Financial IQ
The Fundamentals of Financial Well-Being

Financial Goal Setting
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What is financial well-being?*

- Having control over day-to-day, month-to-month finances
- Having the capacity to absorb a financial shock
- Being on track to meet financial goals
- Having the financial freedom to make choices that allow one to enjoy life

*Consumer Financial Protection Bureau, Financial well-being: The goal of financial education, January 2015
Your financial goals should Prioritize

What’s most important to you?

- Getting out of debt
- Home ownership
- Retirement
- College
- Supporting parents/family
- Car
- Dream vacation
Your financial goals should **Be SMART**

- Specific
- Measurable
- Actionable
- Relevant
- Timebound
Your financial goals should

Address Wants and Concerns:

WANTS ...
- Home Ownership
- Vacations
- New Car

CONCERNS ...
- Paying Bills
- Eliminating Debt
- Retirement Savings
Why the concern?

- Almost half live paycheck to paycheck\(^1\)
- 70% don’t have enough emergency savings\(^1\)
- Median retirement savings of working-age families is $5,000\(^2\)
- Average bachelor’s degree will take 21 years to pay off\(^3\)

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\(^1\) Fifth Third Bank, American’s Financial Literacy Survey, 2016
\(^3\) US News and World Report, Student Loan Expectations Myth vs. Reality, October 7, 2014
What keeps you up at night?

America’s financial concerns:

INCOME
SAVINGS
RETIREMENT
DEBT

1 MassMutual’s State of the American Family Executive Summary, 2013
Setting An Income Goal

Set a goal of increasing your income by 5% each year
Setting An Income Goal

Maximize income over your lifetime.

People don’t realize how much money they can make.

- **$75,000 salary**
- **2% Annual Salary Increase**
- **$4,000,000 earned**

AGE 30

AGE 67
Setting An Income Goal

Small percentages can become **big** money over time.

$4,052,569
OVER 37 YEARS

$4,963,067
OVER 37 YEARS

$6,127,668
OVER 37 YEARS

$7,622,110
OVER 37 YEARS
Setting An Income Goal

How do you increase your income each year from 2% to 5%?

- Minimize tax exposure
- Seek overtime pay or merit increases
- Join the sharing economy
- Turn your passions into cash

Here are some ideas:

- Tax Advisor
- Merit Increases
- Sharing Economy
- Monetized Hobbies
Setting a Savings Goal

Consider setting a personal savings goal of 10% of your after-tax income (not including retirement account contributions).
Setting a Savings Goal

There are many things people want to save for:

- Savings Emergency Fund
- Home Ownership
- College Education
- Car
- Vacation

How do you make saving enough a reality?
## Setting a Savings Goal

<table>
<thead>
<tr>
<th>Annual Gross Income (age 30)</th>
<th>Monthly Savings (10%)</th>
<th>Annual Savings Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>$469*</td>
<td>5%</td>
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</table>

**$585,000 in savings by age 67**

*Assuming 10% of monthly take-home pay (less 25% for taxes).*
Setting a Savings Goal

There are two places your savings can come from:

- **NEW INCOME**
- **REDUCED EXPENSES**
Setting a Savings Goal

Saving through new income and reduced expenses:

$469

MONTHLY SAVINGS

$234.50 new income

$234.50 reduced expenses
Setting a Savings Goal

Ways to make your goals easier to attain:

1) Budget
2) Automatic savings
3) Higher yields
4) Lower costs through new technologies
Setting a Retirement Goal

How big should your retirement nest egg be?

Consider setting a goal of building a nest egg that’s 15x your pre-retirement income.
Setting a Retirement Goal

A nest egg of 15x your annual income could generate 75% of your pre-retirement income during retirement.

\[ \text{NEST EGG} \quad 15 \times \text{Annual Income} \quad 5\% = \quad 75\% \text{ of Pre-retirement Income} \]
Setting a Retirement Goal

What else do you need to consider when determining the size of your retirement nest egg?

1) Know your investment profile (how much time you have until retirement)
2) Amount of retirement account contributions
3) Build other assets
4) Estimated living expenses
5) Health care
Consider setting a goal to pay down your debt in 20 years.

Free up your money to allocate toward personal savings and retirement accounts.
Setting a Debt Payment Goal

- Balance debt with other goals
- Be debt-free by retirement
- Save more
Setting a Debt Payment Goal

Things you can do to help reach your debt elimination goal:

1) Know your debt
2) Know good vs. bad
3) Set priorities
Setting a Debt Payment Goal

As debt decreases, you can increase your savings
Why are goals so important?
To achieve financial well-being.

- Income
- Savings
- Retirement
- Debt
5-10-15-20 / SMART Goals

5: Increase your annual income by at least 5% each year.

10: Save at least 10% of your net annual income each year.

15: Target a retirement nest egg of about 15X your annual income.

20: Plan to have your debt (excluding your mortgage) paid down within 20 years at most.
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Your Name Here
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Your Email Address Here
Your Phone Number Here