

Personal

Shaping Up Your
Finances



210.229.1128

MyGenFCU.org



Shaping Up Your Finances

Repaying Loans

If you are having trouble making a payment on pre-existing loans, consider taking the following steps:

Talk to your creditor.

Your creditor may be willing to reduce your payments or change the terms to accommodate your situation. Some creditors might offer extensions, smaller payments over a longer period of time or partial payments.

Pay off the loans with the highest interest rate first.

Doing so can save you hundreds on interest payments.

Consider a debt consolidation loan.

Be cautious of this option. If loan fees and interest rates are too high, it may not be the best option for you.

Seek professional advice.

Reputable credit counselors can help you deal with your financial problems. Some organizations charge little or nothing for their services. For guidance, look up your local consumer protection office online at www.usa.gov/directory/stateconsumer/index.shtml.

Balancing Life's Priorities

You've heard it over and over again, "You need to make a budget." But this age-old advice is about as impactful as someone telling you to start eating healthier or get more sleep. All of it is good advice but completely irrelevant to the demands of our daily lives. Why? Because we fail to prioritize. In its simplest form, making a budget is making a list of your financial priorities.

Even if you're currently able to break even living paycheck to paycheck, it's a sign that you need to prioritize your spending because there's still one person you're failing to pay: yourself.

First, determine your total monthly take-home pay. This should include your income, social security, alimony, monetary gifts, etc.

Second, examine and understand your expenses, which fall into two general categories:

- **Fixed Expenses** - typically, the amounts of these expenses remain unchanged and are due at the same time. Examples would be rent or mortgage, car payments, insurance, etc.
- **Flexible Expenses** - these are expenses whose amounts may fluctuate or disappear completely, such as groceries, clothing, cell phone, utilities, etc.

If you're unsure of all your expenses, keep a small pocket notebook with you and write down each purchase you make or bill you pay. After a couple of weeks, you will gain a clearer picture of how all your expenses add up and a better appreciation for whether or not you are spending too much. Total your fixed and flexible expenses for the year and divide them by 12 to get a monthly estimate (Download "Checklist: Creating a Budget" for a quick, step-by-step explanation).

Shaping Up Your Finances

Third, prioritize your budget by paying your necessary expenses first, such as rent or mortgage, utilities, groceries and savings. Divide up what's left of your income between the less important or frequent expenses, such as clothing and entertainment. As with anything, your success depends on your approach. To have a successful budget, you must find a system that works for you. Consider the following three budgeting options.

Expense Envelope System

During the days of the Great Depression, many people distrusted banks and kept their cash hidden in separate envelopes for different expenses. This cash-in-hand practice eventually led to the creation of the Expense Envelope System. In our current economic situation, many people are seeking ways to get away from the spending ease provided by debit cards, causing this system to experience a revival in popularity.

Budget Tips

Become a good consumer

Use coupons, locate the best deals by using available resources (Internet, newspaper, etc.) and take time to educate yourself on products and/or services.

Exercise willpower and self control

Try not to indulge in unnecessary spending.

Develop a good record-keeping system

Learn how to maintain a workable budget.

Evaluate your budget regularly

For more budget creation tips, download our "Checklist: Creating a Budget" document.

The concept for this system is simple and can be adjusted to fit your needs:

- **First**, make an envelope for every category of expense you have each month. Examples include: rent, car payment, groceries, electricity, etc. Remember to include yourself in those categories by designating an envelope for savings.
- **Second**, determine how much you wish to allocate within your income limits to each envelope. Each payday, divide up your salary into each envelope according to their predetermined amounts. This will be your monthly budget for each item. Once the money in an envelope is spent, you can no longer spend any money in that category until the next month.

Shaping Up Your Finances

The biggest benefit from this system is it ensures you stay within your budget and makes you more aware of where you are spending the most money. As you continue to use this system, you'll begin to get a more realistic idea of your true expenses for each category and can adjust your budget accordingly. Should there be a need to allocate more funds to one envelope, you must decide from which other envelope(s) to subtract those funds. If there is an envelope that comes under budget each month and can easily bear the loss, the choice will be simple. If this is not the case, then you must reevaluate your expenses and see where further cuts can be made. If you have any unspent money at the end of the month, you can put that into savings or carry it over to next month's expenses.

Should a category continually go over budget, it sends a clear signal you need to reevaluate your spending habits and decide if continuing to pay that expense amount

“First and foremost, for a budget to work you must remember to pay yourself. Like any successful diet, allowances must be made for an occasional indulgence.”

is worth the detriment of others (Download [“Checklist: Spending Money Wisely”](#) for hints on cutting expenses). Also, this system forces you to put something away in savings, thereby eliminating the vicious cycle of living paycheck to paycheck. Of course it's not always a good idea to have large wads of cash lying around the house or on your person. Therefore, many people employ the Expense Envelope System on a weekly basis, withdrawing only the cash they need to fill those envelopes that must be paid for the week. Another alternative is

to use paper tokens or play money in place of actual cash and then remove it from its respective envelope as you pay that expense by either taking out cash from an ATM, swiping your debit card or writing a check.

Budget Box System

A variation of the envelope system, the budget box is a small box, or accordion file, with dividers for each day of the month. When you receive a bill, check the due date and place it behind the divider that represents the correct day of the month and label its divider for the corresponding bill. As you receive income, pay all bills due before your next paycheck.

A pro for this system is it ensures your bills are paid on time. The con is it doesn't account for unplanned expenses or savings. One solution is to make placeholders for savings and unplanned expenses such as car repairs. For example, you may have the 1st of the month labeled “Rent payment,” the 5th labeled “Credit Card Payment,” the 10th labeled “Savings” and the 15th labeled “Emergency Fund.”

Shaping Up Your Finances

Budget Software

You can also create your own spreadsheet. Better yet, do an online search for “Budget Spreadsheet” and you’ll find many free templates you can personalize for your own use.

If cost is not an issue, there are also many personal finance programs available for purchase, but be prepared to spend anywhere from \$75-\$100. A good finance program is one that is able to track your spending habits and present them to you in an easy-to-understand format, such as colored pie charts, bar graphs or an expense calendar.

There are also subscription-based software equivalents of the Expense Envelope System that present graphical representations of cash envelopes integrated with your online financial account. Conduct an online search for “Expense Envelope Software” to find a few.

Budget for Success

Regardless of whatever system you employ, for any budget to work you must plan for its success. First and foremost, pay yourself. Like any successful diet, allowances must be made for an occasional indulgence. When setting your budget priorities, funding an occasional spending indulgence will go a long way to ensuring you stick to your budget. A budget that meets the demands of daily living, including the occasional indulgence, is a budget that will be successful long term.