

Student Take Home Guide

# *Personal Finance*

**Money Management**



# The ‘How To’s’ of Budgeting

**Step 1 - Discussing Values:** Discuss with those people involved in your spending plan what is most important to them. We typically spend money based on our values. By understanding what your values are, we can make decisions that will provide us with the most satisfaction.

**Step 2 - Setting Goals:** Goals are wants, aims, and desired achievements. They give direction to life and help us acquire those things we would not otherwise have. Begin setting goals by discussing with family members what each one may want to do with their money. Some examples of goals might be to start a savings account, buy furniture, remodel or redecorate your home, save for your children's education, a special vacation, or purchase more insurance.

Have each family member list what is wanted: within the next three months, by the end of the year, and in the next three years. Identify what goals are most important and plan on working toward those first.

Put money aside in your spending plan for your priority goal. If, for example, your goal is to have \$600 in a year, then you need to put \$50 per month in savings. Remember, to be able to achieve your special goal, you need to treat the money as a bill to be paid - only to you!

**Step 3 - Determining Income:** How much do you have to work with in your budget? Figure out your available income based on your net pay or those dollars you actually receive after deductions. The money that makes up your income can come from many sources, such as: a salary, welfare payments, allowances, pensions, rental property, social security, child support, alimony, commissions or bonuses, and interest.

A common pitfall in budgeting is to include over-time pay as regular income. Over-time pay can seldom be relied upon. Do not include it as income in your spending plan. You may, however, want to use that occasional over-time to reach spending goals such as a new appliance, furniture, a special toy for the children or that long-awaited vacation.

**Step 4 - Determining Expenses:** What are the expenses in your budget? When you know where your money is going, you can decide if it is being spent in the best possible way.

Review records of canceled checks, charge statements, grocery store tapes, receipts and bank books which show where the money has gone. Consider fixed expenses and flexible expenses while writing expenses.

Fixed expenses are those payments that consistently stay the same. They include: rent or mortgage payment, utilities (if not on a budget plan), insurance, car payments, and savings.

Flexible expenses are the amounts that vary from month to month and include: food, clothing, household equipment and supplies, gifts and contributions.

Periodic expenses are payments that are not due every month. They may be due every other month, every third month (quarterly), or maybe even once a year. Examples would be water, property taxes, and end of the year shopping. Whatever the case, these types of expenses should be budgeted monthly. Figure out of much you spend in a given year, divide it by 12, and that is the amount you need to save monthly toward that bill.

**Step 5 - Creating A Plan:** Now that you know your income and expenses and you have set goals, create a spending plan. Design the plan so that your income will allow you and your family to have what you want as well as need. Write down the fixed, flexible, and periodic expenses. When you total your expenses, they should equal your income.

When you first create your plan you may find that your income is not enough to cover your expenses. Re-evaluate your plan and decide what categories can be changed. Because fixed expenses are based on previous spending commitments, they usually cannot be adjusted. Flexible expenses vary from month to month so they may possibly be reduced or postponed until a later date.

A spending plan is a financial guide just like a road map is a guide to the highways. Allow for flexibility while keeping in mind what is most important to you and your family.

**Step 6 - Keeping Track of Expenses:** Keep a record of your expenses to tell you where your money is being spent. By comparing your estimated expenses with what you are actually spending, you can evaluate whether or not your plan is working.

You cannot keep track of every penny, but you need to know if you are within your spending guide. There are several ways to show what you are spending:

Save receipts from all purchases and compare with estimated expenses.

Use a checking account which shows where purchases are made, the amount spent, and what the expense is such as food, clothing, etc.

**Step 7 - Evaluating Your Plan:** Periodically evaluate your spending plan. Is the plan still helping you meet your needs and achieve your goals?

Look at the various categories in your plan and determine if you are gaining satisfaction from how you are spending your money. Adjust categories of expenses that are not providing satisfaction for you and your family.

**As changes occur throughout life, there are financial adjustments that need to be made. At these times, it is especially important to evaluate your spending plan and,**

perhaps create a new one. The following are reasons you would want to re-evaluate your plan:

- **Marriage, divorce or death**
- **When children are born, start school, teenage years and when they leave home.**
- **As goals are accomplished.**
- **New responsibilities such as supporting a family member.**
- **Change in income or lifestyle. Your spending plan is supposed to be a helper and guide for meeting needs and acquiring wants. Use it to control spending while making money work for you.**



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# Ten Rules for Successful Money Management

A spending plan helps you save to get what you want. The most important thing in using your money wisely is not how much money you make, but how you use it!

1. Arrange a family system for handling money and make certain that everyone in the family understands it.
2. Make your own spending plan suited to your own income, your own needs, your own wishes. Don't try to follow others...your own spending plan is the only one that will help you.
3. Decide what your family's most important goals are. Your money should be spent for things that mean the most to your family's welfare and happiness, and not spent on the things that mean the least to you and your family.
4. Plan ahead for the whole year...this way you can have a true picture of where you are going and how well you are doing.
5. Include all your income and all your expenses.
6. Bring the entire family into the plan. If every family member understands the family goals, they will work harder to accomplish them.
7. Pay yourself first by trying to save 10% of your income. If you can't afford 10% then start smaller, but do it regularly. If you treat it as a bill, you'll be more successful.
8. Stick to your plan but don't be afraid to alter your program if you think it needs improvement. If, at the beginning, you fail to stick to your budget, don't give up - stay with it. You will succeed - stay determined.
9. Review your plan once a month.
10. Hold family meetings to review the progress together.

# Setting Your Priorities

What do you want your money to buy? Talk this over with all members of your family. Keep in mind your income. Most families cannot have everything they need and want. List below some of your family spending goals: items you will need and want in the near future. Make your goals realistic. List some of your personal goals as well.

**Goals you would like to accomplish within the next 3 months.**

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**Goals you would like to accomplish by the end of the year.**

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**Goals you would like to accomplish within 3 years.**

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**Goals you would like to accomplish within 5 years.**

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**Other goals, and when you would like to accomplish them.**

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# Savings Tips

## Why Save?

Financial Security--it's never too late or too early to begin saving for your future! But it does take commitment.

It's important to save for your future and for emergencies, such as loss of job or an unexpected illness. Savings allows you to obtain the items you need and want without sacrificing or borrowing.

Maintaining a savings account is also important in obtaining credit. With accurate goal setting and a specific action plan, you are on your way to financial security for the future.

## Set Your Goals

Discuss with your family the priorities that need to be established. It's important to strive for both short-term and long-term goals.

### **Long Term Goal Examples:**

College tuition, new vehicle, new home, or retirement

### **Short Term Goal Examples:**

Household appliance, clothing, or furniture

## Develop An Emergency Fund

Establish an emergency fund first by keeping reserves equal to three months or more of your monthly expenses. Take no chances with this money. In the event of an emergency, you'll have money set aside to help you get through the first few months.

A recent study showed that 50 percent of the people between the ages of 35 and 49 could not come up with \$3,000 in three days without borrowing.

## Develop A Savings Habit

Design a savings strategy that will enable you to save beyond your emergency fund. For example:

Save \$50 a month by using direct payroll deposits for automatic savings. What you don't see, you won't miss.

Pay yourself first. Take 5 to 10 percent of your check, treat it like another bill, and bank it.

Enroll in your company's tax-deferred, 401(k)-type plan. Take advantage of your employer's retirement programs with stock options, tax-deferred growth, or automatic bond purchases. Seek advice from a Certified Financial Planner (CFP) about what investments or saving vehicles would be best for your situation to meet your savings goals.

Unless there is an extreme emergency, try not to touch your savings. Try to live within your means.

## Savings Table

By developing a savings habit, you can watch your savings grow to financial security. Below is a chart tabulating just how quickly your money can add up for you!

Monthly Deposit	Accumulated Over Years		
	1 year	5 years	10 years
\$10	122.57	664.80	1477.23
\$15	183.90	997.35	2214.88
\$30	367.84	1995.03	4430.48
\$50	613.08	3326.36	7384.76

Based on 4% effective annual rate. .333 is added to the principal at month-end.

## Investment Opportunities

Whatever savings vehicle you choose, there is no reason to limit yourself to just one. The following are several investment opportunities that could help you get well on your way.

## **Savings Accounts**

These accounts allow you the most flexibility. You can deposit or withdraw at any time. Interest rates vary according to the institution. Emergency funds should be kept in savings accounts.

## **Money Market Mutual Funds**

In these accounts, shares are purchased directly from the company by an agent or investment company. The cash of the mutual investors is pooled together and diversified through an investment portfolio earning a higher interest rate. This is good for long- and short-term goals.

## **Individual Retirement Accounts**

IRAs allow you to set aside a percentage of your salary to make tax-deductible payments to your own financial institution. You do not pay taxes on this money until you withdraw it. This type of savings is only good for long-term goals.

## **Certificates Of Deposit**

Certificates are fixed time deposits that are payable when your money matures at the end of a specified term ranging from one month to 10 years. Generally, the higher the term, the higher the interest rate. CDs are beneficial for short- and long-term goals because you pick the length of time.

## **Where Should I Put My Savings?**

Banks, savings & loans, credit unions, and investment companies all offer savings options. Shop for interest rates, reliability, methods of computing interest, and insured funds for safety.

## **Savings Facts**

55% of Americans are "somewhat worried" about having enough savings for retirement.

Fifty-two million American households have concerns about making ends meet. Of those, 78% usually cut entertainment or travel costs.

By saving \$50 a month for 20 years, you could have over \$21,000 by retirement.

Experts estimate you'll need about 70%-80% of your pre-retirement income to maintain your present standard of living when you retire.

The Bureau of Labor Statistics found that individuals under 25 years of age had a negative savings rate, spending 20% more than they earn.

"Baby-boomer" household headed by people between 31 and 49 years of age (1946-1964) on the average save only five percent of their disposable income and 4 in 10 saved less than \$1,000 last year.

Many other countries maintain a savings rate between 9 and 16 percent.

People who say they will save what is left over never have anything left to save.

## **Savings Pitfalls**

Don't attempt to save by having extra taxes held from your paycheck for a larger refund at tax time. This costs you because the government pays no interest on your money and you don't have access to it when you may need it.

Don't double up on house or insurance payments unless you have savings equal to at least three months of expenses.

Don't use U.S. Savings Bonds for short-term savings. Bonds do not pay the face value full amount until the time expires.



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# A Safe Deposit Box

A safe deposit box is for financial records that are difficult, costly, or impossible to replace. Safe deposit boxes are rented on a yearly basis from your financial institution for a nominal fee. The fee for the safe deposit box will vary according to the size box you select. The box should be large enough to hold your important papers, but it should not be used for souvenirs or unimportant papers.

The following financial records should be kept in the safe deposit box:

- Birth, death, marriage, divorce, adoption, and citizenship papers
- Deeds to properties
- Titles to motor vehicles
- Stock and bond certificates
- U.S. Savings Bonds
- Important contracts
- Military discharge and veteran papers
- Patents and copyrights
- Important disk or diskettes
- Negatives or the actual pictures of your home inventory

***If investment or securities documents are kept in the safe deposit box, then the annual rental fee may be used as a tax deduction.***

# Reducing Expenses in the Family Budget

Family spending must often be adjusted to stay within income limits. Take a few minutes to complete the exercise below.

<b>Can Your Family:</b>	<b>Yes</b>	<b>No</b>
Reduce grocery expenses		
Cut down on meals out		
Cut consumption of non-nutritious beverages		
Maintain current home		
Find more economical living quarters		
Take on more home maintenance and repair jobs		
Eliminate hired help inside the home		
Use utilities and household supplies more carefully		
Avoid buying new home furnishings unless needed		
Consider used furniture		
Select easy-care household fabrics and appliances		
Spend less for clothing and personal care		
Cut down on trips to beauty shop or barber shop		
Purchase a more economical car		
Cut down on vacation travel		
Use public transportation		
Cut down on expensive hobbies or activities		
Take advantage of free activities		
Make use of the public library instead of subscriptions and purchased books		
Use public recreational facilities		
Reduce contributions or make them proportionate to income		
Give fewer gifts or spend less on gifts		
Cut back on face value of life insurance		
Know what income is not taxed		
Keep present group health insurance		
<b>List some of your own ideas for cutting expenses</b>		

# Reducing Debt

If your goal is to reduce your debt load, here are some helpful hints to plan your strategy.

## **Prioritize your debts**

Mortgages or other secured loans like auto loans should take first priority. If you default on these kinds of loans, you can face foreclosure or repossession. If, for example, your car is repossessed, it may affect your ability to work and adversely affect your income. Additionally, the car will be sold or auctioned off. If the sale of the car brings in less than you owe, you still have to pay the difference! In effect, you could be sitting on the bus and still making car payments.

## **Use cash for new purchases**

Unless you pay off the entire balance every month, you are probably paying interest on new purchases from the date of the purchase. If you stop using your credit cards all together, you will be able to reduce your debt more quickly. Because of compounded daily interest, it is far better to use cash for the things you need and adjust your budget to accommodate those expenses than to use credit cards and then struggle to send large payments.

## **Set your own payment**

Establish a budget and a tracking system for your income and expenses. Then you will know how much money you have available for credit payments. This amount must be more than the creditor's minimum payment. Once you have established amounts for each creditor, send your payments in regularly. When smaller balances are paid off, apply that money toward increasing the payments to your other creditors.

## **Pay more than the minimum amount due**

When you compare the finance charge column and the minimum payment column, you might see that most of your payment is going toward interest and little goes toward the principle. When you increase your payment, the additional funds are applied directly toward the principle. Years of payments and thousands of dollars can be cut from the life of a debt simply by adding a few dollars to the payment. For example, if your minimum payment is \$25 and \$19 dollars are going to pay interest, then that leaves only \$6 for the principle. If you increase your payment to \$31 this month, it is like making two months payments toward the principle-essentially doubling your payment. The more you increase your payment, the less you will ultimately have to pay.

Payment	Interest	Principle
\$25	\$19	\$6
\$31	\$19	\$12

### **Pay off higher interest rate cards first**

Dedicate more money toward higher interest rate cards because you will ultimately save in interest. It is better to owe \$100 on an account that has an APR of 14% than to owe \$50 to one at 14% and \$50 to another at 19%. Note if there are cash advances on any accounts. Cash advances usually command higher interest rates than balances on purchases. Usually, your creditor will divide the payment on a percentage basis between the two balances. If you increase your payment, the creditor will divide additional payments along the same guidelines unless you specify otherwise. For accounts such as this, after you decide how much extra you can send, consider making the minimum payment as usual and write a separate check for the extra funds. Stipulate in writing that the extra payment is to be applied directly to the principle balance for cash advances. Verify how the payments were distributed in your future statements.

### **Pay your bills when you receive them, not when they are due**

Most creditors use the Average Daily Balance method of calculating interest. Reducing the average daily balance by making your payment sooner will ultimately reduce the amount of interest you pay.

### **Don't accept your creditor's offers to skip payments**

Interest continues to compound while you're skipping your payment. The longer your balance goes without a reduction, the more interest you'll pay. If you've established your budget and have scheduled payments, continue to make those payments until the balance is paid off.

### **Consider transferring balances to lower rate cards**

You may receive offers of credit with low-interest teaser rates. These low rates are called teaser rates because they usually only last for 3 to 9 months. They offer to transfer balances from your other credit cards to theirs with the lower interest rates. In general, an opportunity to pay less interest is a fairly good idea but, if you are considering this step, you must consider more than the teaser interest rate. Examine the contract carefully before you apply for the card.



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# Net-Worth Statement

In its simplest form, a net-worth statement is what you own minus what you owe. Take some time to calculate your net worth and update it once each year.

<b>ASSETS</b>	<b>Year</b>	<b>Year</b>
Cash on hand	\$	\$
Cash in checking accounts	\$	\$
Cash in savings accounts	\$	\$
Current value of US savings bonds	\$	\$
Cash value of insurance policies	\$	\$
Equity in pensions	\$	\$
Current value of annuities	\$	\$
Retirement Funds (IRA, 401(k), 403(b), etc.)	\$	\$
Market value of securities	\$	\$
Stocks	\$	\$
Bonds	\$	\$
Mutual Funds	\$	\$
Market value of home and other real estate	\$	\$
Cash value of personal property	\$	\$
Automobile	\$	\$
Furniture	\$	\$
Appliances	\$	\$
Other (antiques, furs, jewelry, art, etc.)	\$	\$
Other assets	\$	\$
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>\$</b>
<b>LIABILITIES</b>		
Balance on mortgages	\$	\$
Balance due on installment debts, i.e. automobile loan	\$	\$
Balance due on charge cards	\$	\$
Personal loans	\$	\$
Current bills outstanding	\$	\$
Taxes due	\$	\$
Other liabilities	\$	\$
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>\$</b>
<b>NET WORTH (TOTAL ASSETS – TOTAL LIABILITIES)</b>	<b>\$</b>	<b>\$</b>

# Love & Money Can Go Together

Merging two personalities and two households? It's hard to do without the conflict of financial concerns. "Money" has always found its way to the top of the list of causes of disagreements between couples. Various behavioral and psychological studies indicate that the sense of security, safety, and power are probably at the heart of this conflict.

Because two people probably have entirely different styles of financial management, the vows "to have and to hold, for better or for worse, for richer or for poorer," may not hold up when money is co-mingled. In fact, some marriage counselors are now beginning to add discussions on money matters and management in premarital counseling. Perhaps a good idea!

Few couples really talk about money before the marriage. They may approach the altar not knowing if the other person has outrageous credit card debt, has significant back taxes to pay, or just doesn't believe in balancing a checkbook. Keeping these matters private until after the wedding can result in major conflicts.

Couples need to sit down and open up their checkbooks, tax returns, billing statements and brokerage accounts to discuss what they have, what their financial goals are, and how they'll manage their money from month to month.

Although couples may basically agree on most matters, they tend to square off and adopt opposing attitudes about money. If both are over-spenders, they may fight for the role of super-spender to make each other look like a hoarder by comparison. Why? Every couple needs one member who sets limits. If neither is a natural limit-setter, they'll "fight it out" until one emerges!

***Hoarder versus spender.*** Hoarders like to save, budget and prioritize. Spenders like to spend. This is the most common way couples polarize so they can fight over money.

***Planner versus dreamer.*** The planner is the nitty-gritty, take-it-one-step-at-a-time type. The dreamer hatches passionate schemes, but has no idea how to make them come true.

***Merger versus separatist.*** The merger wants to pull all the couple's money together. The separatist, who is most often the woman, wants at least some of her own money.

***Risk-taker versus risk-avoider.*** The risk-taker loves adventurous investing. The risk-avoider goes for the sure thing.

## Ways to help curb the financial conflicts

If you disagree about who spends what, keep separate accounts. For some couples, four accounts may work best: a joint savings account for emergencies and investments; a joint checking account into which each spouse pays according to his or her income; and individual accounts to cover personal expenses such as clothing. Keeping some money separate eliminates the need to ask permission! If one partner stays home to care for children, the wage earner's income should be split fifty-fifty after household expenses.

Take turns paying the bills so both of you know where the money goes. One may be more organized than the other. If you agree that one partner is the bookkeeper, review the bills together every month.

Discuss financial and lifestyle goals and priorities.

If you can't talk about money without arguing, get help. Work with a certified financial planner or financial counselor to explore financial goals and realistic ways to achieve them.

Track your income and your spending and see where you can economize.

If you have a home computer, try an inexpensive computer money management program that helps manage personal finances and gives you a clear picture of your financial situation.

# Financial Activity in the Family Life Cycle

There are many stages in a financial life cycle. In each stage of your life you will be faced with different financial challenges. Consider the following financial goals during each of those periods.

## 18 To 24 Years

- Establish financial identity
- Train for career
- Attain financial independence
- Make a spending plan
- Establish household
- Develop effective financial record keeping system
- Develop an effective financial planning system
- Purchase risk coverage

## 25 to 34 Years

- Provide for expanding household needs
- Expand career goals
- Manage increased need for credit
- Provide for training/education funds
- Provide for childbearing and rearing costs
- Purchase additional protection coverage
- Draw wills
- Maximize financial management skills of all members of the household

## 35 to 44 Years

- Upgrade career training
- Continue to build education fund
- Maximize head of household protection
- Provide greater income for expanding needs
- Establish and work towards retirement goals

### **45 to 54 Years**

- Provide higher education/training
- Maximize investments
- Evaluate and update retirement plans
- Communicate with family members about estate plans
- Assess and explore estate plan

### **55 to 64 Years**

- Consolidate financial assets
- Provide for additional future security
- Re-evaluate method of intended property transfer
- Investigate part-time income or volunteer work for retirement
- Assess housing location and expense for retirement
- Meet responsibilities for aging parents or other dependents

### **65 Years & over**

- Re-evaluate and adjust living conditions and spending as they relate to health and income
- Evaluate and adjust programs for increasing risks
- Secure reliable assistance in managing personal and economic affairs
- Finalize plan for sharing estate
- Finalize letter of last instructions

# The Key to a Successful Spending Plan

## Plan Your Future

Planning your financial future will be an ongoing process throughout your life. It allows you to evaluate all aspects of your financial life including income, spending and saving. By developing a spending plan, you will have more financial freedom and ability to get through financial emergencies and to prepare for retirement.

## Get Started Today

The beginning is always the hardest! Discuss with those people within your household the things that are important to them. Everyone in your house has a different priority and this will dictate how each feels about money. Values influence your purchasing decisions. For example, one person may prefer to spend money on entertainment, while another would rather buy clothes. Understanding different priorities will allow you to deal effectively with conflicts.

## Set Financial Goals

Before you can create a plan for spending and saving, financial goals must be established. Goals reflect values and provide direction for planning. Establishing goals will help to balance needs and wants.

Both short-term and long-term goals are important. Short-term goals are things you would like in the next few weeks or next month. Long-term goals, on the other hand, require long-range planning and are not obtained for at least a year or more. Goals change continuously over a lifetime; as goals are reached, new ones should be established.

Each member of the family has his/her own ideas about which goals are important. Everyone should sit down together to identify goals. Open communication among all family members helps prioritize the goals that are acceptable to everyone.

Remember, seldom is anyone in a position to provide everything everyone wants. However, by setting goals that reflect your values, you are making progress toward creating a plan that will ensure financial stability.

## Estimate Available Income

Begin your spending plan by determining your available income. This figure reflects your total income that might come from wages, pensions, public assistance, and investments minus deductions like all taxes, social security, and health insurance premiums. The total amount of money left after subtracting deductions from your total income equals your available income.

## Check Your Spending

Compare recent and past spending patterns. This will remove the guesswork from financial planning. Identify your past spending patterns by reviewing cancelled checks, receipts, charge statements, and other useful records of expenses for the past two to three months. Reconstructing spending habits as accurately as possible will make your planning easier.

Expense categories need to be identified as "fixed" or "flexible." Fixed expenses occur at specific times and rarely change. Flexible expenses fluctuate from month to month and may possibly be altered to balance the plan. Estimate each category for the year and average them for each month. By averaging, you will provide for those expenses that occur less frequently. Car insurance will no longer be a surprise.

## Develop Your Spending

Now that you have determined your values, goals, available income, and you have tracked your spending habits, a spending plan has to be designed.

Be realistic and create a plan with which you can live. Be careful not to budget too tightly and radically change your life style. Don't expect to account for every penny. If your plan is too closely budgeted, it will not work.

Now it's time to see how close your spending estimates were. For two to three months, keep all receipts, bills, and charge card statements. Record the amount you actually spent each month.

Now, compare the two amounts (estimated and actual) by category and total them. If categories are too low or high, review them to see where you can cut cost or make revisions.

An overall spending plan should be developed for one year and be divided into smaller parts, usually one month. One-year planning allows you to anticipate and prepare for changes in your financial situation. It will also provide the opportunity to set aside money for large expenses as well as plan for those frequent purchases.

By knowing your income, comparing your actual and estimated spending, and analyzing your spending habits, you will also have an idea about how much money is available for savings, entertainment, or vacations, plus how much credit you can afford.

## Review the Plan

To be successful, the plan will require periodic evaluations. Do not be surprised if in the beginning, actual expenses are quite different from estimated expenses. Your plan will become more realistic as you continue the process.

A review should be conducted and changes made every two to three months. If there is a change in your finances such as divorce, death, children beginning or finishing school, or parental care, the plan should be revised. To assist in the evaluation, ask yourself:

"Is my plan helping me meet my needs?"

"Am I saving money and/or achieving my goals?"

**Most importantly, remember that a plan is meant as a guide for meeting needs and wants. Use it to control spending while making your money work for you.**

# It's Time for a Financial Checkup

It's a new year and a great time to take stock of your personal financial situation. Here are some tips to get started.

## **Get a handle on credit cards**

Did you charge more than you expected over the holidays -- and now you're facing a mound of bills? Put yourself on a credit diet until your bills are under control.

- Pay down the cards with the highest interest rate first
- Make more than the minimum monthly payments
- Use cash for new purchases
- Pay your bills when you receive them, not when they are due
- Don't accept offers from creditors to "skip" payments

## **Calculate your net worth**

It can be painful adding up your debts, and it's even tougher subtracting that debt from your assets. But once you have that number, it will help you set financial goals.

## **Adjust your wage withholding**

Your tax situation changes when your salary, investment income, filing status and other financial factors change. Get ready by asking your employer for a new W-4 and by using the work sheet to figure out how much tax should be withheld from your paycheck.

## **Decide why you're saving**

Jot down your savings goals. Check your retirement plan. Are you where you expected to be?

## **Mix it up**

When was the last time you looked at your mix of investments? To determine your mix, or asset allocation, tally separate totals for your holdings of stocks, bonds and cash, and divide each by the total value of the portfolio. If you haven't looked lately, you might be surprised at the mix. You might find the mix of your portfolio has shifted with the tide of the market. Are you comfortable with the current mix?

## **Organize your tax information**

Compile and verify records. It's up to you, not the tax preparer, to check W2s and 1099s for accuracy and to have errors corrected. As documents arrive, stick them in a folder. All your paperwork should be in one place.

## **Irrational Use or Views of Money**

Life can be a balancing act especially when it comes to money. Take a look at some of these “views of money” and compare them to your money personality. If you identify with any of them, try to make adjustments in your life for more balance.

You put money ahead of everything else in life, including health, love, family, recreation, friendship, and contentment.

You buy things you don't need or want because they are on sale.

You buy things you don't need or want because they are the "right" things to have, or because they might impress others.

Even when you have sufficient funds you feel guilty about spending money for necessities such as a new pair of shoes.

Every time you make a major purchase, you "know" you are being taken advantage of.

You spend money freely, even foolishly, on others but grudgingly on yourself.

You automatically say, "I can't afford it," whether you can or not.

You know to the penny how much money you have in your purse or pocket at all times.

You have difficulty making decisions about spending money regardless of the amount.

You feel compelled to argue or complain about the cost of almost everything you buy.

You insist on paying more than your share of restaurant checks or bar bills just to be appreciated or to make sure that you do not feel indebted to anyone.

If you have money left over at the end of the month, you feel uncomfortable until you spend it.

You use money as a weapon to control or intimidate those who frustrate you.

You feel inferior to others who have more money than you, even when you know they have done nothing of worth to get it.

You feel superior to those who have less money than you, regardless of their abilities and achievements.

You firmly believe that money can solve all your problems.

You feel anxious and defensive when asked about your personal finances.

In making any purchase, for any purpose, your first consideration is the cost.

You feel dumb if you pay a little more for something than your neighbor did.

You feel disdain for money and look down on those who have it.

You prefer saving money to investing it because you're never sure when things will collapse on you and you'll need the cash.

The amount you have saved is never quite enough.

You feel that money is the only thing you can really count on

# How Long Should You Hold Onto Your Records?

## Individual tax returns and supporting tax records

Indefinitely, if you want to be extra cautious. For a standard audit, the IRS can ask to see records up to three years old. If you're suspected of under-reporting your income, however, the IRS can go back six years. And, if you're suspected of fraud or failure to pay, they can go back indefinitely.

## Housing records

For as long as you own your home, plus at least three years for tax records (this applies to deeds, title papers, mortgages, home improvement receipts, and Tax Form 2119, Sale or Exchange of Principal Residence).

## Mutual fund year-end statements

For as long as you own the asset or need statements for tax records. Get rid of monthly statements if all activity is shown on year-end statements.

## Paycheck stubs

Keep year-end statements for your tax records.

## Cancelled checks and credit card statements

One year, unless it pertains to taxes or major purchases you still own.

## Bank statements

One year (hold on to anything that applies to your *tax records*).

# How Do You Manage Your Money?

Answer the following questions as truthfully as possible according to your present financial practices. Then check your score to determine your money management skills.

**1. I pay the rent/mortgage and utility bills on time.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**2. I save 10 percent of my net income.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**3. I try to keep three months of my net income in reserve for emergencies.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**4. I plan ahead for large expenses such as taxes and insurance.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**5. I set goals and keep a budget for my net income.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**6. I spend no more than 20 percent of my net income for credit payments, excluding home mortgage payments, but including car payments.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**7. I comparison shop for the purchase of most items.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**8. I keep track of my daily expenses.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**9. I balance my checkbook every month.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**10. I check my credit report once a year.**

Always _____	Sometimes _____	Never _____
--------------	-----------------	-------------

**Scoring**

To total your score: Give yourself 2 points for each ALWAYS; 1 point for each SOMETIMES; and 0 points for each NEVER.

**20-15** You are practicing good money management skills. To add to your financial knowledge, take advantage of the information available at the library or through the media or workshops.

**15-10** You are making an effort to improve your skills. Seek specific information about your financial issuers.

**10-0** You need to improve your money management skills.

# Home Files

The purpose of a home file is to maximize the efficiency of your financial records. It does not need to be elaborate or expensive, but it should be simple, convenient and organized.

You may wish to begin your file with large envelopes or file folders that indicate the contents. As your financial affairs become more complex, you may want to purchase a file drawer.

The following information should be in your home file:

- Information on credit cards, debit cards, checking accounts, savings accounts, other savings investments, and copies of contracts
- Copies of insurance policies
- Information on home mortgages, land and other property, including burial plots
- Information on motor vehicles, drivers licenses
- Copies of birth, marriage, death, divorce, and citizenship papers
- Copy of will, last instructions and safe deposit box keys
- Tax records of last six years
- Records of pension plans, education, health records, and employment
- Current household inventory; list everything you own, what the cost is, and approximately how old it is. Add pictures or a video of rooms/major items, and keep all receipts.
- Copies of all warranties and guarantees
- List of financial advisors
- Annual net worth statement

# Holiday Planner

The holidays always seem to be just around the corner. It won't be long before families are exchanging presents. Holidays and gifts can take a big bite out of your budget so planning ahead will help keep your budget under control.

It is important not to get caught up in the last minute emotion of the season and spend more than you planned. Holiday overspending ruins many festive occasions and can result in long repayment schedules.

Don't have a holiday credit hangover! Remember, credit obligations (excluding home mortgages and utilities) should not exceed 15-20 percent of your take-home pay each month.

The following are suggestions to help relieve holiday stress:

- Shop early for gifts. This allows you to take advantage of sales, specials and bargains. Just don't over buy or forget you have already shopped for someone.
- Make your own gifts. Use skills you have to sew, bake, paint or make crafts.
- Don't be a "One gift for you...one gift for me" shopper! And...don't be tempted to give your gifts early lest you buy more!
- Utilize layaway plans if possible. Most allow you to pay at a rate you can afford either weekly or monthly.
- If you have a large family, consider drawing names to exchange gifts.
- Shop your local craft fairs and shows for specialty items - you'll find some great ideas. Sometimes you can bargain with the vendor.
- Family members would appreciate an IOU to mow the lawn or wash the car in the spring.
- If you plan to fill stockings or bags for the children, try putting a few pieces of fruit (apples & oranges) in the bottom first. Also, coloring books and scratch pads make great inexpensive fillers.
- Know your merchants' return policies before buying.

Don't forget to plan ahead for expenses such as holiday decorations, special candies, baking supplies (especially if baking for gifts), increased utility bills, food consumption and wrapping paper. These expenses are rarely considered and can really add up fast.

Use the following shopping list and budget pages to help you on your way!



## Shopping Safety

Keep your eye out for theft and fraud at this time of year. Follow these simple rules.

- Keep a list of all credit and charge card account numbers, with company phone numbers, in a safe place, not with you.
- After a purchase, destroy all credit card slips carbons (or incorrect receipts you have corrected).
- Never sign a blank receipt.
- Keep your charge/credit card in view at all times when using it for a purchase.
- Always notify the creditor immediately if there is an error on your billing statement.
- Know the mail order company before ordering and giving your credit card number over the telephone.

**A helpful gift from Accel Members Financial Management**

# Goal Setting

In each section briefly describe what you want in the short term (this year or within three years) and the long run (more than three years). Think about what would be most enjoyable for you and would be possible for you to do.

<b>Financial Goals</b> – How can I spend my resources to give me the most satisfaction?	<b>Leisure Time Goals</b> – How do I want to spend my time?
Short Term:	Short Term:
Approx. Cost:	Approx. Cost:
Long Run:	Long Run:
Approx. Cost:	Approx. Cost:
<b>Living Arrangement Goals</b> – What living arrangements would support my desired lifestyle?	<b>Health &amp; Well Being Goals</b> –More insurance, less insurance, exercise program, special diet?
Short Term:	Short Term:
Approx. Cost:	Approx. Cost:
Long Run:	Long Run:
Approx. Cost:	Approx. Cost:

<b>Educational Goals</b> - How can I improve my skills or my children's skills for the future?	<b>Retirement</b> - How do I want to live in retirement?
Short Term:	Short Term:
Approx. Cost:	Approx. Cost:
Long Run:	Long Run:
Approx. Cost:	Approx. Cost:

# Financial Assistance Worksheet

If you are looking for financial assistance from a community agency, use this form to log your personal and financial data. It will make your first contact with the agency more productive.

## Information Often Required When Applying for Financial Assistance

<b>Monthly Expenses</b>	<b>Amount</b>
Rent or mortgage payment	\$
Food and restaurant	\$
Utilities (phone, elec., gas, water)	\$
Insurance, life and health	\$
Clothing and laundry	\$
Education, tuition payments	\$
Child care	\$
Transportation, car payments	\$
Medical and dental	\$
<b>Total Expenses</b>	<b>\$</b>

## Additional Financial and Personal Information

Total household earnings per month	\$
Total savings and investments	\$
Total cash on hand	\$
Assessed value of home	\$
Name and address of mortgage company	
Year and make of car	
Amount of lien (if any) on car	\$
Tax Returns (federal, state and local)	

## Items to take to the First Appointment

- Proof of residency
- Proof of earned income
- Record of debts
- Record of house payments, insurance, and taxes or rent payment
- Record of any other source of income (bonds, investments, social security)  
Record of child care payments
- Immigration and naturalization service papers for all members of home who are not citizens
- Proof of utility expenses
- Birth dates and social security numbers of household members

# Graduating Into Debt

## How to budget for student loan payments

If you're one of the millions of college graduates leaving college with a degree in one hand and a stack of student loans in the other, you will want to read what Michigan Association of CPA's has to say about the importance of planning for the repayment of your student loan.

### STEP 1 - UNDERSTANDING YOUR LOAN

To fulfill your repayment obligation and build a strong credit history, you need to understand the terms of your student loan, develop a realistic budget, choose the right repayment option and make timely payments. Colleges generally conduct exit interviews with seniors during which a financial aid counselor reviews the student's total indebtedness, the repayment options available and when repayment begins. Most loans give you six months of breathing room, but some require that you begin repayment immediately.

### STEP 2 - BUDGET, BUDGET, BUDGET

Good financial planning starts with sound budgeting. To determine how much you can afford to pay toward your debt each month, you will need to compute your income and expenses. In terms of estimating your income, be sure to take into account that the pay you are quoted is not what you will be taking home. Taxes and a variety of other payroll deductions, such as medical insurance, are going to result in a paycheck that may be considerably less than you expected.

Once you have determined your take-home income, you can realistically predict your monthly payments. Add up your living expenses such as rent, utilities, food, car and transportation expenses, and recreation. If you're not sure where you spend your money, you might want to keep a written record of your expenses over a few months. Student loan borrowers are typically advised to keep their monthly student loan payments within eight to ten percent of their monthly incomes. This guideline ensures that borrowers have enough discretionary income to cover other living expenses, as well as an occasional pizza or movie.

In addition to paying off your debt, CPAs emphasize the importance of saving some portion of your pay each month. It doesn't have to be a lot, but it should be regular. Once you've done that, it's not too early to start thinking about saving for retirement.

### STEP 3 - CHOOSE A REPAYMENT OPTION

Your loan balance and interest rate determines your monthly payment amount. As a general rule of, you can plan on paying about \$125 per month for every \$10,000 you

borrow. The repayment options available to you depend on the type of loan you have.

Most borrowers choose the standard 10-year equal-installment plan that requires you to make payments of equal amounts over a maximum of ten years. This plan carries the highest monthly payment, but costs less over the long term because you pay less interest. Students who cannot meet the monthly payments required by the standard repayment plan may choose the graduated payment or income-sensitive plan. With a graduated payment plan, your payments start out low and rise every few years, on a fixed schedule. This option makes sense if you are just starting out in a career and expect your income to increase steadily. Another option, the income sensitive plan, adjusts annually to reflect changes in your income. CPAs recommend that you avoid stretching out the term of your loan unless it is absolutely necessary that you do so. While flexible payment options reduce your monthly payment, adding extra years to your loan means you will pay more interest over the life of the loan.

#### STEP 4 - MAKE TIMELY PAYMENTS

Once your repayment period begins, it is important that you make regular payments. Failure to do so may result in a ruined credit rating, substantial collection cost and lost opportunities in employment and in purchasing a car or a home. If you are having trouble making your payments, it is important to contact your lender. Most lenders are willing to work with you to make repayment easier. You may be eligible for a deferment, which allows you to put off payment for a while if you are unemployed, returning to school, or on parental leave. If you don't qualify for a deferment, you may be able to postpone payment through a forbearance agreement. Under a forbearance agreement, the lender allows you to stop making payments for a short period of time (though the interest on your loans will continue to accrue). Another option, consolidation, affords you the opportunity to lower your monthly payment by consolidating your loans and extending the term of your loan up to 30 years.

CPAs point out that as a result of a recent change in tax law, there's one more step you'll need to take and this one will save you money. Student loan borrowers with income may be able to deduct all or part of the interest paid on qualified student loans. This deduction is available whether or not you itemize. Only interest paid during the first 60 months in which interest payments are required is deductible.

## Before Using Credit, Consider.....

- Planning for purchases in advance. Do you want to commit future income to monthly credit payments?
- Is the item you are considering purchasing with credit a need or a luxury?
- Learning to say no and mean it.
- Understanding your own weaknesses when it comes to money.
- If you know credit cards purchases are tempting, then don't carry the cards with you -- but keep them in a safe place.
- If you know you have a tendency to overspend at the grocery store because you have overdraft protection on your checking account, make a list to shop from, and withdraw cash from the bank. Leave your checkbook at home.
- Working toward the goals you have set. Does the credit purchase fit into your overall plan?
- Weigh the pros and cons of the purchase. Did you observe the "two-day rule?" (The two day rule: When you see something you really want to buy on credit, go home and think about it for two entire days. If you decide after two days that it is still a smart buy, and it fits into your budget, then go back and buy it.)

# Balancing Your Checkbook

Knowing how to successfully balance your checkbook is an important component of sound personal money management. Balancing your checkbook gives you more control over your day-to-day finances and can help you reduce or eliminate overdraft fees and non-sufficient fund (NSF) fees.

Organization plays a key role in successful checkbook management. The same organizational tools used to manage your checkbook can be applied to other areas of your personal finance matters including budgeting, debt management, savings, investments, and retirement planning.

## Before You Get Started

Before you get started to balance your account, gather together the following items:

1. Your checkbook register or duplicate checks
2. Your current account statement
3. All deposit, withdrawal, or check card purchase receipts (including ATM transactions) you've collected during the statement period

## Balancing

Each month when you receive your checking account statement, follow the steps outlined below to ensure your checkbook balances.

## Worksheet

### **Step 1 – Check-Off Items**

Obtain your checkbook register and check off the following items listed on your checking account statement:

1. Personal checks
2. ATM withdrawals
3. Check card purchases
4. Automatic payments and transfers
5. Deposits

If any of the above items 1 through 5 are on your checking account statement, but not in your checkbook register, verify that they are your items. If they are, then record them in your checkbook register, and adjust your register balance.

**Step 2 – Log Unrecorded Items**

Enter each credit union charge/fee charged against your checking account and/or interest added to your checking account into your register and adjust your register balance.

**Step 3 – Total Outstanding Deposits**

List and total all deposits in your checkbook register that have not been listed on your checking account statement. The total will be used in Step 5.

Date	Amount	
1.		
2.		
3.		
4.		
5.		
<b>Total</b>		

**Step 4 – Total Checks Outstanding**

List and total all draft and other payments in your checkbook register that have not been listed on your checking account statement. The total will be used in Step 5.

Number	Amount	
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
<b>Total</b>		

## Step 5 – Balance Account

Complete the following table:

Instruction	Amount	
ENTER your ending balance from your checking account statement	\$	
ENTER and ADD the total outstanding deposits from Step 3		
TOTAL		
ENTER and SUBTRACT the total checks outstanding from Step 4		
TOTAL should equal the balance in your checkbook register		

If the balance in your checkbook register does not equal the result above, go to Step 6.

## Step 6

Recheck Steps 1 through 5. Compare the amount entered on your checking account statement to the amounts you entered in your checkbook register. Check for addition and subtraction errors in your checkbook register.

## Trouble Shooting Techniques

If the adjusted balance on your checking account statement does not equal the ending balance in your checkbook register, then your checking account is not in balance. This means an error was made somewhere. If this occurs, check the following:

1. Are ATM transactions, checks, automatic payments/deposits, check card purchases, service charges, interest, etc. accounted for?
2. Did you double check your addition and subtraction, both on the worksheet above and in your checkbook register?
3. Did you compare the dollar amounts shown on your checking account statement with the dollar amounts recorded in your checkbook register?
4. Did you compare deposits shown on your checking account statement with deposits recorded in your checkbook register and on your deposit receipts?

# Auto Insurance Quotation Worksheet

When it's time to buy auto insurance, use these tables to gather necessary information and to compare prices.

Rating Information				
Drivers	Age	Sex	Marital Status	% Use of Auto
Principal Driver:				
Other:				
Other:				
Other:				

**Number of accidents or moving violations in the past three years:** \_\_\_\_\_

Automobiles to be Insured				
Make	Model	Year	Annual Mileage	Work Mileage
Auto #1:				
Auto #2:				
Auto #3:				
Auto #4:				

<b>Insurance Information – Annual Premiums</b>					
<b>Coverage</b>	<b>Deductible</b>	<b>Company “A”</b>	<b>Company “B”</b>	<b>Company “C”</b>	<b>Company “D”</b>
Liability					
Medical Payments					
Collision					
Comprehensive					
Uninsured Motorist					
PIP					
Other					
<b>Total Annual Premium</b>					

# Are You Financially Fit?

There are many facets to financial planning. Here are some questions you can ask yourself to help evaluate where you stand with your personal financial plan.

- Have I recently analyzed what proportion of my income is being allocated to savings and investment?
- What is my federal income tax bracket? What percentage of my total income goes to taxes? Do I have a plan to reduce my taxes?
- What have I done to establish and maintain a positive credit standing?
- What percentage of my take-home pay is going into debt payments? Is this a manageable percentage?
- Do I have a recent net worth statement?
- Am I aware of my overall financial situation and do I have a written financial plan?
- What methods do I use to keep financial records?
- Do I involve other family members including children, in discussions about money?
- Do I have emergency money for unplanned expenses or an emergency fund equal to three months of regular income?
- Do I have life insurance coverage for major wage earners in the family?
- Do I have insurance for health, disability, homeowner's or renters, and automobile?
- Do I have a financial plan for retirement?
- Do I have a plan for the distribution of my personal possessions after death?
- Do I have a current will?

# Types of Insurance

**Term Insurance** -- provides pure financial protection for a specified time. Many policies are annually renewable. Because there is no cash or loan value, the premiums are usually less expensive than other life policies. Generally it is an inexpensive way for younger people to meet their life insurance needs. As age increases, premiums increase.

**Whole Life Insurance** -- protection for the whole of the life even though premiums may be paid over a limited period of time. It provides 'permanent' protection and a low interest savings account. The insurance company invests the premium in fixed income vehicles and credit interest. It is a more expensive type of insurance initially. Whole life may be modified by a design to lower premiums in the early years and increase them later. Income tax is deferred on the earnings of the cash value while the policy is in force. Clients should understand that the cash value built up in the policy does not add to the death value of the policy and that in order to use the cash value it must be 'borrowed' out, or the policy surrendered, and this may involve tax ramifications. In times of high interest rates, this may be a low-cost source of credit.

**Universal Life Insurance** -- combines the pure protection of term insurance with the tax sheltered cash value of whole life. It is known for its flexibility in that it pays current interest rates and changes may be made in the premiums to increase or decrease the cash value built up per the client needs and within industry restrictions.

**Variable Life Insurance** -- a type of whole life that allows the investment of the cash value in common stocks or other high yielding investments. The policy's cash value and/or death benefit may fluctuate to some degree reflecting the investment performance. People use variable life insurance as a tax-deferred way to invest, while still providing some life insurance.



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