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ABSTRACT

This set of lessons is designed as a home study course to help individuals come to terms with their finances. Lesson 1 explains the following steps in developing a financial action plan: determining priorities, setting financial goals, analyzing cash flow, planning spending, developing spending guidelines, making written spending plans, planning for savings, and reviewing spending. Discussed in Lesson 2 are the following aspects of recordkeeping: benefits of recordkeeping, important property and financial records and papers to keep on file, development and organization of personal recordkeeping and home filing systems, and yearly overhauls of recordkeeping systems. Lesson 3 addresses the following issues related to using credit wisely: decisions regarding use and amounts of credit, danger signals, costs of credit, guidelines for shopping for credit, different types of credit, credit records, credit rights, credit responsibilities, and women and credit. Examined in Lesson 4 are various considerations involved in purchasing insurance (identifying financial risk, minimizing risk, accepting or sharing risk, and transferring risk) and the features of different types of insurance (health, disability, life, car, and property and casualty). Each lesson includes suggested activities and worksheet(s). (MN)

Coming to Grips with Your Finances
Home Study Course

Misc. Series No. 112

Cooperative Extension Service
University of Idaho

Lesson 1

Coming To Grips with Your Finances
Home Study Course

Misc. Series. No. 112

University of Idaho
Cooperative Extension Service

Your Financial Action Plan

Wouldn't it be nice if money grew on trees? Then when the utility bill is due, you could pick $89. On your way to the grocery store you could pick $75. When your child needed $4 for skating, the money would be there.

Unfortunately, money doesn't grow on trees. Most of us have to work for our money and plan for our future financial needs. It's easy to get caught up in everyday living and forget to look ahead. But you can't achieve financial security unless you plan and work toward your financial dreams.

Yes, it is sometimes hard to realize that there is such a thing as a secure financial future when there are 10 more days 'til payday and the checkbook is bare. But your money can stretch farther if you manage your money carefully.

What's Important To You?

Before you can make your financial dreams come true, you need to think about what things are important to you and your family. The things that are important to you are known as **values**. Here are some things that are important to families. Pick out the things that are most important to you and place a "1" beside them. Place a "2" by the things that are sort of important. Place a "3" beside the things that aren't very important.

____ religion
____ education
____ family vacation
____ recreation
____ insurance
____ friends
____ health
____ jewelry
____ culture (theater, movies, plays, dance recitals)
____ transportation (car, truck)
____ household furnishings
____ other

____ job success
____ prestige
____ food
____ making lots of money
____ starting a new business
____ family activities
____ paying off debts
____ entertainment
____ new home or condominium
____ boat, fishing equipment
____ personal appearance (clothes, shoes, haircut)

Now compare your list with your checkbook or spending receipts. Are you spending your money for things that are really important to you and your family?

Do you and your spouse agree on your spending values? Or does your spouse like to buy fishing tackle when you would rather buy clothes? It's hard enough for one person to decide which item is most important. It's even harder when two or more people who share money have to decide where the money should go. That's why it's important for all family members to openly **communicate** about their spending priorities. Communication and joint decision making are especially important regarding your family's budget, savings and use of credit.

What Do You Want To Do With Your Money?

You need to look into the future and see where you want to be before you can get there. Your list might look something like this:

- make ends meet
- own your home
- get more education for yourself so you can earn more money
- educate your children
- save money for emergencies equal to 3 months take-home pay (in case of unemployment or illness)
- decrease your debts
- save money for special things (down payment on house, finish your basement, remodel your house, take a family vacation, braces for your children)
- insure yourself adequately against loss
- save money for retirement

Think about your family goals. Include all family members when setting family spending goals. Write these goals down so you can see what you say you want.

Financial goals are the specific things you want to do with your money within a given period of time. Goals give you direction. They give you a purpose for the way you spend your money. Think about the things you want your money to do for you now and in the future. Think about your short-term, intermediate and long-term goals.

Short-term goals are the things you want to get done in the next day, week, month, 6 months or year. **Intermediate goals** are the things you want to accomplish in the next 1 to 5 years. **Long-term goals** are the things you want to accomplish in the next 5 or more years. Each goal should:

- be specific
- be realistic, challenging, achievable
- be measurable
- have a target deadline for completion
- be yours/the family's

What's wrong with the statement "I want to save money." How can you make this a realistic financial goal? By saying "I want to save $25 a week for 12 months." This statement more closely meets the requirements of a goal. Of course, that goal would depend on an individual's or family's income and values.

Use **Worksheet 1** to help you decide what you want to spend money for.

Analyze Your Income and Spending (Cash Flow)

After you have listed your goals, you may question if it's possible to realize any of them and still pay day-to-day bills such as food and clothing as well as taxes and insurance. To answer that question, you need to know your family **cash flow**.

Your cash flow is the flow of money into your pocket and out again. How well do your income and expenses match? That sounds simple, but few of us take time to see what comes in and goes out each month.

Use the cash flow worksheet (Worksheet 2) to list your income and your expenses for 1 month. List all of your monthly income. Include your salary, tips, dividends, interest from investment or savings accounts, capital gains from investment sales and income from rental property or royalties. Also, keep a record of your expenses for a month. Use check stubs and receipts to monitor your spending.

Include your fixed and flexible expenses. **Fixed expenses** are rent or mortgage payments, installment loans, insurance payments and other regular payments. **Flexible expenses** are the budget items you have more control over. These include food, clothing and utilities.

If income exceeds expenses, you'll have money to put in your savings program. If income does not exceed expenses throughout the year, see what you can do to increase your income or decrease your expenses. A job that pays more or an additional job can increase income. Look at your budget to see if you can find spending leaks. Can you reduce your flexible expenses?

Plan Your Spending

The key to financial comfort is budgeting. With just a few months of disciplined spending, you can reverse overspending, free extra money for savings and investments and build a cash cushion for emergencies.

A budget is a boundary for your spending. When you tell your child to be home at 6 p.m. for dinner, you have made a rule or set a boundary for your child. Likewise, when you allow $73 a week for food, you have set a spending boundary. A budget is a spending guideline.

Spending Guidelines

Spending guideline percentages may be useful as you examine your spending patterns. Spending guidelines are for **comparison purposes only**. They are not hard and fast rules. One family may choose to spend 40 percent on housing and less on clothing, credit and transportation, while another may choose to spend more on transportation and less on housing. Here are some spending guidelines:

Housing (including utilities and supplies)	33-35%
Food	18-25%
Transportation (gasoline, oil, public transportation)	7-9%
Clothing	6-12%
Medical (including dental, prescriptions, health insurance)	6-8%
Auto insurance	2-3%
Life insurance	2-5%
Educational advancement	1-2%
Credit obligations (including auto payment)	12-15%
Savings	2-10%
Recreation/entertainment (church, charities)	2-10%

Necessary living expenses (shelter, food, clothing and transportation) account for approximately three-fourths of take-home pay.

How do you determine spending percentages? Here's an example. If you spent $350 per month on housing and your take-home pay is $1,000, then you are spending 35 percent of your income on housing.

$$\frac{\$\ 350}{\$1{,}000} \times 100 = 35\%$$

The important thing to remember is that your take-home pay is like a piece of pie. If you cut one slice too big, all the other pieces will have to be cut smaller or else you'll find yourself having to borrow to make ends meet.

Make a Written Spending Plan

Do you have a written plan that guides your spending? If not, use Worksheet 3 to plan your monthly spending. You can use Worksheet 3 to list what you plan to spend as well as what you spent. Use check stubs and receipts to account for your spending. As you develop your plan, see if you have allowed enough money for the following items:

- **Major expenses** and future goals such as adding rooms to your home, buying a car, paying for your child's education, buying a boat, gifts or furniture.
- **Emergencies** such as tires, medical expenses, car accidents, unemployment, car repairs, dental bills, house repairs and appliance repairs.
- **Seasonal expenses** such as school supplies and clothes; house, car, health, life and disability insurance; registration fees for children in such groups as football, baseball and basketball leagues; family vacations; birthday and Christmas gifts; taxes and license plates.
- **Debts** or past due bills.
- **Monthly expenses** such as savings or investments, rent or mortgage, utilities, household supplies, food, contributions, installment payments and medicine.
- **Daily expenses** such as school lunch and supplies, snacks and meals out.
- **Miscellaneous expenses** such as civic club dues, gameroom, newspaper or magazine subscriptions, laundry, clothing purchases and repairs, theatre, movie, recreation and personal care.

Plan for Savings

When making our your budget or spending plan, plan for savings first. You can grow richer each month if you pay yourself first. Each month before you pay your bills, put 10 percent of your gross pay into your savings fund. When you do this at the beginning of the month, your entire paycheck will not slip through your fingers. If you wait until the end of the month, there may not be anything to save.

Paying yourself first gives you an automatic, systematic way to make your money grow. Regardless of your occupation or your income, this system works. A payroll deduction for savings is another way to save regularly.

When you receive a pay raise, consider putting a portion of the raise into a savings account. Another technique for saving money is to empty your change into a can at the end of every day. Then at the end of the month, roll the coins and put them in your savings account. You can save up to $30 a month this way.

Review Your Spending

After establishing a plan for spending and savings, you need to carry out the plan. The best financial plan is worthless unless you carry it out. Keep track of your expenses to see that you are within the plan. If not, or if you have unplanned expenditures, make adjustments.

If you are spending more than you have, you must either increase your income or decrease your expenditures.

Suggested Activities That Start Your Financial Action Plan

- Schedule a family get-together. Have each person write down one specific spending goal. Then, select a family goal for this year. Discuss a plan for reaching each goal.
- Identify your total monthly money income.
- Keep a record of all your spending for a month.
- Develop a spending plan for the year and stick to it.

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Family Goals

Briefly describe your goals.

Goal	Total cost	Cost per month	Target date
Short-term (within the next 12 months)			
Intermediate (1-5 years)			
Long-term (over 5 years)			

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Cash Flow Worksheet

	Month
Income	**Amount $**
Salary and tips	
Interest, dividends, savings	
Other	
Total monthly income	$
Expenses	**Amount $**
Rent or mortgage	
Utilities	
Food	
Transportation	
Clothing	
Medical	
Insurance	
Education	
Credit	
Savings	
Recreation/entertainment	
Church/charities	
Other	
Total monthly expenses	$
Income-expenses	$

Worksheet 3

Plan Your Spending

Month	**January**		**February**		**March**		**April**		**May**		**June**	
Amount of income												
Expenses	**Plan**	**Spent**	**Plan**	**Spent**	**Plan**	**Spent**	**Plan**	**Spent**	**Plan**	**Spent**	**Plan**	**Spent**
Savings, investments												
Housing — Rent or mortgage												
Utilities												
Electricity												
Gas or other heating fuel												
Water/sewer												
Telephone												
Garbage												
Home furnishings and equipment												
Household maintenance												
Childcare												
Household help												
Transportation												
Automobile payment												
Gas												
Maintenance												
Bus, taxi, etc.												
Food and Groceries												
Meals eaten out												
Alcohol and tobacco												
Clothing												
Personal care												
Laundry/dry cleaning												
Hair care												
Spa and health club												
Insurance												
Automobile												
Property												
Home												
Medical												
Disability												
Life												
Medical												
Physician												
Dentist												
Prescriptions												
Other												
Recreation/Entertainment												
Cable TV												
Business Expenses												
Taxes												
Gifts												
Contributions												
Education or self improvement												
Monthly installments												
Department stores												
Bank charge cards												
Oil companies												
Loans												
Other												
Miscellaneous												
Total Expenses												
Income less expenses												

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Plan Your Spending

Worksheet 3 (cont'd)

Month	July		August		September		October		November		December	
Amount of Income												
Expenses	Plan	Spent	Plan	Spent	Plan	Spent	Plan	Spent	Plan	Spent	Plan	Spent
Savings, investments												
Housing — Rent or mortgage												
Utilities												
Electricity												
Gas or other heating fuel												
Water/sewer												
Telephone												
Garbage												
Home furnishings and equipment												
Household maintenance												
Childcare												
Household help												
Transportation												
Automobile payment												
Gas												
Maintenance												
Bus, taxi, etc.												
Food and Groceries												
Meals eaten out												
Alcohol and tobacco												
Clothing												
Personal care												
Laundry/drycleaning												
Hair care												
Spa and health club												
Insurance												
Automobile												
Property												
Home												
Medical												
Disability												
Life												
Medical												
Physician												
Dentist												
Prescriptions												
Other												
Recreation/Entertainment												
Cable TV												
Business Expenses												
Taxes												
Gifts												
Contributions												
Education or self improvement												
Monthly installments												
Department stores												
Bank charge cards												
Oil companies												
Loans												
Other												
Miscellaneous												
Total Expenses												
Income less expenses												

NOTES

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Lesson 2

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Record Keeping: What To Keep, What To Discard

Every family has an accumulation of records and important papers. For some families, getting financial records in order mimics Mark Twain's conclusion about the weather: "Everybody talks about it, but nobody does anything about it." Yet there is nothing too time consuming or difficult about keeping an accurate finger on your financial pulse. Once you have set up a system, the process is fairly mechanical and much more efficient than having receipts scattered all over the house.

To help you decide whether you need to do something about your record keeping, ask yourself a few questions:

Yes	No	
_____	_____	Do you have a record system?
_____	_____	Would it be easy for other members of your household to figure out your record system?
_____	_____	Does anyone know where to turn for necessary information about the family assets and obligations?
_____	_____	Do you have a listing of people who are important contacts, such as tax counselors, attorneys, bankers, brokers, insurance representatives, employers, creditors and debtors?
_____	_____	Are you sure titles to property and possessions are held in the best way for all concerned?
_____	_____	Do you know which important papers can be replaced if there is a fire and your records are destroyed?

If you answered "no" to two or more of these questions, you may want to improve your record keeping system or get one started.

Record Keeping Can Help You:

- Keep a close tab on where the money goes, which can be especially important in uncertain economic times.
- Manage daily family financial responsibilities.
- Provide evidence of a significant event, such as a birth, death, marriage or divorce, or an important transaction, such as the repayment of a loan.
- Recover losses from fire, theft, flood or other casualties.
- Organize your financial activities, such as budgeting and planning for savings and investing.
- Prove that you are entitled to services and benefits, such as repair of household equipment under warranty or collection of insurance proceeds.
- Decrease the hassle of preparing tax returns.

If you have not been keeping many or any records, or if you have been indiscriminately saving papers for years, you still may be missing some important ones. When deciding whether to keep or discard a paper, consider: How likely are you to need that paper in the future? If you did not have the paper or the information it carries, would the consequences be minor or serious? Could you get the information some other way? If yes, how quickly and easily could you get it?

Your answers to these questions will provide the base for a record keeping system that is suited to your needs.

No matter the extent of your records, most likely they will fall into the general areas of **property** and **financial.**

Important Records and Papers For Your Files

Property

Personal — You should keep copies of most personal records that have been recorded by either a government agency or the courts. These include birth, marriage and death certificates; adoption papers, citizenship papers, marriage dissolution papers and military service records.

Real Estate —Keep the following real estate records: deeds, title papers, mortgage documents, tax assessment notices, papers showing the price you paid for the property and papers showing the price when you sold. Also keep records of capital improvements including bills and receipts for the duration of ownership or longer as needed for tax purposes.

Household Inventory — An inventory of your possessions will be vital in case you have to make homeowner's or tenant's insurance claims because of fire, theft or some other casualty. An inventory is also helpful if you are preparing a net worth statement. You should also photograph and list the contents of each room, basement and garage as well as other valuable items. Update the list at least once a year. Keep appraisals of especially valuable property, such as art, furs or jewelry.

Financial

Account Book — A notebook for recording income and expenses is an easy way for your family to see at a glance what you earn and what you spend.

Bank Accounts — Keep a list of each account, noting the name of the financial institution, names of co-holders of the account, account numbers, type of account and rate of interest, if any. Keep copies of the agreements you sign authorizing automatic deductions from your accounts. You should keep complete and up-to-date entries in your checkbook register for each check you write. The completed register should be filed with your checking account statements. Cancelled checks are receipts and should be kept at least one year. Cancelled checks used as a basis for tax deductions should be filed with supporting materials for tax records. You will also want to keep your annual statements of interest earned on your savings accounts as part of your tax records for those years.

Credit Accounts — Keep copies of your retail credit and installment loan contracts. These documents specify credit terms and may be required for tax purposes or to settle differences with the creditor. Also keep a complete record of all debts that others owe you. A list of credit card numbers, issuing companies, addresses and telephone numbers should be kept for the duration of the account.

Investments — Investments in stock certificates, bonds and other securities that are lost, stolen or destroyed can be time-consuming or difficult to replace.

List all stocks, bonds and mutual funds giving serial numbers, purchase price, date of purchase and name of person owning the certificate. Refer to this list frequently to remind you to collect interest when due or to cash in bonds on maturity. You should also keep ongoing records for dividend dates and payments since you will need this information for tax purposes.

Tax Records — For income tax purposes you are required by law to keep records that will enable you to complete an accurate tax return. Needed are all receipts, cancelled checks, vouchers and other evidence to help you prove amounts claimed as deductions for credits. (Possible deductible expenses include medical, taxes, interest expense, contributions and expenses related to employment.) Keep copies of income tax returns, checks, receipts, supporting evidence and tax withholding statements at least 6 years. That is because the Internal Revenue Service has 3 years from the date it was due or filed to audit your return. However, if you have under-reported your gross income by more than 25 percent, the IRS can audit your return up to 6 years.

Insurance — Insurance policies you hold might include life, accident, health, hospitalization, homeowners, personal liability, disability and automobile. Your insurance policies and records are necessary to make claims, to evaluate your coverage periodically and to help your heirs settle your estate. These documents are easily replaced by the company. However, you should keep information on file about each policy. Information to record includes: Name of insurance company and agent, type and amount of coverage, policy numbers, names of those insured, beneficiaries, amount and due date of premiums and a record of payments and claims.

Wills — Keep your will up-to-date. Usually the original, signed copy of your will is deposited with your attorney or the probate court in your county. You may want to have other copies on file.

How To Get Records And Papers Organized

Once you have decided which papers to keep, you will need to decide how to organize them. The best system for efficient record keeping depends on the individual family. The following three decisions should be considered before setting up or improving your record keeping system.

1. Choose **one place** to keep your records. This family finance center might be as elaborate as a home office or as simple as a drawer in the kitchen, a file cabinet in the family room or a cardboard box that fits under the bed. Even an accordion folder will do. The important thing is that you find a place where all the papers you will need to manage finances can be stored. It is ideal if there is a work place nearby.
2. Decide **who** will take major responsibility for record keeping in your family. Of course, all family members, including the children old enough to understand, will want to know how the filing system works and how information can be found easily. Some of the record keeping tasks can be shared or delegated. But one person with the skills and interest to handle the job will want to take leadership.
3. Develop a **regular schedule** for bookkeeping and resolve to stick to it. A routine will actually reduce the amount of time you spend on record keeping. Set up a regular time during the month to balance the checkbook, fill in the family income and expense records and pay the bills.

Organizing a Home Filing System

A home filing system can be as individual as the person who sets up and uses the arrangement. Usually it helps to alphabetize by large categories, then also alphabetize subtitles. If subtitles have individual folders, information should be easy to file and, later, to recover.

Use page 4 as a guide to organizing your file and as a file index kept in the front of the first drawer (or box) of your filing system.

Using a Safe Deposit Box

You will want to keep some records in a safe deposit box. As a rule, anything you can't replace or that would be costly or troublesome to replace should go in a safe deposit box. Here are some suggestions:

- Birth certificates
- Citizenship papers
- Social Security cards
- Passports
- Marriage certificates
- Adoption papers
- Divorce decrees
- Wills
- Death certificates
- Real estate papers, abstracts
- Deeds, plats
- Titles to automobiles
- Household inventory
- Military papers, discharge and disability papers
- Bonds and stock certificates
- Important contracts
- List of records and important papers

File These Papers in Your Wallet

- Driver's license
- Identification (name, address, who to notify, special health information
- Membership cards
- Social Security card
- Auto insurance card

Figuring Your Net Worth

Another form you will want as part of your records is a net worth statement. To find out your net worth, just add up the value of all you own — your assets — and subtract the total of all you owe — your debts. This calculation will be needed:

- To apply for a loan
- To plot your financial growth
- To make plans for the future

Worksheet 1, "Your Net Worth Statement," will help you take a reading of your financial pulse. The extra columns are for calculating your net worth in upcoming years. Look at your overall financial situation annually. Here are some guidelines for calculating assets:

- Ask a real estate agent to estimate the value of your house in today's market. Don't use the price you paid for it.
- Check a used car price guide for the value of your car.
- Make a conservative estimate of the value of household items. Anyone who has had a garage sale knows that even televisions and stereo equipment often don't bring what you think they are worth.
- Use the appraised value for antiques and art.
- Check the newspaper for the market value of stocks and mutual funds.
- Check your policy to find the cash surrender value of whole or straight life insurance policies.
- The current value of your pension is the amount you would receive if you quit your job today.

Here are some guidelines for calculating debts:

- The balance of your mortgage loan on your house may be on your monthly statement. If not, ask the lender for an amortization schedule of your mortgage.
- List the balance due on all charge accounts, installment accounts and loans.
- Current bills include what you owe the dentist, this month's water bill, telephone charges, etc.

Now subtract total assets minus total debts. That's your **net worth.**

Plan for Yearly Overhaul

Even the best record keeping system probably won't fill your needs forever. Changes in employment or your family's life style require some adjustments in your record keeping requirements. At least once a year plan to review your files and do some house cleaning. January might be the best time for a record keeping overhaul, since tax time will require you to look at your financial picture.

Suggested Activities to Start or Revise Record Keeping

- Set up or reorganize a file system in your home.
- Assemble appropriate records and papers and place in a safe deposit box.
- Prepare a household inventory.
- Determine your net worth.

Home Filing System

If organizing a home file, the following list of headings and subheadings may be helpful:

Accounts and Records
Account book
Automobile records
Credit card information
Education information
  Transcripts
  Diplomas
Employment records and resumes, health benefit information
Equipment guarantees and instructions
Health records
Household inventory
Income tax records
Letter of last instructions
Magazine subscriptions
Property tax records
Real estate records
Social Security records
Wills (copies)

Addresses
Home/business
Personal

Bank
Cancelled checks and bank statements, current year
Deposit slips
Installment agreements
Loan contracts
Safe deposit box
  List of contents and key

Bills
Unpaid bills
Paid bill receipts

Correspondence
Home/business
Personal

Investments and Savings
Bank savings
Credit union
Stocks and bonds

Insurance Papers
Automobile
Fire
Health and accident
Homeowner's package
Liability
Life
Property
Theft

Personal
Birthday dates
Christmas card list
Hobbies
Reading book lists

Organizations
Civic group
Church
School

Reference Material
Budgeting
Child care
Cleaning
Clothing
Crafts
Equipment
Foods and nutrition
Furniture
Gardening
Health and safety
Home furnishings
Landscaping
Laundry
Remodeling and repair
Building

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NOTES

Worksheet 1

Your Net Worth Statement

Assets (What we own)

	19 ______	19 ______	19 ______
Cash			
Cash on hand	______	______	______
Checking accounts	______	______	______
Savings accounts	______	______	______
Certificates of deposit	______	______	______
Investments			
Government bonds and instruments	______	______	______
Mutual funds	______	______	______
Bonds: Corporate and municipals	______	______	______
Stocks	______	______	______
Limited partnership programs	______	______	______
Life insurance and annuities			
Cash value, accumulated dividends	______	______	______
Annuities	______	______	______
Vested retirement fund benefits	______	______	______
Accrued pension or retirement benefit	______	______	______
Real estate			
Home (market value less mortgage)	______	______	______
Other real estate	______	______	______
Property			
Household furnishings	______	______	______
Jewelry and furs	______	______	______
Art and antiques	______	______	______
Vehicles	______	______	______
Other valuables	______	______	______
Other			
Loans receivable (owed you)	______	______	______
Total family assets	$ ______	$ ______	$ ______

(see back for liabilities section)

Worksheet 1 (cont'd)

Liabilities (What we owe)			
Unpaid bills			
Charge accounts			
Credit card accounts			
Taxes			
Insurance premiums			
Other			
Balances due on			
Installment contracts			
Loans (from banks, savings and loan associations, insurance companies, etc.)			
Other			
Mortgages payable on home and other property (or rent)			
Total family liabilities	$	$	$

Summary			
Assets			
Liabilities			
Net worth of family	$	$	$

NOTES

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Lesson 3

Coming To Grips with Your Finances
Home Study Course

Misc. Series. No. 112

University of Idaho
Cooperative Extension Service

Using Credit Wisely

Credit can be a valuable resource. But if abused, it can tie up future income. When you use credit, stick within your budget. Only borrow what you can afford to repay.

Credit has many advantages. If you lack discipline or time to save money, you can satisfy immediate needs. Credit is handy and convenient. It allows you to use an item while paying for it. If you carry credit cards, you car carry less cash. It allows you to take advantage of sales even though you can't pay for the items right then. Being able to deduct the interest on your income tax is another benefit.

On the other hand, credit has many disadvantages that need to be considered. You may buy more than you can afford. The use of credit adds additional cost to the original purchase price of the item. It may discourage you from comparison shopping to get the best buy. If you don't understand the credit contract, you may agree to something you don't really intend to. Overuse can tie up income needed for necessities. That's why it is important to make credit decisions within your budget.

The Credit Decision

Think carefully before you purchase something on credit. Do you need it? Is it worth the extra cost? And most importantly, can you pay back the money?

No matter what form of credit you're considering — department store charge account, credit card, car loan or mortgage — never borrow unless you realistically can meet the pay-back requirements. If there is no fixed repayment schedule, such as with a department store revolving charge, plan to pay off the debt in no more than 6 months. Of course, in many cases, it is to your advantage to repay within the billing period and avoid finance charges.

How you use credit is a personal decision. Analyze your family needs realistically. Set priorities. Look at credit use as a part of your total spending plan. Remember, credit is not extra income. It is obligating future income. When determining how much credit you can safely assume, consider these factors:

- The size of your family and its basic living expenses.
- The size and stability of your income.
- Whether additional credit payments will cut into money needed for emergencies or unexpected jumps in the price of necessities.
- Amount of debt you already have.

How Much Credit

If you decide to buy on credit, the next question is how much can you afford to use. A common consumer rule of thumb is that credit use be limited to 15% or 20% of your take-home pay, excluding mortgage payments. While this may serve as a rough guideline for some, it may not apply to others. Your personal values and your economic situation influence your credit decisions. You must determine your needs, goals and financial limits, then plan credit use accordingly.

Credit should be limited to amounts you can pay safely out of current and future income. This means analyzing your financial situation in terms of the money you earn and the expenses you must meet. Since credit payments usually are made by the month, it is helpful to consider income and expenses on a monthly basis to determine how much credit you can afford to use each month. The table below provides a way for you to figure how much credit you can afford.

Monthly take-home pay	$______
10% of take-home pay (pay × .1)	$______
20% of take-home pay (pay × .2)	$______
Monthly credit payments owed (not including mortgage)	$______

Use Worksheet 1 to determine your debt commitments. If your credit payments are **less than or equal to 10%** of your take-home pay, you can continue your careful use of credit. If your credit payments are between **10 and 20%** of your take-home pay, you need to think twice before taking on additional credit. If your credit payments are **over 20%** of your take-home pay, you should avoid taking on more credit.

Danger Signals

The best way to handle excess debt is to avoid it in the first place. These situations may indicate you are headed for credit problems.

- You find yourself paying only the minimum balance due on credit accounts.
- You can't pay all the bills that come due each month, so you pay some and ignore others.
- You draw from savings to pay everyday expenses.
- You are always out of cash and tend to charge items you used to pay for on the spot.
- You are embarrassed to charge at stores where you are behind in payments.

If you can't pay a debt, let the creditor know. The worst thing you can do is ignore it. Give specific reasons why you can't pay. Suggest an alternative payment plan that you can handle. Almost every creditor will be recep: ve to such an offer, since it provides some hope that the money will be paid back. The creditor's remedies — repossession, hiring a collection agent or garnishing wages — are unpleasant and costly. Be realistic about your long-term repayment plan. If you don't meet these new commitments, many creditors will take immediate legal action.

Cost of Credit

How much you pay for credit is influenced by a number of factors, including how much you borrow, how long you borrow, from whom you borrow, whether you borrow with or without collateral and what's in your credit record. To keep credit costs down, you must do some comparison shopping.

It doesn't make much sense to get the best deal in town on a car and then get a loan costing several hundred dollars more than one you could have arranged across the street.

Never assume all creditors charge "pretty much" the same rates. The Truth in Lending Act, a federal law, requires that you be told exactly what credit costs. Look for these two terms: **finance charge** and **annual percentage rate**. Both must be clearly shown on the written disclosure statement.

The finance charge is the total dollar amount you must pay for credit. It includes interest and other costs such as service charges and credit life insurance premiums. (Credit life insurance repays the loan if the borrower dies while the debt is still outstanding.)

The annual percentage rate (APR) is the yearly charge for credit stated as a percentage. The APR is to credit what price per pound is to hamburger. It is the rate you pay per dollar per year for the credit you use. The lowest APR is usually the best credit buy. However, other aspects of the credit deal, such as the size of the payments and the total cost of the loan, should also be considered.

Shopping for Credit

How much credit costs will depend on the source of the loan, the annual percentage rate and how much time you have to repay. The table below shows the difference in monthly payments and total dollar cost for contracts with repayment periods of 12, 18 and 24 months. The amount of credit received ($300) and the annual percentage rate (18.0% on the declining balance) are the same for all three plans.

Repayment period	**12 mo.**	**18 mo.**	**24 mo.**
Amount financed	$300.00	$300.00	$300.00
Annual percentage rate	18.0%	18.0%	18.0%
Monthly payment	$ 27.50	$ 19.14	$ 14.97
Finance charge	$ 30.00	$ 44.52	$ 59.28
Total amount to be repaid	$330.00	$344.52	$359.28

Compare Before You Borrow

The cost of credit varies from one financial institution to another. Before borrowing, shop for credit just as you shop for products — compare prices.

Before you borrow, find out the cost of borrowing from various sources. Learn the interest rate (APR), the finance charge in dollars and cents, the monthly payment, the number of months and the total amount you will pay.

If you have a savings account, investigate the cost of a passbook loan. If you have an insurance policy with a cash value, investigate the cost, advantages and disadvantages of borrowing against the policy.

The two most commonly used forms of consumer credit are **installment credit** and **credit cards**.

Installment Credit — The buyer signs a conditional sales contract for the amount of the item being purchased. The amount of each installment is predetermined and stated in the contract. Read the contract carefully before signing.

Usually payments are made monthly. The finance charge is added to the purchase price and included as part of each payment. The seller retains title to or a security interest in the goods purchased. Nonfulfillment of the contract at any point can result in repossession.

Credit Cards — These may be for a single store or company or a variety of sellers. There is usually a limit to the total amount of debt at any one time.

Payments can be made in a flexible way. Usually there is a minimum monthly payment. You can make payments larger than the minimum. If possible, it's wise to pay the total balance each month to avoid interest payment

If conditions for using credit do not appear on the application, you will receive them when you get the credit card. Carefully study and be prepared to follow the conditions. Credit card conditions tell how to correct billing errors, where and how to report lost or stolen credit cards and your liability when such misfortune occurs. If you are not willing to comply with restrictions on the use of the card, destroy or return the card.

When using a credit card, be sure the charges are correct and the total clearly shown before you sign the sales receipt. Keep your receipts. When you receive your credit card bill, compare the purchases listed with your purchase receipts. If errors occur, have them corrected immediately.

When you receive a new credit card, sign it immediately. This decreases the chance of it becoming a shopping tool of a dishonest person. Treat your card as carefully as you would cash. Be sure you get it back after each use.

If your card is lost or stolen, phone the credit card company immediately. Until you do so, you are responsible for all purchases made with your card. Notification immediately limits your responsibilities for purchases to a maximum of $50 per card. You can minimize your possible loss by carrying only cards that you frequently use. Store the others in a safe place.

Make a list of all the cards in your possession. Include the account number, the issuer's name, address and telephone number. Refer to Worksheet 2. Put the list in a safe but easy-to-reach place. Whether you lose a card by theft or carelessness, a handy list can help you notify the company quickly. If you lose your credit card(s) and you don't have a list of your cards, the credit card number is on past credit charge receipts.

Note: Destroy outdated credit cards by cutting them into small pieces.

Credit Records

Your personal history of credit use will affect whether you can get a loan and how much it will cost. Your credit history depends on:

- How promptly you pay your bills.
- How much income you have.
- How long you have lived or worked in the same place.
- How much you owe.
- What you own that is worth more than the credit you want.

Credit bureaus are reporting agencies that receive and file records of credit transactions. If you have used credit, you probably have a file at a credit bureau near you. Transactions, plus specific information from public records such as a contract suit, judgment, tax lien or bankruptcy, are recorded in your file. When you apply for credit, the creditor usually asks the bureau for a report on you. Your credit file will indicate if you might be a good credit risk. Credit bureaus do not make decisions about granting credit. That is up to the creditor. Standards vary from one creditor to the next.

It is a good idea to periodically check the accuracy of information in your file at the credit bureau. If you are denied credit, you can find out what's in your file at no cost. This inquiry needs to be done within 30 days after being denied credit. If you are just curious, a small fee will be charged.

If you find what you think to be incorrect information in your file, ask the credit bureau to check it out. Wrong information must be removed from your record. If you and the creditor disagree about the accuracy of the information, you can file a 100-word statement telling your side. This statement must be added to your file and shared with other creditors requesting your credit report.

Credit Rights

Consumer credit laws can help you shop for credit, apply for it, keep up your credit standing and resolve credit related problems.

When shopping for credit, the creditor must tell you, in writing and before you sign any agreement, the finance charge and the annual percentage rate. Creditors must tell you the method of calculating the finance charge. Also, you must be told when finance charges begin on your credit account.

When **applying** for credit, your race, color, age, sex, marital status and certain other factors may not be used to discriminate against you. The law does not guarantee that you will be granted credit. You must still pass the creditor's tests of credit worthiness. Creditors may not ask your sex on an application form, unless you are applying for a loan to buy or build a home. Creditors may not ask about your birth control practices or whether you plan to have children. The creditor must count all of your income, even from a part-time job. You do not have to disclose income from child support or alimony payments, but if you do, creditors must count them if you can prove they are steady and reliable.

In cases of **billing errors**, the law sets out a procedure to correct them. First, notify the creditor in writing within 60 days after the bill was mailed. Identify the error and explain why you believe the bill is wrong. Pay all parts of the bill that are not in dispute. While waiting for an answer, you do not have to pay the amount in question or any finance charges that apply to it. The creditor must acknowledge your letter within 30 days. Within two billing periods, the creditor must either correct your account or explain why the bill is correct. If no error is found, the creditor may bill you for the finance charges that have accumulated while you were disputing the bill.

Credit Responsibilities

If used carefully, credit can be a real asset to your family's financial well-being. But, at the same time, abusing the credit privilege can ruin even the best spending plan. As a manager of your family's money, you have a responsibility to use credit wisely, shop for the best credit terms and maintain a good credit record.

Women and Credit

By law, women have equal credit opportunity and may not be discriminated against because of sex and marital status. However, this does not give an automatic right to credit — women must be "credit worthy." Women usually need to have an income of their own to establish credit in their own name.

Women sometimes have difficulty in establishing financial identity. Unlike men, who have fairly continuous employment, women sometimes are in and out of paid employment because of the many roles they perform. When a woman marries, she can lose her financial identity if she uses only her husband's name on credit accounts. If she has an income and shares in paying the bills, she should maintain her credit and financial identity by

- Keeping at least one charge account in her own name.
- Having her own savings account in addition to a joint one.
- Making sure she uses and is co-responsible for the accounts.
- Making sure joint charge accounts with her husband are in both names (thus building up credit history in each separate name).

If you recently married and wish to retain a separate credit file, write to your creditors and indicate your name change, if any, and indicate your preference to keep the account in your name only.

Suggested Activities for Using Credit Wisely

- Examine your current debt commitments (use Worksheet 1).
- Make a list of your credit cards and store in a safe place (use Worksheet 2).
- Check your file at the credit bureau for accuracy.
- Establish credit in your own name, if you have not already.

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Your Credit Status Worksheet

This worksheet will help you analyze your current debt commitments (excluding a home mortgage loan). The average consumer will probably not want to commit more than 15% to 20% (or about ⅙) of income after taxes to installment payments.

Loan	Amount still owed	Source of loan	Annual percentage rate	Months left to pay	Monthly payment
Car					
Education debt					
Automatic overdraft on checking account					
Installment loans					
Credit cards					
Other					

A. Monthly take-home income $ ________

B. Total monthly payments (total last column) $ ________

C. Monthly take-home income divided by 6 (about 17 percent) $ ________

If B is greater than C, you have about as much debt as you can easily carry with your income. Before using more credit, try to pay off some of your debts, especially those with the highest annual percentage rate of interest.

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Our Credit Cards

Make a list of your credit cards, and keep it in a safe place at home. If your credit cards are lost or stolen, you will need this information.

Card account number	Address of company to notify if lost or stolen	Number to call if lost or stolen	Name(s) on card	Other information: credit limit, expiration date, etc.

NOTES

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Lesson 4

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Protecting Against Financial Risks: Insurance

What would happen if you or your spouse were out of work for several weeks. If you were in the hospital for 7 days? If the roof blew off your house? Worst of all, if your spouse died?

How would events like these affect your finances? Purchasing insurance is the primary way families protect themselves against the risk of financial loss caused by destructive or damaging events.

Insurance helps protect you by pooling the risk with a lot of other people like you. You pay a small amount (insurance premium) to an insurance company which will in return pay you for the damaging effects of a large loss, should it happen. You transfer some financial risk to the insurance company.

Identifying Financial Risk

Families commonly face **personal**, **property** and **liability** risks.

Personal risks are the uncertainties surrounding loss of income and expenses caused by unemployment, illness, disability and premature death.

Property risks are the losses of personal property and real estate caused by fire, wind, accident and theft.

Liability risks involve possible losses because of neglect or carelessness that result in bodily injury or property damage to another person. For example, a person might fall on a broken step and break a leg. You may fail to stop at the stop sign and run into another car. Your dog could bite the mail carrier. How can you best cope with these risks? You may:

- Minimize the risk
- Accept the risk or a portion of it
- Transfer the risk

Minimize the Risk

You can't eliminate some risks, but you can postpone, minimize or control some losses. For example, you'll be more likely to stay healthy if you develop sound, safe, health-care practices. Lock doors to make it more difficult for burglars to steal from your home or car. Drive carefully to lessen your chances for liability in an accident.

Accept or Share the Risk

Some people choose to accept certain risks or portions of risks. For example, you may choose to develop a savings program instead of buying life insurance to pay for burial expenses. You may insure against major medical bills or property damage but plan to assume medical or property loss through a deductible (the amount of money you agree to pay per claim before the insurance company pays for a loss).

Transfer the Risk

You can choose an insurance program to transfer everyday risks. However, don't overlook other ways of transferring risks. For example, you may transfer the risk of losing the breadwinner's income by sharing the income responsibilities. A second wage earner in the family is a way of protecting against complete loss of income.

Buying insurance is an important decision. And only you — by becoming well-informed — can decide what you need and can afford. Insurance is a part of your overall financial planning, changing over time as your needs change. Insurance should not be viewed as an isolated purchase.

If you need insurance protection, shop around. Discuss your insurance needs with agents from several companies. Your aim is to buy insurance for your needs instead of being sold protection that you don't need.

You will find considerable variation in rates and coverage. Understand the variations and select the policies that suit your particular needs.

The discussion that follows will help you determine your family's insurance needs.

Health Insurance

With rising medical costs, health insurance is a necessity. If a young family can afford only one type of insurance, health coverage is a wise choice.

Self-Insurance

Before deciding how much insurance you need, ask yourself this question: How much can you afford to pay for medical expenses? Some predictable costs, such as routine checkups, can fit into a long-range spending plan. A few unpredictable expenses might be handled without straining the family's financial well-being.

This strategy of assuming certain medical expenses yourself is called "self-insurance." Actually, the deductible on a health insurance policy represents the amount of loss you agree to self-insure against. Policies with higher deductibles will have lower premiums. Do not allow deductibles to exceed the amount you can afford to pay out of current income and cash reserves. Once you have determined your self-insurance limits, look next at medical expense and disability coverage.

Medical Expense Coverage

The high cost of medical care will require you to cover most of the risk with insurance. To plan your medical expense coverage, first, identify the types of coverage available; second, buy the maximum limits you can afford.

Hospitalization — This covers daily room, board and regular nursing services in the hospital. You'll also be covered for certain hospital services and supplies, such as X-rays, lab tests and medication. Know these specifics about your hospital coverage:

- How many days of hospital care will it cover?
- How much for room and board will it pay each day?
- How do your hospital benefits compare?

Ask at your local hospital about daily charges.

Surgical — This pays for surgical procedures. Check the policy for a detailed list of surgical operations covered and the maximum benefit that can be paid for each. Surgeon fees vary, so you'll want a policy in line with what doctors are charging in your community.

Medical — The basic hospital, surgical and medical policies pay benefits that have relatively low maximum payments. If you were badly injured, your bills would probably exceed the payment limits. Major medical insurance picks up where basic coverages leave off. Most policies cover a fixed amount — usually 75 or 80 percent — of all expenses above a deductible. Upper limits on payments can start at $10,000 and range to unlimited amounts.

Most families need major medical coverage as part of a health insurance plan. If you can't afford the health insurance you'd like, it would be wise to buy major medical with a $500 or $1,000 deductible. The premium you save can be used to increase coverage and increase your protection against catastrophic medical bills.

Comprehensive — This medical expense insurance combines all or most of the above benefits into a single, comprehensive plan. A good comprehensive policy will cover most of the costs of illness and injury. Although some individual plans are available, most are group policies.

Things to Look For In Health Insurance

Here are important things you should know about any health insurance plan you select.

Maximum Benefits

- How much is the maximum benefit (or is coverage unlimited)?
- Does the maximum benefit apply to a second claim after it has been partially or fully used up once?
- Are there separate maximum benefits for each illness or accident, or a yearly maximum benefit for all illnesses or accidents?

Deductibles — How much is the deductible amount? This is the initial amount of health expenses you are required to pay. Is this a yearly deductible or for each illness?

Internal Limits — Are there benefit limits on certain expenses, such as hospital room or surgery?

Waiver of Premium — Does the policy allow you to stop paying your premium during an illness or disability?

Pre-existing Condition — Most health insurance policies exclude payment on a pre-existing condition. This is a medical condition or ailment you have before the policy goes into effect.

Renewable — Is the policy renewable? If renewed, will the premiums increase?

Coordinate: Avoid Duplication

When you purchase a health insurance plan, coordinate these benefits with those you or your spouse may receive from employers. You may be duplicating coverage.

Shop around and consider the alternatives. Everyone should have major medical insurance. A major illness or accident can bring on economic chaos. If you are eligible for group medical insurance, take advantage of it. If not, compare the cost of Blue Cross/Blue Shield with other plans. Note the various features of each. Consider taking a larger deductible in order to pay a smaller premium. See if an HMO (Health Maintenance organization) is near you: Often an HMO offers group coverage to an individual who is not otherwise eligible to be in a group medical plan.

Disability Insurance

If you become disabled and can't work, will you have enough money to pay the mortgage or rent, your bills and buy food?

Some employers continue paying salaries or wages during temporary absences from the job due to accident or illness. But, after a time, full pay will be reduced or eliminated. Disability income insurance (or loss of income insurance) can keep some income coming until you're ready to re-enter the labor force.

Disability benefits are limited to a percentage of regular income, usually 50 to 70 percent of a worker's earnings before taxes. For example, if your pay is $200 a week, benefits might be $100 to $140.

These policies generally require total disability before benefits are paid. Some policies provide benefits even if an individual partially recovers from a total disability. Check how total disability is defined in the policy. It may have one or both of the following definitions:

- Unable to perform your previous occupational duties;
- Unable to engage in any type of job for which you are suited by education, training or experience.

Disability income policies generally have waiting periods before benefits begin — commonly 14, 30 or 90 days. The longer the waiting period, the lower the premium cost.

Depending on the contract, benefit periods for individual disability income insurance policies can range from 1 year to age 65, or even for life. The longer the benefit period, the higher the premium cost.

When figuring out how much disability insurance you need, consider how long your employer will pay you if you can't work. Also, look at how long other benefits will continue, such as Social Security disability payments and Workers' Compensation (if disability is work-related).

Income may also come from savings, investments or a spouse's earnings. Most disability payments are tax-free, so you're reasonably well protected if you can cover 60 to 70 percent of your present income.

Persons who have good employer disability plans and who are eligible for Social Security benefits are often adequately covered. If you do need extra protection, get a policy that the company can't cancel and you can renew each year (guaranteed noncancellable and renewable). Find out if the company can raise the premium when you renew. Rates vary widely, so shop around.

If you are a homemaker, figure out if the extra costs of your becoming disabled could be covered by family income. If not, consider disability insurance. Not all companies sell disability coverage to homemakers.

Already Covered?

If you are or have been employed, you may be entitled to medical and disability benefits under programs such as Social Security and Workers' Compensation. These benefits can form a base on which to build added coverage, but they will not satisfy your needs for health insurance. Your closest Social Security Office can answer questions about benefits. If you live far from a Social Security Office, call 1-800-632-5121.

Workers' Compensation

This covers on-the-job accidental injuries and illness caused by your employment. The program is funded by employer contributions.

Use Worksheet 1 to help you decide how much disability insurance you need.

Life Insurance

The primary purpose of life insurance is to protect your dependents from lost income when you die. The "right" amount of insurance varies with dependents' financial needs. Consider these situations:

- Married couple, both employed, no children. Husband and wife are not financially dependent on each other. The death of either spouse would probably not seriously affect the survivor's finances unless she or he owes a large debt.
- Married couple, young children, wife full-time homemaker. There is a vital need for life insurance because wife and children are solely dependent on husband's income.
- Single parent, young children. There's a vital need for life insurance because children would have no source of income if the parent died.

Consider the following when purchasing life insurance.

- How many dependents?
- How old are they?
- Could the current level of income and current life style be maintained if one wage earner died?
- Will the surviving spouse be able and willing to enter work force?
- Are both spouses working?
- What Social Security benefits will be available to the spouse and children?
- Will employee benefits be available?

The basic types of life insurance are term and whole life. There are also new forms of insurance that combine the features of these basic types. The best kind of life insurance product for you will be determined by your age and personal circumstances.

Term Insurance

Term insurance is for you if you want maximum protection at the least cost. This insurance provides protection without savings features or a buildup of cash values.

Term insurance insures your life for a fixed period of time. Benefits are paid only if you die within that time period. This is often called "temporary" insurance. It is usually taken out for a period of 5, 10 or 15 years.

If you renew the contract, you will pay a higher premium. Premiums generally increase with age. Generally, you will not be able to renew after you reach age 65.

You can pay extra to include a clause in the contract to make the term policy convertible to a whole life or endowment policy without an additional medical exam.

Term insurance premiums are lower than those for whole life. The young couple with small children and limited income may find term insurance the only way to get enough life insurance.

There are two basic types of term policies: level term and decreasing term. The face value (amount paid on death) of level term insurance remains the same for the life of the contract. The face value of decreasing term insurance decreases on a monthly or yearly basis, until it eventually reaches zero.

Mortgage insurance may be purchased as decreasing term or level term. If purchased as decreasing term, it pays the balance of the mortgage in case of death. It decreases in face value as the mortgage decreases. If purchased as level term, the balance of the mortgage is paid and the remainder goes to the beneficiary. (A beneficiary is the person named in the policy to whom insurance money is paid when the policyholder dies.)

Employee group-life insurance is term insurance; you have coverage as long as you work for the employer under whom the plan is arranged. This policy may include the option of converting to a whole life policy after termination of employment.

Whole Life Insurance

This insurance, also known as "straight" or "ordinary" life, provides death protection at a flat premium rate for as long as you live. Once purchased, no further health examinations are required to continue coverage. "Limited payment" policies allow you to pay premiums within a certain period of time, such as 20 years or until age 65. Premiums are higher since they're paid in a shorter period of time than ordinary policies.

The annual cost of whole life insurance is much higher than for term insurance at the start, but it never increases as the cost of term does. The added amount you pay for whole life over the cost of term is a form of savings. It produces what is known as "cash value," which you can borrow against at low interest rates or use as collateral for a loan. An outstanding loan would be subtracted from death benefits if you died before the loan was repaid. If you stop paying premiums, the cash surrender value (technically called the non-forfeiture value) can be taken as cash or used to purchase other insurance.

New Forms of Life Insurance

In the past few years, a number of new types of life insurance have been added. These new policies combine features of both term and cash value insurance. These policies are interest-sensitive: As the interest paid on savings increases or decreases, the interest earned on the savings feature of the policy and/or the premium increases or decreases. The most common policies are called universal life or variable life.

Universal life provides life insurance with cash values increasing based on current interest rates that may change during the life of the contract.

Variable life provides benefits that vary based on the performance of a specific group of securities.

How To Decide How Much You Need

The important thing when buying life insurance is to determine how much you need and buy no more than that. How do you determine that amount? Worksheets are the only way. Refer back to your "Plan Your Spending Worksheet" (Lesson 1) and your "Your Net Worth Statement Worksheet" (Lesson 2). Then check your Social Security and pension benefits.

With insurance on your mind, look at your budget sheets. What income will be available for the family if you die?

- Spouse's income, if he or she works or can return to work.
- Social Security payments, if the spouse is eligible for them.
- Income from dividends and interest.
- Benefits from a pension plan.
- Proceeds from insurance already in force or included in coverage at your place of employment.

Now look at the expense side of your budget. Which expenses will decrease for the rest of the family if you die? Likely to decrease are cost of food, clothing, transportation and life insurance premiums. Usually a family needs at least 75 percent of previous take home pay in order to cover expenses and maintain its lifestyle. Imagine how tough it would be to plan insurance needs accurately if you did not have a good picture of what it costs you to live!

In addition to replacing income, it is a good idea to figure out the cash requirements that insurance should cover in the event of the death of the breadwinner. Some you have already listed in the liabilities column on "Your Net Worth Statement." Be sure to include:

- Mortgage, installment loans, current bills and other debts.
- Education expenses. If your children are near college

age, you will have to calculate more closely than if they are younger.

- Final expenses. These include administration of the estate, probate costs, attorney and accountant's fees, appraisal fees, taxes, final unreimbursed medical expense and funeral expenses. Rule of the thumb: Allow 2 to 5 percent of the total estate, plus up to $5,000 funeral expenses, to cover these.

With so many variables, you can see how the amount of insurance you need can change as life changes. So reevaluate your needs at least every 5 years.

Avoid being overinsured. Careful planning can give you the amount of coverage you need — not the amount an agent wants to sell you. "Your Net Worth Statement Worksheet" and "Plan Your Spending Worksheet" forms have helped you to learn which assets will produce income, which liabilities should be paid off with insurance and what it will cost you to maintain your lifestyle.

Car Insurance

Idaho car owners are required to carry liability insurance. Liability insurance pays for damages and bodily injury to others for which the car owner or operator is legally liable.

The minimum liability insurance is 25/50/15. This means $25,000 for bodily injury to one person, $50,000 for bodily injury in any one accident and $15,000 for property damage in any one accident. Coverage in addition to the minimum may be desirable and increases the premium only slightly.

In addition to the required liability, you may also want to buy collision, comprehensive and uninsured motorist insurance.

Collision insurance may be required on a new car but may not be important as the car gets older. Consider dropping collision coverage when the car's value is so low you could handle the loss yourself or the repairs will cost more than the car is worth. Put the premium money you save toward car replacement.

Comprehensive insurance pays for damage to your car if it is stolen or damaged by fire, windstorm or vandalism.

Uninsured motorist pays for injuries caused by another driver who is uninsured or who may escape identification in a hit-and-run.

Before your car insurance comes due, check your coverage to see if it is adequate. Check with other companies for the cost of similar coverage.

Property and Casualty Insurance

If you had a severe fire in your home, or flood roared through your town, or thieves took your television, stereo and jewelry, could you make repairs and buy replacements out of your financial assets? Few of us could. That's why property and casualty insurance is imperative.

Most of us understand the basic idea of the coverage. If a fire or theft, flood or wind damage occurs, we will be reimbursed for the loss. But few of us really understand what will be covered by the insurance company and what we must take care of ourselves.

Homeowner's policies, as they are called, usually cover:

- Fire insurance on the house.
- Extended coverage for damage to the house by such things as wind, hail, falling objects, smoke and motor vehicles.
- Allowance for additional living expenses if the homeowner has to live in a motel or rented house while repairs are made.
- Allowance for personal property lost because of fire, theft or mysterious disappearance. This covers items such as clothing, books, cameras, stereos and household furnishings.
- Liability covers claims based on any injuries suffered by others and caused by your property. Classic example: The mailman is bitten by your dog or slips on the ice on your sidewalk. The coverage includes payments for medical expenses.

To get the most from the money you spend on household insurance:

- Make an inventory of household possessions. This helps determine how much coverage to buy, and it is useful in filing claims. If you did not begin a household inventory following Lesson 2, now is the time. Go through each room and list personal possessions with a date of purchase and purchase price. This inventory can be as detailed as you want. After all, it will cost plenty to replace the many seemingly insignificant goods used in daily living. Inventory forms are available from insurance agencies or you can make your own. Once the inventory is complete, put a copy in a safe-deposit box or a fireproof container (not a metal box or filing cabinet).
- Consider larger deductibles to reduce premiums.
- Compare costs and coverage from different companies.
- Read the policy and know exactly what it covers and what to do if you have a loss.
- Inform your insurance agent of additions to your house and major purchases so your insurance coverage can be kept up to date.

Idaho Department of Insurance

If you have questions or problems with a company licensed to do business in Idaho, you can get help from:

Insurance Department of Idaho
700 W. State Street
Boise, Idaho 83720
(208)334-2250

When you write, be sure to include your name and address, the name of the company and agent, the policy type and number and the details of your problem.

Suggested Activities To Protect Against Financial Risk: Insurance

- Ask yourself "What if" questions. What risks do I/my family take? What things could possibly happen? Which of these risks must I assume myself, and which can I pay an insurance company to take over? Do I already have coverage against some of these risks? Discuss with your family. Complete Worksheet 2. This will help you decide what kinds of policies and coverage you need.
- If you have health insurance, review your coverage. If you have none, consider the purchase of major medical insurance, then other health insurance as you can afford it.
- Use Worksheet 1 to decide if you need Disability Insurance and, if so, how much.
- Do you need life insurance? Use the information from "How To Decide How Much You Need" on page 4 to help you determine your life insurance needs.

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How Much Disability Insurance?

A. **Annual family expenses** (refer to "Plan Your Spending" worksheet completed in Lesson 1) ________

B. **Sources of income**

- Spouse's income ________
- Social Security benefits (if eligible) ________
- Disability benefits from work ________
- Income from income-producing assets ________ (Evaluate income from assets you've listed on your Net Worth Statement, Lesson 2)
- Other income ________ (IRA funds can be withdrawn without penalty if you are totally disabled)

Total sources of income ________

C. **Additional income needed** ________ (Subtract B from A)

Worksheet 2

Examples of Risks, Ways of Reducing Financial Impact and Our Plans

Note: Use this form to think about financial risks, your present plans to reduce these risks and changes which may be needed.

Risks		**Ways of reducing financial impact**	**Your present resource***	**Changes needed**
Personal events	Financial impact	Resources		
Disability	• Loss of one income • Loss of services • Increased expenses • Other losses	• Savings, investments • Disability insurance • Other resources		
Illness	• Loss of one income • Catastrophic hospital expenses • Other losses	• Health insurance • Health insurance organizations • Military health services • Medicare, Medicaid • Other resources		
Death	• Loss of one income • Loss of services • Final expenses • Other expenses	• Estate planning • Life insurance • Veteran's life insurance • Social Security survivor's benefits • Other resources		
Property loss	• Fire, storm, flood damage to property • Repair or replacement cost of theft • Other expenses	• Automobile insurance • Homeowners insurance • Flood insurance		
Liability	• Claims and settlement costs • Lawsuits and legal expenses • Loss of personal assets and income • Other expenses	• Maintaining property • Homeowners insurance • Automobile insurance • Malpractice insurance • Other resources		

*Consider benefits available from all sources — Social Security benefits, employee benefits, as well as other assets.