SPENDING WITHIN YOUR MEANS: A TIAA FINANCIAL ESSENTIALS WORKSHOP

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 November 2018: 6%\(^1\)
- U.S. real median family income has increased just about 2% in 10 years\(^2\)
- 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 — ? %
Retirement — ? %
Savings — ? %
Healthcare — ? %
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: 24%
- Transportation: 14%
- Food: 14%
- Savings: 9%
- Utilities: 8%
- Personal/Debt: 12%
- Recreation: 5%
- Clothing: 4%
- Charitable gifts: 4%
- Medical/Health: 6%

leavedebtbehind.com, "10 Recommended Category Percentages for Your Family Budget," accessed online January 2019
Cash flow: The first step to an accurate budget

Income

- Expenses

Positive or negative?
# Making a budget

<table>
<thead>
<tr>
<th>Monthly take-home income = $ ____________</th>
</tr>
</thead>
</table>

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

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

Compounding can help!

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leavedebtbehind.com, "10 Recommended Category Percentages for Your Family Budget," accessed online May 2019
Short-term goals

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

Consider saving instead of borrowing

Budget allocations by percentage of net income

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- Transportation 14%
- Food 14%
- Savings 9%
- Medical/Health 6%
- Personal/Debt 12%
- Recreation 5%
- Clothing 4%

leavedebtbehind.com, "10 Recommended Category Percentages for Your Family Budget," accessed online May 2019
The two lives of credit

- Americans’ consumer debt is on the rise, growing 16% to nearly $4 trillion since 2015.\(^7\)
- Of that, nearly $3 trillion was from non-revolving loans.\(^9\)
- Credit card debt has grown 5% in just the last year.\(^8\)
- 16% of insured working-age Americans have problems paying medical bills.\(^9\)
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
Maximizing the power of your retirement plan

The earlier you start, the less you’ll have to sacrifice to pursue the retirement you want. For example, to reach approximately $500,000 by age 67:

<table>
<thead>
<tr>
<th>Starting at age</th>
<th>What you’ll have to “give up”</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td><img src="https://via.placeholder.com/15" alt="Coffee" /> Daily cup of barista coffee ($187/month)</td>
</tr>
<tr>
<td>35</td>
<td><img src="https://via.placeholder.com/15" alt="Car" /> Monthly car payment ($365/month)</td>
</tr>
<tr>
<td>45</td>
<td><img src="https://via.placeholder.com/15" alt="Plane" /> Annual family vacation ($782/month)</td>
</tr>
</tbody>
</table>

This hypothetical illustration assumes a 6% annual return on investment, and a 3% increase every year to account for inflation. It does not represent the actual performance of any TIAA account nor does it reflect expenses or taxes, which would reduce performance. Total returns and the principal value of the accounts will fluctuate, and yields may vary. This table cannot predict or project investment performance.
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
Financial Consultants are available to help

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 November 2018: 6%¹
¹ US Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, November 2018,” December 2018

U.S. real median family income has increased just about 2% in 10 years²
² Department of Numbers, “U.S. Household Income,” accessed online January 2018

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 third quarter of 2018, but household debt is on the increase as well. The rise in net worth can be attributed to the rise in value of corporate equities and real estate holdings. But household debt continues to be impacted by increases in consumer credit and mortgage debt.³
³ Federal Reserve, “Financial Accounts of the United States,” December 2018

The median retirement savings for families is just a little less than $96,000.⁴
⁴ CNBC, “Here’s how much families have in retirement savings—and how much they actually need,” April 2018

The average balance of retirement accounts for households ages 55-64 is $107,000. That translates to only about $310 a month from a lifetime annuity.⁵
⁵ Investopedia, “The Average Retirement Savings by Age,” December 2018

Sources

¹ US Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, November 2018,” December 2018
² Department of Numbers, “U.S. Household Income,” accessed online January 2018
³ Federal Reserve, “Financial Accounts of the United States,” December 2018
⁴ CNBC, “Here’s how much families have in retirement savings—and how much they actually need,” April 2018
⁵ Investopedia, “The Average Retirement Savings by Age,” December 2018
The Employee Benefit Research Institute reports that roughly a quarter of Americans say they have virtually no retirement savings. In fact, only 17% of Americans say they are “very confident” about having enough money for a comfortable retirement.6

6 Employee Benefit Research Institute, 2018 Retirement Confidence Survey, “2018 RCS Fact Sheet #3: Preparing for Retirement in America,” April 2018

Americans’ consumer debt is on the rise, growing 16% to nearly $4 trillion since 2015.7

7 Federal Reserve, “Consumer Credit, G.19 report,” January 2019

Credit card debt has grown 5% in just the last year.8

8 NerdWallet, “2018 American Household Credit Card Debt Study,” December 2018

16% of working-age American families have problems paying medical bills.9

9 National Center for Health Statistics, “Problems Paying Medical Bills Among Persons Under Age 65,” December 2017
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