Personal Finance Planning: Getting Started

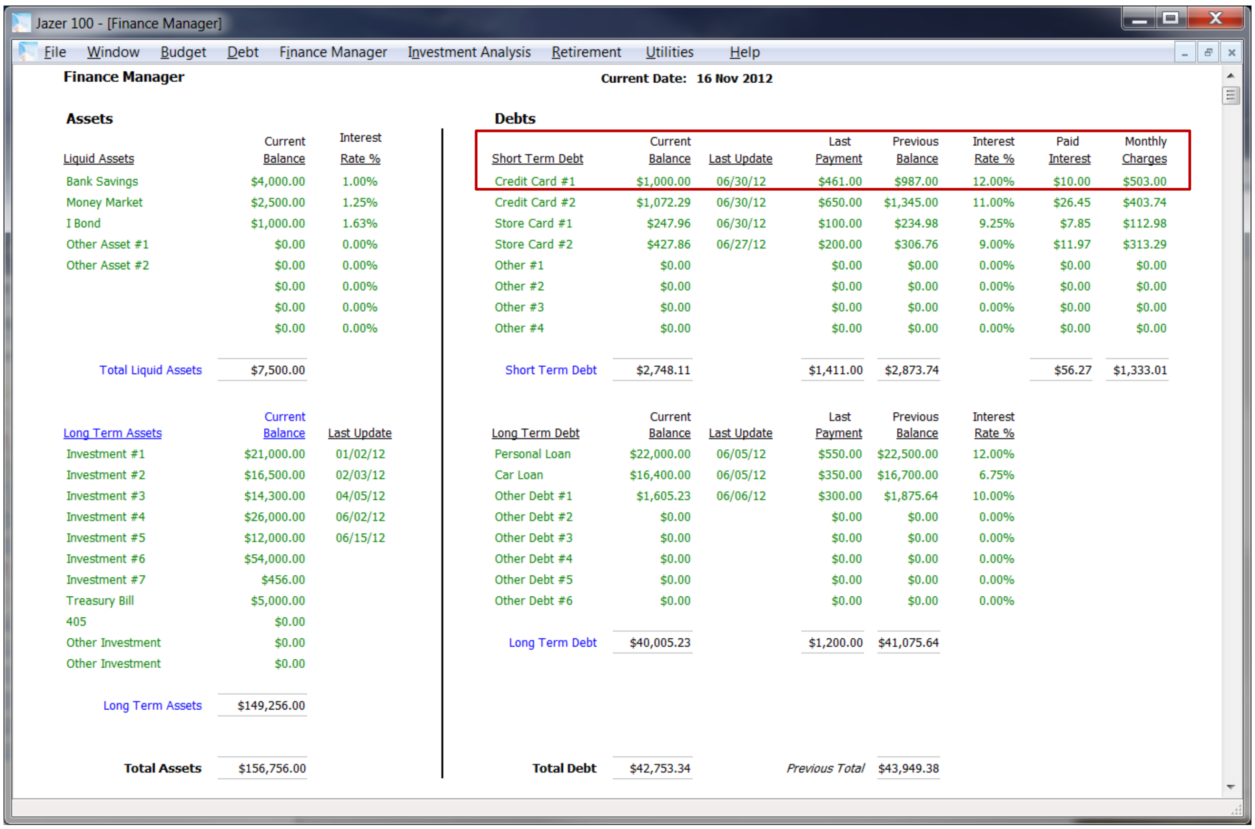
For folks starting with little or nothing in terms of a plan, the task can seem daunting, even ominous. We struggle with questions like, where to begin, where is all the information, and is it even worth it? Other people don't do it and they seem to be doing fine. No one really talks about it, and as long as there's more coming in than going out, things are ok…right? Well there was a time when I didn't know (for sure), and I was well aware that I didn't know. And that's the point really…how do we know where we are financially? We find out the truth quickly when there's a shift in pay, layoff, cut back in overtime or regular hours, or a major expense hits our accounts. And at that point, all we can do is react and try to absorb the impact. But as long as things are going along "normally", we seem to have better things to do with our time…and that's a choice that we can make.

Most folks I talk to about personal finance management wish they had a better handle on things, more control, less debt, and increased saving. These are all good goals, but these answers just aren't specific. How much more? How much less? They really don't know where they stand financially, and some even worry that they might be "Red-Lined", meaning if they missed two or three paychecks they'd be in very deep trouble. But they don't know for sure, and they aren't sleeping very well. I imagine driving on a long trip with no gas gauge. In the beginning it's ok right after you fill the gas tank, but after a while things get pretty dicey.

The first step has to be finding out exactly where we are financially. All asset and debt information must be gathered together and condensed. Just gathering the numbers is an illuminating experience, and for some it can be a strong dose of reality. We generally have a handful of accounts and credit cards, and then there are loans, and mortgage information. Statements aren't as available as they used to be since many accounts are now paperless, so the task is even greater because we have to log in to the account to get the information. It can be tedious, but it is well worth it. It's also much easier to keep up with afterward than it is to do the first time. And that's what keeps a lot of folks from getting started…that first arduous task of getting it all together.

If you haven't done this yet (or in a while), do it! Commit to getting a handle on things, and find out exactly what your financial picture looks like. Start out with, and use a system that will ensure that you capture every asset, debt, and income stream. It has to be comprehensive, and tell the whole story. It's also a good idea to segregate liquid assets, and short and long-term debt as well. This helps when we need a "divide and conquer" strategy, and want to focus on a specific debt or savings area. It also shows where our focus *should* be, and things we need to keep an eye on. Seeing the balances and interest rates side-by-side will often shed a whole new light on our situation.

I need incentives, and one thing that I like to see in a financial status picture is what things look like now compared to last month (and even last year). Things need to be relative. If they're not, it's like me saying "I'm trying to lose weight and I'm 168 pounds today". This doesn't really say anything. If I weighed 172 last week, then that's one thing, but if I weighed 165 last week then that's another. We need a point of reference. We need to know if we're making progress, how much, and how quickly. Are we achieving our goals? Let's look at an example. In the sample data below, notice the previous balance section on the far right of the screen. Here we see the previous month's balance, along with columns for interest rate, how much interest came out of the payment last month (Paid Interest), and what the monthly charges were. These all help to give us the total picture. Looking at the Short Term Debt item Credit Card #1 (in the red box), the current balance is $1,000. The Previous Balance was $987.00. So debt actually increased even though a payment was made. The Interest rate is 12%, and that ate up $10.00 of the payment, and the monthly charges were $503.00. These are all taken from the monthly statement, and we can readily see that this isn't going in the right direction.



Jazer 100 - [Finance Manager]

File Window Budget Debt Finance Manager Investment Analysis Retirement Utilities Help

Finance Manager

Current Date: 16 Nov 2012

Assets

Liquid Assets	Current Balance	Interest Rate %
Bank Savings	$4,000.00	1.00%
Money Market	$2,500.00	1.25%
I Bond	$1,000.00	1.63%
Other Asset #1	$0.00	0.00%
Other Asset #2	$0.00	0.00%
	$0.00	0.00%
	$0.00	0.00%
	$0.00	0.00%
Total Liquid Assets	$7,500.00	

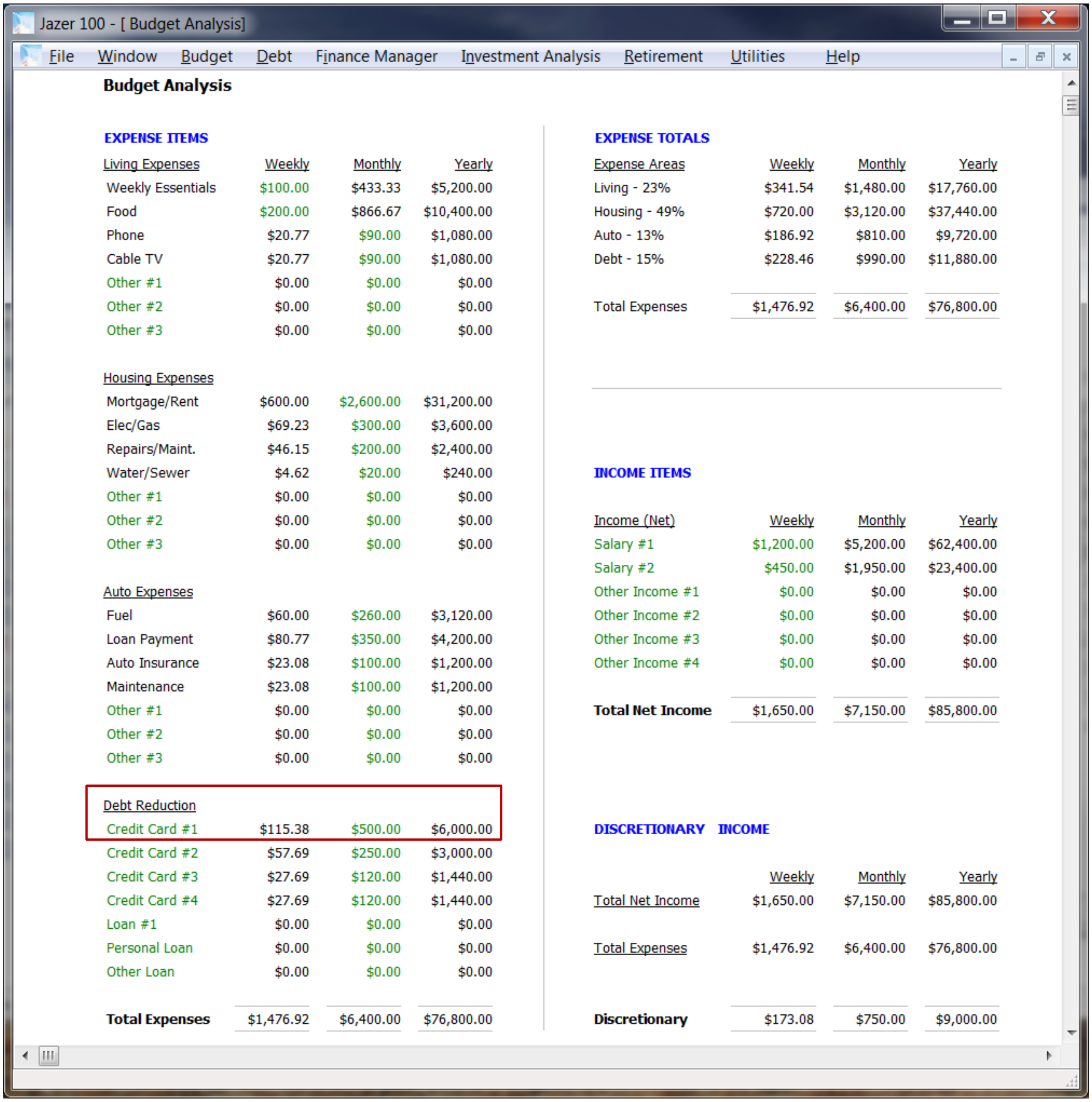
Long Term Assets	Current Balance	Last Update
Investment #1	$21,000.00	01/02/12
Investment #2	$16,500.00	02/03/12
Investment #3	$14,300.00	04/05/12
Investment #4	$26,000.00	06/02/12
Investment #5	$12,000.00	06/15/12
Investment #6	$54,000.00	
Investment #7	$456.00	
Treasury Bill	$5,000.00	
405	$0.00	
Other Investment	$0.00	
Other Investment	$0.00	
Long Term Assets	$149,256.00	
Total Assets	$156,756.00	

Debts

Short Term Debt	Current Balance	Last Update	Last Payment	Previous Balance	Interest Rate %	Paid Interest	Monthly Charges
Credit Card #1	$1,000.00	06/30/12	$461.00	$987.00	12.00%	$10.00	$503.00
Credit Card #2	$1,072.29	06/30/12	$650.00	$1,345.00	11.00%	$26.45	$403.74
Store Card #1	$247.96	06/30/12	$100.00	$234.98	9.25%	$7.85	$112.98
Store Card #2	$427.86	06/27/12	$200.00	$306.76	9.00%	$11.97	$313.29
Other #1	$0.00		$0.00	$0.00	0.00%	$0.00	$0.00
Other #2	$0.00		$0.00	$0.00	0.00%	$0.00	$0.00
Other #3	$0.00		$0.00	$0.00	0.00%	$0.00	$0.00
Other #4	$0.00		$0.00	$0.00	0.00%	$0.00	$0.00
Short Term Debt	$2,748.11		$1,411.00	$2,873.74		$56.27	$1,333.01

Long Term Debt	Current Balance	Last Update	Last Payment	Previous Balance	Interest Rate %
Personal Loan	$22,000.00	06/05/12	$550.00	$22,500.00	12.00%
Car Loan	$16,400.00	06/05/12	$350.00	$16,700.00	6.75%
Other Debt #1	$1,605.23	06/06/12	$300.00	$1,875.64	10.00%
Other Debt #2	$0.00		$0.00	$0.00	0.00%
Other Debt #3	$0.00		$0.00	$0.00	0.00%
Other Debt #4	$0.00		$0.00	$0.00	0.00%
Other Debt #5	$0.00		$0.00	$0.00	0.00%
Other Debt #6	$0.00		$0.00	$0.00	0.00%
Long Term Debt	$40,005.23		$1,200.00	$41,075.64	
Total Debt	$42,753.34		*Previous Total*	$43,949.38	

Let's take a look at the Budget Analysis section (on the next page) and the monthly payment. This shows that the monthly payment allocated was $500.00. So, the charges for the month were $503.00 and the monthly payment was $500.00. That's not a good recipe for debt reduction, and then there's the impact of interest too. If this trend continues, the balance will just creep higher and higher.


Jazer 100 - [Budget Analysis]

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Budget Analysis

EXPENSE ITEMS

Living Expenses	Weekly	Monthly	Yearly
Weekly Essentials	$100.00	$433.33	$5,200.00
Food	$200.00	$866.67	$10,400.00
Phone	$20.77	$90.00	$1,080.00
Cable TV	$20.77	$90.00	$1,080.00
Other #1	$0.00	$0.00	$0.00
Other #2	$0.00	$0.00	$0.00
Other #3	$0.00	$0.00	$0.00
Housing Expenses			
Mortgage/Rent	$600.00	$2,600.00	$31,200.00
Elec/Gas	$69.23	$300.00	$3,600.00
Repairs/Maint.	$46.15	$200.00	$2,400.00
Water/Sewer	$4.62	$20.00	$240.00
Other #1	$0.00	$0.00	$0.00
Other #2	$0.00	$0.00	$0.00
Other #3	$0.00	$0.00	$0.00
Auto Expenses			
Fuel	$60.00	$260.00	$3,120.00
Loan Payment	$80.77	$350.00	$4,200.00
Auto Insurance	$23.08	$100.00	$1,200.00
Maintenance	$23.08	$100.00	$1,200.00
Other #1	$0.00	$0.00	$0.00
Other #2	$0.00	$0.00	$0.00
Other #3	$0.00	$0.00	$0.00
Debt Reduction			
Credit Card #1	$115.38	$500.00	$6,000.00
Credit Card #2	$57.69	$250.00	$3,000.00
Credit Card #3	$27.69	$120.00	$1,440.00
Credit Card #4	$27.69	$120.00	$1,440.00
Loan #1	$0.00	$0.00	$0.00
Personal Loan	$0.00	$0.00	$0.00
Other Loan	$0.00	$0.00	$0.00
Total Expenses	$1,476.92	$6,400.00	$76,800.00

EXPENSE TOTALS

Expense Areas	Weekly	Monthly	Yearly
Living - 23%	$341.54	$1,480.00	$17,760.00
Housing - 49%	$720.00	$3,120.00	$37,440.00
Auto - 13%	$186.92	$810.00	$9,720.00
Debt - 15%	$228.46	$990.00	$11,880.00
Total Expenses	$1,476.92	$6,400.00	$76,800.00

INCOME ITEMS

Income (Net)	Weekly	Monthly	Yearly
Salary #1	$1,200.00	$5,200.00	$62,400.00
Salary #2	$450.00	$1,950.00	$23,400.00
Other Income #1	$0.00	$0.00	$0.00
Other Income #2	$0.00	$0.00	$0.00
Other Income #3	$0.00	$0.00	$0.00
Other Income #4	$0.00	$0.00	$0.00
Total Net Income	$1,650.00	$7,150.00	$85,800.00

DISCRETIONARY INCOME

	Weekly	Monthly	Yearly
Total Net Income	$1,650.00	$7,150.00	$85,800.00
Total Expenses	$1,476.92	$6,400.00	$76,800.00
Discretionary	$173.08	$750.00	$9,000.00

In this case, the solution could be a higher payment or lower monthly charging. We could leave it at that, but there's no plan…no gas gauge. There are other bills to pay too, and other debts that need attention. Having all of our debt information in one place allows us to consider different approaches, and to form a workable plan.

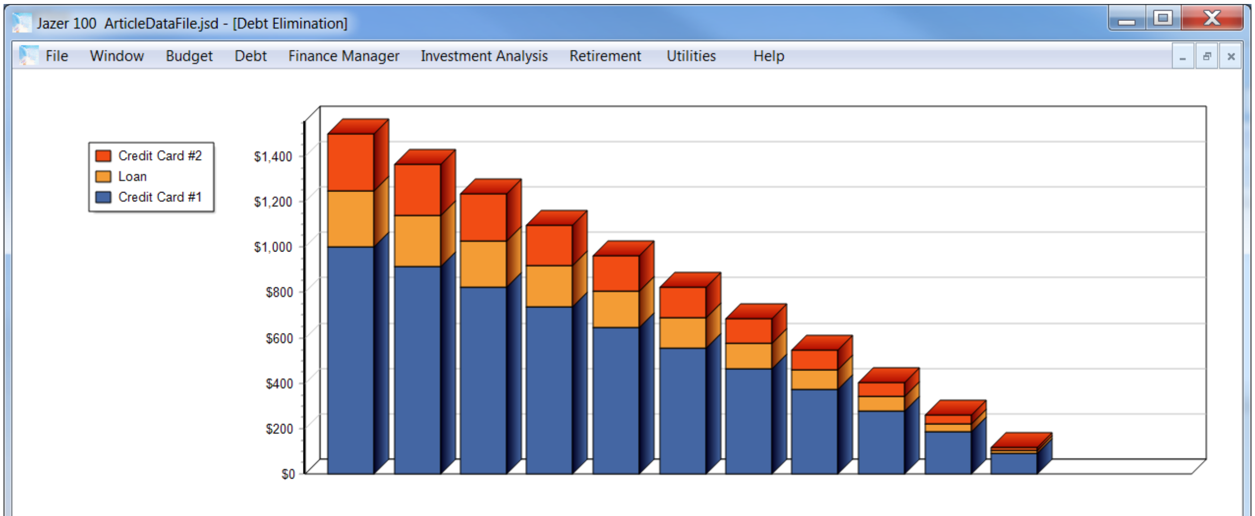
There are many approaches to debt reduction, and we'll cover them at length in another article. But regardless of the method, there's a real benefit to seeing them graphically. In addition, the ability to try different scenarios is extremely helpful in both choosing the right focus, and as an incentive to stick with a plan.

To illustrate, I've taken the Credit Card #1 data and set up some different possibilities. We know what happens if the situation continues as is, so we'll skip that scenario. The first example considers what happens if we continue charging at $503.00 per month, but increase the monthly payment to $600.00. This is really just like making a payment of $97.00 (minus the interest of course). Let's do the math.

$1,000.00 (balance) - $600.00 (payment) + $10.00 (interest) + $503.00 (new charges) = $913.00 (new balance). *Note: see the article titled " Credit Card Statement data and Billing Cycles".*

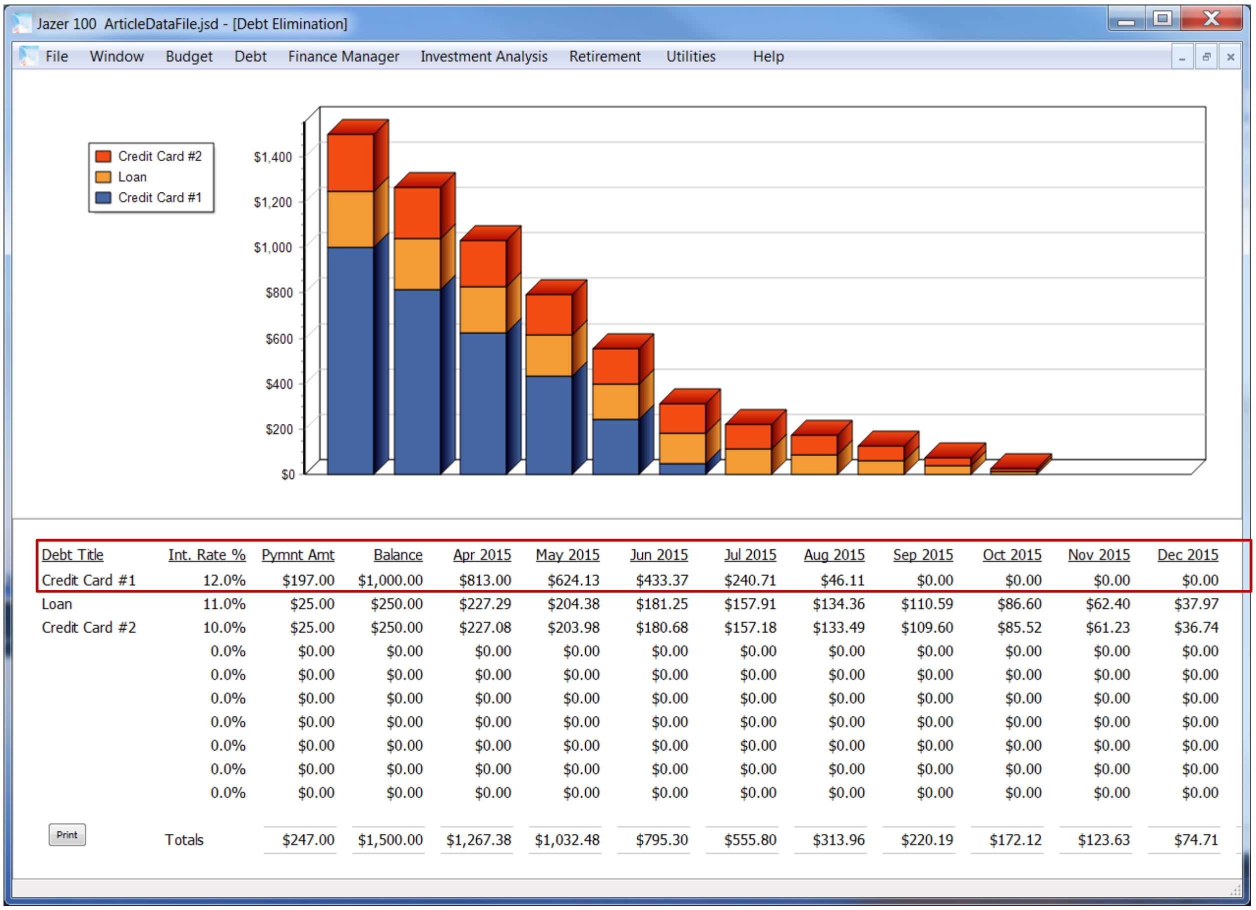
The difference is actually $87.00…we made $87.00 progress toward eliminating this debt.

(The dark blue bottom section of the bars show the trend graphically)



Debt Title	Int. Rate %	Pymnt Amt	Balance	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015
Credit Card #1	12.0%	$97.00	$1,000.00	$913.00	$825.13	$736.38	$646.75	$556.21	$464.77	$372.42	$279.15	$184.94
Loan	11.0%	$25.00	$250.00	$227.29	$204.38	$181.25	$157.91	$134.36	$110.59	$86.60	$62.40	$37.97
Credit Card #2	10.0%	$25.00	$250.00	$227.08	$203.98	$180.68	$157.18	$133.49	$109.60	$85.52	$61.23	$36.74
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Print	Totals	$147.00	$1,500.00	$1,367.38	$1,233.48	$1,098.31	$961.84	$824.06	$684.97	$544.54	$402.77	$259.65

There is a slow, but constant reduction in the debt over ten months. That's pretty good, but maybe we can do better. Next, I'll keep the monthly payment at $600.00, but reduce monthly charges to $403.00 which translates into a payment of $197.00 (minus interest). As a side note, after I've tried a variety of scenarios and arrived at what I think will work, I then go back to the Budget Analysis section and change the payment allocation to see how that affects the total budget picture. There may need to be other slight changes or reductions. Our budgets fluctuate too. For instance, my electric and gas bill are higher at certain times of the year. In those months when they are lower than the budget allocation, that money needs to be working in another area. Also, some months have five paychecks instead of four. A great place to put that "additional" money would be debt elimination, and the sooner the better. In the next screen capture, we quickly see that the $100.00 reduction in monthly spending (which translates into an increase in the payment), has a dramatic effect on the time that it takes to eliminate the debt. It's gone in just 5 months. This is a much better plan, but allocating an additional $100.00 and reducing the monthly charges could be too much for our monthly budget. Maybe the comfortable solution is somewhere between the two scenarios.



Debt Title	Int. Rate %	Pymnt Amt	Balance	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015
Credit Card #1	12.0%	$197.00	$1,000.00	$813.00	$624.13	$433.37	$240.71	$46.11	$0.00	$0.00	$0.00	$0.00
Loan	11.0%	$25.00	$250.00	$227.29	$204.38	$181.25	$157.91	$134.36	$110.59	$86.60	$62.40	$37.97
Credit Card #2	10.0%	$25.00	$250.00	$227.08	$203.98	$180.68	$157.18	$133.49	$109.60	$85.52	$61.23	$36.74
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	0.0%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Totals	$247.00	$1,500.00	$1,267.38	$1,032.48	$795.30	$555.80	$313.96	$220.19	$172.12	$123.63	$74.71

The idea is to control, reduce, and eliminate debt. To do this, we need to know the balance, spending, interest rate, and regular payment amounts, and we need to see these in conjunction with our other debt information, while we evaluate different approaches. With that accomplished, we can select a workable plan, and then work the plan and monitor progress toward the goal. Once a debt is eliminated, we adjust the plan and the amount that used to go toward paying that monthly payment can now be applied to another….and so on.

The point is really to get started, get a handle on the whole picture, and then to form and work with a plan….and the sooner the better.

Email comments to: articles@jazersolutions.com