

FINANCIAL FREEDOM

The A, B, C, Ds Of A Healthy Financial Plan

By Kathy Jo Pollack

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Curious about what you need for a healthy financial plan? Read on and you will find out.

First, have

- **A** plan that includes the following four areas:
- **B**udget
- **C**redit
- **D**ebt
- **S**avings

Budget: Start with a simple written plan (budget) of the monthly net income coming into your household and how much is going out. This plan will be the cornerstone of your financial future and allow you to maintain a reasonable lifestyle while paying down debt and saving.

You need to know what is coming in before it is spent while keeping priorities in mind. Housing, food, and basic utilities (gas, electric, water, and sewage) are the top three priorities, followed by auto loans, secured loans and school loans.

It is also a good idea to track your expenses for a month by saving either receipts or recording all purchases in a small notebook. It is easy to lose track of the little things, and little things add up to big things. A \$1 cup of coffee each morning on your way to work equals \$260 a year. These so-called small expenses are little leaks in our budget that can easily be plugged and redirected toward either savings or paying down debt.

Credit: Be aware of what your credit report says about you and make every effort to make it as accurate and positive as possible. This is important because whether you are applying for a loan or credit, applying for a job, or even renting an apartment, chances are that your credit report will be viewed. You want to have every opportunity that comes with good credit. Here is the link for the only authorized online source for your free annual credit reports:

www.annualcreditreport.com

Also, be careful not to build debt in an attempt to build credit – they are not the same. Do not max-out credit limits. Paying all bills on time and paying down your balances will help you to build a good credit report, which leads to the next area, **Debt**.

Debt: Now that you know how much money comes into your household after taxes and what goes out, take a closer look at your debt. **Total** your monthly credit payments, excluding housing, and **compare it to 20%** of your net income or divide your total monthly credit payments by your monthly net income (payments exclude housing and include: auto loans, school loans, and personal loans as well as credit cards or other accounts that have a balance on which you are making monthly payments).

Watch for these warning signs of too much debt:

- Total of your credit payments exceed 20%
- Struggling from paycheck to paycheck
- Running out of money before pay day
- Making only minimum payments on credit card balances
- Skipping one payment to make another
- Putting off doctor or dentist bills
- Using a credit card to pay for things you used to pay for with cash
- Arguing over money and bills
- Afraid to total your debt

If any of these signs hit close to home, work hard to reduce your debt with these suggestions:

- Stop using credit cards.
- Pay cash.
- Pay down balances and always pay more than the minimum on credit card balances.
- While making payments on all bills, apply extra money to the highest interest account.
- Work with your creditors to negotiate rates and arrangements.
- Consider debt consolidation or a lower rate balance transfer.
- If you are still having problems meeting your debt obligations, you may want to talk with a professional. Check with the human resources department of your employer to see if you have an Employee Assistance Program (EAP). With this program, you may be able to access free and confidential help. Also, you may want to contact the National Foundation for Credit Counseling, www.nfcc.org, to locate a credit counselor near you.

Savings: Build up your emergency savings to \$500 and strive to have at least three months of your net income saved. With this cushion, you will not have to resort to credit when faced with an emergency. Once you see where your money is going and you begin to pay off debts, you will be able to save more.

Look into other forms of savings such as Certificates of Deposit (CDs), IRAs, or even a college fund for your child. Do not neglect your retirement savings. Check into the programs available where you work such as a 401K, and make sure you contribute enough to get the maximum match.

Helpful tips for saving:

- Pay yourself first.
- Use direct deposit or payroll withholding so you don't see it.
- Save any additional income such as bonuses, overtime, tax refunds or extra paychecks.
- Set financial goals and keep them visible. Do you want to take a vacation, buy a house, or payoff a debt? This will motivate you to save.
- Save your loose change.

Now that you have a plan, follow these suggestions to keep you on track:

- Stick to your budget and continue to save.
- Pay bills on time.
- Pay balances in full on credit cards, and only charge what you can afford to pay off each month.
- Keep your debt-to-income ratio under 20% (excluding housing costs).
- Track spending when money seems tight.
- Be a smart shopper. Comparison shop for everything, not just food and clothes, but also credit, insurance, banking, phone, and Internet services, to name a few. Terms and fees vary greatly and change frequently.
- Check, review, and correct your credit reports every year.

Remember the A, B, C, Ds:

- **A** Healthy Plan includes:
- **B**udgeting - what is coming in and going out
- **C**redit - use and reports
- **D**ebt – keep a close watch and avoid overload
- **S**avings – both emergency and retirement

Be proactive and take time to review your plan.

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Author's Bio

Kathy Jo Pollack is a certified life coach, trainer, and speaker with a focus on financial independence. She has worked with thousands of people from all walks of life as the training specialist for Consumer Credit Counseling Service and has taken her passion and expertise to a new level as a coach and writer. She also offers various teleclasses and seminars. Please visit her at: www.kathyjopollack.com

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