Personal Finance Education
By the Standing Chapter 13 Trustee at Flint

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In Personal Finance

Revised: January 2018

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Course Outline

Why Is This Class Necessary?

What's Changed?

As of October 17, 2005, a "personal finance education" class is now a ***federal mandate*** for all Chapter 13 filers. The class:

- Must be received from a provider approved by the United States Trustee.
- Must be at least two hours in length.
- Must address certain financial topics and concepts as directed by the United States Trustee.
- Must be completed in order to receive a discharge.

Why We Think This Class Is Important

Many people feel that filing for bankruptcy is a *bad* financial decision that means giving up on future goals. The truth is that filing for bankruptcy is usually a *good* financial decision that enables people to achieve their future goals by giving them a fresh start and helping them get back on track.

Elizabeth Warren, a Harvard Law School professor and bankruptcy expert, has found that for every family that files for bankruptcy, there are *seven more who should*. So, the first thing we would like to say to you is, "Congratulations on making a good financial decision."

We also want you to know that if you never have been taught about handling your personal finances, *you are not alone*. In fact, in our own study of 150 filers, only one person had ever had any type of instruction in personal finance. What is alarming about this is that 59 percent of these filers had *more* than a high school education.

We know our educational system is missing something that is vitally important to each person's quality of life and future — how to manage money and make sound financial decisions. We'd like to help with this class. We are hopeful that you will use this information in your own life and share it with those you love.

This class is intended to help you be successful *throughout your bankruptcy and beyond*. It is about helping you move toward *your* future goals, whatever they may be. This class is about *you*.

What This Class Is *Not*

This class is *not* meant to ...

- Punish or scold you.
- Embarrass or humiliate you.
- Scare or intimidate you.
- Talk down to you or be condescending.
- Tell you what to value or how to live your life.
- Divulge personal information about you.
- Provide you personal, legal or financial advice.

This class *is* meant to be an opportunity for you to learn more.

But WIIFM?

WIIFM ("What's In It For Me")?

This class can ...

- Help you identify social, emotional and relational issues which affect your financial decisions.
- Introduce financial concepts, information and resources that you can use to help make financial decisions, both now and in the future.
- Heighten your awareness of those who prey on people with financial needs and difficulties.
- Help you set and prioritize personal goals which influence your spending and saving decisions.
- Assist you in developing new skills and habits which will help you work toward your goals.
- Introduce techniques and skills for organizing and tracking your finances.
- Answer your questions about rebuilding your finances and life after Chapter 13.
- Fulfill your requirement for "personal finance" education.

Which of these things matter the most to you?

What do you hope to get out of this class?

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Starting Where You Are

(Take a Look Around)

Self-Worth

How we choose to live our lives is largely determined by how we view money, what we've learned about money, and how we perceive ourselves.

But money doesn't define *who* we are.

Money is simply a resource — a means to an end, rather than an end in itself. It is something we use to attain basic necessities and pursue our goals.

How do our perceptions of others and ourselves become so connected with our views of money?

How do we develop our views of money in the first place? List three ways.

1)

2)

3)

Green With Envy

The Media

In earlier times, for most people, money brought security: food, clothing and shelter. Many ordinary people did not really know many details about the lifestyles of the wealthy. As times evolved, mass media — print, radio, television, and then the Internet — made public the private lives of the rich.

Today, separating fact from fiction isn't so easy. Instagram, posts on social media, Pinterest, and many other forms of notifying consumers of current trends leave us wanting more and more. Even popular TV shows depict middle-class Americans as well-to-do spenders with fresh homes, new cars and hip clothes.

What current TV shows are influencing spending habits?

How do you compare your life to those depicted on TV shows?

Advertisers

Of course, mass marketers have fueled our greed. From the first color TVs to designer jeans, they have provided us access to new "luxuries." But more damaging has been that advertisers have lured us into believing that each of us "deserves" such things in our lives and can afford to buy them — with or without cash.

What are the "must-haves of the moment?"

What does it mean to you to "live well?"

Family Matters

Many of our beliefs about money are shaped by our life experiences, especially during childhood. What you learned about making money, saving money and spending money can influence how you make your own financial decisions. These beliefs can be limiting or empowering.

Consider a person raised in poverty versus another born with “a silver spoon.” How might their upbringings influence their individual financial habits in a positive way? In a negative way?

How did your upbringing help you form your views about money and money-oriented behaviors, such as saving or spending?

How have your views changed since childhood?

How do you communicate with your children about money?

The Psychology of Money

Money affects us on two levels. One is practical; we use money to make purchases.

The other level is emotional; we use money to attain feelings of pleasure, acceptance, love or even power. If we are to recover from debt, it is important to understand why we went deeply into debt in the first place.

Comparing Ourselves to Others

We constantly compare our financial situations to friends, coworkers, family members, and neighbors. By comparing ourselves with others, we are actually making judgments about our own identities and self-worth based on tangible, external things. This causes stress, dissatisfaction and even pain for many.

Self-Esteem

When our identities center on money, it is difficult to repress our cravings to spend. Acquiring more things becomes a way to bolster our self-image. If our self-esteem plummets, we are more vulnerable to waves of impulse buying and buying things we don't need.

Fear

All of us have concerns, worries and fears in our lives. We worry about our futures and the well-being of our loved ones. We are concerned with being unloved or unaccepted. These emotions drive our perceptions of what we need in order to prevent or overcome our fears.

What recent advertisements or commercials can you recall which seemed to prey on feelings of fear or inadequacy?

Mind Over Money

We all know that trying to keep up with the Joneses can get us into financial trouble. Realizing that millions of American “Joneses” are struggling with debt-related stress should make keeping up a little less appealing. Perhaps we must continually remind ourselves that *who* we are is not determined by money or a lack of it.

When we have a healthy attitude about money, we feel less of a need to create positive feelings for ourselves by purchasing things. We are more secure about ourselves. We cease comparing ourselves and become tuned into our own internal motivations and beliefs. We are less preoccupied with our fears. Our spending is aligned with our priorities and goals.

When do you find yourself comparing yourself to others?

How does money, or a lack of it, make you feel about yourself?

What are your greatest fears about money?

Spending Dollars or Emotions?

Emotions trigger and influence *all* of our behaviors, so it is no wonder that our spending behaviors can be emotionally charged. Understanding and controlling our emotions can help us understand and control our finances.

How do emotions control your wallet? Does spending money make you feel better? Do you find yourself: Overspending? Spending money you don't have? Buying things you don't really need?

Examine some of the emotions listed below. Think or talk about how they affect you.

- ◊ **Blue, Sad or Depressed**
- ◊ **Inadequate, Inferior, Impressive or Competitive**
- ◊ **Angry or Resentful**
- ◊ **Happy, Fun, Festive or Optimistic**
- ◊ **Lonely**
- ◊ **Bored or Impatient**
- ◊ **Worried, Concerned or Fearful**
- ◊ **Daring, Bold, Adventuresome, or Carefree**

Have you later discovered that these emotions caused you to spend yourself into unhappiness and worry?

For Love and Money

Financial disagreements and issues doom many relationships. Often, disagreements about money can result in power struggles, conflicts about future goals, resentment about past decisions, and other relationship problems. Most reports blame money troubles as the #1 cause of divorce.

Like other issues in relationships, communication is critical to preventing or resolving problems. But couples frequently avoid talking about money.

Here are some ***tips for communicating and working together*** to become financially compatible:

- Talk openly and calmly about your individual money "worries."
- Share your individual views about money and how you perceive your own financial habits.
- Learn about money together. Read a book about money management, explore reputable money management sites on the Internet or take a financial management class together.
- Discuss and agree on short- and long-term goals. Talk about financial strategies, such as budgeting, to work toward your personal goals.
- Get your finances organized together. Track your spending. Know how much you owe together and individually. Sort your bills and outgoing payments.
- Divide up the money management tasks, but agree to make big spending decisions together.
- Make a commitment to discuss money regularly.

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Don't Look Down

Ways to Pay

Lease versus Buy:
The most common decision involving a choice between leasing and buying is when buying a new car. Car leases may seem straightforward, but they can be tricky and contain hidden fees. You get to drive a new car, but over the long run, it will cost you more. Before you decide, carefully weigh the pros and cons.

Consider that at the end of the lease, you won't own the car, although you will have to pay for any excess wear and tear. Most leases let you drive the car for 15,000 miles per year. If you drive more, the dealer could charge you an extra fee for every mile. With an "open-end" lease, the car must be worth a certain amount when you return it or you have to pay the difference.

Owning and maintaining a vehicle can be expensive, too. Plus, a new car begins to significantly depreciate as soon as it is driven off the dealer's lot. Still, the costs of leasing topple the expenses of buying over a five-year period.

If you want to save money, buy the car and drive it for at least five years. Or, better yet, purchase a reliable used car.

Home Equity Loans:
A "Home Equity Line of Credit," or HELOC, can be a good way to finance a goal, like a home improvement. Typically a HELOC costs nothing to set up and offers a low interest rate. That may be why Americans have withdrawn billions of dollars worth of equity from their homes, putting their homes and themselves on the line. If home values fall, these people could end up owing more than their properties are worth.

Don't use your home's equity to pay off debts which you are likely to fall into again. Be cautious not to strip your home of the equity you spent years building.

Rent to Own:
Rent-to-own plans allow you to rent and use a product with the option of owning the product if all the payments are made on time and the item is not returned. The catch is that the payments are jacked up to ridiculous levels. Do the math and you'll probably find out you could buy four or five of the items if you paid cash. Besides, most rent-to-own items, like furniture or TVs, are things you can live without. Save the money you'd make with your payments, and buy the item outright when you're ready.

No Cash Required

Very few of us can afford to pay cash for *everything*. Purchasing a home or a car, for example, requires most of us to borrow money. When we borrow money, we accept debt. There are two types of debt: *Secured* and *unsecured.*

Secured debts are tied to some type of property, called *collateral*. The collateral guarantees that you will pay the debt. If you don't, the collateral will be taken away. Examples of secured debts are mortgages and home equity loans, loans for cars and other types of vehicles, personal loans where you identify something as collateral, and judgments or liens.

Unsecured debts require no collateral. If you default on your debt, the creditor does not want the items you purchased returned. Instead, they will sue you to get their money back. Examples of unsecured debts include credit cards, store and gas cards, medical bills, student loans, rent, utilities and child support.

Both secured and unsecured debts are types of credit, because they allow you to buy something now and pay later. Some may be short-term, even a single payment such a telephone bill. Other debts are long-term and repaid over several months or years, called *terms*.

Also, most creditors require you to pay *interest*. This is the extra amount of money you'll have to pay for the privilege of borrowing their money. Usually, interest is expressed as an *interest rate*, which is a regular percentage applied to the balance of your debt.

Some loans allow you to pay extra money on the your *principal*, which is the original amount you borrowed. This reduces the overall *life* of your loan by reducing the number of payments you will have left. This strategy also saves you a lot of money by eliminating the interest you would have paid on those payments. Most creditors allow you do make advance principal payments without a fee, but you should check with your creditor to make sure.

Although you should shun some types of debts, like costly credit card debt, not *all* debt is bad. In fact, some debt, like a mortgage, may help you achieve certain goals. The challenge is to know when debt makes sense and how much debt you can afford without jeopardizing your assets or depleting your emergency cash reserves.

Which of your debts are "secured?" Which of your debts are "unsecured?"

Buy Now ...
Pay Way More Later

Credit cards can be a great convenience, but when you use a credit card instead of cash, you may not feel like you are spending real money. The truth is you will likely spend *more* money on your purchase, unless you are in the habit of paying your credit card balances in full and on time at the end of the month.

Here's how credit card interest works. Most cards use an average daily balance method to determine the interest you will pay. Your average daily balance is calculated by adding up your daily balances in the billing period (typically one month) and dividing by the number of days (30-31 days).

If your credit card's *APR (*Annual Percentage Rate) is 12 percent, then your *periodic rate* would be 1 percent (12 percent divided by 12 months). The 1 percent is multiplied by your average daily balance. This determines the interest due for that month. On new charges, most creditors give you a *grace period* of about three weeks before you owe interest.

One reason Americans are loaded with credit card debt is that so many people believe that minimum payments are acceptable amounts to pay on their credit card bills. Some don't realize that making the minimum payment covers the interest owed for the month, but barely puts a dent in the principal owed. It may take years to pay off even a small debt, costing thousands of additional dollars!

Consider this: If you charged $1,000 at an APR of 20 percent and made only the 4-percent minimum payment, beginning at $40, it would take you 92 months*,* or almost *eight years,* to pay off the debt, costing you an *additional* $612! However, if you paid an additional $20 each month, your debt would be paid off in 20 months, or less than *two years,* and you would pay only an extra $181 in interest.

Not paying off credit card balances in full at the end of each month is a sure way to fall into debt. To make matters worse, it usually takes only one payment or maxed-out credit card for creditors to jack up their interest rates, making the debt harder to pay off. That's why credit cards are called "plastic dynamite!"

Learn to pay off your credit card balance each month. If you can't pay it off, pay as much as you can.

"Money often costs too much."
— Ralph Waldo Emerson

Card Tricks

Competition between credit card companies and other lenders has grown fierce in recent years as the lending market has become saturated with outstanding loans and debt. Credit cards have become especially tricky to use as card issuers try new tactics for boosting their profits. Here are some "card tricks" you should know about. Some of them are downright sneaky!

Annual Fees and Inactivity Fees: Some card issuers charge a once-a-year fee. This fee can range from $25 to $500. Even if you are not paying an annual fee for *using* a card, a few companies charge a fee for *not using* their card for six months or more. Inactivity charges can be $15 or more.

Shorter Grace Periods: Card companies give you a period of time on new charges before you begin owing interest. This is called a "grace period." In the past 10 years, most lenders have reduced their grace periods from 30 days to about 21 days. Some cards, however, permit a grace period only if you pay your balance in full, while some cards have no grace period at all.

Late Penalties: Lenders are collecting 400 percent more in late fees today than just eight years ago. Most lenders do not offer any leeway; if you are even a day late, you will be charged a stiff late fee. The average late fee is about $30, but some lenders charge higher late fees for customers carrying higher balances.

Over-Limit Fees: Many card companies add a fee to your bill if you exceed your borrowing limit by even one dollar! Over-limit fees average between $25 and $40. If you make a late payment, your lenders may even lower your credit limit, making it more likely that you'll rack up over-limit penalties.

Cash Advance Fees: All credit card companies charge fees on cash advances, averaging about 3 percent. There is no grace period on cash advances, meaning you start owing interest right away.

Interest Rate Hikes: If you are late making a payment on *one* credit card, you may wind up with higher interest rates on *all* of your credit cards. Card companies routinely check credit reports looking for late payments on any of their customers' other bills. If they find evidence that customers are not paying their bills on time, they will jack up the interest rate, making it even harder to pay off the debt. It's called a "universal default penalty," and almost 40 percent of card companies have them. Some also will raise interest rates for those with a history of making only *minimum payments*, called "minimum payment activity."

Reward Cards: These cards reward you for spending money. By using their card or shopping at their store, you collect "points" which can be used toward purchases, or sometimes you'll get "cash back." But watch out! People spend more and more often with these cards.

Offer You Can't Refuse?

Each year, billions of pre-approved credit card offers flow into American homes, many offering jaw-dropping introductory rates. Many American consumers have made the mistake of "surfing" their balances from credit card to credit card. Most have learned the hard way that the lure of these great deals often conceals an array of credit traps.

Retailers, too, are finding new ways to attract new customers with special credit and payment plan bargains. Not only do these financial deals encourage consumers to spend more money than they might have otherwise, but they can also entrap consumers into agreements with serious financial consequences.

Teaser Rates:
Credit card companies will offer teaser rates to new customers to lure them into a card agreement. Usually, the rate lasts only a few months before a much higher rate takes effect. Often, the teaser rate applies only to balance transfers, not to new purchases. Also, one late payment can trigger the higher rate for the entire balance.

Balance Transfer Fees:
Many credit card companies will mail "checks" with their offers, so that you may pay off other debts or transfer card balances. However, this service doesn't come cheap. Many charge a steep balance-transfer fee, up to 3 percent, when you transfer a balance to their card, offsetting any advantage you might gain with the lower interest rate.

Bait-and-Switch Offers:
Just because a lender offers you a great introductory rate doesn't mean you will get it. The lender can opt to issue you a more costly card with a higher interest rate if they do not approve you for their premium card. Even if you are "pre-approved," it is usually conditional.

Zero Interest:
Many retailers advertise special credit deals to entice people to make large purchases. These deals promote lending plans such as "One Year Without Interest." What they don't advertise is that if you are one day late in making a payment, you will convert to a plan with an extremely high interest rate.

Skip Payments:
Watch out for stores with offers such as "Make no payments for a year." While you aren't required to make the payments, the interest still accrues. When the time period is up, you'll be expected to repay in full. If you can't, all of that interest becomes a part of your debt, so you end up paying interest on interest. Some deal!

But the Game is Changing

The Credit Card Act of 2009 was signed into law on May 22, 2009. The requirements and protections started taking effect in August of 2009 and were phased in over a 15-month time period. This law has fundamentally changed the way credit card issuers market, bill, and advertise their credit cards.

Limits interest rate increases

- No universal default
- Cannot increase rates on ***new*** transactions for one year unless a late payment is made
- Significant changes require 45 days advance notice

Mandates clearer and more reasonable due dates

- Minimum due date of 21 days
- Cut off time set before 5pm on the payment due date is illegal

Limits over-limit fees

- Consumers must 'opt-in' to have over-limit coverage and fees

Limits opening fees for subprime cards for people with bad credit

- Account opening fee cannot exceed 25% of the starting balance

Requires payoff information

- Must disclose payoff amount if only making the minimum payment
- Must disclose payment if paying off in 36 months
- Higher interest balances paid off first

Protects younger applicants

- Applicants under the age of 21 require a cosigner over 21

Implements gift card protections

- Gift cards cannot expire before 5 years after they are issued
- Dormancy fees can only be charged if the card is unused for 12 months or more

How to Win the Game

The way to win the credit card game is not to play! Credit card companies disguise their profit-making tactics with marketing ploys they know will lure new customers.

However, if you do use credit cards, here are some pointers to avoid getting financially trapped:

- Read the fine print of any credit card agreement or lending plan before you sign up.
- Make your payments on time.
- Don't use your credit card to get cash.
- Don't max out your credit cards.
- Pay off your balance as soon as possible. If you can't, pay down your balances by always paying *more* than the minimum payment.
- Consolidate your balances to one or two cards, so that you can easily keep track of due dates, balances, and payments. Cancel your other cards.
- Ask your card company to reduce your credit line. It may improve your credit rating, as well as reduce the temptation to charge more purchases.
- Check your credit report once a year for errors.
- Talk with your credit card company to negotiate a lower interest rate, especially if you've been offered a lower rate by another company.
- Resist the temptation to sign-up for special deals and offers. Be skeptical of anything that sounds too good to be true.
- Remember, the best way to avoid being a victim is to be informed.

"You never get bitten by an elephant.
It's the mosquitoes that eat you alive."
— Holly Stihl

Credit Reports

Your credit report is a record of all your credit activities. If you are late making a payment, it appears on your report. Even when you apply for a credit card, it will show up on your report. Your report also records how much credit you're entitled to use, and how you use it. Your credit report influences lenders' decisions when they evaluate your credit card or loan requests. Applying for too many credit cards or borrowing too much sends the wrong signal to lenders, who will view you as a risky borrower.

What should you do??

Make sure to pull your credit report every year (from all 3 major credit reporting agencies).

The three major credit bureaus are:

- Equifax www.equifax.com
- Experian www.experian.com
- Transunion www.transunion.com

Effective December 1, 2004, free annual credit reports have been made available upon consumer's request, pursuant to the Fair and Accurate Credit Transactions Act of 2003 (FACT Act).

To obtain a copy of your credit report, go to:
http://www.annualcreditreport.com

Or call:
1-877-322-8228

Or write to:
Annual Credit Report Request Service
PO Box 105281
Atlanta, GA 30384-5281

Credit Scores

FICO Score:
A score-based rating system by Fair Isaac Corporation that many companies use to measure an individual's credit risk.

FICO Scores range from 300-850; the higher the score, the lower the risk of default.

Excellent: 720 and above
High Risk: 620 and below

Components of a FICO Score: "I love debt score" - Dave Ramsey

35% Payment history
30% Amounts owed
15% Length of credit history
10% New credit
10% Types of credit

Vantage Score:
A newer credit rating system (implemented in March of 2006) that is offered by the three major credit bureaus to compete with the FICO Score. One benefit of this type of scoring system is that it provides more predicative scores for individuals with limited credit histories.

Components of a Vantage Score:

32% Payment history
23% Credit utilization
15% Credit balances
13% Depth of credit
10% Recent credit
7% Available credit

Vantage scores range from 501-990 and give letter grades to spell out credit health.

A: 901-990
B: 801-900
C: 701-800
D: 601-700
F: 501-600

How Can I Improve My Credit Score?

Contrary to ads that you might hear on the radio or see on TV, there is no magic trick to improving your credit score. You can't pay someone or a company to restore your credit score, it just takes time and effort! But, what should you do??

1. Establish a credit report. Creditors use this as a financial reference. The contents of your credit report are used to calculate your credit score.

2. Have a mix of credit, but obtain & use a credit card. Keep in mind that just having and using a credit card WILL NOT improve your credit score by itself! It is only by having good credit practices such as making payments on time and reducing your debt to income ratio that will eventually lead to a better score.

3. Always pay on time as agreed. Late payments will negatively impact your ability to get credit and are the first signs of impending credit problems.

4. Use caution when deciding to close accounts. Closing accounts reduces the credit available to you. This increases your total balance-to-limit ratio, which is a sign of risk and can have a negative impact on your credit score.

5. Apply for credit prudently. Many inquiries in a short time might suggest you are trying to take on large amounts of debt.

6. Demonstrate stability. Lenders may look beyond your certain financial transactions if you demonstrate stability in other aspects of your life. They might ask how long you have had your job, how longer you have lived in the same location or whether you have built other assets over time.

7. Have a plan. Know how you are going to repay the debt when you use your credit card or get a loan, and STICK to that plan.

Time is the key!!
It takes some time for your credit report to be updated and balances cannot be reduced overnight. It takes time for scores to improve after you have taken control of your credit.

Money Traps

Some ruthless lenders are constantly coming up with new ways to rip off unsuspecting consumers. People who are financially inexperienced or distraught are especially vulnerable to these cons. Watch out for these traps:

Equity Stripping:
If you don't have much income or cash, but have some equity in your home, there are deceitful lenders who will try to get you to apply for a home equity loan they know you can't really afford. The lender first makes a great deal of money on fees charged to you to process the loan. Then, if you default on your loan, the lender forecloses on your home.

Foreclosure Rescue:
In this scam, the lender offers to "save" you from foreclosure by refinancing your mortgage with lower monthly payments. But the payments only cover the interest, which means the principal amount you borrowed becomes due all at one time. If you can't pay back the entire amount when it's due, the lender forecloses on your home.

Loan Flipping:
Here, the lender offers to refinance your mortgage, encouraging you to take some equity out of your home. After a short while, the lender calls again with another attractive refinancing offer, again persuading you to take out more equity. Each time, the lender adds in fees for the refinancing service. Meanwhile, your overall debt increases. After a while, you have depleted your equity and no longer can afford your payments.

Pay Day Loans:
The lender here preys on the financially struggling individual who needs quick cash. The loan is made to you two weeks in advance of your next paycheck. You then write a check to the pay day loan company for the amount of cash you are getting, plus a fee. Your check is not cashed by the loan company until your pay day two weeks later. What most borrowers may not know is that the fee is based on an enormous interest rate, as high as 400 percent a year.

Extended Warranties:
Retailers often use fear to encourage consumers to buy extended warranties on their purchases. These policies typically cost a lot of money and rarely pay for themselves. Before you buy, consider how likely it is that the item will break down and how costly it might be to repair or replace it. Appliances like refrigerators and dryers are built to take a beating and usually last for years trouble-free. When they do need repairs, the cost of the repair is likely to be less than the cost of the warranty. Computers, however, require more costly repairs than other appliances. Depending on the cost of the warranty and how likely you are to *use* it, it may be worth it.

Step Up Activity: Do Not Disturb

Take steps now to protect yourself from the tempting flow of credit card offers, overly aggressive salespeople, and deceptive lenders by shutting off their communication channels. Here's how you can cut down on the constant flow of marketing "noise:"

- Register your telephone number on the National Do Not Call Registry by calling 1-888-382-1222 or go to www.donotcall.gov. Telemarketers are required to clean their lists every month to comply with the registry. Registration is free, but you must call from the telephone number you want to register. Changes in the law now permit telemarketers to call cellphone numbers, so be sure to register from your cellphone as well.

- Get on the "opt-out" list of consumers who do not want to receive pre-approved offers. The credit reporting companies manage the list, but you can sign up just once at www.optoutprescreen.com. There is no charge, but you will have to provide some personal data.

- To cut down on junk mail, the Direct Marketing Association has its own opt out list at www.dmaconsumers.org. There is a small processing fee. For other marketers, and even charities, contact the company directly. They must comply with consumer requests to be taken off their lists.

- Spam filters may be a part of your computer's anti-virus program, but review products available to determine compatibility and always practice safe Internet activity.

- Until you have successfully opted out of marketing contact lists, learn to throw away junk mail, hang up on telemarketers and delete unopened spam mail.

One thing you should know is that companies you've done business with are allowed to call you or send you unsolicited mail for up to 18 months after your last purchase or payment. However, most will remove you from their contact lists if you ask.

It Takes a Thief

80% of victims of identity theft have no idea how it happened!!

Ways it can happen to YOU:

- Dumpster diving
- Shoulder surfing
- Fake mortgages or credit applications
- E-mails posing as Internet Service Providers
- Online account verification request to 'protect' your account
- Skimmers to collect your credit card information
- Phony employment applications

So how can you protect your identity??

- Destroy records and statements
- Collect mail daily
- Mail bills from a public mailbox
- Protect your Social Security number
- Take your ATM, credit card and gas station receipts
- Keep your card in sight and beware of those around you
- Know who you are dealing with
- Get information from the caller and offer to call them back
- Read your credit card statements
- RFID blocking (radio-frequency identification) microchips

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Looking Up

You Can't Have It All

"You can't have everything. Where would you put it?"
- Stephen Wright

Ever wondered what you would do if you won, say, $100 million? After you picked yourself up off the floor, you might howl in laughter until your sides hurt. Then, you'd call every living soul you know. After a trip to the mall, you'd sit back and start to think about what to do with all of that money.

Then, it would sink in, "Uh, oh. I'm going to have to make a lot of tough decisions." What must you do to protect yourself and your money from swindlers? How will you share your winnings with those you love without causing hard feelings or triggering greed? How will you determine which charities are most deserving of your contributions? How will you invest? What must you do to minimize taxes? You realize you're overwhelmed and scared to death!

Probably none of us will be faced with the problem of how to spend $100 million. (Gee, what a problem!) For most people, money is a scarce resource. It's finite. We only have so much of it. Because of the problem of scarcity, we have to make choices.

Making choices isn't always easy since our goals continually collide with one another. When we make decisions, we have to choose between options. Even *not* making a decision means making a choice. And for everything you gain with your decision, you always give up something else. It's called "*opportunity cost."*

Opportunity cost can be small, like deciding to buy a soda instead of an ice cream bar. The pleasure of eating the ice cream bar is the opportunity cost of that decision. Or, opportunity cost can be big, choosing a larger home which means giving up new furniture.

Opportunity cost can also be tangible or intangible. For example, if you give up going to college to take a job, the opportunity cost would be the missed college experience and education.

Taking advantage of one opportunity means giving up another. So, remember — choose wisely!

"You can't have your cake and eat it, too."
— Unknown

Just Gotta Have It?

Just gotta have it? Yeah, but do you *need* it? Hmmm. Taking control of your finances may mean re-thinking how you view your spending decisions. When it comes to forking over the cash, the very first thing you should ask yourself is, “Is this a want or a need?”

Your money must *first* cover the basic needs of you and those in your care. *Needs* are the things you can’t do without. A place to live, food, basic clothing, medical care and child care — these are necessities. You also need to make payments on debts you owe.

You also use money to buy things you want. You *could* live without these things, but you’d rather not. You buy them because you want them. Wants include things like entertainment, hobbies and cellphones. Wants also include premium versions of your basic needs, like fashionable clothes and restaurant food.

Everyone’s needs and wants are different. Try to be honest with yourself about what you really *need*. Do you need a car? Or, *transportation?*

Of course, you can’t live your life restricting yourself entirely from buying things you want. But before you go for the extras, make sure the basics are covered first. Ask yourself, “How have I lived without this? What harm will come if I continue to live without it?”

You also should ask yourself “how much” of basic necessities you need. For example, even though we want more, we each *need* only two shoes — one for the right foot, and one for the left!

Name four things in your life which are “wants.”

1. _____ **3.** _____

2. _____ **4.** _____

Name four things in your life which are “needs.”

1. _____ **3.** _____

2. _____ **4.** _____

“Small leaks can sink the biggest of ships.”
— Chinese Proverb

Resist Buying on Impulse

You're walking through the store and WHAM! There it is — something you just gotta have, right now! "Should I or shouldn't I?" you think. You tell yourself you really need it, you *deserve it*. You rationalize that it may not be there tomorrow. Before you know it, you're standing in the checkout line with your purchase in one hand and your credit card in the other!

Impulse buying is familiar to all of us. People are emotional creatures, and spending can be an emotionally charged process. It's easy to get carried away, even if we are only frittering away money on little splurges.

Retailers understand our weaknesses. If you haven't noticed the goodies at the check-out stands, your children have! They also put staples and other common goods in the back of the store, so you must walk past aisles of temptations.

So, how can we control that "urge to splurge"?

- Set up a spending plan and stick to it. Set spending limits.
- Plan some fun money. Set aside an amount you can afford to spend.
- Make a list before you go to the store.
- Shop around, especially for larger purchases.
- Don't hang out at the mall without a specific shopping goal.
- Don't shop when you're tired or in a hurry.
- Set a limit you won't exceed without sleeping on your decision first. Never buy a large purchase on the spur of the moment.
- Don't shop on pay day.
- Buy store brands instead of name brands.
- Eliminate extras — services you never use or could do without.
- Only shop the "sales" if you have a specific purchase in mind.
- Buy in bulk only if you can store and use all of the items.
- Carry a debit card instead of a credit card.
- Ask yourself, "Do I need it *today*? How have I managed to live without it?"
- Train yourself to put unneeded items back on the shelf before you check out.
- After you've purchased what you need, get out of the store fast!

Slash Spending

What's busting your budget? Here are several big and little ways to cut expenses and slash everday spending:

1. Pack your lunch
2. Swap baby-sitting duties with another couple or parent
3. Rent movies instead of going to the theater
4. Use the library instead of buying books
5. Go online to read magazine articles and newspapers instead of subscribing
6. Comparison shop online at sites like www.overstock.com or www.dealtime.com
7. Join a wholesale club like Costco or Sam's or buy in bulk
8. Turn down your heat at night and while you are away
9. Choose your cell phone or landline phone, but not both
10. Shop internet and long distance rate at www.lowermybills.com or www.billsaver.com
11. Slow down when you drive to conserve gas
12. Take shorter showers
13. Wash only full loads of dishes or clothes
14. Reduce phone service extras like call waiting
15. Send online birthday cards or make your cards on the computer
16. Wash more of your clothes in cold water
17. Limit your drinks when you go out, or drink more water
18. Seal your window edges in the winter
19. Drop premium TV channels
20. Raise your deductibles on your homeowner or auto insurance policies
21. Keep window blinds open in the winter and closed in the summer
22. Bake for friend's birthday instead of buying gifts
23. Buy cosmetics at the drug store instead of a department store
24. Turn off the lights
25. Carpool, bike, walk, or use public transportation
26. Combine your errands into one outing
27. Buy fresh produce in season
28. Use recipes with just a few, common ingredients
29. Buy generic products
30. Choose free outings, like hikes in the park or an afternoon at an art fair
31. Turn down the temperature on your water heater
32. Break a bad habit

Challenge yourself to think of five more ways to reduce your expenses.

Step Up Activity: Breakin' and Makin' Habits

Experts say it take 30 days to create a new habit. Think about what you have learned so far. Use this self-assessment to take stock of your financial habits, both those that are 'good' and 'not-so-good'. Then, make a plan to spend the next 30 days making one new habit.

- Do you open your mail immediately and sort your bills by their due dates? Or, does the mail tend to pile up unopened?
- Do you use your check registry? Or, do you write checks without knowing your balance and the sum of outstanding checks?
- Are you prone to quick, impulsive purchases, or do you prefer to shop around?
- Do you eat out each day or pack a lunch?
- Do you keep your family 'in the dark' financially, or do you involve them in financial decisions?

My 'Good' Financial Habits:

1. _____

2. _____

3. _____

My 'Not-So-Good' Habits:

1. _____

2. _____

3. _____

One thing I will do for the next 30 days to create a new habit:

Big Decisions

Your House:
More lenient lending practices have paved the way for many families to buy more house than they can afford. Of course, making the payments is just the beginning. With a bigger home comes bigger bills. The result? Many homeowners are finding they can't keep up with the Joneses and are losing ground. Foreclosures are now at record highs.

Other housing options have their own consequences. Renters do not build equity. Those who opt for trailers, condos or modular homes are assessed regular association or lot-rent fees. If their homes cannot be profitably sold when they decide to move, they may get stuck.

Your Kids:
Harvard law professor and bankruptcy expert Elizabeth Warren reports that couples with kids are twice as likely to file for bankruptcy than those without. All expenses ratchet up when you have children — food, clothing, etc. But child care and medical coverage can be especially costly. Experts say to plan on spending about $10,000 more per year for each child.

Your Breakup:
Living on two incomes in one household can be tough. Maintaining two households with the same income, which may be reduced after divorce expenses, can be extremely difficult. This can be especially hard for couples who battled financial troubles in their marriages.

Your Education:
As college tuition continues to soar, so does student debt. Although student loans are more flexible than other types of debt, with lower interest rates and longer repayment plans, student loans cannot be erased in bankruptcy. Experts now warn students not to take on too much debt, limiting their debt to two-thirds of the salary they expect to make their first year after college.

Your Job:
Part of managing your finances is watching how much money you have going out. The other big part is controlling how much money you have coming in — your income. It might seem that families with two incomes are always better off financially. However, most families are also *spending* both incomes to maintain their lifestyles. The loss of one person's job can have disastrous consequences, if the other cannot pick up the slack because they are *already working*.

Your Car:
Just as consumers have bought too much house, so do many buy too much car. To afford a new car, many are turning to car leasing. Considering that the buyer owns nothing at the end of the lease and is charged for excess mileage or wear and tear, car leases can be costly.

Your Health:
Without medical coverage, an illness or accident can be devastating. That's why bankruptcies due to illnesses have risen 2,000 percent in 20 years.

Just In Case

Protecting life's most precious assets ... your health, home, or loved ones ... requires making decisions about insurance. Deciding what to insure and under what terms can be confusing.

Homeowners Insurance
Homeowners insurance helps fix damage to your house and its contents from things like theft, vandalism and natural disasters. It also covers you if someone is hurt in your home and sues you. Usually a "*replacement-cost*" policy is the best deal. If you rent, get renters insurance. This protects your belongings and provides liability coverage.

Medical Insurance
Health insurance can be costly. However, consider that bankruptcies due to serious illnesses are up 2,000 percent in 20 years.

If you are not covered by your employer's insurance plan, try to buy insurance through a group, such as a union or an alumni association. These policies usually are more affordable.

If you can't find a group policy, buy an individual policy. You can lower your premiums by choosing a high deductible or a policy that covers only health catastrophes, such as surgery.

Disability Insurance
Many employers provide disability insurance that will pay part of your income if you are unable to work due to injury or illness. Sometimes, they will offer *supplemental* coverage, as well. If you are on your own, find a policy that covers both accidents and illnesses. Make sure it is a "*guaranteed renewable*" policy that cannot be canceled as long as you pay your premiums. Lower your premiums by choosing a policy that pays benefits until age 65 rather than for life.

Life Insurance
Will your dependents suffer financially if you die? If so, consider getting life insurance. Employers usually provide enough life insurance to cover one year's pay. "*Term life"* insurance is most common, providing benefits for a certain period of time (a "term" of 1 to 30 years). If you are retired with dependents or carry extensive debts, life insurance can be expensive. Talk to a reputable insurance agent.

Auto Insurance
Your car insurance should cover bodily injuries and damage to your car if you're in an accident. If you can't afford to replace your car, take *collision* insurance. If your car is old, you probably can afford to do without this. Ask for discounts for being a good driver or having multiple cars. Lower your premiums by shopping around and taking the highest deductible you can afford. Know your renewal date, so you can get a head start looking for a better deal each year.

Goal Keeper

"People don't plan to fail; they usually just fail to plan."
-Unknown

If you feel your money is leaking out of control, separating your needs from your wants may at least help you plug some holes. Controlling your daily buying behavior is a start, but it can't bring long-term fulfillment. You still have hopes and dreams for yourself and your loved ones, and most of those dreams require money to come true. While it is unrealistic to expect to fulfill all of your individual desires, you can go farther than you think by setting goals.

Goals are those things you want to do in the future. Without goals, we muddle through our daily lives preoccupied with the most *urgent*, but not necessarily *important*, challenges. We leave our futures to chance.

Our financial goals are inseparable from our personal goals. For example, retiring securely may mean setting several other financial goals, such as building a retirement fund, paying off debt, having medical insurance and setting aside an emergency fund.

Goals can be *short-term*, things you want to do in the month or year. Buying new tires for the car or saving $1,000 to start an emergency fund could be short-term goals. *Long-term* goals are those things you hope to do *someday*, whether it's next year or 10 years into the future. Buying a house or sending your child to college may be long-term goals for you.

Goal-setting means you have to decide what's most important to you and why. Your goals should include things that will help you feel financially secure and happy. Having a clear idea of what you want is the first step. Without a clear mental picture of what matters most to you and what it is you want, you can't determine how you are going to get there — which includes figuring out how you're going to pay for it.

Can you think of a goal that you set and achieved in your life? How did accomplishing the goal make you feel?

What things make long-term planning difficult? What should you take into account when setting long term goals?

Got Goals?

The steps are thought-provoking but not difficult. Be sure to include family members in the process since teamwork will be important to achieve your goals.

- Write down your goals, financial or otherwise. Try to be as specific as possible. Focus on what matters most to you and your family.
- Divide the goals into short-term (less than a year) and long-term (one year or more).
- For each goal, define the amount of money required to meet that goal. Want to pay cash for Christmas? How much will you need to save? Hope to send your child to college? How much will you plan to save before her graduation? Your financial goals should be quantified and specific.
- Break long-term financial goals into shorter-term intervals. If you hope to buy a house in three years, how much will you target to save each year? Remember that time is on your side with longer-term goals because you can invest your savings and accrue interest.
- Now it's time to plan your moves. Identify small steps you can take to achieve these goals. What actions will you need to take to get from where you are to where you want to be? (You don't need to prioritize your goals and action steps yet. That's next!)

Prioritize

If you're like most other people on this planet, you have buying decisions and bills clamoring for your few dollars every day. What money you might be able to scrape up for savings will not be enough to pursue *all* of your goals. It's time to make some tough choices. You will need to *prioritize* what's most important to you, working on the lesser goals only after the goals that really matter are well underway.

One way to establish priorities for spending and saving is to learn to rate your decisions based on urgency and importance. If something is *urgent*, it has to be decided right away. What decisions are looming in your near future? The *importance* of a decision is how closely it relates to and supports your goals. Something that is urgent is not necessarily important to your goals, like deciding whether or not to renew a magazine subscription. Something that is important may not be urgent, like establishing a will.

Decisions which are both urgent *and* important get first place, like paying your plan payments on time. These are your top priorities.

Next, you have to weigh urgent, but not important, decisions against important, but not urgent decisions. Are there some immediate things you have to do with your money, even though these actions do not contribute toward your goals? Or, should you take some steps toward your longer-term goals?

For those things that are *not urgent or important*, ignore them if you can. These are at the bottom of your priorities. Don't waste your money or your time.

Another way to rank your goals is to compare the two goals to each other, asking questions like these:

- If both seem equally important to you, which one might cause the least harm if it was *not* accomplished?
- Will more people benefit from accomplishing one goal more than another?
- Do you have other important goals that are dependent on accomplishing one of these goals?
- Will one of these goals cost me so much more money than the other that it jeopardizes my ability to achieve the other goals that I have?
- Which goal requires the least amount of money to make happen?

Every time you are faced with making a big purchase, put it to the test. If it doesn't relate to attaining one of your important goals, ask yourself if it is really necessary. Prioritize and take action. Try it, and you'll move faster than you'd expect toward achieving your dreams.

Remember, money in your pocket is working for *your* goals.
Once you spend it, your money is working toward *someone else's* goals.

Step Up Activity: Unscramble Your Priorities

This game will help you identify and prioritize your goals.

1. Write **8 or 10** goals on index cards, one per card. Your goals can be long- or short-term. See "Got Goals?" for help.

2. Also, write your goals on a piece of paper, numbering them. This will be your scorecard.

3. Number the backs of the cards in no particular order. Divide the cards into two stacks based on the numbers — odd and even. For example, if you have 10 goals, you should have two stacks of five cards each — numbers 1,3,5,7 and 9 in one stack and 2,4,6,8 and 10 in another. The cards should be face down so that only the numbers on the backs are visible.

4. Turn over and compare the top cards of each stack. Ask yourself this tough question: *Which goal of the two is a higher priority for you?* Place this card face down on your left, making a new stack. Place the other card (lesser priority) face down on your right, making a new stack. Repeat this process for the remaining cards in your odd and even stacks.

5. When you've compared all of the cards in both stacks, you've completed Round One. Using your scorecard, write a √ (check) next to the goals you chose as your higher priorities in Round One. (These will be all of the cards in your left-hand pile.) Be careful not to shuffle the cards or reorder the cards.

6. Getting ready to play a new round is a little tricky, so follow these directions carefully. First, switch the *top* cards of the two stacks. (The top card of the left-hand pile will become the top card of the right-hand pile, and vice versa.) Next, move the very top card of one of the two piles to the bottom. You will only do this for *one* of the piles, and it doesn't matter which one. Do not shuffle the cards.

7. Repeat steps 4-6. Each time you play will be a new round. You will see that you will be comparing new pairs of goals. Be sure to use your scorecard after each round to record your priorities.

8. Play at least four rounds of the game. The more you repeat the process, the more reliable the process will be in prioritizing your goals.

9. Count the checks next to each goal on your scorecard. Which goals rose to the top? What goals are of lesser importance? Are there still conflicts between priorities?

10. Your goals and priorities should drive your spending and saving decisions. This doesn't mean goals that fell to the bottom are insignificant or undeserving of financial attention. It simply means that your money should first go toward your higher priorities. Lesser priorities might receive less money or be delayed until higher priorities are sufficiently satisfied.

Make a Plan

One of your goals should be to successfully complete your bankruptcy and receive a discharge. Instead of feeling overwhelmed, focus on making your monthly plan payments. This is what your goal and action plan might look like.

EXAMPLE

Long-term Goal	**Amount Needed**
Discharged from bankruptcy in five years.	*$150,000*

Short-term Goal	**Amount Needed**
Set up an automatic payment plan.	*$2,500/month*

Steps

1) *Double check to make sure the money is deducted from my bank account or paycheck each month.*
2) *If it is not deducted, make the payments myself.*
3) *Check my case paperwork to make sure my payments are properly disbursed.*

Here's an example of a completed goal and action plan for an 35 year-old earning $40,000 per year. Contributing $2,000 per year (5 percent of $40,000) at an annual interest rate of 5 percent would result in $90,439.46 after 25 years. Though this is *not* enough to meet the long-term goal of $200,000, this plan does *not* include anticipated pay increases, increases in plan contributions, or other short-term goals. This plan is not yet complete, but it's a great *start*!

EXAMPLE

Long-term Goal	**Amount Needed**
Retire at age 60.	*$200,000*

Short-term Goal	**Amount Needed**
Start investing in the 401k plan at work.	*$2,000/year* *($40,000 x 5 percent)*

Steps

1) *Talk to my employer to learn more about how the 401k plan works.*
2) *Figure out how I can afford to set aside 5 percent from each paycheck.*
3) *Enroll within the next six months.*
4) *Pay off other debts so I can increase the percent I am investing.*
5) *Try to increase the percent by the start of next year.*

Next $tep

The Slow Climb

B-B-B Budget

"B-b-b-budget!" It's the "B-word" that makes you cringe every time you hear it. The word "budget" can strike terror in the most courageous people, instantly filling them with blame or shame. It seems to have almost the same effect as that dirty "D-word" — you know, "diet," which creates similar feelings of dread and deprivation.

Admittedly, if you know you're spending more than you earn (and many of us are), creating a budget won't be a picnic. In fact, most people don't really *want* to know where there money is going. Bad attitude, folks.

A budget is a tool to make you more aware of how and where you spend your money. Try not to think of a budget like it's a financial straight jacket. Instead, view it as something created *by you* and *for you* — something that will help you reach *your* goals and ultimately set you free from worry and guilt.

A budget provides guidelines for your spending and savings so that you can get out of debt, stay out of debt and work toward your goals. Call it a "spending plan" if it makes you feel better. A budget helps you control your money, rather than letting your money control you.

Creating a budget requires five steps:

1. ***Identify how you spend your money now.*** Use the "Money Tracker" activity for a month to get a handle on your current spending (p. 44-45).

2. ***Establish personal goals that you will use to prioritize your spending and sav ings.*** The activity "Unscramble Your Priorities" should have helped you identify and prioritize goals.

3. ***Use your current income and expenses to calculate whether you are living above, at or below your means.*** Don't feel alone if you find you're living above your means.

4. ***Create a spending plan.*** This plan will guide your future spending, reduce your debt and help you achieve your goals.

5. ***On an ongoing basis, track your spending and make cuts as necessary.*** Once you get going, you'll want to adjust your spending plan to make it work for you.

So, make an attitude adjustment first — then, make a budget. It is the only practical way to get a grip on your spending so that you can make sure you're moving in the direction you want to go.

Think quick! Do you know your last month's utility bill? How about how much you are paying for car insurance? How much you spent last month on groceries?

Step Up Activity: Money Tracks

Do you have a handle on what you're spending? You might be surprised! It helps just to see where all the money is going. Use the Weekly Spending Tracker on the next page to record your expenses for **one week**.

1) Supply one copy to each person in your household.

2) Ask each person to record all expenses. You will track all daily expenses. This will not include bills you pay monthly or periodically.

3) Remember, the idea is to get on grip on your spending. Don't worry about being exact. If you can't remember how much you spent on something, make a guesstimate!

4) At the end of the week, merge the records into one form by adding together the amounts.

5) Talk openly, calmly and without judgment with your family about spending.

6) Take turns answering these questions:

   - What did you buy the most of?
   - What expenses surprise you? If you spent this much every week, how much would you spend in a year?
   - What did you absolutely need?
   - How did certain expenses make you *feel* afterward?
   - What would each of you like to change about your individual spending habits?
   - In what obvious ways can you work together to mend your family's spending?

Step Up Activity: Track Record

Weekly Spending Tracker

Week of: _____

Sun		Mon		Tue		Wed	
On What?	$	On What?	$	On What?	$	On What?	$
Sun Total		Mon Total		Tue Total		Wed Total	

Thu		Fri		Sat		Daily Totals	$
On What?	$	On What?	$	On What?	$		
						Record and add up daily totals	
						Sun	
						Mon	
						Tue	
						Wed	
						Thu	
						Fri	
						Sat	
Thu Total		Fri Total		Sat Total		**Week Total**	

Income, Inc.

The next step in your journey is to figure out your average income, that is, how much money you have coming into your household on a predictable basis. You can't assess how much money is going out until you have a good grasp of what is coming in. If you work, your pay is probably most of your income.

The best approach is to determine your *average monthly income*, because most bills are paid monthly. To do this, look at your take-home pay. That is the amount you get after your employer has taken out deductions like taxes, Social Security and union dues. It also is called *net income.* This is the amount you actually get to spend or save.

Calculate your average monthly income by adding up your take-home pay on four pay stubs if you're paid weekly, or two if you're paid twice a month. *Do not* include overtime pay or special bonuses since you can't always count on this as income.

For many people, their pay varies based on the number of hours they work each week, or commissions and tips. Self-employed people and freelancers may have big income swings from one month to another. In these instances, it is best to average several months of pay. To do this, add the amounts together and divide the sum by the number of months.

You might also receive regular, predictable income from other sources, such as Social Security, your pension, alimony, child support, unemployment, public assistance or rent from a property you own. Include these in your average monthly income. Also include the income from anyone else you share income and living expenses with.

With this information, you now can look at how to direct your money. The objective is to develop a plan for spending and saving your money so that you ultimately may achieve your goals.

What should you do with extra pay, such as overtime, bonuses, gifts or tax returns?

What are some ways to increase your household income? (Keep your ideas legal, please!)

Expenses

To get started creating your spending plan, you'll first need to take stock of your expenses. There are different types of expenses. Some expenses, like your mortgage or rent, occur every month for the same amounts of money. These are called "*fixed"* expenses.

Other expenses vary from month-to-month, like your utility bill. These are "*variable*" expenses. You have some level of control over these expenses. For example, you always could conserve electricity or turn down the heat to lower your utility bill.

Additionally, you have some expenses that are irregular, periodic or unexpected. Wedding gifts, car repairs and school clothes are all *irregular* expenses.

Here are some examples:

Monthly Fixed	Variable	Irregular/Periodic
Mortgage or Rent	Utilities (not on a plan)	Property Taxes
Plan Payment	Phone	Insurance
Car Payment or Lease	Food (eating out, too)	Home Maintenance
Utilities (if on a plan)	Babysitting	Car Repairs/Maintenance
Child Support or Alimony	Gas	Medical Expenses
Day Care	Clothing	Dental Care
Loan Payments	Pet Expenses	Educational Expenses
Cable TV	Personal Care (haircuts)	Vacations
Monthly Investments or Retirement Fund Contributions	Entertainment/Recreation	Gifts
	Charitable Contributions	Income Taxes
	Alcohol or Tobacco	
	Pocket Money	
	Fun	

Building Your Budget

Follow these steps to build your spending plan:

- Start with the categories on the previous page. As you go through your expenses, make, eliminate or change the categories to suit your spending.
- Once you've defined your expense categories, you'll need to do some homework to estimate your spending target for each category. (If you have been tracking expenses using the Money Tracker, you can use this data to help identify your expenses).
- For *fixed* expenses, use the categories to record your monthly bills.
- For *variable* expenses, go through your bills for the last three months. Average the amounts into a monthly estimate. Make sure, too, that your budget takes into account expenses associated with your habits and hobbies.
- *Irregular* expenses are the trickiest to estimate, but it's the irregular expenses that most often get people into financial trouble. Often, the unexpected expenses end up on a credit card. To make sure you identify all of your irregular expenses, review your check register (and credit card statements, if you have them) for the past six months. Average your spending for each category by adding up the amounts you spent and dividing by six.
- When you build your plan, try to set aside 10 percent of your net income for these types of expenses.
- You can simplify your plan if you want (it's *your* budget) by combining and reducing the categories. Just make sure you capture all of your expenses. Also, if you simplify too much, you'll lose the ability to pinpoint spending leaks.
- Include a category for fun. While you may not be able to afford much, don't become so restrictive that you have no room for enjoyment.
- Add together your expenses. Then, subtract this amount from your net income. Don't be discouraged if the result is a negative number. Remember, this activity will *help* you, not *hurt* you. Look at where you might make cuts and adjustments. You also may have to evaluate ways to increase your income.
- Look forward to the day when you emerge from bankruptcy. Not only will you have a fresh start, but you'll also be accustomed to living on a tight budget. You'll be ready to set some serious targets, like freeing up 10 percent of your net income for long-term goals.

"The best way to predict the future is to create it."

- Peter Drucker

Step Up Activity: Build-A-Budget

Income:	Monthly Total
My Take Home Pay (Salary/Wages)	
Other Persons' Take Home Pay…...	
Social Security……	
Pension ……	
Alimony/Child Support ……..	
Other ……	
MONTHLY INCOME…….	

Fixed Expenses:	
Mortgage/Rent……	
Chapter 13 Plan Payment ..……..	
Car Payment/Lease ……...	
Utilities (If on a plan)……...	
Child Support/Alimony……...	
Day Care……	
Loan Payments……...	
Cable TV……	
Monthly Investments or Retirement Contributions ……...	
MONTHLY FIXED (MF)……..	

Variable Expenses:	
Utilities (not on a plan)……	
Cable ……	
Phone ……...	
Food (eating out, too)……	
Babysitting ……...	
Gas……	
Clothing……	
Pet Expenses ……	
Personal Care (haircuts)……	
Entertainment/Recreation……	
Charitable Contributions……	
Alcohol or Tobacco……	
Pocket Money ……	
Fun ……...	
MONTHLY VARIABLE(MV)…...	

Irregular/Periodic Expenses:	Monthly Total
Property Taxes……	...
Insurance……	
Home Maintenance……...	
Car Repairs/Maintenance……	
Medical Expenses……	
Dental Care……	
Educational Expenses……..	
Vacations……	
Gifts……	
Property Taxes……..	
Income Taxes……	
Irregular Subtotal……	
MONTHLY IRREGULAR (MI)……...	
(Divide Irregular Subtotal by 12)	

MONTHLY FIXED (MF)……	
+	
MONTHLY VARIABLE (MV)……	
+	
MONTHLY IRREGULAR (MI)…….	
TOTAL MONTHLY EXPENSES….	
(MF + MV + MI)	

TOTAL MONTHLY INCOME…...	
-	
TOTAL MONTHLY EXPENSES...	
DIFFERENCE……..	
(Total Monthly Income minus Total Monthly Expenses)	

Work In Progress

Making a budget is tough, but *sticking* to a budget can seem impossible! Go easy on yourself. The first spending plan you create probably will be a little unrealistic. You'll make mistakes. Trial and error will help you adjust it into something workable. Expect to work at it for a couple of months before you get the hang of it.

Living on a tight budget can feel oppressive. You may get burned out pinching pennies. Tell yourself over and over again that you are doing this for yourself. It may take time and hard work, but you *will* reap the rewards. When you blow your budget, don't throw in the towel. Stand back up, and try again.

Here are some tips to help you with your spending plan:

- Continue to track your expenses and spending for a couple months. The more information you collect, the better you'll be able to create a realistic spending plan. Plus, you'll begin to see patterns in your own buying behaviors.

- Track how you spend your cash, too. Those trips to the ATM can swamp your plan.

- If your spending is greater than your income, slash your spending. Start by looking at ways to save on the biggies — areas where you spend the most money, such as housing, utilities, transportation, food, insurance and health care. Then move on to cutting the small "extras" that eat you alive.

- Keep working at being prepared for irregular expenses and emergencies. Setting aside a little bit from time to time will help you avoid getting whacked in the wallet with some unexpected expense.

- Adjust your spending plan to match your goals. If your goals are unrealistic, break them down into manageable steps you can focus on one at a time.

- Talk *with* (not *to*) your family every week or so about upcoming purchases and ideas to improve spending. Keep your spending plan "alive."

- Use online bill paying. Your bills always will be paid on time. Most banks provide up to 15 transactions per month for a few dollars, and many for free. Talk to your bank about how to set this up. Then, call each company that sends you monthly bills and ask if you can set up automatic deductions from your account.

- Get overdraft protection on your checking account just in case you make a mistake and overdraw. Although you'll be charge a small fee plus an interest rate on the amount of the overdraft, you'll avoid the high costs of returned checks.

Chaos Into Crisis

Most people have no idea how much they owe to whom and when, partly because our mailboxes are stuffed every day. When we are busy, it's easy for bills to become misplaced or left unopened.

Don't let your mail clutter and turn into a crisis. Here are some easy strategies to help you control the chaos!

Set a Date:
Keeping track of due dates is a bill-paying hassle you don't have to tolerate!

- For one month, make a list of all the bills you receive and their due dates.
- Call each company and ask to change the due date to *one of two* dates, either a date in the middle of the month or at the end. That way, you won't forget when to pay bills, and all of your bills will be paid in two batches.

Get Ready:
The supplies you'll need to get organized are inexpensive to buy and easy to use. As you'll see, the approach offered in this class uses the following:

- Five large envelopes.
- A dozen or so plain envelopes.
- An expandable file with a tab for each month.
- A small or one-subject notebook with lined paper.
- An inexpensive calculator if it helps you.

Write it Down:
A simple notebook may be used for many things.

- Use it to keep your spending plan handy, updating and changing it as you need to.
- Record goals, as well as ideas for reaching those goals.
- Jot down the numbers of creditors and helpful resources.
- Use it for balancing your checking account and bill paying each month.
- Keep track of spending and miscellaneous expenses that aren't in your plan.

Sort the Mail:
Every day, sort your mail into these four groups: Bills, Other Important Stuff, Personal Interest, and Junk. (The instructions on the following page will help you.)

Put in the Time:
Identify one hour every two weeks to organize your finances, pay bills, and review your spending plan. Plan to do this *one week* ahead of when your bills are due so that your checks are mailed in time to clear by the due date.

May I Have the Envelope, Please

Using four of the large envelopes, mark them “Mid-Month Bills,” “End-of-Month Bills,” “Irregular Bills,” and “Important Stuff.” On the fifth, write “Monthly Receipts.” Then follow these easy steps. Oh yeah, you’ll also need a trash can!

Bills:

- Open them *immediately*. Write the amount and the due date on the front of the bill’s outside
- envelope.
- Place the bills into one of two large envelopes: “*Due Mid-Month*” or “*Due End-of-Month*.” On the outside of the large envelopes, write the names of the bills inside, as well as the amounts. This will help you keep track of what’s inside without dumping the contents.
- Keep a separate large envelope for “*Irregular Bills*,” like doctor bills and write the bill, due date and amount on the outside.

Other Important Stuff:

- When you receive important documents like insurance statements, temporarily put them in a large envelope called “*Important Stuff*.” This will keep them from being misplaced or accidentally thrown away. This envelope should not contain any bills!
- Write the name of the document on the front of the envelope, so you’ll know at a glance what’s inside.
- Later, sort through the envelope and properly file its contents.

Personal Interest:

- Keep cards, letters and mail that interests you separate from your other mail.
- Beware: Do not include mail-order catalogs in your “personal interest” pile.

Junk:

- Until you are in control financially, all mail-order catalogs, pre-approved card offers, and the like, are *automatically* sent to the trash can. “Browsing” can leave you feeling deprived and tempted. So don’t.
- Store ads and special sale flyers should be looked over to see if they can be used for a purchase that is *already* in your spending plan. Otherwise, trash those, too. These steps will significantly reduce spending temptations.

Receipts:

- *Every day*, dump any receipts into the envelope marked “Monthly Receipts.”
- At the end of the month, staple the receipts together, circling the month on the top receipt. Or, put the receipts in a regular sized envelope, writing the month on the front.
- Use the receipts to check the categories and accuracy of your spending plan.

Will You Stop at Nothing?

"When it comes to saving money,
most people in America will stop at nothing!"
-Unknown

It doesn't seem possible, but Americans are now posting a *negative* savings rate. So, how *do* you save for those big ticket items?

Saving for Goals:
The best way to start saving for your goals, is to set up a separate savings account. "Out of sight, out of mind." Keeping this stash separate from your regular account will help you keep your paws off it. When you've acquired at least $500, look for a higher interest-paying CD offered at your bank.

Saving for College:
Most states offer state-sponsored college savings plans, called 529s. Michigan's program is called the Michigan Education Savings Plan, or "MESP." Contributions to a MESP can be made by relatives or friends for a beneficiary. The money is invested and grows tax-free. You also can open a Coverdell Education Savings Account that lets you put $2,000 a year into an investment account with tax-free growth.

Saving for Retirement:
Set up a 401(k) if your company offers one. If not, or if you want to save more, find an IRA. Like a 401 (k), a traditional IRA offers tax-deferred growth on your savings. Or you might opt for a Roth IRA offering tax-free growth. This means you won't owe taxes when you make a withdrawal. There are no income or age restrictions.

"Do what you can, with what you have, where you are."
-President Theodore Roosevelt

Pay Days

Try to set aside an *hour or two every two weeks* to take care of your finances. The dates for these sessions should be a *week ahead* of your bills' due dates.

- Start with your checking account. Check your balance and write the amount in your notebook along with the date. Then write down and deduct all of the checks that have not yet cleared. Most banks have a phone service or Web site to help you do this.
- Using the appropriate bill envelope ("Mid-Month" or "End-of-Month"), write checks to pay your bills. Complete the envelopes for mailing.
- Write the amounts of the checks in your notebook. Deduct them from your balance to calculate how much you have left. Put all of the paid bill statements in your expanding file under the month's tab. Cross the paid bills off the front of the large envelope.
- Next, open the "Irregular Bills" envelope. Which of these bills are most immediate? Can you pay them now? If not, how much can you pay now? Can you wait until next period without a late fee, or should you draw from the money you've set aside for irregular bills?
- Write any payments in your notebook and deduct them from your balance. Put all of the *paid* irregular bill statements in your expanding file under the month's tab. Cross them off the front of the envelope. Return the *unpaid* bills to the envelope.

Start spending money the old-fashioned way

- With the leftover money in your plan, make out envelopes for each remaining *spending category*, such as "food" or "gas." Only use the categories you'll need for the upcoming period. Don't forget an envelope for "pocket change," which you will use for small incidentals. Also, try to have a "fun" envelope with just a little spending money.
- Go to the bank and withdraw the total for the *planned* amounts in each spending category. Put this money into the identified envelopes. The money in these envelopes is your spending money for the upcoming period. You also can put coupons in these envelopes.
- Leave your credit card, debit card, or checkbook at home. Use the envelopes to control how much you spend. When the money is gone, your spending is over. A few "oopsies," and you'll get the hang of it!
- When you use the cash, put the receipt for the purchase in the envelope. If there is no receipt, write the amount spent on the envelope. At the end of the month, staple all of the receipts together (or put them in a regular-sized envelope) and put them in your expanding file under the correct month. Also, put any leftover envelope cash in your emergency fund.
- Once a month, review your goals, spending plan and receipts. Make any adjustments you need to make your plan workable. If you find your expenses and spending are above your income, you have *two* choices: 1) *Reduce* your expenses, or 2) *Increase* your income.

When Life Happens

You've heard it said before, "Expect it when you least expect it." Life seems to smack us with unwelcome financial surprises when we are least prepared. A car breakdown, an unexpected furnace repair, or a lost job — we are all vulnerable to unexpected financial setbacks.

Financial advisors suggest having an emergency fund for — well, *emergencies*. However, they vary in how much of a cushion you really need. Some advise three to six months of living expenses, which is a fairly large chunk of money for most people to set aside. Consider, however, that the average length of unemployment in 2004 was about five months. Financial preparation can mean financial survival during a lengthy crisis.

At a minimum, advisors suggest $1,000. (The reality is that *40 percent* of American households have less than $1,000 in nonretirement savings.) While $1,000 may not pay all of the bills if you lose your job, it might be enough to cover an unexpected medical expense or car repair. The cash also might help during the initial days of a longer-term crisis.

Set aside a small amount out of each paycheck into a separate savings account you won't be tempted to tap. Continue this until your balance is more than $1,000. Resume building your emergency fund when you have paid any credit card debt you owe.

Set some criteria for what constitutes an emergency. Try not to dip into your emergency fund to pay bills or make purchases.

Keep contributing until you have saved at least three months worth of expenses, banking any windfall payments you get, such as a tax return or an overtime check. You'll sleep better knowing you'll be ready "when life happens."

Name six events which you think qualify as financial emergencies.

1.

2. _____

3. _____

4. _____

5. _____

6. _____

_____

Next $tep

The Last Step?

Useful Web Resources

Money Management and Financial Planning:
www.money.cnn.com
www.dailyfinance.com
www.realsimple.com
www.msn.com/en-us/money
www.financialplan.about.com
www.econsumer.gov

Comparative Shopping:
www.overstock.com
www.dealtime.com

Comparing Rates:
www.bankrate.com
www.lowermybills.com
www.billsaver.com

Coupons:
www.coupons.com (www.couponmom.com)

Insurance Quotes and Resources:
www.insure.com
www.naic.org

Legal Matters:
www.nolo.com
www.ftc.gov
www.avvo.com
www.michbar.org

College Tuition:
www.savingforcollege.com
www.misaves.com

Credit Reports:
www.annualcreditreport.com
www.creditkarma.com
www.equifax.com
www.experian.com
www.transunion.com

Tax Info:
www.irs.gov

Employment Opportunities:
www.mlive.com/jobs

Online Budgeting Tool:
www.kiplinger.com/tools/budget

Warnings/Scams:
www.fbi.gov/scams-and-safety

A New Staircase

When your bankruptcy has been discharged, you'll have some rebuilding to do, but it's not as difficult as you might think.

After you've obtained your credit report, make sure your obligations have been cleared and that no accounts appear as overdue. If you find mistakes, contact the credit bureau and ask that these accounts be updated to be consistent with your bankruptcy. You should follow-up your phone call with a letter documenting your claim.

Send it to the bureau by certified mail to document that the bureau received your letter. The law provides the credit bureau 30 days to investigate your claim. The credit bureau also must forward your inquiry to the other credit bureaus.

If the credit bureau finds an error, it must correct the mistake and notify the other bureaus to do the same. You will then receive a corrected credit report in the mail.

After you've cleaned up your credit report, apply for credit. There are two types of credit:
Revolving credit: Credit cards.
Installment Loans: A car loan, mortgage, or student loan where you make regular payments.

You may have difficulty qualifying for a regular credit card. Instead, go to your bank and inquire about obtaining a secured credit card. Make sure it has no annual fee and reports to the major credit bureaus. This type of card will give you a credit limit equal to the amount you have in the bank.

However, don't charge more than 25 percent of your credit limit at a time. Pay off the balance in full and on time each month. Soon, you'll establish a track record that shows you are responsible for your debts.

Some dishonorable lenders prey on individuals emerging from bankruptcy who may be too eager to re-establish their credit, offering credit cards or loans at extremely high interest rates. Be careful you do not fall victim to these types of lenders. Do not feel pressured to get credit at *any* cost. Shop around. Talk to several lenders with good reputations, and don't be afraid to negotiate a rate with a particular lender.

An installment loan may be more difficult to obtain, but usually you'll qualify within six months to a year of your bankruptcy. You may have to pay a higher interest rate. Make sure you can afford the loan you get, and make your payments on time. After a couple years, you might try refinancing for a lower rate.

Though a bankruptcy stays on your credit report for 10 years from the Bankruptcy Petition filing date, you will see that its effect diminishes in just a couple. *Keep climbing!*

One Step At A Time

"A journey of a thousand miles begins with a single step."
-Confucius

Consider your decision to file for bankruptcy as the beginning of your journey to financial freedom. Was it a difficult decision? Of course. Will your journey require hard work and persistence? Yes. Can you really get *there* from *here*? *Absolutely!*

Keep in mind throughout your journey that *millions* of others have successfully traveled this route before you. Keep believing in your dreams, and work hard to stick to your plan. Although the road may seem long, you will arrive better off because of it.

You'll get there — *one step at a time.*

"Every day is a winding road."
-Sheryl Crow

"Every day takes you somewhere."
-Unknown

Step Up Activity: Your Next Steps

Flash forward into *your future*. You have just received the discharge from your bankruptcy. What will you do next? Develop your action plan. Hang on to this page. Your future is straight ahead!

Steps I will take to *repair and rebuild my credit*:

Today: _____

This Week: _____

This Month: _____

This Year: _____

Steps I will take to *organize my finances*:

Today: _____

This Week: _____

This Month: _____

This Year: _____

Steps I will take to *live on a spending plan*:

Today: _____

This Week: _____

This Month: _____

This Year: _____

Steps I will take to *pursue my goals*:

Today: _____

This Week: _____

This Month: _____

This Year: _____

Additional Copy: Weekly Spending Record

Weekly Spending Tracker

Week of: _____

Sun		Mon		Tue		Wed	
On What?	$	On What?	$	On What?	$	On What?	$
Sun Total		Mon Total		Tue Total		Wed Total	

Thu		Fri		Sat		Daily Totals	$
On What?	$	On What?	$	On What?	$		
						Record and add up daily totals	
						Sun	
						Mon	
						Tue	
						Wed	
						Thu	
						Fri	
						Sat	
Thu Total		Fri Total		Sat Total		**Week Total**	

Spending Plan

Income:	Monthly Total
My Take Home Pay (Salary/Wages)	
Other Persons' Take Home Pay…...	
Social Security……	
Pension ……	
Alimony/Child Support ……..	
Other ……	
MONTHLY INCOME…….	

Fixed Expenses:	
Mortgage/Rent……	
Chapter 13 Plan Payment ..……..	
Car Payment/Lease ……...	
Utilities (If on a plan)……...	
Child Support/Alimony……...	
Day Care……	
Loan Payments……...	
Cable TV……	
Monthly Investments or Retirement Contributions ……...	
MONTHLY FIXED (MF)……..	

Variable Expenses:	
Utilities (not on a plan)……	
Cable ……	
Phone ……...	
Food (eating out, too)……	
Babysitting ……...	
Gas……	
Clothing……	
Pet Expenses ……	
Personal Care (haircuts)……	
Entertainment/Recreation……	
Charitable Contributions……	
Alcohol or Tobacco……	
Pocket Money ……	
Fun ……...	
MONTHLY VARIABLE(MV)…...	

Irregular/Periodic Expenses:	Monthly Total
Property Taxes……	...
Insurance……	
Home Maintenance……...	
Car Repairs/Maintenance……	
Medical Expenses……	
Dental Care……	
Educational Expenses……..	
Vacations……	
Gifts……	
Property Taxes……..	
Income Taxes……	
Irregular Subtotal……	
MONTHLY IRREGULAR (MI)……...	
(Divide Irregular Subtotal by 12)	

MONTHLY FIXED (MF)……	
+	
MONTHLY VARIABLE (MV)……	
+	
MONTHLY IRREGULAR (MI)…….	
TOTAL MONTHLY EXPENSES….	
(MF + MV + MI)	
TOTAL MONTHLY INCOME…...	
-	
TOTAL MONTHLY EXPENSES...	
DIFFERENCE……..	
(Total Monthly Income minus Total Monthly Expenses)	