Unit One
Financial Basics

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Saving and Investing for Life

Saving And Investing for Life

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Debt: How Much is Too Much?

Are you carrying too much debt? Is it good debt or bad debt? What is the difference?

Good debt provides you with some type of return. For example, a loan for education has a potential return such as higher pay or advancement in a job. Purchasing a home can be good debt provided you do not overextend yourself. In other words, buy a condominium or home you can afford.

Bad debt does nothing for your bottom line. It provides little to no return on your money. Credit card debt would fall into this category. Purchasing something today on credit that may not be around by the time you pay it off is one example of bad debt.

Use this worksheet to help you determine where you stand…

1.	Total average monthly debt payments (not including mortgage, rent, utilities)		$ ________
		divided by	
2.	Monthly take-home pay		$ ________
		Equals	
3.	Debt-to-income ratio		% ________

Is your debt within a comfortable range or are you headed for danger? Check out the chart below.

Rule of thumb for consumer debt	
Under 15%	Comfortable
15% - 20%	Caution
Over 20%	Danger

Adapted by: Jeanette Tucker, Ph.D., LSU AgCenter, Deborah Hurlbert, LSU AgCenter
Originally developed by : Dena Wise, Ph.D. University of Tennessee Extension

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Pub. Misc 50 11/09
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Developing Your Debt Repayment Plan

Almost a third of all families are taking on more debt from month to month. As consumers we are committing more and more of our future income to debt. If you are barely making ends meet and you are looking for a way to get out of the stressful monthly grind, consider establishing a debt repayment plan.

What is a debt repayment plan? A debt repayment plan is a systematic or regular plan to repay debt you have incurred. To begin with, you must review your budget and cash flow. Then determine your timeline for paying off debt. Now for the more difficult step; calculate how you can squeeze extra dollars out of your monthly budget to begin paying down your debt.

Let's say you have a $1000 balance on a major credit card and you decide you want it paid off within 10 months. Simple math shows that you will need an extra $100 per month to pay down the $1000 debt. It can be done, but you will also need to avoid increasing your debt, in other words, reduce your spending.

Why develop a debt repayment plan? A debt repayment plan will be your map or game plan to reducing your debt. Knowing what debt you have and where you want to be is essential. Developing a plan will make it easier to successfully repay your debt. A debt repayment plan is also useful in repairing your credit if needed. The form on the next page can be of help to you when developing a workable plan.

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Debt Repayment Plan

No.	Creditor Current Balance	Month/Amount											
		Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec

Calculate Your Net Worth

A net-worth statement provides information for calculating your wealth. Your wealth is the fair market value of your current assets (what you own) minus your current liabilities (what you owe).

The statement can help you measure progress toward long-term financial goals. Net worth statements are also useful summaries of your financial affairs, and you may use them in different ways:

- If you prepare a net worth statement about the same time each year, you will see how your total net worth changes from year to year. You will want to see if your assets are increasing and your debts are decreasing from year to year – that is, if you are building wealth.

- If you have both investments and debt, it may not always be clear whether you are spending more money than you have coming in. If your net worth has declined from the past year, this can signal to you that you need to make adjustments to live within you income and provide for savings.

- If your objective is to analyze your retirement plan, you may be interested in the present and projected future values of your investments as totaled on the statement.

- The estimate of you home and contents may help you decide how much homeowner's insurance you need to purchase.

- The total of your liquid assets (assets that can be quickly converted to cash) may provide information about how well prepared you are for a financial emergency or loss of income.

- You may also be asked to fill out or provide a net worth statement when you apply for a home or auto loan, or talk to an estate planner.

Instructions for calculating net worth

1. Insert the figures for all items listed under cash and cash equivalents on the net worth statement worksheet. These are funds that you can count on now or that can be easily converted to cash.

2. Figure and record the market value of all other possessions listed in the investment, personal assets and other categories of the worksheet. Time may be needed to convert assets into money. Always calculate the market value – the price you would receive now if you were to sell.

3. Total all of your assets.

4. Write down all that you owe – bills, credit/charge card balances and loans.

5. Total all of your liabilities.

6. Subtract your total liabilities from your total assets. This gives your net-worth and shows how much you are worth at a specific point in time. Date the form.

Tips When Calculating the Value of Your Assets.

- Car values are published by the National Automobile Dealer's Association and by Kelly Blue Book. These publications are available in most libraries, at car dealerships and at lending institutions. You can also find sites on the Internet that list auto values.
- The cash value of a whole life insurance policy can also be found on a schedule in the policy. It is also available from your insurance agent. The cash value is the amount of money the insurance company would return to you if you terminated the policy today.
- Values of annuities are available in annual reports or periodic statements, or from your broker or insurance agent.
- Estimate the value of consumer goods by using information from second-hand shops and from classified ads. Use conservative estimates because it is not always easy to sell used possessions.
- The value of collections and jewelry can be estimated by dealers.

Tips When Calculating Your Liabilities.

- The balance owed on installment debts or credit cards is listed on monthly statements. If not, the balance can be obtained from the creditor.
- The principal owned on a mortgage or real estate loan is available from the mortgage holder.

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Net Worth Statement

Name ________________________________ Date ____________________

Assets (what you own)

Cash	
Cash on hand	$
Checking account	$
Savings account	$
Money market funds	$
Total Cash	$
Money Loaned to Others	
(Repayment expected)	$
Investments (market value)	
Savings bonds	$
Stocks	$
Bonds	$
Mutual funds	$
Cash value of retirement fund(s)	$
Cash value of life insurance	$
IRAs	$
Cash value of annuities	$
401(k), 403(b), 457 Plans	$
Other	$
Total Investments	$
Personal Assets (market value)	
Home	$
Other real estate	$
Automobiles	$
RVs boats, etc.	$
Home furnishings	$
Collections	$
Jewelry	$
Other	$
Total Personal Assets	$
TOTAL ASSETS	
Total Cash + Money Loaned to Others + Total Investments + Total Personal Assets)	$

Liabilities (what you owe)

Bills	
Unpaid utilities	$
Unpaid medical bills	$
Unpaid taxes	$
Unpaid insurance premiums	$
Unpaid legal judgments	$
Other unpaid bills:	$
Total Unpaid Bills	$
Credit/charge Card Balances	
	$
	$
	$
	$
Total Credit Card Debt	$
Loans	
Home mortgage balance	$
Second mortgage or home equity loan balance	$
Total of other real estate loan balances	$
Automobile loans	$
Total student loans	$
Loans from retirement funds or life insurance	$
Personal loans from family or friends	$
Other loans	$
	$
	$
	$
	$
	$
Total Loans	$
TOTAL LIABILITIES	
NET WORTH	
Total Assets from page 1	
	$

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Your Game Plan for Building Wealth

Priority 1: Make sure that income exceeds expenses by either increasing income or reducing spending if needed. This is the first and most important rule of savings.

Priority 2: Maximize opportunities for savings matches through your employer. Participate, at least up to the match, in any payroll savings match plan offered by your employer. Employees may match up to a certain dollar amount or percentage of your income that you save in a retirement plan such as a 401(k) or 403(b). Take advantage of this FREE money.

Priority 3: Build an emergency fund. If the saver has high cost credit, such as credit card debt, the emergency fund may be equal to 1 - 2 months' net earnings. If high cost credit has been paid off, the emergency fund may be built to 3 - 6 months' net earnings plus savings for any large purchases planned in the short term future. If your job is seasonal or uncertain, you may need up to 6 months net salary.

Priority 4: Pay off high cost debt. Stretching credit card payments out by paying only the minimum payment can result in thousands of dollars lost to interest over the years to payoff. In addition, you've lost the opportunity to invest the money you've paid in interest and see it grow over the years.

Priority 5: Purchase a home. Most Americans build wealth through home equity. Investment in a home grows through payment on the principal of the mortgage as well as increase in the value of the property. Well chosen real estate property is expected to increase a minimum of 3% per year.

Priority 6: Maximize contributions to tax-protected savings. These may be 403(b), 401(k), or 457 accounts for employees, or Keogh, SEP, or SIMPLE accounts for those who are self-employed. Depending on tax bracket, savers may realize up to 39% savings increases by tax-deferring savings dollars. Although Roth IRAs are purchased with after-tax dollars, their interest grows tax free.

Priority 7: Develop specialized investments to meet pre-retirement financial goals. Pre-retirement financial goals may include home purchase, education plans, meeting family needs and achieving lifestyle goals. Balancing pre-tax and after-tax savings is important to financial security both before and after retirement.

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Developing A Saving - Spending Plan (Budget)

A spending-saving plan will help you to stay in control of your finances. You can use it to make ends meet, save for emergencies and plan ahead for big expenses. With your spending under control, you can

- Pay your bills.
- Have money for things you need.
- Reduce your stress.
- Feel better about yourself and your future.

The following worksheet will help you estimate both your income and expenses. Use a pencil or erasable pen to complete the worksheet so you can make changes in your saving/spending plan as needed.

After you have completed the Savings-Spending Plan Worksheet, you can use the publication, “Track your Spending” to keep track of what you actually save and spend compared to your plan.

Instructions:

1. Calculate monthly net income in box 1
2. Estimate monthly expenses [sum of fixed (2a), controllable (2b) and monthly portion of period expenses (2c)]
3. Compare income and expenses and make adjustments in box 3.

1. Monthly Net Income	
Net* monthly wages	$
Net monthly wages of others in home	$
Public Assistance/food stamps	$
Unemployment/disability	$
Child support/alimony	$
Social Security/retirement	$
Other	$
Other	$
Total net monthly income	$

*After tax withholding and other deductions

Saving – Spending (Budget) Work Sheet

2a. Fixed Expenses		2b. Controllable Expenses	
Housing		**Savings**	
Rent or Mortgage	$	Monthly portion of periodic expenses (from sec. 2c)	$
Insurance/Taxes	$	Emergency fund	$
Utilities		Saving for long term goals	$
Telephone	$	**Food**	
Natural gas/Heating	$	Groceries	$
Electricity	$	Meals at work	$
Trash/Garbage	$	Meals at school	$
Water	$	Other food eaten out	$
Sewer	$	**Household expenses**	
Cable	$	Maintenance & cleaning supplies	$
Other:	$	Furnishings & appliances	$
Credit Card payments		Outside upkeep & lawn	$
	$	**Transportation**	
	$	Gas	$
	$	Auto repair & upkeep	$
	$	Other transportation costs (bus, parking, etc.)	$
	$	**Personal expenses**	
Loan(s)		Medical/dental (prescriptions, OTC medications, vitamins, etc.)	$
	$	Health club or other fees	$
	$	Personal care items	$
	$	Clothing	$
Autos & other vehicles		Laundry/dry cleaning	$
Loan/lease payment	$	Diapers	$
Boat/RV loan payment	$	Internet service	$
Insurance	$	Cell phone	$
Other:	$	Charity/gifts	$
Family care		**Entertainment**	
Child support/alimony	$	Travel	$
Child/elder care	$	Books & magazines	$
Personal insurance		CDs & music	$
Life	$	Movies, clubs	$
Health	$	Other entertainment	$
Disability	$	**Other monthly controllable expenses**	$
Long-term health	$		
Other fixed expenses	$		
Total monthly estimate of fixed spending	$	**Total monthly estimate of controllable expenses**	$

2c. Monthly amount needed for periodic expenses

These are expenses that come up once or twice a year. Fill in the estimated costs under the month they are due. Do not include taxes withheld from your paycheck, but do include estimated tax payments you make to the IRS, add your total yearly periodic expenses and divide by 12 to determine the monthly portion.

	J	F	M	A	M	J	J	A	S	O	N	D	TOTAL (S)
Taxes (property, income, etc.)													
Insurance (home, auto, life, health, disability, etc.)													
Auto servicing & tires													
Driver's or other licenses													
Auto, boat, RV registration													
Club and organization dues													
Birthday gifts & expenses													
Holiday gifts & expenses													
Tuition & educational expenses													
Vacation or travel													
Home furnishings & appliances													
Home maintenance & repairs													
Other													
Other													
Total (s)													

Monthly amount needed for periodic expenses = $______________ /per month
(Total for year divided by 12)

3. Compare income and expenses	
Net* monthly income	$
Estimated expenses:	$
Fixed	$
Controllable	$
Periodic (monthly portion)	$
Total monthly expenses	$
Estimated Total Monthly Expenses	$
Balance	$

*after tax withhold and other deductions

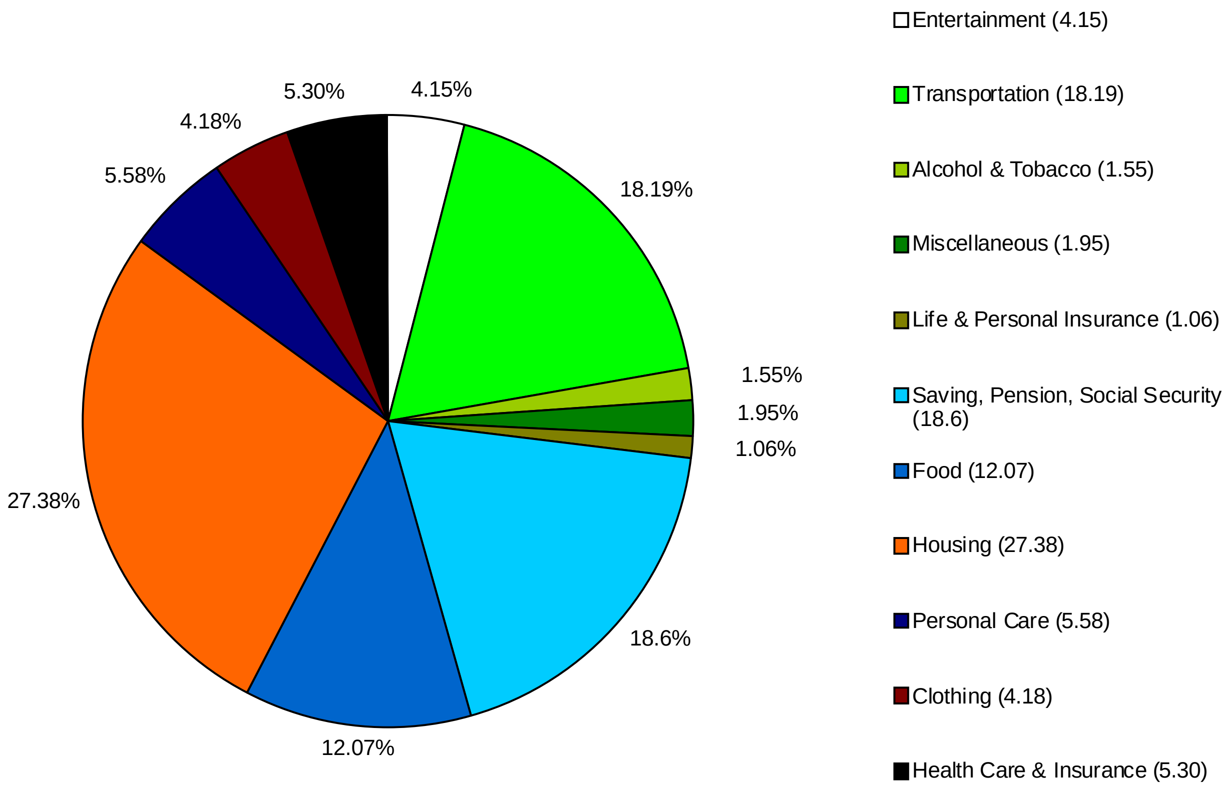
Definitions

Periodic expenses are those that occur only once or a few times during the year.
Fixed expenses are necessary and normally do not chance much from month to month.
Controllable expenses are those that you can change.

Tips to Remember:

- If there are times of the year when you have little or no income, plan to save money for these times. Know which months you expect less income and which you expect more.
- Are you just not sure where your money goes? Actually tracking your spending for a month can provide you with a more realistic picture of your spending habits. Use the publication "Track Your Spending" to help you do this.
- There will be unexpected expenses – auto repairs, dental or medical bills, and appliance repairs, for example. Include money in savings to prepare for these expenses. You may want to set up a special account for emergency and periodic expenses.

Average Expenditures for Households in the South



Source: Table 8. Region of residence: Average annual expenditures and characteristics, Consumer Expenditure Survey, 1999-2000. This data is an average of expenditures for the years 1999 and 2000 for Southern households in the survey.

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Reference: Dena Wise, Ph.D., Tools for Money Management: Saving Spending Plan. University of Tennessee Extension

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Track Your Spending Worksheet

Instructions: On this page, enter ***planned*** fixed expenditure amounts from Step 2a of the Saving-Spending Plan Worksheet. On next page, enter ***planned*** controllable expenditure amounts from Step 2b of the Saving-Spending Plan Worksheet. Keep track of and record amounts actually ***spent*** for each category. Calculate the ***difference***(s).

Dates / Period	**Planned**	**Spent**	**Difference**
Housing			
Rent/Mortgage			
Second Mortgage			
Insurance			
Utilities			
Telephone			
Natural gas/heating oil			
Electricity			
Garbage pickup			
Water/sewer			
Other			
Other			
Credit payments			
Credit card payments			
Card			
Card			
Card			
Card			
Loan payment			
Loan payment			
Autos & other vehicles			
Auto loan/lease payment			
Auto loan/lease payment			
Boat/RV loan payment			
Auto/vehicle insurance			
Family care			
Child support/alimony			
Child/elder care			
Personal insurance			
Life			
Health			
Disability			
Long-term health			
Other fixed expenses			
Total fixed expenses (enter here and also at bottom of page 2)			

Dates / Period	Planned	Spent	Difference
Savings			
Emergency fund			
Periodic expenses			
Long term investments			
Food			
Groceries			
Meals at work			
Meals at school			
Other food eaten out			
Household expenses			
Maintenance & cleaning			
Outside upkeep & lawn			
Personal expenses			
Medical or dental care, prescriptions, OTC medications, vitamins, etc.			
Health club or other fees			
Personal care items			
Clothing purchases			
Laundry/dry cleaning			
Diapers or diaper service			
Cable			
Internet Service			
Cell phone			
Charity/gifts/other			
Transportation			
Gas			
Auto maintenance & repair			
Other (bus, parking)			
Entertainment			
Travel			
Books & magazines			
CDs & music			
Movies, clubs			
Other entertainment			
Other controllable			
Total controllable			
Total fixed (from page 1)			
TOTAL ALL EXPENSES			

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Planning Your Emergency Fund

How well prepared are you to handle financial emergencies? Having an emergency fund set aside can get you through a crisis with less stress. If you don't already have savings for an emergency, that should be one of your most important financial goals. How much should you set aside? Financial advisors recommend 2-3 months of take home pay, or more. More protection is better if you experience frequent layoffs, seasonal earnings, or other income gaps. The amount you save for emergencies depends on your unique financial needs. An emergency fund is a good place to save for anticipated major purchases like a car or major appliance that will have to be replaced. If your finances are really tight, set your goal to get and keep $500-$1000 in an emergency fund. This will make a big difference in your ability to handle emergencies as they arise.

Monthly net salary X 3 (or 2*)	$____________
Anticipated amount of major expenses planned (appliances, furnishings, home repairs, etc.)	$____________
Emergency fund goal	$_____________

* If you have credit card debt that you carry from month to month, put 2 rather than 3 months' salary in an emergency fund. After you have paid off your credit card debt, add an additional month's salary to your emergency fund. If your job is seasonal or uncertain, you may need up to 6 months' net salary.

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