Congressman

JOHN BARROW

Representing the 12th Congressional District of Georgia

Message from Congressman Barrow

Financial literacy education is more important now than ever. It's never too early or too late to learn how to save enough, borrow wisely, and manage your money effectively. Every day, Americans young and old make financial decisions for themselves and their families. For better or for worse, the daily decisions we make concerning our money has an impact that will last an entire lifetime.

While our country works to get back on the right financial track, it's vital that we all employ good financial planning strategies and exercise financial responsibility in our daily lives. However, many of us never got the right financial education – in school or at home – to resist the temptation to overspend.

As we work our way out of this recession, I intend to work with you and my colleagues in Congress to see to it that we are all better prepared to be "money smart." Everyone's situation is different, but we all stand to gain from learning how to save more, spend less, and manage our money more effectively.

Sincerely,

John

I. A Matter of Life and Debt

Why Budget?

With all that's going on in the world, it's easy to let the everyday little things like balancing a checkbook and creating a personal budget slip through the cracks. Many times, we simply forget where and how we spend our money. How many times have you taken money from the ATM or swiped a check card at a convenience store only to realize a couple of days later that you have less in your account than you had originally thought?

Creating a budget is one of the surest ways to stay financially fit. A personal budget is a financial plan which sets limits on the amount of money that will be spent on each category of expenses in a given month. A good budget will take into account such factors as: the amount of income being received, outstanding debt to be retired, retirement savings, and emergency fund.

A realistic budget will help identify how you're spending your money and your "needs" versus your "wants." A budget will also highlight whether or not you have any extra money to spend on your "wants" or repay any debts you may have.

Six Steps to Success

Creating a Budget

- **Categorize your expenses**
  - **When you begin setting up a monthly budget, start with big categories before breaking your budget down into smaller expense categories.**

- **From your list of expenses, develop two separate budget lists, one for essentials and the other for extras**
  - **Within each general budget category, some items are essential (the mortgage or rent payment, electric bill, and groceries); others are extra (new furniture, gifts, and pizza delivery).**

- **Look through these lists to find flexible budget expenses where you can cut back**
  - **Put a star next to these flexible items so you can identify them.**

- **Estimate what you spend**
  - **Go through your checkbook and any other receipts or records you've kept over the past few months so you can track how much you actually spend on both essentials and extras.**

- **Add up your budget essentials list and the extras list separately**
  - **By keeping the lists separate, you can make cuts more easily, if you need to.**

- **Subtract the essentials total from your monthly income and, if you have money left over, subtract the extras total from that amount**
  - **If you still have money left over, great! Look into a savings or investing plan (talk to your bank or a certified financial planner for help setting up a plan).**

II. Saving Your Money

While winning the lottery may seem like the easiest path to a life of wealth, the surest way to build wealth and reach your financial goals is to get into the habit of saving your money. Unlike the lottery, saving is practically guaranteed to help make your dreams come true. It's a steady plan of saving and investing. Saving means setting aside money on a regular basis, preferably from every paycheck. But to save, you must spend less than you earn. Reducing your spending, as opposed to earning more money, is the real key to gaining control of your finances. Unfortunately, many people spend everything they earn, or even live beyond their means. Here are some savings tips to help you avoid that pitfall.

Ten Tips To Saving Your Money

1. Pay yourself first:
Savings should be your priority, so don't just say that you'll save whatever's left over at the end of the month. Deposit savings into an account – or your piggybank – *as soon as you get paid*. An easy, effective way to start saving is to simply deposit 10% of every check in a savings account. If you get a check or sum of cash, say 610.68, move the decimal point one place to the left and deposit that amount: 61.07. This works well and requires little thought. Over several years, you'll have a tidy sum in savings.

You can set up an automatic transfer from your checking account to your savings account.

- **Many employers allow you to deduct savings from your paycheck. The money is directly deposited in your savings account so you never even see it on your paycheck.**

- **You can also have investments for retirement taken directly out of your pay, and the taxes may be deferred with this option.**

2. Set savings goals:
For short-term goals, this is easy. If you want to buy a new outfit find out how much it costs. If you want to buy a house, determine how much of a down payment you'll need. For long-term goals, such as retirement, you'll need to do a lot more planning (figuring out how much money you'll need to live comfortably for 20 or 30 years after you stop working), and you'll also need to figure out how investments will help you achieve your goals.

3. Establish a savings timeframe:
For example: "I want to be able to buy a house two years from today." Set a particular date for accomplishing shorter-term goals, and make sure the goal is attainable within that time period. If it's not attainable, you'll just get discouraged.

4. Figure out how much you'll have to save per week, per month, or per paycheck:
To attain each of your savings goals you should know incrementally how much you need to save. Take each thing you want to save for and figure out how much you need to start saving now. For most savings goals, it's best to save the same amount each period. For example, if you want to put a $20,000 down payment on a home in 36 months (three years), you'll need to save about $550 per month every month. But if your paychecks amount to $1000, that might not be a realistic goal, so adjust your timeframe until you come up with an approachable amount.

5. Keep a record of your expenses:
Write down everything you spend your money on for a couple weeks or a month. Be as detailed as possible, and try not to leave out small purchases. Assign each purchase or expenditure a category such as: Rent, Car insurance, Car payments, Phone Bill, Cable Bill, Utilities, Gas, Food, Entertainment, etc.

- **Keep a small notebook with you at all times. Get in the habit of recording every expense and saving the receipts.**

- **Sit down once a week with your small notebook and receipts. Record your expenses in a larger notebook or a spreadsheet program**

6. Trim your expenses:
Take a good, hard look at your spending records after a month or two. You'll probably be surprised when you look back at your record of expenses: $300 on fast food, $100 on parking tickets? You'll likely see some obvious cuts you can make. Think about your priorities, and make cuts you can live with. Calculate how much those cuts will save you per year.

- Can you move to a less expensive apartment or house? Can you refinance your mortgage?
- Can you consolidate your debts so that you're not paying as much interest?
- Can you save, or give up a car altogether? If your family has multiple cars, can you bring it down to one?
- Can you get a better rate on insurance? Call around and make sure you are getting the best rate you can. Consider taking a higher deductible, too.
- Can you drop a land line and either only use your cell phone or save money by calling over the internet for free with services such as Skype?
- Can you live without cable or satellite TV?
- Can you cut down on your utility bills?
- Can you cut back on eating out? Buy food in bulk? Start using coupons? Cook more at home? You might be able to save money on food.

7. Reassess your savings goals:
Subtract your expenses (the ones you can't live without) from your take-home income (i.e. after taxes have been taken out). What is the difference? And does it match up with your savings goals? Let's say you've decided you can definitely get by on $1500 per month, and your paychecks amount to $2300 per month. That leaves you with $800 to save. If there's absolutely no way you can fit all your savings goals into your budget, take a look at what you're saving for and cut the less important things or adjust the timeframe. Maybe you need to put off buying a new car for another year, or maybe you don't really need a big-screen TV that badly.

8. Make a budget:
As we discussed earlier, budgeting is crucial to financial success. Once you've managed to balance your earnings with your savings goals and spending, write down a budget so you'll know each month or each paycheck how much you can spend on any given thing or category of things. This is especially important for expenses which tend to fluctuate,

or which you know you're going to have a particularly hard time restricting. (For example, "I will only spend $20 a month on movie rentals, fast food, coffee, etc.”)

9. Be smart when using your credit or debit cards:
Pay for as much as you can with cash or money orders. It’s easier to overspend when you’re pulling from a bank or credit account because you don’t know exactly how much is in there. If you have cash, you can see your supply running low. You can even bundle up the predetermined amount of cash allocated for each expense with a label or keep separate jars for each expense (for example, a bundle/jar for coffee, another for gas, another for miscellaneous). As you pull money from a jar for that particular expense, you’ll see how much remains and you’ll also be reminded of your limit.

- If you need to have credit cards but you don’t want the temptation of having them available to use day-to-day, restrict that section of your wallet with a note or picture reminding you of your savings goals.

- Credit cards are not the enemy. But they can be, if we don’t exercise self control. If you completely pay them off every month, you can benefit from them . But the reason most credit card companies make money is because people do NOT pay them off every month, and that’s how they end up spending money that they don’t have. Unless you are one of the people who can religiously pay off the balance in full every month, you’re better off foregoing the promotions that credit card companies use to lure you in (cash back, introductory APR, airline miles, and so on).

10. Know where your money is and how much of it you have:
If you accidentally overdraw your bank account, you will incur hefty bank fees. Worse yet, the place you paid with that check may slap a bounced check fee on top of that, and send the check in again, resulting in a second overdraft fee from the bank. Just a few cents missing to cover that check could result in over $100 in fees. To avoid that, you should always know how much money you've got in your account, so you never cut a check for more than what you have.

- Look into checking and savings accounts that pay interest. Also, consider CDs (certificates of deposit) for longer-term savings with low risk.

III. Credit Cards

For many Americans, problems with credit cards begin as early as college and can fuel punishing cycles of debt that can last a lifetime, costing you your dream home, job, and peace of mind. The earlier you're able to learn about responsible credit card use, the more likely you are to avoid unnecessary debt in life.

Credit cards are an indisputable fact of life, and there are many good reasons to have one. Credit cards give protection for purchases, make it possible to buy things online, and provide a cushion in case of emergencies.

Friend or Foe:
The Facts and Fiction Behind Credit Card Use

The Facts

Responsible use of credit cards involves the ability to distinguish "wants" from "needs," and the ability to ultimately pay credit card debt off. Using a credit card to pay an unexpected bill and then paying that charge off at the end of the billing cycle is responsible. Credit card abuse begins when consumers start charging balances against their credit cards that they are not able to pay off.

Risk Factors

Consumers who spend more than they make in a year run the highest risk of abusing credit cards. In order to afford the lifestyle they wish to have but cannot obtain legitimately, they use credit cards to pay for expenses over and above their income. Generally, these expenses are for luxury items such as trips, dinners out, clothing, and shoes. Funding a lifestyle with credit cards sets up an unrealistic expectation about what you can actually afford.

Effects

Credit card abuse can affect many aspects of a consumer's financial future. As your credit card debt-to-income ratio rises, your Fair Isaacs Credit (FICO) score – which is a numerical measure of credit worthiness – goes down. A low FICO score increases the interest rates you will be charged on auto loans, equity loans, credit cards, and other lines of credit. Credit card abuse also increases the financial responsibility of the abuser to pay back debts – affecting their future earnings and limiting their financial freedom.

Significance

Because many businesses view FICO scores as a reference for how trustworthy a consumer is, a low FICO score can hurt a consumer's ability to obtain employment, buy a home, or rent an apartment. Since the new bankruptcy laws have been enacted, it is more difficult than ever to declare bankruptcy and untangle yourself from credit card debt. Responsible use of credit cards is imperative to ensure a future unburdened by debt.

Misconceptions

1. Many consumers do not realize they are abusing credit. Thinking they can pay it off in the future – maybe when they "close that big deal" or "get that bonus" – they continue to spend and rack up more debt. To avoid such a predicament, place limits on the amount of credit card debt you allow yourself to amass, and DON'T spend money you think you will be receiving until you actually get it.

IV. Student Loans

The cost of college continues to go up exponentially, while salaries for many entry-level jobs remain flat and are getting harder to land. Too many students graduate from college and graduate school with so much student loan debt that it affects their career and lifestyle choices for the rest of their lives. Here are some ways to be proactive and minimize any student loan and consumer debt you may need to get your degree.

How to Minimize Student Loan Debt

1. While you are in high school, develop the mind-set that you will graduate from college in four years. Think about what you want to do in the future, so you can enter college with a designated major or field of study. Seek assistance on career choices from your counselor and attend career days.

2. In high school, take advanced placement or dual enrollment courses that qualify for college credit, and apply for all the scholarships and grants you may be eligible for. Visit www.fastweb.com.

3. In high school and at college, earn and save as much money as you can at the best after-school and summer jobs you can find, including paid internships. You may not be able to afford to work at a summer camp for $7.25 an hour because you like kids. If you ask yourself, “Do I need that fancy car now, or will ‘basic transportation’ get me through college?” you can save the extra money.

4. Consider state schools and 2+2 programs. If you want to go to a state school out-of-state, consider establishing residency first by working there for a year to become eligible for in-state tuition. If you want to be a high school teacher in your community, you may not need to go to a private school and spend all that money or incur all that debt. That’s true of many careers.

5. Depending on your circumstances, financial aid packages may make a private school less expensive than a state school, so don’t count them out. You should negotiate your financial aid package in order to get more money. Use the packages offered from other schools to obtain more money from your school of choice.

6. Consider options like the ROTC or a work study program as a way to help fund your education.

7. Look for a college that offers co-op programs for your chosen career or that may provide you with a work study job on campus.

8. Consider living at home. But if you do go away to school, make sure you have a sound overall financial plan and budget.

9. Don’t use student loan money for unnecessary lifestyle expenses. It may actually be much more expensive for you to live off campus if it means you live a “bigger” lifestyle. And you will only increase your student loan debt if you go to more concerts, go on spring break trips, or have a flat screen TV for your off-campus apartment. When you are still making that big monthly payment twenty years later, you may regret those choices.

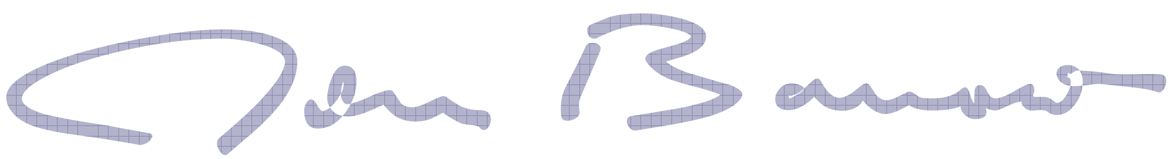
10. Research the location and salary ranges for your chosen career, and then look at how much student loan debt you can actually repay along with your estimated living expenses. Recalculate your numbers if you change majors, career choices, or residence location.

For hundreds of different types of jobs, the *Occupational Outlook Handbook* tells you the training and education needed, earnings, expected job prospects, and much more. Visit http://www.bls.gov/OCO/ to access the *Handbook*.

11. After every semester, calculate the monthly payment for your accumulated student loan debt over different lengths of time (10, 20, or 30 years). You don't want to get to your senior year and find yourself with too much debt for your chosen career. If possible, start paying the interest on your student loans while you are in school.

12. If you change majors, stay on top of the required courses you will need to complete your new major. Take them as quickly as possible and realize that they may only be offered during certain semesters or only at night. Whether you attend a public or private school, consider taking transferrable courses at a community college during your summer breaks, so you can finish early and/or start taking graduate school level courses.

Information provided from CARE Program http://www.careprogram.us/how-care-helps/



V. Following The Course For Financial Success

1. CREATE A BUDGET – Call it a Spending and Savings Plan if you wish, but a realistic budget will identify exactly what you are spending your money on and your "needs" versus your "wants." It will also show you if you have any extra money to spend on your "wants" or the repayment of any debt you may decide to incur.

2. STAY COMMITTED TO YOUR SAVINGS ACCOUNT – You will need savings, not only for emergencies but for the expenses you know you are going to have, like that repair for your car that's out of warranty. You will go broke relying on high interest rate credit card loans to pay for these.

3. LOOK FOR WAYS TO SAVE MONEY – Be practical. Buy at shopping clubs and use coupons. Look for the cheapest gas price in the immediate area, go to discount movie theaters, and take advantage of family and student discounts. This will mean extra money for the things you "want" or to add to your savings account.

4. USE CASH, A DEBIT CARD, OR A CHECKING ACCOUNT INSTEAD OF A CREDIT CARD – People who use cash for their purchases spend less, so if it's under $20 or you can eat it or drink it – use cash. Don't totally buy in to the myth of the "plastic society" because even if you use a debit or credit card responsibly you will still tend to spend more than if you use cash.

5. AVOID CREDIT CARD DEBT – Remember, the best way to manage debt is to avoid it. Credit card debt at high interest rates, with the likelihood that you will pay some exorbitant fees like late payment and over limit fees, means that you will end up paying much more for everything you do and everything that you buy. Credit cards are not new money, free money, or more money. They are yet another loan you have to pay back.

6. PAY YOUR BILLS ON TIME – One of the worst things you can do to your credit rating is to pay your bills late. This includes not only your credit card bill, but your rent, telephone, utility, and cell phone bills.

7. ALWAYS PAY ANY DEBT OFF AS QUICKLY AS POSSIBLE – You shouldn't be too dependent on credit cards. Research the best card for rates and fees, and don't charge anything on a credit card that you can't pay for at the end of the month. If for some reason you don't pay off your credit card bill in full, pay at least 10% of the balance. Never make just the minimum payment and stop charging until you have paid off your balance.

8. MINIMIZE YOUR STUDENT LOAN DEBT – Before choosing a college and course of study, ask yourself if the job you are likely to get after college justifies the student loan debt you will incur for the degree you will get at that institution. Beyond that, keep your student loan debt to a minimum. Drawing down the full amount of a student loan you may be eligible for in order to maintain a more expensive lifestyle than you need to, like living off campus or going on a spring break vacation every year, is something you will regret after graduation when you have to pay those extra amounts back.

9. OTHER THINGS TO AVOID – Impulse shopping on the Internet, expensive behaviors like gambling and drinking, and opening multiple store charge accounts. Also, all those solicitations to open credit card accounts to get "free stuff." Those open accounts will hurt your credit rating even if you never activate or use them.

10. REMEMBER THE CONSEQUENCES OF ABUSING CREDIT CARDS AND OTHER CONSUMER DEBT – Don't lose out on a job, student loan, admission to graduate school, apartment, or a car loan because of too much credit card or other consumer debt. Today everyone is pulling credit checks and using them to make decisions about your future.

Information provided from CARE Program http://www.careprogram.us/how-care-helps/