

Money Management

Money management is the process of knowing where you are spending your money today and having a well-thought-out plan in place for where you want it to go in the future. This program will cover the core concepts of money management and teach you how to:

- Set Goals
- Get Organized
- Track Spending
- Build a Budget
- Save Money

Chapter 1: Set Goals

Taking the time to set goals today allows you to achieve what you want in the future.

Set specific goals

Financial goals should be specific. For example, wanting to save \$1,000,000 for retirement by age 60 is goal, but wanting to be rich is just a wish. Before you start to save, determine exactly what you want, when you want it, and how much it will cost.

There are three basic goal types: short-term (achievable in under a year), mid-term (achievable in one to five years), and long-term (achievable in five-plus years). If you have multiple goals, you may choose to work toward them all at once or concentrate on one and then move to the next.

You can use the Financial Goals Chart to list your goals:

- **Complete the Financial Goals Worksheet on page 8**

For short and mid-term goals, the calculation for how much you need to set aside each month is simple: the cost minus the amount you have saved so far divided by the number of months you have to save.

Example: The laptop computer you want is \$800, and you would like it in six months. You have not saved anything yet. To reach this goal, you will need to set aside \$133 per month ($\$800/6 = \133).

Long-term goals are a little more complicated because you can deposit your savings into an investment vehicle and earn interest, which will help you achieve your final savings goal. (You can do this for short and mid-term goals too, but the interest earned is usually minimal.) However, whatever you are saving for will also likely cost more in the future because of inflation (the gradual rise in the cost of goods and services over time). You may want to use a savings calculator to figure out how much you should set aside each month for long-term goals.

Example: Your goal is to save \$10,000 in ten years for your child's higher education. If the annual rate of return (interest) averages five percent, you will need to set aside \$64.40 each month.

Be flexible

Creating a budget (discussed in Chapter 4) will help you determine how much you can afford to save each month for your goals. If you simply can't manage to put away the amount you thought you could, don't give up. Consider if you can extend the goal achievement date or set a similar goal that is cheaper. Perhaps a \$5,000 Caribbean cruise is not doable, but you can save \$2,000 for a vacation in Florida.

Chapter 2: Get Organized

Being organized is essential to efficient money management. Once all of your information and paperwork is in order and accessible, you'll never have to waste time searching for important documents, wonder about account balances, or miss bill-payment deadlines.

Designate a personal money space

Set up an area in your home where you can conduct all of your personal financial business. Ideally, it should be near your computer and file cabinet.

Have the right home office tools

You can organize your personal finances with just a few home office tools:

- **File cabinet** – File receipts, warranties, tax returns and supporting documents, paid bills, and account statements so you can quickly access them. (Ongoing accounts should have their own folder.) File cabinets come in a variety of sizes, so you do not need a ton of space to stay organized.
- **Shredder** – To guard against identity theft, invest in a shredder (preferably one with a “cross cut” feature, where instead of slicing the paper into strips, it cuts at various angles). Use it to destroy all personal and financial documents before you discard them. Specific items that you should shred include:
 - ATM receipts
 - Account statements
 - Canceled and voided checks
 - Credit reports
 - Employment pay stubs and records
 - Expired passports and visas
 - Expired credit, debit, and ATM cards
 - Pre-approved credit card applications
- **Fireproof safe** – In a home safe or firebox, keep:
 - Insurance policy documents
 - Deeds/titles for your home, car, and other real property
 - Estate-planning documents (such as your will and power of attorney)
 - The key to your safe deposit box
 - Birth certificate, passport, marriage certificate, and Social Security card

Go paperless

The more incoming paperwork you have, the harder it is to keep straight. A great way to simplify your system is to sign up for online statements. It cuts down on mailed bills that can get lost in the mail or a shuffle of paperwork and reduces your vulnerability to identity theft. It is also a good idea to scan important documents, such as titles and receipts for large-ticket items, onto your computer. This way, you will have a backup in case the original documents are destroyed or lost.

Create a personal financial directory

Having a financial directory which lists all of your account information makes it easier for someone to cancel your accounts or otherwise manage your finances if you are not able to. (It can also come in handy if you, for example, lose your wallet or forget a password.)

Think about all of the accounts and obligations you have, including a mortgage or rent, loans, credit cards, utilities, checking and savings accounts, investments, retirement funds, and insurance. Using the Personal Financial Information Organizer or a piece of paper, for each item list the account number, who it is with, contact information for the company, online username and password, location of statements, and monthly payment and due date (if applicable). Also include the name and contact information for any financial advisors, such as an accountant or insurance agent. Put the list in your fireproof box, and let a trusted friend or relative know where it is. Periodically revisit the list to make sure it is up-to-date.

- Complete the Personal Financial Information Organizer on pages 9-12.

How long should documents be saved?

- Receipts for minor purchases can be tossed after you have checked them against your monthly account statement. Receipts for major purchases should be saved as long as you have the items. Receipts for tax-deductible items should be saved with your tax return.
- Utility, credit card, checking, and savings account statements should be saved for a year.
- Monthly and quarterly investment account statements should be saved until the year-end statement is received. Year-end statements should be kept until the investment is sold.
- Paystubs should be held until you receive your W-2.
- Loan documents and statements should be saved until the loan is paid off. The last statement that shows the loan was paid should be saved permanently.
- Tax returns, W-2s, 1099s, and other tax-related documents should be saved for seven years.
- Insurance policies and estate-planning documents should be saved as long as they are in effect.
- Titles to property should be kept as long as you own the property.
- Your birth certificate, medical records, Social Security card, and marriage certificate should be saved permanently.

Chapter 3: Track Spending

Many financial problems, such as not being able to pay bills, having credit card debt, and not being able to save, stem from not following the golden rule of money management: spending less than you earn. Are you currently following the golden rule? By tracking your purchases, you can see how much and what you are spending your money on.

Accuracy and commitment are vital. You should track your expenses for a minimum of one month. However, because expenses can fluctuate, the longer you do it, the better. The following are some tracking techniques:

- **Write it down** – Record your purchases in a small notebook you carry with you, or write them down using the Fritter Finder. At the end of the day, list your total purchases in the Tracking Worksheet or a computer spreadsheet.
 - Complete the Fritter Finder on page 13.
 - Complete the Tracking Worksheet on page 14-15.
- **Keep receipts** – Get and keep receipts for all of your purchases, and tally them at the end of the day.
- **Stick to plastic** – Just use your cards, and refer to the statements your financial institutions provide. You can also check your account activity online. (This is not necessarily the best option since your statement does not show what you purchased.) If you do ever use cash, it is important to record it.
- **Use budgeting software** – If you have a computer with budgeting software, you can input the information you have gathered into it. Some programs even link to your checking and credit card accounts and automatically report your purchases.

Examine your findings

After you have tracked your spending for at least a month, examine your findings. Begin to sort out your “wants” from your “needs”. If you are like most people, you’ll be able to identify areas of spending waste fairly quickly. When you build your budget, you can use the results of your tracking work to make sensible and reasonable changes.

Chapter 4: Build a Budget

A budget is simply a plan for what you want to do with your money. It sets restrictions on spending, but it does not have to be oppressive. And by sticking to it, you will have the money for the things that are important to you, whether it be saving for a child’s college education or taking a nice vacation once a year. Though everybody’s budget is different, there is one consistent rule: expenses should never exceed income.

- Complete the Budget Worksheet on page 16-18.

List and total your monthly net income

To start creating a budget, list your and your spouse's (if applicable) net (after-tax) income from all sources. If you receive seasonal or periodic income, calculate what you receive per year and divide by 12. If you are uncertain about any figures, be conservative with your estimate. It's better to have money left over than be caught without enough to pay your bills.

List and total your current monthly expenses

There are two columns in the Budget worksheet – Current and Proposed. In the Current column, list your monthly expenses as they are now. Use the figures from your tracking forms or budgeting software to help you with accuracy. Remember to list debt payments and savings contributions. Also don't forget about expenses that come up once in a while (called periodic expenses), such as gifts, trips, and vehicle maintenance costs. To calculate what you spend per month, total what you spend per year and divide by 12. Even though you may only have many of these expenses once or twice a year, you can set aside money every month so that they are easier to pay when they do occur.

Subtract your current expenses from your current income

Total your current expenses and subtract the sum from your current income. If on paper you have money left over, but in reality you are living close to the edge or falling behind, then you have not accounted for everything or some of your figures are wrong. Take some time to examine your budget for inaccuracies and make corrections. You may want to track your expenses for another month or two and fill out the worksheet again.

Identify where you want to make budgetary changes

If you are spending more than you earning, you will need to make changes. Are there any ways you can increase your income (e.g., get a part-time job, rent out a room in your house, work overtime)? Are there any expenses that can be reduced, postponed, or eliminated? Be honest about what is a necessity and what isn't. (Eating out for lunch everyday or having cable television is nice, but you don't need them to live.) List any changes you plan on making in the Proposed column of the worksheet.

Even if you currently spending less than you are earning, if you are not saving as much as you want to (remember the figures from the Financial Goals Chart), it is a good idea to consider what ways you can increase your income and/or reduce your expenses to free up cash. You may also want to make changes if you have credit card debt or unsecured personal loans so that you can increase your payments. The higher your monthly payments, the less interest you have to pay and sooner you will be debt free.

Beat the budget busters

Sticking to a budget can sometimes be a challenge. Use these tools and techniques to help you stay the course:

- Avoid those stores, malls, and online retailers where you know you have a hard time controlling your spending.
- Make a list of what you need before shopping, and buy only what's on it.
- Occasionally reward your efforts with an affordable reward.
- If you're on the verge of splurging, seek the support of a friend who knows what you are trying

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- Avoid excessive use of credit. Since you don't have to pay the bill right away, it is easy to overspend when you use a credit card. Only charge purchases when you can afford to repay the balance in full by the due date.
- For every potential purchase, question whether it is a want (nonessential) or a need (essential). Recognizing the difference between the two can help you avoid unnecessary spending and impulse shopping.
- Remember your goals. By sacrificing the things you don't really need today, you can attain more meaningful financial objectives in the future.

## Chapter 5: Save Money

Setting aside cash on a regular basis is a habit worth getting into. It allows you to achieve your financial goals and provides a safety net during financially-challenging times.

### How much should you save?

A general rule of thumb is that you should set aside 10% of your monthly net income. However, depending on your financial goals, you may want to save more. If you can afford to set aside 10%, you typically do not want to save less, but if money is tight, begin with whatever you can afford, even if it's only a few dollars.

### Establish an emergency fund

In addition to saving for specific goals and periodic expenses, it is important to establish a general emergency fund. Unexpected things happen, and without a savings cushion, you may find yourself turning to credit or skipping bills if, for example, your car breaks down or you lose your job. Financial experts recommend saving at least three to six months worth of essential living expenses. If emergency fund has less than that, determine how much you can set aside each month until you reach your goal. Even if you are paying down debt, you should still set aside something each month if you have little or no savings now.

### Where should you put your savings?

Because you may be tempted to spend it prematurely, putting your savings in your checking account is usually a bad idea. There are many options for storing your savings:

- **Savings account** – With a savings account, you deposit money with a financial institution and receive interest or dividends in return. You can withdraw your money at any time (making it a good choice for emergency savings). Savings accounts are insured, meaning you will still be able to access your money if the financial institution goes out of business.
- **Certificate of deposit (CD)** – CDs are also offered by financial institutions, but you are required to leave your money deposited for the term of the CD. If you withdraw early, in most cases, you will have to pay an early withdrawal penalty. CDs are insured and generally have a higher interest rate than savings accounts.

- **Money market deposit account** – Money market deposit accounts are similar to savings accounts, but the interest rate is variable and usually higher as well. They are insured and may come with limited check-writing privileges.
- **Money market mutual funds** – Money market mutual funds are mutual funds that invest in short-term debt obligations, such as Treasury bills and CDs. While generally safe, money market mutual funds are not insured and provide no guarantee against loss.
- **U.S. Treasury bills** – Treasury bills are short-term debt obligations of the U.S. government.

With the above options, there is little to no risk that you will lose the money you deposit. Low risk is important for emergency and short-term savings. However, while you will earn more interest than with a checking account, the interest rate is still fairly low. For long-term goals, it makes sense to put at least a portion of your savings in investment vehicles with a higher return, such as stocks and bonds. There is a risk that you will lose some or even all of the money you invest, but the risk is less over a long timeframe. You can further reduce your risk by choosing investments carefully and diversifying your investment choices.

### **Make saving easy**

There are many techniques that can be used to jump-start saving:

- If you have direct deposit, have a portion of your paycheck directly deposited into your savings account. Or set up a regular automatic transfer from your checking account to your savings account. What you don't see, you don't miss.
- When you receive a raise, put the extra cash in savings instead of spending it.
- Deposit bonuses, income tax refunds, and cash gifts from birthdays, holidays, or other special occasions into savings.
- Save all of your loose change. A quarter here and a dime there will add up.
- Once you've paid off your car or other debt, start putting the same amount in savings
- Save even if you have debt. If your debt carries a high rate of interest, it is to your financial benefit to concentrate on repayment, but you should find a sensible balance. By saving even a little as you are repaying debt, you'll start an emergency account, kick the habit of borrowing, and establish a savings routine.

## Financial Goals Worksheet

Your financial goals are specific things you want to do with your money within a certain time period. Short-term goals are accomplished within one year, mid-term goals are accomplished within 1 to 5 years and long-term goals generally take more than 5 years to achieve.

|                  | Target Date | Total Needed | Current Savings | Additional Savings Needed | Pay Periods Until Target Date | Savings Needed Per Pay Period | Savings Needed Per Month |
|------------------|-------------|--------------|-----------------|---------------------------|-------------------------------|-------------------------------|--------------------------|
| Short-term Goals |             |              |                 |                           |                               |                               |                          |
| Mid-term Goals   |             |              |                 |                           |                               |                               |                          |
| Long-term Goals  |             |              |                 |                           |                               |                               |                          |



# Personal Financial Information Organizer

FINANCIAL FITNESS PROGRAM

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

Social Security Number: \_\_\_\_\_

City, State, Zip: \_\_\_\_\_

Phone: \_\_\_\_\_

## BANK ACCOUNTS

| Name of Financial Institution | Address | Phone Number | Account Number | Type of Account | Location of Statements |
|-------------------------------|---------|--------------|----------------|-----------------|------------------------|
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |
|                               |         |              |                |                 |                        |

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## INVESTMENTS

| Name of Company | Address | Phone Number | Account/Serial Number | Type of Investment | Location of Statements |
|-----------------|---------|--------------|-----------------------|--------------------|------------------------|
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |
|                 |         |              |                       |                    |                        |

**RETIREMENT PLANS**

| Name of Plan Administrator | Address | Phone Number | Account Number | Type of Plan | Location of Statements |
|----------------------------|---------|--------------|----------------|--------------|------------------------|
|                            |         |              |                |              |                        |
|                            |         |              |                |              |                        |
|                            |         |              |                |              |                        |
|                            |         |              |                |              |                        |
|                            |         |              |                |              |                        |
|                            |         |              |                |              |                        |

**INSURANCE**

| Name of Insurer | Address | Phone Number | Policy Number | Payment & Due Date | Type of Insurance | Location of Statements |
|-----------------|---------|--------------|---------------|--------------------|-------------------|------------------------|
|                 |         |              |               |                    |                   |                        |
|                 |         |              |               |                    |                   |                        |
|                 |         |              |               |                    |                   |                        |
|                 |         |              |               |                    |                   |                        |
|                 |         |              |               |                    |                   |                        |

**UTILITIES**

| Name of Service Provider | Address | Phone Number | Account Number | Type of Utility | Payment & Due Date | Location of Statements |
|--------------------------|---------|--------------|----------------|-----------------|--------------------|------------------------|
|                          |         |              |                |                 |                    |                        |
|                          |         |              |                |                 |                    |                        |
|                          |         |              |                |                 |                    |                        |
|                          |         |              |                |                 |                    |                        |
|                          |         |              |                |                 |                    |                        |
|                          |         |              |                |                 |                    |                        |











## Budget Worksheet

### Monthly Income

Enter your gross and net (after taxes) income from all sources. For income received infrequently, such as bonuses or tax returns, calculate the annual income, then divide by 12 to find the monthly amount.

| Source                       | Gross | Net |
|------------------------------|-------|-----|
| Job                          |       |     |
| Spouse's job                 |       |     |
| Part-time job                |       |     |
| Rental/room & board received |       |     |
| Commissions/bonuses          |       |     |
| Tax refunds                  |       |     |
| Investment income            |       |     |
| Government benefits          |       |     |
| Unemployment insurance       |       |     |
| Child support/alimony        |       |     |
| Support from family/friends  |       |     |
| Other                        |       |     |
| <b>Total</b>                 |       |     |

## Monthly Expenses

Since many expenses are variable, such as utilities and groceries, it is important to average these expenses. Other expenses are periodic (such as insurance or vehicle registration). Again, calculate the annual amount and divide by 12.

| Category                                             | Expense                                | Average Per Month | Goal Per Month |
|------------------------------------------------------|----------------------------------------|-------------------|----------------|
| Housing                                              | Rent/Mortgage                          |                   |                |
|                                                      | 2nd Mortgage/Equity Line               |                   |                |
|                                                      | Homeowner's/Renter's Insurance         |                   |                |
|                                                      | Condo Fees/HOA Dues                    |                   |                |
|                                                      | Home Maintenance                       |                   |                |
|                                                      | Gas/Electric                           |                   |                |
|                                                      | Water/Sewer/Garbage                    |                   |                |
|                                                      | Telephone                              |                   |                |
| Food                                                 | Groceries/Household Items              |                   |                |
|                                                      | At Work/School                         |                   |                |
| Insurance<br>(Exclude Payroll Deducted Amounts)      | Health/Dental/Vision                   |                   |                |
|                                                      | Life/Disability                        |                   |                |
| Medical Care<br>(Exclude Payroll Deducted Amounts)   | Doctor/Chiropractor                    |                   |                |
|                                                      | Optometrist/Lenses                     |                   |                |
|                                                      | Dentist/Orthodontist                   |                   |                |
|                                                      | Prescriptions                          |                   |                |
| Transportation<br>(Exclude Payroll Deducted Amounts) | Car Payment #1                         |                   |                |
|                                                      | Car Payment #2                         |                   |                |
|                                                      | Auto Insurance                         |                   |                |
|                                                      | Registration                           |                   |                |
|                                                      | Gasoline/Oil                           |                   |                |
|                                                      | Maintenance/Repairs                    |                   |                |
|                                                      | Public Transportation/Tolls/Parking    |                   |                |
| Child Care<br>(Exclude Payroll Deducted Amounts)     | Daycare                                |                   |                |
|                                                      | Child Support/Alimony                  |                   |                |
| Savings                                              | Emergency                              |                   |                |
|                                                      | Goals                                  |                   |                |
| Income Taxes                                         | Prior Year                             |                   |                |
|                                                      | Estimated Tax Payments (Self-Employed) |                   |                |
| Unsecured Debt                                       | Loan payment                           |                   |                |
|                                                      | Credit Card #1                         |                   |                |
|                                                      | Credit Card #2                         |                   |                |
|                                                      | Credit Card #3                         |                   |                |
|                                                      | Credit Card #4                         |                   |                |

| Category                                    | Expense                         | Average Per Month | Goal Per Month |
|---------------------------------------------|---------------------------------|-------------------|----------------|
| Personal                                    | Beauty/Barber                   |                   |                |
|                                             | Clothing/Jewelry                |                   |                |
|                                             | Cosmetics/Manicure              |                   |                |
| Entertainment                               | Cable/Satellite                 |                   |                |
|                                             | Movies/Concerts/Theater         |                   |                |
|                                             | Books/Magazines                 |                   |                |
|                                             | CD/Tapes/Videos/DVD             |                   |                |
|                                             | Dining Out                      |                   |                |
|                                             | Sports/Hobbies                  |                   |                |
|                                             | Vacation/Travel                 |                   |                |
| Miscellaneous                               | Banking Fees                    |                   |                |
|                                             | Laundry                         |                   |                |
|                                             | Union Dues                      |                   |                |
|                                             | Internet Service                |                   |                |
|                                             | Pet Care                        |                   |                |
|                                             | Gifts for Holidays/Birthdays    |                   |                |
|                                             | Cell Phone/Pager                |                   |                |
|                                             | Postage                         |                   |                |
|                                             | Cigarettes/Alcohol              |                   |                |
|                                             | Contributions to Church/Charity |                   |                |
|                                             | Other                           |                   |                |
|                                             | Other                           |                   |                |
|                                             | Other                           |                   |                |
|                                             | Other                           |                   |                |
| Other                                       |                                 |                   |                |
| <b>TOTALS</b> (include totals from page 10) |                                 |                   |                |

### Bottom Line

Once you have determined the total of your take-home pay and expenses you are ready to determine your bottom line. Subtract the total of all expenses including debt payments from your net income. If the result is a positive number, you can add the extra money to your savings to reach your goals sooner. If your expenses exceed your income, you'll need to make some adjustments to bring your finances back into balance.

| Total Monthly Income | Total Expenses | Balance |
|----------------------|----------------|---------|
|                      | -              | =       |