

# Safe Harbor

All information contained in this presentation is for information and entertainment purposes only! It is not financial, tax, or legal advice.

You are an individual and may need personal advice for your specific situation. You should consider building relationships with financial, tax, and legal professionals whom you find to be helpful, caring, and competent.



# MBA Money

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PLC Wealth Management

Fuqua Daytime MBA '09

BIG HAT  
NO CATTLE

NORTH PAW  
Brew Co.

# The Miners, 2019



From Koh Samui to Cameron



# The Miners, 2009



Section 4, Campout,  
practice campout, and  
Southeast Asia GATE



The Miners, 2009

\$225,000 in Fuqua debt  
Gulp

# Your participation is very welcome

## Inflation is a nightmare, but:

- Will \$5 still get a coffee?
- Will \$10 get you a beer and let you leave a tip at the fancy new JB Duke Hotel Bar?

I am hoping you brought your own questions, or that the content I share will spark new questions. I would love your interaction throughout the presentation.

# My assumptions

We seek to honor our values in how we live

Wealth makes this easier

Your level of income and consumption is a choice

We have a high degree of agency in our lives – the decisions we make matter for the outcomes we get

# Why have wealth anyway?

1. Having money for money's sake is not satisfying
2. Compromising your values to get money is a horrible trade-off
3. Being miserable at work for a long period is too high a price to pay



# Why have wealth anyway?

1. When you have wealth you can more easily **live according to your values** – “F-You money”
2. When you have wealth you can **give it away** and help people. This is the most fun you’ll have with money
3. When you have wealth, you **don’t worry** about money, which is a happy thing
4. When you have wealth, you have **greater control of your time**, and time is your most precious resource

# Why have wealth anyway?

1. Your desires will change as your life changes
2. Your perspective will change as you gain experience
3. What seems like a dream job today may not seem that way at 35, 40, or 50 years old

The more wealth you have, the more options you have. Options are incredibly valuable, especially options that give you greater control over how you spend your time

# THE Ah Ha! WORKSHEET (EXAMPLE)

Make our time worthwhile for you: Take away ACTIONABLE advice! Aim to leave with no fewer than 1 and no more than 5 areas of your financial life you'd like to change:

Area of your finances	Next step	Why is this important to you?	What knowledge, resources or support do you need to make it happen?
Student loans	Refinance to lower rate	Reduces cost of loans, frees up resources for something else	e.g., Call SoFi for a rate quote and approval (for example)
Monthly expenses (too high)	Track all spending for a month; where's it going, anyway?	Make sure my budget is under control	e.g., Learn about YNAB. Read <i>Total Money Makeover</i>
Get on the same page with my partner about money	Have a money conversation; focus on the "why"	We'll never get anywhere if we're going in different directions	Trusted friend, parents

# THE Ah Ha! WORKSHEET (HANDOUT)

Make our time worthwhile for you: Take away ACTIONABLE advice!  
Aim to leave with no fewer than 1 and no more than 5 areas of your financial life you'd like to change:

Area of your finances	Next step	Why is this important to you?	What knowledge, resources or support do you need to make it happen?

# The Two Things About Money

1. Wealth and Consumption are SUBSTITUTES, not COMPLIMENTS. You can **be rich**, or you can **look rich**. Most people cannot do both, at least not right after school.
2. **THE ONE THING that matters** for your wealth is **savings rate**. Fuqua Alumni earn in the top 2% to 10% of US earners at age 30. You can achieve incredible wealth *without breaking a sweat*
  - < 10% savings rate, you will not achieve Financial Independence during a normal working lifetime
  - 15% savings rate, you will probably achieve Financial Independence in about forty-three years of working
  - 20% savings rate, you will almost certainly achieve Financial Independence in about 35 years of working
  - > 20% savings rate, really fun things start to happen for you



# Four things you can do with money

1. Give it away
2. Pay taxes
3. Spend it on lifestyle
4. Save or Invest it

# Savings Rate Defined

(How much income you keep<sup>1</sup> + any employer match)

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Income from all sources

Savings Rate numerator is everything you don't **give away**, **pay in taxes**, or **spend on lifestyle**

<sup>1</sup>**Keep** is defined as new investment amounts, savings amounts, principal repayment of debts, increased equity in assets

# Financial Independence (FI) Defined – Your money working harder than you are

- *FI* is having sufficient resources to sustain your current lifestyle without having to work for money
- *NOT* focused on laying on the beach per se (though you can if you want to)
- Everyone I know who has reached this point, especially early in their careers, continues to work. They just do work on their terms, rather than someone else's

# If you want to have wealth, your goal should be an “unusual” savings rate

- The “Usual” US Savings Rate is somewhere between 3% and 10%
- 20% or more is the threshold of “unusual”
- Many people (lots of whom seem to have started blogs) are achieving savings rates of 50% - 70%
  - Mrmoneymustache.com
  - TheWhiteCoatInvestor.com
  - Frugalwoods.com
  - FinancialSamurai.com

# Creating a Financial Plan



# Where *should* your money be going during the years when you're earning it?

1. Fund your basic budget (taxes, housing, utilities, food, transportation, clothing, insurance, charitable giving, etc.)
2. Save an adequate emergency fund
3. Add small luxuries (e.g. coffee, meals out with friends)
4. Contribute to 401(k) up to employer match
5. Max out Health Savings Account, and ROTH or Traditional IRAs (depending on your health insurance & tax situation)
6. Enjoy additional luxuries (travel, home improvement, car upgrades)
7. Some 529 Investing, if children's education is a goal
8. Max out 401(k), including solo 401(k) if applicable
9. Everything else:
  - Make investments in a taxable brokerage account
  - Prepay your mortgage
  - Increase 529 contributions
  - Buy rental real estate or make other specialized investments
  - Make more gifts, charitable or otherwise
  - Buy more things or experiences you want

# Tax and Cost of Living

Just 'cause you've graduated doesn't mean you need to give yourself a big raise!

Keep your lifestyle modest until your student loans are fully paid, and preferably until you have big assets (aim for \$0.5M - \$1M net worth) before you loosen the purse strings

- Modest home (< 20% of gross pay spent on payments, 15 year fixed note, home value no more than 2 – 3X annual income)
- Modest car (as cheap as you can stand)
- **Note:** Wealthy people buy stuff with wealth, as a reasonable percentage of their wealth, not out of their income

# Spending is often emotional

- We spend to feel good
- The key is to find substitutes for spending that feel as good or better than spending
- With practice, you get the same joy from saving and accumulating as you do from spending
- Having a group of people around you with similar values and low-consumption goals will really help; if you don't have this group, seek them out in books, blogs and podcasts
- The more you do this, the more enjoyment you'll get out of the things you *do* choose to spend money on
- Telling your money where to go, versus wondering where it went: Budgeting is intentionality and empowerment

# Tax, debt, and cost of living

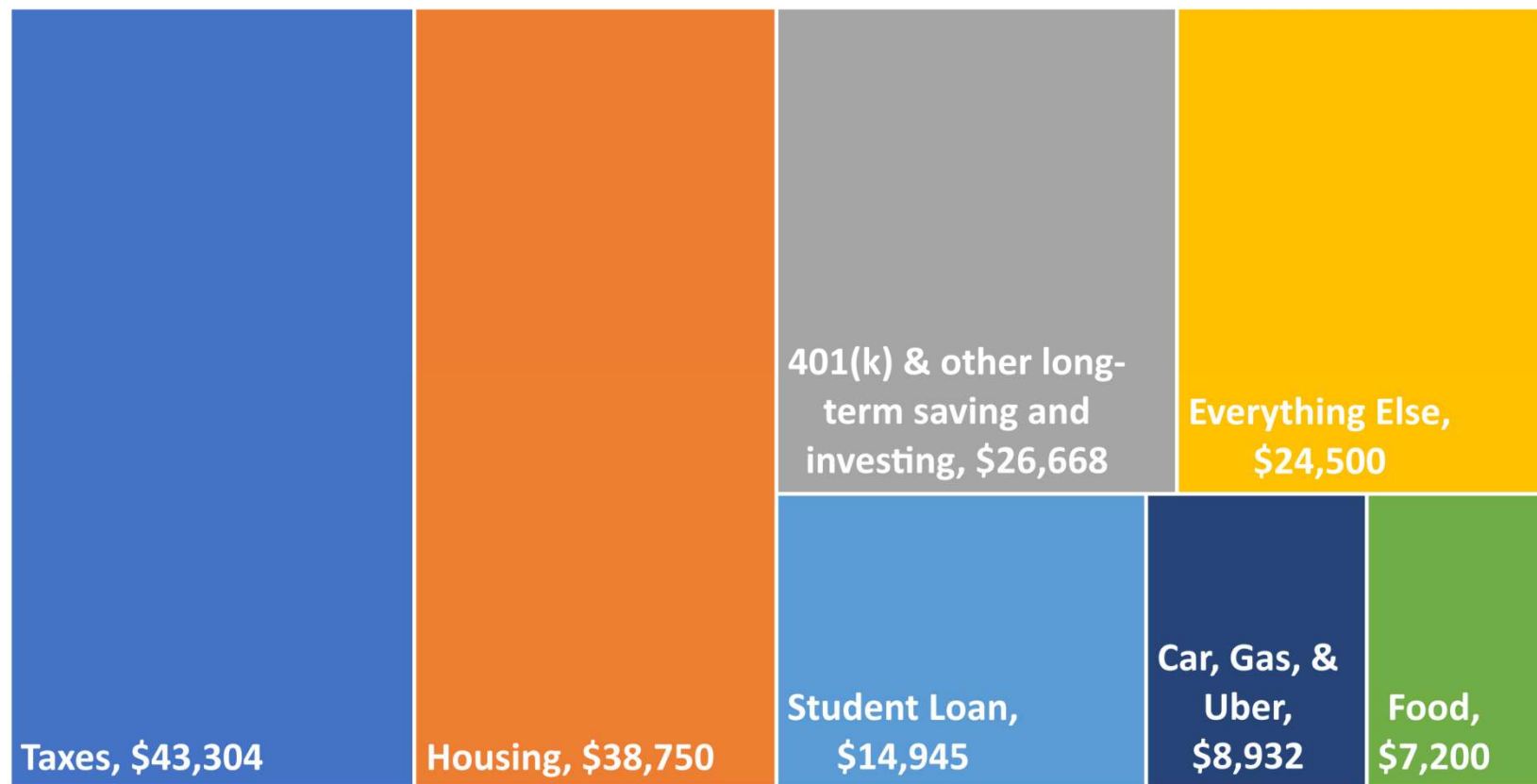
- Assumptions:
  - \$140,000 salary (median for consulting)
  - \$15,000 first full year bonus
  - \$110,000 in debt at average interest rate of 6%
  - Single filer, standard deduction, living in Atlanta
    - Federal Income Tax: \$28,610
    - Social Security and Medicare Taxes (FICA): \$10,208
    - Georgia State Income Taxes: \$8672
    - Total Tax: \$47,490
    - Income available to save (or repay debt), spend or give: \$107,510



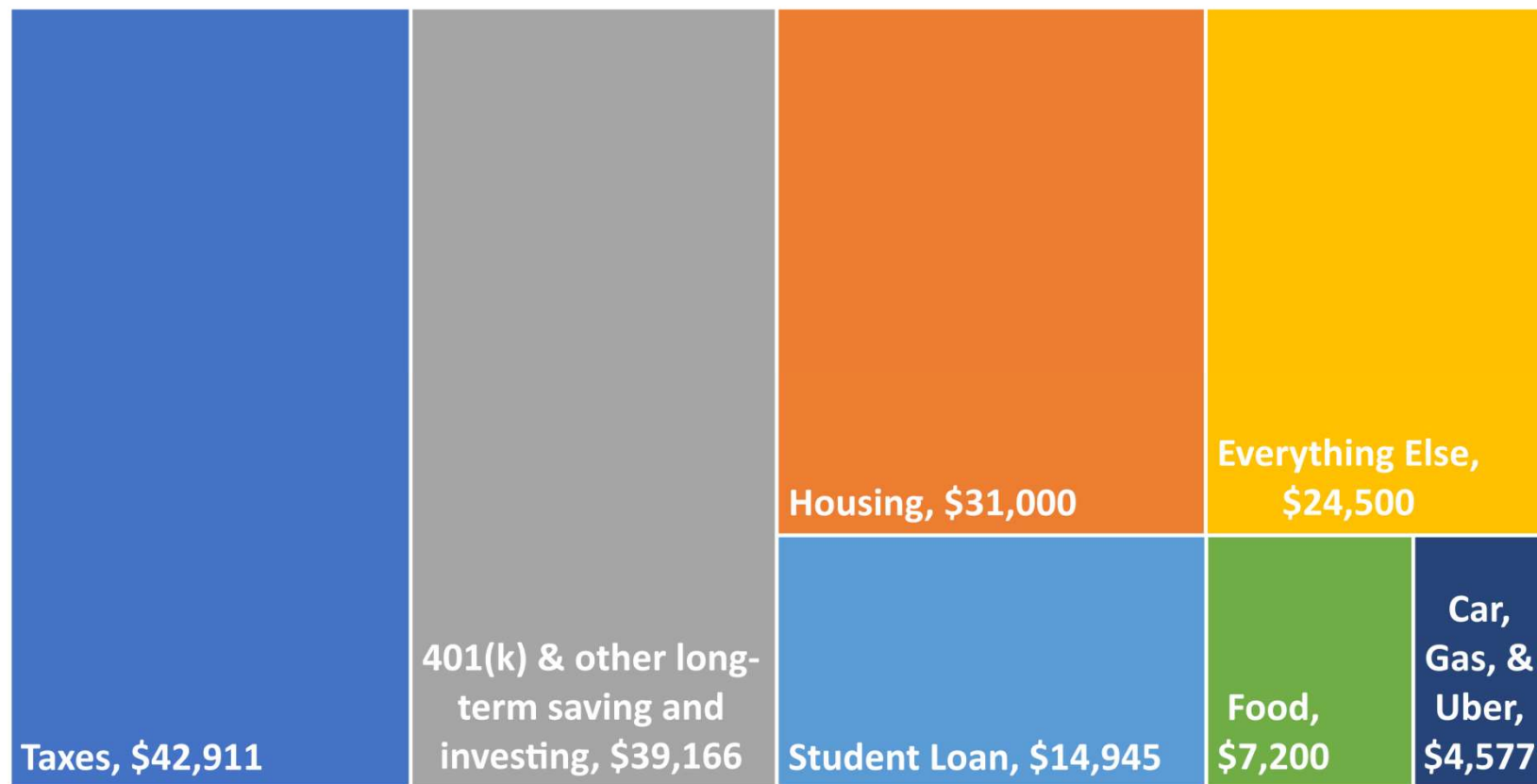


# Three Budgets

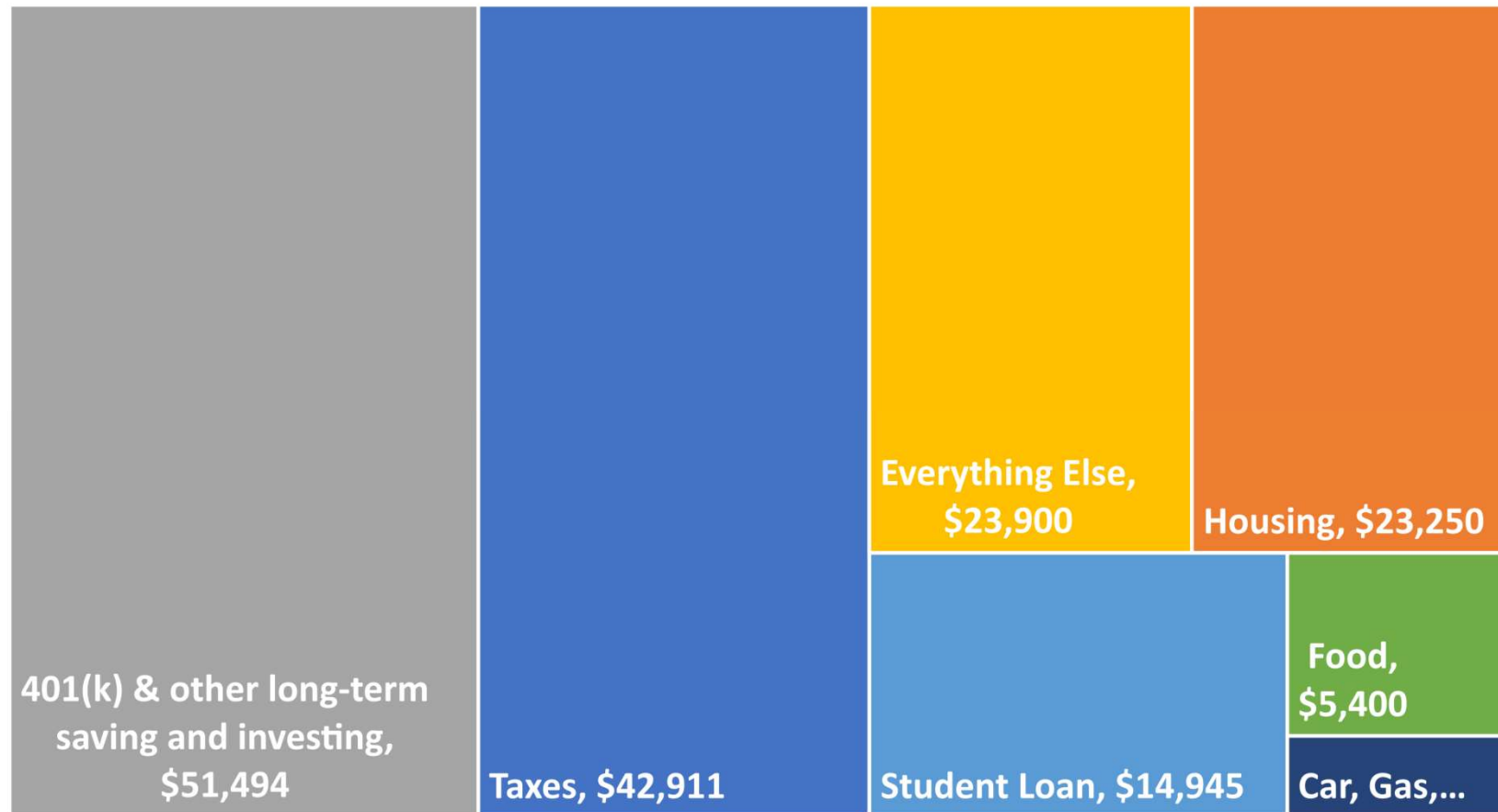
## Big Baller Budget: Living the MBA Dream on \$155,000 per year, working 'til you're 69 (39 years to FI)



Pretty fancy life on \$155,000 / year. Approaching 25% savings rate. Financially independent after 31 years



## Building your Frugality Muscles to create flexibility in your life. 35% savings rate, 25 years to Financial Independence



# The House Decision

	Big House	Standard Nice House
Home Price	\$500,000	\$300,000
Mortgage Rate & Term	4.5%, 30 year fixed, 5% down	4.5%, 30 year fixed, 5% down
HOA Fee / year	\$2400	\$0
Homeowners' Insurance Premium / year	\$2400	\$1800
Annual Property Taxes	\$5000	\$3000
Annual / Monthly Principal, Interest, Insurance, & Taxes Payment	\$38,750 / \$3229	\$23,250 / \$1938
Net Worth of Investing versus Mortgage Payments over 30 years at 8% compounded annually	\$0	<b>\$1,755,890</b>



# Financial Safety

# Financial Safety: Risk Management

- Insurance: You need a plan for each of these. Your need for these varies with your situation
  - Disability
  - Health
  - Property & Casualty and Liability
  - Life: Term life =  $[(25 * \text{annual income need}) - \text{Net worth}]$
- Avoid junk insurance:
  - Product insurance (phones, cordless drills)
  - “Mortgage insurance”
  - Short-term disability insurance

# Financial Safety: Balance Sheet

- Future income – driven by having marketable skills
- Emergency Fund
- Long-term savings and investments (401(k), etc)
- NO DEBT (or as little as possible)
- Low operating leverage (correlate of high savings rate) – car & house repairs can be cash-flowed
- Spend yesterday's money, not today's and definitely not tomorrow's

# Emergency Fund

# Emergency Fund: For when, you know...

- 3 to 6 months of expenses, depending on the volatility of your personal situation
- Not too easy to access
- Fully liquid
- A form of insurance (expect a negative real return)



# Student Loans

## **Scenario 1: JB Fuqua Jr. just graduated and will make \$120K per year he has \$100,000 in loans. What can he do?**

**Option #1 Consolidate** (Putting all of your loan payments together into one new loan)

Pros: Convenience of 1 monthly payment

Cons: You could be paying less

**Option #2 Refinance** (Working with a private lender to get a new loan at a lower rate)

Pros: Paying less in interest (\$\$\$\$!)

Cons: Lose some flexibility

**Option #3 Pay as agreed / Accelerated repayment**

**Consider: Refinancing where you can lower your rate, paying all loans off rapidly.**

# Consolidated vs. Refinanced:

	Consolidated	Refinanced
Loan Amount	\$100,000	\$100,00
Interest Rate	6%	4%
Loan Term	10	10
Monthly Payment	\$1, 110	\$1,012
Total Interest to be Paid	\$33,225	\$21,494



# Refinancing \$100k in Loans

TOP PICKS	SoFi	DRB DARMEN ROBERTSON BANK	CommonBond	LendKey	Citizens Bank	CollegeAVE STUDENT LOANS
Variable Rates	2.36% - 6.29%	3.64% - 6.29%	2.35% - 6.27%	2.27% - 5.90%	2.39% - 8.18%	2.88% - 6.13%
Fixed Rates	3.37% - 6.74%	4.20% - 7.20%	3.37% - 6.74%	3.25% - 7.26%	3.74% - 8.24%	4.75% - 7.35%
Terms (in years)	5, 7, 10, 15, 20	5, 7, 10, 15, 20	5, 7, 10, 15, 20	5, 7, 10, 15, 20	5, 10, 15, 20	5 to 15

Rate	3%	4%	5%	6%	7%
Monthly Payment	\$966	\$1,012	\$1,061	\$1,110	\$1,161

**MOST IMPORTANTLY: READ THE FINE PRINT!**

- Refinance if you have: good credit (at least high-600s), steady income, no plans to take advantage of federal forgiveness programs or income-driven repayment plan

## Repayment & Forgiveness Plans (gov. loans only)

- **Scenario 2: JB Fuqua goes into a lower income job (\$75K/year?) What are his options?**
  - Income based repayment plans – range from 10-20% of income and eligible for forgiveness at 20-25 years
  - Balance driven repayment plans – fixed vs. graduated payment amount 10-25 years
  - Loan forgiveness – For Gov., or non-profit employees after 120 payments

Fuqua Loan Repayment Assistance program (LRAP) – apply within 3 years of graduation can receive up to \$8,000

## Repayment & Forgiveness Plans (gov. loans only)

### Be wary of depending on loan forgiveness:

1. Thinking you're qualified when you're not
2. Tax implications depending on the program
3. Legislative / regulatory risk to programs
4. How keeping debt around to benefit from a government program effects your career and life mindset

## Worst-Case Scenario

- **Scenario 3: JB Fuqua loses his job and it takes him 1 year to find a new one. What are his options?**

Option #1 Deferment (Gov. loans only)

5.7% interest	Before 1 year Deferment	After 1 year Deferment
Student Loan Balance	\$100,000	\$105,700
Monthly Payment	\$ 1,095	\$1,157

Option #2 Forbearance (varies by lender) – completely discretionary, usually offer up to 12-24 months total broken into 2-3 month increments

Mandatory forbearance - if total monthly payment exceeds 20% of monthly gross

## TAKEAWAYS

- Understand everything you will be paying and compare (there are resources!)
- Starting paying off ASAP
- Choose if you will refinance...ASAP

# College Planning – Super Short Section

# College Planning for your kids

- Choice of school matters
- Kids can work and earn money all their lives
- Undergrad is a bad place to load up with debt. Find a way to pay cash.
- Don't overfund 529 accounts

# Wrap up & call to action



# The Two Things About Money

1. Wealth and Consumption are SUBSTITUTES, not COMPLIMENTS. You can **be rich**, or you can **look rich**. Most people cannot do both, at least not right after school.
2. **THE ONE THING that matters** for your wealth is **savings rate**. Fuqua Alumni earn in the top 2% to 10% of US earners at age 30. You can achieve incredible wealth *without breaking a sweat*
  - < 10% savings rate, you will not achieve Financial Independence during a normal working lifetime
  - 15% savings rate, you will probably achieve Financial Independence in about forty-three years of working
  - 20% savings rate, you will almost certainly achieve Financial Independence in about 35 years of working
  - > 20% savings rate, really fun things start to happen for you

# Imagine...

- Student loans are gone
- House is paid for
- > \$0.5M in savings and investments
- Doing work you love, with people you love, in a place you love, for as many, or as few, hours per week as you like

What would your life feel like?

# Imagine...

You are positioned today to make the choice to be in that happy place:

1. 5 to 10 years from today
2. 10 to 20 years from today
3. 39 years from today
4. Never

My recommendation: Select option 1 or 2

# Ask yourself:

- Why did I come to Fuqua?
- How can I use my income to shape my future to be even more joyful and meaningful than I imagined?

# Call to action

Use the “Ah-ha” worksheet and create a timetable to finish the actions you decide to take

Continue to grow your personal finance knowledge through reading, listening, and talking to people with wisdom in this area who have, in the words of my friend Dave Ramsey, “the heart of a teacher rather than the heart of a salesman.”

# Resources (a very short list)

[matt@plcwealth.com](mailto:matt@plcwealth.com)

Fuqua Finance Forum – Post includes slide:

<https://www.plcwealth.com/2019/04/09/fff/>

*Millionaire Next Door*, Tom Stanley

*The Only Investment Guide You'll Ever Need*, Andrew Tobias

*Seven Habits of Highly Effective People*, Stephen Covey

*Total Money Makeover*, Dave Ramsey

Design Independence blog (my personal site; written with MBAs in mind)

White Coat Investor podcast & blog

Afford Anything podcast & blog

# Big Baller Budget

Living the MBA Dream: 39 years to Financial Independence; 16% savings rate	Annual Amounts	Monthly Amounts
First-year Pay (top 4% of Americans, and top 2-3% for those under 35 years old)	\$155,000	\$12,916.67
401(k) Match / Company Profit Sharing to Retirement Plan, 6% of gross pay	\$9,300	\$775
First Year Taxes	(\$47,490)	(\$3,958)
Tax Benefit of 401(k) Deferral	\$4,186	\$349
Employee-Portion of company benefits (\$400 / mo)	(\$4,800)	(\$400)
Out of pocket medical, dental and vision expenses (\$100 / mo)	(\$1,200)	(\$100)
Student Loan Payment, 10-year term, 6% average rate, \$110,000 balance	(\$14,945)	(\$1,245)
Housing (25% of gross pay; \$496,000 house, 4.5% 30 yr note, \$5000 taxes, \$2400 homeowners' insurance, \$2400 HOA)	(\$38,750)	(\$3,229)
Eating and drinking at home (one person)	(\$3,600)	(\$300)
Meals out (one person)	(\$3,600)	(\$300)
Car Payment (\$30,000 financed, 2.9% rate, 60 month note)	(\$6,532)	(\$544)
Gasoline / public transit / Uber	(\$2,400)	(\$200)
Travel, wedding gifts, etc	(\$6,000)	(\$500)
Clothing	(\$2,000)	(\$167)
Auto & Renters Insurance	(\$1,500)	(\$125)
Utilities - Electricity, Water, Natural gas	(\$1,800)	(\$150)
Cell phone, internet, & cable	(\$2,400)	(\$200)
Everything else - Amazon, gym membership, dry cleaning, car repairs, home repairs, furniture, home décor, etc	(\$4,800)	(\$400)
401(k) deferral, other retirement savings	(\$26,668)	(\$2,222)
Zero-based budget	\$0	\$0

# Very Comfy Budget gets you 8 years of your life back

Pretty fancy life, Only 31 years to FI; 24% savings rate	Annual Amounts	Monthly Amounts
First-year Pay (top 4% of Americans, and top 2-3% for those under 35 years old)	\$155,000	\$12,916.67
401(k) Match / Company Profit Sharing to Retirement Plan, 6% of gross pay	\$9,300	\$775
First Year Taxes	(\$47,490)	(\$3,958)
Tax Benefit of 401(k) Deferral	\$4,579	\$382
Employee-Portion of company benefits (\$400 / mo)	(\$4,800)	(\$400)
Out of pocket medical, dental and vision expenses (\$100 / mo)	(\$1,200)	(\$100)
Student Loan Payment, 10-year term, 6% average rate, \$110,000 balance	(\$14,945)	(\$1,245)
Housing (20% of gross pay; \$380,000 house, 4.5% 30 yr note, \$4000 taxes, \$2400 homeowners' insurance, \$2400 HOA)	(\$31,000)	(\$2,583)
Eating and drinking at home (one person)	(\$3,600)	(\$300)
Meals out (one person)	(\$3,600)	(\$300)
Car Payment (\$10,000 financed, 2.9% rate, 60 month note)	(\$2,177)	(\$181)
Gasoline / public transit / Uber	(\$2,400)	(\$200)
Travel, wedding gifts, etc	(\$6,000)	(\$500)
Clothing	(\$2,000)	(\$167)
Auto & Renters Insurance	(\$1,500)	(\$125)
Utilities - Electricity, Water, Natural gas	(\$1,800)	(\$150)
Cell phone, internet, & cable	(\$2,400)	(\$200)
Everything else - Amazon, gym membership, dry cleaning, car repairs, home repairs, furniture, home décor, etc	(\$4,800)	(\$400)
401(k) deferral, other retirement savings	(\$39,166)	(\$3,264)
Zero-based budget	\$0	\$0



# “Frugal” Budget – What would you do with 18 extra years of FI?

Building your Frugality Muscles to create flexibility in your life. 25 years to FI	Annual Amounts	Monthly Amounts
First-year Pay (top 4% of Americans, and top 2-3% for those under 35 years old)	\$155,000	\$12,916.67
401(k) Match / Company Profit Sharing to Retirement Plan, 6% of gross pay	\$9,300	\$775
First Year Taxes	(\$47,490)	(\$3,958)
Tax Benefit of 401(k) Deferral	\$4,579	\$382
Employee-Portion of company benefits (\$400 / mo)	(\$4,800)	(\$400)
Out of pocket medical, dental and vision expenses (\$100 / mo)	(\$1,200)	(\$100)
Student Loan Payment, 10-year term, 6% average rate, \$110,000 balance	(\$14,945)	(\$1,245)
Housing (20% of gross pay; \$300,000 house, 4.5% 30 yr note, \$3000 taxes, \$1800 homeowners' insurance, NO HOA)	(\$23,250)	(\$1,938)
Eating and drinking at home (one person)	(\$3,000)	(\$250)
Meals out (one person)	(\$2,400)	(\$200)
NO CAR PAYMENT	\$0	\$0
Gasoline / public transit / Uber	(\$2,400)	(\$200)
Travel, wedding gifts, etc	(\$6,000)	(\$500)
Clothing	(\$2,000)	(\$167)
Auto & Renters Insurance	(\$1,500)	(\$125)
Utilities - Electricity, Water, Natural gas	(\$1,800)	(\$150)
Cell phone, internet, & NO cable	(\$1,800)	(\$150)
Everything else - Amazon, gym membership, dry cleaning, car repairs, home repairs, furniture, home décor, etc	(\$4,800)	(\$400)
401(k) deferral, other retirement savings	(\$51,494)	(\$4,291)
Zero-based budget	\$0	\$0