Managing Your Money

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Introduction

Imagine owning your home and vehicles, while having little to no credit card debt. You have several thousand dollars in cash saved between your emergency and reserve funds. You take regular vacations, have a solid retirement plan for yourself, and have college savings plans for your kids. You feel very confident about how credit works and you have people who you can ask for help in the areas of credit, banking, investments, insurance, taxes and legal issues.

Managing your money isn't just about paying bills on time. It's about being in control of your present and your future. It means having a plan to reach certain life goals, then taking the steps to put that plan into action. Even six-figure earners can find themselves struggling financially. That's because spending and savings habits, not salary, determine a person's financial well-being.

In the pages to follow, you'll learn the basics of managing your money. Get tips how to track where your money goes, set financial goals and redirect your income toward fitting your priorities.

You'll also learn what to look for in a checking and savings account, where to put your retirement savings, what role a credit card should play in your life and how to build good credit.

With a basic understanding of how to handle your money, you will be in good shape to build on your knowledge and strengthen your financial skills.

1. Tracking Your Spending

The first step in managing your money is to get a clear picture of your financial situation. You can do this by figuring out exactly how much money comes in to you each month, how much goes out and where you are spending it.

Step One

Write down all sources of net income (after taxes), including your annual take-home pay and any money you earn from hobbies or side jobs. Divide each number by 12 to get your average monthly income.

INCOME	ANNUAL	MONTHLY AVERAGE
Salary		
Spouse’s income		
Other income		
TOTAL INCOME		

Step Two

Gather all of your bills and write down their monthly totals on the expense worksheet. Divide the bills you don’t pay monthly, such as insurance and membership fees, by 12 to get your monthly average for each.

Step Three

Other types of spending, like trips to the vending machine, takeout coffee and movies will require some careful tracking. For one month, write down every penny that you spend and what you bought with it. You can download an app or carry a small notebook for this purpose. Another option is to use your debit card every time you buy something, no matter how small. This will give you an online record of each purchase to refer back to when reviewing your daily spending.

At the end of each day, add up your spending for each category. At the end of the month, add your total spending in each category to the expense worksheet.

EXPENSES	MONTHLY AVERAGE
Housing (rent/mortgage)	
Electric	
Heating (gas/oil)	
Water	
Phone (landline, cell)	
Internet	
TV (cable or satellite)	
Insurance (car, life, home owners, health)	
Groceries	
Take-out/snacks at work	
Clothing	
Memberships or subscriptions (gym, professional organizations)	
Medical (doctor, dentist, eye doctor)	
Medications	
Donations	
Credit card payments	
Car loan payments	
Transportation (fuel, parking, tolls, vehicle maintenance and repairs, public transportation)	
Pet care	
Other	
Other	
Other	
TOTAL MONTHLY EXPENSES	

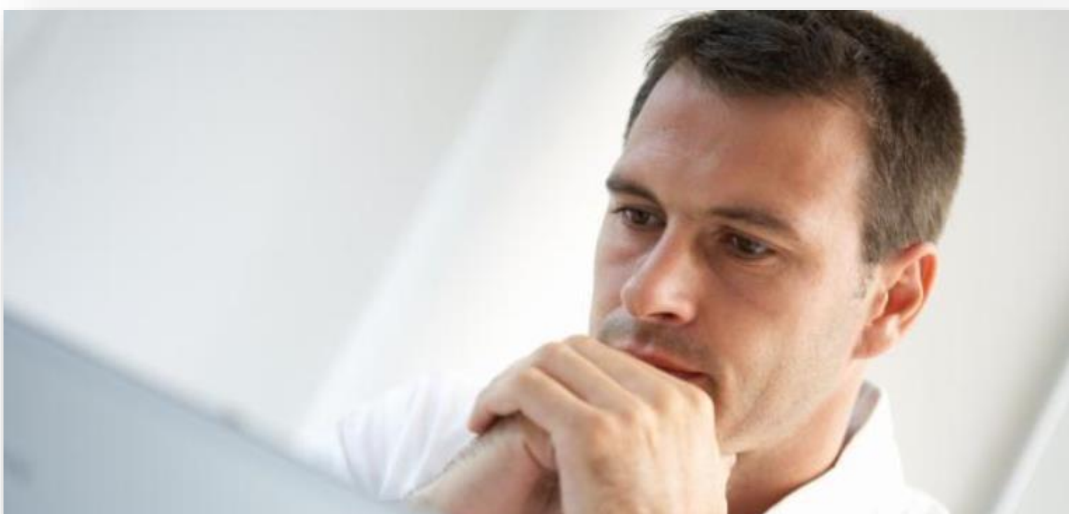
Step Four

Your last step is to subtract your expenses from your income.

NET INCOME OR LOSS	
Total monthly income	
Total monthly expenses	
THE BOTTOM LINE	

Hopefully, you have money left over at the end of the month, which is called a surplus. If not, you're spending more than you earn, which means potential insolvency. You may be funding your lifestyle though credit cards or other types of loans and digging yourself deeper into debt. You may be late paying your bills and racking up late fees and finance charges.

The good news is that now that you know this, you can start making changes to get back on track.



2. Living Within Your Means

Almost everyone has the occasional month when they're hit with unexpected expenses and end up spending more than they earn. But if you regularly plunge into the negative numbers, then you're headed toward trouble.

There are three ways to shift up to a positive balance. You can **earn more money**, **spend less** or do a **combination of both**.

Increasing Your Income

Unless you can talk your boss into giving you a hefty raise, bringing in more money probably means working more hours, whether it's at a second job or by putting in overtime. Consider carefully whether it's worth it to spend more time at work and have less time for yourself and your family.

- Take a second job.
- Work overtime, if available.
- Find a way to earn money on the side, such as from a hobby, garage or yard sale or a pastime.

Trimming Expenses

Review your expense sheet. Separate needs from wants. Needs are the necessities—what you need to survive, such as basic food, clothing, shelter and health care. Everything else is a want—some more important than others. Prioritize your spending with the basic necessities first and everything else in order of priority. List cheaper alternatives for those expenditures you need, but may be able to obtain for less.

Here are some ideas for spending less:

Groceries

- Plan menus, make a shopping list and stick to it.
- Opt for generic or store-brand products instead of more expensive brand-name labels.
- Shop the sales and buy in bulk when it makes sense.
- Shop at lower-cost grocery stores or warehouse stores instead of buying food at convenience stores, which tend to be more expensive.

Home entertainment

- Eliminate cable or satellite TV, or downgrade to a less expensive package.

Housing

- Consider mortgage refinancing, moving into a more affordable home or living with roommates.

Phone

- Switch to a less expensive plan or look into bundling services.
- Consider getting rid of your landline if you have a cell phone.

Takeout and dining out

- Brew your own coffee instead of buying it by the cup.
- Bring lunch and inexpensive, healthy snacks from home instead of buying lunch and visiting the vending machines at work.

Transportation

- Switch to a less expensive vehicle. If you have high car payments, consider trading in your vehicle for a reliable used car with lower payments. If you can afford to buy a used car outright, you'll avoid car payments (and finance charges) altogether.
- Join a carpool. Save on gas and wear and tear on your car by sharing your commute with others.
- Ditch the car altogether and use public transportation. You'll eliminate car payments, fuel purchases, registration fees, maintenance and auto insurance.

3. Setting Goals

Now that you know where your money is going and have some practical ideas for curbing spending, you can start saving for those things that you want to accomplish in life that cost money.

When setting your financial goals, it's helpful to break them up into short-, intermediate- and long-term goals. Here are some suggestions:

Short-term goals (three months-one year)

- Save for holiday gift-giving.
- Build an emergency fund. Experts recommend putting aside enough money to cover three to six months of expenses. That money will cushion you in the event of a financial disaster, such as a job loss or illness. The hope is that it will get you through the emergency without having to turn to credit cards or other types of loans.

Intermediate-term goals (one-five years*)*

- Pay off credit cards and other unsecured debt.
- Save for a down payment on a home
- Save for a vacation.

Long-term goals: (five years and longer)

- Save for retirement.
- Fund your children's college education.

How to Reach Your Goals

- **Write down each of your financial goals in order of priority.** Some of these goals will be common to everyone. Building an emergency fund and paying down debt, for example, should be at the top of your list.

- **Assign a dollar amount to each goal.**

- **Create a timeline.** Figure out how much money you can put aside each month and calculate how long it may take to reach each goal.

- **Keep your weekly and monthly savings goals to a reasonable amount** so that you don't become frustrated and give up.

FINANCIAL GOAL	TOTAL COST	ACHIEVE BY DATE	WEEKLY/MONTHLY SAVINGS NEEDED
Build emergency fund			
Pay down debt			

- **Consult with a financial counselor** to help determine your goals, set priorities and create accountability.

Ways to Save

If it seems impossible to save the amount of money you need to reach your goals, set smaller milestones. When you reach the first milestone, aim for the next and so on.

- **Pay yourself first**. Earmark a percentage of your income to go directly from your paycheck into your savings account. Use direct deposit and chances are, you'll never miss the money.

- **Use separate savings accounts for different goals.** If your bank allows you to set up sub accounts, name them after your goals, such as "car," "vacation" and "emergency fund."

- **Put any windfalls into your savings**. Your tax refund, winnings, even rebates on purchases should go directly into your savings accounts. However, if you're paying down debt, put any extra money toward your balance since high-interest rates on debt can quickly outgrow savings.

- **Increase the amount you save** as your income rises.

Paying Down Debt

High credit card debt will make it much harder to reach your financial goals. Tackling that debt should be your number one priority. Try to continue to build your emergency fund, even as you pay off your loans. Having cash on hand for emergencies will protect you from digging yourself in deeper by using credit cards to cover unplanned expenses. Here's how to pay down credit card debt:

- **Stop using your credit cards** so you don't accumulate more debt.

- **Make a list of what you owe on each card and the annual percentage rate for each.** Pay off the card with the highest interest rate first. Pay at least the minimum monthly balance on each of your other cards, but pay extra on the card with the highest interest rate.

- **Look into consolidating your credit card debt to a card with a low interest rate.** You may have to pay a fee to transfer balances, so make sure the lower rate offsets the cost.

- **Resist the urge to splurge** when you get work bonuses, tax refunds and other windfalls. Instead use that money to pay extra on your credit card bills.

- **Reward yourself occasionally** for sticking to your budget, paying off a credit card, etc. Treat yourself to dinner out at a nice restaurant or a new, sensibly priced purchase.

4. Checking and Savings Accounts

A checking account offers you easy access to your money and a convenient way to pay bills and other expenses. A savings account allows you to keep your money safe while you earn interest on the balance.

Choosing a Checking Account

To find a checking account that's best for you, look for one that offers the following:

- No monthly fee or a fee that is waived by having your paycheck automatically deposited into your checking account
- No minimum balance or a very low minimum balance. Some banks will charge you a monthly fee if your account balance drops below a certain amount. Another drawback to having a high minimum balance is that it ties up that money.
- No restrictions on the number of transactions you can make each month
- No charge for writing checks
- Free access to ATMs
- Free online and mobile banking

It's also important to make sure that the bank is insured by the Federal Deposit Insurance Corporation, or, if it's a credit union, by the National Credit Union Administration.

Managing a Checking Account

Every time you open your wallet to pay with cash for a purchase, you can see how much money you have left. A checking account works like a wallet, but without the visual cues. It takes some effort to keep track of how much money you are spending. If you don't, you may accidentally withdraw more than you have in your account. When this happens you'll be charged an overdraft fee, which may be $35 or more.

Each time you write a check or use your debit card, jot down the amount in your checkbook register and subtract the amount from the total. Do the same each time you make a deposit, adding that money to the balance. You might also set up an electronic alert when your account balance drops below a certain level. Many banks offer this to protect customers from overdrawing their accounts.

When you receive your monthly bank statement, check the bank's record of transactions against your own records. You should also be able to do this online at any time of the month. If there are any errors, you'll spot them right away. Reviewing your transactions will also reveal charges that you may not have been aware of, such as ATM withdrawal fees and recurring deductions for products or services you no longer want, such as magazine subscriptions.

Choosing a Savings Account

A savings account is another must. Although some banks may require you to open a small savings account to start a checking account, you do not have to maintain a primary savings account at the same institution as your checking account. However, if you do, you may be able to avoid a monthly service charge by counting your savings account balance toward your checking account. Look for a savings account that offers the following:

- A competitive interest rate
- Online and mobile access
- The ability to create subaccounts. Some banks allow you to divide your savings into subaccounts. You can name each subaccount (new car, house down payment, etc.) to help you manage your savings goals.

Other Ways to Save

Certificate of Deposit (CD)

You can expect to earn a higher interest rate with a CD than with a traditional savings account. The trade-off is that your money will be tied up for the life of the certificate, which can range from a few months to a few years. The longer the period until the CD "matures," the higher the interest rate. A CD is a good place to invest your money for short- or intermediate-term goals. Just be sure that you will not need that money in the meantime because there will be penalties for withdrawing it before the certificate matures.

Money market account

Unlike a traditional savings account, the interest rate on money market accounts vary based on money markets. Your financial institution will require a minimum balance in your money market account. You may receive a higher interest rate for higher balances.

Retirement accounts

Time and interest are on your side when it comes to saving for retirement, particularly if you start in your 20s or early 30s. If you are a service member, take advantage of the Thrift Savings Plan (TSP), which allows you to put money away for retirement through a payroll deduction. The Thrift Savings Plan offers two tax options. With the traditional TSP, you allocate a percentage of each paycheck to be invested in a traditional individual retirement account (IRA). That money grows tax free until you begin to make withdrawals from the account, usually after age 59 ½.

The second option is the Roth IRA, which is funded with paycheck deductions that you have already paid income taxes on. When you reach age 59 ½, you can begin withdrawing from the account without paying a penalty or any additional taxes.

If you're not in the military, check whether your employer offers a 401K savings plan, and if so, whether they will match your funds up to a certain amount. If your employer doesn't offer a retirement plan, you can open an IRA or Roth IRA on your own. Talk with your financial institution about how to do this.

5. Credit Cards

With all of the warnings about credit card debt, you may wonder if it's a good idea to have a credit card. It can be, as long as you use it wisely. Paying your bills on time proves to lenders, landlords, even potential employers, that you're a good credit risk. Also, some purchases, such as airline tickets and paying for a rental car, require a credit card.

Choosing a Credit Card

Before you apply for a credit card, shop around for the best deal. Look for a card that:

- Guarantees zero interest charges if balance is paid in full each month
- Does not charge a fee, either annual or an application fee
- Gives you a grace period before charging interest on balances: 20 to 30 days
- Charges a low annual percentage rate (APR). Watch out for cards that offer a low introductory interest rate that shoots up after a few months.

Credit Card Traps to Avoid

Your credit card's interest rates and minimum monthly payments will affect how long it will take to pay off your debt and how much your purchase will cost you over time. The Federal Trade Commission offers the following two examples:

Suppose when you're 18, you charge $1,500 worth of clothes and games on a credit card with a 19 percent interest rate. If you repay only the minimum amount each month, and your minimum is four percent of the outstanding balance (the lowest amount permitted by some issuers), you'll start with a $60 payment. You'll be more than 26 years old by the time you pay off the debt. That's 106 payments, and you will have paid more than $889 extra in interest. And that's if you charge nothing else on the card, and no other fees are imposed (for example, late charges).

If your minimum payment is based on 2.5 percent of the outstanding balance, you'll start with a $37.50 payment. You'll be over 35 years old when you pay off the debt. That's 208 payments, and you will have paid more than $2,138 in interest, even if you charge nothing else on the account and have no other fees.

Source: Federal Trade Commission, www.consumer.ftc.gov

Using a Credit Card Wisely

Here are some ways to keep your credit card use under control:

- **Pay your credit card bill on time.** Otherwise you get hit with the double whammy of a late fee as well as interest on your balance.

- **Pay your full balance each month, if possible, to avoid paying interest.** If you can't pay the entire balance, pay more than the minimum due.

- **Have no more than two credit cards.** Too many credit cards, particularly if they have high spending limits, is a warning sign to potential lenders that you have the means to get deeply into debt. If you find yourself buried in mailings from credit card companies that have prescreened you for a card, you can ask that your name be removed from their lists. You can opt out online, or call (888) 567-8688.

Your Credit Report

If you have ever taken out a loan or been issued a credit card, you have a credit report. A credit report contains information about whether you pay your bills on time, how much credit you have and from whom, how much credit you're using, and whether a debt or bill collector is collecting on money you owe. Liens, judgments and bankruptcies will also appear on your credit report.

Lenders use the information on your credit report to decide whether to lend you money and if so, how much interest to charge. Potential employers, landlords and insurers may also consider your credit history when deciding whether to accept your application for a job, housing or insurance coverage.

The Fair Credit Reporting Act entitles you to one free credit report annually from each of the three largest credit reporting agencies: Equifax, Experian and Transunion. You can request a report from each of the three agencies at the same time or stagger your requests throughout the year by requesting one from each agency every four months.

Request your reports at www.annualcreditreport.com or by calling (877) 322-8228.

When you review your reports, make sure your information is accurate, complete and up to date. If you find an error, notify the credit reporting company and the company that provided the information. Include documents that support your dispute.

Accurate negative information will stay on your report for seven years. Beware of companies that claim to erase bad credit. No one can remove accurate negative information from your credit report. You're the only one who can improve your credit report, but it takes time, a conscious effort and sticking to a personal debt repayment plan.

Building Good Credit

The free credit reports that you order won't show your overall credit score. This is a number that lenders and others look at when determining whether you're a credit risk. The score is calculated based on a number of factors, including your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt and how long you've had your accounts. The higher the points on your credit score, the better it is. A low score may mean you will be turned down for credit, or have to pay more for credit in the form of higher interest rates.

Here are ways to increase your credit score:

- Pay your bills on time.
- Pay off your loans before making non-essential purchases.
- Avoid applying for more than one or two credit cards. It won't look good on your credit report.
- Although a higher limit can improve your debt-to-credit ratio, consider keeping your credit limits low so you don't have the ability to go deeply into debt.

An Ongoing Process

Financial planning is not something that you do once, then forget about. It should be a part of everyday life. Your priorities will shift with major life events, such as marriage, children and job changes. A solid grip on your finances will allow you to adjust your spending and savings habits as your circumstances change.

Start the habit of managing your money now. By continuing to review your needs and your wants and adjusting your budget to reflect your priorities, you will gain insight into what you require to be content and you will have the financial skills to fund your goals over time.

6. Resources

Financial Industry Regulatory Authority (FINRA) Investor Education Modules
www.finrafoundation.org/resources/education/modules/
The FINRA Investor Education Foundation developed investor education modules to assist grantees and others with the creation of accurate, unbiased investor education materials. The Foundation permits free use of the copyrighted modules for non-commercial educational purposes only.

Investor.gov
www.investor.gov
An online resource from the U.S. Securities and Exchange Commission's Office of Investor Education to help you invest wisely and avoid fraud.

MyMoney.gov
www.mymoney.gov
The website of the Federal Financial Literacy and Education Commission, which is made up of more than 20 Federal entities that are coordinating and collaborating to strengthen financial capability and increase access to financial services for all Americans.

National Endowment for Financial Education
www.nefe.org
A nonprofit organization that provides financial education and practical information.

SaveAndInvest.org
www.saveandinvest.org/military
This FINRA Investor Education Foundation website offers military service members access to financial education information that enables them to make prudent saving and investing decisions for themselves and their families.

Thrift Savings Plan
(877) 968-3778
www.tsp.gov
The Thrift Savings Plan is a government-sponsored program providing retirement income for military service members and other federal employees.

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