



Getting ahead:

# How to reduce debt and build wealth

**The Hanford Site Savings Plans**

Vanguard Financial Education Series®

THE **Vanguard** GROUP®

# Today's 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.**

How much can a  
\$12 pizza cost?

**\$250**

# Who's interest is it?

**Pay interest**

**Earn interest**

## ▶▶ quicktips

Timeless advice from Ben Franklin:

**“He that goes a-borrowing,  
goes a-sorrowing.”**



Financial goal	Approximate cost	Suggestions for saving
Retirement	Count on contributing at least 10% of your annual income	Save in your employer-sponsored retirement plan, then in IRAs
New home*	\$245,200 (projected 2006 median price)	Accumulate the down payment and closing costs in a money market fund
College**	Public: \$12,100 a year Private: \$29,000 a year	Save in state-sponsored 529 plans, or open an Education Savings Account
New car***	\$27,950 (estimated 2005 average price)	Accumulate the down payment in a money market fund
Other goals	Approximate cost	How and when will you attain it?

\* National Association of Realtors

\*\* The College Board (2005–2006 school year)

\*\*\* Comerica Bank

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



# Today's 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.

# What you own and what you owe

$$\begin{array}{|c|} \hline \text{Total} \\ \text{assets} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Total} \\ \text{liabilities} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Net} \\ \text{worth} \\ \hline \end{array}$$



Before you start, gather:

- **Latest statements from your bank, investment company, and retirement plan.**
- **Cash value of life insurance policies.**
- **Any appraisals you may have for personal property and real estate.**
- **The balance owed on any credit cards, car loans, student loans, mortgages, or other debts.**
- **The amount owed on any loans from your retirement plan.**

# X worksheet

## Net Worth Worksheet

Date \_\_\_\_\_

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

Liabilities—What you owe		Value
Current liabilities	Department store credit cards	
	Major credit cards	
	Back taxes	
	Medical and dental bills	
	Other	
<b>6. Total current liabilities</b>		

Workbook reference: page 10

# Categorize your . . .

## **Assets - What you own.**

- Current assets.
- Investment assets.
- Personal property.
- Real estate.

## **Liabilities - What you owe.**

- Current liabilities.
- Loans.
- Mortgages.



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.

# Today's agenda

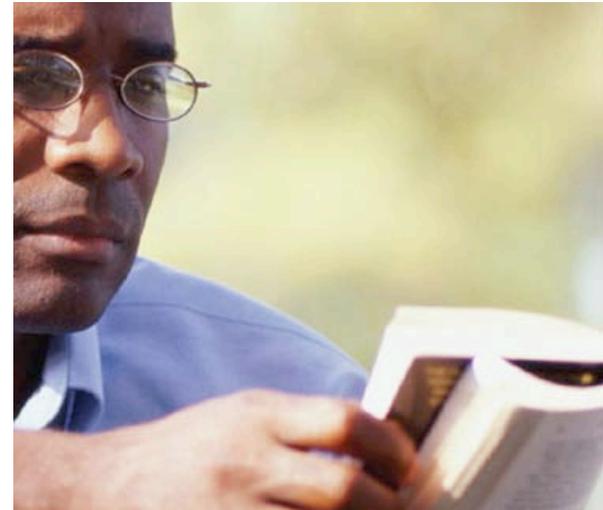
1. The solution: spend less, save more.
2. Where you stand now.
- 3. Creating a spending plan.**
4. Paying off credit card debt.
5. Making every dollar count.
6. Applying what you've learned.

“Money talks . . .  
but all mine says  
is ‘goodbye’.”

- Anonymous

# Data gathering

- **Checkbook information.**
- **Credit card statements.**
- **Record of cash purchases.**



# Nonmonthly expenses

- **Gifts and presents.**
- **Vacations.**
- **Home repair.**
- \_\_\_\_\_.
- \_\_\_\_\_.
- \_\_\_\_\_.

# Spending Plan Worksheet

Part I: How much money do you make?

Part II: Do you save enough for retirement?

Part III: Where do you spend your money?

Part IV: How does your spending compare?

# Part I: how much money do you make?

## Paul and Patty's income

1. Total monthly pay	\$6,666
2. Monthly take-home pay*	\$4,767
3. 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)	\$4,767

\*If you are paid weekly or every other week, multiply one month's paychecks by 1.08 to adjust for not being paid on a monthly basis.

**Workbook reference:** page 15

# Part II: do you save enough for retirement?

## Paul and Patty's retirement savings

7. Monthly contributions to employer retirement plan (including match, 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 10%?	<input type="radio"/> yes <input checked="" type="radio"/> no

\*If you make an annual IRA contribution, divide that amount by 12 for your monthly retirement savings.

Workbook reference: page 15

# Part III: where do you spend your money?

Paul and Patty's monthly spending			
	Existing Plan	Change + or -	New Plan
After-tax Savings	Other Retirement savings		
	Emergency savings	\$25	
	College savings		
	Contingency account		
	Other savings		
	<b>1. Total savings</b>	<b>\$25</b>	
Housing	Mortgage/Rent	\$1,000	
	Real estate taxes	\$125	
	Other		
	<b>2. Total housing expenses</b>	<b>\$1,125</b>	

Workbook reference: page 16

# Part IV: how does your spending compare?

## Paul and Patty's spending patterns

	Spending	Paul & Patty's percentage	Suggested range	Above or below suggested level?
After-tax savings	Line 1÷ \$25 Line 10 \$5,000	1%	5%–25%	Depends on your goals
Housing	Line 2÷ \$1,125 Line 10 \$5,000	23%	20%–30%	<input type="radio"/> Above <input type="radio"/> Below
Household expenses	Line 3÷ \$400 Line 10 \$5,000	8%	15%–25%	<input type="radio"/> Above <input checked="" type="radio"/> Below
Discretionary/ Personal	Line 4÷ \$800 Line 10 \$5,000	16%	5%–10%	<input checked="" type="radio"/> Above <input type="radio"/> Below

Workbook reference: page 18

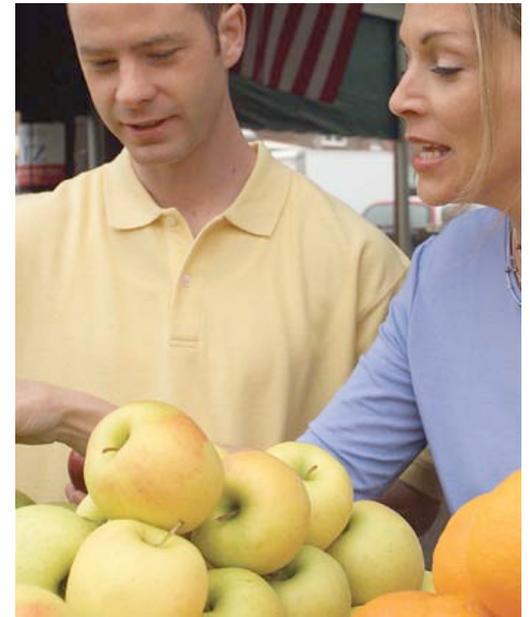
# Paul and Patty's new spending plan

Target expenses	Expected annual savings
Driving vacations, not flying	\$1,200
Leasing a less expensive car	\$2,400
Cutting back on dining out	\$4,200
Reducing car insurance rates	\$900
<b>Total annual savings:</b>	<b>\$8,700</b>

Workbook reference: page 20

# Changing your spending habits

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



# Redirect your extra cash

- **Contribute at least 10% to your retirement.**
- **Pay off outstanding credit card debt.**
- **Establish an emergency fund.**



## Is your emergency fund adequate?

Emergency fund	
1. Monthly spending (line 10 from Part III of your Spending Plan Worksheet)	\$
2. Line 1 (above) x 3	\$
3. Enter your total current assets (line 1 of Net Worth Worksheet)	\$
4. Is line 3 greater than line 2?	<input type="radio"/> <b>Yes</b> , I have an adequate emergency fund <input type="radio"/> <b>No</b> , I have some saving to do

## ▶▶ quicktips

### **Don't borrow from your plan.**

- Impacts retirement savings.
- Must repay with after-tax dollars.
- Potential penalty.

# Today's 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.

\$8,500

**How credit cards  
cost you . . .**  
Easy but not free.  
**Buy now . . .**  
Pay later  
with interest!



# What's the real cost of a computer?

Deborah pays off  
her purchase in full.

**Total cost: \$1,000**

Vicki pays the \$30  
monthly minimum.

**Total cost: \$1,414**

Pat pays the \$30  
minimum plus an  
extra \$20/month.

**Total cost: \$1,205**

# 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

**Workbook reference:** page 28

# Paul and Patty's credit card debts

12 months later

Debts	Interest rate	Current balance*	Minimum payment
Card 1	0%	0	Canceled
Card 2	18.5%	\$2,258	\$227
Card 3	18.0%	\$3,426	\$150
Card 4	16.5%	\$31	\$10

\*Assumes no additional charges.

# Your debt repayment plan

Credit card	Interest rate	Current balance	Minimum payment
1.			
2.			
3.			
4.			
5.			
6.			

**Workbook reference:** page 30

# Master your credit cards

- **Pay balance in full every month.**
- **Make purchases with cash, checks, or debit card.**
- **Own no more than two major cards.**
- **Close department store cards.**
- **Consider “opt-out”.**

**[www.optoutprescreen.com](http://www.optoutprescreen.com)**

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



# \* **mythbuster**

**Filing for bankruptcy should be a last resort.**

- Stains your credit history.
- Consider other options.
- Work with a credit counselor.

# Order your credit report!

**[www.annualcreditreport.com](http://www.annualcreditreport.com)**

# Today's 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.

# Ways to cut your expenses

- **Needs vs. wants.**
- **“Fixed” expenses are not etched in stone.**
- **More flexibility with “discretionary” expenses.**





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

Workbook reference: page 41

What will  
you do with  
your savings?



# Start with your employer's plan

- **Plan # 093232, 093233, 093231**
- **Pre-tax contributions up to 50% maximum.**
- **Tax-deferred growth.**
- **Dollar-cost averaging.**
- **Flexibility.**
- **Employer contribution.**
  - 100% on first 3% and 50% on next 2%.

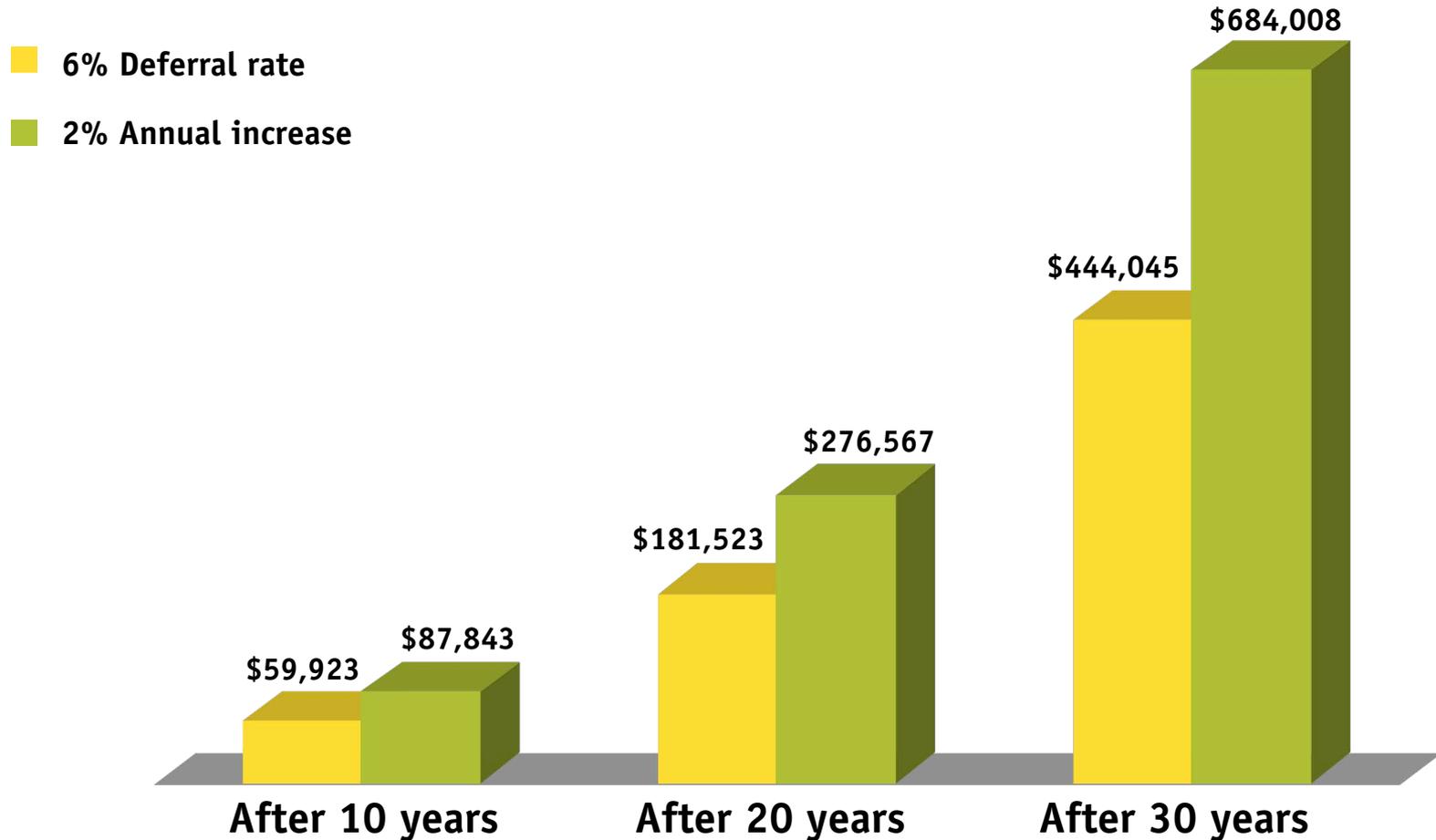
# To enroll/increase your contribution

- **Contact:**
  - Vanguard.com<sup>®</sup>
  - Participant Services at 800-523-1188
- **Establish/change:**
  - Deferral percentage.
  - Investment choices.
- **Enroll in Vanguard's One Step<sup>®</sup> program.**

# One Step Save™

- **Helps you save more.**
- **Increases your savings rate for you— automatically.**
- **Boosts your rate annually each month in whatever month you choose.**
- **Choose your One Step Save election— from 1% to 5%.**
- **Sign up today:**
  - **[www.vanguard.com](http://www.vanguard.com)**
  - **800-523-1188 to speak with a Vanguard associate.**

# The difference with One Step Save



Assumes \$30,000 salary, 8% average annual rate of return, and increasing contributions over 4 years (up to 14%). Includes a 100% matching contribution, up to 6%. This hypothetical illustration does not represent the return on any particular investment.

# The saver's tax credit

Adjusted gross income limits/filing status.

Married filing jointly	Head of household	Single or married filing separately	Credit % applied	Maximum credit per person
\$0-\$30,000	\$0-\$22,500	\$0-\$15,000	50%	\$1,000
\$30,001-\$32,500	\$22,501-\$24,375	\$15,001-\$16,250	20%	\$400
\$32,501-\$50,000	\$24,376-\$37,500	\$16,251-\$25,000	10%	\$200
More than \$50,000	More than \$37,500	More than \$25,000	0%	No credit

**Workbook reference:** page 43

# Today's 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.**



What will Paul  
and Patty do with  
their savings?

# Paul and Patty revisited

- **Take driving vacations, not flying.**
- **Lease 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.

<b>Total spending reductions</b>	<b>\$8,700</b>
Paul's additional 401(k) contribution	- 2,625
Patty's 401(k) contribution	- 2,625
Amount remaining	= 3,450

**Workbook reference:** page 47

# Paul and Patty's action plan

Eliminating credit card debt.

<b>Remaining spending reductions</b>	<b>\$3,450</b>
Less extra credit card payments	- 1,200
<b>Amount remaining</b>	<b>= 2,250</b>

**Workbook reference:** page 48

# Paul and Patty's action plan

## **Beefing up emergency fund.**

- Redirect remaining \$2,250
- Add half of annual bonuses.
- Reach goal as soon as possible.

# Your action plan

- **Set your financial goals.**
- **Calculate your net worth.**
- **Track your expenses for a month.**
- **Complete the Spending Plan Worksheet.**
- **Review your spending plan and make changes.**
- **Assess emergency fund adequacy.**
- **Evaluate your credit card debt.**

# Where to go for help

- **Books and publications.**
- **Online services.**
- **Financial planning software.**

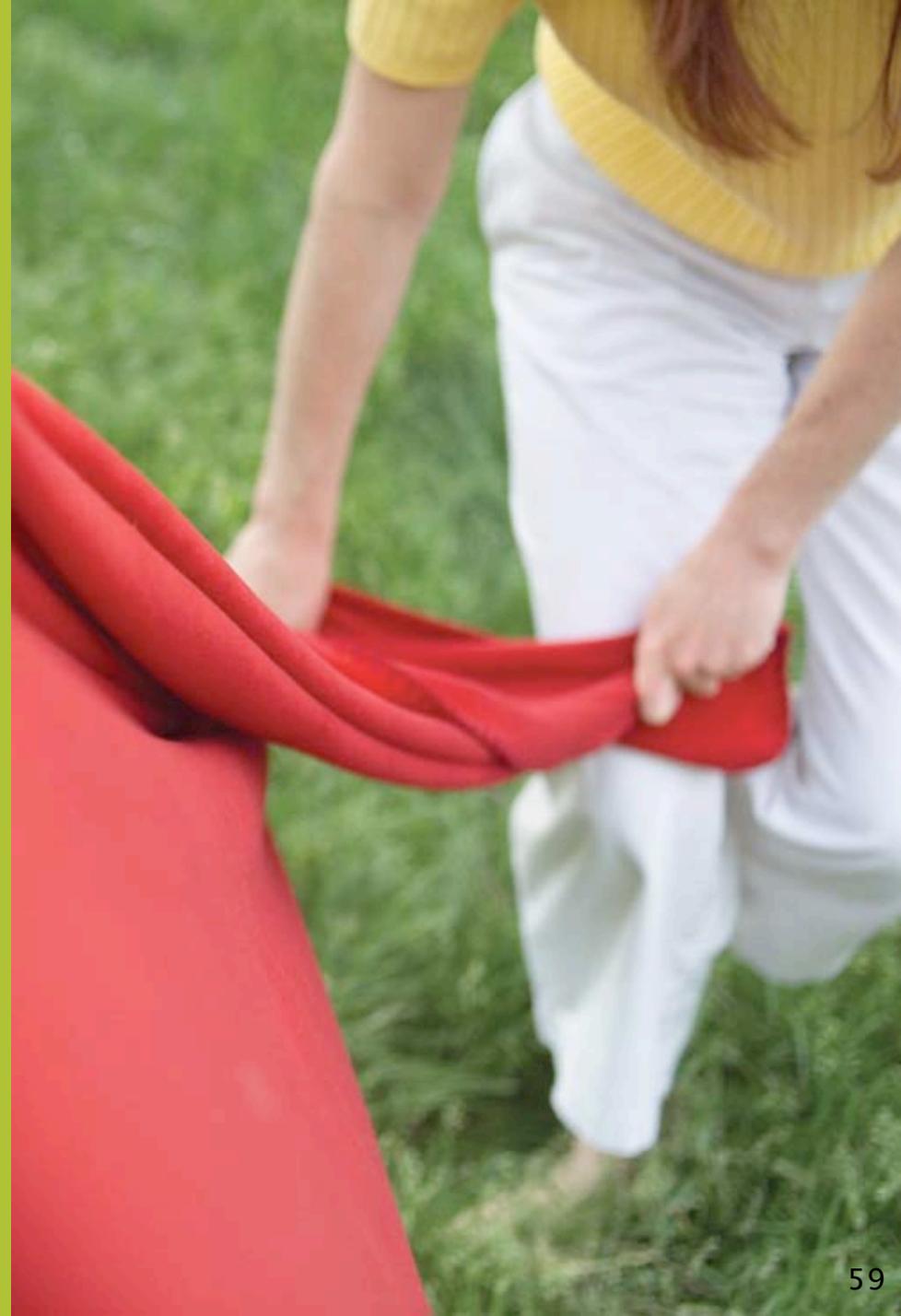
# Putting it all together

- **Spending less and saving more is challenging.**
- **Get a clear picture of your net worth.**
- **Create a debt reduction plan.**
- **A spending plan is critical.**

Spend less than you earn and invest the rest.

“A good plan  
executed right  
now is better  
than a perfect  
plan next week.”

- George S. Patton



*For more information about any fund, including investment objectives, risks, charges, and expenses, call The Vanguard Group at 800-523-1188 to obtain a prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. You can also download Vanguard fund prospectuses at [www.vanguard.com](http://www.vanguard.com).*

*The Vanguard Group, Vanguard, Vanguard Financial Education Series, Vanguard Fund Express, and Vanguard.com are trademarks of The Vanguard Group, Inc. All other marks are the exclusive property of their respective owners.*