UW Extension

Money 2000 and Beyond

University of Wisconsin-Extension — Family Living Programs

NEWS
Introductory Issue

Better finances begin here

Welcome to the first issue of *Money 2000 and Beyond News*, a quarterly newsletter about managing your finances. The purpose of this newsletter is to help you develop the knowledge, skills and motivation to achieve your financial goals. Over the next two years, we will share suggestions and strategies to help you increase your savings and reduce your debt.

We believe that Money 2000 and Beyond will be an excellent investment of your time and money, and that it will become an important part of a lifetime of planning and achieving goals.

Best wishes as you work to improve your finances as we begin the new century!

Stay motivated with these tips

When you enrolled in *Money 2000 and Beyond*, you were asked to think about your financial goals. But setting goals is only the first step. It takes work to change your spending habits. It is easy to lose sight of your goals along the way. *Money 2000 and Beyond* will help you stay focused on your goals.

Track your progress toward your goals.

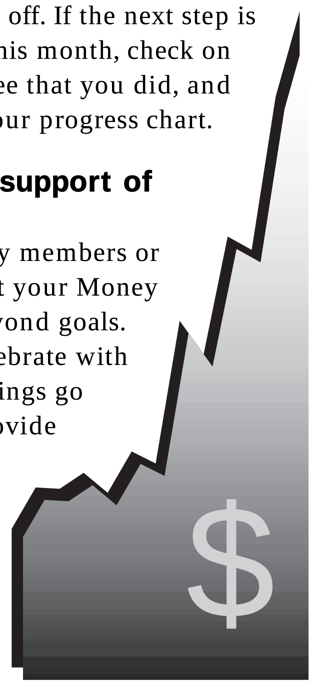
Use the progress charts in your enrollment packet: *Is my savings growing?* and *Is my debt shrinking?* Every six months, we'll ask you to report your progress in reducing your debt and / or increasing your savings. But it's a good idea to check your progress more often than that. There's something about seeing those numbers grow that keeps motivation strong.

Set deadlines for each step along the way.

If the first step is to gather information about your debts, set a deadline for that. Then, when you have finished that step, check it off. If the next step is to save $50 this month, check on yourself to see that you did, and track it on your progress chart.

Enlist the support of others.

Talk to family members or friends about your Money 2000 and Beyond goals. They can celebrate with you when things go well, and provide encouragement when some steps take longer than you wish.



"There's something about seeing those numbers grow that keeps motivation strong."

Take a peek at the average consumer’s spending

Ever wonder how your spending compares to your neighbors’? The chart below should give you some idea.* (Note that “total consumer expenditures” do not include income taxes or savings.)

There is no “right” or “wrong” amount for an expense. Your family’s goals, values and stage in life greatly affect your spending.

For example, a family that wants to save for a down payment on a house might decide to eat out less or drive an older car. Another family might reduce entertainment spending to save for a vacation. Some workers are willing to spend less now so they can save enough to retire early.

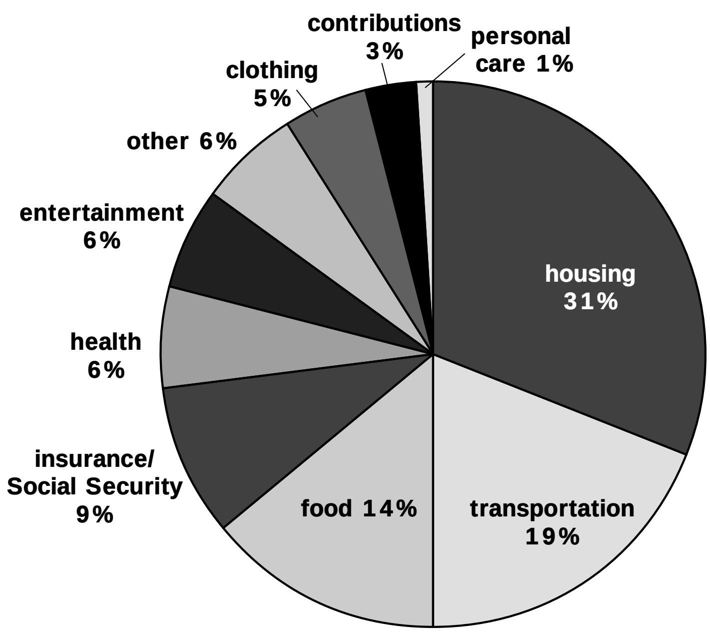
A family’s values also affect spending. The family that values charities and gift-giving will spend more on contributions and gifts than will other families.

Employed families with small children may spend up to 20% of the family take-home pay for child care. Elder care may be a big part of other family budgets. A family with young children will have different needs than a family with teenagers.

None of us can avoid spending money, but we can think carefully about *how* we spend. A combination of planning and discipline can make the money we do spend go a lot further.

“A combination of planning and discipline can make the money we do spend go a lot further.”

How Midwest consumers spend their money



**Bureau of Labor Statistics, U.S. Department of Labor. 1997 Consumer Expenditure Survey of Midwest Households.*

Be a smart credit shopper

- Try to pay off your credit card balances each month.

  Pay off the full amount to avoid paying interest and finance charges. Make the largest monthly payment you can afford.

- If you can't pay the full balance, pay more than the minimum payment.

  The minimum payment on most credit cards today is 1.5 to 2% of your outstanding balance. Paying only the minimum greatly increases your finance charges and extends the time it takes to pay off your debts.

- If you have a credit card balance, switch the balance to a card with a lower interest rate or APR (annual percentage rate).

Transferring a typical $2,000 credit card balance from an 18% card to a 10% card saves $160 a year in finance charges. Call your credit card issuer and ask for a lower interest rate. Many will agree in order to keep you as a customer. If not, shop around for a card with more favorable terms. *Note:* The lowest rates are often "introductory" for a limited time. Be sure to ask how long the rates will be in effect and what the rate will become after the introductory period.

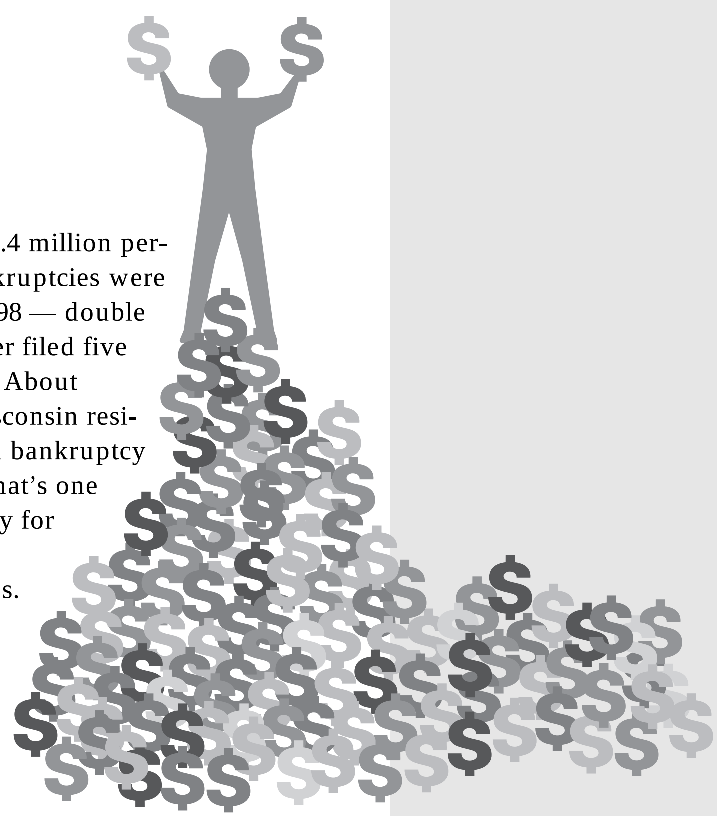
More than 1.4 million Americans filed for personal bankruptcy in 1998.

Pay now or pay lots later

$1,000 credit card debt at 18% interest

Monthly payment	Total interest	Term to pay off bill
$20 (minimum)	$862.18	7 years 10 months
$30	$396.75	3 years 11 months
$50	$197.84	2 years

Give yourself some credit—carefully



Credit card and home equity lines of credit debt have increased steadily throughout the 1990s. Nationwide, more than 5,000 issuers offer credit cards. The number of direct mail credit card solicitations tripled from 1992 to 1997, averaging 30 a year for every household.

Since 1992, credit card debt has increased an average of 15% a year while home equity debt has grown 9% a year. On average, 16% of family income goes to pay off debts. One in 10 families has more than 40% of their income committed to debt: one in 13 families was delinquent 60 days or more on a payment.

A record 1.4 million personal bankruptcies were filed in 1998 — double the number filed five years ago. About 20,000 Wisconsin residents filed bankruptcy in 1998. That's one bankruptcy for every 100 households.

Source: Egide, Paul D. "The Revolving Credit Market." Wisconsin Department of Financial Institutions. October 1998.

Reach your goals one small step at a time

Have you ever tried to get from one floor in your house to the next without using the stairs? Probably not. But when it comes to finances, many families try to do just that.

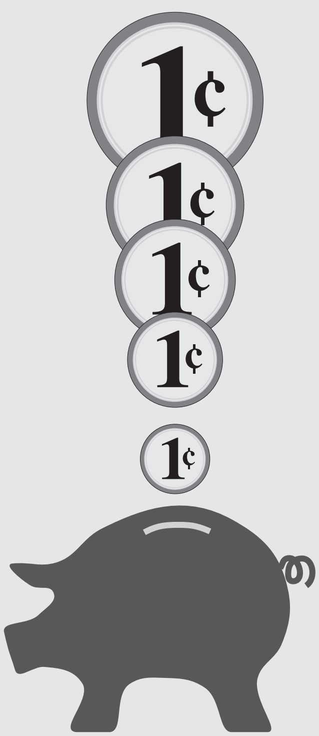
Think of your financial goals as the floors of your house. Your financial plan is what helps you reach those goals step by step. Yet, studies show that many individuals and families manage money only for the short term. Many have no written financial plan and do not know the cost of their financial goals.

When you wrote down your goals for *Money 2000 and Beyond*, you took the first step of your financial plan. Now you need to break your goals into manageable steps.

There are a variety of ways to reach your goals. For example, someone who wants to save $1,000 a year might accomplish that by saving $20 a week. Or you might save your income tax refund, or take a less expensive vacation.

When you've identified as many steps as you can, put them in order. The good news about climbing the steps toward your goals is that, unlike climbing a real stairway, you can build as you go. When you start, you may know only the first three steps of your plan. That's OK. You'll be able to stop and plan more when you get to that third step.

The important thing is to start now and keep climbing — one step at a time!



A penny saved is...unusual

On average, most American families don't save much of their income. The savings rate as measured by percent of **disposable income** (income left after taxes and other employer withholding) fell to zero in the last quarter of 1998. In May 1999, the household savings rate was a negative 1.2%, the lowest level since the Great Depression. This compares to a decade high of 5.7% in 1992 and 9.4% in 1981.

Data compiled by U.S. Department of Commerce, Bureau of Economic Analysis and reported by American Savings Education Council. http://www.asec.org

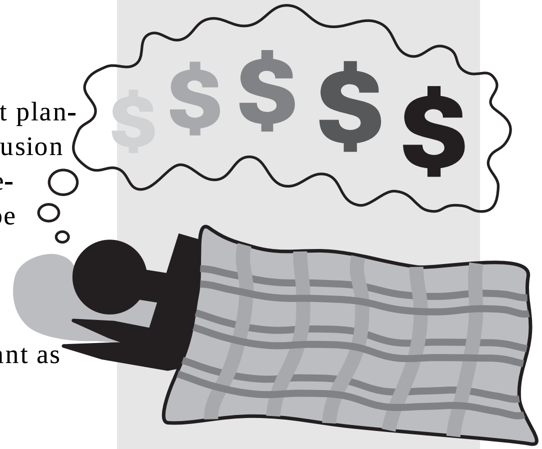
Your dreams can come true if you start today

Many of us like to dream of early retirement. However, only 25% of workers are very confident that they are doing a good job of preparing financially for retirement, according to the 1998 Retirement Confidence Survey.*

Most current workers (63%) have begun to save for retirement — but one-third have not. More than half of the non-savers (55%) say they could reasonably save $20 a week for retirement. That would total more than $1,000 a year and could make a real difference at retirement.

For a 25-year-old worker, saving $20 a week for 40 years compounded at a 10% return could mean a retirement nest egg of more than $500,000!

The top two barriers to retirement planning are procrastination and confusion over how to get started. But retirement planning does not have to be difficult or time consuming. You can do it. The most important thing is to start now. In fact, *when* you start saving is just as important as how much you save.



Ballpark Estimate is a worksheet designed to help you quickly identify about how much savings you will need to live comfortably in retirement. You can request a copy from your county UW-Extension office, or find it on the American Savings Education Council web site: http://www.asec.org/int-blpk.htm

**Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC), and Mathew Greenwald and Associates. 1998 Retirement Confidence Survey.*

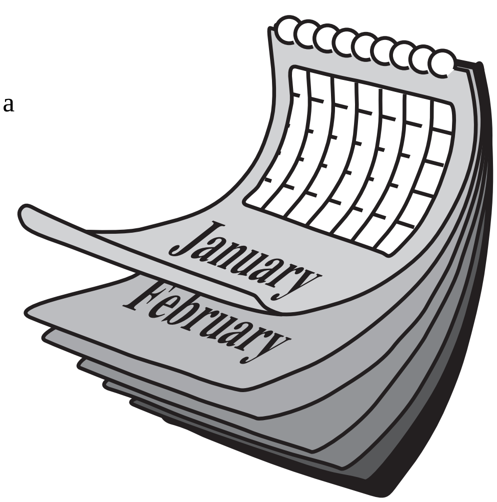
"When you start saving is just as important as how much you save."

What a difference 10 years can make!

- Jo saves $1,000 a year in an Individual Retirement Account (IRA) for the first five years of a 45-year period.
  Total invested: $5,000.
- Pat waits 10 years, then saves $1,000 a year in an IRA for 35 years.
  Total invested: $35,000.

Who has more after 45 years at 10 % interest:

- Jo has $303,944.
- Pat has $298,127.



An emergency fund can smooth life's "potholes"

What would you live on if...

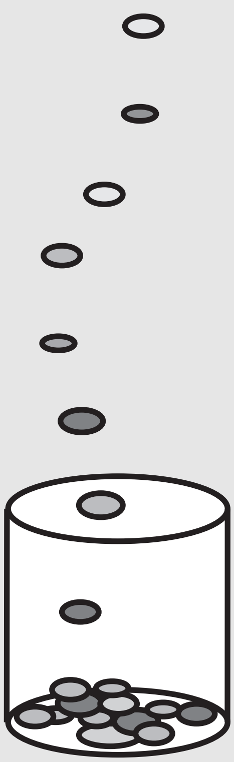
- You got sick and couldn't work?
- You lost your job?
- The furnace or car broke down?

Do you have enough money set aside to cover these emergencies?

If not, it's time to build up your emergency fund. The general guideline is that your fund should equal three months of your expenses. A study by researchers at the University of Missouri reported that less than one-fourth (22%) of U.S. households had enough emergency funds.*

You should have an emergency fund before you start longer term investing. If you don't, you may have to "rob" your investments to cover emergencies. You may want to make starting an emergency fund your goal for Money 2000 and Beyond. Start small and save a bit each week or month. Then be sure to use the money only for emergencies.

**Huston, S., & Chang, Y.R. (1997). Adequate emergency fund holdings and household type.* Financial Counseling & Planning, *8 (1), 37-46.*



How to save $50 (or more)

- **Pay yourself first**. Instead of waiting to save what's left, treat savings like a regular fixed expense (like paying a bill).
- **Save automatically.** Use payroll deduction or arrange to have funds transferred directly from your checking account to savings.
- **Save windfall income.** Put bonuses, cash gifts, tax refunds and overtime pay into savings.
- **Save at least half of your next pay raise.**
- **Pay installments to yourself.** Once you have paid off an installment loan, take the payment you regularly made and save some or all of this amount.
- **Break a habit.** Do you eat out three times a week? Reduce it to two, and place the cost of the third meal into the savings account.
- **Be frugal.** Substitute the local library, public parks, and other free or low-cost services for higher-cost ones. Sometimes it is easier to cut back in steps — reduce your spending by 5% and then another 5%, rather than all at once.
- **Save loose change.** At the end of each day, empty your change into a large jar or container.
- **Save the difference.** For example, if you planned to purchase an item for $10 and then find it on sale for $8, put the $2 into your savings fund.
- **Say "no."** Suppose you find something that you want very much to buy. But after thinking about it, you realize that you really don't need it, and walk away without buying it. Put all or part of what you didn't spend into your savings fund.

Make a statement (a financial one, that is)

You can't reach your destination if you don't know where you are. In the same way, you can't reach your financial goals if you don't understand where you are financially. Fortunately, just two statements can tell you a lot about your finances.

A **net worth statement**, or balance sheet, provides a "snapshot" of your current finances. This statement summarizes your **assets** — the things you own — and **liabilities** — your debts — as of a certain date. Assets include the balance in your checking and savings accounts, your investments, home, car, furniture. Liabilities include outstanding balances on credit cards, unpaid bills, and your mortgage. Subtracting your total debts from your total assets gives your net worth.

Your net worth statement can tell you a lot. Do you have savings, or are your assets mostly things such as a car, furniture and appliances? Do outstanding balances on credit cards account for a lot of your debts? By figuring your net worth at different times — for example, at the end of each year — you can see how much you are getting ahead or behind.

Organizing Your Financial Records, available from your county UW-Extension office, can help get your personal and financial records in shape. This publication also includes a worksheet to help you calculate your net worth.

An **income and expense statement** — or cash flow statement — summarizes your income and expenses for a past period of time such as a month or a year. This statement tells where your income comes from and where it goes. Do you set money aside for goals and for emergencies? Where could you spend less? A large amount identified as miscellaneous expenses might show that you don't know where your money is going. It's hard to control your spending if you don't know how you spend your money.

Once you know how you spend your money, you can create a spending plan (or budget). A **spending plan** helps you reduce spending until your income and expenses — including money for savings — are equal.

To learn more about controlling your spending, you can borrow the self-study video, "Take Control of Your Spending." It's available for check out from your local UW-Extension office. Also ask for companion publication *Taking Control of Your Spending,* which includes worksheets that you can use to calculate your income and expenses and plan your spending.

You can't reach your destination if you don't know where you are."

Family Living Programs — Learning that makes a difference for families and communities

University of Wisconsin-Extension Family Living Programs help family members learn to...

- Manage family finances.
- Make wise and informed decisions.
- Make healthy choices about diet, exercise and food safety.
- Handle life’s stresses and changes.
- Become more effective parents or caregivers.
- Find and use community resources.

Our mission

UW-Extension Family Living Programs provide education promoting family strengths and help communities become positive environments for family life.

Programs respond to community needs with research-based education and partnerships that support Wisconsin families and communities.

For more information about these programs and educational publications, contact your county UW-Extension office.

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