A simple guide to gain control of your finances.

Money Matters Plain & Simple

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Chapter 1
First Things First

An objective look at your financial well-being is a great place to start. In order to set goals for where you want to go, you need to know where you are. Include the entire household in the discussion of finances. Input from all goes a long way toward working as a team.

Concentrate on your spending and payment habits. The ideal state I envision is to charge everything on credit cards, pay off the balance in full every month, and pay the bills just before the due date. This ideal state entails buying only items you can afford.

If you have credit card debt now, paying off that debt should be your most important short-term goal. If you are making the minimum monthly payment, do whatever you can legally and ethically to increase the payments toward those balances until you have no debt. Except for contributions to tax-deferred or tax-deductible retirement plans, any extra money should go toward paying off or down the credit card debt.

To eliminate credit card debt, stop using your credit cards immediately, except for emergencies. Do not cut the credit cards up, just put them somewhere safe. They may become important later. Debt hinders any growth as you pay interest and finance charges. Continued use of the credit cards will increase the debt or increase the finance charges.

How you define an emergency is crucial. An emergency should be something you cannot live without. Replacing a broken water heater or other vital appliances would qualify as an emergency. Repairing the primary car to get to work also would qualify. Purchasing a new suit or dress for the annual company holiday party is something you could do without. It is part of the sacrifice that is necessary to get out of debt.

Make an effort to avoid fees on your checking or savings account. For that matter, avoid fees on any account. I have always held the notion that it is an oxymoron to pay someone money to hold on to your money. For many banks, having your paycheck direct deposited from your employer's payroll is a good way to avoid fees, or at least some of

the fees. Often, there is also a minimum balance to maintain. This often is a condition when interest is involved.

The direct deposit of your paycheck adds another key component to your financial management. When deposited directly, this avoids handling it. If you're not handling it, you're not spending it. This is the start of the "pay yourself first" theory, which leads to a reduction in spending and increased savings. Out of sight, out of mind.

Invest time and effort in your career. This may include money for continuing education. Perfect the skills you need to improve your performance at work. Your employer pays you for doing your job, and most of the time rewards will come when you do it more productively or efficiently. Stay longer at times, ask questions, even learn how to perform tasks not currently assigned to you. Beyond a classroom setting, colleagues and management can help. Even your competitors can prove useful in your advancement.

A steady job is important as you work toward your goals. Steady income is important, but that is just a part of it. Most employer-sponsored retirement plans require time on the job before enrolling, and usually years of enrollment are required to become fully vested in your employer matching contributions or company stock options. Constantly switching jobs can retard savings and earnings in these plans. Pension plans also set minimums for age and years of service.

Your money should always be working for you. Never let money remain idle. Cash or a check around the house or in your wallet does nothing for you. Even temporarily parked in a savings or checking account earning 1% interest is at least doing something for you.

What can you do to pay off your credit card debt? For starters, when you create your budget, include this debt as a payment to be made in the short term. Otherwise, the debt will haunt you for a long time. Analyze your spending and trim it where possible, at least until the debt is paid off. Buy only what you need, and buy only what you can afford. This sacrifice will be well worth it when you have no debt.

Chapter 2
Creating A Budget

Throughout your life, you have been reminded about the importance of creating a budget. Large companies, small companies, and governments all have one. Your parents or other relatives may have had one. Having one for your household is just as important.

What is a budget? A budget is an estimate of expenses incurred versus income or revenue. Think of it as a map. Companies and governments put a budget in writing to solidify their commitment to exist within one.

The income for a household is usually simple to estimate. Salaries, average wages, and any other sources of income can be taken from pay stubs, deposits, and statements. This should take but a few minutes to calculate your monthly income. I have never considered future pay increases into a budget. This creates “free” money when they occur.

Expenses, on the other hand, are more difficult to estimate. We spend money by various methods. We pay by cash, check, and credit or debit cards. We have monthly bills, quarterly bills, semiannual bills, and annual bills. We have scheduled recurring payments such as rent or mortgage, utilities, insurance, etc. Unscheduled expenses such as medical payments, car repairs, and home repair bills add to the expense side. Large ticket items, such as replacing or purchasing a washer and dryer, can deal a serious blow to any budget. If we know what we are going to spend on everything in a given year, the budget would be fairly simple.

How do you create the expense side of the budget? First, write down everything you think you will have to pay for in the coming months or, for the truly ambitious, the coming year. Credit card statements, checkbook, and bank statements are invaluable for this exercise. I suggest taking time to compile this list, adding anything you come up with.

The conservative among you will wisely add a number to cover emergency or other unexpected expenditures. Be sure to include large planned expenditures, as well as increases in utilities during heating

and cooling months. Your utility companies should be able to supply you with your last twelve months of usage.

Charity will need to be included if you regularly donate. Review your last year of checking account or credit card statements to add up what you donated to any charitable or religious organization. Cash donations, such as a tithe at a place of worship need to be factored in.

The strategy for saving and/or investing can be solidified during this process. Write down *as an expense* the amount you would like to put away. Treating savings as an expense will increase the chance of it actually happening.

Next, divide the total by the number of months covered by the list to estimate your monthly expenses. If you think everything is accounted for, use this as your budgeted expenses.

Now, do a quick comparison of the income versus expenses. Surprised? Or is shocked a better description? This initial assessment will determine where you *think* you are. If this assessment shows a surplus on the income side, adjust your expenses to include putting at least a portion of the expected surplus toward savings or investments. Treating savings and/or regular investments as a recurring expense is a key strategy to future security.

If the figures show your expenses are greater than income, review the list of expenses and see where any savings can be realized. Make an effort not to trim any savings you have put on the expense side until you have cut all you can elsewhere.

I also recommend tracking everything you purchase for at least two years to dial in the expense amount. This will take but a few minutes every day, but it will help validate your plan.

Keeping track of expenses does several things. First, it makes you conscientious of everything you buy, and may psychologically aid in reducing impulse purchases. Second, it lets you estimate future expenses with more accuracy. Third, by comparing it to your original budget, it points out variances. This lets you affect changes in spending.

If you spent more on gasoline for your cars, take a look at how you drive. Are you combining trips to include more errands on the same

trip? This reduces your gasoline bills, as well as wear and tear on your car.

Are your utilities higher than you think they should be? Take a good look at your household and see if lights are turned off when a room is not in use, thermostats turned up in the summer and down in the winter when you are out of the house or sleeping. Is there water running when it could be turned off? Could you lower your phone bill (including your wireless phone)? Think of it this way: It is not the money you always spend that causes high utilities; it is the amount of each utility that is wasted.

Analyze the differences in your budgeted and actual expenses. Some variances will have valid reasons. Gasoline prices or heating fuel may have gone up or down. Or simply higher unexpected expenses arose. This initial assessment of your expenses should serve as a great starting point. What an accomplishment it would be if you could reduce your expenses by 10%. If you shoot for 10%, and achieve only 7%, you are still that 7% ahead of where you were. Would you think that was worth striving for?

Remember, a budget is only an estimate. Maybe you view it as a target. Being under budget should be a goal you set for yourselves. That is the difficult part; it is easy to spend too much!

Chapter 3
Setting Financial Goals

Goals need to be specific and measurable in the amount and the time you choose to achieve them. This lets you track your progress at any point from start to finish. It is important to set short-term and long-term goals. You should also categorize in order of importance. You may create both primary and secondary goals. Put them to paper. This will elevate you to a higher level of commitment toward achieving these goals.

For example, setting a goal of "buying a house as soon as I can" is vague. That may lead to an erratic savings pattern, which may delay you in reaching your goal. This goal has no amount or time involved in its creation.

The goal of "saving $15,000 for a down payment on a house within four years" is definable. You could chart your growth over the four years, reviewing it every six months, and adjust your savings accordingly.

If you are overwhelmed by the thought of a large number, break it down into smaller divisions. $15,000 over four years is $3,750 per year, $312.50 per month, or $72.12 per week. The smaller numbers may seem more attainable to you.

Discuss and set all financial goals with the entire household. It tends to go much smoother if all parties are pulling together toward the same result. The sacrifices that may have to be accepted will be easier to swallow if they are tied to a goal everyone wants to reach. If your goal is to retire early and your partner's goal is to buy that dream house and always drive the "right" car, then this poses a major conflict.

Goals are targets, and your goals may change over time. Life events such as marriage, having children, and career changes may force you to reassess your financial goals. Items you think are important now could become minor in the future. At scheduled intervals, as well as at major crossroads, check the progress toward your goals. These are good times to reassess them as to their importance.

The money you start putting away for your goals, whether short term or long term, should be stashed in an account separate from the one you use for your everyday household expenses. If the money is commingled in one account, it is apt to be spent. Money for short-term goals could be put in a bond mutual fund, certificates of deposit, or a money market account, where there is less risk to your principal.

Depending on where you are in life, your primary goals may range from eliminating debt, saving for retirement, purchasing your first home, and saving for college for yourselves or your kids or even future kids. The goals are abundant, but the sooner you start drawing a map for the route you want to take, the easier it will be. If you are still undecided on your main goals, put as much money away as you can until you decide what you are going to need.

One of the hardest parts of setting financial goals is estimating what it will cost in tomorrow's dollars. You might want to guess on the high end rather than the low end. It would be better to end up with more than enough money than not enough.

"Extra" savings turns into a windfall that can be applied elsewhere. If less money is used than you saved for the down payment on your home, you have the option of moving it toward college, retirement, or any other goal.

Once you have your goals set, draw up dates associated with reaching each plateau. Without dates, it's too easy to wander off the path. Create interim points between setting and achieving these goals as to monitor your progress along the journey.

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