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Millennials and finances

Presented for The American Association for Women Dentists
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Financial concerns of millennials

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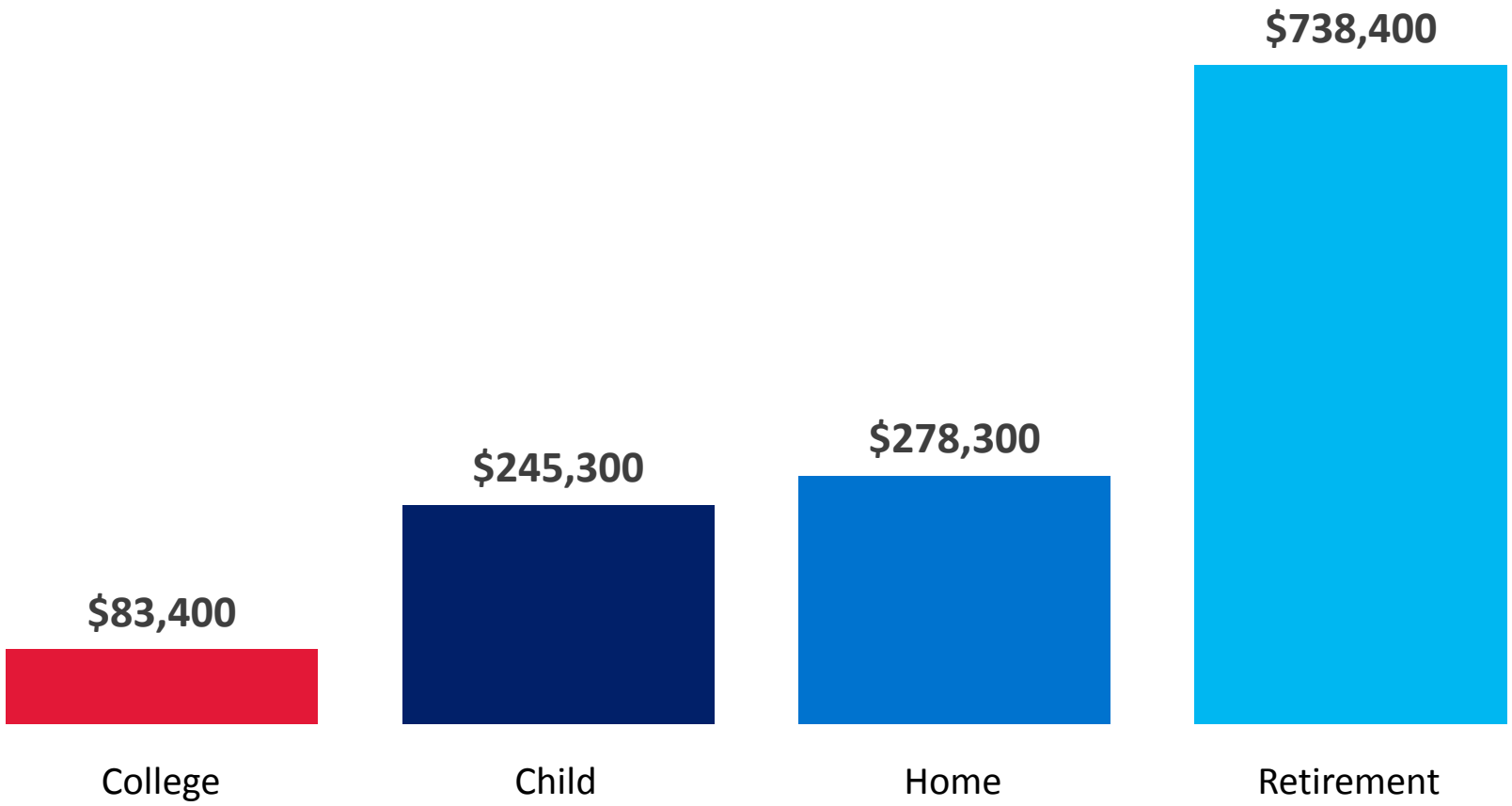
Saving for retirement

Good general savings habits

Paying down debt

Source: Bank of America Merrill Lynch, “2017 Workplace Benefits Report”. Accessed January 30, 2018.

The average cost of…



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017. Accessed January 30, 2018.

Managing your finances is key to helping you pursue your goals

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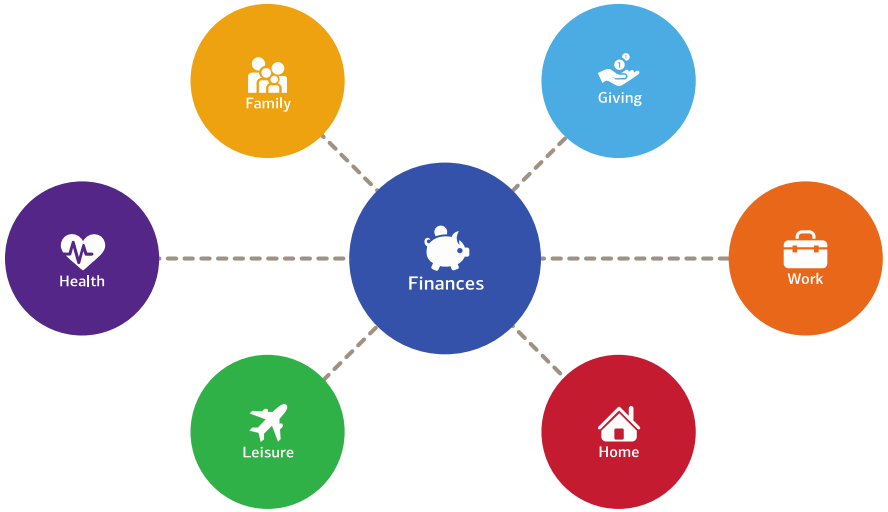

Key financial fundamentals

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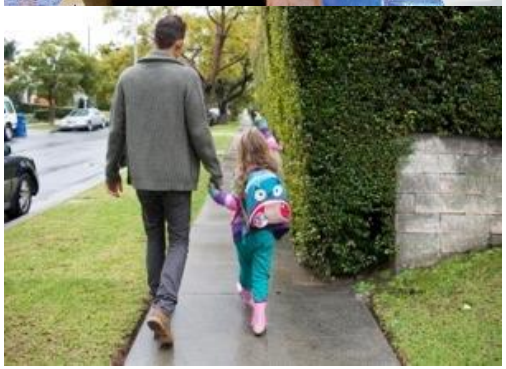
- Managing day-to-day expenses
- Building an emergency fund
- Establishing good credit
- Managing student loan debt
- Saving for your future goals



Financial fundamental

Managing day-to-day expenses

What are your goals?

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Short term (1-2 years)

- Set up an emergency fund
- Buy a car
- Travel

Medium term (3-7 years)

- Pay off student loans
- Pay for your wedding

Long term (7-10+ years)

- Buy a house
- Save for your children's college expenses

Budget worksheet

Fixed expenses	Monthly budget amount	Monthly actual amount	Difference
Mortgage payment/rent	$	$	+/-$
Property taxes	$	$	+/-$
Homeowners/renters insurance	$	$	+/-$
Car payment	$	$	+/-$
Auto insurance	$	$	+/-$
Child care	$	$	+/-$
Life/disability/health insurance	$	$	+/-$
Other	$	$	+/-$
Fixed expenses subtotal	$	$	+/-$
Variable expenses			
Gas/tolls	$	$	+/-$
Dry cleaning	$	$	+/-$
Lunch/coffee/snacks	$	$	+/-$
Dining out/entertainment	$	$	+/-$
Shopping purchases (any type)	$	$	+/-$
Money to your children	$	$	+/-$
Car maintenance	$	$	+/-$
Home maintenance	$	$	+/-$
Gas/electric	$	$	+/-$
Cable/phone	$	$	+/-$
Credit cards/debt payments	$	$	+/-$
Groceries	$	$	+/-$
Other	$	$	+/-$
Monthly variable expenses subtotal	$	$	+/-$
Total monthly expenses	**$**	**$**	**+/-$**

Why create a budget?

Step-by-step plan that can help you:

- Pursue your goals
- Manage day-to-day expenses
- Build new spending/saving habits
- Figure out if you can afford a large purchase
- Identify areas to spend more or less on

More helpful information and tools:
Articles on **bankofamerica.com/financialwellness**

Budgeting, step 1:
Identify your income and expenses

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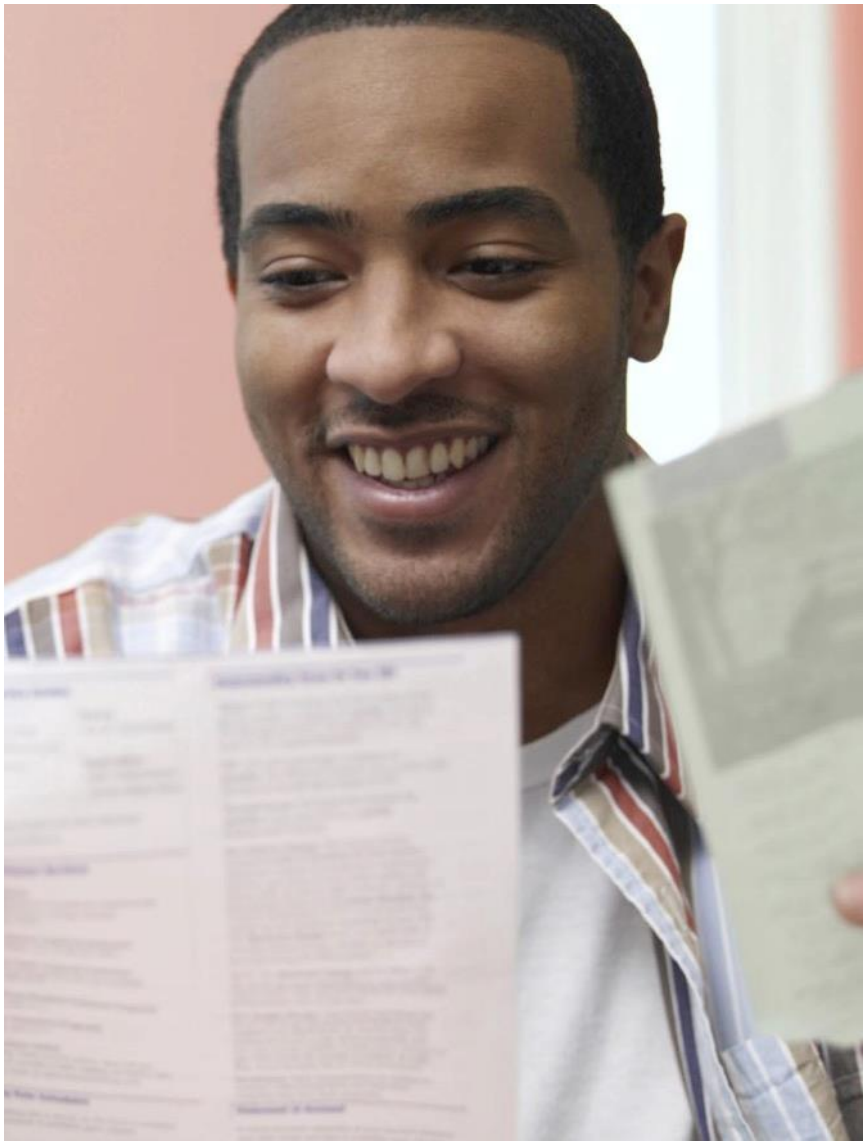


Income

- Regular paychecks (yours and significant other's)
- Other possible income sources
- Frequency of income

Expenses

- Save all receipts
- Review monthly checking account and credit card statements
- Use an app, Internet site or computer spreadsheet
- Track everything you spend

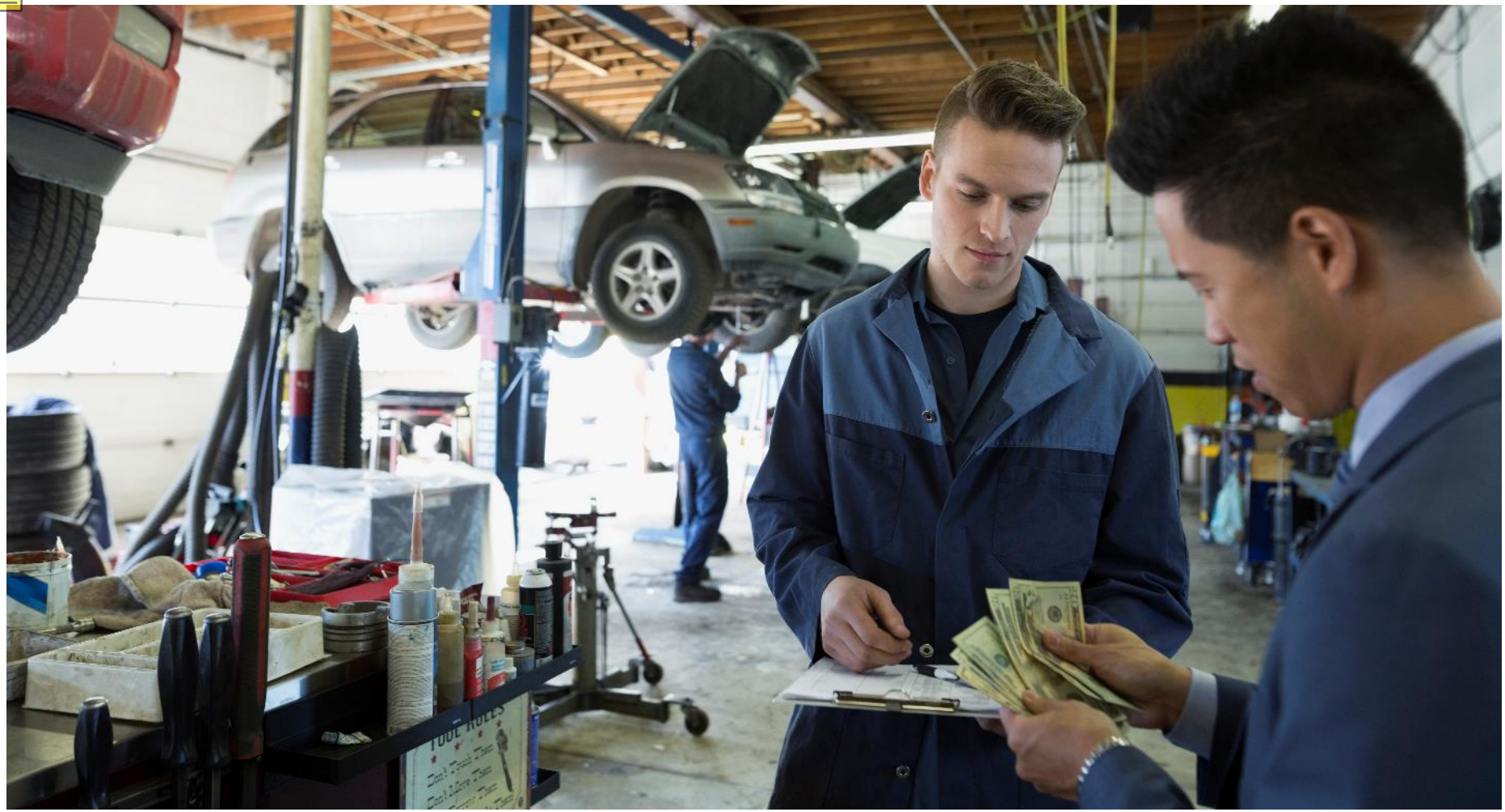
Budgeting, step 2:
Compare your income and expenses

Monthly expenses*	
Rent (1/2 of total since apartment is shared with a roommate)	$800
Car payment & car insurance	$450
Food & personal care items	$400
Utilities (cell phone, Internet, electricity)	$350
Student loan payments	$200
Extras: Dining out, entertainment, clothing, gifts & miscellaneous	$400
Total expenses	**$2,600**

Monthly net income*	
Wages	$3,005
Total income	**$3,005**

Difference of +$405

*For illustrative purposes only



Financial fundamental

Building an emergency fund

Why create an emergency fund?

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- Pay for extra expenses without derailing your spending plan
  - Unexpected repairs or unplanned medical expenses
  - Expenses that occur once or twice a year
- Avoid paying interest and fees charged when paying with a credit card
- Prevent future financial setbacks by creating a “cushion”
  - Be patient
  - Keep moving forward
  - Small amounts add up over time
- Use your savings only when necessary

Pay yourself first

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Establish a regular savings plan

- Open a separate emergency account
- Start an automatic contribution plan to build up the fund

Decide on a goal

- Initially $500-1000 in case of emergency
- Longer-term, 3-6 months of regular living expenses if single with no children
- 6-9 months if married and/or have children

Financial fundamental

Establishing good credit

Establishing, maintaining and repairing your credit rating

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- Make all loan payments on time
- Don’t go over your credit limit
- Keep your balances low
- Don’t apply for a lot of credit cards
- Keep long-held credit accounts open

Having trouble making payments? Consider contacting your creditors or talking with a credit counselor.

Financial fundamental

Managing student loan debt

Student loan federal repayment plans

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- Monthly payment amounts and payment period vary depending on the repayment plan
- Check with your loan servicer to discuss repayment plan options or to change your plan
  - **StudentAid.ed.gov**

Standard	Graduated	Extended
Income contingent	Income based	Pay as you go

Federal Student Aid, "Repayment Plans", studentaid.ed.gov. Accessed January 30, 2018.

Consolidating your loans

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- Consolidate several loans into a single loan
  - No application fee for consolidating federal education loans into a Direct Consolidation Loan
- May simplify loan repayment by centralizing payments
- May be able to switch from a variable interest rate to a fixed interest rate
- May lower your monthly payment
- But…
  - May extend your repayment term
  - May increase the amount of interest you pay over time

Federal Student Aid "Loan Consolidation", studentaid.ed.gov. Accessed January 30, 2018.

Two methods for paying down debt

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"Snowball" or low balance method

- List debts in order of amount owed — from smallest to largest
- Each month, make the largest payment you can afford to the debt with lowest balance
- Continue making minimum monthly payments on all other debts
- When debt is paid off, repeat process with debt with next smallest owed

High-interest rate method

- List debts in order of interest rates — from highest to lowest
- Each month, make the largest payment you can afford to the debt with the highest interest rate
- Continue making minimum monthly payments on all other debts
- When debt is paid off, repeat process with debt with next highest interest rate
- This method generally results in paying less interest, and thereby saving money, over time

Options if you can't re-pay your student loan for a while

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Deferment

- Places payments "on hold" for up to 3 years
- Generally, if you are:
  - Currently a student
  - Serving in the military or Peace Corps
  - Unemployed
  - During a period of economic hardship
- Subsidized loans don't accrue interest
- Unsubsidized loans do accrue interest

Forbearance

- Loan payments may be stopped or reduced for up to 12 months
- Two types:
  - Discretionary
  - Mandatory
- Generally due to financial hardship or illness, but other situations may apply
- Interest accrues on both subsidized and unsubsidized loans

Federal Student Aid "Deferment and Forebearance", studentaid.ed.gov. Accessed January 30, 2018.

What if you don't pay back your student loan?

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Q: How many of the approximately 22 million Americans with federal student loans are in default?

A: 4.6 million

Wall Street Journal, *"Nearly 5 Million Americans in Default on Student Loans", December 17, 2017, wsj.com/articles/nearly-5-million-americans-in-default-on-student-loans-1513192375. Accessed January 30, 2018.*

The impact of defaulting on your student loan

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- Affected entities can take action against you
- Entire unpaid balance and interest immediately due
- Lose eligibility for deferment, forbearance and repayment loans
- Ineligible for future student loans
- National credit bureaus notified
- Payments may be deducted from paycheck or income tax refunds

Federal Student Aid, "Understanding Delinquency and Default", studentaid.ed.gov. Accessed January 30, 2018.

Financial fundamental

Saving for future goals

Free up some cash for saving

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- Carry small amounts of cash
- Prepare your own meals
- Use coupons and compare prices
- Decide if you can do without
- Avoid late fees
- Shop your closet
- Carry a list when shopping
- Buy used products
- DIY (do it yourself)

Deciding where to live: Buy or rent?

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- Do you have a down payment and closing costs?
- Do you need to build or rebuild your credit?
- Do you expect to move in the near future?
- Could changing market conditions affect your job security?
- Are home repairs something you'd rather not deal with?
- Would a mortgage prevent you from saving for other things that are important to you?

Investing in your future

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401(k) plans

HSAs

IRAs

The power of compounding

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Starting at age 25

$100.00 invested monthly

$48,000 invested over 40 years

$191,696 Potential balance at age 65

Starting at age 30

$115.00 invested monthly

$48,000 invested over 35 years

$158,043 Potential balance at age 65

Starting at age 35

$133.33 invested monthly

$48,000 invested over 30 years

$130,564 Potential balance at age 65

This hypothetical illustration assumes a 6% annual effective rate of return and pre-tax contributions made at the beginning of each month. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will *fluctuate* and when redeemed the investments may be worth more or less than their original cost. Taxes are due upon withdrawal. If you take a withdrawal prior to age 59½, you may also be subject to a 10% additional federal tax.

Make the most of your 401(k) plan

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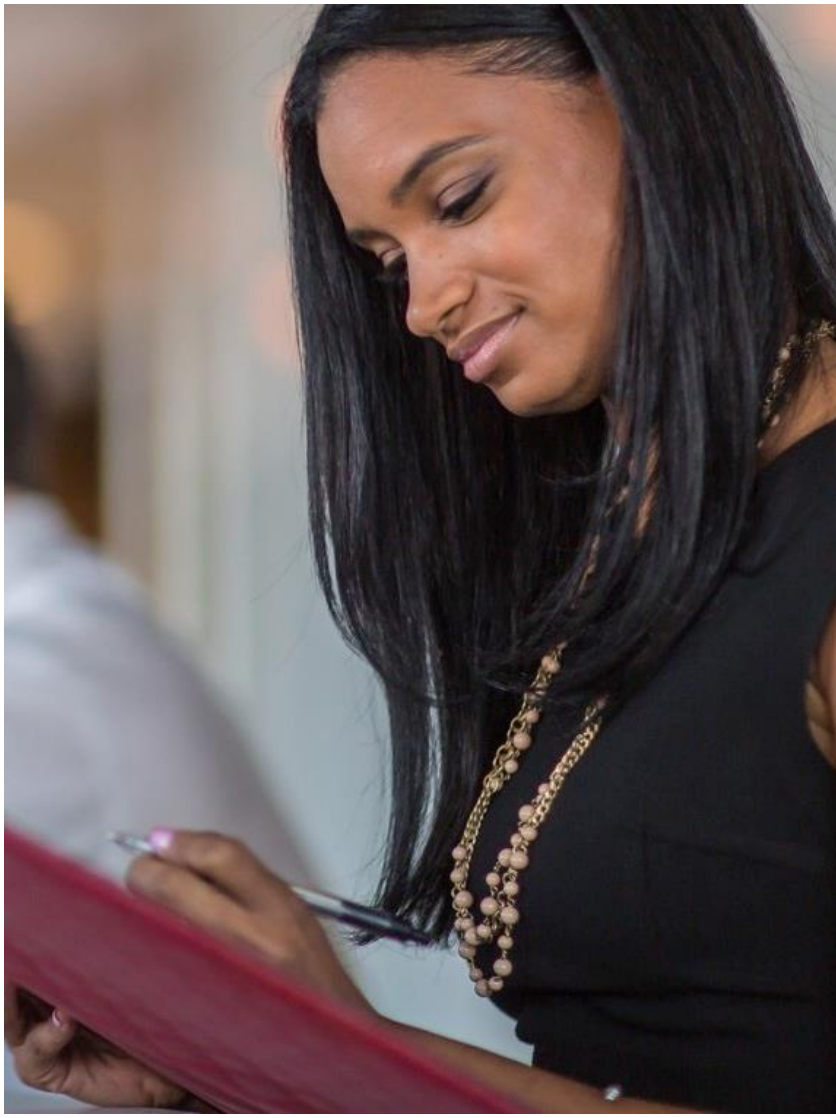
- Ability to contribute to 401(k) pre-tax or Roth 401(k) after tax
- IRS pre-tax Roth 401(k) contribution max:
  - 2018: $18,500
- Additional plan limits may apply
- Age 50 or above: may be eligible for catch-up contributions (up to $6,000 in 2018)



401(k) plans: Pre-tax v. Roth 401(k) contributions

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Pre-tax contributions

- Defer current income taxes on pre-tax contributions
- May lower your current taxable income
- Take-home pay reduced by less than the amount of your contributions
- Taxes are due upon withdrawal
  - You may also be subject to a 10% additional federal tax if you take a withdrawal prior to age 59½

Roth 401(k) contributions

- You pay taxes up-front on contributions
- *No taxes on earnings due* if qualified distribution is taken
- No income limitations (unlike Roth IRA)
- To take a **qualified distribution**:
  - At least five years must elapse from the year of your first Roth 401(k) contribution, *and*
  - You must reach age 59½ (or become disabled or deceased)

For non-qualified distributions, any earnings are subject to taxes, including a 10% additional federal tax under age 59½.

401(k) plans: After-tax contributions

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- Offer the opportunity to contribute more to your Plan beyond the IRS limits for pre-tax and Roth 401(k) after-tax contributions
  - Up to the IRS annual additions limit

- You do not pay taxes upon withdrawal of after-tax contributions, as you've already paid taxes on them
  - Taxes are due on any earnings and a 10% additional federal tax may be due if you withdraw those earnings prior to reaching age 59½
  - Please consult a tax advisor for more information

Individual Retirement Accounts (IRA)

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Traditional IRA

- Tax deferred growth potential
- Contributions may reduce taxable income

Roth IRA

- Qualified distributions federally tax-free*
- Eligibility based on income and taxes based on current tax bracket

Other considerations

- Lower contribution limits than 401(k)
- Individual account with no company matching contribution
- Loans are not available
- May be charged an annual fee and transaction fees
- Typically offers access to a wider selection of investment options

*For a distribution from a Roth IRA to be federally tax free, it must be qualified. A qualified distribution from your Roth IRA may be made after a five-year waiting period has been satisfied (this period begins January 1 of the tax year of the first contribution or the year of conversion to any Roth IRA) and you (1) are age 59½ or older; (2) are disabled, (3) qualify for a special purpose distribution such as the purchase of a first home (lifetime limit of $10,000), or (4) are deceased. If you take a non-qualified distribution of your Roth IRA contributions, any Roth IRA investment returns are subject to regular income taxes, plus a possible 10% additional tax if withdrawn before age 59½, unless an exception applies. While the withdrawals are federally tax free, certain states may tax withdrawals; consult your tax advisor for assistance.

Health Savings Account (HSA)

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- Available to those with a qualifying HDHP
- You can make pre-tax contributions to your HSA
  - Potentially lowers current income tax
- May be able to invest some of your funds
  - Potential for earnings from interest and investments in your account
- Tax-advantaged way to pay for current and future qualified out-of-pocket health care expenses
- Unused funds roll over year to year
- HSA is yours to keep if you leave your place of employment

While you can use your HSA to pay or be reimbursed for qualified medical expenses, if you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 20% federal tax. Certain limits may apply to employees who are considered highly compensated key employees. Contact a qualified tax or legal advisor for assistance before establishing a HSA.

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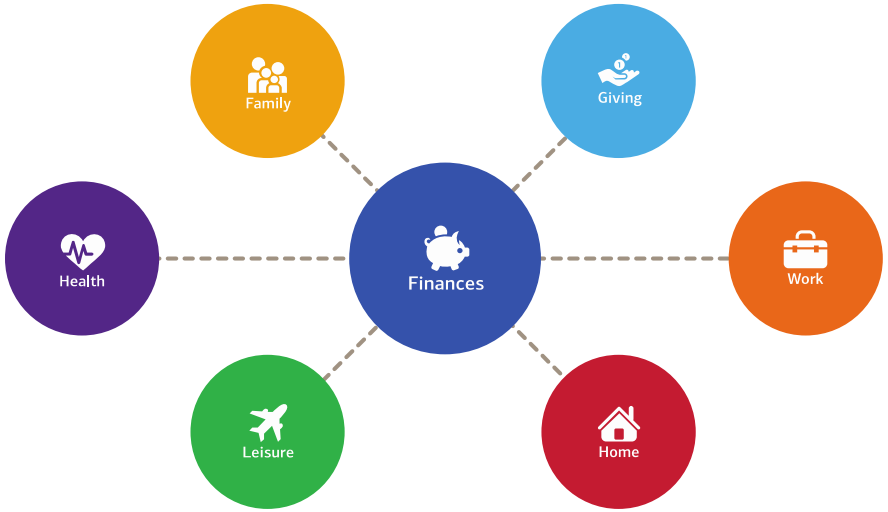

Personal Financial Journey

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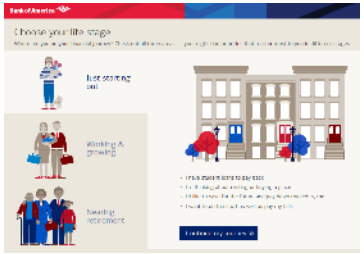
Just like your physical health, your finances need ongoing attention.

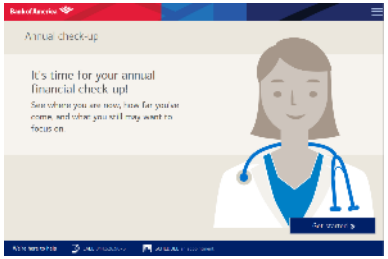
Choose your path

Identify your life stage



Financial resources

Financial checkup



Personal Financial Journey can help you get—and stay—on track through two interactive journeys and your annual financial checkup to help maintain your financial health. So, no matter what stage of life you're in or how you like to learn, you can get help pursuing what's important to you.

Get started today:

go.bofa.com/personalfinancialjourney

We're here to help

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Have a **conversation**

844.528.9675

Further your knowledge

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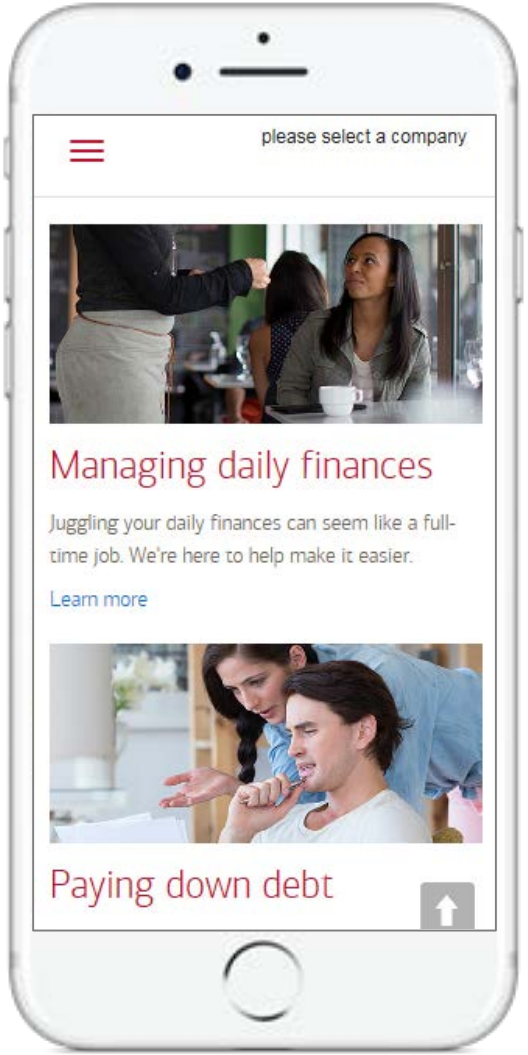

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