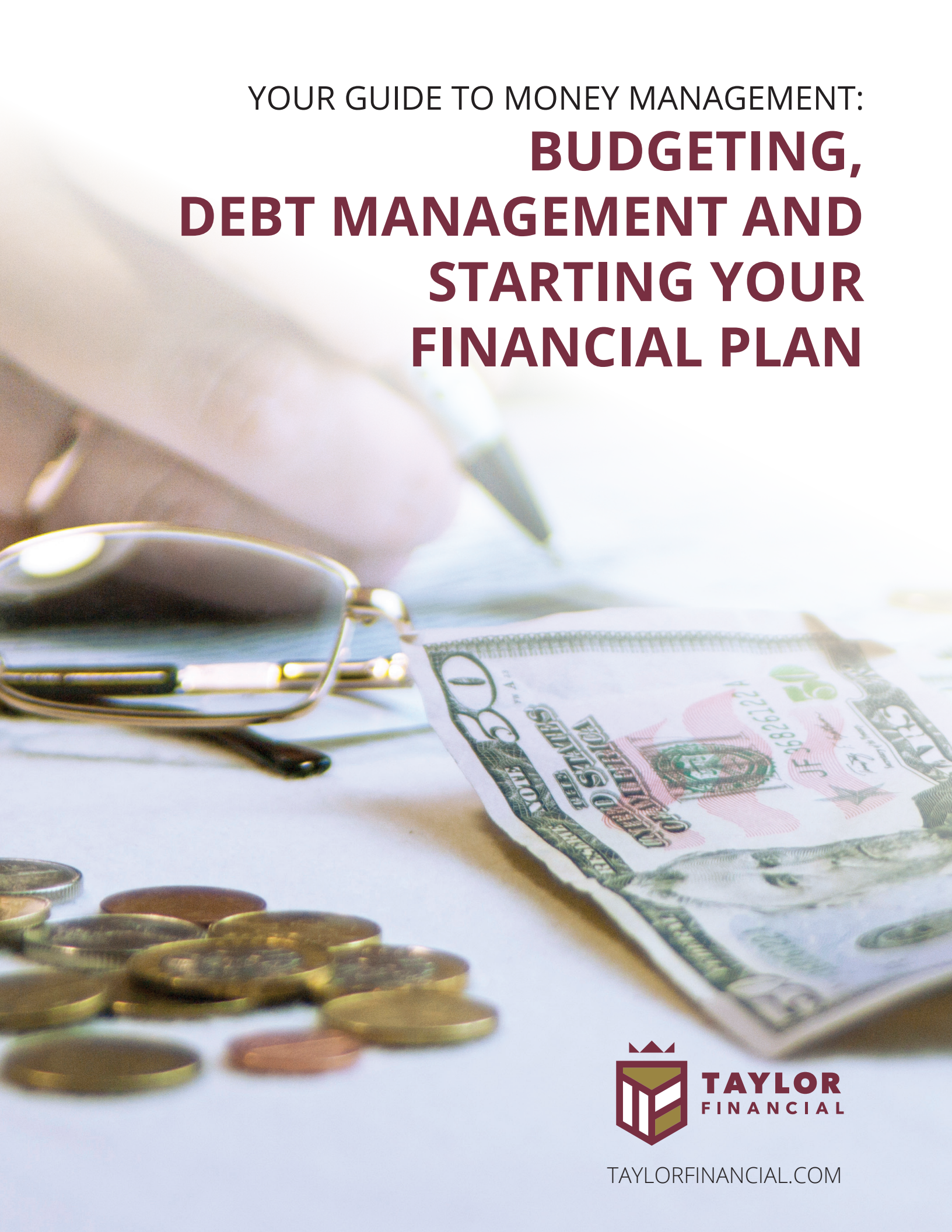


YOUR GUIDE TO MONEY MANAGEMENT:
**BUDGETING,
DEBT MANAGEMENT AND
STARTING YOUR
FINANCIAL PLAN**



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Two-thirds of Americans consider themselves savers, but over half have equal or more debt than savings.

In some ways, building a financial plan is a lot like building a house; you need to start with a solid foundation. No matter what you build on top, it has to rest on solid footing in order to last.

Regardless of your age, being strategic with money management starts with four steps:

1. Understand your cash flow, the ins and outs of your money each month.

3. Be strategic about debt management.

2. Develop a saving and investing plan for your goals.

4. Protect your assets and income.

In this paper, we'll address each of the four steps while also answering common questions such as: How do I build a budget that gives me money today but also allows me to save for the future? How much should I spend on things like housing or entertainment?

This guide is here to help you feel more financially empowered by giving you the information and tools that you need in order to take action toward your financial goals.

STEP 1 UNDERSTAND YOUR CASH FLOW

How much money is coming in and how much is going out each month is also known as “cash flow.” The goal should always be to have positive cash flow, meaning you spend less than you earn, and you have money at the end of each month. If you always seem to come up short at the end of the month, we can help you make some improvements.

You’re not alone if you get to the end of the month and wonder, “Where did all of my money go this month?” Give yourself a financial checkup by filling out a simple budget worksheet like the one you can find on page 13 of this white paper.

HOW SHOULD I ALLOCATE MY SPENDING?

Once you have an idea of where your money is going, compare the amount you are spending with these basic rules of thumb to gauge whether your habits are within healthy limits. There may be some variance depending on your geographic region and personal situation. For example, if you live in an area where housing is very expensive, you may have to make choices that keep other expenses low so your budget will still be in balance. But a good rule of thumb to remember is 20/60/20.

BUDGET BUSTERS!

If you find yourself short of cash at the end of the month, one of these budget busters might be the culprit:

1. **Impulse buying.** Making unplanned purchases with a credit card can add up quickly.
2. **Forgotten bills.** Occasional expenses, such as a yearly car registration fee or new glasses, may sneak up on you.
3. **No emergency fund.** A flat tire or broken ankle can happen anytime and have a large impact on your finances.
4. **Underestimating expenses.** If you think you spend about \$75 a week on food, but it’s really about \$135 a week with takeout and dining out, your budget will never balance.

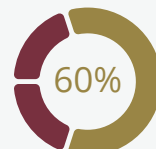
TIPS FOR CONQUERING YOUR BUDGET BUSTERS

1. Write down everything. Track your spending. You might be surprised how much you’re spending in certain categories.
2. Pay only in cash. Leave your credit and debit cards at home.
3. Be more selective with “Daily Deals” and coupons. Deals may encourage you to splurge on unnecessary treats.
4. Make the tough choices. Reaching long-term goals may require you to find more affordable housing, cancel cable or seek additional sources of income.

Simple guidelines for your budget



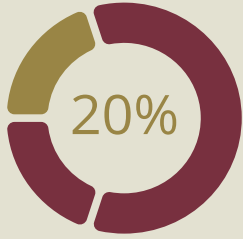
DISCRETIONARY EXPENSES
(entertainment, clothing, personal care)



ESSENTIAL EXPENSES
(housing, food, loan debt, insurance)



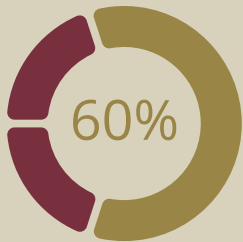
SAVING AND INVESTING



20% of your income should be spent on saving and investing:

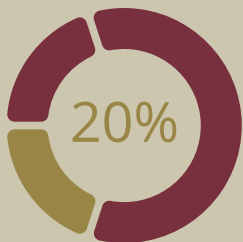
In order to help ensure a more secure financial future, you should pay yourself first and spend what's left rather than saving only what's left after your monthly spending. You should save money in multiple, different types of accounts to give yourself financial flexibility in the future.

“ You should pay yourself first and spend what's left rather than saving only what's left after your monthly spending. ”



60% of your income should be spent on essential expenses:

- Housing (no more than 30%), which includes rent or mortgage, property taxes, homeowner's or renter's insurance and utilities.
- Transportation (no more than 10%). such as your car payment. insurance. gas, parking. public transportation and cabs.
- Food (about 5-10%) bought at the grocery store.
- Children (10-15%) can account for a large percentage of your monthly cash flow. Some of their expenses may be discretionary (like clubs, entertainment. sports, etc.) and vary over time. When combined with the cost of childcare. clothing, feeding and health care. these expenses can account for a large portion of the family's cash flow.
- Health care can account for up to 5% or more of your monthly cash flow when you consider deductibles, co-pays or the monthly premiums (if not provided by your employer) and dental and vision care.
- Insurance coverage, such as disability income and life insurance.
- Other debt payments, such as student loans and existing credit card balances (not new credit card debt obtained in the current month-that would fall within other spending categories).



20% of your income should be spent on discretionary expenses:

- Household and personal items, such as entertainment. clothing, dining out and personal care.
- Extra payments on your debts if paying them down is a priority.

Whenever possible, aim for lower percentages in all of the spending categories so you can maximize your saving, investing and debt repayment.

Also, remember that money management and financial planning are lifelong processes of balancing income, expenses and savings. Your situation will change over time, so with each major life event (job change, marriage, kids. etc.) you should revisit your budget and adjust accordingly.

While budgets generally include many of the same pieces, they may look different depending on what life stage you are in. Let's take a look at two scenarios to see how the percentages stay similar. but the amount spent and the budgets differ based on where one is in life.

JESSICA: SINGLE YOUNG PROFESSIONAL

Jessica earns \$50,000 per year and has \$3,000 in credit debt and \$10,000 in college loan debt. She is contributing pretax dollars to her 401(k), taking full advantage of her employer's matching funds. Jessica pays \$9,400 per year in payroll taxes. That leaves her with approximately \$37,600, or \$3,133 per month. Here is the breakdown of how her cash flow compares to the 20/60/20 suggestion:

SAVING AND INVESTING: 15%

- Emergency fund: Jessica will set aside \$300 per month (9%) to build an emergency fund, with a goal of saving \$9,000 - \$18,000 (3-6 months expenses).
- 401(k): Jessica is investing \$250 per month (6%) in her 401(k) for retirement. Because a 401(k) allows her to contribute pretax dollars, she is contributing 6% of her gross, or total, pay (\$50,000). The rest of her budget is based on net pay-how much she takes home after deductions for things like taxes.

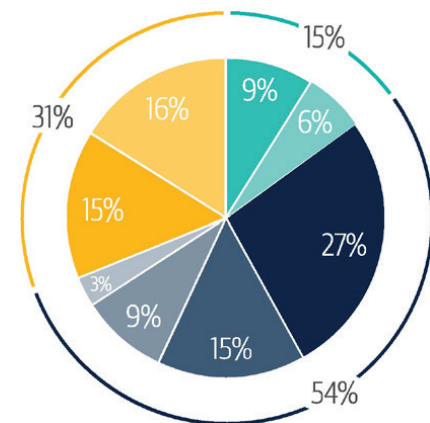
ESSENTIAL EXPENSES: 54%

- Housing: \$900 (27%) per month, including rent/renter's insurance and utilities.
- Monthly essential expenses, including grocery bill/gas/car payment: \$500 (15%).
- Insurance coverage, disability income insurance, car, possibly life insurance: \$300 (9%).
- Finally, Jessica will make the minimum payment on her college debt. \$100 (3%) each month.

DISCRETIONARY EXPENSES: 31%

- Jessica will dedicate a larger percentage of her monthly budget in order to quickly reduce her credit card debt. She'll allocate \$500 each month, paying her \$3,000 balance off in seven months (assumes a 12% interest rate). This will account for 15% of her monthly budget while she is making the payments.
- Jessica will have \$533 per month (16%) for discretionary expenses like cable, phone or entertainment.

JESSICA'S BUDGET



SAVING AND INVESTING

- Emergency Fund
- 401(k)

ESSENTIAL EXPENSES

- Housing
- Monthly Essential Expenses
- Insurance
- College Debt Repayment

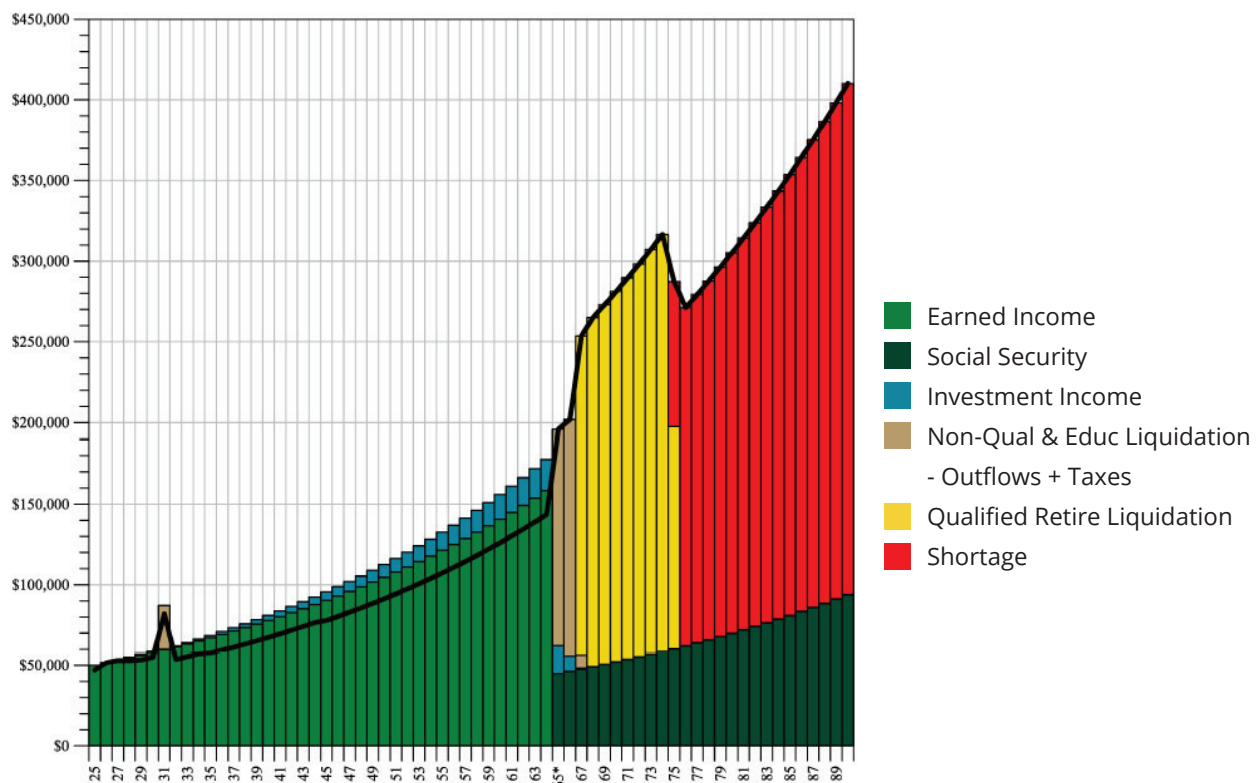
DISCRETIONARY EXPENSES

- Credit Card Debt Repayment
- Lifestyle Expenses



Once she finishes paying off her credit card debt, Jessica plans to spend a little more on entertainment and her discretionary expenses each month. She also plans to start saving for a down payment on a condo. A financial advisor should provide a chart like the one below. It is a representation of Jessica's cash flow into her retirement. The tan spike at age 31 is her condo down payment. The tan and yellow in retirement are years she will be able to meet her financial needs based on her current savings rate into her 401(k) and other savings. Red is a shortfall. You'll notice yearly expenses continue to rise as Jessica gets older. That's because of inflation and because expenses typically increase as you get older and need more care. Because Jessica is young, she will be able to adjust her plan in the future to save more and meet her retirement needs.

DETAILED CASH FLOW CHART



Values above the before-tax need line represent a surplus. Return rates used for the growth of investments are hypothetical assumptions deemed reasonable for this plan and are not guarantees or projections. Graph assumes 3% inflation, 7% annual pre-retirement return and 6% annual retirement return on investment assets.

*Retirement age.

THE CRUZES: MARRIED WITH TWO YOUNG CHILDREN

Brandon and Courtney Cruz are married with two children, ages 7 and 5. They have a combined annual income of \$150,000, a new house and a small amount of college debt left to pay. They each invest 6 percent (\$750 per month) in their respective 401(k)s. enough to take advantage of full employer matching funds. After taxes, they will take home \$108,000 per year, or \$9,000 per month. Here's how they will allocate their expenses based on 20/60/20:

SAVING AND INVESTING: 22%

- **Emergency fund:** Brandon and Courtney will set aside \$1,000 (10%) every month to build back their emergency savings, which they dipped into for their down payment on their home. Their goal is to accumulate an additional \$30,000.
- **401(k):** Brandon and Courtney are investing \$750 per month (6%) of their gross income (their total pay) for retirement.
- **College savings:** Brandon and Courtney are saving \$600 (6%) per month for their children's college education.
- Once they build back their emergency savings, Brandon and Courtney will begin to contribute monthly to mid- and long-term savings and increase monthly contributions for their children's education.

ESSENTIAL EXPENSES: 56%

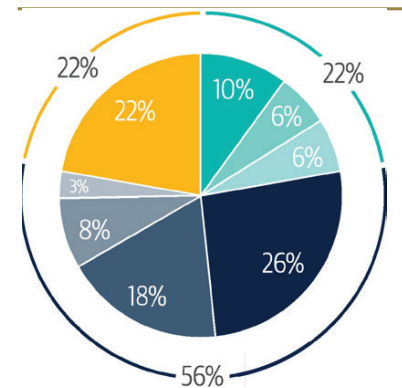
- **Housing:** \$2,500 (26%) per month, including mortgage/property taxes/homeowner's insurance and utilities.
- **Monthly essential expenses:** groceries/gas/car payment: \$1,800 (18%).
- **Insurance coverage:** disability income/car/life: \$800 (8%).
- \$250 (3%) per month to make monthly payments on their remaining college debt.

DISCRETIONARY EXPENSES: 22%

- Brandon and Courtney will have \$2,100 per month (22%) for discretionary expenses like cable, phone, clothes and entertainment.

As you can see, Brandon and Courtney are able to dedicate more to savings each month because they aren't paying off credit card debt. They also have a plan to begin saving for short-, mid- and long-term goals. Once they build up their emergency savings, they plan to invest more for their children's education and their retirement.

BRANDON & COURTNEY'S BUDGET



SAVING AND INVESTING

- Emergency Fund
- 401(k)
- College Savings

ESSENTIAL EXPENSES

- Housing
- Monthly Essential Expenses
- Insurance
- College Debt Repayment

DISCRETIONARY EXPENSES

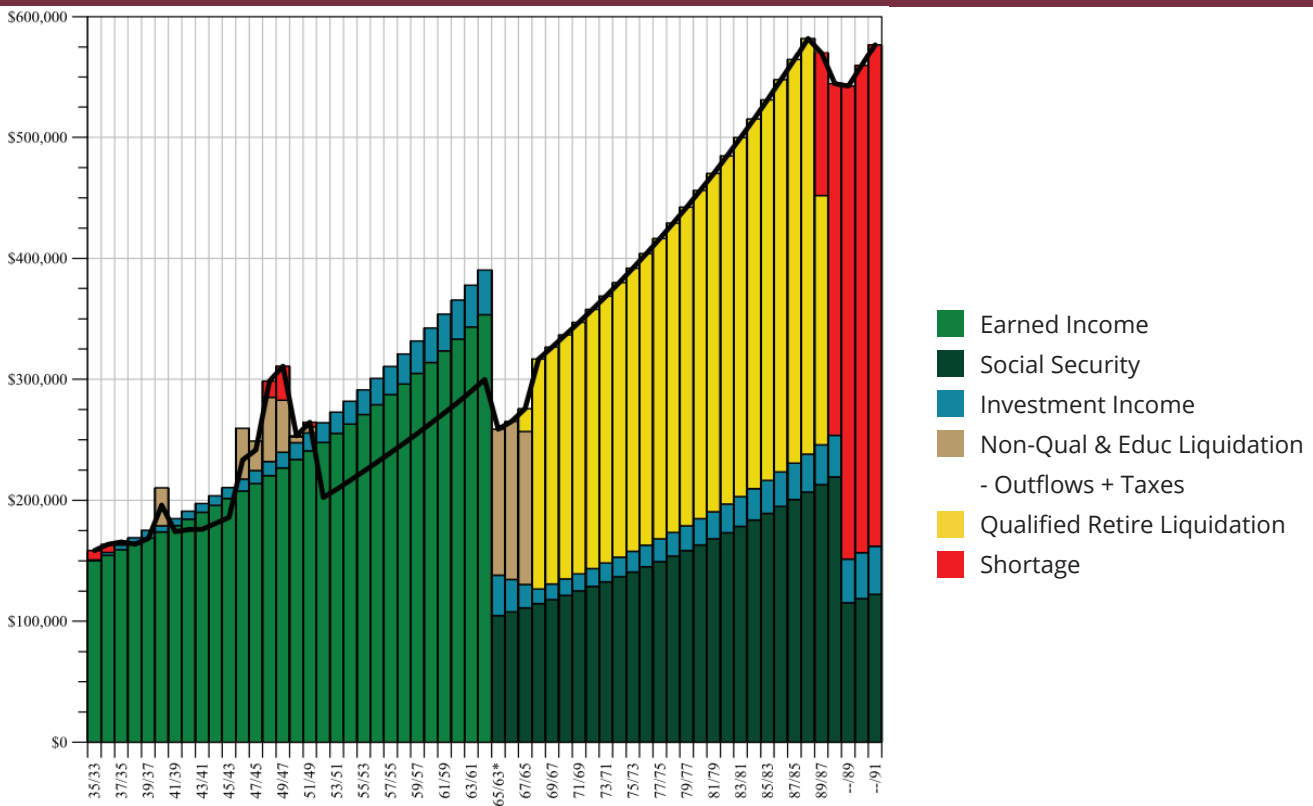
- Lifestyle Expenses



You can see, based on the chart below, that Brandon and Courtney will be able to pay for their new kitchen in several years, when he is 40 and she is 38 (represented by the tan line). Based on their current savings rate, they will be able to fund most of their children’s college education (represented by the tan line) when Brandon is 46 and Courtney is 44. The red is the amount of college they won’t be able to fund. And while they have a small shortfall in retirement based on their current savings rate, they still have plenty of time to make up the shortfall.

While many of her budget percentages are similar to Brandon and Courtney’s, Jessica is still working to build a solid financial foundation. Brandon and Courtney are on a solid footing and are building on it as their family grows.

DETAILED CASH FLOW CHART



Values above the before-tax need line represent a surplus. Return rates used for the growth of investments are hypothetical assumptions deemed reasonable for this plan and are not guarantees or projections. Graph assumes 3% inflation, 7% annual pre-retirement return and 6% annual retirement return on investment assets.
 * Retirement age.

STEP 2

DEVELOP A SAVING AND INVESTING PLAN FOR YOUR GOALS

What's the difference between saving and investing?

Saving is setting aside money to access in the short term or in an emergency. It is money that you cannot risk losing. In exchange for safety (the guarantee that the value of your savings won't go down), you will likely not see much return (an increase in the saved amount). Investing, on the other hand, is putting your money into a vehicle that carries more risk, with the potential for a greater gain in value. In exchange for your tolerance of fluctuations in the value of your money and the potential that you could lose money, you may be rewarded over a longer time horizon with a greater return than you would have made with your money in a traditional savings account.

How should you approach saving and investing? You'll need a mix of both saving and investing strategies throughout your life. You should begin with these two strategies:

- **Establish an emergency fund.** It should be enough to cover six months of expenses. This will be crucial in the event of a financial setback, such as a major car repair or home repair, illness or other personal difficulty. Emergency savings can be in a traditional savings account or any other safe, "liquid" account—one that lets you get your cash out within three to five days without withdrawal penalties.
- **Contribute to your 401(k).** If you have a retirement plan at your workplace that features an employer match, take maximum advantage of the additional money. Invest at least up to the point where the employer match ends, if you are able. If you don't have access to a 401(k), start your own IRA using automatic deductions from your paycheck. Make sure you are not leaving yourself cash-strapped for today, however. Make sure you don't allocate too much of your income for retirement, leaving you less money to set aside for emergencies as well as short- and mid-term needs.

Assuming the items above are checked off your to-do list, consider the following for additional saving and investing options:

- **Invest and save for short- and mid-term needs.** Once you have an emergency fund and a retirement account started, you can save and invest additional money for short- and mid-term needs, such as a down payment on a home or new vehicle. Depending on your situation, you may want to put this money in a "safe" account (traditional savings, Certificate of Deposit (CD) or money market) or might consider taking on more risk and investing the money (mutual funds, stocks, bonds), hoping for greater return but knowing that you could lose value.

TRADITIONAL SAVINGS ACCOUNT

When you save \$1,000 in a traditional savings account, you are guaranteed to have \$1,000 plus a small amount of interest. Assuming a 0.2 % interest rate of return, which is typical in a lowinterest-rate environment, in 10 years your \$1,000 in savings would have grown to \$1,020.18.

\$1,000 = \$1,020.18

INVESTING

When you invest \$1,000, there is some risk that you could lose that money. Conversely, there is also a chance that your investment will have grown in 10 years. Assuming a 7% annual return, with compounding your investment would have increased to \$1,967.15.

\$1,000 = \$1,967.15

- **Invest for college.** You can begin saving for your children's education in a 529 account that may offer both federal and state tax-deferral benefits. It's also possible to use the cash value of permanent life insurance for college expense. (Using cash value will reduce the death benefit.)

Don't forget that you can accelerate your saving and investing by increasing your contributions when you get a bonus or raise, finish paying off debt or even if you get an inheritance.

There are a lot of different ways to save and invest. Here is a breakdown of some common vehicles (places) where you can put your money:

	VEHICLE	HOW IT WORKS	WHAT IT'S FOR
SAVING:	Traditional Savings Account	Offered through a bank. It will pay a small amount of interest. It's a good place to put money you can't afford to lose and may need to access quickly.	<ul style="list-style-type: none"> • Building an emergency fund • Growing short- to mid-term savings
	Money Market Bank Account	This works like a checking account but pays some interest, usually a small amount. It's a place to put money you can't afford to lose and may need to access quickly.	<ul style="list-style-type: none"> • Building an emergency fund • Growing short- to mid-term savings
	Certificate of Deposit (CD)	A bank or credit union account that pays a pre-determined amount of interest over a set time span, such as six months or one year. There is usually a penalty for early withdrawal. CDs are a good place to put money that you can't afford to lose but won't need for an emergency.	<ul style="list-style-type: none"> • Growing short- to mid-term savings
INVESTING:	401(k)	This vehicle is offered through employers. Money goes in before taxes and grows tax deferred but will be taxed when you take it out in retirement. 403(b) and 457 plans operate in a similar way. Each have yearly contribution limits. There will be a penalty if you take withdrawals prior to age 59½.	<ul style="list-style-type: none"> • Saving for retirement
	Roth 401(k)	This plan is similar to a 401(k). The key difference is that contributions are made with after-tax dollars. The amount you contribute can be taken tax free in retirement. There will be a penalty if you take withdrawals prior to age 59½.	<ul style="list-style-type: none"> • Saving for retirement
	Individual Retirement Account (IRA)	An IRA allows you to make tax-deductible contributions. Investments will grow tax deferred and be taxed when you take your money in retirement. There is an annual cap on tax deductions for contributions. There will be a penalty if you take withdrawals prior to age 59½.	<ul style="list-style-type: none"> • Saving for retirement
	Roth IRA	A Roth IRA allows you to contribute money that has already been taxed. It will then grow tax free and come out tax free when you retire. There will be a penalty if you withdraw earnings prior to age 59½.	<ul style="list-style-type: none"> • Saving for retirement
	529Account	A 529 plan is a college funding savings plan, so named for the section of the Internal Revenue Service code where its unique features and tax treatment are described.	<ul style="list-style-type: none"> • Saving for college
	Mutual Fund	A pool of money collected from many investors for investing in stocks, bonds or other investment vehicles.	<ul style="list-style-type: none"> • Investing for mid- to long-term needs • Saving for retirement • Saving for college
	Bond	Money lent to a company, government entity or other type of institution. As a bondholder, you will be repaid the money at a specific date, usually with interest. Bonds are typically sold through a brokerage account	<ul style="list-style-type: none"> • Investing for mid- to long-term needs • Saving for retirement • Saving for college
	Stock (also called equity)	Ownership of a share of a company's assets and earnings. Stocks are typically sold through a brokerage account.	<ul style="list-style-type: none"> • Investing for mid- to long-term needs • Saving for retirement • Saving for college

STEP 3

BE STRATEGIC ABOUT PAYING DOWN DEBT

If you're just out of college or have suffered a setback, chances are you may have some debt to pay off. We're conditioned to think of debt as a bad thing, but not all debt is created equal. When you're trying to manage your debt, it's important to understand and prioritize the different kinds of debt.

Secured debt includes loans that are linked to an asset, such as a house or car. While you are paying back the loan, the lender holds the title to the asset—essentially it “owns” your house while you have a mortgage. Because the bank has your collateral—something of value it can take back—interest rates are generally lower on these types of mortgages, home equity lines of credit and vehicle loans.

Unsecured debt includes credit card debt, personal loans and student loans—essentially anything that isn't backed by physical property that the bank can take back if you stop paying on your loan. Unsecured debt generally has a higher interest rate to compensate the bank for the greater risk they are taking in lending you the money.

You may have heard people refer to “good” and “bad” debt. All debt requires paying interest, but some debt comes with advantages over others. For example, student loan debt is an investment in your future and a necessity for many families. Some debt, like home mortgages, is tax deductible. On the other hand, a car loan may be a bad debt decision if you bought a very expensive car that's beyond your means—especially if you have to allocate a larger portion of your monthly income toward the payment.

PRIORITIZING YOUR DEBT PAYMENTS

Obviously, you need to make all of your monthly payments on all of your debts, but if you have any extra cash to dedicate to debt reduction, here is how we recommend you prioritize it:

1. Begin with high-interest-rate credit cards. Never make just the minimum payment, which could take years to pay off and end up costing you nearly twice the purchase price (see example to the right). Focus on paying off credit cards that carry the highest interest rate first. As you move forward, avoid charging more than you can completely pay off every month in the future.

2. Focus on nondeductible debt next. After you have paid off your credit card balances, concentrate on making extra payments toward nondeductible debt, such as car loans and personal loans. There are usually no tax advantages to these types of loans—in other words, interest on these loans is not income tax deductible—and you may save interest costs if you pay them off early.

3. Additional payments on deductible debt come last. Deductible debt includes mortgages, home equity loans and qualified student loans. Interest paid on these loans may be deductible on your income taxes if you itemize (within certain income and mortgage limits). Ask your tax advisor for details on your specific situation, as some deductions phase out as your income increases.

Keep in mind that there may be times when paying off debt may not be the best financial decision based on your overall financial plan. For example, you may want to invest more when the market is performing well, versus paying more against a low-interest-rate mortgage. This is where working with a financial advisor can be advantageous for you. He or she can evaluate your personal situation and recommend the options that best fit your overall needs.

**FOUND A BARGAIN?**

Big-screen TV price paying cash:

\$679.00
(CASH)

Big-screen TV price with minimum credit card payments:*

\$1,037.93
(CREDIT CARD)

It will take you 59 months (nearly 5 years!) to pay off the TV.

*Based on a 21% interest rate

STEP 4

PROTECT YOUR ASSETS AND INCOME

Our most important assets are yourself and your earning potential throughout your lifetime. If you get sick or are injured or die prematurely, it's important to make sure your plan for the future can stay on track financially.

Below are the most important actions you can take to help protect yourself, your family and your financial security.

Disability Income Insurance. When you're young and healthy, a disability may seem like a long shot, but you're actually nearly twice as likely to be injured or disabled by illness than to die during your working years.¹ While you may think disability has to be physical, 70% of disabilities are caused by health problems like heart attacks or strokes, cancer, back problems and even maternity.² According to a 2013 report by the U.S. Social Security Administration, one in four of today's 20-year-olds will become disabled before he or she reaches age 67.³ A long-term disability could have a devastating effect on your current finances, as well as on your long-term retirement savings.

Even if you're eligible for employer-provided disability income insurance, Social Security Disability or Workers' Compensation, those benefits may not be adequate to pay your expenses and allow you to save for the future. Many employers offer disability coverage that will replace a portion of your salary. Purchasing additional disability income insurance on your own can help ensure you're able to maintain your standard of living if you're ever disabled and unable to work.

Life Insurance. Life insurance protects your survivors in the event you die prematurely. The proceeds from life insurance can make up lost income and can also help cover discretionary expenses your loved ones may incur if you're not there to provide for them.

In addition to the death benefit, permanent life insurance policies accumulate cash value. That's money that you could eventually access for emergencies (like an unexpected house repair) or opportunities (college). If you no longer need the full death benefit, you could also eventually use the cash value to supplement your retirement income needs.



Property Casualty Insurance. Also called property liability insurance, property casualty protects you against financial losses when you are found legally liable for an accident that injures another person or damages a person's property. It also covers you in the event that you are injured by someone who does not have the proper type or amount of insurance in place. Property casualty insurance typically covers the injured person's medical bills, loss of wages, legal fees, and pain and suffering.

MONTHLY BUDGET

Name: _____ Date: _____

To complete your current financial profile, it is important to review your monthly expenses.

ESSENTIAL EXPENSES (60%)

Housing

Mortgage/Rent \$ _____
 Property Taxes \$ _____
 Home Maintenance \$ _____
 Homeowner's/
 Renter's Ins. \$ _____
 Utilities (Electric, Gas,
 Water, etc.) \$ _____
 _____ \$ _____

Transportation

Auto Payment(s) \$ _____
 Auto Insurance \$ _____
 Gas \$ _____
 Maintenance/License \$ _____
 Parking/Tolls/Bus/Train \$ _____
 _____ \$ _____

Personal Loans

Student Loans \$ _____
 Credit Card Debt \$ _____
 _____ \$ _____

Health Care/Insurance

(Not deducted from paycheck)

Health Insurance \$ _____
 Life Insurance \$ _____
 Disability Income
 Insurance \$ _____
 Long-term Care
 Insurance \$ _____
 Medical/Dental/Drugs \$ _____
 _____ \$ _____

Household/Personal

Groceries \$ _____
 Personal Care \$ _____
 Clothing/Dry Cleaning \$ _____
 Professional Dues \$ _____
 Cell Phone \$ _____
 _____ \$ _____

Children

Dependent/Child Care \$ _____
 Education/School \$ _____
 _____ \$ _____

**Essential
 Expenses Subtotal** \$ _____

DISCRETIONARY EXPENSES (20%)

Cable/Phone/Internet \$ _____
 Dining Out \$ _____
 Recreation/Club Dues \$ _____
 Movies/Sporting Events \$ _____
 Hobbies \$ _____
 Vacation/Travel \$ _____
 Gifts/Contributions \$ _____
 _____ \$ _____
 _____ \$ _____
 _____ \$ _____
 _____ \$ _____

**Discretionary
 Expenses Subtotal** \$ _____

SAVING AND INVESTING (20%)*

Emergency Fund \$ _____
 College Savings \$ _____
 Short/Mid-Term Needs \$ _____
 Retirement Savings \$ _____
(Not deducted from paycheck)
 _____ \$ _____

**Saving and
 Investing Subtotal** \$ _____

* This 20 percent is a combined total of the after-tax savings listed above along with previously deducted contributions to employer-sponsored retirement plans.

TOTAL MONTHLY EXPENSES \$ _____

NET MONTHLY INCOME \$ _____

LESS EXPENSES \$ _____

TOTAL SURPLUS/DEFICIT \$ _____

NOTES

TAKE AWAYS:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

ACTION ITEMS:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____



BOOK AN APPOINTMENT

