



Managing Debt, Budget, and More

The seventh annual *Financial Planning Week*® is October 6-12, 2008. With the current financial crises happening in our country in mind, we have put the following resources together for you. Managing debt, creating a budget, and performing small financial tasks are all good ways to help ease your mind and reduce your stress during these troubling times.

How to Make a Budget and Stick to It

If you want to keep your spending under control, it's essential that you make a budget. A budget allows you to get a handle on the flow of your money – how much is coming in and where it goes out. With that information in hand, you can make intelligent choices about how to spend.

Make a List of Your Expenses

The first step in making a realistic budget is figuring out where your money goes. To keep track, you should make an expense record. You may be tempted to turn to a computer program, such as Intuit's Quicken, to keep track of your expenses. That may seem like an easy way to approach the task, but most of these programs have a significant shortcoming -- they don't record your cash outlays.

Computer programs have you analyze your expenses paid primarily by check or credit card, overlooking the most obvious source of payment – cash. Rather than relying on a computer program, you can keep track of your expenses in a low-tech but comprehensive way: with some paper and a pen.

Here's how:

1. Take out eight sheets of paper. You will use one sheet per week, meaning you will record your expenses for two months. By doing this, you'll avoid creating a budget based on a week or a month of unusually high or low expenses.
2. Select a Sunday to begin recording your expenses.
3. Record that Sunday's date in the blank at the top of one sheet of paper.
4. Carry that sheet with you at all times.
5. Record every expense you pay for by cash or cash equivalent -- check, ATM or debit card, or automatic bank withdrawal. When you make a payment on a credit card bill, list the items paid for.
6. At the end of the week, put away the sheet and take out another. Go back to Step 3.



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7. At the end of the eight weeks, list seasonal, annual, semi-annual, or quarterly expenses you incur but did not pay during your two-month recording period. The most common are property taxes, car registration and maintenance, magazine subscriptions, tax preparation fees, insurance payments, and seasonal expenses such as holiday gifts.

Total Up Your Income

Your expenditures account for only half of the picture. You also need to add up your monthly income. On a blank sheet of paper, list the jobs for which you receive a salary or wages. Then, list all selfemployment for which you receive income, including farm income and sales commissions. Finally, list other sources of income, such as:

- bonus pay
- dividends and interest
- alimony or child support
- pension or retirement income
- public assistance.

Next to each source of income, list the net (after deductions) amount you receive each pay period. If you don't receive the same amount each period, average the last 12. Next to each net amount, enter the period covered by the payment such as weekly, twice monthly (24 times a year), every other week (26 times a year), monthly, quarterly, or annually. Finally, multiply the net amount by the number of pay periods to determine the monthly amount.

For example, if you are paid twice a month, multiply the net amount by two. If you are paid every other week, multiply the amount by 26 (for the annual amount) and divide

by 12. When you are done, total up all the amounts. This is your total average monthly income.

Make Your Budget

After you've kept track of your expenses and income for a couple of months, you're ready to create a budget. Your twin goals in making a budget are to control your impulses to overspend and to help you start saving money.

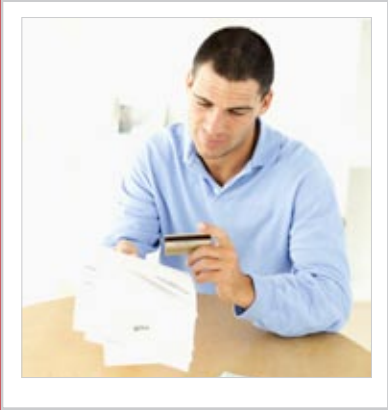
Follow these steps:

1. Determine the categories into which your expenses fall. List your categories of expenses down the left side of a piece of paper (or Excel spreadsheet). Use as many sheets as you need to list all categories. These are your budget sheets.
2. On the sheets containing your list of categories, make 13 columns. Label the first one "projected" and the remaining 12 with the months of the year. Unless today is the first of the month, start with next month.
3. Using your total actual expenses for the two months you tracked and the other expenses you added, project your monthly expenses for the categories you've listed. Note when smaller expenses, such as magazine subscriptions, are due so you can adjust your budget for that month. These temporary adjustments make more sense than trying to save \$1.23 each month so you can pay for your magazine subscription once a year.
4. Enter your projected monthly expenses into the "projected" column.
5. Add up all projected monthly expenses and enter the total into a "Total Expenses" category at the bottom of the projected column.
6. Enter your projected monthly income below your total projected expenses.
7. Figure out the difference.

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7. If your expenses exceed your income, you will have to cut expenses or increase your income. One way to do this is to make more money -- but let's assume that you are not likely to get a substantial raise, find a new (higher-paying) job, take on a second job, or make significant money by selling assets. This means you must decrease your expenses -- without depriving yourself of items or services you truly need.

Review your expenses with an eye toward reducing. Rather than looking to cut out categories completely, look for categories you can comfortably reduce slightly. For example, let's say you need to cut \$175 from your budget. You had planned on spending \$100 a month on meals at restaurants, but are willing to decrease that to \$50, thereby saving \$50. Try making a list of things you feel you can't live without, and whittle down your other expenses to accommodate them. For example, you may decide to give up most of your magazine and newspaper subscriptions because you know you'd go nuts if you couldn't go to the movies once a week. If you make room for at least some of the things you love most, you're much more likely to succeed at your plan.

Staying on Track

Don't think of your budget as etched in stone. If you do, and you spend more on an item than you've budgeted, you'll only find yourself frustrated. Use your budget as a guide. If you constantly overspend in an area, you need to change the projected amount for that category -- without berating yourself. Then you'll have to trim that money from another category.

Keep in mind that a budget is designed to help you recognize what you can afford; it's not just an exercise in filling in the "correct" numbers. Check your figures periodically to keep an

eye on how you're doing. If you never have enough money to make ends meet -- you're using credit cards and not paying the balance in full each month -- it's time to adjust some more. If you continually come up short, you may need to consider some larger changes. For example, you might sell your newer car for an older used car to free yourself from car payments.

As you make adjustments to your budget, give careful thought to your priorities. Everyone has different ideas about what luxury is and different feelings about what they're willing to give up and what they just can't live without. Think about what you value, and be honest with yourself. You may have to sacrifice some things that feel important to you, but don't expect to stick to your budget if you've taken away funds for almost everything beyond food, shelter, and bills for your mundane necessities. Be realistic.

Finding Help in Managing Debt

There are many reasons why people find themselves in financial difficulty. The key to resolving financial woes is understanding why the problems arose, making a plan to resolve the problems, and taking action to get back on track. Before you can resolve your debt issues, you need to deal with their causes or the problems will recur. In the past, you may have managed your debt well--until you lost your job or had a financial setback due to large medical or legal expenses, or investment losses. You may have incurred large debt due to poor spending habits, overuse of credit cards, poor budgeting, or even gambling.

Before you can resolve your debt issues, you need to deal with their causes or the problems will recur. Some of these issues you can resolve on your own, while others will require professional help.

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If you have done all you could to reduce spending, made a budget, and consolidated your loans, it may be time to solicit help. If you still cannot make minimum payments on your loans, try speaking to your creditors. Explain your situation and how you intend to rectify it. Creditors may revise your loan terms or even suspend interest temporarily in order to give you time to repay your loan. Creditors would rather receive some payment than risk not getting any payments should you resort to bankruptcy.

However, creditors are leery of “deadbeat” debtors, so you may not be able to convince them of your sincerity. You may need to consult with the consumer credit counseling agency in your community. Often, creditors will work with a consumer credit counseling service to renegotiate and consolidate your debt so you can make manageable payments.

However, your credit rating may be damaged if your debt is not paid in full, because creditors will report charge-offs and slow payments to the credit bureaus that track consumer credit information. You also need to be careful about selecting a credit counseling or debt consolidation service, as there are many questionable firms entering the market.

For a list of reputable services, contact the National Foundation for Credit Counseling (www.nfcc.org), the association of Independent Consumer Credit Counseling Agencies (www.aiccca.org), or the Better Business Bureau (www.bbb.org). It is a good idea to check a couple of these organizations to see what services they will provide and how much their fees are.

Reputable firms charge customers low fees—creditors pay fees to credit counseling services, which saves you money.

If you cannot get relief from your creditors or consumer credit counseling services, you may need to file for personal bankruptcy. This should be your last resort. If you file for protection under the US bankruptcy laws, your credit record will report your action for 10 years, which may adversely affect your ability to borrow money.

Congress is currently reviewing the federal bankruptcy laws because of the record high number of personal bankruptcies filed within the last few years, and we should see some dramatic changes in the near future. Individuals filing for bankruptcy usually apply under one of two sections of the US bankruptcy code: Chapter 7 or Chapter 13. Bankruptcy generally protects persons from their creditors, but how it does this is different according to the section under which one applies. Chapter 7 is generally referred to as the liquidation bankruptcy, while Chapter 13 is based upon the restructuring of debt.

Should you decide to consider bankruptcy, consult with a bankruptcy attorney in your community. You can file for bankruptcy on your own; however, you will probably fare better with professional help. Check your local telephone directory or the Better Business Bureau (www.bbb.org) for bankruptcy attorneys in your area.

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