

## Personal Financial Management 11-4.01-K

COMPREHEND the importance of good personal financial management in the following areas, as presented in the E-PME Study Guide.

### ***Personal Financial Management***

Coast Guard commanders are frequently contacted concerning the financial indebtedness of their subordinates or the failure of subordinates to honor financial obligations. It is important to the success of the Coast Guard's mission that good personal financial management is exercised amongst all members.

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### ***Savings Accounts***

Good financial management includes having a monetary reserve to meet emergencies as they arise. The reserve helps avoid going into debt to meet these crises. To establish the reserve, you can arrange to have money automatically deposited into a savings account on a monthly basis.

Each year, try to anticipate the most likely emergencies and base your reserve on this amount. At a minimum, your reserve should be the amount of one month's take-home pay. This reserve is best kept in an interest-bearing savings account.

It is also sensible to put aside money for long-term goals, such as vacations, home-buying down payments, education tuition, expensive nonessential equipment, etc. Try to spend no more than 90% of your monthly after-tax income. Managing your daily expenses on your adjusted take-home takes the sting out of saving and your bank account will continually grow.

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*Savings Account*  
*Money Savings Tips*

Some things to consider when opening your savings account are:

- Shop around for bank services that provide the best deals. Include financial institutions other than banks (e.g., credit unions, savings and loan organizations, brokerage cash-management accounts, etc.) in your search.
  - A savings money market account has a higher interest rate than a regular savings account. There are no, or low, fees. However, there is a minimum balance for this type account, usually less or equal to \$2,500.
  - Certificates of deposit (CDs) offer some of the best guaranteed rates of interest. However, since you need to lock up your money for a specified period of time (three months or more), do not put your entire savings in this type account—just money ear-marked for long-term goals.
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*Checking Accounts*

To prevent writing checks when there are insufficient funds:

- Keep track of all deposits and withdrawals during the current month.
- Record in and balance your checkbook after each transaction.
- Reconcile your checkbook balance with your bank statement each month. Be sure to record any bank fees you may be charged.

It's a good idea to open your checking account with a bank that offers overdraft protection. Otherwise, if you make a mistake in your checkbook, you could be charged with check bouncing fees from the bank and from the check recipient. This could quickly add up to a considerable amount, especially if subsequent checks are bounced.

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*Checking Account*  
*Money Savings Tips*

When selecting your bank, look for the following in your checking account:

- Interest bearing account, compounded daily
- No minimum balance
- FDIC insured for \$100,000
- Overdraft protection
- No per-check fees
- No fees for deposits.

Having your paycheck direct deposited to your bank can help you avoid unexpected bank fees and the lower minimum account balance required by some interest bearing accounts.

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## *Credit Cards*

Credit cards provide a convenience and are particularly valuable in an emergency. They also allow you to take advantage of unexpected money-saving opportunities when low on cash. However, credit cards are a large responsibility and, used improperly, can cause formidable financial problems.

A good way to avoid over-borrowing with your credit card is to limit your credit purchases to just half of your monthly base pay, then pay off the balance each month. You're into BIG credit card trouble when you are paying more than a quarter of your total take-home pay to meet minimum monthly debt payments.

Credit card companies are actually loaning you money at a high interest rate. Never use your credit card to pay for things you really can't afford or don't even need. Always make your minimum payment ON TIME to avoid paying excessive late fees and to keep your credit history in good standing.

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### *Credit Card Money Savings Tips*

When choosing a credit card, look for the following:

- No annual fee
- A 25-day grace period
- Annual Percentage Rate (APR) less than 13% on outstanding balance
- Average Daily Balance (ADB) method for calculating outstanding balance.

Avoid using cash advances or convenience checks offered by credit card companies as they carry much higher interest rates than your credit card.

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## *Investments*

To meet your long-term goals, you might consider investing some of your savings for higher returns. The old adage “It takes money to make money” holds a certain amount of truth.

There are many types of investments...from real estate to stocks and much in-between. It’s important to remember that NO investment is without risk; however, taking risk can reap higher returns on your money. A diversified portfolio is less risky than one concentrated in one or a few investments. A good rule of thumb is to never take any risk with money you can’t afford to lose.

U.S. Treasury bonds provide the lowest investment risk. However, their return is dependent on interest rates and can fluctuate. The most popular investment in today’s society is mutual funds, where professional full-time investors manage investments for millions of people. Before investing any money, do your own research and avoid paying the fees charged by professional investors.

Check out the Mutual Fund Education Alliance at [www.mfea.com](http://www.mfea.com) for a free list of good, no-load mutual fund companies.

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## *Investment Tips*

Consider these tips when investing in mutual funds.

- Choose a no-load fund to avoid paying the “load” fee. A “load” fee is paying the fund salesman upfront for advice on which fund to invest your money. This “load” fee could amount up to a whopping 8% of your savings.
  - AVOID Contractual Mutual Funds. These funds obligate you to invest a set amount over a specific time frame. Usually, you are charged the entire investment professional fees UP FRONT and could lose half of your first-year’s savings.
  - Buy your mutual funds directly from established, no-load mutual fund companies.
  - Once you select your investment vehicle, have an allotment made out to the source to help your investment grow.
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## ***Insurance Programs***

Good financial management includes carrying insurance against unexpected calamities. The most common types of insurance are:

- Automobile
  - Homeowner's
  - Life
  - Medical
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### *Automobile Insurance*

If you own a car, even if you consider yourself a good driver, automobile insurance is a must. It's a whole lot cheaper than the costs involved should you hurt someone or do damage to property, including your car.

Premiums are based on the amount of coverage and deductible, plus your age, normal driving region, and driving record.

Shop around for the best rates. It is advisable to select a well-established, countrywide insurance company that provides good service and has a 24/7 toll-free number.

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### *Homeowner's Insurance*

Homeowner's insurance is liability protection against such things as fire, personal property loss due to fire or theft, and personal liability should someone other than residents get hurt in your home. Since most insurance companies place a low ceiling on belongings such as electronic equipment, jewelry, art, etc., special riders are available for these type items.

Most insurance companies cover the depreciated value of property, not the replacement value. Even if you are renting a house or apartment, buying renter's insurance is recommended for protecting your household goods investment.

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### *Life Insurance*

The Service Group Life Insurance (SGLI) covers Coast Guard members. SGLI is stable term life insurance and would provide your survivors funds. You probably won't need any more insurance than the SGLI while you're on active duty.

Wise money management would put the money for other life insurance policy premiums into growing your investments...in a sense, you'd be self-insuring yourself. However, you need to keep up your SGLI. Keep in mind, however, that the SGLI is term insurance for just you. You may want to take out policies on your spouse and children.

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*Medical Insurance*

If you are without dependents, there is no need to carry medical insurance at this time as the Coast Guard pays for all of your health care. However, if you have dependents, you may have to pay for their needs through the TriCare medical insurance system.

TriCare is a regionally managed health care program for active duty and retired members of the uniformed services, their families, and survivors.

TriCare brings together the health care resources of the military and supplements them with networks of civilian health care professionals. This arrangement is to provide better access and high-quality service while maintaining the capability to support military operations.

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## *Credit History*

Your financial conduct is tracked and scored by creditors, who report their findings to credit bureaus. Your credit history is what you see when you get a copy of your credit report. A good credit history is essential for sound financial management. Your credit record determines your ability to obtain credit...whether for mortgages, auto loans, credit cards, etc.

Being labeled “high risk” affects the rate of interest and fees charged on your loans, your auto insurance rates, and your credit line. A poor credit score can also influence your success in leasing apartments or getting hired.

A bad credit record follows you for years and reflects your inability to successfully meet your financial obligations.

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## *Credit Rating Score*

It is prudent to check your credit report rating on an annual basis. This enables you to clear any “black marks” against you, whether it be reporting errors or correcting lax payment habits.

Contact any of the three major credit bureaus to obtain a copy of your credit report. There may be a charge for the reports. It is advisable to check these companies beforehand to find out their fees, if any.

- Equifax Credit Information Services, Inc.  
P. O. Box 740241; Atlanta, GA 39374  
To order report: 1-800-685-1111  
To report fraud: 1-800-525-6285  
Web site: <http://www.equifax.com>
  - National Consumer Assistance Center  
P. O. Box 2002; Allen, TX 75013  
To order report: 1-888-397-3742  
To report fraud: 1-888-397-3742  
Web site: <http://www.experian.com>
  - TransUnion LLC  
Consumer Disclosure Center  
P. O. Box 1000; Chester, PA 19022  
To order report: 1-800-888-4213  
To report fraud: 1-800-916-8800  
Web site: <http://www.transunion.com>
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### *Need Help?*

If you have a low score because you haven't established a credit history:

- Apply for a department store or gasoline credit card. (These are relatively easy to obtain.)
- Pay your bills ON TIME, never being late with even one payment.

If you have a low score because you have a damaged credit record, build it up by taking out a secured credit card (depositing money with the issuing bank) until you clear up your other accounts. Then, aggressively attack any credit problems.

- Begin to make your full assigned payments ON TIME.
- Contact your lenders, explain your situation, and work out repayment plans that you can realistically meet. If an account's due date falls at a time of the month when money is tight, arrange to have the payment due date changed.
- Avoid all unnecessary spending, at least until your bills are down to a manageable size.
- Contact Work Life for assistance and enlistment in the Financial Management Program. This program provides practical information and financial planning tools to eligible members experiencing financial difficulties.
- Contact a personal-credit counseling organization, such as Consumer Credit Counseling Services at 1-800-873-2227, for assistance, sometimes without a charge or a small fee.
- Avoid credit-counseling companies that make cold calls, use pressure sales pitches, "drive-thru" counseling, or charge large upfront fees. Fees should not exceed \$50 to establish a debt management plan or exceed \$35 monthly if you need them to maintain your plan.

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### *Loans*

As financial responsibility increases, most people find themselves without the necessary cash on hand for major purchases. While loans are available to meet these needs, you need to be extremely careful in securing your loans. You want to avoid the "debt trap."

Loans can be classified as:

- Revolving (credit cards, retail store accounts)
  - Installment (automobile loans, education loans)
  - Investment (home mortgages)
  - Home equity (second mortgages)
  - Personal (cash)
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### *Revolving Loans*

These loans enable consumers to spend more than they have at that moment. Many revolving loans charge no interest if they are paid in full by a specified date (usually 24 to 30 days). If the full amount is not paid in the allotted time, interest is charged.

Since interest rates can vary, shop around for the best interest rate.

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### *Installment Loans*

Installment loans are for a specified period of time and are charged a flat rate of interest. As with most loans, it's best to shop around for the best terms.

Many automobiles are purchased on installment loans. When purchasing an auto, buy a reliable one and keep it in good repair. Once the auto loan is paid off, open a special interest-bearing account, putting the month car payment into this account. If you continue to do this, you probably will be able to pay cash.

Do your homework before you go car shopping. Check with various lending institutions (your credit union, banks, savings and loan corporations, finance companies) to find the best interest rates. You do not have to use the credit offered by the car dealer.

### *Investment Loans*

Investment loans are for a long period of time, usually with a fixed interest rate. Shop around for the lowest rate and the best terms. Home mortgages are considered investment loans.

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### *Home Equity Loans*

Tapping into your home equity can be to your advantage. These loans offer relatively low fixed interest rates, tax-deductible interest, and low or no closing costs.

Typically, these loan terms run from five to 15 years. Borrowers often choose this type loan to:

- Consolidate higher rate credit card, auto loan, and personal loan balances
- Convert nondeductible debt into tax-deductible debt

However, you need to carefully consider equity loans. You're putting your home up for collateral; failure to curb your spending debt puts you deeper in debt and increases your risk of losing your home.

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### *Personal Loans*

Personal loans usually put cash into your hands when you need it. This type of loan normally carries the highest interest rate. Credit unions usually offer the best interest rates. And if you borrow against your savings in the credit union, your interest rate will be even better.

Be wary of “loan sharks” when contracting for this type loan. The best advice is to try to avoid getting personal loans.

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### *Personal Budgeting*

Organization and a spending plan (budget) are important tools for financial success. A budget is a blueprint of how your money will work for you. It allows you to organize and control your financial resources, and set and realize goals. Your budget will be your most fundamental and most effective financial management tool. It can be very simple or quite elaborate, depending on what you want.

Developing a budget is the most important step in your financial management journey. It allows you to take control of your money instead of letting your money control you. A sound budget enables you to:

- Know exactly how much money you have and how you spend it
  - Organize your financial concerns into expenditures and savings
  - Make more intelligent spending decisions
  - Generate buy-in from family members for financial priorities
  - Save for both known and unknown expenses
  - Have extra money to spend since you eliminate paying hidden fees, late charges, and interest
  - Take advantage of opportunities since you know your exact financial status at all times
  - Systematize your spending and investments with your financial goals
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## *Getting Started*

To get started on your spending plan:

- Identify how you're spending your money by keeping a record for about a month of where the money goes.
- Evaluate your current spending and sets financial goals, both short and long term.
- Track your spending periodically to ensure it stays on track. If this proves difficult, you need to keep better records.

Several resources are available to you:

- Personal finance computer programs, such as Quicken or Microsoft Money, provide built-in budget-making tools that can create your budget for you.
  - Work Life has a Financial Management Program. This program provides practical information and financial planning tools for eligible members.
  - The library or your bookstore has financial planners.
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