Steps to Financial Freedom

Credit Union Logo

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Achieving lifelong financial success can sometimes seem like an overwhelming task. However, when developed step by step, you can gain long-term control of your finances. Setting goals, communicating with family members, creating a budget, building savings, reducing debt and using credit wisely, buying a home, evaluating insurance, understanding investing and taxes, and keeping good records are the steps to guide you on your way to financial freedom.

TAKING STOCK

Before you embark on any new adventure, it is important to determine the starting point. A thorough evaluation of your current financial picture is a major step in going forward.

Take a look at your personal financial situation. How does it look? Where are you now? How well have you done so far? Are family members involved with the family finances? Are you pleased with the results? These are some of the questions to ask as you take stock of your financial life.

Your Money Personality

Have you ever wondered why you use money in a particular way? Many forces impact the development of your money personality. You make purchases to fulfill desires and to make yourself feel a certain way. Some spending influences include: advertising, media, society, friends, family, and easy credit. In addition, shopping has become an "experience" to enjoy and there are so many goods that are so affordable.

One way to evaluate your approach to money is to identify your attitudes about money. Where do you fit?

- **Hoarder –** The hoarder likes to save, budget, and prioritize
- **Spender –** The spender likes to spend
- **Planner –** The planner is the nitty-gritty, take-it-one-step-at-a-time type
- **Dreamer –** The dreamer hatches passionate schemes, but has no idea how to make them come true.
- **Merger –** The merger wants to pull all of the couple's money together
- **Separatist –** The separatist wants at least some of his/her own money

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

You might find that your approach to money includes more than one profile. Take some time to know yourself better. Answer the following questions about how you spend your time and money:

What products and services do you *enjoy* spending money on?

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____

In what ways are you a "good" spender?

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____

What changes would you like to make to your spending habits?

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Another exercise can be found in Figure 1. Take the quiz called "How Do You Manage Your Money?" to evaluate your money management skills.

When you understand your money personality and attitudes toward money, you can make adjustments and changes as needed to help you achieve your goals. As you can see, personality, psychology and habits can be as important as the numbers when it comes to evaluating your personal finances.

Net Worth Statement

In its simplest form, a net-worth statement is what you own minus what you owe. Take some time to calculate your net worth and update it at least once each year to monitor your financial progress. A blank net worth statement can be found in Figure 2.

SETTING GOALS

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

Characteristics of Goals

Understanding the difference between a dream and a goal is important. If you say that you want to live a comfortable retirement, then you have a dream. But, if you say that you will retire at *x* age, will need to save *y* dollars and it will need to last till age *z*, then you have a goal. What is the difference between the two?

Specific

Goals should be specific. How much do you need to save? How long of a time frame do you have before you need the money? How many pay periods are available to save the money? For example, you might need to save $5,000 in 2 years for a down payment to buy a house. Since you get paid once each month, you would have to save $208.33 each pay period to achieve your goal.

Measurable

You will have to measure and monitor your progress. How will you do this? Do it in a way that makes sense to you. As you save money each week or each month you can track it on a computer, or write it down, or even see it logged on your paycheck as money is moved from your paycheck to a savings account. In any event, measure your progress as you move toward achieving your goal.

Reasonable and Realistic

Set goals that are reasonable and realistic. Don't try to save too much each period and end up sacrificing other parts of the budget. You might have to lengthen your time frame to achieve a goal and decrease the amount you save each time. Remember, saving is a lifelong process and a consistent, systematic approach will pay off.

Set Your Goals

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

Take some time to set your financial goals. Use the worksheet in Figure 3 – Setting Goals as a guide. Short-, mid-, and long-term goals are important. Although the time frame that you put on your goals may vary, here are some rules of thumb:

- **Short-term** goals are those that can be achieved in a year or two
- **Mid-term** goals are those that can be achieved in two to five years
- **Long-term** goals are those that can be achieved in greater than five years

You can start to discuss and identify your goals by asking these questions:

- **Financial Goals** – How can I spend my resources to give me the most satisfaction?

- **Leisure Time Goals –** How do I want to spend my time?

- **Living Arrangement Goals –** What living arrangements would support my desired lifestyle?

- **Health and Well-Being Goals –** Do I need more insurance, less insurance? Do I need an exercise program or special diet?

- **Educational Goals –** How can I improve my skills or my children's skills for the future?

- **Retirement –** How do I want to live in retirement?

Once you answer those questions, you can list and prioritize your goals as short-, mid-, or long-term.

Goals you would like to accomplish within the next 1 to 2 years

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____

Goals you would like to accomplish in the next 2 to 5 years

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____

Goals you would like to accomplish in more than 5 years

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After you have identified your specific goals, use the worksheet in Figure 3 – Setting Goals to complete the financial details. Here are two examples:

Goal	Short-, Mid-, or Long-Term	Total Amount Needed	Number of Months Until Goal is Reached	Amount to Save Each Month
Take the family camping	**Short-**	**$600**	**12**	**$50**
Save for a down payment on a new house	**Mid-**	**$3,600**	**36**	**$100**

Goals change continuously over a lifetime. As goals are reached, new ones should be established.

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

18 To 24 Years

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

25 to 34 Years

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

35 to 44 Years

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

45 to 54 Years

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

55 to 64 Years

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

65 Years & over

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

BUDGETING – YOUR SPENDING PLAN

Budgeting is the cornerstone to anyone's personal financial plan, whether you're saving a lot of money already or if you're behind on your financial obligations. A budget tells a financial story. The financial story that your budget tells will be a successful one by planning, tracking, and adjusting,

A Lifelong Must

In its most basic form the budget includes income, expenses, and debts. Income and debts are usually fairly straightforward categories and are easy to identify and list. You might have a few income sources depending on how many wage earners you have in the family. And with debts you might have a mortgage, a car loan, a student loan, a personal loan, and a number of credit cards for example. It's the expense side of the budget that always seems to be the most challenging for people. When preparing your budget include as many expense categories as possible in order to see where your money is really going. Do you know where your money goes? Spending too much can sabotage your goals. It's not how much you earn in your life, but how much you spend that keeps you from achieving your goals.

Financial experts have guidelines showing what percent of take-home pay should be going for the basic budget categories each month. After you create your budget, compare your spending to the guidelines below:

Recommended Monthly Expenditures	
Category	**% Of Monthly Take-Home Pay**
Mortgage/rent	25-35
Food	18-23
Consumer debt	10-20
Savings	7-10

Keeping track of your income, expenses and debts will allow you to continually monitor your budget as you move toward accomplishing your goals. Remember, your budget is like a muscle. If it is not worked and exercised, it will get weak. So, exercise your budget every week to keep your finances strong.

Weekly, Monthly, Annual

The weekly, monthly, and annual budgets are one in the same. The annual budget is really a monthly budget followed each week for the entire year.

Once a year, in November or December, prepare your annual budget for the upcoming year. The annual budget for next year will take into account a number of items including family goals, expected income, what you spent this year, and expected expenses for the upcoming year.

Choose a time when the entire family can sit down and discuss the budget. Leave enough time to discuss all issues and give everyone an opportunity to express his/her ideas and concerns. If you need additional family sessions, schedule more. Set a time limit for the meetings so they are productive.

As a family, discuss the annual budget to set a financial plan for the upcoming year. This will include a balanced budget that meets the family needs and realistic wants. The annual budget meetings also have the added benefit of giving family members a chance to talk about money as a family, to share ideas and to gain perspective on other family members' needs and wants. It also gives you the opportunity to identify new goals and to confirm that existing goals are still important and being worked towards.

Use the Annual Budget worksheet in Figure 4 and fill in the categories that apply to your monthly budget for the upcoming year. Expect to make adjustments as you prepare the budget. Consider what you earned and spent this year to determine what you will include in next year's budget. Also remember to include enough money in the savings category to stay on track to reach your short-, mid-, and long-term goals.

If the budget does not balance, discuss which areas of the budget can be adjusted. Will you increase income or decrease expenses? Whose income will increase? What expenses will be reduced? Will goal time frames be adjusted?

SAVING TO ACHIEVE

Whether you have short-, mid-, or long-term goals, saving money is the key to achieving all of them.

Make it Part of Your Budget

Have you heard the saying, "Pay yourself first?" This slogan suggests that you save money for yourself when you get paid before you pay your bills. It is great advice. However, it is a challenge to achieve because many people want to pay their creditors before they pay themselves. When it's time to save at the end of the month, no money is left to save. The Annual Budget in Figure 3 includes a category for savings. When you plan to save, the "expense" called savings becomes a routine bill that you "pay" each month. With this bill, the recipient is you!

You can achieve your goals by making saving a part of your personal financial budget.

Start with an Emergency Savings Account

Most financial experts agree that keeping 3-6 months of income in an emergency savings account is solid financial guidance. Money worries are common concerns for most Americans. Having a safety net, like an emergency savings account, can help minimize your worry, protect you against uncertainty, prevent the need to liquidate assets, and give you access to cash rather than credit. Create your emergency savings before you begin investing for other financial goals.

An emergency savings is generally kept in a liquid account like a savings account or money market mutual fund. You should have immediate access to the money without having to pay any penalties. An emergency savings account is designed for financial "emergencies." The definition of an "emergency" might vary from household to household. Examples of "emergencies" include a higher than expected car repair, the replacement of an appliance that breaks down unexpectedly, a higher than expected medical bill and the like. Do not plan to use your emergency savings money on a monthly basis for expenses that should be paid through your regular budgeting process. After you use money from your emergency savings account, plan to replace the money used by increasing your monthly savings until the account is back to 3-6 months of income.

Save to Make Most Purchases

Periodic expenses are the trickiest expenses in the family budget. These expenses don't occur each week or each month. Instead, they occur at different times during the year. For example, clothing might be purchased seasonally, car repairs and maintenance might occur every 3,000 miles or when something breaks down and a vacation might be taken during the summer. Normally, these are the types of expenses that are paid with credit cards. Typically, when the credit card bill arrives, only the minimum payment is paid leaving an outstanding balance to generate finance charges and increased expense. Periodic expense management is key to successful family budgeting because it takes into consideration expenses that happen at different times during the year and treats them as monthly expenses. Saving throughout the year for these purchases will save you money.

When you plan your annual budget in November or December, pay particular attention to your periodic expenses. These generally include expenses such as car repairs and maintenance, gifts, entertainment, house repairs and maintenance, clothing, vacation, and insurance. Estimate how much money you will spend in each of these categories in the following year. Here are some questions that you can ask when trying to determine how much will be spent:

- **Car repairs and maintenance**
    - How many miles do I drive each year?
    - How often do I usually get oil changes?
    - How old is my car?
    - What maintenance is expected next year (30,000 mile service, new tires, oil change, etc.)?
    - Will I be driving more or fewer miles next year?
    - How much does each service item cost?

- **Gifts**
    - Who did I buy gifts for this year?
    - Who will I buy for next year?
    - How much will I spend on each gift?
    - How much do I spend during the holiday season?

- Are there any special occasions (wedding, anniversary, graduation, prom, etc.) expected next year?
- Do I buy cards for every occasion?

- **Entertainment**
  - Do I have children involved in sports activities, music lessons, or school activities?
  - How often do we go out to eat?
  - What sports, hobbies, etc. do the adults have in the family?
  - How much does each of these things cost?

- **House repairs and maintenance**
  - Do we have a yard to maintain?
  - How much do we spend on mulch, flowers, fertilizer, vegetables, tools, etc. for the yard each year?
  - Is painting needed?
  - What major items need repair (hot water heater, washer/dryer, oven, dishwasher, microwave, windows, roof, siding, gutters, etc.) in the upcoming year or in subsequent years?
  - How much money will be needed to replace the major items?

- **Clothing**
  - How many people are in the family?
  - How much did we spend last year on clothes?
  - Where do we shop for clothing?
  - Can we find better deals on clothing?
  - What hand-me-down opportunities do we have – cousins, friends, neighbors?
  - Will anyone be getting a new job that will require a new wardrobe?

- **Insurance**
  - How often do we pay car insurance, life insurance, homeowners insurance, renters insurance, etc?
  - How much do we pay for each?
  - Will we be buying more insurance in the upcoming year?
  - Will there be a new driver in the household?
  - Will there be a new child in the household next year?

- **Vacation**
  - Do we take vacations?
  - How many vacations do we take each year?
  - How much did we spend on vacations last year?
  - Is there a special occasion coming next year that will require travel?

You might have other expenses in your budget that you identify as periodic. List them and follow the same line of questioning to estimate how much money you will spend next year in each category. Reviewing old credit card statements is a good way to determine what you purchased last year and how much you spent.

Calculating these numbers can be time consuming, but the payoff will be worth it. The purpose of this exercise is to have the cash available to make the purchases when they occur. Good management of periodic expenses will minimize the need to maintain a balance on your credit cards. If you already carry balances on your credit cards, periodic expense management will help you to not increase those balances next year.

Once you calculate how much you expect to spend in each of the categories next year, divide each number by 12. This will give you the monthly amount for each expense. Remember, you will treat periodic expenses as monthly expenses in your budget. By taking the time before the expenses occur and evaluating what to expect, you will be able to save the money each month and have it when the expenses occur.

USE CREDIT WISELY

The word "credit" comes from the Latin word for "trust." This means that someone trusts someone else to repay the money loaned.

In early American history, the use of credit to expand family wealth was not only acceptable, but also virtuous. However, if it was used for anything other than purchasing land, household goods, or production tools, it was considered irresponsible. Workers credit came from their employers. This resulted in workers often being in debt to their employers.

Since the end of World War II, America has moved from a cash- to a credit-oriented society. The saying "Buy now. Pay later" has been embraced by American families. Attitudes toward credit started changing during the 1950s when credit use was broadly expanded. The first plastic credit card appeared in 1952 and the credit card industry was off!

Consumers were torn between the old school opinion that “If you didn't pay cash, you shouldn't buy.” On the other hand, new consumers wanted to fulfill their wants and aspirations using present and future income. Luxury items were now within reach with a stroke of the consumer's pen. Where credit previously bound workers to their employers, it now provided more freedom, opportunity, and social status.

Credit cards soon developed into a sign of prestige and material wealth, replacing money in the bank. As a result, consumer credit grew and savings percentages dropped. Today, the average family saves only a small fraction of its disposable income and spends more than the recommended 20 % of take-home pay per month on installment debt, excluding a mortgage.

With more and more choices for credit, more rebate offers, coupons, hotel reservations, and free air flight miles, not to mention use at grocery stores and the U.S. Postal Service, the average person has tough decisions to make regarding the wise use of credit.

Good Debt, Bad Debt

Credit itself is neither a positive nor a negative thing; it can either be used wisely or poorly. Unwise use of credit can lead to serious financial problems. Therefore, consider the advantages and disadvantages of credit transactions.

Some of the advantages of credit include:

- Helps improve one's general way of living
- Gives ability to take advantage of sales
- Enables the purchasing of large or expensive items and paying for them over time
- Replaces carrying large sums of cash
- Makes managing overall expenditures more effective
- Provides establishment of a credit rating
- Can help beat inflation
- Helps handle financial emergencies
- Provides method for keeping savings intact

Some disadvantages of credit include:

- Commits future earnings
- Provides a false sense of financial security
- Decreases cash savings
- May include paying finance charges and/or interest in addition to the cost of the product or service
- Promotes temptation to overspend
- Presents opportunity for credit cards to be lost or stolen

Keep Debt Low

Credit adds flexibility to your financial planning and allows you to have the things you need and want by buying now and paying later. It allows you to buy big-ticket items like a car or a house more easily. When treated as a privilege, credit can help you have and enjoy more. However, you need to control credit or it can control you!

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

- **Reduce interest** – by requesting an interest reduction, transferring balances, or using a home equity loan

- **Shorten repayment period** – by increasing your monthly payments

- **Aggressively pay most expensive debt** – by reviewing finance charges and annual fees and sending excess income to the most expensive account

Review Your Credit Report

If you've ever applied for a credit card, a personal loan, or insurance, there's a file about you. This file contains information on where you work and live, how you pay your bills, and whether you've been sued, arrested, or filed for bankruptcy.

Companies that gather and sell this information are called Consumer Reporting Agencies (CRAs). The most common type of CRA is the credit bureau. The information CRAs sell about you to creditors, employers, insurers, and other businesses is called a consumer report.

Fair Credit Reporting Act (FCRA)

The FCRA is designed to promote accuracy and to ensure the privacy of information used in consumer reports. Businesses that supply information about you to CRAs and those that use consumer reports have responsibilities under the law.

Here are some questions consumers commonly ask about consumer reports and CRAs—and the answers.

Q. How do I find the CRA that has my report?

A. Contact the CRAs listed in the Yellow Pages under "credit" or "credit rating and reporting." Because more than one CRA may have a file on you, call each until you have located all the agencies maintaining your file. The three major credit bureaus are:

Experian	**Equifax**	**TransUnion**
PO Box 2002	PO Box 740241	PO Box 1000
Allen, TX 75013	Atlanta, GA 30374-0241	Chester, PA 19022
1-888-397-3742	1-800-685-1111	1-800-916-8800

In addition, anyone who takes action against you in response to a report supplied by a CRA—such as denying your application for credit, insurance, or employment—must give you the name, address, and telephone number of the CRA that provided the report.

Q. Do I have a right to know what's in my report?

A. Yes, if you ask for it. The CRA must tell you everything in your report, including medical information, and in most cases, the sources of the information. The CRA also must give you a list of everyone who has requested your report within the past year—two years for employment related requests.

Q. Is there a charge for my report?

A. Sometimes. There's no charge if a company takes adverse action against you, such as denying your application for credit, insurance, or employment. You must request your report within 60 days of receiving the notice of the action. The notice will give you the name, address, and phone number of the CRA. In addition, you're entitled to one free report a year if you certify in writing that (1) you're unemployed and plan to look for a job within 60 days, (2) you're on welfare, or (3) your report is inaccurate because of fraud. Otherwise, a CRA may charge you for a copy of your report.

Even if you have not been denied credit, you may want to find out what information is in your credit report. Some financial advisors suggest that you review your credit report periodically for inaccuracies or omissions. This could be especially important if you're considering a major purchase, such as buying a home or a car. Checking in advance on the accuracy of the information in your credit report could speed the credit-granting process.

Q. What type of information do credit bureaus collect and sell?

A. Credit Bureaus collect and sell four basic types of information. Identification and employment information, your name, birth date, Social Security number, employer, and spouse's name are routinely noted. The CRA also may provide information about your employment history, home ownership, income, and previous address, if a creditor requests this type of information.

Payment History - Your accounts with different creditors are listed, showing how much credit has been extended and whether you've paid on time. Related events, such as referral of an overdue account to a collection agency, may also be noted.

Inquiries - CRAs must maintain a record of all creditors who have asked for your credit history within the past year, and a record of those persons or businesses requesting your credit history for employment purposes for the past two years.

Public Record Information - Events that are a matter of public record, such as bankruptcies, foreclosures, or tax liens, may appear in your report.

It is recommended that you review your credit report at least once every year.

Handling Debt Problems

Are you having trouble paying your bills? Are you getting dunning notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is having financial difficulty, consider these options: realistic budgeting, credit counseling, or debt consolidation. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

Developing a Budget

The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses—those that are the same each month—such as your mortgage payments or your rent, car payments, or insurance premiums. Next, list the expenses that vary, such as entertainment, recreation, or clothing. Writing down all your expenses—even those that seem insignificant—is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education.

Contacting Your Creditors

Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

If you are having financial difficulty and need a change in payment terms, use the letter in Figure 5 to communicate with creditors.

Dealing with Debt Collectors

The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to stop further contact.

Credit Counseling

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for—or use—any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take you to complete the plan. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You are still responsible for paying any creditors whose debts are not included in the plan. You are responsible for reviewing monthly statements from your creditors to make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

A debt repayment plan does not erase your negative credit history. Accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been late or missed altogether, or that there are write-offs or other concessions. A demonstrated pattern of timely payments, however, will help you get credit in the future.

Auto and Home Loans

Debt repayment plans usually cover unsecured debt. Your auto and home loan, which are considered secured debt, may not be included. You must continue to make payments to these creditors directly. However, there are some companies that do include secured debt in debt repayment plans. So, do your research.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt. You would avoid the added costs of repossession and a negative entry on your credit report.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. Ask whether additional fees would be assessed for these changes, and calculate how much they total in the long run.

Debt Consolidation

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before taking this on. These loans require your home as collateral. If you can't make the payments—or if the payments are late—you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

HOME SWEET HOME

The American Dream

If you're like most Americans, owning your own home is a major part of the American dream. It is a symbol that you've made it - that your life is secure. Home ownership is a big responsibility, one that you will need to accept for many years to come. Yet, it's worth the effort. Most people rate a home purchase as their best long-term investment.

Buying a home is also the largest purchase most people will ever make. Finding and financing a home brings complex decisions to make and great satisfaction.

Advantages

Saving for a home purchase takes commitment, research, and sacrifice. It is an emotional time for the homebuyer who will experience excitement, pride, achievement, fulfillment, and independence. The advantages of owning your own home are well documented. You:

- Build equity (or ownership) in property, which you may sell at a profit
- Can deduct mortgage interest and property taxes on your tax return
- Are protected against rent increases (though not property tax increases)

- Can rent your property to produce income
- Can often get more living space for less money
- Can borrow against home equity

So where do you start? Set goals and budget to save the money needed to achieve your American dream.

Budgeting and Goal Setting

Managing your money will always be a lifetime project. It becomes even more important as you prepare to buy a house. Buying a house takes a lot of energy and preparation and organization can help make the process go smoothly.

How Much Can I Afford?

You will have some idea of how much money you can afford as a house payment based upon what you are paying now for rent or your current mortgage payment. While you may be able to get a large loan, make sure the monthly payments fit into your spending plan and you don't become "house-poor." Lenders will qualify you based on your gross (pre-tax) income, but you have to make the mortgage from your net (after-tax) income!

Qualifying Ratios

As part of the qualifying process, the lender will use ratio calculations to determine whether you have adequate stable income to support the monthly mortgage payments. These calculations are often referred to as debt-to-income ratios. There are two ratio calculations performed by the lender: the housing debt-to-income ratio and the total monthly debt-to-income ratio.

Lenders usually assume you can afford to spend 28% of your total income on your mortgage (principal and interest), property taxes, and homeowners insurance. But even if you meet this test, you can still be turned down if your mortgage expenses and other regular debt payments such as auto and student loans are more than 36% of your total income.

Calculate your ratios.

- **Housing Ratio** – The following work chart will determine the monthly mortgage payments (including insurance and property taxes) you can afford.

Total Gross Monthly Income	$
Qualifying Percentage	X .28
Monthly Amount You Can Afford to Pay	= $

Lenders assume that 15% of the monthly amount you can afford will cover taxes and insurance. In areas of high property taxes, you'll have less available for the mortgage itself – so you will qualify for a less expensive house.

- **Debt Ratio** – Lenders want to make sure that you can keep up all your regular monthly payments – insurance, loan repayments – in addition to the mortgage. So they impose a second qualification using the following formula:

Total Gross Monthly Income	$
Qualifying Percentage	X .36
Total for Regular Monthly Debt Payments	= $

The amount of the loan you can actually qualify for is based on the value of the property and the interest rate, along with your credit standing, annual income and net worth.

You can use the following chart for a quick calculation of the housing ratio:

QUICK CALCULATION EXERCISE		
Gross Annual Income	**Gross Monthly Income**	**28% Available for Housing**
$15,000	$1,250	$350
$20,000	$1,667	$467
$25,000	$2,083	$583
$30,000	$2,500	$700
$35,000	$2,917	$817
$40,000	$3,333	$933
$45,000	$3,750	$1,050
$50,000	$4,167	$1,167

How Much House Can I Buy?

Knowing how much you can afford as a monthly mortgage payment is an important starting point because it allows you to estimate how much house you can buy.

Use the following chart to calculate monthly principal and interest payments.

Interest Rate	Interest Rate Factor (Per $1000 financed for 30 years)
6%	$6.00
7%	$6.66
8%	$7.34
9%	$8.05
10%	$8.78
11%	$9.53
12%	$10.29
13%	$11.07
14%	$11.87

To do this, find the interest rate you'd pay, then locate the corresponding interest rate factor on the right. Multiply this factor times the number of thousands of dollars you are considering borrowing.

For example, principal and interest on a $100,000 loan at 10 percent interest would be calculated like this:

$8.78	x	100	=	$878.00
10% interest factor		loan amount in thousands		monthly payment

To arrive at the rest of the monthly payment, take 1/12 of the annual taxes and insurance and add it to the monthly principal and interest. That will equal the total monthly payment: principal, interest, taxes and insurance (often referred to as PITI).

If you will incur other monthly costs, such as homeowner's association dues or Private Mortgage Insurance (PMI), add these to your monthly payment.

INVEST FOR YOUR FUTURE

Once you have your emergency savings account funded you will begin to diversify your savings through other types of investments. A plethora of investment options are available to you. You can invest directly in stocks and bonds. You can keep your money in cash. You can invest in mutual funds, IRAs, and annuities. Which one will be best for you? Start by evaluating your feelings about risk and reward.

Risk and Reward

Which investments you choose will be based on a number of factors including your goals, your tolerance to risk, the risk of the investment, and what life stage you are in.

How you feel about risking your money will drive many of your investment decisions. The risk-comfort scale extends from very conservative (you don't want to risk losing a penny regardless of how little your money earns) to very aggressive (you're willing to risk much of your money for the possibility that it will grow tremendously). Most investors' tolerance for risk falls somewhere in between.

Risk is not a technical issue. It's an emotional one. There is no formula to use to calculate your risk tolerance. You have to take a realistic look at yourself. If you wake up one morning to find your portfolio down 10%, will this be a gut-wrenching experience? Will you lose sleep the next night as a result? If so, you might need a different mix of investments with less in riskier investments and more in stable ones. On the other hand, if an overnight drop of 10% in your investment portfolio is tolerable because it's in your range of expectations, you probably have the right mix.

What type of investor are you? To plan your financial future, think of your investment plan as building a sturdy pyramid. This pyramid reflects the risk/reward characteristics of various types of investments. In general, an investment that is higher on the pyramid provides the potential for greater returns and also involves a higher degree of risk. Your rewards may be impressive, but your losses could be equally spectacular.

On the other hand, investments that are closer to the pyramid's base may provide lower returns, but they also entail lower levels of risk. Although you may not make a killing with guaranteed investments like annuities and certificates of deposit (CDs), the risk of losing money is also much lower.

The following chart shows risk/reward levels as they relate to personal goals and types of investments that might be considered at various levels.

If You Are…	**Higher Risk-Higher Return Potential**	**Consider…**
Planning far ahead for financial goals. Willing to accept greater risk for potentially higher rewards.		International Stock Funds Specialized Stock Funds
Planning ahead for financial milestones and goals.		Growth Stock Funds Value Stock Funds
Getting closer to goals, but still need some accumulation.		Bond/Income Funds Balanced/Hybrid Funds
Being careful about conserving assets and your goals are near term.		Savings U.S. Treasuries Money Market Funds
	Lower Risk-Lower Return Potential	

Making the Investment Choice

There are a wide variety of investment vehicles available to the individual investor. You could invest in different assets like undeveloped land, residential rental property, business property, commodities, gold and other precious metals, art, your family's business, and so on. However, investing is often about owning publicly traded securities like stocks, bonds, money market instruments, or mutual funds that hold such investments.

Stocks

When you buy a stock, you buy part of a company. Stock is often called equity because the word means "ownership." If the company you own does well, you receive dividends, which are your part of the profits. And if the share price goes up, you can sell your stock at a profit. If the company doesn't do well, you could lose some or all of your money. The advantages of investing in stocks include higher potential returns over time than most investments offer and returns that historically have outpaced inflation.

Bonds

Bonds are loans you make to corporations or governments. Unlike buying stocks (also called *equity* securities), which makes you a part owner in a company, buying bonds (or *debt* securities) makes you a creditor. Bonds are called fixed-income securities because they pay a specified amount of interest on a regular basis. A bond is basically an IOU that says if you buy a bond with stated face value (usually $1,000), the issuing company or authority will pay you a set amount of interest twice a year and the face value at maturity – that is, the date on which the bondholder is repaid.

Fixed-income investments offer a steady income stream and historically less volatile price fluctuations than equity investments. But, fixed-income investments aren't without risk. Sometimes, a bond issuer, for example, can run into financial difficulties, default on its bonds, and not be able to return the money you invested. And bond prices do move up and down, largely in reaction to interest rate swings. So investors in bonds or bond mutual funds can't rule out the possibility of losing principal.

Cash

Cash is usually the third major category of investment securities. Investments in cash vehicles are kinds of liquid investments that can help you achieve your short-term or savings goals. These investments can include passbook, or regular savings accounts, money market deposit accounts, CDs, money market mutual fund accounts, U.S. Savings Bonds, or U.S. Treasury Bills. Many financial institutions offer an assortment of these convenient places to park your funds in interest-bearing accounts. Your principal is relatively secure and interest should flow steadily. An investor in high-quality money market securities has a very low risk of losing principal. The downside is comparatively low-return potential compared to bonds and stocks.

Mutual Funds

Today, instead of investing in individual stocks or bonds, many investors buy shares in professionally managed mutual funds. A mutual fund is an investment company that enables its shareholders to pool their funds as a single investment account using professional management.

When you buy shares of a mutual fund, the portfolio manger pools your money with the money of all other investors to buy and sell securities for the group. By placing money in a mutual fund, rather than an individual stock and/or bond, you become part of a multimillion-dollar organization. This gives you more clout in the marketplace and an edge over the small, individual investor. You also receive professional management, reduced brokerage fees and a greater diversification than most small investors can afford.

You can choose from thousands of stock, bond, balanced (stocks and bonds) and money market mutual funds. Each fund is managed toward a particular investment objective, such as growth, income, or asset preservation. The mutual fund’s prospectus will explain the fund’s investment objective and tell you what securities the fund holds.

Retirement Savings Plans

A convenient way to prepare for retirement is to invest in retirement savings plans that are available to you.

401(k) and 403(b) Plans

For simplicity, convenience, and tax savings, it’s hard to find a better deal than a 401(k), or a 403(b) in government and tax-exempt organizations.

A 401(k) is a retirement plan that allows you to make deductible contributions that will grow tax-deferred until you withdraw them. If your employer offers a 401(k) salary deferral plan, take full advantage of it. With a 401(k) plan, you contribute part of your pay to a retirement plan account set up just for you. IRS and plan limits may apply to the amount you may contribute. You don’t pay taxes on the amount you contribute or on the investment earnings in your plan account until you withdraw funds from the plan. If your employer matches any of your contributions, this is an added tax-deferred benefit.

The amount you contribute is not reported on your W-2 to the IRS, reducing your taxable income for the year. For example, if you contributed, $4,000 of your $60,000 salary to a 401(k) plan, only $56,000 would be reported as income.

Also, you may receive periodic statements showing the amounts you have in each investment option and how each one performed. It will also show your contributions and any matching contributions made by your company.

Individual Retirement Accounts (IRA)

A convenient way to prepare for retirement is to invest in an IRA. You can make periodic deposits, and your earnings aren't taxed until you make withdrawals, so your money grows faster.

IRAs were established by the Federal government in 1981 as an inducement for people to save money for retirement. The concept was relatively simple: individuals with income from employment could deposit up to 10% of their earnings (to a specified limit) each year into a special account set up by banks, brokerages, or mutual funds.

IRAs are self-directed, which means you choose how the money is invested – CDs, stocks, bonds or mutual funds, for example. Under certain circumstances, your IRA contribution may be deductible on your tax return.

Roth IRA

Another IRA option is the Roth IRA. Contributions are not deductible, but if the account is open for at least five tax years, withdrawals of original contributions and investment earnings are tax-free if you are at least 59 ½, become disabled, or withdraw up to $10,000 for first-time home buying expenses.

Annuities

Under an annuity contract, you make an up-front payment – or series of payments – in return for a stream of income in the future, often at retirement. What's more, your earnings are tax-deferred until you take the money out. But annuities are not simple, and they're not for everybody.

The earlier you start saving, the more you will benefit from compounding interest. This is the interest earned on interest payments already built up in an investment fund. The earlier you begin, the larger your nest egg will grow.

Here's an example of two friends, Grace and Drew, who had different savings strategies. Grace saved $1,000 a year for 10 years, starting at age 25. Drew saved $1,000 a year for 25 years, starting at age 40. Both earned the same 8 percent return.

Who ended up with more money at age 65? It had to be Drew, right? Wrong. Grace benefited from her head start and the power of compounding. Here's the breakdown:

Grace	**Drew**
Began saving at 25	Began saving at 40
Saved for 10 years	Saved for 25 years
Age now is 65	Age now is 65
Total saved: $10,000	Total saved: $25,000
Savings grew to $157,435.17	Savings grew to $78,954.42
Totals assume $1,000 savings is made at the beginning of each year.	

TAKE ADVANTAGE OF TAX ADVANTAGES

There isn't much you can do to avoid taxes altogether. But you can take advantage of a number of strategies to pay less tax. Tax-deferred and tax-free investments, year-end tax planning, and taking full advantage of the tax laws can all save you money on April 15th.

Tax-Free

Tax-free means that no tax is due. Most tax-free income is interest income paid on certain types of bonds.

Tax-deferred

Tax-deferred means you don't owe tax on your earnings now, usually because you don't have the use of the money. Tax-deferred investments include money in 401(k), 403(b), and other qualified retirement plans, as well as IRAs and certain annuities. But, you will be taxed when you withdraw the money. In theory, your tax rate will be lower in later years, so you'll owe less.

You can also defer taxes on investments that appreciate in value, as long as you hold onto them. For example, if you buy a stock for $5 a share and it goes up to $50 a share, you don't owe any tax on your "paper profit" until you sell.

Selling Securities

You can avoid taxes on some or all of your capital gains by selling securities on which you are losing money, especially if you think they're not worth holding on to. That's because you can usually offset some investment earnings by subtracting losses from gains.

Home Equity Loans

Since interest on many home equity loans is deductible, while interest on consumer loans and credit cards is not, it may pay to use your home equity credit if you need to borrow money. The danger is that you may owe more than you can comfortably repay.

Paying Expenses with Pre-Tax Dollars

Many employers offer flexible spending plans that let you exclude a fixed dollar amount from your salary to pay certain medical and dependent care expenses. Under these plans, you pay the expenses and are then reimbursed from your flexible spending account. Since the money is not included in your salary for tax purposes, you pay less tax.

Giving to Charity

If you itemize on your tax return, you can deduct charitable contributions, both cash and non-cash. Instead of having a yard sale to generate cash, you can contribute your goods to an organization like Goodwill or the Salvation Army. The IRS is generous in estimating the amount you can deduct for specific items. Also, if you make a contribution of stocks or other securities that have appreciated, or increased in value, you can get the same deduction as you would for giving cash, but you avoid the capital gains tax.

Some of these strategies may not be ones that you can implement. Consult your tax professional to determine if other tax-saving options are available to you.

INSURANCE

Along with your emergency savings account, insurance is a key component to building a strong financial foundation. An emergency fund normally can't prepare you for a catastrophic loss or illness. For these costly emergencies, people usually buy insurance.

A key to financial freedom is to review your insurance coverage. Are there gaps that need to be filled? What do you own of measurable value that can't be easily or economically replaced without insurance? Is there coverage that you can safely drop? Review the potential damage from being underinsured. And review the impact on lost investments as a result of paying for non-productive insurance.

What follows is a list of the most common types of personal insurance. Use the checklist at the end of the section to determine if you are comfortable with your current coverage or whether you need to review the coverage for possible changes.

Life Insurance

Life insurance can protect your family financially. It can also protect your estate by providing cash for your final expenses. Life insurance is designed to provide income for dependents, or other loved ones, should your death cause them financial hardship.

CONSIDER: Do you have too much life insurance? Do you have enough?

Health Insurance

Traditional health insurance is generally divided into two categories. Basic coverage pays all or part of specific hospital, surgical and physician charges. Major medical coverage picks up where basic coverage leaves off, providing coverage for more serious illnesses and injuries. Health Maintenance Organizations (HMOs) offer an alternative to traditional health insurance. With an HMO, you prepay a flat fee and then use the HMO for any medical services you may need.

CONSIDER: Do you and your spouse pay for family health insurance through your work? Is the annual amount that the secondary plan pays for deductibles and co-pays greater than the premiums you pay out of your pocket?

Auto Insurance

Auto insurance may pay for damages to your car and for injuries to you and your passengers. It protects you with coverage if an uninsured or underinsured driver hits you. And, it provides you with auto liability insurance, which will pay other people for injuries or damages for which you as a driver are held legally liable.

CONSIDER: Can you increase your deductible to reduce your premium? Do you have enough money in your emergency savings to cover the deductible in case of an accident? Is your car so old that collision coverage may not be necessary?

Disability Insurance

Disability insurance provides income to replace part of the income you may lose if an accident or illness leaves you disabled. When you buy the policy, you choose the length of coverage you want. Some policies will provide income for just a few weeks; others will provide income for a lifetime.

CONSIDER: Do you have disability insurance through your employer? Is it short-term or long-term disability coverage? Do you have money in your emergency savings to pay your expenses during a short-term disability?

Homeowners Insurance

Homeowners insurance pays for damage to or loss of your home and your belongings. It also provides liability insurance, which will pay other people for injuries or damages for which you are held legally liable.

CONSIDER: Do you have enough coverage? Does it offer replacement coverage; that is, in case of loss will the policy pay enough to replace the item at current value or will it reimburse you for the original purchase price?

Renters Insurance

Renters insurance pays for damage or loss of your covered belongings while you're renting a home or apartment. Renters insurance also provides liability insurance, which will pay other people for injuries or damages for which you are held legally liable.

CONSIDER: If you rent, do you have insurance to protect your personal belongings?

Long Term Care

Long-term care insurance pays for nursing homes, home health care, or other services for seniors or people with disabling conditions. It is designed for people with assets they want to protect from potentially high costs of such care.

CONSIDER: Have you reviewed your future health insurance needs?

Umbrella (Personal Liability Insurance)

Some people, especially those with significant assets, may feel they need greater protection in case they are sued. Many purchase supplemental protection in the form of a personal umbrella liability policy. This coverage supplements the liability insurance they carry under their auto or dwelling policies.

CONSIDER: Is this coverage something you need?

INSURANCE CHECKLIST		
Policy Type	**Need to Review**	**Date Reviewed**
Life		
Health		
Auto		
Disability		
Homeowners		
Renters		
Long Term Care		
Umbrella		

KEEP GOOD RECORDS – A MUST!

Keeping good records is always a good idea. Creating and maintaining a system that works best for you will make your job of managing your financial life easier and more efficient. Write things down, keep necessary records, discard unnecessary items, and do it on an ongoing basis to keep things in order. Not only will such practices benefit you now, but it will also benefit those who will manage your affairs when you are gone.

Home Files

The purpose of a home filing system is to maximize the organization of your financial records. It doesn't need to be an elaborate or expensive system. Instead it should be simple, convenient, and organized.

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

The following information should be in your home filing system:

- Information on credit cards, debit cards, checking accounts, savings accounts, other savings investments and copies of contracts
- Copies of insurance policies
- Information on home mortgages, land and other property, including burial plots

- Information on motor vehicles and drivers licenses
- Copies of birth, marriage, death, divorce, and citizenship papers
- Copy of will, last instructions, and location of safe deposit box keys
- Tax records for last six years
- Records of pension plans, education, health records, and employment
- Current household inventory; list everything you own, what the cost is, and approximately how old it is. Add pictures or a video of rooms/major items, and keep all receipts.
- Copies of all warranties and guarantees
- List of financial advisors
- Annual net worth statement

Write a Financial Plan

A financial plan is a blueprint that evaluates your current assets and debts, identifies the things you want or need to provide for, and lays out a strategy to pay for them. Developing the plan is one thing; sticking to it is another. All of what was discussed in this booklet is included in a financial plan.

Financial planning is directed at the future. The idea is to evaluate your current financial situation, estimate the cost of life-long goals and establish strategies to meet them. Without planning, you run certain financial risks. For example, you may not have enough in reserve to meet large costs, such as college tuition or a down payment on a home, or you may have to scale back expected vacations and special purchases. A successful plan can:

- Beat inflation
- Minimize taxes
- Manage the unexpected
- Provide money for special expenses
- Enrich your retirement

The financial planning process includes the following steps:

1. Examining your current situation and understanding your needs
2. Gathering information
3. Setting your objectives
    a. Gaining wealth
    b. Providing protection
    c. Minimizing taxes
    d. Preserving wealth
4. Developing a plan

5. Proposing solutions
6. Implementing the plan
7. Reviewing the plan and repeating the process

You can do your own financial planning or you can use the services of a professional. Your financial plan should be updated periodically, especially if there is a major change in your family or financial situation. Major changes in the economy, such as the rise and fall of interest rates, or new tax laws, should also trigger a review.

Letter of Last Instruction

A letter of last instruction is a valuable document that you can write to assist your heirs. The idea is to put together a road map that will allow your family to take over your finances and ensure that your wishes are carried out. There is an additional benefit to writing a letter of last instruction – it forces you to organize your affairs.

The letter should include a financial inventory that lists your investments, bank accounts, credit cards, insurance policies and brokerage accounts, as well as names of your lawyer, accountant, broker, and insurance agent. Your financial inventory should also detail company benefits you are entitled to and specify the location of items such as your safe deposit box, tax returns, stock certificates, and your will and other estate planning documents. Your letter of last instruction might discuss burial arrangements and other wishes.

The Financial Inventory can be found in Figure 5.

A Will

Part of financial planning should include a strategy to protect your assets for your family and heirs. One of the simplest strategies is to make a will. A will is a legal document that transfers what you own to your beneficiaries when you die. It also names the people, called executors, whom you want to carry out your wishes.

You should make a will as soon as you have sizeable assets, get married, or certainly by the time you have children. A will clarifies your intent and may save your heirs hefty legal and court fees.

GOOD ADVICE

As you go forward and follow the steps to financial freedom, keep a few things in mind.

First, learn as much as you can on your own. Learning is lifelong and you will be faced with financial issues throughout your life. Learn all that you can about your personal financial issues.

Second, communicate with family members. Include your family in the financial planning effort. You will learn from them and teach at the same time.

Third, be smart and seek guidance from professional financial experts as needed.

Fourth, use all of the available resources that you have at your disposal. Books, newspapers, magazines, the internet, and libraries are great sources of personal financial information that you can use to enhance your financial knowledge.

Finally, have some fun. Believe it or not, personal finance can be fun.

FIGURE 1

How Do You Manage Your Money?

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

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

Always _____	Sometimes _____	Never _____

2. I save 10 percent of my net income.

Always _____	Sometimes _____	Never _____

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

Always _____	Sometimes _____	Never _____

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

Always _____	Sometimes _____	Never _____

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

Always _____	Sometimes _____	Never _____

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

Always _____	Sometimes _____	Never _____

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

Always _____	Sometimes _____	Never _____

8. I keep track of my daily expenses.

Always _____	Sometimes _____	Never _____

9. I balance my checkbook every month.

Always _____	Sometimes _____	Never _____

10. I check my credit report at least once a year.

Always _____	Sometimes _____	Never _____

Scoring

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

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

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

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

FIGURE 2

Net Worth Statement

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

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

FIGURE 3

Setting Goals

Goal	Short-, Mid-, or Long-Term	Total Amount Needed	Number of Months Until Goal is Reached	Amount to Save Each Month

FIGURE 4

Annual Budget

Per Month

Sources of Income	Monthly Amount (Net)
Employment (Primary)	$
Employment (Spouse)	$
Social Security	$
Pension	$
Alimony or Child Support	$
Commissions	$
Other	$
Other	$
TOTAL MONTHLY INCOME	$

Summary of Expenses	Monthly Amount
Housing	
Mortgage	$
2^{nd} Mortgage	$
Home Equity Loan/Line	$
Rent	$
Property Taxes	$
Condominium Fee	$
Homeowners/Renters Insurance	$
House Repairs/Maintenance	$
Gardening/Pool Service	$
Other	$
Other	$
Total Housing	**$**

Utilities	
Gas	$
Oil	$
Propane	$
Electricity	$
Water/Sewer	$
Trash Removal	$
Telephone	$
Cell Phone	$

Other	$
Total Utilities	**$**

Food	
Groceries	$
Eating Out Lunch	$
Dining Out	$
Coffee/Snacks	$
Kids Lunch Money	$
Other	$
Total Food	**$**

Transportation	
Auto Payment 1	$
Auto Payment 2	$
Auto Payment 3	$
Gasoline	$
Insurance	$
Parking Fees/Tolls	$
Auto Registration/Plates	$
Public Transportation	$
Car Repairs/Maintenance	$
Other	$
Total Transportation	**$**

Health Care	
Health Insurance	$
Prescriptions	$
Co-pay/Deductibles	$
Other	$
Total Health Care	**$**

Education Expenses	
Tuition	$
Books	$
Student Loans	$
Room/Board	$
Day Care	$
Newspapers/Magazines	$
Other	$
Total Education	**$**

Clothing	
Purchases	$
Laundry	$
Dry Cleaning	$
Repairs	$
Other	$
Total Clothing	**$**

Personal Care	
Beauty Salon/Hair Cuts	$
Cosmetics	$
Manicure/Pedicure	$
Toiletries	$
Other	$
Total Personal Care	$

Entertainment	
Cable	$
Movies	$
Music	$
Sports	$
Hobbies	$
Internet	$
Other	$
Other	$
Total Entertainment	**$**

Pets	
Food	$
Vet	$
Insurance	$
Grooming	$
Other	$
Total Pets	**$**

Other	
Tobacco	$
Alcohol	$
Religion	$
Charity	$
Lottery	$
Vacation	$
Gifts	$
Other	$
Other	$
Other	$
Other	$
Total Other	**$**

Credit Cards	
#1	$
#2	$
#3	$
#4	$
#5	$
Total Credit Cards	**$**

Savings	
Emergency Savings Account	$
Other	$
Other	$
Total Savings	**$**
TOTAL MONTHLY EXPENSES	**$**

SUMMARY	
Total Monthly Income	$
Less - Total Monthly Expenses	$
Monthly Surplus (Deficit)	$

FIGURE 5

Tough-Times Letter to Creditors

Your Address
Date letter was written

Creditor Name
Address

SAMPLE

RE: **Account Number**

Dear **(Creditor Name)**:

I am writing this letter to request a temporary change in the repayment terms of my account. Since I have become unemployed, I have had to make some financial adjustments.

I do have some income from (unemployment, spouse's employment, severance, etc.). However, when I carefully examined my financial situation and made a strict budget for my basic expenses, it also became necessary to ask each of my creditors to accept reduced payments for ______ number of months.

I would appreciate your cooperation in making this payment plan work. In place of my regular monthly payments of $ ___________ due on the __________, I am requesting that you accept payments of $ ___________ paid on the ___________. I assure you that I will add no further debt until my financial situation improves.

I will begin making normal payments again as soon as possible. I regret that I have to ask for this consideration and hope that you will understand. When there is a change in my situation, I will notify you immediately and in any event, I will re-contact you in 60 days.

Your understanding during this difficult time is most appreciated.

Sincerely,

(signature)

Name Printed

FIGURE 6

Financial Inventory

1. Personal Information & Documents

Family Member	Date of Birth	Social Security #

Document	Location
Birth certificate	
Marriage license	
Passport	
Vaccination records	
Military discharge papers	
Divorce decree	
Power of Attorney	
Other	

2. Safe Deposit Boxes

Depository address	Owner	Person with Power of Attorney	Contents
Box #1			
Box #2			

3. Bank Accounts

Bank Name & Address	Account Type	Account #	Location of Bank Records

4. Investments

Type (Stock, bond, mutual fund, etc.)	Account #	Number of Shares	Location of Account Statements

5. Employee Savings, Retirement or Stock Plans

Employer	Type of Plan	Value	Date of Valuation	Beneficiary

6. Real Estate Records

Property Address & Description	Location of Deed	Location of Property Tax Receipts	Name/Address of Mortgage Lender

7. Children’s Accounts and Trusts

Child’s Name	Type of Account or Trust	Where Funds are Invested	Name &Address of Custodian or Trustee	Value

8. Life Insurance

Insurance Co.	Policy #	Face Value	Beneficiaries	Location of Policy

9. Health Insurance

Insurance Co.	Policy #	Type of Coverage	Location of Policy

10. Casualty Insurance (Homeowner’s or renter’s, auto, etc.)

Insurance Co.	Policy #	Type of Coverage	Policy Limits	Agent and Phone #

11. Income Tax Records

Return and Documents	Location
Current Year	
Last Year	
Prior Years	

12. Credit Cards and Loans

Type of Card or Loan	Issuer or Lender	Account #	Location of Statements

13. Will

Lawyer Name, Address and Phone #	Executor Name, Address and Phone #	Location of Will

14. Burial Plot

Cemetery	Location of Deed and Burial Instructions

15. Advisers

Type	Name	Address	Phone #
Lawyer			
Stockbroker			
Tax Preparer			
Life Insurance Agent			
Financial Planner			
Other			

16. Additional Remarks

Attach an additional page here outlining any instructions that might be helpful to someone taking over your affairs.

Produced by:

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