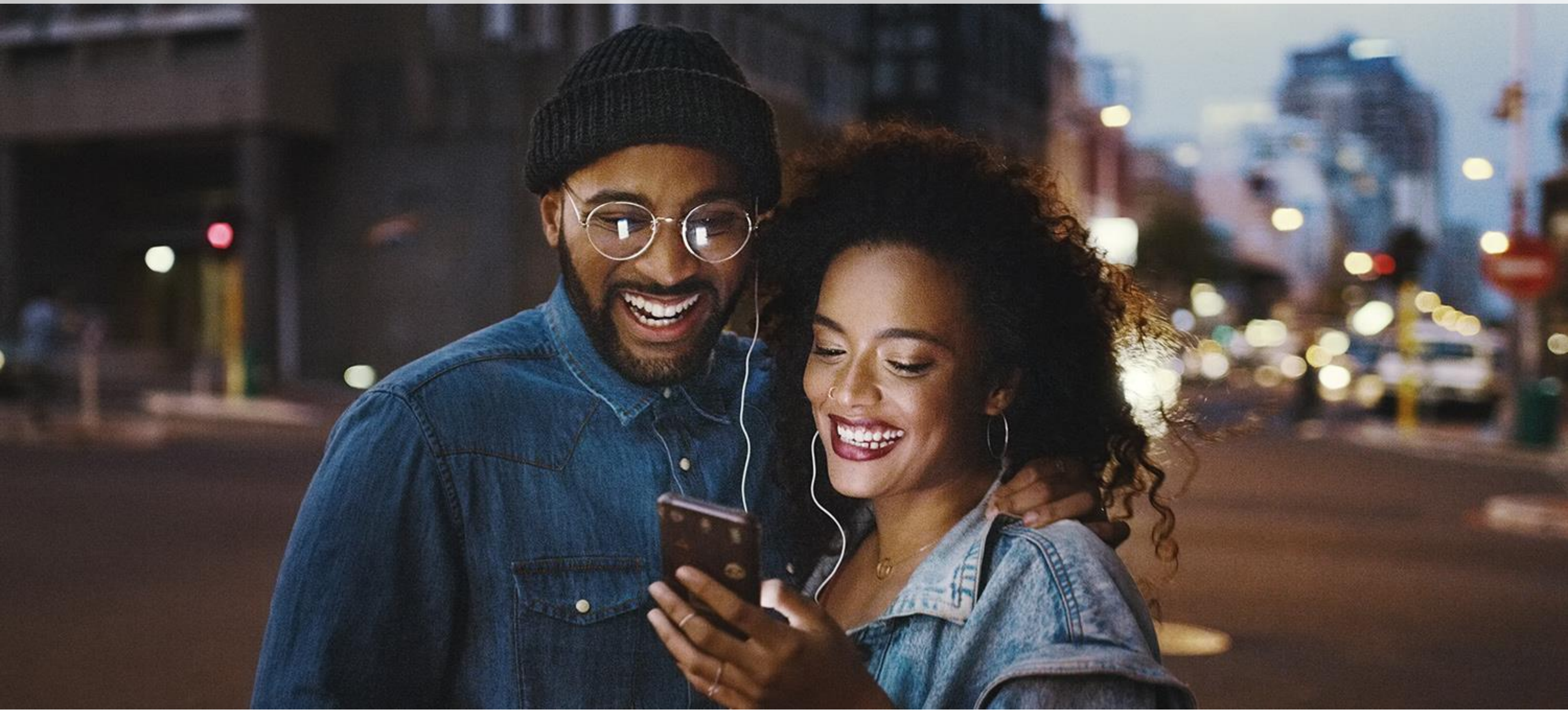
Building Financial Wellness – A Dive into the Financial Basics



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Key concepts

- Day-to-day expenses
- Emergency fund
- Renting vs. buying
- Student loans & other debt
- Preparing for the future

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Budgeting for day-to-day expenses

Consumers now spend 22% of income on food, clothing and shelter

Source: Consumers Now Spend 22% of Income on Food, Clothing and Shelter; www.pymnts.com/consumer-finance/2023/consumers-now-spend-22-percent-of-income-on-food-clothing-and-shelter/ (accessed January 25, 2024)

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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.

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Evaluate your financial picture

Review your finances periodically, and try to balance your needs and goals

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Set up a 50/30/20 budget guideline

50% needs

Essential expenses such as housing, utilities, groceries, transportation, etc.

30% wants

Anything that can be eliminated with only minor inconvenience

20% savings

Emergency fund, education expenses, retirement or paying down debt

Balancing competing goals

Paying off student loans

Buying a home

Planning a wedding

Building wealth

Retirement planning

Saving for child's college

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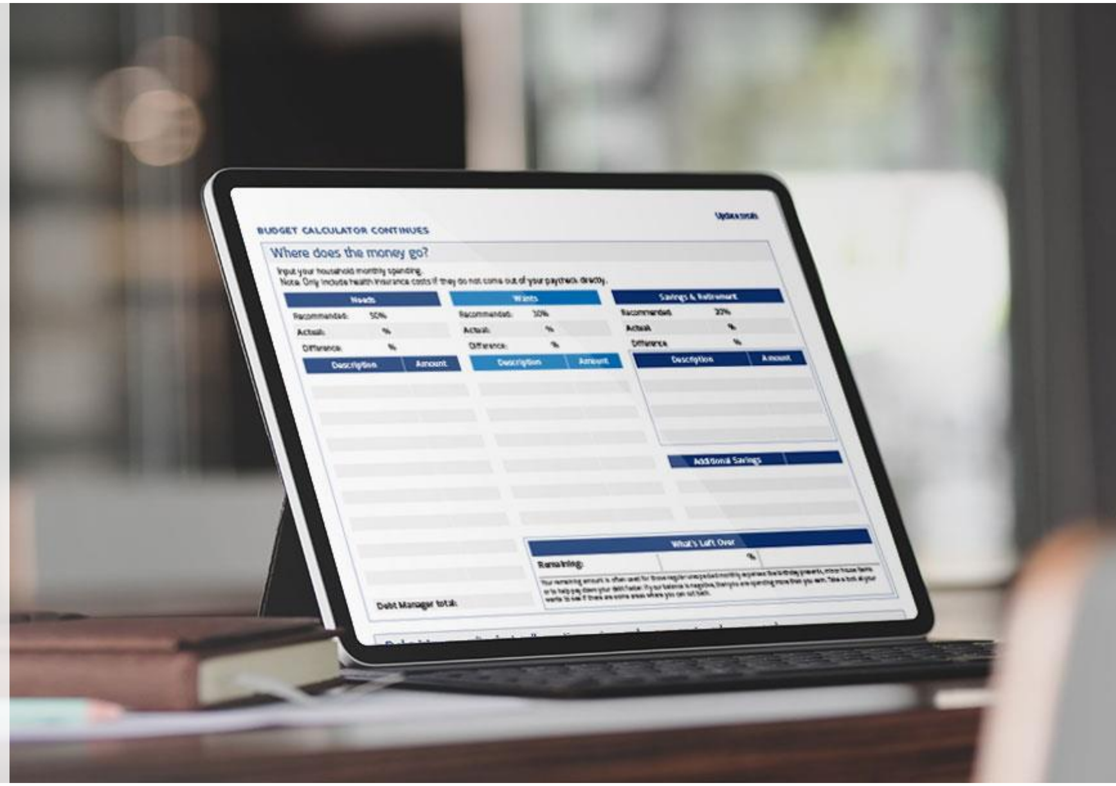
Tying it all together

Things to consider:

- What are your goals?
- How much do you need to save?
- Have any of your priorities changed?



Things to do: **Track** your expenses → **Create** a budget → **Manage** your expenses → **Review** budget periodically

TIP: Visit go.ml.com/budget to use Merrill's interactive budget worksheet.

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Building an emergency fund

Emergency savings

36%

of U.S. adults have more credit card debt than emergency savings

44%

of U.S. adults say they would pay an emergency expense of $1,000 or more from their savings

22%

have none

Source: bankrate.com/banking/savings/emergency-savings-report/

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Think about how an emergency fund can help you

Can help:

Pay for extra expenses without derailing your spending plan

Avoid paying credit card interest and fees

Prevent future setbacks by creating a “cushion”

Avoid taking a loan from your 401(k) plan

Decide on a goal

How much?

- Aim to save $500-$1,000 initially
- After reaching initial goal, continue to save enough to pay for living expenses:

3-6 months

6-9 months

Pay yourself first:

- Set up automatic deposits to a savings account
- Deposit any “found” money in your emergency fund
  - Gifts
  - Tax refunds
  - Bonuses

TIP: Keep emergency fund in a savings account (FDIC insured)

Tying it all together

Things to consider:

- Unexpected life events the fund might help with:
  - Medical expenses
  - Job loss
  - Car or home repairs
  - Unexpected veterinary bills
- Can provide a general peace of mind that you're prepared

Things to do:

Set your goal → **Establish** a dedicated account → **Build** your savings

Renting vs. buying

Your mortgage payment shouldn't exceed 28% of your monthly pre-tax income

Better Money Habits, Homeownership – Preparing to Buy a Home, How much home can you afford? bettermoneyhabits.bankofamerica.com/en/home-ownership/how-much-mortgage-can-i-afford (accessed February 6, 2023)

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Consider the pros and cons of homeownership before you buy

Advantages	Disadvantages
Potential tax benefits[1]	Property taxes and insurance
Potential to build equity[2]	Upfront down payment & closing costs
Mortgage can be a hedge against inflation	Long-term commitment to a location
Potential for passive income from rental opportunities	Maintenance and repairs[4]
Mortgage payments could total less than rent over time[3]	

[1] Please consult your tax advisor for details about the potential tax benefits of homeownership.
[2] Increase in equity may result from an appreciation in the property value and/or the amortized repayment of the mortgage loan balance.
[3] Assuming rent increases with inflation but a mortgage payment remains consistent with a fixed-rate mortgage.
[4] Homeowners association dues may also be required.

What makes up a mortgage payment

A monthly home loan payment includes five costs known as PITIA:

Principal	+	Interest	+	Taxes
Amount applied to the outstanding balance of the loan		Cost of borrowing the money		1/12 of the estimated annual real estate taxes on the home

+	Insurance	+	Assessments
	1/12 of the annual homeowners insurance (and mortgage insurance if required)		1/12 of the annual homeowners association dues and assessments

Quick Tip: Get details about buying a home comfortably and affordably at go.ml.com/home-affordability

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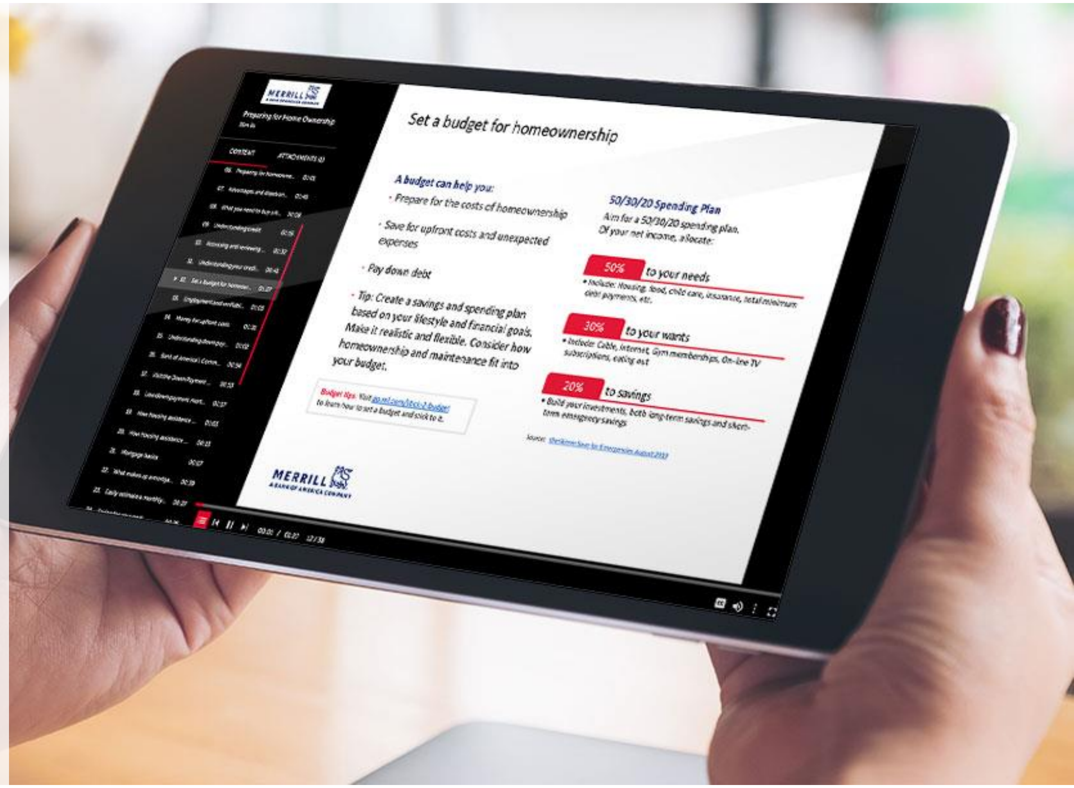
Tying it all together

Things to consider:

- Where do you want to live and for how long?
- Are you ready to commit to owning a home?
- Do you have enough for a down payment, closing costs and other expenses?



Things to do: Research the housing market → Evaluate your credit situation → Set a reasonable price range

TIP: Check out this helpful video at go.ml.com/Preparing4Homeownership.

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Managing student loan debt

$37,338

Average federal student loan debt per borrower

$54,921

Average private student loan debt per borrower

Report on Average Student Loan Debt in 2023; educationdata.org/average-student-loan-debt, updated May 2023 (accessed January 25, 2024)

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Prioritize making payments on time

Things to consider:

Can you afford to make regular payments?

What repayment plans are available?

What are the pros and cons of consolidation?

TIP: Keep in mind your priorities and how any decisions you make about your student loan debt may affect your other goals.

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Managing debt and using credit

The amount a typical person will spend in interest on credit purchases over a lifetime: $279,002

Source: *Lifetime Cost of Debt*, Credit.com, credit.com/tools/lifetime-cost-of-debt/ (accessed February 6, 2023)

Good debt versus bad debt

Mortgages

Car loans

Student loans

Medical debt

Personal/pay day loans

High-interest credit cards

Type of debt	Outstanding balance	Interest rate
Credit card 1	$2,500	18%
Credit card 2	$3,000	21%
Car loan	$15,000	4%
Student loan	$20,000	5%

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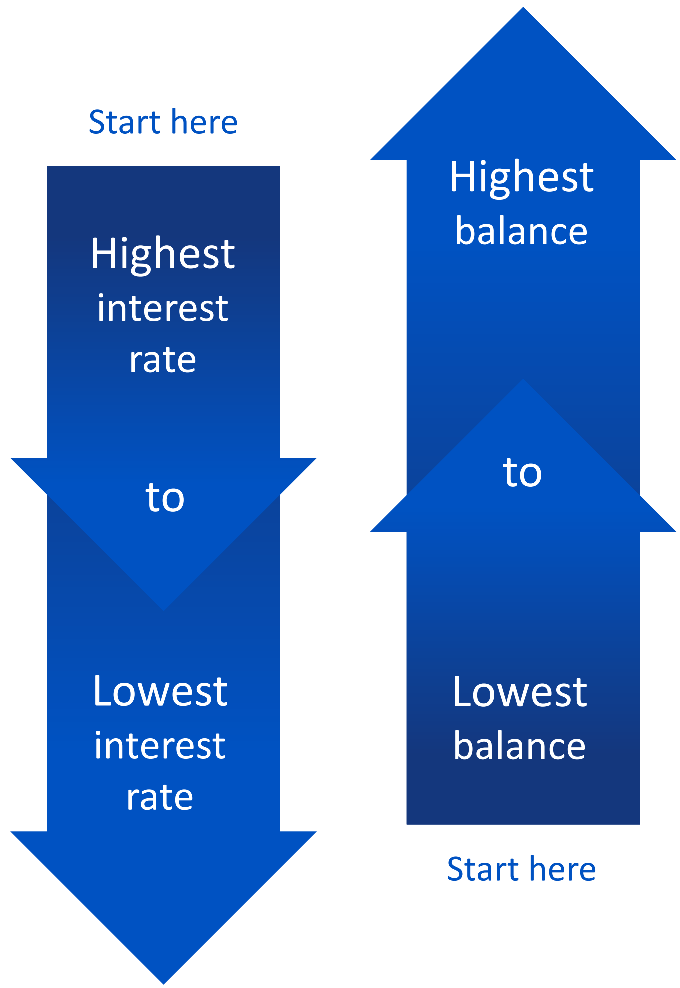
Two methods for paying off debt

Avalanche method

- Focuses on interest rate
- May help you reduce interest paid



Snowball method

- Focuses on balance size
- May help you stay motivated over time

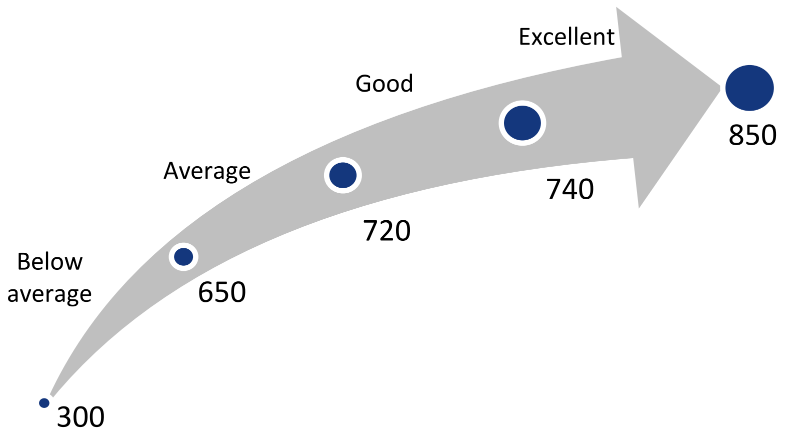
Understanding credit

What is credit?	What is good credit?	What is non-traditional credit?
• Borrowing money with the promise to repay in the future	• A history of paying what you owe on time • Using credit responsibly	• Non-traditional credit file might include: • Rent • Cellphone fees • Utilities

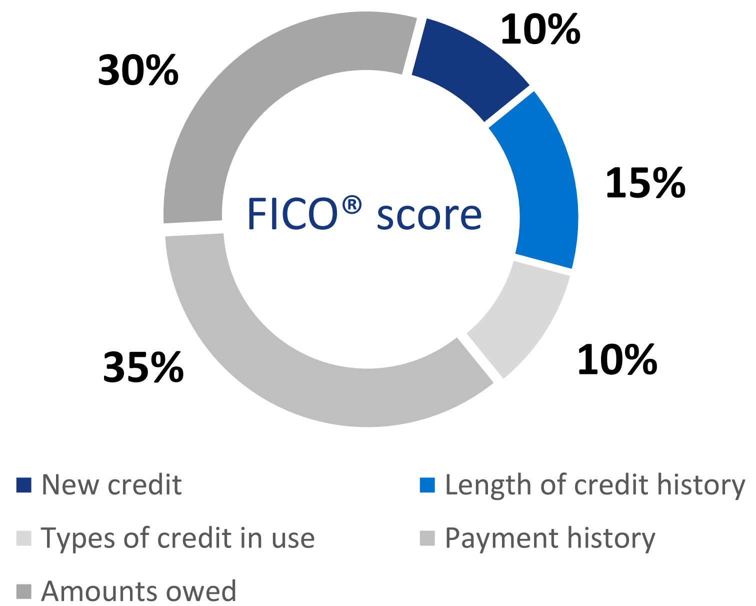
TIP: Visit go.ml.com/credit-rates to learn how credit affects your interest rate.

Understanding your credit score

What is a good credit score?[1]



What goes into your credit score?[2]



[1] *State of Credit 2021: Rise in Scores Despite Pandemic Challenges*, Experian, September 2021 experian.com/blogs/insights/2021/09/state-of-credit-2021/ (accessed April 2022)
[2] *What's in my FICO® scores*, myFICO, myfico.com/credit-education/whats-in-your-credit-score (accessed April 2022)

TIP: To learn how your credit score is calculated, visit go.ml.com/credit-score.

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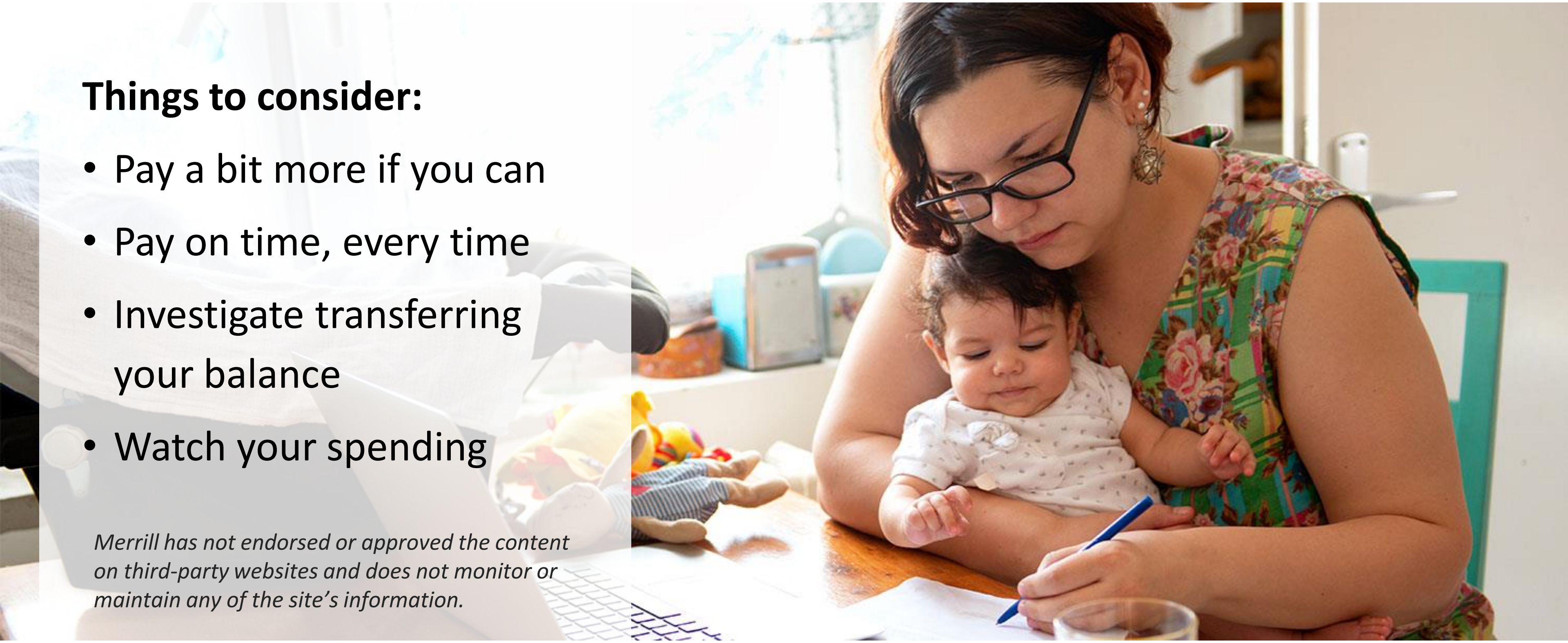
Tying it all together



Things to consider:

- Pay a bit more if you can
- Pay on time, every time
- Investigate transferring your balance
- Watch your spending

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Things to do:

Identify amount & type of debt

Check your credit report

Explore pay-down options

TIP: Check your credit score and credit reports at annualcreditreport.com.

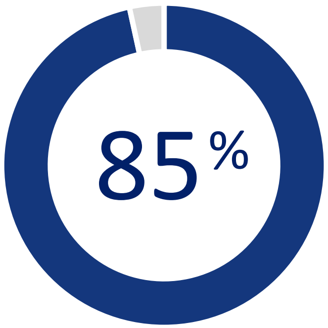
Preparing for the future

How much do you need to save for retirement

- 80-90% of annual pre-retirement income?
- 12 times pre-retirement salary?
- Monthly spending amount?

How much do you really need to save for retirement? merrilledge.com/article/how-much-do-you-really-need-to-save-for-retirement (accessed February 6, 2023)

How much will you need?



85% of your pre-retirement after-tax income

x

The number of years you'll be retired

=

You need a plan

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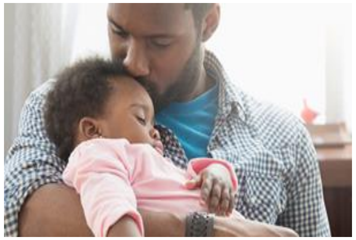
Power of compounding — consider starting early



Chris starts at **age 35**

$200
Monthly contributions

$72,000 over 30 yrs.

$195,851

Potential balance at age 65

Terry starts at **age 45**

$400
Monthly contributions

$96,000 over 20 yrs.

$182,258

Potential balance at age 65

This hypothetical illustration assumes a 6% annual effective rate of return and pre-tax contributions made at the beginning of each month. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate and when redeemed the investments may be worth more or less than their original cost. Taxes are due upon withdrawal. If you take a withdrawal prior to age 59½, you may also be subject to a 10% additional federal tax, unless an exception applies.

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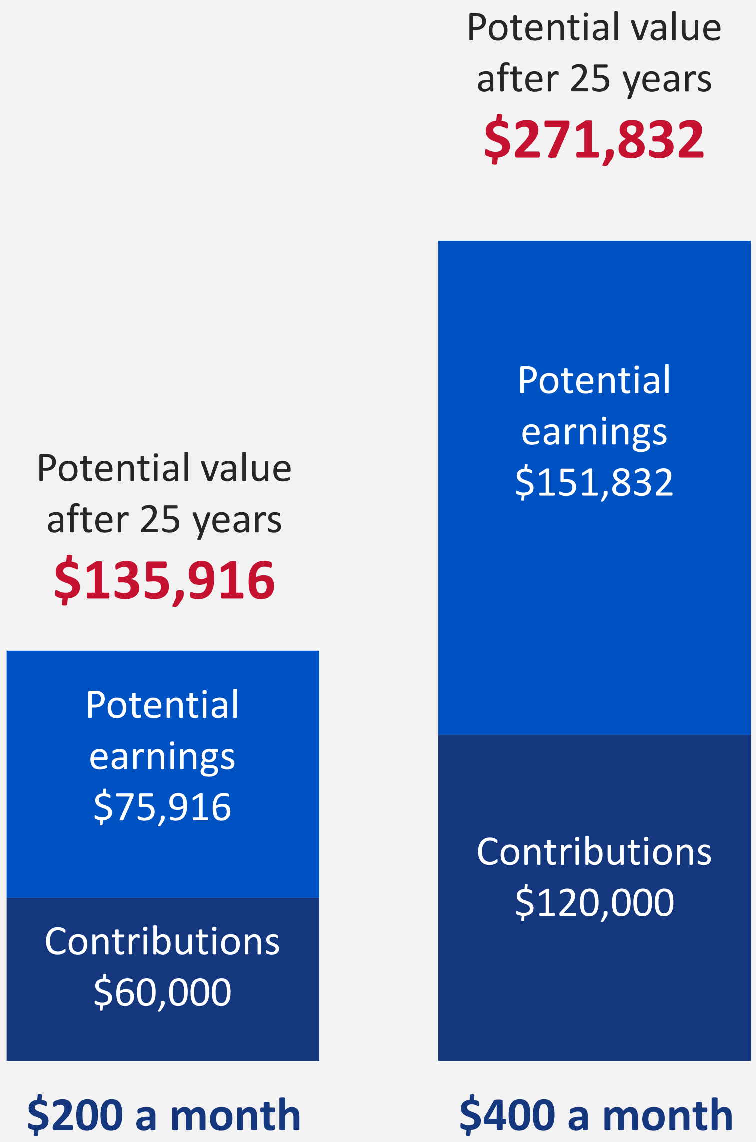
Consider contributing more

Compounding = Earning a return on the money you invest, *and* on the money you earn from your investments.



This hypothetical illustration assumes a salary of $60,000, contribution rates of 4% and 8% with contributions made at the beginning of the month and a 6% annual effective rate of return. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate and when redeemed the investments may be worth more or less than their original cost. Taxes are due upon withdrawal. If you take a withdrawal prior to age 59½, you may also be subject to a 10% additional federal tax, unless an exception applies.

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Tax-advantaged accounts

Different types of accounts:

Your company's 401(k) plan account	Individual Retirement Account (IRA)
Health Savings Account (HSA)	Flexible Spending Account (FSA)

Investing involves risk, including the possible loss of the principal amount invested.

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Tying it all together

Things to consider:

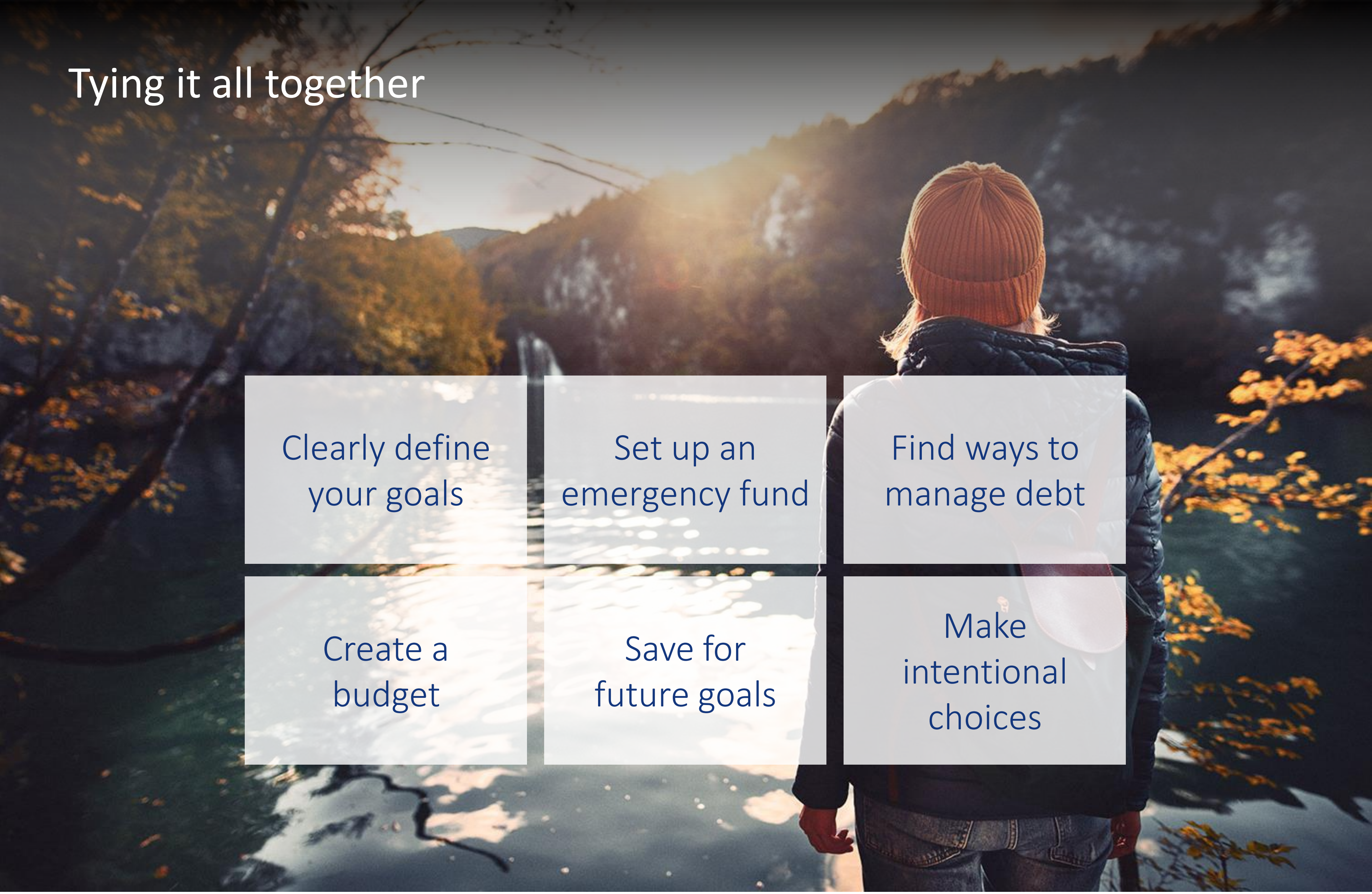
- What employee benefits does your company offer?
- Consider different types of tax-advantaged accounts
- Start investing early, raise contribution rate periodically
- Contribute to get maximum company match (if available)

Investing involves risk, including the possible loss of the principal amount invested.

Things to do:

1. **Consider enrolling** in your benefits
2. **Review** periodically
3. **Consider contributing** enough to get company match (if available)

Tying it all together



Clearly define your goals

Set up an emergency fund

Find ways to manage debt

Create a budget

Save for future goals

Make intentional choices

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