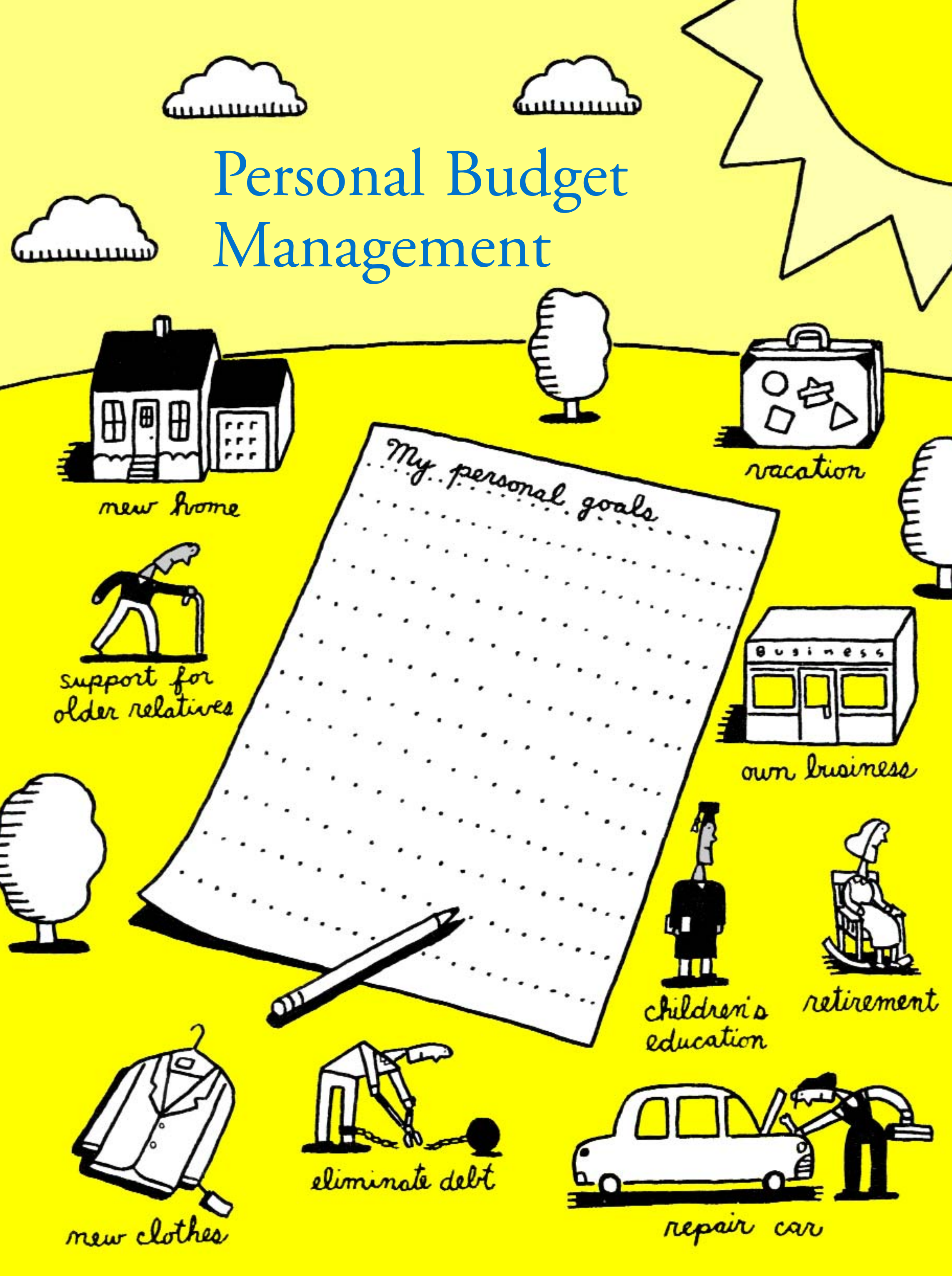
Personal Budget Management



39 MONEY-SAVING TIPS

1 Cut back to one credit card.

2 Leave your credit card and ATM card at home.

3 Let the "cheaper" person carry the money. Shop from a list and stick to it.

4 Don't buy anything the first time you see it.

5 Don't go food shopping when you're hungry.

6 Bring lunch to work.

7 Don't eat out as much. Use money-saving coupons when you do. Take advantage of "early bird specials" or eat lunch out rather than dinner.

8 Avoid stores. Throw away or recycle mail-order catalogs.

9 Don't pay full price. Buy used. Buy at outlet stores. Buy store brands. Buy in bulk.

10 Share purchases with others. Buy a neighborhood lawnmower or barbecue grill. Share a children's swing set.

11 Use payroll deductions to build savings and retirement accounts.

12 Make it hard to get to your money. Bank far away. Avoid automatic teller machines (ATMs). Require two signatures on accounts.

13 Pay down credit cards as quickly as you can. Pay on time. Pay more than the minimum required. Use low-interest savings (such as bank savings accounts, government savings bonds, or the cash value of life insurance) to pay down credit card debt.

14 Ask to have the interest lowered on your credit card or switch your balance to a card with a lower rate.

15 Turn off the lights when you're out.

16 Save on your water bill: turn off the tap while soaping.

17 Turn off the air conditioner or turn down the heat when you're out. Use a thermostat with a timer to bring the temperature back to a comfortable level before you get home.

18 Keep window shades down during the day in hot weather. Open the shades in cold weather to let in the sunshine.

19 Shop around for the best telephone rates.

20 Buy washable clothes, not those that require dry cleaning. Avoid clothes that need ironing. Hang wash to dry rather than using a dryer.

21 Think of alternatives to expensive gifts. Give your time or something you make.

22 Clean your own house or apartment. Use ammonia instead of brand-name cleaners.

23 Trade babysitting with other parents. Join a babysitting cooperative.

24 Take your children to public parks. Collaborate on activities with other families.

25 Read the community calendar in the newspaper to find out about free community events.

26 Use your local library. Borrow books, videos, audiotapes, and CDs.

27 Rent movies or borrow them from the library instead of going out to movie theaters. When you do go to the movies, bring your own snacks.

28 Discontinue cable TV or cut back on optional channels.

29 Discontinue magazine subscriptions and newspaper delivery.

30 Eliminate expensive membership fees. Find out if your employer or health insurance plan offers a discount toward health club membership or contributes to the fees.

31 Trade clothes with friends or relatives.

32 Have potluck suppers instead of dinner parties.

33 Write letters instead of calling long-distance.

34 Move to a smaller home or a cheaper community. Buy a two-family house. Live near public transportation. Share housing costs by finding a roommate.

35 Carpool, ride a bike, or use public transportation.

36 Raise the deductibles on car and home insurance. See if you qualify for insurance discounts (for a good driving record, for example, for belonging to AAA or AARP, or for not smoking).

37 Scale back vacation plans. Consider a camping trip or an off-season trip when rates are lower.

38 Cut down on or eliminate your vices.

39 Sell what you don’t need (especially the car, if you can find a way to get by without it).

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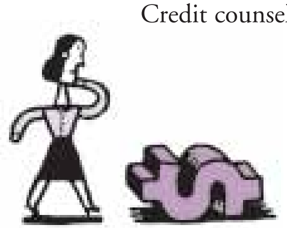


Introduction

Money lies behind much of what we do in life. We need it to meet our most basic requirements for food, clothing, and shelter for ourselves and our families. It plays a powerful part in our striving for a better life, in our hopes and plans for the future. Yet, money can also be an enduring frustration and a destructive source of tension in a relationship and a family.

Money is a source of anxiety for most people. Many of us worry about making ends meet from month to month or about mounting credit card debt. We may live with a constant sense of unease about where our money disappears to, or with the fear that we are not doing all we can to prepare for the future. We may be embarrassed that we're not managing our money more effectively, yet we don't know where to start. When things get bad, instead of taking positive steps to take charge of our finances, we can become paralyzed with worry and sometimes act in ways that make the situation even worse. And even though money is so important to us, it can be one of the most difficult things to talk about.

All of this is perfectly normal. It's nothing to be ashamed of. The good news is that you can do something about it. You can take charge of your financial situation. You can make things better.

Taking charge of your money

Just as you take charge of your health by deciding to exercise and eat healthy food, the first step in managing your money is to recognize that you have some control over the situation. And just as you succeed in an exercise program by coming up with a realistic plan and sticking to it, so your success in managing finances depends on finding a clear path to follow and staying on track.

It's easy to blame forces outside yourself for money problems—that your job doesn't pay enough, for example, that taxes are too high, or that family members aren't spending money carefully—and hard to admit that much of the responsibility for change lies within yourself. Those outside forces are very real, and they sometimes leave very little room for maneuver in your budget. But there is always some room, and there are always some steps you can take to improve your financial health. It's difficult, but sometimes necessary, for example, to adjust your personal budget in response to changes in your life. A job change, a relocation, a marriage or divorce, the arrival of a new baby, the death of a parent, or even an adjustment to a mortgage interest rate can tip the balance of income and expenses in ways that require you to think about how much you earn and spend. Accepting that you are in control of your money, even though the world is shifting under your feet, is a breakthrough in attitude that will allow you to make positive changes.

Four steps to financial health

This booklet offers a path for you to follow. This plan of action follows a four-step process:

1 **Understand where you want to go—**
How would you like your money to work for you?
What are your financial goals?

2 **Understand where you are now—**
How does your money come in and go out?
How much do you have and what do you owe?

3 **Understand what's getting in the way—**
What are the obstacles to reaching your financial goals?

4 **Make a plan and follow it**

By breaking the challenge of money management into a series of action steps, you can begin to effectively tackle a problem that, viewed as a whole, may seem unmanageable and overwhelming. If you're like most people, you'll find that some changes are difficult to make and some are easy. Some will involve sacrificing short-term pleasures for longer-term security. Others may lead to immediate improvements in your life. You may find, for example, that by eating out less and cooking more often you are able to save for a special vacation trip or enroll in an important skill-building course. You may find ways of spending less money and more time with the people you love or on activities that matter to you. And you may find that the freedom you give up when you cut down on spending or take an additional part-time job actually reduces the level of stress in your life and opens the door to a more stable future.

Whatever plans you come up with, feeling confident that you are in control of your money and your future can have an important "spillover effect" on other aspects of your life. It can lead to stronger relationships, a more positive attitude at work, and greater resilience in the face of change. Money does lie behind many of our worries in life, and it's worth the effort to get that aspect of your life under control.

Understand where you want to go

How would you like your money to work for you?
What are your financial goals?

Personal budget management is about choices. You make choices in your life about how to make money and how to spend it. Some of these are big choices—where you work and where you live, for example, or the plans you make for your future. And some are small, like whether to buy a snack for yourself or what to do on a Friday night. Most of us make these choices without understanding how they fit into an overall pattern of income and expenses and without thinking about how they affect our financial well-being. Before you make a budget plan it's helpful to step back and think about the important choices you're making with your life and your money. And it's helpful to think about your goals.

What are your financial goals?

Start by asking yourself what your "big-picture" financial goals are. How would you like your money to work for you, now and in the future? Would you like to retire at age 65 with a comfortable retirement income, for example? Would you like to have savings to cover your expenses for a few months if you ever lose your job or choose to leave? Do you want to buy your own home? Move to a bigger house or apartment or to a different community? Travel? Set aside money for your children's education? Do you simply want to get out of a cycle of ever-increasing debt?

Now test those goals by asking yourself whether you're prepared to do whatever it takes to reach them. If you're not, they aren't your most important goals. Pare the list down to the goals that really matter to you—that you'd be willing to make the necessary sacrifices to reach.

Use the worksheet on the following page to describe your financial goals. (These are high-level goals to start with. You'll get more information later in this booklet on refining these into a plan with more specific goals that you can act on, with results and timeframes to track your progress.)

Agreeing on goals as a household

If you share financial responsibilities in a household, talk about your goals together. Real financial stability grows out of a household's common efforts to reach shared goals. Have each member of the household think about his or her own financial goals, then compare and discuss them. Find out where you agree and disagree. Talk about the choices you're making now—about health insurance, housing costs, spending on entertainment, the amount you're saving every month—and whether you all agree that those choices are helping you reach your most important goals. Through these conversations, you'll begin to come to some agreement about priorities and spending. This may take time, but it's time well spent. No shared budget can be successful unless it is built on shared goals.

Test your goals

As you work through the process of getting control of your budget and your money, continue to test your goals. If you aren't making progress toward reaching a particular goal, ask yourself whether it is still important. And if different people in the household are having trouble keeping on track to reach different goals, it's probably a sign that you need to have another goal review as a group. What seemed like agreement at first may not have been.

Worksheet 1: Your financial goals

Goal 1	
Goal 2	
Goal 3	
Goal 4	
Goal 5	
Goal 6	

Examples of financial goals (yours may or may not be on this list)

- Finance children's college education
- Buy own home
- Buy a new car or boat
- Travel
- Save for retirement
- Reduce or eliminate debt
- Start or expand own business
- Leave an estate for children
- Contribute to a charity or cause
- Support older relatives

Understand where you are now

How does your money come in and go out?
How much do you have and what do you owe?

The next step in making a change in your financial picture is to understand your current situation—how much you make, how much you spend, how much you have, and what you owe. To do this, you will need to put together the facts of your personal finances. This will take some work and the cooperation of others in your household who have information about earnings and spending. But the result will be a clearer picture of where you stand that can guide you as you think about choices for change.

The worksheets on the following pages have been created to help you understand how your money actually comes in and goes out each month and what you have accumulated in both assets and debt. You may be familiar enough with your income and spending patterns and your levels of savings and borrowing to fill in parts of the worksheets right now, either by yourself or with the help of your spouse. There are probably some details, though, that will require a little detective work. Keep in mind that these are worksheets to help you understand where you stand with your money. They aren't official reports that need to be accurate to the penny. "Pretty good" information is better than no information at all if it helps you see what's driving a monthly shortfall or find ways to increase your ability to save.

Monthly income and expenses

Start by filling in the information you know. Then look at those items you left blank or guessed at without much confidence. You can fill in some of these missing numbers by looking through bills you've paid, including credit card statements, or by sorting through bank statements to find canceled checks. Cash spending will take some creative effort to track. Spending on seasonal items, too, or those for which your payments vary greatly from month to month, will take some extra research and calculation to fit into a monthly format.

Tracking cash spending

One way to find out how you spend your cash is to pay careful attention to your spending for two weeks or a month. (One week may not be enough to give a full picture; a longer sample is likely to be too much work.) Keep receipts for every cash expense during the time you choose or note spending on the tear-off slips from the back of this booklet. At the end of the period, sort the receipts or review your tear-off slips and add up how much you spent on lunches, groceries, movies, laundry, gas, parking, and the other categories on the worksheet. If you've tracked spending for two weeks, multiply the amounts by 2.16 to get a monthly spending estimate.

Calculating seasonal and uneven expenses

Some bills are due once a year, such as car registration fees and excise taxes; some are due quarterly or semiannually, such as property taxes; and some, such as insurance and heating bills, may be high in some months and low or not due at all in others. Other spending—on clothing, car repairs, and gifts, for example—occurs unevenly, with big expenses in some months and little or none in others. For all of these expenses, you will need to find copies of past bills or other spending records and estimate what you would pay each month if the payments were spread evenly throughout the year.

- For a quarterly tax bill, this is a simple matter of dividing the last payment by three (since the bill covered a three-month period).
- For bills due just once a year, divide by 12 to get a monthly average.
- For seasonal and uneven expenses, find out what you paid during all of last year by looking through bills, canceled checks, and credit card statements, or simply by estimating cash payments. Then divide that annual total by 12.
- For weekly expenses, multiply by 4.33 to get an estimate of monthly spending.

Adding it all together

Once you've filled out the worksheet as completely as you're able, subtract monthly spending from monthly income. This gives you a snapshot of how you're managing your money.

- If your income is greater than your expenses, you can start to put aside money each month for savings. You may still need to rebalance the budget to reach all of your goals.
- If your expenses are greater than your income, the work you've done in completing the worksheet can help you see what might be causing the shortfall. In the following sections, you'll get ideas on how to close that gap and work toward a positive cash flow and a realistic savings plan.

Worksheet 2: Income and Expenses

MONTHLY INCOME

	You	*Others in household*
NET (TAKE HOME) INCOME		
OTHER INCOME		
Child support/alimony		
Bonuses/tips		
Commissions		
Rental income		
Interest/dividends		
Social Security/pension income		
Other		
Tax on other income		
Total other income after taxes		
PAYROLL SAVINGS (AUTO DEPOSIT)		
TOTAL NET MONTHLY INCOME		
Combined total net monthly income		

MONTHLY EXPENSES

	Monthly total	*or if easier to calculate* *Annual total*
Mortgage or rent		
2nd mortgage/equity loan		
Property tax/association fees		
Home maintenance		
Heat/fuel		
Electricity		
Telephone - basic		
Telephone - long distance		
Cellular/pager/Internet		
Water/sewage		
Trash		
Groceries/household goods		
Meals out/lunches		
Child care		
Child support		
Vehicle payment/lease		
Gasoline/tolls/parking		
Car maintenance		
Car insurance		
Public transportation		
Homeowner's/renter's insurance		
Life insurance (outside of work)		
Medical expense (out of pocket)		
Dental/vision expense (out of pocket)		
Totals expenses this page		

MONTHLY EXPENSES (CONT.)

	Monthly total	*or if easier to calculate* *Annual total*
Total from last page		
Laundry/dry cleaning		
Clothing		
Cable/videos/DVDs		
Entertainment/hobbies		
Gaming (lottery, casino, etc.)		
Tobacco		
Alcohol		
Drugs/prescriptions		
Gifts/major/other		
Contributions/donations		
Health & beauty		
Pet/veterinarian		
License/dues		
Vacation/travel		
Lessons/tuition		
Kids' allowance		
Health club		
Emergency fund		
Other expenses		
TOTAL EXPENSES		

Calculating your net worth

The next important step in your budget plan is to figure out your net worth: what you have compared with what you owe. The worksheet on the following page can help you gather the numbers you'll need to do this calculation. Add up your cash, savings, and investments—your assets—and compare that number with the combined total of what you owe—your liabilities.

The worksheet includes space for noting the yield rate on your savings and investments as well as the interest rate you pay on outstanding credit card balances and other forms of debt. This information will be helpful as you think about how to rebalance your budget. If the cost of interest on loans, credit card debt, and other borrowing is an important element in your budget, for example, you should look closely at what you're paying. Different loans can have widely different interest rates and you may be able to pay less interest by shifting your debt into less expensive loans.

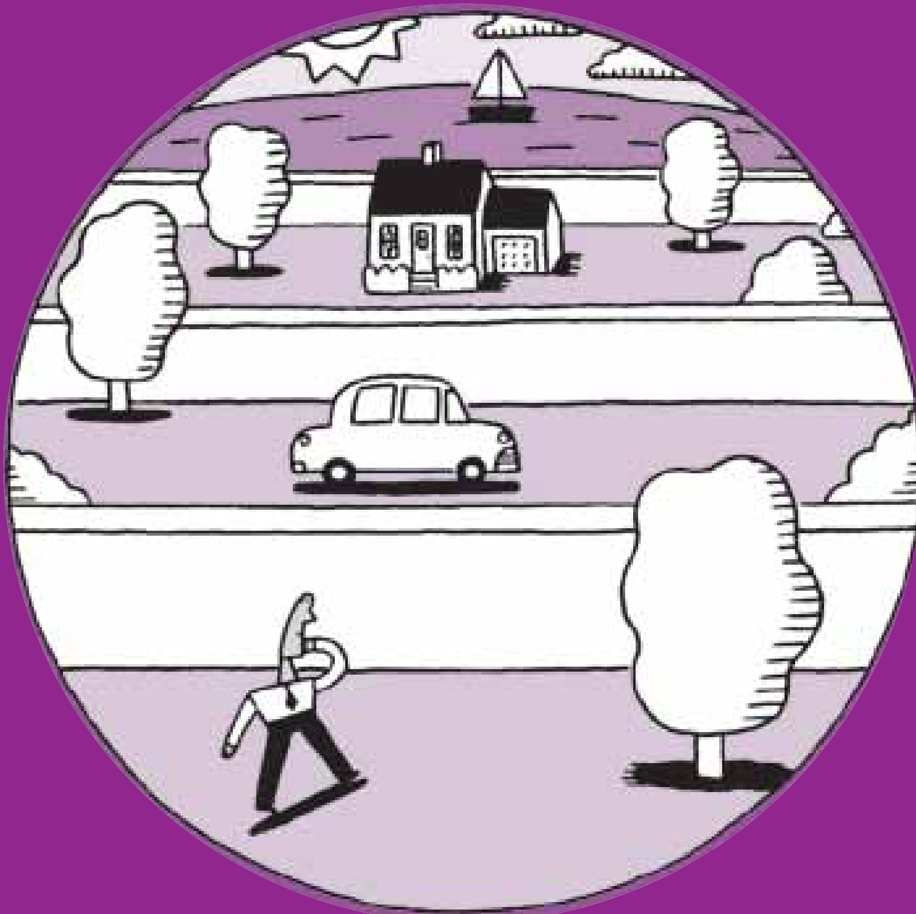
Credit card debt

Credit cards, in particular, deserve close scrutiny. They offer an easy but expensive way to borrow and that combination of easy access and high cost can be a real drain on a budget. If you keep an unpaid balance of $1,000 on a credit card with 19% interest, you'll pay $190 during the year, in addition to annual fees. Transferring your balance to a lower-interest credit card, one with 14% interest, will bring that cost down to $140. And shifting that borrowing into a home equity loan, at 8%, not only brings your interest payment down to $80 during the year, it allows you to deduct that interest from your income when you figure your taxes. With the effect of the tax savings, your real cost of that loan might be as low as $50. Savvy borrowing can free up money to repay loans, reducing your interest cost even further. But you'll need to be careful not to use debt shifting as a substitute for real debt reduction. A growing debt, even with a low interest rate, can be financial trouble. If your debt levels are going up, shifting them to a home equity loan may reduce the pain in the short term but in the long term it could put your home at risk

Worksheet 3: Net Worth

ASSETS (WHAT YOU OWN)	CURRENT VALUE		ANNUAL YIELD
CASH & OTHER FINANCIAL ASSETS	*Yours*	*Spouse's/partner's*	
Cash/checking accounts			
Savings accounts			
Money market funds			
Certificates of deposit (CDs)			
Treasury bills/savings bonds			
Life insurance cash value			
Mutual funds/stocks/bonds			
Receivables/loans			
Investment real estate			
Business interests			
Other			
Total			
RETIREMENT			
IRA/401(k)/Keogh plan			
Annuities			
Vested retirement benefits			
Other			
Total			
PERSONAL ASSETS			
Home/primary residence			
Other property			
Automobiles/recreational vehicles			
Home furnishings			
Other			
Total			
TOTAL ASSETS			

	Current Due: *Yours*	Current Due: *Spouse's/partner's*	Annual Interest Rate
LIABILITIES (WHAT YOU OWE)			
LONG-TERM DEBT			
Mortgage on home			
School loans			
Automobile loans			
Business loan			
Other			
Total			
SHORTER-TERM DEBT			
Home equity loans			
Bank loans/lines of credit			
Credit cards (list each)			
Property tax/other taxes			
Child support/alimony			
Other			
Total			
TOTAL LIABILITIES			
Total assets from opposite page			
NET WORTH (Total assets minus total liabilities)			



Understand what's getting in the way

What are the obstacles to reaching your financial goals?

Now that you've thought about your goals and charted out how your money comes in and goes out every month, how would you rate your financial health? Are you in control of your money? Are you comfortable with the choices you're making with your money? Are you on track for reaching your most important financial goals? Or are you letting things slide for now, and putting off hard choices until later?

If you're like most people, you probably see some opportunities to do things differently when you look over your monthly income and expenses and compare your current situation with your goals. Though the information can be uncomfortable to face, gathering these numbers is an important step in the process of understanding and improving your relationship with money. It took some time and work, and that's an important sign of your commitment to take charge of your finances. Now you have the basic information you need to move forward.

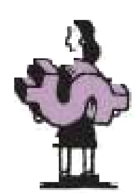
If personal budget management were simply a math problem, you'd nearly be done. You'd just identify the parts of the budget that are out of balance and fix them. But our relationships with money are complicated. When we try to address personal money issues we quickly come up against some challenging obstacles.

Obstacle 1: Habits and behavior patterns

Much of our spending is driven by habit—by patterns of behavior we have settled into over time. Some of these are learned from others—our friends or parents, for example—and some we create ourselves to cope with the situations and feelings we encounter in life.

- Do you buy yourself "treats" when you're feeling down?
- Do you reward yourself for accomplishments by spending extra money?
- Do you have smoking, drinking, or eating habits that are expensive to maintain?
- Are you uncomfortable talking about money with family and friends?
- Do you save money even to the point of depriving yourself of basic needs or simple pleasures?

The more you understand about your habits and how they drive your spending, the closer you'll be to gaining control of your money. The steps you take toward adopting a healthy lifestyle—with nourishing meals, regular exercise, and adequate sleep—will also move you much closer to a healthy financial condition. Compulsive habits in particular, such as gambling, drinking, and workaholism, contribute to a sense of hopelessness and an "out-of-control" attitude. Living life in crisis mode, allowing health goals to slide, or being driven by compulsive or addictive habits not only make it difficult to think clearly and plan for the future, they also cost real money—the money you spend on "quick fix" solutions that don't work or on "feel good" measures that actually make you feel worse over time as your sense of crisis deepens.



A realistic and effective money management plan needs to face up to these habits and behaviors. Sometimes we need help in getting past these hurdles, especially when the obstacles are as serious as alcoholism, gambling, or other addictive behaviors. The program that sent you this booklet may be able to provide additional information and support.

Real progress in reaching financial goals can take determination and courage. Changing our finances is often about changing our lives. It's rarely as simple as finding a few corners to cut to balance the family budget.

Obstacle 2: Hidden values and impulses

When you face decisions about spending money today or saving it for tomorrow, you are balancing the value you place on pleasure today with the value you place on a comfortable future. You're also weighing in with your feelings of confidence in the future:

- Do you think you will make so much more money next year or five years from now that you'll be OK if you put off your savings plan a bit longer? Or do you worry that you might lose your job or earn less in the future?

- If you set money aside, will it really be there for you when you need it? At some level, many of us worry that something will happen to our savings—that someone else will spend it, the bank will lose it, or the stock market will crash. And some of us worry that we may not live long enough to use the money we've worked so hard to set aside.

- Are you confident that someone else will take care of you when you can no longer earn money—the government, perhaps, or an inheritance from an older relative? Or do you think you'll need to rely on your own resources?

Worksheet 4: Your Financial Values

Where do you stand on the "spend today/save for tomorrow" scale? Your answers to the following questions can help you get a better sense of your own financial values. There are no "right" and "wrong" responses; the questions are asked only to help you understand your own money values. Pay close attention to your first and most impulsive answers.

You receive an unexpected $2,000 bonus at work. What would you do with the money? (Rank your choices from 1 to 7, with 1 as your first choice.)

- Use it to pay off some of your debt.
- Buy a present for someone special.
- Throw a party.
- Buy yourself something special.
- Invest the money in stocks or CDs.
- Save it to pay for a dream.
- Put it in the bank and not think about it.

You win the "Clear the Debts" contest on your favorite radio show and the station pays off all of your credit card balances, student loans, car loans, and other debts. What will you do with the money you no longer have to spend on those monthly payments?

You've stuck to a careful savings plan for the past year and have built up a balance of $2,000 in your savings account. Now your favorite brother asks for an interest-free loan to buy a car. He's had credit problems and can't get a loan from a bank. What do you do?

Most people don't operate at either extreme: they don't live just for the moment without worrying about tomorrow, and they don't sacrifice all pleasure now for a secure and comfortable future. Most of us try to find a middle path that allows for some pleasure today with some thought for the future. But statistics on savings and debt patterns also show that most of us lean toward the "fun today" side of the street. Roughly 80 percent of Americans live from paycheck to paycheck without an adequate savings cushion. Fewer than 50 percent between the ages of 30 and 50 have even $10,000 saved for their retirements. And the level of outstanding credit card debt has been growing for many years.

Many of us have impulses to have fun now and to avoid difficult choices or conflict. Many of us also want to be generous, plan for the future, and take care of the people we love. The more aware you are of these often conflicting impulses and values, the easier it will be to take charge of your personal finances.

Obstacle 3: Difficulty adjusting to change

Many people manage their finances adequately without a plan and without much thought or attention—until something changes. And with the rapid pace of change we all face in our work and home lives, we need to be aware of how changes in income or expenses affect our budgets. A new baby, for example, brings a great deal of happiness to a family, but it can also bring new expenses, loss of income during parental leave, and changes in work schedules that may affect wages. Rising interest rates can boost income on savings accounts, but they can also drive up mortgage, rent, and credit card costs and throw a personal budget out of balance. An injury or layoff can eliminate income entirely for weeks or even months.

Few of us have enough money set aside to cover our normal expenses if our incomes were to suddenly disappear. And few of us can easily cover major unexpected expenses. A good rule of thumb is to have enough savings set aside to cover three to six months of expenses. This offers a cushion against unexpected change. But many of us are still recovering from the last change when the next one takes us by surprise. And many of us have trouble "downsizing" our spending habits to match shrinkage in our income or the upward creep of costs. We avoid thinking about change until we have to and put off adjustments to our lifestyle until we're in real financial crisis.

To achieve financial health we must learn to adjust to change while we still have room to maneuver. We need to get past the discomfort of thinking about change in our finances and find realistic ways to balance our personal budgets when the income or expense sides of the equation change.

Obstacle 4: Managing money as a household

As hard as it can be to manage money on your own, it gets even harder when people mingle finances in a household. Spouses often have different attitudes toward money, different priorities when it comes to spending and saving, and different ambitions around careers and income. Children and other dependents can put pressure on the spending side without understanding how their behavior affects the family's budget. And because money is such a difficult subject to discuss, few families talk openly and honestly about their finances.

Yet without open communication, agreement on goals, and a well-understood financial plan, money can be a terrible source of conflict in a family and financial health can remain out of reach. If different people contribute to the income of your household and draw on that income through their spending (or through expense-causing activities such as inviting friends over for dinner, adjusting the heat or air conditioning, or making telephone calls), cooperation around the household budget is essential to solving your financial problems. You simply can't do it alone.

As you read through this booklet, you'll get ideas and strategies for involving other members of your household in important discussions, defusing tensions around money, and solving financial problems together.

Make a plan and follow it

Once you've mapped out your current income and spending patterns and focused on your most important financial goals, the next step is to work on a realistic plan to get you from where you are now to where you'd like to be.

If your finances are affected by the income or expenses of others, you'll need to work this plan out together. It's a common mistake for one person to impose a budget on a family—and it almost never works. If household members with spending power are left out of the planning process, they are likely to ignore or even sabotage the plan. It's your plan, not theirs, and they feel no sense of ownership for its success. Even if opposition isn't deliberate, family members are unlikely to understand just what they're supposed to do to make the "imposed" budget work, whether it's turning lights off when they leave a room or cutting back on credit card spending. Build a plan together and agree on the specific behavior or actions that will make it succeed.

Positive and open communication

Open communication is the first step, and you've already made real progress here if you've worked with other household members to prepare the worksheets in the previous sections. Those worksheets give you a starting point for discussion based on real information rather than impressions and emotions. Look over the monthly budget worksheets together and spend some time talking about what they show and how they relate to your goals. Make it a ground rule that this conversation be cooperative and civil, especially if money has been a source of family conflict in the past. If you have been feeling an unfair burden of responsibility for the household's finances, you'll need to be careful not to talk in ways that accuse or suggest blame. Make a deliberate effort to frame your statements as "I" messages and avoid "You" statements. For example, instead of saying, "You pay no attention to how much you charge on the credit card," you might say, "I'm feeling trapped by our finances and am constantly worrying about how we're going to pay the bills each month. I need some help in figuring out how we can get our money under control."

When you have a household discussion about money, make sure everyone has a chance to talk, that no one dominates the conversation, and that no one interrupts. Pay careful attention to "air time"— the amount of time each person talks during the conversation. If one person is hogging the discussion, politely point it out and give quieter voices a chance to be heard. Pay careful attention, too, to the tone of reactions to ideas and suggestions. Quick negative reactions will "shut down" the conversation and discourage fresh approaches. One way to encourage new ideas is to spend half an hour or an hour listing all suggestions on a piece of paper, without criticizing any of them. You might break these ideas into two columns: one for short-term solutions and one for long-term changes. Then look over the whole list together and talk about the ones that seem most promising.

Get the help you need

It can help to have another person with some knowledge of finances coach you through this discussion or go over the list of suggestions with you when you're done. And if you live on your own and need to come up with solutions yourself, a financial counselor can help you come up with ideas. This financial coaching is available at no charge to you through your company's employee resource program. Just call and make an appointment with a consultant.

Setting effective goals

In general, your solutions will break down into short-term and long-term adjustments and will focus on both the spending and the income sides of your budget. If you find, when you fill out your budget, that you're spending more than you're making, or if you aren't satisfied with the amount you're setting aside in savings each month, you might decide to cut back on extra spending or find a way to earn extra money. But how do you do it? How do you make a plan that really works? One useful tool is to structure your plan as a series of "SMART" goals. Each SMART goal should be:

Specific: Identify specific spending cuts or come up with a specific way to bring in more money. A goal of cutting overall spending by $200 each month isn't enough. You need to know exactly where you're going to cut. For example, you might break the planned spending cut down into four specific goals:

- Bring lunch to work rather than eating at the cafeteria or going out. Monthly savings: $50
- Limit of one new music CD every other month. Monthly savings: $30
- Limit of two dinners out each month. Monthly savings: $80
- Buy some of kids' clothes at second-hand shop. Monthly savings: $40

Measurable: You should be able to check on your progress and measure how you're doing. In the example above, you might track your spending and see how you've done at the end of each month. Your final measure will, of course, be progress toward your financial goals.

Action-oriented: The steps in the plan should guide your actions and behavior—and the actions of other members of the household. One strong action step, for example, might be to take your credit cards out of your wallet or to carry just a single card and commit yourself to paying off its balance each month. Or you might simply have some money deducted automatically from your paycheck and transferred to your savings account.

Result-focused: Each goal should be focused on a specific and measurable result. The changes in behavior only help you to the extent that they generate results. If you make it a goal to bring your lunch to work, for example, make sure you're achieving real savings. If you order take-out pizza at night in order to have leftovers for your lunch the next day, you may not be getting the spending-cut results you had planned.

Time-limited: Measure your progress at specific points in time. Total up your spending in the areas you're focusing on at the end of each week and each month. Setting monthly targets probably makes the most sense, since most of the bills we receive are due monthly. But you'll also want some long-term goals—with time horizons of a year or longer—to help you focus on your biggest and most important hopes for your financial future.

Recognize what you can and can't control

As you draw up a plan to ease your budget problems, it can be helpful to break expenses down into those you can and can't control. Your monthly rent or mortgage payments, for example, are probably difficult to change, at least in the short term. (Refinancing your mortgage or moving to less expensive housing may be options, but both involve time and expense.) Your spending on snacks and luxury items, on the other hand, is probably very much within your control and easy to change with some self-discipline. And while we tend to pay the most attention to those big expenses for which we write checks every month, it is often the little cash expenses—magazines, paperbacks, treats for the kids, lunches—that knock the budget out of balance. We do have control over our cash spending. It is often by being mindful of these "little" expenses that we can make the biggest changes in the budget.

Take charge of credit card spending

The other major area for improvement in most budgets is in the use of credit cards. Credit card debt is among the most expensive to carry, with interest rates far higher than those available in other types of loans and with none of the tax advantages of mortgages and home equity loans. Yet many of us live with that cost because credit cards allow us to “loosen the reins” on our spending. Too often that means spending money we don’t really have. Credit card spending is definitely within your control, and the sooner you begin to change bad credit card spending habits the sooner you’ll reach your financial goals.

Keep your credit cards in a drawer at home and use them carefully and thoughtfully. Save them for emergencies and for those expenses where they are the only way to pay, such as car rentals and airline tickets. When you pay the balance in full each month, a credit card is a low-cost way to pay for expenses. But as soon as you pay only part of the balance, the card turns into a high-interest money drain. If you have unpaid balances on more than one card, consolidate that debt onto a single, lower-interest card and make a plan to pay the balance off. Use a debit card as an alternative as you begin to build spending discipline. These cards, which you can get from your bank, draw down on a bank account balance as you use them, and never let you spend money you don’t have. If you need to use a credit card, never use the card with the unpaid balance. Use a second card and be sure to pay the entire balance when due.

Plan for the unexpected

The other “budget busters” are the occasional and unexpected expenses—when the car needs a new head gasket, the dog breaks its leg, a roof leak requires fixing, or we get a nasty surprise when we do our taxes. Because these kinds of expenses do come up with some regularity they aren’t really as unexpected as we lead ourselves to believe. We need to plan for them by setting aside some money every month or every paycheck to get us over these bumps along the road.

Track your progress

Once you’ve agreed on a budget plan, start tracking your progress. Successful exercise programs involve a plan for gradual improvement and a way of tracking progress. If a person’s exercise goal is to run 15 miles a week, for example, it can be motivating to write down the mileage on a calendar after every run and total the miles at the end of the week. Pride in reaching a short-term goal makes us feel good, and concern about not measuring up to our goals can keep us on track. In the same way, you can motivate yourself to keep on track toward your financial goals by finding ways to measure and record short-term progress.

If you've set monthly spending or income goals as part of your plan to rebalance your budget, keep track of how you're doing. Focus on the areas in the budget you're really trying to change and measure your progress. You might keep a record—on a pad of paper small enough to fit in your pocket or pocketbook—of how much you spend on the "extras" in your life: video rentals, meals out, or whatever it is you've identified as the source of your budget problems. Or you might put cash in envelopes for different types of expenses and write down whenever you spend more than you'd planned. Every few months you might redo your complete budget worksheet to see how the entire money plan is taking shape.

Stick with it. Don't give up.

As you begin to work toward your goals and manage your money to a budget, you're bound to hit some bumps. Do your best to stick with your plan! Uneven progress, even backsliding, doesn't mean that the plan has failed or that you don't have the discipline to succeed. If several members of a household are working together toward a budget, you will be a rare exception if each of you meets your goals each week. The change will be hard to get used to as you get started, and the self-control required will begin to get tiring once you're a few weeks into the plan. It's normal to relax your grip on the budget goals from time to time. Just keep recording your progress and congratulate yourself and each other for the positive steps you do take.

You might find that your goals were too ambitious. When you check in together to record your spending, ask how it's going. Does the plan seem manageable? Now that you see what it will take, do the goals still seem realistic? Is everyone still willing to make the changes and sacrifices they agreed to? If you've reached too far too fast with your plan, have the flexibility to adjust it to a more realistic scale.

Income or expenses may change unexpectedly. This might be good news—a raise or a better-paying job—or it might be bad—a job lost or an unexpected increase in expenses. Either way, the budget plan will be affected. It can be hard to make do with even less when finances are tight, but if you've filled out your budget worksheet you have the tool you need for figuring out where to make changes in your budget. Change the income or expense numbers to reflect the new situation and work out a new plan. With an awareness of your finances, you can figure out just what the change means for you and adjust your plan before you reach the crisis point.

As you begin to work on your plan, prepare yourself for setbacks along with successes. Be realistic. Be willing to settle for Plan B if Plan A doesn't work out. Celebrate and reward yourself for the small successes along the way. And keep your eye on the ultimate goal of regaining control of your finances.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Become a savvy consumer

Understanding money contracts

The world of money has its own language, which can be frightening until you begin to understand what the unfamiliar words mean. It is also tightly knit with laws and legal arrangements. When you use a credit card or borrow money, for example, you enter into a legal contract—one with clear penalties if you don't pay your credit card bills or make agreed payments toward your debt.

Many of us use credit cards casually, as if charging expenses to a credit card were the same as paying in cash. While it's true that paying with a credit card is often as easy as paying with cash, the two are entirely different transactions. When you pay for something with cash, the transaction is a simple one between you and the seller. It is complete when you exchange the cash for whatever you are buying. When you pay for something with a credit card, on the other hand, you are signing an agreement with the credit card company to pay that money in the future. And your use of the card is bound by a legal contract—the "pre-approved credit card application" you received in the mail and returned with your signature. By signing that application you agreed to the "rules" of using the card. You agreed to the annual fee, the penalties the credit card company will charge for late payments, and the interest rate the credit card company will charge on any unpaid balances. You also agreed to let the company report your payment practices (whether you miss payments or consistently pay on time) to credit reporting agencies and to take legal action against you if you don't make payments according to the "rules" of the card.

Most of us know that we should read these agreements carefully before we sign. But until we fall behind in our payments, few of us understand what we have really agreed to in these contracts and what lenders can do to recover their money. When you take out a mortgage to buy a home, for example, the lender has the right to "foreclose" (take possession of) the property and sell it if you don't keep up with your payments. When you buy a car or a major appliance under a financing agreement, the financing agency has the right to "repossess" (take possession of) your car or appliance if you don't make the agreed payments. These contracts are important legal documents, and most have tough enforcement steps built in to make sure both parties live up to their ends of the deal. Make sure you read and understand any agreement involving money before you sign.

Here's a quick summary of the steps a lender can take if you fall behind or stop making payments on a loan:

- *Late charges:* A lender may apply an additional charge to your account if you are late with or miss a regular loan or credit card payment. The charge is either a fixed amount or a percentage of the payment that was due.

- *Overlimit charges:* If you go over your credit limit on a credit card or another line of credit the lender may apply extra charges until you make payments to bring the balance down to the levels agreed to in your contract. You may be able to request a higher credit limit temporarily from your bank or credit card company to help you get through an emergency situation, in which case the lender will not apply overlimit charges.

- *Account cancellation:* If you are late with payments or go over your credit limit, the lender may tell you to stop using the account or may block further activity on the account. When this happens you may find that stores no longer accept your card as payment. This might be a temporary measure until you get the account back in order, or the lender might cancel the account for good.

- *Collection agencies:* The lender may turn your account over to an agency for collection. When this happens, you will receive mail and telephone calls from the collection agency, whose representatives will generally be vigorous in their efforts to get you to pay any money due. In some cases the collection agency will "own" the account and you will need to pay the agency directly rather than the original lender. In other cases the agency will try to collect the money on behalf of the lender, generally earning some percentage of the money collected.

- *Repossession or foreclosure:* If you fail to make payments on a car loan, mortgage, home equity loan, or other "secured" loan (a loan in which you promise certain property to the lender as a guarantee of the loan's repayment), the lender may take possession of the property in order to sell it. If the property sells for more than what is due the lender, this extra amount is due back to you. If the property sells for less than what is due the lender, you still have to pay the remaining balance (the difference between what was owed on the loan and what was received from the sale of the property).

- *Lawsuits:* If you don't make payments as agreed to in a contract, the lender has the right to file a lawsuit against you. When this happens, the lender files legal papers with a court. The papers are then "served" on you (delivered to you in a way that meets the court's requirement that you be aware of receiving them). You then have a set amount of time to respond. If you don't file your response within the specified time, the lender may ask the court to decide the suit against you. With a court judgment against you, the lender can apply for the right to have money taken out of your wages, to take money from your checking or savings accounts, or to receive money from the sale of any property you may own.

What you can do if you fall behind in your payments

If you have an emergency in your life that temporarily adds to your expenses or disrupts your income, contact lenders and explain the situation. It's generally easier and cheaper for a lender to let you skip a couple of payments or send in smaller payments than it is to turn your account over to a collection agency, go through the process of repossession, or file a lawsuit. By contacting lenders as early as possible, you are showing good faith and demonstrating that you are paying close attention to the account. If you miss payments and wait for lenders to contact you, they will generally be much less flexible.

If your account has been turned over to a collection agency, you have the right not to be harassed, particularly if contact at work is interfering with your job. To keep the agency from contacting you at work, write a letter to the agency and tell them: "Pursuant to the Fair Debt Collection Act, I wish you to stop contacting me at my job as it is interfering with my employment." It's a good idea to have enough contact with the agency, however, to work out a payment schedule. If you don't, the agency may simply resort to legal action against you. If you have written to a collection agency and feel that you are still being harassed, you have three options:

- Contact the local office of the Federal Trade Commission.
- Contact your state's Consumer Affairs Department.
- Get the advice of a lawyer on whether you have the right to sue the collection agency.

Credit counselors

If you have serious debt problems, a credit counselor may be able to help you get your finances in order while negotiating for you with creditors and collection agencies to arrange a manageable repayment schedule. By taking the step of working with a credit counselor, you send a clear signal to creditors that you're taking your financial situation seriously and that you're trying hard to set things straight.

To find a credit counseling service, look in your local Yellow Pages telephone directory under "Credit Counseling Services." Look only for nonprofit services. For-profit services can be very expensive and are of uneven quality. When looking for credit counseling, be sure you understand the costs up front.

Getting a copy of your credit rating

Lenders rely on credit reporting services to decide whether to extend credit or lend customers money. It's a good idea to check your own credit rating every so often to see how your credit is being rated by these services.

Thanks to the Fair and Accurate Credit Transactions Act (FACTA), signed in 2003, every U.S. citizen is entitled to a free credit report once a year from each of the three main credit reporting bureaus: Equifax, Experian, and TransUnion. There are three ways to order your credit reports: online, by phone, and through the mail.

To order your credit report online, go to *www.annualcreditreport.com*. This centralized Web site sponsored by the three main credit bureaus allows you to order all three reports and view them instantly online.

To order your report over the phone, call 877-322-8228. Your credit report will be mailed to you within 15 days.

To order a report by mail, you will need to fill out an Annual Credit Report Request Form. You can find this form online at *https://www.annualcreditreport.com/cra/requestformfinal.pdf*. Then mail the form to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Negative comments or ratings can remain as part of your credit file for seven years; a report of personal bankruptcy for ten years. If you find incorrect information in your report, write a letter asking the service to investigate the information and have it corrected or removed. By law, the information must be removed if it can't be verified. In your letter, ask to have a copy of the corrected report. If there is negative information in your file and it is correct, you are allowed to add a statement of 100 words or less explaining how the problem happened.

It's a good idea to check your credit report regularly, at least every two or three years, more often if you have reason to believe it may be in error. You should also check your report whenever you go through a major change that affects your finances, such as when you:

- change jobs or employers
- move (bills may be misdirected with a move, affecting your payments)
- get married or divorced
- are planning for a major purchase—a home or a car

Congratulations!

If you've read this far, you're on your way to better financial health. It's work—often hard work—to change spending habits and rebalance your household budget. It can involve some soul-searching to figure out what you really want from your money and some difficult conversations and personal discipline to make real changes. But the effort is worth it if it helps you reach the financial goals that are most important to you. Keep up the good work!

DAILY CASH SPENDING LOG

Use these tear-off sheets to track cash spending for two weeks.

(See page 12.)

WEDNESDAY EXPENSES

TUESDAY EXPENSES

MONDAY EXPENSES

RECORD ALL EXPENSES

- Groceries/meals
- Tolls/parking
- Gas
- Clothing
- Newspapers/magazines
- Dry cleaning
- Gifts
- Kids' allowance
- Other

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THURSDAY EXPENSES	FRIDAY EXPENSES	SATURDAY EXPENSES	SUNDAY EXPENSES

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We'd like to hear any suggestions or ideas you have on this topic. Please write to us at *publications@ceridian.com.* Be sure to include the title of the booklet in your message.

Thank you.

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62037-0905