



Fiscal Fitness – Strategies for Financial Success

Presented to MOA by Charles Hoff, AFC
Financial Literacy Counselor

WEALTH

If asked to define it, how would you do so?

Webster says:

“A great quantity of money, valuable possessions, or riches”

Another definition: “the condition of being rich”



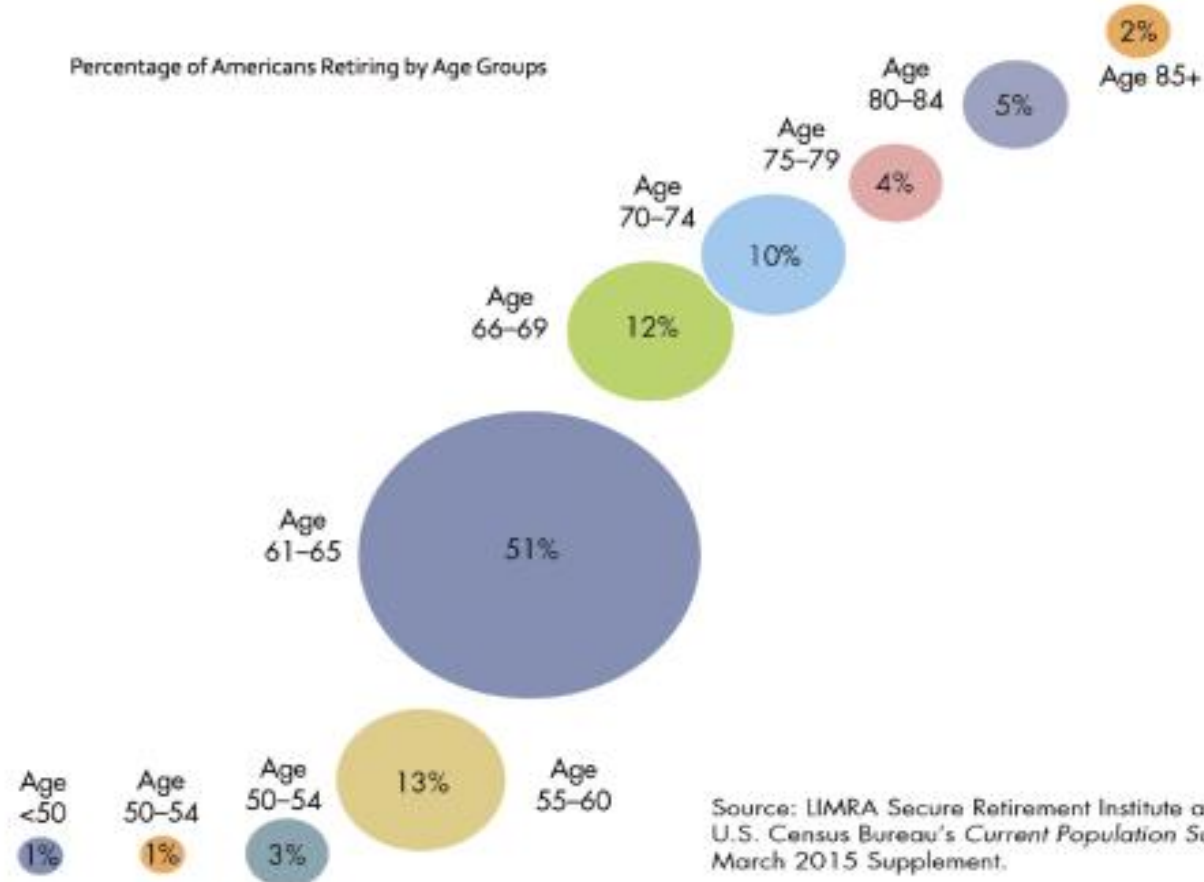




WHAT'S BEEN HAPPENING?

Half of Americans retire between ages 61 and 65.

Percentage of Americans Retiring by Age Groups

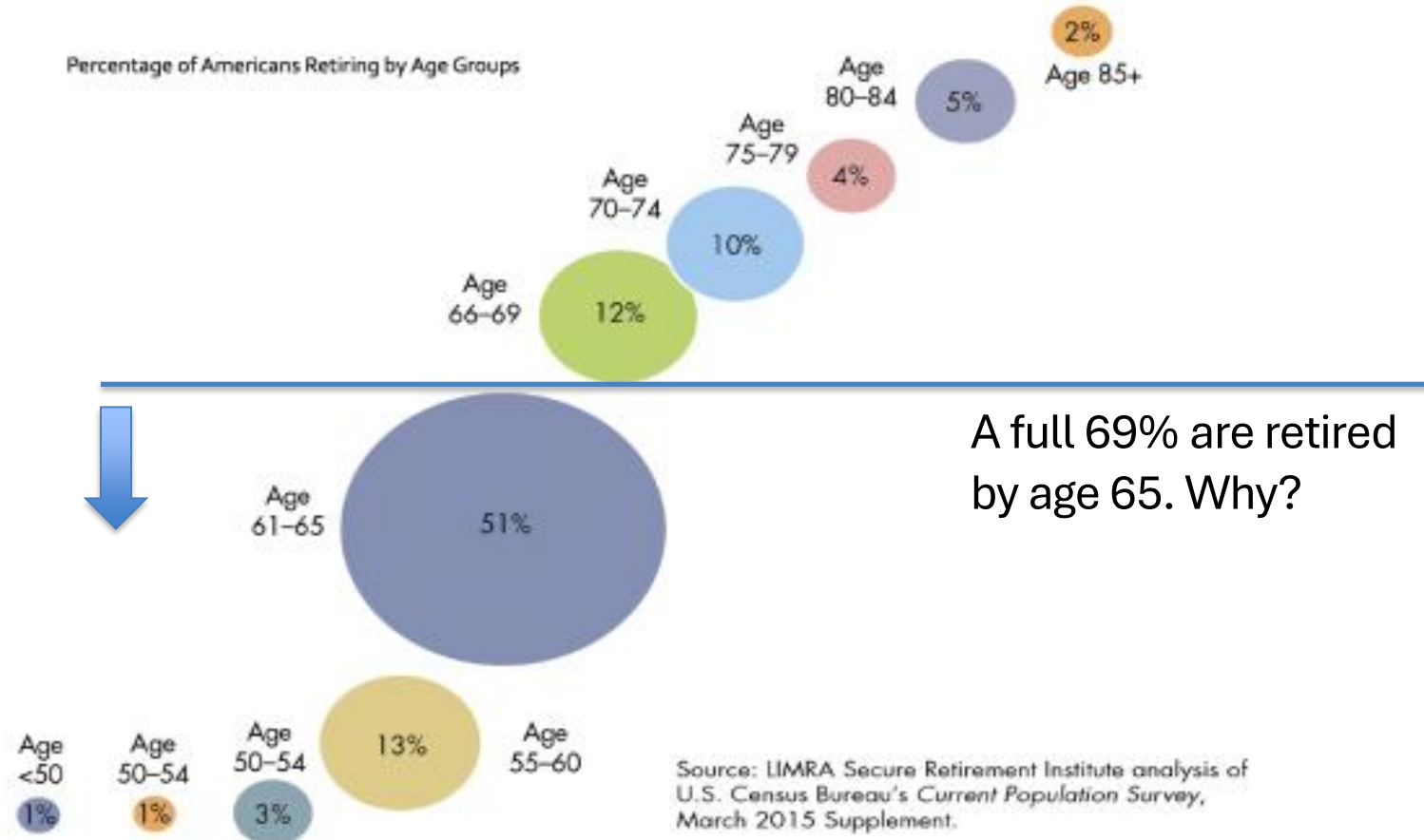


Source: LIMRA Secure Retirement Institute analysis of U.S. Census Bureau's *Current Population Survey*, March 2015 Supplement.

WHAT'S BEEN HAPPENING?

Half of Americans retire between ages 61 and 65.

Percentage of Americans Retiring by Age Groups



RETIREMENT WHEN?

When you retire, you're basically saying...

You can sustain your existence going forward without working.

But what sort of existence?

A SUCCESSFUL RETIREMENT

Definition:

A retirement that allows someone to live the lifestyle to which they have grown accustomed throughout the years.

When we retire, we're saying we have the ability to sustain that existence.

A SUCCESSFUL RETIREMENT

Definition:

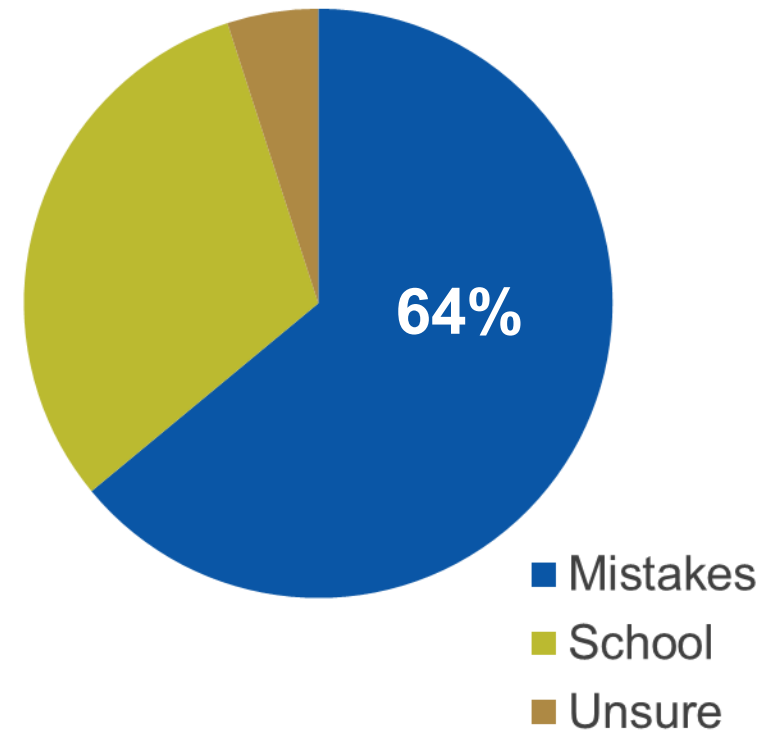
A retirement that allows someone to live the lifestyle to which they have grown accustomed throughout the years.

When we retire, we're saying we have the ability to sustain that existence.

Instead, many are experiencing **cliff retirements.**

PERSONAL FINANCE LESSONS

When people were asked which of the following taught them the most about personal money management, here's what they said:



Source: VISA USA, By Shannon Reilly and Suzy Parker, USA Today

PARKINSON'S LAW...VARIATION OF

Expenditures tend to rise to meet income.

FINANCIAL MISTAKE

An observation made. The challenge.

Middle-class earners all too often increase spending immediately after salary increases, upgrading homes, cars, and lifestyle rather than banking the difference. A \$10,000 raise becomes a \$600 monthly car upgrade, a nicer apartment, or increased discretionary spending **that exactly matches the income increase**. This lifestyle inflation trap ensures that higher earners feel just as financially stressed as they did before—they're just broke at a higher income level.

People earning \$100,000 often have no more savings than when they earned \$60,000 because every raise triggered lifestyle upgrades.

FINANCIAL MISTAKE

An observation made. The challenge.

The psychological satisfaction of feeling successful through consumption prevents wealth building regardless of income.

Families who instead maintained their previous lifestyle and saved raises would accumulate hundreds of thousands in investments, but the middle-class imperative to display success through consumption makes this discipline nearly impossible for most.

REGARDING THOSE WELL COMPENSATED

**What about those that currently
do live below their income?**

ASK YOURSELF

**Can I guarantee I'll always make
the money I do now?**

FINANCIAL MISTAKE: FAILURE TO...

**Am I positioning myself to be able
to afford to make less money?**

FINANCIAL MISTAKE:

1. **Don't rent a lifestyle**
2. **Is my lifestyle sustainable over the long-term?**
3. **Will it be sustainable in retirement?**

FAILURE TO: Allow “enough runway”

CONSIDER

“If your outflow is more than your intake, your upkeep will become your downfall.”

HOW ARE RETIREES DOING RIGHT NOW?

A **full third** of those surveyed said their expenses are higher than they anticipated before retiring.

What happened?

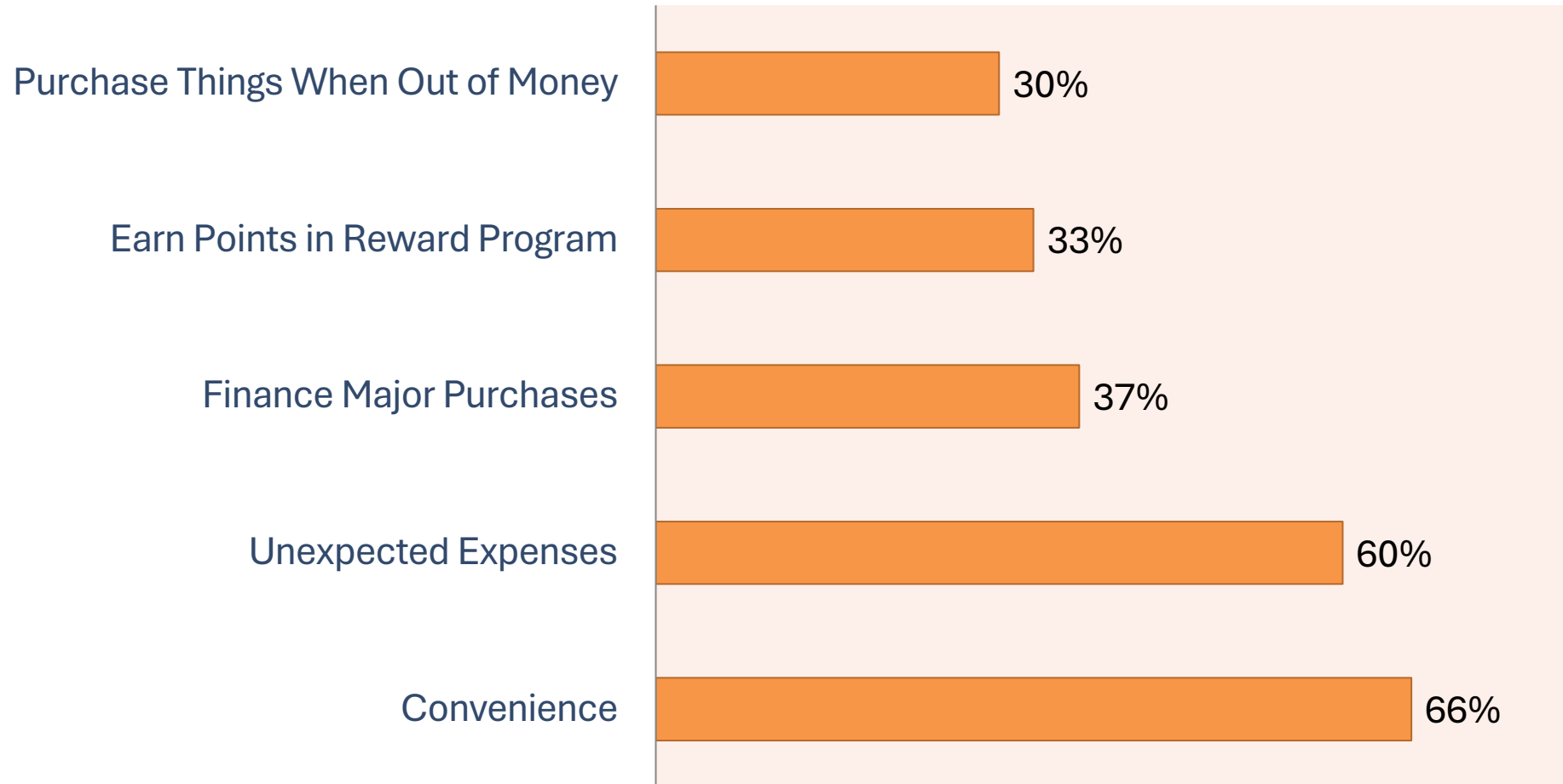
HOW ARE RETIREES DOING RIGHT NOW?

Where have THEY gone wrong?

PART TWO

THE AMERICAN BUDGET: THE **CAUSE** OF DEBT?

WHY ADULTS USE CREDIT CARDS



Source: Pew Research telephone survey of 1,222 adults, Margin of error, +3 percentage points. By Mary Cadden and Marcy E. Mullins, USA TODAY

FOOD FOR THOUGHT

Warren Buffet:

“Do not save what is left after spending, spend what is left after saving.”

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But how to implement this advice...?

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“Do not save what is left after spending, spend what is left after saving.”

But how to implement this advice...?... 401(k) 403 (b) contribution amounts?

HOW ARE WE EVER GOING TO RETIRE?

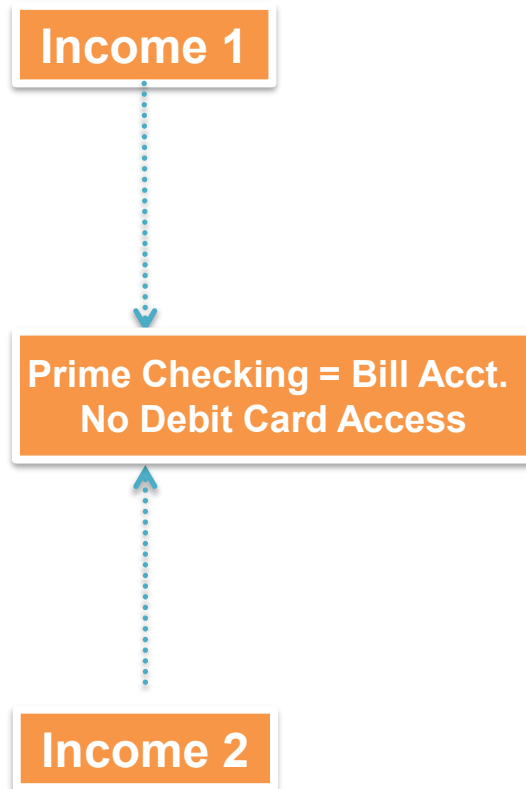
**THE AMERICAN BUDGET:
A FAILED STRATEGY**

ONE KEY TO FISCAL FITNESS

Create an economic environment of scarcity.

HOW TO IMPLEMENT A WORKING BUDGET

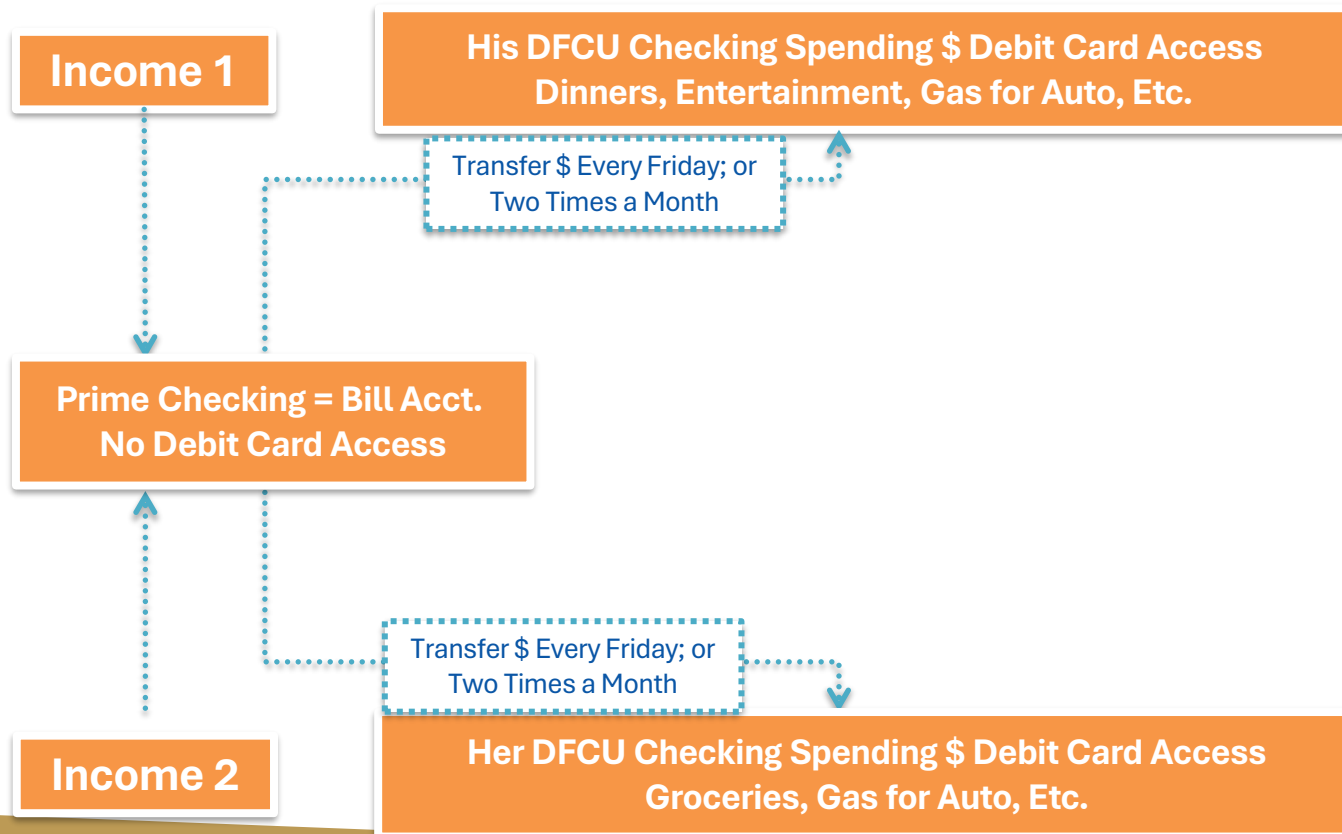
BILL & SPENDING ACCOUNTS



THE BUDGET

Where's my spending money?

BILL & SPENDING ACCOUNTS

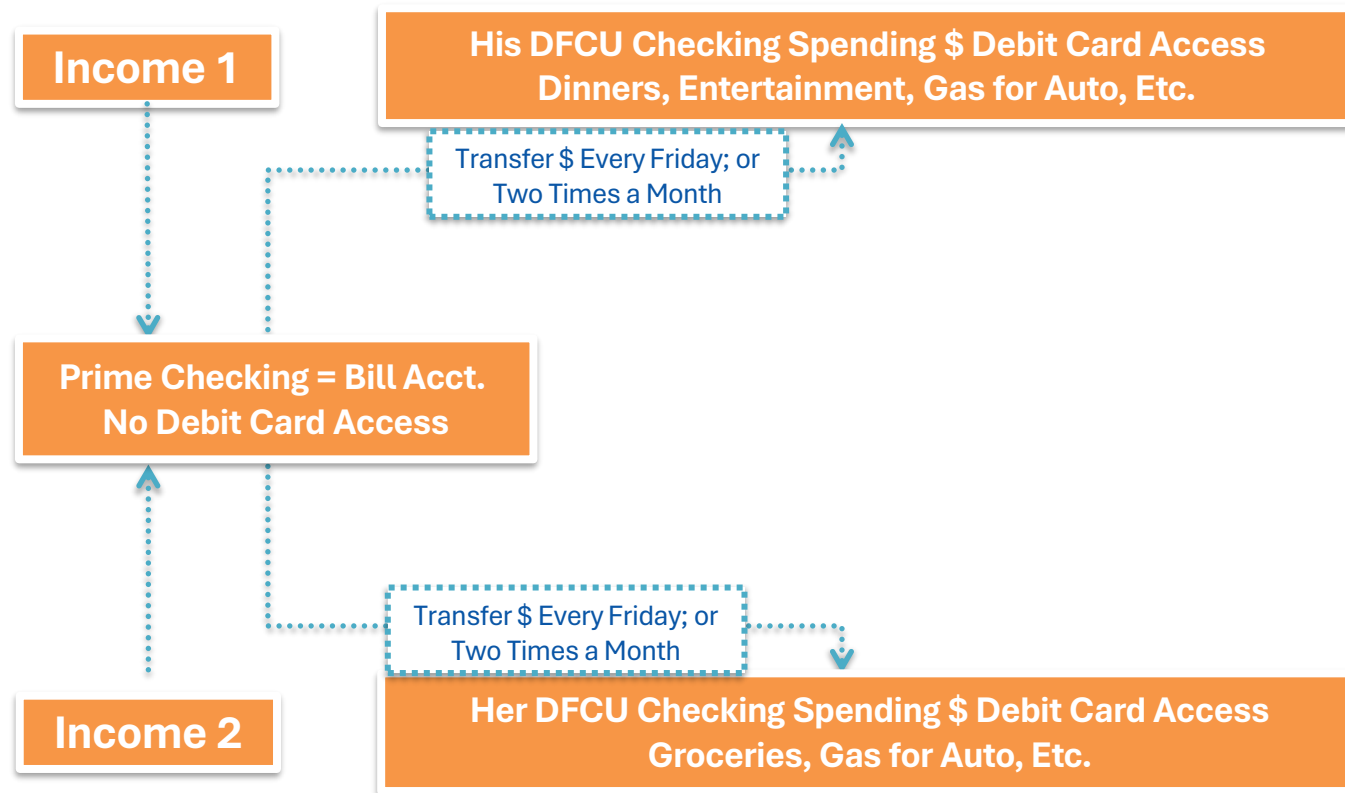


COMMON TRAP TO WEALTH BUILDING

Why do budgets fail?

Reason for debt?

AN INCOMPLETE BUDGET



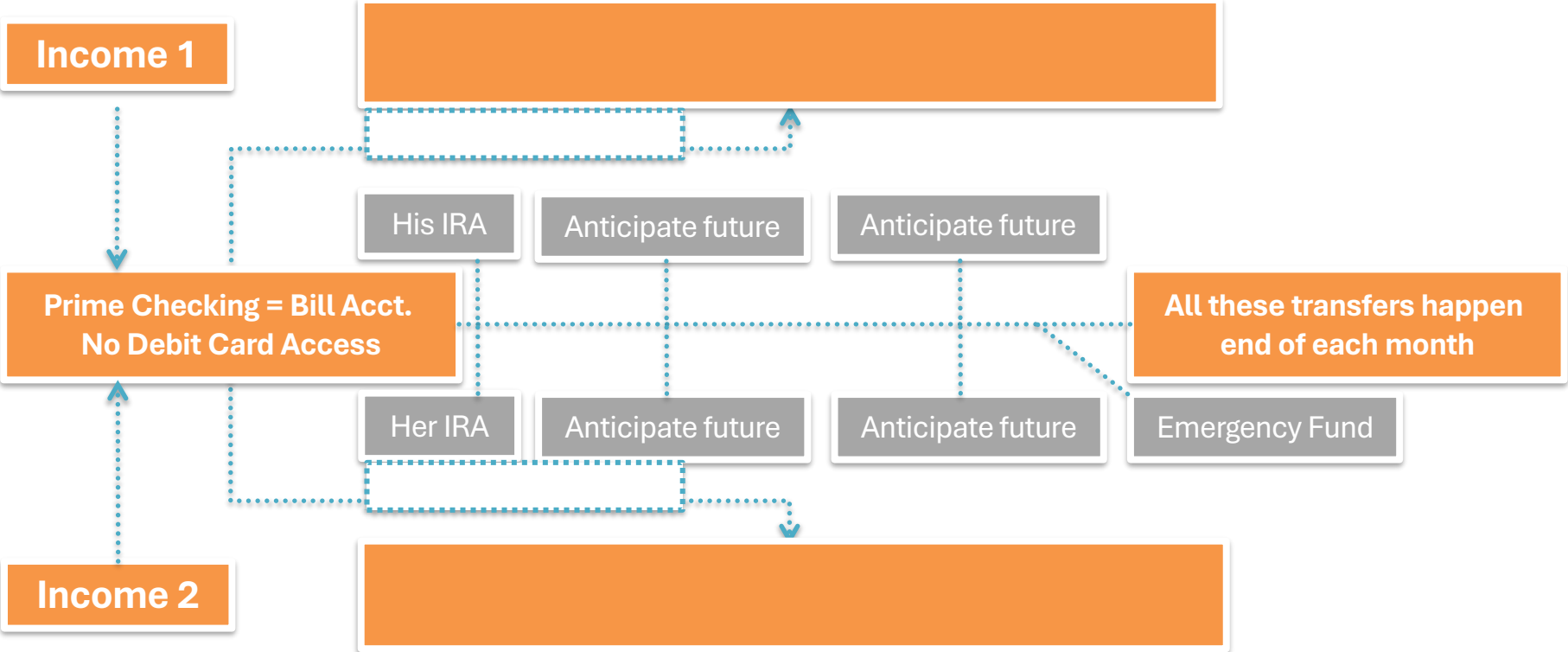
Why is debt created?

“Unexpected Expenses”

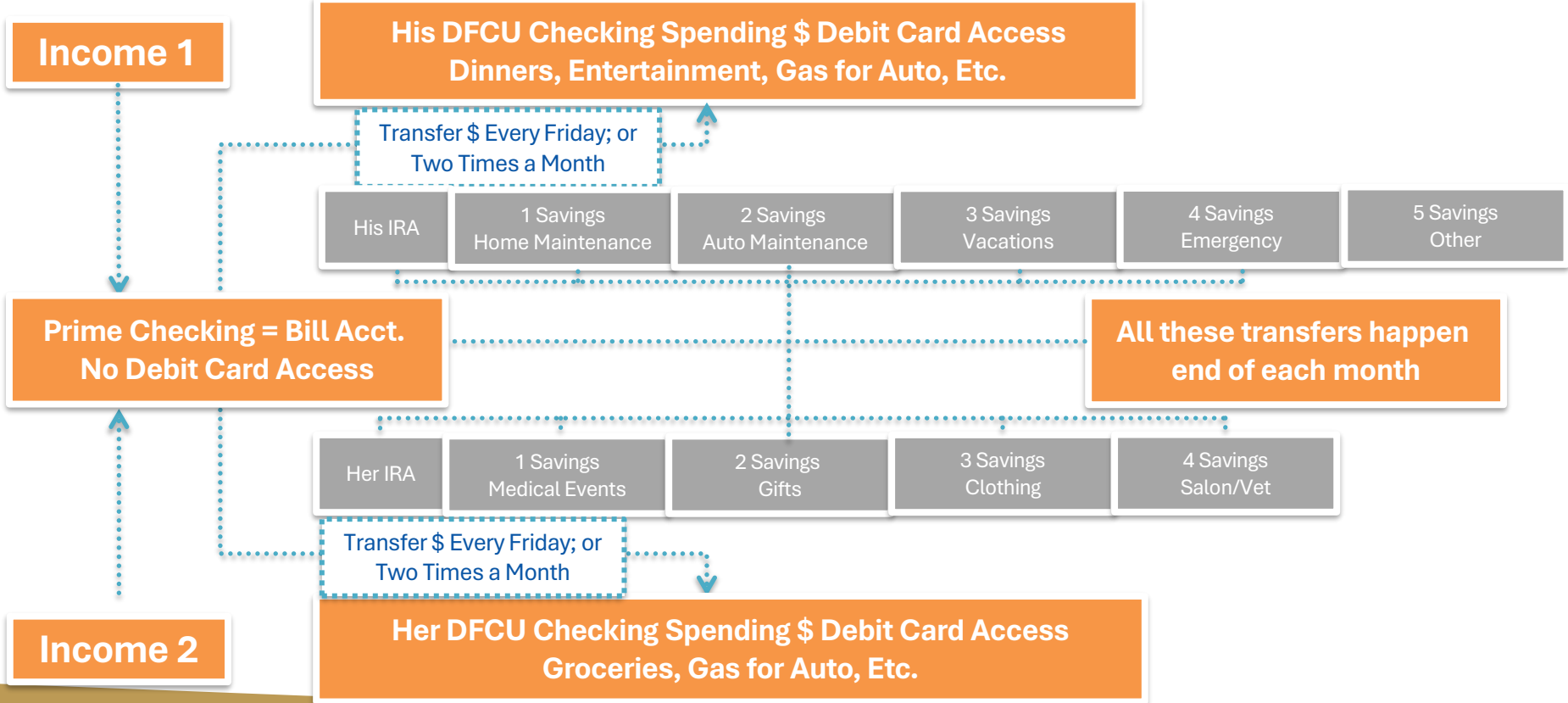
“Unexpected Expenses”

**What about saving for
“future anticipated expenses”?**

ALL TO OFTEN FORGOTTEN ELEMENT



A COMPLETE BUDGET

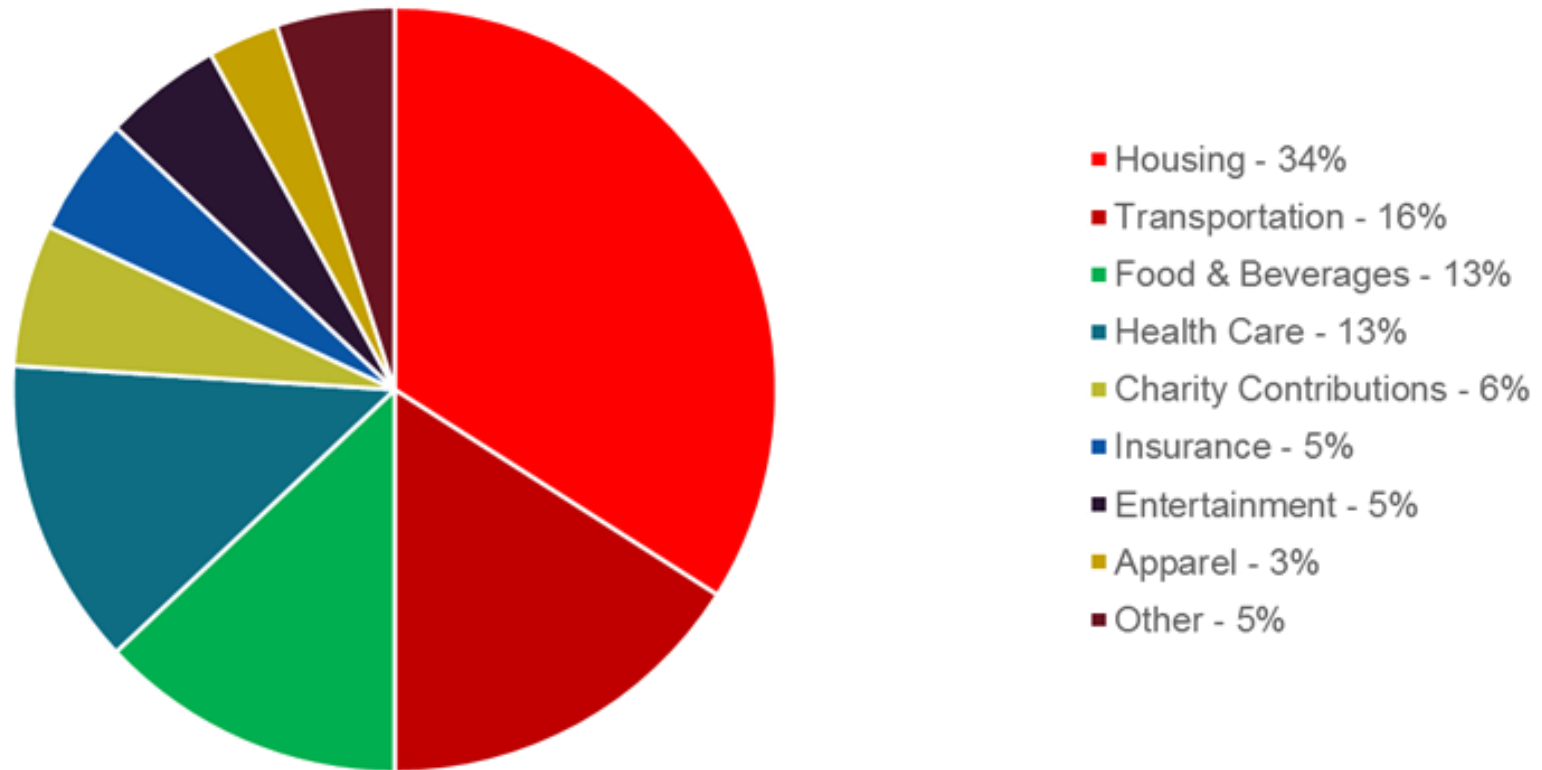


PART THREE

HOUSING – A THREAT TO A SUSTAINABLE RETIREMENT

MISTAKE: WHERE THE MONEY GOES

Percentage of average total spending for people age 65 and older



OLDER AMERICANS IN DEBT

University of Michigan Health and Retirement study

More Americans are reaching their 60s with so much debt they can't afford to retire.

- Home and home-related expenses remain the single largest spending category for older Americans.

Source: Research group Strategic Business Insights' Macro Monitor reported in the Wall Street Journal. Source: Employee Benefit Research Institute; AdvisorOne; "Housing, Health Cost Top Expenses for Older American," by John Sullivan

MANAGING HOUSING COSTS

Housing Today

Home and rental prices **continue to climb**, leaving prospective homeowners without many options. Median incomes have trailed median rents/home prices. **Home prices have jumped 53% since 2019**. Average age of buyer now is 40.

Remember: Most of the world lives with an extended family. Living alone is a ***privilege***, not a ***right***.

HOUSING COST

Should I rent or buy?

Recent studies indicate that owners pay 37% more per month than renters in all 100 of the largest metro cities.

- In recent years home ownership has come under increasing scrutiny.
 - Is it the best way to generate wealth?
 - Is it the path to a sustainable retirement.

Sources: LendingTree analysis of U.S. Census Bureau data; Note: Monthly costs include utilities, fees, and/or taxes; Median housing costs above \$4,000 are recorded as "\$4,000+" by the Census Bureau; Chart: Jacque Schrag/Axios

HOME BUYING

How much *should* someone spend on a house?

Home buying: 28/36 Debt to Income Ratio

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Home buying: 28/36 Debt to Income Ratio

Conventional Mortgage Ratio: 28/36 Rule

Principal, Interest, Taxes, Insurance (PITI)

- Front-end ratio: No more than 28% of your gross income taken up by housing expenses. Principal, Interest, Taxes, Insurance, (PITI) incl. private mortgage insurance (Homeowner's association fees (PITIA))
- Back-end ratio 36%: **Includes Front-end ratio plus everything that shows up on a credit report:** Loans (auto or otherwise), credit card payments, student loans
 - PLUS: child support, alimony—not on credit report.

HOME BUYING

Problems with these ratios: 28/36 Home buying rule

First, averages by definition do not take into account the huge variations in what individuals do.

Second, financial obligations of today's consumer are vastly different from those of the 1960s on whom this rule is based.

- Think: 401(k) (10-15%), cable/streaming services (\$280), cell phones (\$144-\$157), daycare (\$1,250-\$2,083), multiple cars, extravagant vacations & dinners out, student debt, credit cards... consumerism.

Source: David Bieri, an associate professor of Urban Affairs at Virginia Tech.

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- **More demand on our paychecks than ever**

Source: David Bieri, an associate professor of Urban Affairs at Virginia Tech.

HOME BUYING

How much *should* someone spend on a house?

Some lenders encourage stretching.

Compounding the problem to adequate retirement savings:

*“If you’re trying to get a mortgage, you may be wondering what a good DTI is. As a general rule, the best thing to do to qualify for the most loan options possible is keep your DTI at or below 45% (back ratio). If you’re applying for a conventional loan, you can have a DTI as high as 50% (back ratio). **Forget the traditional 36%.**”*

*“If you’re getting an FHA loan with a FICO score below 620, you’ll have to have a housing expense ratio (front ratio) no higher than 38%...**forget the traditional 28%.**” **

- Quicken Loans

*A reflection of the times—robbing us of cash to direct towards retirement.

HOME BUYING

How much *should* someone spend on a house?

No ratio is going to protect you from yourself.

HOME BUYING

How much *should* someone spend on a house?

For years it was suggested to “buy the largest house you can afford.” That advice has been celebrated as smart investing, a way to build equity. Lenders qualify us telling us that 28% - 30% of dual incomes is normal and sustainable, *regardless of cash commitments we’ve assumed beyond that.*

Families spend decades being “house poor,” sacrificing retirement (and other) savings to maintain a home that’s too expensive, *leading some experts to claim it no longer works in our favor to own a home...that homes have morphed into “money pits.”*

Source: The Middle-Class Lifestyle that Quietly Bankrupts Americans by Jordan Casper

HOME BUYING

A contrarian view: Peter Schiff, American economist

Instead of treating homeownership as a guaranteed win, I see it as a high-stakes bet...The question is not whether houses can still build wealth, but whether the trade-offs make sense for your specific situation, especially when renting and financial assets offer more flexibility than they once did.

A primary residence is not an investment but a consumption item that can quietly drain your finances. Once you factor in property taxes, insurance, repairs and transaction cost, the house you live in often depletes your savings instead of growing them, even if property values appreciate over time, this does not automatically translate into superior returns compared with other ways of investing.

Source: Schiff's "money pit" warning: Is buying a home still worth it? Story by Silas Redmond

HOME BUYING

A contrarian view: Peter Schiff, American economist

When I break down the numbers for a typical homeowner, the “money pit” label starts to look less like hyperbole and more like a warning about hidden line items. Beyond the mortgage principal and interest, owners face property taxes that can climb with assessed values, homeowners' insurance that has surged in disaster-prone regions, and association fees in many newer developments.

Source: Schiff's "money pit" warning: Is buying a home still worth it? Story by Silas Redmond

HOME BUYING

A contrarian view: Peter Schiff, American economist

In my view, a primary residence can still be a powerful wealth-building tool when the purchase price, mortgage terms and holding period line up with your finances and life plans.

If you locked in a manageable payment, stay put long enough to spread out closing costs and avoid frequent moves, and keep maintenance under control, the forced savings of paying down principal can be valuable. The key is that the house has to fit comfortably within your budget, not stretch it to the breaking point.

Treat property appreciation as a possibility, not a guarantee. Do not assume appreciation will bail you out if you pay too much or underestimate the ongoing costs.

Source: Schiff's "money pit" warning: Is buying a home still worth it? Story by Silas Redmond

HOME BUYING

Mark Colgan CFP, frequent contributor to The Street.com

The process of building equity is widely misunderstood. It's crucial to understand how mortgages work. In a typical mortgage, banks collect most of the interest payments in the first ten years. Since most people only stay in their homes for 8-10 years, they often build less equity than expected.

To illustrate, consider a \$350,000 mortgage financed over 30 years at an interest rate of 6%.

The monthly payment for principal and interest (excluding taxes, insurance, and other fees) would be approximately \$2,098. In the first year, out of \$25,181 paid towards the mortgage, only about \$5,202 would go to the principal, leaving \$19,978 to go towards interest.

By the end of the 10th year, you would have paid roughly \$251,811 towards the mortgage, but only about \$51,087 of that amount would reduce the principal. The rest—approximately \$200,724—would go to interest payments.

Source: MARK COLGAN, CFP®, PRESIDENT MONTAGE WEALTH MANAGEMENT & REGULAR CONTRIBUTOR TO THE STREET.COM

HOME BUYING

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Those numbers reveal a stark reality. In the first 10 years of a mortgage, most payments are allocated to interest rather than reducing the principal. By the time most homeowners move out around the eight to ten-year mark, they've primarily paid interest, building less equity than anticipated.

Studies have shown that 90% of homeowners didn't fully understand the true costs of owning a home, which go far beyond just the mortgage. The true cost for renovations and maintenance also often surprise new homeowners. The general rule is to budget 1-3% of your home's value each year for maintenance, but older homes or those in tough climates need more. A study by [Bankrate](#) found these annual costs have increased by 26% since 2020.

Source: MARK COLGAN, CFP®, PRESIDENT MONTAGE WEALTH MANAGEMENT & REGULAR CONTRIBUTOR TO THE STREET.COM

DFCU'S DOCTOR MORTGAGE

Whether you're an MD, DO, DDS, DC, DMD, or a DVM, we appreciate your hard work and dedication. But we also understand the challenges physicians can sometimes face in securing a home loan, so we're pleased to offer a mortgage program specifically geared to help.

Our Doctor Mortgage offers:

- A down payment as low as 0%
- DTI (Debt to Income) ratio up to 43%
- No PMI (Private Mortgage Insurance) required
- Loan amounts up to \$1.75M
- 7- and 10-year ARM products
- Cash Back program eligibility

DFCU'S GRATITUDE MORTGAGE

If there's one thing recent history has taught us, it's the importance of the heroes who protect and serve our communities. We appreciate the hard work and dedication of the education, law enforcement, fire department, healthcare, emergency services and military personnel in our communities. That's why we developed our Gratitude Mortgage.

Our Gratitude Mortgage offers:

- A down payment as low as 1%
- No PMI (Private Mortgage Insurance) required
- Loan amounts up to \$832,750
- 7- and 10-year ARM products
- Cash Back program eligibility

PART FOUR

FINANCIAL MISTAKES

MISTAKE: WHEN TO RETIRE

Continue Working?

Is it easier to remain in the work force as a 62-year-old, or be forced to go back as a 69-year-old and working until 75?

Question: Which of the two is probably making more?

MISTAKE: WHEN TO RETIRE

Per the Rand Corporation

39% of workers 65 and older who were currently employed had previously retired at some point, meaning they had to (or chose to) go back to work.

Source: Non Profit , Non Partisan research organization. American Working Conditions Survey (AWCS) by Rand Corp

WHY DON'T WE SAVE

Our transportation spending jumped sharply in the 1960s.

While the adult population increased **86%**, the number of passenger vehicles leapt **279%**. We now have one car, van, pickup truck or SUV for every adult. The automobile is no longer a luxury item...

Source: Jonathan Clements; The Wall Street Journal

WEALTH RETENTION TIPS

Finding Money for Retirement

- Simplify the lifestyle.
- Look for ways to proactively drop cash-flow requirements.
- Limiting car expenses is the easiest and least painful way to cut costs; buy a modest car and keep it for a decade or longer. (Today's cars are built to last!)

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36				
Monthly Payment	\$1,369				
Total Cost	\$49,284				

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36	48			
Monthly Payment	\$1,369	\$1,057			
Total Cost	\$49,284	\$50,728			

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36	48	60		
Monthly Payment	\$1,369	\$1,057	\$870		
Total Cost	\$49,284	\$50,728	\$52,199		

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36	48	60	72	
Monthly Payment	\$1,369	\$1,057	\$870	\$746	
Total Cost	\$49,284	\$50,728	\$52,199	\$53,696	

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36	48	60	72	84
Monthly Payment	\$1,369	\$1,057	\$870	\$746	\$657
Total Cost	\$49,284	\$50,728	\$52,199	\$53,696	\$55,220

With the seven-year loan and the lowest monthly payment, you'll end up paying \$10,000 more for that \$45,000 car, an increase of more than 22%.*

TOTAL COST VS. PAYMENT

Monthly payments on a **\$45,000** car at 6% — with no down payment:

Loan Term in Months	36	48	60	72	84
Monthly Payment	\$1,369	\$1,057	\$870	\$746	\$657
Total Cost	\$49,284	\$50,728	\$52,199	\$53,696	\$55,220

And **remember this is take-home pay**, so even with only a five-year term the gross cost for someone in the 12% tax bracket is \$64,596, meaning you have to earn \$64,596 to pay the \$52,200. **So, the \$45,000 car has still cost an additional \$19,596.**

SAVED IN RETIREMENT ACCOUNT

\$20,000 at 35 years old

Value at 65 years old

4% return: \$64,867

8% return: \$201,253

SAVINGS RULE

Regarding saving 10% to 15% of your income...

- According to Laurence Siegel, Research Director at CFA Institute Research Foundation, “If the markets perform well, you’ll have enough in retirement. If they don’t, you won’t.”
- “If you want guaranteed results, you might want to plan for real returns of zero...
- “...which means you’d have to save around 30%.”

Source: How ‘Super Savers’ take retirement to the next level; Reuters; by Chris Taylor

REGARDING SAVINGS RULE

To secure a financially sustainable retirement:

- Resist the urge to raise your standard of living when receiving large promotions or pay increases (lifestyle inflation).
- If you don't resist, you increase your “Living Standard Risk” in retirement.

PART FIVE

CREDIT

MISTAKE: OUTFLOW > INTAKE

“If your outflow is more than your intake, your upkeep will become your downfall.”

Many attempt to manage the gap with credit.

THE REAL COST OF CREDIT

Amount of Debt	APR	Minimum Payment Due (%)	Length of Time To Pay Off Debt
\$2,000	19.8%	2% of balance due	32 years, 3 months
\$2,000	15.0%	2% of balance due	17 years, 6 months
\$2,000	12.0%	2% of balance due	14 years*

*Assumes minimum payment of \$15.00 / month for 12 consecutive months, and no new debt is incurred

THE REAL COST OF CREDIT

Amount of Debt	APR	Minimum Payment Due (%)	Length of Time To Pay Off Debt
\$2,000	19.8%	2% of balance due	32 years, 3 months*
\$2,000	19.8%	3% of balance due	12 years, 7 months*
\$2,000	19.8%	4% of balance due	8 years, 7 months*
\$2,000	19.8%	5% of balance due	6 years, 9 months*

*Assumes minimum payment of \$15.00 / month for 12 consecutive months, and no new debt is incurred

ACCELERATE DEBT REDUCTION!

Amount of Debt	APR	Minimum Payment Due (%)	Length of Time To Pay Off Debt
\$2,000	19.8%	2% of balance due	32 years, 3 months*
\$2,000	15.0%	2% of balance due	17 years, 6 months*
\$2,000	12.0%	2% of balance due	14 years*
\$2,000	19.8%	5% of balance due	6 years, 9 months*
\$2,000	15.0%	5% of balance due	6 years, 1 months*
\$2,000	12.0%	5% of balance due	5 years, 9 months*

*Assumes minimum payment of \$15.00 / month for 12 consecutive months, and no new debt is incurred

MISTAKE: GOOD DEBT / BAD DEBT

There's such a thing as good debt.

MISTAKE: GOOD DEBT / BAD DEBT

For decades, this phrase has been presented as a truism.

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Why should we be willing to re-examine these traditional views on debt?

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Why should we be willing to re-examine these traditional views on debt?

When we borrow money, we're presuming the future.

MISTAKE: GOOD DEBT / BAD DEBT

Loans raise our required cash-flow requirements.

Need to make more money to service the debt

- **Increases financial vulnerability**
- Hands all control over to employer

MISTAKE: GOOD DEBT / BAD DEBT

Take Control Back

Position yourself to be able to afford to make less money

- What happens if you lose your job?
 - Are you in a position to take lower paying job—perhaps a job you might prefer?

MISTAKE: GOOD DEBT / BAD DEBT

Take Control Back

- A loan may be manageable today, but it quietly shapes your choices tomorrow, from the job you take to where you can live. Prioritizing flexibility over financing buys peace of mind and the ability to pivot when life changes.
- Every borrowed dollar limits future freedom—debt steals tomorrows options.

Source: Brian Page founder of Modern Husbands a company dedicated to helping couples manage both financial and home responsibilities as a team.

PART SIX

CREDIT SCORES

INSURANCE COMPANIES USE THEM—WHY?

Drivers at the bottom of the credit heap file 40% more claims than drivers at the top.

A consumer with bad credit is going to pay 20% to 50% more in auto insurance premiums than a person who has good credit.

Source: Study by the Insurance Information Institute and Clarence Smith, Assistant Vice-President at Conning & Co

WHERE TO GO FOR THE CREDIT REPORT

[Annualcreditreport.com](https://annualcreditreport.com)

NOTE: Does not provide a free score

WHERE TO GO FOR THE CREDIT SCORE

Myfico.com

If you go to this website, you will be able to obtain a true FICO score direct from Fair Isaac & Company.

TODAY'S RELEVANT QUESTION

What do I need to be aware of to maintain or raise my FICO credit score?

TIPS FOR HEALTHY CREDIT

- Don't close a credit card once you've paid it off. Losing the available credit for that account, increases your overall utilization rate, temporarily lowering your scores.
- Be careful: Many credit card lenders require a minimum of borrowing activity—this has been a dramatic change from past practices.
- Stay attentive to each of your credit card lenders' requirements or they could close a long-established revolving account.
- Credit cards **managed over 10 years** add considerable value to your FICO score—they are one of the biggest keys to an 800 level FICO score.

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

Many consumers cause considerable damage to their scores by failing to understand and manage three ratios:

1. Revolving-Credit Debt Ratio
2. 2nd Revolving Utilization Ratio
3. Total Loan Balance Ratio

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

Revolving Credit Debt Ratio

Proportion of balances to credit limits is too high on bank revolving or other revolving accounts

- Takes balance on each line of credit and divides that number by the credit limit. Each line done separately—If less than 10% no negative impact to score.
- Anything under 30% is acceptable—more on this to follow.
- Anything beyond 50% greater downward pressure on score.

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

Revolving Credit Debt Ratio

“There is nothing significant about 30% revolving utilization, it’s relative. If you’re striving for a perfect 850 credit score, your utilization should be in the single digits as it concerns credit utilization.”

Ethan Dornhelm

Vice President of Scores and Predictive Analytics at FICO

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

Revolving Credit Debt Ratio

“Company research has shown that the highest scoring 15% of U.S consumers – those with a FICO score above 795 – use on average just 7% of their credit limit.”

“The average revolving utilization for consumers with a perfect 850 credit score was just 4.1%.”

Ethan Dornhelm

Vice President of Scores and Predictive Analytics at FICO

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

Revolving Credit Debt Ratio

“In some cases, a low credit card utilization ratio will have a **more positive impact** on your FICO scores than not using any of your available credit at all.”

Ethan Dornhelm

Vice President of Scores and Predictive Analytics at FICO

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

2nd Revolving Utilization Ratio

Amount owed on accounts is too high

Total balance on **all revolving accounts** is excessive vs. total high credit limits.
Takes the BALANCE on all revolving accounts and divides that number by the TOTAL of all your CREDIT LIMITS.

AMOUNT OWED (DEBT) VS AVAILABLE CREDIT

**Total Loan Balance Ratio Installment loans:
(mortgage, auto - closed-end loans)**

Proportion of loan balances to loan amounts is too high

High balance in relation to an initial loan amount

Note: When your mortgage drops below 80% of original loan amount it really boosts your score.

PART SEVEN

EDUCATION: AN INVESTMENT

EDUCATION: AN INVESTMENT

Recent Graduates Speak

Why is it important for students to know before borrowing, the amount of debt they are willing to manage and for how long?

EDUCATION: AN INVESTMENT

Recent Graduates Speak

57% said they regret taking out as many loans as they did.

36% said they would not have gone to college if they fully understood the associated costs.

EDUCATION: AN INVESTMENT

What do we know about investments?

EDUCATION: AN INVESTMENT

Risk without research is just another form of gambling.

Before jumping into any kind of investment, it's vital to conduct due diligence to accurately evaluate risk, the potential for gains, and the potential for losses.

EDUCATION: AN INVESTMENT

Recent Graduates Speak

57% said they regret taking out as many loans as they did.

36% said they would not have gone to college if they fully understood the associated costs.

Do you think this group did their research? Know before you owe!

REPAYMENT OPTIONS—*UP UNTIL 2024*

- Standard
- Graduated
- Income-Sensitive
- Extended
- Income-Contingent
- Income-Based
- Pay As You Earn (PAYE)
- Revised Pay As You Earn (RPAYE)*
- **Replaced by: Saving on a Valuable Education (Save) plan*



**INCOME-DRIVEN
REPAYMENT PLANS**

FUTURE REPAYMENT OPTIONS

- **New Standard Plan (modified)**

- **Repayment Assistance Plan (RAP)**



**INCOME-DRIVEN
REPAYMENT PLANS**

PAYING STANDARD REPAYMENT

That option generates:

- \$50,000 at current rates (6.08% graduate rate) would generate a **\$557.11** payment a month over **10 years**

It's true. Higher monthly payments cut into the ability to perhaps move out on your own or borrow for a newer car.

Question you'll need to ask:

*“If I owe this much, **am I in a position to afford such things** with so much debt, or should I wait until some of my student debt is paid down?”*

PAYING INCOME DRIVEN REPAYMENT

Here is what's likely to happen:

- A lower payment of \$302.35 will look attractive to you...
- However, that payment will extend the term out to 30 years!

At current rates (6.08%) borrowing \$50,000 will cost you \$58,847 in interest—more than the actual loan!

Total outlay: \$108,847 over 30 years

PAYING STANDARD REPAYMENT

Had you just stayed with the higher payment:

- \$557.11 a month (\$254.76 more)

At current rates—6.08%—borrowing \$50,000 over 10 years will cost just **\$16,584** in interest (instead of \$58,847)

Total outlay: \$66,584 over 10 years

ACCELERATE DEBT REDUCTION!

The Real Cost of Credit

Amount of Debt	APR	Minimum Payment Due (%)	Length of Time To Pay Off Debt
\$2,000	19.8%	2% of balance due	32 years, 3 months*
\$2,000	15.0%	2% of balance due	17 years, 6 months*
\$2,000	12.0%	2% of balance due	14 years*
\$2,000	19.8%	5% of balance due	6 years, 9 months*
\$2,000	15.0%	5% of balance due	6 years, 1 months*
\$2,000	12.0%	5% of balance due	5 years, 9 months*

*Assumes minimum payment of \$15.00 / month for 12 consecutive months, and no new debt is incurred

THE FUTURE OF STUDENT DEBT

Why is it urgent to address student debt?

1. We earn a finite amount of money in our lifetimes.
2. We have a finite amount of time to position ourselves to face future financial challenges.

We know you're anxious to move on with lifecycle milestones (car, home, etc.) Be aware...

THE FUTURE OF STUDENT DEBT

Unaddressed student debt **WILL negatively impact future financial mobility when it comes to lifecycle milestones.**

FINANCIAL FREEDOM

So, what's the problem?

Problem is, many students don't WANT to defer lifecycle milestones. They'll assume (or attempt to) before it's financially prudent.

With what result?

A negative impact to future financial mobility when it comes to the very things they are seeking to secure!

EDUCATION: AN INVESTMENT

***Attend our Student Loans & Financial Freedom webinar
for much more information.***

PART EIGHT

IMPLEMENTING DEFENSIVE FINANCIAL STRATEGIES

TAKING CONTROL

We can only control our own personal economy—the amount of required cash flowing through our accounts.

Know your Expense Number!

- *How low can you get it?*

Need to think **defense** when it comes to money not just offense.

Don't rent a lifestyle.

THINGS TO THINK ABOUT REGARDING “DEFENSE”

Know the difference between being frugal vs being cheap.

Cheapness cuts corners at all cost. Frugality focuses on getting value for your money.

A frugal person maintains what they own, spends intentionally and is generous where it counts.

Understanding that difference can prevent endless money conflicts because frugality builds a meaningful life, while cheapness slowly erodes joy.

Source: Brian Page founder of Modern Husbands a company dedicated to helping couples manage both financial and home responsibilities as a team.

THINGS TO THINK ABOUT REGARDING “DEFENSE”

Know the difference between being frugal vs being cheap.

‘Turn off the lights when you leave the room’ is a metaphor for the small things we do. It’s more than saving a few cents on electricity; it’s a mindfulness practice.

Every small act of frugality adds up and it builds awareness of how we use our resources.

Source: Brian Page founder of Modern Husbands a company dedicated to helping couples manage both financial and home responsibilities as a team.

THINGS TO THINK ABOUT REGARDING “DEFENSE”

Celebrate Simplicity

Choosing simplicity means choosing time over things, presence over pressure, meaning over noise.

Less clutter often leads to less stress → more room for what actually matters.

A quiet life is often an intentional one.

Source: Brian Page founder of Modern Husbands a company dedicated to helping couples manage both financial and home responsibilities as a team.

OTHER SEMINARS OFFERED BY DFCU FINANCIAL

Healthy Credit, Healthy Life

Student Loans & Financial Freedom

Retirement Readiness

Retirement Wealth Retention

Social Security

Medicare

Medicare Missteps

Estate Planning

Elder Law

All webinars are open to the general public at no cost.

CONSIDERING PRACTICE OWNERSHIP?

Whether you're considering ownership now or in the future, having the right financial partner makes the process easier.

- Financing support for starting, buying, or expanding a practice
- Flexible structures designed around you
- Guidance through the financial side of ownership

We take the time to understand your full financial picture and build solutions that fit your goals.

PART NINE

AIM FOR YOUR BEST FINANCIAL LIFE WITH A PLAN

WHEN TO TAKE THE PLUNGE INTO INVESTING

- You have a steady income (sounds obvious, but it's important).
- You have money left over after meeting your financial obligations.
- You've considered the effect of upcoming personal changes, such as marriage, children, or divorce, before investing.
- You've built up your savings, including a three-to-six-month emergency fund, before establishing an investment account.

STOCKS, STOCK MUTUAL FUNDS, EFTs

- Ownership in issuing corporation
- Bought/sold on exchanges
- Higher return potential, with higher risk
- Used to fund long term financial goals
- Not appropriate for short term financial goals

Investment return and principal value of mutual funds will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

STOCKS, STOCK MUTUAL FUNDS, EFTs

- Used to finance projects and operations of companies, municipalities, states and sovereign governments
- You loan, not own
- Moderate return potential, with moderate risk
- Appropriate for funding medium term financial goals
- May make up bigger part of your portfolio at and during retirement

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability, credit risk and price volatility.

KEEPING HISTORY IN PERSPECTIVE

Asset Type	Average Annual Return, 1985–2022
Stocks ¹	8.00%
Government Bonds ²	3.00%
Treasury Bills ³	0.40%
Inflation ⁴	2.74%

Source: Callan, LLC 2023 and U.S. Bureau of Labor Statistics

1 The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. 2 Bloomberg US Aggregate Bond Index) includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year. 3 90-day T-bill is a short-term debt obligation backed by the Treasury Department of the U.S. government. 4 U.S. Labor Department reports. All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

HOW OFTEN DOES MONEY DOUBLE

Rule of 72

Expected Rate of Return	Do the Math	Years for Investment to Double
4%	$72 \div 4$	18 Years
6%	$72 \div 6$	12 Years
8%	$72 \div 8$	9 Years
10%	$72 \div 10$	7 Years

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or greater on a consistent basis.

DIVERSIFY YOUR INVESTMENTS

- Foundational element of investing
- Helps manage risk while seeking to maximize your returns

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. **Diversification does not protect against market risk.**

NEED HELP GETTING STARTED?

Professional help is available if and when you need it. LPL Financial Services Professionals can help you:

- Understand different types of investments and their place in a balanced investment portfolio
- Determine your financial goals
- Determine an appropriate investment strategy for your financial goals, based on your risk tolerance and timeframe
- Discuss professionally managed investment strategies that may be of interest to you
- Meet with you on a regular basis to track progress and adjust as necessary

PART TEN

TAKE FULL ADVANTAGE OF YOUR WORKPLACE RETIREMENT PLAN

BENEFITS OF YOUR WORKPLACE RETIREMENT PLAN

- Easiest way to become an investor
- Biggest and best opportunity to achieve financial wellness for most people



BENEFITS OF YOUR WORKPLACE RETIREMENT PLAN

- Your savings are automatic
- Your income taxes are reduced
- Tax-deferred compounding

TAX SAVINGS

\$50,000 Salary
X 10% Savings Rate
= \$5,000 Annual Contribution

\$5,000 Annual Contribution
X 22% Tax Rate
= **\$1,100 Annual Tax Savings**

BENEFITS OF YOUR WORKPLACE RETIREMENT PLAN

- Free money courtesy of the employer match
- Your money goes where you go
- Account management made easy

IRA: TRADITIONAL VS. ROTH

TRADITIONAL

- Pre-tax contributions
- Tax benefit **now**

ROTH

- After-tax contributions
- Tax benefit **later**

Roth option may be more favorable strategy for younger adults. Consider diversifying your contributions between both options.

A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for five years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

TARGET DATE FUNDS

- A type of mutual fund
- Assumes investors need to begin withdrawing money at a specific time in the future
- Example: “Retirement Fund 2055”
- Professional fund manager oversees the fund
- Adjusts risk level over time

The principal value of a target fund is not guaranteed at any time, including at the target date. The target date is the approximate date when investors plan to start withdrawing their money.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

- Typically used by self-employed individuals
- Accounts held by a custodian, such as a bank or brokerage firm
- Much larger universe of mutual funds to choose from
- Contributions are generally tax deductible
- Earnings are tax-deferred
- Withdrawals taxed at the income tax rate
- Roth option available

Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.

GENERAL RETIREMENT SAVINGS BENCHMARKS

- **In your 20s:** strive to save **7-10%** of your annual pay
- **In your 30s:** strive to save **10-15%**
- **In your 40s:** strive to save **15-20%**
- **In your 50s and 60s:** strive to save **20%** (or more)

FIVE STEPS TO HELP ACHIEVE RETIREMENT SAVING SUCCESS

1. Choose your savings vehicle
2. Start early
3. Increase your saving rate whenever possible
4. Don't forget about healthcare expenses
5. Seek professional advice when you need it

REVIEW INSURANCE COVERAGE

- Property and casualty insurance
- Life insurance
- Disability insurance

TACTICAL TIP

- Determine your savings goals and how to achieve them
- Decide between Roth vs. Traditional IRA
- Create your investment strategy and monitor it
- Balance retirement with other financial goals

THANK YOU

Prepared by LPL Financial

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All investing involves risk including loss of principal. No strategy assures success or protects against loss. LPL Financial does not offer tax or legal advice.

Sources: *Investopedia*, *Smart Asset*, *Kiplinger*, [IRS.gov](https://www.irs.gov), [Myfico.com](https://www.myfico.com)

THANK YOU

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