State Employee Money Management

A Healthy Financial Picture

Should include the following:

- Monthly Spending Budget
- Emergency Savings
- Disability Insurance
- Debt Elimination Plan
- Retirement Savings Plan
- Will and Power of Attorney

Monthly Spending Budget

Money Management is hard!

It is difficult to manage your money if you don't know how you are spending it.

Many people are surprised when they record their spending habits to find that they are spending a lot more money that they thought on items that are not high on their list of necessities.

This may not be a problem until we are hit with an emergency.

Can you do this in your head?

What is left of your $1400 paycheck after spending $610 on rent, $87 on utilities, $233 towards car payment and $109 on groceries?

Will you be able to afford that $365 car repair?

NO and now you are paying overdraft fees!

Financial Emergencies are Common

- While the previous example may be extreme, everyone knows what it is like to have an unexpected expense that you are not sure you have the funds to cover.
- In fact, almost 80% of people surveyed list medical, car and home as the top three unexpected expenses with medical as the #1.
- Why not take out the guess work by maintaining a budget?

Budgeting Benefits

1. Improved state of mind - Through organization that removes the guess work that can sometimes cost us money, individuals experience a decrease in stress levels.
2. Financial stability - It can improve your credit score by guaranteeing that you will pay your bills on time and, as a result, better interest rates will become available.
3. Improved relationships - A common reason couples fight is money. Agreeing on a budget will eliminate that type of argument and guarantee that both people are working toward the same goals.

Budgeting Step 1

Track your expenses so you know what to expect by either:

1. Recording it on a notepad or spreadsheet
2. Get receipts and organize them into envelopes labeled with each expense so you can total up each envelope at the end of the month (labels could include groceries, gas, eating out, medications, etc.)
3. Use online programs that tally up all the information for you such as Mint.com

Budgeting Step 2

Use a budgeting sheet to separate your Fixed and Variable expenses

Fixed expenses are typically a set amount due at the same time each month

- Examples include rent/mortgage, car insurance, car loan, emergency fund, retirement, etc.

Variable expenses can change from month to month depending on your needs

- Examples include groceries, gas, entertainment, clothing, etc.

Budgeting Step 3

Once you know the total for your fixed expenses then subtracting that from your income leaves you with the amount you can distribute to your variable bills.

This provides you flexibility to alter your budget every month if your priorities change.

You can find a free budgeting worksheet on our website that includes sections for Fixed and Variable Expenses or you can use online budgeting tools through Mint.com (free) or YouNeedABudget.com (paid).

Problem - Credit Cards
Solution – Envelope System!

If credit cards make it difficult to stick with your budget, leave them at home and just take cash organized through the Envelope System

Step 1 – Determine all your budgeted totals for your Variable Expenses

Step 2 – Withdraw that amount from your account and put the cash into the envelope for that variable expense such as eating out, entertainment, etc.

Step 3 – Take what you need from the envelope when you go out

This plan works because once the money is gone, its gone. It eliminates the temptations of charging on credit cards beyond your budget but still has some flexibility because you can borrow from a different envelope if needed.

Emergency Savings

Emergencies can bust your budget

80% of people surveyed list medical, car and home as their top three unexpected expense so having an emergency saving account can hopefully help to cover a car repair or deductible for your insurance.

Set aside $1000 and then only use those funds if you need to address something that puts your livelihood or your family’s safety at risk.

For medical concerns, consider funding your Flexible Spending Account through your Kentucky Employee Health Plan because it diverts pre-tax dollars from your income which results in savings for you!

How to Build That Savings

- Use your federal tax refund – average refund is $2700
- Purge the stuff you don't use through yard sales, online sales, consignment stores or flea markets
- Ask your car insurance provider about possible discounts that relate to your situation such as good driver, good student and/or multiple car
- Decrease the times you eat out
- Take a spending holiday one month by only spending money on necessities
- Choose plans with higher deductibles on car, house and/or health insurance (if you are in good health) then set savings aside to cover deductible and everything else is extra money to put into emergency fund
- Get a part-time job

Emergency Savings Part 2

Serious health problems and rehabilitation time can sideline a person for three months or more and it can take an average of six months to a year to find another job if fired or laid off.

Financial planners suggest saving 3-6 months of salary to give you a cushion that would soften the impact of an unforeseen catastrophe until you are again able to generate income.

Wise, but reasonable?

Preparing for a loss of income is wise, but it might not be reasonable for most. Even the most disciplined budgeter might not be able to save three months worth of income within a year's time.

You may consider postponing if:

- You are spending over 70% of your income on bills
- Your credit card bills have high interest rates and need to be paid off
- You are neglecting your retirement savings

Some advisors suggest that for big emergencies, financial flexibility is the key (example is having access to credit cards and home equity lines of credit, which are only available to those with good credit scores).

Disability

Disability Facts

- The Social Security Administration reports that a 20-year-old worker has a 3-in-10 chance of becoming disabled before reaching retirement age.
- A third of disabilities are suffered by people under 45 and the majority of those disabilities are caused by unpredictable medical problems or accidents.
- Being disabled for a year can wipe out 10 years of savings.

State Government Provides

Sick, Annual and Compensatory Leave

- One day of sick leave is generated for every month worked and 10 extra sick days are credited at the employee's 10 and 20 year anniversary.
- Annual leave is generated similarly but increases by $1/4^{th}$ of a day every five years until you reach 20 years of service and are receiving two days for every month worked.

Sick Leave sharing – In the event of extended injury or illness in which leave time is exhausted, eligible employees may have sick leave donated. Contact your personnel administrator for details.

Family and Medical Leave (FMLA) – FMLA guarantees your employer's contribution to your insurance continues for up to 12 weeks allowing you to maintain coverage even though you are not working. Contact your personnel administrator for more information on the process and the paperwork involved to apply.

Disability Insurance

Data suggests that 1 in 5 people over the age of 35 will experience a disability lasting at least 90 days. This is significantly higher than the rate of premature death before retirement age, which is why many people look into this type of insurance.

Consult with an independent agent for more information on what is available. While not a complete list of things to consider, when shopping for disability insurance remember that:

1. It typically provides about 60% of your income.
2. Premiums are usually less expensive, the younger you are when getting coverage. You can also lower premiums by adjusting the time it takes for your money to start arriving (also known as the elimination period). The longer the time before benefits start, the cheaper the premiums. Take the savings and put it into an emergency fund that will cover that time before payment begins.

Disability Considerations Continued

4. Short-term disability is usually about six months, while long-term ranges from 1, 2, 5, 10 years or until retirement.
5. How long do benefits continue if you are permanently disabled? Make sure that the plan is non-cancelable and guaranteed renewable, so you are not disqualified if you develop an illness that will result in disability later in life.
6. It should cover accident and disease.
7. You want a policy that considers you disabled if you are no longer able to perform your specific job, which is called the “own occupation” clause. Without it, your policy will not consider you disabled if your doctor states that you are unable to do your job, but still could do something else. This is referred to as “any occupation” coverage.
8. You will need to decide if you want to be covered for partial disability (a medical professional rules that you are disabled, but capable of working part-time). By being covered in this scenario, you will have income to supplement the time you are unable to work.

Debt Elimination

Credit Score Power

Did you know that this number determines:

- How much you can borrow.
- Your interest rate on loans.
- If you qualify for an increase in credit line.
- If you are approved to rent.
- Home and car insurance rates.
- In some cases, such as federal jobs or careers with financial institutions, it can determine whether are not you are hired.

What's that number mean?

- Credit scores fall between 500 and 800 points.
- 700 and higher tends to get you the best rates.
- The mathematical formula used is strictly guarded, but most people in finance agree on several concepts that positively affect your score.

How to improve your score 1

Pay your bills on time

- Late payments can drop your score and the more frequent the missed payments, the lower it drops.
- Late payments can increase interest rates. Contact credit card companies about grace periods or paying by phone if you realize that you are late.
- Late payments stay on your report for 7 years but will impact you less the longer you go without being late.

How to improve your score 2

Minimize inquiries about your credit score

- Don’t accept every offer for store credit because each application generates an inquiry about your credit score.
- Multiple requests from credit agencies suggest that you may be hurting for money and, as a result, can negatively affect your credit score.
- If you are going to open a new credit line to take advantage of their savings, restrict it to big purchases so you are getting the most out of the savings and not hurting your credit score by saving a few dollars on a pair of pants (Note: closing the account immediately after the purchase does not fix the problem).

How to improve your score 3

Lower your credit utilization score

- This is a percent value determined by dividing the credit you are using by the credit available to you.
- For example, if you have $10,000 of credit available to you and have used $5,000 then your credit utilization is:

  $(5{,}000 \div 10{,}000) \times 100 = 50\%$.
- If this score is 75% or more, the credit rating agencies may consider you overextended and too much of a risk which lowers your credit score.
- This is why it is important to pay down your debt.

Don’t cancel those cards yet!

While it makes sense to cancel a credit card after you pay it off so that you don’t run the risk of overusing it again, it may not be helpful for your credit score.

Let’s re-examine the utilization score example.

If you have $10,000 in debt but can pay off a few credit cards equaling $5,000 then like our previous example your utilization score is 50%.

(5,000 in used credit ÷ 10,00 in available credit) X 100 = 50%

However, if you close those credit cards then you move from having $10,000 in credit available to $5,000, which raises your score to:

(5,000 in used credit ÷ 5,000 in available credit) X 100 = 100%

Hold on to that credit!

- Many people lock away their cards after they pay them off so they still have the credit available.
- One extreme idea is to freeze the credit card in a block of ice and store it in your freezer to use for emergencies.
- Whatever you do, it may be beneficial to have that line of credit available, especially during times of recession when other forms of credit may be hard to access.

Know Your Credit History

The Fair and Accurate Credit Transaction Act passed into law in 2003 by the Federal Government allows consumers access to a free report from all three credit reporting agencies once per year. You can choose to get them all at the same time or spread them out. If you have received your three reports for the year and need another, you can purchase a report for around $8.

To get your free annual report from the three credit reporting companies go to Annualcreditreport.com. When going to the website, make sure that your web address is correct. There are many imposters using websites that only slightly differ from the above web address that try to sell you your report instead of providing it for free.

Check for Mistakes

Credit reports include:

- Identifying information
- Credit history
- Public Records (bankruptcies, liens, etc.)
- Inquiries

It is not uncommon for credit reports to have an inaccuracy that can negatively affect your score. There are forms available to dispute errors. If a dispute is resolved in your favor, continue to check all your credit reports because even though it may be correct with one agency that does not mean it has been fixed at another.

Correcting Mistakes

If mistakes are found, each credit reporting company has ways of disputing those mistakes. You can find information about the process by going to their websites.

Trans Union Corporation - www.transunion.com

Experian - www.experian.com

Equifax - www.equifax.com

Debt Elimination Strategy

1. Make a list of all your credit card debt including amount owed and interest rate.
2. The next step depends on you:
   - Some people suggest paying off the card with the lowest balance so that you can build confidence through your success.
   - Others feel that you should work on the card with the largest interest rate to get rid of those fees.
3. Once you have made the decision and start paying off that card, don’t neglect the other cards and make sure to cover your minimum payment.
4. Once you have paid off the first card, choose your next target and start paying it down with the same amount you used to pay off the first (in addition to the minimum payment). Continue with this until you have your cards paid off!

Another Strategy - Equity

Equity is the difference between what your house is worth and what you have left to pay on your mortgage.

$120,000 is home’s worth minus $40,000 that is left to pay equals $80,000 in equity.

If you qualify, you can use that equity to pay off your debt in several ways. This may be a good choice since a mortgage is tax deductible and usually has a lower interest rate.

Ways to Use Your Equity

- Home equity loan is a fixed rate lump sum that equals between 80 to 100% of equity.
- Home equity line of credit (HELOC) is a variable rate line of credit that equals a percentage of the equity. The money can be used as needed then repaid, and if needed, reused like a credit card.
- Refinance when a person’s credit score has improved, they have equity in the home and interest rates have dropped. Replace the original mortgage with a new one and have the option of borrowing a lump sum based on the equity.

Get Support

Surveys has shown that a third of the people who use equity to get out of debt find themselves back in the same situation within two to three years so make sure that your plan to stay on budget is strong.

Many people are overwhelmed by money and feel unable to budget or get out of debt on their own. Financial planners and programs can help, but cost money.

Also, there are non-profit organizations that can help you budget (usually for free) and provide debt consolidation plans for minimal fees if you qualify.

To check whether they are reputable, contact the Better Business Bureau. The Department of Justice maintains a website listing approved credit counselors by state which you can find at: www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm

Retirement Savings

General guideline is 70-90% of pre-retirement income is needed

Retirement Income Sources

1. Kentucky Public Pensions Authority
   - Non-hazardous employees who retire after 27 years of service can expect their KPPA benefit to provide up to 54% - 60% of their average salary in many cases.
2. Social Security
   - Visit www.ssa.gov/retirement for retirement planning information or call 1-800-772-1213.
3. Personal Investments
   - Kentucky Deferred Comp

Kentucky Deferred Compensation 1

- A state sponsored voluntary supplemental retirement program available to all state employees that aides them in planning for their future retirement.
- By participating in this program, you can enroll in 401(k) and 457 defined contribution retirement plans that allow you to contribute on a pre-tax (federal/state) basis. Taxes are applicable when a distribution is made; however, you may not have to pay state tax because of the provisions of Kentucky's individual income tax pension exclusion.
- This program also offers Roth 401(k) and Roth IRA options that tax your deferrals now so that your payouts at retirement will not be taxed. A traditional IRA option is available, as well. These after-tax options provide an opportunity for an additional level of tax diversification.
- By taking part in this program, you get access to multiple high quality and well-known investment options at a minimal administration fee. This allows you to diversify your investments, which reduces your investment risk because you are <u>not</u> putting all your "eggs in one basket."

Kentucky Deferred Compensation 2

- Once you enroll, you have the option of designing your own portfolio or choosing a Life-cycle fund that is professionally managed. The aggressiveness level of a Life-cycle fund changes in relation to how close you are to retirement – making more aggressive investments at the beginning and then transitioning to more conservative choices as you approach retirement age. KDC's registered representatives can assist you in making this choice.
- You may begin your participation by contributing as little as $30 per month per plan elected and your administration fee for the first year is waived on the mutual fund options only.

For more information on the deferred compensation program visit www.kentuckyplans.com or

call 800-542-2667

Wills and Power of Attorney

The Importance of Wills

- Vital if you are concerned about who gets your money.
- Probate process validates the will and determines how all the assets are distributed. If things are not determined ahead of time and the family cannot agree on how things are split up, the process can last for years.
- Don’t wait. Tragedy can happen to anyone at any age. Ease the process for your surviving family members by detailing the distribution of your assets.

Features of a Will

1. Identifies who will inherit your estate
2. Details how the property is distributed
3. Names Guardians if you have minor children
4. Creates a Trust if minors are your heirs
5. Chooses an Executor
   - This is the person who pays the deceased's bills and taxes out of the estate, and then distributes the remaining inheritance.
   - If an executor is not chosen, the court will make that determination.

Can I create a will on my own?

To be a binding agreement, a will only needs to:

(This varies from state to state.)

1. Expressly state that it's the will of the person who wrote it
2. Include at least one substantive provision, such as a clause leaving some property to someone or appointing a personal guardian for a minor child, and
3. Appoint an executor (called a "personal representative" in some states) who is the person responsible for carrying out the terms of the will when the time comes

Also, for your consideration

- Typed or computer printed wills must be signed by two witnesses that do not have anything to gain from the person’s death.
- Handwritten, also known as holographic wills, are legal in some states, but are much more easily challengeable because the probate court must be convinced that the handwriting is that of the deceased and was intended as a will.

When to use a lawyer?

- You expect to leave a very large amount of assets.
- Rather than simply naming people to inherit your property, you want to make more complex plans -- for example, leaving your house in a trust to your spouse until they die and then having it pass to your children from a previous marriage.
- You are a small business owner and have questions as to the rights of surviving owners or your ownership share.
- You must make arrangements for long-term care of an incapacitated or disadvantaged child or adult family member.
- You fear someone will contest your will on grounds of fraud, or claim that you were unduly influenced, or weren't of sound mind when you signed it.

- **You have <u>any questions or concerns</u> about your will or other options for leaving your property**

Living Wills

In Kentucky, a Living Will allows you to leave instructions in four critical areas:

1. Designation of a Health Care Surrogate (also referred to as a Durable Power of Attorney for Health care
2. Refusal of, or request for, life prolonging treatment
3. Refusal of, or request for, artificial feeding or hydration (tube feeding)
4. Expressed wishes regarding organ donation

Health Care Surrogate

This person makes the decision about your medical care based on your living will but may need to interpret your wishes if something unexpected occurs that is not specifically addressed, so consider many factors before making such a decision.

1. You share the same belief system including religious values and quality of life as it relates to treatment.
2. They should be assertive, so that they can ask the tough questions and get all the information needed to properly advocate for the best course of treatment.
3. They should be willing to take on the responsibility and the emotions associated with such a situation.
4. They are someone you trust.

Inform the rest of your family of the decision because once the surrogate is identified, doctors will not accept input from anyone but that surrogate.

How to Create a Living Will

You can download a copy of the living will packet from the Attorney General’s website (www.ag.ky.gov) or contact the office at 502-696-5300 to have one sent by mail.

- Once you have completed the document, provide copies to your surrogate, doctor, family and the hospital where you prefer to be treated.
- You can also enter your directives into the national living will registry for a fee at www.uslivingwillregistry.com or call 800-548-9455 for more information.

Financial Power of Attorney

- A legal document that gives someone of your choice the power to handle financial transactions.
- You can dictate how much authority your power of attorney has by limiting what they manage to one area such as handling transactions with banks, or you can give them access to all financial responsibilities.
- A lawyer can draft the document, or you may find computer programs that provide “fill in the blank” templates and inform you of the state specific procedures needed to make the document binding such as having a signed witnesses or the use of a notary public.

Common Types of Financial Power of Attorney

- Limited Power of Attorney is when you authorize another person to do specific things for you for a limited period of time, or in certain circumstances. This ends if you become incapacitated, die or at a time that you specify in the document.
- General Power of Attorney gives another person the authority to do whatever you can do. Think very carefully before signing this type of document. It should be used sparingly. This document ends when you become incapacitated or die.
- Durable Power of Attorney authorizes your agent to continue to act for you after you become incapacitated. This document ends at your death. It can take effect as soon as you sign it.
- Springing Power of Attorney can be written so it goes into effect if you become incapacitated. Be very careful to define clearly exactly how others will determine that the "springing event" has occurred.

Success is within your reach

A healthy financial picture is within your reach by using the resources available to you as a state government employee and applying some, or all, of the ideas discussed in this presentation.

The most important key to success is perseverance. The number of people who can approach a problem and conquer it immediately are limited. Most of us need to work at it and refine our solutions over time until we succeed.

Those that are unable to reach their goals, choose to become frustrated and give up instead of turning their failures into learning experiences. Those that become proficient at something, do it through trial and error.

If you have any concerns about the state of your finances, then make that decision to institute change for SUCCESS.

Please note

This is by no means a complete list of interventions and resources available, just a useful guide that may give you a starting point or lead you to other options. KEAP does not advertise as a financial consultant or legal specialist, and many of the suggestions above have been gathered from resources dealing with financial planning. KEAP does not guarantee that the above suggestions will solve your financial difficulties and many of the ideas presented come with some risk. Further, KEAP does not guarantee that the information concerning documentation will result in legally binding agreements, if you have any question concerning that topic contact a lawyer specializing in estate planning.

Resources

Department of Employee Insurance

- (502) 564-6534 / www.kehp.ky.gov

Kentucky Public Pensions Authority

- (800) 928-4646 / www.kyret.ky.gov

Kentucky Deferred Comp

- (800) 542-2667 / www.kentuckyplans.com

Department of Justice – Approved Credit Counseling Agencies

- www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm

Living Will – download from Office of the Attorney General

- 502-696-5300 / www.ag.ky.gov

US Living Will Registry

- (800) 548-9455 / www.uslivingwillregistry.com

Request your credit report

- www.annualcreditreport.com