Personal Finance

The Latest Tools & Resources to Help You Manage Your Money

Personal finance is such an important topic that it's amazing that it's not taught more in schools. If more people were taught personal finance information, they'd make fewer mistakes about career choices, school choices, credit card debt and so much more.

But, you must want to know more about personal finance because you're reading this. Congratulations, because you're getting ready to be ahead of most of the population when it comes to your knowledge and understanding of personal finance.

What Is Personal Finance?

Essentially, personal finance is the act of managing your money and your financial decisions. It covers all your personal financial issues such as managing debt, choosing, and buying insurance, saving money, investing money, buying a home, taxes and more.

If it has something to do with money and your personal life, then it's personal finance. Some of the most important considerations in personal finance are cash flow, buying insurance, figuring out your taxes, saving and investing, and retirement planning.

Thankfully, today there are many useful tools that you can incorporate into your personal financial planning. In this report, we'll explore those tools and let you know what's important when you're managing your personal financial issues. For each person, the concerns are slightly different based on their family situation.

Personal Finance Issues You May Face

Throughout your lifetime, you may face a variety of personal financial issues. Issues like debt, unemployment, illness, and others can affect you very harshly. But, if you can set aside time to create a plan, usually there are ways to deal with almost every single financial issue you may face.

- Unemployment – At some point in life, everyone starts off as unemployed but many of us have the backing of parents, relatives, or friends to help us through it. But for those who don't, excessive debt can often occur if there's no plan. This is especially true if you had a good job and then were laid off due to no fault of your own. Losing your job, savings, and then building up debt due to the unemployment situation, is a common problem.

- Underemployment – Many people find jobs, but they don't pay enough for necessities in their location. For example, if your job only pays $35,000 a year but housing in your area costs $24,000 a year, you may have a serious problem finding housing and taking care of basic needs.

- Accident or Illness – Whether you were born with an illness or came down with an illness, it can have a huge financial impact on you, especially if you live in a place where your job is what provides you with affordable insurance coverage. It's a serious problem for about half a million Americans each year who file bankruptcy due to medical reasons. Sadly, many of them do have health insurance too.

- Going Out on Your Own – When you first decide to "go out on your own" as a young adult, it can be quite shocking to find out how much everything costs. You may quickly realize that you need to downgrade your expectations and that you may not be able to live at the same level you have become accustomed to while living with your folks.

- Having Children – Children cost a lot of money. Sure, they are cute. But, the average cost of having a baby in America is just under $10K if there are no complications. Then you add to it the cost of housing, feeding, clothing, and keeping that child healthy through the next 18 to 22 years if you plan to help them with college.

- Divorce – Not only does divorce cost money just to file the papers and pay the lawyers, there is a longer-term cost to the entire family that may not have been considered. Of course, no one wants to imagine "what if" when they're in love and planning a wedding. But divorce has real consequences and real costs that can add up for the long term for a family and the heirs of that family.

- Death – Whether it's your child, parent, or partner who dies, death has many financial consequences. From probate court to who inherits what, we have standard laws in each state that we must follow. How badly a death can affect you financially depends completely on how well you planned for it.

- Retirement – Everyone hopes to retire someday. But sadly, one in three Americans have no retirement savings. For some time, retirement was a lot nicer for most retirees due to defined benefit plans, Medicaid, and social security. However, changes in these programs and in the lack of availability of defined benefit plans have changed the outlook for most people who plan to retire in the next ten or more years.

- Consumerism – Getting tied up in buying more and "keeping up with the Joneses" is a huge problem for many people in society. If you can control your consumerism and consumer debt (credit card debt), you will likely be a lot better off than your peers, even if you don't seem to have as much stuff as they do.

Every one of these issues that you may face in your life can be mitigated by good planning. Even if you're in a bad situation now due to poor planning – potentially due to lack of knowledge about personal finance, it can still be fixed with a good plan going forward.

7 Steps to Manage Your Personal Finances Like a Pro

No matter where you are right now, you can manage your personal finances like a pro. All it takes is some understanding of how to go about it, and commitment to improving where you are lacking. It doesn't all have to be boring either. Even if you're working with a small budget, when you are realistic about your situation and truthful with yourself, you can come up with a plan that will work for your needs.

1. Develop a Budget

The first step to managing your personal finances is to set up a realistic budget for where you are right now. You can use something as simple as a spreadsheet, or you can use the software that your bank likely provides to help you. It’s up to you what tools you use, but the steps to developing a budget are essentially the same for everyone.

Write Down Your Net Income

Don’t worry about what you make before deductions such as health insurance, taxes, and your retirement savings contribution. Note your net income, because that is realistically what you are really working with. What you make before those deductions doesn’t really matter when creating a budget because you cannot spend any of that money that you don’t receive.

Track Your Spending

For about a month, track your spending habits. The only way to get real with yourself is to write down everything you spend money on - whether it’s cash, credit, or a debit card. It doesn’t matter if it’s one buck or 100 bucks; you need to track it and categorize it.

List all your fixed expenses first. These are items that cannot be adjusted like your rent, mortgage, car payment, utilities and so forth. Then make a separate list with variable spending such as eating out, entertainment, groceries, and gas. If you want to do this fast, you can look at your past records on your bank statements and credit card accounts to organize it all.

Set Goals

You need to set some financial goals that you want to accomplish before you continue. You should have some short-term goals for the next year or two, some mid-term goals for the next five to ten years, and then long-term goals such as saving for retirement. Use real dollar amounts that are realistic numbers with realistic deadlines or target dates.

Write Down a Plan

Now that you know what you earn, what you spend, and what your goals are for now and the future, it’s time to write down a plan. You may realize as you’re developing the plan that you need to cancel your cable, drop to a cheaper mobile plan, or adjust your desires based on wants versus needs. You need gas to get to work, but you don’t need to watch six hours of TV each evening.

Adjust as You Go

It can take a few months to perfect your budget as you navigate your life and goals. Don’t go for short-term pleasure by buying those $150 shoes if it’s going to take away your ability to save for that vacation you want to take next year. Don’t give up anything you need for a temporary want. But, at the same time, you want to still enjoy life and not make it all a drudge. Find things that you can do that cost less but still give you an enjoyable life.

Finally, keep monitoring your budget as you go through life. Don’t allow it to end up on autopilot, because (and this is especially true if you have any credit card debt or student loan debt) the freedom of getting out from under that debt as fast as possible will far outweigh the joy you got from that pashmina shawl you wanted so badly.

2. Create an Emergency Fund

One of the best defenses against job loss, illness, and other problems is an emergency fund. An emergency fund is money set aside that is in a normal bank account that you can access quickly. For example, if your car breaks down, that is when you'll use your emergency fund.

There are many rules of thumb about how much you need in your emergency fund.

Why Have an Emergency Fund?

If you have an emergency fund, you'll be much less likely to end up relying on credit cards - which can often just make your life worse when you're in the middle of a crisis. An emergency fund will eliminate the need for you to use debt for these life challenges.

How Much Should I Have in My Emergency Fund?

How much you save in your emergency fund honestly depends on your financial situation. It depends on how much money you earn, how hard it will be for you to replace that income, and other issues. But, most experts say at least six months of living expenses (after you cut out all unnecessary spending) is a good start. If you have a business, you should try to save about 18 months expenses so that you don't go out of business.

Where Should I Put My Emergency Fund

You should just put it in your regular bank account so that it can be accessed easily with a debit card or a quick transfer of funds. Most credit unions offer the ability to have a checking account and a savings account without any fees. If you can find a high yield savings account that has few penalties for withdrawals and is insured by the FDIC, that's a good choice.

How Do I Build My Emergency Fund?

First, you need to add it to your budget. Consider this expense a mandatory fixed amount. If you can have it withheld from your pay, so much the better as you'll never look at it. Every time you get a raise you can add this amount to either your emergency fund or your long-term savings, and you won't notice it.

Keep your change in a jar and when it's full, take it to the bank. Put all savings from coupons into savings. If you spend less than your budget on any given pay period, move that to your savings. If you have nothing for savings, find places to cut expenses so that you can build an emergency fund. If you must, get an extra job or become an independent contractor to add some income to your fund. If you get a tax refund, save it in your emergency fund every single year.

The more seriously you take saving money in your emergency fund, the better off you will be. Even if all you can manage to save is the same amount as your insurance deductibles (health, car, and house), you'll end a lot of stress and avoid using credit for things that are going to happen. Cars break, people get sick, and houses get damaged by storms. It's all part of life.

3. Limit How Much Debt You Take On

One of the biggest factors in financial issues people face is debt. People from all income brackets tend to have too much debt. Even if you're a six-figure earner, you may have debt that is causing you to feel broke. It's important to limit the amount and type of debt you take on.

Good Debt and Bad Debt

There is both good debt and bad debt. An example of good debt is a mortgage for a reasonably sized house in a reasonable neighborhood. Bad debt is pretty much any type of unsecured consumer debt like credit cards, especially if you used that credit card for entertainment and not an emergency.

The important thing is to be realistic about how much debt you can take and stick to the budget you've created. Banks will often base how much they give you for a mortgage limit based on your gross income instead of net income. This is dangerous and you could end up having trouble meeting your obligations.

Debt-to-Income Ratio

There is something that financial planners use to determine if you have too much debt. It's called DTI (Debt-to-Income Ratio). This is figured out by adding up your total debt payments for each month and then dividing it by your full monthly income.

If you earn $3500 a month and have total debts of $2000 a month, your DTI is 2000/3500= 57%. As a note to remember, a DTI over 43% can keep you from qualifying for a mortgage or other loans. You want to shoot for a DTI of between 18% and 36% according to the professionals.

Control Your Use of Credit Cards

Speaking of debt, let's talk a little about credit cards. Credit cards can be a great thing in terms of buying power, respect, and even discounts. Some cards can earn you cash back and get you added protections if you use them correctly. But for some people, even using the credit card once can be the beginning of a personal financial disaster.

Monitor Your Credit Score

It's important to keep tabs on your credit score too. Use a system like CreditKarma.com, which is free to sign up for, and keep an eye on your credit. It does not affect your credit to do this. However, be aware that they pay for their service by using credit card advertisements and if you can't say no, it's best to avoid this and send for your free yearly report from each of the three credit reporting firms. You can learn more about that via the Federal Trade Commission's Website.

Pay off Student Loans

Let's talk a little about student loans, separately from other types of debt. Student loans are an investment in your earning future or the earning future of your kids. First, don't get loans in your name for your children. Even Suze Orman would agree. She says that the best gift you can give your children is your independence when you're elderly and getting loans for your child's education doesn't make financial sense.

So, what we're talking about here is your own personal student loan debt. There is a lot to consider regarding student loans. It'll require some financial projection to ensure that you do it right. Today, student loans offer many different types of payment plans. You can pay based on your income, and you can pay based on the regular 10-year payment plan to get it paid off.

Income-Based Payment Options

If your income is low enough to qualify for the income-based payment plan, you should get it with the understanding that all the interest you're not paying with the low payment is going back into the loan and being capitalized to make your loan balance higher. If your income stays low, this will not be that big of a problem. But if you know your income is going to increase and you can come up with funds to pay the added interest each year either from gifts, tax refunds, or other methods, do so.

If your income never catches up to the cut-off for qualifying, then you will get a good deal and never pay back more than you would have if you just paid the standard 10-year payment plan when you're on the income-based plan.

The Problem with Interest on Debt

However, all the interest that was capitalized over the years will be considered income once your 20 to 25 years (depending on the plan you chose) is finished. It will be considered income the final year from which you'll need to pay income taxes. For some people, this could be as much as $100K in extra income because some people make so little money they qualify for zero payments.

Paying Taxes on the Income from Forgiven Debt

There are ways out of this, such as filing an "Offer in Compromise" that year to lower your tax burden. But the other thing that can happen is your income might increase. Let's say that for ten years you've paid a small payment that did not even cover your interest payments, but that 11th year your income increases enough due to marriage and filing jointly or due to your personal income being raised just enough to end your qualification for the income-based payment plan.

Getting Behind to Get Ahead

Now you owe more than you owed when you started, but they're going to increase your payments to ensure you're paid off in ten years now that your income is up. You end up paying so much more back due to the interest and other factors. If you have no choice, you have no choice, so do what you have to do. But, go into it with your eyes wide open.

If you can find a way to stick to the normal 10-year payment plan either via an extra job, cutting back your first ten years out of school, living with roommates, your parents, or something else, do it if you can so that you can pay your student loan off as quickly as possible. If you've not gone to school yet, consider what career you're picking, the income you can reasonably expect from it, and other factors.

The truth is, debt causes a tremendous amount of stress. You can live most of your life without credit cards, although having some form of credit record will help you get needed loans such as mortgages much easier. Just make a rule for yourself about how much debt you can reasonably take on, keep it under the 36%, and know how long you'll take to pay off any transaction you make with credit before you do it.

4. Think of Your Family

One reason financial planning is so important is your family. Whether it's your spouse, your kids, or your parents, it's imperative that you consider them in all your planning. The best way to do that is to buy life insurance.

You don't have to leave a big inheritance to your family when you pass, but you don't want to leave a mess behind. Have enough life insurance to take care of your family's needs and pay final expenses. The rule of thumb is that the younger your family, the more insurance you need.

Don't think that stay-at-home parents don't need life insurance either; many times they need to be covered for more than the working partner because of all the benefits they provide to the family such as childcare, cooking, cleaning and more.

First, assess whether you need life insurance at all. Some people really don't need it. If you have adequate savings to cover your final expenses and keep your family out of poverty, then you don't need life insurance.

To determine how much life insurance you need, answer the following questions:

- How much debt do you have?
- How much do you spend each month?
- How much do you save each month?
- How much income do your survivors need if you're gone?
- How much can you earn on your money?
- How much inflation do you expect?

All these factors come into play. Let's just pull a number out of thin air and say that your family needs an income of about $3000 a month to stay right where they are without anything changing other than that you are gone. How much insurance do you need to provide that? If you can earn 5% a year on an investment, that means you'd need to buy a life insurance policy that provides about an $800K payout such that you could easily provide $3000 a month to your family after you're gone.

Keep in mind that the younger you are, the less expensive it is to buy insurance and the cheaper it'll be until you're older. If all you can afford is a burial policy (assuming you have no savings), then that is at least something and one less thing for your family to have to worry about. Financial planning should start when you're young if possible.

5. Plan and Save for Your Retirement

One thing you shouldn't overlook is planning and saving for your retirement. It's very easy to say when you're young that you won't ever retire, but you may need to. Your job may be killed off due to technology, you may develop illnesses and be unable to work, or you may change your mind and decide you'd rather spend your golden years traveling than working. At the very least, start saving now for retirement so that you have a choice.

Tips for saving for retirement:

- Maximize Your Employer Contributions – If you have a job with a retirement savings plan, invest the maximum amount that the company matches. If they match up to 5% of your income, you should donate 5% of your income.

- Open Your Own IRA – You can easily open your own IRA through your credit union or via another method. Donate the maximum amount you're allowed by law. You may want to talk to a financial planner to help you with this. Most credit unions offer some financial planning free with your account.

- Set Up Direct Deposit – Don't make yourself think about it too much. Once you've set your intentions and budget for your retirement savings, do it automatically so that you never think about it again. Just set it up and forget it. Don't micromanage it or try to figure it out. This is a long-term investment and overall, for people who set up their account based on the year they want to retire it's not difficult to do. For example, you will get to choose various funds based on your approximate retirement year and they'll keep the stock-to-cash ratio correct for you.

You can also contribute to bonds, CDs, and other investments but if you do nothing else, use your employer's system and an individual retirement account via your credit union based on the year you want to retire, and your projected needs based on your budget and your credit union's recommendations.

6. Minimize Your Tax Liability

A very important part of financial planning is managing your tax liability. Depending on your situation, it may pay to see a financial planner. As mentioned before, most credit unions have financial planners on staff who can help you. The important thing is to hire a professional to help you who is honest and ethical. But, also teach yourself what you need to know so that you don't just leave it to them.

It's too important to let other people do everything for you, because sometimes you may run into someone who seems legit but who is really trying to scam you. Check out everyone who offers to help you make a lot of money or who wants to help you manage your finances. Only go to reputable places to find people to help.

7. Live Your Life Too

One thing to keep in mind about budgeting is that you aren't guaranteed tomorrow. Chances are you will live to about 80, but most financial planners say to plan to live to 99 years old. But, you could get sick tomorrow. You could die tomorrow.

It's better to balance how you invest and save with how you live your life. Just live within your means and if you don't like the means, then you must find a way to increase your earnings to fit the lifestyle you want to live - while still taking care of tomorrow. Get more education, start a side gig, and truly experience life as it's meant to be with lots of rich experiences with people you love.

Don't give up amazing experiences and live a life full of drudgery and work just to have retirement savings. Find a balance that gives you joy now and security later. You will be happy you did it when you're 80, and you'll live a full and happy life if you find the right balance between wants and needs.

Tools and Resources for Managing Your Personal Finances

There are amazing tools that you can use for managing your personal finances today that can make you feel like a personal financial management pro. Today there is so much software you can use - from QuickBooks to your own bank's online software. If you're not already taking advantage of all that you probably have access to, be sure to check it out.

- Your Bank – Check with your bank to find out what financial planning tools they have. You may be surprised to learn that with online banking comes a variety of tools such as spending analyzers, budgeting tools, and more.

- Mint.com – This is a low-priced to free software tool that allows you to manage your income and expenses expertly. With Mint, you can track your spending and account balances, pay bills, establish a monthly budget, set financial goals, see your credit score and more.

- CreditKarma.com – Mentioned earlier, this tool really is good for monitoring your credit and seeing your credit report anytime you want to, without lowering your rating. They do also serve ads for various credit cards to pay for the service, so be careful.

- Spreadsheets – If you don't want to use software online, you can use spreadsheets instead to analyze your financial situation using your statements. The Balance has a variety of free spreadsheet templates to use for budgeting and more personal finance options.

- Community Centers – Many local community centers offer personal finance education. Do a search on Google for your local area and personal finance courses, classes, or workshops.

- Meetup.com – There are many people who like to form investment clubs, savings clubs, personal financial clubs and so forth. These are great for information. Do check out anyone before you give them control over your funds, though.

- Banks – Some banks offer courses or allow you to meet with a personal financial planner to talk with you about your situation.

- Church – Some churches offer classes about personal financial planning, especially classes from Dave Ramsey. If you're having issues getting a handle on your personal finances, he has a lot of classes, live events, and tools you can use.

- Parents or Family Members – If you know someone in your family (such as your parents or others) who are great with their own personal finances and you're ready to get help, ask them to help you organize and plan.

- Take a Class – Your local college may offer a course in personal financial planning that you can take that will help you. You can also take a class on personal finance online at places like Ed2go.com to help you learn more.

- Link - https://www.ed2go.com/courses/business/finance/ilc/personal-finance

- Books – There are numerous books on personal finance that you should take the time to read. The more you can educate yourself, the better. One of the best books to give a young person to help them learn about personal finance before they start working is Get a Financial Life: Personal Finance in Your Twenties and Thirties by Beth Kobliner.

- Debt Pay Down Calculators – You likely have access to one of these on various credit cards like Discover, and with your bank. But this is a cool one called debt snowball calculator that you can use in a strategic way to pay down debt.

Learning everything you can about personal finance will help tremendously with short and long-term goals surrounding your personal finances. Just going through life without a plan and no follow-through will likely not work. Instead, create a plan, get help with your plan, and you'll be a lot more successful.

How to Protect Yourself Against Fraud

Finally, it's important that you think about how fraud could impact you and your family. You've likely heard about data breaches on everything from Facebook to even a credit reporting bureau. It seems as if nothing is safe anymore. But, there are ways to protect yourself against fraud which we'll go over now.

- Learn about the Most Common Scams – There are common scams that happen and have been happening for years. If you stay aware of them, you can avoid them. Look at sites like Scambusters.org for more information on common scams and frauds happening right now. Spread the word about frauds that you know about, so that you can help family and friends avoid scams and fraud too.

- If You Get Scammed Report It – It can be embarrassing to fall for a scam, but it's imperative that you report it if it happens. This is the only way that you can ensure that it doesn't happen again and that the perpetrators are caught.

- Keep Your Information Confidential – Don't give out your social security number to just anyone. If you want to have a part-time gig and you're in the USA, get an EIN number free from the IRS. EIN stands for "employer identification number" but as a freelancer, you can get one so that you don't have to give out your social security number.

- Open a PayPal Account – If you like to buy things online with credit, your best bet is to get a PayPal account that is tied to your bank or your credit cards. In this way, you only need to give out one number whenever you want to buy something - or use your email address for that account. PayPal works with buyers very easily to help prevent fraudulent transactions too. It's much safer than using your bank's debit card for online purchases.

- Change Your Passwords and PINs Often – About every 90 days, you should change your passwords and PINs. You should also ensure that they are hard without words, dates, phrases, or anything that can easily be hacked or guessed.

- Monitor Your Credit – Using CreditKarma.com you can monitor your credit. You can even pay for alerts, and control who has access to your information and when. It's a great way to ensure that no one else is using your credit to buy stuff.

- Balance Your Accounts Monthly – Every single month, take the time to balance each checking or savings account that you have. Look at your statements very carefully, ensuring that you can match a receipt with a transaction and that you know what transactions were made. Report fishy transactions immediately.

Remember, if it feels or seems too good to be true, it probably is a fraud and a scam. Never feel pressured to pay for something right now, never buy things you weren't looking to buy from a door-to-door salesperson, and research every transaction before making it so that you can be sure it's on the up and up. Due diligence pays off when it comes to scammers, as they don't want to deal with people who ask too many questions.