

Living Within Your Means

A penny saved is a penny earned. ~ Benjamin Franklin

To live a financially responsible life means you're living within your means. That is, you're not spending more money than you make. For many people, it's a lot easier said than done. **Using credit cards and loans allows you to buy more than your income will allow.** That kind of lifestyle isn't sustainable and, at some point, your debt will become too large to pay. When that happens, you'll be forced to make some important changes or face financial ruin.

Do you actually know how much debt you have? Many people don't. Start by making a list of everything you owe, whether it's a mortgage, a credit card, student loans or even money you borrowed from your friends and/or relatives. Write down the lender name, the amount you owe, the term of the loan, the interest rate and fees. Then total them up. The numbers will probably make you worry, but you've already made a positive step.

7 Ways to Live Within Your Means

- **Know how much you make.** If you want to live within your means, you have to know what your means are. You need to know the net income that appears on your paychecks, how often you get paid, and since most of your bills are paid monthly, you'll need to know how much you get paid every month.
- **Spend less money than you bring in.** Once you know how much you make, then you can focus on bringing your spending within your income. If you don't already have one, use a budget to plan your expenses and to keep your spending in track.
- **Boost your income.** If your expenses are at the bare minimum and you're still spending more money than you make, then you may need to boost your income. If you typically get a tax refund, you may be able to adjust your tax withholding to get more money in your paycheck. You should also make sure you're signed up for the right health, disability, and other company provided benefits. Finally, you may need to get a higher paying job or even a second job to help make ends meet.
- **Stop relying on credit cards.** **Using credit cards is not living within your means.** When you plan your budget, completely rule out credit cards as a way to make ends meet. Credit cards are unreliable since your credit card company can decrease your credit limit or even close your credit card at anytime without warning.
- **Don't try to keep up with the Joneses or the Hiltons.** Resist the pressure to have the same material things as the people around you and even the people on television. You may be able to use credit cards and loans to fake wealth for a short period of time, but you'll pay for it later, and you'll end up paying more.
- **Save up for purchases instead of putting them on credit.** People often use credit cards for large purchases they can't afford to pay for outright, like a new television. Instead of paying for these purchases on credit, put aside some money each month until you've saved up enough to buy it outright. **If you can't afford to save up for the purchase, then you can't afford to buy it.**
- **Get an emergency fund.** Having a savings that's dedicated to emergencies will keep you from resorting to credit cards whenever you have a financial emergency. An emergency fund of three to six months of living expenses is ideal, but starting out with \$100 to \$200 will help with some of the minor emergencies from time to time.

Using government debt data and census data, www.indexcreditcards.com has determined that the average American adult is carrying \$3,752 in revolving debt (mainly credit card debt) and the average American household is carrying \$7,394 in such debt. Revolving debt is mainly from credit cards, although related revolving consumer debt such as home equity lines of credit are included as well.

Current Averages for Credit Cards as of October 31, 2010:

- Consumer credit card rate, overall market: 16.77%
- Credit card rate, non-reward consumer cards: 15.15%
- Reward credit card rate: 17.46%
- Student credit card rate: 16.23%
- Business credit card rate (non-reward): 14.72%
- Business reward credit card rate: 16.03%

Many issuers offer tiered rates based on consumers' credit ratings. Applicants with the highest credit scores get offered the lowest credit card rates, and those with less-than-perfect credit are offered the higher rates. The average rate for consumers with excellent credit is 11.7% for non-reward cards and 13.68% for reward credit cards. Most rates offered today are variable, which means they rise and fall according to an index, typically the prime rate.

7 Tricks to Stop Using Your Credit Cards

- **Close them.** One call to your cardholder is all it takes to inactivate your credit card. Closing credit cards can have a negative impact on your credit score, so make sure you're not closing a card you should leave open.
- **Shred them.** If your credit card is in pieces, there's no way you can swipe it. Cut the card up into small pieces so the credit number can't be guessed by identity thieves.
- **Leave them at home.** Take your credit cards out of your wallet before you go shopping.
- **Lock them up.** The "out of sight, out of mind" approach might be the thing to work for you. Keeping your credit cards out of your immediate reach will help control your "need" to use them.
- **Shock therapy.** Have you ever thought about the amount of money you spend in interest each year? Or the length of time it will take to pay off your credit cards? Sometimes the numbers will shock you into putting your credit cards away for good. A \$1,000 balance at 14% will take you 4 ½ years to pay off if you make \$25 payments each month. You'll have paid \$347.55 in interest by the time you pay off the balance.
- **Reward yourself.** Each week that you don't use your credit card, treat yourself to something you like but don't ordinarily allow yourself to indulge. Keep your treats on the inexpensive/free end of the spectrum so you don't upset your monthly budget.
- **Old-fashioned self control.** Being able to tell yourself "no" is a skill that goes beyond using credit cards. Think twice about swiping your credit card just like you'd think twice about pressing snooze just one more time.

The power of 50

Paying the minimum due on your credit cards each month can be deceiving. If you have a credit card with a \$3,000 balance at an annual interest rate of 18%, and pay only the 2% minimum monthly payment of \$60 per month, it would take you eight years to pay off your bill. That means you will have paid \$5,780, not the \$3,000 you thought you were spending when you made the charges.

But if you pay an additional \$50 per month on that debt, for a total payment of \$110 a month, you will pay down more of the \$3,000 you originally owed. And that means less money for the creditor to charge interest on. As a result, you would pay off the debt in 3 years and save over \$1,800 in interest payments.

Don't get discouraged. Reducing debt is like losing weight. You're not going to lose 50 pounds in a month. You need realistic goals in reasonable timeframes. Most people take four to five years to become debt free, so aim for three years. It's not too long or too short.

8 Tips to Avoid Sinking Into Holiday Debt

- **Save Up.** Spending cash instead of using credit for your holiday purchases allows you to avoid holiday debt altogether. If you haven't started saving, put aside something each paycheck starting now and use that to finance your holiday purchases.
- **Set a budget before you shop.** Setting a spending limit and sticking to it will keep you from overspending. Be disciplined and don't go over your budget, no matter what.

- **Make a list.** Santa makes a list and checks it twice, so should you. Even though you might feel compelled to splurge on everyone in your life, you don't have to. People appreciate simple and meaningful over expensive and useless.
- **Don't shop for yourself.** Avoid the "one for you, one for me" shopping mindset. You'll end up spending double what you would if you'd shopped only for the loved ones in your life. You have all year to shop for yourself.
- **Ignore the big sales.** More often than not, they'll not really sales at all. Those "Buy 2, Get 1 Half Off" deals only trick you into buying more than you would otherwise. Remember, stick to your list.
- **Shop online first.** The internet makes it easy to shop around. It also makes it harder to buy on impulse. Since most retailers have inventory on their websites, you can decide exactly what you want to buy before going to the mall.
- **Leave your credit cards at home.** Without your credit cards, you'll have a hard time charging them up. If you must use credit for your purchases, pick one credit card and stick to your spending budget.
- **Don't buy if you can't afford to pay.** Keep in mind that when you use credit, you're borrowing from your future income. You know your finances better than anyone. Only charge what you can afford and you'll avoid paying on your holiday debt until the next holiday season.

Keep Track of Your Finances

Budget Tracker is a free budget management tool available for taking control of your personal finances and getting out of debt. This software allows people on a tight budget to track and understand their finances in a simple way that helps them to reduce their debt and, hopefully, become debt free over time. With Budget Tracker you manage your expenses by month. Each month you enter your expenses into a category so you can see where your money is going. All the averages and monthly totals are on the main screen so you can get a quick view of your personal finances. Other data that is tracked includes an overall monthly average expenditure as well as the highest month and the lowest month. To try Budget Tracker go to www.budgettracker.com.

Locally, the Consumer Credit Counseling Service helps individuals and families deal with their credit, debt, and housing issues through personal budgeting counseling and financial education. They provide credit/debt counseling services; finance, bankruptcy, and home buyer education; and housing counseling. For more information call 608-784-8380 or 800-350-2227. Their website address is www.cccsonline.org. Additionally, many financial institutions have their own software attached to their online banking system. This allows for keeping track of expenses more automatic. Check with your financial institution for more information.

In the old days a man who saved money was a miser; nowadays he's a wonder. ~ Author Unknown

Couleecap, Inc. is a private non-profit 501(c)3 charitable organization created in 1966. Our mission is to fight poverty and promote self-sufficiency for people in Crawford, La Crosse, Monroe, and Vernon counties in Wisconsin. We currently implement more than 50 contracts in the areas of housing, emergency assistance, child and family development, business development, employment, transportation, and health. Each year, Couleecap helps more than 16,000 families work towards self-sufficiency. For more information about our People Helping People Initiative or to make a donation, contact Couleecap's Development Coordinator, Kadie Brueggen, at 608-634-7363 or Kadie.Brueggen@couleecap.org.

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