E-Financial Update

Financial Ideas & Education for CCOERA Plan Participants

Ways to Better Control Your Finances

Does this headline look familiar? "Colorado is leading the Nation in Home Foreclosures." Whose fault is it? Real estate agents and mortgage lenders are selling consumers homes they can't afford and loans they don't understand. But who is really responsible for determining what is affordable, and for preparing for unexpected events - such as the loss of a job, an illness, an unplanned auto expense, or rising mortgage interest rates? We are!

Good financial management begins with a healthy appreciation of the facts of life. Bad things can happen to good people. Nothing in life is guaranteed. The unexpected occurs. Things change. The only way to deal with these realities is to plan for them and save for them. We must learn to distinguish between things we need versus the things we want, and then effectively maintain a good balance between the two. Wise money managers always take care of things they need first, before spending money on things they want.

The key to effective money management is to start keeping a monthly expense record. All you need is a blank sheet of paper that you divide into columns, one you will use to list the typical expenditures you make each month and the others you will enter the actual monthly amounts spent for each item on the list. This will help you clearly identify how much you are spending and where the money is going. After 3 to 4 months, you will be able to identify the changes you want to make.

Ideally, you are only spending money on things that are truly meaningful to you (unforgettable purchases or future financial needs), rather than things that are easily forgotten (last month's credit card purchases). Once you have identified the expenditures that are easily forgotten, you can start directing these funds toward some meaningful savings goals: an emergency cash reserve, special purchase savings, college funds and retirement accounts.

An emergency cash reserve is an essential need. The general rule is to have enough money in a short-term checking or savings account to cover your monthly expenses for three to six months. For example, if your net take-home pay is $3,000/month, you should have $9,000 – $18,000 in cash reserves. The actual amount of your cash reserves should be guided by your current job security, family status, monthly expenses, debt level and comfort zone.

Remember, cash is king! Use it to negotiate lower prices on major purchases and avoid paying unnecessary interest expense. The money you save can be invested to build your retirement account and help you achieve financial independence.

Some people use credit cards as an emergency backup. However, you don't want to rely on a credit card as a backup reserve. It will only increase your obligations and worsen your financial situation. This is the type of debt buildup that leads to foreclosures and bankruptcies. It is best to pay credit card balances off monthly.

It is important to emphasize that the unwise use of debt is hazardous to your financial health and future.
The best use of debt is to purchase an appreciating asset (like a home or rental) whereas the worst use of debt is to purchase a depreciating asset (like a big screen TV) or consumables. Always make sure you can afford any new debt by calculating your new monthly net cash flow after subtracting the new payments!

There are no real secrets to sound money management. It is simply a matter of learning to live below your means, focusing your expenditures on your needs before your wants, and regularly saving the difference. This enables you to have cash for emergencies, cash for special purchases and assets for retirement.

If an individual follows these practices on a regular and consistent basis, there should be no concerns about foreclosures, repossessed cars and living paycheck to paycheck. Financial peace of mind and security will be yours.