PERSONAL FINANCE 101

Hannah Darcy

Ecolunch

Graduates in Ecology and Evolutionary Biology

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Obligatory Warning

- I’m not an expert
- I’m not certified in anything
- This is all based on my personal readings and various books, websites, and podcasts
- This isn’t professional financial advice nor investing advice. This is not intended to substitute talking to a professional.
- Everyone’s money situation is unique; take what I say with a grain of salt

Personal Finance 101

1. Budget
2. Cut Expenses
3. Get Out of Debt
4. Save for Retirement

BUDGETING

7 methods

- Budgeting is highly personal
- Use whatever you’re most comfortable with
- What’s most important is sticking with it!

I took these 7 methods from: www.atypicalfinance.com/7-best-budgeting-methods

Quick vocab

- **Categories:** rent, groceries, dining out/bars, utilities, clothing, medical expenses, student loan repayment, retirement savings, etc.
- **Emergency fund:** an easily-accessed pool of money (e.g., in a saving account, NOT a retirement account) for unexpected expenses like medical emergencies
  - *Typical recommendation is to keep 6 months of living expenses here*

1. The Balanced Money Formula

- popularized by Elizabeth Warren and Amelia Tyagi, and similar to Dave Ramsey's recommendations
- also called the 50-20-30 method
- spend 50% of your total income on your needs, 20% on saving, and 30% on wants
- Your **needs** consist of things like your mortgage, utilities, clothing, groceries, gas or other transportation, healthcare. and gas money.
- Your **savings** consist of your retirement goals, emergency fund, and debt repayment.

1. The Balanced Money Formula

Pros

- Few categories to track

Cons

- Small emergency fund
- Easy to overspend one “need” over another (too much on food, can’t afford gas)

2. Cash-Only Budgeting

- Also called “Envelope Budgeting”
- No plastic
- Have a physical envelope for every category: “groceries”, “gas”, etc.

2. Cash-Only Budgeting

Pros

- Helps curb overspending
- Lots of control over category spending
- You'll have change for the parking meters

Cons

- You can misplace cash
- Miss out on credit card cash-back or travel rewards
- Hard to do when your bank isn't in town

3. Zero-based Budget

- Also known as “give every dollar a job”
- Money you have in income matches *exactly* what is going out of your account
- Every dollar is accounted for
- Popular app choices: EveryDollar by Dave Ramsey; YNAB

3. Zero-based Budget

Pros

- You have complete control of everything (good micromanaging)

Cons

- Hard to do without apps that sync with banks, and hard to do if you’re cash-heavy

4. The 60% Solution

- first proposed by then editor-in-chief of MSN Money, Richard Jenkins
- 5 categories for budgeting
- 60% of your income for “**committed expenses.**”
  - *ALL bills, want or need: rent, food, subscriptions…*
- 10% for retirement
- 10% for long-term savings (including emergency fund)
- 10% for short-term savings
- 10% for fun money

4. The 60% Solution

Pros

- Good for automating your budget
- Pay off all your bills at once, then work with what's left

Cons

- Not intuitive if you have large student loan debt
- Having only 60% of your income in bills may not be realistic with our pay
- You may be tempted to not track your categories
- A relatively high-difficulty strategy

5. The “No Budget” Budget

- Just pay attention to your bank account balance
- Don’t spend more than you have

5. The “No Budget” Budget

Pros

- Easy
- No math

Cons

- Hard to tell if you’re spending too much on something
- Overspending
- Not ideal if you have specific savings goals
- Tricky for lower income

6. Values-based Budget

- Decide your budget based on your “values”
- Instead of looking at what you “should” pay for something, decide what’s most valuable for you
- E.g.: you can Google rule-of-thumb about what % of income should be spent on housing, but if you value living alone in a nice apartment more than traveling, or honestly don’t mind eating rice-and-beans, then you do you

6. Values-based Budget

Pros

- Good if you’re already frugal and afraid to spend money
- Slightly more control than the “no budget” budget

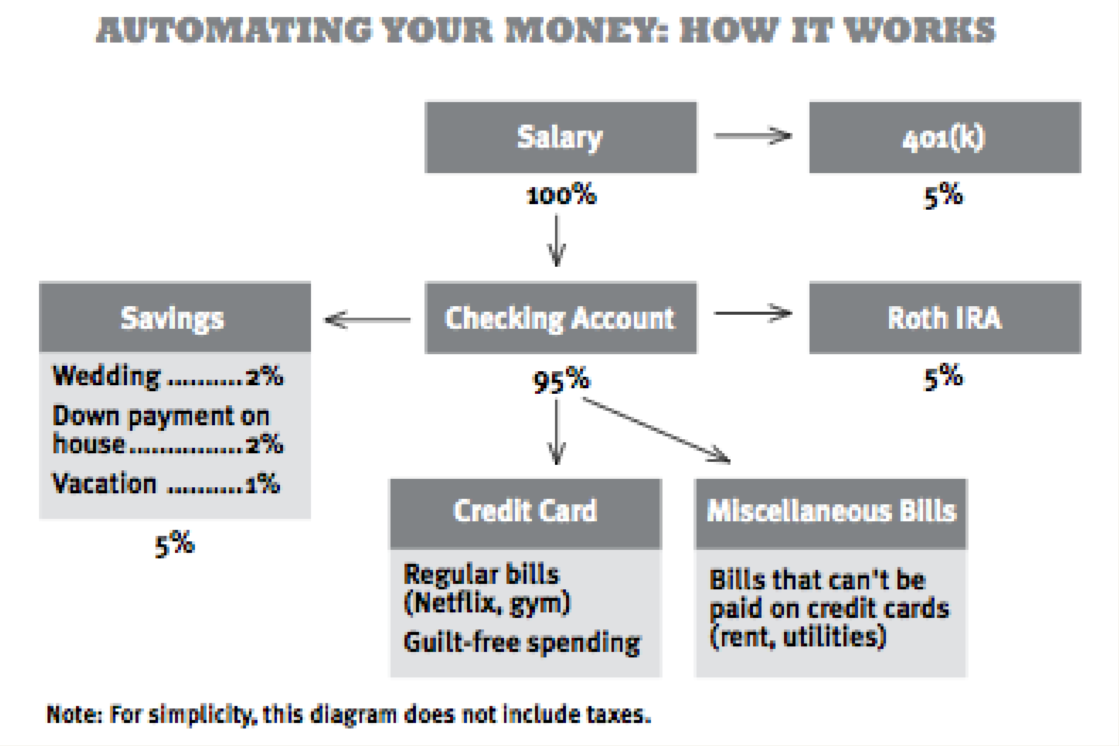
Cons

- You already have to be disciplined with automating bills and savings
- Better for those with higher incomes

7. Create-Your-Own Budget

- Mix and match what you like about the other 6
- I personally use zero-based budgeting with the value-based budget
- Fine to try more than one method, as long as you find something that works
  - *Cash-only is a good starter budget, especially if you don't know what you typically spend*

A sample budget from IWTYTBR



YNAB Demonstration

- www.ynab.com

CUTTING EXPENSES

Cutting Expenses

- Hard to do in grad school
- Focus on Big Wins
  - *Getting conference registration covered vs not having a coffee once a week*
- Easiest to do when you've budgeted for a couple months
- The psychology of cutting back on lattes
- How to save $1000 in a Month (No stupid frugality tips)

Cutting Expenses

- The flip side of this is “make more money”
- Not exactly an option for us, unless you work under-the-table
- Consider using credit cards to your advantage
  - *Cash back on groceries, restaurants, gas, flights*
  - *Sign-up bonuses*
- Switch to a higher-interest savings account – consider online banks like Ally or Discover
  - *Discover has 1.8% APY vs Bank of America with 0.03% APY as of 11/4/19*
- Use NerdWallet to compare CCs and accounts

GET OUT OF DEBT

Get Out of Debt

- This depends a lot on your type of debt
  - *Medical, student loans, mortgage, credit cards*

- 2 main approaches: snowball and avalanche
- **Snowball**: pay off lowest balance first
  - *Psychological benefit*
- **Avalanche**: pay off highest interest first
  - *Monetary benefit*

Get Out of Debt – Pay off Loans or Invest?

- Direct quote from this blog post:

  The mathematical answer is to ***put your money where it will have the biggest impact.*** *If your student loan interest rate is lower than the interest rate you can expect from investing, pay the minimum on the debt each month and invest the rest.*

  The emotional answer is that for many people, they hate having debt of any kind, so even if they're paying off low-interest debt, it still makes sense for them.

  The hybrid approach is to split the difference: Pay off some of the debt and invest some. A nice compromise.

- To explore different repayment scenarios: http://unbury.us

Get Out of Debt

- Always try to negotiate a lower interest rate, or set up a payment plan
- Sample scripts for calling a credit card company: https://www.iwillteachyoutoberich.com/blog/how-to-get-out-of-debt-fast/#4
- Medical bills can often be negotiated, or at the very least, put on a repayment plan

SAVE FOR RETIREMENT

Retirement

- Conventional advice: max out your 401k to get employer matching
- We obviously don't have that option
- Instead, we can open Independent Retirement Accounts (IRAs)
- 2 kinds: Traditional and Roth
  - *Traditional: tax deferred, you don't pay income taxes on contributions now, but you pay taxes on the money in retirement*
  - *Roth: taxable, you pay income taxes on contributions now, but you don't pay any taxes on accrued interest*

Retirement

- Conventional advice: contribute to Roth IRAs when you’re young and/or broke
- You can’t contribute to a Roth IRA once your income reaches $137,000
- Annual contributions limited to $6,000 for young/middle adults
  - *This means there’s a lifetime limit to how much you can contribute – START EARLY!*

- Advisable if you expect to be in a higher tax bracket at retirement (very likely in our situation)

Retirement

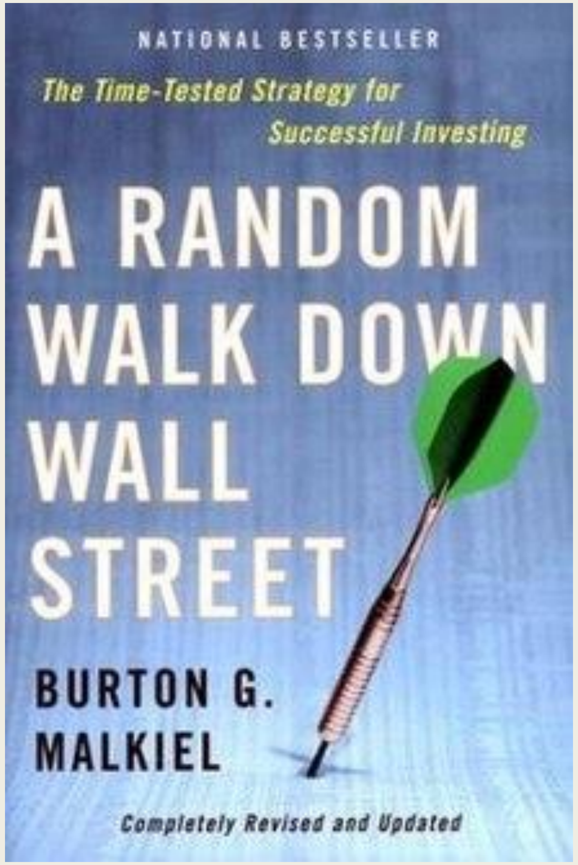
- Many banks allow you to open IRAs, but shop around! There are fees for buying/selling stocks and bonds
- The personal finance subreddit usually recommends Schwab, Vanguard, or Fidelity
- You have the freedom to buy whatever companies you choose, unlike a company 401k, but most experts agree that **you won't beat the market**
- r/personalfinance suggests investing in indexes or mutual funds – these track the performance of the stock market as a whole, AND usually have lower fees, since you aren't paying some manager to pick stocks for you

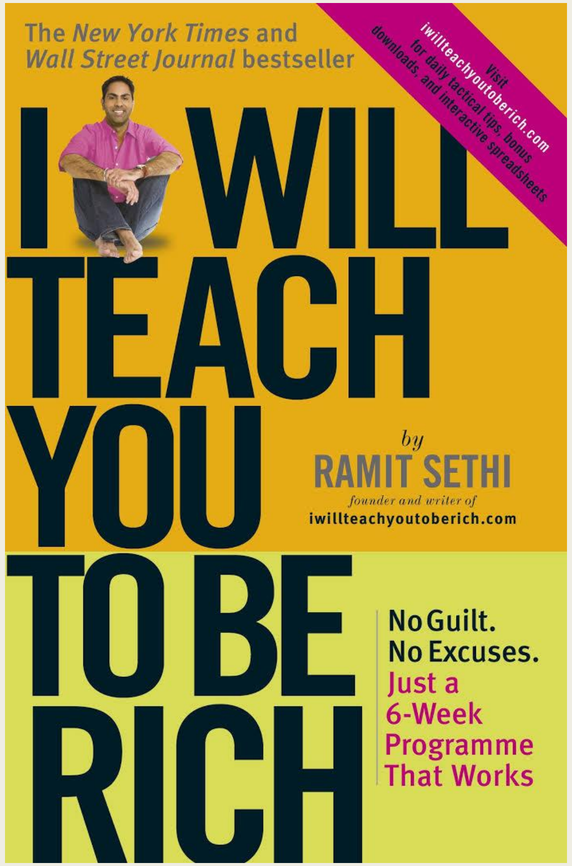
Recommended Reading – Ones I’ve Read

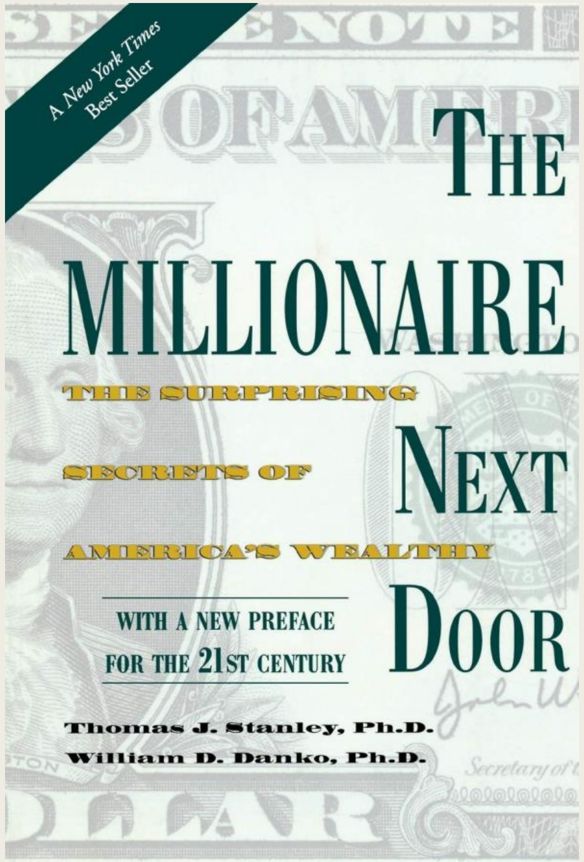
https://www.reddit.com/r/Fire/

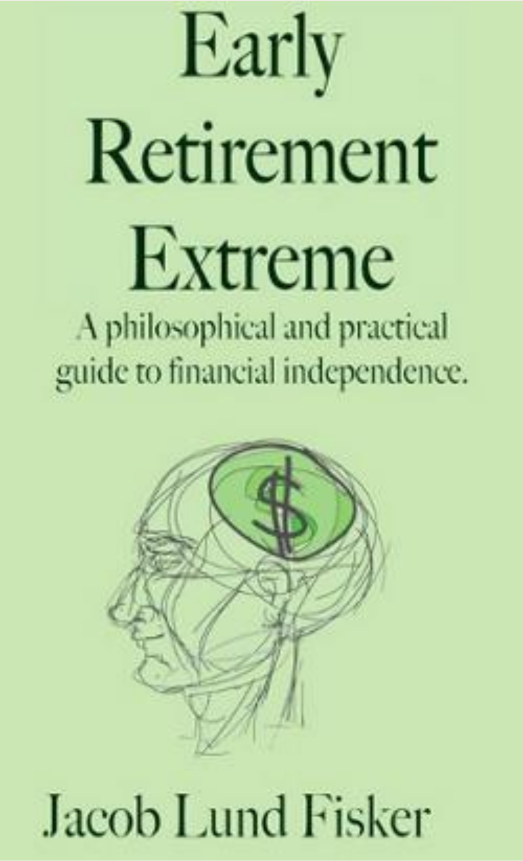
(FI/RE = Financial Independence / Retiring Early)

https://www.reddit.com/r/personalfinance/





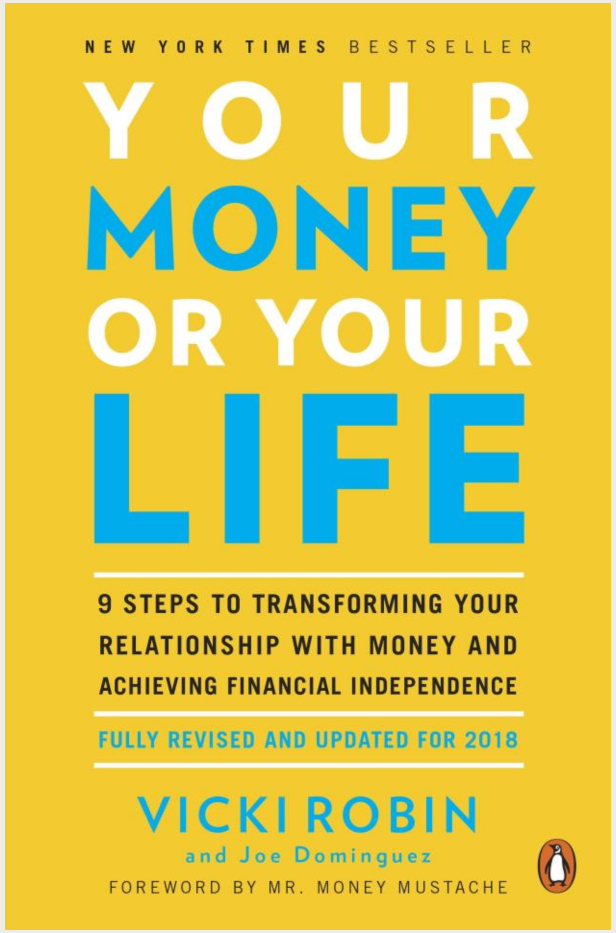


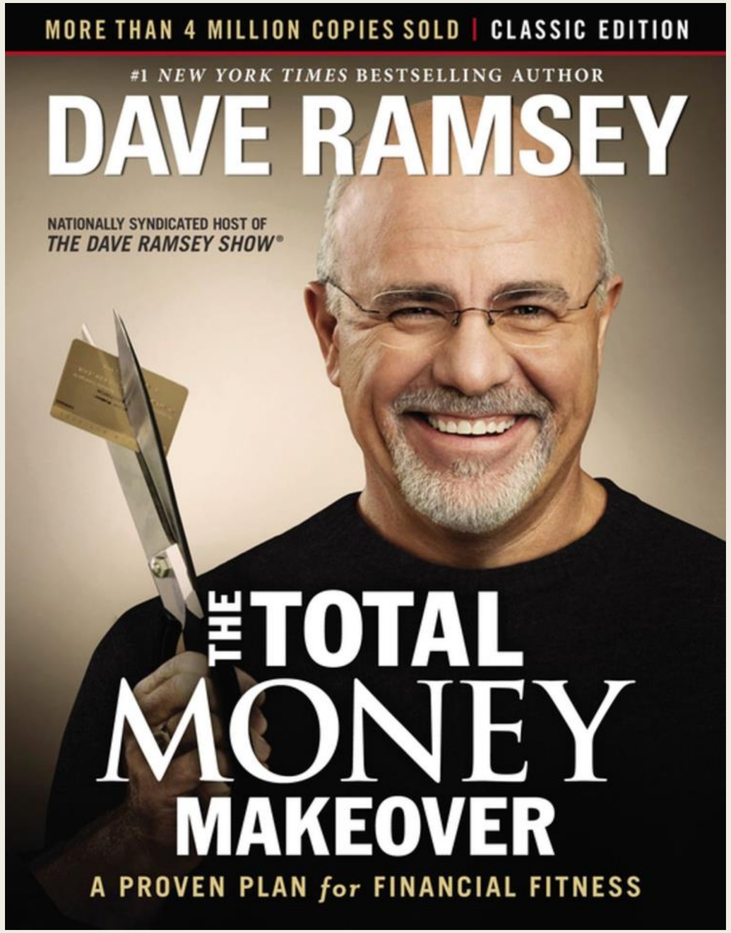


Recommended Reading – Ones I Haven't Read

https://www.reddit.com/r/povertyfinance/

Personal Finance for PhDs
Emily Roberts, PhD
@PFforPhDs
http://pfforphds.com/





QUESTIONS?