Army Community Service Hawaii

Financial Planning for Furlough Booklet

Leaner Times but Smarter Decisions

Created By Financial Readiness March 2013

Financial Planning for Furloughs-Resources.

Analyze

a. Communicating about money. See communicating about money and money issues
b. Use the Taking charge of family finances Balance Sheet. Or this spreadsheet version of a family balance sheet.
c. You can download a debt repayment spreadsheet like this debt reduction calculator or you can work on your plan online at no charge at powerpay.org.
d. Develop current budget/ income statement.
   i. See family money manager.
   These tools can help;
   ii. Try the check register technique here, using a check register to track your expenses or, you can use this downloadable check register.
   iii. Use this expense tracking log expense tracking log.
e. 12 month cash flow requirements
   i. Use this spreadsheet which you can download family 12 month cash flow sample 1
f. Set/Review current financial goals and values.
   i. See Financial Values, Attitudes and Goals

Plan

1. Re-direct- change of flight plan
   a. Develop furlough budget
      i. See the taking charge of finances family money manager
   b. How will your financial goals be affected? Put on paper! You can use this goal setting sheet as a resource.

Protect

1. Mental/ Emotional
   a. Need to order and review credit reports right away. See annual credit report.com
2. Protect your future
   a. Avoid tapping your retirement funds
      i. See 7-ways-to-avoid-tapping-retirement-cash
      ii. Also, should-you-tap-into-your-retirement-funds-early?
   b. Consequences of taking money out of your retirement plan.
      i. TSP.gov rules regarding withdrawals and loans. See TSP Loan Basics and TSP in service withdrawal basics
      ii. You can also review the Fact Sheet Sequestration and your TSP Account available here.

FS-592

Communicating about Money and Money Issues

Debra Pankow
Family Economics Specialist

Talking About Money

Why should we talk about money? Didn't we learn as children that asking how much someone paid for something was impolite?

Unfortunately, the consequences can be severe when we **don't** talk about money. Many couples cite money problems as a factor in divorce. Consumers find they have been taken advantage of when they do not ask for estimates before buying goods and services. And many families are forced to deal with additional stress after the death of a loved one when financial matters were not communicated beforehand.

NDSU
Extension Service
North Dakota State University
Fargo, North Dakota 58108
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Communications Basics

When we communicate, what we say may not be as important as **how** we say it. Here are some types of money messages we may be giving (or getting) that can get in the way of what we really want to say:

- **Messages that order, direct or command tell a person his or her feelings or needs are not important.**
  Examples: "*You need to spend less on food.*" "*You are wasting your money.*"
- **Warning and threatening messages tell what will happen if something is or isn't done and can make a person feel fearful and submissive.**
  Examples: "*If you don't control your charging, I'll cut up the charge cards.*" "*You will never get that new bike if you keep wasting your money.*"
- **Moralizing or preaching messages that tell what should or ought to be done often result in resistance and defending a position even more strongly.**
  Examples: "*You really should control the budget better.*" "*You aren't putting enough money in your savings account.*"
- **Advising, offering solutions or being told how to solve a problem may make a person feel unable to make wise decisions.**
  Examples: "*If I were you, I'd save that extra money.*" "*You should wait to buy that until the end of the season.*"
- **Messages that judge, criticize or blame, more than any other, make a person feel inadequate, inferior or worthless.**
  Examples: "*Can't you ever balance the checkbook right?*" "*You can't spend your money on that!*" "*You bought that worthless piece of junk?*"
- **Name calling, shaming or ridiculing can hurt a person's self-image or cause discouragement and anger.**
  Examples: "*Okay, Smarty.*" "*That was a dumb thing to spend your money on.*"

Ways to Improve Communications

Instead, try the following ways to improve your communications about money – and most everything else!

Use "I" Messages
The words you choose and your tone of voice can fuel or defuse an argument. Your spouse is more likely to hear you if you use "I Messages" instead of "You Messages." "You Messages" tend to be verbal attacks of blame and criticism. "I Messages" focus on you and your feelings.

The Three Parts of an I Message:

1. **"I feel..."**
   Make a clear statement of how you feel.
2. **"When you..."**
   Name the specific behavior that caused you to feel that way.
3. **"Because..."**
   Say why the behavior or event is upsetting.

   Instead of this: *"You never record the amounts of checks you write."*

   Try this: *"I feel frustrated when check amounts are not recorded, because I don't want to bounce a check."*

Remember: "I Messages" have three specific parts. Just starting a sentence with "I" doesn't make it an "I Message."

Identifying the Issue in a Money Disagreement

Sometimes the real reason for money disagreements is not related to money at all. For example, one adult daughter and her mother had a disagreement over the mother's shopping on QVC. While the argument started with *"You are spending way too much money buying jewelry over your television set!"* the real issue was not money at all. The parent had enough money to cover her living expenses, along with everything she was buying through the television retail program. The real issue for the daughter was that her mother was buying more jewelry than she would ever wear, and was giving it away to friends and relatives. This was not a money issue, it was a management issue.

Management issues can range from how much we spend and how we spend to where we spend. Money issues are only the dollars and cents involved. Either you have enough to cover living expenses or you don't.

Many times folks who think they are fighting over money are really disagreeing over management.

Talking with Family Members

Family members may have different values, attitudes and goals without realizing it. Learning to understand each other's perspective regarding money can be a great first step in improving money communications and management.

Money Meetings

Your household is like a minibusiness. Businesses that wait to meet until a financial crisis are not very successful or stable. Money meetings for your household are a great way to clear the air of any misunderstandings and to set family goals and plans. These meetings are scheduled, purposeful meetings to practice family money communication and to make plans and decisions. Keys to successful money meetings have:

- A focus, with an agenda
- A time limit (no more than one hour)
- A regular time (monthly or before pay periods is recommended; weekly may be necessary at first to get financial communications on track)
- Ground rules, such as no blaming, use of "I" messages and treating each other with respect.

Start with understanding each other's money background. Other meetings can involve working through goal setting, drafting a spending plan and cash flow statement, and preparing an annual family financial statement. Planning a family vacation is another good reason for a family money meeting.

Using money meetings for your family money communications can provide opportunities for compromise, a win-win outcome for everyone.

Talk about Money Activity

One common problem in marriages is disagreement over money. Unfortunately, "How much should we spend?" is less common than " You spent that much?" By understanding your own money beliefs and your partner's money beliefs, you can better understand each other and the source of your money disagreements, and perhaps find a more positive way of dealing with them. Money doesn't have to ruin relationships; instead it can strengthen the bonds and teach you to work as a team.

The worksheet that follows can be useful in understanding people with whom you make money decisions. Fill out the worksheets on your own, and then share and discuss answers.

Talking as a Wise Consumer

Don't be afraid to ask how much something is going to cost and get estimates in writing. Many consumers are faced with an unpleasant surprise when they receive a bill for goods or services when costs were not discussed in advance.

Talking with Professionals

Financial professionals can be a wonderful resource for personal financial information. Choosing a financial advisor and determining just how much financial information is necessary to share are extremely important. The Extension publication, "What to Look for in a Financial Professional," may be very useful. Here are some questions you will want to ask or find out when you meet with a financial professional:

- How many years of professional training have you had?
- What is your educational background?
- What is your area of expertise?
- How do you keep up with current trends in your field?
- What type of clients do you usually manage and what income bracket are they?
- How long has your company been in business?
- What other financial professionals do you work with?
- What credentials do you have? Professional memberships?
- How are your fees determined and how will I be billed?

One final question that is helpful to ask is, "What would you like to know about me?" More than any other, this question will tell you whether this financial professional is a true pro. She or he ought to ask you appropriate questions about your risk tolerance, your investment goals, your knowledge about investing, how much you already have invested and what investments you currently own. If the adviser isn't interested enough in you to probe for full answers to these critical questions, you'll never get the treatment you or your cash deserve.

When Not to Talk

There is a time and a place for everything, including talking about your finances. Personal financial information should never be shared with anyone you don't know and trust. Identity information, such as your social Social Security number, credit card account number or ATM pin numbers should never be shared with others unless you initiate the transaction and are certain of the security precautions. The next time you apply for a new drivers license, make sure you receive the new identifying number that replaces Social Security numbers and other drivers license numbers. (This can also be done before your renewal date.)

You have probably received privacy notices from banks and other financial institutions explaining what information about you the company collects, if it plans to share any personal financial information with other companies and what you can do to limit some of that sharing. Federal privacy laws give you the right to stop (opt out) some sharing of your personal financial information. These laws balance your right to privacy with financial companies' need to provide information for normal business purposes. As a good consumer, take these steps when you receive a privacy notice:

- Read all privacy notices.
- Get answers to your questions from your financial company.
- If applicable, decide whether you want to opt out.
- If you decide to opt out, follow instructions in the privacy notice.
- If necessary, shop around for a financial institution with the privacy policy in which you are comfortable.

Conclusion

Money! We argue about it, we need it, we save it, we earn it, we spend it, we think about it. Anything that important needs to be talked about with clear communications and with the people who really matter: spouses, children, aging parents and financial professionals. Specific guidelines are available for establishing positive and healthy communications with each group. Think about your communication style. Take steps to make it work even better as you plan for your financial security.

WORKSHEET - Talk About Money

Directions: *Family members should answer these questions separately, then compare answers. The similarities and differences can spark a discussion of family money attitudes and practices.*

1. If you received $1,500 tax-free, what would you do with it?

   $_______for__________________
   $_______for__________________
   $_______for__________________
   $_______for__________________
   $_______for__________________
   $_______for__________________

2. Rank the following activities. Use 1 to indicate what you would enjoy doing most and 5 to indicate what you would enjoy least.

   _____ an evening at home with the family
   _____ a night on the town
   _____ involvement in physical activity
   _____ time with friends
   _____ some quiet time to myself

3. Do you agree (A) or disagree (D) with the following statements?

   A D I'm basically too tight with money.

   A D My spouse (or parents) is basically too tight with money.

   A D Equality in family decision making is important to me.

   A D I feel good about the way financial decisions are made in my family.

   A D Sometimes I buy things I don't need just because they are on sale.

   A D I believe in enjoying today and letting tomorrow worry about itself.

4. If you had to make a major cut in your current spending, what would you cut first?

5. I'd like to see us spend less money on__________ and see more money go for ____________________.

6. What money problem is the most frequent cause of argument?

7. What was the most sensible financial thing you have done in your family?

   What was the most foolish financial thing you have done in your family?

8. Do you know the dollar figures that go in the following blanks?

   Family take-home income is $_________ per week.

   Our monthly rent or mortgage payment is $________.

   Money spent on food each month is $____________

9. Buying on credit is

   ____.

Source: Money In Your Pocket, University of Georgia, Cooperative Extension Service BUC$, Cornell Cooperative Extension.

Additional Materials

Don't Clash Over Cash (Ohio State University Extension Fact Sheet)
http://ohioline.osu.edu/hyg-fact/5000/5208.html

What to Look for in a Financial Professional
www.ext.nodak.edu/extpubs/yf/fammgmt/fe451w.htm

Sharing Your Personal Information: It' Your Choice
www.ftc.gov/privacy/protect.shtm

Privacy Choices for your Personal Financial Information
www.federalreserve.gov/pubs/privacy/default.htm

For more information on this and other topics, see www.ag.ndsu.edu

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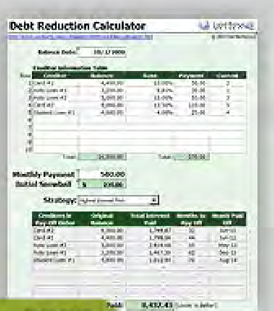
GoForth Institute

FAMILY BALANCE SHEET

	ASSETS	
CURRENT ASSETS		
Current Assets:		
Cash in bank	0	
Savings Bonds	0	
Investment Certificates, GICs	0	
Stock, Mutual Funds	0	
Pension Plan	0	
Life Insurance - surrender value	0	
RESP's	0	
Other Current Assets	0	
TOTAL CURRENT ASSETS		$0
LONG TERM ASSETS		
Business property, real estate	0	
Personal real estate	0	
Cars	0	
Boats, motorcycles, RVs, trailers	0	
Art	0	
Jewellery	0	
Household Furnishings	0	
Other personal property	0	
Other assets	0	
TOTAL LONG TERM ASSETS		$0
TOTAL ASSETS		$0
	LIABILITIES	
SHORT TERM LIABILITIES		
Credit Card Debt	0	
Personal Line of Credit	0	
Short Term Loans	0	
Personal Income Tax Installments Due	0	
Other Short Term Liabilities	0	
SHORT TERM LIABILITIES		$0
LONG TERM LIABILITIES		
Mortgage - home	0	
Mortgage - business	0	
Car Loan	0	
Other Long Term Debt	0	
TOTAL LONG TERM LIABILITIES	0	
		$0
TOTAL LIABILITIES		$0

Debt Reduction Calculator

for Excel & OpenOffice



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Type: .ZIP
Contents: .XLS (Excel 2003+)
Size: ~1.5MB, V 1.2

Rating for: Free Debt Reduction Calculator for Excel

Average Rating: 4.6 / 5 from 27 votes Add Review

"No Installation, No Macros - Just a simple spreadsheet - An original creation by Dr. Jon Wittwer of Vertex42.com"

Use our free Debt Reduction Calculator to help you eliminate your **credit card**, **auto**, **student loan**, and other debts. Easily create a **debt reduction schedule** based on the popular **debt snowball strategy**, or experiment with your own custom strategy.

In the first worksheet, you enter your creditor information and your total monthly payment. You'll then see a summary of when each of the debts will be paid off based on the strategy you choose.

The second worksheet is a **payment schedule** for you to print to keep track of your progress. You can also **see how the snowball increases** as you pay off your debts.

The download includes 2 Excel files: The *debt-reduction-calculator_10.xls* file lets you list up to **10 creditors**. The

TEMPLATE DETAILS

REQUIREMENTS
Microsoft Excel® 2002(XP) or Later

LICENSE
Personal Use Only

QUESTIONS / SUPPORT
Contact Us >

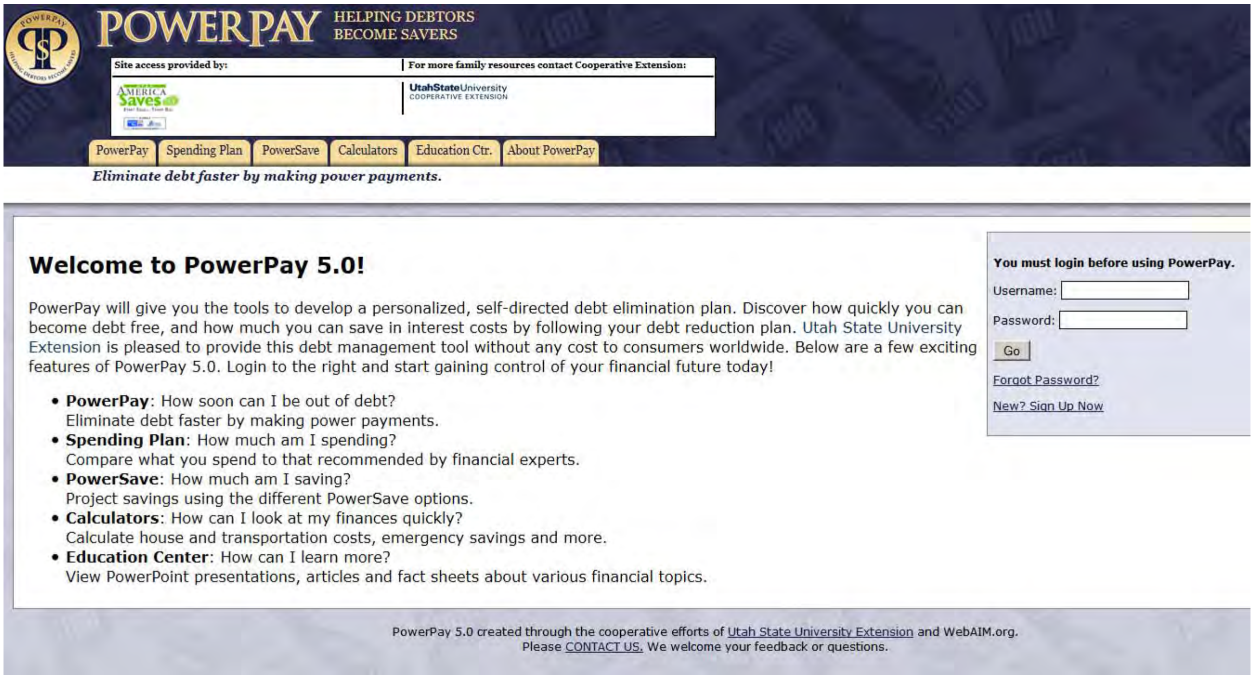
SUPPORT
How to Extract a ZIP File >

GOOGLE DOCS VERSION

McAfee SECURE
TESTED 05-MAR

Testimonials

"We have multiple rentals, and so


POWERPAY
HELPING DEBTORS BECOME SAVERS
Site access provided by:
For more family resources contact Cooperative Extension:
UtahStateUniversity COOPERATIVE EXTENSION
PowerPay
Spending Plan
PowerSave
Calculators
Education Ctr.
About PowerPay
Eliminate debt faster by making power payments.
Welcome to PowerPay 5.0!
PowerPay will give you the tools to develop a personalized, self-directed debt elimination plan. Discover how quickly you can become debt free, and how much you can save in interest costs by following your debt reduction plan. Utah State University Extension is pleased to provide this debt management tool without any cost to consumers worldwide. Below are a few exciting features of PowerPay 5.0. Login to the right and start gaining control of your financial future today!
PowerPay: How soon can I be out of debt?
Eliminate debt faster by making power payments.
Spending Plan: How much am I spending?
Compare what you spend to that recommended by financial experts.
PowerSave: How much am I saving?
Project savings using the different PowerSave options.
Calculators: How can I look at my finances quickly?
Calculate house and transportation costs, emergency savings and more.
Education Center: How can I learn more?
View PowerPoint presentations, articles and fact sheets about various financial topics.
You must login before using PowerPay.
Username:
Password:
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Forgot Password?
New? Sign Up Now
PowerPay 5.0 created through the cooperative efforts of Utah State University Extension and WebAIM.org.
Please CONTACT US. We welcome your feedback or questions.

FE222 (Revised)

FAMILY MONEY MANAGER

Debra Pankow
Family Economics Specialist

Money is an often-discussed topic in most families, usually centering on, "Where did it go?"

More money usually is not the answer for solving financial concerns for most families. Instead, developing a plan for better money management will help most families feel more satisfied with their income and their progress toward goals.

Family Goals

Effective money management depends on the way a family chooses to live and the goals it plans to achieve. Think about where your family is today financially and where you would like to be in five or 10 years.

Long-term goals — These "dreams for the future" usually are set for more than five years.

Intermediate goals — Usually these objectives would be attainable within one to five years.

Short-term goals — These goals are attainable in the next three months to a year.

Each goal you choose should have a specific dollar amount assigned to it to help make it a reality. The first goal for many families will be to set up an emergency fund. An emergency fund usually is living expenses for three to six months, to be used in case of an interruption in income. (See Chart 1: Goal-setting Worksheet.)

NDSU EXTENSION SERVICE
North Dakota State University, Fargo, ND

May 2012

Getting Started

Taking a moment to assess the situation is important. The charts included in this section of “Family Money Manager” will help you determine income resources and your expenses. Look at Chart 2: Income Forecast. What is your anticipated monthly income? This is the amount you will be using to plan your cash flow.

For some families, taking a good look at their income and seeing where the money actually is spent is enough to help them regain financial control. But others need additional help in the form of a money management program or a few visits with a professional financial counselor who can provide help with better money management. Financial counseling is available through a variety of nonprofit services (consumer credit counseling) and military family support programs.

Planning to Spend and Save

Many families set goals and have dreams for the future. Taking charge of spending means knowing how much is being spent and on what items. A good recordkeeping system can make all the difference in making your spending plan a success. You might want to consider the following methods to achieve a realistic idea of how your money is being spent:

Tracking sheet — Write down your daily spending for a two-week period. On a sheet of paper, write the categories you need to track. Track categories that vary in amounts from week to week or month to month. (You do not need categories such as mortgage or car payment. Suggestion: Make the first four categories food, eating out, snacking out and personal care). Numerous forms, workbooks and even computer programs are available to assist in this method.

Check register tracking system — Record each expense immediately, and keep the balance up to date in a checkbook register. You can use the register to record checks, cash and credit expenses. For information on this system, see NDSU Extension Service publication HE-470, “Taking Charge of Family Finances: Using a Check Register to Track Your Expenses,” available at www.ag.ndsu.edu/pubs/yf/fammgmt/fe470.pdf.

Calendar system — Use a calendar to track your monthly cash flow. Begin on the first day by writing down cash on hand or the balance in your checking account. Write your paycheck amounts on the appropriate dates. Then write down when bills need to be paid or when you need to spend money for food, gasoline, school, etc. You will list the amount of your income and the bills so you can add and subtract as your progress. Continue this process through the month to see if you can cash flow.

Envelope system — This cash system lets each family member see how much money is available in each envelope or budget category. It requires little paperwork because the expenses simply are recorded in the envelope. Receipts also may be kept in the envelopes. The disadvantage of this system is that it requires keeping larger amounts of cash around the house, which may cause a security problem.

Whatever method you use to track your spending, you will need two to three months of records to come up with a projected spending plan. On Chart 3: Spending Plan Worksheet, list your current expenditures in the current monthly column.

Review the Plan

Now fill out the summary on the last page. Do your current expenses match your projected income? If not, you need to adjust your spending, find new sources of income or both. If you have problems balancing your income and expenses, you may find that talking to a financial counselor is useful. Look in your local yellow pages under “credit and debt counseling” or contact your local Extension office for services available in your area.

Any spending plan will need to be revised and restructured as your family’s needs change. By regularly reviewing your family budget, you’ll be able to compare actual amounts with the planned amounts. The more frequently you make such checks, the better your progress will be in reaching short- and long-term goals.

Additional Resources Available

The following resources are available from your local office of the NDSU Extension Service to assist in your family money management:

FE-222a Financial Term Guide will help you understand various financial terms.

FE-222b Spending Forecast can help you look at all your regular and irregular expenses on an annual basis.

FE-222c Family Balance Sheet can help you take an overall look at your family’s assets and liabilities. This sheet should be filled out on an annual basis.

Chart 1: Goal-setting Worksheet

SHORT-TERM GOALS — up to 12 months

1. ______________________________ $________
2. ______________________________ $________
3. ______________________________ $________
4. ______________________________ $________
5. ______________________________ $________

The total of short-term goals = $__________

Divide by number of months = $__________
required per month

Short-term goals = $_________ per month

MEDIUM-TERM GOALS — 1 to 5 years

1. ______________________________ $________
2. ______________________________ $________
3. ______________________________ $________
4. ______________________________ $________
5. ______________________________ $________

The total of medium-term goals = $__________

Divide by number of months = $________
required per month

Medium-term goals = $_________ per month

LONG-TERM GOALS — more than 5 years

1. ______________________________ $________
2. ______________________________ $________
3. ______________________________ $________
4. ______________________________ $________
5. ______________________________ $________

The total of long-term goals = $__________

Divide by number of months = $__________
required per month

Long-term goals = $___________ per month

Long, medium and short TOTALS = $__________ (into savings account)

Chart 2: Income Forecast

Income Sources*	**Annual Income**	**Monthly Income** *(Divide annual by 12 months)*
Earner 1 (take-home pay)	$____________	$____________
Earner 2 (take-home pay)	$____________	$____________
Family living from the farm	$____________	$____________
Interest	$____________	$____________
Dividends	$____________	$____________
Annuities/pension	$____________	$____________
Rent	$____________	$____________
Other (list) ____________________	$____________	$____________
____________________	$____________	$____________
____________________	$____________	$____________
Total Income	$____________	$____________

* Include only reliable sources

Chart 3: Spending Plan Worksheet

Your budget is a 12-month projected budget. You will have to estimate some items.
Total yearly expenses should be divided by 12, which gives the monthly average.

LIVING EXPENSES

	Current Monthly	Adjusted Monthly
HOUSING		
Rent/mortgage	________	________
Second mortgage	________	________
Electricity	________	________
Heating/fuel oil	________	________
Water, garbage or lot rent	________	________
Telephone/cell phone	________	________
Property tax	________	________
Home maintenance/repair	________	________
Computer service	________	________
Other ________________	________	________
FOOD/PERSONAL		
Groceries	________	________
Milk delivery bill	________	________
Student hot lunches	________	________
Toiletries/diapers, etc.	________	________
Cigarettes/tobacco	________	________
Barber/beauty shop	________	________
Other ________________	________	________
SUPPORT/ALLOWANCE/DEPENDENT CARE		
Child support/alimony	________	________
Child care/elder care	________	________
Children's allowance	________	________
Other ________________	________	________
CAR EXPENSE		
Car payment/lease	________	________
Gas and oil	________	________
Repairs, tires, etc.	________	________
Licenses	________	________
Parking	________	________
Other ________________	________	________

Continued

LIVING EXPENSES (continued)

	Current Monthly	Adjusted Monthly
INSURANCE		
Health	________	________
Car	________	________
Homeowners/rental	________	________
Disability	________	________
Other ________________	________	________
MEDICAL		
Doctor (expenses not covered by insurance)	________	________
Dentist (expenses not covered by insurance)	________	________
Eye care (expenses not covered by insurance)	________	________
Medications (expenses not covered by insurance)	________	________
Other ________________	________	________
CLOTHING		
Family clothing	________	________
Cleaners	________	________
Laundry (coin operated)	________	________
Other ________________	________	________
EDUCATION		
Student loans	________	________
Tuition (school/college)	________	________
School activity, sports pictures	________	________
Lessons	________	________
Subscriptions (book, magazines, paper)	________	________
Other ________________	________	________
DONATIONS/GIFTS		
Church donations	________	________
Miscellaneous donations	________	________
Christmas gifts	________	________
Birthday gifts	________	________
Miscellaneous gifts	________	________
Other ________________	________	________
PET CARE		
Pet care — food	________	________
Pet care — medical	________	________
Other ________________	________	________

Continued

LIVING EXPENSES (continued)

	Current Monthly	Adjusted Monthly
ENTERTAINMENT		
Lunches/snacks at work	________	________
Other meals out (dinner, etc.)	________	________
Beverages (liquor, wine, etc.)	________	________
Pull tabs, blackjack, bingo, etc.	________	________
Movies, plays, VCR, DVD	________	________
Sports (bowling, fishing, etc.)	________	________
Baby-sitting	________	________
Clubs — sports (annual fees)	________	________
Vacations	________	________
Cable TV	________	________
Hobbies and crafts	________	________
Other ________________	________	________
SELF-EMPLOYED		
Social Security	________	________
Federal, state and other tax	________	________
Other (business overhead, union dues)	________	________
MISCELLANEOUS		
Uniforms, footwear, tools	________	________
Rental agreements (TV, dryer, etc.)	________	________
Bank service charge	________	________
Ready reserve	________	________
Tax preparation	________	________
Computer costs	________	________
Other ________________	________	________
Total Living Expenses	________	________

GOALS AND SAVINGS

	Current Monthly	Adjusted Monthly
GOALS		
Short-term ________________	________	________
Medium-term ________________	________	________
Long-term ________________	________	________
EMERGENCY SAVINGS		
Other ________________	________	________
Total Goals and Savings	________	________

DEBT REPAYMENT

Creditor Name	Current Balance	Minimum Payment	Current Payment	Adjusted Payment
Total Debt Repayment				

SUMMARY

NET MONTHLY INCOME (from chart 2)	Monthly	Annual
Total Income	$	$

EXPENSES (from chart 3)	Monthly	Annual
Living expenses	$	$
Goals and savings	$	$
Debt repayment	$	$
Total Expenses	$	$

INCOME $__________ – EXPENSE $__________ = CASH FLOW $__________

For more information on this and other topics, see www.ag.ndsu.edu

A Self-Learning Resource From MSU Extension

Using a Check Register to Track Your Expenses

by Marsha A. Goetting, Ph.D., CFP®, CFCS, MSU Extension Service Family Economics Specialist, and Judith G. Ward, CFCS, former Hill County Extension agent

Explains how to transform your own check register into a handy budgeting tool that can be used to track your cash, credit and debit card expenses.

MONTANA STATE UNIVERSITY EXTENSION

MontGuide

MT198703HR Reviewed 2/11

DISCOVERING WHERE YOUR DOLLARS GO IS THE first step in becoming a more effective financial manager. After you've tracked your expenses for several weeks you may be amazed at the amounts actually spent for basic living expenses such as food, housing, transportation, clothing and medical care. Once you are aware of amounts spent, you can begin to take control of your finances.

This MontGuide describes a management technique that shows exactly how much you have spent or have left to spend for each living expense category. At any point of time during the month you can see whether you can afford further expenditures based upon your spending plan. The system is designed for those who want a simple way to track expenses without having to spend a lot of time doing it. While the illustrations were developed primarily for individuals who have a checking account, the method can be easily adapted for Montanans who use cash, debit and credit cards.

Determining Expense Categories

First, make a list of your family living expense categories. Food, housing, transportation, clothing, personal care, medical and recreation are typical examples. Don't get carried away with listing too many categories, as you're limited by space in the check register. Start with five to seven.

Second, determine how much you anticipate spending monthly for each category. If you don't have any idea, use last year's checks and credit card itemized bills to determine expense categories. Total amounts under each one and divide by 12 to arrive at an average monthly amount spent. The results of this process may be shocking. You may be spending much more for each family living category than you thought. If you typically write checks for more than the amount of purchase, your totals will be unrealistic, but don't let this stop you. If you spent cash for most purchases, total the cash withdrawals from your checking and savings accounts. Don't forget to include cash withdrawals from the automatic teller machine, if you use one. Divide your cash withdrawals by 12. This process will give you an idea of average monthly cash expenses, even though a year later you may not be able to recall where all the dollars went.

If you primarily used credit or debit cards for purchases, itemize the monthly bills to learn what the charges actually were for – clothing, gasoline, eating out, etc.

If you don't have records for determining amounts to allow for each category, "guess-timate" or use percentages from the MontGuide, *Developing a Spending Plan* (MT199703HR), that is available from MSU Extension. Percentages and income amounts from $5,000 to over $70,000 are provided.

After you've used the check register to track expenses for a couple of months, you'll have a more realistic idea of your spending habits.

Check Register

Now you're ready to request a blank check register (if you don't already have one) from your bank, savings bank or credit union. If you don't have access to a check register, make one using plain paper. Or you may wish to order check registers developed specifically for this tracking system in which space is provided for seven expense categories, with vertical lines drawn to separate expense categories on each page. The cost is $1.00 per register for Montana residents; $2.00 for out-of-state residents (one will last most people from two to three months, depending upon the number of checks written). To receive a Check Register, contact your MSU Extension agent or send payment to: Check Register, Extension Publications, P.O. Box 172040, Montana State University, Bozeman, Montana 59717.

If you're using a check register from a financial institution, place adhesive labels across the top of the page. Then list each expense category and amount you plan to spend. Next, draw as many vertical lines on your register as you have expense categories. Don't draw lines in the balance section of your check register or the extreme left column where the check number and date are located. See Example 1a.

Check Writing and Recording of Expenses

When you write a check, record the amount in the balance column. In Example 2, check #321 was written for $19.06 to a discount store for shampoo, hair rinse and other personal care items. The $19.06 is also subtracted from the $80 personal care budget, leaving $60.94 for the rest of the month.

EXAMPLE 1. Before applying adhesive labels.

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT						
NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (–)	FEE (IF ANY) (–)	DEPOSIT/CREDIT (+)	BALANCE $
			$		$	

EXAMPLE 1a. After applying adhesive labels.

APRIL		RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT						
TOTAL		FOOD	REC.	TRANS.	CLOTHES	HOUSING	MED.	PERS. CARE	BALANCE $ 500.00
2205.00		500.00	125.00	400.00	200.00	800.00	100.00	80.00	

EXAMPLE 2. Recording expenses

APRIL		RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT							
TOTAL		FOOD	REC.	TRANS.	CLOTHES	HOUSING	MED.	PERS. CARE	BALANCE $ 500.00
2205.00		500.00	125.00	400.00	200.00	800.00	100.00	80.00	
#321	4/1							-19.06	19.06
K-Mart								60.94	480.94
	4/11								1022.98
Deposit									1503.92
Cash	4/15								60.00
Withdrawal									1443.92

You make only two entries with each check – one in the appropriate expense category and one in the balance column. The figure in the *balance* column shows the amount left in your checking account. The figure in the *expense* column shows the amount you have left to spend in each category.

Record the check number and date in the usual location (far left column). Underneath, record the business to which the check was written. Repeat this procedure each time you write a check. See Example 2.

You may simplify entries in the expense categories by rounding your figures up or down. For example, write $19.00 instead of $19.06 in the personal care expense category. This makes the subtraction process less time-consuming. However, you may prefer to record exact figures in the balance column. This way you will know the exact balance in your checking account.

On the check register from MSU Extension, each page provides space for writing in the categories. You will not need to apply additional adhesive labels, nor will you need to draw the vertical lines again. If you are using a register from a financial institution you can place adhesive labels across the top of each succeeding page. Another option when it is time to move to a new page is to cut off the top to expose the labeled categories on the first page.

Remember to record the amount remaining in each category from the previous page under appropriate columns. Draw as many vertical lines on your new pages as you did previously.

At the end of the month, review your expenses. You may discover you were right on target with some but off on others. For example, one Montana family had $64 left in their housing category because it was summer and they did not use much electricity. This family knows that they will need the "leftover" dollars during the winter months.

Simply because there are dollars left in the balance column does not mean those are "extra" dollars to be spent now. Those dollars need to be set aside so they will be available to meet your planned budget expenses later on. This family will transfer the balance to an interest-bearing account for use during winter.

Recording Deposits and Withdrawals

Deposits, such as Social Security checks, interest from savings and automatic paychecks can be easily recorded in your check register. Write deposits in the balance column and add to the balance. Record the date in the far left column. Be sure to indicate the transaction was a deposit.

For cash withdrawals, subtract the amount from the balance column. Record the date in the far left column. See deposit on 4/11 and withdrawal on 4/15 in Example 2. Be sure to indicate the transaction was a cash withdrawal or deposit.

Starting a New Month

When beginning a new month, once again relabel the expense categories and, if necessary, draw vertical lines. If you found the categories in the prior month unworkable, change them. For example, one Montanan started with categories for personal care and clothing. After two months she combined them into one.

If you found your planned expenses were unrealistic, change allocated spending amounts.

Questions About the System

What if I write one check for purchases that fall under several categories?

If you purchase items from a discount or grocery store that fall under several categories, ask the sales clerk to subtotal each group for you. If there's not a long line of people waiting, most sales clerks will gladly accommodate you. Record each subtotal in the appropriate category of your check register as the amount appears on the cash register. If you are rushed or people are waiting in line, ask the sales clerk to subtotal, then wait until you're in the car or at home to record the expenses under the appropriate category. Note check #503 in Example 3 was written for $60.50. The amount was divided among three categories: $25.68 for food; $16.40 for housing; $18.42 for clothes and personal care.

Can my check register be used to record cash and debit expenses?

In Example 3, note the circled numbers. On May 5 this Montanan spent $5.75 in cash for lunch. The $5.75 was subtracted from the food budget, leaving $168.25 for the rest of the month. The $5.75 is circled to remind her it was a cash expense. Other cash expenses included $24.00 for personal care items and $25.00 for aspirin and cold medicines. The amounts are not subtracted from the balance column because the $60 cash withdrawal on April 15 (see example 2) had been recorded in a prior month.

How can a check and debit register be used to record credit card expenses?

When you make a charge, list the amount under each appropriate expense category. You may also want to list a credit card balance column so you can *add* or *subtract* the credit card balance as well. Then you'll know how much you've charged during the month and the arrival of the bill won't be a shock. In Example 3 this Montanan charged a car repair bill for $130 on May 5. She prefers to draw a box around credit charges so she can quickly see how often

EXAMPLE 3. Circled number denotes cash expense

MAY — RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT

NUMBER	DATE	FOOD	REC.	TRANS.	CLOTHES PERS. CARE	HOUSING	MED.	CREDIT CARD	BALANCE $ 300.00
		225.00	100.00	250.00	95.00	780.00	100.00	1500.00	
	5/11								1600.00
Deposit									1900.00
#501	5/1					-550.00			550.00
House payment						230.00			1350.00
#502	5/2	-51.00							51.00
Groceries		174.00							1299.00
	5/4				-24.00				
Penney's					71.00				1299.00
	5/5						-25.00		
Clinic							75.00		1299.00
	5/5			-130.00				-130.00	
Auto repair				120.00				1370.00	1299.00
	5/5	-5.75							
Taco John's		168.25							1299.00
#503	5/8	-25.68			-18.42	-16.40			60.50
Osco		142.57			52.58	213.60			1238.50

EXAMPLE 4.

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT									
NUMBER	DATE	FOOD	REC.	TRANS.	CLOTHES	HOUSING	MED.	PERS. CARE	BALANCE $ 1070.50
Budget	300.00	590.00		120.00	30.00	360.00	80.00	50.00	
1530.00									
#809	10/11			10.50					10.50
Gas									1060.00
#810	10/11					-434.00			434.00
Mortgage									626.00
#811	10/12			+12.75					12.75
Gas				23.25					613.25
#812	10/13					+12.95			12.95
Cable						446.95			600.30
#813	10/13					+95.00			95.00
Power						541.95			505.30

she has used her charge card. If the charge had been for a variety of items that fall under different categories, the totals would have been listed under the appropriate headings. Some families prefer to subtract the credit charge from the checking balance even though a check is not written, to assure that there will be the funds available to pay the bill in full upon its arrival.

What if I'd prefer to see how much I've spent instead of how much I have left?

This system can be easily adapted to show how much you've spent in each category any time during the month. When you write a check, simply add to the balance in the expense category instead of subtracting. In Example 4, check #810 was written for $434. Check #812 for $12.95 was added to the $434 for a total of $446.95 spent for housing as of October 13. Be sure to set a limit on spending so you'll be able to achieve your financial goals.

Summary

The check register system has many advantages. It's simple. It allows you to have information at your fingertips about your spending situation. It provides you with immediate decision-making opportunity: yes, we can afford to eat out or no, we can't. It's compact – you can carry it with you at all times.

This tracking method also helps you evaluate your spending habits so you can better plan for a more secure financial future. Remember: this tool can easily be adapted to provide the kind of information you need to make decisions about your finances.

How to Order Your Check Register

MSU Extension has check registers developed specifically for this tracking system. The cost is $1.00 per register for Montana residents; $2.00 for out-of-state residents. Contact your Extension agent or write:

Check Register
Extension Publications
P.O. Box 172040
Montana State University
Bozeman, MT 59717-2040.

To order additional publications, please contact your county or reservation MSU Extension office, visit our online catalog at **www.msuextension.org/store** or e-mail **orderpubs@montana.edu**

MONTANA STATE UNIVERSITY | EXTENSION

File under: Family Financial Management (Credit and Money Management)
Reviewed February 2011 200-211SA

Checkbook Register

Name: ____________________

Cleared Balance: 1,430.80
Current Balance: 143.46

See instructions in the Help worksheet

Date	Num	Payee/Transaction Description	Category	R	Withdrawal, Payment (-)	Deposit, Credit (+)	Balance
1/01/12		[Balance As of 01/01/2012]		R		546.00	546.00
1/01/12	DEP	Direct Deposit from Employer	Wages & Tips	R		1,000.00	1,546.00
1/10/12	EFT	Car Payment	Auto	R	115.20		1,430.80
1/15/12	2032	Joe's Food Mart	Groceries		87.34		1,343.46
1/18/12	TXFR	Transfer to Savings Account			100.00		1,243.46
1/22/12	2033	Rent Payment	Rent		1,100.00		143.46
							-
							-
							-
							-
							-
							-
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							-

EXPENSE TRACKING LOG

Beginning surplus $________________ Must cover all expenditures until __/__/__

Date	Amount	Method	To Whom	Need or Want	Notes

FAMILY LIVING CASH FLOW	Total	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Opening Cash Available	$0	0	0	0	0	0	0	0	0	0	0	0	0
CASH INFLOW													
Income:													
1. Employment Income: _______________	$0												
2. Employment Income: _______________	$0												
3. Gov't Support Programs	$0												
4. Savings & Investment Income	$0												
5. Farm Income Allowance	$0												
6. Other ___________	$0												
7. TOTAL CASH INFLOW:	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CASH OUTFLOW													
Living Expenses:													
8. Credit Card Interest & Bank Fees	$0												
9. Life & Disability Insurance	$0												
10. Mortgage / Rent	$0												
11. Housing Costs	$0												
12. Groceries (food & cleaning supplies)	$0												
13. Dining Out	$0												
14. Entertainment	$0												
15. Recreation and Gifts	$0												
16. Transportation	$0												
17. Hydro / Utilities	$0												
18. Telephone / Internet	$0												
19. Clothing & Upkeep	$0												
20. Education & Training	$0												
21. Charitable Donations	$0												
22. Child Care	$0												
23. Health: Medical, Dental, Eyecare	$0												
24. Miscellaneous: _________________	$0												
25. Miscellaneous: _________________	$0												
26. Other: _____________	$0												
27. Other: _____________	$0												
28. TOTAL LIVING EXPENSES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Savings and Investment (planned):													
29. Emergency fund savings	$0												
30. Bonds, RRSP's, etc _________	$0												
31. Other _____________	$0												
32. Other _____________	$0												
33. Total Savings and Investment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
34. TOTAL CASH OUTFLOW	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
NET CASH FLOW	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
+ Opening Cash Position for Period	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
ENDING CASH BALANCE	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

FS-591 (Revised)

Financial Values, Attitudes and Goals

Debra Pankow, Family Economic Specialist

The Importance of Setting Goals

Have you ever felt you are not getting what you really want out of life? Do you know what you really want out of life? Three groups of Harvard graduates were studied several years ago. Those who wrote down their goals were the most successful at reaching them. Those who "mentally" wrote down their goals were moderately successful. The individuals who did neither were the least successful. The key to success in achieving what you want out of life is understanding yourself and then carefully setting some goals — and writing them down.

Your Financial Values

Your goals are a reflection of your personal values. **Values** are relatively permanent personal beliefs about what you regard as important, worthy, desirable or right. Values tend to reflect your upbringing and change very little without conscious effort throughout a lifetime. For example, some families and individuals hold their faith as a very high value; for others, education or a successful family business enterprise may be a value. Recognizing our values and understanding the values of other people with whom we closely interact is important.

NDSU EXTENSION SERVICE
North Dakota State University, Fargo, North Dakota

Revised August 2012

Financial Values Inventory

If you are not aware of your own money values, an activity on the back of this publication can help you start your thinking. Imagine you have just received $100 you do not need for everyday expenses. Go through each pair of items and circle the item on which you would prefer to spend the money. When you are finished, total the number of times each item was circled.

Financial Attitudes

Attitudes are a measure of your state of mind, your opinions and judgment about the world in which you live. They reflect a position you have taken with your values and are much more flexible than values. For example, one family may place a very high value on children and have a very positive attitude about raising them and providing opportunities for them. Both spouses may value higher education, yet one spouse may have a more positive attitude toward the University of North Dakota and the other may have a more favorable attitude toward North Dakota State University.

Goal Setting

Dreams are the stuff of which life is made. We all have them. Yet many people wonder how they ever can realize their dreams or give them up when they experience roadblocks, detours and curves on the way. Achieving a financial dream often is difficult when you have many financial issues that seem to take priority.

Daily expenses, buying a car, paying off a mortgage or debt, saving for your own or a child or grandchild's education, saving for retirement, taking a family vacation, caring for aging parents - multiple and competing demands on our finances make achieving our dreams sometimes appear to be impossible.

How can you manage all these financial challenges and at the same time keep your dreams alive? How can dreams become reality?

Goal Setting Activity

This goal setting activity will allow you to write down your goals, perhaps for the very first time! To complete this activity, you will need 8-12 index cards.

Start by writing your dreams on these cards. Your dreams aren't just dreams anymore, they have now become your goals! Don't leave anything out — this is your "wish list." Make your dreams specific, put down a year and if there is a financial cost, estimate what that will be. Examples might be:

Retirement home in Arizona	2030	$45,000
Graduate school	2020	$20,000
Used pontoon and lift	2014	$ 8,000
Trip to Australia for two	2017	$ 5,000

Now sort your cards into two stacks: goals you want to accomplish in the next five years or less, and goals that will take longer than five years.

You will see later why it is important to separate long- and short-term goals. The important thing is that you save for them differently. Now sort your cards in each stack in order of priority.

On the back of each card, write what you would need to do to make that dream a reality. Also write down money you have saved already for that goal (if any) and other expected sources of money that may help you achieve your goal.

For example, if one dream is a trip to Australia for two in five years at an approximate cost of $10,000, you might write, "Save $2,000 a year for five years." In this example, the couple already have saved $2,500 for their Australian trip and receive a $300 check each year from their co-op. They may revise their goal to say "$7,500 for a trip to Australia, need to save $7,500 minus $1,500 co-op distribution check, or $6,000."

Now decide how much money you would need to save each month to achieve your goal by first turning the number of years you have to reach your goal into months and then dividing the dollar amount of your goal by that number.

In the Australian trip example, the couple would have five years or 60 months to achieve their goal of saving $6,000. Sixty (months) goes into 6,000 (dollars) 100 times. That means this couple needs to save $100 each month for five years to reach their goal. Doesn't $100 a month sound a lot more manageable than the original goal of $10,000?

Once you have determined the dollar amount per month, you may discover you do not have enough cash flow to reach all your goals. That is where your order of priority comes in. What are you willing to give up so that you will have the resources necessary to reach this goal? How hard are you willing to work and save to achieve a particular goal? Are you willing to take on a second job? How realistic is each goal when compared with others? You may need to reorganize your goals. Put those that now are unrealistic back on your wish list. If circumstances change, you still may be able to realize those dreams, too.

The dreaming and goal-setting process becomes a little more difficult when you are part of a family. Everyone should have his or her own dreams and goals, but as members of a family, considering and respecting each other's goals is important.

For those who are part of a family, you can repeat this goal-setting exercise with your children, partner or both. You may need to limit each person to two or three short-term and long-term goals. Once everyone has written down the financial aspects of their goals, the couple or family needs to look at competing goals and reprioritize them as a family.

Final Thoughts

The value of setting and writing down goals cannot be over-emphasized. You also have one more thing to remember when setting your goals — be flexible. If you encounter barriers that seem as though they might keep you from your goal, don't give up on your goals. Instead, modify them to meet your new situation. However, if a particular goal becomes something that is no longer important to you, then you should be open to letting it go. That will allow you to put your energy into pursuing goals that are important to you.

Your goals start as a dream, but with financial planning, determination and communication, you can make them a reality. And by understanding your financial attitudes and values, the better chance you will have to reach your goals. Your trip to financial security will be successful if you keep your destination in mind. Along the way, take time to truly enjoy the trip by being able to identify and achieve those things you really want out of life.

Financial Values Inventory

Your values are beliefs or ideas that you consider important or desirable. Everyone has values, but everyone does not value the same things equally.

To help you recognize some of your own money values, read the pairs of words below, then circle one item in the pair that would be your first choice in answering the question, "If you had an extra $100, on which of the two items would you spend your money?" You must make one choice in each pair.

Housing (Dream Home/Vacation Home)
Retirement Savings/Investments

Education: Self/Others
Vacation/Travel

Retirement Savings/Investments
Hobbies/Sports

Social Activities/Eating Out
Car

Education: Self/Others
Housing (Dream Home/Vacation Home)

Personal Appearance/Grooming/Clothes
Car

Retirement Savings/Investments
Hobbies/Sports

Hobbies/Sports
Car

Housing (Dream Home/Vacation Home)
Vacation/Travel

Vacation/Travel
Church/Charitable Giving

Hobbies/Sports
Church/Charitable Giving

Vacation/Travel
Personal Appearance/Grooming/Clothes

Church/Charitable Giving
Social Activities/Eating Out

Housing (Dream Home/Vacation Home)
Retirement Savings/Investments

Hobbies/Sports
Housing (Dream Home/Vacation Home)

Church/Charitable Giving
Social Activities/Eating Out

Personal Appearance/Grooming/Clothes
Vacation/Travel

Retirement Savings/Investments
Social Activities/Eating Out

Education: Self/Others
Car

Personal Appearance/Grooming/Clothes
Education: Self/Others

Now total the number of times you circled each item in the pair activity:

Car ________
Charitable Giving ________
Education ________
Hobbies/Sports ________
Housing ________
Personal Care ________
Retirement ________
Social ________
Travel ________

Values, Attitudes and Goals

(Adapted from the High School Financial Planning Program (NEFE@), 1992.)

Now you can rank your values. Write down the values (car, retirement, charity, etc.) having the highest number of "votes." This list reflects the items you consider most important in their order of importance. By knowing your values, you can make sure your goals and attitudes reflect your values. The closer they all match your spending plan, the easier reaching your financial goals and financial security will be. Did you learn anything new about yourself in this activity?

Money Attitude Worksheet

This activity will look at only one of your attitudes — your attitude toward money. First, answer the 10 questions, circling yes or no, depending on how you feel about the statements.

Now count the number of yes answers to find out the degree to which money controls your life. Where do you think your attitude toward money came from? Are you like your parents? Your spouse? Or different?

Your financial values and attitudes affect the financial goals you set. The more harmonious your values, attitudes and goals, the greater the likelihood of attaining them.

WORKSHEET — What's Your Money Attitude

I need more money than I can ever use.	Yes	No
It bothers me when I discover I could have gotten the same thing for less somewhere else.	Yes	No
I behave as if money were the ultimate symbol of success.	Yes	No
I show signs of nervousness when I don't have enough money.	Yes	No
I dream I will one day be fabulously wealthy.	Yes	No
I find parting with money difficult for any reason.	Yes	No
I worry that I will not have enough money to live comfortably when I retire.	Yes	No
Money controls the things I do or don't do in my life.	Yes	No
When I was a child, money seemed to be the most important thing in my life.	Yes	No
I argue or complain about the cost of things.	Yes	No

For more information on this and other topics, see www.ag.ndsu.edu

2M-4-03

Household Finances

Financial Goals Worksheet

Date ______________

Short-Term Goals (Under 6 months)	Estimated Cost	Target Date	Amount to Save Weekly
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$
		TOTAL to Save:	$ ____________

Medium-Term Goals (6 months to a year)	Estimated Cost	Target Date	Amount to Save Weekly
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$
		TOTAL to Save:	$ ____________

Long-Term Goals (Over a year)	Estimated Cost	Target Date	Amount to Save Weekly
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$
		TOTAL to Save:	$ ____________
		GRAND TOTAL to Save:	**$** ____________

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AnnualCreditReport.com is the official site to help consumers to obtain their free credit report.

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RETIREMENT

7 ways to avoid tapping retirement cash

By Christina Couch • Bankrate.com

Highlights

- The slumping economy has some raiding retirement savings.
- Seven options provide quick cash while protecting 401(k).
- Strategies often pay off but have risks of their own.

As the economy slumps and unemployment rises, cash-strapped borrowers are looking for funds anywhere they can find them. However, don't tap your 401(k) or other retirement plan when looking for cash.

"A 401(k) is money for your future," says Earl McMahan, a Certified Financial Planner with United Advisors in Novi, Mich. "Don't touch it. It's sacred."

A study by Watson Wyatt, a financial management consulting firm, shows that 27 percent of Americans took a hardship withdrawal from their 401(k) last year. While pulling 401(k) cash may solve a temporary problem, it can lead to larger ones at retirement time.

"The problem with 401(k) loans is that taking money out of a long-term account reduces its growth potential," says Craig Skeels, managing director of Apex Wealth Management Group in Oxnard, Calif.

Fortunately, there are alternatives. Here are seven cash sources that won't stifle future fiscal goals.

7 sources of cash

1. Reduce bills.
2. Tap home equity.
3. Take out a reverse mortgage.
4. Get a personal loan.
5. Borrow against assets.
6. Tap into insurance.
7. Turn to family.

Reduce bills

Instead of turning to loans, McMahan advises families to try to lower current bills. For example, a mortgage refinance might free up some extra cash, he says.

"You can also try raising your insurance deductibles," he says. "If you know you can pay the money back relatively quickly, a credit card that doesn't charge interest for the first few months might work."

In addition to lowering home and credit card bills, families in temporary financial straits can create liquidity by deferring student loan payments. Borrowers can defer federal student loan payments for up to three years without affecting their credit scores, according to the U.S. Department of Education.

Tap home equity

Families in need of larger cash sums can tap home equity, says Greg Ward, senior resident financial planner with Financial Finesse, a financial education firm in Manhattan Beach, Calif.

A home equity loan or line of credit is usually cheaper than a 401(k) loan, Ward says. "Because you're securing the loan with real estate collateral, you can get a loan in the 5 percent range with good credit. You'll also have more time to pay it off," he says.

On top of better loan terms, home equity transactions also offer tax incentives. According to the Internal Revenue Service, borrowers usually can deduct interest for the first $100,000 in loans or credit they take out. With the economy so shaky, Ward advises families who opt for home equity loans to pursue a fixed interest rate loan over a variable one.

"Rates are low right now, but that doesn't mean they're going to stay that way," he says.

It's important to note that many lenders have severely curtailed or completely eliminated home equity lending in the face of falling home values. So it may be more difficult to obtain this type of lending.

In addition, some borrowers who qualify for home equity lending may not qualify for interest rates below the rates for 401(k) loans, Ward says.

"Borrowers don't have to go through a credit check with a 401(k) loan like they do to get a home equity loan," he says. "For borrowers with really bad credit, a 401(k) loan may be a better bet."

Take out a reverse mortgage

A second option for homeowners is a reverse mortgage, which allows a borrower to convert home equity into cash while continuing to live in the house. These products are available only to homeowners older than 62 who fully own their homes or have a small mortgage.

"Instead of borrowing from a bank, (reverse mortgage) borrowers pull money out of their home equity through a lender," says Anthony Perrelli, an attorney and partner with Hedeker & Perrelli estate planning firm in Chicago. "They can either repay the loan with interest at the end or they can forget about it and when they die, the bank can take their house."

For example, if someone owns a $400,000 home and needs $50,000 in cash, a reverse mortgage will provide the funds as a lump sum or a monthly cash payout.

The borrower can then pay the loan back and restore equity in the home or have the loan with accrued interest subtracted from the full value of the home upon death. Whoever inherits the home can then sell it, pay off the debt and take the leftover proceeds.

"Reverse mortgages also come with certain protections," says McMahan. "Even if the value of the house goes below the value of the mortgage, nobody can make you move and after you die, the debt is forgiven for your children."

While reverse mortgages can provide cash in an emergency, they come with pricey fees based on the value of the home rather than the value of the loan.

According to the U.S. Department of Housing and Urban Development, regardless of how much borrowers take out, they can expect to pay an origination fee of up to $6,000 (2 percent of the first $200,000 of the home's value plus 1 percent for any equity over $200,000) and an insurance fee of up to 2 percent of the home's value.

Borrowers are also responsible for paying closing costs, which may include appraisal, title search surveys, inspections, mortgage taxes and credit check costs, as well as monthly service fees of up to $35.

Get a personal loan

People who don't have home equity but do have good credit may consider personal loans.

Available through banks and credit unions nationwide, personal loans are unsecured, meaning they don't require collateral such as a car or home. Their interest rates and terms are largely based on the borrower's income and credit history.

Skeels advises borrowers to start their loan hunt with banks, credit card companies and credit unions with which they have an established relationship. If they come up dry, borrowers may be able to woo lenders by offering a different asset as collateral, such as a paid-off car.

"You can get a used-car loan on your existing vehicle for maybe 50 percent of what they think the value is, and the interest rate would probably be 2 (percent) to 5 percent lower than if you got an unsecured (personal) loan from the same lender," says Skeels.

Borrow against assets

People who own securities, futures or stock options can borrow against their portfolios in what are known as "margin loans."

"With margin loans, you can usually borrow up to 50 percent of your portfolio at a rate that's lower than unsecured loans," says Ward.

> "Interfamily loans can work out marvelously for everyone, and they won't deplete your retirement."

Such borrowing can be risky, however. "It's a double-edged sword," says Ward. "If the securities you're borrowing against go down, you have to either pay back the loan (with interest) or invest more assets to get your portfolio back up."

Tap into insurance

Sometimes an insurance policy can be a source of quick cash.

For example, borrowers who have been paying on a whole life insurance policy typically can borrow against the money in their accounts at a rate under 5 percent, says Don Humphreys, president of Voyager Wealth Management in Harrington Park, N.J.

"You never have to pay it back," Humphreys says. "Whatever you borrow will be subtracted from your death benefit, but you're not required to repay it like you would a loan."

Humphreys cites the example of a borrower who has built up a $50,000 account and wants to buy a $20,000 car for a grandchild.

"You can take that money out without paying it back, but now you only have a policy worth somewhere close to $30,000 for your beneficiary," says Humphreys.

Those who repay must pay back the full loan sum plus interest to restore the insurance policy back to full value. Although policyholders can borrow up to 100 percent of the cash value of a policy, borrowers who drain their accounts without repayment are at risk of the amount of the loan (plus interest) one day exceeding the maximum cash value of the policy.

Should the loan grow that big, the borrower must pay the difference.

Turn to family

Before tapping a 401(k), McMahan encourages families to borrow from each other.

When doing so, it's important to create mutually agreeable loan terms, put the transaction in writing and seal the deal with a witnessed promissory note, he says.

"Interfamily loans can work out marvelously for everyone, and they won't deplete your retirement," says McMahan.

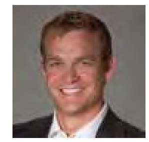
Posted: June 26, 2009

Location of article:
http://www.bankrate.com/finance/retirement/7-ways-to-avoid-tapping-retirement-cash-1.aspx

Should You Tap Into Your Retirement Funds Early?

By SCOTT HOLSOPPLE

July 3, 2012



Scott Holsopple

The past four years have seen layoffs, raise freezes, eliminated bonuses, foreclosures, upside-down mortgages, increased college tuitions, soaring gas prices, expensive groceries, wildly high credit card rates, and more. It's no wonder American household budgets have suffered.

When incomes aren't keeping up with living costs, and expenses are mounting, some savers may start to consider desperate measures, including taking money out of their retirement plans before reaching retirement age. Accessing 401(k) funds prior to retirement is tricky and sometimes confusing. Money can be removed in the form of a retirement plan loan or a hardship distribution. When considering any of these options, it's important to recognize all of the consequences, including which options are accompanied by stiff IRS penalties.

Hardship distributions from 401(k)s are subject to a 10 percent IRS penalty and regular income tax. The IRS gave you special tax benefits for contributing to your retirement plan, and they want to incentivize you to use the money for retirement, not before. To be allowed to take a hardship distribution, you must show you have an "immediate and heavy financial need" and you'll most likely have to prove you meet certain criteria. You can only withdraw enough to meet your need. In many cases, your employer may be required to stop your contributions to the plan for a specific amount of time as well.

Individual Retirement Accounts (IRAs) cannot offer loans, but the IRS is less stringent about 401(k) retirement plan loans. The maximum amount a participant may borrow from his plan is 50 percent of the vested account balance or $50,000, whichever is less. An exception to this limit is if 50 percent of the vested account balance is less than $10,000; then, the participant may borrow up to $10,000. Take note: Plans are not required to offer this exception, so check with your plan document for specifics. It's also important to keep in mind that while you likely made pre-tax contributions to your 401(k), you'll be making after-tax payments to repay your loan, which significantly increases the cost of the loan.

Such 401(k) hardship distributions and retirement plan loans shouldn't be a first consideration when you need money. Most financial professionals would tell you that damaging your retirement savings efforts in order to procure a one-time cash injection isn't worth it.

The truth is that it's almost always a poor choice; but every financial situation is unique. If 401(k) account dollars will just provide a temporary stopgap before you ultimately run out of money, leave your 401(k) alone. However, if you need the cash to put yourself on much better financial ground and a one-time withdrawal or loan will solve your financial fix, it may be reasonable to consider the possibilities.

Before taking either a 401(k) hardship distribution or a retirement plan loan, I'd suggest considering the alternatives below:

- Budgeting and trimming: Create a monthly budget if you don't already have one. Trim the fat from your budget to get extra dollars each month.
- Ask for a better debt deal: Banks and credit card companies may be willing to reduce your interest rates and lower your monthly payments. Oftentimes, they have repayment plans available to help you work out of debt at a reasonable rate.
- Get another job: Make some extra money with a part-time job.

Before you make a life-changing decision about your 401(k) account, it may be helpful to talk with a financial adviser who can offer a new perspective and look at your financial difficulties with fresh eyes. You'll definitely want to get the specifics about your plan, so reach out to your HR coordinator for more information.

Thrift Savings Plan

In-Service Withdrawals:

In-Service Withdrawal Basics

In-service withdrawals are withdrawals you make from your TSP account while you are still actively employed in Federal service or a member of the uniformed services.

The TSP permits two types of in-service withdrawals: financial hardship and age-based.

Before You Make an In-Service Withdrawal

An in-service withdrawal can have a serious impact on your TSP account. Remember that the purpose of your account is to accumulate savings so that you will have income during retirement. If you withdraw money now, you'll have less money later. So, you should be aware of the following:

When you take an in-service withdrawal, you cannot return or repay the money you remove from your TSP account. You permanently reduce your retirement savings by the amount of the withdrawal as well as any future earnings you would have accrued on that money.

You are subject to income taxes on your withdrawal except on any portion that consists of tax-exempt contributions, Roth contributions, or qualified Roth earnings. With a hardship withdrawal, you may be subject to the IRS 10% early withdrawal penalty tax.

If you take a financial hardship withdrawal, you will not be able to make contributions to your account for 6 months. Also, if you are a FERS participant, you will not receive any Agency Matching Contributions for 6 months. This lost opportunity could amount to a significant sum of money.

Spouse's rights affect your in-service withdrawal. If you are a married FERS participant or a member of the uniformed services, your spouse must sign a consent waiver for your in-service withdrawal. If you are a married CSRS participant, the TSP must notify your spouse before the in-service withdrawal can be made. These rights apply even if you are legally separated from your spouse.

Be sure to read the booklet *In-Service Withdrawals* completely before you begin the application process.

Resources

Calculators:

Estimate Loan Payments

Publications:

In-Service Withdrawals

Loans

"Important Tax Information About Payments From Your TSP Account"

Forms:

TSP-75, Age-Based In-Service Withdrawal Request

TSP-76, Financial Hardship In-Service Withdrawal Request

Retirement Account or Savings Account

The money you put in your TSP account is for your retirement. It is not meant to be a savings account that can be withdrawn at any time.

An Alternative to In-Service Withdrawal

In certain situations, it might be more advantageous for you to take a loan from your TSP account. For more information and to learn if you are eligible, visit TSP Loans.

Thrift Savings Plan

TSP Loans:
Loan Basics

The TSP Loan program allows you to borrow money from your account while you are employed by the Federal Government or while you are a member of the uniformed services. Before taking out a TSP loan, you should carefully consider its potential effect on your retirement income.

How a TSP Loan Works
Loan Types and Terms
Loan Eligibility
Borrowing Limits
Loan Costs

Resources

Calculators:
Estimate Loan Payments

Publications:
Loans

Forms:
TSP-20, Loan Application

How a TSP Loan Works

When you take a TSP loan, you borrow from your TSP account. The amount of your TSP loan cannot exceed the amount of your own contributions and earnings from those contributions. So, if you work under the Federal Employees' Retirement System (FERS), you cannot borrow from any agency contributions or earnings from those contributions.

If you meet the loan eligibility rules and your loan request is approved, the loan amount is removed from your TSP account. You must repay your loan with interest. Repayments for the loan and interest are generally made through payroll deductions. Your repayments restore the amount of your loan, plus interest, to your account.

For additional information, visit Repaying Your Loan.

Do you have a traditional and a Roth balance?

Loan payments are paid proportionally from your traditional and Roth balances, and from each TSP fund in which you have investments. If you are a uniformed services member with tax-exempt contributions in your traditional balance, your loan will contain a proportional amount of tax-exempt contributions as well.

Loan Types and Terms

The TSP allows two types of loans.

General Purpose

- May be used for any purpose
- Requires no documentation
- Has a repayment term of 1 to 5 years

Residential

- May only be used for the purchase or construction of a primary residence
- Requires documentation
- Has a repayment term of 1 to 15 years

For details, visit Residential Loan Documentation.

Your loan payments must start within 60 days of your loan being disbursed.

Loan Eligibility

General Eligibility Rules

If you have both a civilian account and a uniformed services account, the loan eligibility rules apply to the TSP account from which you intend to borrow.

To be eligible for a loan, you:

- Must be employed by the Federal Government or a member of the uniformed services.

- Must be in pay status because repayments are set up as payroll deductions.
- Can only have one outstanding general purpose loan and one outstanding residential loan from any one TSP account at a time.
- Must have at least $1,000 of your own contributions and earnings in your TSP account (agency contributions and earnings cannot be borrowed).
- Must not have repaid a TSP loan of the same type in full within the past 60 days. (If you have both a civilian TSP account and a uniformed services TSP account, the 60-day waiting period applies separately to each account.)
- Must not have had a taxable distribution of a loan within the past 12 months unless it was the result of your separation from Federal service.
- Must not have a court order against your TSP account.

Residential Loan Eligibility Rules

Residential loans have specific rules **in addition to** the general eligibility rules:

- A residential loan can only be used for purchasing or constructing a primary residence, which may be any of the following:
  - House
  - Townhouse
  - Condominium
  - Shares in a cooperative housing corporation
  - Boat
  - Mobile home
  - Recreational vehicle
- A residential loan **cannot** be used for:
  - Refinancing or prepaying an existing mortgage
  - Construction of an addition to an existing residence
  - Renovations to an existing residence
  - Buying out another person's share in the borrower's current residence
  - The purchase of land only
- The borrower's primary residence must be purchased in whole or in part by you, or your spouse, if you are married.

Borrowing Limits

Minimum Loan Amount

The minimum TSP loan amount is $1,000.

The amount of your account balance that consists of your own contributions and earnings on those contributions, must be at least equal to the minimum loan amount.

Maximum Loan Amount

The maximum loan amount is the smallest of the following:

- Your own contributions and earnings on those contributions in the TSP account from which you intend to borrow, not including any outstanding loan balance;
- 50% of your vested account balance (including any outstanding loan balance) or $10,000, whichever is greater, minus any outstanding loan balance; or
- $50,000 minus your highest outstanding loan balance, if any, during the last 12 months. Even if the loan is currently paid in full, it will still be considered in the calculation if it was open at any time during the last 12 months.

Note: If you have both a civilian account and a uniformed services account, the combined account balances and outstanding loan amounts will be used to calculate the maximum loan amount.

TSP account balances are recalculated at the end of each business day based on daily share prices. As a result, the maximum loan amount may change on a daily basis.

To find out more about the maximum amount available for a TSP loan, use the calculator, Estimate Loan Payments, or contact the TSP.

Loan Costs

Direct Costs

Loan Fee. The TSP charges a loan fee of $50 for administrative expenses. The TSP deducts the fee from your loan proceeds. For example, if you request a loan for $1,000, the amount paid to you will be $950.

Interest. The interest rate on your TSP loan is the G Fund rate at the time your loan application is processed. This rate is fixed for the life of the loan. Although TSP loan interest is not tax-deductible, all of the interest goes back into your TSP account.

Indirect Costs

Indirect costs include sacrificed earnings. When you take a TSP loan, you sacrifice the earnings that might have accrued on the borrowed money, had it remained in your TSP account.

Although you pay the loan amount back to your TSP account with interest, the amount of interest paid may be less than what you might have earned if the money had remained in your TSP account.

For information on all costs associated with a TSP Loan, please see the publication, *Loans*.

Sequestration and Your TSP Account

If you have been furloughed as a result of sequestration, you may be wondering how to deal with the financial impact. This fact sheet addresses some of the questions you may have about your TSP contributions. It also details alternatives for accessing your TSP funds should you face financial hardship as a result of being furloughed.

How will a furlough affect my TSP contributions?

As you know, your TSP employee contributions are deducted from your pay. If you are currently making contributions based on a percentage of your basic pay, here's what happens: If you earn $1,000 of basic pay every two-week pay period and you contribute 10% of it to the TSP, you'd have a $100 TSP contribution every pay period. If you are furloughed for 2 days per pay period, then your basic pay would decrease to $800 and as a result, your TSP contribution would decrease by an equal percentage so that your contribution would be $80 per pay period. Simply stated, your TSP contribution decreases in direct proportion to the reduction in your basic pay. Therefore, you may find that lowering your contribution percentage is not necessary.

But if you are currently making TSP contributions based on a dollar amount of your pay, that dollar amount will not automatically decrease with your reduction in pay. You may want to revisit whether that amount is still appropriate given the expected impact of your furlough.

If you are a FERS[1] participant, also keep in mind that any reduction in your basic pay will impact your agency contributions. Whether you are contributing a percentage of your pay or a specific dollar amount, your Agency Automatic (1%) and Agency Matching Contributions will decrease proportionally. If you then choose to decrease the amount of your TSP contributions, be sure you understand how it will affect your agency contributions.

For more information, visit Types of Contributions.

[1] FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans.

Should I terminate my TSP contributions?

If you are making traditional contributions, remember that those contributions are subtracted from your pay before tax. Be aware that stopping this type of contribution could potentially increase your adjusted gross income and, as a result, your income tax liability.

Also, think carefully about terminating your contributions. One of the great things about your TSP contributions, no matter how small, is that the earnings compound over time. If you stop your contributions, even for a short time, you'll miss this opportunity altogether. And, if you are a FERS participant, you are leaving free money on the table because if you stop your contributions, your matching contributions stop as well.

Should I consider a financial hardship withdrawal?

For some, sequestration and the resulting furloughs will cause a significant financial hardship. But before you consider a TSP hardship withdrawal, keep in mind a few things:

- If you take a hardship withdrawal, you will not be able to make any TSP contributions for 6 months after having received your funds.
- You may withdraw only **your** contributions and the earnings associated with them, and the total amount cannot exceed your financial hardship.
- You must pay income tax on the taxable portion of any withdrawal, and you may also be subject to a 10% early withdrawal penalty tax.

THRIFT SAVINGS PLAN
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Fact Sheet

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Previous Editions Obsolete

- If you are a FERS participant, you will not receive Agency Matching Contributions.
- A hardship withdrawal cannot be repaid so your TSP account is permanently reduced by the amount of your withdrawal.
- Taking a loan may be a better option (see below).

For more information, visit Financial Hardship In-Service Withdrawals.

Should I take a loan?

Taking a TSP loan allows you to borrow money from your account while you are still actively employed by the Federal Government. You repay your own TSP account for the amount of the loan (plus interest) and therefore continue to accrue earnings on the money you borrowed after you pay it back. Before you request a loan, you should know the following:

- If you expect to be furloughed on a continuous basis, you can only take a loan if your furlough is expected to last 30 days or less.
- If you expect to be furloughed on a periodic basis (for example, one or two days per pay period), you can take a loan.
- Loan payments are made by payroll deduction. If, because of a furlough, you don't earn enough per pay period for your agency to deduct the required loan payment, you will be responsible for keeping your loan payments up-to-date so that you don't risk a taxable distribution. (Properly repaid TSP loans are not subject to income taxes or penalties.)
- You can continue to contribute to your TSP account and, if eligible, receive Agency Matching Contributions.
- If you already have an outstanding loan when you get furloughed, you need to make sure that you stay up-to-date on your loan payments.

For more information, visit TSP Loans.