

Personal Finance Plan

Corporate Finance
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22 April 2014

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Introduction

I have created this financial plan to ensure the future of my personal financial security. This report contains plans detailing my aspirations and expectations one, three, and five years after my graduation. Through the input and guidance of *The Missing Semester* and other various resources, I began to compile an accurate depiction of my financial goals. With the book's realistic and motivating mantra which states, "make your saving dictate your spending, not the reverse," I was able to develop meaningful objectives which I am quite confident are attainable given my work ethic and perseverance (Kabala 8).

For reference, this report assumes a start date of April 2015, the month of my graduation from the University of Pittsburgh and the beginning of my post-graduate career. Pending a successful internship at PNC this summer, I would hope to get a job offer and begin working there after my senior year. Unsure of what my salary will be after graduation, I found the average salary of a college student upon graduation in 2013 and based my estimates and goals off of that number. *The Missing Semester* notes that financial independence is imperative (Kabala 65). I understand that I must not rely on anyone but myself, and I believe that I am capable of successfully completing each of my listed goals; however, I do understand that my objectives are subject to change as my professional and financial life develops.

I. One-Year Plan

- a. *Annual Salary* (Salary Survey **Exhibit 1**)
 - i. \$55,635 / year
 - 1. Based on 2013 average salary of college students majoring in business
 - ii. After tax income of approx. \$44,151/year (US Income **Exhibit 2**)
 - 1. Monthly income of \$3,679
- b. *Monthly Living Expenses* (Kabala 6) (**Exhibit 3**)
 - i. Housing (15% of income)
 - 1. As of January 2013, average rent in Pittsburgh is \$838/month (Grant)
 - 2. Share rent with at least one other roommate for at least year 1
 - a. \$419/month in rent
 - 3. Assume utilities of approximately \$125 per month, if split with roommate
 - ii. Transportation (7% of income)
 - 1. Currently own a 1999 Honda Accord
 - a. Approx. \$250/month in insurance, gas, and maintenance
 - 2. Plan on leasing a new car approximately 3-5 years into future
 - iii. Food (13% of income)
 - 1. Limit dining out to less than 2 times/week
 - 2. Approximately \$475/month
 - iv. Insurance (11% of income)
 - 1. Approximately \$400/month
 - v. Health care (6% of income)
 - 1. Approximately \$220/month
 - vi. Entertainment (6%)
 - 1. Approximately \$220/month
 - vii. Clothing & Services (5%)
 - 1. Approximately \$180/month
 - viii. Other (37% of income)
- c. *Student Loans*
 - i. I owe approximately \$40,000 in loans at an interest rate of around 6%
 - 1. For year 1, I will pay the minimum allowable monthly payment
 - a. This will allow me to create my emergency fund as quickly as possible
- d. *Security Savings*
 - i. Begin saving for 6-month emergency fund with enough cash in reserve to cover living expenses during short span of unemployment
 - ii. Entire savings of \$22,074 (6 months-worth) would require monthly savings of \$920/month for 2 years
 - 1. Accounts for 25% of monthly expenses

- e. *401(k) Plan*
 - i. Any leftover income will be split between a 401(k) plan and a Roth IRA
 - ii. Optimally, will contribute maximum amount that gains matching funds from employer (Kabala 39)
 - 1. Invest 401(k) assets in interest-bearing investments
- f. *Individual Retirement Fund (IRA)*
 - i. Roth IRA (Roth)
 - 1. I intend to be in a higher tax bracket during retirement, pending a successful career and fruitful investments
 - a. Qualified withdrawals are tax-free after age 59 ½
 - 2. Diversifies my retirement portfolio (401(k) Plans)
 - a. 401(k) plan is tax deferred, so while withdrawals from those savings will be taxed, withdrawals from Roth will not
 - 3. May continue contributions after age 70 ½
 - 4. No mandatory lifetime withdrawals
 - a. Penalty free withdrawals before age 59 ½ for first time home purchase or if permanently disabled
 - ii. Contribute what is left of the 7-10% of monthly income remaining after student loan payments and 401(k) contributions to IRA
- g. *Credit Card*
 - i. "Responsible use of a credit card can be a good way to establish your credit history...and credit cards can provide a good source of emergency funds should you need them" (Kabala 19).
 - 1. Pay off credit card balance in full each month
 - 2. Avoid using credit to pay off credit
 - 3. If can't pay full balance, pay as much as I can

II. Three-Year Plan

- a. *Job Progression*
 - i. I intend to have established a well-developed skill set within my field
 - ii. I would hope that by the 3-year benchmark; my salary will have increased, hopefully by at least 10%
 - b. *Student Loans*
 - i. Begin paying more than the minimum monthly payment
 - 1. Contribute approximately 25% of monthly income, or \$920/month
 - c. *Retirement Funding*
 - i. Continue to contribute as much pay as possible into 401(k) and Roth IRA
 - 1. With 6 months of security savings accumulated, 12-15% of pay can be divided between each
 - 2. Still contributing the maximum amount to 401(k) that is matched by the company
 - d. *Mutual Fund Investment*
 - i. Contingent upon a bonus in any of the past three years, I would like to begin investing in a mutual fund
 - ii. For example, could invest in Vanguard Total Stock Market Index Fund (VTSMX) (Vanguard)
 - 1. Tracks the US Broad Market Index (Dogu)
 - a. Represents 99.5% of total market capitalization of all US common stocks regularly traded on NY and American Stock Exchanges, and the Nasdaq
 - i. Wider range of stocks than Vanguard S&P
 - 1. Greater diversification due to inclusion of 20% more small cap stocks (Zoll)
 - a. Greater volatility, but greater potential performance
 - b. 0.17% expense ratio (Vanguard)
 - c. Minimum investment of \$3,000 (Vanguard)
 - d. See **Exhibit 4** for growth (US)
 - e. See **Exhibit 5** for average annual performance
- e. *Preparation for Mortgage*
 - i. With any luck, I will have a bit of money to begin saving towards my mortgage down-payment
 - 1. Legitimate savings and thought about home design/location will occur closer to my 5-year benchmark

III. Five-Year Plan

- a. *Job Performance*
 - i. Would like to have refined expertise within my field
 - ii. Expect an increase in salary of at least 10-20% of original salary
 - iii. Perhaps have been promoted or being considered for promotion by now
- b. *401(k) Contributions*
 - i. Continue matching company's contribution to plan
 - ii. Begin increasing payments until eventually contributing maximum \$17,500 yearly tax-deductible contributions (401(k) Plans)
- c. *Roth IRA*
 - i. Continue contributions until reaching maximum yearly contribution of \$5,500 (Roth)
- d. *Mortgage*
 - i. Begin the process of applying for mortgage and designing home
 - 1. Should have begun saving for down payment by now
- e. *Car*
 - i. If I have not yet done so, either purchase or lease a used car
 - 1. If leased, I will be sure to pay each monthly payment in full, on time, to ensure a solid credit score
- f. *Investments*
 - i. After monitoring my mutual fund for two years, I would like to have enough money to begin investing on my own
 - 1. I would assume that my knowledge of the market will be substantial enough to allow me to confidently compile a successful portfolio
- g. *Advanced Degree*
 - i. Intend to eventually earn my Master of Business Administration (MBA) and/or my Juris Doctor (JD)
 - ii. Plan to work for a few years before attending a graduate school
 - 1. "Let your career determine your advanced degree, not the reverse" (Kabala 33)
 - 2. Potentially have graduate school paid for by my employer

Appendix

Exhibit 1

| Broad Category | 2013 Average Salary | 2012 Average Salary | Percent Change |
|------------------------------|---------------------|---------------------|----------------|
| Business | \$55,635 | \$51,541 | 7.9% |
| Communications | \$43,835 | \$42,286 | 3.7% |
| Computer Science | \$58,547 | \$60,038 | -2.5% |
| Education | \$40,337 | \$39,080 | 3.2% |
| Engineering | \$62,062 | \$60,639 | 2.3% |
| Humanities & Social Sciences | \$37,791 | \$36,824 | 2.6% |
| Math & Sciences | \$42,731 | \$42,355 | 0.9% |
| Overall | \$45,327 | \$44,259 | 2.4% |

Source: September 2013 *Salary Survey*, National Association of Colleges and Employers

Exhibit 2

| <p>Salary: 55635</p> <p>Monthly: 0 @ 1.5</p> <p>Overtime: 0 @ 2</p> <p>Filing Status: Single</p> <p>No. Dependents: 0</p> <p>Other Monthly Deductions: \$</p> <p>Calculate</p> | <table border="1"> <thead> <tr> <th></th> <th>Yearly</th> <th>Monthly</th> <th>Weekly</th> <th>Daily</th> </tr> </thead> <tbody> <tr> <td>Gross income</td> <td>\$ 55,635.00</td> <td>\$ 4,636.25</td> <td>\$ 1,069.90</td> <td>\$ 213.98</td> </tr> <tr> <td>Deductions</td> <td>\$ 0.00</td> <td>\$ 0.00</td> <td>\$ 0.00</td> <td>\$ 0.00</td> </tr> <tr> <td>Taxable income</td> <td>\$ 45,485.00</td> <td>\$ 3,790.42</td> <td>\$ 874.71</td> <td>\$ 174.94</td> </tr> <tr> <td>Federal Income Tax</td> <td>\$ 7,227.50</td> <td>\$ 602.29</td> <td>\$ 138.99</td> <td>\$ 27.80</td> </tr> <tr> <td>Alternative Minimum Tax</td> <td>\$ 0.00</td> <td>\$ 0.00</td> <td>\$ 0.00</td> <td>\$ 0.00</td> </tr> <tr> <td>Social Security</td> <td>\$ 4,256.08</td> <td>\$ 354.67</td> <td>\$ 81.85</td> <td>\$ 16.37</td> </tr> <tr> <td>Take Home</td> <td>\$ 33,001.42</td> <td>\$ 2,750.46</td> <td>\$ 652.67</td> <td>\$ 130.53</td> </tr> </tbody> </table> <p>View results: <input checked="" type="checkbox"/> Yearly <input checked="" type="checkbox"/> Monthly <input type="checkbox"/> 4-weekly <input type="checkbox"/> 2-weekly <input checked="" type="checkbox"/> Weekly <input checked="" type="checkbox"/> Daily</p> <p>Tax year: 2014</p> <p>Daily results based on a 5-day week</p> | | Yearly | Monthly | Weekly | Daily | Gross income | \$ 55,635.00 | \$ 4,636.25 | \$ 1,069.90 | \$ 213.98 | Deductions | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | Taxable income | \$ 45,485.00 | \$ 3,790.42 | \$ 874.71 | \$ 174.94 | Federal Income Tax | \$ 7,227.50 | \$ 602.29 | \$ 138.99 | \$ 27.80 | Alternative Minimum Tax | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | Social Security | \$ 4,256.08 | \$ 354.67 | \$ 81.85 | \$ 16.37 | Take Home | \$ 33,001.42 | \$ 2,750.46 | \$ 652.67 | \$ 130.53 |
|---|---|--------------------|------------------|------------------|--------|-------|--------------|--------------|-------------|-------------|-----------|------------|---------|---------|---------|---------|----------------|--------------|-------------|-----------|-----------|--------------------|-------------|-----------|-----------|----------|-------------------------|---------|---------|---------|---------|-----------------|-------------|-----------|----------|----------|------------------|---------------------|--------------------|------------------|------------------|
| | Yearly | Monthly | Weekly | Daily | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross income | \$ 55,635.00 | \$ 4,636.25 | \$ 1,069.90 | \$ 213.98 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deductions | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Take Home | \$ 33,001.42 | \$ 2,750.46 | \$ 652.67 | \$ 130.53 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Exhibit 3

Monthly Living Expenses

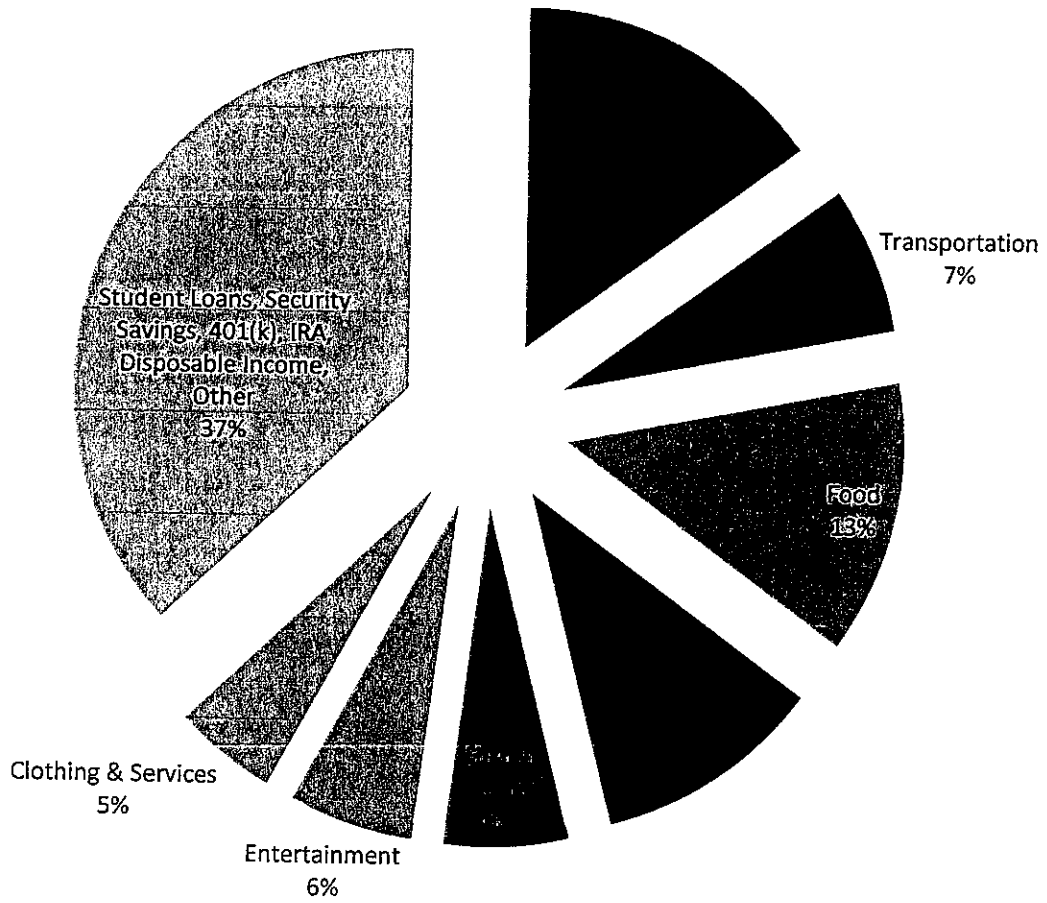


Exhibit 4

Hypothetical Growth of \$10,000

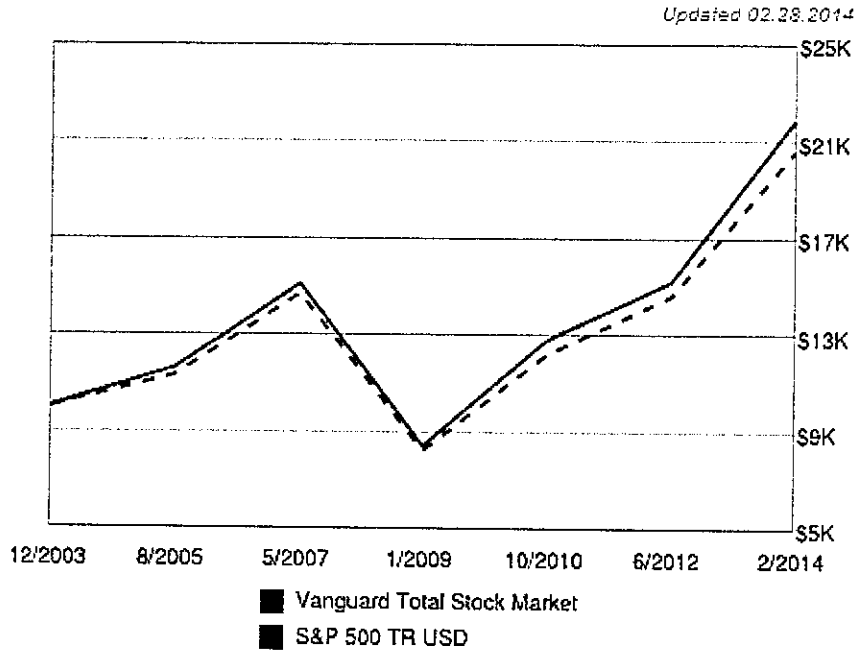
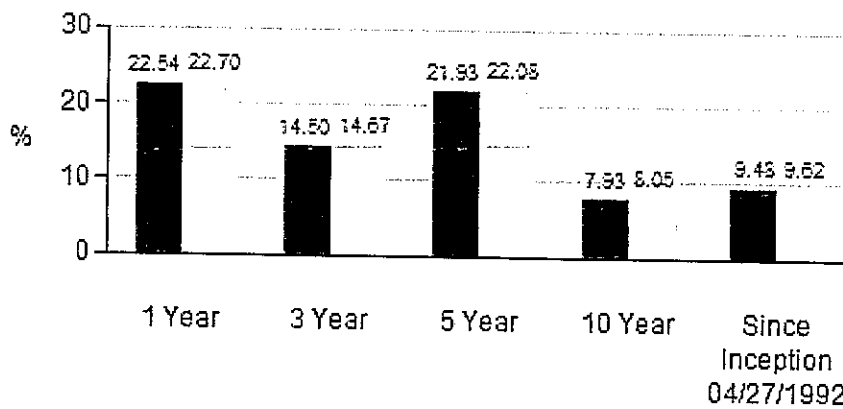


Exhibit 5

Average annual performance
As of 03/31/2014

☉ Quarter-end | Month-end
View as table



■ Total Stock Mkt Idx Inv
□ Spliced Total Stock Market Index** (Benchmark)

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