Financial Basics

Mary has a little jar
And in it she drops change
Twenty years from now, she hopes
It'll be in the ten-thousand dollar range

What will be covered in Session I

Financial Planning Lessons

1. Understanding Your Relationship to Money
2. Money Values and Goals
3. Testing Your Financial Fitness
4. Managing Household Cash Flow
5. Calculating Your Net Worth
6. Tips for Smarter Borrowing
7. Financial Record Keeping

Terms to Learn *(bolded in the text)*

Cash flow	Fixed expenses	Net worth
Compound interest	Flexible expenses	Periodic expenses
Debt-to-income ratio	Liquidity	Spending plan
Emergency fund	Money "baggage"	Values

Exercises

1. Money Coat of Arms
2. Emotional Uses of Money
3. Ten Things I Love to Do
4. Evaluate Your Financial Goals
5. Financial Fitness Quiz
6. Checklist of Expenses
7. Household Expenses: Week by Week
8. Anticipated Occasional Expenses in Next 12 Months
9. Spending Plan Worksheet
10. Finding Money to Save Worksheet
11. Net Worth Statement
12. Credit Card Comparison Worksheet
13. Credit File Request Form
14. Credit Card Safety Record
15. How Organized Are You?
16. A Record of Important Family Papers

From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
Available from PALS Publishing, www.palspublishing.com/moneytalk, Ph. 607-255-7654

Understanding Your Relationship to Money

People's feelings about money are often a stronger influence on their spending and saving decisions than the amount of money they earn. People often use money in connection with a number of emotions and motivations, including security, power, control, status, and success, and to build self-esteem. Understanding these emotions is a key to successful financial management.

We are also influenced by "money messages" in society (e.g., advertising). People receive money messages from a variety of places. Sources of money messages include parents, religion, media, friends, and financial institutions.

"Money baggage." Harmful thoughts and beliefs about money that can hold people back from achieving personal and/or financial success.

Examples of negative money baggage include:

- "My net worth determines my self worth,"
- "It's just too complicated,"
- "Live for today—the future doesn't matter," and
- "The man should make all financial decisions."

Understanding your money baggage is the first step in making changes to improve your finances. To better understand your money baggage, reflect on what you've heard about money from society, your parents, your friends, and/or your spouse. Also, what do you say about money? What does money mean to you?

A number of books have been written about money personalities, which is another way of looking at factors that influence financial decisions. *Money Harmony,* by Olivia Mellan, for example, classifies money personalities as hoarder, spender, money monk, avoider, and amasser.

Another way to probe your money decisions, values, and financial goals is to ask yourself some tough questions:

- What is the meaning and purpose of your life?
- What would you do if you found out you had less than 10 years to live?
- How do you want to be remembered?

Many people take stock of their lives at some point, often in midlife or after a "wake-up call" such as cancer or a heart attack. Very often the things we like to do best cost little or nothing. A life assessment process includes weighing needs and wants and pausing to enjoy simple pleasures. As the old saying goes, the best things in life are often free.

Use the *Money Coat of Arms* (Exercise I-1) on page 4 to better understand your relationship with money. In the five sections of the coat of arms, describe the following items:

- one thing you do well with money
- one thing you don't do well with money
- your money motto (e.g., "happiness is positive cash flow")
- a way that you enjoy spending money
- a way that you have a hard time spending money

Use the *Emotional Uses of Money* worksheet (Exercise I-2) on page 5 to better understand the underlying emotions associated with your spending decisions.

Making Positive Financial Changes

Why do some women achieve their financial goals while others, who earn the same income or more, fail to make progress? Probably dozens of answers to this question exist, including a person's age, income, employment, marital status, and access to employer savings plans (e.g., 401(k)s and credit unions). Another explanation for financial goal achievement is personal qualities, such as:

- a positive attitude,
- a desire to achieve a specific goal,
- focus and self-control,
- financial knowledge, and
- specific actions taken (e.g., investing $3,000 annually in an IRA) to reach a financial goal (e.g., accumulate $100,000 for retirement). In other words, "where there's a will, there's a way."

Achieving financial goals is not just a matter of money. It's about an internal desire to improve one's finances and "walk the walk" with specific practices (e.g., enrolling in a 401(k) plan) that move you forward. According to a popular theory, behavioral change occurs in defined stages, based on a person's readiness to change.

At the precontemplation stage of change, people may not even be aware that a problem (e.g., high debt load) exists or that adjustments should be made in their lives. At the contemplation stage, they gain knowledge about alternative behaviors and begin to understand ways to change (e.g., reduce spending). At the preparation stage, people commit to make a change and gain required skills (e.g., read a book on personal finance). At the action stage, they "take the plunge" and actually change their behavior. In the maintenance stage, people work to sustain their change and reap the rewards of their efforts (e.g., increased bank balance).

In the precontemplation and contemplation stages, a key process is consciousness-raising, or raised awareness. An example of this process is that news stories about the benefits of saving small dollar amounts on a regular basis might cause a person to think, "I should save some money." Commitment takes place during the preparation stage of change. An example of commitment is, "I will save $25 per paycheck." At the action stage of change, countering is an important process. This means substituting a healthy response (e.g., saving $3 per day) for an unhealthy one (e.g., spending $3 per day on lottery tickets).

Another action stage change process is environmental control. This means restructuring your environment to reduce the probability of a problem-causing event. An example is signing up for a mutual fund automatic savings plan (e.g., $50 per month) so that part of your income can be invested in fund shares before it is spent. Another is having your paycheck directly deposited at a bank.

Personal change is difficult, and it doesn't happen just because we want it to. Most successful changes require persistence, positive thoughts, and a strong support system. Believe in yourself and your ability to make changes that will improve your finances. Even small amounts of savings add up over time.

Remember this phrase: "If it is to be, it's up to me." You, alone, control your financial destiny. When facing financial challenges, having a positive attitude is important. You can give up and say "I'll never save enough money," or you can resolve to take action to improve your life. People who think positively generally experience greater success than "naysayers" because they believe that there's a connection between what they do today and what will happen in the future.

Today is the first day of the rest of your financial life. Make the most of it.

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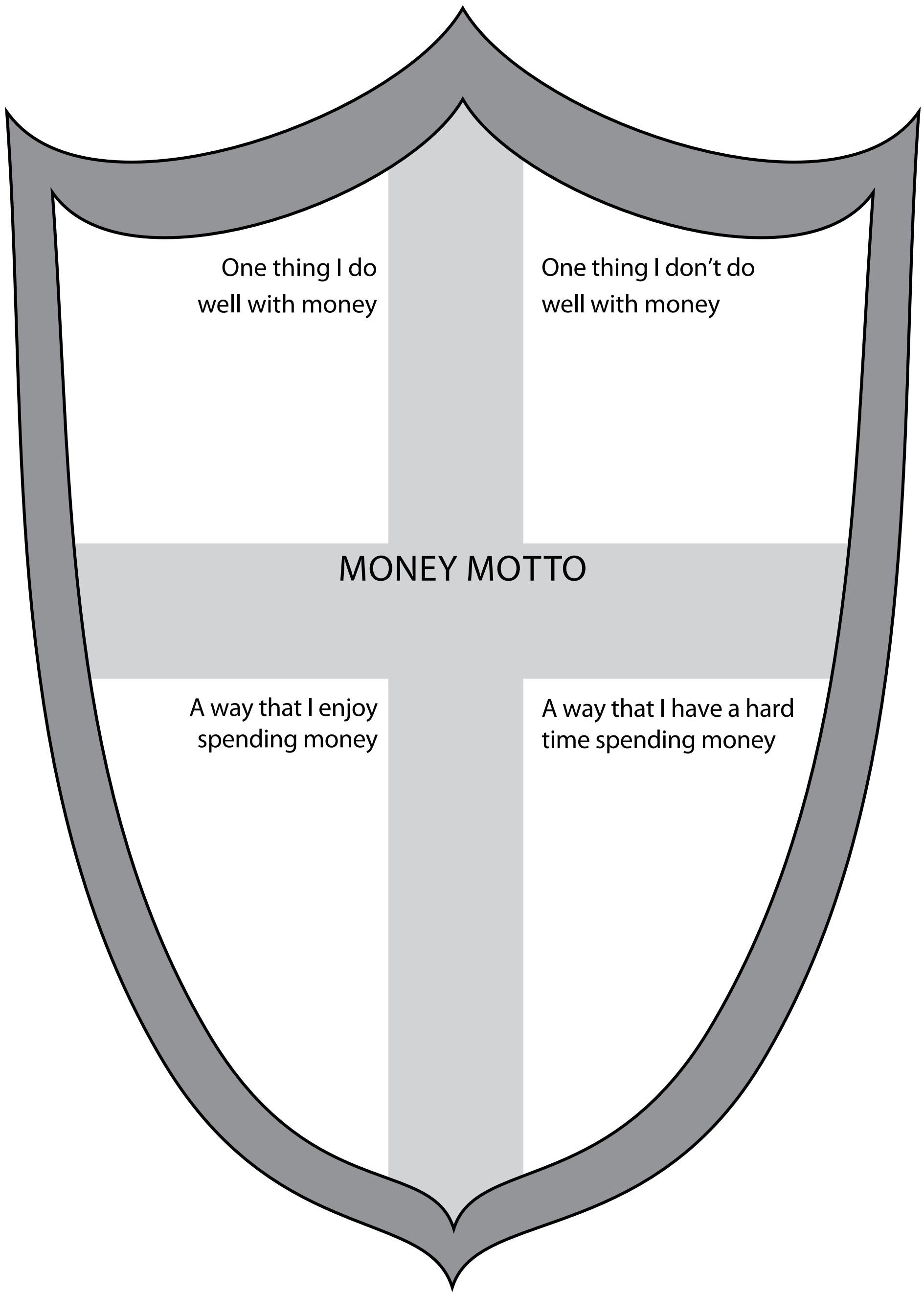
EXERCISE I-1

Money Coat of Arms

Fill in each section of the Money Coat of Arms with the information that is requested.



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EXERCISE I-2

Emotional Uses of Money

Money is powerful. It can bring out the best and worst in people. So, understanding money's influence can help a family gain control over their finances. Insight into emotional uses of money can help a family handle sensitive issues when they arise. Some emotional uses are positive—security, comfort, freedom, sharing, etc. Some can also work against a family—fear, greed, overspending, control, etc.

Answer the following true-false questions about your use of money. Be honest!

1.	T	F	I buy things I don't want or need because they are on sale.
2.	T	F	I feel anxious and defensive when asked about my finances.
3.	T	F	I can never have enough money saved to feel secure.
4.	T	F	I buy things I don't need or want because they are "in."
5.	T	F	I overspend regularly on "extras."
6.	T	F	I often insist on paying more than my share at a restaurant or on a group gift.
7.	T	F	I spend money freely, even foolishly, on others, but seldom on myself.
8.	T	F	I feel "dumb" if I pay more for something than a neighbor did.
9.	T	F	I don't trust others in my family to spend money wisely.
10.	T	F	If I earn the money, I think I should have the right to decide how it is spent.
11.	T	F	If someone in my family acts selfish in spending our money on him/herself, I feel I have the right to do the same.

Analysis: If you answered *true* to any of questions 1–3, you may feel insecure concerning money. Money provides a form of security, but not the only one. What reasons other than money or material possessions might be causing insecurity? Think about it.

Did you answer *true* to either 4 or 5? Then you may use money for *status*. Money sometimes reflects the values of our friends rather than our own. What are your values?

True answers to questions 6, 7, or 8 might mean that you use money in ways that reflect your low *self-esteem*. Spending on others does not win the affections of family members, friends, or coworkers. Your spending is your business. It has nothing to do with the spending of your neighbors. You cannot buy *self-esteem*. If yours is low, seek help through reading, therapy, or changes in habits or actions, but not through money.

If you answered *true* to questions 9 and/or 10, you may use money to *control* others in the family. In two-earner families, his/her money divisions can cause resentment. Not involving family members often results in lack of cooperation. A dictator may secure obedience, but not love. Which do you want from your family?

A true answer to question 11 may indicate that money is used for *retaliation*, to get back at someone. This often causes fairness to become such an issue that it blocks love and affection. If you need to disagree, do so without using money as your weapon.

Adapted from: Dollar, P. (1991). *Family Communications about Money.* University of Georgia Cooperative Extension, Athens, GA.

Money Values and Goals

People generally spend money in ways that are consistent with their values. Values are also the building blocks of financial goals. They are the foundations on which people base their dreams and plans. A family that values education, for example, will probably make college savings a high priority. Another family that values religion might tithe a certain portion of its income.

> ***Values.*** Beliefs about what is important in a person's life.

Examples of values that affect personal finances are family togetherness, image and personal appearance, community service/helping others, independence, religion/faith, security, happiness, job success, close friendships, and education/knowledge.

What are your values as they relate to your use of time and money? Complete ***Ten Things I Love to Do*** (Exercise I-3) on page 7 to gain insight into your time and money use decisions. This exercise will help you decide whether you can refocus some of your activities to save money while still enjoying yourself.

Do you have a financial goal, or is it a dream? A dream is vague, such as "I want to send my child to a good college," or "I want to be comfortable in retirement." These are dreams. A goal is specific, achievable, written, and includes dates for beginning and ending. For example, "In 4 years, we will save the $20,000 we need for the down payment on a townhouse," or "By the time my child is 18, I will have $40,000 in savings to pay part of his or her college tuition."

Setting financial goals is like planning your next vacation. To develop both a financial plan and a travel itinerary, you must know your starting point and destination and the time frame and cost of the "journey." What is your financial itinerary? Have you made specific plans to reach your financial goals?

Financial goals should be "SMART" goals. SMART is an acronym for **s**pecific, **m**easurable, **a**ttainable, **r**ealistic, and **t**ime-related. In other words, financial goals should have a definite outcome and deadline and be within reach, based upon personal income and assets.

How do you set a financial goal? Write the goal down, answering the questions who, what, when, where, and why. Since this is ***your*** goal, begin your goal statement with "I/We." State exactly what you want to accomplish (e.g., "I will save $5,000 by the end of next year"). Include specific dates and dollar amounts in your goal statement. Then state exactly what you will do to achieve the goal and how you will do it (e.g., save 10% of pay annually in a 401(k) plan or save $2,000 annually in an IRA). Repeat this process until you've developed goal statements for each of your financial goals.

Keep rewriting your goals until they are specific and achievable. Tell select people about your goals so that they can hold you accountable and support your goals. Track your progress and, if necessary, make changes to your goals as personal circumstances or economic conditions change. Use the ***Evaluate Your Financial Goals*** worksheet (Exercise I-4) on page 8 to describe your financial goals along with a date and cost and the amount of savings required to achieve them.

Some financial goals, such as "make a list of debts" and "calculate net worth" require only time. Many financial goals, however, such as "put $3,000 per year into an IRA" or "buy a $15,000 'new used' car in 5 years" require saving money. The more specific a financial goal, the easier it is to determine how much savings is required. You simply work backward to break a large goal into smaller pieces. For example, that $15,000 car in 5 years will require $3,000 in annual savings or about $58.00 weekly ($3,000 divided by 52).

Goals provide a framework for investment decisions and help narrow down your choices. For example, if you have a short-term goal, such as freshman-year college tuition in a year or a new car purchase in 3 years, you'll want to keep this money in cash assets (e.g., a money market mutual fund) so that there's no loss of principal. Equity investments such as stock (a security that represents a unit of ownership in a corporation) or growth mutual funds (a portfolio of stocks that is collectively owned by many investors and managed by a professional investment company) would be a poor choice due to the historical volatility of the stock market in short time frames.

On the other hand, if you have a long-term goal, such as college expenses for a newborn or retirement in 20 years, cash assets are a poor choice due to the risk of loss of purchasing power. Stocks or growth mutual funds would be better places to save for these long-term goals. We know from research by Ibbotson Associates (a Chicago investment research firm) that stocks are less volatile in longer time frames (a principle called time diversification) and provide the best historical return (gain or loss you receive from investing) of any asset class.

Several studies have shown a link between the act of planning and subsequent financial behavior. A survey sponsored by NationsBank and the Consumer Federation of America found that, no matter what their income, people with a plan save more money, save or invest in smarter ways, and feel better about their financial progress than those without a plan.

According to a recent Retirement Confidence Survey (RCS), workers who have done a retirement savings calculation have saved considerably more than those who have not. Thus, doing a retirement savings calculation appears to be related to changing saving behavior. Almost two-thirds (59%) of workers who calculated a retirement savings goal reported that they saved or invested more.

Bottom line: determine your financial goals before you spend or invest your money and know what you're investing for. A key to investment success is financial goal setting. Remember that ***people don't plan to fail, they fail to plan*** and set financial goals.

EXERCISE I-3

Ten Things I Love to Do

To help determine the things you value, list 10 things you love to do. After making your list, put a check mark by those activities that are free or inexpensive to do. Can you save money by spending more time doing free or less expensive things you love?

1. __________
2. __________
3. __________
4. __________
5. __________
6. __________
7. __________
8. __________
9. __________
10. __________

EXERCISE I-4

Evaluate Your Financial Goals

Use the worksheet below to list your financial goals and calculate the time and dollar amount required to achieve them. Be sure to categorize your goals according to the time frames suggested below. Review and update this worksheet periodically.

1 Goals	2 Approximate $ amount needed	3 Month and year needed	4 Number of months to save	5 Date to start saving	6 Monthly $ amount to save (col. 2 ÷ col. 4)
Short-term (less than 3 years)					
Intermediate-term (3–10 years)					
Long-term (more than 10 years)					

Date prepared _____/_____/_____

Starting an Emergency Fund

A financial goal that everyone should have is to establish some type of **emergency fund**. This is savings set aside specifically to meet emergencies or unanticipated bills or to cover monthly living expenses if your paycheck stops (e.g., unemployment). Too often people use credit cards or borrow from family members in an emergency because they don't have a savings account to fall back on when unexpected things happen. This just digs them further into debt when interest is charged on unpaid balances. Decide up front what constitutes an emergency so that money from the fund is not used for recurring expenses, such as birthdays.

Make establishing an emergency fund a priority. Fund it with approximately 3–6 months or more of living expenses or whatever gives you peace of mind. Whenever you withdraw from the emergency fund, pay yourself back based on a predetermined schedule as you would any other bill. Discipline yourself to use this money only for real emergencies (e.g., car repairs, broken appliances, sickness, etc.).

Keep your emergency fund in a liquid savings product such as a money market mutual fund or short-term certificate of deposit (CD). A **liquid** investment can be converted quickly to cash without loss of value. To get started, save even $5 or $10 per paycheck or whatever you can afford. Another way to start an emergency fund is to save $1 per day, plus pocket change. At the end of each month, you should have about $50 saved, or $600 after 1 year.

Testing Your Financial Fitness

Do you get an annual physical each year from your doctor and periodic screening tests such as mammograms and Pap tests? You should. Frequent monitoring of your physical health and early detection of health problems, such as cancer or heart disease, is very important. Likewise, a "financial checkup" is also advisable to:

- monitor progress from year to year (e.g., increased savings)
- identify problems (e.g., a high debt-to-income ratio)
- identify solutions to problems (e.g., reducing household expenses)
- set and monitor financial goals (e.g., a child's college education)
- identify needed action (e.g., purchasing additional life insurance)

Use the Financial Fitness Quiz (Exercise I-5) on pages 11–12 to assess your financial health. At the end of the quiz is a description of how to interpret your score. Questions that you mark with a 1 (never) or 2 (seldom) indicate areas for improvement.

Want to get your finances in order? Below are a dozen financial management strategies to consider to improve your financial fitness. Many of these will be discussed in depth later in this session.

Do a savings analysis. Determine how much money is needed to fund future financial goals. For example, if you need $10,000 for a new car in 4 years, you'll need to save $2,500 per year or $96.15 ($2,500 divided by 26) per biweekly paycheck. Break down large goals into smaller doable pieces.

"Pay yourself first." Implement automated savings methods such as direct deposit of your paycheck, payroll deductions for a credit union or 401(k) plan, and automatic investment plans offered by mutual funds or company direct stock purchase programs. For automatic investment plans, your bank checking or savings account is debited monthly for the amount of share purchases.

Debt analysis. Determine the percentage of household take-home pay spent on consumer debt such as credit cards, car loans, and student loans. If your consumer debt ratio exceeds 15–20% of take-home pay, this is an indication that you are becoming overextended (e.g., $350 of monthly consumer debt with a $2,200 monthly net income = a 16% debt ratio [{350 ÷ 2,200} x 100]).

Accelerate debt repayment. One way to accelerate debt repayment is to obtain a PowerPay© analysis (see www.powerpay.org). PowerPay© will help you save money by allocating the monthly payment from debts that are repaid to remaining creditors.

Develop a spending plan. A spending plan (a.k.a., budget) is a written plan for spending and saving money. Basically, you total all income sources and all monthly expenses, including 1⁄12 of the annual cost of occasional expenses such as quarterly property taxes, then adjust the figures and your spending habits until income = expenses + savings.

Organize your financial records. Make a list of important financial data, such as names and addresses of financial advisors and insurance agents, locations of important papers, and bank and investment account information.

Calculate your net worth. Net worth is household assets minus debts. Try to calculate your net worth annually to measure your financial progress.

Determine your marginal tax bracket (the rate you pay on the last (highest) dollar of personal or household (if married) earnings)—Then use this information to make investing decisions (e.g., tax-exempt municipal bonds versus taxable corporate bonds). Marginal tax bracket information can be found on page 109 and on the Web site http://njaes.rutgers.edu/money/taxinfo/.

Check your credit file. Request a report annually from the three major credit bureaus. If you find erroneous information, request a correction in writing.

Periodically review insurance coverage and cover "large loss" risks. Examples of "big ticket" risks that can devastate a household's finances are liability, major damage to a home, and the loss of a breadwinner's income due to death or disability.

Maximize tax-deferred investing opportunities. Examples of ways to reduce income tax are employer-sponsored tax-deferred retirement plans (e.g., 401(k)s and 403(b)s), IRAs, simplified employee pension plans (SEPs), and the long-term capital gains tax rate on investments held for more than 12 months.

Maintain and develop your earning ability. Often people increase their earning ability by taking college courses or other programs that improve job skills. Another recommended strategy is increasing your financial literacy through personal finance classes, publications, and Web sites.

EXERCISE I-5

Financial Fitness Quiz

Want to improve your personal finances? Start by taking this quiz to get an idea of how well you've managed your money so far. Choose the score that best describes your current financial management practices:

5 = always
4 = usually
3 = sometimes
2 = seldom
1 = never

When you're done, add up your scores for each of the 20 questions below. The summary at the end of the quiz tells how you're doing.

Financial Management

___ 1. I have a bank checking account (or credit union share draft account) with which to pay bills (write "5" for "yes" and "1" for "no" for this question).

___ 2. I have enough money each month to pay my rent/mortgage and other household expenses.

___ 3. I have enough money to pay for an emergency, such as a large car repair.

___ 4. I have written financial goals with a date and dollar cost (e.g., $10,000 for a car in four years).

___ 5. I have a written plan (budget) for spending and/or saving my money.

___ 6. I keep organized financial records and can find important documents easily.

___ 7. I know my federal marginal tax bracket (e.g., 15%, 25%).

___ 8. I calculate my net worth (assets minus debts) annually.

EXERCISE I-5

Financial Fitness Quiz

(continued)

Saving/Investing

___ 9. I save regularly for long-term financial goals, such as education for my children, a house, or retirement.

___ 10. I have money to cover at least 3 months of expenses set aside in a readily accessible account (e.g., money market mutual fund).

___ 11. I increase my savings when I receive a salary increase.

___ 12. I have a personal investment account for retirement (other than an employee pension).

___ 13. I have money spread across more than one type of investment (e.g., stocks, bonds, mutual funds, CDs).

___ 14. The after-tax yield of my savings and investments is greater than the rate of inflation.

Insurance & Estate Planning

___ 15. I have insurance to cover "big" unexpected expenses, such as a hospital bill or disability.

___ 16. I have a current will (write "5" for "yes" and "1" for "no" for this question).

Credit

___ 17. Less than half of 1 week's pay goes to my credit card revolving balances, student loans, and car payments.

___ 18. I pay credit card bills in full to avoid interest charges.

Shopping

___ 19. I comparison shop for major purchases by checking at least three sources.

___ 20. I avoid impulse purchases and don't use shopping as a form of recreation.

Scoring for the Financial Fitness Quiz is as follows:

0–20 points	You need lots of help, but don't despair. It's never too late to take action to improve your finances.
21–40 points	You are headed for financial difficulty. Now is the time to take action to reverse the trend.
41–60 points	You are doing a fair job of managing your finances and have taken some steps in the right direction.
61–80 points	You are doing a good job and are above average in managing your finances.
81–100 points	You are in excellent financial shape. Keep up the good work!

Note: Items that you scored with a 1, 2, or 3 indicate actions that you should consider taking in the future to improve your finances.

Managing Household Cash Flow

To get a handle on your household's cash flow, you need a spending plan.

In other words, you need to do a realistic side-by-side comparison of what you earn (income) and where the money goes (savings and household expenses). A spending plan provides direction for future financial decisions and indicates whether there is sufficient income with which to pay expenses.

> ***Cash flow.*** The relationship between household income and expenses.
> ***Spending plan.*** A plan for spending and saving money.

If this sounds like "budgeting," you're right. "Spending plan" is a fancy way of saying "budget." Still, there are subtle differences between the two. First, "spending plan" is a more positive term because it includes the word "spending." Most people like to spend money. The word "plan" also emphasizes control of your money, rather than letting your money control you. The word "budget," on the other hand, is often perceived negatively (e.g., deprivation) and discourages people from taking financial control of their lives.

Spending plans provide a number of advantages.

- They help determine where money is currently being spent.
- They force you to make spending choices and prioritize needs and wants.
- They help you live within your income.
- They can include savings for "big ticket" financial goals such as a new car or retirement.
- They can reduce worrying, out-of-control feelings, and family fights about money.

Although not nearly as "sexy" a topic as some "hot" new investment, spending plans are the foundation of financial planning. Why? Unless money is left over after covering household expenses, little can be done in other areas of personal finance, such as investments or retirement planning.

To prepare a spending plan, it is first necessary to know what you earn and spend. To do this, track your household income and expenses for a full month. Start with gross income so that taxes are viewed as an "expense." Try to choose a "typical" month rather than the December holiday season, in which people tend to spend more than usual. Household earnings include net (after-tax) income from a job, benefit payments (e.g., Social Security, pension, unemployment, disability), child support or alimony, public assistance, self-employment income, and other income sources (e.g., rental income). Add all income from family members who contribute to household expenses together to obtain a total of monthly household net income.

Now total your monthly expenses for an entire typical month. Using your spending records as a guide, make a list of **fixed expenses** such as housing, car loan payments, and insurance premiums that don't vary over time. Next, make a list of **flexible expenses** such as food, transportation, and gifts that vary from month to month. Finally, make a list of **periodic expenses** (e.g., holiday expenses, quarterly property taxes) that come around only once or a few times a year and divide the annual cost by 12 to arrive at a monthly cost. For example, $4,000 of annual property taxes would cost $333 monthly.

Be sure to set aside money to meet financial goals (e.g., $100 deposited monthly into a mutual fund) as a monthly "expense." If you lack an emergency fund of 3 months' expenses, include a "line item" in your spending plan to gradually build up your reserves. If you have access to "automated" savings plans, such as a 401(k), sign up today. Even small amounts of savings (e.g., $15 per paycheck) will grow substantially over time.

Four worksheets are included in this unit to help you manage your money. Use the *Checklist of Expenses* (Exercise I-6) on page 16 as you track your spending so that you don't forget any expense categories. Use the *Household Expenses: Week by Week* (Exercise I-7) worksheet on page 17 to record your actual expenses. Use the *Anticipated Occasional Expenses in Next 12 Months* (Exercise I-8) worksheet on page 18 to determine the annual and monthly cost of nonmonthly expenses (e.g., vacation, quarterly insurance premiums, and property taxes). Use the *Spending Plan Worksheet* (Exercise I-9) on pages 19–20 to total income and expenses and adjust the numbers so that income equals expenses, including savings.

Earn more than you spend and you have positive cash flow. Spend more than you earn and you have negative cash flow. You have three ways to manage cash flow and make it a positive number: earn more, spend less, or do a little of both.

Ways to Increase Household Income

- Adjust tax withholding (e.g., a $1,000 refund is equal to an additional $83 per month).
- Add a second job or work overtime.
- Start a home-based business or freelance your talents and skills.
- Increase/collect child support and alimony. (Note: This may require court intervention.)
- Access public benefits (e.g., low-cost health screenings and pet rabies clinics).
- Sell assets (e.g., sell a car, have a garage sale).
- Upgrade job skills through additional education or training.
- Charge adult children room and board.
- Use tax benefits not previously used (e.g., earned income tax credit).
- Collect money previously loaned to others.
- Establish a barter network (e.g., child care cooperative).
- House share or take in a compatible boarder or roommate.

Painless Ways to Reduce Expenses

Literally hundreds of books are available about ways to live on less. Many are organized by spending category. Below are some ideas to consider.

Housing

- Consider refinancing an existing mortgage if savings exceed the up-front cost (e.g., points).
- Ask your mortgage lender to cancel private mortgage insurance when home equity reaches 20% of home value (e.g., $20,000 of equity on a $100,000 home).
- Purchase appliances with a high energy efficiency ratio.

Food

- Combine coupons with store sales and/or product rebates for additional savings.
- Buy in bulk when items are on sale or in season (e.g., produce and canned goods).
- Buy store or generic brands if they have the cheapest price.

Utilities

- Use e-mail in lieu of phone calls to reduce telephone charges.
- Sign up for a long-distance telephone savings plan and/or generous "anytime" minutes cell phone plan, or use inexpensive prepaid phone cards.
- Eliminate add-on features to phone service (e.g., caller ID).
- Compare the cost of cable television and satellite service.
- Close off unused rooms in the winter to conserve heat.
- Insulate your hot water heater and reduce the temperature to 120°F.

Transportation

- Keep a car as long as possible to reduce depreciation and financing costs.
- Consider buying a late model used car instead of a new one.

- Purchase airline tickets during fare wars and check whether staying over a Saturday night will lower your fare.

Clothing

- Shop department store clearance sales, consignment stores, factory outlets, and thrift shops for clothing discounts.
- Buy washable clothing to avoid dry cleaning costs.
- Build a wardrobe around just a few dominant colors or neutrals to enhance "mixing and matching" possibilities.

Financial Management

- Switch to credit cards with a low annual percentage rate (APR) if you carry a balance from one month to the next.
- Increase collision and comprehensive deductibles and drop these coverages completely on older cars. (Note: This assumes adequate emergency reserves to pay for damage.)
- Inquire about insurance discounts (e.g., for buying all property insurance from the same company).
- Reorder checks and deposit slips from a mail order firm instead of a bank.

Other

- Eliminate expenses for services you rarely use, possibly including health club dues, call waiting, and premium cable channels.
- Trim gambling expenses (e.g., lottery tickets, casino trips, and bingo) and expensive habits (e.g., smoking and morning coffee stops).
- Always inquire about discounts, especially when traveling and paying cash for items.

Spending plans should balance the "bottom line." It may take several attempts to get income and expense numbers to balance. This is perfectly normal. (Hint: Do your spending plan in ***pencil***). As you make expense adjustments, try to make small cuts in several categories rather than large cuts in only one or two areas. Psychologically, this is more appealing because there is less feeling of deprivation. Use the ***Finding Money to Save Worksheet*** (Exercise I-10) on page 21 to identify strategies.

Many U.S. households lack a spending plan (budget). This is unfortunate. A spending plan is a tool for improved financial planning, not a financial "straight-jacket." If you don't currently have a spending plan in place, start today.

Methods of Keeping Spending Plan Records

Two keys to developing a successful spending plan are using realistic figures for each expense category (e.g., food) and developing an easily manageable record-keeping system. Looking for an easy way to manage your finances? Below are descriptions of six commonly used spending plan record-keeping methods.

Computer programs. Many people use personal finance software or spreadsheet programs (e.g., Quicken and Microsoft Money) to keep income and expense records. Some of these programs print a summary of differences between planned and actual spending and provide a cumulative annual summary so you can see exactly where your money went for an entire year and the percentage of income spent in each expense category (e.g., mortgage, 35%). Of course, as with any computer program, the output is only as good as the numbers that are used. Otherwise, it's "garbage in, garbage out." Initially, it may take some time to set up records in a computer that will later save time and effort.

Envelope system. Many people also use envelopes as a spending plan tool. Every payday, they divide their money among envelopes for various expense categories. When an envelope is empty, spending in that category ends unless "transfers" are made (e.g., $50 from food envelope to utilities envelope). An advantage of the envelope system is easy access to money. Disadvantages are the possibility of loss or theft due to keeping money at home and lack of interest on savings.

Account system. Instead of placing money physically into envelopes, each paycheck is deposited into a bank or credit union account and divided "on paper"

EXERCISE I-6

Checklist of Expenses

Child/elder care
- ☐ Babysitter
- ☐ Day care
- ☐ Other

Clothing
- ☐ Cleaning & laundry
- ☐ Purchases
- ☐ School and work uniforms
- ☐ Other

Contributions
- ☐ Donations to charities
- ☐ Dues, union, etc.
- ☐ Educational institutions
- ☐ Religious institutions
- ☐ Other

Education
- ☐ Books, papers, & magazines
- ☐ Calculators
- ☐ Computer & software
- ☐ Seminars
- ☐ Tuition
- ☐ Other

Food
- ☐ Bakery & delivered goods
- ☐ Groceries & meats
- ☐ Lunches
- ☐ Milk
- ☐ Other

Gifts
- ☐ Anniversaries
- ☐ Birthdays
- ☐ Holidays
- ☐ Other

Medical expenses
- ☐ Dentist
- ☐ Doctor
- ☐ Prescriptions & over-the-counter medicine/vitamins
- ☐ Other

Housing
- ☐ Appliances/appliance repair
- ☐ Cable TV
- ☐ Electricity
- ☐ Furnishings
- ☐ Garbage removal
- ☐ Gas or oil
- ☐ Insurance
- ☐ Internet provider
- ☐ Property taxes
- ☐ Rent/mortgage payments
- ☐ Sewage disposal
- ☐ Telephone/cell phone
- ☐ Utilities
- ☐ Water
- ☐ Other

Home entertainment
- ☐ Food
- ☐ Supplies
- ☐ Other

Personal care
- ☐ Allowances
- ☐ Barber & beauty shop
- ☐ Manicures
- ☐ Toiletries
- ☐ Other

Recreation
- ☐ Beverages
- ☐ Clubs & sports
- ☐ Dining out
- ☐ Entertainment
- ☐ Movies & plays
- ☐ Parties
- ☐ Video/DVD rentals
- ☐ Other

Retirement savings
- ☐ Contributions to any other pension plan
- ☐ Contributions to IRAs
- ☐ Employer retirement plan

Savings
- ☐ Bank and savings & loan (S&L) accounts (saving accounts, CDs, money market accounts)
- ☐ Mutual funds
- ☐ Stocks & bonds
- ☐ Other

Taxes
- ☐ Income: federal, state, local
- ☐ Real estate

Transportation (private)
- ☐ Fuel
- ☐ Insurance
- ☐ License fees
- ☐ Maintenance & repairs
- ☐ Purchases
- ☐ Other

Transportation (public)
- ☐ Bus
- ☐ Plane
- ☐ Train
- ☐ Other

Insurance
- ☐ Auto
- ☐ Disability
- ☐ Health
- ☐ Life
- ☐ Property
- ☐ Other

☐ ***Vacations***

Miscellaneous
- ☐ Carpooling
- ☐ Gifts
- ☐ Personal expenses
- ☐ Pet expenses
- ☐ Postage
- ☐ Tobacco products and alcoholic beverages
- ☐ Other

EXERCISE I-7

Household Expenses: Week by Week

Household expense	Week of ____________	Week of ____________	Week of ____________	Week of ____________	Week of ____________
Allowance for children					
Beverages/snacks					
Child/elder care					
Clothing					
Contributions					
Education					
Entertainment					
Food at home					
Food eaten out					
Gifts					
Home furnishings					
Home maintenance					
Insurance					
Loan payments					
Personal care					
Rent/mortgage					
Savings					
Taxes					
Transportation					
Utilities					
Other: (list)					
____________________________					
____________________________					
Total					

Adapted from: Hogarth, J. (1991). *Take Control of Your Finances*. Cornell Cooperative Extension, Ithaca, NY.

EXERCISE I-8

Anticipated Occasional Expenses in Next 12 Months

Fill in the amounts of anticipated expenditures below as best you can. An example is provided. Some examples of occasional expenses are holidays and birthdays, school supplies, car license plates, insurance premiums, and property taxes paid directly to a local tax assessor.

Item	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Add Monthly Figures*	Divide by 12 for Average Monthly Amount**
Auto Insurance			$415						$415				$830	$69
Totals														

This example shows that $69 per month should be set aside to pay the auto insurance premium.

Example: * $415 + $415 = $830
** $830 ÷ 12 = $69

Adapted from: *Anticipated Occasional Expenditures in Next 12 Months*. Rutgers Cooperative Extension, New Jersey Agricultural Experiment Station. Rutgers, The State University of New Jersey, New Brunswick, NJ.

EXERCISE I-9

Spending Plan Worksheet

Instructions:
1. Calculate monthly net income under heading 1.
2. Estimate monthly expenses (sum of fixed (2a), controllable (2b), and monthly portion of periodic expenses (2c)).
3. Compare income and expenses (3) and make adjustments.

1. Monthly net income

Gross* monthly wages $ ________

Gross monthly wages of others in home $ ________

Public assistance/food stamps $ ________

Unemployment/disability $ ________

Child support/alimony $ ________

Social Security/retirement $ ________

Other $ ________

Other $ ________

Total monthly income $ ________

2a. Fixed expenses

Housing

Rent or mortgage $ ________

Insurance/taxes $ ________

Utilities

Telephone $ ________

Heating (equal payment plan) $ ________

Electricity (equal payment plan) $ ________

Trash/garbage $ ________

Water $ ________

Sewer $ ________

Cable $ ________

Internet service provider $ ________

Other: ________________ $ ________

Credit card payments

________________ $ ________

________________ $ ________

________________ $ ________

Auto

Loan payment $ ________

Insurance** $ ________

License $ ________

Child support/alimony $ ________

*Life insurance*** $ ________

Savings (regular amounts) $ ________

Payroll deductions $ ________

Federal + state income tax $ ________

Savings plans $ ________

Social Security $ ________

Insurance premiums $ ________

Other $ ________

Other

________________ $ ________

________________ $ ________

________________ $ ________

Total monthly estimated fixed expenses $ ________

2b. Controllable expenses

Food

Groceries	$ ________
Food eaten out	$ ________

Household expenses

Repairs and supplies	$ ________
Furnishings and appliances	$ ________
Exterior upkeep	$ ________

Transportation

Gas and repairs	$ ________
Other transportation	$ ________

Personal care	$ ________
Medical care	$ ________
Education/reading	$ ________
Travel/entertainment	$ ________
Child/elder care	$ ________
Charity/gifts/special expenses	$ ________
Clothing	$ ________
Savings	$ ________
Other	$ ________
Total monthly estimated controllable expenses	$ ________

2c. Periodic expenses

Refer to Exercise I-8, page 18.
Periodic expenses come up infrequently (e.g., 1–4 times per year) and include taxes, insurance premiums, auto servicing, tires, licensing, birthdays and holidays, educational costs, vacations, etc. Fill in the estimated costs next to the months they are due. Do not include taxes withheld from your paycheck, but do include estimated tax payments you make to the Internal Revenue Service (IRS).

Add your total periodic expenses for the year and divide by 12 to determine the total monthly portion.

January	$ ________
February	$ ________
March	$ ________
April	$ ________
May	$ ________
June	$ ________
July	$ ________
August	$ ________
September	$ ________
October	$ ________
November	$ ________
December	$ ________
Total periodic expenses	$ ________

$$\frac{\text{Total periodic expenses}}{12} = \text{Monthly portion periodic expenses}$$

3. Compare income and expenses

Total monthly income	$ ________
Estimated expenses	
Fixed	$ ________
Controllable	$ ________
Periodic (monthly portion)	$ ________
Total expenses	– $ ________
Balance	$ ________

Now that you have a spending plan, you should make every effort to stick to the designated amounts in each category. It is not enough just to have a plan on paper.

Adapted from: Matejic, D. (1999). *Programming My Dollars: Where Does My Money Go?* FS063, Rutgers Cooperative Extension. http://www.njaes.rutgers.edu/pubs/publication.asp?pid=FS063

* Before tax withholding and other deductions.
** Monthly portion of premiums if *not* paid by employer *or* automatically deducted from your paycheck *or* listed with your periodic expenses on page 18.

EXERCISE I-10

Finding Money to Save Worksheet

If we could do this	We could save this ($/month)	Your figures
Reduce credit card debt	20.00	____________
Practice smart food buying	25.00	____________
Reduce life insurance costs	30.00	____________
Stop playing the lottery and bingo	25.00	____________
Other________________________________		____________
Other________________________________		____________
Other________________________________		____________
Total estimated savings/month	100.00	____________

(e.g., via a ledger with headings for different expense categories). Each time money is added or spent in a category, the balance changes. Surpluses or deficits in an expense category (e.g., food) can carry over from month to month. The amount in the overall bank account, however, should always remain "in the black."

Spreadsheet system. Two columns are listed on a sheet of paper: "target amount" and "actual amount." "Target amount" is anticipated income and expenses while "actual amount" lists what really happened. This method provides a comparison of planned and actual figures so that adjustments can be made, if needed.

"Running balance" system. This method tracks one account in which funds are held for bill paying. Using a calendar with paydays marked and a list of monthly and occasional (e.g., quarterly property tax) expenses, a projection is made of income and expenses for a 3- to 6-month period. "Extra" paychecks (e.g., a month with five weekly paydays) and occasional expenses (e.g., quarterly property taxes) are inserted as they occur. The ending balance is carried forward into subsequent projections.

Reserve accounts. Many people establish special accounts as a "parking place" for earmarked money. An example is a reserve for occasional expenses. The annual cost for each expense is divided by 12 and saved monthly. Other common reserve accounts are money set aside monthly for home maintenance and emergencies (e.g., unemployment).

On page 22 are examples of three different ways to track expenses versus income.

Managing an Unpredictable Income

For many people, managing money is a fairly predictable process. They earn the same income each month and pay roughly the same expenses. Of course, there are occasional surprises (e.g., a flat tire), but more often than not, income and household expenses remain pretty much the same. This makes it easy to plan bank deposits so that sufficient money is available to pay bills.

For other people, however, income is irregular and can vary considerably from month to month. For example, real estate agents generally earn the most during the summer. Winter months, on the other hand, often bring a reduced income. Unpredictable and/or irregular income is also a fact of life for many other occupations, including landscapers and self-employed consultants.

Account Method

Example:	Food account
Balance 3/31:	$250
April 1:	(100)
April 8:	(100)
April 13: (paycheck)	+ 250
April 15:	(100)
$200	ETC.

Spreadsheet Method

	Target amount	Actual amount
Income		
Salary #1	$900	$1,000
Salary #2	1,200	1,200
	2,100	2,200
Expenses		
Savings	250	250
Mortgage	755	755
Utilities	235	295
Loan/credit	245	260
Insurance	130	130
Food	300	265
Other	100	280
	$2,015	$2,235

Running Balance Method

Previous month's balance (12/31)		$265
Jan. 1 bills	(250)	15
Jan. 3 paycheck	+ 400	415
Jan. 10 paycheck	+ 400	815
Midmonth bills	(215)	600
Jan. 17 paycheck	+ 400	1,000
Jan. 24 paycheck	+ 400	1,400
Jan. 31 paycheck	+ 400	1,800
Jan. 31 bills	(1,250)	550
"Fudge factor" (reserve)	(150)	$400
		Carryover

So how do you manage an irregular income? Plan, plan, plan. The key to developing a spending plan (budget) with an irregular income is stashing away money from high-earning months to draw from when income is lower. There is no other "magic" way.

The first step in managing an unpredictable income is tracking monthly expenses for an entire month. Once you know what it takes to run your household each month, the next step is to determine which months are "feasts" (income greater than expenses) and which are "famines" (income less than expenses). For example, if monthly expenses (including savings) total $2,000 and household monthly income ranges from $1,000 to $5,000, some of the surplus of high-earning months should be saved and doled out gradually over lean months to supplement income. Designate a bank savings account or money market fund to hold surplus income until it is needed.

The biggest problem experienced by irregular earners is not having the organization and/or discipline to set money aside. They spend freely during "the good times" and then have nothing to fall back on when income is reduced. To plan ahead, estimate anticipated income for each month, based on past earnings records. Be conservative with your estimates. Then subtract monthly expenses from income (e.g., $1,500 income minus $2,000 expenses equals a $500 deficit). Calculate the total deficit for all months in which expenses exceed income (e.g., 5 months with deficits: $500 + $1,000 + $1,500 + $2,000 + $500 equals $5,500).

Next, divide the total for the deficit months (in this example, $5,500) by the number of months in which income exceeds expenses. In this example, there are seven "good" (income greater than expenses) months, and $5,500 divided by 7 equals $786. This is the average amount that must be set aside during each "good" month. The actual amount saved per month can vary (some "good" months are better than others), however, as long as the total deficit ($5,500 in this example) is eventually set aside as a cushion.

Managing an unpredictable income need not be a nightmare. It does take some planning and attention to detail, however. The key to success is simulating a regular paycheck by accumulating funds to draw upon when income is reduced.

Calculating Your Net Worth

Imagine that you have gotten lost along a busy high way and have come to a rest stop looking for directions. Many rest stops have large wall maps with a large "X" indicating the location of the rest stop in relation to an entire state or region. When planning your finances, a net worth statement is like that "X" on a traveler's road map. It marks your finances at a particular point in time.

Net worth = assets – liabilities (debts)

A net worth statement tells your current position financially and provides a starting point for your journey to future financial goals. Before you can plan where you are going in the future, you need to see where you stand today. A net worth statement provides a snapshot of your finances on a particular day and indicates how much you are worth in dollars and cents. As new snapshots are taken, your net worth will change. An extreme example is former Microsoft chairman Bill Gates' net worth, which can change significantly day to day, depending on the performance of his Microsoft stock.

Preparing a net worth statement is a relatively simple process and shouldn't take more than an hour or two. With financial records and a calculator in hand and using the *Net Worth Statement* worksheet (Exercise I-11) on page 24 as a guide, first list all of your **assets** (i.e., things of value that you own) at their **fair market value** (the value for which you could reasonably expect to sell the items). Next, make a similar list of all your debts (i.e., money owed to others). Net worth is calculated by subtracting the sum of debts from the sum of assets. For example, if a person has $250,000 of assets and $100,000 of debt, he or she would have a $150,000 net worth. If debts exceed assets, as is sometimes the case for college students and others, net worth is a negative number.

Assets can be divided into several categories. First, there are ***cash assets,*** including the actual cash that you have in your wallet as well as checking and savings accounts, money market funds, the cash value of life insurance policies, and other liquid assets. A second category of assets is ***real estate assets,*** including one's personal residence, land, and other property (e.g., vacation home).

A third category of assets is ***investments.*** This includes the market value of CDs, stocks, bonds, mutual funds, and annuities, as well as retirement accounts such as IRAs, 401(k) and 403(b) plans, and pensions. The final category of assets is ***personal property,*** including automobiles, recreational vehicles, appliances and home furnishings, collections (e.g., coins), jewelry and furs, and other possessions.

The debt side of the ledger is divided into four categories. The first, ***current debts,*** are outstanding bills that will be repaid within a year. This includes medical and utility bills, small credit card balances, and other short-term debts. The second debt category is ***mortgages*** on a home or land. The third category of debt is ***loans,*** such as car loans, student loans, and loans against a cash value (e.g., whole life or universal life) life insurance policy. The fourth category is ***other debts*** such as credit card balances that will take more than a year to repay.

Once you've completed your first net worth statement, resolve to do another at least once a year to monitor your progress. A good time to calculate net worth is during tax season because financial records are readily available. Aim to increase your net worth by at least 5% annually. Net worth statements are especially valuable when viewed comparatively from one year to the next. A net worth statement represents the results of all prior financial activities.

EXERCISE I-11

Net Worth Statement

An important step in gaining financial control is to take an accounting of your total financial worth. Every year, your net worth should be tabulated to enable you to review your progress and compare it with your financial goals. In addition, a net worth statement is a valuable aid in planning your estate and establishing a record for loan or insurance purposes.

*Assets—what you own**

Cash on hand	________
Checking account	________
Savings account	________
Money markets	________
Other	________
Cash value life insurance	________

Real estate/property:

Home	________
Land	________
Other	________

Investments (market value):

Certificates of deposit	________
Stocks	________
IRAs	________
Bonds	________
Mutual funds	________
Annuities	________
401(k) or 403(b) plans	________
Pension plan	________
Other	________

Loans receivable: ________

Personal property (present value):

Auto	________
Recreational vehicle/boat	________
Home furnishings	________
Appliances and furniture	________
Collections	________
Jewelry and furs	________
Other	________

Total assets ________

Liabilities—what you owe

Current debts:

Household	________
Medical	________
Credit cards	________
Department store cards	________
Back taxes	________
Legal	________
Other	________

Mortgages:

Home	________
Land	________
Other	________

Loans:

Bank/finance company	________
Bank/finance company	________
Automobiles	________
Recreational vehicle/boat	________
Education	________
Life insurance	________
Personal (from family or friends)	________

Other:

Credit cards (long-term payoff)	________

Total debts ________

* Use the following codes for couples: (M) me, (P) partner, (J) joint, e.g., mutual funds $2, 000 (J), stock $5000 (P).

Tips for Smarter Borrowing

Credit is the use of someone else's money for a price, which is called interest. Other fees (e.g., late and over-the-limit fees) may also be charged. The use of credit creates debt, which is the outstanding balance owed to lenders. Debt repayment is a major expense for many families. Some people spend a day's pay (or more) per week repaying car loans, credit cards, and other debts. Not only is this expensive, but money that goes toward payments is unavailable for investing. Below are 24 tips for smarter borrowing.

1. Borrow as little as possible by making the largest down payment you can afford (e.g., on a car). When car payments end, continue making the previous monthly payment to yourself as a way to build savings for items such as your next car.
2. Shop for the best credit deal, just as you would for other purchases. Compare at least three credit issuers (e.g., banks) for the lowest APR and fees. Use the ***Credit Card Comparison Worksheet*** (Exercise I-12) on page 28 to compare three credit card offers.
3. Separate borrowing decisions from purchasing decisions. In other words, don't just accept the financing arrangement offered by a merchant (e.g., car dealer or furniture store). Shop around for better terms (e.g., through an employer credit union).
4. Always pay more than the minimum monthly payment. Otherwise, it could take years, even decades, to repay a loan. Even small amounts added to minimum payments produce awesome savings. For example, according to the book ***Slash Your Debt,*** send $25 a month more than the minimum on a 17% credit card with a $5,000 outstanding balance and you'll save $7,192 in interest and 352 payments (almost 30 years).
5. Say no to credit life or disability insurance if you already have adequate individual or group policies. If you don't currently have life or disability insurance and need it, shop around for the best buy in coverage.
6. Avoid being "upside down" on a car loan. This means that you owe more than a car is worth. Shorten the length of your car loan or make a larger down payment.
7. Pay credit card bills promptly to reduce the average daily balance on which interest is charged. Avoid cards using the two-cycle average daily balance calculation method. This method generally increases finance charges because it includes two billing cycle balances.
8. Limit credit card cash advances. The interest rate is high because most creditors charge interest from the date money is borrowed (i.e., there is usually no grace period), along with transaction fees (e.g., $2.50).
9. Transfer balances on high-rate credit cards to those with low 6-month "teaser rates." Try to pay off the balance before the low rate expires or seek another low-rate card. (Note: Doing this too frequently could lower your credit score.)
10. Request a copy of your credit file. Every U.S. resident is entitled to receive a free copy of their credit file each year from each of the major credit bureaus: Experian, Equifax, and TransUnion. Use the ***Credit File Request Form*** (Exercise I-13) on page 29 to make your request. If there are errors in your credit file, contact the credit bureau promptly and request a correction.
11. Request a copy of your credit score. Credit scores are three-digit numbers that range from the 300s (worst) through the 800s (best). Lend-

ers use them to assess a person's creditworthiness and to determine the interest rates charged for a loan or credit card. Credit scores are available online for a fee from www.myfico.com and from each of the three major credit bureaus (www.experian.com, www.transunion.com, and www.equifax.com), and for free from www.eloan.com.

12. Complete the *Credit Card Safety Record* (Exercise I-14) on page 30, which includes spaces to list the issuers of your credit cards, the card user(s), the account number, and the telephone number and mailing address of the issuer. Keep this form with your financial records in case a credit card is lost or stolen.

13. Calculate your **debt-to-income ratio** by dividing the total monthly payment for household consumer debts into net (after-tax) household income. For example, a family with a $250 car payment and $100 of monthly credit card payments and a $2,500 monthly net income would have a debt-to-income ratio of .14 ($350 divided by $2,500) or 14%. Financial experts generally recommend a debt-to-income ratio of no more than 15–20%. Above that, it is easy to become overextended and experience difficulty making payments. It is also recommended that consumer debt (e.g., credit cards, car loans, and student loans), plus housing costs (e.g., rent or mortgage payment), not exceed 40–50% of take-home pay.

14. Consider alternatives to credit cards to reduce interest costs. One example is using a home equity loan to consolidate high-interest credit card bills if you have the discipline not to run up credit card balances again. Interest on up to $100,000 of home equity debt is usually tax-deductible. Other lower cost sources of money are credit unions and loans against a 401(k) (note: certain limits apply) or cash value life insurance policy. Repay the loan promptly to protect your future financial security.

15. Avoid borrowing money from finance companies. Apply at a bank or credit union first. Finance companies generally charge high interest rates and can be considered a negative reference in credit reports, thus lowering your credit score. This is because potential lenders may see this as an indication that you couldn't get a loan elsewhere due to prior problems.

16. Consider closing less attractive credit card accounts so that you don't appear "credit heavy" to potential lenders. Don't close your oldest accounts, however, because this could lower your credit score. Good candidates for closure are high-interest department store accounts and credit cards that charge high annual membership fees.

17. Carry a list of credit card billing cycle dates with you when you shop. This will help you select the card that provides the longest "float" time between the date of purchase and the date that payment is due.

18. Select a credit card that best matches your debt repayment style. If you generally make minimum or partial payments, look for a credit card with a low interest rate. If you pay your bill in full, seek a grace period and no (or a low) annual fee. A grace period is the number of days you have before a credit card company starts charging interest on new purchases.

19. Design your own debt repayment schedule by paying more than the minimum amount required. For example, repay a home equity loan over 3–5 years, not a bank's 15–20-year schedule. Another is a "do-it-yourself" biweekly mortgage. Simply divide your mortgage payment (principal and interest) by 12 and add that amount to each monthly payment. This has the same effect as a biweekly mortgage (i.e., 13 payments per year).

20. Negotiate a discount from lenders, especially if you have a good credit history. Many credit card

issuers will reduce annual fees and/or interest rates upon request. Before calling, role play your request with a friend to sharpen your negotiating skills. If you have other credit cards or pre-approved offers, hint that you will close your account or switch to another card issuer unless your request is honored.

21. Read credit card disclosure charts and surrounding footnotes carefully. By law, all credit card offers must include a so-called "Schumer Box" (named for the sponsor of the bill) that includes the APR, various fees, and the minimum finance charge.

22. Complain if you get hit with an unjustified penalty (e.g., late fee). Many creditors will reverse these charges upon request, at least for the first time. Also be aware that many creditors have decreased the amount of time between when a bill is mailed and when payment is due. As a result, there is a greater chance of a late fee being charged. In addition, some creditors have moved payment-posting deadlines to earlier times of the day, such as 10 a.m. This effectively means that the company must receive the payment by the day before for it to be posted on the due date. Check your bill inserts for details.

23. Beware of credit traps. These are products and features that can greatly increase the cost of borrowing. Examples of credit traps include:

    - late fees, which can be charged when payment is only a day late.
    - over-the-limit fees charged for as long as a borrower's balance exceeds the credit limit.
    - cash advances that charge interest immediately when a credit card is used to obtain cash.
    - skip-a-month offers that allow borrowers to skip a payment but continue to accrue interest.
    - rent-to-own agreements that allow consumers to rent items by the week for a stated time (often 78 weeks), resulting in a cost that is two to four times the amount it would cost to purchase an item outright.
    - 125% equity loans that allow borrowers to receive loans greater than the value of their home, minus its outstanding mortgage. If you had to sell quickly, you'd be unlikely to get back all of what you owed. In addition, a portion of the loan would not be tax-deductible.

24. Visit www.powerpay.org for a PowerPay© analysis. This online program helps users accelerate debt repayment by printing out a repayment calendar that adds monthly payments from paid-off debts (e.g., Sears credit card) to remaining debts (e.g., MasterCard), resulting in hundreds, even thousands, of dollars of interest savings.

EXERCISE I-12

Credit Card Comparison Worksheet

Name of issuer	APR	Grace period	Annual fee	Other fees	Balance calculation method	Other features
ABC Credit	19.8%	25 days	$20	$20: late fee $20: over limit fee $2: cash advance fee	Average daily balance (including new purchases)	10% discount on phone calls if charged to credit card.
XYZ Credit	16.0%	None	None	$15: late fee $15: over limit fee $1: transaction fee	Two-cycle average daily balance (including new purchases)	Use of card provides discounts on auto purchases.

Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies - Equifax, Experian and TransUnion.

For instant access to your free credit report, visit www.annualcreditreport.com.

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.

Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z   0 1 2 3 4 5 6 7 8 9

Social Security Number: ☐☐☐ - ☐☐ - ☐☐☐☐

Date of Birth: ☐☐ / ☐☐ / ☐☐☐☐

Month **Day** **Year**

Fold Here   Fold Here

First Name **M.I.**

Last Name **JR, SR, III, etc.**

Current Mailing Address:

House Number **Street Name**

Apartment Number / Private Mailbox **For Puerto Rico Only: Print Urbanization Name**

City **State** **ZipCode**

Previous Mailing Address (complete only if at current mailing address for less than two years):

House Number **Street Name**

Fold Here   Fold Here

Apartment Number / Private Mailbox **For Puerto Rico Only: Print Urbanization Name**

City **State** **ZipCode**

Shade Circle Like This →

Not Like This →

I want a credit report from (shade each that you would like to receive):

○ **Equifax**
○ **Experian**
○ **TransUnion**

○ **Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.**

31238

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

Your request will be processed within 15 days of receipt and then mailed to you.

EXERCISE I-14

Credit Card Safety Record

Make a list of all of your credit card issuers, account numbers, and creditor contact information.

Name of card	Card user(s)	Account number	Creditor contact information

Financial Record Keeping

When was the last time you couldn't find an important document or receipt? Do you remember how frustrating it was looking for something you know you had carefully put away somewhere? That's why it's so important to keep good financial records. They can:

- prove that a bill has been paid.
- save time and stress by not having to search for certain papers.
- show legal proof of events (e.g., birth, death, marriage, divorce).
- prove ownership of property.
- document tax deductions.
- dispute errors in bank, investment, credit card, or other financial statements.
- document claims for benefits such as life insurance and Social Security.
- expedite the timely payment of bills, thereby avoiding late charges.
- simplify estate planning and the administration of your financial affairs.

Many financial records, such as canceled checks, tax records, and bank and credit card statements, can be stored at home, preferably in an insulated steel box or fire-resistant file cabinet. Some important documents are best kept in a bank safe deposit box. These include papers that you don't need to refer to very often and/or those that are difficult to replace.

Home storage can be divided into two categories: active and inactive. Both kinds of files should be stored in fireproof boxes that can be purchased at office supply stores. The active file includes papers that you may need immediately; the inactive file is more for historical value and may be used only occasionally. Items to keep in an active home file include:

- appliance manuals and warranties
- bank and investment account statements (for as long as you own an asset, plus at least 3 years)
- burial/funeral instructions
- canceled checks
- credit card information and loan payment records
- education (e.g., transcripts of college courses) and employment (e.g., resume) records
- health benefit information and family health records (e.g., immunizations)
- insurance policies
- inventory of the contents of safe deposit box
- keys to safe deposit box
- receipts for recently paid bills
- receipts for items under warranty
- Social Security information (e.g., benefit estimates)
- tax returns for the past 3 years
- original wills and trusts (Note: Another secure location for these papers is your attorney's office safe.)

Items to Keep in a Safe Deposit Box

- adoption papers
- birth certificates
- citizenship papers
- death certificates
- divorce records
- household inventory (list and photographs or videotape of possessions)
- important contracts
- marriage certificates
- military discharge papers
- real estate deeds and mortgages
- stock and bond certificates
- titles to automobiles
- wills and trusts (copy)

From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
Available from PALS Publishing, www.palspublishing.com/moneytalk, Ph. 607-255-7654

Items to keep in an inactive home file include:

- selected active file papers more than 3 years old
- copies of legal documents stored in one's safe deposit box (e.g., birth and death certificates)
- correspondence related to important legal matters (e.g., adoption or a lawsuit)
- insurance accident reports and claim forms
- property improvement records (e.g., receipts or paid vouchers)
- tax returns that are 4 or more years old

One way to take charge of your finances is to get your important papers organized. Use the *How Organized Are You?* worksheet (Exercise I-15) to analyze your current organizational skills and record-keeping practices. Use the six-page *A Record of Important Family Papers* worksheet (Exercise I-16) on pages 33–41 to record important household financial data. Another record-keeping suggestion is to have an emergency moveable file in case you need to leave your home in a hurry (e.g., hurricane).

EXERCISE I-15

How Organized Are You?

For each statement, place a check mark in the column that most accurately describes your own behavior or situation.

	Yes	No	Sometimes
1. I have a home filing system that works well for me.	☐	☐	☐
2. My spouse/partner, children, and/or another relative or friend know the whereabouts of my life insurance policy.	☐	☐	☐
3. I know the contents of all my storage boxes without having to look inside.	☐	☐	☐
4. I know where my income tax papers of 3 years ago are located, and in the event of my death, a relative or friend also would be able to locate them.	☐	☐	☐
5. I have a system for handling incoming mail.	☐	☐	☐
6. I have two copies of a household inventory—one is stored at home and one is in my safe deposit box.	☐	☐	☐
7. I make a written "to-do" list with identified priorities for the day or week.	☐	☐	☐
8. I expect interruptions to occur during the course of a normal day and keep my daily schedule flexible enough to allow for such occurrences.	☐	☐	☐
9. At the end of most days, I feel I've accomplished the most important tasks I had planned to do.	☐	☐	☐

Adapted from: Marilyn Sugden and Kathy Prochaska-Cue, Extension Family Economics and Management Specialists, as part of the *Can't Find It? Put Your House in Order!* lesson. Nebraska Cooperative Extension, 1983.

EXERCISE I-16

A Record of Important Family Papers

Name: ____________________

Date recorded or revised: ____________________

Copy 1 of this record stored at: ____________________

Copy 2 stored at: ____________________

Safe deposit box number: ______ at ____________________

Bank key kept at: ____________________

Social Security number: ________-________-________

Where Social Security cards are kept: ____________________

Names of advisers

Adviser	Name	Address	Phone number/e-mail address
Accountant			
Attorney			
Banker			
Broker			
Doctor			
Executor			
Insurance agent			
Financial planner			

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EXERCISE I-16

A Record of Important Family Papers

(continued)

Insurance policies

Type	Company & address	Policy number	Effective date	Policy amount	Premium	Payment due	Beneficiary	Location of policy
Life								
Health & accident								
Hospitalization								
Major medical								
Disability								

EXERCISE I-16

A Record of Important Family Papers

(continued)

Insurance policies

Type	Company & address	Policy number	Effective date	Policy amount	Premium	Payment due	Beneficiary	Location of policy
Medicare								
Long-term care								
Vehicles								
Homeowner's/ renter's								
Umbrella liability								

EXERCISE I-16

A Record of Important Family Papers

(continued)

Bank accounts, savings, and credit union accounts

Type	Name & address	Name on account	Account number	Location of records
Individual checking				
Joint checking				
Savings				
Other				

EXERCISE I-16

A Record of Important Family Papers

(continued)

U.S. savings bonds, certificates of deposit, Treasury bills, bonds, and notes

Serial number	Owner & co-owner	Purchase price	Date of purchase	Maturity date	Value at maturity	Beneficiary	Location of records

EXERCISE I-16

A Record of Important Family Papers

(continued)

Stocks, bonds, and mutual fund shares

Kind	Company	Number	Name on certificate	Date purchased	Number of shares	Cost per share	Income due	Location of certificate

EXERCISE I-16

A Record of Important Family Papers

(continued)

Vehicles

Make	Model & year	Engine number	Purchase price	Registration	Location of title

Real estate

Type	Location	Purchase price	Mortgage amount	Mortgage holder	Location of records

EXERCISE I-16

A Record of Important Family Papers

(continued)

Debts

Description	Name & address of person/company owed	Account #	Amount of debt	Interest rate	Number & amount of payments	Final payment due	Location of records

Payments due me/us

Description	Name & address of person owing	Amount of payment	Interest rate	Number & amount of payments	Final payment due	Location of records

EXERCISE I-16

A Record of Important Family Papers

(continued)

Other important papers

Type of paper	Location	Type of paper	Location	Type of paper	Location
Adoption papers		Deed to house & lot		Military service records	
Automobile title		Divorce papers		Organization membership	
Baptismal records		Education records		Passports	
Birth certificates		Employment records		Pension records/ retirement plans	
Business records		Guarantees and warranties		Patents & copyrights	
Canceled checks		Health records		Real estate abstract	
Charge account list		Household inventory		Rental property records	
Citizenship papers		Important keys		Social Security card & record	
Death certificates		Last instructions		Tax records	
Deed to burial plot		License to practice		Will for:____________	
Deed to farm & lots		Marriage certificates		Will for:____________	

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Your Minimum "Need to Knows" about Financial Planning Basics

- People's feelings about money greatly influence spending and saving decisions.
- Personal qualities, such as focus, discipline, and a positive attitude, are related to financial success.
- Frequent monitoring of financial health is as important as an annual physical with a doctor.
- Even relatively small dollar amounts will grow to significant sums with **compound interest** (earning interest on interest).
- People generally spend money in ways that are consistent with their values.
- Financial goals should be specific, with an estimated time deadline and dollar cost.
- Investment decisions should be based on financial goals so that appropriate assets are chosen.
- Three to six months' expenses or more should be set aside in reserve as an emergency fund.
- Credit terms should be compared and negotiated just like any other consumer purchase.
- A spending plan is a plan for spending and saving money. Income should equal household expenses plus savings for financial goals.
- If earnings are irregular, base your budget on average expenses. Shift income from high-earning months to low-earning months to manage successfully.
- A net worth statement provides a snapshot of your finances (assets minus debts) and should be calculated annually to measure financial progress.
- Credit files and credit scores should be checked periodically and errors, if any, should be corrected promptly.
- Credit traps are products and features that can greatly increase the cost of borrowing; they should be avoided.
- Important papers that are difficult to replace should be kept in a safe deposit box.
- "If it is to be (i.e., financial success), it is up to me."

<u>*Money Talk: A Financial Guide For Women*</u>

Action Steps

SESSION I: **Financial Basics**

Check off each of the following action steps as they are completed.

- ☐ Complete the *Money Coat of Arms* exercise (page 4) and use it to identify your values.
- ☐ List short-, intermediate-, and long-term financial goals with a date and cost for each.
- ☐ Start or increase emergency savings to equal 3 months of expenses.
- ☐ Take the *Financial Fitness Quiz* (pages 11–12) to identify financial strengths and weaknesses.
- ☐ Track household income and expenses for a month to identify spending patterns.
- ☐ Identify specific ways to increase income and/or reduce expenses.
- ☐ Use the *Spending Plan Worksheet* (pages 19–20) and expense tracking data to prepare a spending plan.
- ☐ Calculate your net worth (assets minus debts) annually to analyze financial progress.
- ☐ Contact existing creditors and request concessions, such as a lower interest rate.
- ☐ Request a copy of your credit file and correct any errors. Check your credit score.
- ☐ Complete the *Credit Card Safety Record* (page 30) to summarize credit card account data.
- ☐ Calculate your debt-to-income ratio (monthly consumer debt payments/net pay).
- ☐ Set up a simple, user-friendly financial record-keeping system.

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