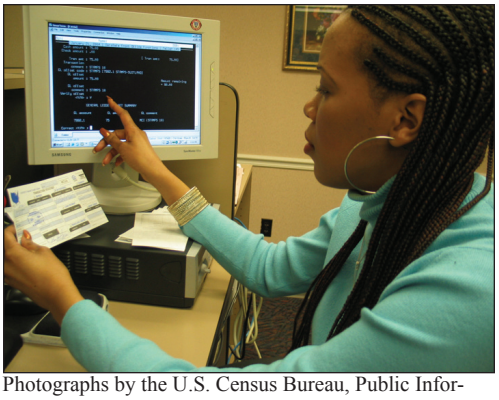
Chapter 3. Money Basics

Tools and Habits for Achieving Your Goals

In the previous chapter, Money Math, you learned how to prepare a Statement of Financial Condition (Net Worth Statement) and a Statement of Income and Expense. You learned an easy way to track your spending and started to set financial goals for the future. This chapter covers other important management tools and strategies to help you achieve your financial goals.

In her research on happiness and financial security, financial author Jean Chatzsky[1] found that good money control is a matter of cultivating certain money control **habits**. She says that there is a difference between families who are in control of their money and those who are not. Successful families don't necessarily earn a lot of money. In fact, her book explores how it is not how much money people have that makes them happy. Rather, poor money management can make them miserable – even if they have a lot of money. Look at the differences in financial behavior between families IN CONTROL of their finances and families with LESS CONTROL.



Photographs by the U.S. Census Bureau, Public Information Office (PIO).

Families in control of their finances have adopted at least four of these practices:	Families with less control of their finances have at least two of these habits:
They balance their checkbook at least once a month.	They don't balance their checkbook every month.
They have some sort of filing system in place.	Their financial records and paperwork are disorganized, so they have to scramble to find what they're looking for.
They pay their bills as they come in rather than once a month.	They pay all of their bills once a month rather than as those bills come in.
They don't spend more than they can afford on three or more things (though they may bust the budget on one or two).	They spend more than they can afford on three or more items.
They don't often buy things they don't need.	They often buy things they don't need.
They don't find money evaporating out of their wallets.	They find money evaporates out of their wallets, *and they don't know where it has gone.*

Real Life, Real Money

Do a budget? Why? I've finally earned the right to spend my money how I want to spend it. So why do I need a budget?

I don't need a budget! I keep track of my spending by checking my bank account balance on-line or whenever I use my ATM card – that way I can see if I have enough money to buy what I want.

Our financial behavior and money management practices have a big impact on our sense of financial control. Without this control, we are unlikely to reach our financial goals. And when we fail to reach our financial goals, our dreams dissolve and unhappiness sets in. How would you rate your financial CONTROL? It isn't easy to step back from the latest trends advertised – the newest iPhones or computers or other items. But having these things won't guarantee happiness.

How to Prepare a Realistic Budget

Many people cringe at the very idea of preparing a budget. It could be that they have a negative reaction to the word. The word *budget* comes from the French word for wallet, a place to keep money. Other terms used in place of "budget" include "spending plan" and "cash flow plan."

A budget is a self-made tool for directing and controlling our money. Every successful business in America uses a budget to guide operations. Every household should, too, so that families meet their important goals, cover all their expenses, live within their means, and experience the satisfaction that comes from having their finances under control. **A budget is a plan for how you will use your money.**

Some people shy away from preparing a written budget. They think that having a mental budget is sufficient. They also think that developing a budget is too time-consuming or involved, so they back off. Let's look at a simple, six-step process for budgeting. You should be able to prepare a monthly budget on one page! A handheld calculator will speed the process along.

Steps to Wi$ing Up - Step 3-1. Building a Realistic Budget

Step 1. Estimate your income. First determine what time period your plan will cover. The planning period may be a month, a year, or any length of time you choose. We will focus on a monthly budget. In figuring income from your earnings, include only your take-home pay or net income. This is different from your gross earnings. Your net income is what you have left after income taxes, Social Security, Medicare, insurance (health, life, disability, etc.), flexible spending plan contributions, retirement savings, and other deductions. Net income is what you have left to spend. You may have other sources of monthly income, too, such as: spouse's earnings, income from self-employment or a second job, interest or dividend income, or child support payments.

Whether you are paid weekly or every two weeks, your monthly income will need to be calculated from the actual amount of your take-home pay, regardless of how frequently you are paid.

Step 2. Estimate your expenses. People who have not tracked their spending find that estimating their expenses is the most difficult aspect of setting up a budget. In Chapter 2, Money Math, you tracked your spending for two to three months. Tracking your spending gave you a fairly good idea of how you spend your money. If you completed a Statement of Income and Expense for the previous year, you also have an additional source of information to use in estimating your future monthly expenses. You may need to consult your records, such as your check register and your receipts, for more details. Expenses may be classified as either fixed expenses or flexible expenses. *Fixed expenses*, like rent or mortgage payments and loan repayments, are the same each month, while *flexible expenses* differ each month. Common flexible expense categories are listed in the table on page 3-3, My Monthly Budget Estimates. They are flexible because they vary in amount, such as food; or they are "discretionary," that is, what you spend for them is at your discretion, in contrast to fixed expenses that must be paid and are usually the same amount each month.

You should consider your special financial goals to be fixed expenses. When you do this, you are more likely to fund your future financial goals. This is the idea behind the concept, *pay yourself first*. The table, My Monthly Budget Estimates, is a tool to help you estimate your expenses and balance your income and expenses.

Step 3. Make adjustments to balance your budget. In a perfect world, your budget would balance perfectly on the first try. But this is the real world, so don't worry if your outgo exceeds your income on the first go-around. That's why you are undertaking this exercise – to see how you can bring it into balance.

Is it realistic for you to increase your income? How? Get another job? Get a raise? Hold a garage sale? Check to see if you are over-withholding your federal income taxes and, if so, you may be able to increase your take-home pay by adjusting your exemptions. Or, are you eligible for the Earned Income Tax Credit (EITC) that could increase your monthly take-home pay?

The Earned Income Tax Credit is a refundable federal income tax credit for low to moderate income working individuals and families. Information on the EITC can be found on the Internal Revenue Service website at http://www.irs.gov/individuals/article/0,,id=96406,00.html.

If you cannot increase your income, your other choice is to reduce your expenses to bring your budget into balance. Check over each expense category. Are you sure that you are getting the most for your money? Or are you over-paying for things that you could obtain for less? For example: 1) are you sure that your cell phone plan is the best one for the money, or could you find a better plan for less money, or 2) are you paying for a communications package that offers more Internet, cable, and telephone and texting features than you really need or use?

My Monthly Budget Estimates

1. Circle the categories that correspond to your income and expenses, and add others to meet your needs.
2. Estimate the amount of income and expenses for each category that you will include in your budget.
3. Adjust your estimates until total expenses (fixed + flexible) are in balance with total income.

My Income	$$$	My Fixed Expenses	$$$	My Flexible Expenses	$$$
Salary and wages		Rent/mortgage payment		Food at home	
Self-employment income		Utilities		Food away from home	
Business income		Income taxes (extra payments)		Medical expense	
Bonuses		Real estate taxes		Clothing	
Interest		Property insurance		Dry cleaning	
Dividends		Auto insurance		Personal care	
Rental income		Other insurance coverage		Child/dependent care	
Trust income		Car payments		Personal allowances	
Family contributions		College loan payments		Books, magazines, papers, films	
Gifts		Other loan payments		Entertainment and recreation	
Alimony		Credit card payments		Phones/Internet	
Child support payments		Emergency fund savings		Gifts	
Unemployment benefits		Savings for financial goals		Hobbies	
Disability insurance				Charitable giving	
Earned Income Tax Credit				Household maintenance	
Regular withdrawals from savings				Home furnishings	
Garage sale proceeds				Transportation expense	
On-line sale proceeds				Children's expenses	
Other income				Children's allowances	
				Education expense	
				Job-related expenses	
				Professional memberships	
				Fitness center dues	
				Pets	
Total Monthly Income	**$**	**Total Monthly Fixed**	**$**	**Total Monthly Flexible**	**$**

Sharpening your consumer skills will make you a better shopper and will save money in the long run. *Consumer Reports* (http://www.consumerreports.org) is an excellent source to consult before making consumer purchases. You may also want to check out the publication, *66 Ways to Save Money* (http://www.pueblo.gsa.gov/cic_text/money/66ways/index.html) for more cost-cutting ideas. Other consumer websites to check out are the Federal Trade Commission at http://www.ftc.gov, the Federal Citizen Information Center at http://www.pueblo.gsa.gov/, and the Federal government mega sites, http://www.mymoney.gov/ and http://www.usa.gov.

Make the necessary changes to your budget to bring it into balance so that your expenses do not exceed your income. Unless you balance your budget, you will be tempted to use your credit card to finance the difference. See Chapter 4, Credit in a Money World, for more on credit cards.

Step 4. Try living within your budget. Until you try to live by your budget, that is, "living within your means," you have no real idea whether it works for you or not. Right now, it is only a tool on paper. Living within your budget is the main challenge of modern living! During this test period, track your spending so that you can compare actual spending to what you had budgeted. Recordkeeping during this phase is vitally important. If you cannot or do not compare what you spent (reality) with what you budgeted (what you thought you would spend), there is no point in budgeting whatsoever. Women like you with important life goals will see the budgeting process as a critical tool for achieving financial success. Getting control of money through effective budgeting is a critically important step in overall financial planning. *Live within your budget for a month or two to see if it works*.

Step 5. Develop and use a financial recordkeeping system that works for you. The other critical tool in the budgeting process is recordkeeping. You won't know if your budget works until you analyze your real-life spending. In Chapter 2, Money Math, you learned how to create a written record (notebook tool) to track your spending. You can continue with this method if it works for you. Summarize your monthly expenses, and compare them to what you budgeted for each expense category you established. There are many ways to keep financial records, but they all require you to summarize your monthly expenses so you can draw conclusions from the experience and know whether your budget really worked for you during your trial period.

The **receipt method** is a simple method for tracking spending. Just make sure you obtain a receipt for every transaction you make, whether it is made by cash, debit card, credit card, or check. Mark each receipt with the name of the budget expense category. Each week or at the end of the month, sort your receipts by budget category; tally up the results, and enter the information on a chart. By entering the summaries on a monthly basis, you will immediately see your spending trends and can easily see the times when expenses increase.

The **checkbook method** works well for people who make most transactions by check or debit card. The checkbook register is the primary data-entry tool. Code each transaction for the budget expense category to which it belongs. Each week or at the end of the month, tally up the results by budget category. If you bank on-line, you can access your account readily. You may be able to assign a spending category to each transaction in your on-line account and then download your account information to a spreadsheet or even transmit it to another web-based financial recordkeeping system.

Recordbook methods work well for people who like to manually record all of their financial transactions on a daily or weekly basis. Many types of household recordbooks are sold commercially at office supply stores, but their income and expense categories may or may not match the categories you use. You can also make your own recordbook by duplicating the form on the next page, My Monthly Income and Expense Record. Just label the top row with the names of your income and expense categories. At month's end, add the totals for each category. Reserve one page to use as an annual summary. At the end of the year, you will have a complete summary of income and expense. Then you can easily construct a new Statement of Income and Expense, as you learned in Chapter 2, Money Math.

Computerized financial recordkeeping systems are both useful and popular. People who use these systems are able to tailor their income and expense categories to meet their needs and can effortlessly produce summary reports. Some people prefer the commercial software packages; others who know how to use electronic spreadsheets create their own financial recordkeeping systems. And others keep their financial information at special financial recordkeeping websites. The latest innovations involve web-based systems that bring together all of your financial transactions and allow access by computer, cell phone, or personal digital assistants (PDAs).

Step 6. Adjust your budget to reflect your real life experiences with it. After following your budget for a couple of months, you should be in a position to know if it works for you. Fine-tune your budget categories, and reallocate your income to meet your needs. A budget is a very flexible tool if you will make the necessary adjustments. A budget is not a strait jacket. If it doesn't work, fix it; *don't abandon it!*

Real Life, Real Money

Margaret had just about had it. Sure, she had followed the first three steps of the process: estimating her income and expenses and balancing her budget. But she got stuck when she tried to live on it. She felt like she couldn't have any fun any more, and she felt guilty whenever she spent money on her favorite hobby. But she persisted. She tried the budget out for six weeks, kept close records, and analyzed them. Finally, she realized the problem was with how she had set up her budget categories. She had actually forgotten to budget for that hobby! So, of course, the budget wasn't working for her. She couldn't believe she'd forgotten it! After readjusting her budget to reflect her lifestyle, her budget worked. It was just the management tool she needed to control her finances.

My Monthly Income and Expense Record				Month _____ Year_____					
Date	**Salary**	**Other Income**	**Rent/ Mortgage**	**Insurance**	**Groceries**	**Medical**	**Auto**		
Total									

Communications within the Family

Communicating with others about money can be an emotional experience. Talking about money can lead to arguments. Hidden agendas and relationship pitfalls can keep money talks from being successful. Unresolved money problems or differences have been identified by attorneys and therapists as the primary causes of divorce.

Good communication will help your family be financially successful. It will help you determine joint goals, develop a shared vision, and reach an agreement on how to spend, save, invest, or donate your family's money. Try to create a stress-free environment for discussing money if there are other people in your life with whom you must discuss financial matters. Money issues that can arise include who pays the bills, what to buy, how much to spend, how children's allowances are set, or how to ask a parent where critical documents are kept. You can probably think of many other issues that range in severity from financial problems associated with substance abuse to which brand of a certain product to buy.

The conversations that occur within the family will depend on who is part of your financial life at the moment. Think to the future, too, about changes that may occur in your life or in the lives of people who are closest to you. Consider the nature of money talks that you have had or will have with the people in your life. Remember that there is less room for argument and conflict when financial matters are well organized and under control. Try to focus on the facts, not the emotions.

Conflicts over money or difficult conversations about money can be eased if a few recommendations from conflict resolution counselors are heeded. Choosing a good time and place for discussion, perhaps away from home, can help. Remaining calm and practicing self-awareness, acknowledging emotions, listening carefully to the other person, and focusing on the problem and not the person are all helpful strategies. Avoid blaming and raising your voice. Each person should be encouraged to suggest potential solutions, without judgment or criticism. With a list of solutions in hand, ideas can be reviewed and evaluated together, in a less emotional or confrontational manner.

Everyone has a "money personality," according to psychotherapists such as Olivia Mellan, author of *Money Harmony: Resolving Money Conflicts in Your Life and Relationships*,[2] and *Overcoming Overspending: A Winning Plan for Spenders and Their Partners*[3] who has written extensively on the topic. Purdue University Cooperative Extension's publication, *Focus on Money Personalities*[4] states, "Personal and family financial decisions are influenced by attitudes, personality types, past experiences, and family dynamics. When you understand yourself and others, you can make financial decisions more effectively. You may also reduce conflict. As you change, so do your needs and abilities for flexible money practices. Awareness and self-analysis can bring clarity and balance to both your psyche and your financial portfolio. With clarity and balance come a sense of control and well-being."

Steps to Wi$ing Up – Step 3-2. How Do You Communicate?

Think about and list the people and the issues you need to discuss:

Your spouse or significant other: _____

Your children: _____

Your parents: _____

Your grandparents or other older relatives: _____

Your siblings: _____

Members of your spouse's family: _____

Your ex-spouse: _____

Financial professionals: _____

Others: _____

Discipline to Achieve Your Goals

Sometimes it is necessary to spend less to achieve more. Spending less money can be pain free, fun, and profitable. Economizing can free up money we didn't think we had. We often think that there is "no money" to save, but the truth is, we probably can find at least a few dollars pretty painlessly.

Real Life, Real Money: Sharon's Family Practices Saving for Disney World

Sharon is a single mom who learned new ways to save money from the newsletter she receives from the University's Cooperative Extension Service (http://extension.org). Sharon has eight-year-old twins, Tommy and Amy. Sometimes she struggles to make ends meet, so she was really ready for a new approach to use with her family. By making small changes in the things they buy, Sharon and her children are setting aside money for a trip to Disney World in three years – their savings goal is $1500. And they're doing it without major sacrifice! They have made just 12 small changes to their buying habits during the year – about one a month. Each time they adopt a new change, they keep it up the rest of the year. Sharon keeps records and actually deposits the money they save into their Disney World savings account. At the end of the year, she had over $500! She had not realized that their old buying habits had a price tag of $60 per month. Here are the 12 changes they made this year:

January	Started using a $1 grocery coupon instead of money every week (52 weeks × $1)	$52.00
February	Stopped drinking two sodas a week (48 weeks × $2)	$96.00
March	Started spending $1 less on candy each week (44 weeks × $1)	$44.00
April	Reduced weekly video rental cost from $2 to $1 (40 weeks × $1)	$40.00
May	Eliminated soft drink with weekly fast food meal (35 weeks × $1.75)	$61.25
June	Started getting a better deal on bottled water (30 weeks × $1)	$30.00
July	Turned off room lights more often (5 months × $2)	$10.00
August	Adjusted the thermostat (20 weeks × $1)	$20.00
September	Stopped buying a weekly lottery ticket (16 weeks × $2)	$32.00
October	Eliminated one weekly restaurant lunch (11 weeks × $6)	$66.00
November	Started reading magazines at the library instead of renewing three subscriptions ($15, $18, $12 for 1-year subscriptions)	$45.00
December	Found a great generic cereal (4 weeks × $1.50)	$6.00
	Total Saved by These 12 New Habits	**$502.25**

Careful analysis of common categories of spending by young women like you could yield important savings. How much do you spend each month for the items shown in the table, Where Does My Money Go Each Month? Approximately how much do you spend each time? How many times per month do you spend money this way? Could spending adjustments in these categories help out your budget?

Where Does My Money Go Each Month?			
	Amount of money I spend each time	Times per month I spend this money	Total amount I spend (Amount x Times per month)
Hair care			
Nail care			
Dry cleaning			
Eating out			
Cell phone plan			
Vending machines			
Snacks			
Music downloads			
Cigarettes			
Alcohol			
Clothing			
DVD rentals			
Cable TV			
TiVo			
Lottery/Gambling			
Magazines			

Steps to Wi$ing Up – Step 3-3. So Where's the Money?

List five ways you could reduce your spending to enhance your budget.

1. _____
_____

2. _____
_____

3. _____
_____

4. _____
_____

5. _____
_____

Banking Services and Financial Institutions

You probably bank with one or more financial institution currently. But are they right for your present situation? The checklist below has been adapted from The Federal Deposit Insurance Corporation's *Money Smart* guides (http://www.fdic.gov/consumers/consumer/moneysmart/index.html). Use the checklist to assess your banking needs and options.

Comparing Your Banking Needs and Options	Bank A	Bank B	Bank C
Name of bank, credit union, or thrift institution			
Type of account			
How much money do I need to open the account?			
How much do I have to keep in my account to avoid fees?			
What are the fees for bounced checks?			
How many checks can I write before extra fees are charged?			
How many withdrawals can I make each month?			
Does this account pay interest?			
Does an ATM or debit card come with this account?			
Will I be charged to use the ATM or debit card at this bank?			
Will I be charged to use the ATM or debit card at another bank?			
Are there any other fees?			
Does this bank offer the services I need?			
Is it close to home?			
Does it have reasonable hours?			
Does it have ATMs? If so, are they located near where I live, work, or shop?			
If I am choosing a credit union, am I eligible?			
Do any employees speak my language?			
Is this bank insured?			
Is on-line banking offered?			

Consulting with Financial Professionals

Sometimes consulting with a financial professional can be very beneficial. Wi$eUp is helping you to establish the basics, but later you may need help in developing a comprehensive, long-term financial plan. Or you may need help on specific matters, such as insurance, retirement planning, and estate planning.

Interview and evaluate several financial planners to find one that is right for you. The Certified Financial Planner Board of Standards, Inc., suggests you ask the following 10 questions of each person you interview. A useful checklist for choosing a financial planner and other information about the financial planning process is available from the Board's website, http://www.cfp.net/learn/.

1. What experience do you have?
2. What are your qualifications?
3. What services do you offer?
4. What is your approach to financial planning?
5. Will you be the only person working with me?
6. How will I pay for your services?
7. How much do you typically charge?
8. Could anyone besides me benefit from your recommendations?
9. Have you ever been publicly disciplined for any unlawful or unethical actions in your professional career?
10. Can I have it (the agreement detailing services to be provided) in writing?

It is also important to understand the professional designation(s) used by individuals engaged within the financial services industry. A good starting point for that information is to consult the database maintained by FINRA (Financial Industry Regulatory Authority, Inc.) at http://apps.finra.org/DataDirectory/1/prodesignations.aspx. You will be able to look up the acronym or title of the professional designations included in the database.

Are You Wi$er Now? My Action Plan for Chapter 3, Money Basics

1. I want to improve my skills in making and following a budget.
   - ☐ Yes
   - ☐ No

2. My goals for improvement in this area are:
   - ☐ Improving my budget skills
   - ☐ Improving my financial recordkeeping
   - ☐ Choosing the banking service that meets my needs at the least costs
   - ☐ Knowing how to choose a financial adviser/professional
   - ☐ Other _____

     _____

     _____

3. I plan to achieve these goals by (indicate date):
   - ☐ Attending educational programs beginning _____
   - ☐ Utilizing the Wi$eUp Handbook and completing the Steps to Wi$ing Up exercises and worksheets by _____
   - ☐ Accessing the recommended websites by _____
   - ☐ Writing up an action plan for myself and monitoring my own progress starting _____
   - ☐ Discussing my plans with my spouse or family (if applicable) beginning _____
   - ☐ Other_____

     _____

     _____

4. I plan to put these goals into action by (indicate date):
   - ☐ Preparing a written budget by _____
   - ☐ Developing a financial recordkeeping system to track my spending starting _____
   - ☐ Identifying critical money talks I need to have with others starting _____
   - ☐ Identifying five ways to reduce my spending starting _____
   - ☐ Evaluating my current banking needs by _____
   - ☐ Interviewing a financial professional by _____
   - ☐ Other _____

     _____

     _____

Wi$eUp On-line Resources for Learning More at http://wiseupwomen.org

The Expert Q&A Archive at http://wiseupwomen.org has answers from Wi$eUp's nationwide network of financial experts who have responded to questions from Wi$eUp participants on many different financial topics. A few of the Q and A's that relate to this chapter of Wi$eUp include:

- What types of budgeting tools are best for beginners?
- How do I talk to my spouse about saving money?
- How should my boyfriend and I deal with student debt before and after marriage?
- How do you "pay yourself first" when you're just making it?

The Wi$eUp Teleconference Archive at http://wiseupwomen.org features MP3 files and transcripts from Wi$eUp's bimonthly national teleconferences featuring nationally noted speakers on a variety of financial topics. Some of the teleconferences related to this chapter of Wi$eUp include:

- Putting the Pieces Together to Weather the Economic Downturn
- Money Matters: Budgeting to Stretch Your Dollars
- Budget to Save
- Different Money Personalities

Citations for Chapter 3, Money Basics

1. Chatzsky, Jean. *You Don't Have to Be Rich*. New York: Portfolio, The Penguin Group, 2003. See Chapter 10, "The Ten Commandments of Financial Happiness," pp. 232-233.
2. Mellon, Olivia. *Money Harmony: Resolving Conflicts in Your Life and Relationships*, Walker and Company, 1994.
3. Mellon, Olivia and Sherry Christie. *Overcoming Overspending: A Winning Plan for Spenders and Their Partners*. Published by the authors, 2008.
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