GOALS DEBT CREDIT INCOME MONEY STOCKS 401(k)

Your **Spending** Your ***Savings*** Your **Future**

A BEGINNER'S GUIDE TO FINANCIAL READINESS

National Endowment for Financial Education

Your Spending
Your *Savings*
Your **Future**

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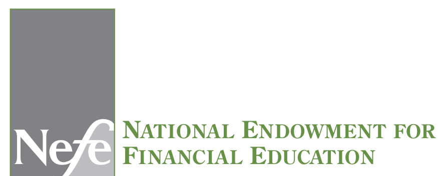

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The content in this material are believed to be current as of this electronic version, but over time, legislative and regulatory changes, as well as new developments, may date this material.

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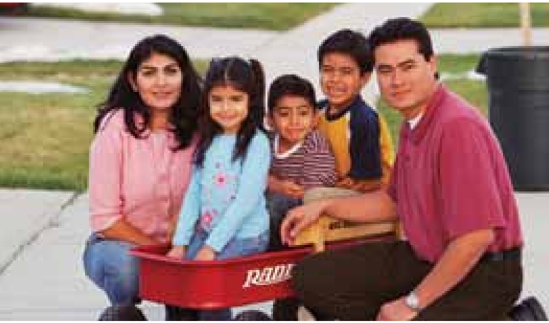


Positive change can happen at any moment.

It all begins with believing in yourself, refusing to accept limitations, and nurturing your talents.

What place does money have in your life? Of course, you might think of money as what you need to pay your bills, buy groceries and take care of other practical concerns of life. All of this is true. We do need money to carry on with our day-to-day lives. Yet, money can be more than that—it can be the key that opens the door to a brighter future.

How is that possible? It happens by using money wisely—by making it work for you and your dreams. That's the purpose of *Your Spending, Your Savings, Your Future: A Beginner's Guide to Financial Readiness.* This publication is meant to help you realize that you are in control of your financial future. Positive change can happen at any moment. It all begins with believing in yourself, refusing to accept limitations and nurturing your talents.

One talent just about everyone needs to nurture is money skills. The good news is that you already have some money skills. No doubt, you've already had to make money choices—what to buy and when to buy. Now it's time to improve upon those basic skills and add some new ones. The purpose of this skill development is to ensure that you actually can reach the dreams you have for yourself and your family. Before you begin to use this publication, take a few minutes to think about your dreams and goals.

If money seems to have been a source of problems in your past, it may be difficult to dream or set goals right now. So, just start by thinking about a small goal. It could be something as simple as setting aside $500 to start an emergency fund. Then, as you work your way through these pages and gain new knowledge and confidence, change your goals; make them bigger and more ambitious. Think about furthering your education, buying a home or starting your own business.

To help you get started, we're going to talk about the topics of your spending and your savings. These are the building blocks for the last—and most important—part of this publication: your future. In all three parts of this guide, you will be asked to read about how to plan your finances—and then you will start doing just that. Keep a pen or pencil on hand and write on these pages. That way, you will make *Your Spending, Your Savings, Your Future* your personal planning notebook and a path for getting where you want to go financially.

The National Endowment for Financial Education® (NEFE®) also developed *The Wealth Care Kit*, an electronic publication that covers areas of your finances such as insurance, savings and investments, taxes, retirement and estate planning. *Your Spending, Your Savings, Your Future* was designed to work with The *Wealth Care Kit.* You can download The Wealth Care Kit online:

www.smartaboutmoney.org/wealthcarekit

The more skilled you become with money, the more possible your dreams can be.

NEFE is proud to make this publication available so you can reach your fullest potential. Best wishes!

NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Part One

Your Spending »

Your Money

The first building block for reaching your dreams is to take a look at what you currently earn and spend. This is a good step for all of us, regardless of income. Did you know that many people with salaries above $100,000 feel broke much of the time? A person can earn a lot and still feel financially insecure. On the other hand, many people who earn $30,000 or less feel that they're doing well financially. Financial security doesn't depend on how much you earn. Instead, financial security is determined by how much you keep—and how you manage what you keep.

This first section will give you a clear picture of where your money goes and how you can take control of the money flow. Let's clarify a point here. By controlling the flow of your money, we're not talking about putting yourself on some sort of strict "financial diet." Of course, you need to spend money, and it's perfectly all right to buy some of the little extras that make life more pleasant. The key to money management—and to so many other parts of our lives—is finding balance. You need to find balance between what you earn and what you spend.

The point of getting a handle on your spending is that far too many people have no idea where their money goes. As a result, they can't afford to set goals for the future. By knowing your spending habits and your motivations to spend, you can make better choices. These better spending choices will help you free up money to save and use toward your goals.

Where Does The Money Go?

Have you ever looked in your wallet and asked, "Where is the cash I had just yesterday?" Sometimes, it's hard for us to remember how we've spent our money. However, we need to know where our money goes before we can figure out how to save more. To find out how, try the activities to the right.

Tracking Your Money Flow

First, create a list of how you think you spend your money—an Anticipated Spending list. In this list, jot down all the things you think you spend money on each month and their approximate costs. Some things you may buy each day; other things, perhaps only once a week.

Next, keep a list of what you actually spend in one month—an Actual Spending list. (If you have an infrequent or unusual expense that month, such as a car insurance bill you pay every six months, list the amount for one month.) If you haven't done this before, the easiest way is to keep a small spiral notebook with you at all times.

- Mark notebook pages for each day in the month.
- Each day, list everything you buy and how much you pay for it. Include all your purchases, whether you paid for them with cash, money orders, checks, debit cards, or credit cards. Don't forget to include even small purchases, such as a soft drink or a candy bar. (Over time, these small items really add up.)
- At the end of the month, compare your Anticipated Spending list to your Actual Spending list.
- You may be surprised to learn how much you've spent on things that seemed insignificant when you bought them. It's so easy to underestimate spending.
- From your Actual Spending list, fill in the chart on Page 5. When you finish filling in the chart, you will know where your money goes.

Plugging Spending Leaks

When you tracked your expenses, you probably found areas where money is "leaking," seemingly disappearing with nothing to show for it. The chart below shows how minor purchases add up over the course of a year. This type of spending means there's less money available for savings—less money going toward your dreams. (Saving will be discussed in detail in Part Two, but setting aside money to save starts by getting a handle on spending.)

What causes your spending leaks?

Item (examples)	Cost of Item	Cost per Month	Cost per Year
Soft drinks from vending machine (*example:* two each work day for 20 days)	**$1**	**$40**	**$480**
New clothes			
Phone calls/Cell phone			
Snacks/Convenience store purchases			
Eating out			
Coffee with friends			
Magazines/Books/Games			
Movies			
DVD rentals			
CDs/Music downloads			
Gifts			
Cable TV/Satellite			
Internet			
Online purchases			
Toiletries/Hair care/Cosmetics			
Other			

Once you've found your spending leaks, you can come up with ways to plug them. That might mean giving up a costly habit, such as frequent purchases at convenience stores. Or it can simply mean making better buying choices. For example, instead of buying two soft drinks a day at work (at a cost of $2 per day), why not bring soft drinks to work with you? You could buy a case of soft drinks for around $7 (that's 29 cents a can or 58 cents per day, with store brands costing even less). By bringing your soft drinks to work each day, you could save about $340 a year! That's money you could put into an emergency fund or other savings fund.

By bringing your soft drinks to work each day, you could save about $340 a year!

Spending Time and Spending Money: Are They Really so Different?

Every time you buy something, you pay for it with your time. How does that work? For example, if you buy a suit for $200, how many hours did you have to work to earn $200 to pay for the suit?

Cost of suit... **$200**

Your salary or wages, after-tax, per hour (example) **$10**

Hours worked to pay for the suit:

$200 divided by $10 equals .... **20 hours**

Now maybe you like the suit. It fits you well, and you will wear it for several years. Maybe you need it for your work. This is a good purchase. It has value.

But consider some of the other things you buy. Are there any spending leaks listed on Page 5 that you might want to eliminate or cut back on because they are not worth the time you must spend to pay for them?

If you have tried over and over to cut your spending, and it just doesn't happen, it may be helpful to consider your motivation for buying things.

What Motivates Your Spending?

If you have tried over and over to cut your spending, but you haven't been too successful, it may be helpful to consider your motivation for buying things. You may have some confused feelings about money. Before buying something—especially something costly—ask yourself some tough questions, such as:

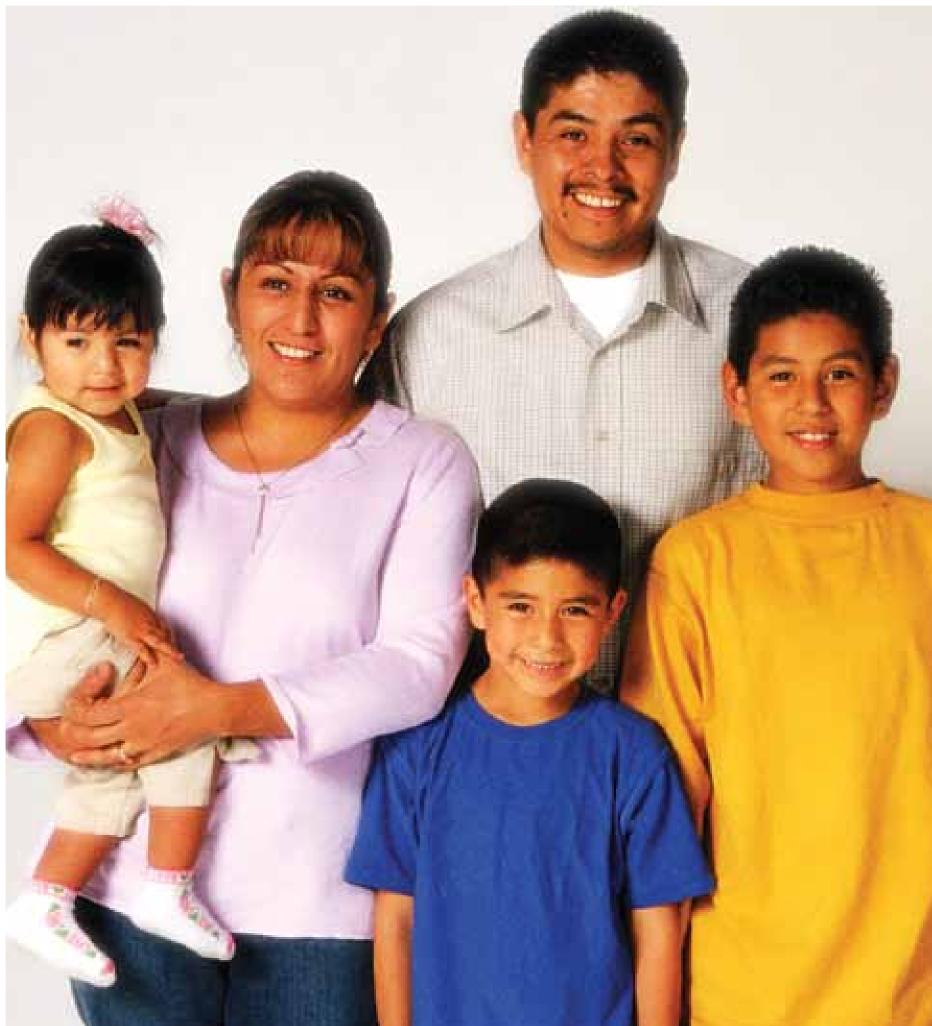
Do I need it?

- Why am I spending money on this item?
- Why do I want this item?
- What is the purpose behind this purchase?
- Is this purchase trying to make up for some area of my life that is lacking?
- Is there a cheaper alternative to what I want to buy? If so, why am I not willing to buy the cheaper alternative?

Don't cheat yourself with quick answers like, "I just want it." If you're really having trouble getting your spending under control, you need to ask yourself, and then honestly answer, the "Do I Need It?" questions listed on Page 6. Careless spending may be a symptom of a deeper problem. For example, maybe you buy expensive gifts to try to impress someone or gain a friendship. Perhaps you buy "things" to make up for the fact that you don't believe you'll ever get what you really want, such as a better education or a nice home.

If your spending habits are a result of unhealthy motivations, you need to take care of the root problem. This could mean anything from reflecting on your motivations to seeking counseling. It's important to know that careless spending will not take away personal pain. Instead, it can lead to serious financial problems that only add to your pain.

To move away from the problem of careless spending, it may be helpful to develop some new agreements with money. Consider the suggestions in the "My New Agreements With Money" sidebar at left. Check the agreements you want to achieve, personalize them, and add to them. Then, read your money agreements often, especially when you're at risk of falling back into old, negative spending habits.



My new agreements with money

- ☐ I will use my money so my family and I can live in decent housing in a safe neighborhood.
- ☐ I will use my money to promote the physical health and emotional well-being of my family and myself.
- ☐ I will use my money to help further the educational and personal growth of my family and myself.
- ☐ I will use my money to provide for a secure future.
- ☐ I will use my money to help charities of my choice.

Other: ____________________

Other: ____________________

Other: ____________________

When you have made your new agreements with money and are working toward putting money in its proper place, you can make better spending decisions.

Resources

To learn more about setting goals and taking charge of your finances, visit the following Web sites:

www.americasaves.org
www.financialworkshopkits.org
www.managingmymoney.com
www.smartaboutmoney.org
www.spendster.org

"I always wanted to go to college," said Maria, *"but my parents couldn't afford to send me."*

Maria Redirects Her Life

Maria had been working for a number of years doing office work for a downtown company. Many of the people around her had college degrees, and she envied them, despite the fact that she earned good wages. "I always wanted to go to college," said Maria, "but my parents couldn't afford to send me." Still, Maria took pride in her fine wardrobe and her newer model car.

Then, her company hired a new woman, Denise, who would play an important role in Maria's life. "Denise and I would go to lunch together. One day she asked me why I hadn't gone to college since it seemed like I wanted to go. I gave my usual answer: 'My parents couldn't afford it.' That usually stopped most people, but not Denise. She just laughed and said, 'Yeah, mine couldn't either. That's why I did it on my own.'

"At first I was a bit angry. How could she compare our lives? Then I learned that Denise had just recently earned her bachelor's degree, even though we were about the same age. When I told her that if I started college now, I would be older than the other students, she just asked, 'How old will you be if you don't go to college?' All of my 'reasons' simply became excuses."

After lots of talks with Denise and lots of soul-searching, Maria finally faced the real issue. "I was afraid. It's true that my parents couldn't afford to send me to college after high school, but it was my fear that stopped me after that. I also had been buying 'things' as a way to make up for not having what I really wanted—a college degree."

With encouragement from Denise and her family, Maria started taking night classes at her local community college. She studied hard and did well. So she took more classes. To afford the tuition, Maria changed her lifestyle. Her first step was to pay off her car loan and her department store account. Then, she moved into a much smaller and less costly apartment. Now, she rarely buys clothes and when she does, they come from a consignment store and not her favorite department store. A little while ago, Maria earned an associate's degree, and now she's working toward her bachelor's degree.

"Sometimes I get tired of watching my money so closely. I miss buying new clothes, my car is really old now and juggling work and school isn't easy," said Maria. "But when I get an 'A' on an exam, I feel better than I do with a new outfit. More than anything, I'm proud of myself in a way that I never thought I would be. I feel like I can do anything. That makes it all worth it."

"When I get an 'A' on an exam, I feel better than I do with a new outfit."

Buying Smart

Better spending decisions begin with trying to get the most out of every dollar. Here are some tips to get you started. Check off at least 10 of the following items you think you can put into practice within the next month. Then, rank them in order of priority. At the end of the month, turn back to this page to see how you're doing.

Things to Try	Importance to Me	
☐	__	Buy the things you really need first. Then, buy only a few inexpensive "wants."
☐	__	Save money to pay cash for what you need. Limit the use of credit cards and loans.
☐	__	Shop at thrift stores, consignment stores, outlet stores, garage sales and flea markets rather than big-box stores and department stores. Bargain for better prices.
☐	__	Limit expensive telephone, cable TV/satellite and Internet options in favor of basic services.
☐	__	Avoid trendy clothes. Buy classic styles made from high-quality fabrics.
☐	__	Keep your receipts in case you need to return an item.
☐	__	Make a shopping list and stick to it. Do not buy on a whim.
☐	__	When shopping, take only cash.
☐	__	Shop for food at supermarkets or food warehouses. Avoid costly convenience stores.
☐	__	Buy store brands at supermarkets and drugstores, when possible; most store brands are equal in quality to name brands but cost less.
☐	__	Consider using coupons—but first do the math. Often, a name-brand item will cost more even with a coupon, than a store-brand item.
☐	__	Buy large quantities of things you use a lot. Try to buy these items on sale and stock up. Just be careful not to buy more than you realistically can use or items that will spoil quickly.
☐	__	Eat at home. Make your meals from scratch. Take your lunches to work.
☐	__	Share driving or use public transportation.
☐	__	Shop around for the best price on car insurance every few years.
☐	__	Trade baby-sitting with neighbors, friends and relatives.
☐	__	Check out books, DVDs, and CDs from the library. Read magazines and newspapers at the library.
☐	__	Stay within your cell phone minute and texting limits.
☐	__	If you pay for long-distance services, limit the number of calls (use e-mail instead).
☐	__	Give homemade gifts.
☐	__	Do as much simple repair work as possible yourself.

Spending Stumbling Blocks

Part of smart spending is avoiding the "too-good-to-be-true" offers that flood your mailbox and e-mail inbox. Think of it this way: If a business is trying so hard to get your money, it's often because it can make a large profit if you use its service. For financial products, this profit usually is in the form of high fees and interest rates. Paying these costs will delay you further from reaching your dreams. Be suspicious of every unsolicited offer. Be especially wary of the following two offers: pre-authorized checks and refinancing or home equity loan offers.

Pre-Authorized Checks

Many companies will offer you money. In fact, they will send checks that are already made out to you—or blank checks. All you have to do is sign a check and take it to the bank. Sounds easy, doesn't it? That's because these pre-authorized checks are loans. Once you sign a check, you agree to pay back its amount plus the interest rate the lending company charges. The interest charged will be high, sometimes as much as 20 percent—or even more. In addition to the high interest rates, most companies charge an additional 2 to 3 percent of the amount of the check as a cash-advance fee.

Refinancing or Home Equity Loan Offers

Some companies may tempt you with loan offers to refinance your mortgage. Refinancing companies may promise to put some cash in your pocket now, but remember, these businesses likely will charge you a high interest rate on this loan.

Another popular loan offer is for a home equity loan or line of credit. If you are a homeowner and your house is now worth more than what you originally paid for it, you may be able to take out the difference in a loan or a line of credit. Frankly, there are times when a home equity loan or line of credit makes sense. It may be a better option to use a home equity loan to pay for expensive home repairs rather than using a credit card, for example. The interest rate on the home equity loan is likely to be lower than the interest rate on the credit card. In addition, you may be able to take an income tax deduction for the interest paid on the home equity loan.

Still, be careful. A home equity loan puts your house on the line. If you cannot pay back the loan, you risk foreclosure or a forced sale of your house. Before signing up for this loan, do your homework. Check out interest rates among several companies and banks. Don't believe the offer you get in the mail is the best deal. Also, use the line of credit or loan only for specific, necessary purchases, such as home repairs or a sensible car. It should never be looked upon as a "pot of money" to use for any frivolous reason.

Check out interest rates among several companies and banks. Don't believe the offer you get in the mail is the best deal.

The Money You Borrow

The most important point you can remember about borrowing money is that not all debt is created equal. Some types of debt are better than others. For example, a home loan, or mortgage, usually is one of the better forms of debt. That's because most homes increase in value over time. Also, the interest paid on the loan may be tax deductible. Another type of "better" debt can be a student loan. In general, workers with more education earn higher wages. So, a student loan can have a long-term financial payoff.

The least-favorable type of debt is called consumer debt, which is debt for items that do not increase in value over time. Consumer debt includes such items as balances on credit cards and car loans. The interest paid on consumer debt is likely to be high and not tax deductible.

Even though consumer debt is costly, there may be times when it is unavoidable. (For example, few people have enough money in savings to buy a good used car, let alone a new car, with cash and need to borrow money to make the purchase.) However, falling too deeply into consumer debt is one of the biggest mistakes many people make. This often happens when they have several forms of consumer debt, such as balances on major credit cards and department store cards in addition to sizable car loans. These expensive, multiple debts drain financial resources and jeopardize your financial future. So how do you avoid falling into the consumer-debt sinkhole? It begins by knowing how much debt you can manage.

The least-favorable type of debt is called ***consumer debt***, which is debt for items that do not increase in value over time.

How Much Consumer Debt Can I Manage?

In general, no more than 15 to 20 percent of your net (after-tax) income should be paid to consumer debt. When looking at your debt, remember to consider the amount you borrowed along with the interest on the debt. Even while you're paying down debts, you are being charged interest on the remaining balance. Interest rates vary widely depending on the type of debt. For example, a new car loan may cost you 9 percent a year, but a credit card balance could cost you 18 percent or more a year.

Rather than trying to figure out the total amount of consumer debt you can afford, it's easier to calculate how much you can afford each month for consumer debt. Look at the example below and then complete the calculation for your own income.

Yearly income after taxes and deductions = $25,000

Monthly income = $2,083 ($25,000 ÷ 12)

Recommended maximum debt levels (15 to 20 percent): $312 to $417 ($2,083 x 0.15 = $312; $2,083 x 0.20 = $417).

So, for the above example, this person probably can manage to pay between $312 and $417 a month, including interest charges, for total consumer debt.

Your Turn

Now it's your turn to try:

Yearly income after taxes and deductions = $________

Monthy income: $________ (Yearly income ÷ 12)

Amount of consumer debt per month that I should not exceed is:

$________to $________ (Monthly income x 0.15; Monthly income x 0.20)

Each month, I can afford to pay between $________and $________, including interest charges, for my consumer debt.

A word of caution: If your current debt level is below what you can afford to pay each month, don't feel compelled to go on a spending spree. Instead, congratulate yourself on living below your means. Your lower debt level can mean more freedom to change jobs or reach your long-term goals even sooner. Also, the 15 to 20 percent rule of thumb is general and may not apply to you. For example, if you live in an area with high housing costs, you may not be able to afford 15 to 20 percent in consumer debt because you have to use more of your money to pay your rent or mortgage.

Of course, after completing the calculation, you may find that you're paying more than 15 to 20 percent for consumer debt. Does this mean you have a debt problem? Read on and find out.

Ten signs of too much debt:

1. You spend more than 20 percent of your paycheck to pay off car loans, credit cards or other types of consumer debt.
2. You are borrowing to pay off other debts.
3. You do not know how much money you owe.
4. You make only the minimum payment on each bill.
5. You miss payments, or you pay your bills late monthly.
6. Creditors are calling.
7. People or stores refuse to give you credit.
8. You borrow from retirement accounts or use credit cards to pay normal monthly bills.
9. You were overdrawn in your checking account more than three times in the last year.
10. You must take an extra job just to keep up with paying your bills.

Warning Signs Of Too Much Debt

While a limited amount of debt isn't necessarily bad, excessive debt is. At the very least, excessive debt delays you from reaching your goals. At its worst, excessive debt could rob you of your dreams. The sense of hopelessness that often comes with excessive debt can affect your behavior and most valued relationships.

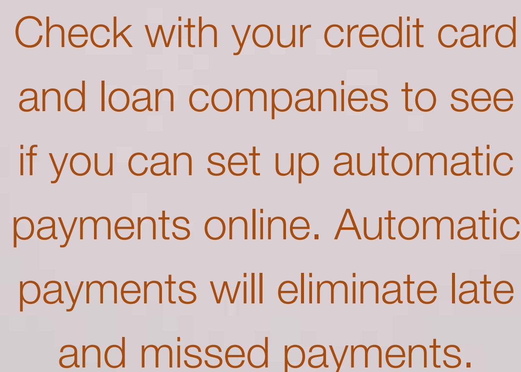
You already may know whether you're in over your head when it comes to debt. Still, read the 10 warning signs above and see how many apply to you. The important point to remember is that even if you're carrying too much debt, you can reduce it over time. It will take patience, and it won't always be easy, but you can regain control. You can achieve balance in the future.

It'll take patience, and it won't always be easy...

How To Get Out Of Debt

Reclaiming your financial future starts by taking positive steps to get out of debt. Even if you have serious problems with debt, there is hope. Consider taking at least some of the steps below:

- Don't wait to act. Just as investments compound over time, so do debts.
- Create a get-out-of-debt plan. Use the Debt Recovery Worksheet on Page 17 to organize your plan.
- When one debt is paid off, keep making the same payment—just put that amount toward another debt.
- Cut expenses. Try to find a few things you can stop buying or buy less often. See Page 9 for smart buying tips.
- Sell rarely used items. Sell items yourself—avoid going to a pawnshop or using an Internet broker.
- Honestly assess your ability to pay for something and then take the appropriate action. Say that you bought a car and are having trouble making the payments. It may be better to sell the car and pay off the loan than to let the creditor repossess your car. Repossession will hurt your credit record.
- Try to increase your income. Is it possible to get a second job or get paid overtime and use the money to reduce debt? (If you have family responsibilities, first consider what effect your absence could have on the well-being of your family. It's important to balance the need to get out of debt with the need to spend time with your family.)
- Consolidate loans. Shift higher-interest loans to a single lower-rate loan and stop running up new charges.
- Keep only one or two major credit cards. Cut up your other credit cards and call the credit card companies to cancel the accounts. Keep the remaining one or two credit cards at home (as long as the card won't be used by anyone else). Consider having the credit limit lowered. (Canceling credit card accounts may affect your credit score—but you need to find a balance between reducing your debt and a possible reduction in your credit score.)
- To stop most credit card offers from arriving in your mail, call 1-888-5OPTOUT (1-888-567-8688). You also can visit www.optoutprescreen.com.



Bankruptcy: A Last Resort

Bankruptcy should be considered a last resort for getting out of debt. Why? Because bankruptcy costs all of us. In fact, it costs the average American household about $400 in higher prices charged by businesses. Also, it's not a "quick fix" for debt problems. True, it can erase many debts. But bankruptcy cannot erase all debts, including taxes and child support. Bankruptcy usually will get collection agencies off your back, but it can have a serious effect on your life for years.

To understand the effect of bankruptcy, let's look at the two major types of bankruptcy for consumers.

Chapter 7

In Chapter 7 bankruptcy, your assets are sold and the money is divided among your creditors. You may be able to keep some items, such as a car and certain personal property. Still, you easily could lose many of the things you value. Also, there are some debts that won't go away even after filing for Chapter 7 bankruptcy. For example, you still have to pay child support, student loans, taxes and alimony. In the future, there may be more types of debts that won't be erased by a Chapter 7 bankruptcy, which stays on your credit record for up to 10 years.

In 2005, the federal bankruptcy laws were changed, making it tougher for most people to qualify for Chapter 7. For example, applicants must meet eligibility standards under a "means test," as well as complete mandatory credit counseling through a government-approved program. As a result of these changes, more people are required to use a Chapter 13 filing instead.

Chapter 13

A Chapter 13 bankruptcy is a plan to pay back your creditors. You make installment payments to the court, and a trustee forwards them to your creditors. In general, your creditors agree to accept less than the full amount you owe. As long as you make on-time payments, you get to keep your assets. A Chapter 13 bankruptcy stays on your credit record for at least seven years.

Bankruptcy FAQs

Q: I was recently turned down for a job. Later I found out that the employer looked at my credit record and saw that I had declared bankruptcy a few years ago. Can they do that?

A: Yes, definitely. Many businesses—including employers, utility companies, banks, mortgage companies and so on—can look over your credit record. Bankruptcy can follow you for years and hurt your ability to take out a loan for a home or car, get utility service or even get a job.

Q: I am still paying on my car, but I intend to file for Chapter 7 bankruptcy. I'll be able to keep the car, right?

A: Maybe yes, maybe no. Your car loan probably is a "secured" loan. That means if you do not keep making the payments, your car could be repossessed.

Q: I filed Chapter 13 bankruptcy five years ago, and now I need a car. Places are willing to loan me the money, but they want to charge me a high interest rate. Does this seem right?

A: The amount of interest a company charges is partially based on its risk of loaning you money. Businesses need to know that you will pay back the loaned money. Since you filed for bankruptcy, you will be seen as a bad risk. While some places won't offer you credit at all, others will charge you a higher interest rate for a loan. This is what can be expected until the bankruptcy comes off your credit record in seven years.

Getting Help With Your Debt

1. Call your creditors to discuss your options, and call them before you miss a payment. This may be a difficult step, but it is less embarrassing than receiving telephone calls from creditors demanding payment. Often, you can work out terms with your creditors. Perhaps your creditors will divide payments into smaller amounts or even forgive some of your debt. Negotiate with lenders. They may suspend payments, lower payments, waive late fees or forgive part of the loan. Get any agreement in writing.

2. Go to a nonprofit credit-counseling service such as the National Foundation for Credit Counseling (NFCC). These nonprofit services can put you on a budget and help you negotiate with lenders. To contact the NFCC, visit www.nfcc.org or call 1-800-388-2227.

3. Stay away from so-called “credit-repair” companies which offer to fix your credit history for a fee. Only you can repair your bad credit by repaying your debts and paying your current bills on time. Promises like “We can erase your bad credit—100 percent guaranteed” are dangerous. To check out a credit-repair company’s reputation, contact the Better Business Bureau (www.bbb.org) or your state’s attorney general (www.naag.org, and click The Attorneys General at upper left).

Only you can repair your bad credit by repaying your debts and paying your current bills on time.

Using A Debt Recovery Worksheet

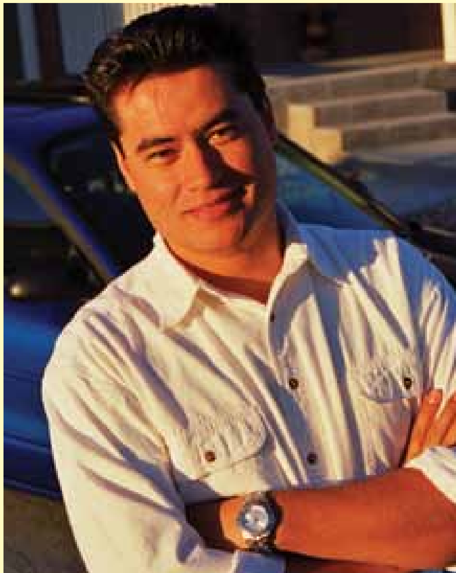
First, make several copies of the worksheet below (one per creditor). On each worksheet, list the interest rate, amount owed, and the minimum monthly payment. Put your worksheets in order, from the debt with the highest interest rate to the lowest. Pay as much as you can on the debt with the highest interest rate while still making the minimum payment on other debts—and not adding new debt. Soon, if you make steady payments, the amounts owed will go down. The debts will be reduced even faster if the amount you pay each month is more than the minimum payment due.

When one debt is eliminated, celebrate your progress—just don't let your celebration land you in debt again. Then, take the amount paid monthly on the paid-off debt and apply it to the unpaid debt with the next highest interest rate.

Debt Recovery Worksheet

Creditor/Purpose:____ **Interest Rate:** _________

Interest Rate	Amount Owed	Minimum Monthly Payment	Payment Due Date	Amount Paid and Date



If you must have a credit card, be sure to shop around for a lower interest rate.

Sal's story

After Sal graduated from college, he treated himself to a new flat-screen TV. He wanted the best and bought the TV for $1,000. He had not yet received his first paycheck from his new job, so he charged the TV on his credit card.

The offer for this card, with an 18 percent interest rate, was sent to Sal in the mail his senior year. He did not shop for a lower rate. In fact, he planned to pay off the full $1,000 soon. However, since he was just starting out, he had many other expenses, and soon found himself paying just the minimum of $40 each month. It didn't seem like much.

Seven-and-a-half years later, Sal finally finished paying for that TV. In addition to paying back the $1,000, he paid $280 in interest.

How To Use A Credit Card Wisely

If you take a look at Sal's story and the chart below, you can see that paying interest on credit card debt is not cheap. In addition, using a credit card makes it too easy to get into burdensome debt. Then why use a credit card at all?

Credit cards are a convenience and are much safer than carrying cash. If your card is lost or stolen, you are responsible for no more than $50 of unauthorized charges—*if* you call the card company as soon as you realize the card is missing.

In some instances, credit cards are necessary. Some types of purchases require you to use a credit card or a debit card, including airline tickets, car rentals, hotel reservations, and items bought online. A credit card also helps you cover emergencies—such as car repairs—that may cost more than you have in your checking account.

You may want to use a credit card to establish your creditworthiness as well. That's right. You have to borrow to prove you can borrow responsibly. If you apply for a credit card, then use it and promptly pay back what you owe, you begin building a credit history that will show up on your credit report. This topic will be covered more in the following pages.

So if—and only if—you have the income to pay back what you borrow, you may want to consider applying for a credit card. Be sure to shop around for the best credit terms. Interest rates vary greatly and even 1 or 2 percentage points can make a big difference.

Remember Sal's story? Look how much Sal could have saved in interest charges on his $1,000 purchase if he had shopped around for a card with a lower rate. Also, consider how much he could have saved if he had paid more than the minimum amount every month or saved up enough to buy the flat-screen TV with cash.

Rate	Number of Months to Pay Off $1,000 of Debt*	Interest Paid
18%	**90 months**	**$280**
16%	**31 months**	**$205**
14%	**30 months**	**$173**
12%	**29 months**	**$143**

**Assumes a balance of $1,000 and a minimum monthly payment of $40.*

Credit Card Tips

If you choose to use a credit card, here are some tips to help you use it wisely:

- Use only one or two cards.
- If you are just starting out, consider using a secured credit card to impose some self-restraint. Using a secured credit card requires you to deposit money into your account in advance of using your credit card. (See "Using a Secured Credit Card" on Page 20.)
- Keep track of what you charge just as you would with a checking account. That way, you won't be shocked when your credit card bill arrives.
- Use credit cards only for essential needs.
- Save for big-ticket items instead of putting them on a card. If you must borrow for those items, less expensive loans from banks and credit unions may be available. Shop around.
- Pay credit card bills as soon as they arrive. This lowers the average daily balance on which interest is charged and avoids late payment fees.
- Always pay more than the minimum balance due. If at all possible, pay off the entire balance each month.
- If the balance begins to increase, quit using the card for a while.
- If the balance continues to increase, leave the card at home.
- If the balance still continues to increase, call the credit card company and request to have your credit limit lowered. (Note that lowering your credit limit can affect your credit score.)
- Use a card with a low interest rate and either a low annual fee or no annual fee. Shop around on the Internet or through offers sent to you in the mail. Rates vary widely. (Credit cards issued by department stores tend to charge the highest interest rates.) Use the Credit Comparison Worksheet on Page 20 to compare interest rates and fees from at least three lenders.
- Be wary of cards that offer extremely low interest rates "for a limited time." All too soon, that time ends, and the new interest rate charged may be well above average interest rates.
- Pay attention to the minimum payment disclosures on your credit card statements. The disclosures tell you how long it will take and how much money you will spend to pay off your credit card balance if you pay only the minimum amount due.

Using A Secured Credit Card

If a standard credit card isn't right for you, another option is to use a secured credit card. Secured credit cards work just like other credit cards except that they require the cardholder to make a security deposit prior to using the card. For example, the cardholder might be required to deposit $500 as collateral for a $500 line of credit. Here are some points to keep in mind if you are interested in using a secured credit card:

1. Make sure a bank or other reputable financial institution issues the card. Cards advertised on TV sometimes can be expensive.
2. Find a card that pays interest on the security deposit.
3. Apply only for cards with well-known names, such as Visa and MasterCard.
4. Always ask about application fees; these can be high.
5. Don't apply over the telephone; some companies charge expensive fees simply for calling them.
6. Get a list of reputable secured card issuers from CardTrak (www.cardtrak.com) or Bankrate.com (www.bankrate.com).

Understanding Interest, Fees, and Finance Charges

Interest is the price paid for the use of someone else's money.

Interest can be as high as 22 percent on some department store credit cards. Credit card companies, banks and some department stores often charge annual fees, as well as fees for late payments.

The cost to you of using a credit card includes both interest and sometimes fees. Interest and fees added together are a finance charge. The finance charge also is expressed as an annual percentage rate (APR). The company offering you credit is legally obligated to disclose the APR. Be sure to compare the APR charged by several companies before choosing a card.

Use this handy worksheet to make your credit card comparisons. You can find the information you need from credit card offers sent to you in the mail, Internet searches on the credit card companies and credit card company brochures.

Be sure to compare the APR charged by several companies before choosing a card.

Credit Comparison Worksheet

Characteristic	American Express	Discover	MasterCard	Visa
Interest rate (APR), for example, 18%				
Annual fee, for example, $25/year				
Other fees, for example, $25 late fee				
Grace period, for example, 20 days				
Other features, for example, cash-back rebate				
Other				

Your Credit Report

Your power to borrow depends on your reputation for repaying your debts. A credit report is a record of how you have paid your credit card debt and other loans over time. A credit report shows:

- How much debt you have.
- If you have made payments on time.
- If you have not paid back some loans at all.
- How long you've used credit.
- The dollar amount of credit you have available.
- The amount of credit you're using.
- Whether any of your accounts have gone to collection.
- If you've declared bankruptcy.
- If you have any liens against you.
- If you have any unpaid bills, such as utility bills.

Credit reports do not show information about your race, religion, medical history, personal lifestyle, political preferences, specific purchases, criminal record or any other information unrelated to credit.

Creditors rely on your credit information to see how you've handled your loans in the past and decide how likely you are to repay a new loan. When you apply for a credit card or a loan, you give the creditor permission to order your credit report from a credit reporting agency.

Resources

Annual Credit Report
1-877-322-8228
www.annualcreditreport.com

Consumer Federation of America
www.consumerfed.org
(choose Finance, then Credit and Debt, then Credit Scores and Reporting)

Federal Reserve System
www.federalreserve.gov
(click Consumer Information, then Consumer Credit)

How to Order a Credit Report

The best way to know what is on your credit report is to order one for yourself and review it carefully. It's a good idea to order your credit report once a year to make sure there are no errors on it.

The Fair and Accurate Credit Transactions Act (FACTA) of December 2003 gives all consumers the right to review their credit reports, free of charge, each year.

To order your free report:

- Visit www.annualcreditreport.com
- Call 1-877-322-8228

It's a good idea to order your credit report once a year to make sure there are no errors on it.

When you order your report, have ready your Social Security number, date of birth, current and previous addresses for the past five years and maiden name, if applicable.

If you order another credit report after receiving your free one, you may have to pay a small fee (about $8) to get it. Credit reports are free after you have been turned down for credit. However, you must ask the agency that produced the credit report for a copy of it within a specified period of time after being turned down, usually 60 days.

Successful credit repair requires that you put everything in writing. When disputing items, make sure your communication exchanges are documented.

How to Correct Errors

It is important to check your credit report, since about 25 percent of all credit reports contain inaccurate information. Errors or outdated information that appear on your credit report may result in a low credit score that can jeopardize your chances of being approved for a loan or credit card.

The good news is that you have the right to have the mistakes corrected at no charge to you. The bad news is that the process of correcting an error requires patience and persistence. Here's how to get started:

1. The credit report itself may include information on how to correct errors. Follow the instructions that you get with the credit report to tell the credit reporting agency about the mistake. Most credit bureaus offer an online dispute form on their Web sites.
2. A telephone call to the agency alerting it of the error may take care of the problem, but always follow up with written documentation.
3. If more information is needed to correct the error, the credit reporting agency will tell you what to send. For example, the agency may ask for copies of canceled checks or other payment information. If you have kept good records of this information, it will be much easier to show where a mistake occurred.
4. You also may wish to explain the problem in a brief letter. The credit reporting agency must investigate your complaint within 30 days and respond with its results. As part of its investigation, the agency will check with the creditor whose information you are questioning. If the agency finds that the information in the credit report is inaccurate, the creditor must notify the other major credit reporting agencies of the error so they can correct their information, too.

If the credit reporting agency does not find an error, but you still believe your credit report is inaccurate, you can contact the creditor directly to try to straighten out the problem. When you resolve the dispute, ask the creditor to send a copy of the correction notice to the credit reporting agency and to you.

You also have the right to explain your side of the story on the credit report if an issue remains unresolved. You may write up to 100 words to explain the situation. The statement will appear on your credit report. For example, if you did not pay a car repair bill because the mechanic did not fix the problem, the unpaid bill may show up on your credit report, but so will your explanation.

Part two **Your Savings »**

Starting a Savings Habit

The second building block for reaching your dreams is to develop a strong savings habit. When you put money away, it's the same as saying, "I believe in my future, and I'm willing to take charge of it." Saving is simply the faith you have in yourself put into action.

If you haven't successfully put money aside in the past, that's all right. Having read Part One and applied some of the techniques discussed there, you have concluded that saving some amount is possible—no matter the size of your paycheck. Here in Part two, we'll show you how to make use of your money so you can:

- Save for short-term goals,
- Save for an emergency,
- Finance your long-term goals and dreams.

Start Saving Early. It Pays!

Individuals who start saving early in life have an advantage over those who start later. That's because when you put away even small amounts, a very important financial concept is working for you: the time value of money.

When you put money away into savings or investments, the amount you save or invest is the principal. The principal earns interest, which is then added to the original principal. This amount—principal plus interest—again earns interest, and so on. This process is called "compounding," and its effect is like magic when you let it work for you over time.

Here is a dramatic example of why it pays to start saving and investing early in life. Imagine the following:

Alletta starts investing $1,000 a year at the age of 22 in a tax-deferred individual retirement account (IRA). "Tax deferred" means that interest earned isn't taxed until it is withdrawn, usually years later. Alletta quits putting money in her IRA after nine years, at age 30, but leaves her money in the IRA so it will grow through compounding until she reaches retirement age.

Her twin brother, Cory, doesn't start investing $1,000 a year, until he's 31 years old. But once he starts, he invests $1,000 in his IRA every year for 34 years, until he reaches retirement age. Alletta and Cory both earn 9 percent annually on their IRAs. Who has the most money accumulated in their IRA for retirement at age 65? Look at the chart below—you may be surprised!

	Alletta's IRA	Cory's IRA
Average annual rate of return	9%	9%
Number of years of contributions	9	34
Amount contributed	$1,000 per year for 9 years ($9,000 total)	$1,000 per year for 34 years ($34,000 total)
Future value	$243,863 at age 65	$196,982 at age 65

Making The Commitment To Save

The first step in setting aside money for savings is deciding that it's possible to do so. Far too many people think they just can't save money. If you are one of those who never seems to have anything left from your paycheck after paying bills and living expenses, start thinking of saving as a necessity.

The secret of saving is to pay yourself first. When you collect your paycheck, set aside a certain amount for savings. That's paying yourself first—and it works.

The example on Page 23 shows why it's so important not to postpone saving and investing. For Cory to have as much saved in IRA funds as Alletta at retirement age, he would have to save $1,238 each of the 34 years—nearly 24 percent more each year for almost four times as many years! This example also shows the power of deferred taxes. Money invested in an IRA, a 401(k) plan, or a 403(b) plan (see Pages 37 through 39) compounds faster than if the earnings are taxed each year.

The first step in setting aside money for savings is deciding that it's possible to do so.

If you think paying yourself first is easier said than done, here are some ideas to get started

- If possible, have your employer automatically deduct money from your paycheck and deposit it into a savings account. What you don't see, you won't miss. It's fine to start small (say $10, $15 or $20 a week). You will be amazed at how fast your money grows.
- Another option is to have your financial institution automatically deduct a set amount from your checking account each month and transfer it into your savings account. Your financial institution usually can set the date of the automatic transfer for the day (or a few days after) your pay is deposited.
- Try putting $1 a day, plus pocket change, into a large envelope or a jar. At the end of the month, you probably will have about $50 to deposit into your savings account. That's $600 a year (not including interest)!
- Deposit a tax refund, pay raise or bonus into your savings account rather than spending it.
- Include "savings" as an "expense" on your spending plan (see Page 44). Make saving a priority over spending for things such as movies or eating out.
- Send in product rebates. When you receive the rebate checks, deposit them into your savings account. (Most people fail to take advantage of this savings tool.)
- Break costly habits, such as excessive clothes buying, and save the difference. For example, if you want to spent $75 a month on trendy new T-shirts, put the $75 into your savings account instead.
- After paying off a loan, put the same amount each month into savings (if the money isn't already going to paying off another loan).

Earlier in these pages, we talked about plugging your spending leaks. Now would be a good time to review that section for more ideas (see Page 5).

Where Do I Put My Pay and My Savings?

Once you start saving money, you'll need a savings account. You need a checking account into which you can deposit your paycheck. A checking account also gives you a safe, convenient and inexpensive way to pay bills. Both checking and savings accounts are offered by banks, savings and loan associations and credit unions. It is not necessary to have your savings and checking accounts at the same financial institution, although that may be more convenient and it may permit you to have a free checking account.

A checking account is a service that financial institutions provide. Make sure you understand what fees you will be charged, if any. A savings account pays you money in the form of interest for the right to use your money while you leave it on deposit.

How much money do I have to deposit to open the account?

Your Checking Account

Before you open a checking account, shop around. Here are some questions to ask:

- How much money do I have to deposit to open the account?
- What is the minimum balance to avoid fees?
- Are there any monthly fees charged to the account (for instance, for falling below the minimum balance)?
- Will I get more benefits if I keep a larger balance?
- Is there a charge to write checks?
- How much do new checks cost?
- Is there a "basic" account with lower fees if I write only a few checks each month?
- Do any checking accounts earn interest? If so, do they require a minimum balance?
- What is the bank fee if I write a check that my account cannot pay (a "bounced check" or "non-sufficient funds" fee)?
- Is overdraft protection available?
- What are the automated teller machine (ATM) fees?
- Is there a fee for dealing with a teller?
- Is the bank insured by the Federal Deposit Insurance Corporation (FDIC)?
- Is the credit union insured by the National Credit Union Administration (NCUA)?

(See Page 30 for more information.)

Compare Checking Accounts

Call several financial institutions and talk to them about their checking accounts. Ask them to send you a brochure, and check out their Web sites. From all this information, make your checking account comparison.

Checking Account Feature	Bank A Name	Bank B Name	Savings & Loan Name	Credit Union Name
Minimum deposit to open the account?				
Minimum balance to keep in the account?				
Monthly fees or service charges?				
Are there more benefits for a larger balance?				
Cost per check written?				
Cost for 200 new checks?				
Is there a "basic" account that costs less if I write only a few checks a month?				
Are there any accounts that earn interest?				
Bounced check fee?				
Overdraft protection?				
Convenient location?				

The bank, savings and loan association or credit union I will use is:

Making Your Checking Account Work For You

Today's checking accounts include features that can make money management convenient. For example, you can ask your employer to pay you through direct deposit, so your paycheck is deposited directly into your account electronically. Your paycheck funds will be there on payday, ready for you to use. You will not have to go into the bank and wait in line to make your deposit, and there is no chance of losing your paycheck or having it stolen. Your money is easy to track. You will receive a statement from your employer showing exactly how much was deposited to your account.

Also, if you have a savings account, you can ask your employer to have part of your pay directly deposited into that account. This is highly recommended. If you start with an affordable amount, you won't miss it and your savings will grow without effort on your part. An alternate way to "pay yourself first" is by having money transferred automatically from your checking account to your savings or investment account on a certain day of each month.

Another convenient feature is automatic bill payment from your checking account. If you have regular bills (for example, mortgage or car payments), you may want the bank to transfer the bill amount to the company or institution to whom you owe money. This way you don't have to write a check, and you save time and postage. Most importantly, you can be sure your bill is paid on time, and that you avoid penalties for late payments. But be careful! If you lose track of your checking account balance, or if for some reason you run low on money, you could overdraw your checking account. This could cost you a lot of money in fees. Keep a reminder in your checkbook register to deduct automatic payments when they occur. Some banks also offer online payments, where you can make payments over the Internet.

Automatic payments can work for you—or against you

One couple pays a price for automatic payments

When Tina and Tyler bought their first home, they chose the automatic payment feature so that their house payments went directly from their checking account to the mortgage company. At first it was great—no checks to write, no worries about late payments.

When their first child, Alicia, was born, Tina quit work for three months to care for the baby. With no second paycheck and extra expenses, money was a little tight. A little while later, one of them forgot to enter a check written for groceries. Not only did the automatic payment bounce, but so did two other small checks. The mortgage company charged a $25 penalty because the payment was late. Also, the bank charged a $30 overdraft fee for each of the checks. Tina and Tyler needlessly lost a total of $85.

After paying these charges, Tina and Tyler decided to drop the automatic payment on their mortgage until they got their finances back under control. For them, this convenience feature was no deal.

Automatic payments save the day—and money

Recent college graduates and newlyweds Joe and Jennifer are accustomed to doing everything online. They use direct deposit and make as many bill payments online as possible. Joe and Jennifer generally pay all their bills on time, except for those pesky bills that can't be paid online. Sometimes those bills sit in a pile until one of them gets around to buying stamps and writing checks. As a result, they've paid late fees.

So when they bought a one-year-old used car, Joe and Jennifer requested automatic payments. Their car payment money stays in their checking account, earning interest, right up until it's due each month. (Their checking account pays interest if they keep it above a certain balance.) Joe and Jennifer have signed up for e-mail "spending alerts" and they both frequently check their bank account balances using the Web browsers on their phones. By keeping close tabs on their accounts, they can ensure that their online payments automatic payments, and daily spending aren't getting them in trouble.

Tips For Using A Checking Account

The following tips can help you keep your checking account under control:

- Keep track of how much money is in your checking account. Write down in your checkbook register the amount of each check you write from your account. Then, subtract the amount of each check from your current balance to keep a running balance of how much money you have left in your checking account.
- If you use an ATM card or debit card, write down all of those transactions in your checkbook register, too.
- Never write checks for more money than you have in your account. The bank's non-sufficient funds (NSF) service charges can be as high as $35 for each bounced check. Bounced checks will hurt your reputation with the bank and with people to whom you owe money. The business to whom you wrote the check may charge a bounced check fee as well.
- Be careful about using your debit card when your account is running low. Depending on how a business verifies your card, you can get approval to spend more than you have in your account. Then, the bank charges you $35 or more for overdrawing your account.
- When the bank mails your checking account statement each month, promptly balance your checkbook by comparing the bank's figures with your own. Follow the tips listed in How to Balance a Checking Account on Page 29. If needed, ask a bank or credit union representative to help you balance your checking account. Do not use the ATM to determine the balance in your checking account; some checks may be outstanding. It is likely, then, that the balance on your ATM statement will show that you have more money than what is actually in your account.
- Promptly report any errors, lost or stolen checks or lost or stolen ATM cards to your bank or credit union.
- Keep your bank statements, check registers, duplicate checks and canceled checks (if your bank returns them) with your other financial records. Canceled checks are a good way to keep track of what you spend. In addition, you may need this information to prepare and defend your tax returns or dispute an error on your credit report.
- When you are ready to dispose of any paperwork from the bank (statements, canceled checks, etc.), shred it to prevent identity theft.

How To Balance A Checking Account

1. Place all canceled checks in numerical order when you get them back at the end of the month. If your bank does not send your canceled checks back, the bank either will send you a statement and/or let you view online all the checks that have been paid from your account.
2. Verify your withdrawals. Make sure you actually made them. Withdrawals include amounts for written checks, ATM withdrawals and debit card charges.
3. Total up the amounts of checks and debits that have not been posted, or paid.
4. Take the statement ending balance and add to it the total of deposits that do not appear on the statement.
5. Subtract the total of outstanding checks (checks you wrote that are not yet paid). Also, subtract ATM withdrawals, debit card transactions and/or automatic withdrawals (for savings or monthly bills) that you posted in your checkbook register but are not listed on your statement.
6. Subtract any bank fees (for example, to print checks) that you posted in your checkbook register but are not listed on your statement.
7. The resulting balance should match the balance in your checkbook register.
8. If the numbers don't agree, check your math and look for missing transactions (for example, additional checks that have not cleared). Remember, you can always ask a bank or credit union representative for help (just be aware you might be charged a fee for this help, depending on your financial institution).

Balancing your checkbook verifies that your records match the bank's records.

Your Savings Account

Before opening a savings account, call several financial institutions and ask the following questions:

- How much money do I need to open the account?
- What is the minimum balance I will need to keep in the account?
- How much interest does the account pay?
- How often is interest credited to the account?
- How do I withdraw money when the time comes to spend or invest it?
- Is there a limit to the number of times I can withdraw money from my account each month without incurring a charge? (Remember, the whole point of having a savings account is to leave the money there, so a few reasonable limits on how often you can take money out should not be a problem.)
- When I take money out of the account, is there an effect on the interest earned?
- Is the bank insured by the FDIC? If it's a credit union, is it NCUSIF insured?

After those questions are answered, you also may want to ask about **Certificates of Deposit (CDs)** and **Money Market Deposit Accounts.** These accounts typically pay more interest than a regular savings account. But, for this higher interest rate, there is a trade-off. With a CD, the trade-off is that you have to leave your money in the account for a certain period of time. With a money market deposit account, the trade-off is that you have to keep a high minimum balance, such as $1,000, to earn the higher interest. The following paragraphs explain more about CDs and money market deposit accounts.

Certificates of Deposit. CDs are deposits you make for a specific period of time. At the end of that time period—called the maturity date—you get back the dollar amount of the CD (the principal) plus interest. CDs pay a fixed amount of interest, so the amount you can earn on a CD doesn't change over its time period.

You can choose a CD with a maturity period of one month, three months, six months, one year, two years, three years, and so on. The longer the maturity, the higher the interest rate you earn in your account. CDs are great when you have a specific time frame to meet a specific goal. For example, say you plan to buy a new car in three years. You can choose a CD with a three-year maturity. If you need the money before the CD matures, you may encounter some type of penalty (such as losing three to six months' worth of interest).

Money Market Deposit Accounts.
Compared to regular checking accounts that sometimes pay interest, you may earn a higher interest rate on money market deposit accounts. However, you may need to deposit as much as $2,500. (Each financial institution may require a different minimum balance.) Like a regular savings account, a money market deposit account may limit the number of monthly withdrawals and usually sets a minimum amount for each withdrawal. A money market deposit account may be a very good place to keep your emergency fund.

Keeping your money safe

When you select a bank for your checking and savings accounts, be sure the bank is insured by the FDIC. This insures your bank accounts (checking, savings, trust, CDs and IRAs) up to a total of $250,000 (note that the $250,000 insured limit for non-retirement accounts is currently set to expire at the end of 2013). Other accounts, such as mutual funds, may not be insured. Credit union accounts are insured in a similar manner by the NCUA.

Saving For Emergencies

Nobody can predict the future—so it makes sense to put aside money for a rainy day. Keep this emergency fund money in an account that is separate from your general savings. If you mix your emergency fund with your general savings account, it becomes too easy to dip into the emergency fund.

Using the money in your emergency fund is better than taking out a loan or cashing in your investments to pay for an emergency. If you take out a loan, you will have to pay interest. If you cash in an investment, you will lose interest and possibly some of the original investment.

Remember these points when building an emergency fund:

- The rule of thumb is to set aside enough to cover your basic living expenses for at least three months. (Saving even $500, however, can help you better cope with unexpected expenses.)
- Keep the money in an easily accessible savings account or money market deposit account.
- Do not keep the money in a long-term investment asset, such as a stock, mutual fund or a CD with a long maturity date..
- Use the money only for true emergencies, such as unexpected medical bills. If you lose your job, you may need your emergency fund for food, utilities, mortgage payments or rent and necessary transportation. (Usually, people can put off buying clothing for at least three months.)

For ideas on how to save money for an emergency fund, see Page 5: plugging spending leaks.

Here's how much I will need to keep in my emergency fund

Grocery bill for 1 month
$______x 3 months = $________

Gas/oil, electric, and water for 1 month
$______x 3 months = $________

Mortgage or rent for 1 month
$______ x 3 months = $________

Car payment and gas or bus fare for 1 month
$_______x 3 months = $________

Other debt payments for 1 month
$_______x 3 months = $________

Total amount I will need to keep in my emergency fund: **$**________

The Two-For-One Savings Plan

You know you need to set aside money to help pay for emergencies. You know, too, you need to save for retirement. But did you know that you can do both with one account? It's true. If you put some of your earnings into a Roth IRA, you can save for both your emergency fund and retirement goals.

The Roth IRA (or individual retirement account) works differently from most retirement plans. First, the money you put into the account comes from "after-tax" dollars, such as income from your paychecks. That means you already have paid taxes on the money. Over time, the money you put into your Roth IRA accumulates earnings. After you retire, you can take out the money you put in, plus the earnings, without paying taxes on any of that money. For more information on the Roth IRA and other tax-advantaged retirement accounts, see Pages 37-38.

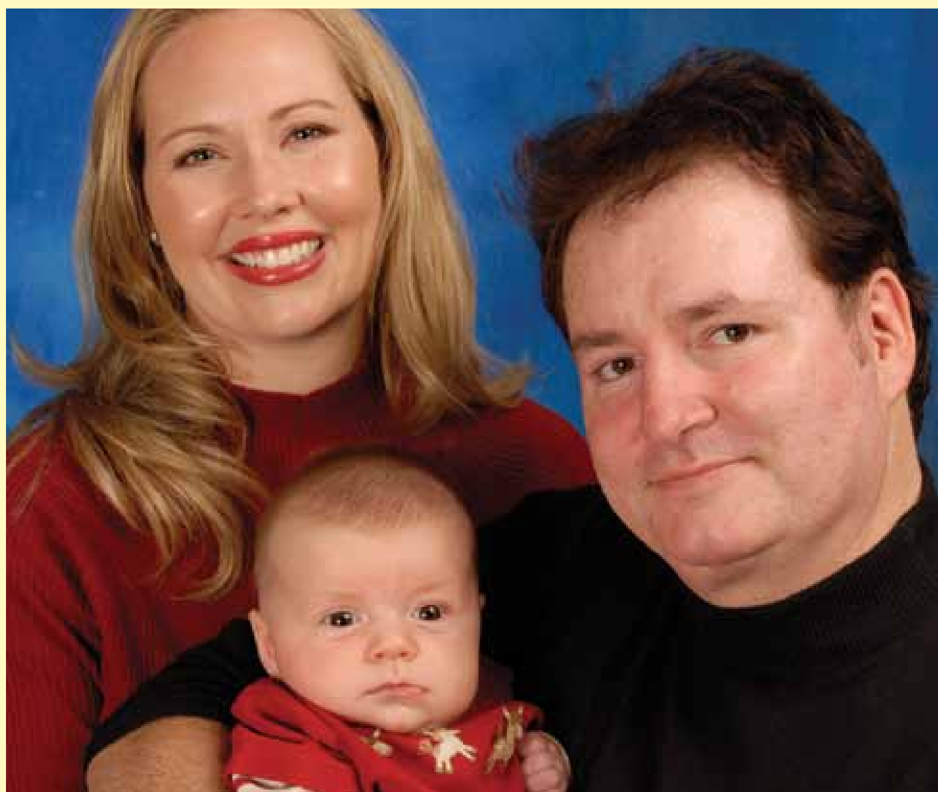
That's how the retirement part works, but how does this help you pay for emergencies? You can take out money you put into your Roth IRA at any time without paying a penalty or any more taxes. This means that your Roth IRA can help you pay for that "rainy day." (The penalty-free withdrawal applies to money you contributed, not earnings.)

Learn how Daniel used his Roth IRA

Daniel saved $500 and opened a Roth IRA. (This was the amount his financial institution required to open an account.) He opened a Roth IRA because he read that it would likely pay more in interest than a savings account, especially if he invested the Roth IRA money in mutual funds. Each month, Daniel put in at least $125. In a year, he had a total of $2,000 in his account. With his investment earning a 10 percent rate of return, Daniel earned $200, for a total of $2,200 by year-end. Then, Daniel's car broke down, and it needed $700 in repairs. He didn't have that amount of money in his checking account, and he didn't want to use his credit card. What could he do?

Daniel transferred $700 from his Roth IRA into his checking account. He didn't like taking the money out of his Roth IRA, but he decided it was a better choice than using his credit card, which charges 18 percent interest.

Of course, the best way to save for retirement is to put away money that you never use. Also, if you work for a business that has a retirement plan, it's a good idea to take part in that plan, too. This is especially true if your employer matches your contributions—that's free money!



Keep in mind a Roth IRA should be only part of your retirement savings. Still, a Roth IRA can be a good way to:

1. Possibly earn more interest than you would in a savings account.
2. Save for an emergency.
3. Help ensure your financial well-being during retirement.

Saving vs. Investing: What Is The Difference?

There can be confusion about the words "saving" and "investing." For example, someone might claim that a new car is an "investment." That's probably not true since most cars lose their value over time and an investment should ideally increase in value. For the purpose of basic money, think of "saving" and "investing" as methods of setting aside money for the future. Which method is best? That depends on your needs and goals.

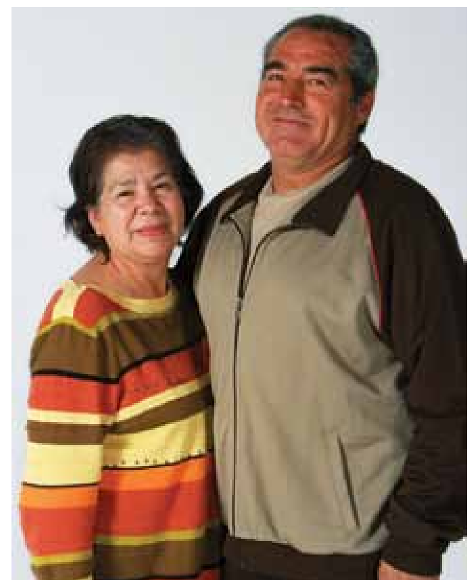
Saving means putting aside money in "low-risk" accounts. As mentioned earlier, that could include a regular savings account, a certificate of deposit (CD) or a money market deposit account. Use these accounts for money you want to be able to get to quickly, with little or no risk that you'll lose what you set aside.

Savings can be used to meet short-term needs (for example, an emergency, a down payment for a car or a major appliance). You also can use savings to build up the minimum amount needed to make an investment.

Investing means putting aside money into assets that have additional risks but typically offer greater return. The most common investment choices are stocks, bonds, real estate, and mutual funds. Although these assets have more risk associated with them, they are capable of earning more than low-risk savings accounts. Generally speaking, the longer you invest, the more the risks are reduced.

Investments are meant to pay for long-term needs, such as your children's education or your retirement. Investment accounts can be very volatile—they can lose (or gain) a great deal of value in a short period of time. As long-term goals approach, you should move the money for those goals from investments to savings. For a full explanation of investment risk, see The *Wealth Care Kit,* which is described on Page 3.

In time, you will have both short-term and long-term financial needs; therefore, you will need money in both savings and investments.



Double Your Money: The Rule Of 72

As noted earlier, key to investment success is **time.** The longer a sum of money earns compound interest, the larger it becomes. The other important factor is **rate of interest earned.** The higher the interest rate, the more quickly a sum of money will grow.

To see how fast your money can grow in different savings and investment products, use **The Rule of 72,** which is an approximation of how quickly your money will double.

Option 1. To see how long it will take to double a sum of money (for example, turn $500 into $1,000), divide 72 by the interest rate. The example below assumes an 8 percent interest rate.

**72 ÷ by 8 (the interest rate)
= 9 (years)**

So, in nine years, $500 doubles to $1,000 at 8 percent interest.

The rate of return can make an amazing difference. Investors need to balance higher rates of return with increased risk.

Option 2. To determine the interest rate needed to double your money, divide 72 by the number of years in which you want to double your money. The example below assumes an investor wants her money to double in six years.

**72 ÷ by 6 (the desired number of years)
= 12 (the interest rate)**

So, to double $500 to $1,000 in six years, a 12 percent interest rate is needed.

The Rule of 72 shows that, over time, investors earn more on their money than savers. Using sample rates of returns in the table below, compare the outcomes of two different average returns from individual stocks or stock mutual funds compared to money market deposit accounts. Using an 8 percent average return on individual stocks or stock mutual funds and a 4 percent money market deposit account return, compare the number of years it takes to achieve the same dollar value of returns. (Note that these interest rates and returns are for illustration purposes; they are not indicative of any specific products or returns.)

Saving $1,000		Investing $1,000	
Money Market		Stock/Mutual Fund	
Number of Years	**4% Return**	**Number of Years**	**8% Return**
18	$2,000	9	$2,000
36	$4,000	18	$4,000
54	$8,000	27	$8,000

Some Investments To Learn About

Following are some basic investment types. To learn more, visit the Web sites in the sidebar at right. Remember that the money you initially invest is called the "principal."

Stocks: Owning stock means you own part of a company. In general, if a company does well, its stock increases, too. You also might receive some of the profit in the form of a dividend. Of course, if the company does not do well, the stock goes down in value. Also, stocks can be affected by outside factors, such as political and market events, that have nothing to do with the company's performance. Therefore, stocks can be risky. However, over time—and the "time" part is important—many stocks do increase in value. To decrease the risk that comes with stocks, it's a good idea to own stock in more than one company. Also, it is a good idea to own stock in different industries (diversifying your investments) and to hold these stocks for long periods of time.

Mutual Funds: A good way for most people to diversify their investments is through mutual funds. A mutual fund pools your money with money from many other people. Instead of buying just a few assets, a professional fund manager purchases many stocks, bonds, and/or other assets. This diversifies your investment so that you don't have "all of your eggs in one basket." Professional management and diversification are two of the main benefits of mutual funds.

Bonds: Bonds are issued by both companies and government entities (federal, state or local). When you buy a bond, you lend money to the issuer. The bond represents a legal promise to pay you interest for the use of your money (for example, for bridges and highways) and to repay you the original amount you paid for the bond (the principal). There are various types of risk associated with bonds. (See The Wealth Care Kit, which is described on Page 3, for details.) However, the potential for your money to grow is greater than if your money sits in a savings account.

Treasury securities: Treasury securities include federal government bills, notes and bonds. The principal is safe as long as you hold the security to maturity (the time at which the government agrees to pay back the principal). However, if you sell the security before maturity, you risk losing some of the principal if interest rates have risen since your purchase date.

Real Estate: A real estate investment may include residential rental property, raw land, real estate investment trusts (REITs) or commercial businesses. Real estate is an attractive investment to many people. It can be seen and touched, and it offers pride of ownership. However, an investment in real estate carries some distinct risks.

It is possible for property values to go down as well as up. If you sell the property when it is "down," or worth less than the price for which you bought it, you could lose some of your investment principal.

Resources

It's important to thoroughly educate yourself on the various types of investments before getting started, because everyone's risk tolerance and financial situation is different. Online resources to check out include:

Alliance for Investor Education
www.investoreducation.org

American Association of Individual Investors
www.aaii.com

Bloomberg
www.bloomberg.com

CNN Money
www.money.cnn.com

Investing for Your Future, a basic at-home study course
www.investing.rutgers.edu

Investment Company Institute
www.ici.org

Investorguide.com
www.investorguide.com
(click University)

Kiplinger.com
www.kiplinger.com

Morningstar
www.morningstar.com

National Association of Investors Corporation
www.betterinvesting.org

Quicken
www.quicken.com

Smart Money Magazine
www.smartmoney.com

Interest rates may rise, causing your monthly payments to go up if you have an adjustable-rate mortgage rather than a fixed-rate mortgage. Also, real estate is subject to property taxes, even if it is not income-producing. Most of all, real estate is not a "liquid" investment. That is, it may be hard to sell the property when you want, leaving your money tied up when you need it. There is potential for high returns on real estate investments, and there is potential for high losses.

Dollar-Cost Averaging

Because investments can go up and down in value over a short time period, they make some people nervous. These people try to figure out the best time to buy an investment, then worry that they bought it too early or too late. A better investment strategy is dollar-cost averaging. This means investing a regular amount (such as $50 or $100) at a regular time interval (such as monthly or quarterly). Below is an example of dollar-cost averaging with four monthly investments in a mutual fund.

Date of Investment	Investment Amount	Cost Per Share	Shares Bought
Jan. 1	$100	$10	10 ($100 ÷ $10)
Feb. 1	$100	$8	12.5 ($100 ÷ $8)
March 1	$100	$5	20 ($100 ÷ $5)
April 1	$100	$8	12.5 ($100 ÷ $8)
TOTAL	**$400**	**$7.27 (average)**	**55**

The average cost per mutual fund share is $7.27 ($400 invested divided by 55 shares). Notice that the lower the cost per share, the higher the number of shares the investor can buy with the $100 investment.

Dollar-cost averaging does not guarantee investment success. What it does is take the emotion out of investing. You follow a plan of routine investing, regardless of what is happening in the stock market. Dollar-cost averaging also makes investing a regular habit. It fits perfectly with payroll deduction plans offered by employers, or periodic automatic transfers from your checking account. Banks, credit unions, savings and loans, mutual fund companies and financial planners can assist you with dollar-cost averaging techniques.

Saving for retirement shouldn't come last!

Many people look forward to retirement as the time when they will be able to kick back and do the things they love. That could mean traveling, starting a business or just living comfortably. No matter what your retirement dreams are, it's a good idea to start planning—and investing—for retirement now. With years to go before retirement, you can set aside retirement savings from each paycheck, and let time and compound interest work their magic for you.

The best way to build your retirement savings is through automatic savings. For example, your employer, at your request, can transfer a portion of your paycheck directly into your retirement savings account. You can request that your bank or credit union automatically transfer money from your checking account into your retirement account on the day of the month you choose. Dollar-cost averaging is a great investment strategy to use for automatic retirement savings.

If you're unsure whether your retirement planning is on track, try the Employee Benefit Research Institute quiz "What Is Your R3—Retirement Readiness Rating?" You can access it online at www.ebri.org (type "R3" in the Search field at the top). Another useful tool is the Social Security Administration's benefit calculator. Visit www.ssa.gov and click "Retirement" to find out how much Social Security income you can expect.

Resources

For more information or to find a financial planner, visit:

Certified Financial Planner Board of Standards, inc.
www.cfp.net

Understanding your retirement paycheck
www.myretirementpaycheck.org

Financial Planning Association
www.fpanet.org

The American Institute of Certified Public Accountants
www.aicpa.org

The National Association of Personal Financial Advisors
www.napfa.org

Society of Financial Service Professionals
www.financialpro.org

Tax-Advantaged Retirement Accounts

To make it easier to grow your retirement nest egg, the federal government enables you to put your retirement investments into certain accounts that have special tax advantages. These accounts, such as IRAs, are available from mutual fund companies and stock brokerage houses. Financial institutions, such as banks, credit unions and savings and loan associations, also offer and maintain these accounts. Be sure to ask about costs, such as annual fees and sales charges, before opening a retirement account.

Often, you can choose the assets you want to put into a retirement account. You can choose among cash, CDs, money market funds, annuities, mutual funds, stocks, bonds and other assets. (In general, you cannot invest in collectibles such as coins, stamps, antiques and so on in a retirement account.) Ask your employer, financial planner, insurance agent, stock broker, or your financial institution about investment options.

One smart way to invest for retirement is to use accounts that let your money grow without generating a tax bill each year.

Individual Retirement Accounts (IRA)

If you have a job, you can put away as much as $5,000 each year ($6,000 if you are age 50 or older) in an Individual Retirement Account (IRA). If you have a nonworking spouse, you can open a spousal IRA and contribute from your earnings up to the same limits. Contribution limits can change, so double check the current amounts with your financial planner or consult the Internal Revenue Service (www.irs.gov, search "IRA contribution limit").

The money you put into an IRA often can be deducted from your taxable income, so you pay less in taxes each year. Your IRA money is not taxed until it is withdrawn. This is a big advantage because you end up having more money earning compound interest year after year.

You can withdraw your IRA money without penalty after you reach age 59½ . Under certain conditions, such as buying a home, you may be able to withdraw funds out of certain IRAs without paying a penalty. If you withdraw your IRA money and do not meet the certain conditions, you will face a large penalty. You will have to pay $1 for every $10 that you withdraw (10 percent). In addition, you will have to pay income taxes on the withdrawn money.

The Roth IRA

As with a regular IRA, the money you contribute to a Roth IRA is made with "after-tax" dollars. The difference is that regular IRA contributions lower your taxable income while Roth IRA contributions do not. The amount of money you can put into a Roth IRA is the same as a traditional IRA, but you can't fully fund both types of IRAs. Roth IRA withdrawals work as follows:

- After age 59½, you can take out the money you put in—plus the interest earned on the account—without paying taxes on any of that money.
- Interest earned on Roth IRA contributions can be subject to income tax upon withdrawal if funds are withdrawn within the first five years from the date of your first contribution. Such a withdrawal is an "unqualified distribution." Only qualified distributions are completely exempt from taxes.
- You can withdraw the original money you put into a Roth IRA before reaching 59½ without paying a penalty or taxes. (Of course, withdrawing funds prior to retirement reduces your potential earnings for retirement.)

For more information about how Roth IRAs work, see Page 32. The rules for Roth IRAs are different if you convert another investment or savings account into a Roth IRA. It is best to talk with a tax advisor or financial planner and visit www.irs.gov to get the latest information about a Roth IRA.

401(k) Plans

This type of retirement plan is offered by employers. Usually, you sign up for the plan and indicate to your employer a percentage of your paycheck to transfer into your plan. (The maximum dollar amount you can contribute each year is set by the federal government.)

Many employers sweeten the pot by matching a percentage of your contributions. For example, an employer might contribute 25 to 50 percent for every dollar (25 to 50 cents) you contribute to the plan. This is equal to getting a bonus, so it pays to put in as much as you can afford.

A 401(k) offers you a number of advantages:

- You do not pay taxes on the money you contribute; in other words, you make "pre-tax" contributions.
- You pay taxes on those contributions only after you withdraw them from your plan—usually after you retire.
- The money you contribute to a 401(k) plan usually can be invested in a selection of investments that range from reasonably safe to risky.

Resources

Planning for retirement can be a complex process, but there are numerous online resources to help you find your way:

AARP
www.aarp.org

American Savings Education Council
www.choosetosave.org

Social Security Administration
www.ssa.gov

U.S. Department of Agriculture's Cooperative Extension Initiative on financial security in late life
www.nifa.usda.gov
(search "Online Tools for Later Life")

National Endowment for Financial Education
www.nefe.org
www.financialworkshopkits.org
www.smartaboutmoney.org
www.myretirementpaycheck.org
www.spendster.org

Many employers sweeten the pot by matching a percentage of your contributions.

After you contribute money to a 401(k) plan, leave it there. It's true that some 401(k) accounts permit you to borrow from them,but borrowing slows down the rate at which your account grows. If you borrow from your 401(k), you will have less money with which to retire.

Borrowed 401(k) funds must be paid back with "after-tax" dollars. Because you must pay income tax on 401(k) withdrawals after you retire, you end up paying income tax twice on borrowed funds: once when you borrow, then again when you retire. If you leave your job and cannot repay borrowed funds within a short time period, you will pay taxes on the balance. If you're younger than 59½, you also will pay a penalty of $1 for every $10 you borrowed from this fund.

To learn more about 401(k) plans and how they help you reach your retirement goals, you may want to visit The Profit Sharing/401k Council of America (PSCA) at www.psca.org.

403(b) Plans

Nonprofit organizations offer 403(b) retirement plans, which are similar to 401(k) plans. These plans are sometimes referred to as "tax-sheltered annuities."

As with a 401(k), you do not pay taxes on your contributions or on the amount of money the plan earns until you withdraw funds after you retire. Also, similar to the 401(k), you choose how your contributions are invested. There are limits on how much you can contribute each year. Taking money out of a 403(b) plan before you retire has the same 10 percent penalty that applies to the 401(k) plan.

Tax-Advantaged Ways To Pay For Education

The U.S. government not only provides tax-advantaged ways to save for retirement, but it also provides tax-advantaged ways to pay for education. These include Coverdell Education Savings Accounts, which apply to a child's entire education; 529 plans, which are helpful for traditional college; and HOPE Scholarships, which can be ideal for adult education. Be sure to consult a financial planner or tax professional on all these options.

- **Coverdell Education Savings Account (ESA):** A Coverdell ESA provides a tax-deferred method to save for elementary, secondary and post-secondary education expenses, including tuition, books, supplies, room and board, private school enrollment fees, and other qualified expenses. You can set up a Coverdell ESA for any child under the age of 18, and contribute a maximum of $2,000 per year per child until his or her 18th birthday. A Coverdell ESA can be transferred without penalty to another family member. The contributions are not tax deductible, but earnings accumulate tax free. The rules regarding the Coverdell ESA—including the contribution limit—may change over time. For more information, visit www.irs.gov and type "Coverdell" in the search box.
- **529 plans:** Established in 1996 and named for Section 529 of the IRS code, 529 plans provide tax incentives to set aside money for college. Each state offers its own plans—and its own type of tax incentives. The plan's beneficiary, usually a child or grandchild, can withdraw funds tax free for qualified educational expenses at any college in the country. The 529 plans are either savings plans, which can grow on a tax-deferred basis, or prepaid plans. For more information about 529 plans, visit the College Savings Plans Network at www.collegesavings.org.
- **HOPE Scholarship:** The HOPE Scholarship provides a tax credit up to $2,500 per student for four years of college or other eligible post-secondary training. The tax credit applies to tuition, fees, and course materials, minus grant aid, for families below certain income levels. For more information about HOPE Scholarships, visit the U.S. Department of Education at www.ed.gov and type "Hope" in the search box.

Additional tax-advantaged ways to pay for education include Lifetime Learning Credits, Education IRAs, student loan interest deductions and more. For more information, visit www.irs.gov.

Part Three **Your Future »**

Determining Your Financial Future

In this publication, we talk a lot about how to keep money from slipping through your fingers. We've talked about how to get out of debt and how saving and investing can make your money grow over time. But why make all the effort? Money cannot buy everything. It cannot even buy the most important things, such as a good reputation and loyal friends. However, there are many things that you might like to accomplish in life that do require money. What are they?

In this section, we provide information to help you answer that very important question and think through what you might like to accomplish with money. Once you have the answer, you can use goal-setting techniques to help make your future what you want it to be. By the end of this section, you will know:

1. How to set goals.
2. How to develop a spending plan.
3. How to reach goals by sticking to your spending plan.

What Are Financial Goals?

Too many people never ask themselves what they'd like to accomplish in life. They're far too busy trying to keep up with everyday life demands, such as paying the bills and taking care of loved ones. How do you take control of your life and move forward? The answer is planning. The first step in planning is setting goals.

Financial goals are the things you want to accomplish in life that cost money.

Example #1: Buy a $750 computer within eight months.

Example #2: Save $20 per week during the next year for a vacation.

Note that the goals mentioned have time frames (for example, eight months) and dollar figures (for example, $20 per week). These are SMART goals because they are:

S pecific

M easurable

A chievable

R ealistic

T ime-bound

Different goals will have different time frames. Goals generally can be divided into three durations:

- Short term
- Medium term
- Long term

Short-term goals: These are goals you want to accomplish within three months. For example, you could save $250 to buy an MP3 player in two months.

Medium-term goals: These are goals you want to accomplish within three months to a year. An example would be to buy a laptop that cost $750 within eight months.

Long-term goals: These are goals you want to accomplish within a year or more. An example would be to save $10,000 or more in two years so you can pay cash for a used car, or make a down payment on a home.

Once you've set your goals, you can figure out what you need to save each week and chart your progress.

Before you get started, however, take some time to think about what you want and need that costs money.

1. Use the chart on the next page. Simply jot down a dozen or more items that could become your goals.
2. Prioritize these items, starting with the goal that is the most important to you.
3. Mark each goal with a time frame: short term, medium term or long term.

Goal setting is a major component of personal development. To achieve your goals, you must focus on them. Achieving your goals will give you a great sense of accomplishment.

My Goals

Goal	Priority Number	Achievement Date	Short, Medium, or Long Term	Total Cost	Weekly Savings Needed

Some Goals To Consider

Setting goals is a personal thing. What is important to one may be irrelevant to another. Only you can determine what you actually need and want. Nonetheless, at this point, you may want to discuss your goals with friends or family members. Sometimes getting feedback helps to clarify your thinking. It also may help to know some common goals people have such as:

Short Term:

- Create a plan to pay off credit card debt
- Start an emergency fund
- Upgrade computer system
- Buy new clothing
- Buy more household goods and gadgets

Medium Term:

- Get further education or training
- Start investing
- Give more money to charities
- Take a dream vacation
- Buy a new or used car
- Have an established emergency fund

Long Term:

- Buy a home
- Educate children
- Start a business
- Acquire a rental income property
- Retire

Stick to your plan

Once you have set your goals and know how much you need to save each week to meet them, you are on your way to accomplishment. Save for your goals each time you are paid, and don't let little things keep you from paying yourself first. If something unexpected happens, you may have to change your plan slightly. But, start saving again as soon as you can.

Thinking About Tomorrow

Terrell and Maya's most important long-term goal was building up a $10,000 down payment for a home. Both had good jobs and, to reduce expenses, they agreed to drive older cars that ran well. With good incomes and low expenses, they were able to put away $500 a month into a money market deposit account. With interest, this amount of monthly savings would enable them to save the down payment and buy their home in 24 months.

But, one cold morning, one of the cars would not start. It was time for a new battery, which cost $52. With this unexpected expense, Terrell and Maya were only able to save $448 that month. Not discouraged, the following month they resumed their savings plan. There were other expenses too—a dental bill, some higher utility bills they had not planned for, and an emergency trip to see Maya's mother, who had fallen ill. Each time, they used their money market deposit account to cover the expense, and the next month they went back to saving $500. They were able to buy their home just a few months beyond the planned time frame.

A Spending Plan To Make It Happen

Now that you know what you want to do with your money in the future, it's time to find the money to meet your goals. If you're wondering, "Where on earth can I find so much money?" do not be discouraged. It's estimated that the average family wastes 30 percent of its money (yes, 30 cents out of every dollar) through unexamined spending habits. To avoid this waste—which is like giving yourself a 30 percent pay increase—you need to create a spending plan.

A spending plan is simply a tool for taking control of your financial future—a way to meet your goals. There are four steps to making a spending plan:

1. Identify your income.
2. List your expenses.
3. Compare income and expenses.
4. Set priorities and make changes.

The worksheets that follow will help you get started. Consider making several copies of them so you will have them ready to use throughout the year.

Keep in mind that for a spending plan to work, it must be accurate. Don't forget about bills that come due every few months or so, such as car insurance. For those cases, list an average amount you must pay each month on your monthly expense sheet. For example, if you pay $450 for car insurance every six months, you must save $75 each month to pay the bill ($450 ÷ 6 = $75).

Pay your bills on time. This is one of the best ways to keep your credit in good standing. It Also is a great way to keep more of your hard-earned money and not waste it on late-payment fees.

Step 1: Identify your Income

When completing this worksheet, don't overestimate your income. Look back at check stubs and savings or investment statements to get the following information:

Income Sources	Annual Amount	Amount Per Month
Wages – your own, after taxes	$	$
Wages – others in household, after taxes	$	$
Job bonuses, overtime pay, or tips	$	$
Interest and dividends on savings and investments	$	$
Child support	$	$
Pension benefits	$	$
Social Security benefits	$	$
Gifts	$	$
Tax refund(s)	$	$
Rental income	$	$
Business income	$	$
Other____________ ____________ ____________ ____________	$ $ $ $ $	$
Total Income	**$** ____________	**$** ____________

Step 2: List Your Expenses

To get started, gather together the items listed below.

- The list you made earlier on Page 5 of your monthly expenses.
- Your checking account statements for three months.
- Your credit card statements for three months (if you use a credit card).

Using this information, fill in the worksheet.

Expenses	Per Month (Average)
Savings and investments	$
Housing (mortgage or rent)	$
Electricity	$
Gas/heating oil	$
Water	$
Telephone:	
Monthly charges	$
Long distance	$
Cell phone	$
Satellite or cable TV	$
Internet	$
Groceries	$
Snacks and meals eaten out	$
Transportation:	
Car payment	$
Gas	$
Car repairs	$
Insurance premiums	$
Bus fare, parking, other	$

Expenses	Per Month (Average)
Child care	$
Alimony or spousal maintenance	$
Child support or support to other family members	$
Insurance premiums:	
Life	$
Health	$
Property/Homeowners	$
Renters	$
Doctor or dentist bills	$
Property tax	$
Pet care	$
Union or professional association dues	$
Clothing/uniforms:	$
Purchase cost	$
Dry cleaning bills	$
Donations	$
Loan payments (not mortgage)	$
Credit card payments (all credit cards)	$
Personal expenses (allowances, toiletries, etc.)	$
Home improvements and repairs	$
Other (classes, downloads, etc.)________________________	$
____	$
____	$
	$
Total Monthly Expenses	$

Step 3: Compare Income and Expenses

Income and Expenses	Per Month (Average)
Write down your total monthly income (from Step 1).	$
Write down your total monthly expenses (from Step 2).	$
Subtract expenses from income and list amount here.	$

Step 4: Set Priorities and Make Changes

Did you have money left over at the end of the month? If so, great! Your income and your expenses are "balanced." If you put the money left over at the end of the month into your savings toward one of your goals, you're well on your way to controlling your money and getting what you want out of life.

But what if your expenses were more than your income? This can happen to anyone occasionally. But if it happens often, your budget is "out of balance," and you're said to have a negative cash flow. How do you get back in the driver's seat and start moving toward your goals again?

There are three ways: Cut back on your expenses, increase your income or do both. Earlier, we talked about ways to find out where your money is going and how to plug spending leaks. This would be a good time to review Pages 4 and 5. Maybe you can think of even more ways to cut spending.

Now, turn to the idea of increasing your income. Here are options to consider:

- Look for a better job.
- Ask if you can work overtime.
- Take on a second job.
- Turn a hobby into extra income.
- Sell unwanted items (online or at a yard sale, for example).

What are your ideas for cutting back expenses and increasing your income?

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You’re At The Start Of An Adventure

No one said dealing with money would be easy. But, it can be exciting and satisfying. Financial planning gives you the tools you need to meet and goals and overcome challenges you will meet along the way.

Your Spending, Your Savings, Your Future is packed with life skills you will be able to use for the entire journey—the basics of saving, investing budgeting and goal setting. Plus, if you did the activities suggested, you have a pretty good idea of where you are financially and what to do next.

You can add to your financial skills and knowledge as you go along. We already have mentioned ***The Wealth Care Kit,*** which you can download from www.smartaboutmoney.org, as a good source of information. Also look at some of the resources listed on Pages 50 and 51. Remember to visit **www.financialworkshopkits.org, www.myretirementpaycheck.org, www.smartaboutmoney.org** and **www.spendster.org** for additional tips.

Keep ***Your Spending, Your Savings, Your Future*** on hand and review it often. If you slip back into old habits (such as overusing your credit card), you will be able to use this publication to recover and get started again.

Remember, you are not saving and investing just to be saving and investing. A pile of money isn’t a life. It’s what you can do with money to meet your life goals that matters.

Congratulations on starting a new financial life!

Resources »

The following list is a compilation of readily available resources. It is not meant to be an exclusive or comprehensive list. To find helpful books on managing money, browse a bookstore or visit the library.

Government Agencies

- Federal Reserve System, www.federalreserve.gov
- Internal Revenue Service, www.irs.gov
- Social Security Administration, www.ssa.gov
- U.S. Department of Labor, www.savingsmatters.dol.gov
- U.S. Department of the Treasury, www.mymoney.gov
- U.S. Financial Literacy and Education Commission, www.mymoney.gov

Magazines

- *Consumer Reports*
- *Kiplinger's Personal Finance Magazine*
- *Money Magazine*
- *SmartMoney Magazine*

Newspapers

- *Barron's*
- *Investor's Business Daily*
- *The Wall Street Journal*

Nonprofit Organizations

- Alliance for Investor Education, www.investoreducation.org
- American Institute of Certified Public Accountants, www.aicpa.org
- American Savings Education Council, www.choosetosave.org/asec
- Certified Financial Planner Board of Standards, Inc., www.cfp.net
- Consumer Federation of America, www.consumerfed.org
- Financial Planning Association, www.fpanet.org
- Investment Company Institute, www.ici.org
- National Association of Personal Financial Advisors, www.napfa.org
- National Endowment for Financial Education,
  www.nefe.org
  www.financialworkshopkits.org
  www.smartaboutmoney.org
  www.spendster.org
  www.myretirementpaycheck.org
- National Association of Investors Cooperation, www.betterinvesting.org
- National Foundation for Credit Counseling, www.nfcc.org
- North American Securities Administrators Association, www.nasaa.org
- Society of Financial Service Professionals, www.financialpro.org

Software

- Kiplinger's Simply Money
- Microsoft Money
- Quicken Deluxe

Web Sites

Credit Related

- www.annualcreditreport.com
- www.bankrate.com
- www.cardtrak.com
- www.consumerfed.org
- www.equifax.com
- www.experian.com
- www.optoutprescreen.com
- www.transunion.com

General Personal Finance

- www.americasaves.org
- www.kiplinger.com
- www.managingmymoney.com
- www.money.cnn.com
- **www.nefe.org**
- **www.financialworkshopkits.org**
- **www.smartaboutmoney.org**
- **www.spendster.org**
- www.smartmoney.com
- www.usatoday.com/money

Investing

- www.aaii.com
- www.investoreducation.org
- www.saveandinvest.org
- www.401k.org

Retirement

- www.aarp.org
- www.choosetosave.org
- **www.myretirementpaycheck.org**
- www.psca.org
- www.ssa.gov

Acknowledgments »

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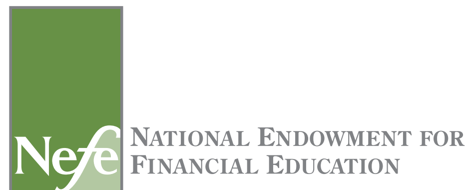

www.nefe.org

www.financialworkshopkits.org

www.smartaboutmoney.org

www.spendster.org

www.myretirementpaycheck.org