

Developing Effective Budgeting and Spending Habits

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In addition to a college degree, many of the instructors also maintain a CFP® (Certified Financial Planner) credential or are currently enrolled in the CFP® Professional Education Program. Our certified instructors are required to meet annual continuing education requirements in the financial planning field.

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Course Description

Participants who attend this course will learn how to make better spending decisions and stay on track with all their financial goals.

Audience

The class is recommended for those who wish to develop more effective ways to budget and spend money.

Learning Outcomes

- Learn how to set up a personalized monthly budget
- Identify and analyze where your money goes
- Examine common spending traps and how to avoid them
- Develop a plan to better monitor your spending
- Uncover easy and creative ways to save
- Construct a set of realistic goals
- Discuss the importance of setting up an emergency reserve fund
- Evaluate negative spending patterns that hinder successful goal achievement

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Introduction

Can you name a Fortune 500 company that doesn't have a budget? If you can't, don't worry: It's because there isn't one! Successful businesses are successful for a variety of reasons, but the one thing they all have in common is they plan and track their expenditures against a budget.

This class will help you implement some easy, pain-free tips and tricks for budgeting your money and keeping track of expenses so that you can accomplish the financial goals that matter most to you.

The Importance of Financial Goals

Setting financial goals is a smart choice and can be very rewarding. When you set a financial goal, you define what you want and develop a plan for achieving it. Instead of wandering aimlessly, you have something to strive for and a clear path for getting there.

Setting a financial goal is just like setting a personal goal. If you want to buy a car, you must come up with a plan for paying for it. This might mean having to make some trade-offs. You decide where you can cut back expenses, how much money you are able to save each month, and set a goal for how long it will take to save up for a down payment. Picture yourself driving your new wheels to motivate you to stick to your plan.

10 Tips for Reaching Your Financial Goals

1. Define What is Important to You

What do you really want?

2. Record Your Goals

When you record your goals, you are more likely to achieve them. It also helps you assess what you truly want.

3. Prioritize

It's easy to get overwhelmed by numerous financial goals. That's why prioritizing those goals is so important. Your target date for accomplishing some of your lower-priority goals may not be possible while you work on higher priority goals.

4. Be Specific

Define an amount, a time frame, and what the money is for in your financial goal. Example: "I would like save up \$5,000 within 2 years for a trip to Europe."

5. Be Realistic

Set a goal that is reasonably attainable. You can always revise your goal in the future depending on how you are doing with your plan.

6. Develop a Plan of Action

After you define and prioritize your goals, come up with a plan on how to meet your goals by working with your monthly budget. For example, if you want to save \$1,000 for new furniture over the next year, see if you are able to set aside \$84 a month towards it. If so, after 12 months you will have the \$1,000 you need to make the purchase plus interest you earned on your savings.

7. Talk With Your Significant Other (If Applicable)

Communication is key in setting and accomplishing goals. Couples need to agree on the financial goals as well as spending and investment plans to help achieve them.

8. Set Milestones

If you want to save \$5,000 in the next five years, set short term goals along the way. You may decide that during the first year, you will save \$700, \$800 the second, \$1,000 the third, and so on.

9. Commit Yourself to Your Goals

You will probably have to make some trade-offs in order to meet your financial goals. Maybe you want to go to Italy for a week and you also want to save for a house. Weigh the importance of each goal and prioritize. Many times, you can still reach both goals — it may just take a little longer.

10. Review Your Progress

Periodically check to see how you are doing with meeting your financial goals. Make adjustments to your plan as necessary.

Goal Setting

✓ EXERCISE

Using the worksheet below, write down three to five of your financial goals and the accompanying details.

| Goal | Money Needed | Target Date | Why It's Important | Next Steps |
|------|--------------|-------------|--------------------|------------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Your goals will certainly vary depending on your values and life circumstances. But it is often recommended that everyone save for two important matters:

1. An emergency fund with 3-6 months of living expenses.
2. A retirement or financial independence fund for the day you either cannot work or don't want to work anymore.

Creating a Savings Plan

Financial goals require money, so one of the most important tasks is to start saving for them regardless of whether they are short term, intermediate, or long-term goals.

Short Term: 1-4 Years
 Intermediate: 5-9 Years
 Long Term: 10+ Years

Look at the list of goals you created and pick your top three. You can use those to make a savings plan. You may want to pick one goal from each of the three timeframes: short, intermediate, and long term. This brings some balance to your planning and also gives you a sense of accomplishment over time.

Savings Worksheet

Use a spreadsheet or an app with a savings goal feature that collects information similar to the categories in the chart below.

| Goal | Amount Needed | Date Needed | Already Saved | % Interest | Monthly Savings |
|------|---------------|-------------|---------------|------------|-----------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Monthly Savings

To figure out how much to save each month, use an online calculator, spreadsheet or money management app that includes savings goals. Many target date savings calculators, including the hand calculation method that follows, are best for short-term goals where inflation/taxes are not a significant factor.

For intermediate and long-term goals such as college funding or retirement, it's best to use an online calculator or budgeting app that takes into account tax consequences and inflation. A shift in tax or inflation rates can have a big effect on how much you need to save.

Online Resources

| Target Date Calculators | Retirement Calculators |
|--|--|
| www.bankrate.com | www.aarp.org |
| www.calcxml.com | www.analyzenow.com |
| | www.fidelity.com |
| | www.kiplinger.com |

Monthly Savings Formula

Use the table below to plan for goal achievement. This table can be used for any goal over any time frame, but it's best for short or intermediate term goals. The following information is needed to plan for goal achievement:

- Financial goal
- Dollar amount already saved toward financial goal (present lump-sum)
- Time period desired for accomplishing goal
- Expected interest rate to be received when investing money

EXAMPLE

Joe and Sarah need to increase their emergency fund. They currently have one month's worth of expenses in savings and would like to save three months total as soon as possible. Their monthly expenses are \$4,000.

- **Financial goal:** \$12,000
- **Dollar amount already saved toward financial goal:** \$4,000
- **Time period for accomplishing goal:** 1 year
- **Expected interest rate when investing money:** 2%

Monthly Savings Worksheet

| | | |
|--------------|---|---|
| Goal: | A fully-funded emergency fund of \$12,000 | |
| Time: | 1 year | |
| | Value | Description |
| A | \$4,000 | Dollar amount already saved for this goal (lump sum) |
| B | 1.020 | Enter Table A Interest Factor from page 24, 1 year, 2% interest |
| C | \$4,080 | Multiply A × B to determine the future value of the lump sum |
| D | \$12,000 | Enter the dollar amount needed for goal |
| E | \$7,920 | Subtract C from D to obtain the amount still needed |
| F | 0.0826 | Enter Table B Annuity Factor from page 25 12 months, 2% interest |
| G | \$654.19 | Multiply E × F to determine how much to save/invest each month* |

* Please note that this amount does not take into consideration inflation or any taxable income that may be generated from investing this money.

A blank Monthly Savings Worksheet is included in the Appendix.

The Importance of Flexibility

When setting goals, remember that flexibility is key. Life sometimes gets in the way of our best laid plans, so remember to roll with the punches and get back on track as soon as possible. Looking at the previous example, Joe and Sarah *may* find that they need to be flexible with their time frame. \$655 per month could be an unrealistic amount to set aside. If they change their time frame from 1 year to 2 years, that amount drops to \$321.

Figuring out how much to save isn't a difficult task, but it does take some honest thinking to make each goal attainable. You may need to make some tough choices like modifying your goal, the amount needed, or your deadline. Often people have more goals than money. You might need to decrease your expenses to fully fund your goals.

The Power of "Auto Pilot"

Now that you've decided on your most important short-term and long-term financial goals, it's time to move towards achieving those goals. The only thing left to do is set aside the money. Simple, right? Of course setting aside the money is the most difficult part, but you can make it easier by putting your savings goals on autopilot.

The easiest and most effective way to begin setting aside money for future goals is to set up an automatic savings plan with your bank. This is as simple as setting up a savings account (if you don't already have one) and then telling your bank to automatically debit your checking account and move an amount to your savings account on a regular basis. With this method, you don't have to remember to fund your savings goals each month AND the money is removed from your checking account, making it less likely that you'll spend it!

Inflation Factor

Inflation is the continuing rise in the general price level of goods and services. Inflation erodes investment returns and increases the amount of money needed in the future.

Average annual inflation since 1926: 3.21%

Inflation rate most planners suggest for planning your future savings: 4-5%

✓ EXERCISE

Using Table A in the Appendix, find the factor that corresponds to the percentage rate and number of years, and multiply that factor by the dollar amount.

- 1. Twenty years from now, assuming a 5% inflation rate, how much will it take to buy the lifestyle that costs \$50,000 a year today?**
- 2. Assume car prices rise 4% annually. What would a \$20,000 car cost in 8 years?**
- 3. Assume prescription costs rise 10% annually. What would a \$50 prescription cost 16 years from now?**

Answers can be found on page 30.

Making an Effective Budget

It seems that the word “budget” has become a bad word. It’s remarkable how a simple 6-letter word has the power to strike fear into the hearts of so many. It’s time to start thinking of a budget in a whole new way.

What is a budget? A budget is simply a financial plan for tracking the flow of money into and out of your life. The idea is to find where your money is going, plug the largest leaks, and save more of the inflowing cash for the things that really matter in your life.

A budget will also expose spending habits you’re not aware of and help you plan where to spend your money. It can serve the dual-purpose of allowing you to figure out where your money is going and then enable you to make different choices about where that money goes.

Reflecting on Goals

Budgets are often perceived as a reminder of things we can’t have. This is simply not the case. A budget is nothing more than a tool to help you get to the things you want to have. In fact, despite its reputation for being tedious and time-consuming, creating a budget can actually be a liberating experience and isn’t difficult at all!

Instead of viewing a budget as restrictive, think about the things it allows you to obtain. What’s truly restrictive is living paycheck to paycheck, having zero savings, and feeling like you’ll never get ahead. Ideally, a budget is simply a plan for your money. It’s you telling your money what to do—not the other way around.

Keeping on track with a budget can show you where your money goes and help you plan for life’s expenses—whether you’re saving for a home, buying a car, going on vacation, getting out of debt, or starting an emergency fund. A simple budget can also help you reach your financial goals faster with less stress and worry.

Building a Budget

According to a recent study by bankrate.com, close to half of all Americans don't track their monthly spending against a plan and thus are not sure where a large portion of their income goes every month.

One of the first steps toward the path to smart spending is to understand where your money is going today. You can't make different choices with your money in the future if you don't know what choices you're making today! This analysis is also a great time to challenge your spending habits to ensure you are spending your hard-earned money in a way that is aligned with your goals and values.

This doesn't have to be a difficult or arduous task. It can be as simple as a pencil and paper, a spreadsheet, or a financial software package. If you have a spouse or significant other, be sure to include them in this exercise so you can be on the same page.

It's often helpful to break expenses into broad categories:

- **Necessary Expenses**
 - **Fixed**
 - **Variable**
 - **Periodic**
- **Discretionary Expenses**

Necessary Expenses

First make a list of your monthly necessities, which will include some fixed expenses, which don't change or which change very little from month, as well as some variable expenses. Typical household fixed expenses can be mortgage or rent payments and car payments. Variable household expenses can include things like utilities and groceries.

Periodic / Non-Monthly Expenses

Once you feel like you have a complete monthly budget figured out (or estimated), it will be essential to account for some of the periodic or non-monthly expenses that tend to be part of life as well. Below are just some of the types of expenses that, for most people, are unlikely to occur each and every month, but which tend to arise during different parts of the year, and in some cases unexpectedly.

- Home maintenance or vehicle maintenance
- Vehicle registration
- Insurance premiums
- Vacation(s)
- Haircuts
- Other personal care appointments
- Gifts (birthdays /weddings)
- Gifts (holiday season)
- Back to school shopping

These periodic expenses, if not budgeted for, can really throw off your spending and savings plan from month to month. That's why it's a good idea to include a certain amount of money in your budget, either periodically throughout the year or even each month so that you can stay on track. Look for a personal budgeting system or app that can accommodate for this. You can even consider setting up a separate bank account (or multiple accounts) that you only tap into to pay those recurring, non-monthly expenses.

EXAMPLE

Kathy's list of her non-monthly expenses that she is expecting for the year includes the following:

| | |
|--|----------------|
| Insurance Premiums | \$800 |
| Car Repairs/Maintenance (Estimated) | \$1,200 |
| Car Registration | \$300 |
| Gifts | \$600 |
| Vacation | \$1,000 |
| Total Non-Monthly Expenses | \$3,900 |

Kathy will set aside \$325 each month into a savings account (\$3,900 divided by 12), and only transfer money from that account to pay for any of the non-monthly expenses.

Discretionary Spending

Once you have accounted for your fixed monthly expenses (mortgage, rent, car payment) and your other necessities (utilities, food) and built in a cushion for non-monthly expenses, you can determine the level of discretionary expenses to include in your budget. Use your best estimates for categories like entertainment, shopping, and dining out.

Remember, you don't want to spend down to the last dollar of income each month! Budget a reasonable amount for your discretionary spending so that you have some extra savings left over at the end of the month (and an extra cushion or "buffer," in your budget in case you need it).

Tips for Budgeting Discretionary Expenses

It can take some time to really get a handle on your average monthly discretionary expenses if you haven't already kept track of them. Here are some tips for how to begin budgeting for your monthly discretionary spending:

- Work out an overall total available for discretionary spending, by looking at your monthly household take-home pay, then subtracting your necessary expenses (including non-monthly estimates) AND your targeted monthly savings.
- By using the strategy of "pay yourself first", many people have found that they can save more consistently, as opposed to the approach of spending first and saving what's left over.
- Consider having your pre-determined monthly savings target automatically deposited into a savings account, separate from the one that you use to pay your bills.
- Track expenses as best you can by reviewing recent bank and credit card statements to see if you can determine a reasonable monthly average for each of your discretionary expense categories.

- Various programs and apps can provide some guidance with this, such as grouping your actual transactions into categories (if accounts are linked), or even providing templates that contain many common categories for discretionary spending.
- Consider breaking out your discretionary spending categories in greater detail. That way, if you end up not being able to stay within budget for your overall discretionary spending, you can more easily identify the areas of spending that you need to put more focus on or perhaps look for specific tips on controlling spending in a particular category.

Understanding the Pros and Cons

Budgeting is not an exact science, and there can be potential pros and cons with a given approach.

Even with a great system for budgeting, there will likely be things that were overlooked or unexpected. This is why it's important to consider factors such as the amount of your monthly income, your overall estimated expenses, and even your existing savings cushion, and look for features in a budgeting system or an online program or app that will suit your individual needs.

Get Started

With the worksheet on the next page, fill in the fixed expenses that you know won't change. Then, when bills arrive, fill in the variable expenses that you must pay. Now track those expenses that don't come in the form of a monthly bill (or some sort of withdrawal from your bank). Note that some of these expenses occur far more frequently than once a month. Here are some examples: going out to eat, buying clothes, haircuts, groceries and gasoline. Add up all your periodic expenses for one year and determine the monthly average amount.

Sound like a lot of work? Consider using an online tool that pools your transactions and often even categorizes them for you to make it quick and easy. You may want to look at **Mint** or **You Need a Budget**¹, two popular apps for tracking spending. Your bank, credit union, or credit card company may already categorize your expenses for you.

¹ Financial Knowledge is not affiliated with any app or service mentioned. These should be considered suggestions and your own research may find other options. Be sure to consider the privacy policy before putting personal information into any app or website.

Expense Worksheet

Month _____

| Monthly Expenses | Amount | Due Date | Date Paid |
|--|--------|----------|-----------|
| Necessities (Fixed) | | | |
| Rent or Mortgage | | | |
| Debt Repayment | | | |
| Health Insurance | | | |
| Donations | | | |
| Car Insurance | | | |
| Car Payment | | | |
| Internet Access | | | |
| Cable/Satellite | | | |
| Other (List) | | | |
| Necessities (Variable) | | | |
| Gasoline/Transit | | | |
| Groceries | | | |
| Cell Phone | | | |
| Child Care | | | |
| Utilities | | | |
| Clothing | | | |
| Other (List) | | | |
| Periodic | | | |
| Car Registration | | | |
| Property Tax | | | |
| Home Maintenance | | | |
| Routine Car Maintenance | | | |
| Holiday/Birthday Gifts | | | |
| School Expenses | | | |
| Vacations/Travel | | | |
| Hair/Personal Care (Unless Included Monthly) | | | |
| Medical Expenses | | | |
| Discretionary | | | |
| Shopping | | | |
| Dining Out | | | |
| Entertainment | | | |
| Hobbies/Recreation | | | |
| Total Expenses | | | |

Analyzing Spending Habits

Once you begin to understand where the money goes, it's time to plan to spend the money differently. Challenge EVERY choice you make with your money—ask yourself: is there a better use of my money than how I'm spending it now? If the answer is "yes", commit to making a better choice immediately!

Now the part that is often missing—give your money a "job":

1. Plan in advance where your dollars will go instead of allowing them to slip through your fingers. This can be as simple as sitting down with the expense worksheet, with your spouse or significant other if appropriate, and deciding how and where you want to spend your hard-earned dollars.
2. Ask yourself before spending: Is this in the plan? If not, where is the money going to come from? Does it need to be built into the plan for a later date or can the plan be adjusted in the moment?

There are software programs designed to make the budgeting process faster and easier although all you really need is a piece of paper, a pen, and the desire to get your finances under control. Aside from **Mint** and **You Need a Budget, Quicken**¹ is another popular tool for budgeting. Remember, it can often help to consider the big picture when trying to decide what's important in the moment. For every dollar you spend, you're saying "yes" to something and "no" to something else. Be sure your choice is what is important to you.

Keeping on track with a budget can show you where your money goes and help you plan for life's expenses and your goals and dreams. Name a financial goal and a budget can help you get there. Remember, a budget is simply a tool to assist you in getting the most from your money; it doesn't have to be limiting or restrictive.

¹ Financial Knowledge is not affiliated with any app or service mentioned. These should be considered suggestions and your own research may find other options. Be sure to consider the privacy policy before putting personal information into any app or website.

Six Ways to Find More Money

There are lots of ways to save money - many of them involve small shifts in behavior, not huge changes in lifestyle. Here are a few low-impact ways you may not have considered to shave some expenses from your monthly budget.

1. **Look to Update Your Tax Withholding:** You've probably heard that receiving a tax refund is simply giving an interest-free loan to the government. While many enjoy what they perceive to be a "windfall," every year, consider updating your exemptions so that you can bring that money home **every** paycheck. Try the calculator at Bankrate.com to see how much more you might bring home each paycheck—and then use that extra money to fund your financial future.
2. **Save on Mortgage Interest Expenses:** Paying more than 4.25% on your mortgage? You might want to look into refinancing your current mortgage to get a lower rate. Know that lending guidelines have gotten stricter and homes may not be worth what they once were in your area, but it might be worth discussing with a professional.
3. **Save on Private Mortgage Insurance Expenses:** Are you currently paying Private Mortgage Insurance (PMI)? The law states PMI is no longer required once the loan-to-value ratio of your mortgage reaches 80%. That means if you've paid down the value or the price of the home has increased, (or both), you might be able to have that expense dropped from your monthly payment. You will need to have the property appraised to determine if the value of your house has appreciated enough.
4. **Save on Utility Bills:** Consider investing in a programmable thermostat that turns the heating or cooling system off or adjusts the temperature while you're away. These devices can be purchased for as little as \$50 and can save you \$75 to \$100 per year on your energy bills.
Did you know that even when electronics are off, they still draw a certain amount of energy when plugged in? Consider using power strips so that you can easily unplug multiple devices at once. Get into the habit, and watch your electric bill plummet!
5. **Save on Auto Insurance Premiums:** The higher your deductible, the lower your insurance premiums. By raising your deductible, you'll pay more out-of-pocket costs if you need to make a claim, but you'll pay less in premiums throughout the year. There's no "one size fits all," answer for car insurance deductibles, so you'll want to consider your situation and/or lifestyle, the value of the car, and what you might be able to afford out-of-pocket in the event of a claim.
Also, ask your insurance provider what sort of discounts they offer for items such as:
 - Bundling multiple types of insurance
 - Specific safety equipment (air bags, for example)
 - Driver's training courses
6. **Save When Buying Your Next Car:** According to edmunds.com, because used/certified pre-owned cars are generally financed at a higher rate than new cars, a car buyer may actually save money by purchasing a new vehicle instead of a used version in some cases. For buyers who plan to pay cash, this analysis may change.
Can you get another year or two out of your current car? If so, consider delaying the purchase and paying yourself the "payments." This method will allow you to set aside some extra cash for a down payment or may even allow you to buy your next car without a payment at all.

Small Changes Can Make a BIG Difference

When you're looking for ways to save extra money every month, don't forget to consider the small expenses. Sometimes we begin to consider some of our expenses a "given" and don't really give them a second look. Here's a reminder that some expenses are worth re-evaluating and how much you might save:

- **Gym Memberships:** Are you paying for services you don't use such as a tennis fee when you don't play tennis? How often are you going? Do you already have access to fitness equipment at your home or workplace? Would paying for individual classes make more sense for you? **Possible monthly savings: \$50**
- **Morning Breakfast and Coffee:** Breakfast sandwiches, lattes, cappuccinos, and other morning treats from your local coffeeshop can really add up. Brew coffee at home or work instead and try making a few breakfasts in advance so you can reheat and eat them easily. Even buying a nice coffee maker is cheaper if you use it each morning! **Possible monthly savings: \$50**
- **Phone Service:** Do you really need a landline and a mobile phone? Are you paying for call waiting, call forwarding, and other services you don't use? Consider cutting the cord or using Internet phone services as an alternative. **Possible monthly savings: \$25**
- **Cable/Satellite Service:** Figure out what you really like to watch and cancel the rest. Try attaching a digital antenna to your TV. You can probably pick up local HD channels for free! **Possible monthly savings: \$50**
- **Bypass the ATM:** If the ATM doesn't belong to your bank's network, odds are there's a fee associated with accessing your money. No bank nearby? Ask for cash back when you make a purchase at the grocery store. **Possible monthly savings: \$10**
- **Skip the Restaurant:** One more meal at home per week can really help stretch those dollars. Plus, you'll probably eat healthier and get to spend more quality time with the people you enjoy most. **Possible monthly savings: \$80**
- **Brown Bag It:** Bringing your lunch to work just one day per week can really make a difference. The more days, the better! **Possible monthly savings: \$40**
- **Use a Flexible Spending Account (FSA):** Consider funding your account to take advantage of tax-free dollars to use for your out-of-pocket medical expenses. If you're in the 28% tax bracket and you set aside \$1,000 in a FSA this year you'll save \$280 in taxes! **Possible monthly savings: \$25**

TOTAL POSSIBLE SAVINGS PER MONTH: \$330

What if you decide to implement just *some* of the previous ideas and saved \$200 per month? If you invested that money and earned 7% annually, here's how it could grow¹:

| | In 10 years | In 20 years | In 30 years |
|---|-------------|-------------|-------------|
| \$200 each month invested at 7% will be worth... | \$34,617 | \$104,185 | \$243,994 |

It can often help to consider the big picture when trying to decide what's important in the moment.

¹ Monthly investment of \$200 with annual return of 7% (compounded monthly) in a tax-deferred account. Not based on any specific investment or savings strategy, nor predictive of returns, which are not guaranteed. Totals also do not reflect any fees/expenses. Accumulations shown would be reduced if these fees had been deducted.

Implement the Envelope System

Ever been shocked when you opened your credit card bill? Get out the calculator and the total is right virtually every time! That's a good example of how easy it is to overspend with credit cards. In theory you can't overspend with cash—when your wallet or your envelope is empty, you're done spending.

One of the most effective ways to spend less, one that doesn't require you to track where every dime goes, is to pay cash whenever possible. A tried and true method for using cash is often referred to as the "Envelope System"

- Every payday, withdraw your planned amount for those variable expenses that are "cash-friendly" such as groceries, dining out and entertainment, and place that amount in an envelope labeled for its specific purpose.
- For example, an envelope labeled "Groceries" contains the amount of cash you want to spend on groceries for that time frame.
- Every trip to the grocery store, use the cash in the envelope. When the envelope is empty, no more groceries can be purchased until next pay period.
- Many people are amazed at how much more attention they pay to what they buy (and how much they pay for those items) when cash is used.

Notice the reference to spending the amount of cash you want to spend rather than the amount you should or must spend. This is a very important distinction. Deciding how much of your "discretionary" income you want to spend on variable expenses puts you in control of your money, not the other way around.

For those of you that are thinking "that will never work for me—if I have cash, I'll spend it in a flash" and for those who prefer a more high tech approach, several software programs use a "virtual" envelope system including the following:

- Mvelopes (www.mvelopes.com)¹
- You Need a Budget (www.youneedabudget.com)

Want to continue using the credit card for the rewards? Don't forget to factor in annual fees and the tendency to spend more when you think we're getting "paid" to do so.

Ultimately, do what works for you. Using cash envelopes has changed the lives of millions of families. While they might not work for you, you'll never know until you try.

This may be a method you use for a short period of time or it could very well become a way of life. Consider using this method on a "trial basis" for the next 30–60 days. You'll be amazed at the insight you gain into how you spend your money and how you use your credit cards. The spending awareness this method creates could change your life, even if you choose to only use it for a short period of time.

¹ Financial Knowledge is not affiliated with any app or service mentioned. These should be considered suggestions and your own research may find other options. Be sure to consider the privacy policy before putting personal information into any app or website.

Emergency Reserve Fund

At least 3-6 months of living expenses should be kept in a safe and liquid financial account for emergencies and unexpected expenses. This cash account is an insurance policy against potential financial misfortune from events such as a job loss, disability or medical emergency.

- Three months is suitable if there are two income earners within the household
- Six months is more sufficient for households with only one income earner
- One year may be appropriate if an earner has specialized, difficult to replace work

Think of the money set aside in this fund as an insurance premium that must be paid—just as health, homeowner's and auto insurance premiums must be paid.

Hopefully you will never have to use this money for an emergency, but, just like any insurance policy, it's nice to know it's there just in case.

Without an emergency fund in place, you might rely on, borrowing from your 401(k) plan, or using credit cards. Each of these approaches will potentially cause you to face more debt and may also jeopardize your long-term financial goals.

Treat an emergency fund as a short-term goal in terms of choosing safe investments:

- Savings Account
- Money Market Deposit Account
- Money Market Mutual Fund
- 90-Day Certificate of Deposit (CD)
- Short-Term U.S. Treasury Bill

The primary goal of these mentioned funds is preservation of principal, meaning a dollar invested today yields the equivalent of a dollar in the future.

According to a recent survey, 2/3 of Americans have less than \$1,000 in savings! Don't become a statistic—start saving more today!

Getting Your Emergency Fund Started

If you don't already have an emergency fund in place, it's important to make that one of your first short-term financial goals. If you have emergencies covered, then feel free to save for other goals.

One of the reasons people cite for not having an emergency fund is that it feels like an overwhelming amount of money to set aside. Remember, funding your emergency reserve is like funding any other financial goal: It won't happen overnight, but with a plan it can happen. It can also help to remember that you want to set aside cash to cover only your *essential* expenses.

It's important to note that most people are able to cut back on some expenses during a financial crisis. When sitting down to analyze your essential expenses, look at where your money goes today and challenge every category.

Be sure to plan for your specific situation and examine each of your expenses with a critical eye—would you really need this if money was extra tight? Remember, your finances are unique to you and you're the only one who can truly decide which expenses could be reduced or eliminated in the event of a financial emergency.

Consider setting up direct deposit through your employer to deposit some of your paycheck directly into your savings account. The key here is to make sure something goes into your savings account every time you get paid, if possible.

If the money automatically hits your savings account before you even have a chance to see it, you're probably not even going to miss it. You can always start out small. It could be just \$20 per paycheck, but once you start and realize you can get by without that money, you can slowly increase it over time.

In addition to setting aside a small amount on a regular basis, don't overlook opportunities to make lump-sum contributions to your emergency fund.

- Bank your tax refund. Consider placing that refund directly into your emergency fund savings account. For future years, you might also want to consider changing your withholding to bring home more with each paycheck and receive less of a refund.
- Look to set aside half of any gifts, bonuses or other unexpected cash into your emergency fund.
- Hold a garage sale or list some of your old stuff for sale on eBay or Craigslist. The proceeds could start building up your emergency fund.

No matter what approach or combination of approaches works for you, remember that small sums can make a huge difference over time. There are few things that can compare to the peace of mind and freedom that comes from knowing you have that financial foundation in place. Get started today and you'll have an emergency fund before you know it!

✓ **EXERCISE**

1. What amount do you consider suitable to set aside for an emergency reserve fund, based on your household expenses?
2. Check off the suitable investment vehicles for an emergency fund.

| X | Financial Account/Investment | | X |
|---|------------------------------|--------------------------|---|
| | Checking Account | Growth Stock Mutual Fund | |
| | Short-Term US Treasury | 90-Day CD | |
| | Intermediate Bond Fund | S&P 500 Index Fund | |
| | 2-Year CD | Money Market Mutual Fund | |

Answers can be found on page 30.

Common Spending Traps

Not Knowing Where the Money is Going

Many financial planners agree that most consumers can't account for up to half of their monthly spending. The best way to keep track of where money is going is to set up a spending plan on paper or using financial apps and websites.

Spending Money Not Yet Earned

Money spent but not yet earned means either:

- The purchase was bought on credit, or
- Money set aside for other things was spent

Think about the opportunity cost. Ask, "What do I have to give up tomorrow to have this item today?"

Spending First, Saving What's Leftover

Generally, not much money is left after paying bills. However, a large part of spending includes controllable, variable expenses. If amounts are set aside **first** for saving and investing, the leftover amount becomes what is used to pay for variable expenses.

Work to save an hour's worth of income each day. This allows you to save and invest while also covering any necessary expenses.

Buying Unnecessary Things

Many items are purchased that are never used or taken full advantage of. Spend some time evaluating purchases to make sure they're prudent.

Buying Short-Term Luxuries vs. Saving for Future Financial Goals

Balance instant gratification with important financial obligations and goals. Four important financial goals that take time to accomplish because of the amount of money needed are:

- Paying off debts
- Saving for retirement
- Buying a home
- Saving for children's college

Many would rather enjoy a luxury vehicle, nice vacation, fancy clothes, or gadgets today. However, long-term financial plans may be jeopardized by those purchases.

Spending Less

| | |
|-----------------------------------|--|
| General | <ul style="list-style-type: none"> ▪ Evaluate and plan all expenditures. ▪ Avoid credit card debt carryover from month to month. ▪ Pay bills on time with automatic payment plans. ▪ Avoid carrying an excess amount of cash; calculate the amount needed on a weekly basis and have just enough on hand. ▪ Keep savings in a separate fund to be used for financial goals. |
| Shopping | <ul style="list-style-type: none"> ▪ Distinguish between needs and wants. ▪ Institute a “waiting period” for all purchases over a certain dollar amount (\$100, for example). After the waiting period is over, the purchase may not be as appealing. ▪ Minimize impulse shopping with a shopping list. Before purchasing, place any items not on the list off to the side. Select only one (if any) of those extra items to purchase. ▪ Wait for the right price to buy and wait until the cash is available. ▪ Ask merchants to match online pricing. |
| Necessities | <ul style="list-style-type: none"> ▪ Take care of things you already own: clothes, cars, home, etc. ▪ Buy clothes that are on sale and washable rather than those that need dry cleaning or other special care. ▪ Buy a used car instead of a new one. ▪ Extend the time between regularly scheduled expenses such as haircuts and grocery shopping. ▪ Save monthly for variable expenses like vacations and maintenance. |
| Entertainment & Dining | <ul style="list-style-type: none"> ▪ Avoid recreational shopping. ▪ Make a list of enjoyable activities that are low-cost or free. ▪ Go to matinees instead of evening performances. ▪ Instead of eating out often, set up a regular grocery, shopping, and cooking schedule. ▪ Prepare bulk meals ahead of time and freeze them in portions. |
| Household | <ul style="list-style-type: none"> ▪ Recycle catalogs from the mail without opening them so you aren’t even tempted to buy unnecessary things. ▪ Install a programmable thermostat to reduce heating/cooling bills. |

Suggested Action Items

The following are suggestions only. Whether you wish to take action should be based on your own individual situation and circumstances.

1. Set and prioritize your goals
2. Determine monthly savings amount for your top three goals
3. Complete a budget
4. Track your expenses for one month
5. Pick three expenses to cut from your budget
6. Invest your savings appropriately
7. Review your goals and progress at least once a year

Do one task each week or month and you'll make steady progress!

Appendix

What Does Normal Spending Look Like?

Ever wonder where all your money goes? According to the US Bureau of Labor Statistics, about 34% of the average American's take-home income goes to housing. The second-largest category, on average, is transportation, consuming another 16% of take-home pay. That's 50% of income, on average, consumed by just two categories!

Here are the rest of the top five:

- 1. Food (13%)**
- 2. Personal Insurance and Retirement Savings (11%)**
- 3. Healthcare (7%)**

So what does healthy spending look like? Keep in mind that healthy spending is personal and can look different for different people.

Is Your Spending in Line with Your Goals?

What matters to one person or family may not matter to another. That's why reflecting on your most important values and goals when analyzing your finances can help you define healthy spending for your family. You might also want to sit down with your partner and talk through your shared values and goals.

Using the Bureau of Labor Statistics data is one barometer you may find useful for analyzing your spending. Note that these averages have been calculated using a large amount of data spanning the entire US and your results may vary. Nonetheless, it is often useful to have a benchmark for comparison to help you make decisions about whether your spending is sensible for you.

While "normal" spending is unique and will differ based on each person's values and goals, one rule of thumb that holds true for virtually everyone is "pay yourself first". What does that really mean? It means before a single bill gets paid, the bill called "your future" gets paid.

A benchmark many people use is 10-15% of your income set aside for future financial needs and goals. That includes retirement and other financial goals as well. Those goals could be anything from a family vacation to a new home to education for the kids.

Monthly Savings Worksheet

| Goal: | |
|-------|--|
| Time: | |
| Value | Description |
| A | Dollar amount already saved for this goal (lump sum) |
| B | Enter Table A Interest Factor from page 24. _____ Years _____ % Interest Rate |
| C | Multiply A × B This is the future value of the lump sum |
| D | Enter the dollar amount needed for goal |
| E | Subtract C from D This is the amount still needed |
| F | Enter Table B Annuity Factor from page 25-26 _____ Months _____ % Interest Rate |
| G | Multiply E × F This is the amount to save/invest each month* |

A sample exercise using this chart can be found on page 5.

* Please note that this amount does not take into consideration inflation or any taxable income that may be generated from investing this money.

Table A—Interest Factors: Compounded Future Value of Lump-Sum

For a one-time lump sum investment, compounded annually.

Scan down for the number of years, then across for the interest rate, and then multiply the lump sum by the selected factor. For example, a \$200 one-time investment left for five years at 10% interest will be worth $\$200 \times 1.611 = \322.20 .

| YR | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|----|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| 1 | 1.010 | 1.020 | 1.030 | 1.040 | 1.050 | 1.060 | 1.070 | 1.080 | 1.090 | 1.100 | 1.110 | 1.120 |
| 2 | 1.020 | 1.040 | 1.061 | 1.082 | 1.102 | 1.124 | 1.145 | 1.166 | 1.188 | 1.210 | 1.232 | 1.254 |
| 3 | 1.030 | 1.061 | 1.093 | 1.125 | 1.158 | 1.191 | 1.225 | 1.260 | 1.295 | 1.331 | 1.368 | 1.405 |
| 4 | 1.040 | 1.082 | 1.126 | 1.170 | 1.216 | 1.262 | 1.311 | 1.360 | 1.412 | 1.464 | 1.518 | 1.574 |
| 5 | 1.051 | 1.104 | 1.159 | 1.217 | 1.276 | 1.338 | 1.403 | 1.469 | 1.539 | 1.611 | 1.685 | 1.762 |
| 6 | 1.062 | 1.126 | 1.194 | 1.265 | 1.340 | 1.419 | 1.501 | 1.587 | 1.677 | 1.772 | 1.870 | 1.974 |
| 7 | 1.072 | 1.149 | 1.230 | 1.316 | 1.407 | 1.504 | 1.606 | 1.714 | 1.828 | 1.949 | 2.076 | 2.211 |
| 8 | 1.083 | 1.172 | 1.267 | 1.369 | 1.477 | 1.594 | 1.718 | 1.851 | 1.993 | 2.144 | 2.305 | 2.476 |
| 9 | 1.094 | 1.195 | 1.305 | 1.423 | 1.551 | 1.689 | 1.838 | 1.999 | 2.172 | 2.358 | 2.558 | 2.773 |
| 10 | 1.105 | 1.219 | 1.344 | 1.480 | 1.629 | 1.791 | 1.967 | 2.159 | 2.367 | 2.594 | 2.839 | 3.106 |
| 11 | 1.116 | 1.243 | 1.384 | 1.539 | 1.710 | 1.898 | 2.105 | 2.332 | 2.580 | 2.853 | 3.152 | 3.479 |
| 12 | 1.127 | 1.268 | 1.426 | 1.601 | 1.796 | 2.012 | 2.252 | 2.518 | 2.813 | 3.138 | 3.498 | 3.896 |
| 13 | 1.138 | 1.294 | 1.469 | 1.665 | 1.886 | 2.133 | 2.410 | 2.720 | 3.066 | 3.452 | 3.883 | 4.363 |
| 14 | 1.150 | 1.320 | 1.513 | 1.732 | 1.980 | 2.261 | 2.579 | 2.937 | 3.342 | 3.797 | 4.310 | 4.887 |
| 15 | 1.161 | 1.346 | 1.558 | 1.801 | 2.079 | 2.397 | 2.759 | 3.172 | 3.642 | 4.177 | 4.785 | 5.474 |
| 16 | 1.173 | 1.373 | 1.605 | 1.873 | 2.183 | 2.540 | 2.952 | 3.426 | 3.970 | 4.595 | 5.311 | 6.130 |
| 17 | 1.184 | 1.400 | 1.653 | 1.948 | 2.292 | 2.693 | 3.159 | 3.700 | 4.328 | 5.054 | 5.895 | 6.866 |
| 18 | 1.196 | 1.428 | 1.702 | 2.026 | 2.407 | 2.854 | 3.380 | 3.996 | 4.717 | 5.560 | 6.543 | 7.690 |
| 19 | 1.208 | 1.457 | 1.754 | 2.107 | 2.527 | 3.026 | 3.616 | 4.316 | 5.142 | 6.116 | 7.263 | 8.613 |
| 20 | 1.220 | 1.486 | 1.806 | 2.191 | 2.653 | 3.207 | 3.870 | 4.661 | 5.604 | 6.727 | 8.062 | 9.646 |
| 21 | 1.232 | 1.516 | 1.860 | 2.279 | 2.786 | 3.399 | 4.140 | 5.034 | 6.109 | 7.400 | 8.949 | 10.804 |
| 22 | 1.245 | 1.546 | 1.916 | 2.370 | 2.925 | 3.603 | 4.430 | 5.436 | 6.658 | 8.140 | 9.933 | 12.100 |
| 23 | 1.257 | 1.577 | 1.974 | 2.465 | 3.071 | 3.820 | 4.740 | 5.871 | 7.258 | 8.954 | 11.026 | 13.552 |
| 24 | 1.270 | 1.608 | 2.033 | 2.563 | 3.225 | 4.049 | 5.072 | 6.341 | 7.911 | 9.850 | 12.239 | 15.178 |
| 25 | 1.282 | 1.641 | 2.094 | 2.666 | 3.386 | 4.292 | 5.427 | 6.848 | 8.623 | 10.834 | 13.585 | 17.000 |
| 30 | 1.348 | 1.811 | 2.427 | 3.243 | 4.322 | 5.744 | 7.612 | 10.063 | 13.268 | 17.449 | 22.892 | 29.960 |

Table B — Annuity Factors

Calculate Money to Save in Pursuit of a Future Lump-Sum Goal

Use this table to calculate how much to save each month to accumulate a lump-sum for a given number of years in the future at a selected interest rate.

Example: Martin wishes to save \$10,000 in five years at 8% annual interest. His annuity factor is 0.0136. His monthly payment would be $\$10,000 \times 0.0136 = \136 .

Table continues on page 26.

| MON | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| 2 | 0.4998 | 0.4996 | 0.4994 | 0.4992 | 0.4990 | 0.4988 | 0.4986 | 0.4983 | 0.4981 | 0.4979 | 0.4977 | 0.4975 |
| 3 | 0.3331 | 0.3328 | 0.3325 | 0.3322 | 0.3319 | 0.3317 | 0.3314 | 0.3311 | 0.3308 | 0.3306 | 0.3303 | 0.3300 |
| 4 | 0.2497 | 0.2494 | 0.2491 | 0.2488 | 0.2484 | 0.2481 | 0.2478 | 0.2475 | 0.2472 | 0.2469 | 0.2466 | 0.2463 |
| 5 | 0.1997 | 0.1993 | 0.1990 | 0.1987 | 0.1983 | 0.1980 | 0.1977 | 0.1973 | 0.1970 | 0.1967 | 0.1964 | 0.1960 |
| 6 | 0.1663 | 0.1660 | 0.1656 | 0.1653 | 0.1649 | 0.1646 | 0.1643 | 0.1639 | 0.1636 | 0.1632 | 0.1629 | 0.1625 |
| 7 | 0.1425 | 0.1421 | 0.1418 | 0.1414 | 0.1411 | 0.1407 | 0.1404 | 0.1400 | 0.1397 | 0.1393 | 0.1390 | 0.1386 |
| 8 | 0.1247 | 0.1243 | 0.1239 | 0.1236 | 0.1232 | 0.1228 | 0.1225 | 0.1221 | 0.1218 | 0.1214 | 0.1210 | 0.1207 |
| 9 | 0.1108 | 0.1104 | 0.1100 | 0.1097 | 0.1093 | 0.1089 | 0.1086 | 0.1082 | 0.1078 | 0.1075 | 0.1071 | 0.1067 |
| 10 | 0.0996 | 0.0992 | 0.0989 | 0.0985 | 0.0981 | 0.0978 | 0.0974 | 0.0970 | 0.0967 | 0.0963 | 0.0959 | 0.0956 |
| 11 | 0.0905 | 0.0901 | 0.0898 | 0.0894 | 0.0890 | 0.0887 | 0.0883 | 0.0879 | 0.0876 | 0.0872 | 0.0868 | 0.0865 |
| 12 | 0.0830 | 0.0826 | 0.0822 | 0.0818 | 0.0814 | 0.0811 | 0.0807 | 0.0803 | 0.0800 | 0.0796 | 0.0792 | 0.0788 |
| 13 | 0.0766 | 0.0761 | 0.0758 | 0.0754 | 0.0750 | 0.0746 | 0.0743 | 0.0739 | 0.0735 | 0.0732 | 0.0728 | 0.0724 |
| 14 | 0.0711 | 0.0706 | 0.0703 | 0.0699 | 0.0695 | 0.0691 | 0.0688 | 0.0684 | 0.0680 | 0.0677 | 0.0673 | 0.0669 |
| 15 | 0.0663 | 0.0659 | 0.0655 | 0.0651 | 0.0647 | 0.0644 | 0.0640 | 0.0636 | 0.0632 | 0.0629 | 0.0625 | 0.0621 |
| 16 | 0.0621 | 0.0617 | 0.0613 | 0.0610 | 0.0606 | 0.0602 | 0.0598 | 0.0594 | 0.0591 | 0.0587 | 0.0583 | 0.0579 |
| 17 | 0.0584 | 0.0580 | 0.0577 | 0.0573 | 0.0569 | 0.0565 | 0.0561 | 0.0557 | 0.0554 | 0.0550 | 0.0546 | 0.0543 |
| 18 | 0.0552 | 0.0548 | 0.0544 | 0.0540 | 0.0536 | 0.0532 | 0.0529 | 0.0525 | 0.0521 | 0.0517 | 0.0513 | 0.0510 |
| 19 | 0.0523 | 0.0518 | 0.0515 | 0.0511 | 0.0507 | 0.0503 | 0.0499 | 0.0495 | 0.0492 | 0.0488 | 0.0484 | 0.0481 |
| 20 | 0.0496 | 0.0492 | 0.0488 | 0.0485 | 0.0480 | 0.0477 | 0.0473 | 0.0469 | 0.0465 | 0.0462 | 0.0458 | 0.0454 |
| 21 | 0.0472 | 0.0468 | 0.0464 | 0.0461 | 0.0456 | 0.0453 | 0.0449 | 0.0445 | 0.0441 | 0.0438 | 0.0434 | 0.0430 |
| 22 | 0.0451 | 0.0446 | 0.0443 | 0.0439 | 0.0435 | 0.0431 | 0.0427 | 0.0423 | 0.0420 | 0.0416 | 0.0412 | 0.0409 |
| 23 | 0.0431 | 0.0427 | 0.0423 | 0.0419 | 0.0415 | 0.0411 | 0.0408 | 0.0404 | 0.0400 | 0.0396 | 0.0392 | 0.0389 |
| 24 | 0.0413 | 0.0409 | 0.0405 | 0.0401 | 0.0397 | 0.0393 | 0.0390 | 0.0385 | 0.0382 | 0.0378 | 0.0374 | 0.0371 |
| 25 | 0.0396 | 0.0392 | 0.0388 | 0.0384 | 0.0380 | 0.0377 | 0.0373 | 0.0369 | 0.0365 | 0.0362 | 0.0358 | 0.0354 |
| 26 | 0.0381 | 0.0377 | 0.0373 | 0.0369 | 0.0365 | 0.0361 | 0.0357 | 0.0353 | 0.0350 | 0.0346 | 0.0342 | 0.0339 |
| 27 | 0.0367 | 0.0362 | 0.0358 | 0.0355 | 0.0351 | 0.0347 | 0.0343 | 0.0339 | 0.0336 | 0.0332 | 0.0328 | 0.0324 |

| MON | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 28 | 0.0353 | 0.0349 | 0.0345 | 0.0341 | 0.0337 | 0.0334 | 0.0330 | 0.0326 | 0.0322 | 0.0319 | 0.0315 | 0.0311 |
| 29 | 0.0341 | 0.0337 | 0.0333 | 0.0329 | 0.0325 | 0.0321 | 0.0318 | 0.0314 | 0.0310 | 0.0306 | 0.0302 | 0.0299 |
| 30 | 0.0329 | 0.0325 | 0.0321 | 0.0318 | 0.0313 | 0.0310 | 0.0306 | 0.0302 | 0.0298 | 0.0295 | 0.0291 | 0.0287 |
| 31 | 0.0319 | 0.0314 | 0.0311 | 0.0307 | 0.0303 | 0.0299 | 0.0295 | 0.0291 | 0.0288 | 0.0284 | 0.0280 | 0.0277 |
| 32 | 0.0309 | 0.0304 | 0.0301 | 0.0297 | 0.0293 | 0.0289 | 0.0285 | 0.0281 | 0.0278 | 0.0274 | 0.0270 | 0.0267 |
| 33 | 0.0299 | 0.0295 | 0.0291 | 0.0287 | 0.0283 | 0.0279 | 0.0276 | 0.0272 | 0.0268 | 0.0265 | 0.0261 | 0.0257 |
| 34 | 0.0290 | 0.0286 | 0.0282 | 0.0278 | 0.0274 | 0.0271 | 0.0267 | 0.0263 | 0.0259 | 0.0256 | 0.0252 | 0.0248 |
| 35 | 0.0282 | 0.0278 | 0.0274 | 0.0270 | 0.0266 | 0.0262 | 0.0259 | 0.0254 | 0.0251 | 0.0247 | 0.0243 | 0.0240 |
| 36 | 0.0274 | 0.0270 | 0.0266 | 0.0262 | 0.0258 | 0.0254 | 0.0251 | 0.0247 | 0.0243 | 0.0239 | 0.0236 | 0.0232 |
| 37 | 0.0266 | 0.0262 | 0.0258 | 0.0255 | 0.0250 | 0.0247 | 0.0243 | 0.0239 | 0.0236 | 0.0232 | 0.0228 | 0.0225 |
| 38 | 0.0259 | 0.0255 | 0.0251 | 0.0247 | 0.0243 | 0.0240 | 0.0236 | 0.0232 | 0.0228 | 0.0225 | 0.0221 | 0.0218 |
| 39 | 0.0253 | 0.0248 | 0.0244 | 0.0241 | 0.0237 | 0.0233 | 0.0229 | 0.0225 | 0.0222 | 0.0218 | 0.0214 | 0.0211 |
| 40 | 0.0246 | 0.0242 | 0.0238 | 0.0234 | 0.0230 | 0.0226 | 0.0223 | 0.0219 | 0.0215 | 0.0212 | 0.0208 | 0.0205 |
| 41 | 0.0240 | 0.0236 | 0.0232 | 0.0228 | 0.0224 | 0.0220 | 0.0217 | 0.0213 | 0.0209 | 0.0206 | 0.0202 | 0.0199 |
| 42 | 0.0234 | 0.0230 | 0.0226 | 0.0222 | 0.0218 | 0.0215 | 0.0211 | 0.0207 | 0.0203 | 0.0200 | 0.0196 | 0.0193 |
| 43 | 0.0229 | 0.0224 | 0.0221 | 0.0217 | 0.0213 | 0.0209 | 0.0205 | 0.0201 | 0.0198 | 0.0194 | 0.0191 | 0.0187 |
| 44 | 0.0223 | 0.0219 | 0.0215 | 0.0212 | 0.0207 | 0.0204 | 0.0200 | 0.0196 | 0.0193 | 0.0189 | 0.0185 | 0.0182 |
| 45 | 0.0218 | 0.0214 | 0.0210 | 0.0206 | 0.0202 | 0.0199 | 0.0195 | 0.0191 | 0.0188 | 0.0184 | 0.0180 | 0.0177 |
| 46 | 0.0214 | 0.0209 | 0.0205 | 0.0202 | 0.0198 | 0.0194 | 0.0190 | 0.0186 | 0.0183 | 0.0179 | 0.0176 | 0.0172 |
| 47 | 0.0209 | 0.0205 | 0.0201 | 0.0197 | 0.0193 | 0.0189 | 0.0186 | 0.0182 | 0.0178 | 0.0175 | 0.0171 | 0.0168 |
| 48 | 0.0204 | 0.0200 | 0.0196 | 0.0193 | 0.0188 | 0.0185 | 0.0181 | 0.0177 | 0.0174 | 0.0170 | 0.0167 | 0.0163 |
| 49 | 0.0200 | 0.0196 | 0.0192 | 0.0188 | 0.0184 | 0.0181 | 0.0177 | 0.0173 | 0.0170 | 0.0166 | 0.0162 | 0.0159 |
| 50 | 0.0196 | 0.0192 | 0.0188 | 0.0184 | 0.0180 | 0.0177 | 0.0173 | 0.0169 | 0.0166 | 0.0162 | 0.0158 | 0.0155 |
| 51 | 0.0192 | 0.0188 | 0.0184 | 0.0180 | 0.0176 | 0.0173 | 0.0169 | 0.0165 | 0.0162 | 0.0158 | 0.0155 | 0.0151 |
| 52 | 0.0188 | 0.0184 | 0.0180 | 0.0177 | 0.0172 | 0.0169 | 0.0165 | 0.0161 | 0.0158 | 0.0155 | 0.0151 | 0.0148 |
| 53 | 0.0185 | 0.0180 | 0.0177 | 0.0173 | 0.0169 | 0.0165 | 0.0162 | 0.0158 | 0.0154 | 0.0151 | 0.0147 | 0.0144 |
| 54 | 0.0181 | 0.0177 | 0.0173 | 0.0169 | 0.0165 | 0.0162 | 0.0158 | 0.0154 | 0.0151 | 0.0148 | 0.0144 | 0.0141 |
| 55 | 0.0178 | 0.0174 | 0.0170 | 0.0166 | 0.0162 | 0.0158 | 0.0155 | 0.0151 | 0.0148 | 0.0144 | 0.0140 | 0.0137 |
| 56 | 0.0175 | 0.0170 | 0.0167 | 0.0163 | 0.0159 | 0.0155 | 0.0152 | 0.0148 | 0.0144 | 0.0141 | 0.0137 | 0.0134 |
| 57 | 0.0172 | 0.0167 | 0.0163 | 0.0160 | 0.0156 | 0.0152 | 0.0149 | 0.0145 | 0.0141 | 0.0138 | 0.0134 | 0.0131 |
| 58 | 0.0169 | 0.0164 | 0.0160 | 0.0157 | 0.0153 | 0.0149 | 0.0146 | 0.0142 | 0.0138 | 0.0135 | 0.0131 | 0.0128 |
| 59 | 0.0166 | 0.0161 | 0.0158 | 0.0154 | 0.0150 | 0.0146 | 0.0143 | 0.0139 | 0.0135 | 0.0132 | 0.0128 | 0.0125 |
| 60 | 0.0163 | 0.0158 | 0.0155 | 0.0151 | 0.0147 | 0.0143 | 0.0140 | 0.0136 | 0.0133 | 0.0129 | 0.0126 | 0.0122 |

Hourly Wage Calculation

Before making a purchase, calculate the length of time needed to work to pay for the purchase. Divide the full purchase amount (including sales tax and tips) by the hourly wage. This is another way to analyze opportunity cost and is a more objective assessment of the true cost of an item.

✓ EXERCISE

Use your most-recent pay stub to calculate your after-tax hourly wage.

| | |
|---|---|
| 1. Take Your Gross Income | |
| 2. Subtract All Taxes: | |
| ▪ State/Federal | — |
| ▪ Medicare/Social Security | — |
| ▪ SUI/SDI | — |
| 3. Net Income Per Pay Period | = |
| 4. Divide by the # of Workdays Per Pay Period | ÷ |
| 5. Divide by the Average # of Hours Worked Per Day (To get brutally accurate, factor in commute time) | ÷ |
| 6. After-Tax Hourly Wage | = |

✓ EXERCISE

Sam earns \$1,000 after taxes each week. Sam works 50 hours per week, Monday through Friday, and has a half-hour commute each way to work. He would like to buy a motorcycle for \$6,000 (including sales tax).

1. What is Sam's hourly wage (factoring in commute time)?
2. How many hours would Sam have to work to buy the motorcycle?
3. Using the applicable interest factor from Table A, if Sam took the \$6,000 and invested it at 8%, how much would \$6,000 be worth in:
 - A. 10 Years?
 - B. 15 Years?
 - C. 20 Years?
4. How many hours would YOU have to work to buy the motorcycle?

Answers can be found on page 30.

Organizations & Websites

| | |
|---|--|
| Annual Credit Report Request Service www.annualcreditreport.com | <i>Provides consumers with free copies of their credit report every 12 months from each of the three credit bureaus.</i> |
| Bankrate www.bankrate.com | <i>Offers current rates on mortgages, credit cards, new and used auto loans, money markets, and other investments.</i> |
| Better Business Bureau (BBB) www.bbb.org | <i>Resources to help consumers solve marketplace problems with consumer education.</i> |
| Bottom Line Personal www.bottomlinepersonal.com | <i>A 16-page, biweekly, self-help newsletter.</i> |
| Choose to Save Education Program www.choosetosave.org | <i>Provides information and financial calculators for consumers to plan all aspects of their financial future.</i> |
| Consumer Federation of America (CFA) www.consumerfed.org | <i>CFA provides advocacy and education on finance and insurance.</i> |
| E-Loan www.eloan.com | <i>Provides low mortgage rates and information on loans for your personal objectives.</i> |
| Federal Consumer Information Center (FCIC) publications.usa.gov | <i>Provides a broad range of consumer information and is a "one-stop source for answers to questions about consumer problems and government services".</i> |
| InsWeb www.insweb.com | <i>Compare insurance quotes from leading insurance companies to find the best rates.</i> |
| Kiplinger Finance www.kiplinger.com | <i>Offers stock quotes, mutual fund rankings, financials, FAQs, and interactive resources. Publishes a monthly magazine.</i> |
| Lower My Bills www.lowermybills.com | <i>Compare rates for long distance and wireless phone service, internet access, utilities, credit cards, and more.</i> |
| Mint www.mint.com | <i>Helps track personal finances by connecting to your financial accounts, setting goals, and creating budgets.</i> |
| Money Magazine www.money.com | <i>Features text from money magazine, guides to mutual funds, company reports, and other financial news.</i> |
| National Foundation for Credit Counseling (NFCC) www.nfcc.org | <i>National nonprofit network designed to help people dealing with stressful financial situations.</i> |

**National Association of
Personal Financial Advisors**

www.napfa.org

Provides consumers with comprehensive and objective financial advice on a fee-only basis.

**National Association of Tax
Professionals**

www.natptax.com

Offers network of tax professionals and a research center.

Nolo Press

www.nolo.com

A leading publisher of self-help law books and software. Their website offers a vast array of information and education on everyday legal matters.

Scambusters

www.scambusters.org

Helps protect consumers and avoid being taken in by Internet scams and fraud.

Yahoo! Finance

finance.yahoo.com

Offers stock quotes as well as information on investments, loans, and insurance.

Answers to Workbook Exercises

Page 6:

1. \$132,650 ($\$50,000 \times 2.653$)
2. \$27,380 ($\$20,000 \times 1.369$)
3. \$229.75 ($\50×4.595)

Page 18:

1. Answers will vary.
- 2.

| X | Financial Account/Investment | | X |
|---|------------------------------|--------------------------|---|
| | Checking Account | Growth Stock Mutual Fund | |
| X | Short-Term US Treasury | 90-Day CD | X |
| | Intermediate Bond Fund | S&P 500 Index Fund | |
| | 2-Year CD | Money Market Mutual Fund | X |

Page 27:

1. \$18.18 (50 hours + 5 hour commute = 55 hours/week; $\$1,000 \div 55 = \18.18)
2. 330 hours ($\$6,000 \div \18.18)
3. a. \$12,954 b. \$19,032 c. \$27,966
4. Individual answers vary.

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