



MAKING THE MOST OF YOUR MONEY

FINANCIAL TIPS FOR TODAY'S CONSUMER

CONSUMER CREDIT COUNSELING SERVICE OF MONTANA & WYOMING

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Why is budgeting difficult?

1. You have the wrong impression. What you may need before you even get started is an attitude adjustment. Budgets aren't straitjackets to keep you from spending your hard-earned money. Rather, they are the key to financial freedom, ensuring you have enough money to spend on what you want. The B-word itself can be such a bummer that some financial pros refer to a budget as a "spending plan." Call it whatever you like, but knowing how much money you have and where it's going is liberating. No more stressing over the unknown! No more bank-statement surprises! You are in control of your finances, not the other way around.

2. You've been trying to fit into someone else's shoes. You know that scene in "Cinderella" when the stepsisters try to cram their feet into the impossibly tiny glass slipper? Trying to squeeze your spending personality into someone else's spending plan could hurt just as badly. Just as there's more than one shoe size, there's more than one way to budget. If one method doesn't work, try another until you find the right fit. Your style may be old-fashioned, such as jotting down purchases in a notebook or buying things strictly with cash to eliminate the possibility of overspending. Or you might take a more modern approach with computer software or budgeting Web sites.

3. You're making this harder than it needs to be. The key to a successful budget is to keep it simple. Don't get me wrong: Building and maintaining a budget requires effort, but take it one step at a time. You're not going to overhaul a lifetime of spending habits in one weekend. Focus on one area where you can cut back. Once you've successfully tackled that issue you can move on to another.

4. Your budget is too rigid. You need to build in flexibility, or your plan will break under pressure. Give yourself some breathing room -- to make mistakes, to treat yourself and to make adjustments as your life situation changes or as prices rise. For instance, what if your car insurance rate goes up, gas prices climb or your rent rises?

5. You have no clear priorities. Lacking motivation? Set a goal. Budgeting merely for the sake of budgeting is a chore. When you have your eye on something you want, managing your spending becomes -- dare I say it? -- a pleasure. It's easier to cut back when there's a light at the end of the tunnel. Think of it this way: A budget helps you manage small expenses today so you can buy bigger stuff and have more fun tomorrow. So ask yourself what you hope to gain from your experience.

6. You've set unrealistic targets. Need help getting started? Here's a flexible blueprint that you can adjust to your own financial situation: Use 30% of your take-home pay for housing, 10% for utilities, 15% for food, 10% for transportation, 5% for clothing, 10% for debt repayment, 5% for entertainment and 5% for insurance and miscellaneous expenses. That leaves 10% for savings or special purchases. Remember though, that this is simply a guide. To set targets that are realistic for you, track your spending for at least one month. That way you'll see how much money you have and where it's going so you can make the necessary fixes.

7. You don't have a safety net. Unexpected costs can derail even the best-laid plan, hurl you into debt, and require months of adjusting before you can get back on track. So priority No. 1 for your budget should be to save up a small cash reserve for emergencies. That way, if the car breaks down or you make an unexpected trip to the ER, you won't undo all your hard work.

8. You quit too soon. Don't be discouraged by failure.

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5 big financial changes for retirees

Retirees should start getting ready now for major changes next year that will affect their income and health expenses. The precise impact of these changes will vary by individual, so consumers should take stock of their financial situations and plan accordingly. Many economists say inflation will be a serious concern in a few years after the economy recovers, so factor this into plans as well.

Here are five things to look out for:

- 1. No cost-of-living boosts for Social Security.** Forecasters widely predict that a slowly recovering economy will produce little or no inflation in the near term. That's generally good news, but not for Social Security recipients, whose annual increases are tied to consumer price changes in urban areas. Health care, a major retiree expense, is not expected to see the same price moderation as will other sectors of the economy. So it's quite possible that Social Security beneficiaries will see flat payments but still face higher prices.
- 2. Higher Medicare Advantage costs.** If you're one of more than 10 million subscribers to Medicare Advantage plans, expect to pay more for coverage next year. The U.S. Centers for Medicare and Medicaid Services cut 2010 subsidies to private Medicare Advantage plans by 4% to 4.5%. Big private insurers offering the plans will be figuring out how to adjust to the reductions, but you can expect to see a combination of higher rates and drug costs along with reduced coverage. The plans were created by the Bush administration as a private-sector alternative to traditional Medicare plans. Medicare Advantage costs the government about 14% more per person than regular Medicare and thus became a target for expense cuts that could be used to help pay for the Obama administration's health-reform plan.
- 3. New Roth IRA rules.** Traditional individual retirement accounts are funded with pretax dollars and defer taxes until the funds are withdrawn. Roth IRAs, in contrast, are funded with after-tax dollars, but investment gains are not taxed. Once you're 59 1/2, funds can be withdrawn whenever you wish, and the accounts may pass on in your estate so that your heirs enjoy the tax exemption as well. Moderate household income ceilings have prevented lots of people from creating Roths or converting traditional IRAs into Roths. Next year, however, the income ceiling for Roth conversions will be dropped, allowing anyone to convert as much of their qualifying retirement accounts into Roth IRAs as they wish. Of course, they will have to pay income taxes on their fund balances when they convert. But steep investment reversals in many retirement accounts may make that tax hit easier to take. And, should a market rebound in investment values occur, the gains would never be taxed if funds were switched into a Roth account.
- 4. Mandatory retirement-plan withdrawals suspended.** Last year's stock market collapse collided with rules requiring retirement-plan withdrawals at age 70 1/2. Forcing retirees to cash in money-losing securities seemed especially unfair. Investment experts were widely advising people not to sell their securities at steep losses or risk losing out on any future market recovery. Congress agreed, but it was too late to waive the withdrawal rule for 2008. However, it will be in effect this year, so investors will have the choice about taking withdrawals from their plans. Investors should contact their retirement-plan administrator for the steps to take if they decide to reduce withdrawals this year. The withdrawal decision can affect tax returns due in 2010.
- 5. Estate tax changes.** Under current law, there will be no estate tax next year. But in 2011, it reverts to the 2001 level, with tax rates of up to 55% on all but the first \$1 million of an estate. No one thinks this approach will prevail. Democrats want this year's estate taxes to be made permanent. This would exempt the first \$3.5 million and levy tax rates of up to 45% on the rest. Estate taxes have long been an ideological battleground, and nothing less than rhetorical war should be expected as President Barack Obama's tax-reform task force develops recommendations that are due at the White House by early December.

Kids Corner

Father's Day Magnets

How to make it:

What you'll need:

- * Photographs of family members
- * Flat backed clear marbles
- * Round magnets
- * White craft glue
- * Scissors

- Choose photos that have family members smiling and their faces will fit inside the marble. Place the marble onto the photo to gauge size. This is great for using snapshots that don't have very good framing or are otherwise not frame worthy.
- Once you have decided on a photo, place marble over face and trace around with a pen.
- Cut the face out inside the trace line.
- Use your finger to smear a thin layer of white glue onto the flat back of the marble.
- Press the marble gently down onto the cut out photo face. Allow to dry. 6. Glue a magnet to the back and let dry.