Fund Your Future: Saving Strategies and Managing Debt

This presentation is provided by Bernstein. This presentation booklet has been provided to you for use in a private and confidential meeting to discuss a potential or existing investment-advisory relationship. This presentation is not an advertisement and is not intended for public use or distribution beyond our private meeting. Bernstein does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

Agenda

- Advanced savings strategies
- Debt management
- Strategies for freelancers

- Living within your means, regardless of your income or assets
- Servicing your debt with timely payments of interest and principal
- Planning for your future financial needs and goals with savings and investments

FINANCIALLY RESPONSIBLE (adj.)

Steps for Creating Your Budget

1) List all of your expenses and sources of income each month

- Review your bank statement, credit card bills, ATM withdrawals, receipts

2) Identify your *fixed* expenses

- Rent or mortgage
- Car or student loan payments
- Insurance premiums

3) Identify your *variable* expenses and divide them into

- Must-haves: utilities, transportation, food
- Nice-to-haves: eating out, entertainment, travel

4) Set a spending target for each category, so that the total is less than your after-tax income

- If you have to reduce spending, start with variable expenses

5) Monitor your spending for several months and revise your budget as needed

- Creating a perfect budget won't happen in a month; tracking how you spend your money is the first step

Apps That Can Help You Budget

mint.com

mvelopes.com

goodbudget.com

Bernstein has no affiliation with these applications and makes no endorsement of them.

Factors That Impact Savings

Onset of saving

The younger you start, the less you will need to save per year.

Onset of spending

Flexibility around the start of retirement spending will have a significant impact on the annual savings required.

Spending levels

Higher expected spending will require greater annual saving.

BERNSTEIN

Ways to Achieve Retirement Goals

Actionable steps to boost your chances of success:

Work Longer

More time to save and fewer years to spend

Spend Less

Allows for increased tax-deferred savings

Save More

Contribute maximum amount to a retirement plan and take advantage of company match

How Much You Need to Save Depends on Several Factors

Work Longer

More time to save and fewer years of spending

Spend Less

Spending less allows for increased tax-deferred savings

Save More

Contribute maximum amount to a retirement plan and take advantage of company match

Why Contribute to a Retirement Plan

Lower effective tax rates

Many plans enable contributes of pretax dollars, or allow for tax deductions for contributions. By reducing earned income, you can reduce your effective tax rate.

Forced savings

Many plans feature automatic payroll deductions, forcing you to make regular contributions.

Tax deferral is valuable

By sheltering the retirement assets from taxation until their future withdrawal, you can obtain additional growth of roughly 2% per year.

Types of Retirement Savings Plans

	COMMON EMPLOYER-SPONSORED RETIREMENT PLANS		COMMON INDIVIDUAL RETIREMENT ACCOUNTS	
	Traditional 401(k)/403(b)	Roth 401(k)/ 403(b)	Traditional IRA	Roth IRA
Earnings grow tax-deferred?	Yes	Yes, and can be withdrawn tax-free	Yes	Yes, and can be withdrawn tax-free
Contributions reduce taxable income or are deductible?	Yes	No	Maybe*	No
Taxes to pay upon withdrawal?**	Yes	No, if owner > 59½ or Roth held less than five years	Yes	No, if owner > 59½ or Roth held less than five years
Maximum annual contribution for people < 50***	$19,000	$19,000	$6,000	$6,000
Age when required minimum distributions (RMDs) start	At 70½	At 70½	At 70½	None during owner's life
Benefits	**Higher contribution limits May have employer matching of contributions**		**Easy to set up independently**	

*Depends on your household income and whether you or your spouse is covered by an employer plan. See Internal Revenue Service Publication 590-A: https://www.irs.gov/pub/irs-pdf/p590a.pdf.
**With few exceptions, retirement account withdrawals taken before age 59½ will incur a 10% additional penalty tax.
***Maximum contribution amounts adjust with inflation and are announced by the IRS each year. For participants age 50 and older, defined contribution plans allow a "catch-up" contribution of $6,000 per year, and traditional and Roth IRAs allow a "catch-up" contribution of $1,000 per year.
Source: Internal Revenue Service and Bernstein

BERNSTEIN

Steps for Managing Debt

1) List all your outstanding loan balances, due dates, interest rates

2) Pay off your highest-cost debt first

- Credit card debt is frequently most expensive
- Set time-based goals on reducing loan balances
- Interest on mortgage debt can be tax deductible, which lowers its effective cost

3) Consolidate or refinance your debt to lower your interest cost

- Avoid extending the loan term
- Avoid paying high consolidation fees

4) Pay down a portion of your debt when you receive gifts, bonuses, or raises

5) Practice good debt management to build your credit score

Student Debt

Private Student Loans

More Expensive

Higher Interest Rates

Federal Loans

Direct Subsidized

Loan Direct

Unsubsidized Loan

Direct PLUS Loans

Repaying Federal Loans: You have Options!

Standard Repayment Plans

Graduated Repayment Plans

Extended Repayment Plans

Income-Based Repayment Plans

Income-Contingent Repayment Plans

Income-Sensitive Repayment Plans

When should you seek debt relief?

Debt Settlement

Debt Management Plans

Bankruptcy

Debt Consolidation

Debt Consolidation

- **Debt consolidation** rolls multiple debts, typically high-interest debt such as credit card bills, into a single payment. Debt consolidation might be a good idea for you if you can get a lower interest rate. That will help you reduce your total debt and reorganize it so you can pay it off faster.

When Debt Consolidation is a good idea

- Your total debt excluding mortgage doesn't exceed 40% of your gross income
- Your credit is good enough to qualify for a 0% credit card or low-interest debt consolidation loan.
- Your cash flow consistently covers payments toward your debt.
- You have a plan to prevent running up debt again.

When Debt Consolidation isn't worth it

- It's not the solution if you're overwhelmed by debt and have no hope of paying it off even with reduced payments.
- If your debt load is small — you can pay it off within six months to a year at your current pace — and you'd save only a negligible amount by consolidating
- If the total of your debts is more than half your income, you may be better off seeking debt relief than treading water

Debt Management Plans

A **debt management plan** allows you to pay your unsecured debts — typically credit cards — in full, but often at a reduced interest rate or with fees waived. You make a single payment each month to a credit counseling agency, which distributes it among your creditors

- **Considerations:**
  - **Your credit card accounts will be closed** and, in most cases, you'll have to live without credit cards until you complete the plan
  - Missing payments can knock you out of the plan
  - Debt management plans themselves do not affect your credit scores, but closing accounts can hurt your scores. Once you've completed the plan, you can apply for credit again
  - It's important to pick an agency accredited by the National Foundation for Credit Counseling or the Financial Counseling Association of America

Debt Settlement

Debt settlement companies typically ask you to stop paying your creditors and instead put the money in an account they control. Each creditor is approached as the money accumulates in your account and you fall further and further behind on payments

- **Disadvantages:**
  - **Not paying your bills can result in collections calls,** penalty fees and, potentially, legal action against you. Debt settlement stops none of that while you're still negotiating
  - Continued late payments **negatively affect your credit score**
  - You may also **face a bill for taxes** on the forgiven amounts (which the IRS counts as income). Lawsuits can lead to wage garnishments and property liens.
  - Rarely a better option than bankruptcy

Bankruptcy

The most common form of bankruptcy, **Chapter 7 liquidation,** can erase most credit card debt, unsecured personal loans and medical debt. It can be done in three or four months if you qualify

- **What you should know:**
  - **It will decimate your credit scores** and stay on your credit report for up to 10 years even as you restore your credit history. That's no small thing, because poor credit history can affect your eligibility for certain jobs, your chances of getting an apartment lease, and how much you pay for car insurance.
  - It **won't erase taxes owed** or child support obligations, and student loan debt is highly unlikely to be forgiven.
  - If debts continue to pile up, you can't file another Chapter 7 bankruptcy for eight years
  - It may not be the right option if you would have to give up property you want to keep.

Actions

1) Develop a realistic budget plan for the year and for the future

2) Contribute to an IRA before April 15

3) Contribute to your 401k if you have one

4) Create and/or contribute to a Simplified Employee Plan

5) Assess your debt: is it productive or not productive?

6) For non-productive debt: make a plan to pay it down

7) If you need help - “Ask for it!”

How to plan and save with inconsistent income:

Live on last month's income

Instead of trying to guess what you're going to make this month and budgeting off of that projection, use your actual earnings from last month to set the parameters for your spending this month

Budget using your average income

If you have had irregular income for a few years, one strategy is to calculate the average net income you've had each year for at least 3 years, divide by 12 and use that amount to build your current monthly budget

Know your make or break number

How much, at a minimum, does it cost to run your life each month? The absolute essentials – housing (rent or mortgage), utility bills, transportation, groceries, and childcare

How to plan and save with inconsistent income:

Zero sum budgeting

Gives every dollar you earn a destination, reducing the likelihood of pre-emptive spending on fleeting luxuries when you're trying to save up for big picture priorities.

Create a cash reserve

Save enough for 3-6 months with no income

Pay yourself a salary

On the first of each month, pay yourself enough to cover your bare bones expenses

[A/B]

BERNSTEIN