Money 101

Professor Gary Kimball
Vanderbilt University
Giving Back
Taxes
Credit Scores
Debt, Budgets, Saving Money
Housing
Investing
Taxes
Your Credit Report And FICO Score Is Available Through Multiple Outlets

Experian
TransUnion
Equifax
Understand Your Credit Report and FICO Score Is Key To Your Financial Plan

- Credit reports **DO** track:
  - How you pay current bills
  - Your current debt outstanding
  - Your past loans and payment histories

- Credit reports **DO NOT** track:
  - Your salary or other income
  - Your occupation
Your FICO Score Is a Measure of Your Creditworthiness

Figure 1. FICO Score Scale (CafeCredit, 2018)
What Impacts Your Credit Score?

- Payment History: 35%
- Amt of Outstanding Debt: 30%
- Length of Credit History: 15%
- # of Credit Inquiries: 10%
- Types of O/S Debt: 10%

Figure 2. FICO Score Breakdown (Fair Isaac Corporation, 2001-2018)
Your Credit Score Has A Real Impact

$200,000, 30-Year Home Mortgage
- FICO Score 760-850
  - Interest Rate = 4.14%
  - Monthly Pmt = $971

- FICO Score 620-639
  - Interest Rate = 5.74%
  - Monthly Pmt = $1,166

$70,200 Difference Over Life Of Loan

$40,000, 5-Year Auto Loan
- FICO Score 720-850
  - Interest Rate = 3.96%
  - Monthly Pmt $736

- FICO Score 500-589
  - Interest Rate = 14.42%
  - Monthly Pmt $940

$12,240 Difference Over Life Of Loan

Figure 3. Mortgage and Auto Loan Cost (Fair Isaac Corporation, 2001-2018)
How Do You Improve Your FICO Score?

Establish Credit Early - In Your 20’s

Limit Inquiries On Your Credit and Borrow Only When Necessary

Have A Mix Of Credit Types – Mortgage, Auto, Credit Card

Have One Credit & One Debit Card

Keep Your Accounts For A Long Time
Some General Thoughts On Debt

Credit card debt is your worst enemy

Student loan balances should not exceed your salary

Always pay on time

No one will stop you from taking on too much debt

Have a goal to be debt free!
A Budget Starts With Your Paycheck

Net pay = 64%
in this example

Net pay = $4,800
FICA = $3,720
Medicare = $870
FIT = $1,000
SIT = $7,000
Insurance = $2,500
Other Benefits = $2,000
401k = $38,110

Net Pay = 64%
A Budget Helps Keep You On Track Financially

• Start your career with a simple budget constructed based on your financial goals
• From your net pay, pay yourself first – this is your savings!
• Accept that some expenditures are necessary (rent, food, transportation, etc.) but can be quantified and controlled based on your means
• Some spending is discretionary – focus on those things that bring more joy than their cost
Why Save Money?

- To establish an emergency fund
- To develop a discipline of long-term financial success
- To create a pool of capital to invest
- To become debt-free
- To live life on your terms – that’s real wealth!
Construct a **diversified portfolio** of large-, mid-, and small-cap stocks along with international stocks

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Average Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small stocks</td>
<td>12.1%/year</td>
</tr>
<tr>
<td>Large stocks</td>
<td>10.0%/year</td>
</tr>
<tr>
<td>Gov’t bonds</td>
<td>5.5%/year</td>
</tr>
</tbody>
</table>

Annual inflation rate: 2.9%/year

A stock portfolio may double every ~7-8 years

Holding cash provides a return lower than inflation

Note: Adapted from 2017 Fundamentals For Investors (Morningstar, 2017)
Returns Vary By Investment Type

Value At End of 2016 Of $1 Invested In 1926

- Inflation: $13, 2.9%
- T-Bills: $21, 3.4%
- Gov't Bonds: $134, 5.5%
- Large Stocks: $6,035, 10.0%
- Small Stocks: $33,212, 12.1%

Note: Adapted from 2017 Fundamentals For Investors (Morningstar, 2017)
Invest Consistently To Take Advantage Of The Power Of Compounded Returns

Note: Assumes $1,000 invested with no further investments over life of analysis

Value of $1,000 Invested at Age 23 in 401k

- Age 23: $1,000
- Age 30: $1,949
- Age 37: $3,797
- Age 44: $7,400
- Age 51: $14,421
- Age 58: $28,102
- Age 65: $54,764

Age
Your Investments May Reside In A Variety of Account Types

Traditional 401k

Traditional IRA

Taxable Investment Account

Roth 401k

Roth IRA

In 2018, you may contribute $18,500 to a 401k; $5,500 to an IRA
Your Money and Investments Are Your Responsibility

No One Will Respect Your Assets Like You Do; Treat Them Accordingly
Along The Way You Will Pay Taxes

• It’s a progressive system...if you make more, you pay higher rates

• Your effective tax rate depends on your filing status, income, deductions, and exemptions

• Earned income (i.e. wages) and passive income (i.e. investments) are taxed

• Federal taxation is uniform; state and local taxation varies by locale
The 2018 Federal Tax Rates Reflect the Impact of the New Tax Law

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $9,525</td>
<td>10%</td>
</tr>
<tr>
<td>$9,526 - $38,700</td>
<td>12%</td>
</tr>
<tr>
<td>$38,701 - $82,500</td>
<td>22%</td>
</tr>
<tr>
<td>$82,501 - $157,500</td>
<td>28%</td>
</tr>
<tr>
<td>$157,501 - $200,000</td>
<td>32%</td>
</tr>
<tr>
<td>$200,001 - $500,000</td>
<td>35%</td>
</tr>
<tr>
<td>&gt;$500,000</td>
<td>37%</td>
</tr>
</tbody>
</table>

Figure 4. 2018 Tax Brackets For Unmarried Individuals. (Tax Foundation, 2018)
Is Owning a Home Really the American Dream?

• You get limited tax breaks on property taxes and interest paid on a mortgage

• The typical all-in monthly cost of owning a home is 1.4-1.5x your mortgage payment (captures maintenance, taxes, insurance, etc.)

• Average increase in home values was 5.4% annually over the last 55 years while inflation averaged 3.9%

• Remember that an apartment lease payment ≠ a mortgage payment

Note: Home value increase and inflation data derived from Federal Reserve Bank of St. Louis (FRED Economic Data, 2018)

Note: Home ownership cost derived from National Association of Realtors (realtor.com, 2018)
We All Need To Give Back Through Charitable Giving

• Give of your time, talents and/or money...

• Invest in your community, however you define it. Follow your heart.

• While there is no shortage of issues to address, Americans are charitable
  • Over $390 billion was given in 2016 to charity, of which 72% came from individuals
  • 63 million Americans volunteered for at least one charity

Note: Adapted from Giving USA Annual Report 2016 (The Giving Institute, 2017)
Thank You!
Reference List