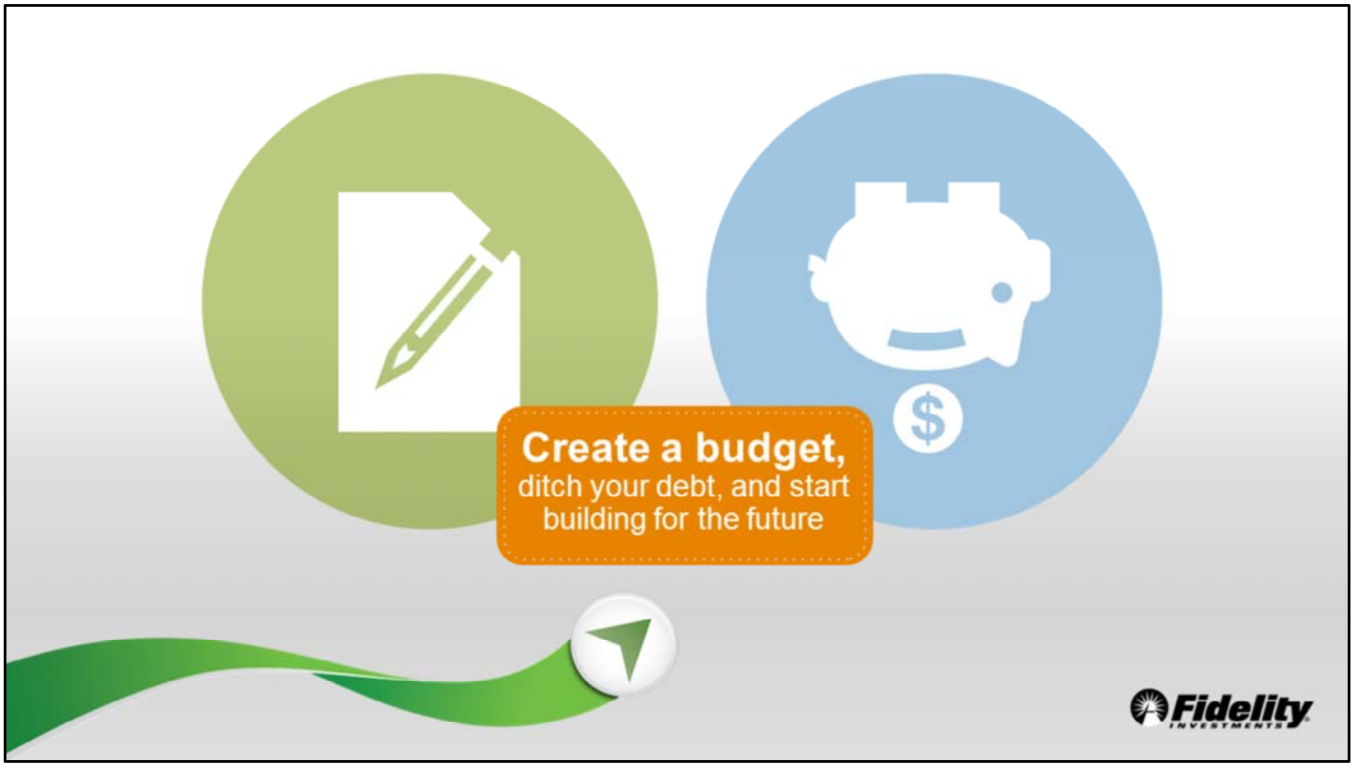

Create a budget,
ditch your debt, and start
building for the future
Fidelity
INVESTMENTS

We’ll begin by talking about budgeting.

First, we’ll talk about all of the reasons why making and maintaining a budget is a good idea.

Second, we’ll discuss what components go into creating a budget

Once that’s done, we’ll focus on actually establishing a budget

Then, we’ll talk briefly about the importance of building savings.

Then we'll move on to Debt Management.

First, we'll start by discussing why debt management is so important.

From there, we'll break down the difference between good and bad debt

Third, we'll then analyze different kind of debt to determine whether it's good or bad.

Once we know that, we can then prioritize any debt you might be holding

We'll then talk a bit about your credit. We'll cover why it's so important to monitor your credit…

…and finally, what factors affect your all-important credit score.

making a budget and sticking to it will help provide you with freedom from debt…and uncertainty.

Budgets don't HAVE to be restrictive. YOU set them, and YOU control them, so you can make sure to factor in the "fun" items that are important to you, like taking a vacation, going out to dinner, or buying a new gadget you've been dreaming about.

A spending plan isn't just a good idea…sometimes it can actually improve lives!

Research shows that people who create a budget:

1. Are able to prepare for the future more than non-budgeters, who tend to focus on and worry more about short-term finances.

2. Have on average two times the amount of liquid assets as non-budgeters.

3. Tend to save more for emergencies, and have lower credit card debt than non-budgeters.

As you can see, making a budget will give you a better handle on today…while getting you ready for tomorrow at the same time.

So how do you do it? Let's get into that now.

All of your spending can be categorized into three categories. The first category is essential spending.

Essential Spending are those things that you absolutely have to purchase every month to keep your life running smoothly. These are the must-haves, including things like:

Housing
Food
Health Care
Transportation
Childcare
And Any other monthly obligations you might have

There's no way to tell you for certain how much this should be every month because each family is different. But a good target to aim for is this: if you can get your essential spending to 50% or less of your take home pay, then you're in pretty good shape.

The next category is something we're calling Essential Savings.

There are two types of Essential Savings you need to consider:

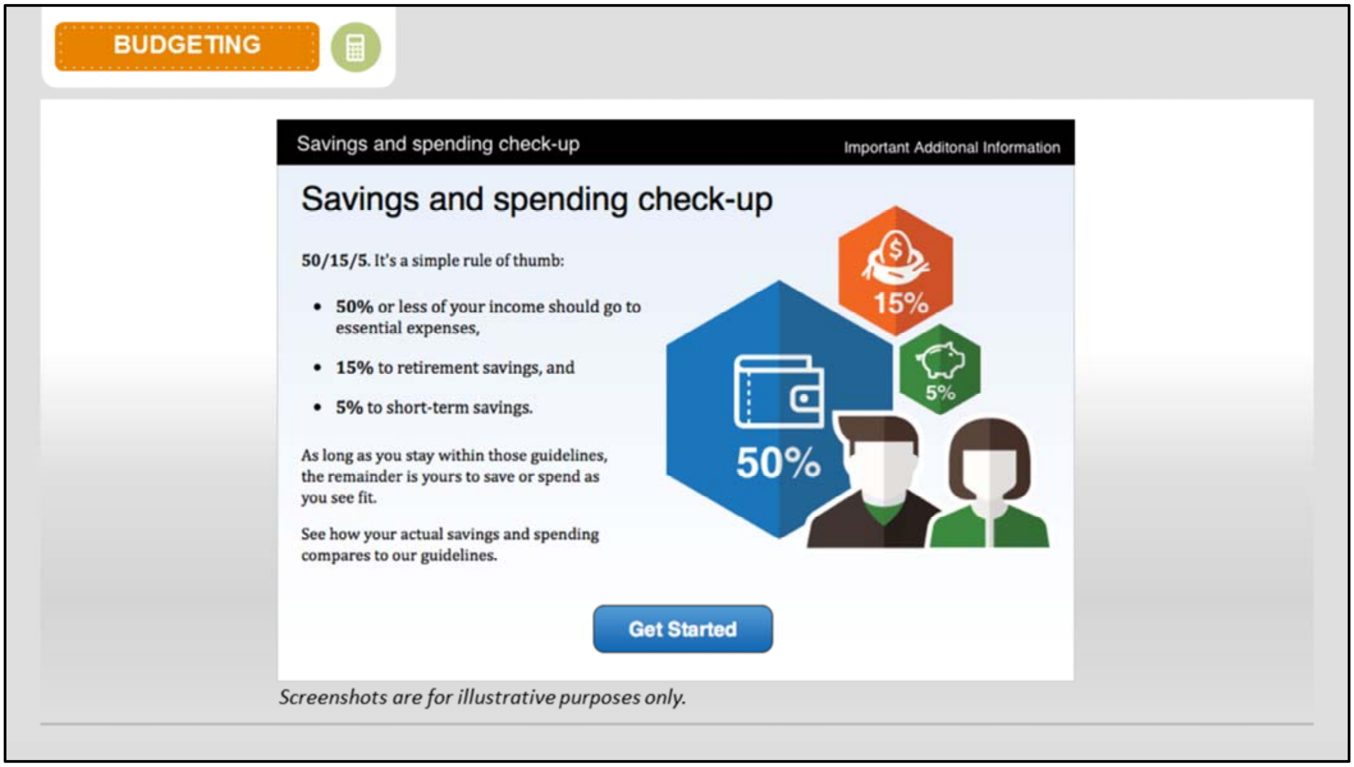
1. Retirement Savings
At any age, it's always a great idea to start putting money away for the future. Obviously, the more you can spare the better. Fidelity suggests setting a savings rate of 15% of your paycheck into your workplace savings plan, in order to have the best chance of meeting your goals by the time you reach retirement. This amount includes both your contributions and any employer contributions.

2. Emergency Savings
No matter how smoothly things may be running at any given time, there will always be unexpected expenses that come up, like a surprise medical bill or a car repair. These costs can really throw a budget out of whack and get you further into debt. The best thing to do is PREPARE for these moments with an emergency rainy day fund. We recommend saving up to 5% of your pre-tax income for this purpose, until you have enough to cover 3-6 months of expenses.

Everything else goes into the third bucket: Other Wants and Goals. Unlike essential spending and savings, the items that get put into this bucket are entirely up to you, based on your wants and needs. This could mean saving up for things like a car, college tuition or a new home, or paying off any big debts. And of course, this is also where you can add line items for discretionary spending like eating out, taking a vacation, and so on.

So where do you start? A really good way to estimate your future spending is to see what you're spending today. You find this information by looking at your paycheck, as well as your bank and credit card statements, to inventory where your money is going.

From there, you can categorize your expenses into the three categories we discussed and do some math.



Now that you've gotten the budgeting framework and a hypothetical example, you may want to take a shot at drafting a monthly plan of your own. Use the Savings & Spending checkup on NetBenefits to see how your actual savings and spending numbers measure up to the guidelines we've covered. Simply tell us a little about yourself—enter your essential spending and your essential savings, and then get results to see if you're on track to meeting your financial goals.

Now, let’s go into some more detail about that second category: Essential Savings.

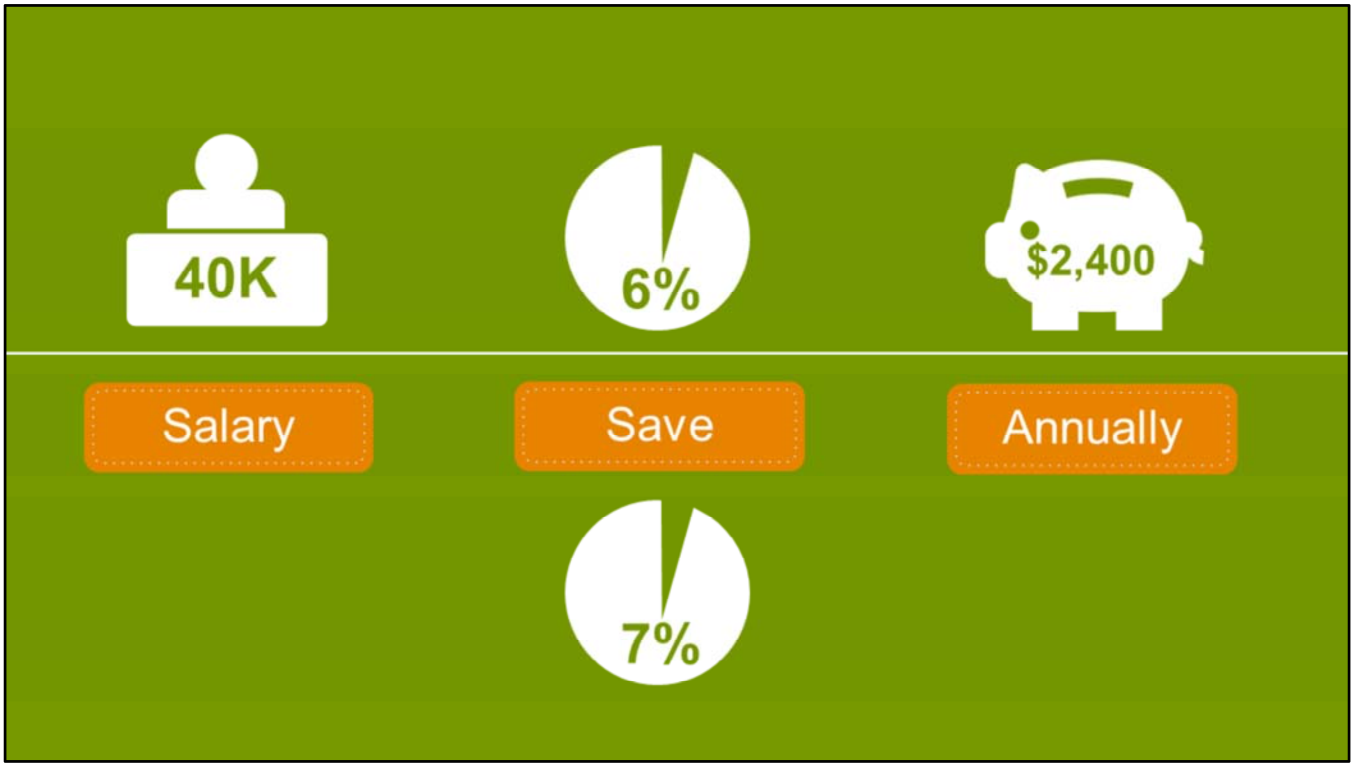
Let's talk a little bit more about why emergency savings is so important, and some strategies to help build yours up. Emergency Savings is your Rainy Day Fund, which you use when something unexpected comes up like job loss or a surprise medical bill.

If 5% of your pre-tax income is too much for your budget, pick an amount you’re more comfortable with. Then, open up a money market or bank savings account, and put whatever you can each month into it for this purpose. Treat it like a bill, and make regular deposits each payday as though it were a fixed cost you can’t get out of. If it’s in your checking, it’s just too easy to dip into, but if it’s got its own place, you’ll be more likely to keep it there, and it’ll earn interest for you at the same time.

A rainy day fund is also a great idea because if you DO need some emergency money

Like I mentioned before, it’s generally recommended that you have 3-6 months of expenses stored in up for this purpose. Easier said than done, I know.

Now, let's talk about saving for retirement, which is also in that Essential Savings bucket. No matter how old you are, you really SHOULD be saving for it.



(For plans that DO NOT offer a match)

Let's take a look at how your retirement savings could potentially add up over time.

Let me show you what I mean: Let’s say you make $40,000 per year. You decide to defer 6% into retirement, which amounts to $2,400 annually.

Now even if you never changed that amount, and assume a modest return of 7%,

That relatively small deferral would have amounted to $34,404 after ten years,

$102,081 after twenty,

and an incredible $235,213 after thirty.

But the odds are that over time, things will happen that WILL change your deferral amount: new jobs, better salaries, and so on. Every change you make can cause that number to grow ever higher.

And, as you can see, the sooner you get started doing putting money away, the more time your money has to increase like this. And if you're not planning on retiring for a long time, you can then put this money in investments with more growth opportunity, like stocks and mutual funds.

Up until now, we've talked about how to allocate your incoming money in the most productive possible way to deal with the present and future, without taking on any unnecessary debt.

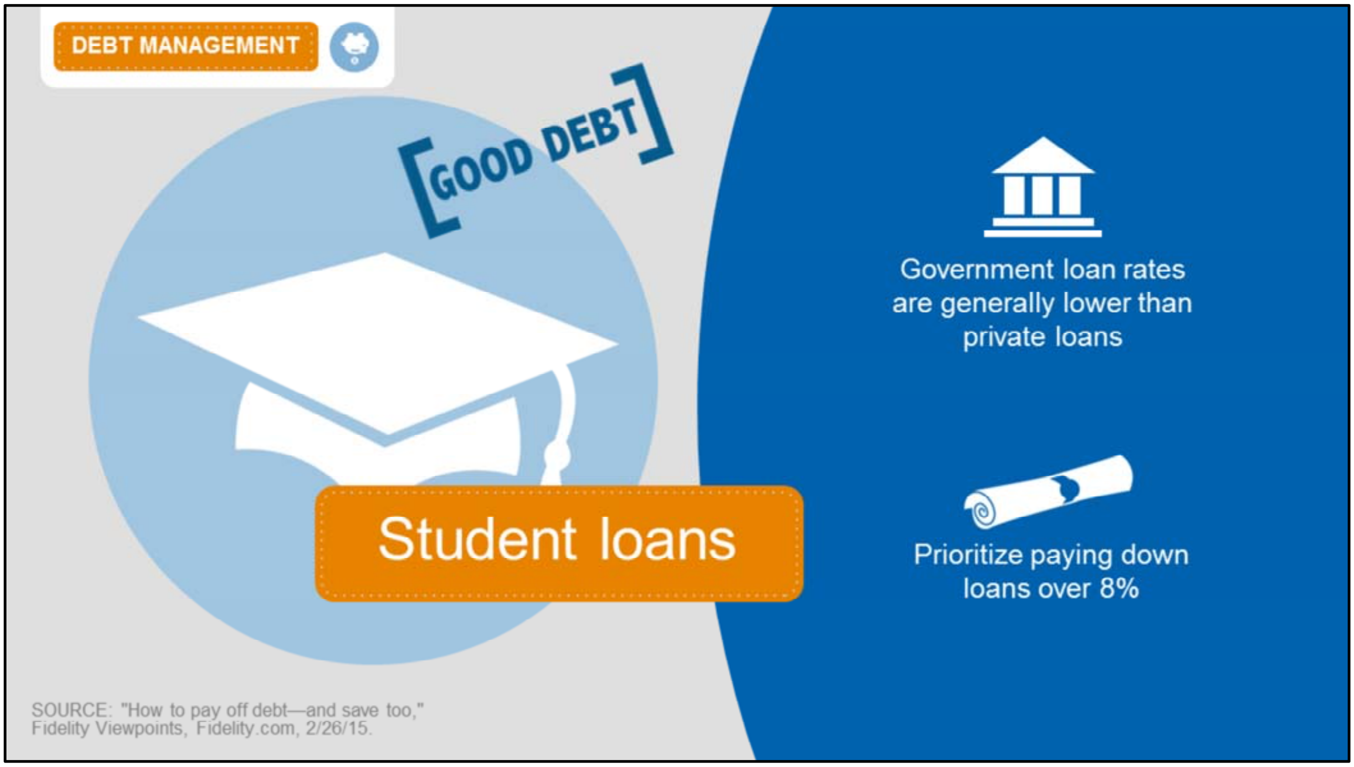
And at this point, you might be saying 'that's all well and good…but what about the debt I've already GOT?'

That's what the second half of this workshop is all about!

So let's talk about managing your debt.

Believe it or not, there are some types of debt that are considered good, and actually improve your situation by potentially increasing your net worth or earning power. Of course, there are also many types of bad debt, that only make your situation worse.

The first step to tackling your debt is to categorize the good debt from the bad, and then make the most of the good debt, while getting rid of the bad debts that come with high interest rates, or pay for things that decrease in value.



Let’s start with student loans. Millions of people have them, and they can be very expensive.

Student loans are an investment in your future. By borrowing money today, you’re investing in your own ability to earn enough money in the future to more than negate that cost.

Plus, depending on your current income, you might be able to get a tax break on your loan payments. To find out if you qualify, talk with a tax professional.

There are two different types of student loans to be aware of: government loans and private loans. Here’s the difference: The interest rates on government student loans are typically better than those you get with private ones.

The general rule of thumb is that, as long as your interest rates are under 8%, it’s okay to have student loans, as long as you’re making payments regularly. However, if you hold any private loans or loans with an interest rate over 8%, you should target those specifically, and try to pay them off as soon as possible.

Next up…is a mortgage. Good debt or bad debt? In most cases, a mortgage is good debt

A home is generally considered good debt because in most cases, it will appreciate in value over time.

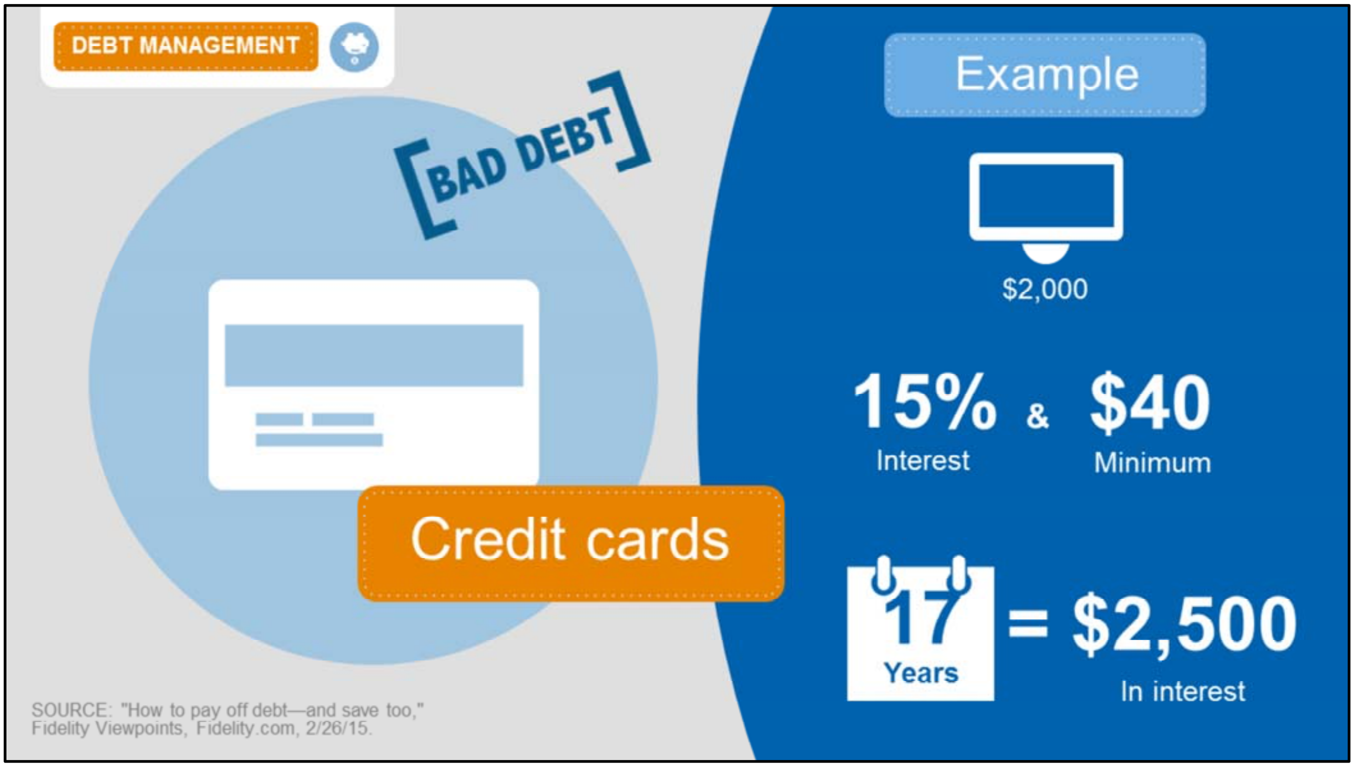
There are other positive things too:

First, there may be big tax advantages, since you can deduct taxes, interest, and points from your yearly return.

Second, recent interest rates on mortgages have been reasonable, which keep monthly payments lower.

However, keep in mind that home ownership does come with LOTS of unexpected costs, like insurance, property taxes, and the repairs.

We recommend that no more than 28% of your gross pre-tax income should go toward your housing. If those numbers work for you, a mortgage is definitely good debt to have.



when you use them effectively, and pay them in full every month, they are a pretty great thing because it helps your credit score and you can accumulate rewards.

However, credit cards are actually bad debt.

If you run up a large balance that you can't pay off, those interest charges accrue fast. And if you only pay the minimum…the situation gets even worse.

Let's look at an example. Say you decide to buy a flat screen TV for 2,000 and put the cost entirely on your credit card.

If your interest rate is 15%, and you only pay the monthly minimum of $40 on that charge, it will take you 17 YEARS to pay it all off. You'll pay $2,500 in interest only. Over 100% of the cost of that TV just in interest!

So, as a general rule of thumb, paying off your cards in full can save you plenty. If you can't pay in full every month, make at least the minimum payment…because missing a payment will also add a late fee to your bill and damage your credit score.

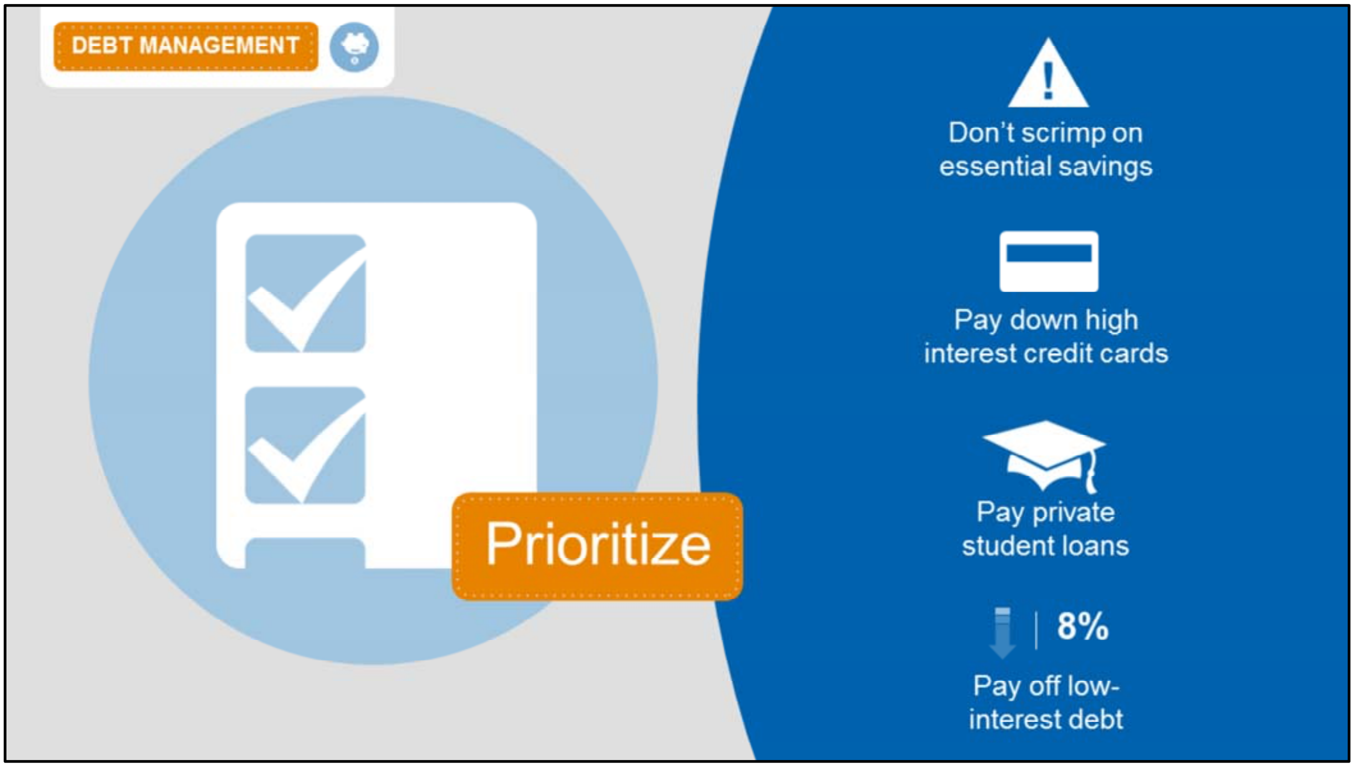
Okay, let's talk about auto loans next. Reliable transportation is very important, yet some car loans can have high interest rates…so good debt or bad?

While it is possible to get auto loans with low interest rates, auto loans are still considered bad debt.

Why? Not only can rates vary widely, but the fact is that cars tend to lose value over time.

But in many cases, they're also a necessity. So here are some things you can do to minimize an auto loan's impact on your life:

1. Try to get a shorter-term loan if possible, as that will save you money on interest in the long run.
2. Shop around for loans before you visit the dealer
3. Try to pay more than the minimum each month on your auto loan



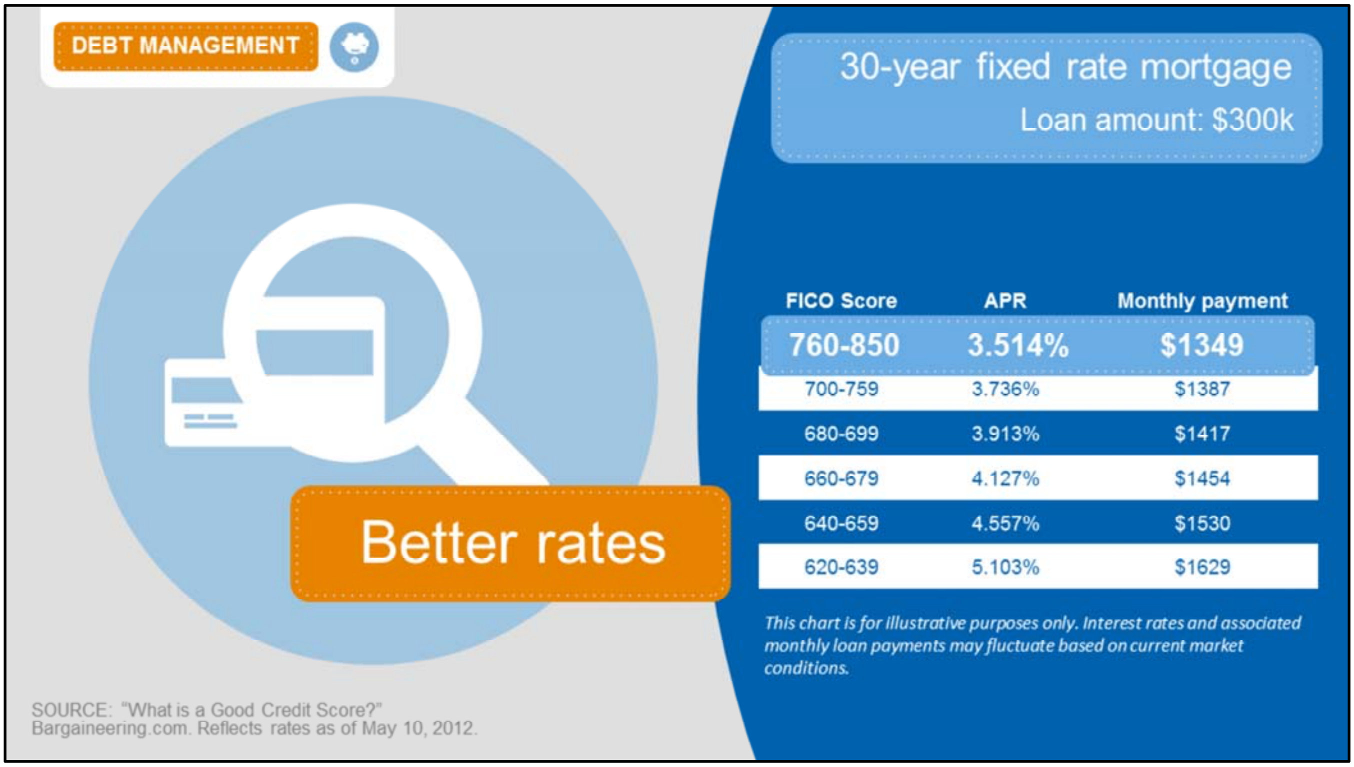
Now that we've covered some of the types of debt you might have…let's prioritize how to deal with them:

Step one: Don't scrimp on the Essential Savings. We already covered why it's important – protecting you from the unexpected, and getting you on a path toward the future. So even if you only give a bit each month, it should still be your top priority.

Step two: Pay down high-interest credit cards. Once essential savings are squared away, reducing or eliminating credit card debt is the best thing you can do, since it will save you interest costs, and improve your credit score.

Step Three: Pay down private student loans. Remember that private loans come with a higher interest rate, and begin charging interest almost immediately. Therefore, once your credit card situation is dealt with, isolate any private loans (as well as any loans with an interest rate over 8%), and pay these down.

Step Four: Pay off low-interest debt. Once your other debts are managed, you can then turn your attention to lower-interest debt like mortgage, auto loans, and government student loans. Now while all of these debts need to be paid off, their lower interest rates, plus the potential tax advantages that come with having them, mean that as long as you're making the minimum monthly payments, you can take advantage of the advantages without costing yourself too much down the road.



Finally, for as important as your credit score is, too many of us don't do enough to keep track of it.

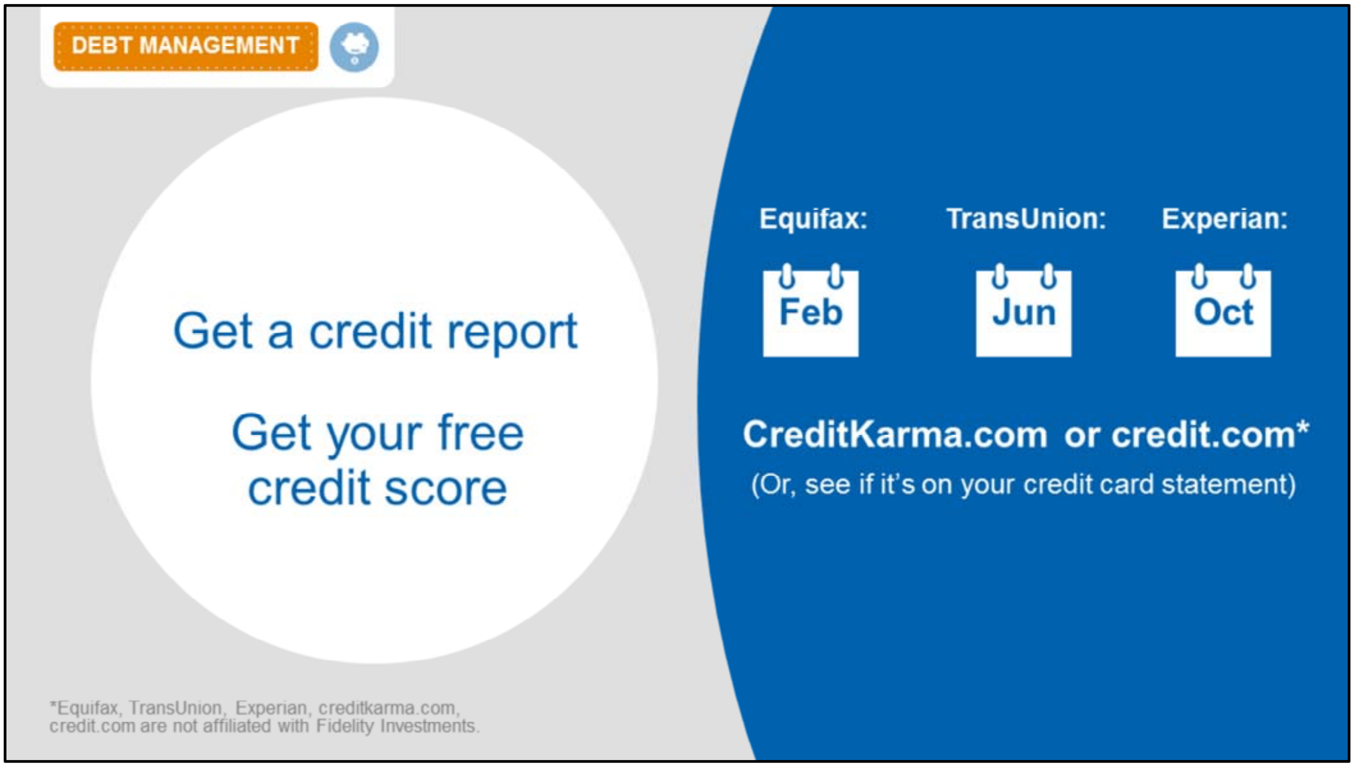
So the last topic I want to cover today is Monitoring your Credit. There are two main things you can do to keep on top of your credit:

1. Get a Credit Report
2. Look up your Credit Score

The more debt you own, the lower your credit score gets. And you want that number as high as possible, since it not only affects your ability to get a loan, but also what interest rate you get for it.

For example, take a loan for a $300,000, 30-year fixed rate mortgage. As you can see, the higher your credit score is, the lower your rate will be. And a lower rate translates to a lower monthly payment.

So monitoring your credit and debt is a very big deal. Let's talk about how you can do it.



Your credit report is very important. It's what loan officers look at when they determine if you qualify for a loan, and at what rate.

You probably already know that you're entitled to receive a free credit report once per year. There are three major bureaus who issue reports: Equifax, TransUnion, and Experian

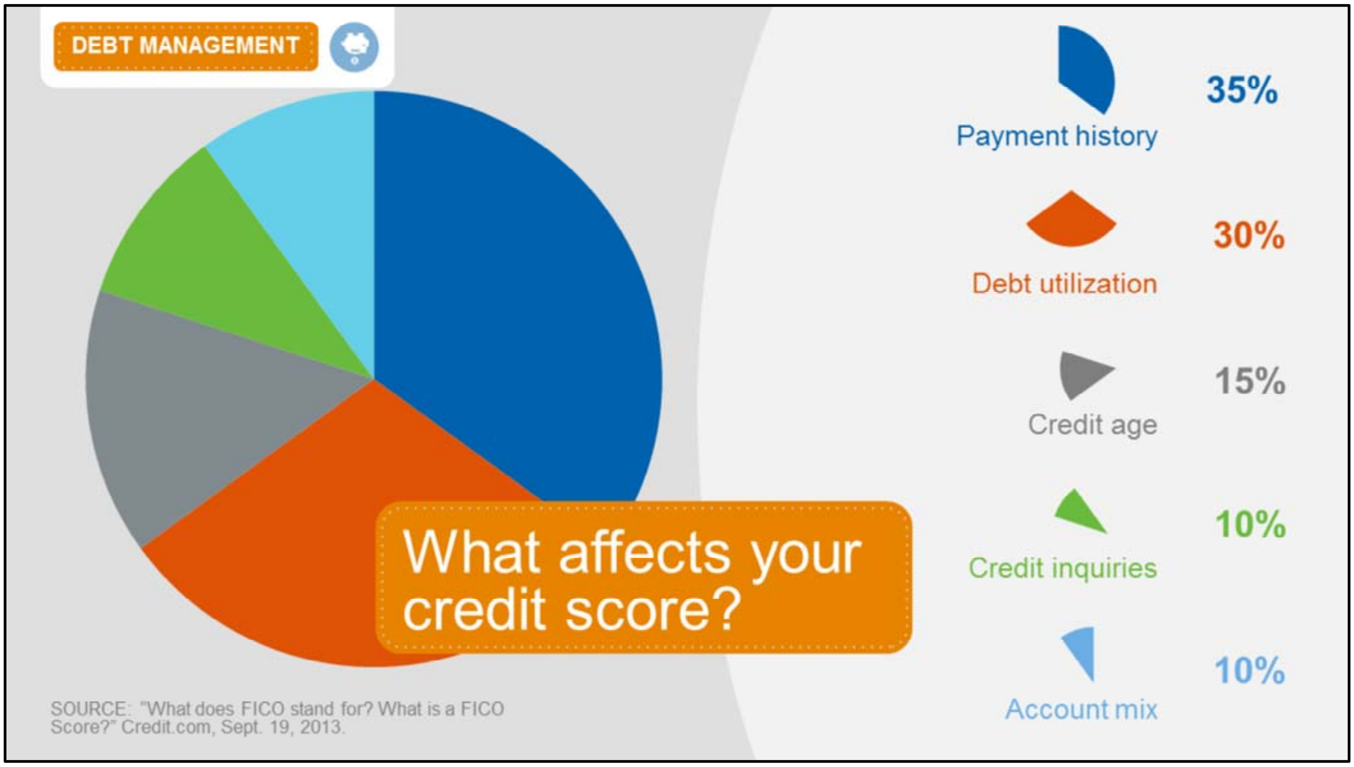
Here's the thing: You don't have to get reports from all three at once. By staggering your free reports over the year, say Equifax in February, TransUnion in June, and Experian in October, you can get much more up-to-date reporting, much more frequently.

No matter which report you get when, you want to check it for inaccuracies, such as:

- Accounts that don't belong to you
- Addresses where you haven't lived
- Employers you haven't worked for

Errors like this are signs of mistakes or fraud, both of which need to be corrected.

One more thing to keep in mind: your credit SCORE is actually different from your credit REPORT, and in fact you won't find your score in any of the reports released by the three major bureaus. Your credit score might be on your credit card statement, and if not, certain companies offer that for free, such as CreditKarma.com, or credit.com.



So that's how to GET your credit score. But what exactly IS it? This pie chart represents all of the factors that go into determining your credit score. They include:

35% Payment History – This is the biggest factor to your credit score. It refers to the payments made on time, made late, or missed entirely…plus any debt that's been turned over to a collection agency.

30% Debt utilization – The second biggest chunk refers to how much of your available credit you're currently using. Generally, the lower your debt utilization, the higher your score.

15% Credit Age – This refers to the amount of time you've had credit. In this case, the longer the better, as it shows you have a history with taking loans, and paying them back. Believe it or not, keeping an old account active or an old credit card open could help you here, as closing them down negatively affects your credit age.

10% Credit Inquiries – The amount of times your credit information has been requested COULD have a negative impact on your credit score, depending on where the inquiries are coming from. Hard inquiries like those triggered by a credit application can lower your score. But soft inquiries like those from a utility or insurance company shouldn't affect you much at all.

10% Account Mix – This refers to the kind of credit you're currently holding. There are two kinds of credit they look at: revolving credit with varying payments, like a credit card, and installment accounts with fixed payments, like student loan, a car loan, or mortgage.

So now, let’s put it all together and recap.

Managing your debt comes down to three steps we’ve just covered:

1. Understanding good and bad debt – So you can determine which of your debts need to be paid off as soon as possible, and which ones provide potentially beneficial tax benefits.

2. Prioritizing your payments – Once you know which debts are the most important to get rid of, you can prioritize where you monthly money goes to put yourself in the best possible financial situation.

3. Monitoring your credit report and score – So you can always have a handle on how your financial situation looks to outside lenders, and thus affects what loans you can take out in the future.

Now it's time to put together what you learned about creating a budget and managing debt.
Once you've accounted for your living expenses each month…
Build, and then maintain, your emergency fund, so you're covered if the unexpected happens. Then continue to save 5% of your take-home pay for unplanned expenses.
Save for retirement in your workplace savings plan, because it's one of the best ways to prepare for tomorrow. A good target is 15% of your pre-tax pay.
Attack your high-interest credit cards first, then your lower-interest ones. Or, look into consolidating your balances.
Pay off private student loans, which tend to have higher rates than government loans.
Put more into your workplace savings plan, because a little can go a long way toward meeting your retirement goal.
Then, of course, continue paying off your government student loans, mortgage, and other lower-interest-rate debt.

And so, if you're ready to get your savings and debt more balanced:

1. Create a spending plan – So you can know exactly how much you make, how much you spend, and how much you have left over each to either spend on a fun night out, or to apply towards some of your savings goals, like saving for retirement or building your emergency fund. Use the Saving & Spending Checkup to get started.

2. Create a debt management plan – So you can get a handle on what you owe, and develop a practical strategy for paying it all back, while still saving for the future.

3. Take advantage of the additional resources and tools on NetBenefits – Our website is filled with valuable information and tools to get started with creating a budget.

It's not easy…but if you do all three things, you'll be a LOT further along on the path toward getting out of debt, and preparing for a comfortable future.

Investing involves risk, including risk of loss.

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