

Defeat Debt

Credit Advisors Foundation

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Goals, Budgets & Saving: Building Blocks to Financial Success

By Barry Fouts, CAF Vice President, Client Services

It seems financial pressures, in one form or another, are always present in life. Regardless of circumstance, large corporations, small businesses, families living on one or two incomes or the single individual – everyone faces some kind of financial pressure. It is because of this building pressure – and it is building – that regularly reviewing the building blocks of smart financial management is vital to ongoing success in regards to financial matters.

There is no more basic element in smart financial management than a budget. Even in today's fast paced world with all its seemingly urgent distractions, both

successful companies and successful people are thoroughly familiar with their budgets and review them periodically. Not only are the most successful budgets reviewed but they are also updated and adjusted, as needed, to provide the most effective guideline for financial management for whatever entity – company or family – is making use of them.

In today's world, it simply isn't enough to just break even every week, month or quarter. There has to be something more, whether it is a profit for a business or savings for the family or individual.

Prior to developing a budget, any group or individual must consider what is trying to be accomplished. What's its purpose? Its goals? For a business, this idea is generally captured in a Mission Statement. (Go to our website, if you'd like to view Credit Advisors Foundation's mission statement, www.creditadvisors.org.) Although they may not realize it, many families

have mission statements, too. These mission statements can be identified by examining family priorities and behaviors, or actually sitting down together and creating a family mission statement. Regardless of how you put the thoughts together, making these determinations and establishing goals is vital, as a budget will break down before it begins if it lacks a well defined goal to attain. Of course, as so much rests on these goals, make sure they are ones you truly want for the future.

Once you have a purpose and direction in mind, budgeting becomes much easier. In reality, budgeting is simply deciding what is important to your survival and success in the full range from high priority (shelter, food, and clothing) to lower priority (cable TV, cell phones, and entertainment). Budgeting also involves figuring out what you ultimately can do without in order to meet your goals (goals such as paying for college tuition, retirement, or travel.)

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Making and establishing goals is vital to successful budget design.

Goals, Budgets, & Saving

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What too often wins in the *budget battle* are the lower priority items, simply because they are more quickly attainable. It's much easier sometimes to budget \$75 per month for cable and avoid your child's displeasure today, instead of putting that money in savings for a college education 10 to 15 years down the road. The down side, unfortunately, becomes obvious when the college bill does come due and you are forced to borrow *and* pay interest on money that you could have saved up over the years. Or, as is often the case, just as they are

Touch base with your goals to find opportunities to lower or control costs.

starting out in life, your student is strapped into years, if not decades of student loan debt. Worse yet, college never happens at all, due to financial limitations.

A basic rule to remember in financial management is when you save money, people pay you interest, when you owe money, you pay interest to others. Some debt may be ok, but in general

terms, the person paying the interest is losing the financial battle.

When building your budget and you actually begin looking at the hard numbers, set aside a goal of 5% to 10% of your disposable income to yourself as savings. This can take the form of savings accounts, mutual funds, certificates of deposit, even cookie jars if necessary. Saving is what creates options and ultimately, interest paid to you. Of course, it's not the saving plan that does this but the actual saving behavior, so focus on the follow through.

After setting aside funds for saving, you must incorporate the essential fixed costs; home payment and car payment into your budget. These should be the largest share of your budget when you are just starting out and purposefully decreasing, as a percentage rate, as you grow closer to retirement age. Variable essentials, such as transportation costs, utilities, groceries, etc. are worked into your budget next. At first glance, it may not seem as if you have much control over the variable essentials, but you really do. Touch base with your goals to find opportunities to lower or control costs. A little



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creativity doesn't hurt either.

Once you have settled on your 'fixed' and 'variable' expenses, you can begin to deal with the give-and-take of non-essentials. This category covers a wide range of items and is directly involved with the goals. Remember how easy it is to

become sidetracked by immediate entertainment or urgent items. For example, protect yourself from catastrophic medical issues with insurance, but maybe use a high-deductible policy to keep costs lower. Must you have a new car or are you resilient enough to handle a used vehicle? Are you in need of down-time, or can you save time-off from work for necessities?

All of these topics should come up in any discussion on budgeting your income; every item can affect your future and your lifestyle. And while there are no right or wrong answers, as each individual or family has a unique situation and unique goals, everyone needs to ask, and answer, the questions. So, forget about the Joneses; decide what fits best for you by asking the tough questions; and remember, the sooner you start, the sooner you'll find your goals within reach.

Financial Literacy Quiz

April is National Financial Literacy Month and the Jump\$tart Coalition has been surveying high school seniors since 1997 to gauge their overall financial knowledge. Although students with higher family incomes tend to score better on the survey their 55% accuracy rate is disappointing on any scale. Here are a few of the questions that test financial knowledge on the survey—see how you compare (answers are located at the end of the quiz):

1. If each of the following persons had the same amount of take home pay,

who would need the greatest amount of life insurance?

- A. A young single woman with two young children
- B. A young single woman without children
- C. An elderly retired man, with a wife who is also retired
- D. A young married man without children

2. Which of the following statements is true?

- A. Your bad loan payment record with one bank will not be considered if you

- apply to another bank for a loan
- B. If you missed a payment more than 2 years ago, it cannot be considered in a loan decision
- C. Banks and other lenders share the credit history of their borrowers with each other and are likely to know of any loan payments that you have missed
- D. People have so many loans it is very unlikely that one bank will know your history with another bank

3. Under which of the following

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* Word Search * Word Search * Word Search * Word Search * Word Search *

Test your skill with this month's Word Search Puzzle. The words used in our articles for this edition of *Defeat Debt* are listed below and have been hidden in the letter jumble to the right.

See how many you can find...

BANK INCOME
 CABLE LOAN
 COLLEGE MISSION
 COSTS MONEY
 CREDIT SCALE
 DEBT SHELTER
 FOOD SMART
 GOALS STUDENT
 HONEY VITAL

T N O I S S I M B I
 C R E D I T L O A N
 L O T F G I K N N C
 R S L W O E Y E K O
 E X T L S O C Y V M
 T S T U E G D S I E
 L T B E D G O M T R
 E S C A L E E A A L
 H O N E Y G N R L H
 S C A B L E P T V S

Quiz

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circumstances would it be financially beneficial to you to borrow money to buy something now and repay it with future income?

- A. When some clothes you like go on sale
- B. When the interest on the loan is greater than the interest you get on your savings
- C. When you need to buy a car to get a much better paying job
- D. When you really need a week vacation

4. Which of the following statements best describes your right to check your credit history for accuracy?

- A. All credit records are the property of the U.S. Government and access is only available to the FBI and Lenders
- B. You can only check your record for free if you are turned down for credit based on a credit report
- C. Your credit record can be checked once a year for free
- D. You cannot see your credit record

5. Justin just found a job with a take-home pay of \$2,000 per month. He must pay \$800 for rent and \$200 for groceries each month. He also spends \$200 per month on transportation. If he budgets \$100 each month for clothing, \$150 for restaurants and \$250 for everything else, how long will it take him to accumulate savings of \$900?

- A. 1 month
- B. 2 months
- C. 3 months
- D. 4 months

6. If your credit card is stolen and the thief runs up at total debt of \$1,000, but you notify the issuer of the card as soon as you discover it is missing, what is the maximum amount that you can be forced to pay according to Federal law?

- A. Nothing
- B. \$50
- C. \$500
- D. \$1000

7. Kelly and Pete just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following tends to have

the highest growth over periods of time as long as 18 years?

- A. A U.S. government savings bond
- B. A savings account
- C. A checking account
- D. Stocks

8. Maria worked her way through college earning \$20,000 per year. After graduation, her first job pays \$40,000. The total dollar amount Maria will have to pay in Federal Income taxes in her new job will:

- A. Stay the same as when she was in college
- B. Be lower than when she was in college
- C. Double, at least, from when she was in college
- D. Go up a little from when she was in college

Answers

1:A; 2:C; 3:C; 4:C; 5:C; 6:B; 7:B; 8:C

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We're on the web!!

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Get out of debt with no regret!!



The Kitchen on a Dime

Coriander & Honey Glazed Pork Ribs

It can be challenging to pin down exactly what the weather is going to do this time of the year, which can cause uncertainty when scheduling early spring get-togethers, particularly if you're planning to grill. Luckily, this month's recipe is equally simple, tasty and satisfying whether you grill outdoors or stay inside to oven-roast.

Ingredients:

1 cup ketchup

¼ cup honey (orange blossom honey is best, if you can find it)

1½ teaspoon ground coriander

¾ teaspoon garlic powder

3 to 4 ½ pounds pork country-style ribs or 1 ½ to 2 pounds boneless pork country-style ribs

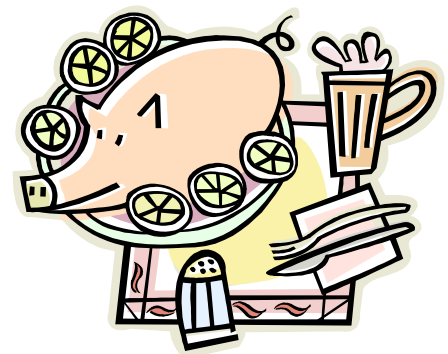
Directions:

To prepare the glaze, in a small bowl stir together the ketchup, honey, coriander and garlic powder. Set aside

To roast, place the ribs on a rack in a shallow roasting pan. Place bone side down on the rack if using ribs with bones. Roast in a 350° oven for 1 hour. Drain fat from pan.

Brush the ribs with some of the glaze. Roast for 30 – 45 minutes more or until pork is tender and no pink remains, brushing occasionally with glaze.

Or, to grill, in a covered grill arrange medium-hot coals around a drip pan. Test for medium heat above the pan. (To determine the temperature of coals, hold your hand palm side down above the coals at the height your food will be cooking. Count the seconds you are able to hold your hand over the coals – 2 seconds: hot; 4 seconds:



medium; 6 seconds: low.) Place ribs on the grill rack over the drip pan, avoiding placing them directly over the coals (this is to prevent flare-ups). Lower the grill hood. Grill for 1 hour. Brush ribs with glaze. Grill ribs for 15 to 30 minutes more or until pork is tender and no pink remains, brushing occasionally with glaze.

Makes 6 servings at less than \$2 per serving.