

Saving & Investing

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McPEAKE & COMPANY

FINANCIAL PLANNING | WEALTH MANAGEMENT

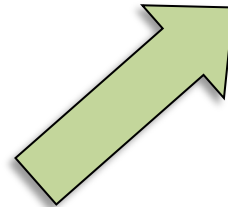
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Setting The Stage(s)



1st JOB

- *Living on your own*
- *Paying your own bills, including student loans*



GRAD SCHOOL

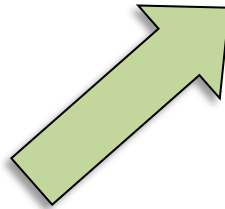
Setting The Stage(s)



1st JOB



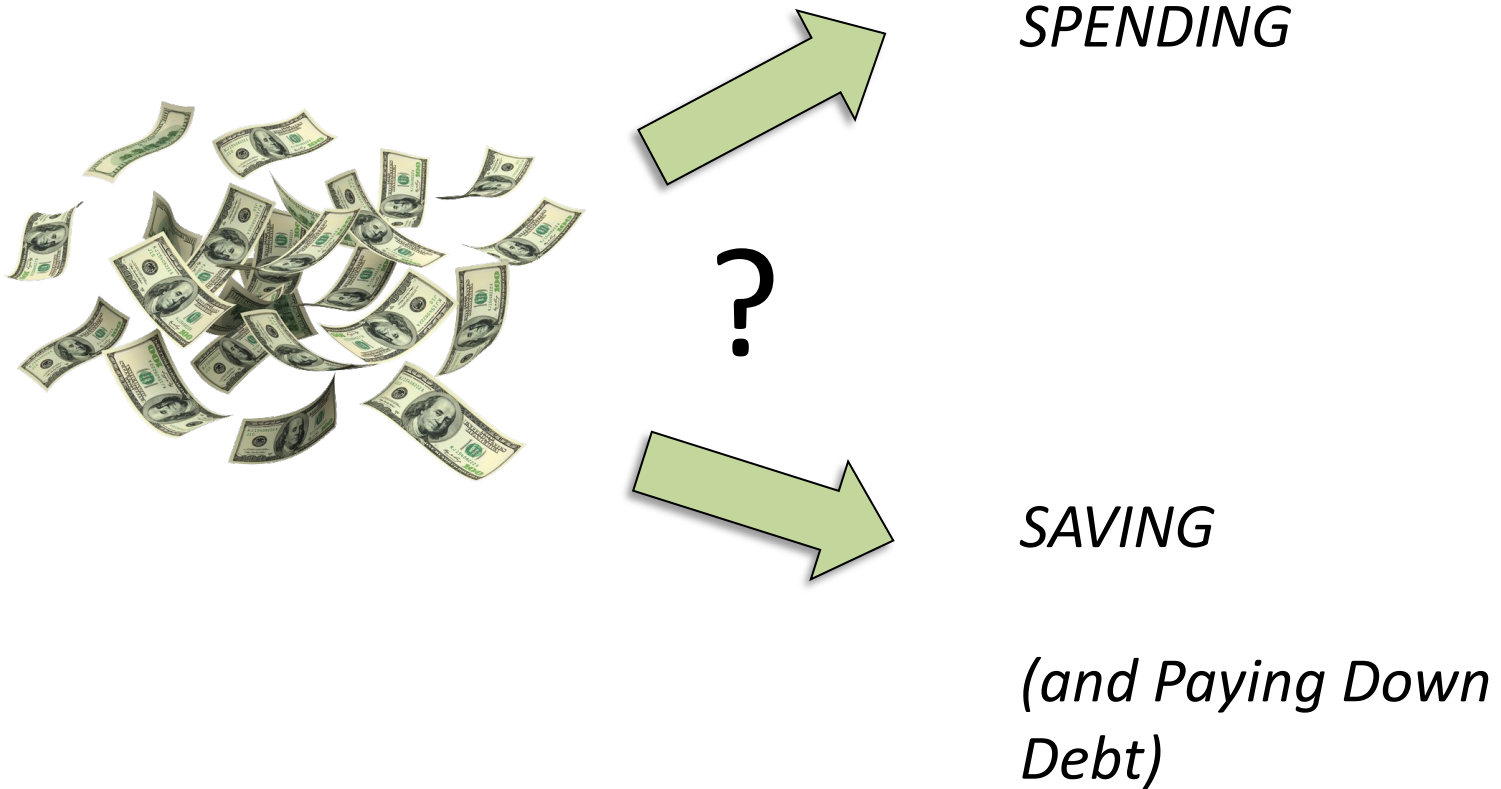
*BUILDING A
CAREER*



GRAD SCHOOL

- *Paying off debt*
- *Saving for ...*
 - *1st home?*
 - *Retirement?*

There is a Lifelong Tension



Make a Budget



“If you can’t measure it, you can’t manage it.” ~ Michael Bloomberg

On the “Basics”

- Housing (rent, mortgage, property taxes, insurance)
- Utilities, Cellular plans, TV and Internet
- Household (cleaning products, small repairs, services like gardening)
- Groceries
- Medical, Dental & Vision (premiums as well as out of pocket, Rx)
- Clothing & Personal Care (toiletries, haircuts)
- Gym and other memberships and Subscriptions
- Auto and transport (including bridge tolls, BART, parking)
- Gifts & Holidays
- Student loan payback

On “Discretionary” Items

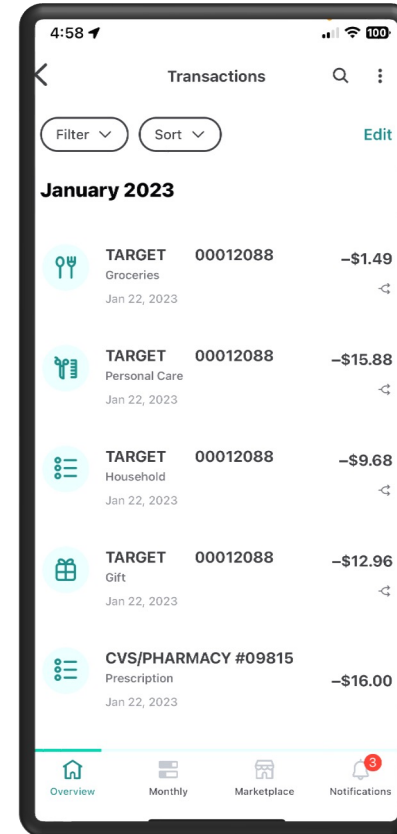
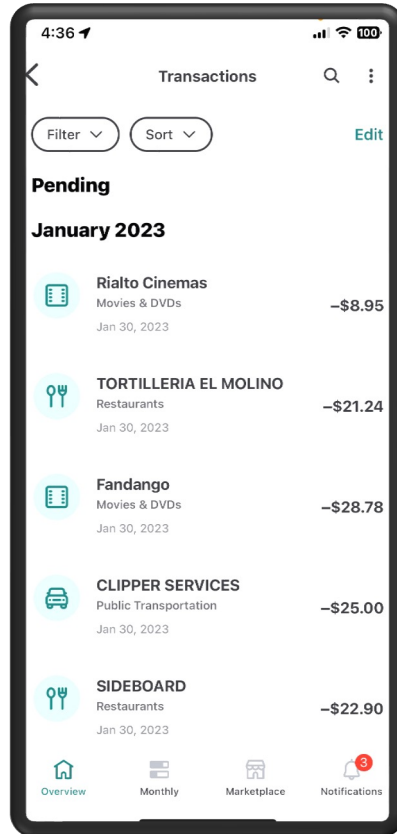
- Dining & Entertainment
- Vacations

Track Your Spending



On your phone using an app like Mint:

- Charges at grocery stores are automatically categorized as “Groceries”
- You re-categorize transactions to reflect how you want to track your spending



- Charges at Costco, Target, Amazon will show up as just “Shopping” (not helpful)
- You can split a transaction down into the \$ spent on individual categories

Other Apps for That



Mint is great, but so are Simplifi and Rocket Money.

How Much to Spend on Housing? (Ideally)



Rent
+ Utilities
+ Renters Insurance

Gross Income*

(or)

= No More Than 30%

Mortgage
+ Utilities
+ Property Tax
+ Homeowners Insurance

Gross Income*

* Income before taxes or any deductions/deferrals

Paying Off Student Debt



Using Standard 10 Year Term

<u>School Year</u>	<u>Federal Loan Interest Rate</u>
2019/20	4.53%
2020/21	2.75%
2021/22	3.73%
2022/23	<u>4.99%</u>
Average	4.00%



For every \$10k of debt, monthly payment will be \$101

How Much Rent Can You Afford?

Assuming you're splitting rent in a 2 bdrm apartment



<u>City</u>	<u>Rent</u>	Annual Salary Required
Washington, DC	\$1,750	\$78,000
San Francisco	\$1,800	\$80,000
New York	\$2,500	\$108,000

Now What?



At some point, your net income after taxes and basic expenses will leave you with “extra” cash at the end of the month. Do you:

- Make extra payments on your student loans, to pay them off early?
- Contribute to a retirement plan, like your employer’s 401(k) plan or a personal IRA?
- Save for something else, like a down payment on your first apartment/condo/home?

First, Build an Emergency Fund



- You need to build a “emergency fund” (aka “rainy day fund”) to ensure that you can keep paying your bills in the case of job loss, illness.
- The fund needs to total six months worth of your everyday expenses, including any debt service.
- You need to keep this fund in cash, not a CD (where you’re locked in for some amount of time) or stock/fund (whose value can fluctuate). You can keep it in a “high-yield” savings account.
- Savings accounts at credit unions and online banks (like Ally, Capitol One) generally offer higher interest rates than traditional banks with branches.

Worried About Bank Failures?



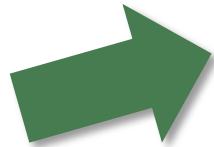
- As recent events have shown, this can sometimes be a thing
- Always put your money in bank that is a member of the Federal Deposit Insurance Corporation (“FDIC”).
- The FDIC will guarantee accounts up to \$250,000 per person, per account type,* at any member bank.
- Credit Unions have their own FDIC called the “NCUA.” Only use a credit union that is a NCUA member.

* This is getting down into the weeds, but if you have two accounts at a bank, like a business account and a personal account, each enjoys the \$250k guarantee.

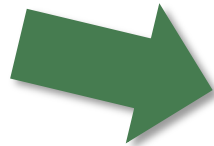
Then What?



You have "extra" cash at the end of the month, you're paying down your student loan as required and you have an emergency fund in place. Awesome! Now what?



Pay Off Debt Early?



Save for 1st Home?
Or Retirement?

A Recent Twist Favors 401(k) Investing



- If you work for an employer that offers a retirement plan like a 401(k), you should always take advantage of any “match” that your employer will make to your contributions to that 401(k) plan. It’s “free money.”
- But what if you don’t have extra cash to spare and put into a 401(k)?
- President Biden signed the Secure 2.0 Act which will come into effect in January 2024. Amounts that you are paying in interest on student loans will count as salary deferrals to your 401(k) so that your employer can match them. Game changer for young workers!

It Depends...



- Different people will give you different answers. Mine is ... It depends.
- Some debt is “better” than others, chiefly because it carries a lower rate of interest and/or has tax advantages. Interest on student loans and mortgages is tax deductible, up to a point.
- Student loan rates are generally in the 2.5 – 5.0% range. You can deduct up to \$2,500 in student loan interest per year from your income if your Modified Adjusted Gross Income* (“MAGI”) is below \$80,000.
- Historically, the average annual return, after inflation, on a balanced stock/bond portfolio is in the 6-7% range.
- It makes sense to focus first on saving, since you could earn more on a balanced stock/bond portfolio.

* To calculate your MAGI, you take your AGI and add back certain deductions like IRA contributions. You don’t need to itemize to claim the student loan interest deduction.

How to Invest?



- Don't try to beat the market. It's impossible, on a consistent basis, and involves a lot of unnecessary expense and risk taking.
- Buy the whole market using a low-cost Exchange Traded Funds (aka "ETF"), for example the Vanguard Total Market Fund (ticker "VTI"). If your company's 401(k) plan offers "Target Date" funds, use those.
- Divide your savings into buckets, according to the time until you plan to use them. For example, if you're saving for a down payment on your first home sometime in the next five years, that bucket is "short-term" and should be invested more conservatively than your long-term "retirement" bucket.
 - For "short-term" savings (less than 5 yrs time horizon), use a 50/50 mix of stock and bond index funds.
 - For "intermediate term" savings (5-10 yr time horizon), use a 60/40 mix of stock and bond index funds.
 - For "long term" savings (> 10 yr time horizon), use a 80/20 or 90/10 mix of stock and bond index funds.

How to Invest?



- Keep your fees low!
- If you hire a Financial Advisor, make sure they're a Fiduciary, who must legally put your interests first. Make sure they tell you exactly what you're paying in fees, to them, the Custodian (like Schwab) and the fund manager (like American Funds)
- Put your money in a broker that is a member of the Securities Investor Protection Corporation ("SIPC") which is like the FDIC but for brokerage firms. Your account will be protected up to \$500,000.*
- These brokers are members of the SIPC and offer accounts with no dollar minimums, commission-free trading on stocks/bonds/ETFs and allow you to buy "fractional shares": Schwab**, Vanguard, Fidelity and E*Trade.

* The SIPC protects up to \$250k in cash inside brokerage accounts. It does not protect against market downturns, only against brokerage firm failures.

** TD Ameritrade has been acquired by Schwab.

Questions?



Please email or call me!

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