

Building a strong financial foundation

Understanding and following a few basic steps can help improve how you handle your finances now, and down the road.





LET'S IMPROVE YOUR MONEY MANAGEMENT IN FOUR STEPS

Your financial plan is designed specifically for your life and goals, so no two plans are alike. In order for your plan to have the flexibility to change as your priorities do, it needs to be built on a solid foundation. Taken alongside some expert advice from your financial professional, this guide is designed to give you the information and tools you need to help you reach your financial goals.

- 1 Understand your cash flow
- 2 Protect your income, family, and assets
- 3 Develop a savings and investment plan
- 4 Create a strategy to manage your debt

In this guide, we'll address each of the four pieces needed to help you feel confident about your finances. We'll also show you how to manage your money so you can spend your life living now while also saving for the future.

PANDEMIC SAVINGS START TO DWINDLE

60% of U.S. adults say they've been able to build up their personal savings since the start of the pandemic. However, while savings levels remain high, they've dropped 15% from last year.

\$73k

2021 average amount of personal savings

\$62k

2022 average amount of personal savings

Source: Northwestern Mutual Planning & Progress Study, 2022 news.northwesternmutual.com/planning-and-progress-study-2022

1 UNDERSTAND YOUR CASH FLOW

How much money you have coming in and going out each month is known as your cash flow. The goal should always be to have positive cash flow, meaning you spend less than you earn, and you have money left at the end of each month. If you always seem to come up short, we can help you make some improvements.

If you've ever gotten to the end of the month and wondered, "Where did all my money go?" you're not alone. Give yourself a financial checkup by filling out a simple budget worksheet like the one included in this guide.



Tips to control your cash flow

1. **Save first.** Set aside a realistic, meaningful amount of your current income to help fund your financial future.
2. **Track all your expenses.** Use either our budget worksheet each month or the Cash Flow tool in our mobile app.
3. **Pay with cash or a debit card.** Only use a credit card if you consistently pay off the entire balance every month.
4. **Make tough choices.** Reaching long-term goals may mean adjusting your cash flow — by finding more affordable housing, reducing expenses, or finding additional sources of income.



Ways you can break your budget

If you find yourself short of cash at the end of the month, these are common culprits:

1. **Impulse buying.** Making unplanned purchases with a credit card can add up quickly.
2. **Forgotten bills.** Occasional expenses, such as a car registration fee or new glasses, may sneak up on you.
3. **No emergency fund.** Unexpected car maintenance or medical expenses can happen at any time and can have a big impact on your monthly finances.
4. **Underestimating expenses.** If you think you spend about \$100 a week on food, but it's really about \$175 a week with dining out, your budget will never balance.

How should I allocate my spending?

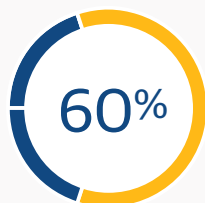
Once you have an idea of where your money is going, compare your spending to the guidelines below to gauge whether you're on track. It could vary depending on where you live and your situation. When possible, aim for lower percentages in all spending categories. That will allow you to maximize your savings and investments and pay down debt faster.

HERE'S A SIMPLE GUIDE FOR YOUR BUDGET



20% or more of your income should be saved or invested

Always pay yourself first. That means save first, spend later – not the other way around. When you save first, you start to build a more secure financial future for yourself and your family. For greater financial flexibility down the road, save in several different types of accounts.



60% of your take-home pay should go to essential expenses

Keep in mind, portions of the essential expenses are estimates. They may vary but should total roughly 60% of your take-home pay.

- Housing (no more than 30%)
- Transportation (no more than 10%)
- Groceries (about 5-10%)
- Children (10-15%)
- Health care (up to 5%)
- Insurance coverage
- Other debt payments



20% of your take-home pay can be used for discretionary expenses

- Household and personal items, such as entertainment, clothing, dining out, and personal care
- Extra payments on your debts if paying them down is a priority

Remember, money management and financial planning are lifelong processes. Your cash flow situation will change over time, so with each life event (job change, marriage, children, etc.) you should re-examine your cash flow and adjust accordingly.

Make a monthly budget

Your monthly budget is an important part of your personalized plan. To help your advisor create a strategy just for you, share it when you're finished. This is the first step to planning for the life you want.

Fixed Expenses

HOUSING		OUT-OF-POCKET HEALTH CARE/INSURANCE		TRANSPORTATION	
Mortgage/Rent	\$ _____	Health Insurance	\$ _____	Auto Payment(s)	\$ _____
Property Taxes	\$ _____	Life Insurance	\$ _____	Auto Insurance	\$ _____
Home Maintenance	\$ _____	Disability Income Insurance	\$ _____	Gas/Parking/Tolls	\$ _____
Homeowner's/ Renter's Insurance	\$ _____	Long-term Care Insurance	\$ _____	Maintenance/License	\$ _____
Utilities (electric, gas, water, etc.)	\$ _____	Copayments/Coinsurance	\$ _____	Public Transportation	\$ _____
Phone/Cable/Internet	\$ _____	Prescription Medication	\$ _____	_____	\$ _____
Other	\$ _____	Other	\$ _____	Other	_____
Total Housing	\$ _____	Total Health Care/Insurance	\$ _____	Total Transportation	\$ _____
HOUSEHOLD/PERSONAL		PERSONAL LOANS		RAISING CHILDREN	
Groceries	\$ _____	Student Loans	\$ _____	Dependent Care/ Child Care	\$ _____
Personal Care & Fitness	\$ _____	Credit Card Debt	\$ _____	Education/School	\$ _____
Dry Cleaning	\$ _____	Other	\$ _____	Other	\$ _____
Other	\$ _____				
Total Household/Personal	\$ _____	Total Personal Loans	\$ _____	Total Raising Children	\$ _____
					FIXED EXPENSES SUBTOTAL
					\$ _____

Discretionary Spending

Dining Out	\$ _____
Monthly/Annual Subscriptions	\$ _____
Shopping	\$ _____
Entertainment	\$ _____
Vacations	\$ _____
Gifts	\$ _____
Charitable Contributions	\$ _____
Other	\$ _____
DISCRETIONARY SPENDING SUBTOTAL	\$ _____

Savings and Investment

Emergency Fund	\$ _____
College Savings	\$ _____
Big Purchase Savings	\$ _____
Retirement Savings	\$ _____
Other	\$ _____
SAVINGS AND INVESTMENT SUBTOTAL	\$ _____

FIXED EXPENSES SUBTOTAL	\$ _____
DISCRETIONARY SPENDING SUBTOTAL	+ \$ _____
SAVINGS AND INVESTMENT SUBTOTAL	+ \$ _____
TOTAL MONTHLY BUDGET	\$ _____

NET MONTHLY INCOME	\$ _____
Enter what you take home each month.	
TOTAL MONTHLY BUDGET	- \$ _____
MONTHLY SURPLUS/SHORTAGE	\$ _____

2 PROTECT YOUR FAMILY, INCOME, AND ASSETS

At Northwestern Mutual, managing risk is a key part of our financial planning philosophy. Insurance can help protect the life you've worked hard to build and give you (and your family) more financial flexibility when it's needed most. These key components of your plan can help protect your income and assets:

- **Life insurance.** If you were to die prematurely, you'd want to make sure your loved ones will be protected financially now and in the future. Knowing that their expenses will be covered after you're gone can help put you at ease.
- **Disability insurance.** Even if you're young and healthy, an injury or sudden medical event could leave you unable to work for an extended period. In fact, one in four people will be disabled at some point in their careers, and 50% of the time that disability is permanent.¹ All too often, employer-provided disability insurance, Social Security Disability, or Worker's Compensation aren't enough. Supplementing these benefits with your own disability insurance can help keep your financial plan on track, even if you're out of work for a while.
- **Property and casualty insurance.** Sometimes called property liability insurance, property casualty will replace an item or fix it — home or auto policies are good examples. But a property casualty policy also protects your assets if you're ever found legally liable for injuring someone or damaging their property. And if another person injures you and doesn't have the proper type or amount of insurance in place, your policy will cover your medical bills, loss of wages, legal fees, and pain and suffering.



3 DEVELOP A SAVINGS AND INVESTMENT PLAN

Both savings (setting aside money for short-term use) and investments (giving your money the potential to grow) are key elements of a sound financial plan. While they have different objectives, they should reinforce each other to help you reach your goals now and later on. You'll need strategies for both saving and investing throughout your life. Here's how to get started:



- **Establish an emergency fund.** You never know when an unexpected cost might pop up. Set aside enough money to cover three to six months of expenses in an account that allows you to access your cash within a few days, like a traditional savings account.
- **Contribute to your 401(k).** If your job offers a retirement plan with an employer match, invest at least up to the point where the employer match ends (if possible). If you don't have a 401(k) through work, you can start your own IRA using automatic deductions from your paycheck.

Saving and investing by design

Depending on your goals and time horizon, you might choose to save or invest in different ways. It's important to diversify your assets to provide the greatest financial flexibility. Here are some of the most common places to put your money:

SAVING	
Traditional Savings Account	Offered through a bank, it will pay only a small amount of interest. For money you can't afford to lose and may need to access quickly.
Money Market Bank Account	Like a checking account, but pays a small amount of interest. For money you can't afford to lose and may need to access quickly.
Certificate of Deposit (CD)	A bank or credit union account that pays a pre-determined amount of interest over a set time span, such as six months or a year. There is usually a penalty for early withdrawal. A good place for money you can't afford to lose but won't need for an emergency.

INVESTING	
Stocks	Ownership of a share of a company's assets and earnings. Stocks are typically sold through a brokerage account. Stocks offer higher potential returns, but they're higher risk, so you could lose money.
Bonds	A loan to a company or government payable by a specific date, usually with interest. It's still possible to lose money.
Mutual Funds	Stocks, bonds, and other investments that are bundled together and sold to investors. Most funds are developed for a specific financial objective. Different mutual funds may offer higher risk for potential of higher return, some offer lower risk and may have lower return. It is possible to lose money.
529 Account	A college savings plan, named for the section of the IRS code where its unique features and tax treatment are described. A 529 is a tax-advantaged way to save for education.

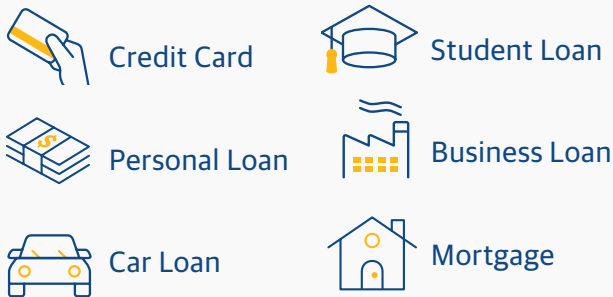
RETIREMENT FUNDING*	
401(k)	Offered by employers, money goes in before taxes and grows tax deferred but will be taxed when you withdraw in retirement. 403(b) and 457 plans operate similarly.
Roth 401(k)	Similar to a 401(k). The key difference is that contributions are made with after-tax dollars. Withdrawals in retirement are tax free.
Individual Retirement Account (IRA)	Allows you to make tax-deductible contributions. Investments will grow tax deferred and be taxed when withdrawn in retirement. There is an annual cap on tax deductions.
Roth IRA	Allows you to contribute money that has already been taxed. It will then grow tax free and be withdrawn tax free when you retire.

*To avoid tax penalties, it's best to wait until at least age 59½ to withdraw from your retirement accounts. All have yearly contribution limits.

4 CREATE A STRATEGY TO REDUCE YOUR DEBT

All debt can be managed – it just requires you to understand and prioritize the different kinds of debt. Sometimes you'll hear people talk about "good" and "bad" debt. All debt requires you to pay interest, but some debt comes with a built-in advantage. For example, a student loan is an investment in your or your children's future; the debt on a home loan is secured by the value of the house, so you're building equity over time. But even a home mortgage can represent bad debt if you're buying a home that's beyond your means. And remember – credit card debt is always considered bad debt.

WHICH TYPES OF DEBT DO YOU HAVE?



Here are a few simple steps to help you tackle your debt strategically:

1. Make a list of all your debts.
2. See if you can lower any of your interest rates. You may be able to lower the rate on your credit cards by simply asking, especially if you have a good credit score.
3. Determine how much extra money you can put toward your debt. How much of your take-home pay can you comfortably put toward debt without sacrificing other important goals like building up your emergency fund or saving for retirement?
4. Pay high-interest debt first. Make minimum monthly payments on all your debts. Then devote any extra money toward paying off the highest-interest-rate debt first.
5. Keep any future debt in check.

IS IT A BARGAIN IF YOU CAN'T PAY OFF YOUR CREDIT CARD EACH MONTH?

Big-screen TV price paying cash



Big-screen TV price with minimum credit card payments*



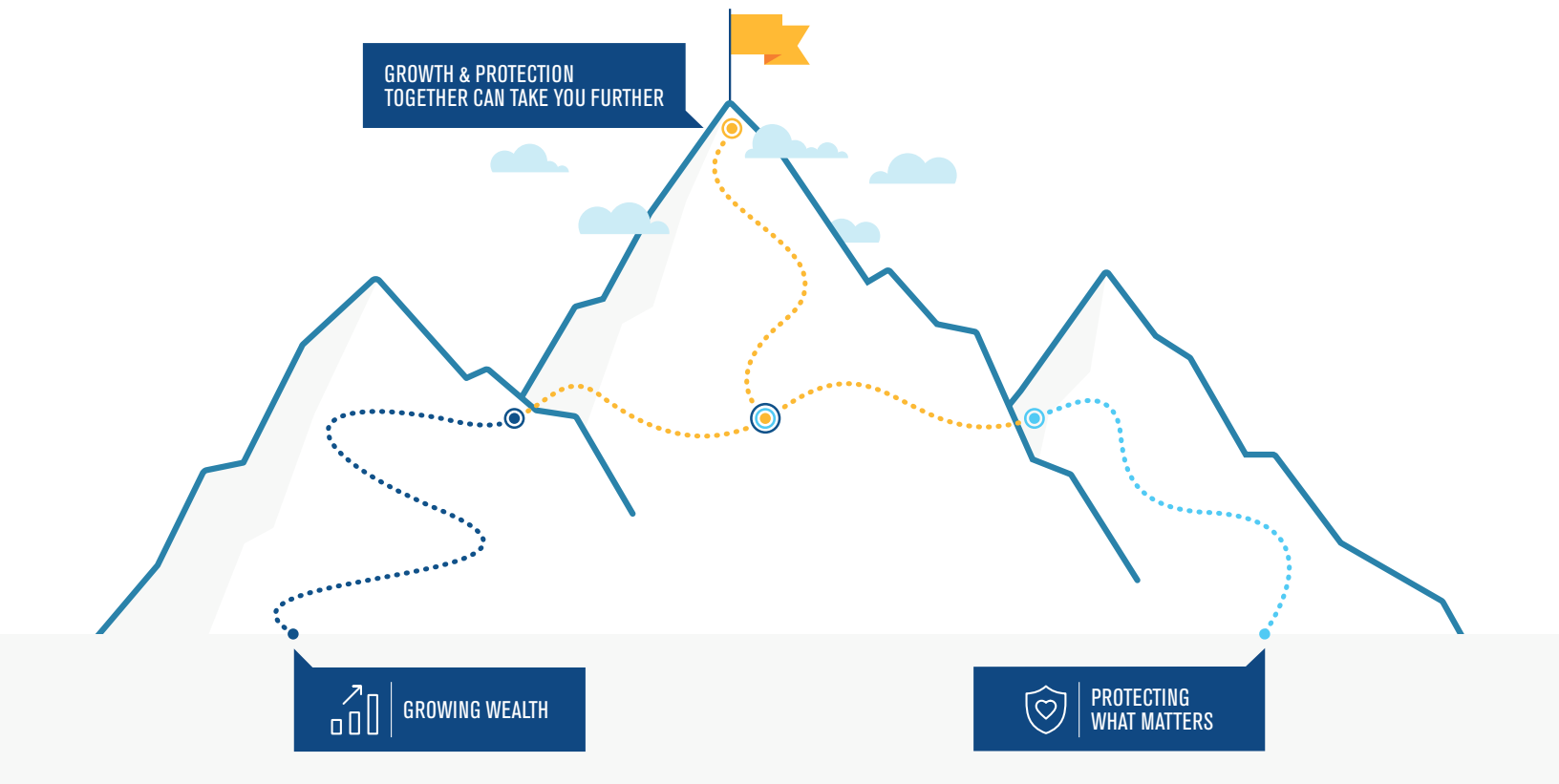
It will take 59 months (almost 5 years) to pay off the TV. Better to put aside a little each month, considering it a part of your monthly expenses, until you've saved enough to buy it.

*Based on a 21% interest rate

Remember, there could be times when paying off debt may not be the best move. For example, you may want to invest more when the market is up instead of paying down a low-interest-rate mortgage. This is when working closely with a financial advisor can help. He or she can evaluate your situation and recommend the strategies that best fit your life and goals.

REACH YOUR NEW LEVEL OF FINANCIAL CONFIDENCE WITH A FINANCIAL PLAN

Now that you've begun building a strong financial foundation, it's time to consider getting a financial plan. Having one personalized to you can help you reach all of your goals. Not only can we show you how to pay down debt, we can help you grow your money and protect everything you've worked so hard for, too – so your finances can take you even further.²



Our financial advisors will look at where you are today and where you want to go, tailoring your plan from a range of financial options designed to reinforce each other to get you there. That way, you'll have the confidence to live the way you want now – and down the road. Here's what Northwestern Mutual can help you do:

- Save for retirement
- Grow your investments
- Protect your loved ones
- Protect your income
- Manage your debt
- Secure lifetime income

THE NORTHWESTERN MUTUAL DIFFERENCE

As a mutual company, we report to you, not Wall Street. And that means when we do well, you do well, too. We lead the industry in giving back to our policyowners — issuing dividends every year since 1872.

Here are some more reasons why over 4.9 million people put their trust in us:

A++

AAA, Aaa, and AA+: we've earned the highest financial strength ratings awarded to life insurers from all four major rating agencies³

No. 1

FORTUNE[®] named us one of the World's Most Admired Companies, ranking us #1 among life insurers⁴

97%

The percentage of our clients who stay with us year over year⁵



Let's talk about how you can strengthen your financial plan.



Northwestern Mutual is helping to speed up the search for a cure to childhood cancer and to support families battling the disease. [Learn more about how we're helping at NMFoundation.com.](https://www.nmfoundation.com)



¹ 2013 Annual Statistical Report on the Social Security Disability Insurance Program.

² No investment strategy can guarantee a profit or protect against loss. All investments carry some level of risk, including loss of principal.

³ Northwestern Mutual continues to have the highest financial strength ratings awarded to any U.S. life insurer by all four of the major rating agencies: A.M. Best Company, A++ (highest), June 2022; Fitch Ratings, AAA (highest), August 2022; Moody's Investors Service, Aaa (highest), May 2022; S&P Global Ratings, AA+ (second highest), July 2022. Third-party ratings are subject to change. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.

⁴ Ranked for "Financial Soundness," "Quality of Products/Services," and "Use of Corporate Assets." To determine the best-regarded companies in more than 50 industries, Fortune asked executives, directors, and analysts to rate enterprises in their own industry on nine criteria. Details at fortune.com.

⁵ Loyalty is based on Northwestern Mutual client data.

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