

Where does your money go?

If you track your spending for a month or so, you'll have some answers.

Knowing what you spend now is the first step in creating a budget. A budget is a spending plan to help you forecast and control your expenses.

To create a budget you need to know how much you spend each month—and compare that figure to your take home pay. That information will help you figure out how wisely you manage your money.

There are many ways to track your spending.

Here are a few suggestions:

- ◆ Keep a small notebook handy and write down everything you buy and every bill you pay.
- ◆ Keep all your receipts in an envelope or shoe box.
- ◆ If you have a computer, create a file for entering your income and expenses.
- ◆ Consider getting a money management software program.

Remember to include:

- ◆ Housing (rent or mortgage payment, property taxes)
- ◆ Food (groceries, restaurants, sandwiches, coffee, sodas, snacks)
- ◆ Auto (car payment, gas, repairs, insurance), parking or commuting expenses
- ◆ Home (cleaning supplies, maintenance, renter's or homeowner's insurance)
- ◆ Clothing, dry cleaning, hairdresser or barber and personal grooming supplies
- ◆ Utilities (phone service, long distance, electricity, oil or gas, water)
- ◆ Credit card payments (if you are carrying a balance)
- ◆ Student loan payments
- ◆ Insurance payments (premiums)
- ◆ Entertainment (movies, books, magazines, toys, cable TV, Internet access)
- ◆ Child care
- ◆ Child support or support to other dependent family members, such as elderly parents or family living in another country
- ◆ Medical bills
- ◆ Legal expenses (immigration or citizenship documentation, tax preparation, family law, child support)

- ◆ Savings (transfers to savings account, retirement fund or brokerage account)
- ◆ Vacations
- ◆ Income taxes in addition to those withheld from your paycheck

When you add up your income, include paychecks or benefits checks along with any income you received from other sources, such as a part-time job, tax refunds, child support payments, alimony, rent, investment income or gifts.

Subtracting monthly expenses from income gives you your personal bottom line. Does your income cover your expenses? If not, you have some decisions to make—you need to figure out how to spend less or earn more. To live within your means, create a spending plan.

The balancing act

Your checking account and checkbook register are important money management tools. If you pay your monthly bills when you get your paycheck, you'll have a better idea where you stand until next pay day.

Remember to:

- ◆ Balance (reconcile) your bank statement when you receive it. Most banks make it easy to balance your account—just follow the step-by-step instructions that come with the statement.
- ◆ Record in your checkbook and deduct every check you write, every ATM or debit card transaction you make and any bank fees you pay.
- ◆ Don't forget to subtract any automatic payments and deductions (such as savings transfers or bill payments such as gym memberships or utility bills) from your bank balance.

Cutting back on expenses

Try to spend less than you earn—that way, you'll have some money to save. Savings are important for emergencies and for future plans. Many people can find that a few small changes add up to big savings.

Cutting back begins with seeing if you have any expenses that you can reduce or cut out entirely. To discover what you can do without, try to make it through one week without buying anything except absolute necessities, such as groceries and gas for the car.

Other ways to spend less

- ◆ Make a shopping list and stick to it. Buy sale items, generic products and bulk items wherever possible.
- ◆ Check out cooperative buying programs through local organizations.
- ◆ Prepare meals at home. Bring bag lunches to school or work. Avoid expensive take-out coffee drinks. Buying a cappuccino or latte every work day can add up to almost \$800 per year!
- ◆ Be careful when you shop at big stores that have all kinds of stuff—if you go in for groceries, you may be tempted to buy other items you don't really need.
- ◆ Use the public library for family entertainment. Books, magazines, CDs, games and even video movies are free.
- ◆ Lower your thermostat during the day when you're out of the house and at night when you go to bed.
- ◆ If you use an air conditioner, set it at a higher temperature than usual.
- ◆ When you can, walk, join a carpool or take public transportation instead of driving.
- ◆ Call local banks to see if they offer free or low-cost checking accounts. If you are charged for ATM withdrawals, look for a bank without such fees—or make withdrawals at your bank's ATMs.
- ◆ Consider buying quality, second-hand goods, such as cars, appliances and clothing.
- ◆ Instead of going away on a lengthy vacation, take short day trips or camping trips close to home.
- ◆ Buy generic prescription drugs or over-the-counter medications instead of name brand drugs.

Shop around

You can save substantial amounts on the goods and services you need by shopping around. Compare prices from a number of businesses before you make a purchase. When looking for a bank account, phone company, insurance or prescription drugs, call at least three companies.

Increase your income

Sometimes, no matter how much you cut back, you need more money.

See if you can:

- ◆ Take advantage of income tax programs, such as the Earned Income Tax Credit, or low- and moderate-income assistance programs.
- ◆ Find a part-time or weekend job. Many businesses hire extra people during the holiday season.

- ◆ Rent out an extra room.
- ◆ Host a foreign student. Many programs pay a stipend that can help with household expenses.
- ◆ Start a home-based business that does not require a high initial cash outlay, such as a handy-person service, baby-sitting or sewing.
- ◆ Hold a garage sale to sell household items and clothing you no longer need.

Save more of your money

Look for ways to save money.

Consider:

- ◆ Scheduling automatic deposits on pay day that go to your savings account or individual retirement account (IRA).
- ◆ Pre-tax savings opportunities, such as an employee-sponsored retirement savings plan. Many employers offer to match your contributions in whole or part.
- ◆ A Flexible Spending Account, offered by some employers. You may be able to lower your income taxes by using pre-tax money to pay for child care or medical expenses that aren't covered by insurance.

Setting financial goals

You might not have a crystal ball, but you probably have an idea about how you'd like your future to be. Perhaps you want to get married and start a family, go to school, travel, buy a house—these are your goals. Money is usually necessary to realize important life goals—so these become financial goals.

Financial goals often fall into short-term and long-term categories. Short-term goals may be ones you want to achieve in one or two years, such as finishing your education or getting married. Long-term goals may take more time to reach—five years or more to be in the position to buy a home, and much longer if you're talking about a secure retirement or paying for your children's college educations.

You are the only one who can set your goals. Sit down with a pen and paper and "brainstorm" about your needs next month, next year and in the next 10 to 20 years. In a short time, you'll have a list of financial goals.

Once you've established your goals, a savings and investment program will be necessary to achieve them.

Saving and investing

You can use your money to create more money. The money you save can work for you by earning interest at a bank or other financial institution, or by being invested in companies. When you invest in a company, you buy stock or bonds issued by that company—these are called investments.

Short-term money can be kept in an insured savings account, where there is no risk of losing the money and where you can get it easily when you need it. Savings accounts keep your money safe and the interest it earns helps it grow. Savings accounts (and checking accounts) are insured by the federal government. Interest rates vary widely so call several banks and, if you are eligible to join any credit unions, check with them, too.

Like savings accounts, certificates of deposit (CDs) are government-insured. CDs often pay more interest than savings accounts do. But you have to agree to leave your money untouched for six months to a year or longer to get the best CD rates. If you take your money out early, you have to pay a penalty and you will lose interest income. Shop around at different banks to get the best rate.

You may want to invest the money you are saving for long-term goals in uninsured investments such as stocks, bonds or mutual funds. You can find out more about these options by talking to a brokerage, bank or investment advisor. Shop around before making a decision on how to invest your money and ask for information about how risky the investment is. Investments with more risk tend to make more money, but no investment is guaranteed—you could lose part or all of your money.

Insurance

Don't skimp on insurance—it can help you protect the things you own against unforeseen events like natural disaster, fire or theft. By shopping carefully for the insurance you need, you can find lower premiums (monthly payments) and better coverage for your money.

Some employers offer health insurance coverage to their employees. Workers usually have to pay some part of the health plan cost out of their paychecks. It might seem like you can't spare the money, but getting your own health insurance, or paying medical bills without insurance, costs a lot more. If you have a health plan at work, get all the information from your employer before making your decision whether or not to enroll.

A lawsuit could cost you your home, your car and your savings, so make sure you have enough auto and homeowners' coverage to protect yourself against accidents.

Your state probably requires you to buy a minimum amount of auto insurance coverage—but the minimum in many states is too low to protect many people's assets. Before buying insurance, figure out how much you have to lose.

Ask if you are eligible for any auto insurance discounts—often available if you have a good driving record, insure more than one auto, take a driving course or have anti-lock brakes, air bags or an alarm system on your car. Some companies offer discounts to seniors.

You can almost always save money on any kind of insurance if you opt for a higher deductible, which means you will have to pay the first \$250 to \$500 out of your own pocket if you make a claim.

If you own your home, homeowner's insurance can protect you from a lawsuit if a visitor or stranger is injured on your property. Homeowner's insurance also protects you from fire and other disasters that could destroy your home. Discounts are also available on homeowner's insurance—for instance, you might get a discount if you have not filed a claim for several years or if you have smoke alarms in your bedrooms.

Credit

Credit can play an important role in money management. It's also an important safety net for emergencies. Not many people have the cash on hand to buy a new car, a refrigerator or a washer and dryer. Credit can help you buy things you need and spread the payments out over time to make them easier to handle.

To qualify for credit when you need it, pay your bills on time. Don't max out your credit cards. Check your credit report every year or so by contacting one or all of the three major credit bureaus, Equifax (1-800-685-1111), Experian (1-888-397-3742) and TransUnion (1-800-888-4213). If you haven't got credit, or if you damaged your credit in the past, try to build a clean credit record by applying for a small amount of credit or a credit card that allows you to build a credit history. That way, you'll have credit available to you when you need it.

Be smart about credit. Making more than the minimum payment on your credit card reduce your debt. Pay as much as you can afford to each month—you'll lower the balance more quickly and pay less interest in the long run.

Be very careful before taking out a loan secured by your home. If you fail to make a payment, you risk losing your home.

Kinds of credit to avoid include:

- ◆ Pawn shops, pay day lenders and car title pawn outfits—these companies charge the highest interest on credit.
- ◆ Offers to buy things on credit with deferred interest—if you don't pay the entire balance by the deadline, you'll be hit with retroactive interest from the day you took possession of the item.
- ◆ High rate credit cards. Determine the average credit card interest rate by checking the Bankrate.com web site—then shop around for a lower than average rate.

Debt

The tips in this brochure can help you begin to spend less than you make. But if you feel like you are drowning under your debts, that you don't have enough money to cover your expenses or that your spending is out of control, consider a credit counseling service. Many non-profit organizations offer credit counseling for a small fee. These organizations can help you regain control over your money and begin digging yourself out of debt.

The National Foundation for Consumer Credit, parent organization of hundreds of local credit counseling offices, can help you find a counseling service near you. Call (800) 388-2227 or visit its web site (www.nfcc.org).

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