Saving Money and Paying Taxes

A few models, food for thought

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(for Junior Achievement Personal Finance)

What I Hope You'll Do in This Class

Embrace the experience (as if you **wanted** to be here, grin)

Engage in the active learning process

Empower your future money management: control and enjoy, rather than fear

I hope to at least inoculate you with terms and concepts so when you run into them again, they'll seem more familiar and you'll fearlessly dive right into them.

A Few Opening Thoughts

Intelligence is the ability to defer gratification; to balance between now and later.

You can control your money, or it will control you.

Plans are nothing; planning is everything… And…
No battle plan survives contact with the enemy.

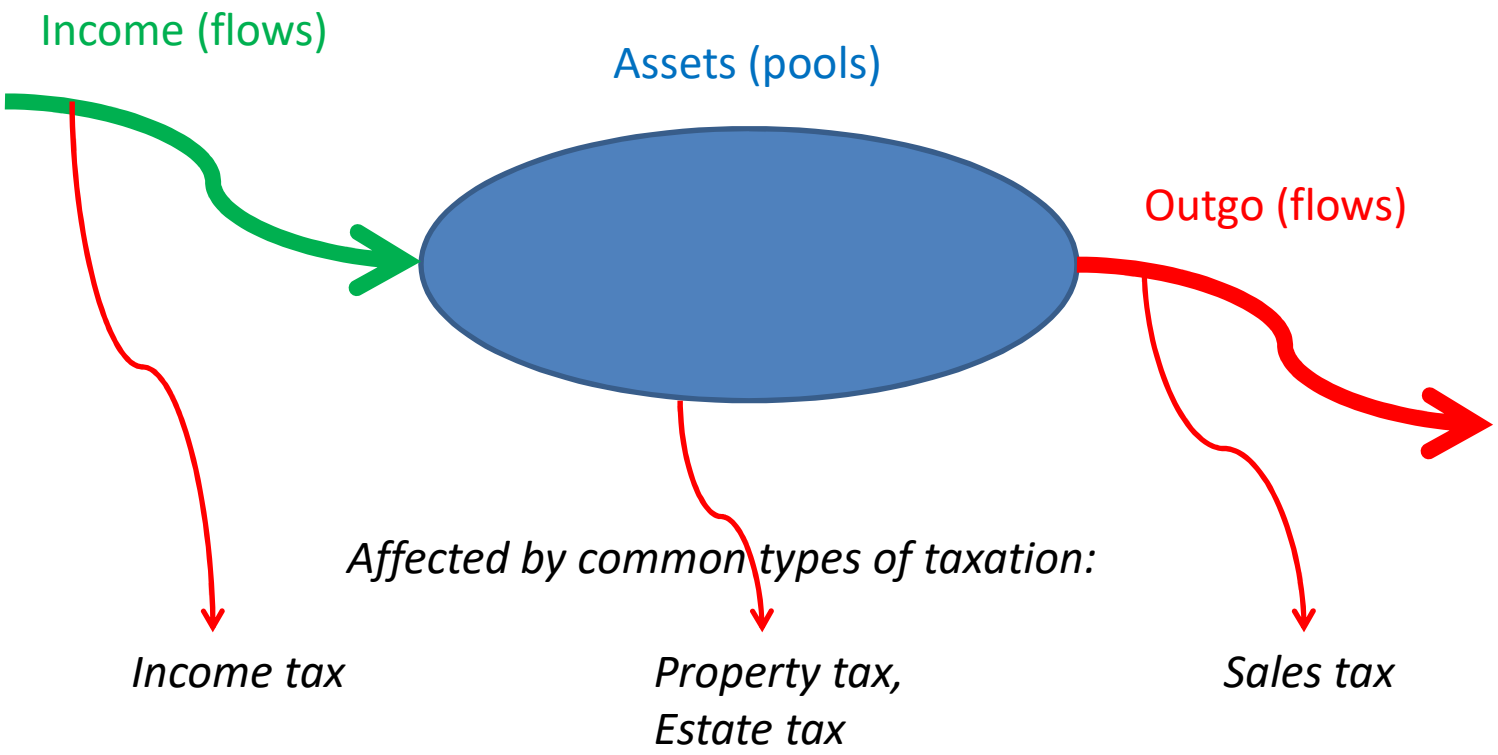
Smart people learn from their mistakes. Brilliant people learn from other people's mistakes.

Experts are people who have spent a lot of hours and made a lot of mistakes – just not the kind that kept them from making more.

Eighty percent of success is showing up. -- Woody Allen

Take what you can use, and let the rest go by. -- Ken Kesey

Money and Taxes as Pools and Flows



“Rich” Can Mean Income (flows) **or** Assets (pools)

- Watch for **which way** people mean “rich”, it’s subtle.
- Income-rich people who **don’t save** can be asset-poor…
- And **one paycheck away** from financial ruin.
- You can also be asset-rich but **cash-poor** (can’t sell anything, fast enough, when you need money).

PSV: Passion Alone is Not Enough

"Find a job you love, and you'll never have to work again…"

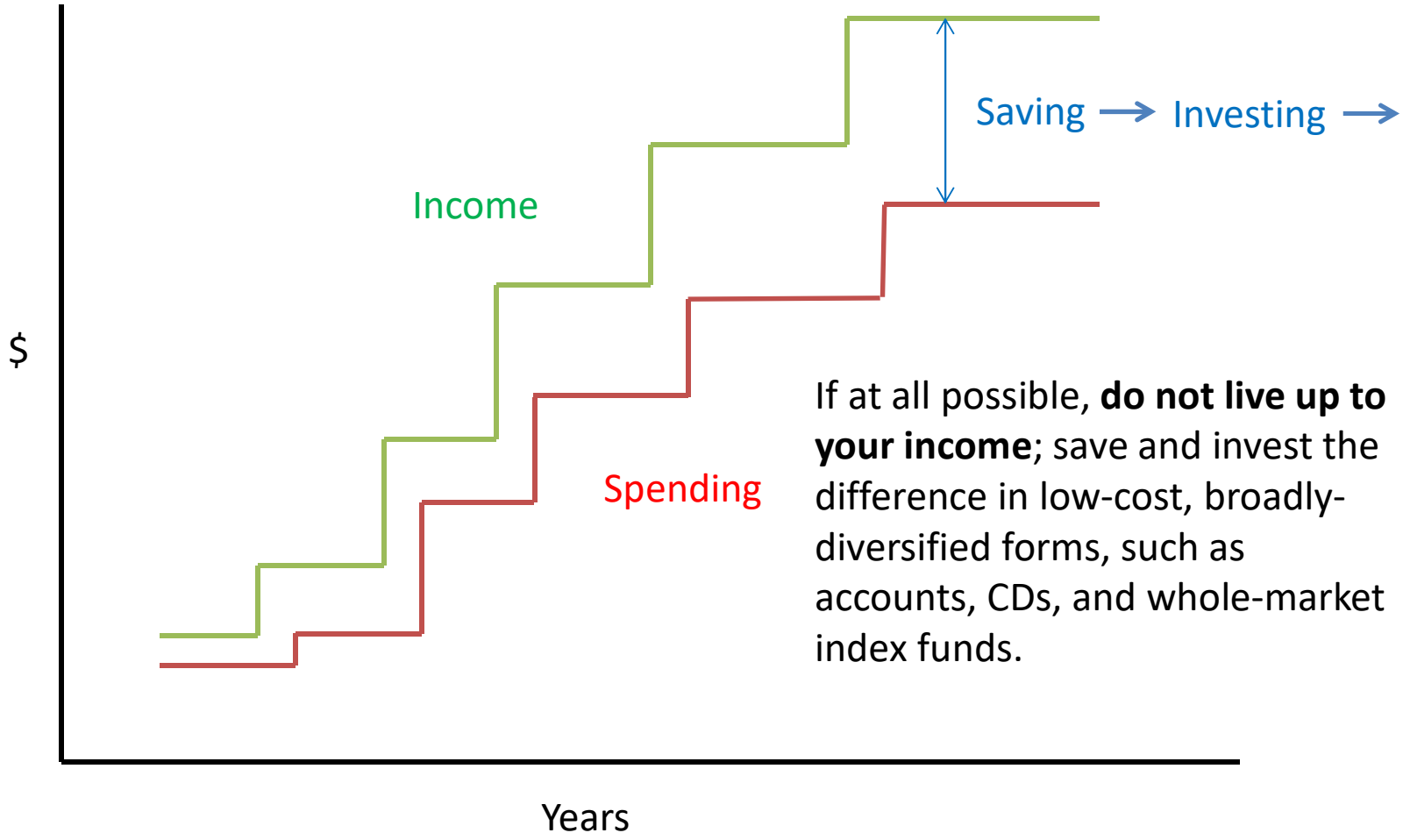
…is not enough!

Passion = what gets you out of bed in the morning, into class or your job or business; what you naturally **love to do** (after you discover it)

Skills = what you learn how to do to **exercise your passion**… some are physically impossible, but passion and practice helps you learn the rest

Value = the goods or services you **offer to society**, for which you receive money (wages, salaries, profits, etc) that allow **you** to get goods and services

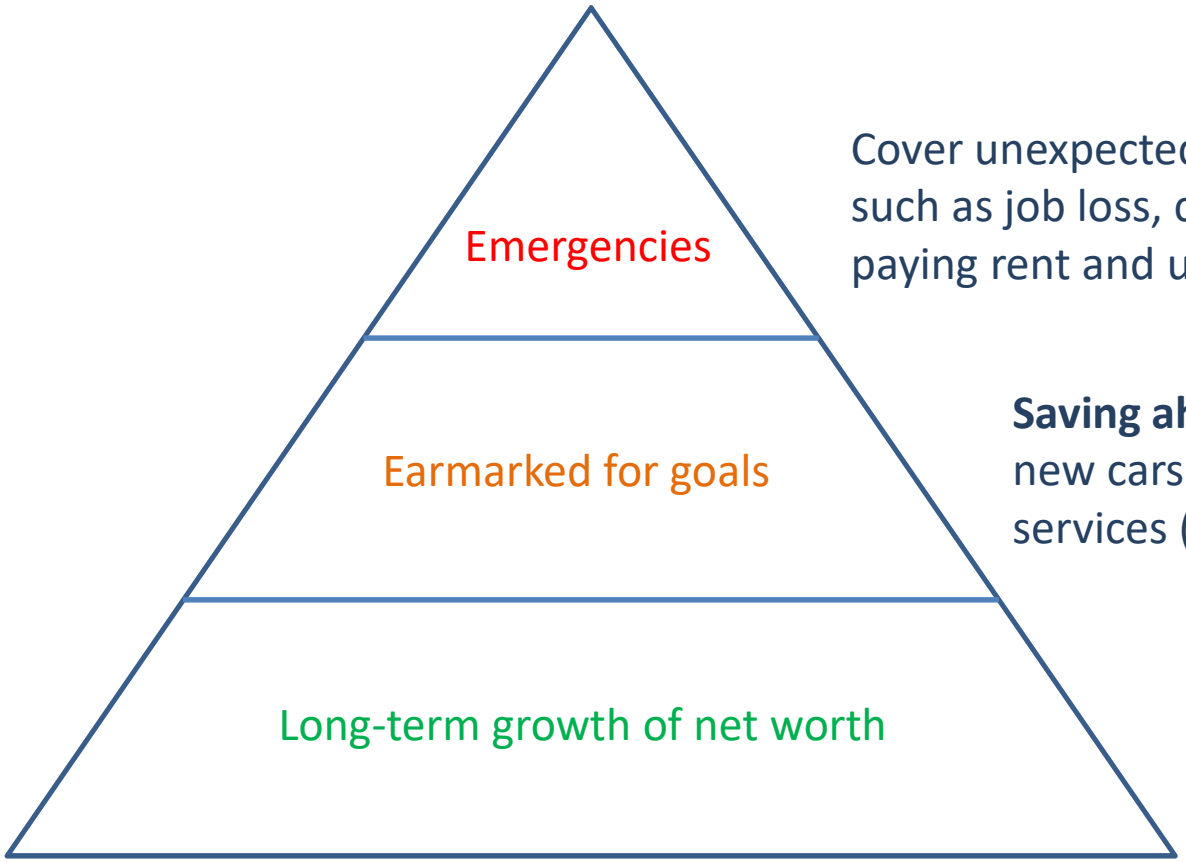
Spend Less Than Your Income



If at all possible, **do not live up to your income**; save and invest the difference in low-cost, broadly-diversified forms, such as accounts, CDs, and whole-market index funds.

Kinds of Savings/Investments

(Note, purposely over-simplified.)

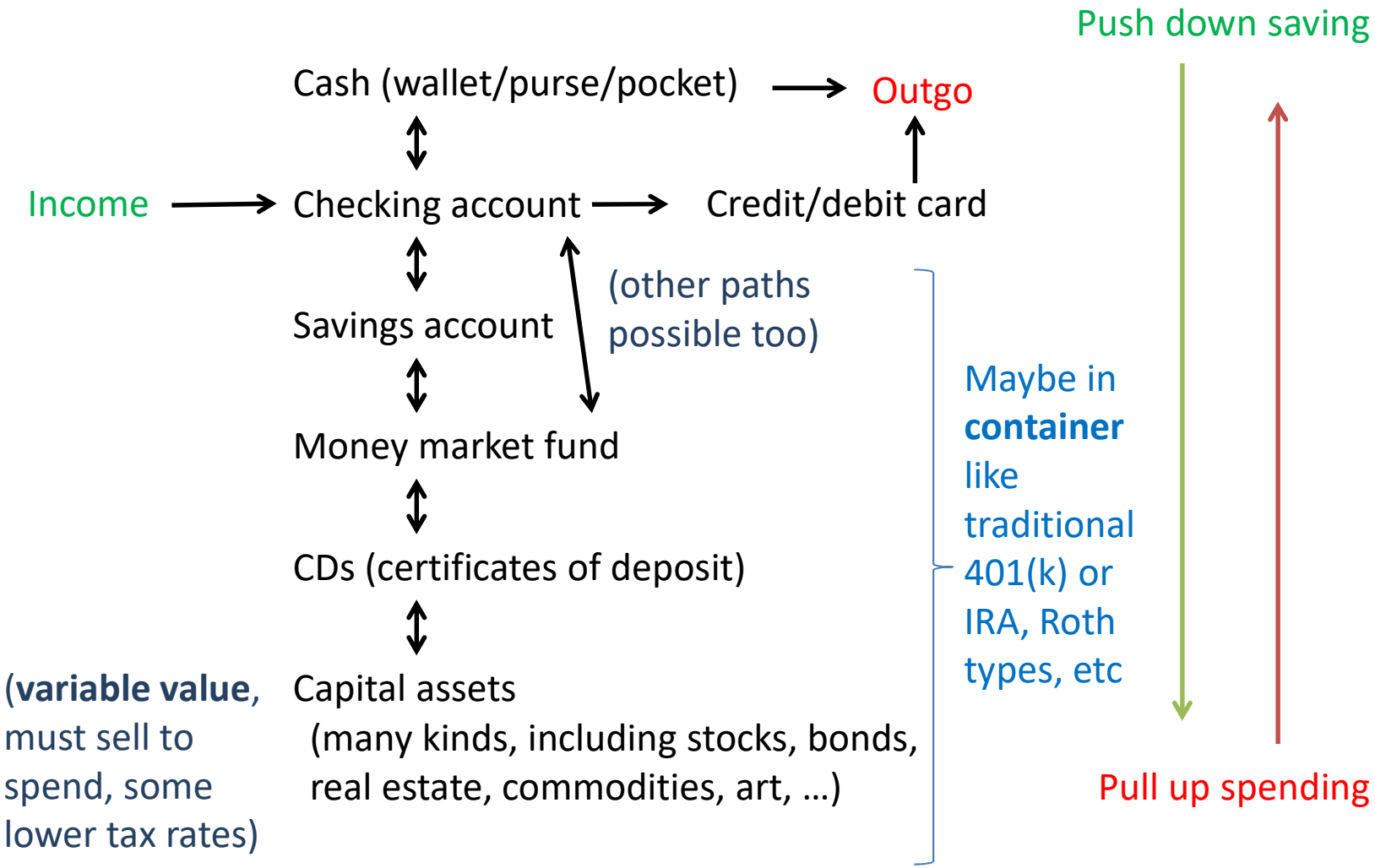


Cover unexpected **financial shocks**, such as job loss, car accidents, theft, paying rent and utilities… Refill ASAP.

Saving ahead for goods (like new cars or other toys) and services (like vacations).

Financial **independence**, retirement/disability, generosity.

The Money Stack

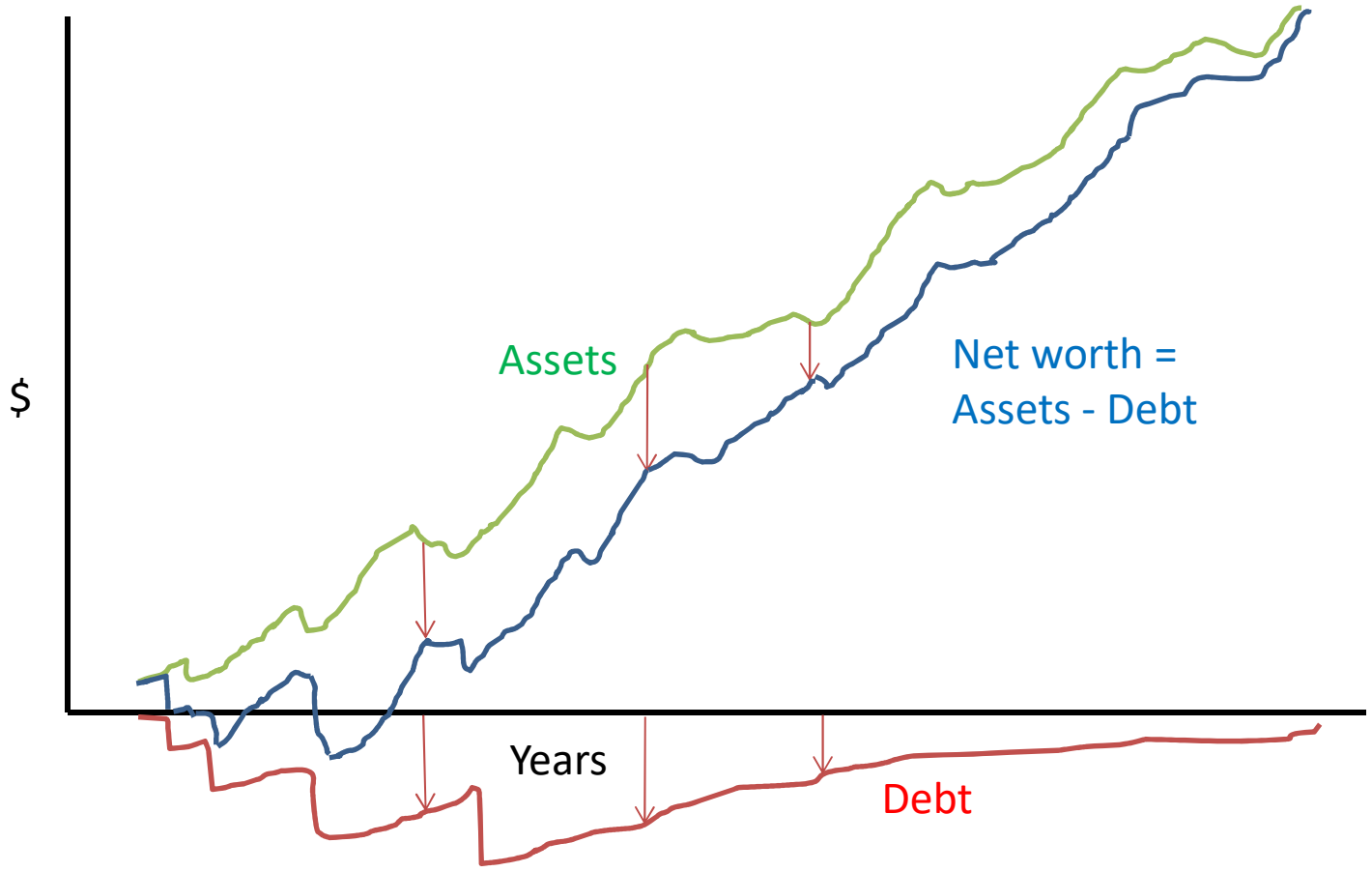


Three Simple Rules for Better Saving

Briefly summarized from a good web article:

- **automate savings** (or else, I think, make it a habit)
- beware **mindless spending** that does not produce gratification; especially if they're bad habits
- switch to **high yield savings** accounts

Investing, Debt, and Net Worth



Qualified Retirement Accounts

A simplified view of the main ways to invest money for the long term with **tax benefits**: (all of these are defined-*contribution*, not defined-*benefits*)

	Traditional (tax-deferred)	**Roth** (tax-free growth)
401(k)	**Higher limits**, like $19.5K/year; through **employer** offering the plan; often **matching** contributions up to say 4-6%; managed by a **third party** like Schwab.	
IRA	Individual (only) and **self-funded**; **lower limits**, like $6K/year; more portable; **conversions** possible from traditional to Roth ➔	
	Required Min Distributions	No RMDs

There are others too, like 403(b), SEP, Simple…

Nominal Versus Real Dollars

Remember that we almost always talk about **nominal** dollars, that is, the numbers in front of us…

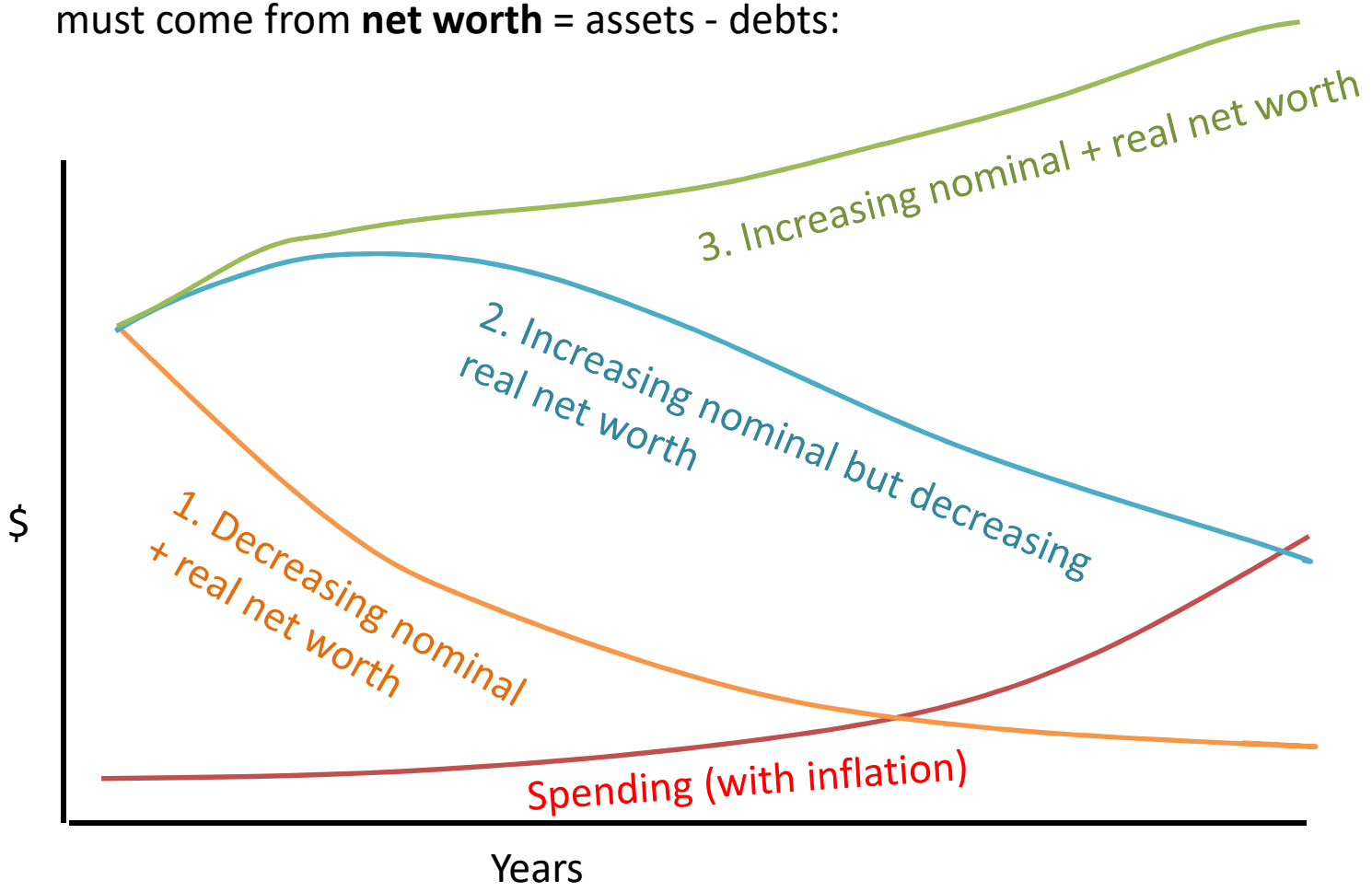
But over time, prices usually increase due to **inflation**…

Which means the **real** buying power of a given number of dollars, decreases over time.

Try to invest your savings in assets that at least **grow as fast as inflation**.

(Of course **personal inflation** differs from national averages depending on where you live and what you buy… It's an approximation.)

Watch out for long-term payouts (usually **pensions** and **annuities**) without **inflation clauses** = cost of living adjustments = COLA.

Three Retirement Net Worth Paths

Spending minus perennial income (like pensions or Social Security) must come from **net worth** = assets - debts: