Managing Debt to Improve Your Mental Wealth

Money Management
INTERNATIONAL

Improving lives through financial education.

Introduction

We read about it in the headlines. We hear the horror stories. We feel the effects.

It seems as though no one is immune to it. It's destructive. It's devastating.

It's debt.

Living underneath the burden of crushing debt is a scary place to be. But there is a way out. And the financial educators at Money Management International (MMI) are here to help.

Through this eBook, we will address debt from three angles. First, we will look at the overall impact of carrying debt. Next, we will help you assess your current situation and your relationship with debt. And finally, we will help you create your own debt-free plan using our helpful tips and guides.

There is light at the end of the tunnel — and we'll help you get there.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

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contents

Table of Contents

Part 1 Life in the dark

The burden of debt can feel like a dark, scary place. When you're living in that state of mind, it can be hard to fully see the impact it is having on your life.

But in reality, the impact of debt is far-reaching. It affects more than your finances, it can impact your relationships and even be detrimental to your health.

It's time to shine the light on debt.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Debt, unveiled.

Debt can feel as though it is cloaked in a shroud of mystery.

Sure, we know it's something we want to avoid at all costs (or do we?). But what is debt? And is it necessary?

In its simplest form, debt is defined as:

An amount owed to a person or organization for funds borrowed.

Debt can be represented by a loan note, bond, mortgage or other repayment obligations. These different forms of debt all imply intent to pay back an amount owed by a specific date, which is set forth in the repayment terms.

To understand debt, you must first understand credit. Debt and credit go hand-in-hand. Debt is something owed and credit is something given.

To receive credit, you must first agree to terms specified by the lender. This contract is a loan agreement.

Whether you're applying for a credit card at your local department store or you've decided to finance the new car you've been eyeing, you are entering into a legally binding agreement with a creditor.

The terms of the loan include the amount of time you have to pay the full amount borrowed, as well as the amount of interest included and how it will be calculated.

While debt is often viewed as a negative thing, it can have a place in your financial plan when it's properly managed.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
contents

Glossary of credit terms

As you're reviewing your loan and credit card information, there are some important terms you should know in order to adequately assess your financial situation. Visit the FTC to view more credit terms and facts.

Here are some of the most important ones:

Annual Percentage Rate (APR): The yearly amount (expressed in a percentage) that is charged for borrowing from a lender. Each billing period, the company will charge a fraction of the yearly amount, which is known as the periodic rate.

Average Daily Balance: The average daily balance is determined by adding each day's balance and then dividing that total by the number of days in the billing cycle. This is a method used by many creditors to calculate interest charges.

Collateral: Property or goods used as security against a loan and subject to seizure if the loan is not repaid. Houses and cars are common forms of collateral.

Compound interest: Interest that is charged on previously accrued interest in addition to the initial amount owed.

Default: Failure to make a payment on a debt by the due date, which can result in increasing interest rates and even legal action.

Delinquent account: An account that is past-due.

Late charge: The fee charged to a borrower who hasn't paid at least the minimum payment on a debt by the due date.

Minimum monthly payment: The lowest amount of money the borrower must pay in order to keep the loan current. For credit cards, this amount is generally 2 to 4 percent of the balance and doesn't always cover the interest due.

Principal: The initial amount of money that was borrowed.

Secured vs. unsecured debt: Secured debt is secured by collateral (such as a mortgage, which is secured by the home), while unsecured debt is not linked to an asset.

Subsidized loan: A loan in which the borrower is not required to pay interest for a specified amount of time. For example, the U.S. Government subsidizes certain student loans, which means the student is not required to pay interest while the student is attending school.

Unsubsidized loan: Unsubsidized student loans accrue interest while the borrower is still in school.

How is debt affecting you? You may be surprised ...

A 2010 study by the American Psychological Association found that money was respondents' top source of stress. MetLife's Ninth Annual Study of Employee Benefits Trends found that employees who are in worse financial situations are more likely to report worse health than their counterparts who aren't similarly stressed. In addition, an Associated Press/AOL poll of people comparing those with high debt stress to those who had low debt stress found the following:

- Twenty-seven percent with high debt stress had ulcers or digestive tract problems, compared with eight percent with low debt stress.
- Forty-four percent with high debt stress had headaches or migraines, compared with four percent with low debt stress.
- Twenty-three percent with high debt stress felt they were suffering from depression, compared with four percent with low debt stress.
- The heart attack rate of those with high debt stress was double that of those with low debt stress.
- Sixty-five percent more people with high debt stress suffered from muscle tension or lower back pain than those with low debt stress.

In addition, those with high debt stress were much more likely to have trouble concentrating and sleeping, factors that can affect productivity at the job. They were also prone to getting upset without reason, which can manifest itself in the workplace.

Learn more about the far-reaching impact of debt with MMI's free InfoGraphic.

According to an MMI study on personal finance

- *Twenty-seven percent of more than 1,400 respondents indicated that their marriage was experiencing the most stress as a result of their financial situation, while 24 percent said their health was suffering.*
- *Fourteen percent of respondents indicated they felt significant stress related to their job. For those who are employed, they are likely working long hours, taking on extra responsibilities, and accepting pay freezes and declining benefits.*
- *Sixteen percent of respondents said their sleep had been impacted the most by their financial situation.*
- *Thirteen percent of respondents indicated their stress was impacting their role as a parent. Concerns related to paying the mortgage or rent, buying groceries, and paying utility bills can put a significant strain on family relationships.*

View the full results from MMI's 2011 personal finance study.

Financial concerns can impact your life 24 hours a day, seven days a week.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
contents

Money and happiness

When thinking about improving your financial life, be sure not to confuse money with happiness. Far too many people believe that money can make them happy. Money can buy things that you like; however, happiness is not something that can be bought at any price. In fact, recent research has provided scientific evidence that financial control is strongly linked to self-esteem and that money cannot buy happiness.

It may be hard to believe, but studies reveal that mere months after winning a large lottery prize, people are not much happier than they were before they had the money. You're probably thinking that regardless of what the studies show, you'd like to give winning the lottery a try. Truthfully, so would most people. The reality is that only a very small percentage will ever experience winning the lottery, and that's why nobody should count on it.

What we can count on is deciding to be in charge of our own happiness. Since you can't buy yourself into happiness, you will need to look beyond money for fulfillment.

- **Happy people spend time with people they care about.**
- **Happy people do what they love for work or as a hobby.**
- **Happy people take control of their own ability to make good decisions that help them feel in control of their lives.**

Money can't buy happiness, but financial wellness can provide you a lot of things worth working for, including peace of mind, the power to make choices, and high financial self-esteem.

When is a little debt too much?

How do you know when a little "acceptable" debt becomes a potentially dangerous situation? For some, the crisis is clear, but for many, the clues are subtle.

As a general rule, no more than 20 percent of your disposable income should go toward debt payments (not including your mortgage).

Take this quick quiz to assess your current debt situation.

Is an increasing percentage of your income going to pay off debts?	○ Yes ○ No
Is your savings cushion inadequate or nonexistent?	○ Yes ○ No
Are you near or at the limit of your lines of credit?	○ Yes ○ No
Can you only make the minimum payments on your revolving charge accounts?	○ Yes ○ No
Are you extending repayment schedules — paying in 60 or 90 days bills once paid in 30?	○ Yes ○ No
Are you chronically late in paying your bills?	○ Yes ○ No
Are you paying bills with money earmarked for something else?	○ Yes ○ No
Are you borrowing money to pay for items you used to buy with cash?	○ Yes ○ No
If you lost your job, would you be in immediate financial difficulty?	○ Yes ○ No
Are you unsure about how much you owe?	○ Yes ○ No
Are you threatened with repossession of your car or credit cards, or other legal action?	○ Yes ○ No

If you answered "yes" to any of these questions, you should give pause for thought. While a single "yes" is not a sign of impending doom, it may be an indication that you need to make a change.

Emotional shopping: How feelings can lead to spending

The complex nature of our turbulent economy can leave consumers feeling powerless — perhaps bringing the nation's problems to a more personal level.

A study out of Northwestern University shows that the more often we feel powerless, the more likely we are to spend beyond our means. The study may partially explain. While it is important for consumers to try and understand what is happening with our nation's economy, it is imperative that consumers empower themselves to take good care of their personal economies.

A report confirms that shopping when sad can easily decrease financial stability.

In addition to the risk of spending money they didn't plan to spend at all, sad shoppers are inclined to pay more for those unplanned expenses than other shoppers. Specifically, the researchers found that sad, self-focused people were willing to spend almost 300 percent more money for an item than people who were feeling more neutral.

300%

If you are feeling blue and have money to spend, trying spending it on an **experience** instead of an object.

According to research presented by Psychologist Miriam Tatzel of Empire State College, people who spend money on experiences (called "experiencers") are happier than people who spend money on objects. Even better, opt for a free experience that can benefit your mental and financial health, such as taking a walk or reconnecting with a friend.

The way you pay — it matters!

Studies show that people tend to spend less when paying with cash as opposed to paying with credit. But did you know that paying with cash can make you physically healthier too?

Researchers from Cornell University found that people who pay for their food with cash make healthier purchases than people who pay with a debit or credit card.

Perhaps having a limited amount to spend makes people think more about what they are getting for their money. According to the study's authors, the reason is two-fold: "First, there is a correlation between unhealthiness and impulsiveness of food items. Unhealthy food items also tend to elicit impulsive responses. Second, cash payments are psychologically more painful than card payments, and this pain of payment can curb the impulsive responses to buy unhealthy food items."

Next time you head out to lunch or dinner, try paying with cash — it could make both you and your wallet a little bit healthier.

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

contents

Your relationship with debt affects your relationships with others

Need another reason to get your finances in order? Do it for love.

A couple's wedding vows may include the phrase "for richer or for poorer," yet many people still place a high value on financial security.

In fact, studies show that many adults consider a "low debt level" an important factor that has an impact on relationships. Many survey respondents also highly value a good credit history and adequate savings.

While money issues clearly have far-reaching implications, many consumers continue to live on the brink of financial disaster. It's no wonder that **money is the most common source of disagreement for couples,** regardless of their ages or life stages.

Fortunately, the trend also works in reverse. Studies have found that happy couples agree on how to handle money significantly more than unhappy couples. They also have fewer concerns about debt and the proper amount to put into savings.

Because money matters, experts recommend that couples devote more time to improving their financial positions. It is an unfortunate fact that financial problems can damage personal relationships. For both newly married couples and long-standing marriages, financial communication is crucial.

As you go through the process of improving your finances, make the resulting decisions together and agree to disagree on some issues. Remember that everyone has his or her own money management style that has been shaped by his or her past experiences. Just because your partner's style is different from your own does not make it wrong.

Approaching the issues honestly and openly gives you a much better chance at a strong, healthy financial relationship.

Your guide to the coupling of finance and romance, see Money Management's Love and Money eBook.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
contents

Part 2 Evaluate your situation

In order to fix a problem, you must first start at the beginning. This section turns the mirror on you. It's time to take an honest look at your financial habits and the reasons that may lead to a financial setback.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

contents

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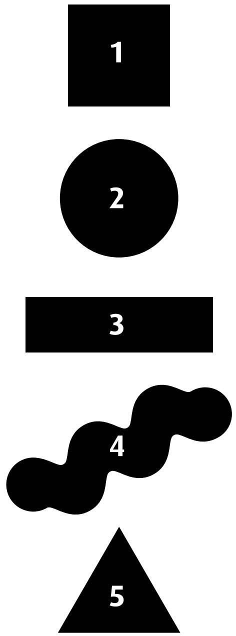
What is your money personality?

Choose the shape that most appeals to you.



1 **Square:** You are good with detail and tend to be very logical, analytical and task-oriented. You are good with budgets and are able to stick to a structured plan.

2 **Circle:** You are a lover. You are nurturing, sensitive, talkative and very social. Plainly put, you are good with people. Because you are giving, you have difficulty saying no, and this is hard on a budget.

3 **Rectangle:** You are good with detail but are more flexible than a square. You are an organized team player and are usually fair. You are best at budgeting because you are flexible and have a desire to involve family members.

4 **Squiggle:** You are open-minded and creative and have many friends. You have a love of freedom but do not care for detail. Your spontaneity can make you an impulse spender who has difficulty following a budget.

5 **Triangle:** You are a sharp, powerful risk taker. You make lists and act. You control your money but are willing to take risks with it.

Values are fundamental beliefs about what you regard as important, desirable, and worthwhile. Each of us differs in the way we value employment, family life, spiritual matters, personal health, education, public policy, credit use, and the many other issues that confront us daily. Often, values reflect your family background and change very little over your lifetime.

Did you know?

One way to recognize personal values is to examine the ways you spend, save, and share your time and money. If you are not satisfied with what you are getting out of life, there may be a conflict between your values and how you use your time and money.

Values serve as the basis for financial goals. Do you agree with the personality assessment? Do you feel that you are living in a way that is consistent with your values? How can you bring your values and your actions more in line with one another?

Assess — and reassess — your priorities

The simplest way to get out of debt is to budget spending and earn enough money to pay off your debts. But before you can begin a budget, you must understand your priorities.

Make a list of your priorities according to your current spending habits. It may be difficult to acknowledge, but odds are they aren't reflective of your true priorities.

Now, make a list of your priorities as they should be, then list your top three. For example, if you have children you might list them as your top priority. Or you could be more general and just list "family."

Refer back to that list when you are having difficulties — whether you're questioning your budget or you're having a moment of weakness while window shopping, you can look back at your priorities and realize that "fun new shoes" don't (and shouldn't) fall into any of the categories you listed.

Creating a list of needs and wants can help you establish your financial priorities. Use this worksheet if you need help getting started. Check whether the item is a "need" or "want." Then, rank the item's priority based on importance.

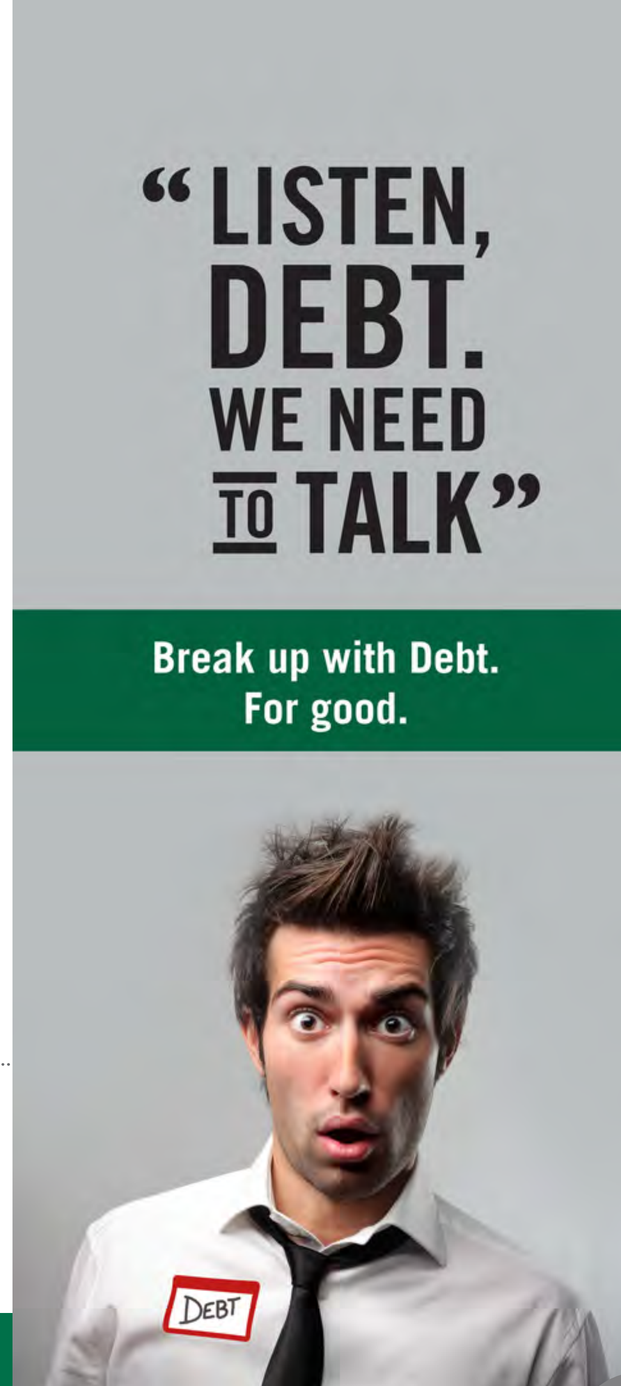
Take the Debt relationship quiz.

Is your relationship with Debt costing you more than money? Is it time to break up with Debt? Take this simple quiz to evaluate just how bad your relationship with Debt has become.

- Is your relationship with Debt affecting your home life?
- Do you think about Debt frequently?
- Does this affect your daily work?
- Has your relationship with Debt hurt your reputation?
- Does Debt make you think less of yourself?
- Do you hide your relationship with Debt and give false information to obtain credit?
- Has Debt caused you to make unrealistic promises to your creditors?
- Has the pressure of living with Debt made you careless toward your family's welfare?
- Do you ever fear that your employer, family or friends will find out how bad your relationship with Debt has become?
- When faced with a difficult financial situation, does the prospect of borrowing give you an inordinate feeling of relief?
- Do you have trouble sleeping because of the pressure you feel from Debt?
- Does your relationship with Debt cause you to drink too much?
- Has Debt ever made you borrow money without properly considering the interest rate?
- Do you usually expect a negative response when you are subject to a credit check?
- Have you ever developed a plan to end your relationship with Debt, only to find that you fall back into the same old habits?
- Do you justify your unhealthy relationship with Debt by telling yourself that you are superior to others in similar relationships, and that when you get your "break," you'll be rid of Debt for good?

According to Debtors Anonymous, if you answered "yes" to eight or more of these questions, then you need to seriously reconsider your relationship with Debt.

Maybe now is the time to make a clean break. If you think so too, MMI counselors are available 24/7 to help you get started.



Take control now. Schedule a free, no-obligation counseling session at 866.400.6652.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Who do you owe?

If you do not know who you owe or how much you owe, you should obtain copies of your credit bureau files.

Because your credit file is constantly being updated with new information, it pays to understand exactly what is included in your file and to monitor the accuracy of what is being reported about you. To obtain one free copy of each of your credit reports every year, visit AnnualCreditReport.com.

A good rule of thumb is to review your reports at least once a year. Once you have your reports, review them for accuracy, paying particular attention to the following.

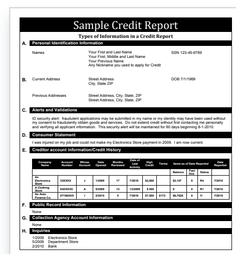
Personal information. Make sure the names and addresses listed on your reports are accurate and up-to-date. In some cases, an incorrect address or suffix, such as Jr. or Sr., can result in someone else's information appearing on your reports. Also, if your address has been unexpectedly changed on your reports, it may indicate that someone is fraudulently opening accounts in your name and rerouting the new cards.

Account information. Review the information about all open and closed credit accounts. Make sure that all balances and dates are accurate. Remember to report any unfamiliar account activity, as someone else could be using your account.

Inquiries. Inquiries result from new credit applications or when you authorize an employer or insurance company to check your credit history. Attempting to open too many credit accounts in a short period of time may have an adverse affect on your credit score. The inquiries you see on your credit bureau file where you did not apply for credit are considered soft inquiries and are from creditors who are considering you for a credit solicitation offer. While you have a right to see these inquiries, they are not seen by potential lenders and do not impact your creditworthiness.

Credit scores. For a fee, you can also obtain your credit scores. By comparing your information to the patterns in hundreds of thousands of past credit reports, a credit score identifies your level of future credit risk. A significant, unexpected drop in your credit score could indicate a problem and should be investigated.

If you need help understanding your credit reports or scores, you can contact a trained credit counselor at MMI. Your counselor will review your reports with you and help you determine a course of action to improve your credit standing.



Sample Credit Report

Types of Information in a Credit Report

A. Personal Identification Information

Names — Your First and Last Name / Your First, Middle and Last Name / Your Previous Name / Any Nickname you used to apply for Credit — SSN 123-45-6789

B. Current Address — Street Address / City, State ZIP — DOB 7/1/1969

Previous Addresses — Street Address, City, State, ZIP / Street Address, City, State, ZIP

C. Alerts and Validations

ID security alert: fraudulent applications may be submitted in my name or my identity may have been used without my consent to fraudulently obtain goods and services. Do not extend credit without first contacting me personally and verifying all applicant information. This security alert will be maintained for 90 days beginning 8-1-2010.

D. Consumer Statement

I was injured on my job and could not make my Electronics Store payment in 2009. I am now current.

E. Creditor account information/Credit History

Company Name	Account Number	Whose Account	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported			Date Reported
								Balance	Past Due	Status	
An Electronics Store	33XXXX	J	1/2009	17	7/2010	$2,500		$2,107	0	R4	7/2010
A Clothing Store	54XXXXX	A	5/2009	12	12/2009	$ 500		0	0	R1	7/2010
An Auto Finance Co.	57196XXX	I	2/2010	5	7/2010	$7,500	$172	$6,7826	0	I1	7/2010

F. Public Record Information

None

G. Collection Agency Account Information

None

H. Inquiries

1/2009 Electronics Store
5/2009 Department Store
2/2010 Bank

Are you playing the credit game?

Answer the following questions:

Are you paying late fees?	○ Yes ○ No
Do you borrow for items you once bought with cash?	○ Yes ○ No
Do you check to see if you have your credit cards before leaving for the mall?	○ Yes ○ No
Do you juggle other bills to keep up the minimum monthly payment on credit cards?	○ Yes ○ No
Do you pay only the minimum or less on your credit cards each month?	○ Yes ○ No
Have you reached the credit limit on your credit cards?	○ Yes ○ No
Have you taken money from your savings account to pay your credit card bills?	○ Yes ○ No
Is life without credit cards unthinkable?	○ Yes ○ No
Is your current job barely making ends meet?	○ Yes ○ No

If you answered yes to any of these questions, you could end up stuck in a game you can't win. Talk to an MMI counselor today to better evaluate your financial situation.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

contents

Your financial toolbox

CALCULATORS:

What will it take to pay off my balance? Use this calculator to help you determine the amount of time it will take you to pay off a specific balance.

What's it worth to reduce my spending? You already know that by cutting back on your spending you'll save money. But just how much money can you save by eating out less frequently or waiting to buy a new car? You may be surprised. Input your information into this calculator to determine the most effective ways you can reduce spending.

How much am I spending? Use this calculator to help you compare your current spending compared with your desired spending. This information can help you target the areas where you're spending more than you may realize.

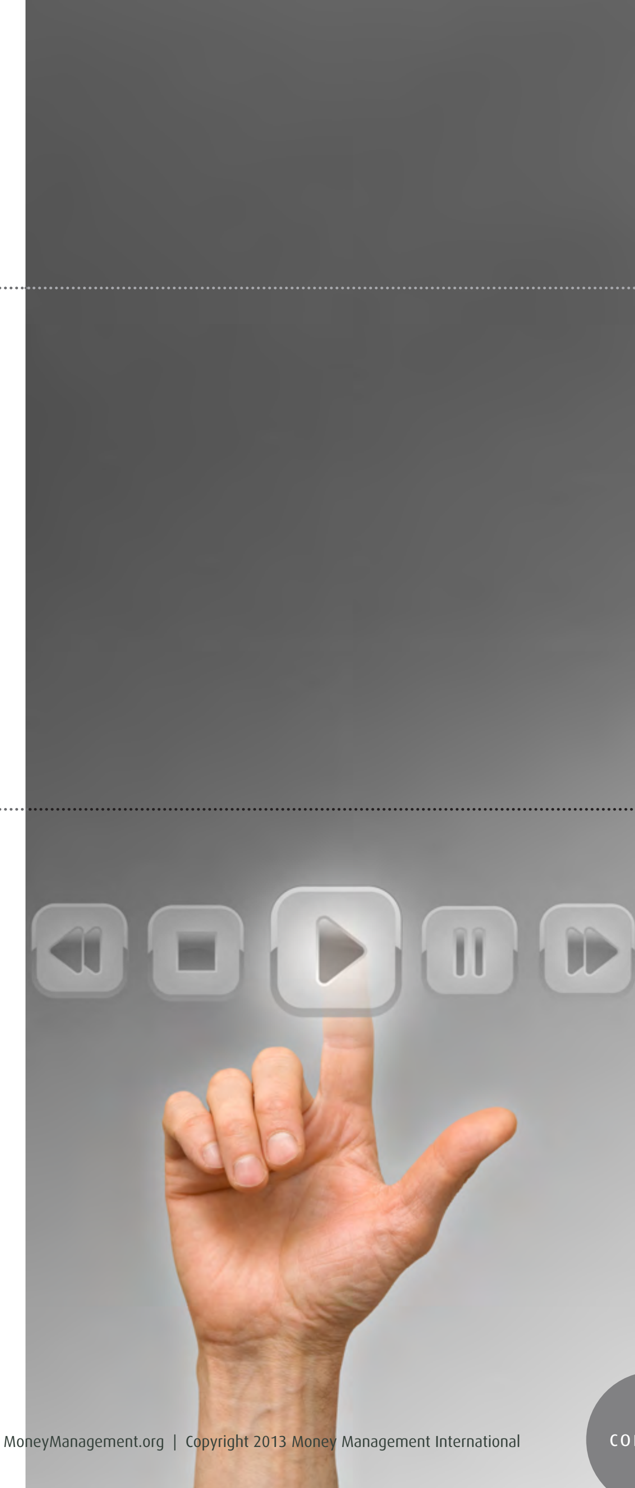
WEBINARS:

MMI offers free financial webinars that cover a variety of topics. Whether you want to better understand your credit report or you want to learn how to talk to your significant other about financial issues, MMI has a webinar for you.

Some of the webinar topics include, but are not limited to:

- Budgeting: Making your money count
- Understanding your credit report and score
- Put your debt on a diet
- Planning for the holidays
- Let's talk: Couples and money

New webinars are frequently added to the site, so check back often!



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
contents

Part 3 Finding the light

Getting out of debt is a difficult process. But you can do it. If you stumble along the way, don't be deterred. And if you ever need help seeing the light at the end of the tunnel, the counselors at MMI are always here to help.

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How do you feel?

Are you happier?

Envision a debt-free life

Are you healthier?

Are you spending more time with family and friends?

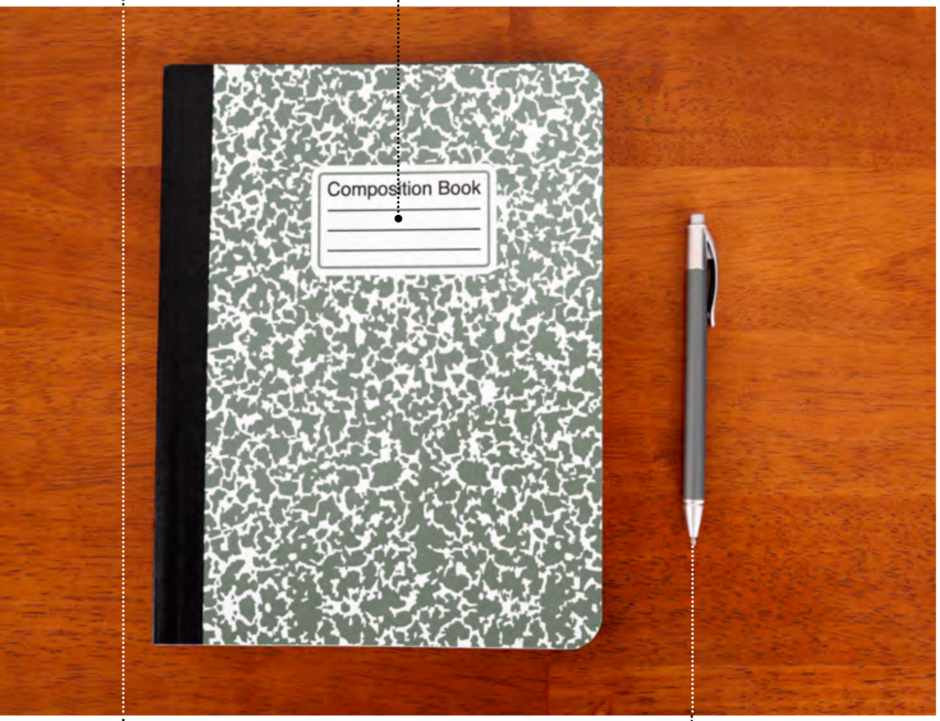
Are you doing more of the things you enjoy?

Make a plan

There are two popular methods that people use to tackle debt.

Tackle smallest balance first.
The first is to concentrate on paying off the debt with the smallest balance first (never forgetting to make required minimum payments to all debts, of course). After that balance is repaid, you can then apply that payment to the card with the next smallest balance and continue the process until all debts are satisfied. This method can be very rewarding because you see progress quickly.

Tackle highest interest rates first.
The second popular method is to first concentrate on repaying the debt with the highest interest rate. This method will save you the most in interest charges over time. Regardless of the method you choose, be patient and persistent.



Document your spending

It's time to start tracking your spending so that you can create and follow a personal budget.

Tracking your spending, while sometimes tedious, is the best way to find out exactly where your money is going.

The simplest way to track your spending, especially your cash, is the low-tech way — with a notebook and a pen. By carrying around the notebook with you, you can track exactly where every dollar is going — from a small coffee on your way to work to a spending splurge at the mall.

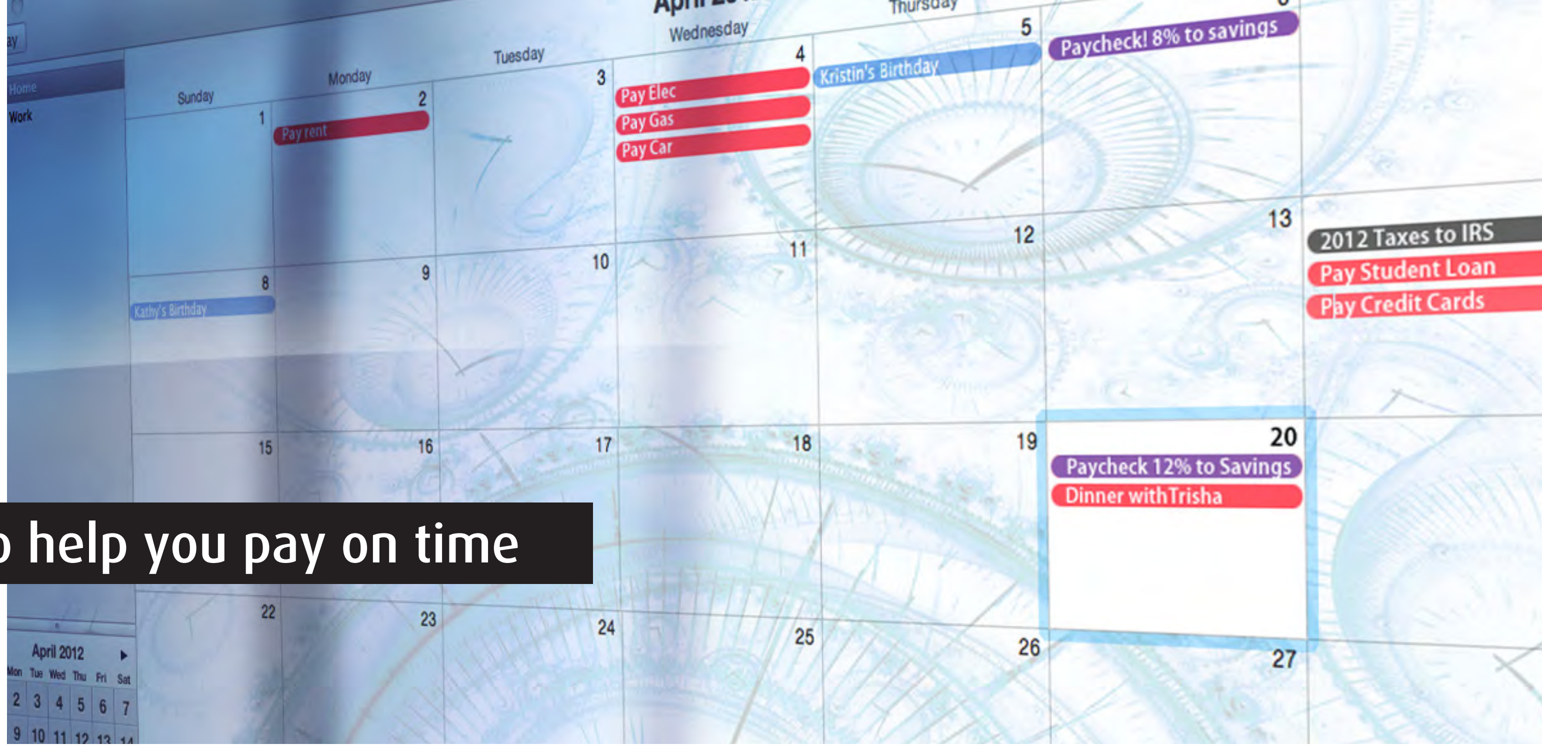
Once you have collected information for about a month, you'll have a good baseline of information to use to create your personal budget.

Your budget should include categories for fixed expenses (rent or mortgage, car payment, debt payments), variable expenses (groceries, utilities, entertainment), and periodic expenses (car repairs, gifts, home maintenance).

Your budget should also contain personal savings amounts for your emergency fund, long-term and short-term goals, retirement, and any other savings goals you may have. It's important that you budget for your savings rather than waiting until the end of the month to "see what's left."

Make time weekly or monthly to review your spending and ensure you're following your budget. You can also use this simple Expense Worksheet. You may be surprised to find out how the frequent small amounts you spend actually add up to big money.

Video: Benefits of repaying debt



Tips to help you pay on time

Not only does paying bills late affect your credit score, it also costs you in late fees and other penalties. If you have the cash to pay, but you still find yourself paying late, consider the following methods to get your bills paid on time:

- **Read the payment instructions.** If you forget to include your account number on the check or pay on a holiday, the payment might not be processed by the due date.
- **At minimum, pay the minimum.** Even if you can't pay the full balance, at least pay the minimum to keep the account in good standing.
- **Automate payments.** Today you can sign up for automatic payments for most bills, including utilities, credit cards, and more. The accounts are linked to your credit card or checking account, and the bill is automatically paid before or on the due date.
- **Batch your bills.** Switch the due dates for all of your bills so that they're all due on the same day or a range of a few days. That way you'll only have to pay bills once a month, and you won't run the risk of spending your paycheck and forgetting that the electric bill hasn't been paid.
- **Use online alerts.** Personal finance applications like MyCheckFree, Pageonce, and Mint will alert you to upcoming bill due dates.

It's important to understand that paying off a credit account will not remove the history from your credit report — it stays on your report for seven years. Nevertheless, both good history and bad history count toward calculating your score, so the longer you build good history by paying your bills on time, the higher your score will go.

Your to-do

(and not-to-do)

lists

Top 10 things not to do

- **Don't pay for bad habits.** Little things can really add up. For example, don't leave the air conditioner on full blast all day; you'll add 5 percent on your cooling costs for each degree.
- **Don't pay ridiculous fees.** ATM fees, over-the-limit fees, and late fees are all a waste of money.
- **Don't confuse the terms "qualify" and "afford."** Just because someone will lend you the money, doesn't mean that you can comfortably afford to pay the bill month after month.
- **Don't mistake shopping as a recreational sport.** Emotional spending doesn't work. Instead, try to always remember how great it feels to have peace of mind.
- **Don't use the IRS like a piggy bank.** There is no reason to take your hard-working money out of commission. Just think, if your annual refund is $1,000, that means you could increase your take-home pay by more than $83 a month.
- **Don't pay someone to "fix" your less-than-perfect credit reports.** There is no company or person that can repair your credit any better than you can.
- **Don't underestimate the impact of blending friends and money.** Lending money to a friend can end up costing you much more than the amount of the loan. And be very careful when blending finances with a significant other until you have legal protections, such as a marriage might offer.
- **Don't ever take out a payday loan.** Quick cash loans, often called payday loans or cash advance loans, are short-term, high-fee loans that can turn a temporary setback into a major financial crisis.
- **Don't listen to advertisers who sell the idea of entitlement.** You may deserve everything you have ever wanted, but the key is to be happy with the things you already have. Changing your mindset can help put you on the right financial path.
- **Don't count on winning the lottery.** There is a really, really good chance that you won't.

Your to-do

(and not-to-do)

lists

Top 10 things to do

- **DO save now for your future.** You've heard it a million times because it's true: the eighth wonder of the world is compound interest.
- **DO communicate openly.** Research consistently shows that money is the most common source of disagreement for couples, regardless of age or life stage. Approaching the issues honestly and openly gives you a much better chance at a strong, healthy financial relationship.
- **DO pay down debt.** Too much debt is not merely a financial problem. Financial problems can negatively impact job performance, health, and personal relationships.
- **DO teach your children about money.** Too many young adults have to learn about finances from the school of hard knocks. Remember, children learn more from what they see you do than from what you tell them.
- **DO shop around.** Your creditors would not just accept you at face value, so why the double standard? Shop for credit as you would shop before making a major purchase.
- **DO protect yourself from ID theft.** Identity theft is the fastest growing crime in America, with millions of victims each year. There are many ways you can protect yourself from identity theft. One of the most important things a consumer can do for their credit is to protect their confidential personal information.
- **DO build a good credit history.** Your creditworthiness matters most when you are trying to obtain credit. Credit reports might also matter when renting an apartment, obtaining insurance, or securing some types of employment.
- **DO plan for periodics.** At the very least, be prepared for periodic expenses such as auto repair bills and holiday shopping. Ideally, you should also be prepared for a medical emergency and a reduction in income — even if you are lucky enough to avoid these financial disasters.
- **DO know your rights.** Solving credit problems can take a lot of time and effort. However, by educating yourself about your legal rights (FCRA, FCBA, ECOA, FDCPA) you can ensure that you are treated fairly.
- **DO get help if you need it.** Assemble a financial team. Members might include a lawyer, a tax advisor, a credit counselor, and a financial planner.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

contents

Set goals

Setting tangible and realistic goals is the key to success in achieving freedom from debt.

- Determining your short-term, mid-term, and long-term personal financial goals is the first step.
- Some common financial goals may be a dream vacation, a new home, college savings, retirement savings, and an emergency fund.
- The next step is to determine a good estimate for how much money you'll need for each. Figuring out an accurate amount involves planning and re-planning — for example, if you are saving for college for your children, what percentage do you want to pay? Also, do you want to pay for a state school or a private school? Retirement savings needs depend greatly on the lifestyle you plan to lead once you are retired, as well as when you plan to retire.
- Prioritize each of your personal goals in order of importance, and then determine the length of time it will take to save for each of them. Retirement could be many years away, but your short-term goals could be in a year or two.
- Next, estimate how much interest or capital gains you'll expect to see in the accounts where you are saving your money. While capital gains are never guaranteed, you can use an estimated average for these purposes.
- Finally, figure out how much you'll need to save per month to achieve your financial goals. Don't be discouraged if the dollar amount is overwhelming. Keep in mind that you can always readjust both the goal and the amount as appropriate.

The important thing is to have a set of tangible financial goals to work toward. On a monthly or quarterly basis, review your progress and continue to refine your plan as needed.

If you aren't meeting your goals, revisit your financial budget to see if there are any areas where you can cut expenses in order to free up money for savings. In addition, use this plan to allocate any windfall amounts you may receive — from bonuses, inheritances, tax refunds, etc.

To help simplify the goal setting process, try using this Goal Worksheet.

Final tips to stay on track

Take it one step at a time. Set a series of smaller goals instead of constantly reaching for that one big accomplishment.

Make sure your goals are both realistic and flexible. If you set your goals too high, frustration will keep you from reaching them.

Remind yourself of your goals on a regular basis. At the very least, you should write them down and share them with your family. It might also help if you post goal reminders where you will see them every day.

Celebrate your successes. When you accomplish a goal, allow yourself to feel a moment of pride before setting your sights on the next one.

Don’t give up. When things don’t go quite as planned, it is tempting to throw in the towel. Instead, understand that minor setbacks are inevitable and should not keep you from moving toward your goal.

Get and give support. Whether you choose to speak with a credit counselor or simply join an online community of like-minded people, it helps to remember that you don’t have to go it alone. Likewise, it can be very rewarding to share your experiences with others.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

About Money Management International

Money Management International is dedicated to improving lives through financial education.

As the largest, nonprofit, full-service credit counseling organization in the nation, we develop materials over a wide range of topics to help you make the most of your money.

We also provide professional financial guidance, credit counseling, community-wide educational programs, debt management assistance, bankruptcy counseling and educational services, and housing counseling assistance to consumers via phone, Internet, and in-person sessions.

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

contents