



Vanguard[®]

VANGUARD FINANCIAL EDUCATION SERIES[®]

Reduce debt, build wealth, and get ahead

Hanford Site



**How much can a
\$15 pizza cost?**

How much can a
\$15 pizza cost?

\$291

Agenda

1. The solution: Spend less, save more.
2. Where you stand now.
3. Creating a spending plan.
4. Paying off credit card debt.
5. Making every dollar count.
6. Applying what you've learned.

Whose interest is it?

Pay interest or earn interest?

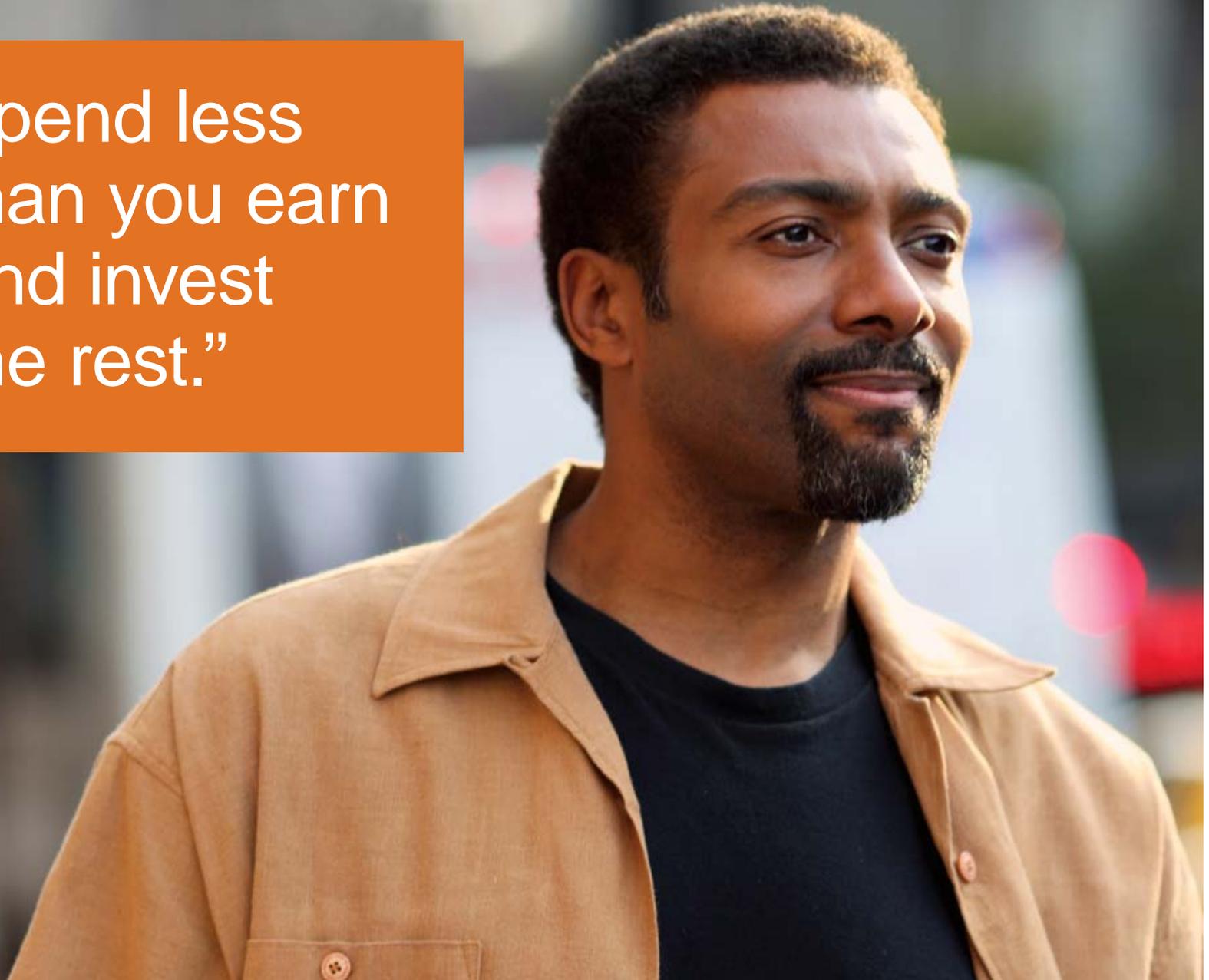
What are your financial goals?

Financial goal	Guideline
Retirement	Consider saving at least 12% to 15% of your income.
New home	Consider a 10% to 20% down payment. Mortgage payment* should not exceed 30% of your monthly net income.*
College**	Public: \$17,860 a year. Private: \$39,518 a year.
New car	Total transportation costs should not exceed 15% of monthly income.

*Mortgage payment includes principal, interest, taxes, and insurance (PITI).

**The College Board (2012–2013 school year); tuition, fees, room and board.

“Spend less
than you earn
and invest
the rest.”



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What you own and what you owe

Total
assets

—

Total
liabilities

=

Net
worth

Before you start, gather statements and records

- Bank, investment company, and retirement plan.
- Cash value of life insurance.
- Personal property and real estate.
- Credit cards, car loan, student loan, mortgage, and other debts.

Net Worth Worksheet

Date _____

Assets—What you own		Value
Current assets	Cash on hand	
	Checking accounts	
	Savings accounts	
	Money market accounts	
	Short-term certificates of deposit	
	Cash value of life insurance	
	Other	
	1. Total current assets	

Net Worth Worksheet

Date _____

Liabilities—What you owe		Value
Current liabilities	Department store credit cards	
	Major credit cards	
	Back taxes	
	Medical and dental bills	
	Other	
	2. Total current liabilities	



Why is your net worth important?

How to increase your net worth

- Reduce debt.
- Increase your assets.
 - Contribute to your plan.
 - Save for other goals.

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**“Money talks . . .
but all mine says
is goodbye.”**

Before you start, gather statements and records

- Checking account.
- Credit cards.
- Cash purchases.
- Insurance premiums.

Don't forget nonmonthly expenses

- Gifts.
- Vacations.
- Home repairs.

A man and a woman are standing on a rocky beach, smiling and looking at each other. The woman is wearing a light green sweater and a striped scarf, while the man is wearing a blue and brown striped sweater. The background shows the ocean waves crashing against the shore.

Paul and Patty:
Going broke
in style

Spending Plan Worksheet

- Part 1: How much money do you make?
- Part 2: Do you save enough for retirement?
- Part 3: Where do you spend your money?
- Part 4: How does your spending compare?

Part 1: How much money do you make?

Paul and Patty's income	
1. Total monthly pay	\$6,666
2. Monthly take-home pay*	\$4,895
3. Add back payroll deductions to meet near-term expenses (e.g., flexible spending accounts)	\$
4. Monthly rental income*	\$
5. Other monthly income (e.g., investment income)	\$
6. Total monthly spendable income (add lines 2 through 5)	\$4,895

*If you are paid weekly, multiply the sum of four paychecks by 1.08 to express your pay in monthly terms.
If you are paid every other week, multiply the sum of two paychecks by 1.08.

Part 2: Do you save enough for retirement?

Paul and Patty's retirement savings	
7. Monthly contributions to employer retirement plan (including employer contributions, if any)	\$125
8. IRAs or other retirement savings	\$
9. Total monthly retirement savings (add lines 7 and 8)	\$125
10. Retirement savings as a percentage of total pay (line 9 divided by line 1)	1.9%
11. Is line 10 at least 12%–15%?	<input type="radio"/> Yes <input checked="" type="radio"/> No

Part 3: Where do you spend your money?

Paul and Patty's monthly spending

	Category	Existing plan	Change + or –	New Plan
After-tax savings	Emergency savings			
	Other retirement savings (e.g., Roth IRAs)	\$25		
	College savings			
	Contingency savings			
	Other savings			
	1. Total savings		\$25	

Part 3: Where do you spend your money?

Paul and Patty's monthly spending

	Category	Existing plan	Change + or –	New Plan
Housing	Mortgage/rent	\$1,000		
	Real estate taxes*	\$125		
	Other			
		2. Total housing expenses	\$1,125	

*Do not include if these expenses are part of your mortgage payments.

Part 4: How does your spending compare?

Paul and Patty's spending patterns

Category	Spending	Paul & Patty's percentage	Suggested range	Above or below suggested level?
After-tax savings	Line 1 ÷ Line 10	1%	5%–25%	Depends on your goals
Housing	Line 2 ÷ Line 10	22%	20%–30%	<input type="radio"/> Above <input type="radio"/> Below
Household expenses	Line 3 ÷ Line 10	8%	15%–25%	<input type="radio"/> Above <input checked="" type="radio"/> Below
Discretionary/ personal	Line 4 ÷ Line 10	18%	5%–10%	<input checked="" type="radio"/> Above <input type="radio"/> Below

Paul and Patty's new spending plan

Target expenses	Expected annual savings
Take driving vacations, not flying	\$1,200
Trade down to a less expensive car	\$2,400
Cut back on dining out	\$4,200
Reduce car insurance premiums	\$900
Total annual savings:	\$8,700

Changing your spending habits

- Create savings opportunities.
- Set your priorities.
- Don't punish yourself.

Redirect your extra cash

Consider:

- Contributing 12% to 15% of your pay to your retirement account.
- Paying off credit card debt.
- Establishing an emergency fund.

Is your emergency fund adequate?

Emergency fund	
1. Enter your monthly spending (line 10 on page 27)	\$
2. Multiply line 1 by line 3 (or 6)	\$
3. Enter your total current assets (line 1 on page 12)	\$
4. Is line 3 greater than line 2?	<input type="radio"/> Yes <input type="radio"/> No

If you answered “yes” in line 4 above, you have an adequate emergency fund. If you answered “no,” you may need to add to your emergency fund.

Borrowing from your employer's plan

- May reduce your retirement savings.
- Balance due if you change jobs.
- Potential penalty.

Check out the Retirement Plan Loan Calculator at **[vanguard.com/toolbox](https://www.vanguard.com/toolbox)**.

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“Too many people spend money they haven’t earned, to buy things they don’t want, to impress people they don’t like.”

—Will Rogers

A **\$5,000** credit card balance with an **18%** interest rate accumulates nearly **\$1,000** in interest annually.

\$1,000

What's the real cost of a computer?

Deborah	Vicki	Pat
Pays off her purchase in full.	Pays the \$30 monthly minimum.	Pays the \$30 minimum plus an extra \$20 a month.
Total cost: \$1,000	Total cost: \$1,414	Total cost: \$1,205
Years paid: 0	Years paid: 4	Years paid: 2

Paul and Patty's credit card debts*

Credit card	Interest rate	Current balance	Minimum payment
Card 1	21.5%	\$453	\$12
Card 2	18.5%	\$3,893	\$115
Card 3	18.0%	\$4,502	\$150
Card 4	16.5%	\$136	\$10
Total		\$8,984	\$287

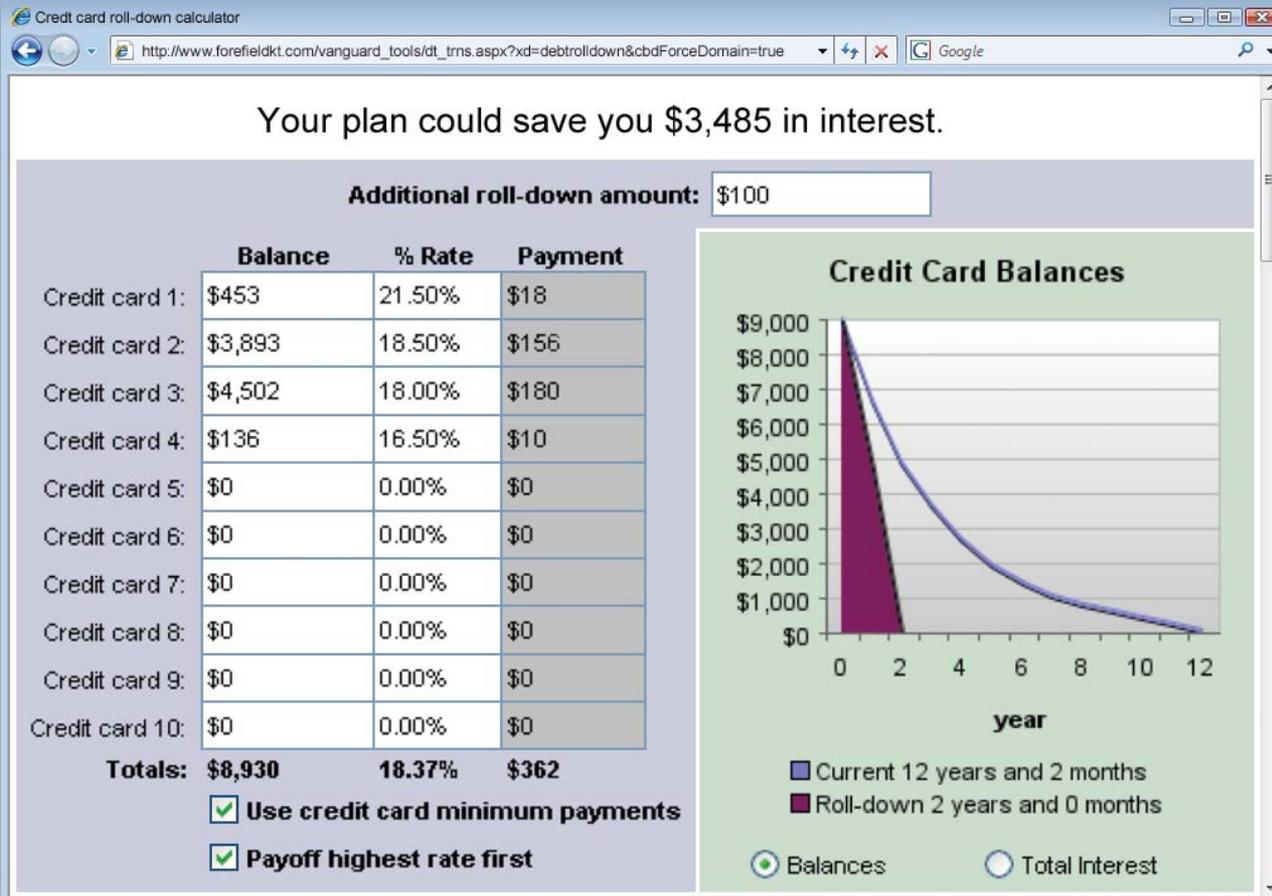
*Paul and Patty intend to add an additional payment of \$100 to the card with the highest interest rate, continuing to make the minimum payments on their remaining cards.

12 months later

Credit card	Interest rate	Current balance	Minimum payment
Card 1	0%	\$0	\$0
Card 2	18.5%	\$2,258	\$227*
Card 3	18.0%	\$3,426	\$150
Card 4	16.5%	\$31	\$10
Total		\$5,715	\$387

*Minimum payment of \$115 plus \$112 (\$112 represents the \$12 minimum payment previously owed on credit card 1 plus \$100 debt repayment plan).

Credit card roll-down calculator



Master your credit cards

Consider:

- Paying balance in full every month.
- Making purchases with cash, checks, or debit card.
- Knowing card rates and fees.
- Limiting the number of cards you use.
- Opting out of credit offers at **optoutprescreen.com**.

Vanguard is not responsible for the accuracy of the information on third-party sites.

Order your credit report!

annualcreditreport.com

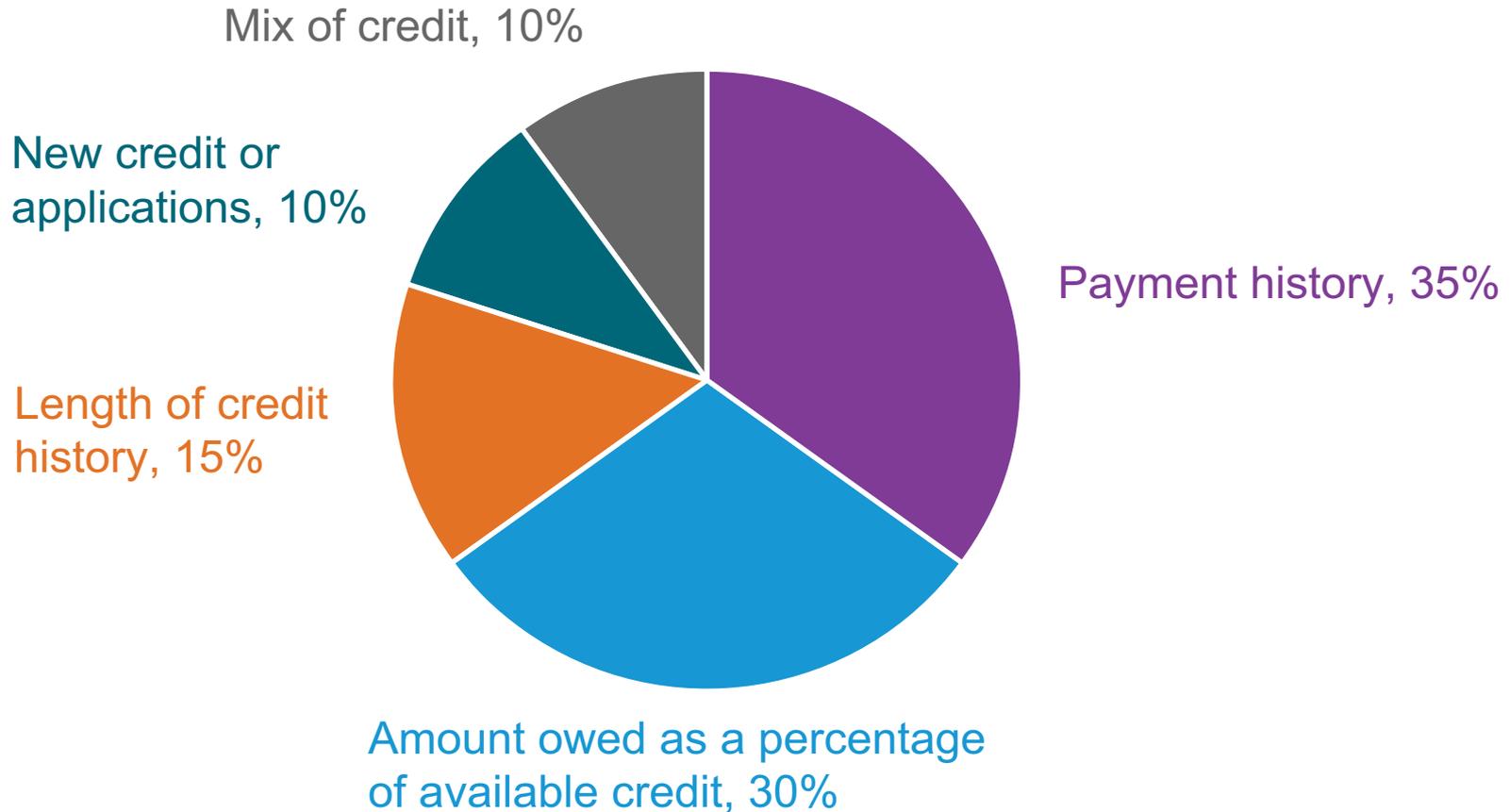
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What can your credit score affect?

- Ability to get credit cards.
- Ability to get loans.
- Interest rate you pay on cards and loans.
- Insurance premiums.
- Employment screening.

Note: By far the most commonly used credit score is the FICO score, which is named for its developer, the Fair Isaac Corporation.

What goes into your credit score?



“All my debts will disappear if I file for bankruptcy. Then I’ll have a fresh start.”



Filing for bankruptcy should be a last resort

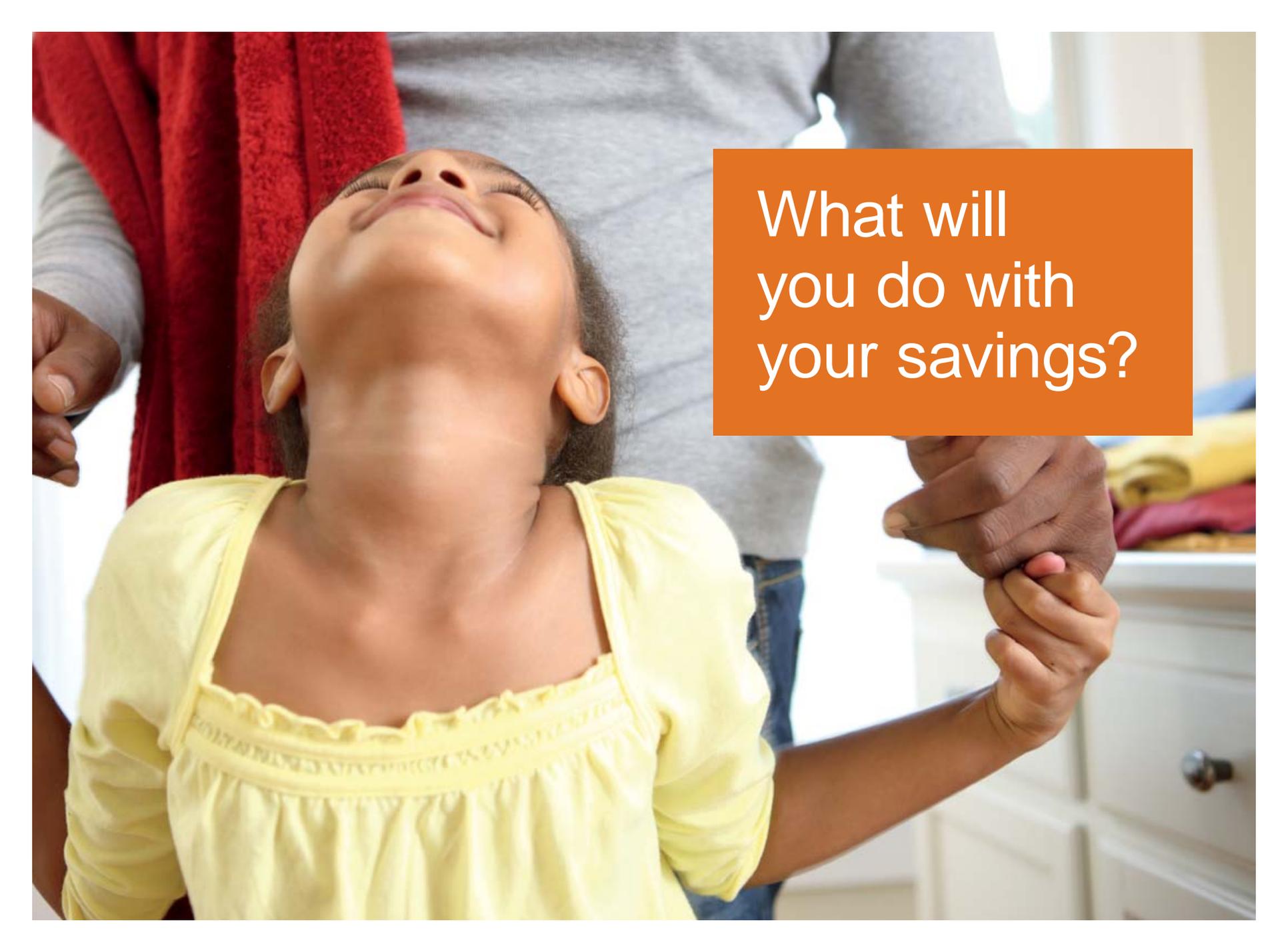
- Stains your credit history.
- Not all debts can be discharged.
- Consider other options.

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Where can you tighten your belt?

Money-saving ideas	Potential savings
1.	\$
2.	\$
3.	\$
4.	\$
5.	\$
6.	\$
Total monthly savings	\$

A young girl with dark hair, wearing a bright yellow top, is looking upwards with her eyes closed and a slight smile. She is holding the hands of an adult whose hands are visible on either side of her. The adult is wearing a grey long-sleeved shirt and a red shawl or blanket. The background is slightly blurred, showing what appears to be a white cabinet or dresser. An orange rectangular box is overlaid on the right side of the image, containing white text.

What will
you do with
your savings?

Start with your employer's plan

- Employer contribution:
 - 100% match on the first 3%; 50% match on next 2%.
 - Vests after 5 years.
- Pre-tax and/or after-tax contributions up to 50% maximum.
- Tax-deferred savings.*
- Steady paycheck deductions.
- Flexibility.

*When taking withdrawals from a tax-deferred plan before age 59½, you may have to pay ordinary income tax plus a 10% federal penalty tax.

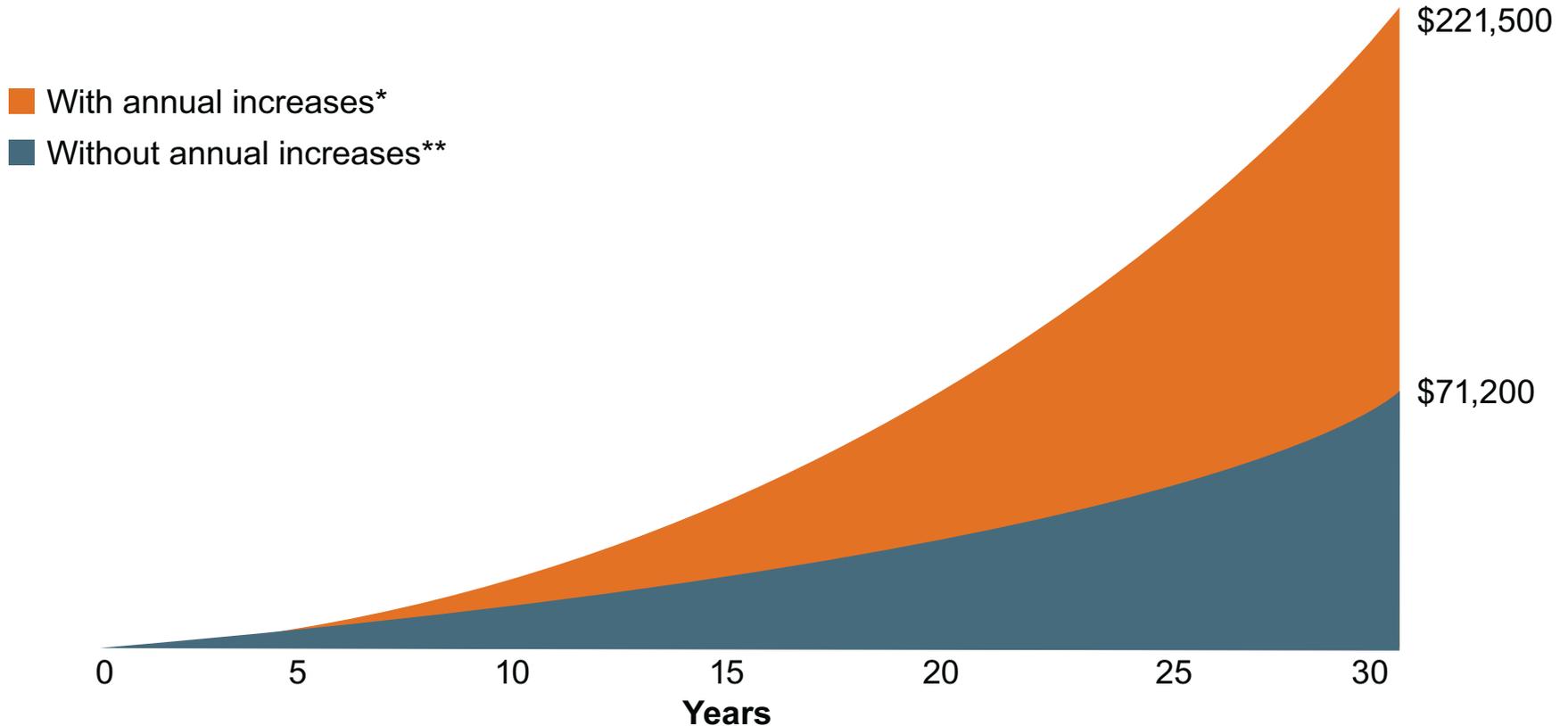
To join or increase your contribution

- Contact:
 - **Vanguard.com.**
 - Vanguard Participant Services at **800-523-1188.**
- Establish or change:
 - Contribution percentage.
 - Investment choices.
 - Beneficiaries.
- Sign up for automatic annual savings increases.

Your plan's automatic annual increases

- Help you save more automatically.
- Boost your rate annually in whatever month you choose.
- Let you choose your annual election— from one to five percentage points.
- Continue until you reach Plan cap of 50% or a maximum percentage you determine.

The difference with annual increases



*Assumes a \$30,000 salary, a 3% payroll deduction, a one-percentage-point annual increase (up to a 12% cap), and a 6% average annual rate of return.

**Assumes a \$30,000 salary, a 3% payroll deduction, and a 6% average annual rate of return.

This hypothetical illustration does not represent the return on any particular investment. The final account balances do not reflect any taxes or penalties that may be due upon distribution. Withdrawals from a tax-deferred investment before age 59½ are subject to a 10% federal penalty tax unless an exception applies.

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What will Paul
and Patty do with
their savings?

Paul and Patty's spending revisited

- Take driving vacations, not flying.
- Trade down to a less expensive car.
- Cut back on dining out.
- Reduce car insurance rates.

What will they do with **\$8,700** in savings?

Paul and Patty's action plan

Shoring up retirement savings	
Total monthly spending reductions	\$725
Spending plan gap	-\$205
Additional 401(k) contributions	-\$283
Amount remaining	\$237

Paul and Patty's action plan

Eliminating credit card debt	
Remaining monthly spending reductions	\$237
Less extra credit card payments	-\$100
Amount remaining	\$137

Paul and Patty's action plan

Beefing up emergency fund:

- Redirect remaining \$137 a month.
- Increase amount when credit cards are paid off.
- Reach emergency fund goal as soon as possible.

Your action plan

- ✓ Set your financial goals.
- ✓ Calculate your net worth.
- ✓ Track your expenses.
- ✓ Develop a spending plan.
- ✓ Review your spending plan and make necessary changes.
- ✓ Assess emergency fund adequacy.
- ✓ Evaluate your credit card debt.

Get started now

Don't wait until:

- You earn more money.
- You have less debt.
- You have time to create the perfect plan.

vanguard.com

- Secure account balance information at a glance.
- Quick and easy transactions with helpful tips.
- Easy-to-read information on investments and account types (IRAs, college savings, etc.).
- Interactive calculators and planning tools.
- Current videos and podcasts.
- **[Vanguard.com/getahead](https://www.vanguard.com/getahead)**.

vanguard.com/getahead

Strategies for getting ahead

Retirement Plans



Strategies for getting ahead

Use these resources to apply what you've learned about getting out of debt and starting to save.



Saving and spending

Add up your assets and liabilities »
This quick tool can help you manage debt and spending.

See where your paycheck goes »
It's easier to save when you know how you spend.

Prepare for an emergency »
See how much money you may need to have available.
[Open a money market account now »](#)

Making every dollar count

Save for retirement and get tax benefits »
It's easy to join your employer's plan.

Learn what the dealer paid for the car you want »
It can be your starting point for negotiations.

Compare insurance quotes »
You may be able to pay less.

Get tax-advantaged college savings »
Learn about 529 college savings plans.

Debt and credit

Use this simple strategy to tackle credit card debt »
Eliminating debt is a first step toward financial health.

See if refinancing your mortgage makes sense »
You may be able to cut your monthly payment.

See if you can reduce student loan payments »
Wrapping all your loans into one could save you money.

Find a credit card with a lower rate »
If you must carry a balance, pay less for it.

Get a free credit report »
Make sure it's correct so you don't pay the price.

Get free or low-cost credit counseling »
Find reputable help if you're in financial trouble.

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Also of interest

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[Learn about your investing life stage](#)

[Invest outside your plan now](#)

Meeting worksheets

[Spending Plan Worksheet](#)

[Net Worth Worksheet](#)

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