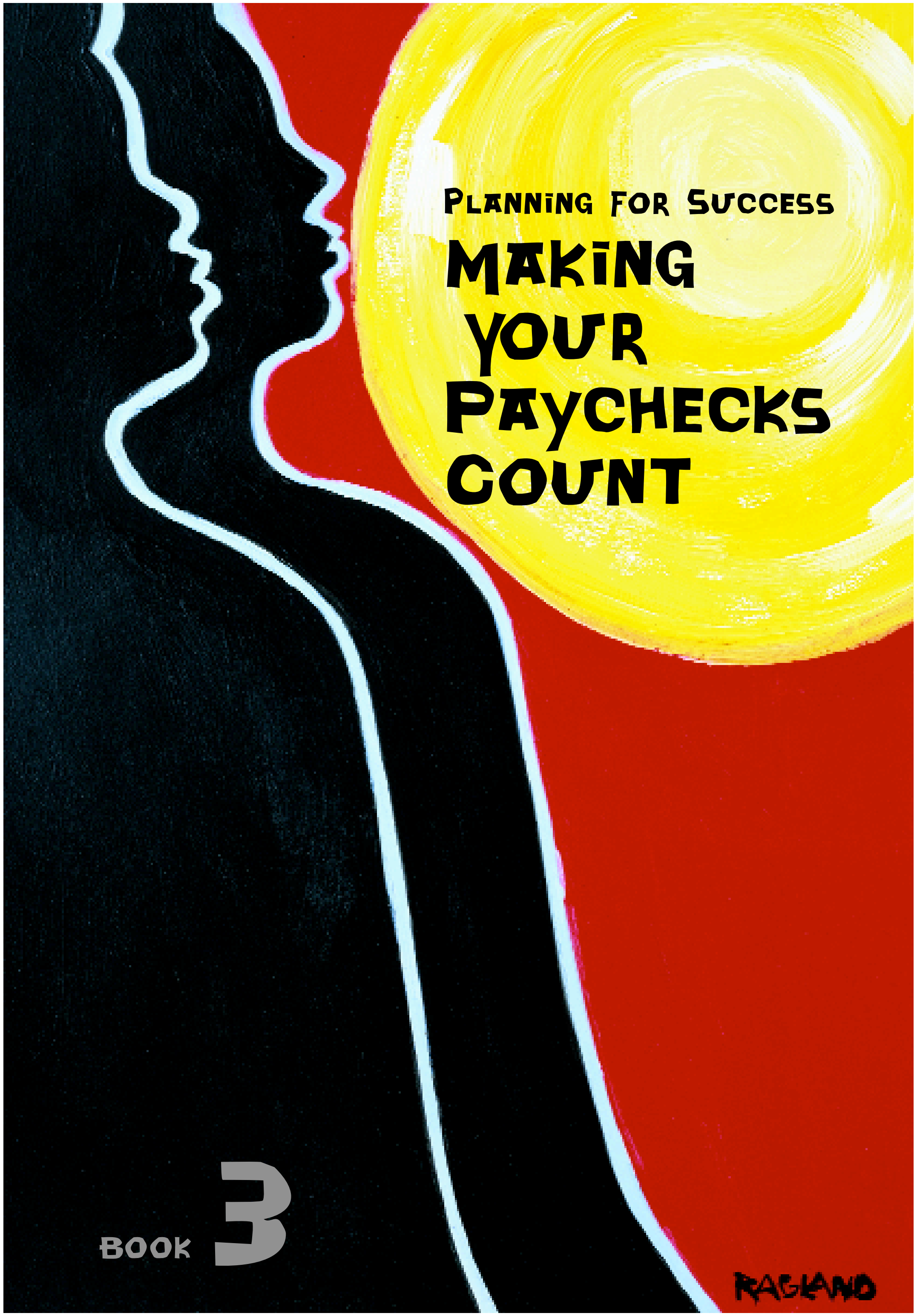
Planning For Success

Making Your Paychecks Count

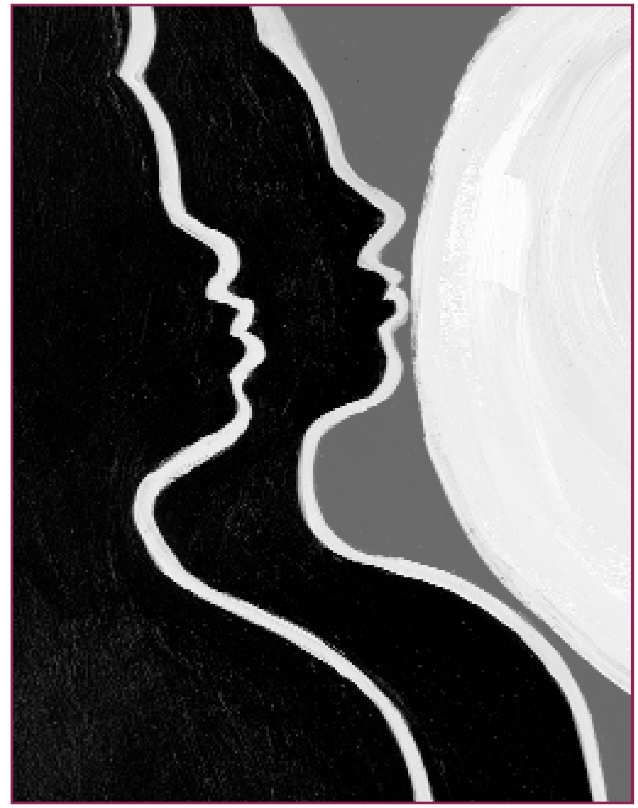
Book 3



NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

NATIONAL URBAN LEAGUE

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



PLANNING FOR SUCCESS

MAKING YOUR PAYCHECKS COUNT

BOOK 3

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Preface

Investing in your future

One of the most important steps you can take to build a bright future is to land and keep a good job. The right job will allow you to challenge yourself, learn new skills, develop self-confidence, and, of course, earn a good income. Your paycheck gives you economic power—not just to buy "things," but to provide a strong financial foundation for you and your family. You also can use your economic power to contribute to your community and ensure that others also find their way up the ladder to success.

Getting the right job will not be easy. That is why the National Urban League and the National Endowment for Financial Education have joined together to develop Planning for Success, *a series of three booklets. The* Planning for Success *series will give you tips for landing a good job, understanding and using your employee benefits, and making wise choices with your money.*

Planning for your own success means that you must always think about your future. You will need to continually expand your knowledge and your work skills. You also must be able to show on your resume and in your employer interviews that you have the skills as well as commitment to get the job done. Being prepared to succeed in the 21st century means embracing lifelong learning, becoming an active problem-solver, and developing the discipline to manage your income wisely.

The National Urban League and the National Endowment for Financial Education hope you will use Planning for Success *to assist you in making sound decisions about your financial future.*

Hugh B. Price
President
National Urban League

William L. Anthes, Ph.D.
President
National Endowment for
Financial Education

Handling That First Paycheck

When you start a job, you may have to wait a while for your first paycheck—one to four weeks is common. Ask when your first payday will be. You will need money to live on until then. Do you have enough savings? Might a friend or relative make you a small loan? Try to avoid using credit cards to live on.

How big will your paycheck be? Your paycheck represents your "take-home" pay. That amount includes what is left after your employer takes out money for federal, state, and/or city income taxes; Social Security taxes; and anything else you participate in, such as a health or retirement plan.

You will use your take-home pay to buy food, clothing, housing, transportation, and so on. Manage your paychecks wisely. Making the most of the money you earn is as important as how much you make. Sometimes, it can be even more important.

Checking account advantages

A checking account keeps your money safe, and it lets you use the money when you need it. Most people put their paychecks into an account at a bank or credit union. The easiest way to get your paycheck into the bank is to use "direct deposit." If your employer offers direct deposit, take advantage of it. With direct deposit, your employer transfers money electronically into your account every payday. One nice thing about direct deposit is that the money usually is put into your account early on payday.

Your paycheck after deductions

Earnings	rate	hours	this period	year to date
Regular	13.02	80	1,041.60	
	Gross Pay		**$1,041.60**	$12,323.81
Deductions	**Statutory**			
	Federal Income Tax		-109.50	1,295.01
	Social Security Tax		-64.59	764.08
	Medicare Tax		-15.11	178.70
	State Income Tax		-34.27	402.34
	City Income Tax		-3.14	34.50
Net Pay			**$814.99**	$9,649.18

The money you have to live on is the amount left after taxes and other deductions are taken out.

Why should you deposit your paycheck in the bank? Why not just cash your check? Here are three reasons:

1. A checking account is safer. Cash can be lost or stolen.
2. Bills are easier to pay. Many bills must be paid by mail. If you do not have checks to mail, you must get—and pay for—money orders.
3. A checking account usually costs less than buying money orders. It takes time to get a money order, and each one has a fee. A checking account is usually the cheapest way to keep your money.

How much money is left in your account?

Some people do not want a checking account because they do not want to keep track of how much money is in the account. At least when you run out of cash, you know it right away.

It is true that you need to do a little record-keeping to track how much money is in your checking account. If you write a check for more money than is in your account, the check will “bounce.” Bounced checks cost you in three ways. First, the bank will charge you for each check that it must return unpaid. This could be as much as $20 or $25 for each bounced check. Second, if you bounced a check to a business, they may charge you a similar fee. Third, you hurt your reputation with the bank and with the people to whom you owe money.

However, keeping track of the money left in your account is not that hard. The key is: you just have to do it. Each book of checks comes with a “register,” a little record book. Each time you get ready to write a check, first write who gets the money, and how much, in the check register. Then, write the check. As soon as you can, subtract the dollar amounts to find out how much is left in your checking account.

You may be able to order checks that have duplicates. This means that each check has a copy. When you write the check, the duplicate, which stays in the checkbook with you, will show exactly who the check went to and how much it was for. Then, you can put that information into your register. This type of check will cost you more. You should consider this option if you often forget to write in the register.

Tracking your bank balance

Statement Balance		$ 400.00
Add	Deposits made but not shown on this statement	150.00
	TOTAL	$ 550.00
Subtract	Checks outstanding	100.00
TOTAL	Should agree with your check book balance	450.00

CHECKS OUTSTANDING

Check Number		Amount
1001	Groceries	45.00
1002	Car repair	55.00
TOTAL		100.00

It is always important to keep an accurate record of the checks you write.

Shop around

Before you open a checking account, shop around. Banks, savings and loan offices, and credit unions all offer checking accounts. Some credit unions may call it a "share" account. Different banks may charge different amounts for the same service or the same type of checking account. You will probably want a bank that is close to where you live, where you work, or somewhere in between.

For many people, a credit union is a good option. Their fees for checking accounts and other services, such as loans, often are low. To be able to join a credit union, you must belong to a group of people who have something in common. Large church groups and companies with many employees may be able to bank with a credit union. If you are not sure whether you can join, call the credit union and ask.

Opening an account

Try to find a bank, credit union, or savings and loan that is convenient and offers low fees.

Other ways to cash a check

Check-cashing stores

Some workers like to cash their checks at a check-cashing store. This works, but at a price. Check-cashing stores charge you a fee for cashing your check. The fee can be as much as $3 or $4 for each $100 of your check. So, to cash a check for $550 would cost you about $16.50. You would get back no more than $533.50. This may not sound like much at first, but if you regularly cash your paycheck at one of these stores, it could cost you several hundreds of dollars (or more) each year.

Check-cashing stores also will make "payday loans" on the check—they will give you more money than the value of your check. The extra money is a loan, and the interest on the loan will be high.

Most experts agree that using these services is a very expensive way to cash a check or get a small loan. You will pay the check-cashing store more in fees and interest than you will pay a bank for a checking account.

If you do not have a bank account, you might try to cash your check at a large grocery store. A store that knows its customers often will cash checks for free. You might need to show an employer or store ID card before the store will cash your check.

Spending Plans

Your paycheck is now safely put away in a checking account. Or, maybe you have cashed it. Either way, now you face hard choices: what to do with your money.

Your paycheck will go only so far. You cannot go out and buy everything you or your family want. So how do you decide where best to spend your money? How can you be sure that you will have enough money for the things you really need?

This is where a spending plan comes in handy. A spending plan is your own financial road map. It helps your dollars to stay on the right course so you can reach your goals. It also helps you stay away from unnecessary and expensive detours. Before using the spending plan shown here, first talk with other family members. Everyone will be affected, so everyone should have a say. Also, it is a good idea for each member of your household to know how much it costs to pay for rent or the mortgage payment, heat, lights, food, and clothing—all the essentials to run a household.

To make a spending plan, you will need to: (1) identify your income, (2) list your expenses, (3) compare income and expenses, and (4) set priorities and make changes.

A copy of the Spending Plan worksheets appear at the end of this booklet, starting on page 41.

Maintaining a spending plan

A spending plan works best when one person manages it. It is easier for one person to keep track of income and expenses. That person should pay all the big bills, balance the checkbook, and keep track of cash spending.

Life changes, and so do income and expenses. Look at your spending plan every few months, and adjust it to meet your expenses and goals.

Step 1: Identifying income

Sources	Per Month
take-home pay (yourself) (do not overestimate)	$________
take-home pay (others in household)	$________
tips or bonuses	$________
child support	$________
unemployment compensation	$________
Social Security or Supplemental Security Income	$________
public assistance	$________
food stamps	$________
tax refunds	$________
interest	$________
other	$________
Total Income	**$________**

What if your income is different each month? If you are in this situation, figure out what your income was during the past three months. Or six months. Then find the average: take the total amount of income, then divide it by the number of months you added up. The answer will be your average income.

Here is an example. Damon works part-time in a restaurant all year and also does yard work in the summer. Here is his take-home pay for the last six months:

March $550
April $600
May $575
June $850
July $810
August $775
Total $4,160

Dividing $4,160 by 6 equals $693. Damon's average income is about $700 a month.

Step 2: Listing expenses

Sources	Per Month
rent or mortgage	$__________
heating fuel and electricity	$__________
water	$__________
telephone	$__________
other household expenses (cable TV, etc)	$__________
groceries	$__________
snacks/meals eaten out	$__________
transportation (bus fare or car payment, plus gas and repairs)	$__________
auto insurance premiums	$__________
life or disability insurance premiums	$__________
doctor and dentist bills	$__________
child care	$__________
taxes	$__________
pet care	$__________
union dues	$__________
clothing/uniforms	$__________
loans	$__________
credit cards	$__________
personal (toiletries, allowances, and so on)	$__________
miscellaneous (classes, gifts, vacation, and so on)	$__________
savings	$__________
Total Expenses	**$__________**

Some expenses, such as car insurance, come due every three months or every six months. Divide the amount of each payment by the number of months between payments. The answer is the amount of dollars you should put in your list of monthly expenses.

Step 3: Comparing income and expenses

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: Setting priorities and making changes

Was there money left over at the end of the month? Congratulations! If you treat it wisely, like putting it into savings, you will be well on your way to reaching your goals.

If your expenses were more than your income, then what? First, look carefully at how you spent the money. Too often our money takes a detour from our goals, and we have to take steps to get back on track.

Getting back on track means two things: cutting back expenses or increasing income (or both). Look over your expenses again and see where money could be saved. Even small steps, such as bringing a brown bag lunch to work, can add up to significant savings. (For more ideas, see the section "Buying Smart," on page 28.) Some ideas may not save money, but can make starting your spending plan a lot easier. For example, your utility company may allow "budget billing." Normally, fuel or heating bills are very high in certain months and much lower in others. With budget billing, you pay an average monthly charge each month. Call your power company and ask about budget billing.

Increasing income is another option you and your family members can consider. Some ideas include:

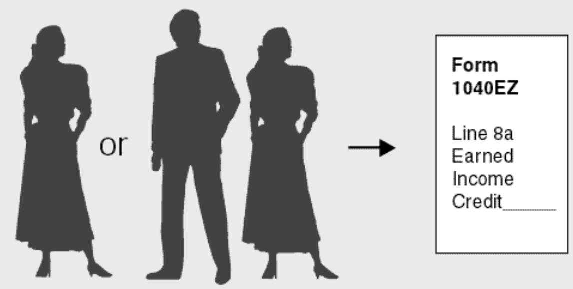
- looking for a better-paying job
- taking on a second job
- turning a hobby into extra income
- selling unwanted items (for example, having a yard sale)

What are your ideas?

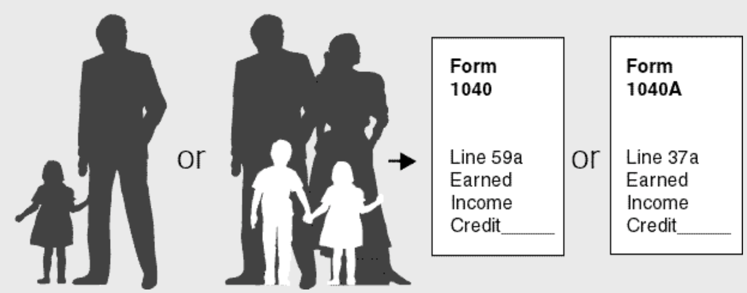
Tax tips

The earned income credit can help low-income individuals or families reduce their taxes—and maybe get a refund.

If you use the 1040EZ form (and have no dependents), you can claim the earned income credit on line 8a of the form if your income qualifies. (For example, in 2002, your income must be less than $11,060 or $12,060 if married, filing jointly.)



If you use the 1040 or 1040A form and have a qualifying child or children, you can claim the earned income credit on line 59a on the 1040 form or line 37a on the 1040A form if your income qualifies. For example, in 2002, your income must be less than $29,201 if you have one qualifying child. To get more information, call the Internal Revenue Service at (800) 829-1040.



To determine the credit, you can: (1) use the earned income credit worksheet that is included in your tax instruction booklet, or (2) have the IRS figure the credit for you by writing EIC on the earned income credit line on the tax form.

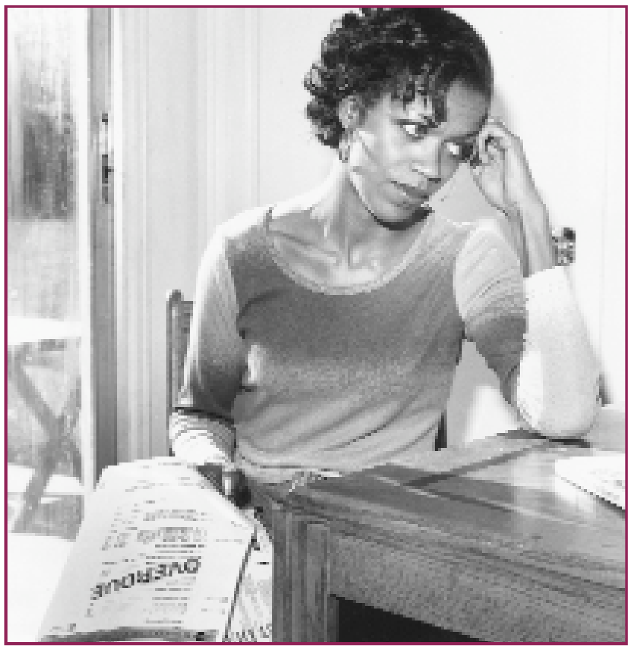
Financial Problems and Work

If your spending plan shows that, month after month, you usually have more expenses than income, you likely have a debt problem. Employers are wary of workers who have big money problems. How do employers learn about these problems? There are many ways they find out.

Calls from creditors

When bills are overdue, creditors often call you at work. Employers then find out about your money problems. If creditors call a lot, employers will resent the time it takes you away from your job. As a result, you could be fired.

Debt problems



Overdue bills can affect your job and your home life.

Wage garnishment

Your creditors can take you to court if you do not pay your debts. If they win, they will get a judgment against you. To make sure that they get paid, creditors often "garnishee" wages. This means that your employer must take out up to a fourth of your take-home pay and send it to your creditors. In most states, if more than one creditor garnishees your wages, you can be fired from your job.

Wages also can be garnisheed to pay for child support. Up to half of a worker's take-home pay can be taken for payment to the parent with whom the child lives. In addition, having a boss learn that you have shirked family responsibilities can hurt your reputation and chances for promotion at work.

Gambling, drugs, and alcohol

People who abuse drugs or alcohol, or who gamble regularly, usually have money problems. These abuses disrupt their work and their family. It is usually just a matter of time until the employer finds out.

Some employers offer employee assistance programs (EAPs) to help workers cope with these problems. Employers know that it is often less expensive to help a worker solve a problem than it is to hire and train someone new. EAP counselors also help workers with stress, drug abuse, eating disorders, legal problems, and money problems.

Find out if your employer offers an EAP. If you need help, seek counseling. Do not put it off. Your privacy will be protected. It is worth the effort: getting help can help to keep your job.

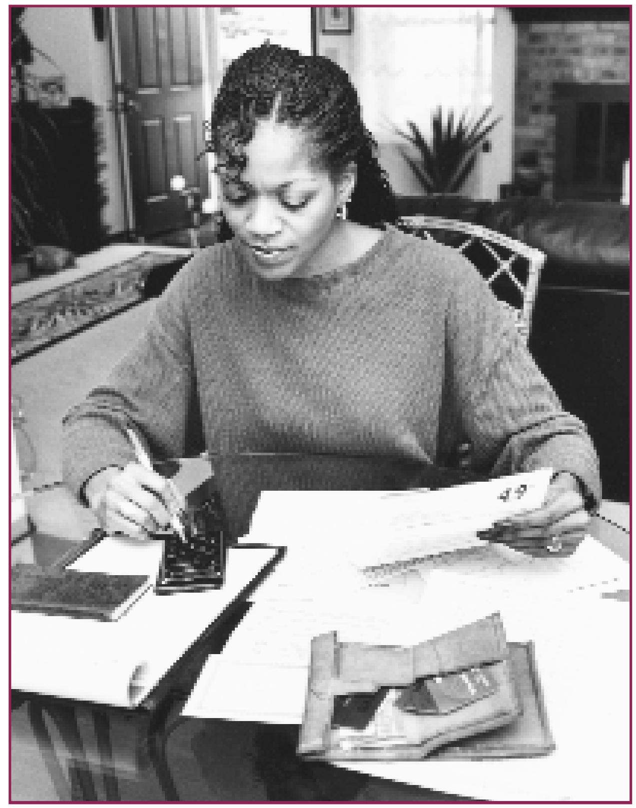
Look elsewhere for help, too. Your local Urban League office can direct you to self-help organizations, such as Alcoholics or Gamblers Anonymous. A religious group or friends also may help.

Getting Out of Debt

It is easy today to get into debt; it is much harder to get out of it. Still, there are options. It will take time and commitment. But taking action is far less stressful than watching your debts grow. Follow the steps below and then use the debt recovery worksheet.

- Determine where you are in debt. Do you owe many creditors or only one or two?
- Read the fine print on credit card bills and other loan agreements. Is the total amount due? What will happen if you miss or are late with a payment? Could an item be taken back? If you are not sure, call the lender and ask.
- If in debt to a few creditors, call them and try to negotiate for smaller payments—at least for a while. Always call before you miss a payment. This may be a difficult step; still, it is less embarrassing than receiving phone calls from creditors, possibly while you are at work, demanding payment. And, the creditors may be more willing to work with you because you are showing them your willingness to pay them back.
- If you owe many creditors, it may be time for outside help. Consider working with a nonprofit debt counseling service, such as the Consumer Credit Counseling Service. They can work with you and your creditors to set up a repayment plan.
- Review your spending plan. Look for ways to cut expenses wherever possible. For example, can you ride the bus or walk to work instead of driving? Can you use community services to obtain low-price clothing or food?
- Try to find ways to increase your income. Are there other family members who could contribute financially? Can you work extra hours at your job? Is a second part-time job an option? As long as your income is more than your expenses, you will eventually get out of debt.
- Above all, do not ignore bills and past-due notices. A poor credit record will follow you for years. It can hurt your chances of buying a home, getting a loan, and, possibly, even getting a job.

Determining what you owe



The first step to get out of debt is to review all your bills and find out how much you owe to each business.

Using a debt recovery worksheet

Make several copies of this worksheet (one per creditor). List how much you owe to that creditor and how much you will pay each month. If you make regular payments, you will see the amount owed go down. It will be reduced even faster if the amount you pay each month is more than the monthly payment due. Put your worksheets in order, starting with the highest interest rate and going to the lowest. When one debt is eliminated, celebrate your progress—without using money.

Debt Recovery Worksheet

Creditor: ______________________________ **Debt is for:** ______________

interest rate	amount owed	monthly payment	payment due date	amount paid and date

Buying on Credit

"Credit" means you are using someone else's money to pay for things. It also means you are making a promise to repay the loaned money, plus interest. When making big purchases, like buying a home, there is little choice but to use credit. That is why it is important to have a good credit history. This sounds strange, but the only way to establish good credit—to prove that you can pay back money on time—is to go into debt. That is, you need to borrow money and then pay it back on time.

Using installment plans and lay-away

You could buy something expensive, such as a sofa or a washing machine, and pay for it little by little (in "installments" or on "lay-away"). Many stores will let you pay a fixed amount each month. Remember, once you have agreed to these payments, you may lose money if you do not make payments on time.

Getting a bank or credit union loan

You may be able to get a loan from a bank or credit union to buy a car or to make some other major purchase, such as a refrigerator. Be sure that your monthly income is big enough so that you can make each month's payment. Keep the loan small and agree to pay it back within a short time.

Shopping wisely

Putting clothes on lay-away often is a better and less costly choice than using credit to buy them.

Using a credit card

A credit card is one of the easiest—and most expensive—types of loans you can get. If you pay your credit card bill each month, you will establish good credit. However, credit card debt can quickly get out of control. People who find themselves in serious debt often got there because they charged too much—usually on several credit cards. Credit cards also have high interest rates, often 16% (or more). For example, if you have a balance of $1,000 on a credit card that charges 16%, you will pay $160 a year—just in interest. Bank or credit union loans and installment payments usually offer lower interest rates.

If you use a credit card, use only one card and use it sparingly. Get into the habit of paying off the full balance each month.

There is another option for using a credit card. Ask your bank about a "secured credit card." With this kind of credit card, you can make yourself a small loan and pay it off to establish your good credit. A secured credit card works this way:

1. You deposit money in a bank account, say $500.
2. The bank gives you a credit card and charges you a fee to use the card.
3. The credit limit—the largest amount of money you can borrow on this card—usually is equal to the amount of money you put into the account ($500 in this example). Sometimes the limit is only half of the amount that you put in.
4. You pay off credit charges each month.
5. The bank pays you a little interest on your account. The bank fee to use the card probably is more than you will earn in interest.

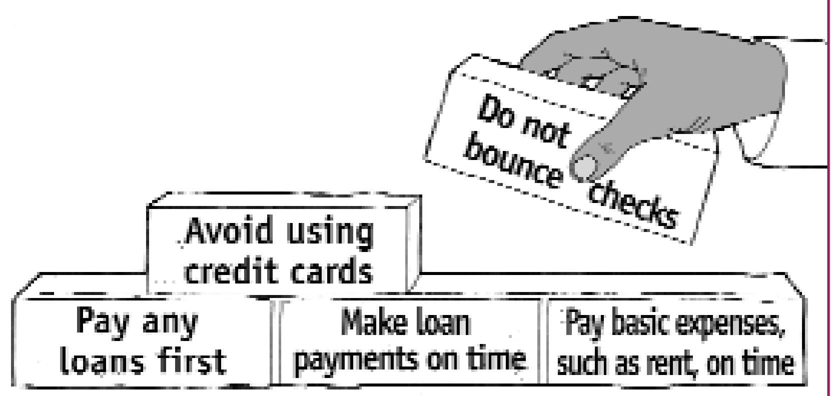
What you get is a chance to establish your good credit. It is important to make these payments faithfully.

Important credit tips

To build a good credit history, take the following steps:

- Pay the loan first, out of each paycheck. Pay it before you spend money going out for dinner or to the movies. Missed payments hurt your credit rating.
- Make each loan payment on time. Mark on a calendar the day the payment is due. Then, mark the day you need to mail the payment, so that it arrives a day or two early. If the check is late, you will find an extra "late fee" on your next bill—and it will hurt your credit rating.

Building good credit



The cornerstone of a sound financial future is to carefully manage your credit.

- Pay your other basic fixed expenses on time: rent, heat and lights, and telephone bills.
- Do not use a credit card if you are having trouble making payments. Either put the card away until your finances are under control or cut it up so you cannot use it. If you can wisely use a credit card, choose one with a low interest rate and no (or a very low) annual fee.
- Do not bounce checks on your checking account. People who wonder if you will repay a large loan will ask your bank if you bounce checks.

A good credit record will let you take out larger loans later, if you want to buy a home or start a business.

Your credit record

Credit reporting agencies track how well you repay your loans. They typically list information on how well and when you pay your credit card bills, bank loans, and car loans. These agencies then sell this information to banks and to other businesses. People at these businesses look at the records to decide if they want to offer you credit. Some employers check the credit record of people who apply for a job.

Get a copy of your credit report once each year. Sometimes the records contain wrong information. You need to know what is in your record before you can set the record straight. Credit reporting agencies charge a small fee, generally $9. Usually the reports are free if you ask right after you have been turned down for credit.

10 signs of debt problems:

1. More than 20%—$1 out of every $5—of your paycheck goes to pay off car loans and credit cards.
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 payments shown on each bill.
5. You miss payments, or you pay your bills late.
6. Creditors telephone you or come to your house.
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 write postdated checks—checks with a date later than the day you write them—or you bounce checks regularly.
10. You take an extra job to pay bills.

Here are phone numbers for four large credit reporting agencies:

Experian . . . . (866) 200-6020

Trans Union . . . . (800) 888-4213

Equifax . . . . (800) 685-1111

Pawn shops

Some people use pawn shops as a way of getting a quick loan. They might "pawn" a ring or musical instrument and receive some money for the item. The amount of money is only a fraction of the item's value. When or if they pay back the money, they get their item back.

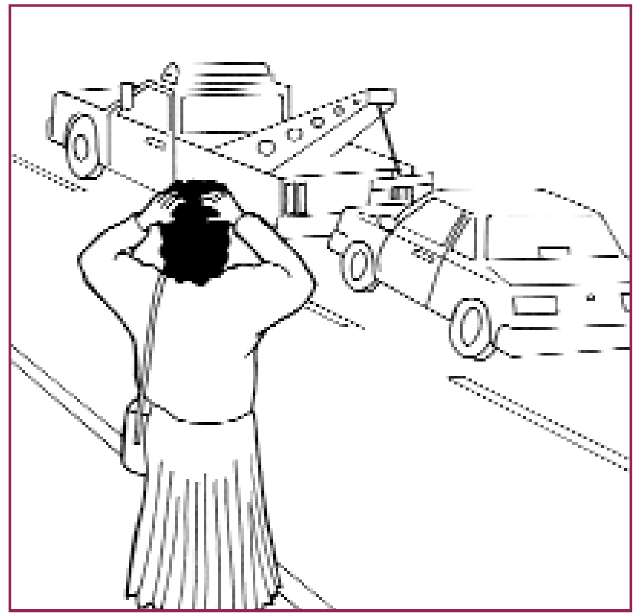
Be careful about what you pawn or you may find yourself deeper in debt. Consider what happened to Vivian. In January, Vivian needed money to pay her Christmas bills and thought a loan from a pawn shop would be a good idea. Vivian used her car (worth $5,000) as the basis for the loan. She got $1,000 from the pawn shop and, in return, gave the shop her car title. Vivian promised to pay back the loan in six months.

Each month, the pawn shop charged her 10% for the loan, plus the loan payment. Some other pawn shops wanted to charge her 25% a month. In May, Vivian could not make her car loan payment. The pawn shop came and took her car away and charged her a repossession fee of $50. In June, she had the money to pay off the loan, plus the $50, to get her car back. When she went to pick it up, the shop charged her another $150 for car storage. They also told her they were getting ready to sell her car. In short, this is what the loan cost Vivian:

Amount of loan	$1,000	(pawn shop kept the title to the car, worth $5,000)
Interest charged	$600	(10% a month for six months)
Repossession fee	$50	
Car storage charge	$150	($5 a day for 30 days)
Total cost	**$1,800**	($1,000 for the loan plus $800 in interest and other charges)

Vivian was shocked that she came so close to losing her car and paid, in effect, an 80% interest rate. After paying the money and getting her car back, Vivian made two promises to herself: (1) never to use her car title again to get a loan, and (2) never to spend so much at Christmas that she needed a loan.

Car title loans



Many pawn shops make loans based on car titles. These are expensive, and if the loan isn't paid on time, you can lose your car.

Buying Smart

There are many ways to spend your money. Here are 25 ways to "buy smart" so that you get the most out of each dollar.

Spending tips

1. Buy only the things you really need.
2. Save up the money to buy what you need. Do not take out a loan or use a credit card.
3. Shop at thrift stores, garage sales, or flea markets. Negotiate prices.
4. Swap clothes with friends and relatives.
5. Avoid trendy clothes; buy "classic" styles made from high-quality fabrics.
6. Look for sales and "off-season" bargains. Compare prices.
7. Carefully inspect everything before you buy; make sure the item is worth the money. Keep your receipts.
8. Buy—do not rent—furniture.
9. Make a shopping list and stick to it. Do not buy on a whim. Take only cash; do not take a credit card.
10. Shop for food at supermarkets or food warehouses; avoid costly convenience stores.
11. Use coupons, and buy store brands at the supermarket and drugstore.
12. Buy large quantities of things you use a lot.
13. Eat at home. Make your meals from scratch.
14. Take your lunches ("brown bag") to work.
15. Share driving or use public transportation.

Bargain shopping

Shopping at garage sales often is a low-cost way to buy tools and other items.

16. Shop around for the best price for car insurance every year.
17. Trade baby-sitting with neighbors, friends, and relatives.
18. Go to dollar movies or rent videos.
19. Write letters instead of calling long-distance.
20. Give homemade gifts.
21. Read books, magazines, and newspapers at the library.
22. Do as much repair work as possible yourself.
23. Buy only "term" instead of "cash-value" life insurance.
24. Use a flexible spending account at work to pay for child care and medical expenses.
25. Buy only energy-efficient appliances. You will be paying for electricity, too.

The problem of rent-to-own

Some stores will let you rent expensive items, such as furniture or appliances. Part of each rent payment goes to buy what you rented—let's say a bed and a dishwasher. Be careful! By the time you have paid enough rent to buy the bed and dishwasher, you will have paid 3 to 10 times as much as they cost!

Many states do not place any limits on how much "finance charges" or interest rent-to-own stores can charge. Some states do not require that the rent-to-own store tell you how much interest you have to pay. Look at what nearly happened to Lamar.

Lamar decided to buy a TV on a "rent-to-own" plan. The rent-to-own store had the same model TV that Lamar saw and wanted at the department store. The department store price was $400 (too much for Lamar), so it seemed like a good deal to rent the same TV for $15.95 a week, plus sales tax and a delivery fee. He would own the TV in 78 weeks. Before Lamar signed the rent papers, he did some math:

Weekly rental	$15.95 x 78 weeks	=	$1,244.10
5% sales tax	80¢ x 78 weeks	=	$62.40
Delivery fee	$10.00 (once)	=	$10.00
Total cost of rent-to-own TV			**$1,316.50**

When Lamar discovered that the $400 TV he wanted would cost $1,316, he left the store. A few weeks later, he found the same TV advertised in a newspaper ad for $200 and he brought it home.

Paying over time—a long time

Buying on a rent-to-own basis sounds tempting, but it is one of the most expensive ways to buy TVs, furniture, and appliances.

Do you Need Another Income?

Even after careful budgeting and spending, money may still be tight. Either you must earn more money, or cut expenses still more. Is there another adult in the household who can look for work? Some people feel strongly that only one person in a family should work outside the home, especially when there are young

Working couples

If money is tight, every adult in the household may need to find a job.

children. Others feel strongly that both adults can work outside the home if they need or wish to do so.

Here are some points to think about if a second adult is trying to decide whether to go to work outside the home.

- A second paycheck can help meet basic living expenses.
- If basic expenses already are covered, a second paycheck can be saved for the down payment on a house, for more education for you or your children, or for a family emergency.
- A second worker in the household is a safety net for you. More income comes in now, and the second worker is getting job experience. If you are unable to work for awhile, the second worker's income can fill the gap.
- When both members of a couple work, they build some financial strength. The second worker can save for retirement, earn Social Security credits, and establish an individual credit history. This will be important should the couple divorce or separate, or if one worker dies or becomes disabled.

Never assume that a second job will pay for itself. A second job may mean that the family must pay more for child care, clothes, and transportation. A second income may boost you into a higher income-tax bracket. These expenses could cost as much as the job pays.

LONG-TERM GOALS

Is saving money worth it?

Many of us struggle just to get from one paycheck to the next. How can we think about saving “for a rainy day” when the next payday looks so far away? The bad news is that not saving now will hurt you later. The real power of money is that it can grow over time—if you save it in the first place.

For example, let’s say that you put $50 into a special account each month. We will assume that the account is a retirement fund that you will not pay taxes on until you retire. If the money that you put into the account earns 5% interest each year, it will earn $5 for each $100 you put in. With interest, that account will grow to about:

- $21,000 in 20 years (before taxes)
- $42,000 in 30 years
- $76,000 in 40 years

Better yet, let’s say that your account earned 8% interest a year on the $50 that you add each month. This interest rate is quite possible if some money goes into stocks and mutual funds. Now here is how your money would grow:

- $30,000 in 20 years (before taxes)
- $75,000 in 30 years
- $175,000 in 40 years!

Keeping your eyes on the prize

Saving regularly can help pay for dreams, such as buying a first home.

Imagine! Only $50 a month could grow to $175,000 in 40 years. That is money you could use to take care of yourself and your family, or to start your own business after you retire. The later you start saving, the more you must save each month to reach a given dollar goal. If you have only 30 years to reach $175,000, you will need to save between $120 and $210 each month, depending on what interest rate you earn.

So it pays to start saving now, even if you start small.

A retirement account is not a savings account

If you take money out of your retirement plan, it is like taking food off a child's plate. Neither of them will grow. Some workers make the mistake of borrowing money from their retirement account. Or, when they change jobs, they close out the retirement plan and just spend the money. Even when the money is used for something useful, it is gone forever from the retirement account.

Protect your future. If you change jobs, put the money from your old retirement plan into a new plan at your new job, keep it safely tucked away in an IRA, or keep it in the old plan. Spending the money in a retirement account hurts you in three ways:

1. You must pay income taxes now on the money.
2. If you are younger than age 59½, you likely will pay a 10% penalty tax in addition to the income tax. That means you will pay an extra $1 for every $10 you withdraw.
3. You must begin to save for retirement all over again.

Want to make a lot of money over a cup of coffee? Here's how!

Do you buy coffee at work? Instead, bring a thermos bottle full of coffee. You can make coffee at home for a few pennies a cup. Bringing coffee with you to work can save you as much as a dollar a day. If you work about 240 days a year, that means you save about $240 a year. If you invest that $240 and get 12% interest each year for 30 years, those saved cups of coffee will add up to nearly $58,000 for your retirement!

Imagine how much you could save (and invest) if you brought your own lunch and soft drinks to work, too.

If you have money in a savings account to pay for gifts or vacations, you can avoid using credit cards or other loans.

Starting an emergency fund

How do you find the money to live on if you are laid off from work or you must spend the money for living expenses to pay a large doctor's bill? The best way is to save now so the money will be there for an emergency in the future. Saving for an emergency is better than taking out a loan or borrowing from a retirement plan.

Here is how to start an emergency fund.

- Pay yourself first. Take a little money out of each paycheck, and put it into a savings account. Save until you have enough money to pay your basic bills for three months. The basic bills are rent, heat, light, phone, food, and transportation to work. Then, leave that money there. Do not dip into it unless you face a real emergency, such as losing your job.
- Keep money where you can get to it easily—in a bank savings account or a money market fund.
- Put tax refunds, job bonuses, or raises into the emergency fund.
- Volunteer for overtime or work a second job and put the extra money into your emergency fund.

Starting a savings account

Keep a regular savings account that is separate from your emergency fund. Add a little money from each paycheck to this account, too. Use this money to buy Christmas gifts or furniture, or to take a vacation. Save the money first, then buy what you need later. It is much cheaper this way! You will not be paying high interest charges.

Again, find the money by paying yourself first. If possible, have your employer take the money out of each paycheck, automatically, and put it into your savings account. What you do not see, you will not miss as much. Also, if you get a raise or tax refund (and you already have an emergency fund), put most of this money into the savings account. Tell the bank to put a block on the account, so you cannot take money out from an automatic teller machine.

Taking important steps

Your financial future begins today. The steps in this booklet can help make that future a bright one for you and your family. Remember, small changes can have big results. Keep the following points in mind:

- Pay yourself first on a regular basis—save and invest that amount.
- Get out of debt as soon as possible.
- Avoid credit as much as possible—use only for emergencies.
- Be a smart shopper: compare, substitute, negotiate, wait for a sale.
- Save for a rainy day.
- Use a spending plan.
- Remember your long-term goals and dreams.
- Find ways of celebrating or rewarding that do not involve money.
- Focus on what you have instead of what you do not; count your blessings every day.

Spending Plan

Step 1: Identifying income

Sources	Per Month
take-home pay (yourself) (do not overestimate)	$______________
take-home pay (others in household)	$______________
tips or bonuses	$______________
child support	$______________
unemployment compensation	$______________
Social Security or Supplemental Security Income	$______________
public assistance	$______________
food stamps	$______________
tax refunds	$______________
interest	$______________
other	$______________
Total Income	**$______________**

Step 2: Listing expenses

Sources	Per Month
rent or mortgage	$_______________
heating fuel and electricity	$_______________
water	$_______________
telephone	$_______________
other household expenses (cable TV, etc)	$_______________
groceries	$_______________
snacks/meals eaten out	$_______________
transportation (bus fare or car payment, plus gas and repairs)	$_______________
auto insurance premiums	$_______________
life or disability insurance premiums	$_______________
doctor and dentist bills	$_______________
child care	$_______________
taxes	$_______________
pet care	$_______________
union dues	$_______________
clothing/uniforms	$_______________
loans	$_______________
credit cards	$_______________
personal (toiletries, allowances, and so on)	$_______________
miscellaneous (classes, gifts, vacation and so on)	$_______________
savings	$_______________
Total Expenses	**$**_______________

Step 3: Comparing income and expenses

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: Setting priorities and making changes

If there was money left over at the end of the month, congratulations! Try to save it for your long-term goals.

If your expenses were more than your income, first look carefully at how you spent the money. Next, find ways to cut expenses or increase income, or both.

Ways to cut expenses or increase income:

NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Partnering for Financial Well-Being

Planning for Success: Making Your Paychecks Count was written and prepared as a public service by the Denver-based National Endowment for Financial Education®, or NEFE®; William L. Anthes, Ph.D., *President;* Brent A. Neiser, CFP, *Director of Collaborative Programs;* and Jeannette Herreria, *Project Coordinator.*

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About the Cover: Bob Ragland created this acrylic painting as an homage to the renowned painter, Jacob Lawrence, with whom he shared an art exhibit several years earlier. Ragland, a Denver-based artist, is listed in *Who's Who in American Art*. His art is in many public and private art collections.

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