



Legal Insurance



Manage Your Money:
Budgeting, Debt, Buying a Home, Retirement and More

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Most of us tend to have a love/hate relationship with money. On one hand, we love what it allows us to do. On the other, it can seem tedious to budget, track bills and find extra money for saving. And if we don't manage money well, we can find ourselves dealing with some pretty stressful problems.

But taking the time to manage your money can pay off — in a lot of ways — in the long run. From creating a budget to creating a will, this guidebook will help you understand the steps to better manage and protect your money.

Create a Monthly Budget

Creating a monthly budget may seem like a chore. But it's one of the first steps you need to take to improve your financial situation. By understanding your income and expenses, you'll be better able to save more money and set reasonable goals for both the long and short term.

Budgeting doesn't have to be complicated. There are software programs you can use. Or you can just start with a paper and pencil.

Here are the basic steps to create a budget:

1. **Gather information.** Include past paychecks, bank statements, store receipts, billing statements – anything that reflects money coming in or going out.
2. **Add up monthly income.** Include your paycheck, interest income and any source of money (e.g., child support, alimony, money from side gigs like part-time jobs, etc.) you plan on receiving each month.
3. **Add up monthly expenses.** Consider consistent expenses like utilities, mortgage, loans, groceries and gas, daycare and any other payments you know you need to make each month.
4. **Add periodic expenses.** Include taxes, insurance, car maintenance, dues and any expense you know needs to be budgeted for.
5. **Compare income and expense totals.** This is the starting point for your plan.



EXPENSES > INCOME

If expenses are greater than income:

- ✓ **Cut expenses.** Decide what expenses are “wants” and which are “needs.” Some things like manicures, dinners out or daily mocha lattes may have to be cut from your budget (or at least limited). Also, look for ways to save on utilities or cell phone costs. Transportation is another expense that may be better managed with carpooling or public transportation.
- ✓ **Look for ways to increase income.** Maybe you or another family member could take on a part-time job or explore side gigs if that's appropriate for your situation. You could also adjust the amount of taxes withheld from your paycheck. Or sell possessions you don't use or need.

INCOME > EXPENSES

If income is greater than expenses:

- ✓ After you pay your fixed expenses for the month, put leftover income into savings for future goals and periodic expenses.
- ✓ Consider building an emergency fund. This helps you be prepared for unexpected expenses, like a medical bill or costly car repairs. It should include three to six months' worth of living expenses.
- ✓ Take full advantage of employee benefits such as flexible spending accounts and retirement savings plans like 401(k) and 403(b) plans.

Budgets can fluctuate. So be sure to take another look at yours frequently and adjust it as needed. It takes some work. But managing your expenses is a critical point to getting the most out of the money you earn — and building the life you want.



Using credit wisely

Using credit can be a good financial tool. But it's also a (really) easy way to get into financial trouble. Here's how to use your credit wisely and minimize the possibility of future problems.

- ✓ **Pay on time.** If you don't, you'll be charged late fees and finance charges.
- ✓ **Correct billing errors promptly.** If you find a mistake on your bill, dispute the charge and withhold payment on that amount while the charge is being investigated. Keep in mind, though, that you still have to pay any part of the bill that's not in dispute – including finance and other charges.
- ✓ **Report lost or stolen cards.** If you report the loss before the card is used, you can't be held responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you'll owe for unauthorized charges is \$50. If the thief uses your card number, not your card, you have no liability for the unauthorized charges.

Check Your Credit Report

The Federal Trade Commission (FTC) encourages consumers to review their credit reports every year. Clear up misinformation as soon as possible to keep from jeopardizing your credit rating. You get one free credit report a year from each of the three major credit bureaus. Just visit [AnnualCreditReport.com](https://www.annualcreditreport.com). This is a free site that won't ask for your credit card number or try to sell you additional services.

What's In a Number?

Understanding Your Credit Score

Your credit score is the most important number tied to your financial well-being. It impacts everything from buying a house to getting a credit card.

A credit score is a prediction of your credit behavior, such as how likely you are to pay a loan back on time, based on information from your credit reports. The score tells anyone considering a financial transaction with you – whether the bank doing your home mortgage or a landlord renting you an apartment – what your financial risk is.

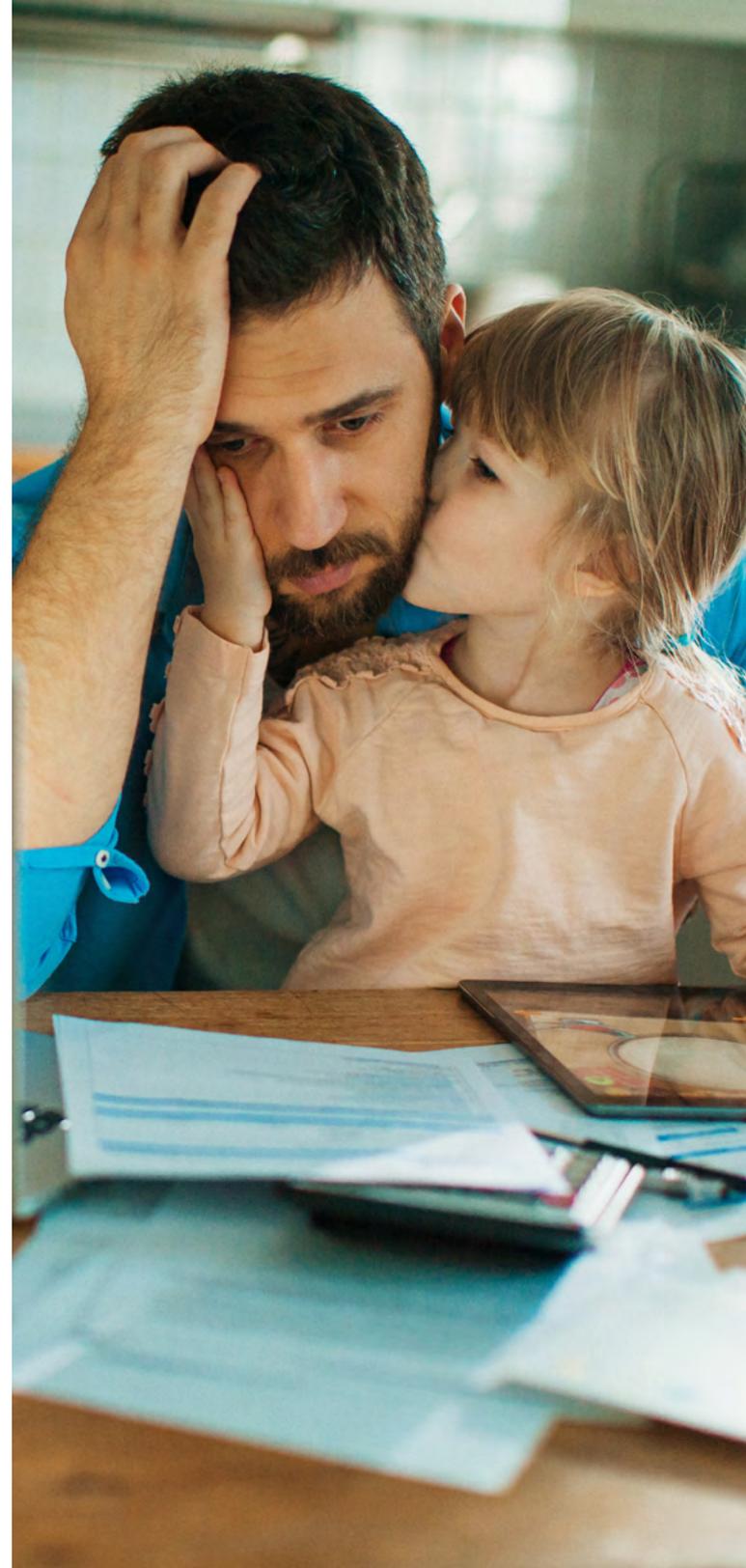
A credit score can range from 300 to 850. Each of the three major credit bureaus has slightly different criteria for what makes excellent credit. What's a good credit score? The average ranges can vary, but in general, a score above 700 tells creditors you're less of a risk and may mean you'll get better interest rates on loans.

Learn more about how your credit score is calculated from the [Consumer Financial Protection Bureau](https://www.consumerfinance.gov).

Manage Debt

If you're in over your head with debt, the worst thing you can do is ignore the problem, because it will only get worse. Follow these steps to help get back on track:

- 1. Stop using your credit cards.** Some people respond to a reduction in income by using their credit cards more. The better move is to limit their use as much as possible, or even stop using them. Try to use a credit card only in case of an emergency.
- 2. Address any payment problems early.** As soon as you know you're going to have problems paying your bills, contact your creditors. You may be able to set up a payment plan that will help you avoid – or at least reduce – interest and penalties.
- 3. Know what you can afford before negotiating with creditors.** Regarding credit card debt, you can negotiate with credit card companies through different types of settlement plans, including workout agreements, hardship plans and lump-sum settlements.¹ Make sure you have a good handle on your financial situation, debts and income sources when considering negotiating with a credit company on a debt settlement plan. For example, if part of your income is from a temporary job, you may not want to include it when figuring what you can afford for repayment to a creditor.
- 4. Prioritize debts.** All debts are legal obligations. But not all debts are of equal priority. Some debts may be tied to collateral like your home or car. If you don't pay those debts, you'll lose the collateral. Others are "pay-as-you-go" debts, like utilities. If you stop paying them, the service will be disconnected and you'll have to pay a reconnection fee, which can be costly and inconvenient. Debts like child support payments have drastic enforcement remedies for non-payment (such as getting arrested). So think about the consequences of not paying each kind of debt, and set priorities.
- 5. Don't write checks you can't cover.** You'll have to pay hefty bank fees for writing bad checks. And you could face criminal prosecution. Intentionally writing a check on an account with insufficient funds is a crime.
- 6. Avoid "payday" lenders.** These lenders charge incredibly high interest rates. And they may require an "automatic debit agreement," which can tie up your bank account or strip it of funds you really need.
- 7. Don't try to hide money.** Transferring property to friends or family to keep for you until you're out of debt trouble could be a "fraudulent transfer" under your state's law. This will add costs to any lawsuits and even get your friend or family member into legal trouble as well.
- 8. Do your research on consumer credit counseling programs.** Some programs can help you design a realistic debt management strategy, but others may do more harm than good if they are for-profit and try to collect fees or sell you services. Check with your local state's attorney, attorney general or consumer protection office before getting involved with one of these programs.
- 9. Know when to involve an attorney.** There's no substitute for the legal advice of an attorney. So if you get a notice that looks like a lawsuit – or if you face a repossession or foreclosure – call an attorney. He or she will explain what the creditor can do and what options you have.



Insure Against Risk

Life never goes exactly as planned. That's why it pays to prepare for unexpected things like natural disasters or serious illness. Insurance can help you do that



Life insurance comes in many different types to fit different needs and budgets. It's best to discuss your situation with a reputable life insurance agent. Then review your coverage once a year to make sure your insurance keeps pace with your life and income.



Auto insurance is required in most states. But even without the requirement, auto insurance is a good way to protect yourself financially.



Homeowner's insurance can protect more than your home. It can also include personal liability insurance, which provides coverage for bodily injury sustained by others while on your property and property damage coverage if you damage someone else's property.



Health insurance can be complicated and expensive these days. But going without it is very risky. If you're hit with a major accident or illness, not having health insurance could bankrupt you. Options such as Medicare, Medicaid and the Children's Health Insurance Program (CHIP) are available through the government for people with qualifying incomes.



Disability insurance replaces part of your income if you can't work for a period of time due to an illness or injury. It's generally available as either short- or long-term coverage.



Legal insurance helps you cover the cost of attorney fees for legal advice and services. This can include buying a home, creating a will or unexpectedly facing a property dispute or tax audit.



Cut your car insurance costs

Here are few ways you may be able to reduce your premiums:

- Shop around to make sure you're getting the best rate. There are many online comparison tools available where you can plug in your vehicle info and driving habits to help calculate your rates.
- Increase your deductibles so you pay the first/initial \$500 or \$1000 of damage.
- Reduce your collision or comprehensive coverage on older cars.
- Ask for discounts from the insurance company, including discounts for multiple policies, good students, safe drivers and cars with safety features.

Buy a Home

Buying a home is one of the most rewarding – and expensive – decisions most of us make. You can save time and minimize hassles if you understand the overall process:

1. Figure out what you can afford.
2. Shop for a mortgage.
3. Make an offer.
4. Close on the house.

➤ 1. Figure out what you can afford.

One of the first things you'll need to do is decide how much home you can afford. Take an honest look at your current income and expenses so you understand how much you can afford to spend on a house. (This is where budgeting can come in handy.) Online calculators can help a lot.

You'll also need a rough idea of how much down payment you'll have. And you'll need to know what current interest rates are for different types of loans. There are many types of mortgage loans, each come with their own pros and cons. Some common types include conventional, fixed rate, adjustable rate, FHA and VA loans.

Check your credit report. Lenders will look at your credit report to determine what interest rate they'll offer you. A higher score generally means you're a lower credit risk and will qualify for a lower interest rate.

How much will I need for a down payment? Most mortgage companies require 20 percent of the purchase price as a down payment. If you don't have the 20 percent down, you may pay a higher interest rate and/or be required to pay private mortgage insurance, which protects the lender if you default on your loan.



➤➤ 2. Shop for a mortgage.

Different lenders will have different offers on loan terms, interest rates and fees. So it pays to talk with several lenders before you start to look for a house. You may also want to visit the [U.S. Department of Housing and Urban Development website](#) for calculators, podcasts and the option for free housing counseling.

Choose a lender who's willing to explain the pre-approval, approval and closing processes clearly. Be sure you understand all fees, up-front costs, taxes, insurance and other costs of owning a home.



3. Make an offer.

Once you find a home you want to buy, submit an offer to the seller. Your realtor or attorney can help with this. If the seller accepts the offer, the contract becomes binding, subject to contingencies.

The contract should contain the following items:

- Expiration date of the offer
- Purchase price
- Initial deposit
- Buyer down payment
- Financing terms
- Required home inspection
- Contingencies
- Warranties
- Fees associated with closing the sale

The seller can either accept or deny the offer or make a counter-offer. You can then accept or refuse the counter-offer. Or you can make a counter-offer of your own. The offer doesn't become a binding contract until both parties agree to the terms and sign the contract.

Inspection. Before you close, you should have the house inspected by a professional home inspector. They will examine the physical structure and systems of the house – from the roof to the foundation. While this process may cost you a few hundred dollars, it's a prudent step to take; the fee for the home inspection could be small in comparison to major repair issues if they're discovered down the line.

Other tasks that need to happen before closing include:

- Title search.** This verifies that the seller really owns the property and there are no other claims to the property.
- Title insurance.** The lender requires title insurance to protect the investment in case the title comes into question after closing. Title insurance for the homeowner can be purchased at the same time. This protects the homeowner's interest in the property.
- Homeowner's insurance.** You'll be required to have a receipt of payment and declaration of insurance when you close.
- Survey.** This is a technical drawing of the property and its structures. A survey can take weeks and needs to be ordered in advance to be ready in time for closing.
- Flood search.** This determines if the property is located in a designated flood zone. If it is, you may be required to get federal flood insurance.
- Septic certification.** Some states require this inspection if the property you're buying has a septic tank.
- Well testing.** Some states require this inspection if the property has a well.
- Termite inspection.** This requirement varies by state. It must be completed before closing.
- Final walk-through.** Generally, the sales contract includes a clause that allows you a walk-through inspection within 24 hours before closing. This gives you the chance to see that the seller has moved out, made agreed-on repairs and kept other terms of the agreement.



4. Close on the house.

This is the final step in the process. During closing, you'll get the deed to the house. The title is transferred, financing documents and title insurance policies are exchanged and the agreed-on costs are paid. It's not a bad idea to enlist the services of an attorney who can walk you through the process and be present at the closing appointment to assist with any questions.

Some of the final documents, including the deed and mortgage or deed of trust, are signed by the appropriate parties. Then they're delivered to the county recorder.

Closing costs. The parties involved establish who – seller or buyer – is responsible for some or all of the closing costs in a transaction. But generally, the buyer is required to pay certain costs, including:

- Agent commissions
- Loan fees
- Title insurance charges
- Recording and filing fees
- Some upfront costs: down payment, first month of the mortgage
- Buyer's portion of transaction taxes and other fees

As part of the sale, the buyer can negotiate with the seller to pay a portion of the closing costs.

Save for Your Child's Education

College isn't cheap. The average cost for undergraduate tuition and fees range just under \$10,000 a year at an in-state public university to more than \$37,000 at a private four-year school.¹

Fortunately, there are tax-free options to help you save for college. State-sponsored 529 plans and Coverdell education savings accounts are two options.

They let you contribute up to specified limits each year. Your money grows tax-free as long as it's used for college.



Check with your financial advisor and/or [IRS Publication 970: Tax Benefits for Education](#) for more information.



Prepare to Retire

You could be retired for 20 – 30 years (or more). So it's important to make sure you have enough money saved to last throughout retirement.

If you're more than 10 years from retirement, start by estimating your retirement needs. Financial planners suggest that you'll need between 70 - 90 percent of your pre-retirement income for each year you'll be retired. It may seem impossible to save that much. But it isn't. These tools can help.



- **Visit [SocialSecurity.gov](https://www.socialsecurity.gov)** for an estimate of your expected benefits.
- **Contribute to your employer's 401(k), 403(b) or other retirement plan.** Generally, contributing to an employer plan will lower your taxes. That's because contributions are made automatically from your pre-tax paycheck. Many employers also will match your contributions up to a certain percentage. Check out the plan document to understand if you're eligible, how much you can contribute and what happens if you leave the company.
- **Consider an Individual Retirement Account (IRA)** if you don't have a retirement plan through your employer. It provides tax advantages and can be set up for automatic deduction from your checking or savings account.
- **See if you have a pension plan** through your employer. You can usually ask for a benefit statement to see what the benefit is worth. You'll also want to check out the plan documents to understand what happens to the benefit if you leave the company.

If you're less than 10 years from retirement, you'll have some other things to consider:

- Continue to refine your plan and keep saving. Continue to use employer-sponsored plans or tax-advantaged IRAs.
- Try to reduce or eliminate debt. This will help you save on interest charges and decrease the number of regular payments (credit cards, car, etc.) you'll need to make in retirement.
- Consult with your financial advisor. They can help you know when to take money from Social Security and other investments.

Plan Your Legacy

No one likes to think about death. But creating a plan so your loved ones can handle arrangements surrounding your death may help defuse conflicts and provide guidance for your family when they need it most.

These steps will help to ease the burden on those you'll leave behind:

- ✓ Draft legal documents such as a will, living will, health care power of attorney and/or durable power of attorney.
- ✓ Review beneficiary designations on insurance policies and retirement savings to make sure they're current.
- ✓ Review bank accounts and make sure funds will be distributed as you intend.
- ✓ Talk with people you've chosen to help administer your estate after you're gone. Make sure they understand your wishes and will act on your behalf.
- ✓ Talk about your preferences with family members. Make sure they know your intentions, who is appointed to take various responsibilities and where documents are located.
- ✓ Schedule a regular review date to ensure your plans stay up-to-date.

Will: sets out specific directions on who receives your property after your death.

Living will: expresses your directions about the provision, withholding or withdrawal of life-sustaining treatments when you are incapable of expressing your directions.

Power of attorney: appoints a person to make medical or financial decisions for you when you are incapable of making them yourself.

Beneficiary designations: names people who receive assets in specific accounts after you die.



Find a Financial Advisor



If you're not sure you can make financial decisions on your own, consider finding a trustworthy financial advisor. A good way to start is by asking friends and family for recommendations.

A financial advisor can help you look at the big picture when it comes to money. They will help you consider your goals, make a plan to achieve those goals and put your plan into place.

Take Control with ARAG



If you have questions or aren't sure where to turn, ARAG can help. Visit [ARAGlegal.com](https://araglegal.com) to learn more about how ARAG legal coverage gives you an affordable way to manage legal matters.

¹<https://www.forbes.com/advisor/credit-cards/how-to-negotiate-credit-card-debt/#:~:text=You%20can%20also%20ask%20to,it%20never%20hurts%20to%20ask>

²National Center for Education Statistics, Fast Facts, "Tuition Costs of Colleges and Universities" <https://nces.ed.gov/fastfacts/display.asp?id=76>

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