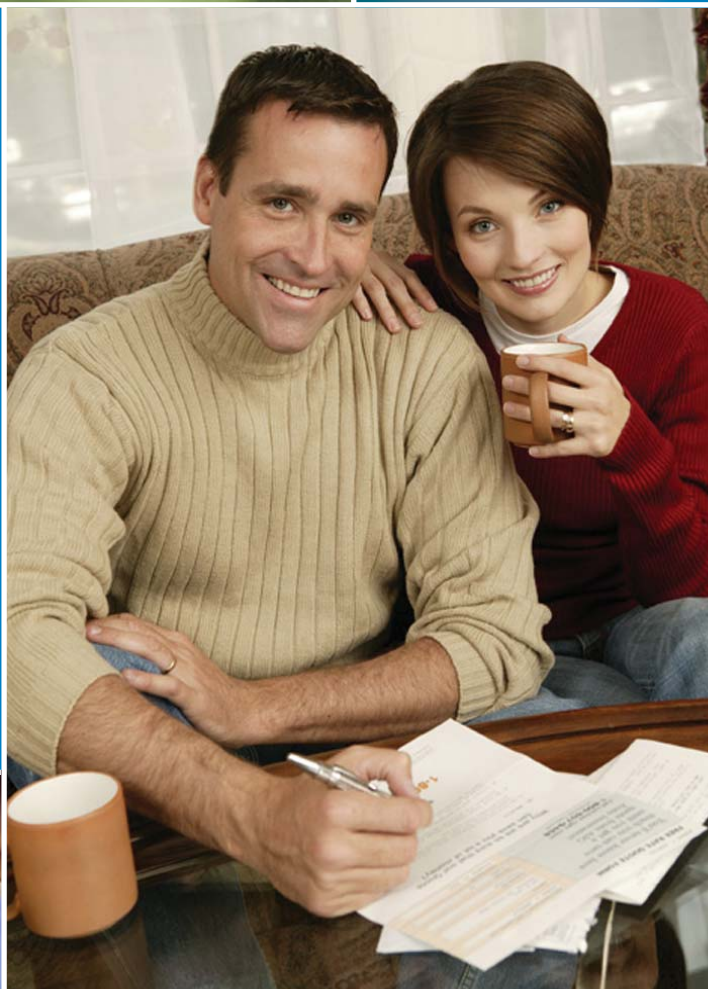


Fundamentals of PERSONAL FINANCE

Making
informed
financial
choices

Design Your
Spending
Plan:
Budget
Blueprint





Good financial decisions start with good financial information. With *Fundamentals of Personal Finance: Making Informed Financial Choices*, you have this handbook and others to help you gain the financial savvy and confidence you need for success.

This self-help series makes learning about finances easy with practical tips, step-by-step guidance, and charts. Regardless of your life stage or situation, there's a topic to meet your needs. Ask someone at your credit union about these titles:

- **Your Investment Choices**
- **Your College Savings Answers**
- **Your Insurance Options**
- **Your Retirement Guidelines & Goals**
- **Design Your Spending Plan: Budget Blueprint**
- **Your Path to Home Ownership**
- **Your Vehicle Buying Road Map**
- **Your Guide to Financial Fraud Prevention**

You've made a good financial decision already by sitting down with this handbook. It's time now to turn the page to a stronger financial future.

Information provided by



800-356-8010, ext. 4157
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Building a Budget

We spend the majority of our prime years working to build families and careers and establishing a foundation our children can emulate. This leaves little time for planning, saving, and budgeting.



Yes, those three activities can pay huge dividends both in the short and long terms. Unfortunately, many consumers practice poor money management, living paycheck to paycheck and using credit inappropriately.

These days, consumers are hit hard with “buy now, pay later” advertisements of retailers and the direct mail campaigns of credit card companies. You cannot turn on the TV or radio, access the Internet, or take in the mail without viewing or hearing a commercial promising no interest or payments until “2000 whatever.” On top of that, some alternative financial institutions, such as check-cashing outlets and payday lenders, routinely attempt to obtain business by easing the restrictions on borrowing

“We are bombarded with images of a standard of living without the cost of that lifestyle.”

and lending, and making access to cash easy—and far more expensive. These marketing strategies tend to work well in today’s impulsive society. Unfortunately, these tactics often result in an unbearable debt load.

The Mixed Messages

So what has happened to us? We have a highly educated society renowned for free market establishment. Why do we find it so difficult to live within or below the resources available?

“We are bombarded with images of a standard of living without the cost of that lifestyle,” says Connie Kilmark, a financial counselor and consultant, and owner of Kilmark & Associates located in Madison, Wis. “We have lost the ability to entertain ourselves.”

We watch television programs and advertisements, hear radio spots, and see billboard arrays designed for emotional stimulation. Whether it’s a new vehicle, new furniture, or new sound system, in terms of consumer spending, people rarely think about it as a financial transaction. Instead, consumer-spending

decisions are processed “5% by the numbers and 95% by emotions,” Kilmark says.

How do you plan a good defense against emotional needs—making decisions by what you need and not just by what you want? Consumer education is the answer, but that’s easier said than done. In a period where the economy is in a downward slide, spending is pushed heavily to rejuvenate the economy. Consumers are receiving mixed messages. On one hand we know the need for planning and saving. But then businesses appeal to consumers with unbelievable offers, and the Federal Reserve Board repeatedly lowers interest rates to encourage increased buying and spending.

Guess what? Budgeting and managing your finances is your responsibility. No one will do it for you.

Six Warning Signs of a Financial Problem

1. More than 20% of your monthly net income is going to pay back credit cards and other loans (excluding mortgage).
2. You’re borrowing money to make payments on loans you already have.
3. You’re frequently at, near, or over the limit on your credit cards.
4. You’re paying only the minimum required on your credit card bill.
5. You’re paying bills late or putting off visits to the doctor because you don’t think you have enough money.
6. You’re working overtime or a second job just to cover food, housing, and other living expenses.

If you’re maxed out and don’t know where to turn, don’t be won over by credit repair service ads you might see on late-night TV. You have much better avenues:

- Your credit union—Ask if someone there provides one-on-one credit counseling to help get your finances in order.
- The National Foundation for Credit Counseling (NFCC)—The NFCC in Silver Spring, Md., has nonprofit Consumer Credit Counseling Service (CCCS) affiliates around the country ready to help you get back on track from financial difficulty. To locate the nearest CCCS office, call 800-388-2227 or visit nfcc.org.



Act Before It's Too Late

All too often, the road to financial freedom is plagued by the unforeseen and unexpected. Divorce, job loss, and health problems, coupled with a troubled economy and poor spending habits, give rise to increased debt loads.

“Carrying significant debt seems so normal,” says Kilmark. People only realize they’re in dire straits when they can’t make their monthly credit card, mortgage, and car payments. Then, too often, they resort to borrowing to meet minimum card payments or to pay the mortgage or to make monthly car payments. From the earliest of ages the educational focus is on how to make money. The real gap in managing your finances is the lack of skill in planning your spending wisely.

“People don’t realize what they spend,” says Chuck Ritter, a consumer credit counselor for the Consumer Credit Counseling Service (Division of Family Service) in Madison, Wis. Individuals are able to generalize about what they spend on monthly mortgage and car payments,

but rarely are capable of being specific and accurate about the costs incurred with the daily stops at the local convenience store or the routine purchases from vending machines. Ritter talks of

The people at your credit union can provide balanced, practical personal finance information.

one client who bought four cups of coffee a day, seven days a week, at \$1 a shot, but was routinely \$80 to \$100 a month short on his car payment. “People have never been taught to manage their money,” says Ritter.

Understanding the Problem



Where do you start, or rather, where do you focus your efforts? It depends. In terms of spending habits, money management, use of credit, debt repayment strategies—it all depends on your situation.

No one can tell you how to spend your hard-earned money. And it's not necessarily how much income an individual or family takes home that causes debt problems.

There are resources available and tools accessible that consumers can use to develop strategies to obtain financial freedom.

Personal finance is situational. One's goals and objectives, needs, and earning power all vary from person to person. The key, according to counseling experts, is to recalculate your income in terms of net take-home pay.

"I have my clients do their homework.

They must recalculate their hourly net income on an annual, monthly, biweekly, even an hourly basis. Clients must understand their income as a unit of measurement; a connection between time spent at work and the consumption cost of their spending choices," Kilmark says. Clients also must realize they probably are spending more than they think they are.

"People underestimate the true cost of living," says Kilmark. Initial preparation requires specific costs of car insurance, life insurance, doctor visits and co-payment charges, and the costs of raising kids. Clients must differentiate between "frequent and infrequent" expenses such as going to the grocery store vs. replacing the roof of your home. "The goal is to include maintenance and repair costs in conjunction with the expense of consumption. All costs, both monthly and other-than-monthly, must fit within your net income," Kilmark adds.

Crafting a Plan



Planning and budgeting do not have to mean deprivation—quite the opposite actually. A sensible and reasonable spending plan provides you with a road map to reach financial freedom. Without a

budget, one tends to drift from paycheck to paycheck, never truly understanding the cost of a particular standard of living and being unprepared for infrequent, but normal expenses.

The first step after determining your income should be to understand your debt and deciphering needs vs. wants.

Red flags and warnings should be going up all over if you rely on credit to pay for day-to-day necessities.

The greatest hindrance to achieving financial freedom is the poor use of credit. "Being in debt limits choices, clouds choices, and negatively affects one's psyche," says Connie Kilmark, a financial counselor and consultant, and owner of Kilmark & Associates located in Madison, Wis. The idea is to balance your budget, be free of debt, and set money aside so you can achieve your goals.



Savings, Savings, Savings

Money is one of life's necessities. Of most importance, however, is what individuals do with their money. Where will you put the money you earn so it works long and hard and continues growing? The choices are many—whether you have millions or a few thousand to stash away for the future.

1. Savings accounts

In this traditional savings vehicle, you set aside money via payroll deduction or automatic transfer, or simply by depositing cash or a check. The interest you earn varies depending upon current rates, at the low end of the dividend range. This account is ideal for a small amount of assets you want easily accessible (liquid). Credit unions typically pay higher dividends/interest than banks and other financial institutions on savings accounts.

2. Share draft/ checking accounts

Consumers typically deposit their payroll checks in these accounts, of which there are many types and variations. Interest or dividend bearing accounts typically require you to maintain a minimum monthly balance or you pay a pen-

Marketing strategies
work well in today's
impulsive society.

alty (as much as \$5 a month), and there can be check-writing limits. "Totally free checking" is just that—unlimited check-writing privileges, no minimum monthly balance, debit card use, and no service

fees. You may or may not earn interest on the balance. A checking account is a practical account for those not maintaining large monthly balances. Many of the best options can be found in share draft/checking accounts at credit unions. Surveys show credit unions outpace their competitors in specifics associated with lower minimum monthly balances, higher dividend rates, and lower fees and fines. Credit unions pay dividends on *existing* balances—many banks don't. Contact your credit union to obtain details.

3. Money market accounts

Many consumers use money market accounts for their “emergency fund.” That’s where individuals keep three to six months of their salary and income—just in case they experience an unexpected

income loss. While you’ll never lose the money deposited into this account, you’re not guaranteed to increase the value either. Interest is earned based upon the daily ups and downs of the market, and the rate typically is higher than that of a traditional savings account. Money market funds typically invest in Treasury bills (T-bills), agencies backed by the U.S. government, commercial paper, and short-term municipal debt. The advantage is a secure investment, which offers check writing privileges and availability should you need access to the funds.

A money market mutual *fund* is a large pool of investor money managed by an investment company; it is not insured. The goal is to seek short-term interest on assets while conserving principal.

Holiday Accounts



We’ve all been there. The holidays quickly are approaching. You’ve discussed spending amounts with your family, and you’re ready to shop. The problem is you haven’t set aside funds, or enough money throughout the course of a year to cover your expenses. Inevitably, you break out the plastic—resulting in credit card bills you’re not prepared to pay.

It’s easy to get caught up in holi-

day excitement. That’s the fun part, right? But it’s not necessary to go into debt. Setting aside a small amount of money each month throughout the year can ease the financial burden of the holidays. A traditional management tool is a holiday account.

Credit unions have paved the way in this area of personal finance. Establishing an account earmarked “holiday account,” many credit unions allow you to put a little away each payday via payroll deduction or automatic transfer from your direct deposit account. You’ll earn dividends on your savings, and there will be money available for next year’s holiday shopping. Most institutions will establish a specific day on which you can access the funds without penalty—usually around September or October.

4. Share certificates/ certificate of deposits (CDs)

CDs are appropriate if you have money saved that is earmarked for short-term goals. Protecting your balance is the focus, with the goal of steadily increasing the value. When discussing CDs you're talking in terms of rates and maturity dates. There is always a minimum deposit amount, with a specified interest or dividend rate and maturity date (for example, 30 or 90 days, or five years) attached. In today's environment, you could let it grow and earn about 2% on a one-year CD.

For example, say you place \$2,500 in a one-year CD at 3.5%. After one year, you're able to access your money at a 2% gain (\$50 for this example), or roll over the entire amount into another investment vehicle. But recognize there

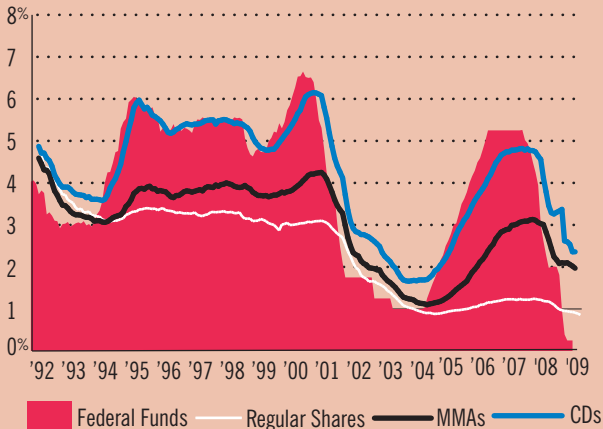
is a significant penalty if you withdraw all or a portion of the funds before the maturity date.

Credit unions consistently offer higher dividends than interest offered by banks and thrifts on CDs—often better by more than one-half percentage point.

5. Individual retirement accounts (IRAs)

Anyone who earns a paycheck and pays taxes can have an IRA. There are even programs established so nonworking spouses can enjoy the benefits of an IRA. IRAs can be established through credit unions or banks, brokerage and accounting firms, or via your financial planner. IRAs are outstanding savings plans for retirement.

Credit Union Rates vs. Federal-Funds Rates



Source: CUNA's economics and statistics department

This chart illustrates the correlation between an important market rate, the Fed funds interest rate, and credit union deposit rates. The chart indicates that the rate credit unions pay on one-year share certificates is highly correlated to the fed funds interest rate moving in a one-for-one fashion. Other financial institutions often set their rates similarly.

■ Traditional IRA

The maximum annual contribution to a traditional IRA is \$5,000, adjusted depending on inflation in \$500 increments in years beyond 2008.

Traditional IRAs offer tax-deferred earnings and possibly tax-deductible contributions if you meet the requirements. When you withdraw from a traditional IRA, your withdrawal will be treated as taxable income. If your income is higher than the limits, you may be able to deduct a partial contribution—ask your tax adviser for more information.

Money placed in IRAs can be invested in stocks, bonds, mutual funds, and a variety of other financial vehicles. Start early. At age 22, if you invest \$4,000 in an IRA yielding an average of 4% annually until age 67, your money will grow to \$503,000 (\$1.2 million at 7%) by retirement. While not mandatory, you can withdraw traditional IRA funds without penalty in equal installments at age 59½. At age 70½, distribution becomes necessary.

Start accessing your money before age 59½, and you'll experience a 10% penalty levied by the Internal Revenue Service and pay regular taxes on your withdrawals.

To help taxpayers with battered investment portfolios, legislation suspends the required minimum distribution (RMD) from IRAs and 401(k)s for 2009 only. Contact your provider if you are interested in waiving the 2009 RMD.

■ Roth IRA

Roth IRAs allow you to save not only for retirement, but for home buying and higher education expenses. Contribution limits are the same as for a traditional IRA, but are not tax-deductible. Instead, your money grows tax-free and you pay no taxes on money withdrawn, provided it's been in place for at least five years

and you're older than 59½, or become disabled, die and it's paid to a beneficiary, or use the maximum \$10,000 for a first-time home purchase.

Other advantages of a Roth IRA: It's not necessary to begin withdrawing money at age 70½ and you can convert your traditional IRA to a Roth IRA.

To contribute to a Roth IRA, your modified adjusted gross income must meet income limits that change year to year. See *irs.gov* for current limits.

■ Coverdell Education Savings Accounts

Coverdell Education Savings Accounts make saving for college-related expenses more affordable and convenient.

Contributions aren't tax-deductible, but withdrawals for qualified expenses are tax-free. Qualified expenses include tuition, fees, books, elementary and secondary school expenses, computer technology or equipment to include online access used while in school, and equipment required for enrollment or attendance at nearly any postsecondary educational institution. Room and board expenses also may qualify.

Contributions to a Coverdell account cannot exceed \$2,000 per tax year, per child, and continue until age 18. Children have until age 30 to use the funds for qualified education expenses.

6. Individual development accounts (IDAs)

IDAs are special savings accounts that allow the working poor to invest in their future. Participants make a monthly payment that is matched by a community organization. The money invested may be used for the purchase of a house, to pay for education, or to start or expand a small business.

The keys here are the matching funds

and creation of an otherwise nonexistent savings history for participants. Members also receive financial education through personal finance classes.

There are about 500 programs in existence to date—one out of six being offered by credit unions.

7. Asset management accounts

Asset management accounts, also known as brokerage or bank cash management accounts, may be ideal if you own several investment vehicles such as stocks and bonds, and make a few trades annually. This account is a combination money fund, brokerage account, and checking account. Your

Saving and investing is about balance.

money is in a unified account and is reported on one monthly statement. The minimum balance requirement usually is \$15,000 distributed across your investments. Annual operating fees generally are about \$50 to \$100.

8. Savings and investment plans

Savings and investment plans are all about you—your needs, goals, and objectives. They require careful planning and strict discipline. More important—saving and investing is about balance. If you fail to understand balance and risk, you position yourself for potentially upsetting results, financially speaking.

Financial writer Jean Chatzky writes, “If you take the time to review the risks you took in the past that did and didn’t work out well—and figure out why things unfolded the way they did—you’ll learn how to better your odds.” Chatzky says to consider the risks vs. rewards and ask yourself, “What is it you are trying to accomplish by taking this risk?”

The most effective way to increase savings and investments is through automatic deduction from your paycheck or credit union/bank account. The money is gone before you can spend it in other ways. The process can be initiated through employers, credit unions, and brokerage firms with minimal time and paperwork. The money deducted can be applied towards virtually any investment vehicle in a variety of increments.

Secured vs. Unsecured

Poor credit history can make it difficult to obtain a traditional credit card (unsecured card). A smart option may be a “secured card.” Also called a collateralized credit card, secured cards look and perform the same as a regular credit card. They are a good way to rebuild your credit history and demonstrate your commitment to responsible credit. You’ll be required to deposit a specific amount

of money—essentially your balance limit—to be used to pay the balance if you become delinquent in the account.

Beware of scams associated with secured credit cards. Often marketed on TV or through “900” numbers, these cards come with high fees and interest. Research your options before committing. Understand the terms associated with any card, and give your business to a reputable institution.