UBS

Managing your money, credit, and debt

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The money comes in. The money goes out. If you're not in control of your finances, you may wonder where your money goes every month. You may routinely spend money on things you don't need and carry balances on your credit cards. Overspending can stress your finances and make it difficult for you to realize your dreams.

Managing your money means taking charge of your spending, limiting your debt, and saving as much as possible for your future. No matter where you are in life, having good money management skills can help put you on the path toward achieving your goals.

You and your money

People are very different when it comes to handling money. At one extreme are the "big spenders." They charge new items as soon as there's room on their credit cards and just can't seem to resist buying more "stuff," even if it leads to mountains of personal debt.

At the other extreme are people who might be described as "fanatically frugal." They can't bring themselves to spend money—even if it keeps them from sharing activities with their loved ones that would be worth a lot more than what's in their bank accounts.

And then some people are just plain unorganized. They don't pay attention to where their money goes, frequently pay their bills late, and can never seem to find their financial records when they need them.

Spending too much, being frugal to a fault, or simply not paying attention to money matters can cause stress and family conflict. When it comes to finances, it's far better to be organized and take a balanced approach toward spending and saving. And the good news is that anyone can make changes to become a better money manager.

How to balance spending and saving

Spending

- Limit impulse purchases
- Pay off credit cards monthly
- Create a realistic budget (or "spending plan")

Saving

- Set money aside for unexpected expenses
- Contribute to your employer's retirement plan
- Identify other financial goals and make a plan for reaching them

Keep reading to learn more about each of these topics.

Your current financial situation

Before you can identify the steps that will help you plan, save, and manage your money effectively, take some time to think about your personal financial situation. Ask yourself whether you typically have money left over at the end of the month or if you struggle to pay your bills. Review the amounts you owe—on student loans, car loans, mortgages, credit card debts, etc.,—and your monthly payments. Do you see these debts as a burden or are you comfortable with the amount of debt you are carrying? And finally, look at how much you are currently saving. Are you confident you're saving enough for your future?

Time for a plan

You may be unsure about how to answer some of these questions. Unless you already have a financial plan in place, it can be difficult to have a clear picture of your financial situation and what you want it to look like in the future.

Don't think financial planning is only for the wealthy. Everyone can benefit from having a financial plan. Setting goals and developing a strategy to help you reach them lets you make the most of the money you do have.

Setting goals

What do you want to accomplish with your financial plan? When you stop and think about it, you may have several different financial goals, each with a somewhat different time frame. Short-term goals are the things you'll need money for over the next few years, maybe a new car or a special vacation. Long-term goals are financial needs that are far in the future—retirement is a prime example. And intermediate goals fall somewhere in between.

If you're a parent, your financial goals may include helping your children with their college education costs. Some parents start planning for college costs soon after their baby is born. Other parents put off education planning until much later. However, you can't assume that scholarships, grants, and modest student loans will pay all the bills. Getting an early start on saving for college is a smart move.

Saving for retirement is probably your single largest financial goal. The amount of money you eventually save is likely to have a big impact on your retirement lifestyle, especially since Social Security currently provides less than half of the average retiree's income.*

Juggling goals

With multiple goals and only so much money to go around, making progress will take some planning. The key is to prioritize your goals and make trade-offs when necessary. For example, you may not be able to save as much as you'd like for future college expenses without shortchanging your retirement savings. Keep in mind, however, that your own retirement will require significantly more savings than college. Also, while your child can always borrow money to pay for higher education, you won't be able to take a loan to fund your retirement. So it makes sense to make saving for retirement your top priority even if it means putting less aside for college costs.

And don't underestimate how much you'll need to live on during retirement. With many people living active lives into their 80s, you may want to prepare for a retirement that lasts well over 20 years.

Making trade-offs

Frank wants to buy a home in five years. He also would like to pay off his student loans and drive a new car. Juggling all of these goals, plus paying his current expenses, is becoming difficult. Frank decides to focus on accumulating enough for a significant down payment on a home and paying off his student loans. Instead of buying a new car right now and adding a car payment to his current expenses, Frank will drive the older-model car he owns outright a little while longer. Making this trade-off may help Frank achieve his goal of buying a home.

Pursuing your goals

Starting to save and invest as early as possible makes it easier to meet financial goals. Ideally, you should begin saving for retirement with your first "real" job and steady income. By starting early—even if the amount you set aside is small—you may end up with more than someone who waits a few years before beginning to save. Over time, even small amounts of money have the potential to grow into a sizable nest egg.

When you're investing for a retirement that's far off in the future, it's important to include investments that have the potential to outpace inflation. Over time, inflation can reduce the buying power of your retirement savings by increasing the prices of goods and services. You may want to consider including stock investments in your portfolio since, historically, stocks have produced higher long-term returns than bonds or cash alternatives. (Past performance is no guarantee of future results.)

The power of compounding

The more you save and invest, the more you can potentially benefit from compounding. Compounding is the continual reinvestment of investment earnings. So, for example, when you invest your money for retirement, your investment has the potential to generate earnings. When those earnings are added to your retirement account and reinvested, they may start generating more earnings, and so on. As your account grows, so does the power of compounding.

The power of saving an extra $10

Weekly contribution	5 years	10 years	20 years	30 years	40 years
$10	$3,102	$7,500	$22,573	$52,865	$113,742
$10 + an extra $10	$6,205	$15,001	$45,147	$105,731	$227,484
$10 + an extra $20	$9,307	$22,501	$67,720	$158,596	$341,226
$10 + an extra $30	$12,409	$30,001	$90,294	$211,462	$454,968

Examples are for illustrative purposes only and do not convey any information regarding actual circumstances or profits. These examples do not take into account the effect of tax or transaction costs. These are hypothetical examples involving participants who consistently make weekly contributions over various time periods and earn a 7% average annual investment return (compounded monthly). The illustration does not represent any specific investment product offered by your plan. Your investment returns will differ, and it is unlikely that your contribution amount will remain the same over a long period. Pretax contributions and related plan earnings will be subject to ordinary income taxes and a possible early withdrawal penalty upon distribution.
Source: NPI.

Social Security. "Social Security Fact Sheet."

Advantages of your employer's plan
Your employer's retirement plan has several attractive features that can make it easier for you to save for your future. Making the most of your retirement plan's built-in benefits gives you the opportunity to build a more financially secure retirement.

Your employer's plan is a convenient way to save. Once you decide how much of your pay you want to contribute, your employer will take that amount out of your paycheck each pay period and deposit the money in your plan account. You don't have to worry that you'll spend the money because saving is automatic.

Participating in your employer's plan can also reduce your federal income taxes. If you contribute on a pretax basis, you don't have to pay current income taxes on the money that goes into your account. You also don't have to pay taxes on any earnings from your plan investments as long as your money stays in the plan or another tax-deferred account. You won't pay income taxes on your pretax contributions or plan investment earnings until the money is distributed to you.

Your plan gives you a range of investment choices. You have the opportunity to manage investment risk by diversifying your investments. Each fund* (or portfolio) the plan offers already holds a number of securities. Investing your contributions in funds representing the three major asset types—stocks, bonds, and cash alternatives—can increase diversification. If one investment performs poorly, gains in others may help minimize losses. As useful as the diversification strategy is, understand that it does not ensure a profit or protect against losses in a declining market. There are always risks associated with investing in securities.

Controlling credit and debt

You know how important it is to save and invest wisely. However, you may find it very difficult, if not impossible, to save for retirement and other important financial priorities if you are struggling to pay off loans and credit card bills. So a critical part of your financial planning is to determine how much debt you can comfortably handle without compromising your goals. If you've borrowed too much, you can work toward reducing your debt to a manageable level so that you can start to make more progress.

Costs of credit card debt
No question, paying with credit cards is convenient. But if you're not careful, you could be charging items you can't afford to buy. You might not even realize how much you've spent until you get the bill. It's easy to get in over your head with credit card debt, but very difficult to dig your way out.

If you've charged more on a credit card than you can afford to pay for right away, you'll owe interest on your balance. If you can't pay off your balance the next month, more interest is added. Now you're paying interest on the interest. Over time, you could end up paying more in interest than the actual cost of the item you charged.

Credit card pitfalls
When you receive a credit card bill, you're only required to pay a minimum amount by the due date. When money is tight, it might be tempting to make only the minimum payment. However, paying only the minimum amount due is a pitfall you want to avoid. Making just the minimum payment due on your credit card balance each month will extend your payments and significantly increase the amount you ultimately pay.

Another credit card pitfall to avoid is making a late payment. Even if your bill is only a day late, most creditors will tack on finance charges. Not only is that expensive, but late payments can lower your credit score. A low credit score can make it difficult to get affordable insurance or a reasonable rate on a mortgage or car loan.

Taking control
If you're carrying credit card debt from month to month, breaking the cycle isn't easy, but it's worth the effort. The benefits of wiping a burdensome debt off your personal balance sheet can be huge.

Here are some strategies to get your credit card debt under control:
- **Pay more than the minimum amount due**. Making the highest payment you can afford each month will help you get out of debt faster.
- **Pay bills on time.** Schedule online bill payments. Make sure checks are in the mail at least 10 days before the due date so that your payments arrive on time.

* An investment in the fund is only one component of a balanced investment plan, and should not be considered to be sufficiently diversified investment program by itself. This is for informational purposes only. It is not a recommendation to buy or sell a particular investment.

Paying more than the minimum
Adding an extra amount to the minimum payment can help pay off your credit cards more quickly. Here's an example:

	Amount Maria owes	Rate
Card 1	$3,000	17.5%
Card 2	$4,000	15%

If Maria makes only the minimum monthly payments on her cards, it will take her **10 years and 10 months** to pay off her credit card debt.

If Maria makes the minimum monthly payments but adds **an extra $25 a month** (applying the $25 first to Card 1—the card with highest rate—until it is paid in full, and then to Card 2), it will take her just **2 years and 4 months** to pay off her credit card debt.

This example is hypothetical and used for illustrative purposes only. It assumes minimum monthly payments are equal to 4% of each month's outstanding balance.
Source: NPI.

- **Pay off cards with higher rates first.** Put additional amounts toward the card with the highest rate until it's paid off, then move on to the card with next highest rate
- **Don't carry cards with you.** Leave your credit cards at home when you go shopping. When you pay with cash (or your debit card), you can't spend more than you have
- **Save up for larger purchases.** Instead of using a credit card, wait until you have the money before buying a big item
- **Develop a spending plan.** Figuring out where you want to spend your money will help you keep debt under control

Establish an emergency fund
If the car breaks down or you need to replace an appliance, how do you cover those unexpected expenses? Instead of adding them to your credit card debt, it's a good idea to start an emergency fund to pay for unplanned costs.

If you have no emergency savings in place, it may take a while to accumulate your fund. Set aside money in an account that you can access at any time without paying penalties, charges, or fees. Most experts recommend keeping enough money in your emergency fund to cover three to six months' worth of expenses. It may be easier to save if you arrange to have direct payroll deposits into the account. And try to use the money only for true emergencies, not for impulse spending or even planned large expenses.

Your spending plan

Do you know where you spend your money? If you don't keep track of your day-to-day spending, you might not realize exactly how much you spend out-of-pocket on vending machine snacks, small toys for the kids, get-togethers with friends, carryout meals, and similar items. A spending plan can help you take control of your cash flow.

Track your spending
The first step to taking control is to know exactly where your money is going. For a couple of months, track what you spend each day. You can either write down what you're spending or use an online budgeting tool or phone app to track your expenses. Remember, no purchase is too small to track.

Your expenses typically fall into one of the following three categories:
- **Fixed expenses** are essential items having fixed monthly payments. Your mortgage or rent, taxes, insurance, and auto and other loans—anything that you have a commitment to pay each month—belong in this group.
- **Variable expenses** have payments that may change monthly. Utility and phone bills, groceries, credit card charges, transportation costs, maintenance and repair services, and other such necessary expenses fall into this category.
- **Discretionary expenses** are for things you want but don't have to have. They include dining out, movies, cable TV, smart phones, vacations, magazine subscriptions, gym membership, furniture, and similar items. You have the most control over this spending category.

Your income
Next, calculate your income. Your wages from your job probably make up the greatest portion of your income. But you may have income from other sources as well. Maybe you also work part time or have income from rental property or a business. Or you might receive alimony or child support payments.

Investments, bank accounts, and similar assets often provide interest or dividend income. And don't forget any bonuses you receive from your employer. Keep in

mind, however, that these income sources may vary from year to year—or even disappear—so it's wise not to count too heavily on them when calculating your income. Review your income over several months to get a more accurate picture. That way you can take into account any surges or ebbs in your cash flow.

Your cash flow

Once you've tracked your spending and reviewed your income over a couple of months, you'll be able to determine if your cash flow is positive or negative

- **Positive cash flow**—You are spending less than you earn so more money is coming in than going out
- **Negative cash flow**—You are spending more than you earn so more money is going out than coming in, which may mean that you're in debt

If your cash flow is positive and you're spending less than you're bringing in, congratulations! But you can still look for places to trim your spending so that you increase the amount you save and invest for the future.

If your cash flow is negative and you're spending more than you're bringing in, you need to reduce your spending. While this may be difficult, it's worth the effort to get your spending under control, reduce your credit card debt, and increase the amount you save.

Needs vs. wants

When you're looking for ways to spend less money, start by thinking carefully about each purchase before you make it. Ask yourself: Do I *need* this item, or do I just *want* it? A need is something that is necessary, such as groceries, shelter, clothing, taxes, or insurance. A want tends to be optional, such as entertainment, gifts to others, designer handbags, or computer tablets. Cutting back on "wants" can save you money.

Even within the "need" category, consider whether there is a more economical option. For example, instead of buying a brand new SUV, consider a used, fuel-efficient compact. At the grocery store, shop for generic brands rather than name brands. There may be many areas—big and small—where you can cut back and spend less.

Here are some ideas to help you spend less money:

- Grocery shop with a list
- Brown bag it to work at least three days a week
- Brew your own coffee instead of buying a cup on the way to work
- Plan your meals
- Eat at home more often
- Combine errands to drive less and spend less on gas
- Carpool when possible
- Walk or bike to nearby events
- Search for deals on phone, cable, and Internet services
- Increase deductibles to lower insurance costs
- Use the same insurance provider for both car and home
- Add insulation to your home
- Turn off the lights and adjust your thermostat when no one's home to save on utility bills

Individually, these suggestions may not seem like they'll make much of a difference. But if you take all the money you're not spending and instead save it for your long-term goals, over time it could have a significant impact on the amount you're able to save for your future.

Building a budget

"Budget" is just another word for "spending plan." Whatever you call it, a budget can help you keep your finances in shape and your spending under control. Your budget should reflect your current income and expenses.

After tracking your spending and income for a couple of months, you'll know exactly how much is coming in and where it's going. You'll have already identified areas where you could spend less. Now you can take the next step and create a spending plan by deciding how much you *should* be spending.

You may want to budget for your fixed expenses first and then plan for variable expenses. Limit your discretionary expenses to what remains. Remember to set aside money each month for larger expenses that are paid sporadically during the year, such as taxes and insurance. And make sure you assign one category of your budget to saving for your future. Participating in your employer's retirement savings plan is a great start.

Your budget should be realistic. If there's a difference between the amount you've budgeted for a category and the amount you actually spend, you may want to adjust your budget or find a way to reduce spending in that category. If your budget is too strict, you may be less likely to stick with it. If your spouse or other family members are finding the budget too limiting, you may want to give each person an amount to spend as he or she sees fit.

Your budget also should be flexible. The amount of money needed in each category may change over time. You might pay off your car loan, for example, or buy life insurance coverage. Reviewing your budget periodically will allow you to revise it to reflect new amounts or new categories.

Put what you've learned to work

Managing your money and taking control of your credit and debt can make a big difference in your financial future. When you're in charge of your finances, you're putting yourself in the best position to achieve all of your goals. Now that you have a better understanding of how to manage your money, limit your debt, and control your spending, it's time to get started. The "Your monthly cash flow" and "Paying off your credit cards" worksheets can be valuable tools in helping you accomplish your financial goals.

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2021-567605
Exp.: 10/31/2022, IS2105406