

Money for Life

January 2006

Dear Readers,

Are you looking for ideas to improve your finances in the new year? Consider the following suggestions from Rutgers Cooperative Research and Extension for your New Year's resolutions.

Set financial goals. It takes discipline and focus to postpone spending in the new year for a goal that may be years, even decades, away. That's why having specific goals is so important. They provide an incentive to save and something to strive for. Put a date and price on each financial goal. Once you have a total cost, you can break it down into smaller pieces, such as "save \$600 a year for three years" and even smaller pieces, such as "save \$50 per month."



Commit to saving regularly. Small amounts of savings add up. If someone saves \$2,000 per year from age 20 to age 66, they would have \$975,000 accumulated after 46 years, assuming an 8% average return. Savers who wait until age 30 and save \$2,000 per year for 36 years would have \$440,000 and those who wait until ages 40 and 50 and save \$2,000 per year for 26 and 16 years, respectively, would have \$188,000 and \$73,000. Pay yourself first. Set aside an affordable amount each month in accounts designated for your financial goals.

Accumulate an emergency fund of at least three month's expenses. This is savings set aside specifically to meet emergencies or unanticipated bills or to cover monthly living expenses if your paycheck stops (e.g., unemployment). Too often

people use credit cards or borrow from family members in an emergency because they don't have a savings account to fall back on when unexpected things happen.

Make establishing an emergency fund a priority. Fund it with approximately three to six months of living expenses or whatever amount gives you peace of mind. Whatever you withdraw from the emergency fund, pay yourself back based on a predetermined schedule as you would any other bill. Discipline yourself to use this money only for real emergencies (e.g., car repairs, sickness, etc.). Keep this money liquid in cash equivalents such as a savings account, money market mutual fund, or short-term CD. It may take a few months to a year to accumulate an adequate reserve. The key is to get started now and save regularly to accomplish this goal.

PowerPay your debt. Making "power payments" is a method to systematically put you on the path to being debt free. A power payment is an enhanced payment to a particular creditor. As soon as one debt is totally repaid, the monthly payment from that account is applied to another debt. For example, if you owe eight creditors and one is repaid, the previous payment to the paid off creditor is added on to the payment sent to one of the remaining seven creditors so that debt repayment is accelerated



Money from paid off accounts continues to be reallocated to repay other debts at progressively accelerated rates until eventually all debts are paid.



The result can be hundreds, even thousands, of dollars saved on interest payments and months or years earlier repayment. Better still, there is no additional monthly cost. You continue to make the same total amount of payments each month. The payments are just reallocated differently as various creditors are repaid.

Contact your local county ISU Extension office and ask for the PowerPay worksheet (PM 1873b) and the brochure “Reduce Your Debts the PowerPay Way (PM 1873c). List the amount you owe on each debt, the monthly payment, and the interest rate. Mail in the worksheet and the computer program will calculate the best way to pay off your debts. You will receive an easy-to-read analysis that shows how much you will save and a calendar of payments so you know how much to pay on your debts each month. This service is free and confidential.

Maintain a low debt-to-income ratio. Monthly consumer debt payments should be 15% or less of monthly take-home pay. Example: \$275 of debt payments divided by \$2,500 of net pay equals a consumer debt-to-income ratio of 11%.

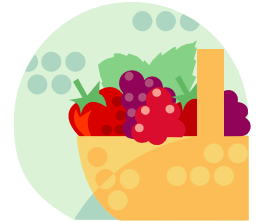
Perform an annual financial check up.

Periodic financial check-ups are as important as a routine physical exam to identify problems and potential remedies. A helpful self-assessment tool is Rutgers Cooperative Extension's online Financial Fitness Quiz at www.rce.rutgers.edu/money/ffquiz.

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Develop your human capital. The most recognized way that people invest in human capital is through formal education that leads to a college degree, trade school certificate, or high school diploma. Other ways to develop human capital include on the job training and experiences, non-credit courses, and self-employment or consulting work that broadens one's skill set and/or professional network.

Another way of investing in human capital is by spending time (e.g., exercising) and money (e.g., eating nutritious food) maintaining one's health.



The results are fewer days of sickness per year, a longer life expectancy, higher productivity at home and at work, and lower health care expenses.

Increase your personal financial literacy.

Knowledge is power. Iowa State University Extension offers presentations on a variety of financial and consumer topics. If you would like to schedule a presentation, contact the area family resource management specialist through your local county ISUE office.

A monthly financial class, “Planning to Stay Ahead” is being offered in many locations across the state. Topics include money management, wise use of credit, and consumer information. Cost is \$20 per household and includes all resource materials. Contact your county ISUE office to find the location and date of the class nearest you.

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