Six Steps to Securing Your Financial Future
Your future

your money

stop worrying

take control
Build Assets
Practical Steps for Building Wealth
#1 Live Within Your Means!

Income must be more than expenses. If not:

- Increase Your Income
- Reduce Your Spending
Work life earnings estimates by highest level of educational attainment (in millions of 1999 dollars)

## Small Savings Add Up!

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost/ # per mo.</th>
<th>Cost/ month</th>
<th>Cost/ year</th>
<th>Invested for 5 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Drink</td>
<td>$1/30</td>
<td>$30</td>
<td>$360</td>
<td>$1,964</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>$4/30</td>
<td>$120</td>
<td>$1,440</td>
<td>$7,856</td>
</tr>
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<td>Snacks</td>
<td>$2/30</td>
<td>$60</td>
<td>$720</td>
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<td>Total</td>
<td></td>
<td>$410</td>
<td>$4,920</td>
<td>$26,841</td>
</tr>
</tbody>
</table>

Calculated at 3.5% annual interest compounded monthly
#2 Build an Emergency Fund

- Secure job
  2-3 months net income
- Insecure job
  6-12 months net income
An emergency fund will...

• Help you feel in-control financially

• Pad your bank account to help you avoid overdraft fees

• Make it possible to deal with the emergency quickly and get back to normal

• Help you avoid extra interest charges for unexpected repairs or emergency purchases
Where to Keep the Fund

1-2 months’ savings
• Savings account
• Money market account (at bank)

3-6 months’ savings
• Bank CD
• Money market mutual fund (through broker)
• Treasury bill
#3 Pay Off High Cost Debt

- $5,600 balance with 13% annual interest

<table>
<thead>
<tr>
<th>Payment Amount</th>
<th>2%</th>
<th>4%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$112</td>
<td>$224*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years to Payoff</th>
<th>73 months (6+ years)</th>
<th>30 months (2 ½ years)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Total Interest</th>
<th>$2,309</th>
<th>$966</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Interest Savings</th>
<th>$1,343</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Opportunity Cost of Using Credit*</th>
<th>$8,959</th>
<th>$8,489</th>
</tr>
</thead>
</table>

*Monthly payment invested at 3.5% for length of payment
Good reasons for using credit

- To borrow money for an education or training for a good paying career
- To purchase a reliable automobile (if you don’t already have one) in order to get to work
- To purchase a home
# 4 Consider Purchasing a Home
Your home investment adds to your assets through...

- Appreciation in value (3%/year average prior to 2007)
- Growth of your equity as you make payments
- Helping you avoid taxes
#5 Tax-defer Retirement Savings

- 401-k, 403-b, 457 accounts through an employer
- Keogh, SEP, SIMPLE accounts if you are self-employed
- Roth or regular IRAs through a bank or investment company
Sources of Retirement Income

- Social Security
- Pension or Employer Retirement Plan
- Personal Savings and Investments
Maximize Opportunities for Savings Matches Through Your Employer!
Growth of $50 Monthly Contribution to 401(k) with $50 Employer Match

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount You’ve Contributed</th>
<th>UT Match Plus Growth at 3.5%</th>
<th>UT Match Plus Growth at 5%</th>
<th>UT Match Plus Growth at 7.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$3,000</td>
<td>$6,547</td>
<td>$6,802</td>
<td>$7,257</td>
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<tr>
<td>10</td>
<td>$6,000</td>
<td>$14,343</td>
<td>$15,537</td>
<td>$17,815</td>
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<tr>
<td>15</td>
<td>$9,000</td>
<td>$23,639</td>
<td>$26,751</td>
<td>$33,177</td>
</tr>
<tr>
<td>20</td>
<td>$12,000</td>
<td>$34,687</td>
<td>$41,151</td>
<td>$55,528</td>
</tr>
<tr>
<td>25</td>
<td>$15,000</td>
<td>$47,857</td>
<td>$59,641</td>
<td>$88,046</td>
</tr>
<tr>
<td>30</td>
<td>$18,000</td>
<td>$63,541</td>
<td>$83,381</td>
<td>$135,359</td>
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</tbody>
</table>
Your 401k Options

UT Knoxville Home Page>Faculty and Staff>Employment & Benefits>Benefits & Retirement>Deferred Compensation>401k

http://www.utk.edu/

http://treasury.state.tn.us/dc/investOpt.html
#6 Invest for Prenirement

Goals

Low Risk
- Government Bonds / Debt
- Money Market / Bank Accounts
- CDs, Notes, Bills, Bankers Accept.
- Cash and Cash Equivalents

Middle
- Real Estate
- Equity Mutual Funds
- Large/Small Cap Stocks
- High Income Bonds/Debt

High Risk
- Options
- Futures
- Collectibles

Base

Summit
Saving and Investment Options

**Saving**
- Bank Savings Account
- Money Market Account
- Certificate of Deposit
- Treasury Bill
- CD Laddering

**Investment**

**Through Employer**
- Profit Sharing
- Savings Bonds
- Company Stock
- 401(k)
  - Employer Match?
  - Traditional
  - Roth 401(k)

**Outside Employer**
- Securities
- Mutual Funds
- College Savings Plans
- Dividend Reinvestment Plans
- Individual Retirement Accounts
- Annuities
  - Individual Company Stocks
  - Bonds
  - Coverdell
  - 529
  - Prepaid Tuition
  - Traditional IRA
  - Roth IRA
  - Fixed
  - Variable
Risk vs. Return

Conservative
Moderately Conservative
Moderately Aggressive
Aggressive
Very Aggressive
Reduce Risk by Diversifying Your Assets

Invest some money conservatively for safety, invest some aggressively for returns.
Why Start Saving Early?
Sarah begins saving $200/month at age 25 and saves that amount every month until age 45. Then she stops saving, but leaves all the money she’s already saved in investments until her retirement at age 65.
Age 45

Cliff waits to begin saving $200/month until age 45 and saves that amount every month until he retires at age 65.

Age 65

Sarah and Cliff will both have invested $48,000 of their money but at different times in their lives. Who's ahead at retirement?

Prepared by Dena Wise, Ph.D., The University of Tennessee Extension. 01-2012.
The chart shows the amounts of money Sarah and Cliff would have upon retirement at different average rates of return.

<table>
<thead>
<tr>
<th>Average Return</th>
<th>3.5%</th>
<th>5.0%</th>
<th>7.0%</th>
</tr>
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<tbody>
<tr>
<td>Sarah</td>
<td>$139,714</td>
<td>$223,704</td>
<td>$423,451</td>
</tr>
<tr>
<td>Cliff</td>
<td>$69,412</td>
<td>$82,302</td>
<td>$104,436</td>
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# Small Savings Add Up!

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<th>Cost/month</th>
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<th>Invested for 5 years at 3.5%</th>
<th>Invested for 40 years averaging 8% return</th>
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Steps to Building Wealth

1. Be sure that you spend less than your income.
2. Build an emergency fund.
3. Pay off high cost debt.
4. Consider purchasing a home.
5. Tax shelter retirement savings.
6. Invest for pre-retirement goals.
TENNESSEE SAVES

AMERICA Saves

START SMALL. THINK BIG.
Portions of this presentation were adapted from “Your Game Plan for Building Wealth,” by Dena Wise and June Puett, The University of Tennessee Extension, 2003.