PLANNING A FINANCIAL FUTURE

PRESENTED BY YOUR EMPLOYEE ASSISTANCE AND WORKLIFE PROGRAMS

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PSC | Federal Occupational Health

OBJECTIVES

- Introduce and explain the five steps to financial security
  - Understand your future needs
  - Be a better saver
  - Build your treasure chest
  - Get rid of debt
  - Invest

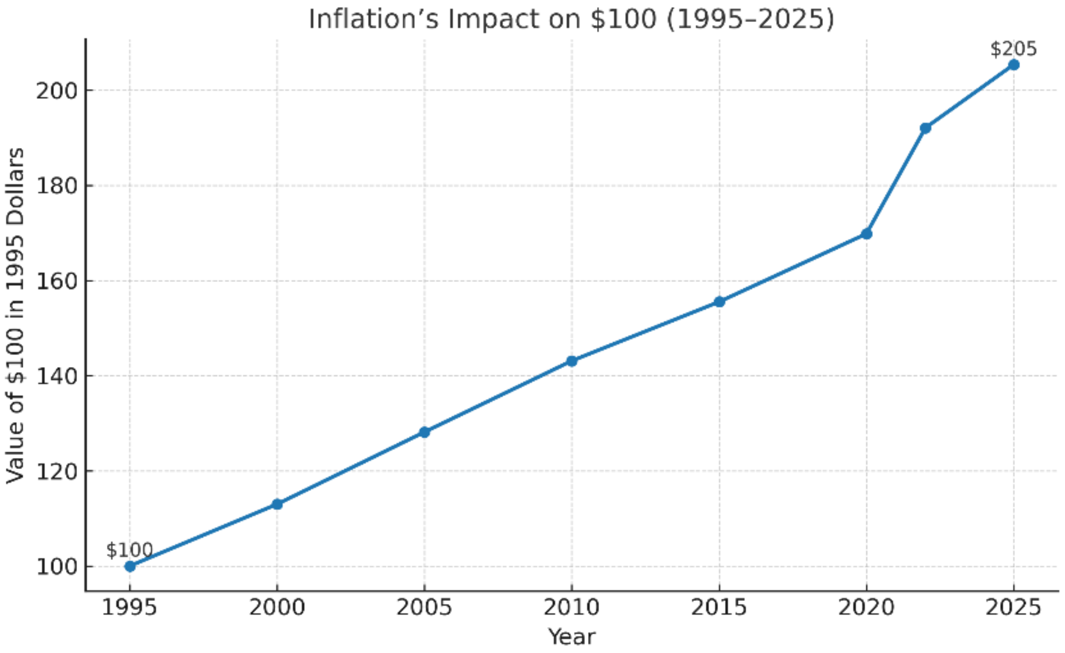
STEP 1: UNDERSTAND FUTURE NEEDS

Planning for your financial future requires understanding how economic factors will impact your needs over time:

- Rising cost of living
  - Inflation erodes purchasing power, requiring more savings than you might expect
- Increasing healthcare costs
  - Medical expenses continue to rise faster than general inflation
- Extended life expectancy
  - retirement savings must last longer
- The reality of financial planning
  - What seems sufficient today may not cover your needs tomorrow

WHAT INFLATION DOES TO YOUR BUYING POWER OVER TIME

- Inflation is the silent drain on your savings:
- Items that cost $100 in 1995 have steadily increased in price over time



What this means for you:

The money you save today will need to work harder to maintain your standard of living in the future. This is why investing is crucial and simply saving isn't enough.

PLANNING ISN'T JUST FOR RETIREMENT

While retirement planning gets the most attention, your financial journey includes many other milestones:

- Buying a car
  - Having a plan for this major purchase can save you thousands in interest and prevent buyer's remorse
- Buying a home
  - Beyond the down payment, consider closing costs, maintenance, property taxes, and how mortgage payments fit into your overall budget\
- Starting a family
  - From immediate expenses like medical costs and baby supplies to long-term planning for education and childcare
- Paying for college
  - With rising tuition costs, early planning through 529 plans or other education savings vehicles can make a significant difference

STEP 2: BE A BETTER SAVER

Consider all sources of income

- Pay stubs
  - Review your gross and net income, including bonuses and overtime
- Investments
  - Account for dividends, interest, and other investment income
- Bank statements
  - Identify any regular deposits from side hustles or passive income
- Tax returns
  - Provide a comprehensive overview of all income sources, including alimony or other periodic payments

CREATE A SAVINGS PLAN

Track variable/discretionary expenses

- Use tracking tools
  - Apps like Credit Karma, YNAB, or Personal Capital
- Categorize your spending to see where your money is going
- A simple spreadsheet can be effective if used consistently

- Variable expenses fluctuate month to month and represent your greatest opportunity for finding money to save:
  - Dining out
    - » Usually the biggest budget leak
  - Shopping
    - » Clothes, cosmetics, impulse purchases, subscriptions
  - Entertainment
    - » Streaming services, concerts, movies, sports events
  - Maintenance
    - » Auto repairs, home maintenance, personal care

YOUR SPENDING PLAN: THE SIMPLE FORMULA

Income – Fixed Expenses = Funds Available

This simple equation is the foundation of financial success

- Apply the 50/30/20 rule
- 50% of income for needs, 30% for wants, and 20% for savings and debt repayment
- Adjust percentages to your situation
  - High-cost areas may require 60% for needs
  - Aggressive savers might allocate 30%+ to savings
- Review and refine monthly
  - Regularly check your plan against actual spending and adjust as needed

STEP 3: BUILD YOUR TREASURE CHEST

An emergency fund is your financial safety net – money set aside for unexpected expenses or income disruptions

- Know your expenses: Calculate your essential monthly costs to determine your target fund size
- Consider your circumstances: Single-income households or freelancers need larger safety nets than dual-income families
- Plan for scenarios: Job loss, medical emergencies, major home or car repairs, family emergencies
- Keep it safe and accessible
  Emergency funds should be in high-yield savings or money market accounts, not invested in stocks or other volatile assets

STEP 4: GET RID OF DEBT

Debt can be one of the biggest obstacles to building wealth.

High-interest debt can drain your resources and prevent you from making progress toward your financial goals.

- **15%:** Average credit card interest rate
  - Far higher than most investment returns, making debt reduction a priority
- **43%:** Households with revolving credit card debt
  - Nearly half of American households carry balances month-to-month
- **10 years:** Average time to pay off $15,000
  - Making minimum payments on high-interest debt can take a decade or more

USE MOMENTUM TO YOUR BENEFIT

Creating a systematic approach to debt elimination helps maintain focus and builds momentum as you progress:

- List all debts
  - Create a detailed list including creditor, total amount owed, interest rate, and minimum payment for each debt
- Prioritize your debts
  - Either focus on the highest interest rates first (avalanche method) or the smallest balances first (snowball method)
- Make extra payments
  - Direct all additional funds to your top priority debt while maintaining minimum payments on others
- Roll over payments
  - When one debt is paid off, add that payment amount to the next debt on your priority list

STEP 5: INVEST

Equities

- **Stocks**: Ownership interest in publicly traded companies
- **Mutual funds**: Pooled assets invested in a diversified portfolio of stocks
- **Returns:** Potential for dividends and/or price appreciation over time

Fixed Income

- **Bonds:** Loans to businesses or governments in exchange for interest payments
- **CDs:** Bank certificates of deposit with guaranteed interest rates
- **Bond funds:** Mutual funds that invest in diversified portfolios of bonds

DIVERSIFICATION

- Spread the risk
  - Invest across different companies, industries, asset classes, and geographic regions
- Use mutual funds
  - The easiest way for most investors to achieve diversification with relatively small amounts of money
- Understand risks vs. rewards
  - Every investment involves trade-offs – there’s no perfect answer that works for everyone
- Consider the “tortoise and hare” approach
  - Slow and steady often wins the race – consistent, diversified investing typically outperforms chasing hot investments

TAXABLE OR TAX DEFERRED

Taxable accounts

Best for: Medium-term goals (5-15 years) or funds you may need before retirement

- Standard brokerage or investment accounts
- Taxes paid annually on dividends and interest
- Capital gains taxes are paid when investments are sold for profit
- Complete flexibility to withdraw funds at any time
- No contribution limits

Tax-deferred accounts

Best for: Retirement savings

- 401(k), 403(b), traditional IRA, etc.
- Contributions are often tax-deductible
- No taxes on growth until withdrawal
- Penalties for early withdrawals before age 59½
- Required minimum distributions (RMDs) after age 72

SUMMARY

- Anticipate future needs
  - Consider inflation, healthcare costs, and major life events
- Develop saving strategies
  - Create a personal spending plan that prioritizes saving and aligns with your values
- Build emergency funds
  - Establish financial security with 3-12 months of expenses in accessible accounts
- Eliminate debt
  - Use momentum to systematically free yourself from financial burdens
- Invest strategically
  - Save for short-term goals, invest for long-term wealth

RESOURCES

Books

- Get Good with Money
  - Tiffany Aliche, 2021
- The Psychology of Money
  - Morgan Housel, 2020
- Your Money or Your Life
  - Vicki Robin and Joe Dominguez, 2018
- I Will Teach You To Be Rich
  - Ramit Sethi, 2009

Websites

- AnnualCreditReport.com
- IFEonline.org
  The Institute for Financial Education
  501(c) Nonprofit

Online Articles

- Planning for a Secure Financial Future
- Financial Planning: A Step-by-Step Guide

Podcasts

- Affordable Anything
- Stacking Benjamins

Apps

- Credit Karma
- Rocket Money
- YNAB (You Need a Budget)

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