UW Extension

Money 2000 and Beyond

University of Wisconsin-Extension Family Living Programs

NEWS
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New habits for the new century

OK — you made a resolution to change your spending habits. You decided to make a spending plan and to keep track of your spending. You are motivated to increase your savings and reduce your debt.

But — you have tried budgeting before and it didn't work. Well, you are not alone. Even with the best of intentions, it is common to backslide into old habits and ways of doing things.

In fact, studies show:

- 23% of personal resolutions to change behavior are broken within the first week,
- 45% are broken within the first month,
- 60% within the first 6 months, and
- 80% within 2 years.

According to researchers James Prochaska and John Norcross in their book *Changing for Good*, it takes 21 days to form a new habit.* Since you complete many financial management tasks on a weekly or monthly basis, it could take a year or two before you firmly establish new habits.

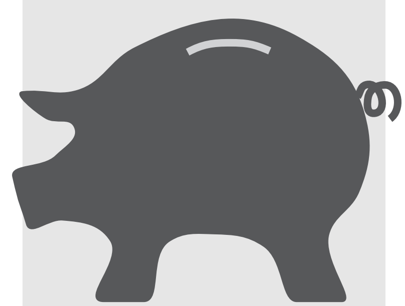
Resist the temptation to give up your new financial management plan after the first few weeks or months. Be patient with yourself as you adjust to new spending and savings behaviors. If you fall back into old habits, forgive yourself — and get back on track with your new behaviors.

To increase your chances of success:

- **Start small and build on your success.** Don't try to tackle everything all at once. Pick one or two behaviors — saving pocket change or writing down how much you spend — and continue these until they become habits.
- **Believe you can.** Don't let self doubts or negative thinking sabotage your plans. You do have the ability to change and achieve your goals.
- **Use reminders.** Post your goals in prominent places in your home, car, wallet or work place to keep you focused.
- **Enlist the support of family and friends.** Let others know about your goals, and ask them to help you stay on track.
- **Build in a reward system.** Decide what low- or no-cost reward you can give yourself when you have achieved a step toward your goal. And then plan a bigger reward when you have reached your goal.

Don't give up!

Be patient with yourself as you adjust to new spending and savings behaviors.



* *Prochaska, James O., John C. Norcross and Carlo C. DiClemente (1994)* Changing for Good, *Avon Books.*

Saving versus investing

Though many people use "saving" and "investing" to mean the same thing, they are not.

Saving provides for two kinds of needs:

- **Financial emergency,** such as job loss, illness or death of a family member, or unexpected home or vehicle repair bills.
- **Short-term goals** (less than 2 years), such as buying new furniture or taking a vacation.

Money in savings needs to be **safe** — low risk of losing what you've deposited — and **liquid** — cash or easily converted to cash. Both safety and liquidity are important for emergency or short-term needs.

However, there is a trade-off for the safety of savings products. Usually, these products — often certificates of deposit, money market deposit accounts or savings accounts — earn a lower rate of return than investments.

Investing offers a way to increase your net worth, usually over a long time. Investments can earn a higher return than savings.

But in exchange for the possibility of a higher return, you accept a higher risk. The return is not guaranteed, and the original amount you invested—**principal** — may be lost. The longer the term of investment, the better your chance of a profitable return.

If you feel overwhelmed by investment choices, don't worry. Future issues of *Money 2000 and Beyond News* will tell you about various investment options and where you can get more information.

In the meantime, you may wish to order *Investment Basics* B3683. This publication is available from your county UW-Extension office, or call toll-free: (877) WIS-PUBS.

Save for the short term — invest for the long term.

Why spend less than you earn?

It's easy to talk about saving and investing. But it's much harder to actually do it.

So, if it is so hard, why do it? Why not "live for today" and spend everything you earn?

One good reason to save and invest is to achieve your intermediate and long-term goals. Any goal you cannot accomplish simply by using current income requires that you must save the money or purchase with credit, which adds to your debt.

Only if you really believe in the value of saving and investing — are able to delay gratification and think long term rather than short term — will you find the self-discipline to "spend less than you earn." Successful money managers call this **"living beneath your means."**

Once you are committed to spending less than you earn, you can find the money to save and invest. You can add to your savings by increasing your income or decreasing your expenses — or both.

Suggestions to increase your income:

- Work more hours or seek higher wages.
- Move savings/investments to earn higher yields.
- Adjust your withholding to reduce taxes and increase your paycheck.

Ideas for cutting expenses:

- Think about needs versus wants.
- Reduce impulse buys by waiting at least a day or two (or longer) before making a purchase.
- Comparison shop among at least three sources for major purchases.
- Buy used instead of new.
- Use cash to avoid paying finance charges.

Make the most of your taxing situation

As you prepare your 1999 income tax return, it's a good time to ask yourself a few questions:

- **Did you have trouble finding all the necessary papers needed to complete your tax return?** If so, get organized today. Set up a simple file that holds the receipts you typically need for your taxes. Some people like to use computer software programs to track their finances throughout the year.
- **Did you owe an additional amount in taxes?** If you did, file a revised W-4 form for next year's earnings so you won't have to scramble for the extra cash next year. Contact your employer and complete a new W-4 to increase your tax withholding.
- **Did you or will you get a refund?** You may be pleased to get this windfall. You may even consider it forced savings. But you are loaning your money to the government interest free. Instead, complete a new W-4 form to reduce your withholding, and have the additional income automatically deducted from your paycheck and deposited directly into a savings account. There, it will earn interest for you rather than the government.
- **Did you consider ways to minimize your taxable income?** Take advantage of all the deductions you are entitled to by keeping accurate records.
- **Did you contribute to flexible spending accounts for health care and/or child care expenses?** If so, did the amount withheld from your paycheck cover your out-of-pocket expenses? Should you increase this amount?
- **Are you taking advantage of tax deferred retirement plans?** You can defer taxes on some of your income by contributing to your employer-sponsored retirement plan. This is especially rewarding if your employer matches some or all of your contributions.

Keep the rest.

In 1999, Tax Freedom Day for Wisconsin taxpayers was May 18 — a day later than the year before. It took all the income you earned from January 1 until May 18 just to pay federal, state and local taxes!

Source: *Tax Foundation, Washington, D.C.*

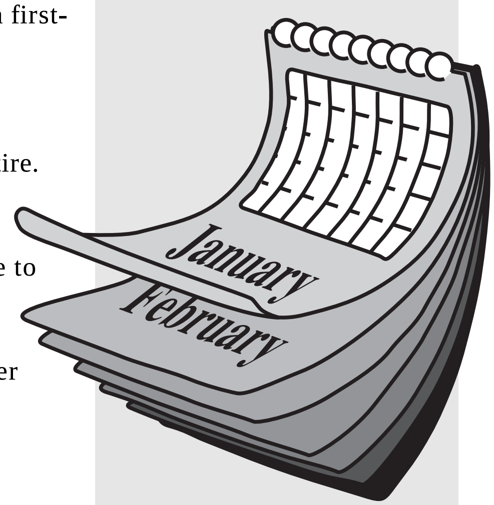
Build retirement savings with Roth IRAs

The Roth IRA, introduced in 1998, can help reduce your taxes.

Unlike a traditional individual retirement account (IRA), the money that you put toward the Roth IRA — up to $2,000 each year — is **not** deductible. You must pay taxes on your contribution. But the earnings from the Roth IRA are never taxed when you take the money out, as long as you follow the conditions spelled out in the law.

For example, you must keep the IRA at least 5 years, and you cannot withdraw the money before age $59\frac{1}{2}$ except for certain qualified expenses such as a first-time home purchase or educational expenses.

Is the Roth IRA for you? That may depend on how long before you retire. Some mutual fund companies offer software to help you think through the decision. As you decide, be sure to consider the retirement savings opportunities available through your job, especially if your employer offers to match what you save.



Plan for success

People with a financial plan save more money, save in smarter ways and feel better about their progress than people without a plan.* This is true regardless of income level.

When you enrolled in *Money 2000 and Beyond*, you set a goal to increase your savings or reduce your debt. *Money 2000 and Beyond News* can help you create a plan to reach that goal.

More help also is available from your county UW-Extension office. Ask about local educational programs and other materials to help you improve your financial management skills and stay motivated to achieve your goals.

Web site — *Money 2000 & Beyond*, UW-Extension Cooperative Extension:

http://www.uwex.edu/ces/money2000

If you do not have Internet access, try your local library. Many libraries are connected to the World Wide Web.

* *Princeton Research Associates for NationsBank and Consumer Federation of America (1997)* Planning for the Future: Are Americans Prepared to Meet Their Financial Goals?

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Local program resources

Welcome to *Money 2000 and Beyond!*

Besides this quarterly newsletter, your county UW-Extension office has other educational resources to help you reach your savings and debt reduction goals.

Take Control of Your Spending
One of the most effective tools for taking control of your financial situation and achieving financial security is a monthly spending plan.

A spending plan can:

- Help you live within your income.
- Repay existing debts and reduce the need for additional consumer debt.
- Set aside money for emergencies.
- Save for future goals.

To learn how to prepare and use a spending plan, contact your county UW-Extension office about "Take Control of Your Spending." You can borrow this self-study videotape. Use with this the publication *Taking Control of Your Spending* B3709-2, which contains worksheets to help you develop a realistic spending plan.

PowerPay © Computer Debt Analysis
Time to get those debts under control? The PowerPay © Debt Reduction Computer Program can analyze options for repaying your debts. Debts might include bank or store credit cards, vehicle or home loans, payments to a doctor, or home equity lines of credit. The computer analysis determines what your repayment and interest costs will be if you continue making payments at the current level. It also calculates possible savings by using "power payments." If you'd like a free PowerPay © analysis, contact your county UW-Extension office.

Your county UW-Extension office

Other local money management programs

Give yourself a financial checkup

1. Have you made a list of specific financial goals and determined how much you need to save in order to reach them?

   ☐ Yes ☐ No

2. Have you started a savings or investment program to fund long-term goals such as retirement or a child's college education?

   ☐ Yes ☐ No

3. Do you know how much you spend each month?

   ☐ Yes ☐ No

4. Is your monthly income greater than your monthly expenses?

   ☐ Yes ☐ No

5. Do you have at least 3 months' expenses in a readily accessible emergency fund?

   ☐ Yes ☐ No

6. Do you save or invest money from each paycheck?

   ☐ Yes ☐ No

7. Are you paying off high interest loans and credit card balances as quickly as possible?

   ☐ Yes ☐ No

8. Do you know your net worth?

   ☐ Yes ☐ No

9. Do you have adequate health, life, disability and property insurance coverage to protect yourself against catastrophic loss?

   ☐ Yes ☐ No

10. Is the after-tax yield on your savings and investments greater than the current rate of inflation?

    ☐ Yes ☐ No

11. Are your savings and investments diversified?

    ☐ Yes ☐ No

12. Do you have at least one tax-deferred retirement account such as an IRA, 401(k), 403(b) or deferred compensation plan?

    ☐ Yes ☐ No

13. Are you optimizing your employee benefits to take advantage of flexible spending accounts and employer match for retirement plans?

    ☐ Yes ☐ No

14. Have you estimated your income taxes for the upcoming year to identify deductions and credits that might reduce your income tax burden?

    ☐ Yes ☐ No

15. Do you have an up-to-date will and an estate plan?

    ☐ Yes ☐ No

If you answered "Yes" to most of these questions, congratulations! You are in good financial shape. However, if you have several checks in "No" boxes, you have some work to do. Pick one or two of the "No" answers and set a goal to make them "Yes" answers.

In a few months, take this quiz again and compare your answers. If you have changed a "No" to a "Yes," take pride in your accomplishment. Use that success to motivate you to set another goal. Remember: It takes work to get and keep your finances in shape — but the effort is well worth it!

Adapted with permission from: O'Neill, Barbara (1995) Saving on a Shoestring, *Dearborn Financial Publishing, Inc.*