Managing Your Money – The Basics

Lauren Weatherford, WVU Extension Agent – Fayette and Nicholas Counties

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How We Think and Feel About Money

Money represents different values in each of our lives. Money can signify security, freedom, stress, status, gratitude or care for others. What are your financial values? Has the meaning of money changed over your lifetime? It is important to consider how your values are associated with money. Once you know what money represents in your life, you can begin making good decisions.

Wants and Needs

Understanding the difference between what you want and need is a critical step to managing your money. Try to answer these questions when you think of buying something, and remember, it's important to be honest with yourself.

- What is the reason for this purchase?
- Why do I **want** an item?
- Do I **need** this?
- Is there a cheaper alternative?

Where Does the Money Go?

Knowing where the money goes is an essential piece of successful money management. It is not simply a matter of listing your expenses or bills. Here are some recommended steps for tracking your spending:

- Keep all your receipts for one month and track every dollar you spend. Put your expenses into categories and analyze where your money is going.
- Think about quarterly and/or annual expenses. What are things that you don't spend on monthly but come up throughout the year?

Take some time to consider the real costs of things. For example, what does it really cost to own a car? Take into consideration the car payment, gas, insurance, taxes and all the maintenance and repair costs, including tires, breaks, oil changes, windshield wipers, fluids, cleaning, etc. Have you budgeted for all of these expenses?

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Life requires some big purchases, and it's important to prepare for those instances. For example, do you have large expenses or repairs coming up? Do you have appliances that will need to be replaced in the next few years? What about a roof repair? School tuition? Retirement?

It's also important to be as prepared as possible for the unexpected. It's difficult to plan for an accident or an earning member of your household losing their job, but saving for these times can be crucial.

These are difficult things to think about and getting started is often the hardest part. Commit to examining your spending habits when you are not distracted or tired. Then plan to reexamine your situation at regular intervals.

Make A Plan

A budget is simply a spending plan. Once you've identified where your money is being spent and what your needs are, then you can begin to look to the future. There are four basic steps to a spending plan.

1. Identify your income – annual, monthly and weekly.
2. List your expenses.
3. Compare income and expenses – start with your income and subtract expenses, this is what you have to live on.
4. Identify priorities, set goals and make changes.

When setting goals, you want to ensure these are goals you can accomplish. One way to do this is to write SMART goals. This stands for **S**pecific, **M**easurable, **A**ttainable, **R**elevant and **T**imebound. Start with an idea and break it out into each step.

Credit

People sometimes think of credit as free money, but in reality, all credit is a loan. Credit is borrowing money from another source who will charge you more than what you borrowed to pay it back. Borrowing money is often easy to start and hard to get out of.

There are two types of credit, secured and unsecured. Secured credit is when you have an item of value, called collateral, on which the loan is based. Examples include mortgages or car loans. Unsecured credit is an uncollateralized loan, in which there is nothing to secure the loan with. Secured loans tend to have lower interest rates because the lender can take something back if you stop paying the loan. Unsecured credit – such as credit cards – often costs much more because the lender is taking a risk that you will pay back the money.

It is always important to understand how much a loan will really cost you and whether you can afford it. For example, a five-year loan for $10,000 at 5% will actually cost you a total of $11,323, not including fees. The same loan at 30% would cost $19,412. Car loans and mortgages can often be found at 5%, but credit card interest is often upwards of 30%. Before you borrow money of any kind, it is very important to understand how that credit will work and if you can afford it.

Credit Scores

Your credit score is a numerical representation of how likely you are to pay back a loan on time. Many factors go into it, including payment history, how much credit you owe and your spending habits. There are many free tools online for accessing and understanding your credit score. A good credit score can make it easier to access credit and lower interest rates.

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