

financially

MADE

The ABCs of...
**Personal
Finance**



GreenPath
debt solutions

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INTRODUCTION

It's your life and it's your money. How would you like to be a great money manager and achieve all of your personal financial goals? Well, you can. The first step is to make managing your money a task that you take seriously and work on with as much energy as you use for your most favorite hobby, pastime or job. If you master and use the basic tools for financial success including setting goals, budgeting, using credit wisely and making savings a way of life, you will achieve your own personal financial freedom.

BUDGETING AND GOAL SETTING

What is a Budget?

A budget is a tool that can help you manage your money better. Budgeting is an important part of financial planning, which is the process of organizing your finances in a way that can help you reach important financial goals.

While not all budgets are exactly the same, they are all written records of the money you receive and the money you spend. A budget tracks your money over a set period of time, usually by month. By subtracting your total monthly expenses from your total monthly income, you can quickly see how much you have left over to save for specific financial goals.

Think of a budget as a roadmap. If you drive to some destination without a map, you might get there, but it will probably take you longer and may cost you more money. The same is true for your financial life. With no budget, you might reach your destination, but it will take you longer and your chances of getting lost along the way are greater.

Setting Goals

Everyone has financial goals. Some are short-term goals like buying CDs, computer games or clothes. Some are mid-term goals such as saving to buy a new computer. And others are long-term goals like saving for college.

You will set and achieve goals throughout your financial life. Your goals will change based upon your life stage. Goals reflect your values and provide direction. Setting goals will help you balance your needs and wants.

There are many stages in a financial life cycle. In each stage of your life, you will be faced with different financial challenges and goals to achieve. As you set your current goals, consider the following financial issues:

- Establish a financial identity
- Make a spending plan
- Develop an effective financial record keeping system
- Develop an effective financial planning system
- Buy a car

- Purchase car insurance
- Train for a career

Characteristics of Goals

Understanding the difference between a dream and a goal is important. If you say that you want to have a great car, then you have a dream. But, if you say that you will buy a car at age 19, will need to save \$1,000 dollars over the next 12 months and will open a savings account to save the money, then you have a goal. What is the difference between the two?

Specific

Goals should be specific. How much do you need to save? How long of a time frame do you have before you need the money? How many pay periods are available to save the money? For example, you might need to save \$5,000 in 2 years for a down payment to buy a house. Since you get paid once each month, you would have to save \$208.33 each pay period to achieve your goal.

Measurable

You will have to measure and monitor your progress. How will you do this? Do it in a way that makes sense to you. As you save money each week or each month you can track it on a computer, or write it down, or even see it logged on your paycheck as money is moved from your paycheck to a savings account. In any event, measure your progress as you move toward achieving your goal.

Reasonable and Realistic

Set goals that are reasonable and realistic. Don't try to save too much each period and end up sacrificing other parts of your budget. You might have to lengthen your time frame to achieve a goal and decrease the amount you save each time. Remember, saving is a lifelong process and a consistent, systematic approach will pay off.

Set Your Goals

Take some time to set your financial goals. Short-, mid-, and long-term goals are important. Although the time frame that you put on your goals may vary, here are some rules of thumb:

- **Short-term** goals are those that can be achieved in a year or two
- **Mid-term** goals are those that can be achieved in two to five years
- **Long-term** goals are those that can be achieved in greater than five years

To start, list some of your goals here:

<p>Goals you would like to accomplish within the next 1 to 2 years</p> <hr/> <hr/>
<p>Goals you would like to accomplish in the next 2 to 5 years</p> <hr/> <hr/>
<p>Goals you would like to accomplish in more than 5 years</p> <hr/> <hr/>

After you have identified your specific goals, use the worksheet in Appendix A – Setting Goals to complete the financial details. Here are two examples:

Goal	Short-, Mid-, or Long- Term	Total Amount Needed	Number of Months Until Goal is Reached	Amount to Save Each Month
Save money for next school year	Short-	\$1,000	2 ½ months or 10 weeks	\$400/month or \$100/week
Save money for new furniture	Mid-	\$3,600	36	\$100

Goals change continuously over a lifetime. As goals are reached, new ones should be established.

A budget can help you save to achieve all of your goals, regardless of the amount of money required or the amount of time necessary to reach them.

Use Your Budget to Achieve Your Goals

The idea of budgeting may seem tedious and boring. But, if your money always seems to “disappear” before you can save it, a budget could be exactly what you need. In fact, budgeting might help you find money you didn’t know you had.

Whether you are saving for a computer, clothes, a car or college tuition, using a budget is one way to help you accumulate funds so you can get what you want, when you need it.

Creating Your Budget

A budget will always be the cornerstone of your personal financial plan, whether you’re saving a lot of money already for a car or if you’re not able to save at all. A budget tells a financial story. The financial story that your budget tells will be a successful one by planning, tracking and adjusting.

Since a budget must be written down, start by grabbing a piece of paper and pen or pencil, or by creating a new file on your computer.

In its most basic form the budget includes income and expenses. Income is normally easy to identify and list. It’s the expense side of the budget that always seems to be the most challenging for people. When preparing your budget, include as many expense categories as possible in order to see where your money is really going. Do you know where your money goes? Spending too much can sabotage your goals. It’s not how much you earn in your life, but how much you spend that keeps you from achieving your goals.

Create your own budget using the My Budget worksheet in Appendix B as a guide. If your budget does not balance, consider which areas of the budget can be adjusted. Will you increase income or decrease expenses? What expenses will be reduced? Will your goal time frames be adjusted? As you add new goals to your plan, analyze your budget to determine how you will incorporate them into it. You can have a beautifully written goal, but if it is not reasonable and realistic as it relates to your budget, then it may be difficult to accomplish.

Review your budget and goals at least once each year. The annual budget will take into account a number of items including your goals, expected income, what you spent this year and your expected expenses for the upcoming year.

Keeping track of your income and expenses will allow you to continually monitor your budget as you move toward accomplishing your goals. Remember, your budget is like a muscle. If it is not worked and exercised, it will get weak. So, exercise your budget often to keep your finances strong.

You Can Do It!

A budget alone is not the answer. The only way to reach your financial goals is to make a commitment to save. That may mean less impulse shopping. Impulse shopping occurs when you are in a store and you buy an item that you didn't plan to buy. Perhaps you really could live without that new pair of earrings or video game. It may also mean planning ahead. The following savings tips could help you take control of your money.

- The best way to stick to a budget is to make sure it is realistic. Get a notebook and list what you buy for a few weeks to help you pinpoint how much you are spending and on what types of items. Review the list and ask yourself honestly if you could spend less.
- Rather than choosing an arbitrary savings goal, take a close look at your budget and decide what percentage of your monthly income could be set aside for your goals. If you don't earn enough money to save for your goals, can you (a) earn more money or (b) reduce some of your expenses?
- Once you know how much you can save, put the money away in safe place like a savings account

Because of inflation, the money you save today may not buy as much in the future. That's why earning interest on your savings is so important. While savings accounts don't pay a great deal of interest, any interest is better than none. As your money grows, you may be able to invest a portion of your savings to pursue higher returns. That will allow you to outpace inflation, so your money will be worth more tomorrow than it is today.

Wise Money Management

Here are some tips to help you manage your money effectively:

1. Start now
2. Create a financial plan
3. Open a checking account
4. Start a savings account
5. Develop a budget
6. Use credit wisely
7. Save regularly
8. Balance your checkbook
9. Make timely payments on your bills

SAVING AND INVESTING

Saving – just saying the word sounds good and it brings to mind financial success and achieving financial goals. And yet, for many Americans, saving money is a challenge. National savings rates show that Americans have one of the lowest savings rates among industrialized countries.

We've probably all heard the saying, "Pay yourself first." As a rule of thumb, financial experts, families, friends and even strangers will encourage us to put aside some money in savings before we pay our bills. Problem is - many of us don't follow the advice. Instead, we pay our bills and at the end of the month there is no money to save.

Saving means refraining from spending all of your income on the things you buy now, such as food, clothing, housing, transportation and entertainment. When you save, you give up the opportunity to spend now, in order to have the spending power available sometime in the future.

Cash

You can save your money in a number of different places. The most common first place to save is in a savings account or a money market account at your financial institution. Savings accounts keep your money safe and readily available. Savings accounts are insured up to \$100,000 and pay interest. Money market accounts differ from savings accounts in that they usually pay a higher rate of interest because they typically require a minimum balance of \$1,000 or more. Savings accounts and money market accounts are considered cash investments. When you deposit your savings in an interest bearing account, you earn interest on your savings. But, you also earn interest on the interest that you receive and keep in your account. Interest that is paid on the amount that you deposit and on the interest that has been added to your account is called compounding interest. Interest may be compounded daily, monthly, quarterly, semiannually or annually.

The earlier you start saving, the more you will benefit from compound interest.

Here's an example of two friends, Grace and Drew, who had different saving strategies. Grace saved \$1,000 a year for 10 years, starting at age 25. Drew saved \$1,000 a year for 25 years, starting at age 40. Both earned the same 8 percent return.

Who ended up with more money at age 65? It had to be Drew, right? Wrong. Grace benefited from her head start and the power of compounding. Here's the breakdown:

Grace	Drew
Began saving at 25	Began saving at 40
Saved for 10 years	Saved for 25 years
Age now is 65	Age now is 65
Total saved: \$10,000	Total saved: \$25,000
Savings grew to \$157,435.17	Savings grew to \$78,954.42
Totals assume \$1,000 savings is made at the beginning of each year.	

The pace at which your savings grows when you receive compound interest lies in something called the "Rule of 72." When you divide the interest rate you receive on your account into 72, the answer tells you approximately how many years it will take your savings to double.

For example, suppose your rate of interest is 5% and you want to know how long it will take for \$1,000 to double. The answer is 14.4 years ($72/5$). If you received a rate of interest of 10%, your savings would double in 7.2 years.

There are a number of ways to invest your cash. The most popular is a savings account. Once you have enough money set aside for emergencies in your savings account, you can begin saving money in other cash vehicles such as certificates of deposit, or CDs.

Certificates of deposit generally pay a higher rate of interest than savings accounts because they are less "liquid." Liquidity refers to the readiness with which an item can be converted into cash without losing some of its value. The money in your savings account is very liquid because you can withdraw it at any time. A CD, on the other hand, is less liquid than a savings account. With a CD, you leave your savings on deposit for a period of time, say 6 months, one year, two years or five years. You agree not to take your money out until the time period expires. In return, you are paid a higher rate of interest. If, however, you take your money out before the maturity date, you can be penalized. That is, you might lose some of the interest you have earned or even some of the original deposit.

Another reason that you receive a higher rate of interest on longer term commitments is because of inflation, or rising prices. Ideally, you want your money to grow faster than inflation. For example, if the annual inflation rate is 3%, you want to earn greater than a 3% rate of interest.

Bonds

The second method of investing your savings is through bonds.

Bonds are loans you make to corporations or governments. Buying bonds makes you a creditor. Bonds pay you a specified amount of interest on a regular basis. A bond is basically an IOU that says if you buy a bond with a stated face value (usually \$1,000), the issuing company or authority will pay you a set amount of interest twice a year and the face value at maturity – that is, the date on which you, the bondholder is repaid.

One type of bond is a U.S. Savings Bond. When you buy savings bonds, you are lending money to the U.S. Government. Two major advantages of buying U.S. Savings Bonds are: 1) you don't have to pay income tax on the interest you earn each year and 2) you can postpone paying the tax until you "cash-in" your bond.

Stocks

Some people like to put their savings into the stock market where they buy stocks. This is the third major category where you can save your money.

When you buy a stock, you buy part of a company. Stock is often called equity because the word means "ownership." If the company you own does well, you receive dividends, which are your part of the profits. And if the share price goes up, you can sell your stock at a profit. If the company doesn't do well, you could lose some or all of your money. The advantages of

investing in stocks include higher potential returns over time than most investments offer and returns that historically have outpaced inflation.

Mutual Funds

Instead of investing in individual stocks or bonds, you can buy shares in professionally managed mutual funds. Mutual funds buy shares in many different companies. So, even if one company does poorly, your loss will be limited because other companies may do better.

When you buy shares of a mutual fund, your money is pooled with the money of thousands of other people. This allows fund managers to buy a wide variety of investments; more than most people could buy on their own. By placing money in a mutual fund, rather than an individual stock and/or bond, you become part of a multimillion-dollar organization. This gives you more clout in the marketplace and an edge over the small, individual investor. You also receive professional management, reduced brokerage fees and a greater diversification than most small investors can afford.

There are also other ways to invest your money. You could invest in different assets like undeveloped land, residential rental property, business property, commodities, gold and other precious metals, art, your family's business and so on. These investments can either increase or decrease in value and most often offer you less liquidity. That is, if you need cash right away, you might not be able to get it by selling one of these investments because it generally takes more time to sell them to generate the cash you need.

Smart Strategies

Saving and investing will be a lifelong process. The sooner you get started, the more wealth you will accumulate. Here are some principles that will help guide you:

1. **Save for emergencies first and think long term** – your initial savings should be set aside for emergencies. Once you have funded your emergency savings account – typically three to six months of living expenses - move on to investing in bonds, stocks and mutual funds to achieve your longer term goals.
2. **Open an IRA** – an Individual Retirement Account (IRA) provides a way for you to invest your money in bonds, stocks and mutual funds with some advantages. Contributions to or earnings from certain IRAs are tax-free, and some IRAs allow you to withdraw money for college expenses or a first-home down payment.
3. **Stay the course** – the keys to savings and long-term wealth accumulation are learning the basics, keeping it simple and having patience. Don't invest in things you don't understand. Save money out of each paycheck. Understand that your investments will not grow overnight, but they will over a lifetime.

BEFORE YOU MOVE OUT

Before you leave home to work on your own or to go to college, there are a number of life skills that you should know how to do. You can first practice these skills with the help of your

parents and then you can move on to do them on your own. Mastering the basic life skills in Appendix C as soon as possible will place you ahead of your peers. Can you think of any additional skills that can be added to the list?

CONCLUSION

You are just beginning your financial life. Look at your financial life as a marathon. It takes many years to train. It takes dedication, hard work and analysis. When the race is finished it brings great satisfaction and a sense of accomplishment. Too often, we look at our financial life as a sprint – how quickly can I get to where I want to be? For most people, financial freedom does not come quickly. It's a step by step process that generates positive results along the way and leads to living free from financial burden later in life. You are just beginning your trek. Learn sound fundamentals and you'll be on the right track.

APPENDIX A

Setting Goals

Goal	Short-, Mid-, or Long-Term	Total Amount Needed	Number of Months Until Goal is Reached	Amount to Save Each Month

APPENDIX B

My Budget
Per Month

Sources of Income	Amount (Net)
Allowance	\$
Odd jobs	\$
My job or business	\$
Gifts	\$
Money I borrowed	\$
Other	\$
Other	\$
Other	\$
TOTAL INCOME	\$

Summary of Expenses	Amount
Money I owe	\$
Savings	\$
College savings	\$
Church or other charity	\$
Gifts for family and friends	\$
Car payments and/or insurance	\$
Gasoline, oil, car repairs, and registration	\$
Public transportation (bus, subway)	\$
Lunch money	\$
Eating out and snacks	\$
Clothing and accessories	\$
Personal care	\$
School supplies and fees	\$
Telephone bills	\$
Recreation and hobbies	\$
Sporting equipment and fees	\$
Entrance fees (skating rink, rec center, etc.)	\$
Club dues, uniforms, etc.	\$
Arts and crafts supplies	\$
Things I collect	\$
Things for my room (posters, etc.)	\$
Books, magazines and library fees	\$
Electronic equipment	\$

CDs, DVDs	\$
Video and computer games and software	\$
Movies	\$
Concerts	\$
Other outings	\$
Prom, dances or parties	\$
Vacations, special trips	\$
Odds and ends	\$
Other	\$
Other	\$
Other	\$
Other	\$
TOTAL EXPENSES	\$

SUMMARY	
Total Income	\$
Less - Total Expenses	\$
Surplus (Deficit)	\$

APPENDIX C
Life Skills 101

Do You Know How to...?

	Yes	No
Pay your bills monthly		
Open a checking account		
Open a savings account		
Use an ATM		
Balance a checkbook		
Stop payment on a check		
Reorder checks		
Apply for a credit card		
Read a lease		
Get car insurance		
Get a telephone installed		
Get an account with an electric company		
Register to vote		
Get a passport		
Follow the proper procedure in case of a car accident		
Apply for student aid (loans, scholarships, grants)		
Check your credit report		
Buy insurance		
Build an investment portfolio		
Fill out an income tax return		

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