Knowing and implementing the fundamentals of personal finance will enable you to make the most of your money today so you can achieve tomorrow’s goals. Money management, credit and debt, goal development, credit reports, saving and investing, tax and retirement planning, and insurance are subjects everybody can – and should – be familiar with.

**Overcome Obstacles**

Many people find the subject of personal finance intimidating. Being overwhelmed with all there is to do and know can be a major obstacle to getting started. Consider the reasons you may have put off getting your financial life in order.

**Lack of Direction**

How do you begin if you don’t know where you want to go? Lack of direction often stems from not having a specific set of goals to strive for. You also may not know where to turn for advice and support. Keep in mind that everyone has to start somewhere. Think about what you truly want to do with your money, and develop a feasible plan to achieve those dreams.

**Debt**

Debt can feel like a heavy weight, dragging you down and preventing you from doing anything other than attempting to repay it. While it is sensible to repay high interest debt quickly, make sure you simultaneously save for other goals – particularly an emergency savings account. You’ll have money set aside for unexpected expenses, reduce the dependence on credit to get you through the hard times, and have something positive to strive for. As your dollars grow and debt decreases, you will experience a newfound sense of financial control.

**Procrastination**

Why do today what you can do tomorrow? Because you may never end up doing it. It’s human nature to procrastinate. Fight inertia by posting photographs of your goals on your refrigerator or personal computer, and periodically reviewing and rewarding your accomplishments. You can’t achieve your dreams by putting them off. The smallest step you take today will activate a larger step tomorrow.

**Inflation**

Inflation is constantly working against you and your investments. Over time, the cost of goods and services increases and the value of the dollar falls – meaning you won’t be able to purchase as much with that dollar as you previously could. Inflation is typically two to three percent a year, so your investments will have to earn at least that to just break even. It’s an obstacle you can only control by consistently saving, and investing in vehicles designed to at least keep up with the rate of inflation.

**Money Management**

Money management means consciously directing where your dollars go. It begins with knowing how much you have at any given time, and ends with spending according to your immediate and long-term needs and goals. Good money management eliminates waste and makes your money go as far as it can.

**Cash Flow**

You can only make changes to your spending and savings habits after you know where you are spending your money. While we know how much we spend on such fixed expenses such as rent or mortgage, daily expenditures are another story. How many times have you taken $40 out of the ATM, only to wonder where it went – and what you spent it on?

Tracking cash flow is key to reducing budgetary waste. Most people are shocked at how the little things in life add up. There are several techniques to tracking your cash:

- Take a small pad of paper with you and write down every purchase
- Keep receipts and total them at the end of the day
- Use your debit card for as many purchases as possible – you’ll receive online or paper statements that detail where and when you spent your money

**Spending Plan**

Once you know where your cash goes you can make adjustments. Using the Spending Plan on page 4, list all of the expenses that you currently have in the “current” column. Analyze each expense carefully. In the “projected” column, list how much you would prefer to spend for each line item (be realistic though – focus on those expenses that you can reasonably reduce or cut out). If you don’t like or need to spend $60 per month on coffee drinks, redirect that sum to something you do want, or save it for a specific goal.
Almost everyone can make positive changes in their spending plan. Some simple yet effective techniques to save money are:

- **Brown bag your lunch.** $7 per day, five days a week totals $140 a month.
- **“Health” bars run about $2 apiece, and are often no more than glorified candy bars.** Switch to a banana and whole-wheat bagel for half the price.
- **Use coupons at grocery stores and buy house brands instead of name brands whenever possible.**
- **Prepare meals in advance and freeze them to avoid the temptation of ordering pizza at the end of a long workday.** Cooking at home will make your food budget go much further.
- **Review your phone bill and drop unnecessary services like Caller ID and Call Forwarding.**
- **Cut your cable television down to basic.**
- **Hand wash instead of dry cleaning.**

**Net Worth**

Being aware of your net worth is like knowing your personal start line in a race. Some are a few yards behind (if you owe more than you own); others are a few yards ahead (if you own more than you owe). Don’t despair if you have a negative net worth – many people do.

To calculate your net worth, subtract the total of your liabilities from the total of your assets. Use the Net Worth Statement worksheet on page 5 to enter your figures.
<table>
<thead>
<tr>
<th>Essential Expense</th>
<th>Current</th>
<th>Proposed</th>
<th>Discretionary Expense</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent/mortgage</td>
<td></td>
<td></td>
<td>Internet access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd Mortgage</td>
<td></td>
<td></td>
<td>Movies/video rentals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HOA (association dues)</td>
<td></td>
<td></td>
<td>Cable/satellite</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td></td>
<td></td>
<td>Dining out</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homeowner’s insurance</td>
<td></td>
<td></td>
<td>Sports/hobbies/clubs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renter’s insurance</td>
<td></td>
<td></td>
<td>Gym</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas/electric (average)</td>
<td></td>
<td></td>
<td>Storage fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water/sewer/garbage</td>
<td></td>
<td></td>
<td>Vacations/travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
<td>Books/music/dvds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home maintenance</td>
<td></td>
<td></td>
<td>Clothing purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Groceries</td>
<td></td>
<td></td>
<td>Laundry/dry cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household items</td>
<td></td>
<td></td>
<td>Beauty/barber</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health insurance</td>
<td></td>
<td></td>
<td>Pool/hot tub service</td>
<td></td>
<td></td>
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<tr>
<td>Prescriptions/doctor visits</td>
<td></td>
<td></td>
<td>Gardening</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car payment #1</td>
<td></td>
<td></td>
<td>Monitored alarm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car payment #2</td>
<td></td>
<td></td>
<td>Gifts/cards</td>
<td></td>
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<tr>
<td>Gasoline</td>
<td></td>
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<td>Cell phone/pager</td>
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<tr>
<td>Maintenance/repairs</td>
<td></td>
<td></td>
<td>Banking fees/postage</td>
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</tr>
<tr>
<td>Auto insurance</td>
<td></td>
<td></td>
<td>Cigarettes/alcohol</td>
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<tr>
<td>Auto registration</td>
<td></td>
<td></td>
<td>Religious/charity</td>
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<tr>
<td>Tolls/parking/mass transit</td>
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<td></td>
<td>Pet care</td>
<td></td>
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<tr>
<td>Daycare/babysitting</td>
<td></td>
<td></td>
<td>Other</td>
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<tr>
<td>Alimony/child support</td>
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<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition/lessons</td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes (monthly repayment)</td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union dues</td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>TOTAL</td>
<td></td>
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</tbody>
</table>
## Net Worth

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Checking/saving accounts</td>
<td>$</td>
</tr>
<tr>
<td>2 Investment accounts</td>
<td>$</td>
</tr>
<tr>
<td>3 Stocks &amp; Bonds</td>
<td>$</td>
</tr>
<tr>
<td>4 IRA/401(k)</td>
<td>$</td>
</tr>
<tr>
<td>5 Home/real estate</td>
<td>$</td>
</tr>
<tr>
<td>6 Automobile(s)</td>
<td>$</td>
</tr>
<tr>
<td>7 Other assets</td>
<td>$</td>
</tr>
<tr>
<td><strong>SUBTOTAL A</strong> (Add items 1-7)</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Mortgage</td>
<td>$</td>
</tr>
<tr>
<td>9 Credit cards</td>
<td>$</td>
</tr>
<tr>
<td>10 Credit cards</td>
<td>$</td>
</tr>
<tr>
<td>11 Auto loan(s)</td>
<td>$</td>
</tr>
<tr>
<td>12 Other loan(s)</td>
<td>$</td>
</tr>
<tr>
<td>13 Other loan(s)</td>
<td>$</td>
</tr>
<tr>
<td>14 Other debt(s)</td>
<td>$</td>
</tr>
<tr>
<td><strong>SUBTOTAL B</strong> (Add items 8-14)</td>
<td>$</td>
</tr>
</tbody>
</table>

**TOTAL** (To figure your net worth, subtract Subtotal B from Subtotal A) $
Use Credit Wisely

When used wisely, credit is a practical tool. Credit offers convenience, enabling you to rent a car or hotel room or buy airline tickets over the phone or Internet. In many situations, credit offers peace of mind; there is no need to carry large amounts of cash when shopping or traveling. Having and using it is also the only way to build a positive credit history – something you’ll need when you finance a major purchase like a car or home.

However, despite all the advantages and conveniences credit can provide, there are pitfalls associated with credit misuse. Credit can be expensive. High interest rates, finance charges, annual fees, and penalties can dramatically increase the cost of any purchase made on credit. There is also a tendency to overspend on credit. It is much easier to spend more than you can afford when all you have to do is pull out the plastic. Overextension gets thousands of consumers into financial trouble every year.

Pay Balances in Full
Keeping a running balance is a waste of money. Commit to only charging when you can afford to repay the debt in full by the time the bill arrives.

Always pay on time
Paying late will result in costly penalty fees – another waste of money. And if you skip a payment, it will result in credit damage.

Get the Best Card
If you are just starting out and have no credit, or need to reestablish credit, your best option may be a secured credit card. It works just like a regular credit card except that you must leave a deposit - usually between $250 and $500 - with the issuing financial institution as collateral. The interest rate on a secured card is often a bit higher than on a regular card.

Always look for credit cards that offer low interest rates, generous grace periods, and no or low annual fee. Also, limit the number of open credit card accounts you have. Most people don’t need more than one or two lines of credit, and it’s much easier to keep track of your total outstanding debt with just a couple of accounts.

Be aware that interest starts accruing immediately on cash advances - there is no grace period and the interest rate is higher than that applied to regular purchases.

Debt

There is a difference between “good” debt and “bad” debt. Good debt eventually turns into an asset – such as real estate. Debt incurred for such things as meals, vacations, and clothes (called consumer debt) are liabilities - they never accumulate monetary value.

Having too much consumer debt can quickly outweigh the benefits of credit. Accelerate payoff time by increasing payments and seeking interest rate reductions. Most importantly, if your debt is unmanageable, stop charging immediately. To efficiently get out of debt, always pay more than what the creditor asks for. Most creditors require two to three percent of an outstanding balance as the monthly minimum payment. For a $2,000 debt, the average minimum payment is $50. As the balance declines, so does the minimum payment. With an annual percentage rate of about 14.5 percent, it would take almost thirteen years to repay, with an ultimate payout of $3,517.

You can avoid wasting precious time and money by using the “consistent payment method” instead. The process is simple and efficient:

- Determine a realistic and fixed amount you can pay each month
- Stop using the card until the balance is repaid
- Pay more when you can - but never go below your preset amount

Consumer Debt Warning Signs
Are you in over your head? You may be if you:

- Struggle to pay only the minimum requested payment
- Do not know the total debt that you owe
- Have high interest rates
- Are regularly assessed over limit and late fees
- Use credit or cash advances to pay essential living expenses

Goal Development

Identifying clear, achievable goals is crucial to a personal finance plan. A financial goal is an exact amount of money needed for a specific purchase or service, at a definite date. By making the goal precise, you’ll be able to track your progress and keep going when you may be tempted to give up.

Mark your calendar with your goal’s projected achievement date. If the goal is mid or long-term,
allocate progress points (i.e. "$500 in my IRA account by June 5th, $1,000 by December 12th). Keep yourself motivated by flipping to those dates often.

**Short, Mid, and Long-term Goals**

There are three basic goal types: short-term (under a year), mid-term (one to three years), and long-term (three-plus years).

Typical short-term goals are vacations, electronics, and clothes. Put a set amount in a savings account (keeping the money in a checking account is dangerous – it is too easy to use it for everyday expenses). Since the goal achievement date is under a year, there is no time for interest accumulation to help you along. Need $1,000 for a trip to Hawaii in six months? That’s $167 a month.

A common mid-term goal is saving for a down payment on a home. Because the time frame is one to three years, there is still not much opportunity for your money to work hard for you. You can, however, deposit the money into an investment vehicle such as a money market account or a certificate of deposit, which has a slightly higher interest rate than a typical savings account.

Long-term goals include saving for your retirement and child’s higher education. Time is on your side for such objectives. You can count on an estimated rate of interest to help your deposits grow. Research your investment options carefully. Remember: the greater the return, the greater the risk. After you’ve worked so hard to save, you don’t want to gamble your goal away.

**Develop an Action Plan**

Once you have your goals fully established – with a clear idea of how much it will cost, when you want it, and if you can count on interest to help get you there, develop a plan of action to take you to the next stage. Write down what you need to do – whether its researching the best price for the watch you want by November or talking to your human resources department to have more money taken out of your paycheck for your 401(k).

**Credit Report Monitoring**

When was the last time you checked your credit report? If it has been longer than a year, or if you are considering financing a major purchase, obtain a copy from each of the three major credit reporting agencies: TransUnion, Equifax, and Experian. Errors do happen and the dispute process can take months. Also, as identity theft becomes an increasingly common crime, reviewing your report for fraudulent activity is important.

**Savings**

Even if you don’t have a specific goal right now, saving immediately will give you a feeling of accomplishment. Have debt? Save anyway. By the time you pay off your debt you’ll have a reserve account in place. And in the event of an emergency you won’t have to touch the credit cards.

**Pay yourself first**

Make saving simple. If you have the option of payroll deduction through your employer, use it. You can have a specific sum of money deducted from each paycheck and deposited into a savings account or into your tax-deferred retirement plan.

Another option is direct deposit through your financial institution. You choose a specific date each month to have a set amount of money routed from your checking account into a savings account. It’s easy, and you’ll never miss what you don’t see.

**Save your next raise**

You lived on your old salary before – can you keep doing it? If so, save the amount of your raise – an extra $75 a month totals $900 in a year. Do the same with bonuses. Instead of having the extra funds absorbed into your daily life, sock it away for one of your goals.

**Establish an emergency account**

Everybody needs an emergency account – cash set aside for those times when your car suddenly needs tires, you have to fly across country for a family crisis, or you lose your job. How much you should have tucked away depends on the number of people you support financially and the amount of your essential monthly expenses. If you are only responsible for yourself, three months of expenses set aside is a good idea. If you support a spouse and children, you may want six months set aside for extra security.

**Investing**

Investing what you’ve saved is an exciting process – it’s the next big step to building wealth. Bear in mind that all investment vehicles carry risk – meaning you can lose all or part of your initial investment.

Examine your investment considerations

There is much to consider when deciding on an investment vehicle. First, recognize your personal tolerance for risk. Some people are natural risk-takers
and the potential for great gains overrides the potential for loss.

Attempting to totally avoid risk, though, can be as detrimental as making a wildly speculative investment. Keeping all your money in a “safe” but low interest savings account to protect your principal is essentially the same as the mattress fund. If your interest isn’t keeping up with the rate of inflation, your base dollars lose value. And if that money is supposed to be going towards your retirement, you could be losing much of what you will rely on when you most need it.

Your objectives and time frame should drive your investments. If your goal is to save $15,000 for a home in three years, you’ll need to calculate how much you can afford to set aside each month, and how much estimated interest your money will need to earn to get you to that figure. For example:

| $400 per month | Three Years | 6 percent interest | $15,734 |

Diversifying your portfolio and practicing asset allocation is a way of minimizing risk by dividing investment funds among a variety of securities with different risks and rewards. Mutual funds are an easy way to have a diversified portfolio, as they hold a wide body of investments. Choose a fund with healthy asset allocation mix rather then one overweight in one or two sectors. Index funds provide a well-diversified, inexpensive exposure to the stock market.

Dollar-cost averaging
A common and effective method of spreading investment risk is dollar cost averaging. It is the process of investing a set amount of money on a regular basis, no matter what the stock market is doing. Through this type of consistent investing, you buy more shares of stock when the price is low and fewer when the price is high. It also eliminates the need to “stock pick” – an imprecise activity even for professionals.

Tax Planning
Few people enjoy paying taxes – but they are a fact of life. A little planning, though, can substantially reduce the amount of taxes you pay.

Max out employer-provided plans
If you have a tax deferred, employer-provided retirement plan at work, take advantage of it – it will save you a lot of money. Contributions are made with pre-tax dollars, which lowers your taxable income and possibly your marginal tax rate. The investment grows on a tax-deferred basis. When you retire and take the money out, you will be taxed on your new (and in most cases, lower), tax rate.

Max out individual tax retirement plans
IRAs, both traditional and Roth, offer tax-advantaged savings. With a traditional IRA, if you do not have a tax-deferred plan through your employer, in addition to the tax-free compounding you also get an immediate tax deduction, saving you even more money by lowering your tax burden. Contributions to a Roth IRA are made with after-tax dollars. Earnings accumulate tax-deferred and may be withdrawn tax-free if the withdrawal occurs more than five years after you first contributed to it, and you are at least 59 1/2 or if the funds are used to purchase a first home.

Retirement Planning
Everyone should plan for their retirement – and the sooner the better. Contributing to a retirement plan is an individual’s, not an employer’s, responsibility; you have to take action to make it happen.

To figure how much you will need for retirement, calculate the number of years you have left to save, how much you have already saved, and your expected post-retirement expenses (usually 70–80 percent of your current expenses).

401(k) and 403(b) Plans
A 401(k) is a tax deferred, employer sponsored retirement plan. An employee can contribute a fixed percentage of pre-tax income (usually between one percent and 15 percent with a total yearly contribution limit. Some employers will match a portion of or all of an employee’s contributions. The money your employer has contributed is yours to keep after a “vesting” period (typically five to seven years). Interest compounds on a tax-deferred basis. 403(b) plans are similar to 401(k) plans, but are for people who work for charities and nonprofit organizations.

IRAs
The traditional Individual Retirement Account (IRA) provides a tax-deferred investment alternative for people who aren’t covered by a plan at work, or who want to supplement their work plans. You can purchase stocks, bonds, mutual funds or cash equivalents, and you only pay tax when the funds are withdrawn at retirement. Unlike traditional IRAs, the Roth consists of after-tax money. Contributions are permitted after
age 70 1/2 (as long as you or your spouse has earned income) and there is no requirement that withdrawals commence after a certain age.

**Self employed plans**
There are several retirement plans specifically for self-employed individuals. A SEP (Simplified Employee Pension) is an Individual Retirement Account for the self-employed. You can contribute up to 15 percent of your annual compensation with a ceiling of $41,000 a year. The tax deduction limit is the same as for a regular IRA.

Keogh accounts are similar to 401(k) accounts for the self-employed. You can contribute up to 20 percent of your self-employed income to a Keogh plan, with a limit of $41,000 a year. The entire contribution amount is tax deductible.

**Insurance Coverage**
The purpose of insurance is to protect you and your family against major financial catastrophes.

**Life insurance**
The primary purpose of life insurance is income replacement – to protect loved ones who depend on you for financial security. The birth of a child or buying a home where two incomes are needed to make the mortgage payments are common motivations to buy life insurance.

**Medical insurance**
Health insurance policies cover the cost of most medical expenses. Because of the extremely high costs associated with medical treatment, such insurance is important to have. Buying a policy before having an accident, a serious illness, or becoming pregnant is vital, since most insurance doesn’t cover preexisting medical conditions.

Many people have group health insurance plans through their employer or union. If you do, you may be required to pay a portion of the premium, particularly if you work part-time. Still, since the costs and risks associated with health care are spread among many, the cost to you is usually low.

**Asset (house, car, heirlooms)**
Homeowners insurance is required if you own your own home. It covers your personal property and personal liability, as well as protecting your lender against non-payment of the mortgage balance. Consider adding a guaranteed replacement cost policy so you could rebuild at today’s prices (plus a little extra to meet current building codes). Flood insurance is also a wise investment, as water damage is common and extremely expensive to repair.

Most states require at least a minimum of automobile insurance. However, if want to protect yourself from lawsuits and high repair bills, buying more than what’s required makes sense.

Whether you rent or own your home, you may want to add even further to your policies if you own jewelry, collectibles, artwork, or other valuables.

**Long-term disability**
If you can’t work because of an injury or illness, Long-term disability policies provide an income stream for a long period of time. This type of insurance is often available through employers, and generally picks up where short-term disability leaves off. Once short-term disability benefits expire, the long-term policy pays 50, 60, or 66 2/3 percent of your salary.

While personal finance is comprised of a wide variety of complex subjects, virtually everyone can master the fundamentals. Make sure you set reasonable goals, and embrace the concept of “delayed gratification” to achieve them. Use credit wisely by not carrying balances. Always live within your means and save at least a little each month – even when money is tight. Invest with your goals in mind and for the long term – growth takes time, and there will be setbacks. By monitoring your credit reports, spending habits, and investment portfolio and make changes that reflect your evolving needs, you will make the most of your money now and be well prepared for the future.