

Financial fundamentals

Tools for pursuing financial health

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What we'll learn about

Key concepts

- ✓ Setting goals
- ✓ Creating a spending plan
- ✓ Managing debt & using credit
- ✓ Saving for your goals

Setting goals



You're 62% more likely to achieve your goals by writing them down, along with actions to help you pursue them.

Source: *Study Focuses on Strategies for Achieving Goals, Resolutions*, Dr. Gail Matthews, Dominican University of California, May 2015, [dominican.edu/dominicannews/study-highlights-strategies-for-achieving-goals](https://www.dominican.edu/dominicannews/study-highlights-strategies-for-achieving-goals) (accessed January 3, 2020, most current data)

What are *your* financial goals?



What's important to *you*?

- Owning a home
- Buying a car
- Traveling
- Saving for education
- Being debt-free
- Being financially independent
- Retiring early



Clearly define your goals



Why does it matter?

What is the purpose?

When do you want to reach it?

How much money will you need?

What kind of actions do you need to take?

TIP: Breaking your goals down into smaller chunks can make them more doable.

Prioritize your goals



- Which is **most** important?
- Which is the **next most** important?
- And so on....



TIP: Focusing on fewer goals at one time can help increase your chances of success.

Make yourself accountable



- **Write down** your goals
- Break them down into **smaller steps**
- Have a **visual reminder**
- **Share** your goals
- Surround yourself with **mentors**
- **Monitor** your progress



TIP: “If this, then that” —have a strategy for dealing with temptations that might derail you.

Creating a spending plan



If you don't know
where you're going,
you'll end up
somewhere else.

- Yogi Berra

Source: *Thoughts on the Business of Life*,
Forbes Quotes, Forbes, forbes.com/quotes/10405/
(accessed January 3, 2020)

What is a spending plan?



Used to record money coming in and out

Helps you take control of your finances

Goal is to find a balance between what is coming in / going out



TIP: Visit go.ml.com/budget for a worksheet to help you get started.

Setting up a spending plan



Step 1 — Keep track of your spending

- For one month:
 - Write down everything you spend money on
 - Write down your take-home pay
- Gives an accurate snapshot of your spending habits



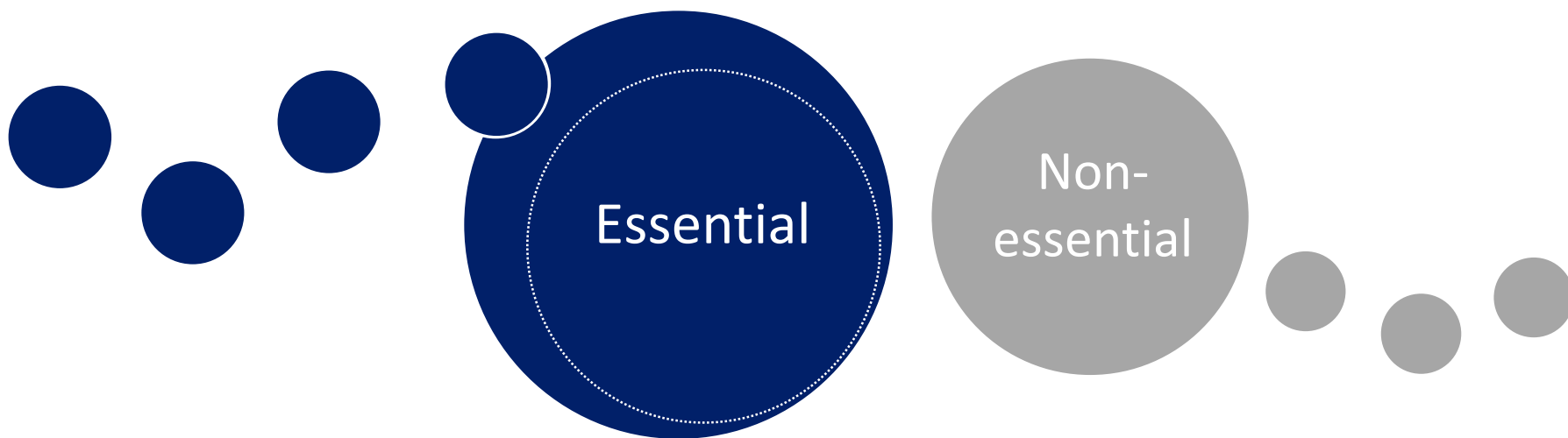
Setting up a spending plan



Step 2 — Categorize your expenses

Instead of fixed v. discretionary, consider what's **essential** and what isn't

- Just because it's essential doesn't mean it's fixed
- Find ways to get more cost effective around essential expenses



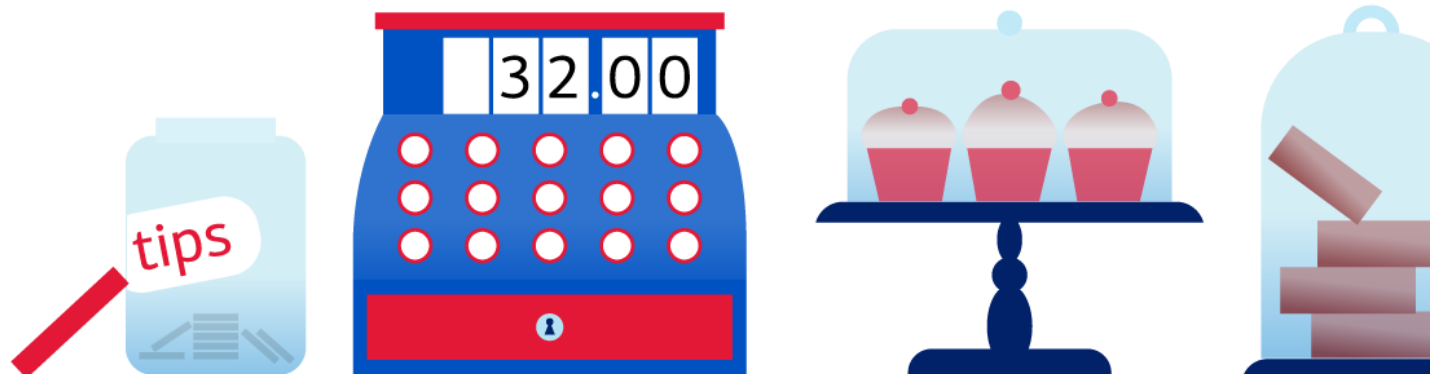
TIP: Get clear on what things *really* cost you.

Setting up a spending plan



Step 3 — Identify your spending patterns

- Payday euphoria
- Impulse purchases
- Instant gratification
- Emotional spending
- “Spending leaks”
- “Found” money



TIP: Try waiting 72 hours to see if the purchase is still important to you.

Setting up a spending plan



Step 4 — Subtract your spending from your take-home pay

- Is there enough to go around?
- Did you account for your goals?
- Match your money with your essential expenses and goals
 - Are everyday expenses getting in the way of saving for your goals?
 - Are there tradeoffs you can make?



TIP: Review your plan and priorities every few months to see if there are any adjustments you can make.

Example: Comparing income and expenses



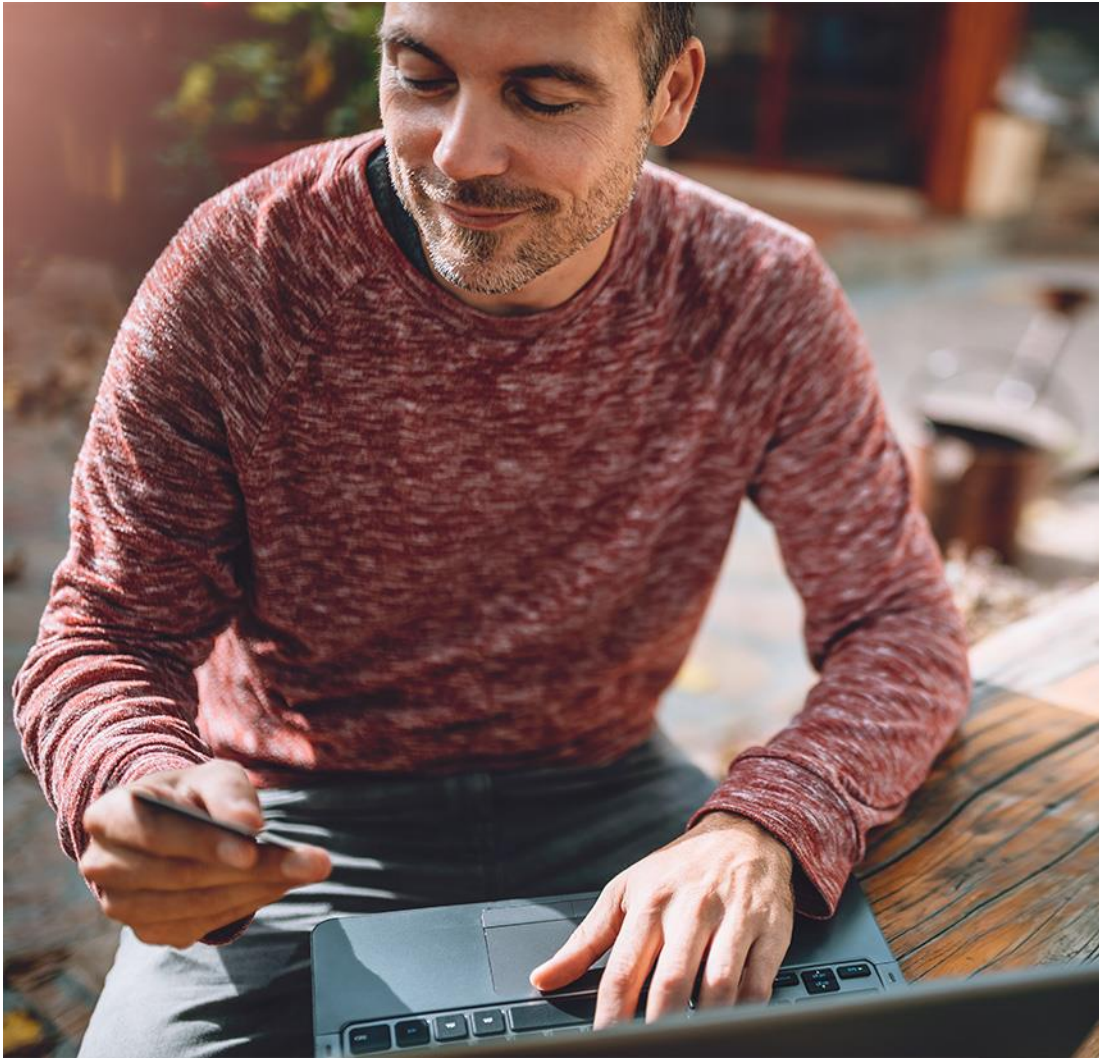
Monthly expenses*		Monthly net income*	
rent & insurance	\$2,000	\$3,005	wages
food & personal care items	\$500	\$200	self employment
bills	\$500	\$3,205	total income
credit card payments	\$200		
miscellaneous: gifts, entertainment & clothing	\$400		
total expenses	\$3,600		

\$3,205
- \$3,600

Gap of \$395

*For illustrative purposes only.

Managing debt and using credit



44% of credit card holders in the U.S. carry a balance each month.

Source: *Putting off the payoff: Why we carry balances on credit cards*, August 2018, creditcards.com/credit-card-news/why-we-carry-credit-card-balances.php (accessed January 3, 2020)

Why do *you* use credit?



Is it ...

- To get points?
- Because you don't have the cash on hand?
- Because you're getting paid next week and don't have the money?

Ask yourself before paying with credit...

- Is it a want or a need?
- Have you accounted for the purchase in your spending plan?
- If not, can it wait?

TIP: Beware of “transaction decoupling”—delaying payment but getting the item right away, which separates the pain of paying from the pleasure of buying.

The cost of using credit



Time can work *against* you

- Interest is the cost of using credit
- Average credit card interest rate is 17.30%¹
- Every \$1.00 purchase costs you approximately \$1.17

Source:

¹ Average credit card interest rates: Week of January 2, 2020 [creditcards.com/credit-card-news/rate-report.php](https://www.creditcards.com/credit-card-news/rate-report.php) (accessed January 3, 2020)



TIP: The same purchase costs more if you make it with credit instead of cash, assuming you don't pay off your balance each month.

What you *really* pay when you use credit



To pay off a balance of **\$6,194***, it will take

42 months

and cost approximately

\$2,070 in interest

*Assuming a \$200 monthly payment and a 17.30% interest rate.

Source:

Credit Card Interest Rate Calculator, Financial Mentor, <https://financialmentor.com/calculator/credit-card-interest-calculator>
(accessed January 3, 2020)

What is a credit report?



Contains information about your credit activity¹

Check your credit report regularly

Source: ¹ *What's in my credit report*, myFICO, <https://www.myfico.com/CreditEducation/In-Your-Credit-Report.aspx> (accessed January 3, 2020)

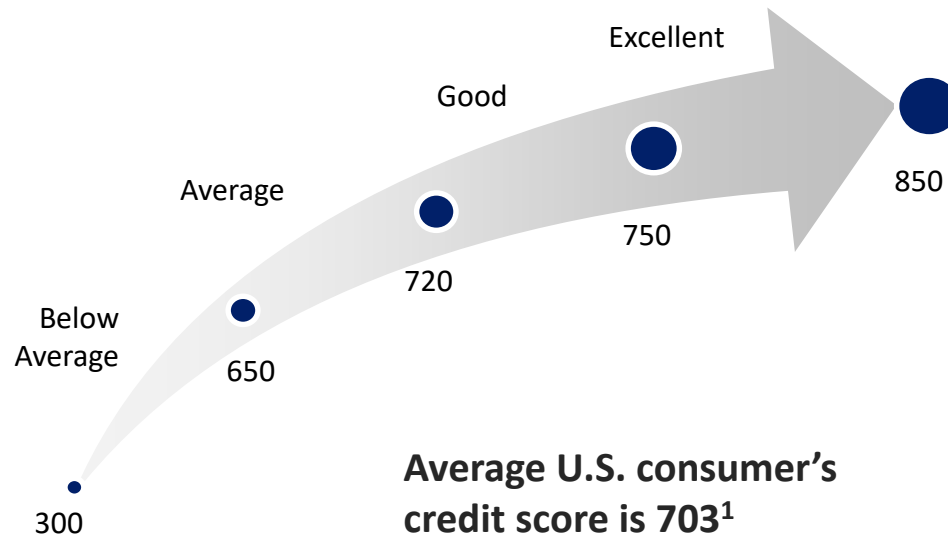


TIP: You can get one free credit report each year from each of the credit bureaus or at annualcreditreport.com.

What is a credit score?



A number that measures your creditworthiness



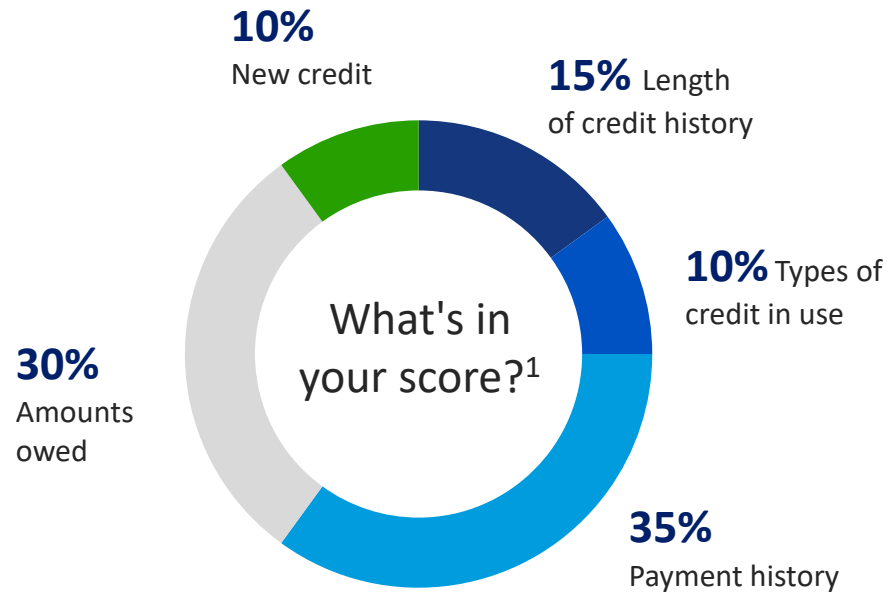
Source:

¹ What is the average credit score in the U.S.? Experian, September 6, 2019, experian.com/blogs/ask-experian/what-is-the-average-credit-score-in-the-u-s/ (accessed January 3, 2020)

How is a credit score used?



Lenders use it to evaluate the credit risk you pose



Source:

¹ What's in my FICO® scores, myFICO, myfico.com/credit-education/whats-in-your-credit-score (accessed January 3, 2020)

Paying down debt



To get started:

- Figure out how much you owe
- Stop charging new items
- Keep only one or two cards with no annual fee
- Transfer balances to a lower-interest card
- Pay more than the minimum amount due



Two methods of paying down debt



“Snowball” or low-balance method

- Make largest payment you can afford on the lowest balance
- When that one is paid off, apply that money to the next lowest balance

High-interest-rate method

- Make the largest payment you can afford on the highest interest rate balance
- When that one is paid off, apply that money to the balance with the next highest interest rate

TIP: Whichever method you use, be sure to continue making minimum monthly payments on all other debts.

Saving for your goals



A goal without
a deadline is
just a dream.

- Robert Herjavec

Source: *9 Quotes from the Shark Tank TV Stars to Inspire You to Reach Your Goals*, Entrepreneur, [entrepreneur.com/article/242746](https://www.entrepreneur.com/article/242746) (accessed January 3, 2020)

What is a savings plan?



**Works with your
spending plan**

**Defines specific
savings “buckets”**

**List as a fixed item in
your spending plan**



TIP: Use automatic savings methods to help you reach your goals.

Saving and investing



Time can work *for* you

- Compounding
 - When an investment generates potential earnings from both its initial principal and the interest or potential earnings accumulated during preceding periods
 - As base gets larger, it has the potential to grow faster
- The sooner you get started and the longer the money is invested, the more time for compounding

Note: Investing involves risk, including the possible loss of principal value invested.



Tips for pursuing your goals



Can you...

- Make **trade-offs**
- Use your **tax refund**
- Use your **bonus** or **raise**
- **Earn** some extra cash
- **Shop** around
- **Push out** your deadlines
- **Adjust** your goals



TIP: If you get a raise, consider putting all or part of it toward your goal and continue living on your previous salary amount.

Building an emergency fund



Think about:

- Why you should have an emergency fund
 - Unexpected expenses
 - Potential loss of income
- How much you need to cover specific scenarios
- How you can make space in your spending plan to save for it
- Where the account will live



TIP: Use your account only for emergencies—and add more funds to it after you’ve used it.

Preparing for retirement



Types of accounts* to consider:

401(k)

IRA

HSA

- Consider increasing your contributions on a regular basis
- Aim to get the full company match, if offered
- Consider making catch-up contributions if you're age 50 or older

TIP: Check your contribution rate to make sure it still matches your goals.

* Each account has different requirements; be sure to consult your tax, legal and financial advisors to determine what they are.

Wrapping up

- ✓ Write down your goals
- ✓ Create a spending plan
- ✓ Manage debt and use credit wisely
- ✓ Create a savings plan
- ✓ Review your goals and plans regularly

TIP: The goal is to be well, and to get to where you want to be.

More helpful resources



New! Continue the journey

Financial fundamentals

Explore more resources
related to the topics covered
in this seminar.

go.ml.com/fundamentals-resources

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