

E-PME  *Enlisted*
PROFESSIONAL MILITARY EDUCATION

Personal/Family Budget 4.E.08

Learning Objective(s): **PREPARE** a personal budget.

Why You Need to Know This

Managing your personal finances is a crucial part of your Coast Guard readiness and it will have a direct impact your quality of life. Increasing your knowledge of personal financial topics can improve your decision making capabilities. Better decision making will enhance your quality of life by reducing the stress associated with financial hardship. Also, at some point you may be required to get a clearance and having excessive debt can not only ruin your credit, but can prevent you from receiving a security clearance, affecting your Coast Guard career. Being financially responsible and planning for your financial goals is something you need to learn, practice and live by.

This lesson will provide you with the information you will need to know in manage your personal finances.

Topics Covered

This section will cover the following topics:

- Financial Planning Overview
- Budgeting Guidelines
- Savings
- Thrift Savings Plan (TSP)
- Balancing your Checking Account
- Making Major Purchases
- Responsible Use of Credit
- Understanding Credit Reporting
- Safeguarding Personal Information

At the end of this lesson you will be required to participate in a learning activity. You are encouraged to first review the learning activity and the sign off requirements located in the “**You and Your Supervisor**” section of this lesson. Reviewing this information before you begin the lesson will allow you to take proper notes and focus on key learning points.

Financial Planning Overview

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education or planning for retirement. The process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans.

The **components of a financial plan** include:

- Checking and savings accounts
- Credit cards and consumer loans
- Investments in the stock market
- Retirement plans
- Social security benefits
- Insurance policies
- Income tax management

A **financial plan is basically a budget**, a plan for spending and saving future income. A budget allows you to:

- Plan for spending and saving income.
- Used to manage personal finance components.
- Allows you to understand how each financial decision you make affects other financial components.
- By viewing each decision as part of the whole, you can consider its short/long term effect on your life goals.

Budget Guidelines

Each of us has a unique financial situation. It is impossible to specify exactly how you should budget, but the general guidelines or goals listed below represent an ideal percentage range:

- 20%: Put away 10% for retirement and 10% for extraordinary situations (plane tickets, car repairs, etc.).
 - 10%: Consumer debt (credit cards, car loans, and personal loans, does not include mortgage).
 - 20%: Mortgage or rent, including insurance.
 - 50%: Routine living expenses (utilities, gas, food, car insurance, clothing, and entertainment).
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**Budget Guidelines
(Continued)**

Financial management begins with a strong budget that includes all expenses and income. Expenses such as mortgage/rent, auto loans, insurance, credit card payments, food, utilities and others must be monitored and kept within the income range.

Designing your budget to meet your obligations, prioritizing your spending, and attaining your short- and long-term financial goals takes a little effort, but you will find it works, and once it works, your life becomes easier to manage.

There are **five steps** involved with planning a budget:

1. Identify your goals- both short term and long term.
2. Record your income
3. Determine your expenses
4. 4Develop a savings plan
5. Use the plan

Making your budget a priority and tracking your spending is the only way to make your budget work. Budgeting helps you live within your means, avoid consumer debt, stay on top of your spending habits, and meet your financial goals. You should review your budget once a month, and update/adjust your budget when there is a change in:

- Fixed expenses (regular installment payments that stay the same each month, e.g., rent/mortgage, car, insurance, and etc)
- Long- or short-term goals
- Salary increases or bonuses

Amounts you set for variable expenses (expenses that are not the same from month to month, such as food, clothing, or utilities) ensure they are realistic.

Designing your budget to meet your obligations, prioritizing your spending, and attaining your short- and long-term financial goals takes a little effort, but you will find it works, and once it works, your life becomes easier to manage. Let's talk about a few things first.

Savings

No one savings option is always "best" for a particular individual or family. It might be a combination of different options that help you meet your savings objectives. Some characteristics about savings options may be more important to you than others.

When considering the different savings options available to you, you should take into account the following:

- Safety - Is the principal safe?
- Return-Is the return guaranteed? At what rate?
- Liquidity (an [asset](#)'s ability to be sold without causing a significant movement in the [price](#) and with minimum loss of value) How long will it take to receive the funds? Can funds be withdrawn without penalty or loss of interest?
- Effects of Inflation/Deflation. How will inflation/deflation affect the purchasing power of the dollars saved?

Listed below are several saving options you should consider:

- Traditional Savings Accounts
- Certificates of Deposit
- Interest-Bearing Checking Accounts
- Money Market Deposit Accounts
- Money Market Mutual Funds
- U.S. Government Securities

There are other ways to help you save. You might consider the following **three savings tips** to help you along the way:

- **Consider savings as a fixed expense similar to your house or car payment.** Put the money away before you have time to think about spending it. One alternative is to have an amount automatically deducted from your paycheck and put into a savings plan. If you wait until the end of the month, chances are there will not be anything left to save.
- **Save windfall income.** The theory is simple. You got along without the unexpected bonus, tax refund, overtime pay or gift, so why not keep on that way and save the extra money?
- **Try thriftiness.** Cut back on eating out, entertainment, or pleasure drives. This can save money quickly, even though it might cause some sacrifices and might even change your lifestyle.

Thrift Savings Plan (TSP)

<http://ww.uscg.mil/ppc/tsp.asp>

There are many ways available to help you save money. The Thrift Savings Plan (TSP) is a great way to start saving for retirement. The TSP is the government version of the popular tax-deferred retirement savings account most companies offer. The best part about TSP is that you don't pay income tax on the money you've earned until you start to take it out.

Financial experts agree that regular, disciplined investing, early on in life is crucial to building wealth and there is no better way to invest regularly than to do it automatically.

Balancing Your Checking Account

Good financial management starts with a well-thought out, strong budget that includes all expenses and income and management. Management also includes understanding how to balance a checkbook, credit card characteristics and skills in making major purchases such as an automobile. Part of managing these is monitoring your statements, your checking accounts, checks, and debit statements.

Knowing your account balances requires your immediate attention each month in order to make sure that your records coincide with that of the bank's records.

Additionally, both the bank and your checkbook register are susceptible to errors due to your omission to post a transaction. As a result you may end up overdrawing your checkbook and incurring \$35 (and/or more) fees for every overdrawn check. Therefore, you should track checks written on your account and balance your checkbook monthly in order to avoid months of waiting to find out about the mistake.

Before trying to "balance" or "reconcile" your banking account you should become familiar with the following terms:

Transactions Outstanding: Checks that are not returned by the bank (or show on the current statement) are called **outstanding checks**. This means that the checks have not yet been received or paid by the bank.

An **outstanding deposit** occurs when a deposit is made after the closing date of the bank statement and the deposit is recorded in the check register but has not been recorded on your statement.

Reconciliation: The difference in the checkbook balance and the bank statement balance is the result of the outstanding transactions, interest earned, and the service charge.

Balancing Your Checking Account (Continued)

To bring both balances into agreement and to make sure the bank's records are correct, both records must be reconciled.

When reconciling your account and using online options to review transactions, remember that some transactions may not appear until several days after the original date, while some may show immediately.

Making Major Purchases

Making a major purchase such as an automobile requires skill and careful, thorough, research and planning in order to get the best deal and keep you budget balanced.

That should be your first questions before thinking about buying a new or used vehicle. If you can meet your needs with your current vehicle or no vehicle at all, you should not buy a car. Other things to think about:

- Drive your current vehicle as long as the monthly maintenance costs do not exceed the costs of a new car payment.
- At a minimum, keep a vehicle one year after you pay off the loan and save the money you have been putting towards your monthly loan payment, you'll probably have enough money put away for a good down payment (to defer financing cost on a new vehicle) or pay for a new vehicle.

The next question would be, **“Can you afford it?”** There are many costs involved in buying, owning, maintaining, and operating a vehicle. Take a look at the actual costs involved in purchasing a vehicle, then look at your budget and ensure you can cover all the costs.

There are numerous internet sites that offer calculators to help you determine what it will cost to purchase and maintain a new or used vehicle. One of those sites is the Edmunds.com site. This site has a multitude of information regarding car buying, as well as an online basic loan calculator. In addition, the website has a special feature called “Edmunds.com True Cost to OwnTM”.

Edmund's.com is only one of many websites available for researching information. The actual cost of buying a car can be much higher than you expect. Before buying make sure you break out your budget, thoroughly research the vehicle, financing, insurance, and maintenance costs before ever going to the dealership.

Responsible Use of Credit

Credit cards are a convenient form of borrowing and people generally use credit cards to purchase goods and services.

Credit cards represent a revolving line of credit, which means you can make an unlimited number of purchases, up to a pre-approved dollar limit, such as \$3,000. You must pay at least a portion of the bill every month, called a **minimum payment**. It is often a percentage of your balance. You can apply for credit cards at retail stores, gas stations, and banks.

Not all credit cards have the same terms. Before accepting any offer, always remember to look at all the terms. For example:

- Credit cards can be "**unsecured**" meaning you do not have to provide collateral (home, car, savings/investment accounts) to give the bank if you do not repay the loan. They may also be "secured" meaning you have to pledge a bank savings account as collateral, which will also be your credit limit.
- There are gold and platinum cards with higher credit limits. These types of cards usually require a good credit history and higher income.

Note: Not all gold and platinum cards have the same favorable terms. Be sure to carefully read your disclosures and what annual fees they charge.

- Many airlines and hotels offer rewards cards. When you use these credit cards, you earn points towards goods or services. You are usually charged annual fees for rewards cards, either annual fees or redemption of rewards fees.

Good credit habits will pay off for you throughout your lifetime. Here are a few good habits to practice:

- Consistently pay your bills on time
- Limit the amount of money you borrow (or charge)
- the total number of credit cards
- not over apply for credit
- Shop around for the best credit terms
- Be careful about closing your old accounts
- Stay on top of your credit

Responsible Use of Credit (Continued)

Credit is often a basic life essential towards:

- Establishing phone service or having other utilities connected to your home.
- Securing favorable financing terms when buying a car, household furnishings, or even a new home.
- Employers may check the credit rating of job applicants.
- May make it easier for you to rent an apartment. A positive credit rating may be a sign to landlords that you are a person who's more likely to pay your rent on time each month.

Important Note: Increasingly, companies are using credit ratings to help manage risk. For instance, in the future, it is anticipated that more and more insurance and health care companies will be relying on credit reports, credit scores, and other proprietary risk models in deciding how to manage their coverage and rates.

Understanding Credit Reporting

What is really at stake when you apply for financing? Essentially two things:

- Whether you get approved for the financing/loan you are seeking.
- The credit terms you receive, or to put it another way, how much interest you are charged. This is what could cost, or save you, thousands of dollars.

Lenders rely on the information you provide to them and in many cases, this may be limited to your personal information, banking, and account information, and the information contained in your credit report, and your credit score.

Your **credit score** typically plays the largest role in the application process, and the terms you'll receive. It may only consist of three numbers, but to lenders these numbers reflect your level of risk.

It pays to understand how the information in your credit report is used to determine your credit score. By knowing how lenders evaluate your credit score/risk level, you can be proactive and take steps to lower your risk, and help improve your credit standing.

In addition to including your personal information (name, address, date of birth, social security number, etc.), your credit report includes information regarding:

- Payment History
- Amount of Outstanding Debt
- Length of Credit History
- How much "New Credit" you have
- What types of Credit used

Safeguarding Personal Information

You can never be too safe in protecting your financial information and prevention of "identity theft."

The best way to safeguard criminals from misusing your personal information is to prevent them from stealing it in the first place. By following a few simple steps, you can dramatically reduce the chances of becoming a victim.

To protect your personal information make sure to secure your:

- Mail
 - Identifying information
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- Payment tools
- Compute

If fraud is detected early enough, you will end up paying less and spending less time cleaning your records and fixing the damage. Here are some ways to help you detect if there is a problem and minimize the damage:

1. Check your credit card and bank account balances often (at least monthly when reviewing bank statement to balance checkbook and making credit card payments; weekly if banking online). Avoid suspicious transactions.
2. Subscribe to an online monitoring system. These services alert you when there are changes in your credit scores and credit reports or new addresses and phone numbers are reported with your name.
3. Check your credit reports from all three credit reporting agencies at least one or more times a year.
4. Review your paper statements. If you do not have access to the internet, carefully review your paper statements from bank accounts and credit cards as soon as you get them. Look for unusual or unfamiliar transactions.
5. Monitor your billing statement cycles. Make sure that paper statements are arriving on time and are not missing. If you order new credit or debit cards, keep an eye out for their timely arrival in the mail.
6. Watch out for unexpected phone calls. If you receive a call from a collection agency for an overdue bill you know nothing about, do not assume it is just a mistake. It may be a sign that your identity has been stolen.

Immediately get your credit scores and reports if turned down unexpectedly for credit. Examine your reports for unusual items that are not a result of actions you have taken. These include new accounts that you did not open, large balances, or delinquencies on existing accounts that you weren't aware of.

**Safeguarding
Personal
Information
(Continued)**

Steps to secure your **mail**:

- Using a locking mailbox and remove incoming mail promptly.
- Put outgoing mail in an actual postal mailbox rather than simply leaving it in your mailbox at home.
- If you do leave outgoing mail in your mailbox, never put the flag up.
- Shred any mail that has account numbers or “preapproved” credit offers.
- Make sure your trash is in an area that is not easy to access.

Steps to secure your personal **“identifying information”**:

- Being particularly careful with your Social Security Number. Do not provide it unless absolutely necessary.
- Do not carry your Social Security Card or number in your purse or wallet.
- Shred any documents that contain your Social Security Number and other personal information if you no longer need them. Do not just toss them in the trash.
- Write down all your account numbers and keep the list in a safe place so you can easily access the information when you need it.

Steps to secure your **“payment tools”**:

- Always make sure that your payment tools such as credit cards, debit cards, checks, and account information are secure and not easily accessible, even by friends, relatives, and neighbors.
- Credit cards numbers, checking and savings account numbers, and personal identification numbers (PINs) can also be misused and should be kept in a similarly safe location.
- Shred documents with financial information such as account numbers rather than just throwing them in the trash.

Note: Never respond to e-mails asking for sensitive information or click on links in these e-mails. If you can, forward the e-mail to the organization that the e-mail claims to be from and have them verify authenticity. Do not save your passwords on your computer.

Learning Activity



To successfully complete this requirement you will need to prepare a personal budget. There are many interactive tools online to assist you. The command financial specialist at Training Center Yorktown has a budget planning tool their website at the following link:

<http://cgweb.tcyorktown.uscg.mil/finance/index.asp>

Scroll to the bottom of the page and look under "**Yorktown Personal Budget Model**" and click on the link. After you have completed the Excel spreadsheet present it to your supervisor.

For You and Your Supervisor

In order to meet the sign-off requirement for this lesson **YOU** must perform the following:

1. Prior to meeting with your supervisor review the contents of this lesson and organize your budget notes/concerns.
2. Follow the directions found at the website and prepare your personal budget.
3. Present your budget to your supervisor for feedback.

Before signing off on this requirement your **SUPERVISOR** must:

1. Make sure the member understands the components of sound financial management.
 2. Review member's personal budget, provide corrective feedback and answer any questions they may have related to this topic.
 3. Sign-off the check-off sheet on the Record of Enlisted Professional Military Education (E-PME) Performance Requirements.
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References

The references used to develop this lesson can be found at CG Directives (CG-612), www.uscg.mil/directives:

- Leadership Development Framework, COMDTINST 5351.3(series)
- Coast Guard Employee Assistance Program, COMDTINST 1740.7(series)

The following references can be found online:

- Thrift saving Plan, available at <http://www.uscg.mil/ppc/tsp.asp>
 - Office of Work-Life Program – Financial Management <http://www.uscg.mil/worklife/financial.asp>
 - <http://cgweb.tcyorktown.uscg.mil/finance/index.asp> (Coast Guard workstation intranet only)
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