

FINANCIAL FITNESS: MONEY 101

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February 2003

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Do you feel in control of your money?
Do you frequently feel stressed out because of financial concerns?
Are you often out of money by payday?

Winter is upon us and there's no better time than the present to sit down and plan the upcoming year in terms of your finances. If you don't have a budget, this information will help you get started. If you do have a budget, this information will help you refine and utilize it more effectively. When you're in control of your finances, you feel more in control of your life in general.

These resource materials provide helpful tips on how to:

- ✓ Make, monitor and stick to a personal financial budget
- ✓ Reduce financially-related stress
- ✓ Curb spending without skimping on pleasure
- ✓ Use banking services effectively and efficiently
- ✓ Get a handle on your spending by controlling debt
- ✓ Understand basic tax information
- ✓ Use your EAP benefit for support

Remember that your EAP benefit includes financial services:

- ✓ Financial consultations on the telephone covering a range of topics such as budgeting, retirement planning, debt consolidation, financial planning, stock option plans, auto and real estate purchasing and more!
- ✓ Free credit reports available upon request
- ✓ Training sessions on financial topics...Ask your Human Resources representative for more information
- ✓ Call now: 800-834-3773

Claremont distributes this information to provide employees with general behavioral health information. If you have concerns about these or other behavioral health issues, you can call Claremont to arrange for assistance. You will be directed to an appropriate, experienced professional who can offer guidance in a variety of work and personal matters.
For confidential help, call: 800-834-3773 or visit www.claremonteap.com.

FINANCIAL FITNESS QUIZ

Test your financial knowledge by taking the following quiz. Answers are on the next page.

- 1. In general, a bank savings account cannot make enough interest to offset the losses from inflation.**
 - a. True
 - b. False

- 2. Historically, which type of investment has offered the best inflation hedge?**
 - a. Bank deposits
 - b. Certificate of Deposits (CDs)
 - c. Treasury Bonds
 - d. Stocks

- 3. What is a dividend?**
 - a. A cash payment distributed among creditors
 - b. A payment of additional shares of stock to stockholders
 - c. A bonus to employees
 - d. A division of an international corporation

- 4. What is the Dow Jones Industrial Average?**
 - a. Price-weighted average of 30 industrial company stocks
 - b. An indicator of the U.S. stock market
 - c. In April 1999, the total value of all components equals to 10,000
 - d. All of the above

- 5. Under Dividend Reinvestment Plans (DRIPs), shareholders can use dividends to buy additional shares of stocks without broker commissions.**
 - a. True
 - b. False

- 6. Which of the following has the highest rate of return on investment since 1926?**
 - a. Long-term corporate bonds
 - b. U.S. Treasury Bills
 - c. Small company stocks
 - d. Common stocks

- 7. If you don't redeem your mutual fund shares, you don't have to pay any taxes.**
 - a. True
 - b. False

FINANCIAL FITNESS QUIZ: ANSWER KEY

1. **True**
Bank deposits often yield below 3% annually. Inflation has been running at 3% or higher in the U.S. in the past 10 years.

2. **Stocks returned an average of 11 % and bonds returned an average of 5%.**

3. **A dividend is a payment of cash or additional shares of stock given to stockholders.**

4. **All of the above**

5. **True**

6. **Small company stocks**
Common stocks have offered an average of 11% return annually since 1926. Small company stocks offered over 14% return per year over the same time period.

7. **False**
Most mutual funds trade stocks and bonds and distribute gains or losses to shareholders annually. Shareholders have to pay taxes on these distributions, even if they don't redeem the shares.

WHEN MONEY WORRIES BOOST STRESS

It's hard to feel in control of your life when you have money worries, and that leads to increased stress in any situation. The key to decreasing money-related stress is to take steps to get in charge of your finances.

Know Your Financial Picture

For starters, make a list of your basic monthly expenses, including food, utilities, house payments, insurance, car expenses, clothing, taxes, debt payment and entertainment. Balance this against your income. Now you have some hard figures about the gap between what you have and what you need. Just setting a realistic budget and sticking to it can avert sometimes money problems. You'll certainly be in more control of your finances than someone who knows only that more money goes out than comes in.

Help Is Available

If your expenses seem hopelessly out of balance with your income, get outside help. Call your EAP for a free financial consultation and free credit report: 800-834-3773.

Another useful resource available to people facing financial trouble is Consumer Credit Counseling Services, a national nonprofit organization that provides free or low-cost advice to people who want to improve their financial situation. To find out more, visit www.cccsintl.org.

Your bank or credit union may also be able to provide financial counseling. You can also try community service organizations such as family service agencies and religious service agencies.

Take Action to Reduce Stress

Taking action toward getting in control of your finances can provide enormous relief all by itself. Other ways to control stress are to learn and practice proven stress reduction practices such as deep breathing, meditation, eating a healthy diet and exercising regularly. Regardless of the seriousness of your financial problems, you'll be in better shape to deal with them if you're in good mental and physical condition.

MAKING A BUDGET

- 1. Budgets are a necessary evil.**
They're the only practical way to get a grip on your spending so you can make sure your money is used the way you want it.
- 2. Creating a budget generally requires three steps.**
They are: 1) identify how you spend money now, 2) evaluate that spending and set goals that take into account your financial objectives, and 3) track your spending to make sure it stays within those guidelines.
- 3. Use software to save grief.**
If you use a personal-finance program such as Quicken or Microsoft Money, the built-in budget-making tools can create your budget for you.
- 4. Don't drive yourself nuts.**
One drawback of monitoring your spending by computer is that it encourages overzealous attention to detail. Once you determine which categories of spending can and should be cut (or expanded), concentrate on those categories and worry less about other aspects of your spending.
- 5. Watch out for cash leakage.**
If withdrawals from the ATM machine evaporate from your pocket without apparent explanation, it's time to keep better records. In general, any time cash expenses exceed 5 percent of your total spending, they need to be checked.
- 6. Spending beyond your limits is dangerous.**
If so, you've got plenty of company. Government figures show that many households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy—but it's definitely a sign you need to make some serious spending cuts.
- 7. Beware of luxuries dressed as necessities.**
If your income doesn't cover your costs, then some of your spending is probably for luxuries—even if you consider them to fill a real need.
- 8. Tithe yourself.**
Aim to spend no more than 90 percent of your income. That way, you'll have the other 10 percent left to save for your big-picture items.
- 9. Don't count on windfalls.**
When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive, such as year-end bonuses, tax refunds or investment gains.
- 10. Beware of spending creep.**
As your annual income climbs from raises, promotions and smart investing, don't start spending for luxuries until you're sure that you're staying ahead of inflation.

CLAREMONT EAP

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PERSONAL BUDGET FOR MONTH OF _____

INCOME			
	Planned Budget	Actual Expenses	Under/(Over)
Your salary			
Spouse's salary			
Other income			
Alimony, child support			
Tax refund			
Reimbursements			
Interest			
Dividends			
TOTAL INCOME			
EXPENSES			
	Planned Budget	Actual Expenses	Under/(Over)
Mortgage/rent			
Taxes			
Tuition/books			
Child care			
Utilities			
Telephone (home)			
Cell phone			
Insurance (life, homeowner's renters, auto, medical, disability)			
Household maintenance and supplies			
Food			
Car maintenance			
Other transportation			
Clothing			
Laundry, dry cleaning			
Personal care			
Medical and dental (excluding insurance)			
Credit card payments			
Entertainment/vacations			
Charitable contributions			
Personal allowances			
Miscellaneous			
TOTAL EXPENSES			

13 WAYS TO LIVE MORE CHEAPLY

The opportunities to run short on cash seem to grow exponentially as your life grows more complex. Whether you've just bought a house, had a new baby, are anticipating a lay-off or are paying dearly for past behavior, you're feeling the pinch. The good news is there are some easy ways to pocket more money without compromising real pleasures or cutting out too many conveniences.

Here are 13 ideas from leading frugality experts. Using just a few can make for significant savings.

1. **Shop sparingly:** Ever go to a mall thinking you'll buy one thing then just browse and see what else you need? Welcome to the crowd, said Vicki Robin, coauthor of *Your Money or Your Life*. Much of the shopping we do is what she characterizes as frivolous shopping. "It's a huge money sink. It's what we spend unconsciously, habitually, impulsively," she said. It's better to keep a running list of what you need, and shop only when the tally is long enough to justify the trip.
2. **Get groceries for the long haul:** The most expensive thing you can do is shop for food you need this week, since you're likely to pay premium prices, said Mary Hunt, founder and editor of the newsletter *Cheapskate Monthly*. Her suggestion: Except for food that spoils easily, shop for foods and staples when they're on sale and buy enough for several weeks' worth. For emergency short-term savings, she suggests skipping grocery shopping altogether until you have used up all the food that's been sitting in your house for weeks.
3. **Use cash to pay for food:** Hunt also recommends paying for food with cash. "You're a smarter shopper when you go into the store with \$30 in your pocket," Hunt said. Debit cards, which draw money directly from your bank account, are a bad idea, she said, since they make more money available to you than you need and encourage impulse purchases.
4. **Clip (some) coupons:** Coupons are great when they're for products you regularly use and when they make those products less costly than the generic brands, Horowitz said. But buying something you don't need just because you have a coupon is a waste of money. So clip judiciously.
5. **Curb long-distance bills:** Cancel your long-distance service and get a prepaid phone card instead from one of the wholesale price clubs, such as Sam's Club or Costco, Hunt suggests. You'll save on fees, cap how much you spend on long-distance calls and get some of the lowest per-minute rates—often with fewer restrictions than those imposed by calling plans.
6. **Turn clothes to cash:** Clothes you don't like, furniture and appliances you never use and that Star Wars memorabilia even you've grown tired of—all probably have cash potential, despite the mean things your spouse says about them. Try any of the following: Donate them and get a tax-deduction; post them to online auction sites; sell them to consignment shops; or have a garage sale.
7. **Keep yourself entertained:** Don't want to forgo dinner parties? Host a potluck supper. Dying to go to the theater or to a major sporting event? Volunteer to usher and see the event for free, Horowitz said. If you're crazy for books, magazines and CDs, visit your public library, where you can get all that and more for free. Libraries also may offer interesting lectures and entertainment for little or no admission fee.

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8. **Drive a car you can afford:** Contrary to public opinion, you are *not* what you drive. You may need a car, but you probably don't need the hippest, priciest model. Consider this, Robin said: There are 2,000 work hours in a year, assuming an eight-hour day and 50 weeks of work. If you buy a \$20,000 car, you'll spend \$5 of your net wages every hour for two years to pay for that car, not including interest payments. If you do hit the showroom, be sure to bargain, Horowitz said. He bought his last car seven years ago for \$2,500 below sticker price because he told the dealer he could get a Saturn model for less but that he would buy the dealer's car that day if the dealer could match the lower price. The dealer took the bait, charging Horowitz only \$150 more than the Saturn cost.
9. **Let your credit card pay you:** If you pay your credit card bills in full and on time every month, be sure to have a card that rewards you for your purchases, Horowitz said. Some, for instance, offer frequent flyer miles or cash back.
10. **Share and share alike:** Look for ways to share common expenses with others, Robin and Horowitz said. For instance, if you have young kids, consider trading babysitting services with other parents in your neighborhood, or carpool to work.
11. **Conserve energy:** There are lots of cheap, energy-saving tricks that will cut your heating and electricity bills. Among them put rope caulk around your windows and get outlet protectors—the kind designed to prevent 2-year-olds from sticking forks in sockets. They'll cut down on drafts and prevent heat leakages.
12. **Exercise for free:** Unless it's your greatest pleasure, a health club membership can be a pricey way to sweat, especially if you go infrequently. Consider forgoing the monthly expense, and go hiking or biking on your own instead.
13. **Forgo some "optionals:"** Lattes in the morning and lunches out. Hiring a gardener and housekeeper. Getting your nails done. All are enjoyable indulgences when you're flush with cash. But during tough times, the little luxuries may need to go. Hunt recommends looking at the money side of your life like a business. Temporary belt-tightening may be required but don't get discouraged, Hunt said. "It doesn't have to be forever."

Source: CNN Money

BANKING AND SAVING 101

1. Money in a bank account is safe.

A bank is one of the safest places to stash your cash since your account is insured against loss by the federal government for up to \$100,000 per depositor.

2. You pay for the convenience of a bank account.

Banks pay lower rates on interest-bearing accounts than brokerages and mutual fund companies that offer check-writing privileges. What's more, bank fees can be high—account costs easily can add up to \$200 a year or more unless you keep a minimum required balance on deposit.

3. Inflation can eat what you earn from a bank.

Even at a low rate of inflation, the annual creep in the cost of goods and services usually outpaces what banks pay in interest-bearing accounts.

4. Not all interest rates are created equal.

Banks frequently use different methods to calculate interest. To compare how much money you'll earn from various accounts in a year, ask for each account's "annual percentage yield." Banks typically quote both figures, but only APYs are calculated the same way everywhere.

5. You can get better rates (but there's a hitch).

Certificates of Deposit (CDs) offer some of the best guaranteed rates on your money and are insured up to \$100,000 each. The catch: you have to lock up your money for three months to five years or more. If interest rates fall before the CD expires, the bank is out of luck and must give you the rate it quoted. If rates climb, you're stuck with the lower rate.

6. ATM fees can take a significant bite out of your budget.

The convenience of using ATM's is an increasingly pricey one. On average, the fee a bank charges you to use another institution's ATM is \$1.36, according to a Bankrate.com survey in fall 2001. That's on top of the average \$1.45 that other institution charges you to use its ATM.

7. Getting the best deal takes work.

You won't get a great deal on a car if you just walk into a dealer and plunk your money down. You won't get a great banking deal unless you comparison-shop and ask about price breaks.

8. Use the Internet to shop for bank services.

You can use the Internet to compare fees, yields and minimum deposit requirements nationwide. To find out what a local bank is offering, plug its name into any Internet search engine or compare what different banks offer at CNN/Money's Banking section.

9. Banking online can make bill paying easier.

Electronic bill paying can save you the monthly hassle of paying your bills. And if you couple online banking with a personal-finance management program, such as Quicken or Microsoft Money, you'll be able to link your banking with your budgeting and financial planning as well.

10. You can bank without a bank.

A number of financial institutions offer accounts that resemble bank services. The most common: credit union accounts; money market funds; and brokerage cash-management accounts.

Source: CNN Money

CONTROLLING DEBT

1. Americans are loaded with credit-card debt.

The average American household with at least one credit card has over \$8,000 in credit card debt, and the average interest rate runs in the mid- to high teens at any given time.

2. Some debt is good.

Borrowing for a home or college usually makes good sense. Just make sure you don't borrow more than you can afford to pay back, and shop around for the best rates.

3. Some debt is bad.

Don't use a credit card to pay for things you consume quickly, such as meals and vacations, if you can't afford to pay off your monthly bill in full in a month or two. There's no faster way to fall into debt. Instead, put aside cash each month for these items so you can pay the bill in full. If there's something you really want but it's expensive, save for it over a period of time before charging it so that you can pay the balance when it's due and avoid interest charges.

4. Get a handle on your spending.

Most people spend thousands of dollars without much thought to what they're buying. Write down everything you spend for a month, cut back on things you don't need, and start saving the money left over or use it to reduce your debt more quickly.

5. Pay off your highest-rate debts first.

The key to getting out of debt efficiently is to first pay down the balances of loans or credit cards that charge the most interest, while paying at least the minimum due on all your other debt. Once the high-interest debt is paid down, tackle the next highest, and so on.

6. Don't fall into the minimum trap.

If you just pay the minimum due on credit-card bills, you'll barely cover the interest you owe, to say nothing of the principal. It will take you years to pay off your balance and potentially you'll end up spending thousands of dollars more than the original amount you charged.

7. Watch where you borrow.

It may be convenient to borrow against your home or your 401(k) to pay off debt, but it can be dangerous. You could lose your home, or fall short of your investing goals at retirement.

8. Expect the unexpected.

Build a cash cushion worth three months to six months of living expenses in case of an emergency. If you don't have an emergency fund, a broken furnace or damaged car can seriously upset your finances.

9. Don't be so quick to pay down your mortgage.

Don't pour all your cash into paying off a mortgage if you have other debt. Mortgages tend to have lower interest rates than other debt, and you may deduct the interest you pay on the first \$1 million of a mortgage loan. (If your mortgage has a high rate and you want to lower your monthly payments, consider refinancing.)

10. Get help as soon as you need it.

If you have more debt than you can manage, get help before your debt breaks your back. Call your EAP at 800-834-3773 for a free confidential financial consultation.

TAX INFORMATION 101

- 1. If you get a big refund each year, you're having too much withheld from your paycheck.**
In effect, you're giving the government an interest-free loan.
- 2. If you have too little withheld, you may be charged an underpayment penalty.**
You must have paid 90 percent of what you owe for the tax year by the end of that year or an amount equal to 100 percent of your tax liability for the previous tax year, whichever is smaller.
- 3. Not every dollar of your taxable income is taxed at the same rate.**
That's because portions of your earned income fall into different brackets, which are assigned different tax rates. Generally speaking, the first dollar you make will be taxed at a lower rate than your last dollar. Your marginal tax rate is the tax bracket at which the highest (or last) portion of your income is taxed.
- 4. Your combined tax bracket determines how much tax you'll owe on income from investments such as CDs and money market funds.**
Your combined bracket is the sum of your top (or marginal) federal tax rate and your top state income tax rate.
- 5. If you file your return by April 15, but don't pay the tax you owe, you may receive a late payment penalty.**
The same goes if you file for an extension. An extension only allows you to file your return after the due date. But full payment is still required by April 15. If you make a partial payment by then, you may be charged interest on the amount outstanding.
- 6. You can reduce your chances of being audited.**
One of the best ways is to fill out your return completely, correctly and on time every year.
- 7. You should pay estimated taxes if you're self-employed; expect hefty investment income or profits from a property sale; or if you don't have enough taxes withheld to cover the taxes you'll owe on non-wage-related income.**
Retirees should also consider paying them if they haven't opted for voluntary withholding on their pension or IRA payments. Estimated taxes are due four times a year (April 15, June 15, Sept. 15, and Jan. 15).
- 8. Your adjusted gross income (AGI) is your total income minus certain adjustments such as IRA deductions, alimony payments or medical savings account payments.**
Your AGI primarily determines whether or not you're eligible for tax breaks. Almost every break, be it a deduction, exemption or a credit, has its own AGI limit.
- 9. Your taxable income is your AGI minus exemptions and deductions.**
The less your taxable income, the less in taxes you'll owe. That's why it's in your best interest to take advantage of tax breaks where you can.
- 10. A credit is better than a deduction.**
A credit is a dollar-for-dollar reduction of the taxes you owe. A \$100 credit means you pay \$100 less in taxes. A deduction reduces the taxes you owe by a percent of every dollar you're allowed to deduct. You calculate the worth of your deduction by multiplying your marginal (or top) tax rate by the amount of the deduction. If you're in the 27 percent tax bracket, a \$100 deduction means you'll pay \$27 less in taxes (0.27 X \$100).