DOLLARS AND SENSE

-by Tim Moyer, ETEA Treasurer

By now, you've heard about the changes coming to our Pension and Healthcare. An additional 1% of your base salary is already going towards your pension. This will eventually rise to 2% over the next 7 years, making the total contribution to pension 7.5% of your salary. Healthcare premium sharing contributions will start when our current contract expires after this school year. The premium sharing could be as high as 30% once fully phased in. Add to this, the constitutional amendment that caps property taxes at 2%, low negotiated salary increases in surrounding districts, and the future looks pretty bleak for public school employees. So what is the average teacher supposed to do to improve their current and future financial situation?

Well, I suppose you could try and find another career that has better pay and benefits. Many of my colleagues have commented to me that this is an avenue they might need to pursue in order to provide for their families. Sadly, I fear we will lose many wonderful teachers because of the changes coming from Trenton. But, none of us were led to the teaching profession because of the wonderful salaries.

You could also work a second job to make up the difference, but most teachers I know already work at least one part-time job in addition to their teaching position. So if you decide to stay in the teaching profession, and you have no more time left in the day to pursue more income, then perhaps it's time to find ways for more income to pursue you.

After years of overspending, many American's are resolved to getting their financial houses in order. Are you ready for a "financial makeover"? Would you like to be living with little or no debt and be able to save for the future? It **is** possible and not as difficult as you might think. But it does require a paradigm shift in your spending and saving habits.

I am **not** a financial professional, far from it. None of my musical training classes included anything about finance. I do, however, have a penchant for many things that are financial; that's one reason why I enjoy the role of your Treasurer. I've also been fortunate to be the recipient of some very good financial advice that has served me well through the years. All the information that follows is "common knowledge", but I'm reminded it is only "common" if you have already heard about it. My goal is to list a few of these common sense approaches to motivate and empower you to take control of your finances, instead of your finances controlling you. Are you ready to "workout"?

Financial Dieting:

Have you ever been on a diet? Usually, it requires giving up something that you normally enjoy. It isn't too hard to lose a few pounds, but the difficult part is keeping the weight off. This usually requires a change in eating habits. When you create a diet, it should be reasonable, and one you can live with. People who know me know I absolutely **love** pizza and ice cream. I couldn't commit to any diet that removed these two wonderful food items from my plate. So it is with a financial diet. You must look at your spending and see what you can live without, and what it is that you just can't part with.

Track your Spending/Spending Plan:

To help you achieve your financial diet, it is important that you know what money is coming in and what is going out. As your, Treasurer, one of my duties is to create a budget listing the income and expenses of our Association. If we have more money going out than coming in, I'm required to make adjustments to our spending. I am also required to keep detailed records of what we spend throughout the year and to give monthly reports to our membership regarding our spending and show how it compares to our budget. At the end of the fiscal year, I can show exactly how much has come in, and how much (and where) went out. Our personal finances can be done much the same way. There are many financial programs (i.e. Quicken, Microsoft Money) and online sites that make it easy to track your spending habits. After you have tracked a few months of spending, you can use the program to create a spending plan (I'll avoid using the "B" word here) to list your income and expenses. Add up your income and break down your expenses into mandatory and discretionary spending. Mandatory are things you have little control over (mortgage, car payments, school loans) and discretionary are things you don't necessarily need. This is the area where the financial diet comes in. Which items are your "pizza and ice cream", and what items could you live without? If you share your finances with another in your home, work together to create a realistic spending plan and then work as each other's accountability partner to help stay on track. A lot of little things that you can live without can add up to big savings. After tracking your spending and comparing it to your plan, it becomes empowering and dare I say, "fun" to see how you are doing. Have a month end "meeting" and see if you're on track. After a year, you will be able to see how much money came in, and exactly where it went. Ideally, you should have more taken in than going out. Were there categories where you under spent? Kudos! Use it as found money for the next step. Did you go over on other categories? Time to make adjustments for the next year.

Getting rid of your Debt:

The average American household has over $14,000 in credit card debt* and at least 3 different credit cards. Once you have taken control of your spending habits by creating a spending plan you can live with, use some of the extra money left over from expenses and work towards getting rid of your credit card debt. There are two ways to accomplish this:

Highest interest rate first. Paying off the credit card with highest interest rate will save you the most money in the long run, especially if the highest interest rate credit card also happens to be the card with the highest balance.
When the highest interest rate card also has the highest balance, it will take the longest to pay off. It's easy to lose motivation paying off your debt when it takes too long. That's why the "lowest balance first" method might be a better choice.

Lowest balance first. There are immediate tangible benefits to paying off the credit card with the lowest balance first. The balances are easier and quicker to pay off. When you finally pay off a bill, the feeling of accomplishment is motivation to keep you going.

Pick the method you're going to use to pay off your credit cards. Then write your debts down in the order you're going to pay them - either from highest interest rate to lowest interest rate OR from lowest balance to highest balance. You'll continue to send the minimum payment to all your other credit cards.

Once you've completely repaid the first credit card, cross it off the list and focus on the next card on the list. As before, pay your entire extra income to that card. Keep doing this process until all the cards have been paid off.

*Calculated by dividing the total revolving debt in the U.S. ($796.1 billion as of March 2011 data, as listed in the Federal Reserve's May 2011 report on consumer credit) by the estimated number of households carrying credit card debt (54 million)

Build an Emergency Fund:

As you know, the last couple years have been extremely turbulent in our economy. Experts suggest having a cushion of 3-6 months expenses in liquid assets. One way to create an emergency fund is to have a set amount of money each month automatically invested into an interest bearing account. Using your spending plan, you could make the monthly amount a mandatory expense until the 3-6 months expense amount is reached. Experts suggest that you have an emergency fund in place before you pay down your debt.

Give Yourself a Raise:

Do you get a State and Federal Tax refund every year? Good for you, but why are you giving the government an interest-free loan? Would you give your neighbor the same amount to use interest-free for a year? Why not lower your withholding and have more in your paycheck? Put it towards paying down debt or your emergency fund. If both are all set, lower your withholding and put the extra towards your 403(b) contribution. This way the government doesn't get it interest-free and you lower the amount they tax you at the end of the year. What a great way to "stick it to the man!" If you rely on the refund for a type of "forced-savings", then have the extra amount automatically invested in an interest bearing account at the beginning of each month. You still get the amount you would receive from the refund, plus you get the interest.

Pay yourself an hourly rate (in found savings) by finding ways to save on things you already have: Mortgage, Taxes, Insurances, Credit Cards, and Utilities. Can you get a lower rate for the balance of your term, or reduce the term of your mortgage by refinancing? Is the property value of your home assessed correctly? Check a few comparables with the help of a realtor and see if you are assessed higher. You might be able to appeal your real estate taxes. The prices of homes have dropped, but not the assessed values (http://www.co.burlington.nj.us/upload/Taxation/Images/petappl.pdf). Can you get a better rate on your insurance by moving to another carrier, raising your deductibles (if you have an emergency fund to cover it) or bundling your insurances with one carrier? Call your credit card companies and ask for a lower rate if you're trying to pay down your balance. Keep calling with Verizon, Comcast and the like until you get a better rate or offer. You've been a loyal customer, right? Do they really want to lose you to the competition?

Building Wealth:

Early on in my teaching career, I was given some very good advice, try to live on one income, live below your means and pay yourself first. This was no easy task, for sure, but for the last 20 years (13 of which we had only one person earning a salary) it has worked remarkably well. So assuming your spending plan is working, you've paid off your debt, and you have an emergency fund, it's time to pay yourself first and begin building wealth (Whoo-Hoo!!)

I'm not counting on seeing Social Security around when I go to collect, and I don't have a high level of confidence in our pension system either at this point, so the only other option is to save for retirement yourself. It used to be a financial benchmark to save 10% towards retirement. That percentage has been moved up to as much as 15% over the last few years. By the time the pension contribution is fully phased-in, you will be contributing 7.5% to your pension. So how should you invest the next 7.5% of 15% for retirement? You've heard the adage, "People don't plan to fail, they fail to plan". One of the best ways to save for retirement is through a 403(b) plan at work. Contributions lower your taxable income and continue to grow tax-free until it is time to withdraw the funds. We have many good 403(b) representatives available in our district. Check out the District website for approved representatives and ask your colleagues who they would recommend to assist you with your selection of products**. Make sure you ask about the rules and penalties regarding withdrawals before retirement age.** If you're in your 20's, I can't stress how important it is to get started on saving for retirement. The consequences for waiting aren't pretty, so make it a habit as soon as you can. Outside of the 403(b) is another option called the Roth IRA. With the Roth, you contribute after tax money, the contributions and earnings grow tax-free and you don't have to pay taxes upon withdrawal. The rules for taking withdrawals before retirement age are also much less restrictive. Since no one knows what the taxes will be in the future, most financial representatives recommend a mix of 403(b) assets and Roth IRA assets. Do your due diligence and speak with a financial representative to see which investment vehicle and others available would be best for your situation.

Check it and Protect it:

Our State Pension's motto is "We've got you covered". If you believe that, then in the words of Judas Priest, "You got another thing coming". Before we started a family, I thought we had enough protection and all the right insurance policies. We had insurance for home, car, life, disability, plus wills and living wills. What more could we need? It wasn't until we sat down with a friend who was a Certified Financial Planner (CFP) that we learned we were, "Livin' on the Edge" (Aerosmith…hey, even classically trained musicians need a break sometimes…)

Ask your friends and colleagues whom they'd recommend to guide you to proper levels of insurance. You could also check the district website under Employee Resources for some representatives. Everyone's needs are different and constantly changing with life's events, so don't just "set it and forget it'.

After you've have your annual medical check-up, take a minute or two when you get home and do a quick credit check. You are allowed to check your credit report free once a year (twice in NJ) at https://www.annualcreditreport.com Don't sign up for any monitoring service, just print out your report from one of the 3 main reporting companies. Go over all the information and make sure it is accurate. There is information in the report on who to contact if there are any errors.

Charitable Giving:

It may seem counterintuitive to give money away when you're trying to build wealth, but giving to charity plays an important part in the process. It can be cathartic to give to a charity. There is something freeing about letting some of your hard-earned money go to a greater good. Plus most often, you will find the contributions come back to benefit you, some monetarily, some non-monetarily. Try it, and see if it works. You might be surprised!

Closing Thoughts:

I hope these common sense suggestions encourage you to take control of your finances. It does take some time to accomplish, but most things that are worth doing usually do. But imagine your money working for you, living debt-free, and being able to painlessly contribute to your savings, college fund and retirement. Start your "workout" now! You can do it!

Need more encouragement and motivation? I recommend you read any of the following books:

-The Millionaire Next Door: The Surprising Secrets of America's Wealthy by Thomas J. Stanley, William Dank

-The Total Money Makeover (A Proven Plan for Financial Fitness) by Dave Ramsey

-Financial Fitness for Life: Advice from America's Top Financial Planning Program- by Jerry Mason

- Rich Dad, Poor Dad- by Robert Kiyosaki

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