



Financial planning across the life course is influenced by many expected and unexpected factors. Values, goals, personal choices, major life events, lifestyle conditions, and needs will influence your financial plan.

But for the most part, certain age groups tend to have similar life cycle needs. High school kids for example, ought to be planning for independence and evaluating future financial needs and resources. Young adults often work toward establishing a career, earning financial independence, and developing a personal financial identity. With marriage and children come education funds, career expansion, and increased need for credit. In middle age, people may be investing, updating retirement plans, or creating estate plans. Finally, older adults will likely re-evaluate and adjust spending according to housing, health, and income.

Despite your life stage, it may likely seem that there is never enough money in the bank. Therefore, you need to plan. Financial planning will help you be able to make large purchases without adding to the financial stress in your budget, help you protect your household against the unforeseen loss of income, and in the case of successful aging, help you retire with enough money to meet your expenses. Budget development, money management, wise credit use, consumer protection, and savvy saving can contribute to successful financial management.

### *Budget Development*

A budget is often called a spending plan or an accounting plan. A budget is an effective tool to help you get the most for your money. It is even more important when you have a sudden change in your income, such as retirement. A budget helps you make decisions about how to spend your money, determine your needs before your wants, and match your spending to your current income. Budgets can even help decrease unnecessary arguments and stress over money.

Developing a budget involves three factors — income, monthly expenses, and the balance between income and expenses.

#### *Step 1 - Income*

Add up your current total monthly income. Include income from other family members if such income is used toward expenses. Include only the take-home amount, or what you actually have to spend after deductions.



### ***Income comes from a variety of sources, including:***

- Earnings from employed family members
- Unemployment compensation
- Withdrawal from savings
- Tips or commissions
- Interest or dividends
- Social Security
- Child support or alimony
- Public assistance
- Veteran's benefits

### ***Step 2 – Monthly Expenses***

Now add up your monthly expenses. Some of these expenses are fixed, such as a mortgage or rent, but others, such as groceries or entertainment, fluctuate. If you have never had a budget before, you can save and keep track of receipts and/or use old records such as cancelled checks and bill statements to help you figure out what you typically spend a month.

#### ***Some of the most common categories include:***

- Housing: mortgage or rent payments, property taxes, insurance
- Utilities: electricity, gas, oil, phone, water, sewer, garbage, cable or satellite television
- Food: groceries, eating out, school or senior center lunches
- Transportation: gas, car repairs and maintenance, license, tags, parking, bus, taxi fares
- Medical Care: doctor, dentist, clinic, hospital, medicine, glasses
- Loans: car payments, installment and education loans, credit cards, charge accounts
- Insurance: health, life, liability, car, disability
- Household Operations and Maintenance Repairs: cleaning and laundry supplies, paper supplies, towels, equipment
- Clothing and Personal Care: new clothing purchases, dry cleaning, hair care, cosmetics, toiletries
- Education and Recreation: books, subscriptions, magazines, newspapers, lessons, tuition, hobbies, club dues, sports, entertainment, vacation, alcohol, tobacco

- Pets: veterinarian visits, vaccines, food, supplies
- Miscellaneous: child care, gifts, contributions, personal allowances, child support

Remember, not all of your expenses are monthly. Property taxes, insurance premiums, tuition, and holiday gifts may come once or twice a year. It is easy to forget about them and then not have the money to pay for them. You will need to adjust your monthly budget by setting aside additional money to meet these occasional costs.

### ***Step 3 – Balance Income and Expenses***

Add up your adjusted monthly expenses and compare the total to your current monthly income. Then adjust your budget accordingly. You may have to decrease spending in one area to have enough money for another area.

#### ***As you set your budget, think about the following questions:***

- Which expenses are essential to your and your family's well-being?
- Which expenses have the highest priority?
- Which spending categories can be reduced to keep expenditures within your income?
- How much can you afford to spend in each category?

### ***Money Management***

Everyone has a style of spending money. Some people's philosophy is "easy come, easy go," whereas others believe that "a penny saved is a penny earned." A budget supports all kinds of spending styles while helping you maintain enough money to pay the bills.

#### ***The following smart spending habits can help with money management:***

- Find the best buy. Look in several places — a catalog, newspapers, and multiple stores including a secondhand store or even garage sales. Spend time looking before you spend.
- Use wisely. Make the things you buy last longer by taking proper care of them. See if you can find ways to make the clothes you buy wear longer and to prevent the food you buy from spoiling.
- Substitute. When you go to buy something, ask yourself if a lower-priced item will do the job

just as well. Use store brands and generics instead of name brands. Rent a video or DVD instead of going to a movie.

- Share it. Stretch resources by sharing with family, friends, and neighbors. You can chip in to buy larger amounts at lower unit prices (for example, share a bushel of apples) or join car pools for example.
- Find it free. There are some items that are available for free. Use public parks and playgrounds instead of expensive health clubs for exercise. Borrow books, CDs, and DVDs from the library rather than buying them.
- Rent or borrow. When you need something for a short time, it is often cheaper to rent or borrow than to buy. Rented or borrowed items must be returned in good condition.
- Trade or swap. Do you have things in your home that you no longer use? Can you trade them for things you need? Do you have talents or skills you could trade with your neighbors, such as time baby-sitting in exchange for help with home repairs?
- Make it. Sometimes it's cheaper (and more fun) to make something than to buy it, but this means you must use your time and skills. Make sure the cost of materials is cheaper than buying the finished product.
- Watch out for "phantom" money. Keep track of the money in your wallet. Cut back or cut out spending on snacks, phone calls, movies, magazines, eating out, record/book/DVD clubs. Stick to your shopping list and avoid impulse buys.
- Don't buy it. Ask yourself if you really need this item or if there's something you want even more. Learn to say "no" to yourself, to your children, to salespeople and to things you feel pressured into buying. Doing without one item can help you get something else you want more. Don't go shopping just for fun or as form of "retail therapy," which is what some people do to relieve stress. In the long run, such unnecessary spending causes stress.

## *Wise Use of Credit*

Credit is the ability to obtain goods or services before payment, based on the trust that payment will be made in the future. Credit allows you flexibility in managing your budget to purchase goods and services when they are needed the most, then paid off when you have the means to pay for them. Individuals are offered credit because lending institutions, such as a bank or credit card company, trust you to repay them within a stated period of time. Repayment is as important as the credit process. For example, repayment agreements must be honored. If they are not, you risk damaging your credit score and may not be able to borrow money again when you need it. If you are slow in repayment, you will also have to pay an interest charge. Most lenders will charge interest to borrowers to make a profit and to ensure that they do not lose money if you do not repay the loan. While credit can be helpful, it can also be dangerous.

Consumer credit takes many forms, including installment loans, credit cards, department store revolving charge accounts, home equity loans, and other kinds of time payment plans. Wise use of credit means that you keep your credit use at a safe, manageable level that you are able to pay off within the stated time. This is often difficult in today's consumer environment because reading contracts can be confusing and calculating the actual cost or interest charges requires knowledge and math skills.

### *When using or applying for credit, it is important to:*

- Budget your credit spending carefully.
- Shop around for the lowest total finance charges.
- Establish a debt limit and stick to it.
- Read credit contracts carefully and ask questions before you sign anything if you do not understand something.
- Avoid depending on credit to pay for day-to-day living expenses if and when possible.
- Pay your bills on time to insure that you can continue to use credit.
- Use credit for items with values that will outlast the installment payments.
- Obtain a copy of your credit report annually and check it for accuracy and completeness.



## Consumer Protection

There are multiple laws that protect the consumer from the unfair business practices and fraud that surround us. For example, the Federal Truth-in-Lending Act requires most businesses that extend credit to tell consumers what that credit will cost in the long run, including the finance charge and annual percentage rate of interest. The Fair Credit Billing Act requires, among other things, prompt investigation of billing errors by creditors.

The best way to protect yourself when using credit, or entering into an agreement for services, is to read and understand the credit contract before signing it. Contracts are common and expected for various purchases and services such as buying a car or hiring a lawn service. But some people don't realize that contracts are also involved with downloading new computer software or apps. The "terms of use" or other similar wording is used in electronic downloads and by checking the box that you read such terms holds you accountable to the contract.

***The following "do's and don'ts" will protect you as a consumer:***

- Do insist for a salesman to let you take home a copy of the contract before you sign it or give you adequate time to read it.
- Do show the contract to a friend or a lawyer if you have any questions about some of the provisions.
- Do insist that all promises be put in writing.
- Do keep copies of all contracts, payment records, and complaint letters in a safe place.
- Don't deal with any salesman who refuses to let you take home a completed contract before you sign it.
- Don't sign anything unless you have time to read it carefully and you fully understand what it says.
- Don't ever sign a contract with blank spaces that are to be filled in later by a salesperson.
- Don't believe offers that are "too good to be true" because they usually are not true.

## Savvy Saving

When thinking about saving, what are your financial goals? What do you want to do in the next 6 to 12 months (short-term), 3 to 5 years (medium-term), and 15 to 20 years (long-term)? Try writing down your wish list. Sometimes the items in the short-term have to be put off to obtain items in the medium term. For example, does your family want to go on vacation this year or pay off the family car in four years?

***Follow these saving tips to help you achieve your saving goals:***

- Set a saving goal. If you have a family, have the entire family agree on this goal. Saving for a goal is easier if all members can agree on it and work toward it together.
- Set goals on how much to save per day. When saving for a goal, it is often helpful to think about how many cents a day you need to save. For example, if you want to buy a new pair of shoes for a cruise you are taking in 6 months, that \$100 pair of shoes can motivate you to save approximately .55 cents per day for 90 days. When tempted to buy that soda at the gas station or candy bar at the checkout, think about those shoes and save the cash.
- Be realistic in determining short-, medium-, and long-term goals. If you feel you cannot afford to save enough to reach a goal, maybe the goal needs to be adjusted or put off for another 6 months to a year. Larger purchases, such as a house (saving for the down payment), may have to be put off for even longer.
- Consider a less-expensive version of your goal. This is not to say you cannot achieve your goal, but consider ways to achieve what you desire at a lower cost. For example, if one short-term goal is to save enough to splurge for a day at the spa, consider a beauty school and/or massage school. You can still get the spa treatment for a fraction of the retail cost. Another example for a medium-term goal includes buying a car. Rather than buy a new car, investigate purchasing a used car or a program car (a vehicle used by a dealership or a car rental agency that has never been "owned" by an individual).

- Put your savings where it will draw interest, perhaps a bank, money market or certificate of deposit (CD). It is best to shop around for the best interest rate to help you make money while saving money.

## Conclusion

Establishing and maintaining a personal financial plan that includes a budget, money management, wise credit use, consumer protection, and saving can contribute to successful financial management across the lifespan. There are always unexpected events out of your control that affect your finances, such as the government changing Medicare/Social Security or a natural disaster such as an earthquake or tornado. Having 3 to 6 months of income in a savings account where it is accessible in an emergency will make these unexpected events easier to financially manage. A financial plan is a healthy lifestyle choice that contributes to optimal aging.

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MF3265 December 2015