

## Money Management Basics

The feeling that you have control over your finances is one of the greatest satisfactions you can have in life. On the other hand, worrying about digging your way out of debt, or where to find the money to cope with emergencies or even major anticipated expenses such as college tuition, can add a tremendous level of stress to everyday life.

Controlling your financial situation requires careful planning, realistic budgeting and use of money management techniques that anyone can learn. Knowing how to handle money properly—and developing the discipline you need to do it well—can benefit you and your family tremendously. To help you on your way, The Foundation for Credit Education Consumer Information Bank offers you the following step-by-step guide to Money Management Basics.

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## How To Take Control of Your Finances

### Most People Need To Brush Up Their Budgeting Skills

Although many of us assume we know the basics of managing money, statistics suggest otherwise. With personal bankruptcies increasing and the amount of consumer debt skyrocketing, the vast majority of Americans still have more than a few things to learn about handling family finances.

See how many of the questions below you can answer. To determine the correct answers and get expert tips for managing your family's finances, browse through the rest of the Money Management Basics section. You'll also find helpful online interactive calculators and several printable budgeting forms for keeping track of your income and expenses.

When you're finished, try this quiz again and pat yourself on the back for polishing your budgeting know-how. To tell us how you scored and how you improved on the second try, contact us. We welcome your comments and suggestions.

1. What should generally be the first step in family budgeting?
2. What is the key to controlling expenses?
3. What are the three major categories of expenses and which ones can you reduce most easily?
4. How do you go about setting goals?
5. How does the The Twenty Percent Rule work in determining your "reasonable" level of debt?
6. What are the warning signs of a credit crisis?
7. Name five simple ways to enhance your savings.
8. What are the three basic rules of family budgeting?
9. If you're in over your head, where can you get help in solving your debt problems?

### Plan For The Future

Gaining control over your personal finances is a major accomplishment that will give you and your entire family more confidence about the future. Careful planning and applying wise money management techniques can help you live within your means, reduce debt, handle emergencies and save for the future.

## Assess Your Financial Situation

### Determine Monthly Income

For most families, the first step in budgeting is to determine a realistic picture of your net income. This means you must figure in gross income (the sum of all regular and periodic income your family receives) and all deductions. Your gross income, minus your deductions, equals your net income.

Use the “Monthly Income Worksheets” (see page 9) and complete, according to the following instructions. (The interactive calculators on this Web site are also useful tools.)

#### A. Figure Your Gross Income

List each household member’s regular earned monthly income. Include full, part-time and self-employment income, as well as tips and overtime. Be sure to indicate the total income figures received before deductions are taken. If you are paid by the week, multiply your weekly gross pay by 4.3 to determine monthly income. Multiply by 2.2 if you are paid every two weeks.

List monthly income that comes from sources other than employment, such as Aid for Dependent Children, maintenance, Social Security, child support, disability, etc.

List sporadic income such as bonus checks, income-tax refunds, etc., (divided into monthly portions) under “other” income category.

The sum of your regular, sporadic and “other” monthly income is your total gross monthly income.

#### B. Determine Your Deductions

List all monthly deductions from each source of income. Typically, deductions include such items as FICA, taxes, insurance, savings, pension and union dues. Determine total monthly deductions by adding up columns, down and across.

#### C. Calculate Your Net Income

Subtract monthly deductions from your monthly gross income. This is your monthly net income.

### Examine Your Expenses

To control your expenses, you need to track them and identify appropriate ways to reduce them when necessary.

### Keep Careful Records To Track Expenses Realistically

To track your monthly expenses accurately, be sure to keep your checkbook register up-to-date, write down out-of-pocket expenditures, track credit card purchases and maintain a well-organized filing system.

To evaluate your family's out-of-pocket cash spending, have each household member track purchases for three months. A small personal notebook is a good place for each person to record out-of-pocket spending when it takes place. The record should include information such as the date, item purchased and price. You also may want to include categories, such as snacks, parking and entertainment.

For credit card purchases, keep a small notebook and write down the item purchased, the date and the amount charged to every credit card. Keep your credit card receipts and verify them against your monthly statement, similar to balancing your checkbook. Be sure you have a repayment plan in mind that will work with your budgeting needs and goals.

### List Credit Obligations

Print out the worksheet here and keep a detailed list of your consumer debts, including all types of loans, credit cards and credit lines.

### Monitoring Monthly Expenses

Start thinking about every expense in terms of its relative importance and how it might be reduced. Familiarize yourself with the difference between fixed, variable and periodic expenses and how to best keep them under control.

**Fixed expenses** remain the same from month to month and are often the most difficult type to reduce. Examples of fixed expenses are house and car payments. Although a 30-year mortgage cannot be altered easily, some fixed expenses, such as cable TV, can be eliminated altogether.

**Variable expenses** vary from week to week or month to month. These often are the simplest to reduce. Examples of variable expenses are utility charges, grocers, telephone fees and household products.

**Periodic expenses** generally occur only once or twice a year and are therefore sometimes forgotten until they come due. Car repair and insurance, medications, gifts, doctor and dentist bills, appliance repairs, eyeglasses, clothing and home maintenance are all periodic expenses. Comparison shopping is the key to reducing variable and periodic expenses.

### Estimating Expenses

It's essential to track your spending carefully and look for places to cut back. By identifying and tracking spending, as well as planning ahead to reduce expenses, you can stay within your budget and improve your financial situation dramatically.

Begin by using the "Monthly Expenses Worksheets." Write out your estimated expenses for the upcoming month, thinking through your expected fixed, variable and periodic expenses. Then, begin recording your actual expenditures, as well as ideas for reducing them in the future.

## Establish Financial Goals For The Family

### Make Lists Together

Goal-setting should be a family affair. Sit down with the members of your household and discuss the family's financial goals together. Keep a list of short-range goals (within 12 months), mid-range goals (within 1-3 years) and long-range goals (within 3-5 years). Your written list should specify each goal individually, along with the date it will be needed, how much it will cost, how much has been saved to date and how much more will be needed per month to attain the goal.

Goal-setting is a terrific motivator and a great way to teach your children about money management.

## Create A Workable Household Budget

### Budgeting Is Key

Establishing a realistic household budget is the key to taking control of your finances and attaining your financial goals. Your budget should provide your family with a plan for saving toward goals, as well as spending. When you are determining your budget, be sure it will help you increase savings, repay debt, avoid impulse spending, make decisions about what you can afford and detect expenses that can be cut or eliminated.

### Managing Debt Within Your Budget

Debt management is often the most challenging part of budgeting. Credit cards and loans can be helpful in attaining financial needs. However, it's vital to understand the proper use of credit and to identify specifically how it can impact your budget, goals and savings.

### Enforce the 20 Percent Rule

A good rule of thumb for determining a reasonable level of debt is the 20 Percent Rule. This means you should make it a point to avoid committing more than 20 percent of your monthly net income to cover your total monthly payment for auto loans, credit card purchases, installment loans and personal loans. If you add in your rent or mortgage payment, your goal should be to stay under 40 percent of your monthly net income. To see whether you have an excessive level of debt, try the Debt-to-Income calculator.

### Know the Warning Signs of a Credit Crisis

- You are at or near the limit on your credit card(s).
- You charge more each month than you make in payments.
- You are consistently late with bill payments.
- You are working overtime to keep up with spending.

- You are using savings for daily expenses.
- You are making required monthly payments to your creditors totaling 20 percent or more of your monthly net income.
- You have recently been denied credit.
- You do not know how much debt you owe.
- You are using cash advances from credit card issuers to pay other creditors.
- You pay only the minimum amount due, or less, on your bills each month.
- You have defaulted on a mortgage or rent payment.
- You have paid a bill with a post-dated check.
- You have had a check returned for insufficient funds.
- You have seriously considered taking out a consolidation loan to pay off your credit cards.
- You have received a telephone call or letter about your delinquent accounts.
- You are facing creditor lawsuits, repossessions and/or garnishment of wages.

### Reduce Debt If Necessary

Review your debt inventory, monthly income and monthly expenses to decide if you need to reduce your level of debt in order to reach your long-term goals. Then, develop a personal plan for reducing your current debt load and avoiding excessive debt in the future.

### Save, Save, Save

Regular saving should be a basic component of any money management plan. Savings provide the means for managing normal financial obligations, meeting short-term and long-term goals, and preparing for retirement.

Try these tips to enhance your savings:

1. Develop and commit to a savings plan that includes savings for regular living expenses, short- and long-term goals, an emergency fund and retirement.
2. Each pay period, set aside budgeted amounts to meet your short- and long-term goals, as well as an emergency fund. As these funds build, consider putting some portion of them into the savings instruments that offer the highest rate of return. Be sure to consider other factors such as time requirements, penalties for early withdrawal and investment risk levels.
3. Each pay period, set aside any amount that you had budgeted for an expense but did not need to spend. For instance, you may have anticipated that \$40 would be needed to maintain your car, but only had to spend \$30. Take the “extra” \$10 and put it into your savings account.
4. If you shy away from figures, try the Envelope Method of setting aside savings.
5. Use the worksheet “Tracking Savings” to keep track of your savings.

## Take Control and Reach Your Goals--Together

To help assure success in your household, observe the three basic rules of family budgeting: communication, cooperation and control.

**Communication**—It's important that you discuss each person's needs and wants within a family. Children as well as adults should feel that they are a part of the plan. If everyone has a part in the budgeting process, the chances of developing and following a workable budget are much greater.

**Cooperation**--While compromise is often difficult, it's important to work together with your entire family in a financial partnership. Decisions about spending that were formerly made independently by one spouse or the other should be discussed jointly and mutually agreed upon.

**Control**—It's vital that each member of the household consider it his or her personal responsibility to exercise control and avoid unnecessary spending. Everyone faces opportunities to overspend daily. By encouraging each other to stick to the budget, family members are more apt to resist temptation and make better spending decisions. Remember, no single "budget formula" exists that will work for all households. Each family has its own needs and must make its own choices. The secret to budgeting successfully is to develop a plan that fits your family's unique circumstances--and then get everyone to follow it.

## Helpful Resources

In addition to the personal money management tools provided here (interactive Debt-to-Income Calculator and Monthly Budget Calculator, as well as printable worksheets), The Foundation for Credit Education offers a library of informative budgeting articles online, as indexed under Household Budget Tips.

For information regarding personalized budgeting and debt management assistance from certified credit counselors, visit [www.Repaydebt.org](http://www.Repaydebt.org).



## Monthly Income Worksheet

A. Gross Income	Income #1	Income #2	Income #3	Total
Wages/Salary				
Part-Time Work				
Self-Employment				
Bonus/Overtime/Tips				
Child Support				
Maintenance				
Rental Property				
AFDC				
Disability Compensation				
Unemployment Insurance				
Food Stamps				
Pension				
Social Security				
Interest/Dividends				
National Guard/Reserves				
Other				
<b>Total Monthly Gross Income</b>				

B. Deductions	Income #1	Income #2	Income #3	Total
Federal Taxes				
State Taxes				
Local Taxes				
Social Security (FICA)/ Medicare				
Child Support				
Medical Insurance				
Union Dues				
Savings				
Pension Plan				
Other				
<b>Total Monthly Deductions</b>				

C. Monthly Net Income	Income #1	Income #2	Income #3	Total
Total Monthly Gross Income				
Minus Total Monthly Deductions				
<b>Equals Monthly Net Income</b>				

## Monthly Expenses Worksheet (Page 1)

FIXED EXPENSES (Amounts Stay The Same Month To Month)	Actual Expenditures	Potential Reductions	Notes
Rent/Mortgage			
2 <sup>nd</sup> Mortgage/Home Equity Loan			
Lot Rent/Subdivision/Condo Fee			
Homeowner's/Renter's Insurance			
Real Estate/Personal Property Tax			
Car Payment/Lease			
2 <sup>nd</sup> Car Payment/Lease			
Emergency Fund			
Student Loans			
Child Support/Maintenance			
Day Care			
Medical Insurance			
Life Insurance			
Cable Television			
Checking Account Fees			
Professional or Service Org. Dues			
Home Security Systems			
Other			
<b>TOTAL FIXED EXPENSES</b>			
VARIABLE EXPENSES (Paid Monthly, But Amount Paid Can Vary, Use Averages)	Actual Expenditures	Potential Reductions	Notes
Electric			
Gas/Propane/Wood			
Telephone/Long Distance/Internet			
Cellular Phone/Pager			
Garbage			
Water/Sewer			
Groceries (Food Only)			
Food at Work			
School Lunches			
Dining Out			
Household/Misc./Paper, Cleaning Prod.			
Personal Hygiene Items			
Tobacco/Alcohol			

## Monthly Expenses Worksheet (Page 2)

VARIABLE EXPENSES	Actual Expenditures	Potential Reductions	Notes
Gasoline			
Bus, Car Pool, Parking			
Laundromat/Dry Cleaning			
Barber/Beauty Shop			
Newspaper/Magazine			
Tuition/Books/Supplies			
Children's Allowance/Spending Money			
Recreation			
Lessons(Dance, Music,etc.)/Sports Fees			
Pet Expenses (Food, Vet Fees)			
Church/Charity			
Postage			
Other			
<b>TOTAL VARIABLE EXPENSES</b>			
PERIODIC EXPENSES (Do Not Occur Every Month: Divide Annual Cost By 12)	Actual Expenditures	Potential Reductions	Notes
Car Repair/Maintenance			
Car Insurance			
Auto License/Inspection			
Doctor/Dentist			
Medications/Prescriptions			
Eyeglasses/Contact Lenses			
Clothing/Shoes			
Home Repair/Maintenance			
Appliance Repair/Maintenance			
Gifts (Birthdays, Holidays, etc.)			
Other			
<b>TOTAL PERIODIC EXPENSES</b>			

<b>TOTAL MONTHLY NET INCOME</b>	+	
<b>MINUS TOTAL MONTHLY EXPENSES</b> (Fixed + Variable + Periodic)	-	
<b>EQUALS SUBTOTAL EXCESS/DEFICIT</b>	=	
<b>MINUS TOTAL MONTHLY DEBT PAYMENTS</b>	-	
<b>EQUALS TOTAL EXCESS/DEFICIT</b>	=	





