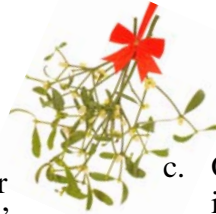


Money for Life

December 2008



Chances are the tight economy is affecting your holiday spending plans. That's a good sign – it's a sign of being tuned in to reality, and facing the fact that overspending (any time of year) can create serious financial problems.

To keep your spending under control this holiday season, follow these key steps:

1. Decide how much money you have available for holiday expenses.

This may include:

- a. Remaining money from current paychecks, *after* basic expenses have been paid. It is *never* a good idea to short your payment of regular bills (utilities, mortgage, loan payments) in order to have more money for holiday spending.
- b. Money from your savings



2. Consider carefully whether to use credit for holiday purchases, and if so, what limit to place on your holiday credit use (see next page article on credit).

3. List all the expenses you anticipate for the holidays. It is important to think broadly so that your plan includes all types of expenses that will come up. Anything left out of your plan will create a problem later. Think beyond gifts, to consider all types of expenses, including:

- a. Gifts (family, friends, co-workers). If you like to give a gift to the newspaper carrier, beautician, teachers, or neighbors, remember to plan for them as well. You might list specific gift ideas for individuals, OR simply list the names of those to whom you wish to give a gift.
- b. Decorations. This might include major items, but also includes items that are used up or worn out each year, such as candles, napkins, or lights.



- c. Groceries (extra butter, sugar, and other ingredients for holiday baking; meats or other special food and drink for the holiday season).
- d. Entertainment – eating out, workplace parties, other special holiday events
- e. Child care during those special events
- f. Travel – gas expense for shopping and visiting, plus hotels, meals, and other expenses if needed.
- g. Any other special holiday expenses. Look back through last year's checkbook or credit card bills for reminders.

Mark the expenses above as high, medium or lower priority.

4. Make a holiday spending plan, listing dollar amounts for each item or category.

Your priority labels will help you decide how much to spend.

Note: It's not necessary to list great detail (ex: \$5 for 2 pounds of butter). But if a category includes several significant items, you may wish to itemize. For example, under Entertainment, you might list: Work Party - \$35, Neighborhood Party - \$20, New Year's - \$40. That will help you plan realistically, and will help you follow your plan. For a gift list, it is generally wise to estimate how much you will spend for each person, or for each group of people.

Tip: Build flexibility into your plan. If you have, for example, \$450 to spend, consider planning only for \$400. Then you will have \$50 extra available for an unexpected opportunity that might arise.

5. Design a strategy to help you check up on your plan throughout the weeks ahead. Find a way to stay in your limits. You may wish to make a chart showing your planned spending categories and amounts, then write in your actual spending. Some people find that spending *cash only* is helpful – they put the appropriate amount of cash in a labeled envelope, then spend from that envelope. At any point, they can see how much remains.

Credit Cards and Holiday Spending: Awesome Tool or Awful Trap?

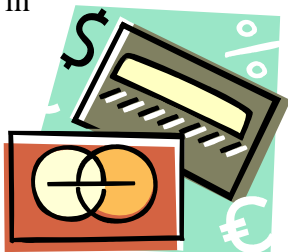
When money is tight, the appeal of borrowing is very strong. That may be especially true during the holidays, when “special expenses” are plentiful.

It is important to keep in mind that when you use a credit card, you are in fact borrowing money, and taking out a loan is not something to do lightly. Decisions to borrow (or not to borrow) must be made with clear attention to two key details:

- 1) How much will you pay for the privilege of borrowing?
- 2) Is your financial future secure enough that you are sure will be able to repay the funds?

Credit cost example. Suppose you charge \$500 on a credit card with an 18% interest rate. You have options for paying it back. You might...

- a) *Pay the entire amount* when the bill comes, and incur ZERO interest cost. (That assumes you credit card had a zero balance coming into the month).
- b) If you can't pay it in full, but *pay \$200/month*, you will pay the bill off in the third month, paying only \$13.79 interest.
- c) Stretch payment out longer, *paying \$50/month*. At that rate, you'll just be finished paying when next year's holiday season comes along (11 months), and you will spend \$46 in interest. (*What else could that \$46 have been used for?*)
- d) Making only *minimum* payments, you will take more than six years and spend \$299 in interest before the bill is paid in full. And of course 6 more holiday seasons will come and go during that time period.



As the example shows, when credit card bills are paid in full each month there is NO interest cost, and when paid off in 2-4 months, the interest cost is minimal. **Therefore, If you choose to use credit to help cover holiday expenses, be sure to set a limit, based on how much you can repay in just a few months.**

Another cost-saving tip: if you DO stretch payments over a few months, then avoid using that particular credit card for any other expenses in the meantime. Put those other “routine” expenses (such as gas for the car) on a different credit card which you pay in full each month. Following this strategy, you will never pay any interest on those routine purchases which you charge to a credit card simply for convenience.

Why? If your card has a grace period (most cards do have a 20-25 day grace period), then you won't ever be charged any interest if you pay the bill in full each month. The grace period allows you to use the card at no cost.

Risking your financial future. Borrowing is committing future income. What would you do if your income in the future (next month or next year) turns out to be less than you expected? OR what if you add some additional expenses which you don't currently anticipate? Medical expenses, a new baby, or even a new work schedule or a new hobby can change your finances in ways you do not currently expect. By borrowing now, you are reducing your options, flexibility and financial freedom in the future. Does that mean you should never borrow? Not necessarily. But borrowing should always be a well-thought out *decision*, rather than simply a reflex or habit.

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