PERSONAL FINANCE

Personal Finance 101: The complete guide to managing your money

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GOOD FOR: Students | Young Investors | Home Buyers | Retirement Planners

17 min read

Personal Finance 101

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Introduction

Creating a financially secure life can feel like a daunting task that requires the skills of expert mapmaker and GPS programmer. You need to figure out where you are today and where you want to get to. As if that's not a big enough lift, you're then in charge of finding the best route to get from here to there without veering off into costly detours.

Take a deep breath. Relax your shoulders.

It's just seven steps, and that's doable.

Some goals will take years — if not decades — to reach. That's part of the plan! But you also get an immediate payoff: a whole lot less stress starting the minute you dive into taking control of all the money stuff that's gnawing at you.

According to a 2019 survey, 9 in 10 adults say nothing makes them happier or more confident than having their finances in order. This guide is your ticket to joining in.

How to read this guide

This guide lays out the seven key steps to focus on to get you working toward long-term financial security. Follow along from start to finish, or jump to the section(s) you want to learn more about.

5. Pay off costly credit card debt

Josephine Flood | CNBC

Set short-term and long-term goals

Building financial security is an ongoing juggling act. Some of the money balls you have in the air are going to be goals you want to reach ASAP. Other goals might have an end date that is a decade, or decades, off but require starting sooner than later.

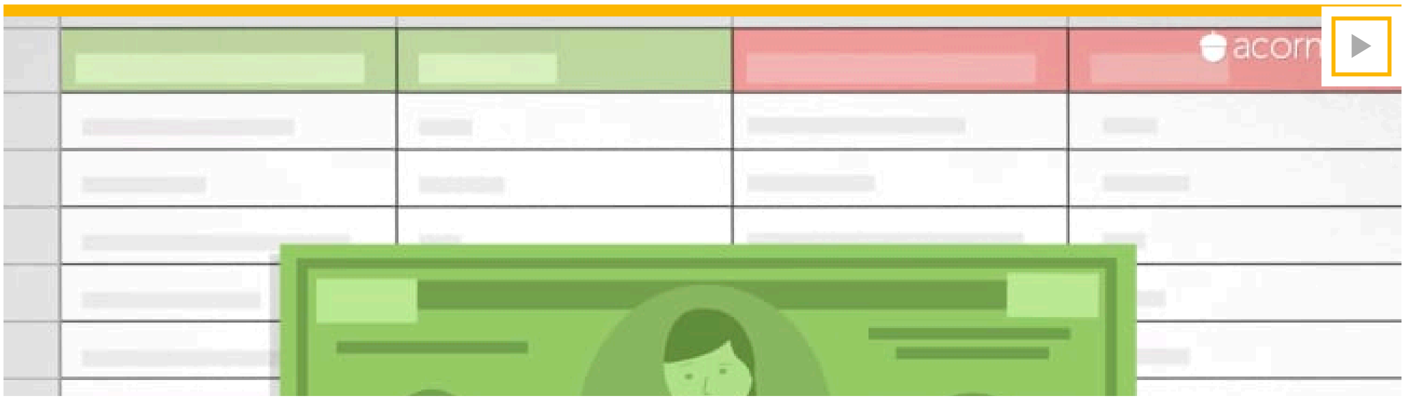
Creating a master list of all your goals is a smart first step. It's always easier to plot a course of action when you are clear on what you're looking to achieve.

It's up to you whether your list of short- and long-term goals is on a spreadsheet or pencil to paper. Just be sure to give yourself some quiet time to think it through. Here's a simple prompt: *Money-wise, what would make you feel great?* At its heart, that's what a financial plan delivers: the means to help you feel safe and secure, so you can focus on living, not worrying.

Possibilities to consider:

months of living expenses. Keep new credit card charges limited to what you can pay off, in full, each month. Hint: Create and follow a budget. Pay off existing credit card balances.

- **Longer-term goals:** Start saving at least 10% of gross salary every year for your retirement. Save for a home down payment. Save for a child's (or grandchild's) education in a tax-advantaged 529 Plan.



VIDEO 02:26

How to make a budget

Create a budget

Not exactly a sexy topic. Agreed. But creating a budget happens to be the one step that makes every other financial goal reachable.

A budget is a line-item accounting of all your income — salary, maybe a side gig, perhaps income from an investment — and all your expenses. The whole purpose of a budget is to lay everything out in front of you so you can see where everything is going and make some tweaks if you're not currently on course to meet your goals.

budgeting framework.

With this approach, the goal is to spend 50% of your after-tax income on essential costs (e.g., rent/mortgage, food, car payments) and 30% on other needed expenses (say, phone and streaming plans) or “nice to haves” such as dining out. The final 20% is for savings: building your emergency reserves, socking away money for retirement and saving up enough funds for a down payment on a house or your next car.

Another framework is the 60% Solution, which divvies up spending and saving targets a bit differently — but with the same focus on making sure you don’t shortchange saving for long-term goals.

If your own pie charts look wildly different than either approach, that’s your cue to spend some time considering how to adjust your spending or increase your income. (Hello, side gig! Or push for that promotion or raise already.) That will get you on a solid path that helps you meet short-term and long-term goals.

You can fire up an Excel or Google Docs spreadsheet to help you create a budget and track your progress. There are also budgeting apps you can sync with bank accounts that can make it easier to track spending in real time.

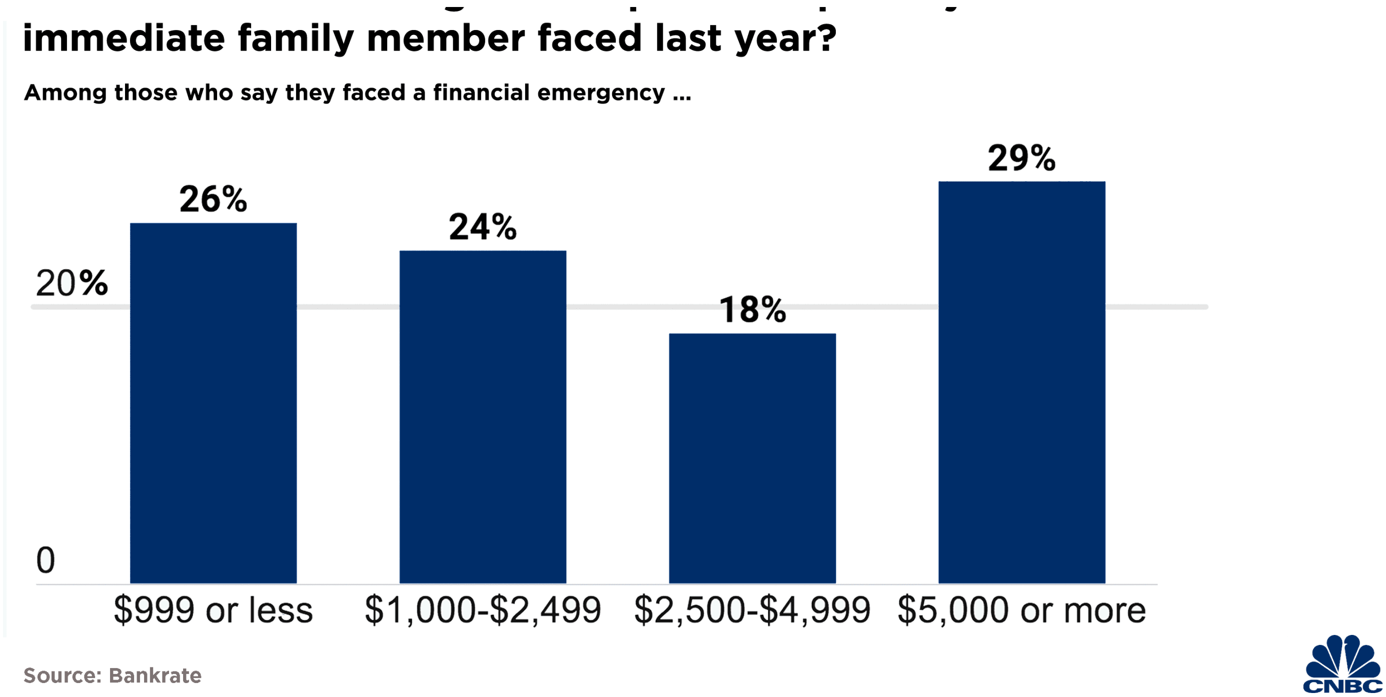


Chart displaying largest unexpected expense you or immediate family member faced. 29% say $5,000 or more.
Bankrate.com

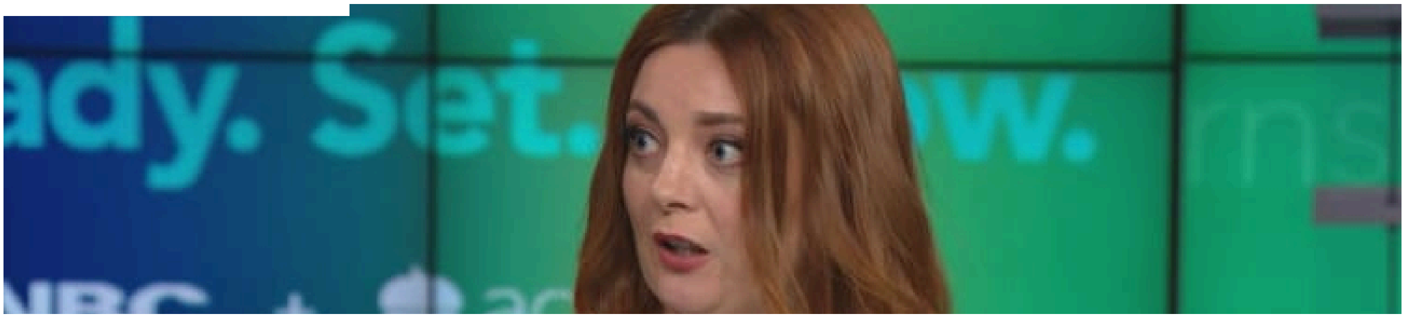
Build an emergency fund

Okay, you likely need no convincing that having some money tucked away for life's endless stream of financial curveballs — pandemic layoff, the deductible for an MRI on the knee you wrenched, replacing whatever the mechanic tells you is the reason your car is acting up — is perhaps the ultimate money stress reducer.

But how to create your safety cushion? You've got plenty of stressed-out company. A survey by Bankrate.com found that 60% of people say they don't have enough money saved to cover a $1,000 emergency bill. And just one grand isn't likely even enough. Bankrate said that, among survey participants who had an emergency in 2019, the average tab was $3,500.

Building an emergency fund starts with setting a goal for how much protection you want to build. At a minimum, it's smart to have at least three months' worth of living

5. Pay off costly credit card debt



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How to create a financial cushion

Can't even imagine pulling that off? Stop focusing on the big end-goal. The trick with this is to create an automated system that adds money to your emergency fund each month.

The best way to achieve this is to open a separate bank or credit union savings account that you designate as your emergency fund. (Keeping this money in your regular checking account introduces the temptation to use the money for non-emergencies.)

Online savings banks typically pay the highest yields. You can open a high-yield online savings account and set up an automatic transfer from your checking account into it. For even less temptation to spend, decline the debit card the online bank might offer you.

Josephine Flood | CNBC

Pay off costly credit card debt

The unofficial term for the interest rate charged on unpaid credit card balances is "insane." While it's common for banks to pay savers less than 1% interest these days on savings accounts, the average interest rate they charge credit card users with an unpaid balance is pushing 17%.

Paying off high-rate debt is one of the best investment moves, and the average 17% interest rate charged on unpaid credit card balances is a big roadblock to building financial security

If you have a solid credit score, you might consider checking if you can qualify for a balance transfer deal to a new card that will waive interest payments for an initial period. Not having to pay any interest for a year, or more, gives you a chunk of time to make a big dent in repayment without interest continuing to pile up.

The best balance transfer credit cards

If a balance transfer isn't in the cards for you, there are two popular get-out-of-debt strategies you might consider.

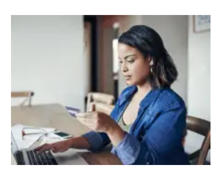
From a financial standpoint, the "avalanche" method makes the most sense. You pay the minimum due each month on all your credit cards, and then add more money to the card charging the highest interest rate. When the balance on your highest-rate card is paid off, you start shoveling the extra payments to the card with the next-highest interest rate. Rinse and repeat.

Stymied as to where you can find the extra money to add to the highest-rate card? Time to scour that budget you've got running in the background. Maybe an expense gets totally chopped, or maybe you do some strategic nipping and tucking to reduce monthly outlays for some of your expenses.

With the "snowball" strategy, on the other hand, you send your extra monthly payments to the card with the smallest unpaid balance. The allure of this pay-back method is that it provides a nice bit of psychological mojo: By focusing on the card with the smallest balance, you'll get it paid off faster. Seeing a card balance hit zero can be valuable motivation … if you need it. Otherwise, the avalanche system actually will save you more money.

Learn More

How to pay off credit card debt.



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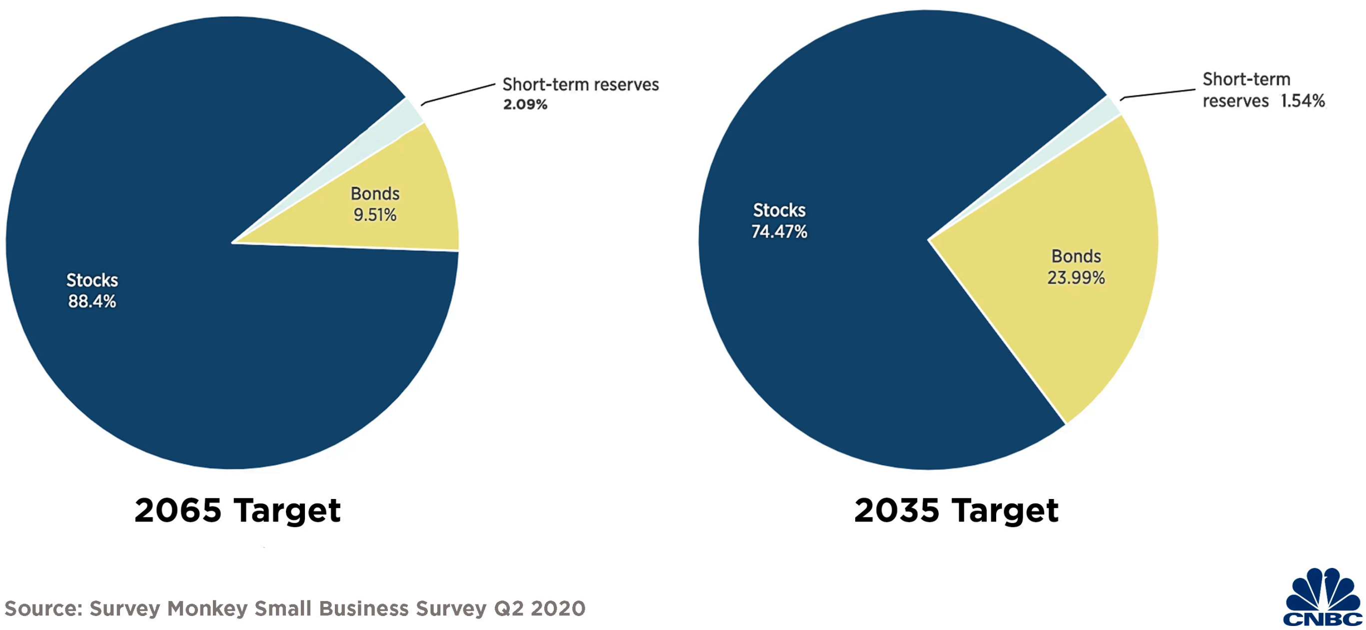

Vanguard

Save for retirement

Even if you have decades to go until retirement, the time to get started saving was yesterday. The longer you wait to get serious about this big honking goal, the more you will need to contribute to land in retirement in good shape.

There's no one rule for how much you'll want (read: need) to save for retirement, but a solid guideline is to have a multiple of your salary set aside at different ages. As you can see below, having retirement account balances equal to two times your salary by age 35 sets you up for success. When you're 50, the aim is to have six times your salary in retirement account, and by your late 60s, having 10 times your salary saved up is recommended.

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Here's how much money you should have saved now

The best way to save for retirement is to use special accounts that give you valuable tax breaks. Many workplaces offer retirement accounts that you contribute to, such as 401(k) and 403(b) plans — the former by private employers, the latter by nonprofits and the government. And everyone with earned income can contribute to their own individual retirement account — or IRA, for short. Many brokerages offer IRAs.

With both 401(k)/403(b) plans and IRAs, you may be able to choose between a "traditional" account or a "Roth" account. The difference is when you grab your tax break.

With traditional 401(k) and 403(b) accounts, you get an upfront tax break: Your contribution reduces your taxable income for the year. Traditional IRA accounts may also qualify for this upfront tax break, depending on your income. When you eventually make withdrawals from traditional retirement accounts, you owe income tax on every dollar you withdraw.

Roth 401(k) plans and IRAs deliver the tax break in retirement. The money you contribute today doesn't reduce your current income and your contribution is made

There are lots of moving pieces to nailing saving for retirement. Here are some key steps to take at different life stages.

In your 20s:

- **Start saving at least 10% of your gross salary ASAP. Saving 15% is even better**. If you wait until your 30s to get serious about this, you'll likely need to save 20% or more of your salary to reach your retirement target. If you can't get to 10% right out of the gate, commit to a plan to boost your contribution rate at least one percentage point a year.
- **Don't pass up a workplace retirement saving bonus**. If you have a workplace plan, chances are you were "auto-enrolled." So far, so good. But there's a trap, too: Lots of plans automatically set your initial contribution rate at a level that is too low to qualify for the maximum matching contribution they offer to all employees. Grrr! Check with human resources that you are contributing at least enough to get the maximum match.
- **No workplace plan? Check out IRAs.** If you are an independent contractor/perma-gig worker, you qualify for a SEP IRA, which allows savers to contribute more each year than regular IRAs. That said, SEP IRAs only come in the traditional format; there is no Roth version of a SEP IRA. By the way, officially, SEP IRA is a Simplified Employee Pension Individual Retirement Arrangement.
- **Consider saving in a Roth.** Chances are you've yet to hit peak earnings, right? That means you've also probably not hit your peak income-tax rate, either. When you are in a lower tax bracket, a Roth 401(k) or a Roth IRA can make a lot of sense, given there's not a big value in getting the upfront tax break from a traditional account. Anyone can contribute to a Roth 401(k) or 403(b) if the plan offers it, but there is an income cutoff (it's pretty high) to be eligible to save in Roth IRA.

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retirement

Here's how much it actually costs to attend the top 17 colleges in the US

In your 30s:

- **Just getting started?** Aim to contribute 15% of your gross salary.
- **Don't cash out when you job-hop.** If you have a workplace retirement plan, you are allowed to move the money when you leave the job. One option is to take the money as cash. This is a seriously bad move. Not only will you trigger a 10% IRS penalty, but you may also owe income tax. And most important: You've just stolen from your future self, who is going to need that money in retirement. Leave the money where it is, or consider a 401(k) rollover.

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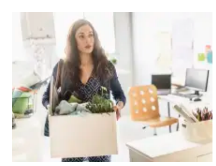
What you need to know about 401 (k) rollovers.



In your 40s:

- **Fire up an online retirement calculator**. Now's the time to see if you're in the ballpark of where you want to be in 20 or so years. If you're coming up short, start picking apart your budget (and lifestyle) to find ways to save more. By your 40s, most financial advisors recommend having two to three times your annual about the net price— that doesn't require you to raid your retirement account or slow down on your savings. That reduces the odds the kids will need to support you in retirement.

- **Steer clear of lifestyle creep**. Yep, you're making more now than in your 20s but, um, are you spending it all?

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Set a goal for **how much of every raise** you will commit to retirement saving.

In your 50s:

- **Here are some numbers to consider.** By age 50, experts say to have six times your salary saved. By age 55, have seven times your salary saved.
- **Get an estimate of your retirement income.** There are online calculators that can help you hammer out a sense of how much monthly income you may be able to safely generate from your retirement savings, Social Security check and pension benefit — if you have one.
- **Consider bringing in a pro to strategize.** You may enjoy being a DIY retirement saver. But given all the moving parts in hatching a successful retirement income plan, you might consider consulting with a certified financial planner to work through your retirement income plan. There are many planners who charge a flat or hourly fee for a specific assignment. Or you might want to consider hiring a pro on an ongoing basis to help you manage your finances throughout your retirement.
- **Take advantage of catch-up contributions.** Once you cross the retirement savings Rubicon that is the half-century mark, the annual contribution limits for IRAs and 401(k)/403(b) plans rise. If a spin through an online retirement income calculator didn't deliver the numbers you'd like, stuff more money into your

saving in a Roth equivalent, if your plan offers one. Retirement planning experts recommend adding some Roth retirement savings as a way to create “tax diversification” that can help keep your IRS tab down once you retire.

Learn More

Why now might be a good time to save in a Roth 401(k) or Roth IRA.

In your 60s:

- **Check if these numbers add up.** By age 60, have eight times your salary saved. By age 67, have 10 times your salary saved.
- **Consider waiting to claim Social Security.** You can start collecting your retirement benefit at age 62. Every month you delay past 62 earns you a higher eventual payout. Wait until age 70 and your payout will be 76% higher than what you’d get if you claim eight years earlier.
- **Earn just enough to avoid starting retirement account withdrawals.** If you want (and can) continue to work full-time at a fast-paced job, that’s great. But if you’re ready to downshift or you were pushed out of your career, a practical strategy may be to work at a job that brings in enough to cover your living expenses, even if you can’t afford to continue to add to your retirement savings. At this point, giving what you have already saved more time to compound before starting withdrawals is a smart move.

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Josephine Flood | CNBC

Invest for retirement with a long-term focus

What you manage to save for retirement is the biggest factor in how comfy you're going to be when it's time to step off the work treadmill. But how you invest the money in your retirement accounts plays a large role, too.

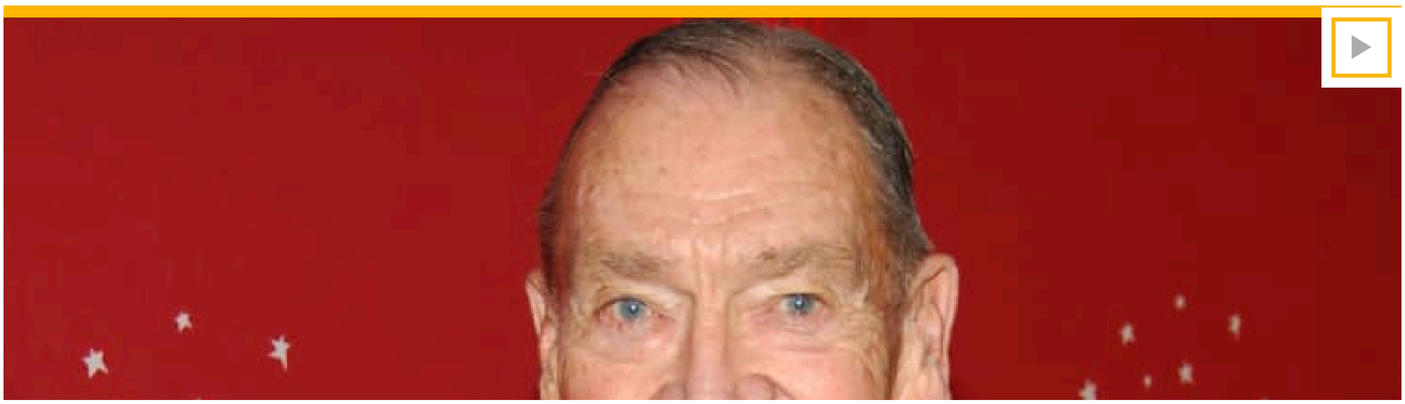
Saving for retirement breaks down into how much you want to invest in stocks and how much in bonds. As if this needed pointing out now, stocks can be volatile at times, though over long periods (10 years or more) they have historically delivered higher returns than bonds.

Bonds are more chill. They don't fall like stocks in rough times — in fact, they typically rise when stocks are cratering. However, they don't gain as much as stocks, either.

A hidden risk to consider when you are deciding on your mix of stocks and bonds is inflation. That's the annoying fact that, over time, stuff costs more. Even at a benign 2%

...ve produced the best inflation-beating gains.

The right stock-bond mix depends on your personal goals, stomach for risk and time horizon — or number of years you expect to hold your investments. Jack Bogle, renowned founder of Vanguard and tireless advocate for individual investors, suggested this simple rule of thumb: Subtract your age from 110. That's how much, percentage-wise, you might want to keep in stocks.



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Jack Bogle: A 'hero' to American investors

Borrow smart

Big-ticket purchases typically involve taking out a loan. The house you want to buy. The cars you drive. Helping your kids pay for college.

The key to building financial security is to only borrow what you truly need. And that can get tricky because right when you are looking to buy a house/car/college education, the lenders are focused on telling you the maximum you are allowed to borrow. No one your other goals.

That’s on you. Your goal should always be to borrow as little as possible to meet your goal. The less you borrow, the more money you have for other goals. You need a car? Okay, but do you need a new car tricked out with every premium package? Might your financial life benefit from considering a less expensive model? Buying a used car that has been on the road for three or so years means you’re letting someone else pay for the 40% to 50% depreciation that is common in the early years after buying a new car.

> **Learn More**
>
> **Millennial who saved $1 million: Buying a new car is ‘one of the worst financial decisions you can make in your life’.**

Same goes with the house. A recent study found that the median price of a four-bedroom home was $100,000 more than a three-bedroom. Or consider a slightly longer commute, which can also be a big money saver.

Borrowing as little as possible is how you free up hundreds of dollars in your budget to put toward other goals.

Once you determine your maximum borrowing budget, doing some advance prep work to get your credit score as high as possible can help you qualify for the best deal.

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