

# Virginia Cooperative Extension Service

VIRGINIA TECH AND VIRGINIA STATE

VIRGINIA'S LAND GRANT UNIVERSITIES

\*\*\*\*\*



**YOU AND YOUR MONEY!**

**THE MONEY MANAGER SERIES**



\*\*\*\*\*

Publication 354-009

January, 1984

## **YOUR FINANCIAL PLANNING**

by

Dr. Gerald A. (Jerry) Bird  
Extension Specialist - Financial Management  
Department of Housing, Interior Design and Resource Management  
College of Human Resources

### **MAKING EXCUSES**

People make many excuses for not managing their money. "It's too complicated." "It takes too much time." "I don't have enough money to manage." Or perhaps, even "I have enough money, I don't have to worry."

None of these are really good excuses. But the failure to plan for managing your money, is today, an expensive failure. The information gained from the first two lessons of this learn-at-home course will help you in making your own money management plan. This lesson will put you in charge of your own finances.

### **STEPS TO PLANNING**

There are three steps to this lesson: 1) fill in a net worth statement, 2) set your financial goals if you didn't already set them in the first lesson, and 3) develop a realistic spending plan or budget.

### **WHAT ARE YOU WORTH?**

The first step towards taking charge of your financial life is to find out how much you are worth. By figuring your net worth at least

once a year, you know how you are progressing towards your financial goals. This information is also needed for loan applications, such as for a car or home.

Your net worth is what you own minus what you owe. You already have most of the information to fill in the blanks, or you can get it free from a variety of sources.

Your financial institution(s) can provide information on loan balances and interest earned. If the cash value of your life insurance is not listed in the policy, check with the company agent. Estimate the value of your home from real estate ads for homes similar to yours.

Don't overlook the value of pension plans and other employee benefits such as profit sharing. Also include the value of jewelry, home furnishings, and other personal property.

Fill in the blanks of the Net Worth Statement on page 5 to determine your net worth. When you know how much you are worth, you are ready for step two, setting your financial goals.

Virginia Cooperative Extension Service programs, activities, and employment opportunities are available to all people regardless of race, color, religion, sex, age, national origin, handicap, or political affiliation. An equal opportunity/affirmative action employer.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, and September 30, 1977, in cooperation with the U.S. Department of Agriculture. Mitchell R. Geasler, Director, Virginia Cooperative Extension Service, and Vice Provost for Extension, Virginia Polytechnic Institute and State University, Blacksburg, Virginia 24061; M. C. Harding, Sr., Administrator, 1890 Extension Program, Virginia State University, Petersburg, Virginia 23803.

LD  
5655  
A762  
no. 354-009  
VPI  
Spec

### SETTING FINANCIAL GOALS

At this point, most of us are probably not totally satisfied with our net worth and will likely vow to make some improvement in our financial status in the coming year. But in fact, it is very difficult to make real progress without setting some goals to reach.

If you didn't set financial goals as a part of the first lesson on "Families and Money", this is a good time to do so. If you need to, refer back to that lesson. These goals are short term (for the next one to five years) as well as long term (for the next 10 to 30 years, including plans for retirement).

If you have set your financial goals, you are ready for the third and final step, developing a realistic spending plan or budget.

### DEVELOPING YOUR BUDGET

Budgeting is one of the least desirable or "fun" parts of managing money. A budget is seen by many persons as taking too much time and effort, difficult to do, and taking the "fun" out of spending money.

But consider that there is no "fun" in being behind in paying your bills. There is no "fun" in not being able to afford your basic needs. A budget gives you control over your money and your life, it puts YOU in charge.

Budgeting is a relatively simple process of keeping expenses in line with income. It means spending a few hours each month over the next three months to give you control over your money.

In the first month, keep a record of income and more importantly, the family's expenses. Record how much money is spent and what is purchased.

In the second month, continue keeping a record of income and expenses. Adjust your spending to go along with your income and your goals. The most important budget item is savings. The only way to make future goals become reality is to save money! The best way

to save, is to save first, before paying any other bills. Some ideas on saving are given in the next lesson on Savings.

Often the biggest problems in budgeting are not the usual, day-to-day expenses. Problems come with the failure to plan for expenses which come only a couple of times a year. These include insurance premiums, school expenses, magazine subscriptions and gifts for holidays.

Go back through last year's records for a list of these occasional expenses. Estimate the amount of expenses for which you do not have exact records. Divide the total by 12, and add this amount to the monthly budget.

Another possible problem is with bills that vary widely in amount from one part of the year to another. The best example of this is winter heating bills in cool climates or air conditioning costs in warm climates. Like the occasional expenses, add the total expenses for the item from bills for the last year and divide by 12. This average amount is the amount to use in the budget.

By the third month, you will probably have to make minor adjustments in the spending plan. This will be true in the future as income and expenses change. But basically, you will have developed a working budget or spending plan by this time.

In developing a family budget there is no one ideal form to use. Budget forms may be purchased at many types of stores, including book, discount, and office supply stores. You may use budget forms with the most common expense categories already listed. Or buy columnar pads with blank headings or use plain notebook paper with columns drawn in and write in your own expense categories.

Whether the form has the expense categories listed or you write in your own is not as important as using the categories that meet YOUR needs. Don't be limited by the categories already listed if they don't meet your needs. The following list is useful by giving examples of the categories you can use.

Note that the expenses are arranged in two main sections, fixed and variable expenses. Fixed expenses are the ones that are necessary each month and are usually the same amount. You usually do not have much chance of reducing the cost of fixed expenses such as the rent or mortgage payment, loan payments, and minimum utility payments.

Variable expenses may also be necessary each month, but the amount spent is often up to you. You may choose to spend more or less for food, depending upon the amount and quality of food purchased. You may choose the amount spent for clothing, cleaning supplies,

home improvement, hobbies, and gifts depending upon your values and needs. There may be occasional emergencies that cannot be controlled, such as storm damage to a home or medical expenses, which may not be covered by insurance.

The expected expenses can be planned for in the budget fairly easily. The unexpected expenses are more difficult to plan for, but saving for these emergencies is the sure way of having the money available when it is needed. After you budget for several months, you will notice that every month has its share of the unexpected or emergency expenses.

### CATEGORIES OF EXPENSES

#### Fixed Expenses

Taxes	Installment Payments
Federal income tax	Automobile(s)
State income tax	Furniture
Local taxes	Appliances
Property taxes	Charge accounts
	Personal loans
Savings	Insurance
Passbook	Automobile
IRA	Health
Emergency Fund	Life
Loss of job	Property
Illness	
Accident	Magazines
Major repairs	Newspapers
Housing	Education
Rent	Transportation
Mortgage payments	License plates
Utilities	Inspection sticker
Telephone	Commuting fares
Gas	Parking
Electricity	Membership Dues
Water	Union
Garbage pickup	Professional Assoc.
Cable TV	Clubs
Personal Allowances	Contributions
Wife	Charities
Husband	Church
Children	

#### Variable Expenses

Food	Household help
Meals at home	Child care
Meals eaten out	Yard care
Snacks	Window washing
	Housecleaning
Clothing	Transportation
New clothes	Gasoline
Accessories	Repairs and upkeep
Laundry, cleaning	Taxi
Repairs, alterations	Bus
Household equipment	Health care (not covered by insurance)
New appliances	Medical
Remodeling	Dental
New furniture	Medicines
Repairs	
Home Improvement	Personal care
Maintenance	Grooming aids
Remodeling	Barber, beauty shop
Expansion	
Household Supplies	Entertainment
Cleaning supplies	
First aid supplies	Recreation
	Hobbies
Gifts	Vacation
Holidays	Sports equipment
Birthdays	
Telephone (long distance charges)	Miscellaneous expenses

\*\*\*\*\*

For additional information on the topics covered in You and Your Money: The Money Manager Series:

- \* Contact your local office of the Virginia Cooperative Extension Service.

- \* Visit your local library.

- \* Visit your local bank, savings and loan association, or credit union.

- \* Attend free seminars by insurance companies or stock brokers to determine the services they can offer.

- \* Refer to lesson 1, "Families and Money", for a list of magazines and books on money management.

#### ACTIVITIES

The activities in this lesson may again be a shared family activity. For example, even younger family members can help in filling out the Net Worth Statement.

They can use the classified section of the newspaper to look up the value of household goods advertised for sale that are similar to yours. The same is true for your home and car(s). Remember, sharing of the activities and planning by family members will contribute to the overall success of your "family" money management.

1. Determine your Net Worth by filling in the form on page 5.

2. If you set financial goals in the first lesson, review the goals to see if they are realistic. If you haven't set your goals, now is a good time to do it.

3. Follow the steps set out in this lesson as a guide to developing your family budget. If you already have a budget, this may be a good time to review it. Is your budget helping you reach your financial goals? If not, you may wish to revise your budget.

4. To find out if your family is increasing its net worth, fill in the Net Worth Statement on page 6 next year. The increase or decrease in net worth over the 12 months gives some idea of whether your financial plan is working or not. Be sure to take into account any unusual events during the year such as receiving an inheritance or having extra high medical, home, or car repair bills.

A slight decrease in net worth does not always mean there has been a failure in money management. If there has been enough savings to pay for some unusual expense, this should be considered to be a real success for your financial management plan. The crisis was met with savings instead of using credit. Your net worth decreased, but you did not have to take on extra debt.

A large decrease in net worth may be the result of a crisis. You may need to look over the family financial goals and budget to see where changes can be made. Then try again!

\*\*\*\*\*

#### NOTES



Date \_\_\_\_\_

# NET WORTH STATEMENT

## WHAT WE OWN

## WHAT WE OWE

ASSETS	Estimated Value	Liabilities	Unpaid Balance
=====		=====	
House and lot	\$ _____	Home mortgage	\$ _____
Other real estate	\$ _____	Second mortgage	\$ _____
Automobile(s)	\$ _____	Personal loans	\$ _____
Appliances	\$ _____	Appliances	\$ _____
Furnishings	\$ _____	Automobile(s)	\$ _____
Equipment	\$ _____	Furnishings	\$ _____
Clothing, jewelry	\$ _____	Equipment	\$ _____
Lawn, garden equip.	\$ _____	Clothing, jewelry	\$ _____
Life insurance cash values	\$ _____	Installment loans	\$ _____
Checking account balance	\$ _____	Charge accounts	\$ _____
Savings account(s) balance	\$ _____	Credit card accounts	\$ _____
Money market account(s)	\$ _____	Medical, dental bills	\$ _____
Stocks, bonds, mutual funds	\$ _____	Pledge(s) to charity	\$ _____
Pension benefits	\$ _____	Other	\$ _____
Cash on hand	\$ _____	Other	\$ _____
Other	\$ _____		
Other	\$ _____		
=====		=====	
Total Assets	\$ _____	Total Liabilities	\$ _____
		Total Assets	\$ _____
		-Total Liabilities	\$ _____
		=====	
		Net Worth	\$ _____

Date \_\_\_\_\_

# NET WORTH STATEMENT

<u>WHAT WE OWN</u>		<u>WHAT WE OWE</u>	
ASSETS	Estimated Value	Liabilities	Unpaid Balance
=====		=====	
House and lot	\$ _____	Home mortgage	\$ _____
Other real estate	\$ _____	Second mortgage	\$ _____
Automobile(s)	\$ _____	Personal loans	\$ _____
Appliances	\$ _____	Appliances	\$ _____
Furnishings	\$ _____	Automobile(s)	\$ _____
Equipment	\$ _____	Furnishings	\$ _____
Clothing, jewelry	\$ _____	Equipment	\$ _____
Lawn, garden equip,	\$ _____	Clothing, jewelry	\$ _____
Life insurance cash values	\$ _____	Installment loans	\$ _____
Checking account balance	\$ _____	Charge accounts	\$ _____
Savings account(s) balance	\$ _____	Credit card accounts	\$ _____
Money market account(s)	\$ _____	Medical, dental bills	\$ _____
Stocks, bonds, mutual funds	\$ _____	Pledge(s) to charity	\$ _____
Pension benefits	\$ _____	Other	\$ _____
Cash on hand	\$ _____	Other	\$ _____
Other	\$ _____		
Other	\$ _____		
=====		=====	
Total Assets	\$ _____	Total Liabilities	\$ _____
		Total Assets	\$ _____
		-Total Liabilities	\$ _____
		=====	
		Net Worth	\$ _____

Please return by \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### CHECK YOUR DECISIONS ABOUT FINANCIAL PLANNING

Please complete and return this form to your Extension Agent<sup>1</sup>. The next lesson will be sent to you.

Directions! As a result of completing this lesson, I/We plan to do the following, (Circle the appropriate response)

<u>Yes</u>	<u>Maybe</u>	<u>No</u>	<u>Have Already Done This</u>	
_____	_____	_____	_____	1. Determine the financial net worth of our family.
_____	_____	_____	_____	2. Set financial goals.
_____	_____	_____	_____	3. Develop a budget.
_____	_____	_____	_____	4. Involve all family members in financial planning.
_____	_____	_____	_____	5. Increase our net worth during the next 12 months.
_____	_____	_____	_____	6. Read other sources of information about financial planning.

\*\*\*\*\*

<sup>1</sup>The name and address of your Extension Agent is:

COOPERATIVE EXTENSION SERVICE  
U.S. DEPARTMENT OF AGRICULTURE

Virginia Polytechnic Institute  
and State University  
Blacksburg, Virginia 24061

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE \$300