



Feeling secure:

Taking control  
of your financial life

**The Hanford Site Savings Plans**

Vanguard Financial Education Series®

THE **Vanguard** GROUP.

Why do some people  
succeed financially,  
while others scrape by?

# Today's agenda

- 1. Taking control of your finances.**
- 2. Tracking your spending and saving.**
- 3. Saving for your retirement.**
- 4. Building an investment portfolio.**
- 5. Protecting what you've earned.**
- 6. Applying what you've learned.**



Goal	Years to goal	Cost	Amount saved
1. Retirement			
2.			
3.			
4.			
5.			

Workbook reference: page 3

“I earn just enough to get by. To save a lot of money, I’d have to earn a lot of money.”



# \*mythbuster

It's not how  
much you earn,  
but how much  
you save  
that counts.



How do I  
get started?

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# Tracking your spending and saving

- 1. Find out what you're worth today.**
- 2. Examine your spending.**
- 3. Learn how to manage your debt.**



Workbook reference: page 6

# Determine your net worth

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

# 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>		

# Categorize your . . .

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

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

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

- Current liabilities.
- Loans.
- Mortgages.

# Pat's net worth

<b>Net worth</b>	<b>Value</b>
Total assets	\$219,000
Total liabilities	\$146,500
<b>Net worth</b> ( <i>Total assets minus total liabilities</i> )	<b>\$72,500</b>

# What your net worth shows

- **If negative net worth, don't panic.**
- **To increase your net worth.**
  - Reduce debt.
  - Increase your assets.
    - Contribute more to your plan.
    - Save for other goals.
  - Control spending.

# Develop a spending plan

- **Write down all of your expenses for at least one month.**
- **Prioritize your expenses.**
- **Establish spending targets.**
- **Determine how much money is left.**
- **Set aside the savings for your financial goals.**

# Spending Plan Worksheet

## Part I: How much money do you make?

1. Total monthly pay	\$
2. Monthly take-home pay*	\$
3. Payroll deductions to meet near-term expenses (e.g., contributions to credit union and flexible spending accounts)	\$
4. Monthly rental income	\$
5. Other monthly income	\$
<b>6. Total monthly spendable income (add lines 2 through 5)</b>	<b>\$</b>

\*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.

# Spending Plan Worksheet

## Part II: Do you save enough for retirement?

7. Monthly contributions to employer plan (including match, if any)	\$
8. IRAs or other retirement savings*	\$
9. Total money retirement savings (add lines 7 and 8)	\$
10. Retirement savings as a percentage of total pay (line 9 divided by line 1)	\$
11. Is line 10 at least 10%?	\$

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

# Spending Plan Worksheet

## Part III: Where do you spend your money?

Category		Existing plan	Change + or -	New plan
After-tax savings	Other retirement savings (e.g., Roth IRAs)			
	Emergency savings			
	Contingency account			
	Other savings			
	<b>1. Total savings</b>			
Housing	Mortgage/Rent			
	Real estate taxes*			
	Other			
	<b>2. Total housing expenses</b>			

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

# Spending Plan Worksheet

## Part IV: How does your spending compare?

Category	Your spending		Your percentage	Suggested range	Above or below suggested level?
After-tax savings	Line 1 ÷ Line 10	\$ _____ \$	%	5%–25%	Depends on goals
Housing	Line 2 ÷ Line 10	\$ _____ \$	%	20%–30%	<input type="radio"/> Above <input type="radio"/> Below
Household expenses	Line 3 ÷ Line 10	\$ _____ \$	%	15%–25%	<input type="radio"/> Above <input type="radio"/> Below
Discretionary/ personal	Line 4 ÷ Line 10	\$ _____ \$	%	5%–10%	<input type="radio"/> Above <input type="radio"/> Below
Transportation	Line 5 ÷ Line 10	\$ _____ \$	%	10%–15%	<input type="radio"/> Above <input type="radio"/> Below
Food	Line 6 ÷ Line 10	\$ _____ \$	%	10%–15%	<input type="radio"/> Above <input type="radio"/> Below
Health care	Line 7 ÷ Line 10	\$ _____ \$	%	5%	<input type="radio"/> Above <input type="radio"/> Below

Who controls  
your credit cards?

# The cost of a computer

Lisa pays off her purchase in full.

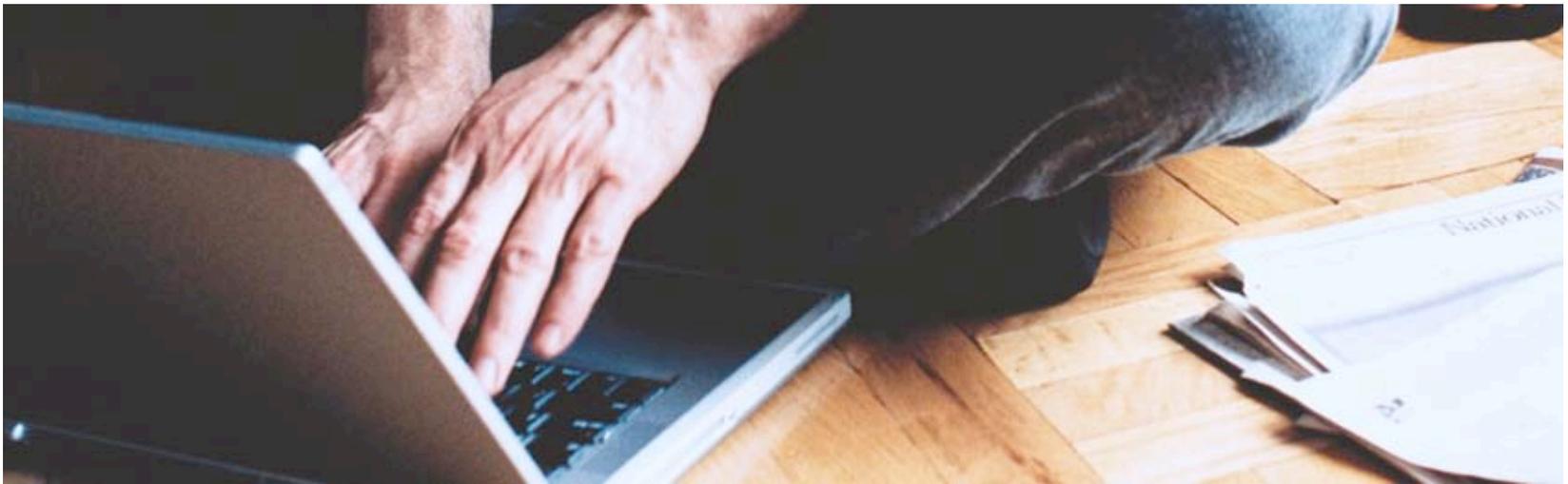
**Total cost: \$1,000**

Pat pays the \$30 monthly minimum.

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

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

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



# Pat's credit cards

Debts	Interest rate	Current balance*	Minimum payment
Credit card	21.5%	\$400	\$12
Credit card	18.5%	\$4,100	\$115
Store card	18.0%	\$3,500	\$150
Store card	16.5%	\$500	\$10

\*Assumes no additional charges.

**Workbook reference:** page 11

# Pat's credit cards

12 Months Later

Debts	Interest rate	Current balance*	Minimum payment
Credit card	0.0%	0	Cancelled
Credit card	18.5%	\$2,071	\$227
Store card	18.0%	\$2,349	\$150
Store card	16.5%	\$487	\$10

\*Assumes no additional charges.

# Follow Pat's lead

Debts	Interest rate	Current balance*	Minimum payment
1.			
2.			
3.			
4.			
5.			
6.			
7.			

Workbook reference: page 13

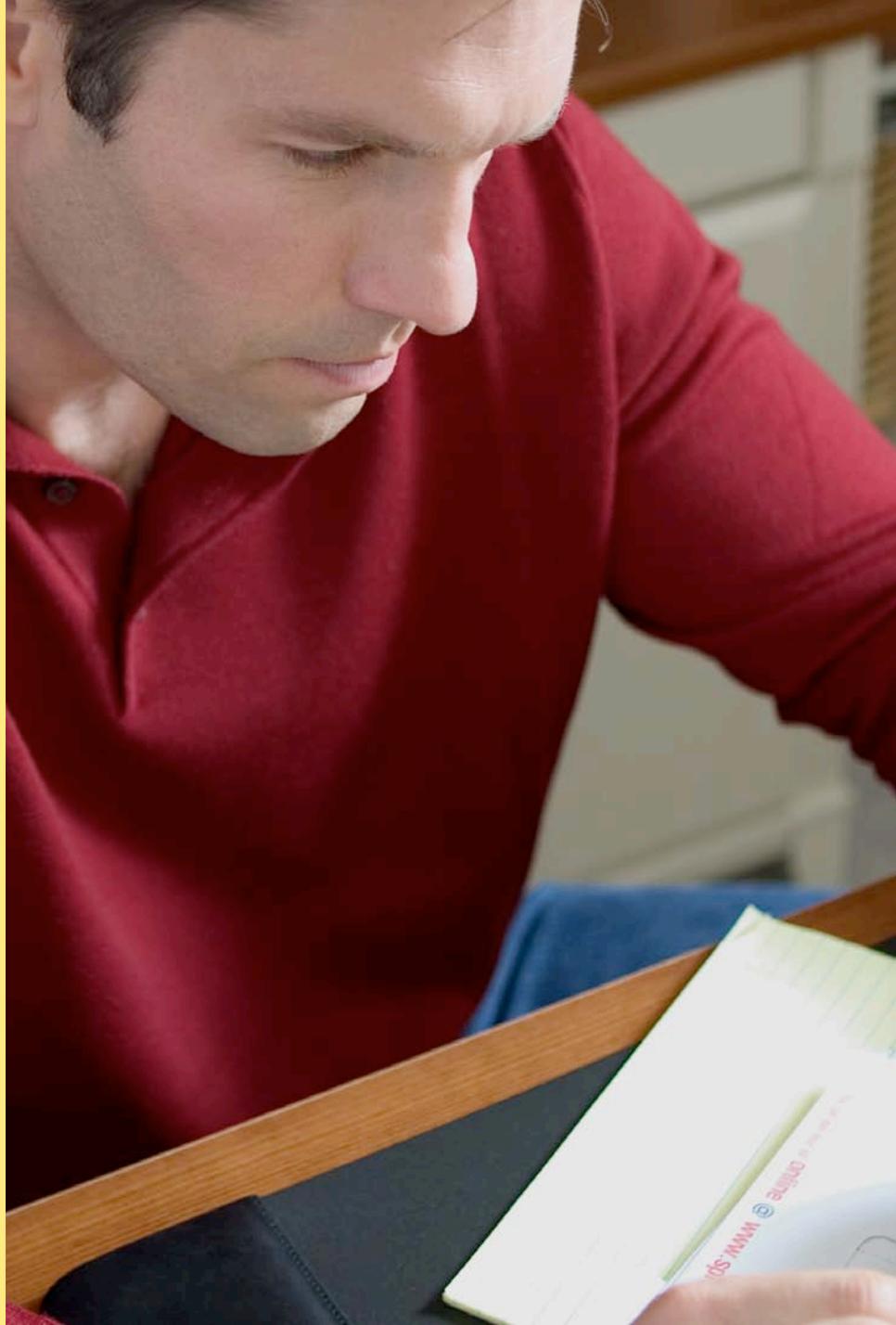
# Controlling your credit card debt

- **Own no more than two cards.**
- **Look for no-fee and/or reward program cards.**
- **If you carry balances, freeze your accounts.**
- **Negotiate better rates on remaining cards.**
- **Close accounts once they're paid off.**

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Why is it such a challenge to save for retirement?



# Are you saving enough for retirement?

	Joe	You		
1. Annual contribution to retirement plan (include vested employer match).	\$4,000	\$		
2. Annual income.	\$50,000	\$		
3. Your savings percentage (line 1 divided by line 2).	8%	%		
4. What should your saving rate be? (Match your income to the appropriate factor below.)	17%	%		
Current Income:	\$25,000	\$50,000	\$75,000	\$100,000
Savings Rate:	14%	17%	18%	20%
5. Multiply line 2 by line 4 to determine suggested savings.	\$8,500	\$		
6. Additional savings required (subtract line 1 from line 5).	\$4,500	\$		

Workbook reference: page 17

# Tax-deferred ways to save

- **Participate in your employer's plan.**
- **Take advantage of IRAs.**



# Your employer plan

- **Pre-tax contributions up to 50% maximum.**
- **Tax-deferred growth.**
- **Employer contribution.**

100% on the first 3% and 50% on the next 2%.



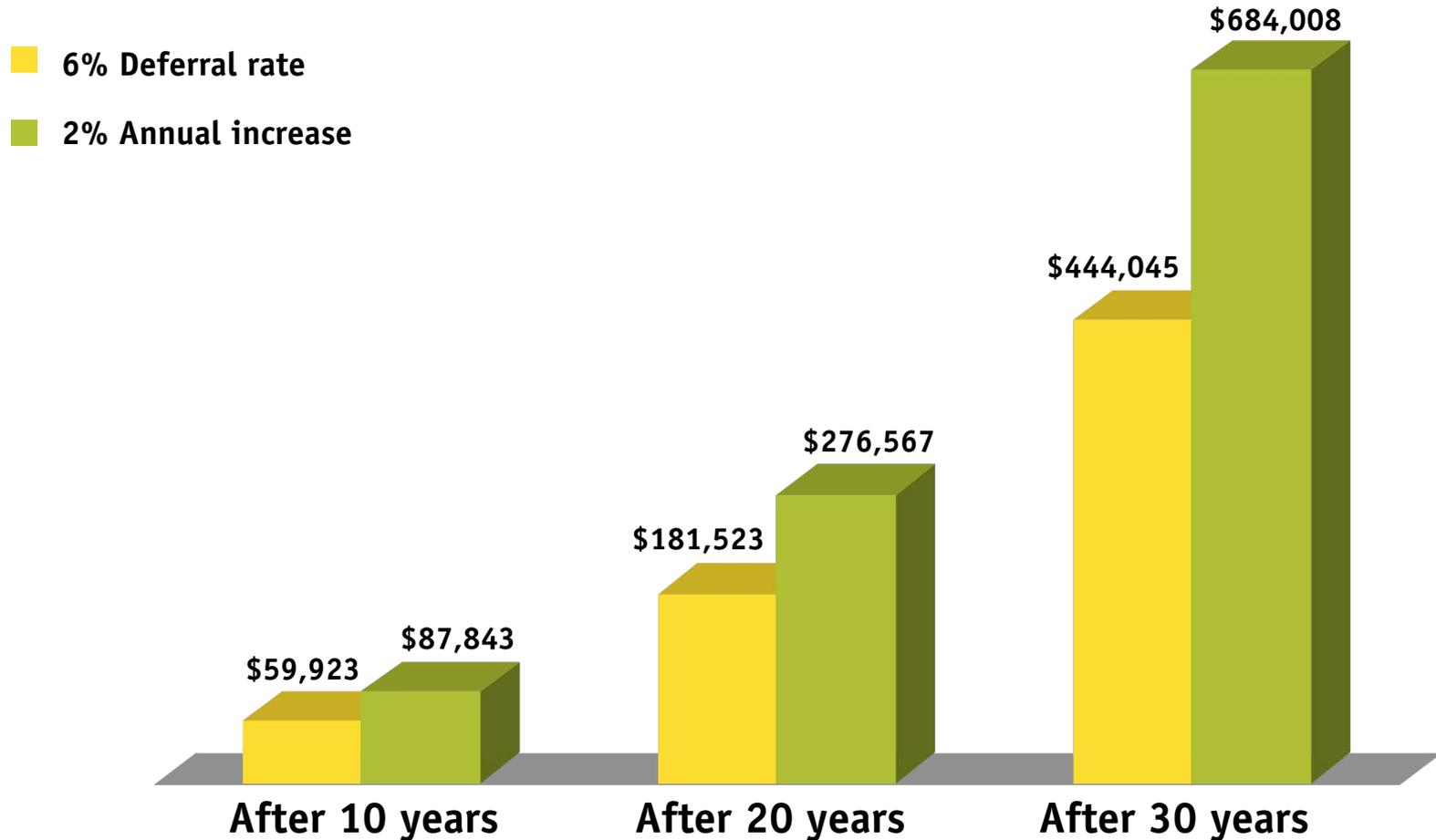
# To enroll/increase your contribution

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

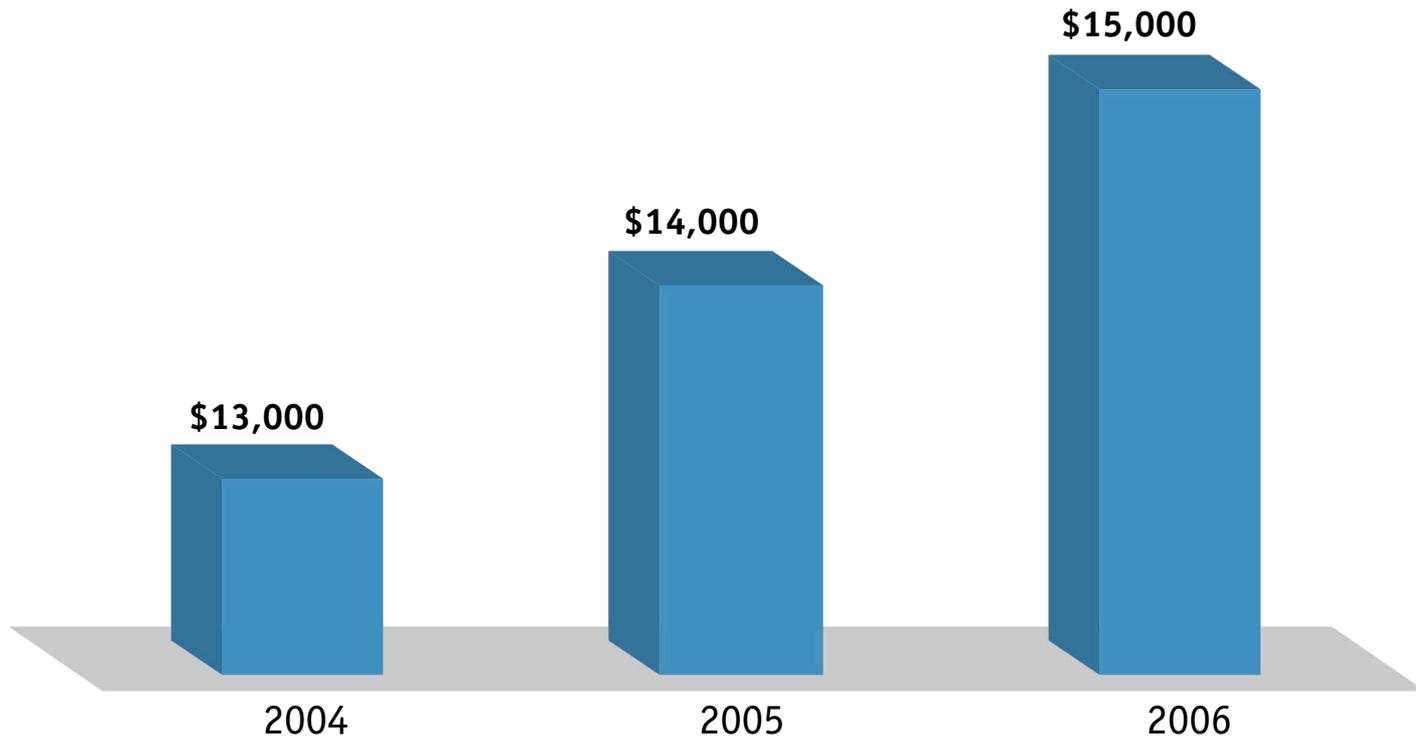
# The difference with One Step Save



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.

# Contribute more to your plan

■ Maximum contribution for all workers

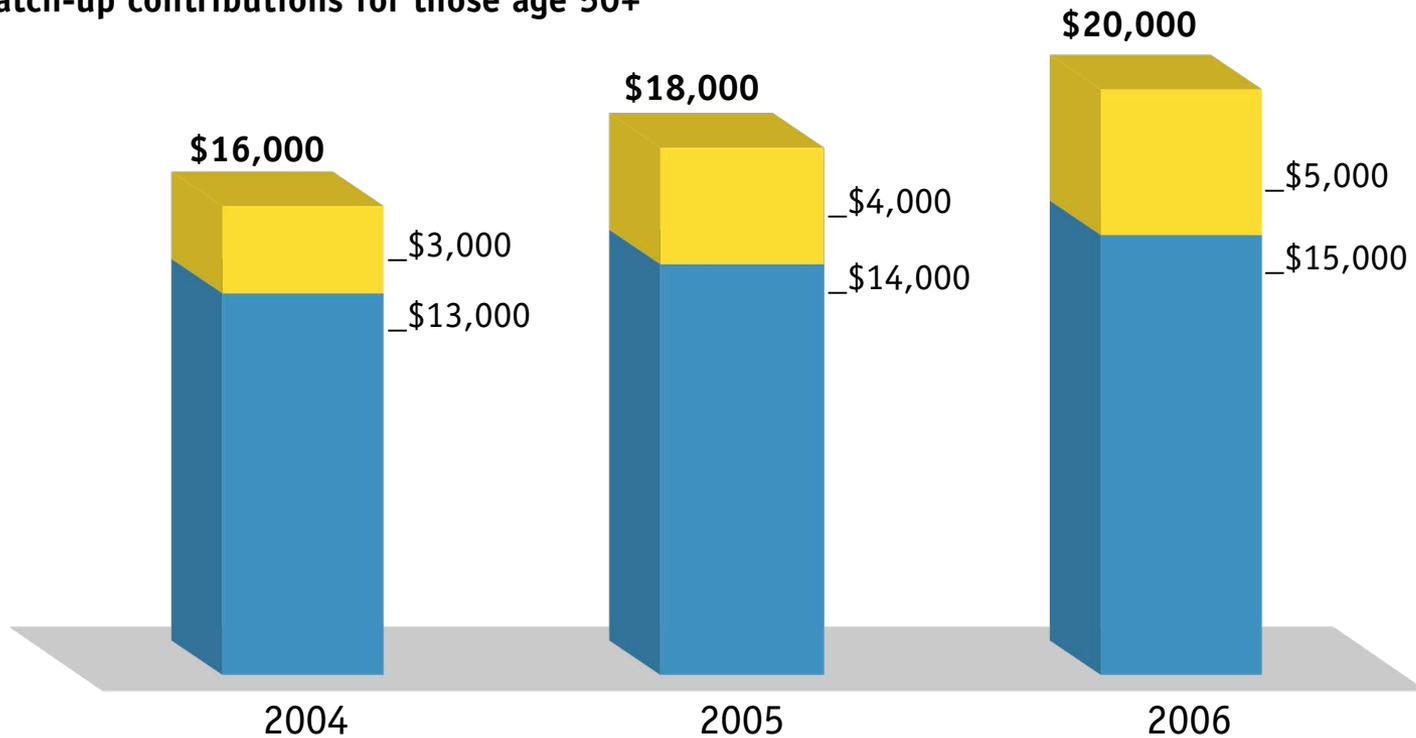


Workbook reference: page 18

# “Catch-up” in your employer’s plan

■ Maximum contribution for all workers

■ Catch-up contributions for those age 50+



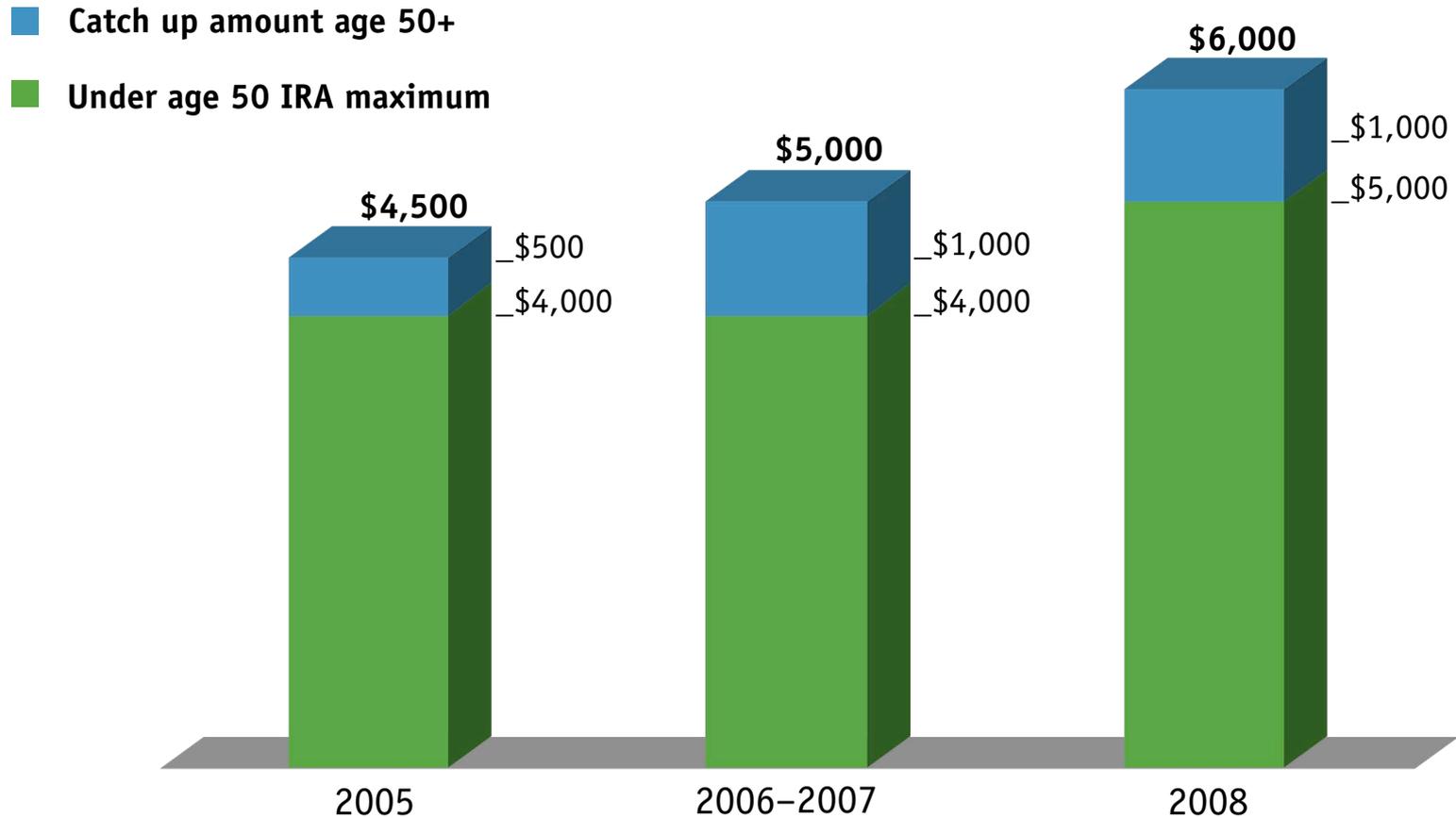
# The advantages of IRAs

- **Traditional IRAs.**
- **Roth IRAs.**



Workbook reference: page 20

# Increased IRA contribution limits



# Traditional and Roth IRAs

	Traditional IRA	Roth IRA
Eligibility	Earned income	Earned income
Contributions deductible?	Depends *	No
Income limitations	Depends *	Yes
Tax-deferred growth	Yes	Yes
Tax-free withdrawal of earnings	No	Yes **

\* If plan participant, deductibility depends on adjusted gross income.

**Workbook reference:** page 22

\*\* Subject to qualifying conditions.

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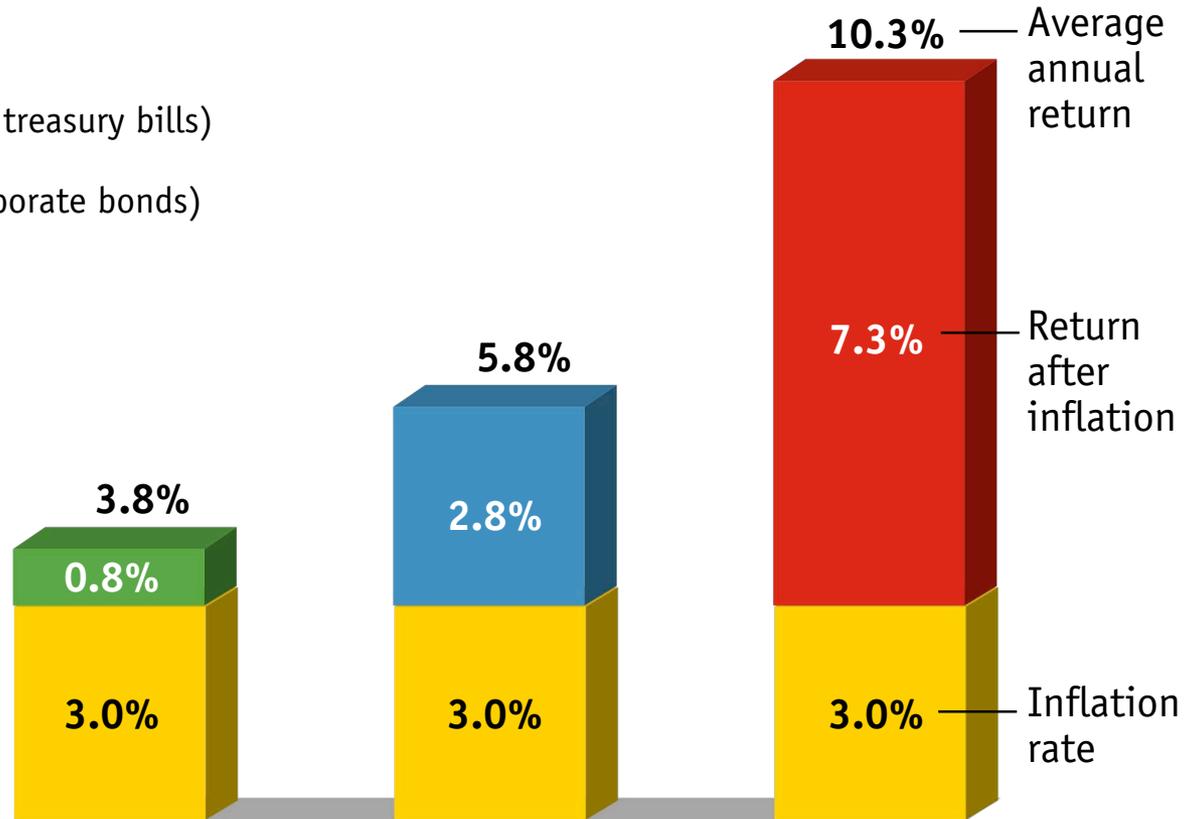
# Asset classes

	<b>Short-term reserves</b>	<b>Bonds</b>	<b>Stocks</b>
Objective	Stability	Income	Growth
Market risk	Low	Moderate/high	High
Inflation risk	High	Moderate/high	Low

Workbook reference: page 25

# Investment Returns (1926–2005)

- **Short-term reserves** (U.S. treasury bills)
- **Bonds** (long-term U.S. corporate bonds)
- **Stocks** (S&P 500 Index)

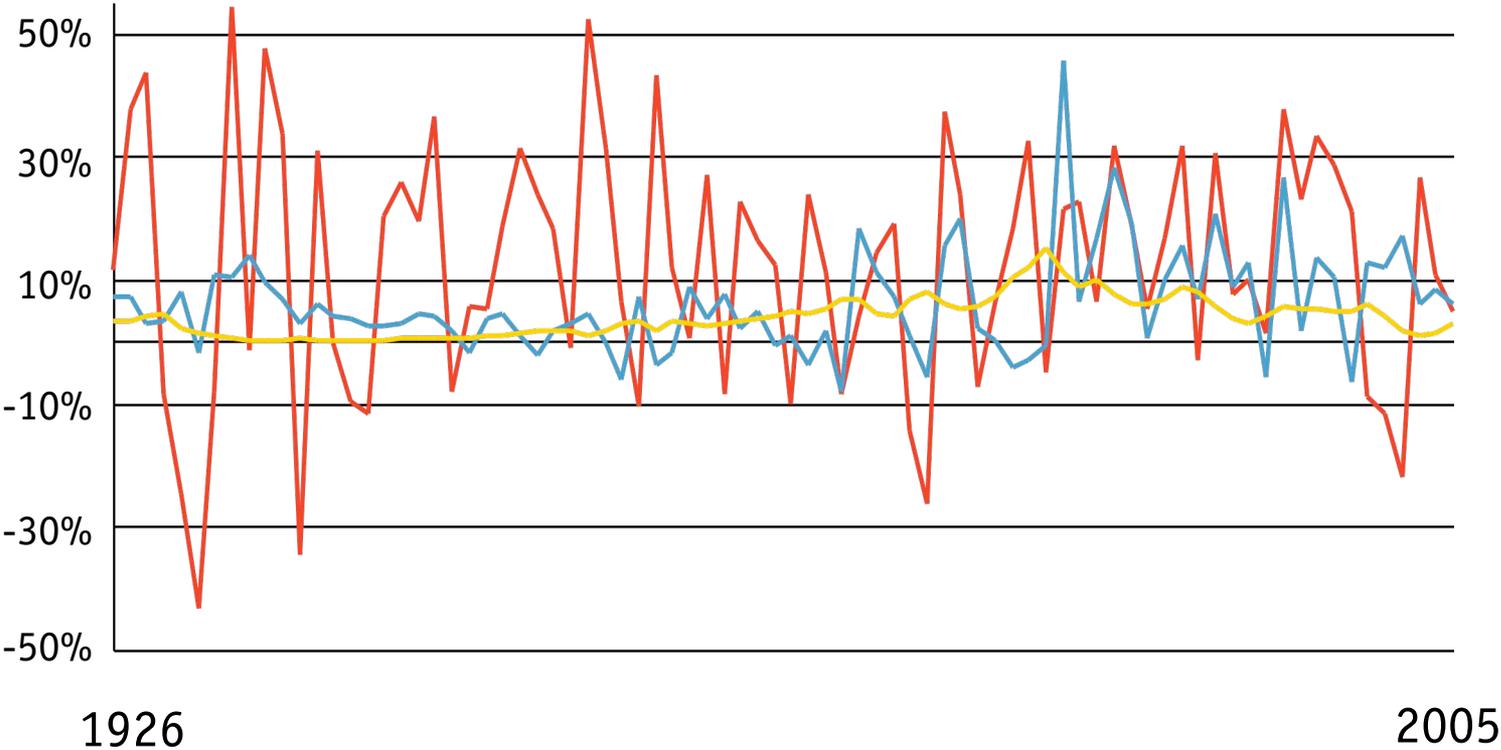


Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest.

Source: The Vanguard Group.

# Risk vs. Return (1926–2005)

— Short-term reserves — Bonds — Stocks



Source: The Vanguard Group.

# What is a mutual fund?





“I can’t miss if I buy this year’s top performing fund.”

# 1999

**With technology, telecom and internet companies racking up huge gains in 1999, 178 mutual funds earned more than 100% for the year.**

\*Source: *Money* magazine.

# One year later

In 2000, **166** of those funds lost money—some more than **70%**.

\*Source: *Money* magazine.

# Building an investment portfolio

- **Objective.**
- **Time horizon.**
- **Risk tolerance.**



# Two paths to invest for retirement

## **One decision:**

- Select your retirement date.
- Select your fund.
- Managed by Vanguard.

## **Self-directed:**

- Complete the Investor Questionnaire.
- Choose your investment mix.
- Select your funds.
- Monitor your investment mix.

# One decision

Current age	Suggested fund	Investment mix*
18–23	Vanguard Target Retirement 2050 Fund	 10% 90%
24–28	Vanguard Target Retirement 2045 Fund	 10% 90%
29–33	Vanguard Target Retirement 2040 Fund	 10% 90%
34–38	Vanguard Target Retirement 2035 Fund	 10% 90%
39–43	Vanguard Target Retirement 2030 Fund	 10% 90%

■ Stocks   
 ■ Bonds   
 ■ Short-term reserves

More aggressive

Less aggressive

\*Approximate allocation targets for each fund for 2006. Allocations for date-specific funds will shift over time, based on an assumed retirement age of 65.



# Investor Questionnaire

**This questionnaire is designed to provide an asset allocation that may be appropriate for you. By using this investment planning tool, you acknowledge that you have read and understood the information provided, and that you agree to the Terms and Conditions of Use found on the enclosed insert.**

Instructions: Answer these questions with one specific financial goal in mind, such as retirement. Don't use this questionnaire for goals that require you to spend all of your money for the goal within the next two years. Savings for short-term objectives should be invested in stable investments—primarily short-term reserves.

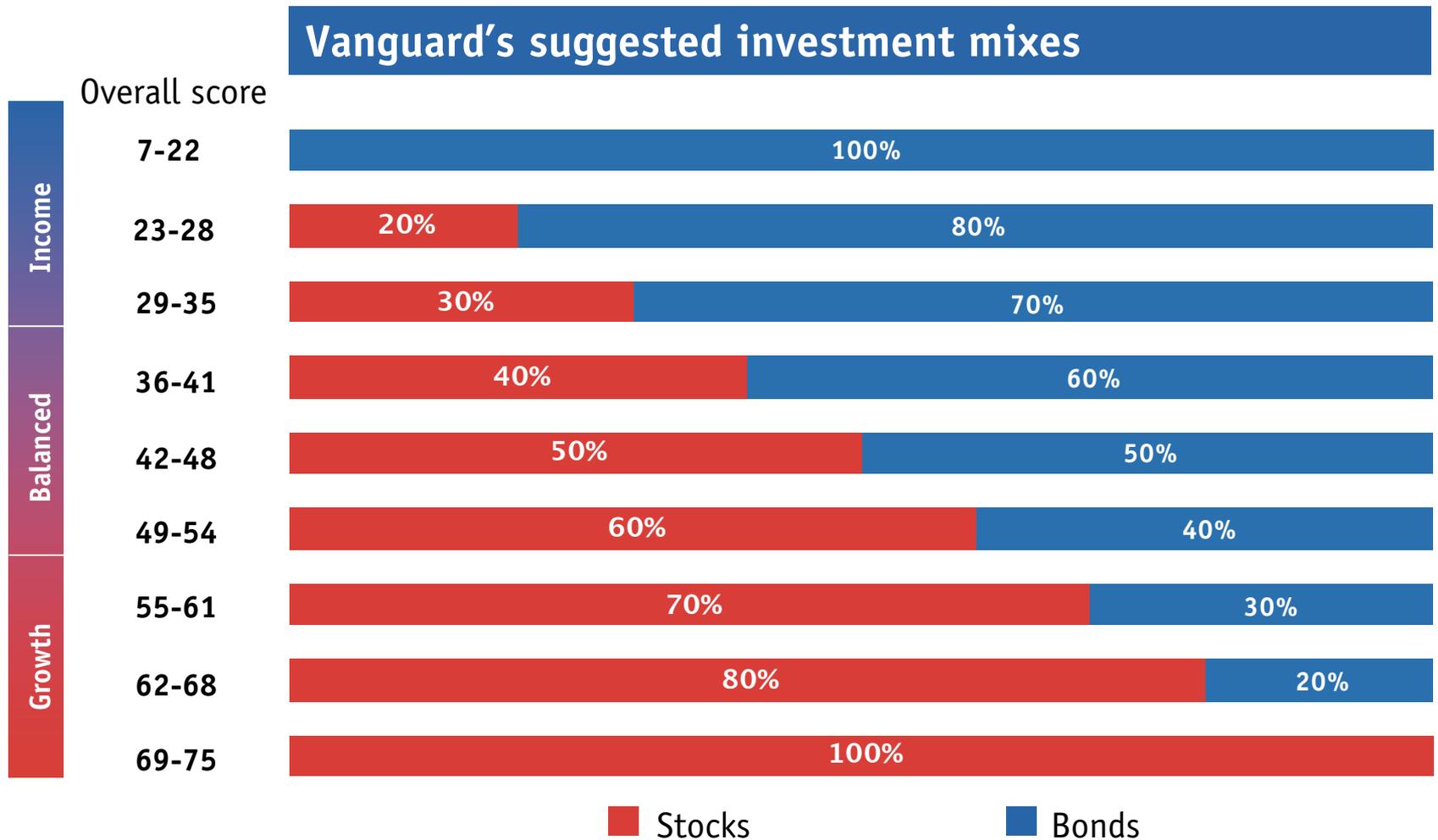
To determine your investment approach for other goals, fill out the questionnaire as many times as you like, with a different goal in mind each time.

## 1. I plan to begin taking money from my investments in . . .

- A. 1 year or less
- B. 1–2 years
- C. 3–5 years
- D. 6–10 years
- E. 11–15 years
- F. More than 15 years

## 2. As I withdraw money from these investments, I plan to spend it over a period of . . .

# Investment mix matters



# One decision

## **Choose the fund nearest your retirement date:**

Vanguard Target Retirement 2050 Fund

Vanguard Target Retirement 2025 Fund

Vanguard Target Retirement 2045 Fund

Vanguard Target Retirement 2020 Fund

Vanguard Target Retirement 2040 Fund

Vanguard Target Retirement 2015 Fund

Vanguard Target Retirement 2035 Fund

Vanguard Target Retirement 2010 Fund

Vanguard Target Retirement 2030 Fund

Vanguard Target Retirement 2005 Fund

Vanguard Target Retirement Income Fund

# Select your funds - core funds

## Short-term reserves

**Hanford Site Investment Contract Fund**

## Bonds

**Metropolitan West Total Return Bond Fund - Institutional Class**

**Vanguard® Total Bond Market Index Fund**

## Balanced (stocks and bonds)

**Dodge & Cox Balanced Fund**

# Select your funds - core funds

## Large-cap stocks

**American Funds Investment Company of America - Class R-5**

**Vanguard 500 Index Fund**

**Vanguard PRIMECAP Fund**

## Mid-cap small-cap stocks

**Hotchkis & Wiley Mid-Cap Value Fund**

**Vanguard Capital Opportunity Fund**

**Allianz NJF Small-Cap Value Fund Class A**

**Vanguard Small-Cap Index Fund**

**Vanguard Explorer™ Fund**

## International stocks

**American Funds EuroPacific Growth Fund - Class R-5**

## Also available:

- **Vanguard Brokerage Option<sup>®</sup>.**
- **Financial Engines.**
- **Vanguard Managed Account Program<sup>®</sup>.**

A once-a-year check  
up is recommended.

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# Being prepared

- **Insurance planning.**
- **Estate planning.**



# The role of insurance

- **Life.**
  - Temporary.
  - Permanent.
- **Disability.**
- **Long-term care.**



# Choosing life insurance

## **Permanent.**

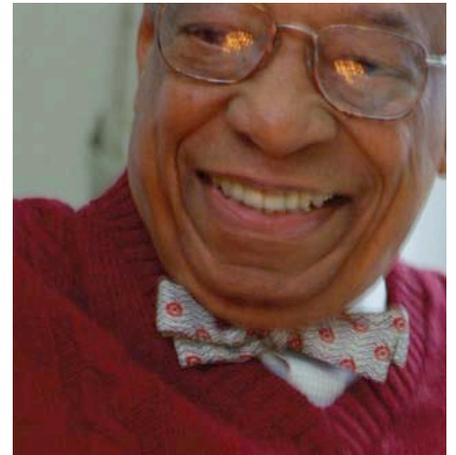
- Whole Life, Universal, Variable Life.
- Coverage for lifetime of insured.
- Cash value accumulates.
- Premiums remain level or can be adjusted.
- Higher premiums.

## **Temporary.**

- Term.
- Coverage for certain time period.
- No cash value.
- Premiums increase with age.
- Lower premiums.

# Disability insurance protects income

- **Replaces a portion of your income.**
- **Can provide short-term or long-term protection.**
- **Look at your employer's benefits.**
- **Don't rely on Social Security.**



# Long-term care insurance

- **Health insurance doesn't cover ADLs.**
- **Medicare covers some skilled nursing care.**
- **Average annual cost of nursing-home care is \$74,000.\***
- **Consider the key factors in selecting a policy.**

\*Source: MetLife, 2005.

“I’m not rich.  
Why do I need  
an estate plan?”

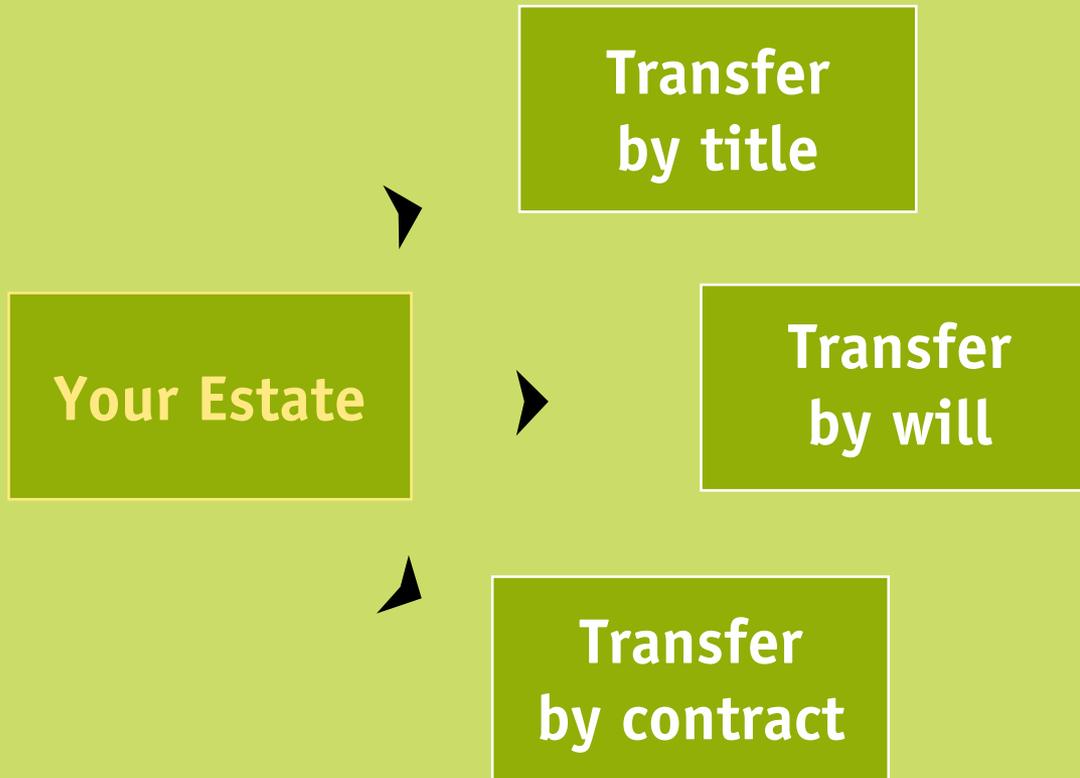


# How an estate plan protects you

- **Preserve your assets for family and heirs.**
- **Ensure your assets will be distributed according to your wishes.**
- **Reduce or eliminate federal estate taxes.**



# Who will inherit your assets?



# Valuable estate planning documents

- **Will.**
- **Power of attorney.**
- **Living will.**
- **Letter of direction.**



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# Your action steps

- **Identify your financial goals.**
- **Calculate your net worth.**
- **Complete a Spending Plan Worksheet.**
- **Save for retirement.**
- **Build your investment portfolio.**
- **Plan for the unexpected.**
- **Seek assistance.**

# Where to go for help

- **Books and publications.**
- **Online services.**
- **Professional financial advisors.**
  - CFP<sup>®</sup>.
  - ChFC.
  - CPA/PFS.
  - Estate planning attorney.

 **vanguardservices**

Vanguard.com

Vanguard Financial Planning Service

# Putting it all together

- **Start saving for your goals now.**
- **Don't be afraid to start small.**
- **Take appropriate risk with your investments.**
- **You can control your finances.**



“Failing to plan is  
planning to fail.”

- Effie Jones

*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).*

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