



# PERSONAL FINANCE

**Advice With A Slice**

November 7, 2024





# 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	\$80,000	Include guaranteed gross pay here. Try not to include incentive pay, bonuses, commissions, etc.
Fed Income Tax	\$8,500	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	\$6,400	FICA: 7.65% FUTA: 6% (first \$7K) SUTA: depends on state
After Tax Pay	\$65,100	
After Tax Pay/Mo.	\$5,425	
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.
<b>TAKE HOME/MO.</b>	<b>\$5,025</b>	
MONTHLY EXPENSES		
<b>OneTime/Start-Up</b>	<b>\$5,000</b>	<b>Consider first and last month's rent, security deposit, wardrobe, furniture, moving expenses, etc.</b>
Rent	\$1,800	NYC/SF? Probably \$3K-\$5K/mo. Nashville/Atlanta? Probably \$2K/mo. Buffalo/Cleveland?? Probably \$1K/mo.
Utilities	\$400	Consider heat, water, electric, gas, trash, cable, internet, cell phone.
Food -Groceries	\$350	
Food - Eating out	\$300	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.
Travel	\$400	Consider flights, hotels, car rental, etc.
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	
<b>TOTAL EXPENSES/MO.</b>	<b>\$4,475</b>	
<b>Savings</b>	<b>\$550</b>	"Savings" is a leftover figure. Once calculated, you should plan to pull it out FIRST and HAVE A PLAN for it.

# Taxes



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

# Tax Case



<b>2024 Federal Income Tax Bracket - Single Filer</b>		
<u>Taxable Income</u>	<u>Tax rate</u>	<u>Tax owed</u>
\$0 to \$11,600	10%	10% of taxable income
\$11,601 to \$47,150	12%	\$1,160 plus 12% of the amount over \$11,600
\$47,151 to \$100,525	22%	\$5,426 plus 22% of the amount over \$47,150
\$100,526 to \$191,950	24%	\$17,168 plus 24% of the amount over \$100,525
\$191,951 to \$243,725	32%	\$39,110 plus 32% of the amount over \$191,950
\$243,726 to \$609,350	35%	\$55,678 plus 35% of the amount over \$243,725
\$609,351 or more	37%	\$183,646 plus 37% of the amount over \$609,350

## 2024 Federal Income Tax Example

- Gross Income: \$80,000
- Income Adjustments: \$3,000
- Standard Deduction: \$14,600
- Taxable Income: \$62,400

Federal Income Tax Due = \$8,781

Marginal Tax rate = 22%

Effective Tax Rate = 14%

# Banks/Financial Institutions



## • Services

- Retail banking
- Lending
- Investing
- Insurance

## • Considerations

- Convenience (branches, technology/apps, etc.)
- Personal service (personal banker, insurance broker/advisor, investing advice, branches/offices, telephone service, etc.)
- Fees (account fees, trading fees, ATM fees, etc.)

## • Institutions

- One Stop Shop (e.g. USAA, etc.)
- Integrated Retail Bank/Mobile Platform (e.g. Bank of America, etc.)
- Investment Management (e.g. Charles Schwab, Fidelity, etc.)
- Insurance (e.g. Liberty Mutual, MetLife, etc.)
- Personal Service (e.g. credit unions, cooperative banks, regional banks)

# Credit Scores – What are they?

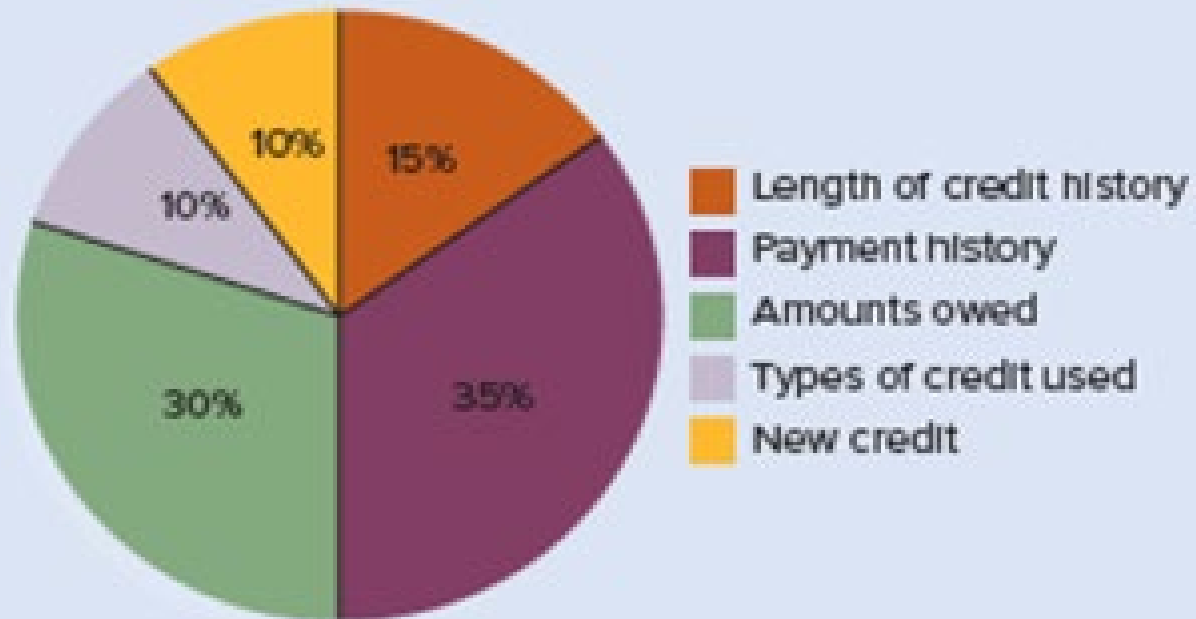


- A credit score is an algorithm-based number between 300 – 850 that depicts a consumer's financial discipline
- Based on data banks submit to the three main credit bureaus (Experian, Equifax and TransUnion)
- FICO, Vantage and other providers develop algorithms to generate a score. They all do the same 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
- Recent moves to exclude healthcare delinquencies



## 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](http://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 – 850** EXCEPTIONAL

**740 – 799** VERY GOOD

**670 – 739** GOOD

**580 – 669** FAIR

**300 – 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



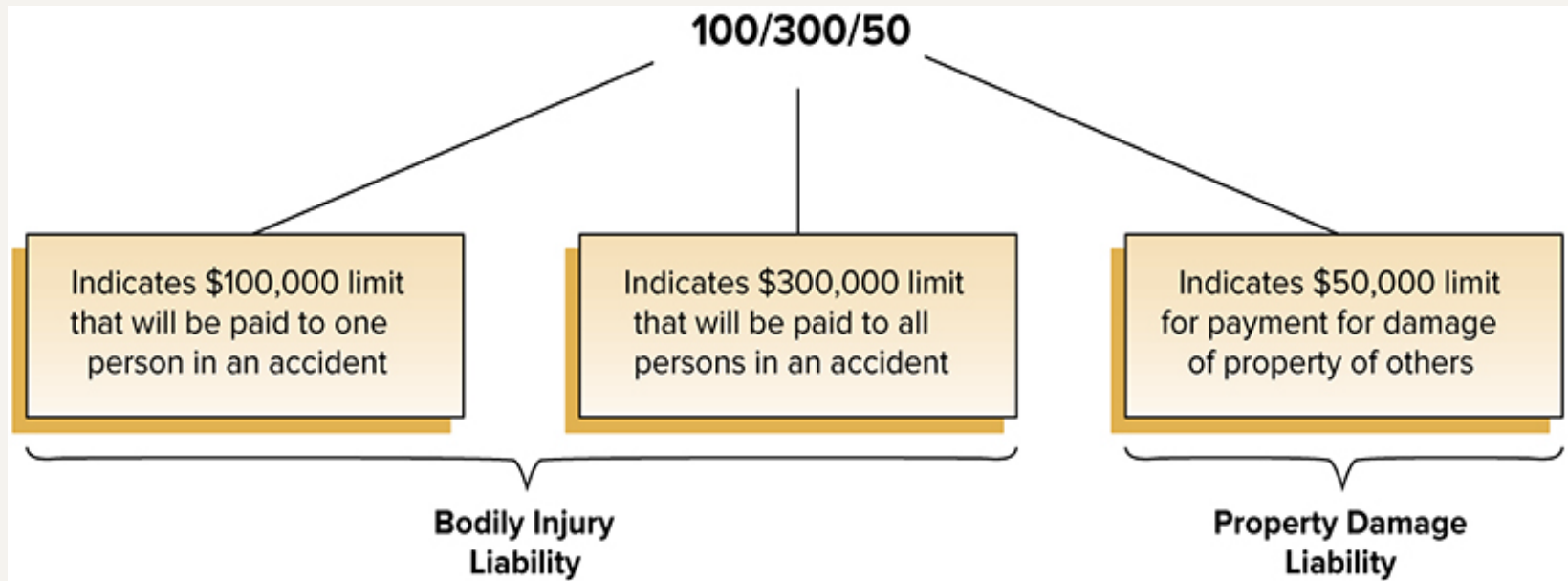
- Pay on time and stay within your credit limits
- Multiple applications for cards can lower scores. Shopping for car or home loans allows for a window of multiple apps
- Limit your borrowing to your ability/capacity to repay. Keep utilization (% of borrowing capacity) low.
- Note - Closing accounts can decrease your score since credit utilization rate rises
- Don't take on debt to improve your score.
- New to borrowing? (a thin file) Let your account age with good behavior (approx. 6 mos. to get a score)
- Review credit reports for accuracy - free annually at [annualcreditreport.com](https://annualcreditreport.com)

# Insurance - Car



- Bodily Injury Liability
  - Covers the risk of financial loss 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 Coverage (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

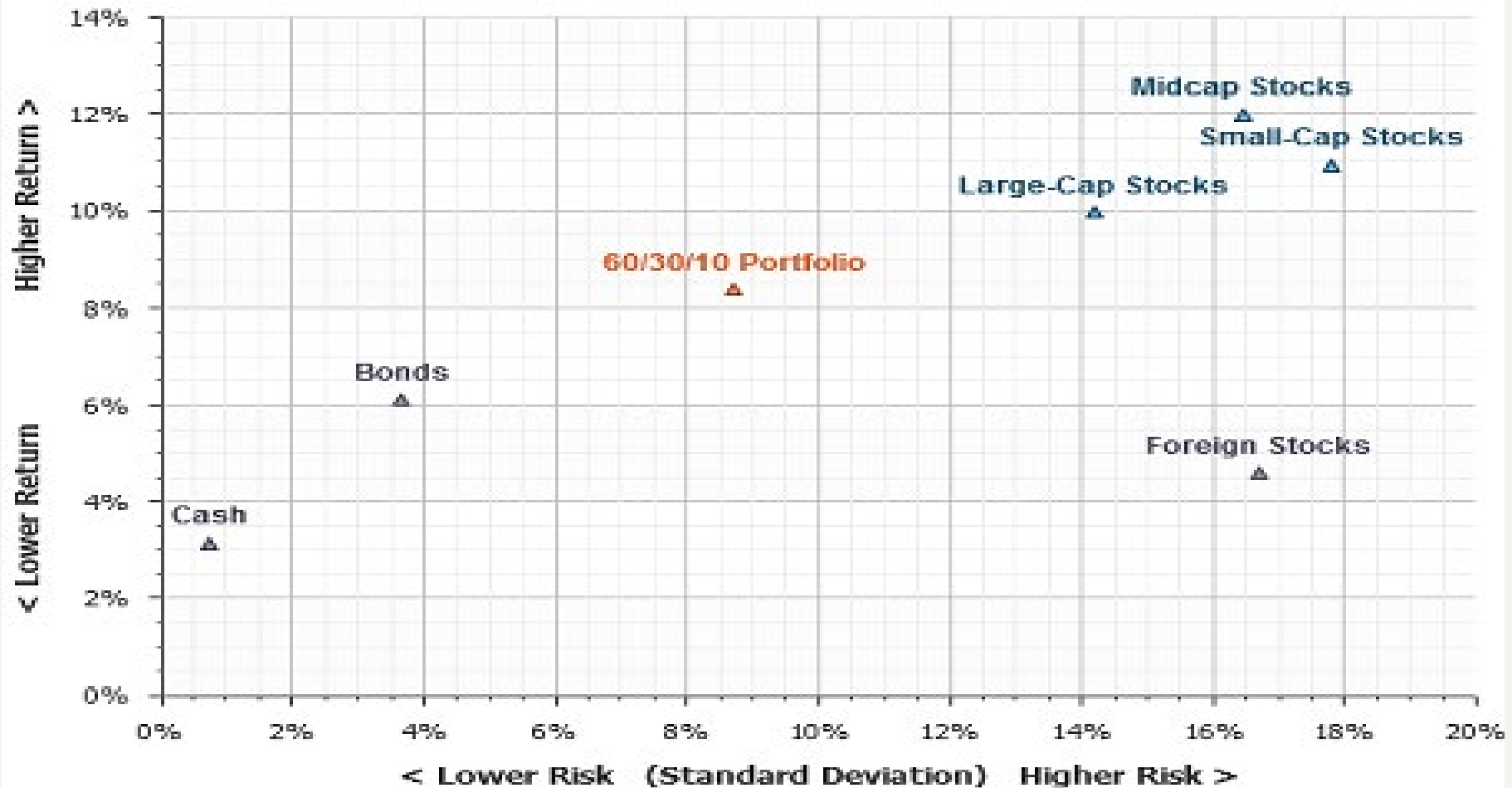
A stock portfolio may double every ~7-9 years

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)



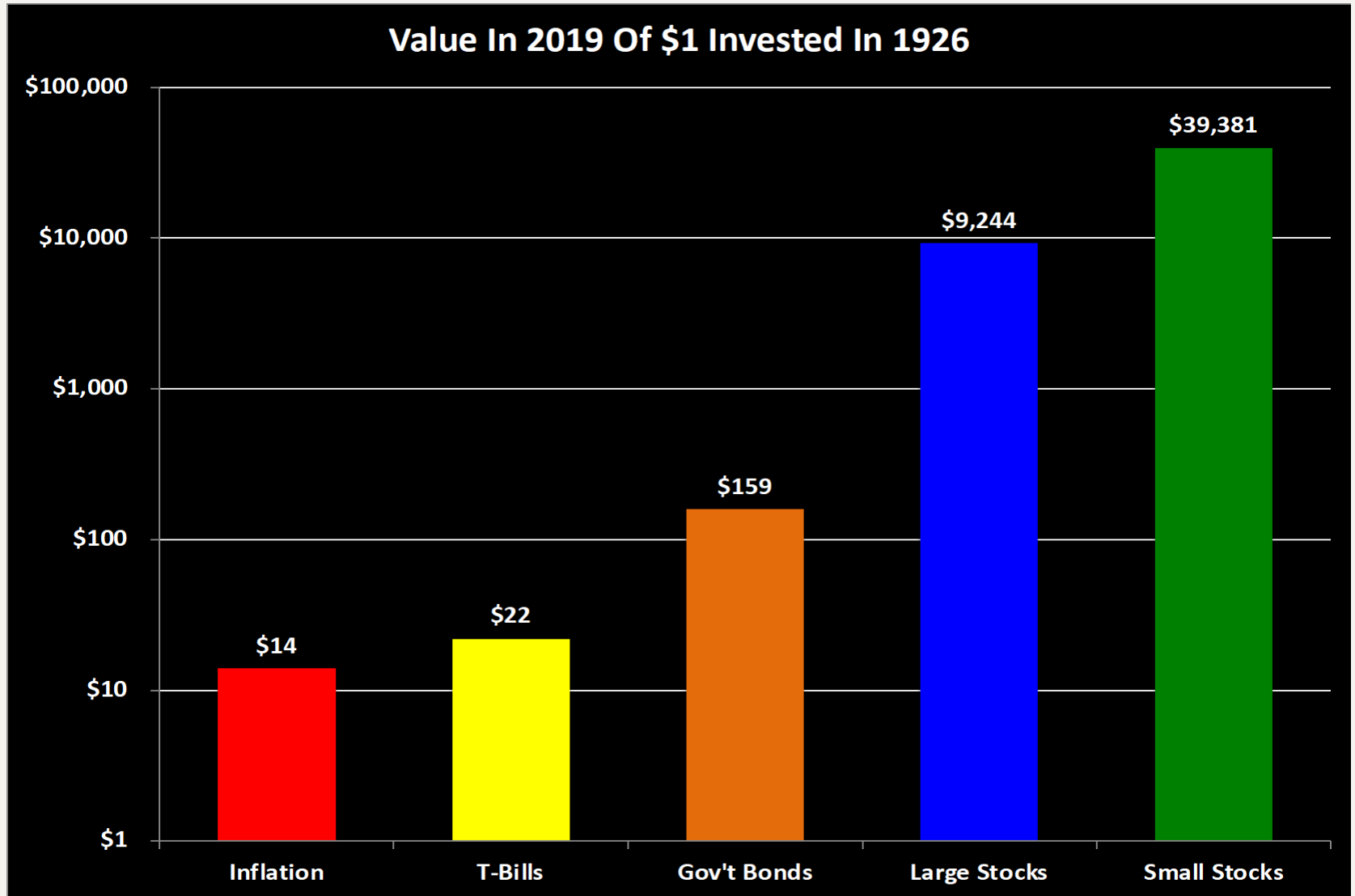
# How have different investments done over time?

Stocks, Bonds, Bills, and Inflation 1926–2019



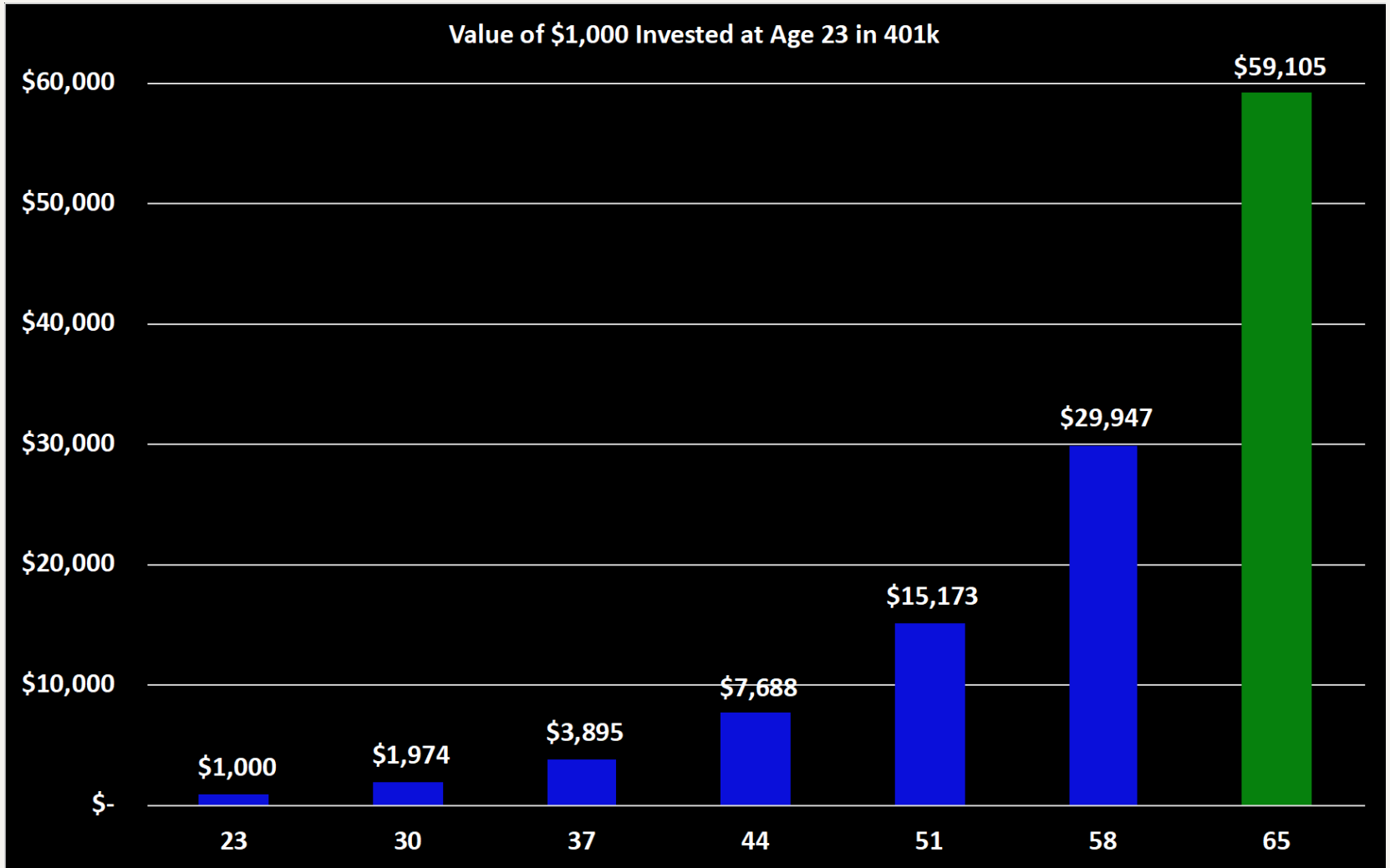
Note: Adapted from Morningstar, 2020

# Long-term returns favor stocks



Note: Adapted from Morningstar, 2020

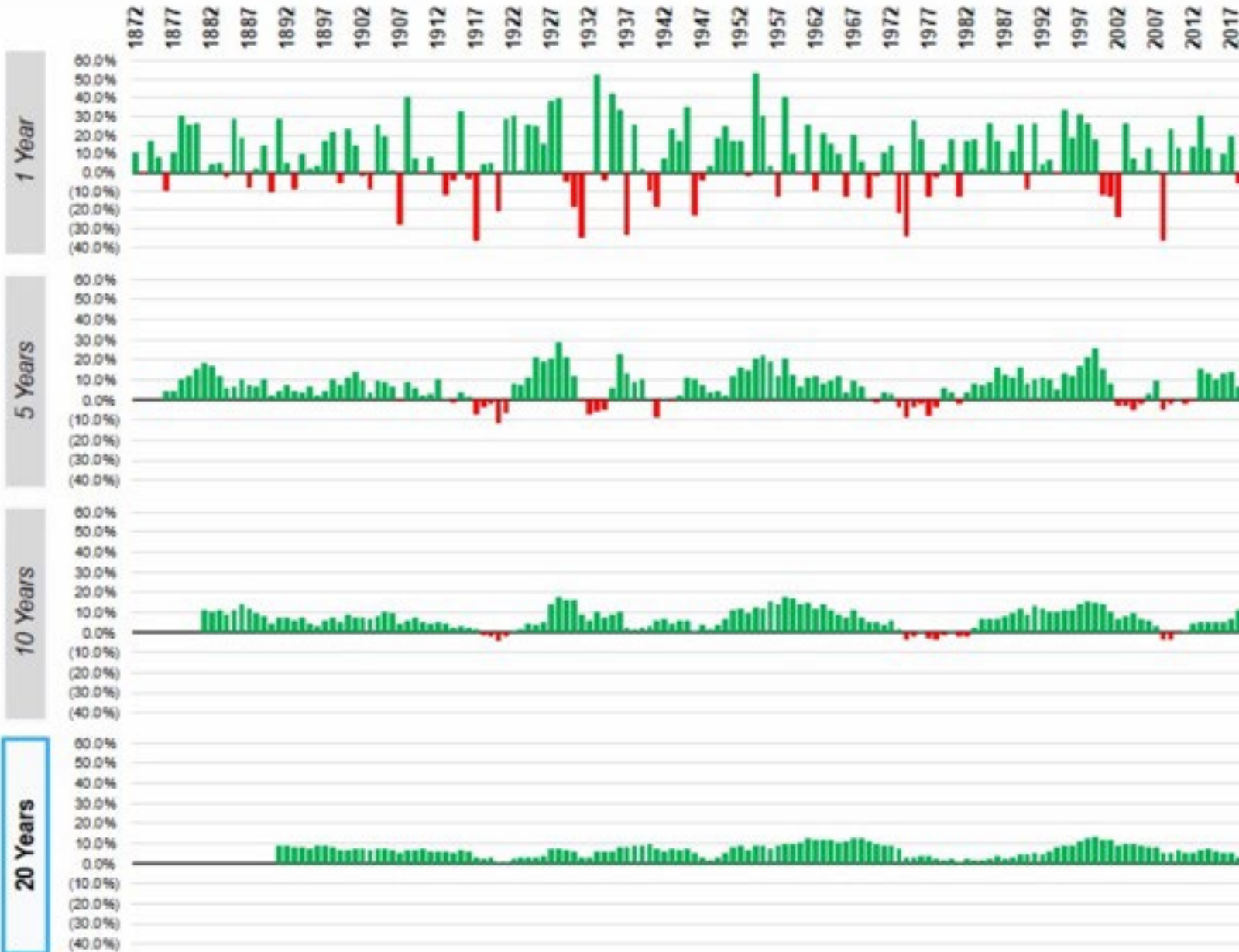
# The power of compounded returns is a game changer



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



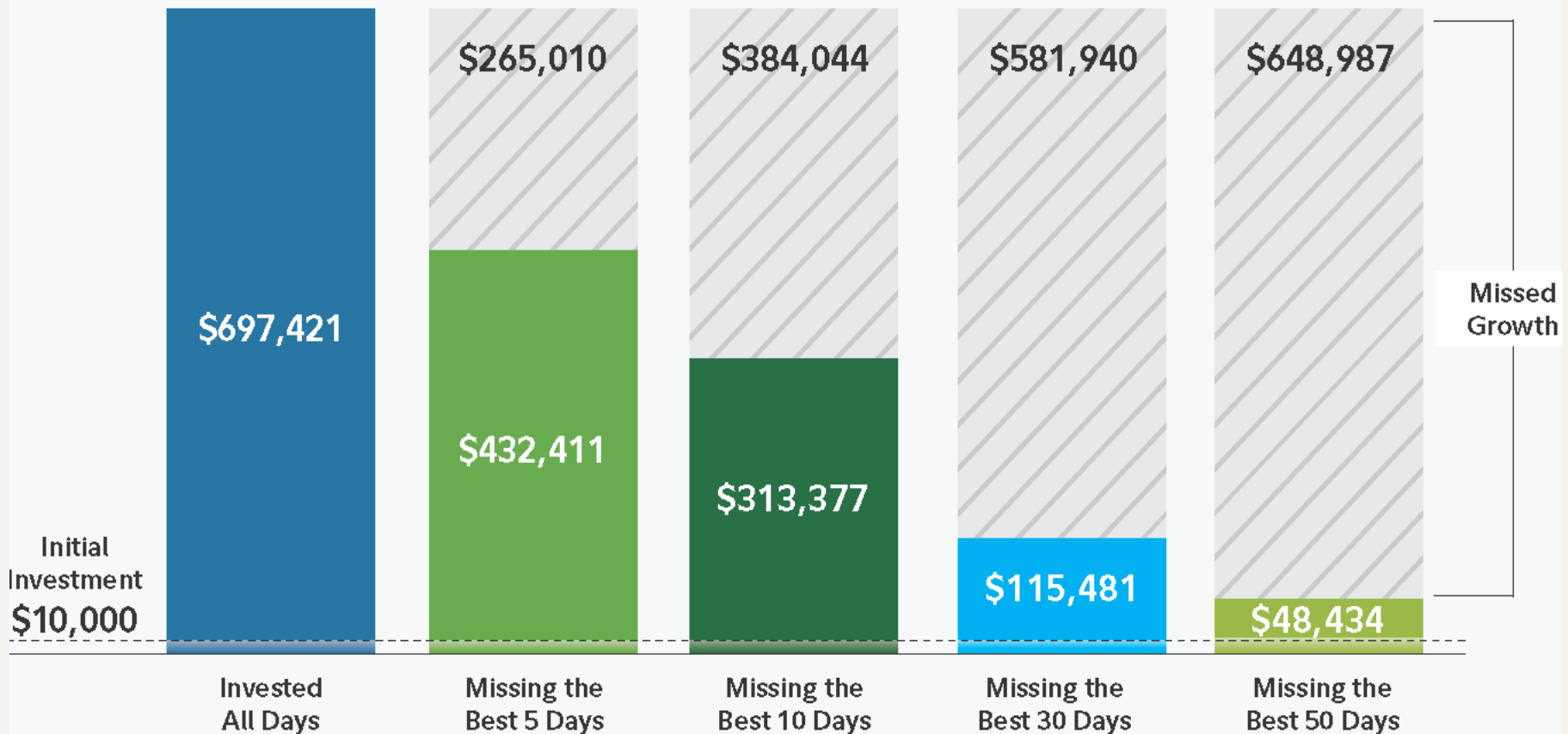
Data reflects real total returns (i.e., including the re-investment of dividends and adjusted for inflation)

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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