**Money Unscripted | Financial literacy: What we wish we had learned in school**

I don't think people ask the hairy scary questions.
Having conversations at home around money, that was not-- that was not a thing.
There's nothing to ever be embarrassed about.
How did you budget and save?
I didn't.
[LAUGHTER]
Every little bit counts.
None of it has been easy. There's been a lot of hard work.
Do you feel proud?
Incredibly proud about my accomplishments and proud about the journey itself.
[MUSIC PLAYING]

Welcome to Money Unscripted, a podcast from Fidelity Investments. We're sharing your stories, talking about what's possible for your life, and of course, your money. I'm Ally Donnelly. Do you ever feel like everyone else has it all figured out? Spoiler, they don't.
Today, we're talking financial literacy, a mouthful, but really, it's getting to the heart of the money basics that can help set us all up for success, like budgeting, saving, investing, and strategies for tackling that debt. I love this next story. It's about a teacher who, like so many of us, never talked about money as a kid so didn't learn those basics until later in life. He'd say he's still learning, aren't we all? But you'll see all the work he's done to build that financial foundation is paying off.
We got to start wrapping up. We have class in three minutes. Let's go. Let's go. Let's go. Folks can open up their laptops.
Steeve Joazard is a seventh-grade English teacher and Dean at the Epiphany School in Boston, serving families from economically disadvantaged homes.
The school has the motto of never giving up on a child. And so that child can grow into 34-year-old man with two kids and the school is still around and supporting and making sure that person is successful. Some of these images work really well.

Steeve just described himself. You see, he's a teacher at Epiphany but a graduate too. The son of hard working Haitian immigrants, he knows what it's like to struggle. My parents had to work a lot in order to afford a little. And you know, I think about being in high school and getting off from football practice and not having had enough money, or enough to buy lunch at school and coming home to figure out, OK, is my mom home? Has she cooked a meal?

Up until that point, he had only seen money or lack of it as a barrier. But when his parents scraped and saved enough to move out of public housing and into the first house of their own, he saw money as possibility. We had a backyard. It was on a dead end street and so it just felt really freeing. And I love that feeling. And I knew that was something that I wanted.

Wanted, but that dream of home ownership would take a while. Bring me back to your 20s. How did you budget and save?

Yeah. So I didn't.

[LAUGHTER]

Then Steeve got his job at Epiphany. He met his wife, Melissa, and they got a life-changing opportunity, a one bedroom staff apartment, rent free. That's a huge stressor off.

Yeah. Yeah. It was such a great opportunity, financially. We would have stayed there forever, you know, and saved. But we wanted to start a family together and that just wasn't going to be the place for it. Mommy's home!

He gives a lot of credit to Melissa for setting them on a path of intense budgeting and saving to try and reach their goals. We were just really mindful of taking both our salaries and thinking about, OK, what do we need and what do we spend together?

Steeve took classes, watched videos, read, everything he could to learn more about his finances and how to manage them.

Like this.

And he took what he'd learned and the savings from living in staff housing and they bought their first home.

We ended up landing on a two family house because of the financial opportunities that presented us.

As they raised their two beautiful girls, they bought a single family, keeping the multi-family as an income property. Do you feel like you've achieved financial freedom?
No. No. Not at all. A lot of the decisions we've made, it's for the long-term. And the long-term is, we're not even close to that.
What are some stressors?
Debt. It's a lot of debt. It's nice to say that you own two homes, but we don't really, you know?
[LAUGHTER]

There are two mortgages that have to be paid. Think about my college loans, child care, credit card bills, that is something that we're working on. I think that the more that debt is reduced, the more we move to financial freedom. Somebody watching this could say, well, he got free housing for two and a half years. He had it easy. I don't have that. I don't have family money to buy me a house.
None of it has been easy. There are ways in which that I've been really lucky. And I definitely want to acknowledge that. But there's been a lot of hard work with that luck as well.
So knowing where you've been, what you've been through, and where you are now, what would you tell your younger self, or one of your students?
I think about my students. I think about one student, in particular, he didn't see home ownership being something that he could have access to. And so I think about, for me, I was able to see it with my parents. But I think that for younger Steeve, even before my parents purchased the home and then for my students is that there are ways in which you can achieve things that you don't immediately see.
Do you feel proud?
Incredibly.
Why?
I am setting things up for my children. And it's just really nice thinking about my two girls. And I love seeing them run up and down the stairs of our house now that is significantly bigger than any space that I had as a kid.
And you did that.
Yeah.

Oh, so sweet. Like Steeve, we all have goals. So maybe it's saving for a home or paying down that credit card debt or student loans, or maybe it's just getting by. But how do we get there? So we're going to cover a lot of ground today, from budgeting and savings, to managing debt, to investing 101. And here to help us is Fidelity's, Kelly Lannan. She helps people engage with their finances, more like so many of us do here at Fidelity. Hey, Kelly. Thanks.
Hi, Ally, thanks for having me. I'm so excited. It was great to hear about Steeve too.
Yeah, he's awesome.
Wonderful.
So just like Steeve, getting to those goals, I know you like to start people out with budgeting. Why? And I got to say, just the word can turn-- people be like, I don't want anything to do with that.
Yeah, so I think that's the first step. People hear that word and you just cringed, I feel like you just probably said it. And people listening in are probably like, oh gosh, we're going to talk about budgeting. But really, you know how I like to think about budgeting, is it's like a plan. It's a plan for your money. And your money touches every aspect of your life.
And Ally, think about how many times you've planned today. You probably planned what you were going to wear. You're probably planning what you're going to do over the weekend.
I'm already planning what the heck my kids are going to eat for dinner later today. So think about how many times we plan throughout the course of the day. And that's not intimidating by any means, that's just what we have to do. So don't we think it's equally as important to start to establish a plan when it comes to your money?
OK. So walk us through what a good budget looks like.
Yeah, so I think before we even look into what a good budget looks like I always urge people to take a step back try to get an understanding of what's coming in and really what I mean by that is how much you're getting paid, whether you're getting paid weekly, bi-weekly, monthly, really have an understanding of what's coming in. And that's after taxes. Uncle Sam gets his first.
And then once you have a good understanding of that, then understanding what's coming out. And that's really how I first look at my budget. That actually can dictate

any spending that happens. And then I look at my money. And how I really view my money is bucketed in four specific categories. The first is those essential expenses, the things we can't live without. The things we need to spend money on or we're going to get kicked out of our house, rent, mortgage payments, money for groceries--

Daycare.

Money for-- exactly, daycare. We should do a whole episode on that. So daycare, the essential expenses, the things you have to spend money on each and every month, each and every week, whatever that might be. And then I look at the non-essential expenses, the discretionary expenses. Those are the things that could we maybe live without some of those? Of course, but those are also the things that make us happy. And why do we work so hard? You want to spend money on the things that make you happy.

And then I look at those longer term things that I have in the horizon, whether that's saving for something like retirement, or saving for a house or a car one day. And then the shorter term things, something like an emergency fund, which I'm sure we'll get into that a little bit later today, or emergency savings. Or maybe going on a vacation in a couple months.

It's interesting because you talk about budgeting. And for so many, it feels like a chore. But then you talked about enjoying your money. So how is that a tool for getting to do that?

Yeah, I think that's a really good question. When you start to make that budget, when you start to have that plan, it starts to bring you a little bit of flexibility and really understanding where your money's going. And I don't think it has to be a scary thing. Just spend a few minutes every day jotting down some things in your phone, jotting down your plan for your money, having an understanding of a plan for your money. And then come back to it time to time.

It doesn't have to be a big chore. But while you're sitting there, whether you're watching TV or you're waiting for your kid to go on that potty, I'm in potty training, let me tell you, go back and check on that plan. And then you have a better understanding. And then you'll feel a little bit more comfortable of knowing where your money's going and spending it on those things that make you happy.

Lots of good easy apps too. You talked about knowing what you make, your take home pay after taxes. But what if it's not predictable, you're getting paid different amounts each month?

Yeah, that's a great question, especially because-- and I see this in my work, especially with our younger generation, next generation, but really it spans the generation. A lot of folks have a side hustle. A lot of folks work in the gig economy and so they don't have that consistent pay month over month, week over week, whatever it is. So you know what I recommend is take a look at your pay over a specific time period, let's say month.

Take a look at what you're averaging. Let's say you're averaging about $2,000 to $5,000, we'll just use rough terms. I would plan your budget based upon that $2,000, based upon the lower amount, and really use that as the understanding of what's coming in.

If you do the lower amount, chances are you're going to be making more than that, which is great. But then you have a little access spending money. You've baked a little flexibility in your budget so you don't have to worry each and every month, oh my goodness, I'm going to go over and go over again. So that's just a little small tip that I like to recommend to folks who maybe have more of that gig worker, and they're getting paid a little bit more inconsistently.

Yeah, that makes sense. I know there's no one size fits all budget, but do you have some good guidelines of what it should look like?

So how I like to think of budgeting is through really general guidelines. So the majority of your money-- OK, the majority of your money coming in after taxes, that should really be earmarked towards those essential expenses, the things that you can live without, the things that you consistently have to pay off every week, every month, whatever that is.

So the biggest percentage of your money should go towards that. And then we go down to the next bucket, smaller percentage, make sure it's not too high, is a discretionary spending. Those are the things that, yeah, could you live without? But it's also the things that make you happy. The nice pair of shoes, the trip with your family. You want to make sure that you have a certain percentage allocated to that. And

Finally, we have your emergency fund. A smaller percentage would go to your emergency savings. I think we're going to talk about that in a little bit. But you always want to make sure that you have money saved aside in case of an emergency.

What about retirement? Yeah, good question. You know, first things first, if you're someone who has access to a workplace retirement account, either 401(k), if you're in for profit sector, or a 403B, like Steeve, who's a teacher or someone who works in a non-for-profit sector, hospitals, for example, are a good example of that. That is a workplace retirement account. And step one would be to take advantage of that.

Take advantage of that and make sure you're either opting in or do not opt out if you're already opted in through your workplace. And that is a terrific way of your employer saying, hey, I like you, Ally, I like you Kelly, I want you to retire one day and we're going to help you to do that.

Another thing that a lot of employers do, and this is something I actually learned when I started to work at Fidelity is that they offer something called a match. So let's give an example. Let's say your employer has a 3% match. What this is saying that if you are also contributing 3% of your paycheck into your workplace retirement account, let's say it's a 401(k), your employer will also match up to that 3% into your workplace retirement account as well. And honestly, it's like free money.

And what do you say to people who say, hey, that's 3% I can't miss out of my paycheck?

So that's a great question. And I know that many people feel that way. The biggest thing that I would say is to automate it. Automatically set it to the 3% coming out of each and every paycheck.

Set it aside for yourself, get that out of the way and candidly, you won't even miss the money. One thing just to add, Ally because I think there's probably some listeners out there who are like, I don't have access to a workplace retirement account, and that's OK too. Because we also have something called individual retirement account, IRAs out there.

A Roth IRA or a traditional IRA, the difference between the two is how we treat them from a tax perspective. But those are also accounts that if you don't have access to a workplace retirement account, you can actually open that on your own. And that is

also an option for everyone out there listening who might be thinking that themselves.
And that stays with you for life?
It does. Yes, it does. And something else on both of those notes, someone said this to me when I started working at Fidelity, when I opened-- had that 401(k). If you are investing for your retirement, if you're putting money aside for your future, you are an investor. You might not think it, you might not believe it, but you are an investor. And you should take pride in that and that should be something that helps build your confidence that you're really making your money work a little harder for you.
Yeah, it's a great, great call out, just hearing that title feels good.
Yeah.
OK. So I tamed the beast. I've created this budget. How often do I need to revisit it?
Yes. And so like I said, it's something to check into here and there. It's something to check into if you go through a life event or a life stage, such as having children, getting married, buying a house, switching jobs, taking on a new opportunity which may pay more or pay less, these are all really good times to take a step back and make sure that the budget you've set up is working for you.
Yeah. Yeah. I mean, it puts a lot of focus on the positive. But honestly, obviously you know, things go wrong. Cars break down, a dentist bill. I lose my job. How do I start thinking about an emergency savings plan or an emergency fund and how much I should put into it?
This is a great question because this is really core, in my opinion, to any sort of budget. Often, this is one of the first things that we ask anyone when they're really starting to think about their money for the first time. Do you have money set aside in case the unexpected happens? Because we know that it does. And so when I think of emergency savings and what works really well for me is that I keep it in a separate account.
I keep it separate from the rest of my money, my spending bucket, if you will. I have a separate bucket for it that I keep to the side. Now that works fairly well for me. It's obviously different for everyone else, but the other tool that I do and I've already actually referenced it once today is automate. I automatically have a set amount

coming out of my paycheck each and every time I get paid that automatically goes to my emergency fund.
Similar to my comment about retirement, I set it. I don't have to think about it. I'm not going to miss that money, it's going in there. And the thing is, it doesn't have to be big. We have certain guidelines. For example, we always recommend set a buffer of about $1,000.
Start there, set about $1,000 just in case. But start with 20 bucks every paycheck. Start with 20 bucks every other paycheck. If you're just doing this consistently, no matter what the amount, it will pay off in the long-term.
And for those who might be a little bit further along in their journey, because again, we love guidelines here at Fidelity, you have the $1,000, you're being pretty consistent by putting the money into that account. Make sure that you take a step back and roughly try to cover about three to six months of your essential expenses. That's another guideline. I know some people like to really hear that, well, after $1,000, what do I do next? And that's also what we say.
Three to six months for a lot of people feels very out of reach. What would you say?
Yeah, so I, again, go back, every little bit counts. Every little bit counts. It doesn't matter how small. If you were being consistent, if you're putting money set aside, if you automate, that will add up in the long-term.
OK. You talked about retirement accounts, so we've covered a little bit. But dig in a little deeper. So beyond budgeting and saving, what if I want to start investing? And I love that you said if you have a retirement account, that you're already an investor.
Yes, let's reiterate that. I think that's a really important thing. But the way I think of investing is putting a little muscle behind your savings. But it's a way of actually putting your money, not in a traditional bank account, not in a high yield savings account, but putting into the stock market and candidly letting compounding take over.
Albert Einstein, smart guy, he said that was literally the eighth wonder of the world. That is one of the most powerful things. And that's actually getting returns on top of your returns and letting your money build interest. So it's a really powerful thing and why investing for something, playing the long game is a really important thing everyone should know.

You think about the language of investing, and it seems like, oh, that's for other people so boil it down for us. Give us some straight up definitions. Let's just define what investing is.
Yeah, so investing is putting your money aside and investing in assets, such as stocks, bonds, mutual funds, ETFs, the list goes on.
How do I pick those? That seems daunting. That seems like a lot.
Yeah. I think first comes to first is that you have to take a step back and you have to understand, what are your goals? What are your goals? Are you looking more short-term? Are you looking more long-term? So that's always step number one. Step number two is actually understanding your risk tolerance. And what I mean by risk tolerance is how much are you willing to risk if the market goes up and down? Because it does.
The other thing too is that when you're investing it is a longer term game, it's for the longer term. And as a result, either because you're looking longer term, or we say this a lot to our younger customers, because you're young, you're able to weather the ebbs and flows of the stock market because you don't need that money for a while. And as you know, Ally, investing always involves risk. So we always want to make note of that when we're talking about that subject. So number one is the goals. Number two is really understanding what your risk tolerance is.
And number three is actually going and picking the investment options that might be right for you. A stock is you're actually investing in a company. And depending on how that company does, if they have a good or bad quarter, if your money is in that particular stock, it will go up and down. Stocks do carry a little bit more risk, just because it is unknown, but that could be an option.
A bond is something, it's basically like an IOU, where you're actually loaning money to a company or the government and what they're doing is that quarter of a quarter, you're getting a little bit of an interest payment back. And then when the bond expires, you actually get your money back in full. So that's another thing. And then cash actually is also an investment option too. So what we say about this is really understanding your goal, which is based on your time horizon, your risks. That can determine what you put in your portfolio.

And then you really just want to make sure that you have the proper asset allocation. If your time horizon is a little bit more out, maybe you'll have more stocks.
Asset allocation, Kell.
Yes, exactly, asset allocation. And that is basically, have you heard the term don't put all your eggs in one basket?
Yeah.
That's what it is.
You never want to have all your eggs in one particular investment option because if you drop your eggs, you can't eat breakfast. If you have everything in one option, you're just opening yourself up to more risk. So asset allocation, diversification is another term too. Those are usually used interchangeably. Asset allocation is really focused on those investment options, the stocks, bonds that we spoke about. Diversification, that's really focused on industry, the retail industry, the tech industry. And so what you want to do-- and honestly, regardless of age, regardless of risk factor, I recommend everyone, you just want to spread it out. Because if you have everything in one spot and something happens, you're just opening yourself up to more risk.
Yeah. Let's talk about the elephant in the room, debt management. Most Americans are dealing with some kind of debt, whether it's a mortgage or a car payment or a student loan debt, credit cards, credit card debt is the highest it's been in American history. So how do we start taking a bite of that apple?
Yeah, I think the first thing, and I don't always love to say this, but it's true, at one point in our lives, we will all find ourselves in debt. And how I look at debt is there's good debt and there's bad debt. Now let's also be very clear, even the good debt, I don't think it ever feels good.
It's still debt.
It's still debt, right? And debt causes stress. And so a lot of what we do here at Fidelity is try to educate people on how to handle their debt to alleviate some of that stress. Examples of good debt are student debt. You need to take on debt in order to put yourself through college, get the job you want one day. Another example is a mortgage payment. You're actually taking out a mortgage, a loan to purchase a

house to one day actually own an asset. And then you have the bad debt, especially credit card debt.

The credit card debt, if you have that, it can affect your credit score. Depending on what you want to do with your money, having a bad credit score can really be detrimental because it is the thing that can give you a good rate on your mortgage. Credit score, for better or worse, it's a report card. It's a report card. It's a score that people look at to understand if they can trust you with things, if they can trust you with money. So credit card debt bad debt.

Now, as I said before, it never necessarily feels good, even if it's good debt. And so there's really two methods that I often look at when I'm telling people or talking to people and educating them on what debt to pay off first. And we live in New England, Ally knows that. For everyone listening, we live in the New England area. So we're used to snow, for those listening who've never seen it. We're jealous.

I don't know why we live here sometimes. But they both have to deal with snow. So we have the snowball and avalanche. So snowball, what we look at there is balances. And typically, a strategy here is pay off and look at the lowest balances first and work your way through that. So write down all your debt. The lower balances, start with that. Once you pay that off, any money that was going to that first debt, put it towards the next lowest balance, and so on and so forth. So that's the snowball. Then we have avalanche. And this actually deals with interest rates. So for this one, you actually take a look at the interest rates. And the debt that you have with the higher interest rate, that's what you tackle first. So you tackle that one first. And once you pay that off, you put the money that you're putting towards that debt towards the next highest interest rate. And then you go down the list like that. So you really have to choose what works best for you.

But those are two strategies. Those are two options to really approach how you're paying down your debt. What we also lean into is kind of the Rule of Six. Any debt that has a 6% interest rate or more, typically, those are the debt you should tackle first before the other one. So if the two specific strategies don't work, you just want to something a little bit more simple, focus on the interest rates, rule of six. Anything that has 6% interest rate or more, possibly look at that one first.

As we wrap up, any final thoughts you want to leave people with?

Yeah, first of all, if you're listening to this today, first of all, kudos and thank you because that's a big step. Ally, I know we've talked about this, I don't think people talk about money enough. I don't think people ask the hairy scary questions. No one wants to feel dumb. No one wants to feel like, well everyone knows this except me. So I would just leave everyone who's listening in is talk about money, ask questions, find trusted people in your life, turn to podcasts like this that can help you work through these things. There's nothing to ever be embarrassed about because chances are if you have that question, a lot of people around you have the same question. And we just want everyone to get everything they want out of their life and money can help them do that. And our goal is to build the confidence to help you do just that.
Awesome. Kelly, thank you so much.
Thank you so much for having me. Really appreciate it. This has been great.
Thanks to Kelly and thanks to all of you for being here. If this conversation has motivated you to take more control of your money, check out our website. It's fidelity.com/moneyunscripted.
We have links on how to create that budget, strategies to pay off debt and save for your future. Be sure to Like, Follow, Share the podcast. And we'll see you next time on Money Unscripted. It's your life, get your money's worth.
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