

Financial Basics

Creating a solid foundation for your success

Presented by Cerity Partners

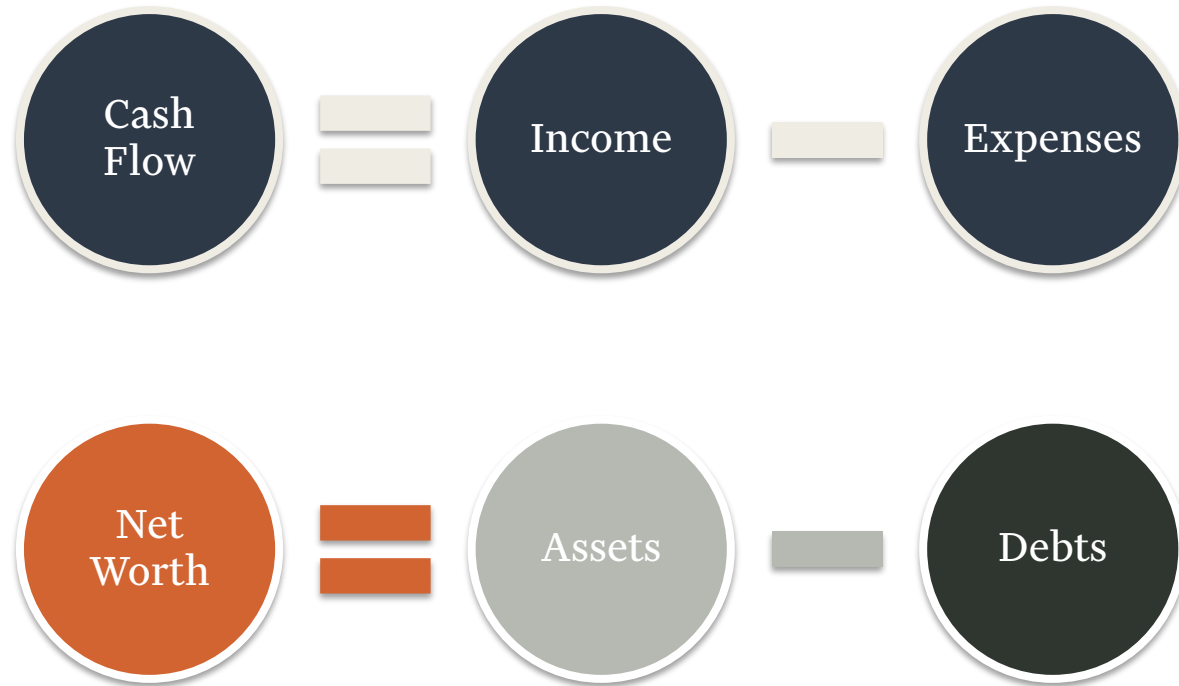
August 2020

Today's Discussion

- » Understanding your situation
- » Planning your savings
- » Managing your debt
- » Bringing it all together (budgeting)
- » Protecting your personal and financial information

Where are You Today?

Planning for your future starts with understanding your current situation.



Three Buckets of Savings

Your savings serves many purposes. It helps you achieve your short and long-term goals and handle unexpected expenses.



What is an Emergency Fund?

Unexpected car repairs. Illness or disability. Job loss. Life is full of surprises. An emergency fund is easily accessible cash that helps you navigate these events.

Where to Save

- Keep the money separate from your other accounts
- Use cash or a low-risk investment option (checking or savings account, money market fund)

How Much

- Set goal of 3-6 months of necessary living expenses
- May need to save more (12 months) if your income and/or expenses vary

How to Get There

- Consider setting up automatic deposits from your paycheck or transfers from your checking to savings account
- Don't touch the account unless you have an **actual** emergency

5 Common Excuses for Not Building an Emergency Fund

I'm still in school, and all my expenses are covered by someone else.

There's no way I'll be able to save that much money.

I don't need to put so much money away.

I've budgeted for everything already.

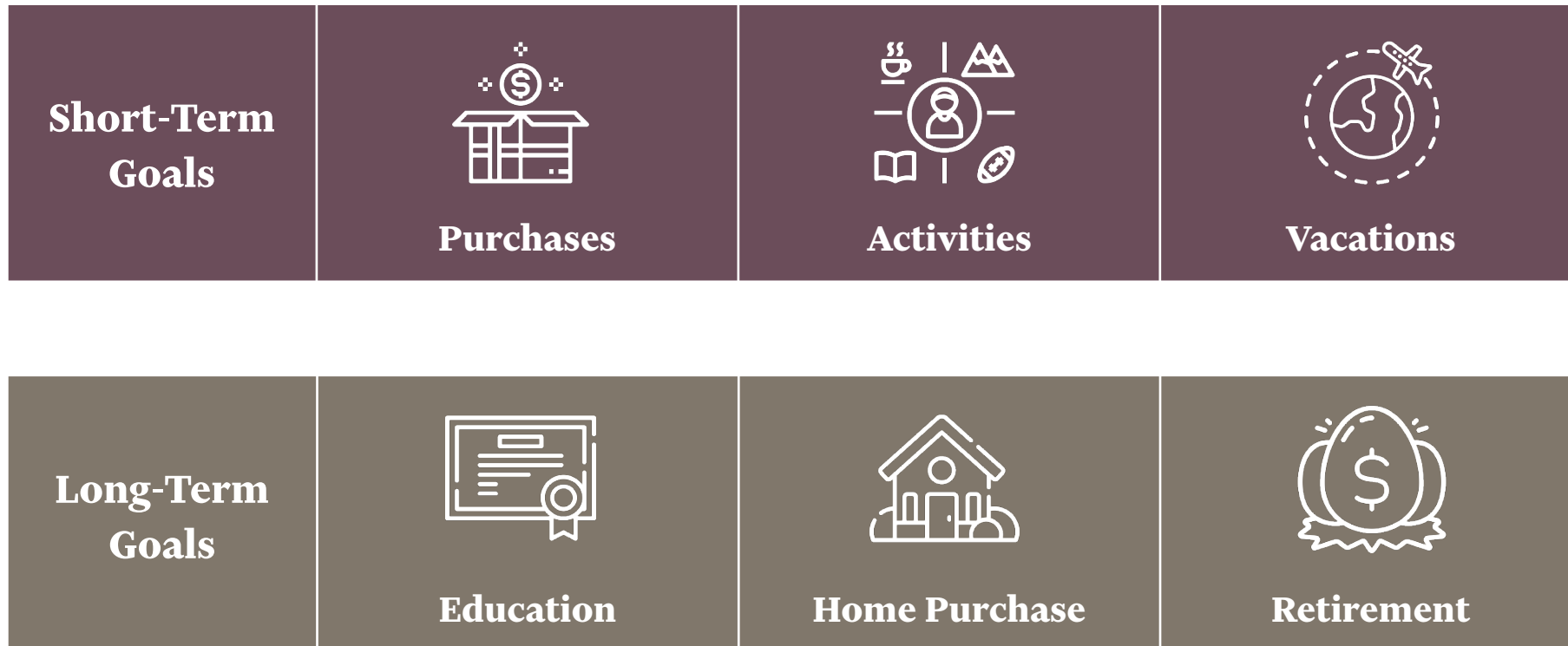
I have a stable source of income.

Don't make excuses, make a plan.

Having an emergency fund means you won't have to rely on family and friends for financial assistance in times of need.

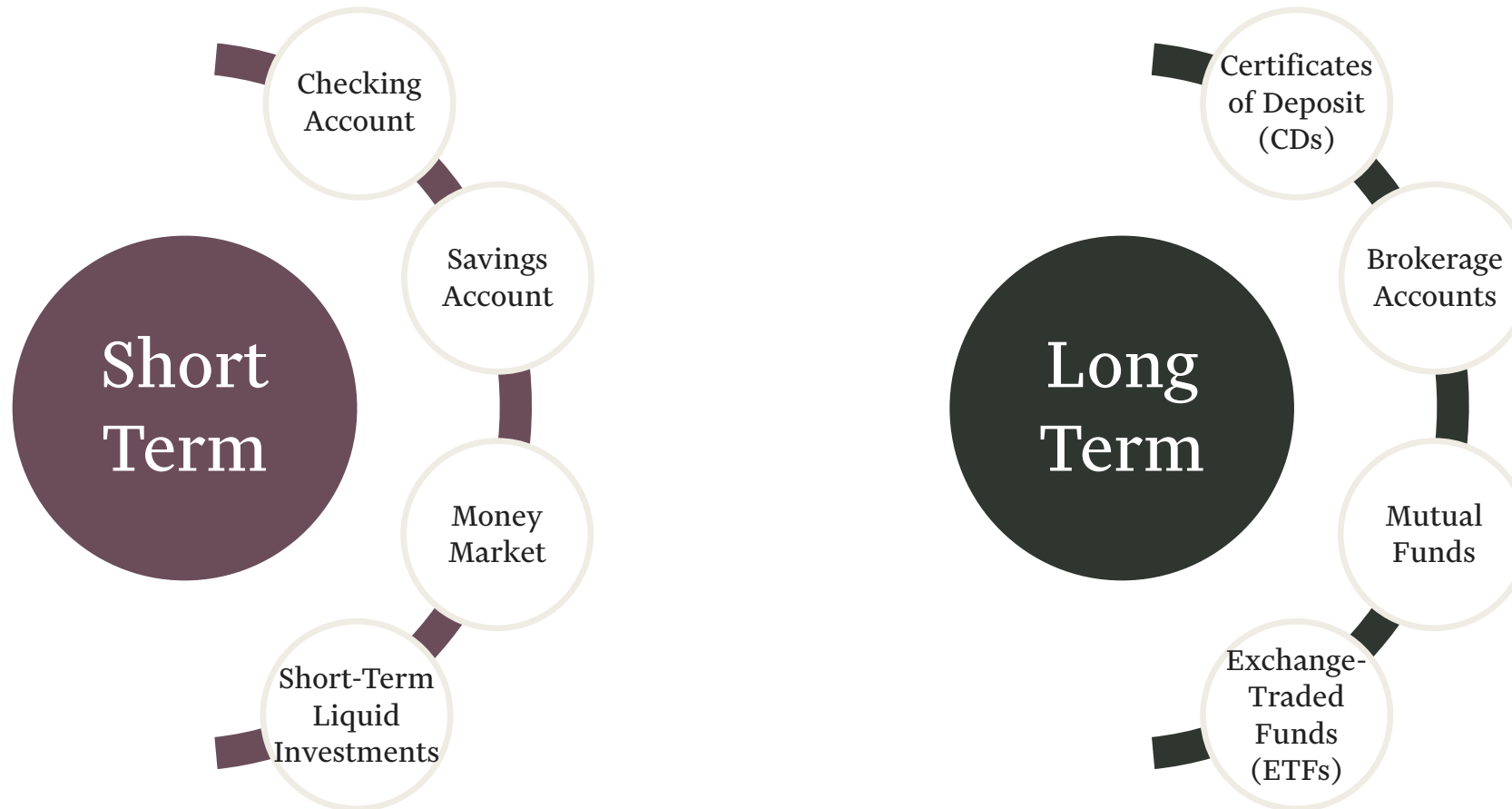
What are your goals?

With your emergency fund in place, you can focus on saving for your short and long-term goals.



Stashing Your Savings

Your time horizon will influence the savings vehicles you choose.



The Importance of Starting Early

Jane Started Early

Annual savings ages 25-34 \$1,000
Annual savings ages 35-44 \$2,000
Total cash outlay \$30,000

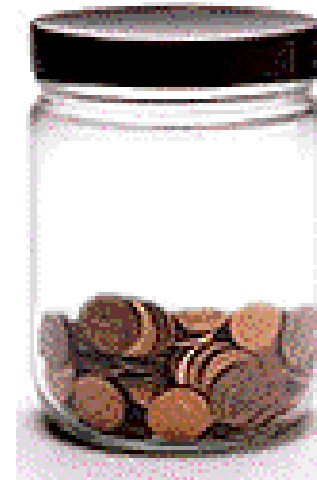


Accumulation at
Age 65*

\$280,800

John Started Late

Annual savings ages 45-54 \$1,000
Annual savings ages 55-64 \$2,000
Total cash outlay \$30,000



\$60,250

*Assumption: 8% investment return. This is a hypothetical example that does not represent the performance of any specific investment product, but is to illustrate the effects of compounding growth over different time periods. Your actual results will vary.

From Ages 45-64, How Much is Needed Annually to Catch Up?

- A. \$3,000 - \$4,000
- B. \$4,000 - \$5,000
- C. \$5,000 - \$6,000
- D. \$6,000 - \$7,000
- E. More than \$7,000

John Has to Save 4X as Much to Achieve Same Outcome

Jane Started Early

Annual savings ages 25-34 \$1,000
 Annual savings ages 35-44 \$2,000
 Total cash outlay \$30,000

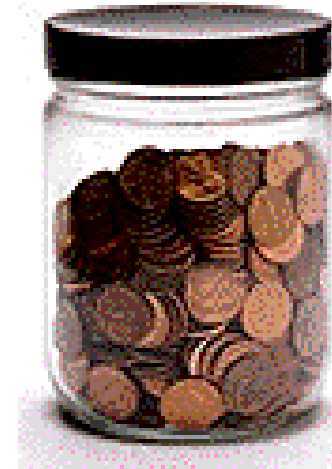


**Accumulation at
Age 65***

\$280,800

John Started Late

Annual savings ages 45-54 \$6,136
 Annual savings ages 55-64 \$6,136
 Total cash outlay \$122,720



\$280,800

*Assumption: 8% investment return. This is a hypothetical example that does not represent the performance of any specific investment product, but is to illustrate the effects of compounding growth over different time periods. Your actual results will vary.

Debt

There are many different types of debt, all of which can make it difficult to save and achieve your financial goals.

- » Credit cards
- » Student loans
- » Car notes
- » Mortgages
- » Personal loans



Understanding “Good” Vs. “Bad” Debt

Good Debt

- Relatively low interest rates
- Typically secured with an asset
- Most common types: Mortgages & car loans
- Payment approach: Making minimum monthly payments usually the way to go
- Note: Investment returns can potentially be 6-9% per year. You’re generally better off investing your money than paying off a low 2% loan.*

Bad Debt

- Significantly high interest rates, upwards of 15%
- Typically unsecured
- Most common type: Credit cards
- Payment approach: Make more than minimum monthly payment
- Note: Paying off a 15% interest debt is equivalent to a guaranteed investment return of 15%, which no single stock can provide.

* Investment returns shown are hypothetical and for illustrative purposes. It is not a guarantee, and risks vary on investment types.

How Much is Debt Costing You?

Amount borrowed on credit card	\$5,000
Monthly payment	\$200
Annual interest rate	18%
<hr/>	
Time needed to pay off principal and interest	32 months
Total Paid	\$6,314

What are the Impacts of Debt?

While some debt may be necessary to achieve your goals, not managing it properly can negatively impact your financial and physical health.

Reduced cash flow

Inability to reach other goals

Pay more than the true cost due to interest

Inability to borrow money for a more important goal

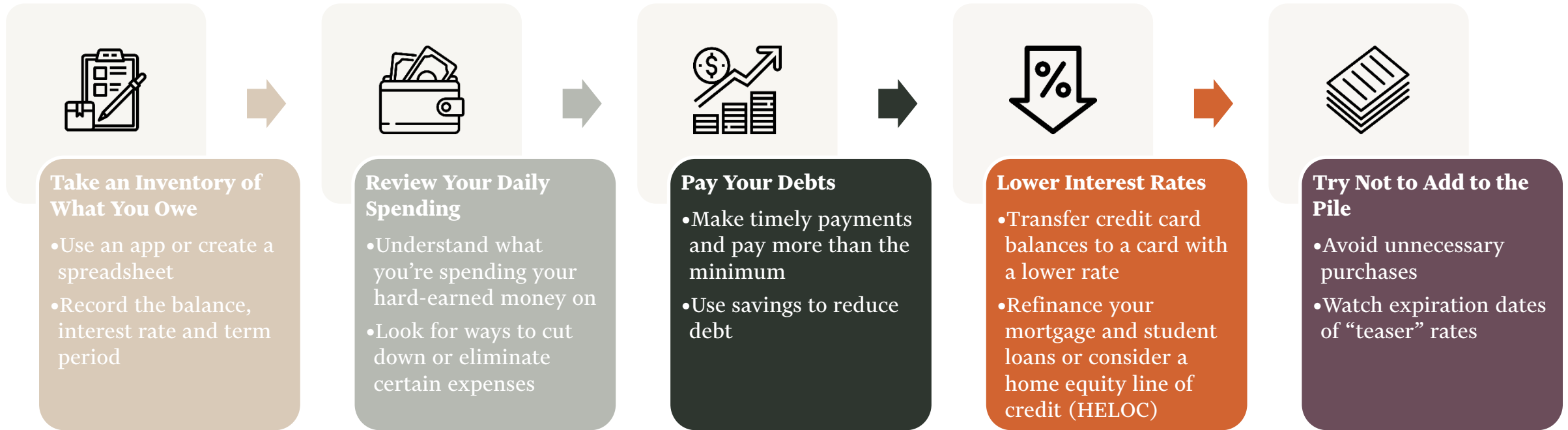
Lower credit score

Stress and damaged relationships

Bankruptcy

Managing Your Debt

Having a plan to pay down debt and sticking to it are essential for your future financial well-being.



Requesting Your Credit Report and Credit Score

Your credit report and credit score can impact your ability to purchase a car, buy a home, or rent an apartment. A prospective employer may also check your credit history as part of the hiring process.

- You are entitled to one free credit report every 12 months from each reporting agency
(Transunion, Experian and Equifax)
- Visit www.annualcreditreport.com



Credit Card Basics

It's generally a good idea to have at least one credit card. With hundreds to choose from, make sure to do your homework. Key factors to consider include:

- Credit limit
- Annual interest rate
- Annual fee
- Minimum monthly payment
- Late fees and grace period
- Cash advances
- Rewards program
- Promotional fine print



If properly managed, a credit card can help improve your credit score. To maintain a good credit score, keep your balances low and pay your bills on time.

What is a Budget?

A spending plan that helps you keep track of money coming in (salary) and going out (expenses) over a certain period of time

$$\text{Income} - \text{Expenses} = \text{Surplus/Deficit}$$

Surplus: You're earning more than you're spending and have the ability to save

Deficit: You're spending more than you're earning, which over time can lead to unnecessary and unwanted debt (e.g., credit card debt)



Example of a Basic Budget for a Single Person

Monthly Income (net after taxes):

Salary from full-time job	\$ 2,000
Income from a second part-time job	<u>\$ 500</u>
Total monthly income	\$ 2,500

Monthly Expenses:

Rent	\$ 700
Other fixed expenses	\$ 500
Variable expenses	\$ 500
Discretionary spending	<u>\$ 300</u>
Total monthly expenses	\$ 2,000

Income minus Expenses: \$2,500 - \$2,000 = **\$500 surplus**



Why Do You Need a Budget?

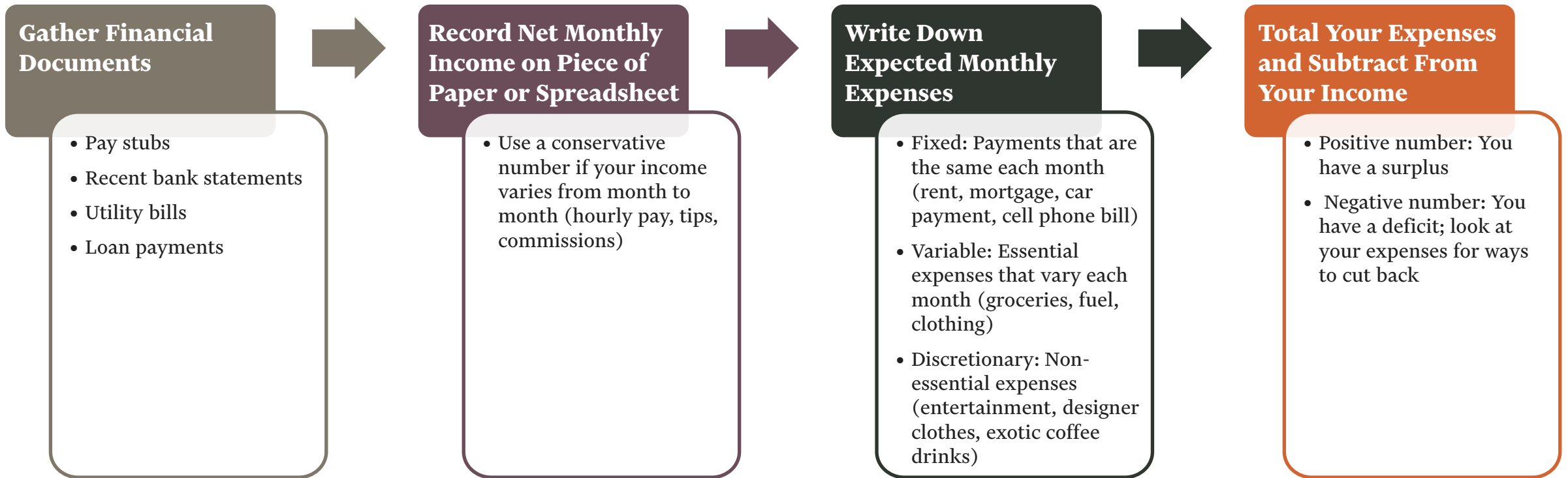
It's an efficient way to take control of how you spend your hard-earned money.

A budget helps you:

- Prioritize different budget categories
- Avoid overspending and evaluate expenses
- Reach your financial goals such as paying off your credit card
- Create a plan to build your emergency fund and retirement savings
- Reduce your financial stress



How Do You Create a Budget?



Breaking Down Expenses



Housing

- Rent/Mortgage
- Utilities (Electricity, Gas, Water)
- Homeowners Insurance
- Cable and Internet



Transportation

- Car Payment
- Fuel and Maintenance
- Car Insurance
- Public Transportation and Rideshares



Living/Personal

- Groceries and Household Items
- Clothing
- Hair and Personal Care
- Entertainment



Debt

- Student Loans
- Credit Cards
- Collections
- Other Debt

Differentiating Between Wants and Needs

Categorizing your expenses as wants and needs makes it easier to identify areas where you can cut back.

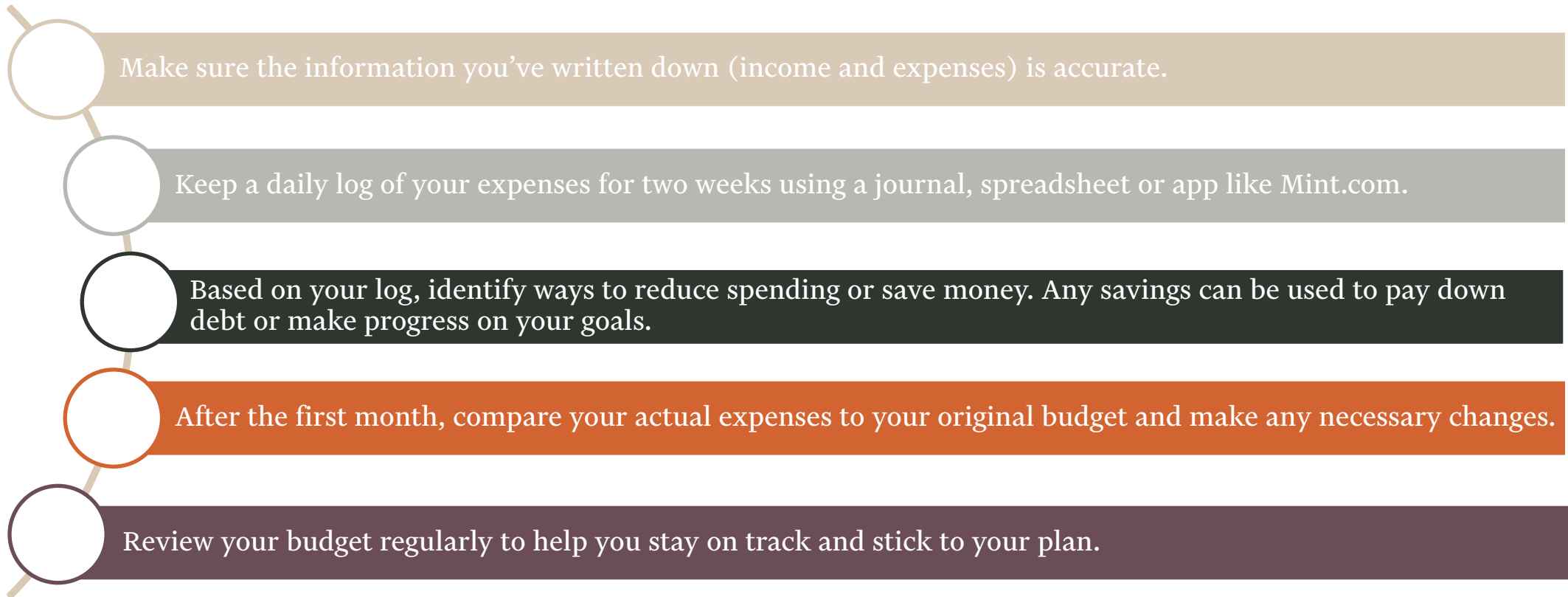
Basic Expenses (Needs)

- Housing
- Food
- Insurance
- Debt Repayment
- Phone
- Transportation (Including Maintenance)
- Necessary Clothing
- General Supplies

Discretionary Expenses (Wants)

- Eating Out (Including Take Out)
- Non-essential Clothing
- Entertainment
- Streaming Services
- Gym Memberships
- Personal Care
- Vacations
- Gifts

You've Created Your First Budget. Now What?



Budgeting is not a one and done event. It is an ongoing process that evolves with your life.

Monthly Spending Plan

Monthly Income					
Wages (after tax) Job 1	\$_____				
Wages (after tax) Job 2	\$_____				
Other income	\$_____				
Total Income	\$_____				
Monthly Expenses					
Rent/Mortgage	\$_____	Groceries	\$_____	Credit Card	\$_____
Gas/Heating	\$_____	Meals Ordered In	\$_____	Student Loans	\$_____
Water	\$_____	Dinners Out/Movies	\$_____	Other Loans	\$_____
Insurance (home/apartment)	\$_____	Travel	\$_____		
Cell Phone	\$_____	Gym Membership	\$_____	Savings:	
Cable	\$_____	Hair/Personal Care	\$_____	Savings Account	\$_____
Car Payment	\$_____	Clothing	\$_____	Retirement	\$_____
Fuel	\$_____	Child Support	\$_____	Other (Goal)	\$_____
Car Insurance	\$_____	Tobacco/Alcohol	\$_____	Total Expenses	\$_____
Car Maintenance	\$_____	Health Insurance	\$_____		
Public Transportation	\$_____	Other	\$_____		
				Monthly Net Income = Total Income - Total Expenses	\$_____

Daily Expense Tracker

Date	Description	Amount	Cash	Credit
03/16/20	Lunch out	\$10.75		X

Basic Budgeting Principles

- Spend less than you earn.
- Look for ways to increase income such as taking a second job or selling personal items you don't use.
- Pay yourself first; start contributing or consider increasing your 401(k) contribution—small amounts add up over time.
- Be proactive about tracking your spending. This is key to staying within your budget.
- Reduce other budget categories by an equivalent amount when you go overbudget in one category.
- Create a goal for yourself such as saving \$20 a week or putting a plan in place to pay off credit cards.
- Be patient with yourself. Creating your first budget can be frustrating, but like anything else, it gets easier the more you do it.

Safeguarding Your Personal Information

Identity theft and fraud are on the rise, and cybercriminals are becoming more sophisticated in their attempts to access your information.

- ✓ Don't shop online or access personal accounts via an unsecured internet connection.
- ✓ Set up spending alerts.
- ✓ Never click on links or respond directly to financial-related emails.
- ✓ Be vigilant; check your credit reports and account statements regularly.



What if My Identity is Compromised or I Find Fraudulent Transactions?

Act fast to minimize the damage.



Your Financial Future Starts Now So...

**Be a Mindful
Spender**

**Think of Your
Future Self**

Pay Yourself First

**Be Your Own
Advocate**

Next Steps



Use the best practices presented today to review your finances



Contact us for assistance creating your budget and savings plan and debt management



Consider using a budgeting web app (Mint.com, Pocket Guard, Wally, YNAB - you need a budget)



Attend upcoming presentations to build your financial know-how

Questions

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