

Your Money: How to manage on AmeriCorps low wages, save money and get out of debt!

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Facilitator's Guide

If you are making low wages (living paycheck to paycheck), or spend more than you earn, life can be chaotic and stressful. Realizing and discussing your financial problems can be one of the hardest things an individual can do. But, like most problems, it helps to realize, accept, and deal!

The best advice I received was to check my credit report annually. You can do this for free at www.ftc.gov/bcp/online/pubs/credit/freereports.htm. Once you do this, you can start addressing the issues.

The first step to solving your financial problems is to take a deep breath and assess the damage. Dr. Carol Kauffman from Harvard University suggests making an honest list of all of your financial burdens, and then addressing each one individually. It can become too overwhelming to tackle them all at once, which could lead to added stress and failure. You must address your financial problems NOW and take immediate action, whether that means making a strict budget, getting a loan or talking with creditors. Realizing where your money is going each month can help you figure out what areas need work.

The next step is to figure out how much you owe, what it will take to get you out of trouble and if you have anything in savings. Then you need to do some damage control to head off any future mishaps. This means calling creditors to discuss missed deadlines and future late fee penalties.

Talking with creditors can be intimidating but is a must if you are in a financial disarray. Remember that they are people just doing their jobs. They did not force you to take their money, but you are required to pay them back. This being so, there is no reason to speak to a creditor in a mean manner. You also do not have to tell them your life story and why you cannot pay your bills. They are not interested, they just want their money! Know your rights as a consumer by calling the National Consumer Law Center at 1-617-542-9595 to get a brochure on debt collection before speaking with a creditor.

Here are a few tips when dealing with creditors:

- ❖ Contact them as soon as possible. They may be more willing to work with you before you are late with a payment.
- ❖ Estimate how much you can pay and offer 10% less. You are already in a tough financial situation. There is no need to agree to pay more than you have available.
- ❖ WRITE EVERYTHING DOWN. It is important to write down who you spoke with, your conversation and ask for everything in writing (even proof that you paid). This will help if there is any legal action.
- ❖ Don't let a creditor rush or pressure you. Tell them what you can pay and stick to it.
- ❖ Negotiate at the end of the month. Most creditors have quotas they must meet, so they may be more willing to work with you if they are in a time crunch.
- ❖ Keep in mind that any late payment can hurt your credit score. 'Late' payments are anything made at least 30 days after the due date. However, this won't cause permanent damage. You can always rebuild your credit by paying your bills off and on time.

Third, prioritize your bills. Shelter, Utilities (power & water), food, transportation and childcare are all essential. Bills relating to these should be paid first.

If you cannot pay your bills and have had no luck with creditors, you have two options.

1. *Not paying.*

This is what will happen if you do not pay your bills. (Not recommended)

Debt	Trouble Starts	Penalty
Mortgage	90-120 days late	Foreclosure, loose home in 3 months
Car Loan	One day late	Repossession, collection of unpaid debt
Student Loans	270 days late	Garnishment of wages, tax-refund seizure
Credit Cards	180 days late	sent to collectors
Collection		Lawsuit, wage garnishment

2. *Bankruptcy* (www.investorguide.com)

Chapter 7 - all assets are liquidated, except those that are exempt (maybe your car, home, clothing, appliances, life insurance, pension and work-related tools.)

Chapter 11 - For large businesses only.

Chapter 13 - If you have unsecured debts of less than \$269,250 and secured debts of less than \$871,551, you may be eligible for this. It can help protect certain properties while you pay off your debts under the supervision of a court-appointed trustee.

The next step is to make and stick to a budget.

Budgeting

Planning a budget (and sticking to it) can help get you out of debt and allow you to start saving. Following a realistic budget can help you meet your saving goals, plan for emergencies or unexpected costs and can reduce stress. Budgeting lets you finally control your money controlling you.

Saying you will budget and sticking to it can be challenging. Many people plan great budgets and give up as soon as something does not go as planned. But, the major reason people fail at budgeting is a poor attitude. If you think of budgeting and being financially responsible as a chore or a sacrifice, you are sure to fail. However, if you change your attitude, you can be successful. Think of it as a 'plan' instead of a budget. Like all other plans, it will need to be custom-made to your situation and long-term financial goals. Don't worry about fitting into a 'one-size-fits-all' category, but instead focus on what works for you. Start out small if you must!

How to Plan a Budget

- o Start with some sort of a budgeting tool. This can be a worksheet, a piece of paper or computer software.
- o Go through your checkbook and put your expenses into categories.
- o Look at pay stubs to determine how much money you bring in each month.

- o For each category, try to make a budget that realistically reflects your actual expenses. Don't forget to make a category for SAVINGS
- o Keep track of you expenses throughout the month.
- o If you are spending more than you are bringing in, you have a problem! Your spending habits will need to be changed.
- o If you have extra money left over each month, put a portion of it into your savings account. You can use the rest to pay off a high interest credit card.
- o Keep tracking your expenses monthly to see where you can make changes.

Remember the following tips when planning your budget:

- \$ *You must be committed.*
- \$ *Be realistic and keep it simple.* Planning on saving \$200/month when you only make \$800, may not be realistic. Focus on what is important and necessary and try to make small, effective and realistic changes.
- \$ *Budgeting money = Saving money.* Think about why you are budgeting your money. Do you want to save for retirement? What about a new car? Budgeting helps you save!
- \$ *Track your spending.* This is very important!! Don't do all the hard work of preparing a budget just to ignore it. Tracking your money will help you see where you need to curb spending. Whether you do it daily, weekly or monthly...TRACK YOUR SPENDING!
- \$ *Look for Free stuff! Check out local newspapers.* Go to the park. Attend that free concert. Volunteer. Be creative.
- \$ *Correct bad spending habits now.* This will take discipline, but you can do it!
- \$ *Plan for the unexpected.* It never fails. You have a little money saved up for a trip and your car breaks down. Make sure you put aside a little money each month to avoid added stress.
- \$ *Don't panic.* You are going to make mistakes. It's okay. Just get back on track as soon as possible.
- \$ *Reward yourself.* Do something for yourself if you stick to your budget for an entire month. Just don't go crazy!
- \$ *Stick with simple budgeting tools.* You can use excel or a piece of paper to track your budget. There is no need to invest in high-tech, high costing tracking tools.
- \$ *Don't let money rule your life.* You have enough stress in your life. Do the best you can when it comes to your budget. Learn from your mistakes and try to do better next time.

Once you have created a budget, you need to start focusing on your debts.

Getting out of Debt

Did You Know...The average American household with at least one credit card has \$9,200 in credit card debt?

Have you ever thought, "I make more, now I can spend more!"

Do you want the simple solution to debt management? PLAN. DISCIPLINE. CONTROL. If only it were that simple!

If you want to get out of debt, you must be serious and willing to make major changes! You didn't get into debt overnight and you are not going to get out of it that way either.

Not all debt is bad. Borrowing money for college, a house or a car makes sense. Using a credit card for a new outfit, entertainment or food does not. If you really want something (this is a WANT, not a NEED), save for it. However, if you feel you 'cannot live without' something, pay cash for it. You will better understand the pain and sacrifice of buying something out of your price range after counting out all those bills!

If you do have to purchase something that will require financing, make sure you can afford it. Don't forget interest rates and other hidden costs. NO INTEREST FOR 6 MONTHS, may look enticing, but if you do not pay the store credit card off in that time period, interest is charged on the ORIGINAL price!

It is recommended that you have three to six months of your monthly bills in a savings account to avoid unexpected layoffs or job losses. However, if you are in serious debt, you may need to hold off on building up your savings. You can always rebuild your savings with the money you were spending on credit card bills. You can also use a credit card for REAL emergencies if you have too. Keep in mind that going to a new club, buying a new outfit or CD is NOT an emergency.

If you are in serious debt consider getting a part-time job, creating a stricter budget or borrowing from family. It will be difficult to ask for help from a family member, but they are more willing to lend it to you and the interest rate is lower.

Here are some suggestions on how to start getting your debts under control.

Remember two things: You must be serious about getting out of debt, and these sacrifices will be investments in the future.

(PASS OUT MONEY SAVING TIPS SHEET. As we go through these tips. I want you to put a circle or check next to the items you can do or are doing RIGHT now.)

The Snowball Effect

Pay off your credit cards using this method and watch your debt dwindle! After you have prioritized your bills in regards to amount and due dates, see which one has the highest interest rate. Try to make double or triple payments on this bill each month while paying the minimum on the rest of your bills. Once you have paid it off, use the money delegated to the original high interest bill to pay the next bill in line (according to interest rate). Once you have paid off all your bills, you can start putting that money into a savings account!

School Loans

Most people have them, so know that you are not alone! You have several options in repaying your student loans. You can consolidate them and just pay one price to an outside agency who essentially 'buys' your loans. You can call the lender and setup a payment plan based on your budget. Even if your payment is \$150/month, most school loan lenders will work with you to adjust that amount based on your income. You could serve two years in AmeriCorps and earn almost \$10,000 to repay school loans! Finally, you can apply for Economic Hardship. You will need to turn in some paperwork, but, once approved, you will not have to pay back school loans for 12 months. Keep in mind that interest is still accruing over this time period.

More Tips

- Pay as much as you can on your credit card bill monthly without overspending your budget. This may mean one less dinner out or movie rental, but it is worth it.

- Keep a 'penny jar' at work and at home. Put your spare change in everyday or after doing laundry. Go once a month to the bank and deposit it into a savings account or use to make an additional credit card payment.
- Are you getting a tax refund? No matter what the amount, make an oath to use it to pay off a bill.
- Be careful when considering transferring one credit card to a lower rate card. Read the fine print! Credit card companies may offer a low or 0% transfer rate but could hike that up after 6 months.
- If you cannot figure out how to get out of debt on your own, there are lots of reputable and free nonprofit agencies to assist you. Try: www.consumercredit.com, www.dca.org and www.familycredit.org
- Create bank account errors IN YOUR FAVOR. Round up your purchases to the nearest dollar or higher. For example, if something costs \$7.30 write it down as \$8 or \$10! You will end up with more money at the end of the month.
- Look at your budget and take out cash for the week. Leave your credit cards and debit card AT HOME. For example, if you spend \$80/week, take that exact amount out of your account IN CASH. Make it last!
- You only need one credit card! Say it with me..."I only need one credit card and it is for emergencies only."
- Only take money from a bank branch during business hours. Avoid ATM's.
- If you have to use an ATM, try to use your bank to avoid fees.
- Always review your monthly bills. Sometimes there are added fees or 'adjustments' that should be questioned.
- If you don't like to keep cash in your wallet, put everything on a debit card. This means leaving your credit card at home! This way you can track everything you spend.
- Remember: If you use your credit card for that 'night out' at \$50, it will turn into \$60 on your monthly credit card statement due to interest rates!
- You can always give plasma! You will receive about \$20 for your 1 ½ hour donation. You can go to www.biolifeplasma.com or www.bloodbankcenter.com to read frequently asked questions.
- You should not be paying more than 12% interest on your credit cards. Call your creditor to negotiate a lower rate or go to www.bankrate.com for a list of the lowest rate credit cards.
- If you must get a credit card, make sure they are 'no fee'.

SAVINGS

There is no magic way to save your money. It is the basic principle in financial planning. Now, more than ever, we must be prepared for our future. People are living longer, healthcare and social security are changing, and attending college is more expensive. But, don't stress. This, like every thing else discussed here, can be dealt with by being ready to make small changes.

- 1) Setup a savings account if you do not already have one.
- 2) Automatically deduct from your checking account monthly (this can be a set amount or a percentage of your paycheck) and DO NOT TOUCH THAT MONEY!
- 3) Set a goal. Why are you saving? Is there a trip you want to go on? Do you want a new car?
- 4) Write SAVINGS into your monthly budget.
- 5) Whenever unexpected money comes your way, put it into your savings account. (if you do not have a lot of debt)

FINAL THOUGHTS

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 Indiana AmeriCorps Director's Winter Retreat 2006
 Sarah Younker-Koeppel, Indiana Reading Corps Director
 Indiana Campus Compact

- ☉ You are not going to be able to solve every financial problem or save enough money now. Identify your goals and decide which is the most important. Figure out why they are important to YOU.
- ☉ Be prepared for setbacks. Don't get discouraged. Your car will need new brakes and you will probably blow \$50 on a 'night out'. But don't let it get you down. You can do this.
- ☉ Make time work for you. By working on your debts and creating a realistic budget, you will have a lot of time to save for the future.
- ☉ Include your family and friends. Make sure your family and friends are aware of your goals. They can offer support and guidance.
- ☉ START NOW. The longer you wait and make excuses, the harder it will be to obtain your goals.
- ☉ Be prepared for change. You may get a new job, come into an inheritance or go back to school. Your goals will change. Just be prepared and adapt.
- ☉ Donate your time or money. No matter how bad you feel your financial situation is, someone has it worse. Make sure to put things into perspective when you are stressing about paying your cell phone bill.
- ☉ HAVE FUN. Money is not everything. It is upsetting that the world revolves around it, but this isn't changing anytime soon. It's okay to go to a concert or to dinner with friends. Just remember to moderate your spending.

YOUR HOMEWORK: You must be willing and ready to make real changes in your life!! Write down EVERY penny you spend for 30 days. NO CHEATING. If you have a computer, put your expenses into a category in excel. Once you have done this, decide where you can cut back. Are you going out to eat too often? Do you really need call waiting? Where can you save?

Once you have determined where your money is going every month, make small changes. The worst thing you can do is try to make a major change quickly, whether it is dieting, becoming caffeine-free or cutting costs.

Sources:

The information gathered for this paper was given by the 2005-06 Indiana Reading Corps AmeriCorps members, Indiana Campus Compact staff as well as from numerous articles from the below sources.

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Water Saving Tips

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Car Care Tips

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www.rollinghillspublishing.com
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