

# MANAGE YOUR MONEY



## Overview of Study-at-Home Course

Here is a brief overview of the six lessons in the self-study course *Manage Your Money*. In addition to information and worksheets, each lesson has a set of “Action Steps” to help you apply what you learn to your own money management situation. If you have questions about the course or need additional assistance, please contact your local Family and Consumer Sciences Extension Educator.

**Lesson 1: Getting Started.** This lesson focuses on individual and family values about money. It gives you some suggestions about ways to talk with your partner and family about money matters. You are asked to think about and develop some financial goals for the future. There are also suggestions and tools to help you start tracking your expenses.

**Lesson 2: Where Does Your Money Go?** This lesson discusses cash flow, income, and expenses. There are worksheets on which to write critical information about your income, what you owe (your credit use), and types of expenses (fixed, regular flexible, and occasional) so you have a better picture of your current financial standing.

**Lesson 3: Stop Spending Leaks.** This lesson will help you examine your spending habits to see if any problems exist. There are suggestions for changing spending practices and habits. Worksheets help you and other family members commit to a personal plan to change spending habits so funds can be used to reach important goals set in Lesson 1.

**Lesson 4: How Much Credit Can You Afford?** The focus in this lesson is on the pros and cons of using various types of consumer credit, wise credit management, and the importance of your credit history. There is a checklist to help you determine if you have some credit problems, and worksheets help you compare some credit alternatives.

**Lesson 5: Develop Your Budget.** Guidelines and worksheets for developing a written budget are the focus of this lesson. The guidelines and tools are intended to help you actually “plan” future use of income so you are in better control of day-to-day and longer-term finances.

**Lesson 6: Your Net Worth and Financial Records.** The first part of this lesson focuses on your net worth and how you own property. The second part will help you collect and organize your important financial records.



# MANAGE YOUR MONEY



## Lesson 1: Getting Started



**W**ouldn't it be great to win the lottery or inherit a fortune and suddenly have enough money to pay off all your debts and enjoy being rich for the rest of your life! If we are realistic, a windfall is not likely to happen. And even if the dream came true, you would probably find that having money does not end financial concerns. Even millionaires need to know how to manage money.

Money management skills and good financial practices are needed no matter how much or how little money you have. Financial planning is important. While it's difficult to think about planning for the future when pay day is a week away and your wallet and checkbook are empty, you can learn to manage dollars carefully.

*Manage Your Money* will help you:

- Know what you want to do with money.
- Know where your money goes.
- Know how to save money for your goals.
- Plan your spending in advance.
- Know your credit limits and how to keep control.
- Organize your financial records.

*Manage Your Money* includes six lessons, numbered 1 through 6. Pages in each lesson are numbered with the lesson indicated, followed by the page number. For example, this is Lesson 1, page 1 (1-1). Worksheets with each lesson are identified with the lesson number and labeled A, B, C, etc.

The material often refers to a two-adult household but can easily be adapted for a single person.

*Manage Your Money* is about stretching and managing money. Lesson 1 begins with an understanding of yourself, your co-spender, and how you feel about money.

### Spending Log

Start now to keep notes on expenses. The checkbook tracks the dollars when you write a check. If you use a credit and/or debit card, are you keeping track of each purchase? A small notebook to use as your Spending Log or the Dollar Tracker folded sheet (page 1-10 of this lesson) are handy tools to use to keep track of the cash you spend. You will need this information in Lesson 2.

### What's Important to You?

Why do you spend your money the way you do? If ten people were given a \$100 bill, they would most likely spend it in entirely different ways. Why? Because different people value different things. The deep-rooted beliefs you have about what is desirable and good are known as values. Values grow from personal experiences. You make choices based on your values. Values are not necessarily right or wrong; they express what is important to you.

Families set goals based on their values. A major reason why many couples argue about money involves differing values and conflicting goals between partners. Couples often have a harder time resolving money issues than other conflicts. Money issues tend to be raised repeatedly and are more likely to be mishandled.





## Worksheet 1-A: Your Thoughts on Money

1. You've just won \$10,000 in the lottery. What will you do with the money?

\$ \_\_\_\_\_ for \_\_\_\_\_

\$ \_\_\_\_\_ for \_\_\_\_\_

\$ \_\_\_\_\_ for \_\_\_\_\_

\$ \_\_\_\_\_ for \_\_\_\_\_

\$ \_\_\_\_\_ for \_\_\_\_\_

\$ \_\_\_\_\_ for \_\_\_\_\_

How would others in the family wish to handle the lottery money?

2. You have just been laid off from your job. You must make a major cut in spending. What would you cut first? What would others in the household eliminate?

3. How would you change spending if you had:

more money? \_\_\_\_\_

less money? \_\_\_\_\_

## Don't Clash Over Cash

When asked how much money is enough, a wealthy individual replied, "Just a little bit more."

Most families find there is never enough money, so sooner or later, they squabble about how to spend the limited dollars. Meshing different styles of handling money doesn't just happen because people love each other. It takes effective communication, time, and effort.

If your money discussions escalate to shouting matches or tearful sessions, changes are needed. Realize each of you will have different attitudes and values. To one, money may represent power. To another, it may mean security or status. One may be a spender, the other a saver. The concern is not that you always agree about money, but how you disagree and that you come to a suitable compromise.



**What Is an Argument Worth?** Save arguments for important issues and major expenditures. Decide amounts each person can spend without reporting to anyone. It might be \$5, \$10, \$25, or whatever fits your budget. These regular allowances provide a sense of spending freedom and eliminate discussions over personal items and incidentals.

**A Time and a Place.** Talking about money "later" or promising to discuss it "some other time" may never happen. Schedule regular meetings to discuss financial matters. This keeps you and your co-spender informed and can prevent minor concerns from becoming major problems.

The particular time you decide to meet will depend on family schedules. Try to avoid meeting between 5:00 p.m. and 7:00 p.m. when people are usually tired and hungry. Meeting just before pay day or when bills are due is often a good choice.

For your meeting, choose a place with minimum distractions. Do not let the television, radio, and phone interfere with your communications.

Include all family members when appropriate. Children can learn from this process. Allow everyone a chance to express feelings, wants, and needs without interruption or criticism. Family members are more likely to support a decision if they are included in the decision.

**Listening Habits.** Effective communication requires good listening. What kind of listener are you? During a disagreement, do you find yourself planning your defense? Does your mind wander? Do you stop listening if a subject is difficult to understand?

Listen for key points. Ask questions if you don't understand something. Be careful not to criticize, argue, or give feedback that keeps someone from expressing feelings.

The following responses hurt effective communication:

- **Ordering, Directing, Commanding.**

These messages tell people that their feelings, values, or needs are not important. (“*You need to stop going to the mall.*”)

- **Warning, Threatening.**

Telling what will happen if something is or isn’t done can make a person feel fearful and submissive. (“*If you don’t control your charging, I’ll cut up your charge cards.*”)

- **Moralizing, Preaching.**

Telling what should or ought to be done often results in resistance and defending a position even more strongly. (“*You really should stop smoking.*”)

- **Advising, Giving Solutions.**

Being told how to solve a problem may make a person feel unable to make wise decisions. (“*Next time, tell your co-workers you can’t go out for lunch.*”)

- **Judging, Criticizing, Disagreeing, Blaming.**

These messages, more than any other, make a person feel inadequate, inferior, or worthless. (“*It’s your fault we don’t have any money.*”)

- **Name Calling, Shaming, Ridiculing.**

This can hurt a person’s self-image or cause discouragement and anger. (“*Well, Mr. Big-Spender, what stupid thing did you buy with the last \$100 I gave you?*”)

**Use “I ...” Messages.** The words you choose and your tone of voice can fuel or diffuse an argument. Another 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 you don’t record check amounts because I don’t want to pay fees for a bounced check.*”

Remember: “I-Messages” have three specific parts. Just starting a sentence with “I” doesn’t make it an “I-message.”

**Solving Money Problems.** If a problem is worth arguing about, it is worth solving. Combine good communication skills with the following steps:

1. Acknowledge that there is a problem. Get feelings out in the open.
2. Identify the real problem. Money issues are often emotionally charged. Organized, written records give objective information rather than guesses. Be sure the issue is really money.
3. Discuss only the identified problem. Keep personalities, past complaints, or other problems out of it.
4. Brainstorm alternatives. List all possible actions/solutions no matter how ridiculous. No one should comment on suggestions until the list is complete.
5. Discuss each alternative and agree on a possible solution. Write it down. A compromise may be the best solution. Everyone should feel his or her wishes were considered.



6. Make every effort to support the solution. Identify and avoid obstacles. Recognize necessary sacrifices. Perfect solutions are rare.
7. Keep communications open while working out the solution. Each person needs to feel understood, appreciated, and loved.

**Tools for Talking About Money.** Worksheets 1-B and 1-C outline activities to encourage communications about money. While people will have different opinions, it is important to understand the differences and what's important to each other. Discuss how these differences will influence your budget, and compromise to meet your combined goals.



## What Do You Want to Do With Your Money?

To manage money, it is necessary to take a look into the future, see where you want to be, so you can plan how to get there. Families set their financial goals based on their values. One family's goal list will be different from another family's list. Here are some examples of goals:

- own my own home
- pay off all debts
- college for my children
- take a family vacation
- set up an emergency fund

**TIP:** Financial planners generally recommend that at least 10 percent or more of your take-home pay should be going toward your savings goals each month.

### Worksheet 1-B: What's Important?

Read over the list to the right. Rate each item as 1, 2, or 3. Put a "1" beside the things that are **HIGHLY** important to you. Put a "2" by the things you consider somewhat important, and a "3" by things that are not important to you. After you've completed the list, ask your co-spender to do the same.

One person answers in the column to the left and the other person uses the column to the right—without looking at the earlier responses.

After both you and your co-spender have completed the list, take some time to compare.

Do you both value the same things? Does one want more new clothing when the partner would prefer to go on a vacation?

It's hard enough for one person to decide which is more important, but even harder for two people to agree on the same things.

Do you and your partner agree on your spending values? Are you spending money on the things that are really important to both you and your family?

Take some time to compare your actual spending to your priorities.

|       |                      |       |
|-------|----------------------|-------|
| _____ | (names)              | _____ |
| _____ | religion             | _____ |
| _____ | education            | _____ |
| _____ | vacation             | _____ |
| _____ | saving money         | _____ |
| _____ | owning own business  | _____ |
| _____ | jewelry              | _____ |
| _____ | family               | _____ |
| _____ | health               | _____ |
| _____ | cultural events      | _____ |
| _____ | sports               | _____ |
| _____ | job success          | _____ |
| _____ | food                 | _____ |
| _____ | insurance            | _____ |
| _____ | having lots of money | _____ |
| _____ | friends              | _____ |
| _____ | new car              | _____ |
| _____ | paying off debts     | _____ |
| _____ | clothes              | _____ |
| _____ | entertainment        | _____ |
| _____ | boat                 | _____ |
| _____ | other?               | _____ |



## Worksheet 1-C: Thinking about Money and Your Values

To start talking about your money with your co-spender, each one can fill in the following spaces, then compare and discuss your answers.

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Write the dollar amounts for:

Monthly family income \_\_\_\_\_

Rent or mortgage \_\_\_\_\_

Monthly food bill \_\_\_\_\_

Monthly car payment(s) \_\_\_\_\_

Monthly telephone bill \_\_\_\_\_

Monthly electric bill \_\_\_\_\_

Outstanding credit (cards) \_\_\_\_\_

Write the dollar amounts for:

Monthly family income \_\_\_\_\_

Rent or mortgage \_\_\_\_\_

Monthly food bill \_\_\_\_\_

Monthly car payment(s) \_\_\_\_\_

Monthly telephone bill \_\_\_\_\_

Monthly electric bill \_\_\_\_\_

Outstanding credit (cards) \_\_\_\_\_

Your last "night out on the town":  
\_\_\_\_\_

Your last "night out on the town":  
\_\_\_\_\_

Do you "A" agree or "D" disagree with these statements? Circle your answer.

Do you "A" agree or "D" disagree with these statements? Circle your answer.

- A D I am too tight with money.
- A D My partner is too tight with money.
- A D I want to be included in decisions about money.
- A D I like to buy things because it makes me feel good.
- A D I feel good about how our family handles money.
- A D Our family needs a better way to manage money.
- A D It is important to set goals and plan for the future.
- A D Why worry about tomorrow, I live from day to day.
- A D I would like to go out more often, even if it means doing without something.
- A D I would rather do without some things for now to have a more secure future.

- A D I am too tight with money.
- A D My partner is too tight with money.
- A D I want to be included in decisions about money.
- A D I like to buy things because it makes me feel good.
- A D I feel good about how our family handles money.
- A D Our family needs a better way to manage money.
- A D It is important to set goals and plan for the future.
- A D Why worry about tomorrow, I live from day to day.
- A D I would like to go out more often, even if it means doing without something.
- A D I would rather do without some things for now to have a more secure future.



**Think About Your Goals.** Financial goals are the specific things you want to do with your money within a certain period of time. Goals give you purpose for the way you will spend your money today and tomorrow. Goals give targets for different periods in the future.

- **Short-term goals** can be done soon. Perhaps in a week or a few months, but no longer than a year. *Examples: buy new clothes, save for a vacation.*
- **Intermediate goals** can be accomplished in one to five years. *Examples: buy a new car, pay off debts.*
- **Long-term goals** look ahead five to ten years and longer. *Examples: buy a house, put children through college, retire.*

To be effective, financial experts recommend that goals be in writing and be **SMART**.

**Specific.** Set goals you can clearly name. For example, save for a new refrigerator, not just to save.

**Measurable.** Determine the amount of time and money it will take to reach them. **Mutual.** If you share money with other family members, goals that you agree on will be easier to achieve.

**Attainable and Achievable.** Given your financial situation, the amount to set aside needs to fit within your overall budget. Goals set too high can be so frustrating that you give up your plans. Maybe it is impossible to save \$100 a month right now; adjust your time line and try for \$25.

**Realistic.** You may need to be more practical about the goal you have set. If a new car is beyond your means, would a used model meet your needs? **Relevant.** Make sure your goals fit your needs and situation.

**Time bound.** Set a specific target date (for example, NOT “spring of 2012” BUT April 16, 2012). **Trade-offs.** What are you willing to give up to achieve this goal? What obstacles will you need to overcome? The “prize” (goal) needs to be worth the “price” (what you must give up or delay), or you will find it difficult to reach your goal.

**More Thoughts on Goals.** You and your family probably have some ideas about the things you want in the future. An advantage of setting goals is that you have something to work toward. People can get so caught up in day-to-day problems they end up accomplishing very little toward intermediate goals and long-term goals. A lack of financial planning can mean problems sometime in the future.

| Goal #1: Emergency Fund (a sample)  |   |                      |   |
|---|---|----------------------|---|
| Target Date   | Total Cost  | Amount Already Saved | Amount to Save Each Month   |
| (25 months from today)<br>Apr. 16, 2012   | \$5,000<br>3 months' expenses<br><br>(up to 6 months' expenses desirable) | \$1,000              | $\$5,000 - \$1,000 = \$4,000$<br>$\$4,000 \div 25 \text{ months} = \$160$ |
| Obstacles to overcome: <ul style="list-style-type: none"> <li>• other demands for current expenses</li> <li>• other goals and priorities</li> <li>• current spending habits</li> <li>• limited amount of money coming in each month</li> <li>• an emergency fund has not been a priority before</li> <li>• defining what is an emergency</li> </ul> |   |                      |   |
| Step 1: Save all loose change for the emergency fund.   |   |                      |   |
| Step 2: Use coupons and put savings into emergency fund.  |   |                      |   |
| Step 3: Pack lunch at least twice each week and put savings in fund.  |   |                      |   |
| Step 4: Direct deposit \$100/month into savings account.  |   |                      |   |



A goal may require resources other than money to achieve. Your resources include time, talents, and abilities. To achieve some goals you may decide you need to earn more money; and to earn more money you may need more training or education, which requires time and talents, as well as expense.

**Setting Family Goals.** How many goals will you list? It depends on your family’s needs, wants, and desires. Included with this lesson is Worksheet 1-D: Goal Setting. It will help you plan family goals. Take time to write down your goals so you can see what is really important to you and your family and what you want for your future.

One example of an important goal in all households is the Emergency Fund, as outlined in the sample on page 1-6. It is specific with dates and amounts. Discussions identify the obstacles and involve the entire household in the commitment to the goal. The plan outlines step-by-step how this will be accomplished.

If an Emergency Fund is a goal for your household, the sample is a model to adapt to your amounts, obstacles, and plan.

Now it’s your turn. Take time to seriously think about and discuss what you want for the future. On a separate sheet of paper list the goals important to you and your family. Listing goals is usually not hard. The more difficult task is to rank your goals. Identify your highest priority goal and label it “1.” Place a 2 next to the second highest and continue until you rank each goal on your list.

Next, copy Worksheet 1-D: Goal Setting on page 1-8. There is space for two goals on the sheet. Use a pencil. You can adjust the goals as needs and circumstances change. Discuss obstacles and step-by-step plans. Determine the monthly savings for your goals. The **Total Cost** minus the **Amount Already Saved** equals the balance needed. Divide the balance needed by the number of months to the **Target Date** to determine the **Amount to Save Each Month**.

## Action Steps for Lesson 1

Each *Manage Your Money* lesson includes a “to do list” to outline the steps you can take to put the lesson into action. Check off the progress you make as you complete an activity.

| Action Steps   | ✓ Take Action Now |
|--|-------------------|
| Check each step after you have completed it.   |                   |
| <input type="checkbox"/> Start and keep a Spending Log and/or Dollar Tracker page for each week. |                   |
| <input type="checkbox"/> Complete Worksheet 1-A: Your Thoughts on Money.                         |                   |
| <input type="checkbox"/> Practice “I” messages.  |                   |
| <input type="checkbox"/> Complete Worksheet 1-B: What’s Important?                               |                   |
| <input type="checkbox"/> Complete Worksheet 1-C: Thinking about Money and Your Values.           |                   |
| <input type="checkbox"/> Complete Worksheet 1-D: Goal Setting.                                   |                   |
| Goal 1 _____   |                   |
| Goal 2 _____   |                   |
| Goal 3 _____   |                   |
| Goal 4 _____   |                   |



## Worksheet 1-D: Goal Setting

Goal # \_\_\_\_\_ Today's Date \_\_\_\_\_

| Target Date            | Total Cost | Amount Already Saved | Amount to Save Each Month |
|------------------------|------------|----------------------|---------------------------|
|                        |            |                      |                           |
| Obstacles to overcome: |            |                      |                           |
| Step 1:                |            |                      |                           |
| Step 2:                |            |                      |                           |
| Step 3:                |            |                      |                           |
| Step 4:                |            |                      |                           |

Goal # \_\_\_\_\_ Today's Date \_\_\_\_\_

| Target Date            | Total Cost | Amount Already Saved | Amount to Save Each Month |
|------------------------|------------|----------------------|---------------------------|
|                        |            |                      |                           |
| Obstacles to overcome: |            |                      |                           |
| Step 1:                |            |                      |                           |
| Step 2:                |            |                      |                           |
| Step 3:                |            |                      |                           |
| Step 4:                |            |                      |                           |

Designed by Diane Johnson, Extension Educator-Family and Consumer Sciences, OSU Extension



## More Information and Sources

- Gilbert, B. J., and N. W. Hudson. 1996. *Kids and Cash*. HYG 5216-96. OSU Extension. <http://ohioline.osu.edu>.
- Hill, M., N. Hudson, B. Lantz, and G. Griffin. 1997. *Commercial Vehicle Driver Associate Family Issues Assessment*. Upper Great Plains Transportation Institute, Publication Number 115.
- Hudson, N. 1996. *Don't Clash Over Cash*. HYG-5208-96. OSU Extension. <http://ohioline.osu.edu>.
- Hudson, N. W. Getting to Know You, Your Co-spenders, and Money. OSU Extension. <http://ohioline.osu.edu>.
- Johnson, D. Dollar Tracker, Goal Setting Worksheet.
- McKinney, C. 2002. *Keeping Track of Spending*. MM-07-02. OSU Extension. <http://ohioline.osu.edu>.
- Papp, L. M., E.M. Cummings, and M.C. Coeke-Morey. 2009. For richer, for poorer: Money as a topic of marital conflict in the home. *Family Relations* 58 (1): 91-103.

For youth ages 9 to 19, 4-H offers money management projects. Ask your local OSU Extension office about 4-H. Find the address and phone of your local office at: <http://extension.osu.edu>

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

- |                              |   |
|------------------------------|---|
| 1. Getting Started           | 4. How Much Credit Can You Afford?      |
| 2. Where Does Your Money Go? | 5. Develop Your Budget                  |
| 3. Stop Spending Leaks       | 6. Your Net Worth and Financial Records |

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

*Manage Your Money* is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868



# Dollar Tracker

| Sunday                 | Monday               | Tuesday                | Wednesday  |
|------------------------|----------------------|------------------------|--|
| <p><b>Thursday</b></p> | <p><b>Friday</b></p> | <p><b>Saturday</b></p> | <p><b>Notes: To track your expenses copy a page for each week. Fold the page to fit in your pocket. Jot down purchases.</b></p> <p><b>Also note your mood (how you feel) at the time of purchase.</b></p> <p><b>At the end of the week put a star (*) by items that are "needs" (bare necessities). Put a plus (+) by the "wants" (ways to meet needs with more style or comfort). Circle items that are "desires" (something you like having but doesn't fulfill any basic need).</b></p> |

Designed by Diane Johnson, Ohio State University Extension (2002) as part of the *Manage Your Money* series.



# MANAGE YOUR MONEY



## Lesson 2: Where Does Your Money Go?

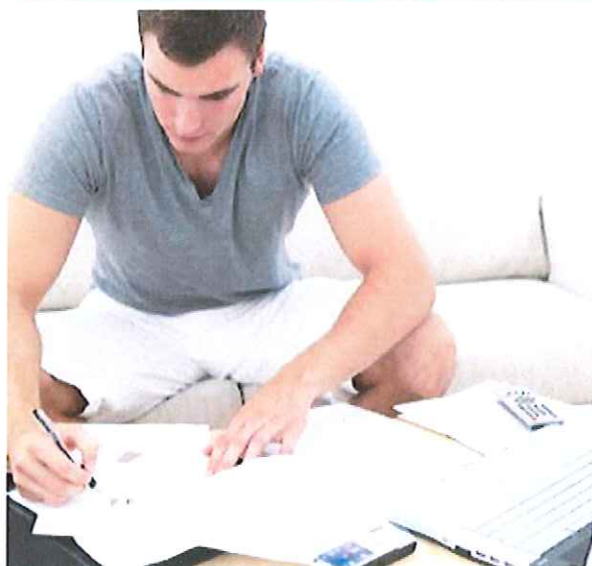


**D**o you know where your money goes? You may say, “House payments, car loan, utility bills, and food.” But after that, things begin to get a bit fuzzy. You are not sure where the rest of it goes. Right?

Now that you have set your goals in Lesson 1, the next step is to learn where your money is being spent. Your own personalized plan will be built on your goals and spending patterns in Lesson 5. No matter how you feel about paperwork, it **MUST** be done. Spending information is essential for making financial decisions.

### Paperwork

There are several pages of worksheets in this lesson. (Yes, it is a lot of paperwork!) To personalize your financial plan, you need your own data. Invest the time now for a better payoff later.



### What Do You Owe?

What you owe may include secured debt and unsecured debt. It will be helpful in coming lessons if these are listed separately.

**Secured debt** is “backed” by collateral. Collateral is the property a creditor has the right to seize if you do not pay the debt. The most common examples are a home and a car. Some household items such as furniture may have the same agreement. When a creditor has collateral for your loan, he or she has a “lien” on that specific property. Creditors who have security can repossess the collateral and sell it to get their money.

**Unsecured debt** refers to loans without collateral. It would be more difficult for a creditor to collect an unsecured debt, so such loans may be more difficult to arrange and may carry a higher interest cost. A credit card balance is an example.

Another term to know: **APR—Annual Percentage Rate** of Interest. Interest is the money you pay to the lender for the privilege of using the money. The APR may be different from the stated interest rate because it is based on the full cost of the loan, which includes fees and other charges. The APR tells you the true cost of the loan. You will find the APR on the disclosure statement you were given when you signed papers for the loan or on the disclosure statement with a credit card application.



## Worksheet 2-A: Know What You Owe

The worksheet on pages 2-5 and 2-6 of this lesson is a tool for you to list all of your consumer debt. (Do not include mortgage payments. It deals with consumer debt only.) The completed worksheet is a clear summary of your obligations—installments, personal loans, and credit card debt. It is important to gather current credit information BEFORE you can begin developing a money management plan. You may com-

plete the entire form now or just focus on monthly payment information. In Lesson 4 you will refer to the other details of debt on this form.

The average family should not commit more than 20% of take-home pay to pay off consumer debts. If your family is larger, you may need to keep commitments even lower. Credit is discussed in more detail in Lesson 4.

After you know what you owe you will be ready for the next step—to review your cash flow.

## Worksheet 2-B

- When is the rent/mortgage due?
- What day do you need to mail each utility payment?
- Do not forget pay day(s).
- Use a financial calendar for an overview of income and fixed expenses. Avoid late payments by allowing adequate time for mail delivery.
- This sample calendar page illustrates examples of entries on a typical financial calendar.
- Complete a general financial calendar for your household on Worksheet 2-B, page 2-7.

Worksheet 2-B Manage Your Money, Ohio State University Extension

| Sunday                    | Monday            | Tuesday         | Wednesday  | Thursday           | Friday         | Saturday   |
|---------------------------|-------------------|-----------------|--|--------------------|----------------|--|
| <b>Financial Calendar</b> |                   |                 |  |                    |                | You may develop this as a general reminder of income dates and payment dates in a typical month. Record the days you need to MAIL payments so they are received on time. |
| First Week                | <i>allowances</i> |                 |  |                    | <i>Pay Day</i> |  |
| Second Week               |                   |                 | <i>phone</i>   |                    |                |  |
| Third Week                |                   | <i>electric</i> |  | <i>credit card</i> | <i>Pay Day</i> |  |
| Fourth Week               |                   | <i>gas</i>      |  |                    |                |  |
|                           | <i>Rent due</i>   |                 | For specific reminders each month, keep a separate yearly calendar with your checkbook for financial matters. Record dates to mail payments, allowing time for mail to deliver your check. |                    |                |  |

## What Is Cash Flow?

Your cash flow is simply the money going into your pocket and checkbook and out again. It is matching up your income with your expenses. Sounds simple, doesn't it? It usually is. When you



want to have a good idea of your spending you need to keep track of what actually comes in and goes out each month.

As you fill in the worksheets in Lesson 2 you may discover you do not have complete records. For the most accurate look at your budget, it would be helpful to review expenses and income for an entire year. Unless you have that information, you will need to base estimates on information from your Spending Log/Dollar Tracker records from Lesson 1 (pages 1-1 and 1-10). Use a pencil. Do the best you can for now. As you continue to keep track of expenses you will be able to revise the worksheets.

The more accurate and complete the information on the worksheet, the easier and more effective your financial planning can be.



**Income**, money flowing in, is an easy calculation for a salaried worker with no other sources of funds. In contrast, a sales representative paid with commissions will need to estimate income. Seasonal workers and farm families deal with fluctuations over the entire year, rather than week to week or month to month. Planning ahead is especially important for them so funds for expenses can be set aside. If the amount of income varies, it is best to estimate income on the low side. When income is greater than expected, go back to your list of goals in Lesson 1 to identify priorities for the dollars.

Income from last year is a model for planning for the future. Add or subtract for specific adjustments you know will increase or decrease income. If it varies a lot, use the minimum figure to plan income.

### **Worksheet 2-C: Income (page 2-8)**

The flow of cash into the budget can be summarized on the chart.

**Expenses** are the flow of cash out of the budget. To work on the expenses for cash flow going out, you will need to collect your bills and receipts, in addition to your check record, which will all help you keep track of your spending for the month. Your Spending Log and Dollar Tracker notes from Lesson 1 are also sources for spending data. (It could be last month's, this month's, or both.) Include both fixed and flexible expenses. Do you know the difference?

- **Fixed expenses** are items such as rent/mortgage, car payment, and other regular installment payments that basically stay the same each month and for which you are committed for a period of time. Your obligation for a fixed expense is made when you enter a contract or commitment. An example is a lease to rent an apartment or a mortgage to buy a home.

### **Worksheet 2-D: Monthly Fixed Expenses Budget (page 2-9)**

Use your checkbook and receipts to gather figures on the repeating fixed commitments.



- **Flexible expenses** are the expenses that change from month to month such as food, clothing, and utilities. You have a bit more control over some of these items. Each purchase involves choice and decisions that determine the cost for the month.

### **Worksheet 2-E: Monthly Flexible Expenses Budget (page 2-10)**

With limited records available, you may need to estimate some amounts for flexible spending. As you continue to keep spending records, you will have a more accurate picture of where money is going.

- **Occasional expenses** are the costs that only come periodically. Semiannual auto insurance and an annual homeowner's insurance premium are examples. Auto tags, holiday gifts, and a vacation are other occasional categories to include in your planning.

### **Worksheet 2-F: Occasional Expenses (page 2-11)**

The calendar may help you recall expenses that are seasonal and only occur a few times during the year. Planning for this type of expense will be discussed in more detail in Lesson 5.

- Combinations may occur. For example, the basic cost of phone service can be fixed, but the extra charges are flexible based on what you use beyond your basic plan (for example, land-line long distance; cell phone minutes, text, and data).

## Home Account Book

When you see how important and helpful cash flow records can be, you may want to purchase an OSU Extension Home Account Book (Bulletin 723). You can order a copy on the Internet at: <http://estore.osu-extension.org> or you can download it from: <http://ohioline.osu.edu>.

## The Bottom Line

If your income exceeds expenses, you will have extra money to put into a savings plan for your financial goals. But when income does not cover all expenses, what can you do?

### To balance your budget:

- Increase your income.
- Decrease expenses. Take a look at your spending habits to see if you can find some spending leaks. This topic is discussed further in Lesson 3.
- Incorporate a combination of more income and less expenses.

The most critical time to control fixed expenses is before you commit to the obligation. You have an element of control each time you make a flexible expense purchase. Are there other choices you need to consider? Are there ways for you to reduce some of your flexible expenses?

In Lesson 5 you will develop a budget to balance the cash flow.

## Action Steps for Lesson 2

Complete the following checklist of activities for Lesson 2.

| Action Steps                                 | ✓ Take Action Now  |
|--|--|
| Check each step after you have completed it. |  |
| <input type="checkbox"/>                     | Continue keeping your Spending Log/Dollar Tracker.   |
| <input type="checkbox"/>                     | Complete Worksheet 2-A: Know What You Owe.   |
| <input type="checkbox"/>                     | Use the Financial Calendar (Worksheet 2-B) for dates bills are due and for dates you receive income. |
| <input type="checkbox"/>                     | Summarize expected income, Worksheet 2-C.  |
| <input type="checkbox"/>                     | Project monthly fixed expenses, Worksheet 2-D.   |
| <input type="checkbox"/>                     | Estimate monthly flexible expenses, Worksheet 2-E.   |
| <input type="checkbox"/>                     | Outline occasional expenses, Worksheet 2-F.  |

### More Information and Sources

Clements, J., D. E. Johnson, K. Michelich, and C. F. Olinsky. 2009. *Know What You Owe, In Over Your Head*, Bulletin 891. Columbus, OH: Ohio State University Extension.

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

1. Getting Started
2. Where Does Your Money Go?
3. Stop Spending Leaks
4. How Much Credit Can You Afford?
5. Develop Your Budget
6. Your Net Worth and Financial Records

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

*Manage Your Money* is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868



**Worksheet 2-A: Know What You Owe (secured debt)**

| List of creditors<br>(list largest to smallest) | Monthly<br>payment | Due<br>date | Total<br>balance | Equity<br>(amount<br>already paid) | APR (Annual<br>Percentage<br>Rate of<br>interest) | Total<br>past due | Total<br>debt | Item<br>secured |
|---|--------------------|-------------|------------------|------------------------------------|---|-------------------|---------------|-----------------|
| Company<br>Address<br>Phone<br>Account #        |                    |             |                  |                                    |   |                   |               |                 |
| Company<br>Address<br>Phone<br>Account #        |                    |             |                  |                                    |   |                   |               |                 |
| Company<br>Address<br>Phone<br>Account #        |                    |             |                  |                                    |   |                   |               |                 |
| Company<br>Address<br>Phone<br>Account #        |                    |             |                  |                                    |   |                   |               |                 |
| <b>TOTALS</b>                                   |                    |             |                  |                                    |   |                   |               |                 |

**Worksheet 2-A (continued): Know What You Owe (unsecured debt)**

| List of creditors<br>(list largest to smallest) | Total<br>owed | APR | Minimum<br>monthly<br>payment | Due<br>date | Credit<br>limit | Fees for<br>past due or<br>over limit | Total<br>past<br>due | "X" if<br>sent to a<br>collector |
|---|---------------|-----|-------------------------------|-------------|-----------------|---------------------------------------|----------------------|----------------------------------|
| Company<br>Address                              |               |     |                               |             |                 |                                       |                      |                                  |
| Phone<br>Account #                              |               |     |                               |             |                 |                                       |                      |                                  |
| Company<br>Address                              |               |     |                               |             |                 |                                       |                      |                                  |
| Phone<br>Account #                              |               |     |                               |             |                 |                                       |                      |                                  |
| Company<br>Address                              |               |     |                               |             |                 |                                       |                      |                                  |
| Phone<br>Account #                              |               |     |                               |             |                 |                                       |                      |                                  |
| Company<br>Address                              |               |     |                               |             |                 |                                       |                      |                                  |
| Phone<br>Account #                              |               |     |                               |             |                 |                                       |                      |                                  |
| Company<br>Address                              |               |     |                               |             |                 |                                       |                      |                                  |
| Phone<br>Account #                              |               |     |                               |             |                 |                                       |                      |                                  |
| <b>TOTALS</b>                                   |               |     |                               |             |                 |                                       |                      |                                  |

From *In Over Your Head: Lifesaving Strategies for Financial Crisis*, Pub. No. 891, Ohio State University Extension, 2009.



| Sunday  | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
|---|--------|---------|-----------|----------|--------|----------|
| <b>Financial Calendar</b>   |        |         |           |          |        |          |
| <b>First Week</b>   |        |         |           |          |        |          |
| <b>Second Week</b>  |        |         |           |          |        |          |
| <b>Third Week</b>   |        |         |           |          |        |          |
| <b>Fourth Week</b>  |        |         |           |          |        |          |
| <p>You may develop this as a general reminder of income dates and payment dates in a typical month. Record the days you need to MAIL payments so they are received on time.</p>                   |        |         |           |          |        |          |
| <p>For specific reminders each month, keep a separate yearly calendar for financial matters with your checkbook. Record dates to mail payments, allowing time for mail to deliver your check.</p> |        |         |           |          |        |          |

## Worksheet 2-C: Income: Month \_\_\_\_\_

| Income Received Last Month | Source  | Planned Income | Actual Income | + or - | Notes |
|----------------------------|---|----------------|---------------|--------|-------|
| \$                         | *Wages (take home)<br>Weekly _____<br>Bi-weekly _____<br>2 X Month _____<br>Monthly _____ | \$             | \$            |        |       |
| \$                         | *Wages (take home)<br>Weekly _____<br>Bi-weekly _____<br>2 X Month _____<br>Monthly _____ | \$             | \$            |        |       |
| \$                         | Tips  | \$             | \$            |        |       |
| \$                         | Child Support/<br>Alimony Received  | \$             | \$            |        |       |
| \$                         | Unemployment<br>Compensation  | \$             | \$            |        |       |
| \$                         | Food Stamps/Ohio<br>Works First   | \$             | \$            |        |       |
| \$                         | Pension/Retirement  | \$             | \$            |        |       |
| \$                         | Social Security   | \$             | \$            |        |       |
| \$                         | Interest/Dividends  | \$             | \$            |        |       |
| \$                         | **Fluctuating or<br>Irregular Income  | \$             | \$            |        |       |
| \$                         | Other   | \$             | \$            |        |       |
| \$                         | <b>TOTALS</b>   | \$             | \$            |        |       |

\* Because most bills are monthly, it is easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and bi-weekly income by 2.17 to convert to monthly amounts.

\*\*Fluctuating income such as commissions, seasonal work, and overtime might be best figured as an annual amount and dividing by 12.



## Worksheet 2-D: Monthly Fixed Expenses Budget

| What I Spent Last Month         | Expense                                | Budget | Actual | + or - | Explanation |
|---------------------------------|--|--------|--------|--------|-------------|
| <b>Pay Yourself First</b>       |  |        |        |        |             |
| \$                              | Savings Goal 1                         | \$     | \$     |        |             |
| \$                              | Savings Goal 2                         | \$     | \$     |        |             |
| \$                              | Savings Goal 3                         | \$     | \$     |        |             |
| \$                              | Retirement savings                     | \$     | \$     |        |             |
| \$                              | Education                              | \$     | \$     |        |             |
| \$                              | Emergency Fund                         | \$     | \$     |        |             |
| \$                              | Occasional Expenses<br>(Worksheet 5-A) | \$     | \$     |        |             |
| <b>Insurance (paid monthly)</b> |  |        |        |        |             |
| \$                              | Life                                   | \$     | \$     |        |             |
| \$                              | Health                                 | \$     | \$     |        |             |
| \$                              | Disability                             | \$     | \$     |        |             |
| \$                              | Auto                                   | \$     | \$     |        |             |
| \$                              | Homeowner/renter                       | \$     | \$     |        |             |
| <b>Housing</b>                  |  |        |        |        |             |
| \$                              | Mortgage or rent                       | \$     | \$     |        |             |
| \$                              | Property taxes                         | \$     | \$     |        |             |
| \$                              | Utilities: electricity                 | \$     | \$     |        |             |
| \$                              | Utilities: gas/propane/<br>oil         | \$     | \$     |        |             |
| \$                              | Utilities: phone(s)—<br>basic          | \$     | \$     |        |             |
| \$                              | Utilities: Internet, cable             | \$     | \$     |        |             |
| \$                              | Utilities: trash                       | \$     | \$     |        |             |
| \$                              | Homeowner fees                         | \$     | \$     |        |             |
| \$                              | Other                                  | \$     | \$     |        |             |
| <b>Debt Payments</b>            |  |        |        |        |             |
| \$                              | Car payment(s)                         | \$     | \$     |        |             |
| \$                              | Loans/rent-to-own                      | \$     | \$     |        |             |
| \$                              | Credit cards                           | \$     | \$     |        |             |
| \$                              | Other                                  | \$     | \$     |        |             |
| <b>Other</b>                    |  |        |        |        |             |
| \$                              | Child care payments                    | \$     | \$     |        |             |
| \$                              | Child support                          | \$     | \$     |        |             |
| \$                              | Contributions/dona-<br>tions           | \$     | \$     |        |             |
| \$                              | Allowances—adults/<br>child            | \$     | \$     |        |             |
| \$                              | Other                                  | \$     | \$     |        |             |
| \$                              | TOTAL                                  | \$     | \$     |        |             |

## Worksheet 2-E: Monthly Flexible Expenses Budget

| What I Spent Last Month     | Expense                   | Budget | Actual | + or - | Explanation |
|-----------------------------|---------------------------|--------|--------|--------|-------------|
| <b>Food and Beverages</b>   |                           |        |        |        |             |
| \$                          | At home                   | \$     | \$     |        |             |
| \$                          | Away from home            | \$     | \$     |        |             |
| <b>Household Operations</b> |                           |        |        |        |             |
| \$                          | Maintenance/upkeep        | \$     | \$     |        |             |
| \$                          | Supplies (cleaning/paper) | \$     | \$     |        |             |
| <b>Transportation</b>       |                           |        |        |        |             |
| \$                          | Auto maintenance          | \$     | \$     |        |             |
| \$                          | Gasoline                  | \$     | \$     |        |             |
| \$                          | Bus fare                  | \$     | \$     |        |             |
| \$                          | Taxi fare                 | \$     | \$     |        |             |
| \$                          | Other                     | \$     | \$     |        |             |
| <b>Clothing</b>             |                           |        |        |        |             |
| \$                          | Purchases                 | \$     | \$     |        |             |
| \$                          | Laundry                   | \$     | \$     |        |             |
| \$                          | Dry Cleaning              | \$     | \$     |        |             |
| <b>Personal Care</b>        |                           |        |        |        |             |
| \$                          | Adults                    | \$     | \$     |        |             |
| \$                          | Children                  | \$     | \$     |        |             |
| <b>Medical</b>              |                           |        |        |        |             |
| \$                          | Doctor visits             | \$     | \$     |        |             |
| \$                          | Dental                    | \$     | \$     |        |             |
| \$                          | Vision                    | \$     | \$     |        |             |
| \$                          | Medicines                 | \$     | \$     |        |             |
| <b>Miscellaneous</b>        |                           |        |        |        |             |
| \$                          | Long distance phone       | \$     | \$     |        |             |
| \$                          | Entertainment             | \$     | \$     |        |             |
| \$                          | Pets                      | \$     | \$     |        |             |
| \$                          | Other                     | \$     | \$     |        |             |
| \$                          | Other                     | \$     | \$     |        |             |
| \$                          | Other                     | \$     | \$     |        |             |
| \$                          | Other                     | \$     | \$     |        |             |
| \$                          | TOTAL                     | \$     | \$     |        |             |

**Worksheet 2-F: Occasional Expenses (Anticipate occasional expenses for the year.)**

|                  |                 |                 |                 |
|------------------|-----------------|-----------------|-----------------|
| <b>January</b>   | <b>February</b> | <b>March</b>    | <b>April</b>    |
| <b>May</b>       | <b>June</b>     | <b>July</b>     | <b>August</b>   |
| <b>September</b> | <b>October</b>  | <b>November</b> | <b>December</b> |



# MANAGE YOUR MONEY



## Lesson 3: Stop Spending Leaks



**D**id it take lots of time to gather the information and records used in Lesson 2?

With good records, you will have easier access to spending information for future planning.

In this lesson you will concentrate on finding spending leaks in your budget and look at what you can do about them. You will refer frequently to the Spending Log/Dollar Tracker you started in Lesson 1.

Does your paycheck always seem to run out before the end of the month? Is it possible you could be wasting \$10, \$15, \$25, or even more a month? If you said “Yes,” then it’s time for you to take a look at your spending habits and also those of others in the household.

### What’s the Problem?

Reasons some people can’t seem to get ahead are:

- Impatience—You want the product now.
- Impulse buying—You see something at a store or on a shopping channel and buy even if you had not planned for the purchase.
- Using too much credit. Interest costs are high.
- Lack of self-discipline in saving money so it can work for you by earning interest.

What are your spending habits? Are any of these reasons keeping you from getting ahead? If so, you will want to work toward breaking those habits.

How do you practice self-control? Is shopping your hobby? You’ve probably heard the saying “born to shop”—Is that you? Do you think you

are a compulsive shopper? Do you get a “rush” from shopping and afterward, feel depressed? If this is the case, you may need some professional help. Or, you should try to find a substitute for the shopping. Try an active sport, an exercise class, or maybe volunteer at a nursing home or local hospital. Find something else besides shopping to make you feel good.

### Worksheet 3-A: Spending Habits—Does Your Family ...

| Yes | No  |   |
|-----|-----|---|
| ___ | ___ | 1. Decide on needed items and plan how much can be spent BEFORE going shopping? |
| ___ | ___ | 2. Always use a shopping list?  |
| ___ | ___ | 3. Buy only items on your list?   |
| ___ | ___ | 4. Compare price and quality before buying, especially on expensive purchases?  |
| ___ | ___ | 5. Use credit only when necessary?  |
| ___ | ___ | 6. Return poor quality or defective items to the seller?                        |

If you have answered “NO” to any of these questions, it means that there are some spending leaks. You may be able to stop the leaks by improving your shopping habits.





Spending habits can be changed if you:

- Identify the spending leaks that give you immediate pleasure or satisfaction, but don't help you reach any of your financial goals identified in Lesson 1.
- Substitute desirable spending behaviors that will help you reach your financial goals.



## Ten Spending Leak Plugs

1. Learn to recognize the “triggers” that put you in a spending situation. (You may see some examples in your Spending Log/Dollar Tracker.) Maybe you enjoy shopping at yard sales or flea markets. Perhaps, when you go to buy milk, other items in the store catch your eye. Do you eat out every Friday night? Does a coffee break mean you will buy an expensive coffee treat?
2. Learn to recognize the “triggers” in your surroundings that tempt you to buy. In stores, merchandise is often placed throughout the store in locations to attract your attention. Temptations can also be people, places, things, or even the mood you are in. Do you find yourself spending more money when you go shopping with a certain friend? Do you spend money when you are feeling “blue”? Learn to control the environment so you can shop wisely.  
Here are other suggestions that might help:
  - Avoid exposing yourself to things that will tempt you to spend. Stay away from the stores except when you have something you absolutely need to buy. Avoid “just looking.” Browsing can lead to buying. Make a list and stick to it.
  - Plan your shopping. Go with a purpose in mind. Use that list! Extras you don't really need can add to the total at the cash register.
  - Limit your number of trips to the store or the mall.
  - Don't shop in a weakened condition. Shopping when you are hungry, tired, or depressed can lead to overspending.
3. Before spending money, think through the decision-making process:
  - What are your financial goals and priorities? Will this help you reach important goals?
  - Consider the alternatives. Ask yourself:
    - Can I do without?
    - Can I continue to use what I already have?
    - Can I make it for less money than buying it?
    - Can I borrow someone else's?
    - Can I substitute something less expensive?
    - Can I rent a few days instead of buying? (Example: carpet cleaner)
    - Is this a need or a want?
    - Should I buy?
  - If you decide to buy, do some comparison shopping. Comparison shopping is important when making major purchases. Even small savings can add up on repeated purchases of relatively inexpensive items such as shampoo and paper supplies. Gather reliable and accurate information.
  - Make your decision and take action. Then evaluate your decision. (Not all the choices will prove to be what you expect. Even if you later find that a purchase was a poor choice, the experience is a guiding lesson for the next time. You are gaining skills as a consumer.)

(Continued on page 3-3)

## Ten Spending Leak Plugs (continued)

4. Be patient. Learn to say “NO” to:
  - Items that don’t rank high on your spending priority list.
  - Items that are too expensive for your budget. (Know your limits.)
  - The salesclerk who says it looks wonderful, when you know it really doesn’t.
  - Friends or relatives selling things. Don’t buy just because you feel obligated.
5. Use feedback. Review your spending record for patterns of behavior.
6. Establish spending guides for you and your family to follow. Use your expense records to plan your spending. Set spending limits. Don’t spend more than you plan.
7. Use the “incentive plan” to help you and your family follow the budget you have made. Perhaps you can reward yourself for following the shopping rules. If you have brown-bagged lunch four days at work, treat yourself to lunch out on Friday. Or if the family has been sticking to the budget and not spending money on unneeded items, a treat such as a night out or a trip to the zoo might just be the incentive to keep up the good habit. Just remember—don’t ruin the budget by overspending on the special treat.
8. Keep credit purchases to a minimum. Think about what credit will cost and how else you might use that money. Remember, interest charges add to the cost of anything purchased with credit.
9. Buy from reliable dealers and make choices that best meet your needs. Keep all purchase records. If a problem occurs, be sure to register a complaint. Act promptly in case a warranty time limit is involved.
10. Try to reduce waste to help save money. Excessive use (water, lights, automobile), abuse, or lack of care that leads to expensive repairs or shortens the service life of a product, or throwing away useful items are all examples of wasted money.

You can also take this information to a ledger sheet in a Home Account Book. The ledger sheet simply categorizes different spending areas. Then you have the figures to see where your money is going; this provides a way to identify those leaks. You may be able to see patterns developing. Are you making too many incidental purchases? Too many food purchases? Extra trips to the mall? Each of these—one by one—contributes to those leaks in the budget. By knowing your spending patterns, you will be in a better position to reach your financial goals.

For example, do you purchase a cup of coffee or a soft drink frequently? By eliminating the habit totally you would save \$325, as illustrated in Sample A below. How about lowering the price by considering alternatives? If you purchase a carton of cans and take a can from home each day, the cost might be only \$0.45 a day. Or, continue to buy the fountain drink, but only two or three times a week instead of every day. A coffee drinker can take a small coffee pot to work or carry a Thermos from home. Small changes over the entire year add up.

### Sample A—Habit Buster

| Habit         | Cost per day | Number each week | Cost of habit per week | Cost per year               |
|---------------|--------------|------------------|------------------------|-----------------------------|
| Beverage      | \$1.25       | 5                | \$6.25                 | \$325                       |
| Alternative 1 | \$0.45       | 5                | \$2.25                 | \$117.00 Savings = \$208.00 |
| Alternative 2 | \$1.25       | 3                | \$3.75                 | \$195.00 Savings = \$130.00 |



If you smoke, there are reasons beyond the dollars to consider a change. For this lesson, the discussion is limited to dollars and cents as noted in Sample B below.

### Sample B—Habit Buster

| Habit                         | Cost per day | Number each week | Cost of habit per week | Cost per year  |
|-------------------------------|--------------|------------------|------------------------|--|
| Smoking                       | \$4.25       | 7                | \$29.75                | \$1,547.00 Savings = \$1,547.00 if you can eliminate the habit |
| Alternative—cut to about half | \$2.10       | 7                | \$14.70                | \$764.40 Savings = \$782.60                                    |

Use the chart below to calculate the cost of a habit or frequent expense. Consider alternatives you are willing to do to save dollars for one of your goals.

### Worksheet 3-B: Habit Buster

| Habit | Cost per day | Number each week | Cost of habit per week | Cost per year |
|-------|--------------|------------------|------------------------|---------------|
|       |              |                  |                        | Savings =     |
|       |              |                  |                        | Savings =     |
|       |              |                  |                        | Savings =     |
|       |              |                  |                        | Savings =     |
|       |              |                  |                        | Savings =     |
|       |              |                  |                        | Savings =     |

Is there another habit that could be changed so you would add a few dollars to savings for your goals? Copy Worksheet 3-C (page 3-5) so each person in the household can help with a personal commitment to reduce spending.

Be sure to set realistic goals and realistic deadlines. Do not go on indefinitely—that's just procrastination. Develop a plan that will give you measurable results. For example, you can measure how much you have saved by not smoking a pack of cigarettes a day.

### Changing a Habit

Be patient. Psychological research indicates it takes three to four weeks to break an old habit and form a new one. So don't expect miracles to happen overnight. We have also learned through weight control research on behavior modification that it is difficult to change all old habits at once. Just target one habit you want to change and work on it until you succeed. Then move on to the next one.



## Action Steps for Lesson 3

Put your plan into action. Start today with your new plan. (My Plan to Change Spending Habits is on Worksheet 3-C below.) Launch your new plan with as strong a push as possible. Make an open commitment so others in your family know you are serious about reaching this goal.

Arrange your environment to encourage your new habit. Practice it daily. Do something every day to reach your goal. Don't allow an exception to occur until the new behavior is part of your daily life and above all—don't get discouraged.

Good money management habits are a means to getting the most for your money. Look at your habits today. Stop spending leaks.

### Action Steps

### ✓ Take Action Now

Check each step after you have completed it.

- Complete Worksheet 3-A, Spending Habits —Does Your Family ...
- Use Worksheet 3-B to identify two (or more) habits in your spending log.
- Practice, changing at least one spending habit that will save some money.
- Complete Worksheet 3-C, My Plan to Change Spending Habits.
- Continue Spending Log/Dollar Tracker or make regular entries in Home Account Book.

### Worksheet 3-C: My Plan to Change Spending Habits

My habit I want to change is: \_\_\_\_\_

I am most tempted to spend this money when: \_\_\_\_\_

Ways I can keep from spending this money include:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Barriers (people, places, or things) that will make it difficult to change this habit are: \_\_\_\_\_

I can overcome these barriers by:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

| Things that worked ... | Things I will try next time ... |
|------------------------|---------------------------------|
| Week 1:                | Week 1:                         |
| Week 2:                | Week 2:                         |
| Week 3:                | Week 3:                         |
| Week 4:                | Week 4:                         |

How I did and money I saved: \_\_\_\_\_

---

## More Information and Sources

*6 Steps to Six Figure Savings*. Consumer Literacy Consortium, Consumer Federation of America Primerica. Search publications at [www.consumerfed.org](http://www.consumerfed.org)

*66 Ways to Save Money*. 2007. Consumer Federation of America Federal Citizen Information Center, Money Management International, [www.66ways.org](http://www.66ways.org)

*Home Account Book*, 2001. Ohio State University Extension Bulletin 723. Columbus, OH: The Ohio State University.

McKinney, C. 2002. *Options for Resourceful Living*. MM-09-02. Columbus, OH, The Ohio State University.

Prochaska, J., et al. 1995. *Changing for Good*. New York: Avon Books.

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

- |                              |   |
|------------------------------|---|
| 1. Getting Started           | 4. How Much Credit Can You Afford?      |
| 2. Where Does Your Money Go? | 5. Develop Your Budget                  |
| 3. Stop Spending Leaks       | 6. Your Net Worth and Financial Records |

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

---

*Manage Your Money* is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).

---

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868



# All About Money

## Some Options\$ for Res\$ourceful Living

|  | USE LESS/SUBSTITUTE  | USE TENDER LOVING CARE TO KEEP WHAT YOU HAVE  |
|--|--|---|
| <b>F<br/>O<br/>O<br/>D</b>                         | <p>Stick to basic nutrient-dense foods for variety and versatility.</p> <p>Use lowest priced form of food item that fits your needs (&amp; evaluate cost of "convenience").</p> <p>Try recipes using less costly protein-rich foods such as eggs, cheese, beans, dairy products and peanut butter.</p> <p>Serve desserts only on special occasions.</p> <p>Avoid buying expensive, calorie-dense snacks.</p> | <p>Wrap foods before storing to retain freshness.</p> <p>Store foods promptly and in appropriate storage places.</p> <p>Rotate foods using least fresh first.</p> <p>Avoid wasting food; use leftovers to make nutritious frozen dinners.</p> <p>Take good care of kitchen utensils and appliances.</p> |
| <b>H<br/>O<br/>U<br/>S<br/>I<br/>N<br/>G</b>       | <p>Lower home heating temperature.</p> <p>Raise home cooling temperature (or do without altogether).</p> <p>Turn down thermostat on water heater (for dishwasher, set as recommended in user's manual).</p> <p>Avoid buying appliances you don't really need.</p> <p>Don't rent or buy more house than you need.</p>   | <p>Develop and use regular home maintenance schedules.</p> <p>Take care of minor maintenance problems before they become major, expensive disasters.</p> <p>Check weatherstripping and caulking periodically for effectiveness.</p> <p>Clean rugs, furniture, draperies regularly to prolong wear.</p>  |
| <b>C<br/>L<br/>O<br/>T<br/>H<br/>I<br/>N<br/>G</b> | <p>Plan wardrobe around activities and buy color- and style-coordinated clothes that can be mixed and matched.</p> <p>Select classic styles in quality fabrics rather than passing fads.</p> <p>Select clothes that are suitable for several seasons.</p> <p>Recycle clothes.</p>  | <p>Remove spots and stains promptly.</p> <p>Make repairs when needed.</p> <p>Wear old clothes for rough jobs.</p> <p>Follow care label instructions for laundry and dry cleaning.</p> <p>Watch your weight (tightly fitted clothing causes wear on fabric and seams).</p>                               |
| <b>T<br/>R<br/>A<br/>N<br/>S<br/>P</b>             | <p>Plan travel to avoid "back tracking."</p> <p>Don't buy more car than you need.</p> <p>Keep the car longer.</p> <p>Drop collision insurance coverage on old cars.</p> <p>Avoid using the car for short jaunts.</p> <p>Use public transportation when available.</p>  | <p>Practice good driving methods.</p> <p>Use your car owner's manual.</p> <p>Get regular maintenance and service checkups.</p> <p>Park in areas offering as much security as possible.</p>  |
| <b>M<br/>E<br/>D<br/>I<br/>C<br/>A<br/>L</b>       | <p>Don't buy unnecessary vitamins, tonics, etc.</p> <p>Avoid duplication in insurance coverage.</p>  | <p>Practice prevention through:</p> <ul style="list-style-type: none"> <li>• regular medical and dental check-ups</li> <li>• watching your weight</li> <li>• avoiding accidental injury</li> <li>• adopting healthy habits (and avoiding harmful ones).</li> </ul>                                      |

|  | <b>DO-IT-YOURSELF<br/>(IF You Have—or Can Learn—Skills, Time, Tools &amp; Space)</b>   | <b>IMPROVE SHOPPING SKILLS</b>   |
|--|--|--|
| <b>F<br/>O<br/>O<br/>D</b>                         | <p>Eat at home; brown bag for lunch; plan a picnic.</p> <p>Plant a garden; can or freeze surplus.</p> <p>Learn how to get the most from the meat you buy.</p> <p>Make low-cost nutritious snacks readily available.</p> <p>Make full use of your freezer; prepare recipes in quantity and freeze for later use (freezer operates more efficiently if at least 3/4 full).</p> | <p>Check needs before shopping and shop from a list.</p> <p>Take advantage of weekly specials and store coupons.</p> <p>Pay attention to price per unit and compare unit prices.</p> <p>Read the label. Get your money's worth in nutrition.</p> <p>Stock up on specials which have a long shelf life or freezer life.</p> |
| <b>H<br/>O<br/>U<br/>S<br/>I<br/>N<br/>G</b>       | <p>Do simple home repairs and maintenance yourself.</p> <p>Make draperies, slipcovers, etc.</p> <p>Re-upholster and refinish furniture at home.</p> <p>Install home insulation yourself.</p> <p>Enlist entire household's participation in energy conservation.</p>  | <p>Shop the sales for household goods, furnishings and appliances.</p> <p>Consider utility and maintenance costs as well as initial price (life cycle cost of appliances).</p> <p>Underbid the asking price on a house.</p> <p>Shop for credit as carefully as for appliances, furnishings, etc.</p>                       |
| <b>C<br/>L<br/>O<br/>T<br/>H<br/>I<br/>N<br/>G</b> | <p>Mend, repair and/or alter clothes yourself.</p> <p>Use coin-operated dry-cleaning.</p> <p>Sew some of your own clothes.</p> <p>Trade services (such as baby sit for someone who will sew for you or do alterations).</p> <p>Store clothes properly.</p>   | <p>Shop sales for wardrobe needs.</p> <p>Check care requirements and construction for smoothness and durability.</p> <p>Buy the quality that suits your purpose.</p> <p>Know store's exchange policy.</p> <p>Plan purchases—don't impulse buy.</p>   |
| <b>T<br/>R<br/>A<br/>N<br/>S<br/>P</b>             | <p>Walk or ride a bike.</p> <p>Combine trips, use car pools.</p> <p>Wash car at home.</p> <p>Do some car maintenance yourself (check tire pressure &amp; fluid levels, add oil or anti-freeze, etc.).</p>  | <p>Bargain for best deal on a vehicle.</p> <p>Shop around for best deal on vehicle loan.</p> <p>Compare insurance rates with different companies (before purchasing a vehicle).</p> <p>Shop for low-cost air fares.</p>  |
| <b>M<br/>E<br/>D<br/>I<br/>C<br/>A<br/>L</b>       | <p>Eat a balanced diet.</p> <p>Exercise properly.</p> <p>Get adequate rest.</p> <p>Learn first aid.</p> <p>Reduce insurance premiums with higher deductible and/or co-payment.</p>   | <p>Get prescriptions by generic name, not brand name, if possible.</p> <p>Buy insurance through group plan.</p>  |

**MORE IDEAS**

- Buy fewer "extra" services (e.g., premium cable TV and/or phone options) and/or items (e.g., magazines, book/tape club memberships, etc.).
- Cut down on cleaning supplies (buy products useable for more than one purpose and/or make your own from basic supplies).
- Consider renting or borrowing (rather than buying) equipment or items used infrequently. Avoid finance charges on your credit cards.
- Make long-distance phone calls during lower-rate periods at night and on weekends.
- Where possible, e-mail or write letter/post card rather than telephone long distance.
- Plan oven use by baking main dish, vegetable, etc. at one time.

Prepared by Carolyn McKinney, Ph.D., Family Resource Management Specialist, Consumer and Textile Sciences Department, The Ohio State University, June 2001.

Visit Ohio State University Extension's WWW site "Ohioline" at:  
<http://ohioline.osu.edu>

All educational programs conducted by Ohio State University Extension are available to clientele on a nondiscriminatory basis without regard to race, color, creed, religion, sexual orientation, national origin, gender, age, disability or Vietnam-era veteran status.

Keith L. Smith, Associate Vice President for Ag. Adm. and Director, OSU Extension

Hearing impaired readers may request information about educational topics by calling TDD #1-800-589-8292 (in Ohio) or 1-614-292-1868 (outside Ohio). For those with physical disabilities, special arrangements for participating in educational programs can be made by contacting 1-614-472-0810.

# MANAGE YOUR MONEY



## Lesson 4: How Much Credit Can You Afford?



**C**onsumer credit is a way of using future income to buy the goods and services you want today. You can obtain credit from a variety of sources including banks, credit unions, finance companies, retailers, and service providers such as utility companies and physicians.

In addition, some investors may be able to tap their investment accounts or retirement accounts. Policyholders who have a cash-value life insurance policy can obtain loans based on the cash value built up in the policy. Pawnshops, check cashers, and rapid-refund services are some of the “alternative lenders” that extend credit.

When used wisely, credit can be a valuable financial tool. It is often more convenient and easier to use than cash. Credit also offers some valuable consumer protections. However, when used carelessly, credit can cause serious financial problems. You could owe more than you can repay and damage your credit rating. Or, you could lose property you have worked to obtain.

### Types of Credit

There are two basic types of non-mortgage consumer credit: closed-end and open-end. **Closed-end** credit is extended for a specified amount over a set time period. No further purchases or loans may be added to the original amount. The payment period, payment amount, and the number of payments remain fixed for the life of the credit agreement. For example, purchasing a car with an installment loan is a closed-end agreement. Other examples include loans for expensive items such as major appliances or home improvements and personal loans.

**Open-end** credit allows you to make repeated purchases or obtain cash up to a specified limit from an ongoing agreement with the creditor. Some agreements require payment of the full balance each month. Other agreements allow a monthly minimum payment with a finance charge on the balance. Examples of open-end credit include revolving charge accounts, credit cards, checking accounts with overdraft privileges, and home-equity lines of credit.



### Do You Want to Use Credit?

Have you received offers from credit card issuers in the mail? Here are some ideas to help you decide if you are ready to use credit, how to choose a company and how to use credit responsibly.

Borrowing money is not good or bad in itself. When you use credit, you are paying to use someone else’s money. It is up to you to pay back what you borrowed by an agreed upon date at a specified cost to you.





## A Few Common Forms of Consumer Credit

**Multi-purpose revolving credit cards**—Offered by a multitude of banks, credit unions, and consumer-product companies (such as GTE, General Motors, etc.) and accepted by thousands of businesses. Because accounts are accessed by a credit card (such as Visa, MasterCard, and Discover), they are usually called **bank cards**. These are open-end accounts with a set credit limit and, usually, monthly billing.

**Single-purpose credit cards**—Offered by gasoline companies, department stores, and specialty stores where the card can be used only in the issuing business (including its multiple locations). These usually are revolving accounts with monthly billing (but may be “charge accounts” requiring full payment each month).

**Charge cards**—Similar to bank cards allowing holders to make purchases at numerous businesses, but the entire balance charged must be repaid within 30 days. Also known as **travel and entertainment (T&E)** cards, the best known of which include the traditional cards from American Express and Diners’ Club. (These companies also may have cards that are revolving accounts.)

**Home equity loans**—The difference between the appraised market value of your home and any mortgage debt owed is the “equity” that you have in your property. Some financial institutions offer a “home equity loan” based on your equity (usually a percentage of your equity and secured with a second mortgage). With a **home equity installment loan**, a specific amount is borrowed for a fixed time period with fixed monthly payments. With a **home equity line of credit**, a maximum loan amount is set and the loan operates as open-end credit and often is accessed with a credit card issued on the account. These line-of-credit loans may have a variable interest rate and a flexible repayment schedule.

Normally, home equity loans are used to make improvements on the property or to purchase major durable goods (appliances, autos, etc.). It is dangerous to use a home equity line of credit when purchasing general consumer items or services that will be used up long before the loan is repaid. The risk is loss of your home, because these loans are secured by your home.

## Advantages of Credit

- During inflationary times when the dollar buys fewer goods, you can repay a debt with cheaper dollars.
- It may be possible to buy some goods at a lower price now than in the future. For example, if you plan to buy a refrigerator and it goes on sale, using credit might allow you to buy the refrigerator at a lower price than if you saved the cash and then had to pay full price. When deciding on the best option, be sure to take into account the interest you will pay.
- Credit cards are convenient to use and safer than carrying large amounts of cash.
- Credit cards make it possible and easier to order merchandise by phone and shop via the Internet.
- Credit allows you to buy expensive items you cannot afford to pay for immediately. Examples include buying a house or a car.
- Some services such as renting an automobile, purchasing airline tickets, or obtaining hotel accommodations are difficult without a credit card.
- Some interest costs for home equity loans may be deductible if you itemize deductions on your income tax return. (Check with your tax preparer.)
- Some credit card programs offer perks such as air miles, rebates, or bonus points for use of the card.



## Disadvantages of Credit

- You may be tempted to buy more than you really need because it is easy to say, “charge it.”
- Instead of comparison shopping for the best price, you may shop only at stores where you have credit.
- Buying on credit can be habit-forming and can add 20 percent or more to the cost of goods and services.
- Cards that offer air miles, rebates, or bonus points usually are more costly. They frequently charge a fee for the card, charge a fee for the transaction, charge a higher interest rate, or calculate the interest using a method that is more expensive to the consumer.
- You may be charged additional fees such as late payment fees, over the limit fees, or an annual usage fee for a credit card.

## Credit History

If you are 18 years old and have a regular income, you are on your way to qualifying to obtain credit. However, you will still need proof that you are a good risk. This proof is your credit history or record. Your credit history shows your ability and willingness to repay a debt. It is measured by your record of paying bills. It is determined by how prompt and reliable you have been in making past credit payments.

A good credit history helps you qualify for future credit and may also help you get credit at a lower cost. If you have financed a car or made some other purchase using credit, you probably have a record with a credit bureau or credit reporting agency. This record shows how responsible you are in paying your bills.

Before applying for credit, it is a good idea to obtain copies of your credit reports from the major credit reporting agencies. Chances are, each of the agencies has information about you. This information may vary from one reporting agency to another, so it is a good idea to check all three. Be prepared for ordering your credit report by having the following information available:

- Full name and initials and maiden name
- Current address and previous addresses

- Social Security number
- Your date of birth
- Your spouse’s name, date of birth, and Social Security number
- Employer
- A copy of your driver’s license, your spouse’s driver’s license, utility bill, and/or military ID

If you were denied credit, insurance, or employment due to information in your credit file, be sure to include a copy of the letter telling you this.

**The three major credit reporting agencies are:**

**Equifax**, [www.equifax.com](http://www.equifax.com)

**Experian** (formerly TRW), [www.experian.com](http://www.experian.com)

**Trans Union**, [www.transunion.com](http://www.transunion.com)

If you are denied credit or someone takes action against you based on information from a credit report, you must be given the name, address, and phone number of the credit bureau that supplied the report. Within 60 days of getting that notice, you are entitled to request a free credit report to check on the accuracy of the information.

You can obtain a free copy of your credit report once per year from each of the three major credit reporting agencies by mail or phone, or online. Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) for either a combined report from all three credit bureaus or to get one annually from each. You may contact each agency at intervals or contact all three at one time.



Be aware that there are “look-alike” web sites designed to entice you into purchasing additional services or to gather your personal information. Make sure you use the correct web address for your free report.

Whether you have been turned down for credit or not, it is a good idea to check your credit report. This allows you to know what is in your file, gives you a chance to correct any inaccuracies, helps alert you to another person’s information being reported under your name, and helps you protect yourself from identity theft.

Your credit report will show your name, current and past addresses, your employer, any judgments or court actions against you, a list of credit accounts you have now and past accounts you might have closed or a creditor has closed and whether these accounts were paid by you or written off by the creditor. If you have participated or are participating in a debt management program or have had a bankruptcy, this information will also be in your credit report.

The report will also show your payment history: whether accounts are paid on time or whether any are 30, 60, or 90 days or more in arrears. You may find that not all of your credit accounts appear on a specific credit report. Not all of your creditors report to all three credit reporting agencies. That is why it is important to check all three.

If there is any incorrect information on your report, you are entitled to ask that the information be corrected. Use the forms and process indicated for the credit reporting agency you are checking. Remember, only incorrect information can be removed from your file. If the information is negative and is correct, it will remain in your file. Negative information can remain in your file for seven years, bankruptcy information can remain there for ten years. You may include a statement in your credit file explaining circumstances surrounding any negative entries.

**Your credit history not only has an influence on your future ability to obtain credit, it also can impact your ability to obtain a job, housing, or insurance.** Prospective employers may check your credit history to gain information about your reliability and your trustworthiness; a landlord may check your credit history before renting you an

apartment or house; and an insurance company may run a credit check on you before issuing a policy or before establishing rates you will pay for insurance.

## How Do You Establish Credit?

Getting credit is a privilege and it can take time to build a positive financial history to qualify for the credit you want. Here are several ways you can begin to build a good credit history:

- Open a checking account or a savings account or both. These do not begin your credit file but may serve as evidence that you have money and know how to manage it.
- Apply for credit at a local store. Ask if they report to a credit bureau. If they do and you pay your bills on time, you are building a good credit history.
- Obtain a secured credit card. You can do this by opening an account at a bank, savings and loan, or a credit union, and depositing an amount of money that will secure your line of credit. Your credit line will be a percentage of the amount you keep on deposit.
- Ask someone with a good credit history to co-sign a loan for you. The co-signer promises to pay your debts if you do not. Paying the debt promptly will help you build a positive credit history and enable you to establish an account on your own later. Both you and the co-signer should understand the importance of making these payments on time. If you fail to do so, you not only jeopardize your new credit record, you also cause negative information to be added to the co-signer’s credit file. The co-signer is, in the end, responsible for paying the debt you incurred. If you fail to live up to your obligation, you may also ruin the relationship you have with the co-signer.

## Choosing a Credit Card

Shop around when you choose a credit card. Card issuers differ in the fees, charges, and benefits they offer. You may use Worksheet 4-C (page 4-13) to record the facts. Consider the following important features:





**Annual Percentage Rate (APR).** APR is the cost of credit expressed as the yearly interest rate (used to figure the finance charge on the outstanding balance for each billing period). The cost of credit depends on where you borrow, your credit history, how much you borrow, and how long you take to repay it. Credit costs will

vary from lender to lender. Before you borrow, compare the costs at several places.

Some credit card agreements allow the issuer to change your APR based on changes in economic indicators. These indicators are called indexes. These plans are called “variable rate” programs. *The card issuer must tell you that your credit card rate may change and how the rate is determined.* They must tell you which “index” is used and what additional amount (margin) is added to your new rate. You should also receive information about any limitation on how much and how often your rate may change.

The APR may also be raised if you fail to pay your bill on time or violate some other provision of your credit agreement/contract. Be sure to read and understand all of the “fine print.”

**Annual Fees.** Some card issuers charge an annual fee to use their credit card. These fees range from \$15 to \$55. However, some cards have no annual fee.

**Transaction Fees and Other Charges.** Some card companies charge a fee for cash advances, fees for being over the balance limit, fees for late payment, or may charge a fee for every month you use the card. Check out these fees before deciding on a card.

**Grace Period.** The time between the date of purchase and the date interest starts being charged on that purchase is the grace period. If you pay your current balance in full within the stated

grace period, no interest is charged for the new purchase. Some card companies offer no grace period, and the finance charge is imposed from the date you used your card or from the date the transaction was posted on your account. If you carry a balance rather than paying off your card in full, you won’t get a grace period on new purchases. Cash advances generally have no grace period.

**Computing the Balance for the Finance Charge.** If you carry a balance from month to month on your credit card, it is important to know what method is used to calculate the finance charge. There are four common methods of computing finance charges, defined below and compared in Table 4-A on the next page.

- **Adjusted Balance (least expensive).** Usually this method is most advantageous for card holders. The balance is determined by subtracting payments or credits received during the billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included.
- **Previous Balance.** Finance charges are based on the amount you owed at the end of the previous billing period. Payments, credits, and new purchases made during the current billing period are not included.
- **Average Daily Balance (most commonly used).** This method credits your account from the day payment is received by the credit issuer. The issuer starts with the beginning balance for each day in the billing period and subtracts any credits made to your account that day. Depending on the plan, new purchases may or may not be added to the balance. Typically cash advances are included. The resulting daily balances are added for the billing cycle. Then the total is divided by the number of days in the billing period to get the average daily balance.

**Customer Service and Other Benefits.** Nearly all credit card companies have 24-hour toll-free telephone numbers to assist card holders with problems. Other special services might include credit card protection, rebates, discounts, insurance, special merchandise, or possibly airline miles.

**Table 4-A: Four Methods of Computing Finance Charges on Open-end Credit Accounts<sup>1</sup>**

| Method                | Amount Owed at Start of Billing Cycle (Feb. 1) <sup>2</sup> | Payment (Feb. 14) | Amount Outstanding at End of Cycle (Feb. 28) | Basis for Finance Charge 1½% | Actual Finance Charge for Month |
|-----------------------|---|-------------------|--|------------------------------|---------------------------------|
| Adjusted Balance      | \$400   | \$200             | \$200  | \$200                        | \$3.00                          |
| Previous Balance      | \$400   | \$200             | \$200  | \$400                        | \$6.00                          |
| Average Daily Balance | \$400   | \$200             | \$200  | \$300                        | \$4.50                          |

<sup>1</sup>Open-end credit includes credit cards, department store charge plates, and check overdraft accounts. Open-end credit can be used continuously, generally until the pre-arranged credit limit is reached. Truth-in-lending laws require that creditors tell you the method of calculating the finance charge and the date the finance charge begins.

<sup>2</sup> Assuming that January 31 was the closing date of the original cycle.

Source: Sharon B. Seiling, Ph.D., and Carolyn McKinney, Ph.D., Money Talks, Ohio State University Extension, 12/89. Updated by Diane Johnson, 7/09.

The Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 is designed to eliminate many problems for consumers. The new law addresses the following:

- Restricts interest rate hikes and requires 45 day notice.
- Eliminates universal default.
- Gives more time to pay monthly bills.
- Makes due dates and times clearer. Bills must be mailed to consumers 21 days before the due date.
- Allows highest interest balances to be paid first when one account has different interest rates for different types of purchases.
- Limits over-the-limit fees.
- Eliminates double-cycle billing.
- Requires clearer disclosure statements.
- Bans fee harvesting and other account opening fee practices used by card issuers for sub-prime consumers.
- Requires disclosure of factors that determine interest rates or credit limits when marketing credit cards to consumers.
- Establishes electronic gift card protections.
- Prevents deceptive marketing of credit reports.
- Increases protections for young consumers against aggressive credit card marketing.
- Strengthens oversight of credit card industry practices, enhances penalties for Truth in Lending violations and promotes financial literacy.

The CARD Act was enacted May 19, 2009. Most of the new law's provisions go into effect 9 months after the enactment date. The 45 day notice requirement and requirement that bills are sent to 21 days before the due date go into effect 90 days from enactment. There are many more provisions in this law, and you can get more information at: [http://banking.senate.gov/public/\\_files/051909\\_CreditCardSummaryFinalPassage.pdf](http://banking.senate.gov/public/_files/051909_CreditCardSummaryFinalPassage.pdf).



**Truth-in-Lending.** The law requires that a lender provide you with the following information:

- The annual percentage rate (APR).
- How the APR will be determined (if it is a variable rate).
- The method of computing the balance at the end of each month.
- The annual fee to be charged, if any.
- The minimum finance charge.
- Any transaction fee for purchases or cash advances.

## Can I Afford to Use More Credit?

(Note: Refer to “Know What You Owe” Worksheet 2-A on pages 2-5 and 2-6.)

Let’s say you really want a new television, but you don’t have the money for it. What do you do? Do you borrow the money, or do you wait until you can save some money and buy it later? Consider these basic guidelines when thinking about borrowing money.

Use the 20 percent rule. Your total debt load (except for your mortgage payment) should not exceed 20 percent of your after-tax income.



Caution! This maximum may still be too high for some families, particularly those with an uncertain job future, a low income, an irregular income, or a large family.

Use the “Credit Signal Light” (Worksheet 4-A, below) to help you. Write down how much money you bring home monthly. Multiply the amount by 0.20 for the maximum amount of credit you can afford. Compare this to your current monthly payments as listed on “Know What You Owe” (Worksheet 2-A, pages 2-5 and 2-6).

Now decide—can you really afford to purchase that new television?

How much credit you use is really a personal decision, but do look at your needs realistically. Credit is just one financial tool for your spending plan. Consider carefully before obligating any of your future income.

### Worksheet 4-A: Credit Signal Light

Total monthly take-home pay = \$ \_\_\_\_\_

Total monthly debt payments = \$ \_\_\_\_\_  
(excluding home mortgage)

20% of take-home pay = \$ \_\_\_\_\_

10% of take-home pay = \$ \_\_\_\_\_



#### RED—STOP!!

- Monthly credit payments take 20% or more of take-home pay. STOP! Avoid more credit.

#### YELLOW!—CAUTION!

- Control new credit use and repay current obligations.

#### GREEN—PROCEED CAREFULLY!

- Use credit wisely. Try to keep monthly payments under 10% of your take-home pay.



## Recognizing and Dealing with Credit Problems

The best way to handle debts is to avoid them in the first place. But for most families that is very difficult to do. If you answer "Yes" to two or more of the statements in Worksheet 4-B, "Recognizing Trouble," then it is time for you to do something to better manage your debt load.

If you did not complete "Know What You Owe" (Worksheet 2-A, pages 2-5 and 2-6), do so now.

- Make sure you know who you owe and how much you owe them. List each creditor (loan company, bank, department store, family member), the total balance owed, and the date the monthly payment is due. On the chart, list the total owed/total balance, the amount of the monthly payment, the due date, and any amount that is past due. Total the amount owed. Then add together your monthly payments. Worksheet 2-A, "Know What You Owe," gives a complete picture of your debt situation.
- Look for ways you might increase income or decrease spending. Try to free up some income so you can make your payments. You might want to re-read Lesson 3 for tips on reducing spending leaks.
- Do not use any more credit until you are in better financial shape. Put your credit cards away in a safe place so you will not be tempted to use them. You may decide to cut them up and close the account. Some debt counselors use this technique with clients before working with creditors to adjust payments.
- If you see you will not be able to make your payments, contact your creditors. **DO NOT IGNORE THEM!** If you do not contact them about your financial difficulties, and do not make scheduled payments, your account may be turned over to an independent collection agency. However, many creditors, if they know the facts about your financial problems and are convinced of your intent to pay, may agree to defer payments or refinance the debt to reduce the size of your monthly payments. Many are willing to make other arrangements with you.

To be helpful, creditors must know of problems **BEFORE** payments are overdue. Working out a

### Worksheet 4-B: Recognizing Trouble

Can you recognize the credit danger signals?  
Answer these statements as they apply to you.  
Check YES or NO.

| Yes | No |  |
|-----|----|--|
|     |    | 1. Fail to save money.   |
|     |    | 2. Always out of money before payday.                                  |
|     |    | 3. New monthly charges are MORE than account payments.                 |
|     |    | 4. Longer time needed to pay account balances.                         |
|     |    | 5. "Juggling" payments to creditors.                                   |
|     |    | 6. Borrow to pay "fixed" costs such as insurance.                      |
|     |    | 7. Credit card "cash advances" used to pay everyday expenses.          |
|     |    | 8. Creditors call and send letters demanding payment of overdue bills. |
|     |    | 9. Unsure how much you owe.  |
|     |    | 10. Frequently late in paying bills.                                   |

Now, total up the number of "yes" blanks you have checked.

1 "Yes" = Signals Caution

2 "Yes" = Trouble Brewing

3+ "Yes" = You should be very concerned and need to take some steps now to help correct the problem.

Ohio State University Extension, 2002.

plan with a creditor is the best strategy. Be honest about how much and when a payment can be made. Then, above all, **BE SURE TO KEEP YOUR WORD.** If a creditor is willing to accept less than full payment at a time that is convenient for you, get it in writing and be sure to follow through on the promise.



on your Dollar Tracker or the Spending Log notebook you started in Lesson 1.

## All Plastic Is Not Credit

There are a variety of financial tools that may look like credit cards but are not. These tools allow you access to money without having to use a checkbook or a credit card. They allow you access to your checking account or allow paperless access to money. These tools include:

- The Ohio State University Extension publication *In Over Your Head—Life-Saving Strategies for Financial Crisis* provides more information on handling credit problems and how to select a counseling service.
  - Another helpful tool is a free POWERPAY computer analysis to look at different ways to pay off credit. Go to [www.powerpay.org](http://www.powerpay.org).
  - Contact a non-profit credit counseling service for help.
- **Automated Teller Machine (ATM) Card**— This plastic card is used by the automated teller machine to authorize payment directly from your bank or credit union account. You can use it to make a withdrawal or deposit, transfer funds from one account to another, or check your account balance. Your bank's ATM may be linked with other banks in a system so when you travel from one part of town to another, from one part of the country to another, or to another part of the world, you can use your ATM to do banking. For security purposes, you will be issued a personal password called a Personal Identification Number (PIN). This PIN is used to verify that the person using the card is authorized to do so. Commit your PIN to memory and do not write it down or store it with your ATM card. If lost or stolen, your card plus the PIN can be used by a thief to remove money from your account. (There is no liability limit as there is with a credit card.)

## Avoid Credit Card Blues

It is very easy to make purchases when all you do is pull out the “plastic.” Easy, that is, until the monthly bills arrive. Many families use credit to make ends meet and then find it difficult, if not impossible, to make all the monthly payments. That is when the “credit card blues” set in. If you have trouble just meeting your monthly payments, let it be a warning to you to cut back on credit use. If you have a hard time avoiding impulse buying, leave the credit cards at home.

Finding ways to reduce spending is difficult for many families, but not impossible. Everyone in the family should be included in the discussion. The more involved the family is in planning ways to reduce spending, the more committed they will be to succeed. It is also a good lesson for your children to learn early in life.

Keep track of what you buy using credit. These purchases add up at the end of the month without you realizing it. Keep all of your credit card slips together and subtract them from your checking account, or keep a running list of all credit card purchases so you will be aware of how much you have spent. Write the amounts

Transaction fees may be charged by your bank for using the ATM, or by other banks for using ATMs in other locations. These charges should be called to your attention before you complete a transaction on any given machine, so you can decide whether you wish to use the service for the fee you will be charged.

- **Debit Cards**—These cards are called point-of-sale systems. They frequently look like a credit card, may even have the MasterCard or Visa logo on the card, and can be used like a credit card to make purchases. These cards are used to authorize the payment directly from your checking account to a retailer or other business. While a credit card allows you to borrow money for purchases, a debit card



draws money electronically from your account right away. Transaction fees may also be charged for the use of these cards. Sometimes you authorize a debit card transaction with your personal identification number (PIN). Other times, you sign a receipt just as you would if you were charging the purchase to your credit card. You can also use the card to make ATM withdrawals. You have some of the same protections against loss with a debit card as you do with a credit card, but there is one important difference. While \$50 is the most you can ever be responsible for if your credit card is lost or stolen, you could lose much more with a lost or stolen debit card if you don't report what has happened within two days of discovering it.

- **Smart Cards**—These cards (also called stored value cards) are issued not only by banks but also by other organizations. The micro-processing and memory chip within the card stores and manipulates data. The plastic card is “charged” with a specific amount of money which decreases each time a purchase is made. Many smart cards must be used with a PIN similar to the ATM to identify the user.

Smart cards are issued by phone companies for long distance calls, by colleges for student meals and other purchases, by toll roads, by government programs such as Food Stamps, and by businesses for gift certificates.

Regardless of whether the financial tool you use is cash, credit, or an electronic payment method, be certain you keep track of each transaction and any fees or charges included. Check your records against your account statements to make sure you maintain control of your money situation.

## Purchasing Options

**Decisions, decisions. Save first, buy later? Use a credit card or installment loan? Rent to own?** John and Mary would like to get a color television with a remote control in time for the Super Bowl. What should they do? Should they buy the TV on credit or go to a “rent-to-own” store? Perhaps they should wait until next year, saving the money each week, and pay cash for a new TV.

Many people are attracted by “rent-to-own” stores because they can satisfy their wants immediately. If you are thinking about making a major purchase, weigh the pros and cons of each payment choice. Included here is a review of the options people would have in making such a purchase decision. Review carefully. Then, when you are faced with this type of buying decision, you will be better prepared for the purchase.

**Ask questions before using rent-to-own.** If you decide to rent-to-own (RTO), here are some questions you will want to ask about contracts BEFORE making a purchase.

- What is the total cost? Multiply the payment amount times the number of payments.
- Does the company guarantee the item being rented is new?
- Can you buy the item outright at a reduced price during the contract, or are you required to make all of the contracted payments to become the owner? Even though the company may provide repairs at no charge, does the store also provide a substitute product at no extra charge or stop payments during the repair period?
- Does the company require a large “balloon payment” (a final payment much larger than the previous payments)?
- If you miss one or more payments, can the RTO contract be reinstated without losing the investment up to that point? Are there large penalties charged?
- Does the RTO company require the renter to purchase insurance on the rented item, even though you may already have homeowners or renters coverage?





**Table 4-B: Rent-to-own (RTO) Compared to Credit and Cash Purchase**

| Features to Check                     | RTO 78 weeks/18 months to ownership     | Credit Purchase 18 month Installment Loan | Cash Purchase                         |
|---------------------------------------|---|---|---------------------------------------|
| Cost of item                          | —                                       | \$331.76                                  | \$319.00 Price + 12.76 Tax = \$331.76 |
| Initial Payment/ Down Payment         | First and last week's payment \$22.88   | 10% down payment \$33.00                  | —                                     |
| Installment Payment                   | \$11/wk + 44 cents tax = \$49.19/month* | \$19.49/month                             | —                                     |
| "Extra \$" (above the purchase price) | \$560.56                                | \$52.11                                   |                                       |
| Loan Payments Down Payment            | \$11.44 x 78 = \$892.32                 | \$19.48 x 18 = \$350.82 + 33.00           |                                       |
| <b>TOTAL COST</b>                     | <b>\$892.32</b>                         | <b>\$383.82</b>                           | <b>\$331.76</b>                       |
| Effective APR**                       | 163%                                    | 21%                                       | —                                     |

\* The weekly payment should be multiplied by 4.3 weeks in a month, since assuming only 4 weeks per month would equal to a 48-week year, thus concealing the cost of 4 weeks payments.

\*\* The customer could not figure out the APRs without a special calculator, but comparing the relative total dollar costs is dramatic enough.

Adapted from Senior Consumer ALERT, American Association of Retired Persons, distributed by Sharon B. Seiling, Ph.D., Extension Specialist, Family Resource Management, The Ohio State University.

## Be Credit Wise

At a given interest rate, borrowing a smaller amount of money will result in a lower overall credit cost to you. So, a larger down payment lowers the total amount you will have to pay in finance charges.

The longer you take to repay your debt, the more you will pay. The cost will vary with how long you take to pay. Try to take the shortest repayment period possible, and make the highest monthly payments you can safely afford.

Credit can be a friend or a foe for the family money management plan. Unwise use of credit can ruin future plans. If you find your debts have piled up and you feel as if you are out of control, develop a plan to help solve the problem. Getting out of debt takes work and self-discipline. It cannot be done overnight, but it can be done!

## Action Steps for Lesson 4

| Action Steps                                 | ✓ Take Action Now   |
|--|---|
| Check each step after you have completed it. |   |
| <input type="checkbox"/>                     | If you don't have credit and would like to start your credit history, apply for a credit card in your name. |
| <input type="checkbox"/>                     | If you already have credit, send for your credit report from one or all three of the major credit bureaus.  |
| <input type="checkbox"/>                     | If you have credit cards or loans, complete the "Know What You Owe" form and then ...                       |
| <input type="checkbox"/>                     | Plan a strategy for paying off your debt. Consider paying off accounts that charge the highest APR.         |

---

## More Information and Sources

From Ohio State University Extension (contact your local OSU Extension office):

In Over Your Head: Lifesaving Strategies for Financial Crisis (2009) Bulletin 891

From The Board of Governors of the Federal Reserve System (Washington, DC 20551; [www.federalreserve.gov](http://www.federalreserve.gov); search by title):

Consumer Handbook to Credit Protection Laws (2007—look for updates)

Choosing a Credit Card (2008)

From The Federal Trade Commission (600 Pennsylvania Ave., Washington, DC 20580; [www.ftc.gov](http://www.ftc.gov). Also see <http://mymoney.gov>; search by title):

Building a Better Credit Report (2008)

Choosing a Credit Card (2008)

Co-signing a Loan (1997)

Credit Repair: How to Help Yourself (2008)

Equal Credit Opportunity (2009)

Your Rights: Credit Reporting (2009)

Debt Collection: FAQs: A Guide for Consumers (2009)

How To Dispute Credit Report Errors (2008)

Payday Loans Equals Costly Cash (2008)

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

- |                              |   |
|------------------------------|---|
| 1. Getting Started           | 4. How Much Credit Can You Afford?      |
| 2. Where Does Your Money Go? | 5. Develop Your Budget                  |
| 3. Stop Spending Leaks       | 6. Your Net Worth and Financial Records |

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

---

*Manage Your Money* is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).

---

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868

## Worksheet 4-C: Credit Card Shopping Comparison

|   | Card # 1 | Card # 2 | Card # 3 |
|---|----------|----------|----------|
| Fixed Annual Percentage Rate (APR)  |          |          |          |
| Introductory Variable Annual Percentage Rate (APR)<br>Time Frame—for example, 6 months, 9 months  |          |          |          |
| Method of Computing Balance of Finance Charge*  |          |          |          |
| Grace Period  |          |          |          |
| Annual Fee  |          |          |          |
| Balance Limit   |          |          |          |
| Transaction Fees/<br>Cash Advance   |          |          |          |
| Over the Limit Fees   |          |          |          |
| Late Payment Fees   |          |          |          |
| Other Benefits Offered:<br>rebates, airline miles,<br>credit card protection,<br>discounts, etc.  |          |          |          |
| Other Advantages or Disadvantages   |          |          |          |
| <p>* 1) Adjusted Balance—least expensive method of calculation.<br/>           2) Average Daily Balance—most common method of calculation.<br/>           3) Previous Balance</p> <p style="text-align: center;"><b>Remember, if you pay your balance in full each month you won't incur finance charges.</b></p> |          |          |          |

Ohio State University Extension, 2009.



# MANAGE YOUR MONEY



## Lesson 5: Develop Your Budget



**W**hen asked how much money was enough, the rich man replied, “Just a little bit more.”

Most people feel no matter what their income, they need more money to meet their expenses. However, more money is not always the answer. The key lies in how you plan and then, actually spend your money.

The following practices may signal real money problems just “around the next bend.” Do you:

- dip into savings to pay current bills?
- pay only the minimum amount due each month on charge accounts?
- delay payment of some bills you normally would have paid on time?
- borrow to pay for items you previously bought with cash?
- take out new loans to pay old ones or to get lower monthly payments?
- not know exactly where your money goes?
- have less than 3 months’ expenses in an emergency fund?



Even if you answered “Yes” to all of the above, don’t give up hope! You can learn ways to get more from your dollars, have greater satisfaction from your spending, and set aside money to pay bills when they are due. Of course, you must first understand that you have a certain amount of money available to you and you are going to live within those limits. Although this may seem an impossible task, most people really can do it.

The secret lies in knowing where you are now, where you want to go in the future, and making a plan to get there. It’s similar to charting your route to a new vacation spot. You must decide which roads take you to your final destination—in this case, your financial goals. Think of it as directing your dollars to reach your dreams.

A successful budget often requires difficult decisions and cooperation of all who spend the family money. Consider a few guiding principles:

- Gather the entire household together and review the financial goals you set in Lesson 1. What needs to happen to reach each goal? It is very important that everyone affected by the plan has some say in it.
- Together, decide what each person will do to help control the family spending. Review your Plan to Change Spending Habits worksheet from Lesson 3 (page 3-5). Agree within the family that everyone will take turns having their wants met but must also be willing to give up something as well. Encourage, support, and show appreciation for one another’s efforts.
- Provide every family member with a personal allowance if you can. The amount must be fair,



but is not as important as the freedom to spend it without answering to anyone.

- Learn and practice sound decision-making and shopping skills to get the most for your money.
- Make it a habit to save something, no matter how small, from every paycheck.
- Learn to live within your income and keep your credit under control.

## Spending Patterns

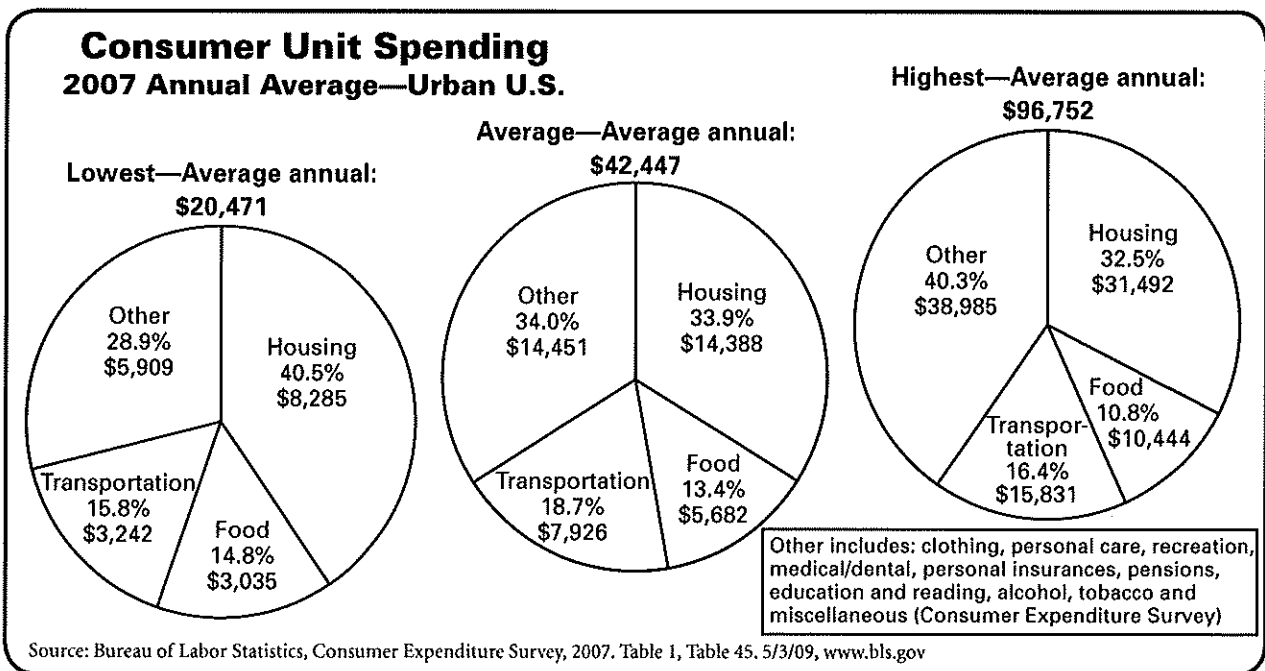
No one can tell you how you should spend your money. You must plan and spend according to your own situation and priorities. However, data about spending patterns of others may be useful as you examine your own spending habits. The pie charts below reflect 2007 data from the U.S. Department of Labor Consumer Expenditure Survey. These show average annual expenditures of surveyed households at three before-tax income levels—the lowest, middle, and highest. Note that these reflect expense categories as a percent of total expenditures—not as a percent of total income.

Notice the spending differences between the income levels. You can see that as income increases, a smaller percentage of total spending goes to housing and food, even though more dollars are spent in those categories. Generally, housing, food, and transportation account

for about two-thirds of household spending. This means about one-third is spent on “other” expenses, which include: clothing and services, health care, entertainment, alcoholic beverages, reading, education, tobacco, personal care, cash contributions, personal insurance and pensions, and miscellaneous expenditures. Generally, these “other” expenses create the real money management opportunities and challenges.

Think of all the money you spend as your “money pie.” If you cut one piece really big, the other pieces must be smaller to make ends meet—or someone doesn’t get a share of the pie! Some people promise slices of tomorrow’s pie before it’s baked. That promise means some of tomorrow’s pieces need to be even smaller—or the money pie needs to be bigger. Neither of those options is a “piece of cake.” It’s best to portion your pieces as you go so you don’t find yourself in over your head with costly debt obligations.

Use your spending records from Lesson 2 to see how you are slicing your pie. For example, if you spend \$12,000 on housing in a year and your total spending is \$36,000, then 33%—one-third of your pie—of all your spending goes toward housing ( $\$12,000 \div \$36,000 \times 100 = 33\%$ ). Financial software can generate a personal pie chart for you. Compare the size of your spending slices to your financial goals. Are you spending according to your priorities?





## Six Steps to Your Balanced Budget

Many people have vague budgets that they keep “in their head.” However, those who take the next step to write it out are more likely to reach their financial goals. When it comes to budgets, one size never fits all. However, the planning process will work for anyone. You already have a good start through your work in the other lessons. The worksheets in this lesson bring it all together and guide you to a plan that reflects YOUR situation—your needs, wants, desires, and resources. Take time to complete each step in the process. Though the steps are numbered, you will probably arrive at your final estimates by considering them as a group. Use a pencil because you may need to adjust amounts in each step until you have what you feel is a satisfactory plan.

### Step 1

**Set your financial goals.** Think again about your values—which should be reflected in your financial goals. No one can tell you what your lifestyle ought to be—but every lifestyle does come with a price tag. Only you can decide how to match your money with your lifestyle and goals.

Look back at the financial goals you set in Lesson 1 (page 1-8) and refer to the Monthly Fixed Expenses Budget worksheet (page 2-9) you started in Lesson 2. Now, in the “Budget” column, write the total monthly amount you need to set aside to reach the goals you set.

### Step 2

**Know your income.** To make a plan to live within your income, you must know how much money you have to work with. You gathered this information in Lesson 2 on Worksheet 2-C (page 2-8). Now, enter your total income for the monthly planning period on line 1 of Worksheet 5-B: Balance the Bottom Line (page 5-8).

### Step 3

**Estimate your monthly fixed expenses.** As you remember from Lesson 2, fixed expenses stay basically the same each month and are committed for a period of time. Although Worksheet 2-D lists typical fixed expenses, you may need to adjust the categories to reflect your situation. Your financial records of past spending are good sources of information for the budget column on Worksheet 2-D, page 2-9. You may need to adjust figures to reflect

any changes in your situation, such as a rent increase, higher insurance prices, etc.

### Step 4

**Estimate your regular flexible expenses.** Flexible expenses occur each month, but the amounts change so you really have to carefully track expenses for items such as food, clothing, transportation, and entertainment. Lesson 2 Worksheet 2-E: Monthly Flexible Expenses Budget (page 2-10) will help you make realistic estimates to put in the budget column. Again, adjust the categories as needed for your situation. Unlike fixed expenses, you generally have more control over these amounts.

### Step 5

**Estimate your occasional expenses.** Don't let occasional expenses creep up on you and find yourself without the money to pay them. Use your information from Worksheet 2-F (page 2-11) to complete Worksheet 5-C: Estimate Your Occasional Expenses (page 5-9). List the amount and month due for expenses that come periodically throughout the year. Consider expenses such as holidays, birthdays, home maintenance, and school supplies, as well as insurance payments and license plates.

Worksheet 5-C is set up so you can see your total expenses both by the month and spending category. You can quickly note months with higher expenses, as well as what you spend in the various categories. The block in the lower right corner is the total for both the monthly and category spending. Divide this total by 12

(continued on page 5-4)



## Six Steps to Your Balanced Budget (continued)

and record it on the “occasional expenses” line on Worksheet 2-D: Monthly Fixed Expenses Budget (page 2-9).

### Step 6

**Compare income and spending and make adjustments to achieve balance.** If your income and expenses don’t balance—which often happens the first time through—where can you make adjustments? If your income exceeds expenses, consider additional savings or investment goals. However, if your scale tips the other way—with expenses greater than income—here are your balancing options:

- **Increase income.** This may mean a new or second job for family member(s). More education or training may increase earning power down the road. Perhaps you can receive rent for storage or apartment space. Brainstorm other ideas.
- **Reduce expenses.** This option often can make the quickest and biggest difference. As you review each expense, consider whether it is a need, want, or desire. A need is something you must have to live your daily life. A want is a way to meet these needs with more style, comfort, or ease. A desire is something you wish you had but it does not fulfill any basic need. Cutting back on “desire” spending can free up money to pay for needs and wants. Sometimes, even “wants” must give way to basic needs.

Study where your money is going. Where can you cut back? What can you do differently that will have the biggest pay off? The “66 Ways to Save Money” brochure listed in More Information and Sources offers tips for reducing expenses in transportation, insurance, banking/credit, housing, utilities, and other miscellaneous items.

- **Adjust debt payments.** Consider negotiating reduced payments with your

creditors. A consolidation loan might also lower monthly payments. However, in the long run, these choices will cost you more. Working with an outside agency in a structured debt management program may reduce late fees and interest charges.

Agencies will work with you by phone, fax, mail, Internet, and even face-to-face. Look for a nonprofit consumer credit-counseling agency and ask questions about fees and procedures before signing anything. For more information about how to select a counseling service, read Ohio State University Extension’s bulletin *In Over Your Head: Lifesaving Strategies for Financial Crisis*, listed in the More Information and Sources section.

- **Sometimes a combination of the above three options works best.** Small changes in each option may work better for you than trying to make up the difference through a single option.

Work through Worksheet 5-B: Balance the Bottom Line (page 5-8) to develop a strategy for increasing income, reducing expenses, or a combination of both.

How you decide to balance your income with expenses is up to you. Think about where you are now and where you want to be in five or ten years. Your long-term plan should reflect those goals that are most important to you and your family.

Remember, good money management is more than a mathematical formula because it’s tied so closely with life’s ups and downs. Your money plan is likely to change if your life situation changes. The object of a good budget is to make your money help you reach your goals, not to force you to conform to rigid rules. Don’t be discouraged if your first budget plan doesn’t work out right away. You may have to revise it several times until it fits your situation. You will also need to review it periodically to be sure it continues to help you use your income in the best way for you.

## Action Steps for Lesson 5

### YOU Are a Fixed Expense: Pay Yourself First!

The first several lines on Worksheet 2-D, Monthly Fixed Expenses Budget (page 2-9) put this important financial recommendation into practice. When listing your expenses, plan for savings first. Before paying any bills, deposit the money you need to set aside for an emergency fund, your financial goals, and occasional expenses. Put it in an interest-bearing account, and your money will grow until the expenses come due.



Paying yourself first gives you a systematic way to make your money grow. No matter what one's job or income, this system works! Doing this on payday keeps your entire paycheck from slipping through your fingers. If you wait until the end of the month, there may be nothing left to save.

#### Action Steps

#### ✓ Take Action Now

Check each step after you have completed it.

- Complete the "Budget" column of Worksheet 2-D, Monthly Fixed Expenses Budget (page 2-9).
- Complete the "Budget" column of Worksheet 2-E, Monthly Flexible Expenses Budget (page 2-10).
- Complete Worksheet 5-A, Estimate Your Occasional Expenses (page 5-7) and include these expenses as a Fixed Expense in your "Budget" column on Worksheet 2-D.
- Complete Worksheet 5-B, Balance the Bottom Line (page 5-8).
- Rework your budgeted amount to balance income and expenses and complete appropriate steps listed below:
  - Take steps to increase income.
  - Discuss and write down how each spender in the family will help reduce expenses.
  - Develop a written and realistic debt repayment plan. Negotiate with creditors if you need to do so.

## More Information and Sources

**From Ohio State University Extension.** Ohio residents can contact their local OSU Extension office for copies of these materials. Or, you can download these from <http://ohioline.osu.edu>

Keeping Track of Spending, MM-07-2002

Options for Resourceful Living, MM-09-2002

Home Account Book, Bulletin 723

In Over Your Head: Lifesaving Strategies for Financial Crisis, Bulletin 891

**Other agency publications.** From the Federal Citizen Information Center in Pueblo, Colorado. [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov); click on "money"; scroll to "investing and saving".

Bureau of Labor Statistics, Consumer Expenditure Survey, 2007. Table 1, Table 45. 5/3/09.  
[www.bls.gov](http://www.bls.gov)

66 Ways to Save Money. 2007. Consumer Federation of America, Federal Citizen Information Center, Money Management International. [www.66ways.org](http://www.66ways.org)

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

- |                              |   |
|------------------------------|---|
| 1. Getting Started           | 4. How Much Credit Can You Afford?      |
| 2. Where Does Your Money Go? | 5. Develop Your Budget                  |
| 3. Stop Spending Leaks       | 6. Your Net Worth and Financial Records |

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

---

*Manage Your Money is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).*

---

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868



## Worksheet 5-A: Estimate Your Occasional Expenses

| Year _____                             | Months |      |      |      |     |      |      |      |       |      |      |      | Total<br>Year |
|--|--------|------|------|------|-----|------|------|------|-------|------|------|------|---------------|
| Item                                   | Jan.   | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |               |
| <b>Automobile (not paid monthly)</b>   |        |      |      |      |     |      |      |      |       |      |      |      |               |
| License                                |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Inspection                             |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Maintenance                            |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Insurance                              |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| <b>Home (not paid monthly)</b>         |        |      |      |      |     |      |      |      |       |      |      |      |               |
| Maintenance, yard                      |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Insurance                              |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Furnishings                            |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Holidays/birthdays/gifts/cards         |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Travel                                 |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Entertaining/parties                   |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| <b>Education</b>                       |        |      |      |      |     |      |      |      |       |      |      |      |               |
| Fees/tuition                           |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Supplies/books                         |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Class/trips/pictures                   |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| <b>Medical—out of pocket, such as:</b> |        |      |      |      |     |      |      |      |       |      |      |      |               |
| Doctor visits                          |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Dental                                 |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Vision                                 |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Prescriptions                          |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| <b>Dues/subscriptions</b>              |        |      |      |      |     |      |      |      |       |      |      |      |               |
| Magazine/newspaper                     |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| CDs, book clubs                        |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Memberships, clubs                     |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Clothes/shoes—adult                    |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Children                               |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| Other _____                            |        |      |      |      |     |      |      |      |       |      |      |      | \$            |
| <b>TOTALS</b>                          | \$     | \$   | \$   | \$   | \$  | \$   | \$   | \$   | \$    | \$   | \$   | \$   | \$            |

Divide yearly total by 12 to get the amount to budget for "Occasional Expenses" on Worksheet 2-D: Monthly Fixed Expenses Budget, page 2-9.

$\div 12$

## Worksheet 5-B: Balance the Bottom Line

Add items 2 and 3 and subtract from item 1.

|   |                                   |  |
|---|-----------------------------------|--|
| 1. Income (net) (Worksheet 2-C, page 2-8)   |                                   |  |
| 2. Fixed Expenses<br>(Worksheet 2-D, page 2-9)<br>Remember this includes savings for your goals and occasional expenses |                                   |  |
| 3. Flexible Expenses<br>(Worksheet 2-E, page 2-10)  |                                   |  |
| Total:  |                                   |  |
| Difference:   | Total Income less Total Expenses: |  |
| Is your income more than your expenses? Or, are your expenses higher than your income?                                  |                                   |  |

| Three ways I could increase my income: | What to do? | How much? |
|--|-------------|-----------|
| Idea # 1                               |             |           |
| Idea # 2                               |             |           |
| Idea # 3                               |             |           |
| Five ways I could reduce spending:     | What to do? | How much? |
| Idea # 1                               |             |           |
| Idea # 2                               |             |           |
| Idea # 3                               |             |           |
| Idea # 4                               |             |           |
| Idea # 5                               |             |           |

# MANAGE YOUR MONEY



## Lesson 6: Your Net Worth and Financial Records



In the first part of this lesson you will focus on your net worth and how you own property. The second part of the lesson will help you collect and organize your important financial records.

Use Worksheet 6-A (page 6-9) to calculate your net worth. It may take a few days to gather the information you need to complete the form. However, you can use information from “Know What You Owe” (Lesson 2, pages 2-5 and 2-6) when listing the dollar value of liabilities on the net worth form.

### Net Worth

You have already taken important steps to manage your income, credit, and spending as you completed the activities and worksheets in the first five lessons. It also is critical to look at your overall financial situation to determine if you are getting ahead from one year to the next. A “net worth statement” helps you determine “where you stand” and serves as a measure of your overall financial position.

The net worth statement is a summary of your financial position at a particular point in time. It is a list of all your financial assets (what you own) and all your financial liabilities (the debts you owe). Net worth is the dollar amount you have when you subtract everything you OWE from everything you OWN. You will need this information when you:

- Borrow money
- Apply for a home mortgage
- Determine insurance needs
- Plan your retirement
- Write your will and determine estate planning needs in the event of death, divorce, or remarriage
- Settle a divorce



### What Are Your Assets?

Assets are any financial or material possessions that have monetary value. On the net worth statement the value is listed at the current market value, not what you paid for it. Assets include things such as:

- Cash on hand or in savings accounts (including certificates of deposit or checking accounts)
- Stocks, bonds, mutual funds
- Cash value (not face value) of life insurance
- Money others owe to you
- Annuities, retirement plans
- Employee benefits such as company stocks
- Your home
- Other real estate and business interests
- Automobiles, trucks, other vehicles
- Household furnishings, antiques, jewelry, books, coins, artworks, etc.



## What Are Your Liabilities?

Liabilities are the financial obligations or debts you owe to other persons or institutions. The information you gathered for the “Know What You Owe” worksheet (Lesson 2, pages 2-5 and 2-6) should help you fill out this portion of the net worth form. Included are:

- Mortgages
- Installment loans (cash advances, auto, etc.)
- Department store and credit card debts
- Taxes owed
- Unpaid bills (medical, utilities, etc.)
- Any other liabilities

## Figure Your Net Worth

Total your assets and your liabilities. Subtract the liabilities from the assets. The result is your financial net worth.

Now that you have taken the time to complete these worksheets, how do you feel about your financial situation? Happy? Relieved? Discouraged? If you are a bit discouraged, try to realize that a negative net worth statement may easily happen to persons just starting out on their own or to young families. Just as a photograph shows how you looked at one specific time, so too, the net worth statement reflects your financial situation at only one specific time. It should be updated at least once a year or as your financial situation changes.

If you are not satisfied with your net worth and want it to grow, develop a plan to increase it. More income, lower living expenses, and/or more investment growth are some alternatives. You may want to return to your list of goals from Lesson 1 (page 1-8) and add this goal.

To increase your savings you may have to cut spending in some areas. Also, make sure your savings and investments are yielding the best financial return for your situation. You may want to reduce your present debt level by making larger regular payments and not adding any other debts. These are more specific examples that may result in increasing your net worth.

If you are like most people, your overall goal will be to increase your net worth each year. Developing a financial plan means taking control of what you have now and disciplining yourself to manage your money to reach the goals you set for you and your family.



The net worth statement for a couple includes “his,” “hers,” and “their” assets. For estate planning and preparing a will (and in a divorce settlement), the way in which you own property must be considered.

**Individual (or sole) ownership (S)** refers to property that has one owner. When the owner dies, the property passes to heirs according to the provisions of the will, or if there is no will, according to the laws of the state or by beneficiary designation.

**Joint Tenancy with Rights of Survivorship (JTRS)** means that property is owned by two or more people (called “tenants” in the legal documents). When one tenant dies, that share passes automatically to the surviving tenant(s). A joint checking account would be an example.

**Tenancy in Common (TC)** refers to property owned by two or more tenants in equal or unequal shares. When one dies, the share is passed to the deceased’s heirs according to the will or state law.

Since April 4, 1985, **Tenancy by the Entirety (TE)** can’t be created in Ohio—although such deeds created before that date are still valid. In addition, Ohio does not recognize “community property,” a form of ownership held by a married couple in which each spouse owns an undivided one-half interest in most property acquired during marriage. However, if you own property in another state you need to become familiar with property ownership rights and responsibilities in that state.





## Keeping Records in Order

Every family accumulates papers and records that are important to them. For many of us, however, getting those papers in order is like Mark Twain's old saying about the weather—"Everybody talks about it, but no one does anything about it."

The rest of this lesson focuses on having an efficient home filing system. It simplifies the record-keeping process by dividing it into three steps.

The process begins with a survey to help you evaluate your needs for a household record-keeping system. The next step is to determine which documents to save and how to categorize them for effective filing and retrieval.

The third step is to actually create or modify the system that best fits your household needs. Some important decisions are outlined to help you establish a customized system. The lesson concludes with suggestions for periodically revising and updating your household record-keeping system.

## Benefits of a Record-Keeping System

Having a good system for keeping important records can save time, money, and effort. A good system can help you:

- Quickly find needed information on a day-to-day basis
- Help someone else locate important documents should you become unable to do so

## Record-Keeping Survey

Take some time to answer these questions about your V.I.P. (Very Important Papers):

- | Yes | No  |   |
|-----|-----|---|
| ___ | ___ | 1. Can you quickly locate last year's income tax return?  |
| ___ | ___ | 2. Do you know where your original Social Security card is?   |
| ___ | ___ | 3. Do you have receipts to document last year's tax return?   |
| ___ | ___ | 4. Do you have the account number, address, and phone number of all the credit cards in your wallet written down somewhere?   |
| ___ | ___ | 5. Could a non-family member locate important information about what to do in case of an emergency?   |
| ___ | ___ | 6. In the event of your death, could a family member/person responsible locate burial instructions and your will?   |
| ___ | ___ | 7. Do you know where to find the insurance policy for your car?   |
| ___ | ___ | 8. Can you quickly locate the warranties for your home appliances?  |
| ___ | ___ | 9. If your house and its contents burned, could you provide your insurance agent with an accurate list of all the household goods to settle your claim? How about proof of purchase for costly items? |

*If you answered "No" to two or more of these questions, it's time to make changes in your record keeping habits NOW!*

- Organize your household financial activities such as budgeting, credit management, and investment planning
- Better handle emergency situations
- Plan for securing hard-to-replace documents
- Provide evidence of significant events (birth, marriage, etc.) or of an important financial transaction (such as a loan repayment or major purchase)
- Simplify the claims process if loss occurs from fire, theft, flood, or other insured casualty
- Prove ownership in a legal dispute (such as divorce, inheritance, etc.)

## What Records Do YOU Need to Keep?

No single list of records will apply to every household. However, typical items are listed in the “What to Keep Where” chart on pages 6-4 and 6-5. Use the chart as a guide for organizing your records. Delete and add items to fit your situation.



## What to Keep Where

### Safe Deposit Box

- List of Important Papers and Their Location(s)
- Adoption Papers
- Birth Certificates
- Bonds and Stock Certificates
- Citizenship Papers
- Death Certificates
- Education Degrees/Certificates/Transcripts
- Marriage/Divorce Documents
- Military/Veteran’s Documents
- Household Inventory
- Property Titles and/or Deeds
- Social Security Card Stubs
- Stock/Bond Certificates
- Past Tax Records
- Passports
- Will and Trust Documents
- Other Important Legal Documents (such as contracts)

### Home Files (safe, fire-resistant place)

#### Addresses/Dates

- Business
- Personal
- Holiday Card List
- Magazine Subscriptions

#### Auto and Vehicles

- Titles
- Maintenance and Repair
- RVs
- Boats

#### Bank / Credit Union Records

- Checking Accounts
- Savings Accounts
- Loan Contracts

#### Employment Records

- Contracts
- Retirement Plans
- Pensions
- Social Security Records
- Fringe Benefits

(continued on page 6-5)



## What to Keep Where (continued)

### Home Files (safe, fire-resistant place)

#### Equipment and Appliances

- Warranties
- Use and Care Manuals

#### Financial Records

- Budget
- Net Worth Statement
- Records of Earnings
- Records of Expenditures
- Credit and Debit Card Numbers and Contact Information for Accounts
- Property Tax Records
- Receipts and Paid Bills
- Safe Deposit Box (Key and List of Contents)

#### Housing

- Mortgage Payments
- Lease and Rent Payments
- Capital Improvements
- Household Inventory (keep second copy in safe deposit box)
- Utilities
- Floor Plan
- Wiring Diagram

#### Income Tax

- Previous Returns
- Canceled Checks (related to taxes)
- Current Year Information, such as medical receipts, contributions, etc.

#### Insurance Policies

- Automobile
- Health
- Life
- Disability
- Homeowners
- Long-Term Care

#### Investments

- Annuities
- Bonds (Records of)
- Stocks (Records of)
- Real Estate Investments
- Other Investments

#### Organizations/Clubs

- Civic
- Business
- School
- Religious

#### Personal Records

- Education Records
- Marriage License
- Medical Records (copy)
- Military Records (copy)
- Pet Records
- Birth Certificate (copy)
- Divorce Papers (copy)
- Wills (copy)

#### Reference Materials

- Cleaning
- Crafts and Hobbies
- Other

#### Wills and Estate Planning

- Unsigned will(s)
- Letter of last instruction
- Advanced directives (Living Will, Powers of Attorney, etc.)
- Burial instructions

## Where to Keep Your Records

### Safe Deposit Box

As a general rule, put in your safe deposit box any record that is difficult, costly, or impossible to replace. These include (but are not limited to) original Social Security cards; adoption, birth, death, and marriage certificates; military papers; copy of household inventory; will and trust documents; list of the location of your important papers; passports; and titles to property (land, house, vehicle, etc.).

For convenient reference, you also may want to keep a copy of these in your home file. An alternative to a safe deposit box may be a fireproof safe at home. Unfortunately, few of these truly are “fire-proof” or “theft proof.”

### Current Financial Records

You will need a place to keep monthly statements, bills, receipts, and notes of non-receipt cash payments (such as for vending machine purchases). A small file folder system works for many people. Some regularly write expenses in a home account book (available from OSU Extension) or enter them in a computer system.

Having a separate file for tax return documentation (taxable income, expenses for itemized deductions, etc.) can “pay off” when it is time to prepare the return.

### Permanent Files

To keep your current financial files “current,” clean them out each year. Tax time is a convenient time to do this. Move important papers to your permanent filing system. As you sort items for tax reporting, discard what you no longer need. Transfer items you might need in the future to your permanent files. Items such as tax returns and bank statements are an example. For more information about how long to keep documents in your files, refer to “Household Record-Keeping Tips” (MM-08-2001), available from OSU Extension at <http://ohioline.osu.edu>.

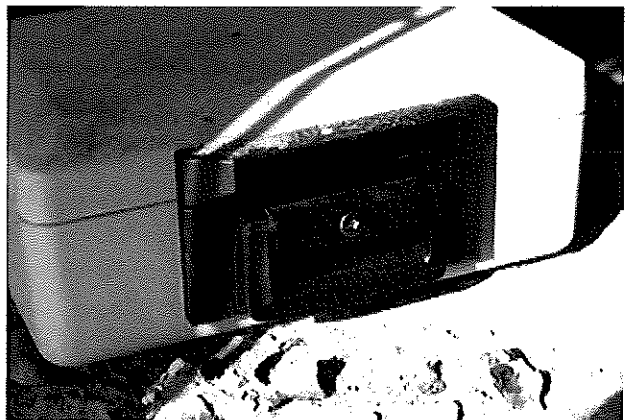
If convenient filing space is limited, consider how often you refer to particular files. **Active files** include records used at least yearly, or records you

may need to review without much notice such as checking the number on an insurance policy. Keep them relatively handy. On the other hand, **inactive files** containing permanent or long-term items can be stored in a dry, out-of-the-way place in the home.

### Mastering Your Records

Setting up a household filing system does take time. There is really no “right” or “wrong” way to do it. Every household faces different situations. You may need to experiment before you find the system that best fits your needs. However, you will need to make certain decisions before setting up a new system or improving the one you already have.

1. Decide on specific household locations for your current, active, and inactive records. Your “record center” might be as elaborate as a home office or as simple as a drawer in the kitchen or bedroom. It could be a file cabinet in the family room or a cardboard file box that goes in a closet. It would be ideal to have a nearby work space.
2. Decide which family member will take major responsibility for doing the record keeping. However, everyone in the family should cooperate and understand how the system works. Spouses might switch roles once a year to balance duties and to be sure each knows the record keeping details.
3. Develop a regular schedule for record keeping and stick to it. In the long run, a regular routine will reduce the time you need to spend.



## Where Are Your Valuable Papers?

We have been discussing the importance of keeping complete records in this lesson. Could you or your family members now locate valuable records and papers for review? What about in the case of an emergency? Are those papers safe? If they are lost, stolen, or destroyed, would you be able to replace them?

OSU Extension's publication "Know Your Valuable Papers" (<http://ohioline.osu.edu>) provides a format to list all your valuable papers and their location. This will be very useful to you or your family members if papers are lost or destroyed.

You probably should make duplicate copies of this list when completed. Keep one copy in a safe deposit box or give it to a friend or relative away from your place of residence. Be sure to keep it updated, giving a "replacement copy" to those who also have the list.

Also keep an up-to-date household inventory or systematic list of all of your household possessions. Check with your insurance agent or broker for company requirements of proof of purchase and/or ownership of personal property items. In some cases, receipted bills or sales slips are required; in other cases, a written inventory and/or photographs are adequate documentation.

Organizing all of these documents, receipts, warranties, and other records may seem like a real chore to you right now. It will take time to gather everything together. But just think how much easier it will be to do it at a leisurely pace now, instead of in a panic during a crisis.

A time may come when other family members will need to manage things for you. Having all the necessary papers available for them will be a great help and will avoid potential problems. You might assemble these in a notebook that you update once or twice each year. Be sure to tell key family members the notebook's location so they can act in your behalf if there is an emergency.

Take the time right now to help yourself, your family, and others by taking charge and getting all of your important papers in order. You'll be glad you did! And, you will certainly feel a sense of accomplishment when the job is completed.



### Importance of a Will and Advance Directives

A will is a legal document designating the transfer of your property and other assets after you die. If you die without a will to indicate your wishes ("intestate," as the law calls it), the court distributes your property according to state law.

It's also important to name a guardian for minor children in your will in case neither you nor your spouse is able and willing to act. If you do not name a guardian to care for your children, a judge will appoint one, and it may not be someone you would have chosen.

Life's end is not something most people want to dwell on. However, thinking about what will happen to your loved ones and your assets and personal possessions is important. Doing all you can to make their lives easier can give you peace of mind.

Other important documents include Advance Directives such as a Living Will, and Powers of Attorney (health care and financial). An Advance Directives packet of information and forms is available at Hospice and Palliative Care Partners of Ohio at: <http://www.hospiceohio.org>.



## Action Steps for Lesson 6

Reading and thinking about your financial records and valuable papers are very important first steps. To be most useful in your situation, you need to “take action” to translate what you have learned into practice. We urge you to complete the following checklist to take action that is appropriate in your situation.

| Action Steps                                 | ✓ Take Action Now   |
|--|---|
| Check each step after you have completed it. |   |
| <input type="checkbox"/>                     | Completed Net Worth Statement.  |
| <input type="checkbox"/>                     | Listed needed household records and where they are located.   |
| <input type="checkbox"/>                     | Listed records in my/our safe deposit box.  |
| <input type="checkbox"/>                     | Established/revised household record center.  |
| <input type="checkbox"/>                     | Decided who is responsible for record-keeping for next six months.  |
| <input type="checkbox"/>                     | Established regular schedule for record-keeping.  |
| <input type="checkbox"/>                     | Set up “Active” home files.   |
| <input type="checkbox"/>                     | Set up “Inactive” storage area for household records.   |
| <input type="checkbox"/>                     | Put critical records and list of record location in notebook for trusted relative or friend to use in an emergency. |
| <input type="checkbox"/>                     | Told relative/friend where notebook is located.   |

## More Information and Sources

From Ohio State University Extension <http://ohioline.osu.edu>

- Know Your Valuable Papers (L-237, rev.)
- Household Record-Keeping Tips (MM-08)
- Home Account Book
- Keeping Track of Spending

From the Federal Consumer Information Center (FCIC) P.O. Box 100, Pueblo, CO 81002; Search household records at [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov)

Prochaska-Cue, K., N. Frecks, L. Manning, & S. Preston. 2009. *File it Easy, Find it Fast*. University of Nebraska–Lincoln Extension. <http://extension.unl.edu>

Wright, P., P. K. Hall, & R. Cunningham, 2003. *Property Ownership, Section 3 in Estate Planning Considerations*, Ohio State University Extension. <http://ohioline.osu.edu>

## The End!

Congratulations! You’ve reached the end of your “self-study” course. For information on a wide variety of home and family topics, contact your local OSU Extension office or visit <http://extension.osu.edu>.

Visit OSU Extension at <http://extension.osu.edu> and eXtension at <http://extension.org>

*Manage Your Money* is a six-part self-study course. The lessons include:

1. Getting Started
2. Where Does Your Money Go?
3. Stop Spending Leaks
4. How Much Credit Can You Afford?
5. Develop Your Budget
6. Your Net Worth and Financial Records

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

*Manage Your Money* is intended for personal use or for OSU Extension programs. Direct requests for other uses to Dave Scardena, The Ohio State University, College of Food, Agricultural, and Environmental Sciences, Communications and Technology. Phone: (614) 292-9607; e-mail: [scardena.1@osu.edu](mailto:scardena.1@osu.edu).

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868

## Worksheet 6-A: Net Worth Statement

To get a complete financial picture, compute your net worth at the same time each year to learn if you are getting ahead financially.

Your net worth statement is a comparison of what you own (assets) and what you owe (liabilities). It includes investments, values of inventories in a business (sole proprietorship or partnership), and other assets. What you owe will include all indebtedness incurred in providing for family living, as well as debts for investments and business (if a sole proprietor or partnership).

| My/Our Financial Position on _____ 20____ |                       |               |        |       |       |
|---|-----------------------|---------------|--------|-------|-------|
| ASSETS<br>(What I/We Own)                 | TYPE OF<br>OWNERSHIP* | CURRENT VALUE |        |       |       |
|   |                       | Self          | Spouse | Joint | Total |
| Real Estate (Home)                        |                       | \$            | \$     | \$    | \$    |
| Other                                     |                       |               |        |       |       |
| Personal Property (Market Value)          |                       |               |        |       |       |
| Automobile(s)/Vehicles                    |                       |               |        |       |       |
| Household Furnishings and Equipment       |                       |               |        |       |       |
| Other (clothes, jewelry, etc.)            |                       |               |        |       |       |
| Other                                     |                       |               |        |       |       |
| Other                                     |                       |               |        |       |       |
| Savings and Investments                   |                       |               |        |       |       |
| Savings Accounts/CDs                      |                       |               |        |       |       |
| Savings Bonds                             |                       |               |        |       |       |
| Life Insurance (Cash Value)               |                       |               |        |       |       |
| Annuities, IRAs, Keogh                    |                       |               |        |       |       |
| Equity in Retirement Programs             |                       |               |        |       |       |
| Stocks and Bonds                          |                       |               |        |       |       |
| Mutual Funds                              |                       |               |        |       |       |
| Other                                     |                       |               |        |       |       |
| Other                                     |                       |               |        |       |       |
| Cash                                      |                       |               |        |       |       |
| On Hand                                   |                       |               |        |       |       |
| In Checking Account                       |                       |               |        |       |       |
| Accounts Receivable (owed to you)         |                       |               |        |       |       |
| Business Inventory                        |                       |               |        |       |       |
| <b>TOTAL ASSETS</b>                       |                       | \$            | \$     | \$    | \$    |

\* S = Sole Ownership

TC = Tenancy in Common

JTRS = Joint Tenancy with Right of Survivorship

TE = Tenancy by the Entirety (not created in Ohio

since April 4, 1985; deeds created prior to that

date are still valid)

Date \_\_\_\_\_

| <b>LIABILITIES</b><br><b>(What I/We Owe)</b>        | <b>Self</b> | <b>Spouse</b> | <b>Joint</b> | <b>Total</b> |
|---|-------------|---------------|--------------|--------------|
| Real Estate/Home Mortgage (Balance)                 | \$          | \$            | \$           | \$           |
| Other   |             |               |              |              |
| Installment Contracts (Balance Due)                 |             |               |              |              |
| Vehicles  |             |               |              |              |
| Furnishings/Appliances                              |             |               |              |              |
| Other   |             |               |              |              |
| Other   |             |               |              |              |
| Other   |             |               |              |              |
| Personal Loans (Balance Due)                        |             |               |              |              |
| Education   |             |               |              |              |
| Medical   |             |               |              |              |
| Other (Education, life insurance, etc.)             |             |               |              |              |
| Other   |             |               |              |              |
| Charge Accounts (Balance Due)                       |             |               |              |              |
|   |             |               |              |              |
|   |             |               |              |              |
| Business Liabilities                                |             |               |              |              |
| Unpaid Bills  |             |               |              |              |
| Taxes (Property, income, etc.)                      |             |               |              |              |
| Insurance Premiums                                  |             |               |              |              |
| Rent  |             |               |              |              |
| Utilities   |             |               |              |              |
| Other (Medical/dental, professional services, etc.) |             |               |              |              |
| Other   |             |               |              |              |
| <b>TOTAL LIABILITIES</b>                            | \$          | \$            | \$           | \$           |

**NET WORTH**

|                         |    |    |    |    |
|-------------------------|----|----|----|----|
| Total Assets            | \$ | \$ | \$ | \$ |
| Minus Total Liabilities | -  | -  | -  | -  |
| <b>TOTAL NET WORTH</b>  | \$ | \$ | \$ | \$ |