# Managing Your Money – The Basics

*Lauren Weatherford, WVU Extension Agent – Fayette and Nicholas Counties*

## Educational Objectives

- Participants will increase their knowledge of money management basics.
- Participants will learn how to identify spending habits and understand the difference between wants and needs.
- Participants will develop a spending plan and credit essentials.
- Participants will learn how to set SMART goals.

## Money By the Numbers

- 44% of Americans don't have enough cash to cover a $400 emergency.
- 43% of student loan borrowers are not making payments.
- 38% of U.S. households have credit card debt, with an average of $16,000 at an interest rate of 16.47%.
- 33% of American adults have $0 saved for retirement.
- Only five states have a personal finance requirement in high school.

## 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. How did your family think about money when you were a child? How do you think about money now? Has the meaning of money changed over your lifetime? It is important to consider what values you associate with money. Spend a few minutes writing down what money means to you. Then spend a few more minutes writing down what it means to the people in your life. Is this a source of agreement or discord? Many financial experts advise that you identify these financial values and discuss them with decision-makers in the household. Once you know what money represents in your life, you can begin making decisions together. This can be the difference between money being a source of stress or something you can address together.

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## Wants and Needs

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

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

Focusing on financial well-being helps you prioritize your needs instead of your wants.

The Consumer Financial Protection Bureau defines financial well-being as:

- Having control over your day-to-day and month-to-month finances.
- Being able to handle financial emergencies.
- Staying on track with your financial goals.
- Having the financial freedom to make choices that allow you to enjoy life.

## Where Does the Money Go?

Knowing where your 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.
  - Starting with your groceries, track how much you spend on food, health and beauty, cleaning and miscellaneous items.
  - Then start making other categories. How much did you spend eating out? Did you buy clothing? Did you have car repairs and maintenance? Household maintenance? Insurance expenses? Babysitting? Expenses for your children like fees or registrations? Daily or weekly, did you buy coffee or soda, snacks, cigarettes or alcohol? Did you spend money on entertainment like movies, video games or going out to a club or bar? Are there medical expenses? Do you spend money on other things?
    - ➤ Try to track every dollar spent. At the end of the month, review what you've found and start to put your purchases in categories. This makes it easier to clearly see and consider your wants versus your needs.
- Next, list quarterly and/or annual expenses.
  - What are things that you don't spend on monthly but come up throughout the year? Examples include taxes, holidays, birthdays, subscriptions, memberships and seasonal expenses such as spring cleaning, gardening or winterizing.

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 maintenance and repair costs, including tires, breaks, oil changes, windshield wipers, fluids, cleaning, etc.

Life requires some big purchases, and it's important to prepare for those instances. 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. You've prepared for regular costs like vehicle repairs, but can you handle an accident or unplanned medical expense? What would you do if an earning member of your household were to become unemployed? Do you have enough saved to cover that time?

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. There are many free tools online to help you with budgeting and tracking your expenses.

## 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 in a spending plan.

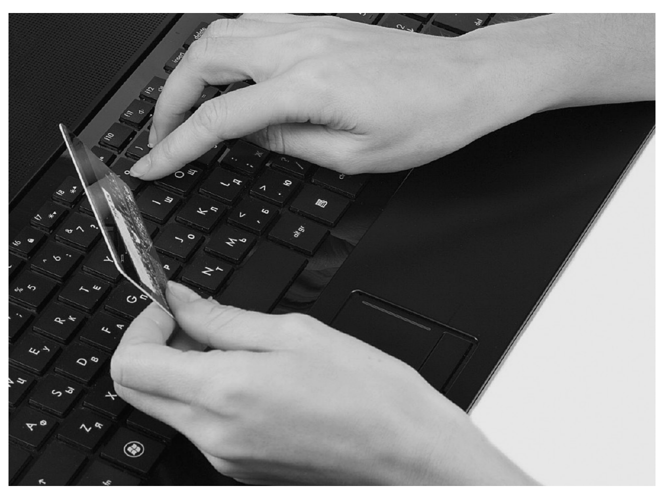
1. Identify your income – annual, monthly and weekly.
2. List your expenses.
3. Compare income and expenses – start with your income and subtract expenses, this is what you have to live on.
4. Identify priorities, set goals and make changes to meet these needs.

When setting goals, you want to ensure they are realistic. 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. It's not a bad idea to start with small goals. You will gain confidence when you start to experience success. You can always go back and make adjustments, revision is not failure.

## 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, excluding any 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 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 this calculation, like payment history, how much credit you owe and your spending habits. There are many free online tools for accessing and understanding your credit score. A good credit score can make it easier to access credit and lower interest rates.

## Activity – SMART Goals

Give every person a plain piece of paper and a pencil. Explain to the group that we are going to practice writing SMART goals. Ask everyone to think of a financial goal. Start by numbering your paper from one through five, with space in between to write.

1. **S**pecific – This goal needs to be something clear, not general. For example, "I want to be financially stable" is not specific enough. A more specific goal would be, "I want to have savings equal to six months' worth of expenses."
2. **M**easurable – How do you know if you've accomplished it? This should include not only your final outcome but also include milestones along the way. When creating financial goals, it may be best to start by looking at what you can do in one month. Then look at what you can do in a year, and finally, assess how long it may take you to achieve your final goal. Small accomplishments along the way help motivate us to keep going.
3. **A**ttainable – It's important to set a goal you can actually accomplish. It's great to say you're going to have enough money to buy a big house, but if you can't afford it, then that goal has no meaning. Think about how realistic your goal is. If you need to go back and change step two, that's okay.
4. **R**elevant – Is this a goal you care about? Is it worth it to try to achieve? Explain to yourself why it's important.
5. **T**imebound – Review step two and determine when you will meet your goal. Remember to keep it realistic.

Congratulations! Now you can use this information to start your financial plan. Have a brief follow-up discussion and ask participants if they will share what they learned from this exercise.

## Resources

"Help with Life's Financial Decisions." Smart About Money *http://www.smartaboutmoney.org/*

"Budgeting Basics for Wealth, Health and Happiness." Kiplinger Andrew Rosen, 2/27/22 *https://www.kiplinger.com/personal-finance/604267/budgeting-basics-for-wealth-health-and-happiness*

MyMoney.gov Tools *https://www.mymoney.gov/tools*

Free credit score websites – *AnnualCreditReport.com, CreditKarma.com, WalletHub.com*

Free online budgeting tools – *mint.com, BudgetTracker.com, Budgetpulse.com*

Pascarella, D. (2018, April 3). *4 Stats That Reveal How Badly America is Failing at Financial Literacy.* Retrieved from Forbes: *https://www.forbes.com/sites/danipascarella/2018/04/03/4-stats-that-reveal-how-badly-america-is-failing-at-financial-literacy/#75d1bed22bb7*

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