Recalculate Your Financial Prowess

You don't need to be an accountant to be skilled at managing your money. What you do need is to be financially literate, which means understanding the basics of financial management and having the skills to make smart choices with your money. By educating yourself on the fundamentals of finance, you can save and invest with confidence, make better financial decisions, and escape future money mistakes. Here's how to get started:

What it means to be financially literate

The U.S. Financial Literacy and Education Commission (FLEC) defines financial literacy as *"the skills, knowledge and tools that equip people to make individual financial decisions and actions to attain their goals."* According to FLEC, this means having an understanding of these five elements:

1. **How much you earn** (including pay, benefits, and tax withholdings)
2. **How to save and invest** (including building an emergency fund and saving for short- and long-term goals)
3. **How to protect your money** (by purchasing insurance and avoiding fraud)
4. **How to spend wisely** (via budgeting and comparison shopping)
5. **How to borrow money** (at the lowest possible interest rate) and **maintain credit** (through conscientious repayment practices)

Building financial literacy

A true understanding of money management affords you some peace of mind and a sense of having some control over your finances. How you get there is by being able to create, track, and stick to budgets; having a plan for paying off debt and maintaining strong credit; and knowing how to save for emergencies and your future.

Create a budget and track spending

Probably the most fundamental element of managing money is your ability to make a budget and track your spending. To do this, you must first have a clear picture of your entire financial situation, so start by taking inventory of everything you own and everything you owe. This should include all assets, debts, income sources, how much money you earn and spend each month, and any annual and semiannual expenses. Next, decide which system you'll use to record, track, and monitor your budget. Debt.org describes four basic methods: pen and paper, the spreadsheet, free online budgeting software, and computer-based financial software. Once you've added all your inventory items, you can make decisions about what you must spend money on, where you need to cut back, and what you want or need to save for. Finally, keep ongoing track by reviewing your budget at the end of every month. Compare it to your actual expenses to see how you did and adjust as needed for things like new expenses and changes in sources or amounts of income.

Manage debt and monitor your credit

Many people who have debt tend to just accept that it's there and continue to let it grow. Those who are skilled at money management do not ignore debt or enter into it frivolously—they have a plan for reducing it and stick to that plan until the debt is eliminated. Use credit responsibly by paying balances on time (and in full, if possible) or by only using a credit card for large purchases when you have the cash on hand to cover them. Fiscally savvy people also do not ignore their credit. They know their credit score and monitor their credit report. By federal law, you're entitled to receive a copy of your credit report every 12 months at no charge. Request a copy of yours from AnnualCreditReport.com, then check it for errors and fraudulent activity, see how creditors see you as a borrower, and take note of areas you may want to start working to improve.

Save for what's next

While no one can know what really lies ahead, the financially literate individual will plan for what they hope will happen, as well as for what they won't see coming. Start building an emergency fund and saving for short- and long-term goals. For an emergency fund, ideally, you'd want to bank enough to cover expenses for three to six months. For education and retirement, save by cutting down on unnecessary or extravagant expenses in order to put aside as much as you can afford without going into debt. Take advantage of your Thrift Savings Plan (TSP) benefits, including the government's matching contributions, and any equivalent plan that your spouse or partner may have through their employer, such as a 401(k).

Get help

Most people don't know where to start, and that's okay. You have lots of options for resources and support, many of which are free. Most banks and credit card issuers offer tools and resources to their customers to help them budget and track spending and make educated financial decisions. You can also look to local resources, such as credit counseling agencies, for free information, support, and educational workshops in your community.

In addition, there are plenty of mobile apps and websites designed to help you monitor and keep track of your money, bills, budgets, debts, and investments all in one place. Most offer free and paid subscription options, and many of them even provide monthly credit score updates and offer recommendations based on your goals and overall credit and spending snapshot.

Portions of this newsletter were compiled using resources and information from MyMoney.gov, the U.S. Department of the Treasury, and the Consumer Financial Protection Bureau, all of which host a wealth of free information and tools to help you take greater control of your current and future financial well-being.

And don't forget about the financial services benefit available through your Employee Assistance Program (EAP). Call to be connected to financial experts who can offer guidance and advice on your specific situation and goals.

The EAP is a voluntary and confidential employee benefit available to eligible federal employees at no cost.

24 HOURS A DAY

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