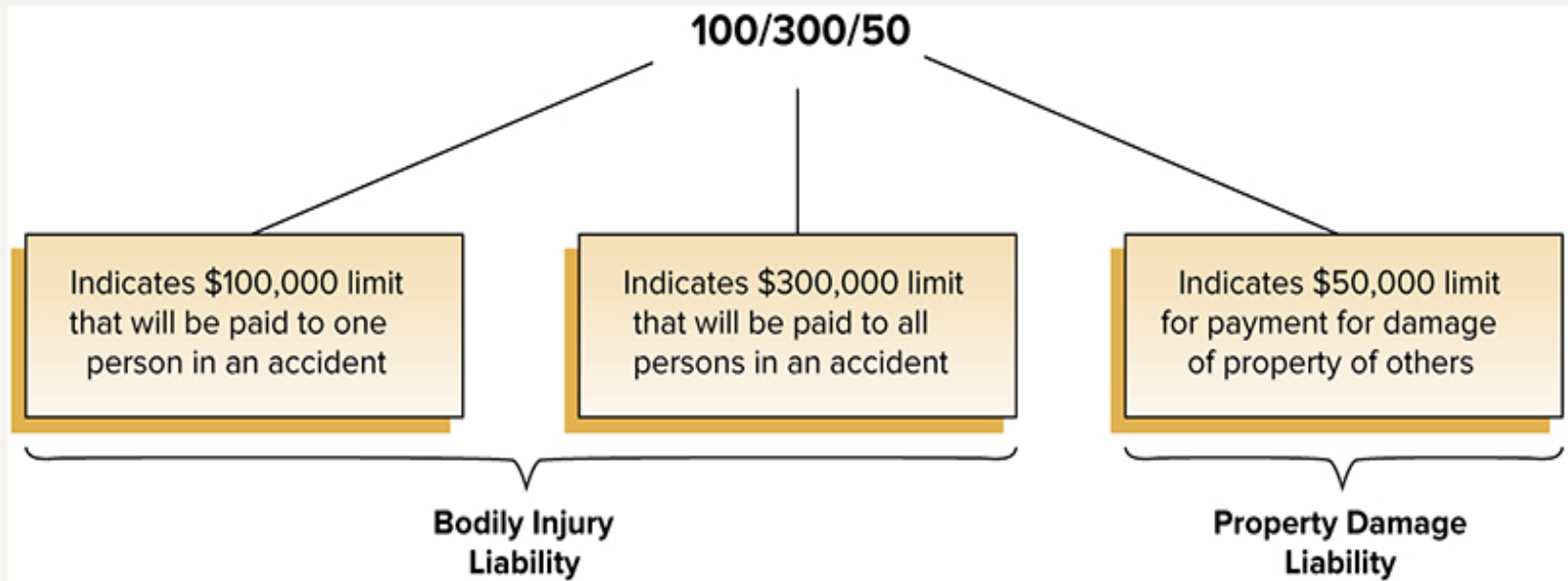
- Pay on time and stay within your credit limits
- Multiple applications for cards can lower scores. Not so when shopping for car or home loans
- Limit your borrowing to your ability/capacity to repay. Keep utilization low.
- Closing accounts can decrease your score since credit utilization rate rises
- Don't take on debt to improve your score.
- New to borrowing? Let your account age with good behavior (approx. 6 mos. to get a score)
- Review credit reports for accuracy - free annually at annualcreditreport.com

Insurance - Car



- Bodily Injury Liability
 - Covers the risk of financial associated with injuries to others (not in your auto) where you were responsible
- Medical Payments Coverage
 - Covers the cost of health care for all persons injured in your automobile, and you if in another person's automobile
- Property Damage Liability
 - Covers damage to the other car and any property when you are at fault.
- Collision (optional)
 - Covers damage to your automobile regardless of who is at fault. If you are not at fault, your insurer will try and collect from the other driver's property damage liability first.

Insurance – Car (cont'd)



- State minimums **MAY NOT** protect your assets or future income streams that could attract a lawsuit
- TN minimums are 25/50/15
- Best deal when paired with home or renter's insurance
- Ask about discounts and deductibles

Your investments may reside in a variety of account types

**Traditional 401k
(Employer
Sponsored;
Pre-Tax Dollars)**

**Traditional IRA
(Self-Sponsored;
Tax Deductible)**

**Taxable
Investment
Account**

**Designated Roth
401k
(Employer
Sponsored;
After-Tax Dollars)**

**Roth IRA
(Self-Sponsored;
Not Tax
Deductible)**

Now you've saved...what do you invest in?

Construct a **diversified** portfolio of large-, mid-, and small-cap stocks along with international stocks

Small stocks average return: 11.9%/year

Large stocks average return: 10.2%/year

Gov't bonds average return: 5.5%/year

Annual inflation rate: 2.9%/year

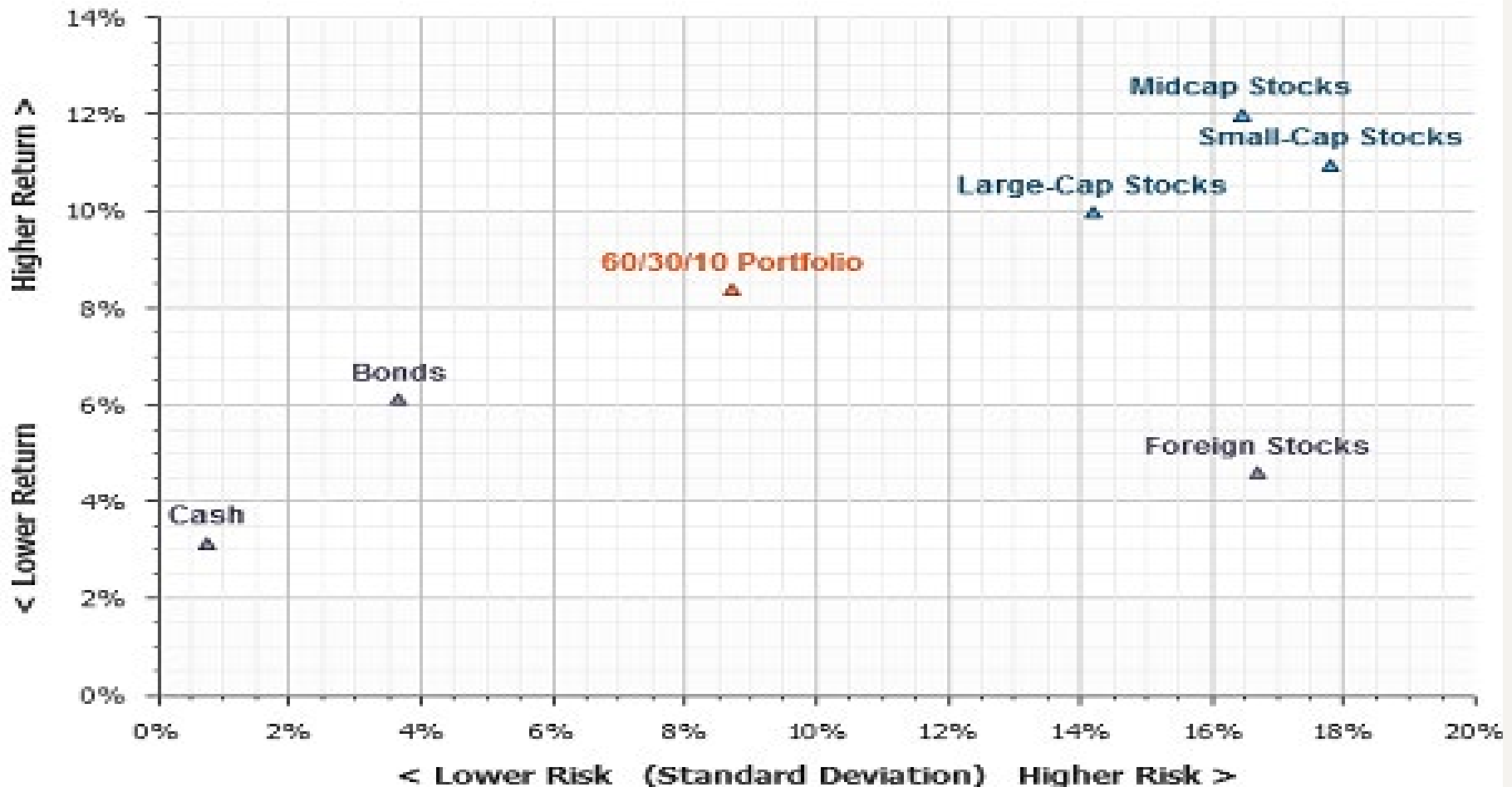
A stock portfolio may double every ~7-9 years

Holding cash provides a return lower than inflation

The Trade-Off Between Risk and Return



Risk and Return Over 20 Years Ended December 31, 2018



Sources: Standard & Poor's; the Federal Reserve. Stocks represented by the S&P 500 index. Bonds represented by the Barclays Aggregate Bond Index. Cash equivalents represented by the Barclays 3-Month Treasury Bills Index. Past performance cannot guarantee future results. (CS000137)

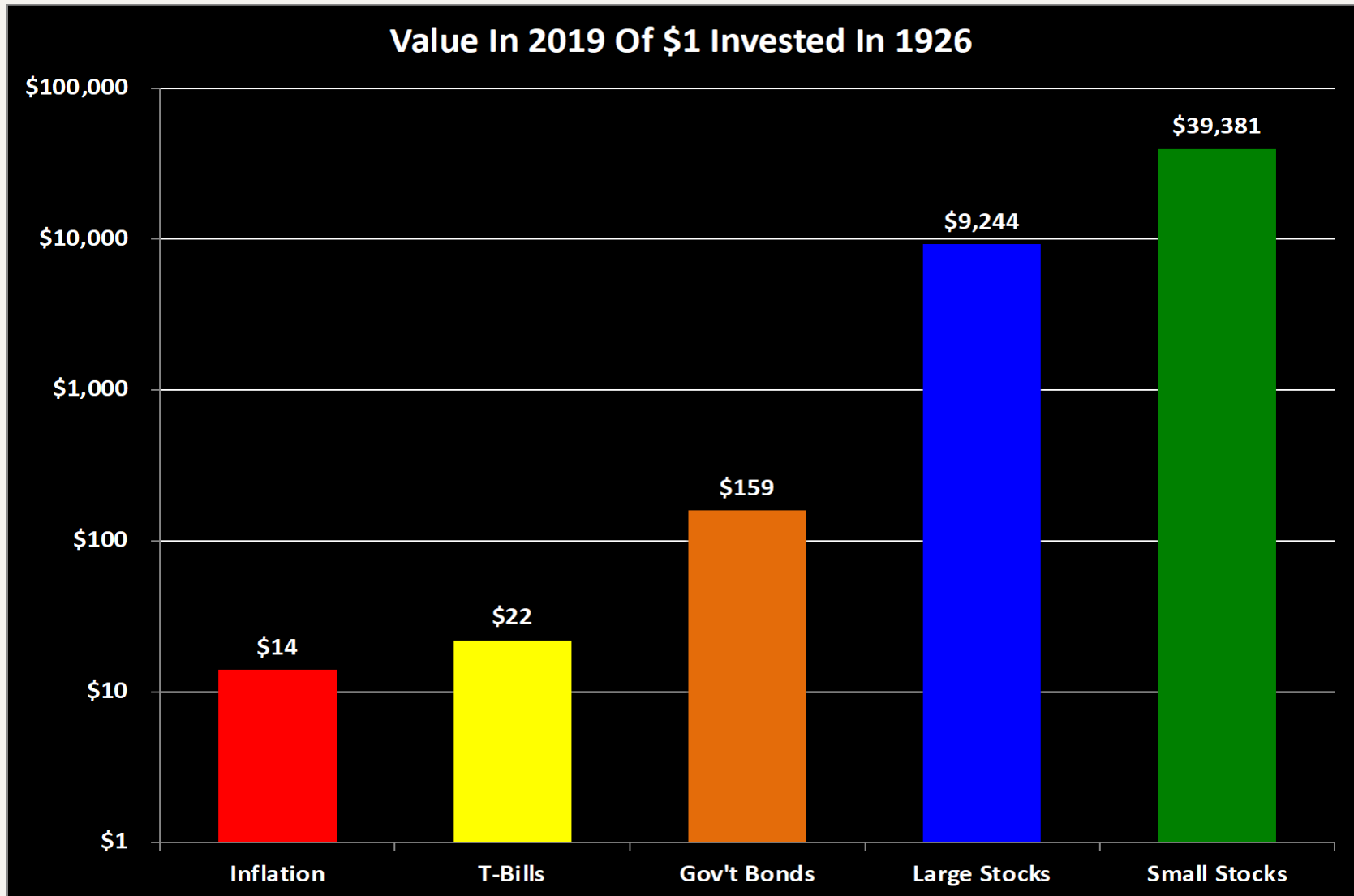
How have different investments done over time?

Stocks, Bonds, Bills, and Inflation 1926–2019



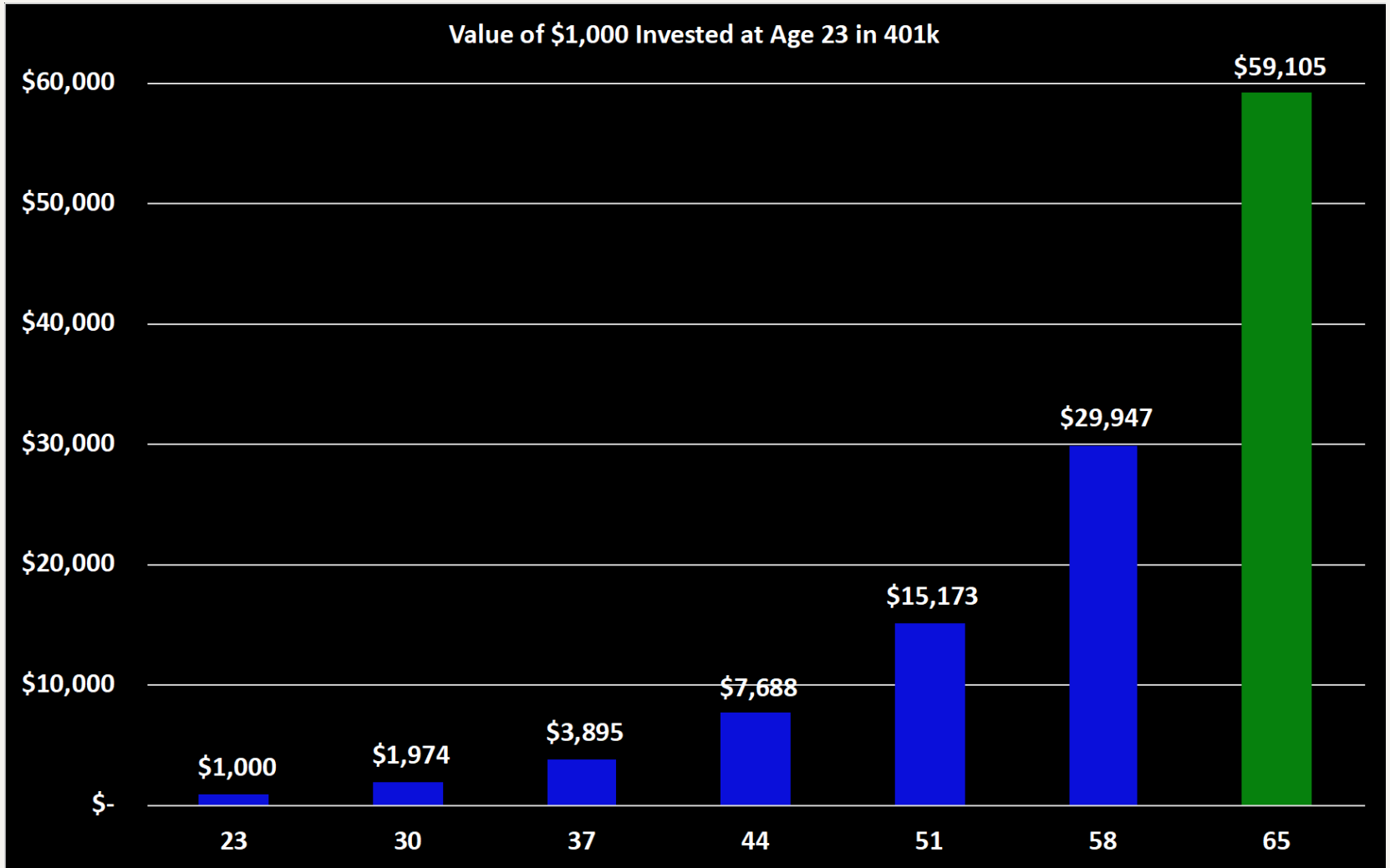
Note: Adapted from Morningstar, 2020

Long-term returns favor stocks



Note: Adapted from Morningstar, 2020

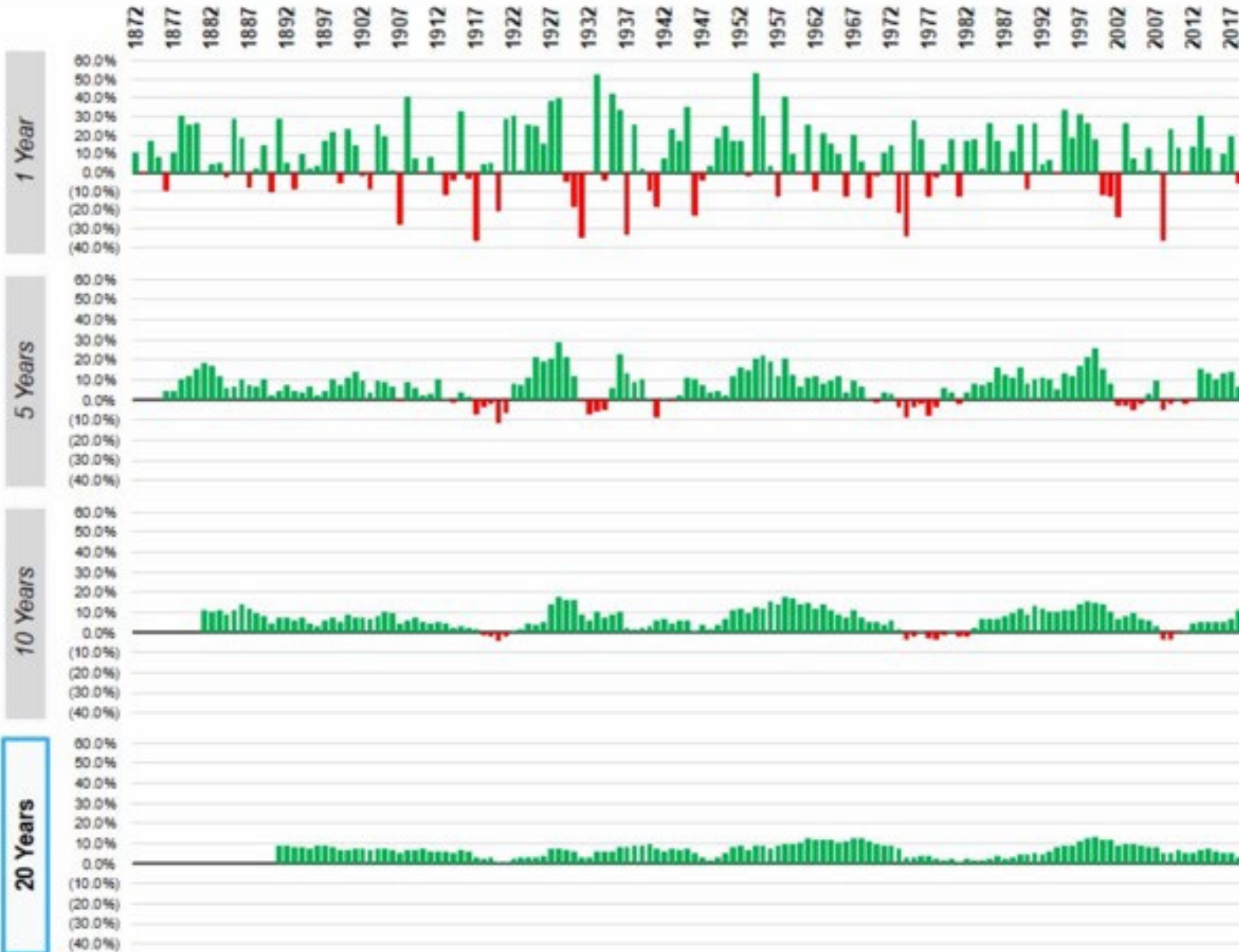
The power of compounded returns is a game changer



Note: Assumes \$1,000 invested in large cap stocks with no further investments over life of analysis, no taxes, and no transaction costs

U.S. Stock Market Annualized Returns -- 1872 to 2018

1 / 5 / 10 / 20 Year Rolling Periods



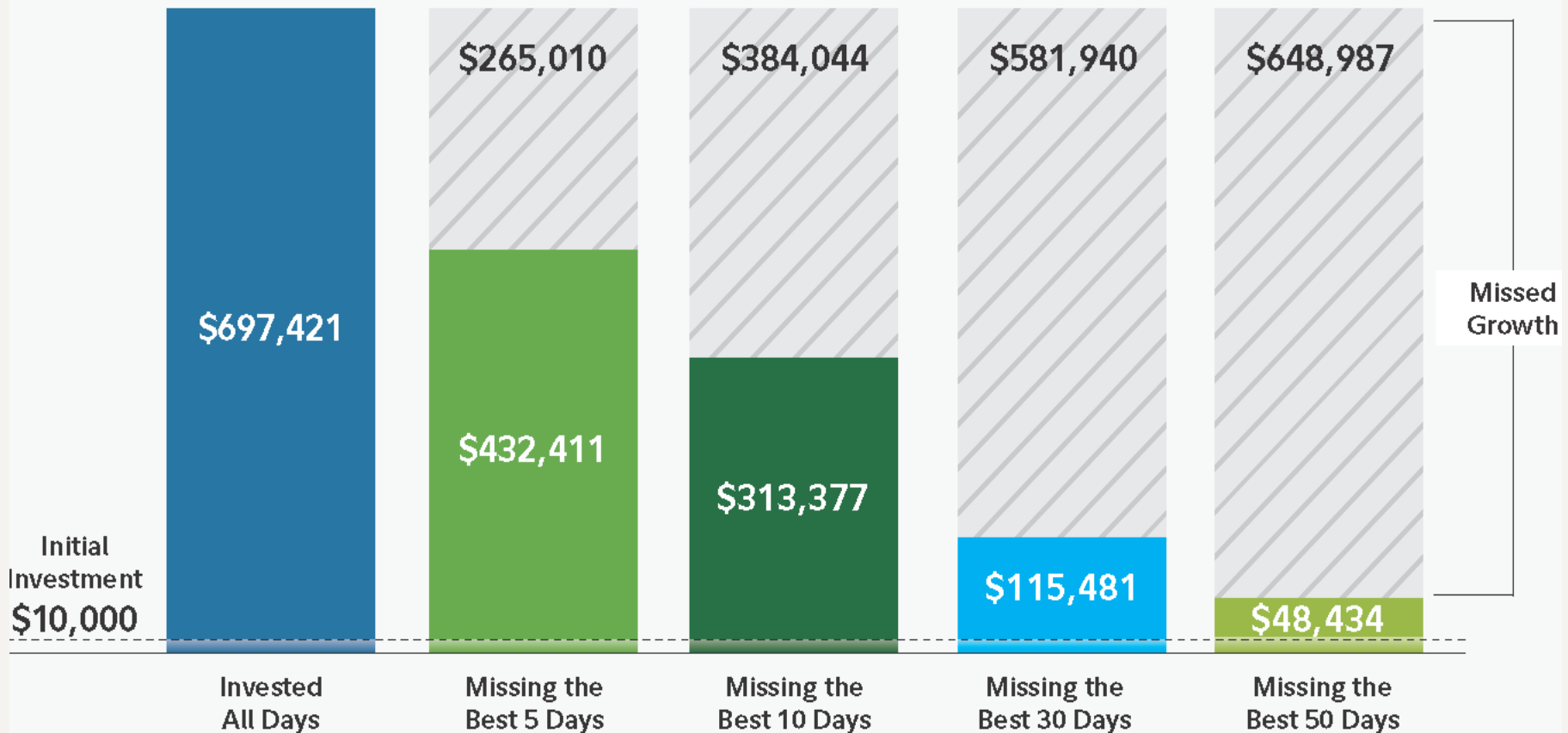
Data reflects real total returns (i.e., including the re-investment of dividends and adjusted for inflation)

Source: Robert Shiller & Yahoo Finance

Why stay invested in stocks?



Hypothetical growth of \$10,000 invested in the S&P 500® Index
January 1, 1980–March 31, 2020





Question and Answer Session





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