

# Managing Personal Finances During Your Job Transition

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# The importance of good financial health

Having a solid financial standing is imperative to successfully transitioning to the civilian workforce because:

- In today's economy, job searches often last between six months and one year. How would you cover your and your family's living expenses during this time?
- Job searches often include unforeseen expenses, such as traveling for interviews, relocating your family and upgrading your wardrobe.
- Many employers conduct background checks on potential and existing employees, including credit checks. Having poor credit might prevent you from obtaining or keeping a job that you would be considered an ideal candidate for otherwise.



You must prepare for the impact your job search can have on your financial health and the impact your financial health can have on your job search.

# Create a budget

Establishing a budget as early in your transition as possible helps you manage your income and spending habits during your job search. To create and manage your budget, you should:

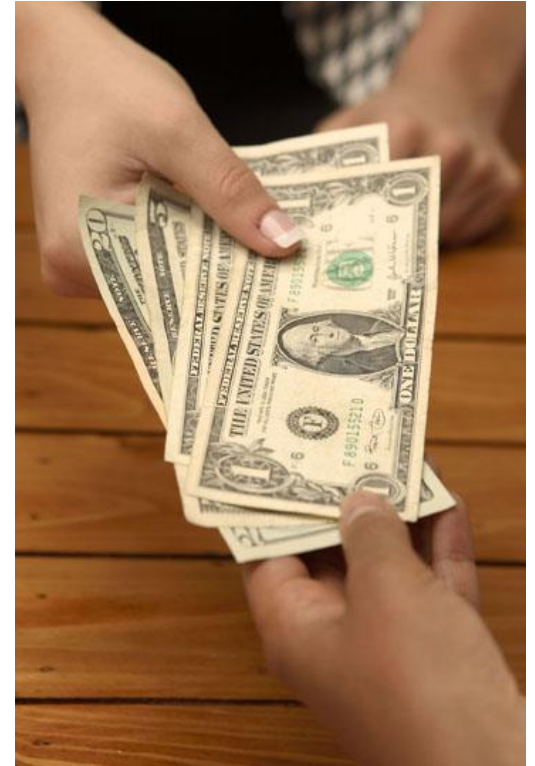
- Identify your monthly income and expenses by:
  - Knowing the difference between your gross and net income.
  - Splitting your expenses into two categories — fixed/committed costs, such as your mortgage, and variable costs, such as entertainment.
- Track your spend against your plan.
- Evaluate your spending habits by asking questions such as:
  - Do you overspend at the grocery store?
  - Do you spend a lot on entertainment every month?
- Set financial goals for the following:
  - Short-term — for example, buying a new computer
  - Medium-term — for example, purchasing a car
  - Long-term — for example, buying a home or retiring early
- Select costs that can be reduced to meet your financial goals.



# Use cash to control your spending

One way to track and amend your spending habits is to use cash when shopping instead of credit and/or debit cards. When shopping with cash:

- Withdraw a fixed amount of discretionary money at the beginning of the month.
- Pay for things like groceries, entertainment, clothing and nonessential items.
- Make a shopping list to avoid impulse purchases.
- Consider using coupons.
- Buy bulk quantities of things your family uses frequently.



Using cash instead of another form of payment helps you understand your spending priorities and, in many cases, prevents you from overspending.

# Debit cards versus credit cards

Debit and credit cards have advantages and disadvantages when managing your personal finances. Often times, people confuse debit cards and credit cards, so you should understand the basic differences between these two types of currency.

## Debit cards:

- Link to your bank account, so the money you spend is automatically deducted from your account.
- Allow for immediate withdrawal of cash — for many people, debit cards primarily serve as the ATM card.
- Can sometimes lead to overspending and thus overdraft fees.

## Credit cards:

- Use your creditor's money at the time of your purchase — you pay the money back at a later time, usually when the billing period ends.
- Allow you to build your credit history if used appropriately.
- Accrue interest and can potentially damage your credit history if you miss a payment or make a late payment.

# Guidelines when using your credit card

Using your credit card can be an intimidating experience. When using your credit card, remember these key rules:

## Things to do

- ✓ **Pay your bill on time** — if you cannot make a payment on time, you should inform your card issuer and attempt to make a payment as soon as possible. Late payments hurt your credit rating.
- ✓ **Know your interest rate and fees** — if you take cash advances or don't pay your monthly bill in full, know the interest rates and fees that will apply.
- ✓ **Examine your monthly bill** — do not assume that your bill is always accurate. If you notice any unauthorized purchases, alert your card issuer.
- ✓ **Learn credit card trends that could negatively impact your credit score** — for example, being consistently late on monthly payments or having too many credit cards.

## Things not to do

- ✗ **Apply for the first credit card offer you get in the mail** — just because a credit card offer promises a low interest rate does not mean that this is the best fit for you. Do your research before applying for a credit card.
- ✗ **Use your card to buy things you can't afford** — if possible, you should use your credit cards for emergency purchases only. If you are attempting to build your credit history using your credit card, ensure that you make a purchase that you can afford and pay your bill on time.
- ✗ **Simply pay the minimum payment** — you should pay above the minimum amount if you are able to do so. Paying only the minimum amount increases the time it takes to pay your credit card debt.

# Know your credit scores

To effectively manage your personal finances and avoid negatively impacting your job search, you must know and understand your credit score.

Check your credit score at least once a year through all three credit agencies:

**Experian**

[www.experian.com](http://www.experian.com)

1.888.397.3742

**Equifax**

[www.equifax.com](http://www.equifax.com)

1.800.685.1111

**TransUnion**

[www.transunion.com](http://www.transunion.com)

1.877.322.8228

You can get your credit report from each agency once a year without penalty. A best practice is to get your credit report once every four months from a different agency. If you would like to do this more frequently, consider a credit monitoring service.

Monitor your credit scores closely — many times, fraud is detected very easily on your credit reports.

# Understand your credit scores

Credit scores are often called **FICO scores** because most credit bureau scores accepted in the U.S. are produced from software developed by Fair Isaac and Company (FICO). FICO scores range from 300 to 850 — the higher the score, the lower your credit risk. There are five components of your FICO score:

## Payment history

Accounts for **35%** of your credit score — have you paid your credit accounts on time?

## Amounts owed

Accounts for **30%** of your credit score — how much do you owe on your credit accounts compared to the amount available on your credit accounts?

## Length of credit history

Accounts for **15%** of your credit score — how long have you carried your credit accounts and when is the last time you used them to make a purchase?

## New credit

Accounts for **10%** of your credit — have you opened a few credit accounts in a short period of time?

## Types of credit used

Accounts for **10%** of your credit score — what type of credit accounts (for example, credit cards and mortgage loans) have you established?

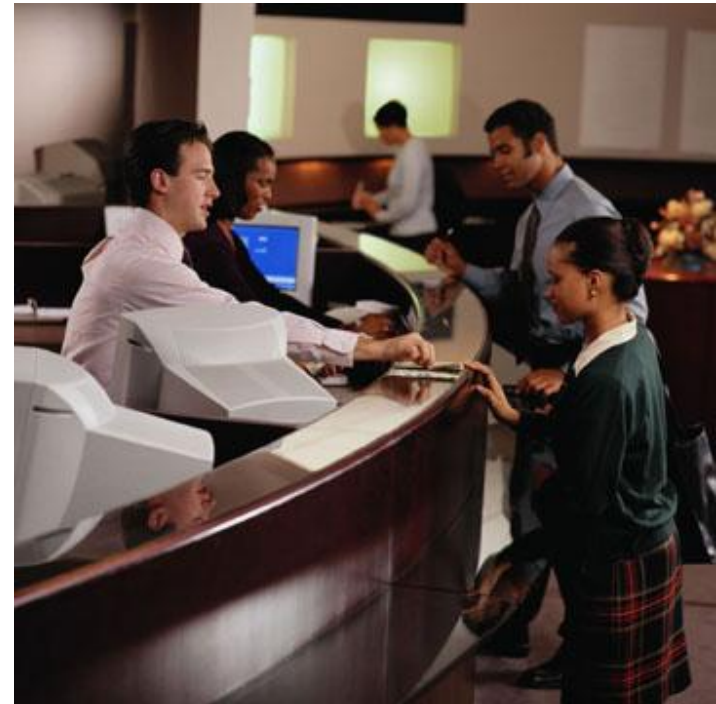
For more information regarding your FICO score, visit [www.myfico.com](http://www.myfico.com).



# Save for your future

Making saving for the future an everyday priority will help you be prepared should you need to begin a new job search unexpectedly. Some tips for saving include:

- **Pay yourself first** — whether you use a standard savings account or a more aggressive investment instrument, you should always put money aside for your future.
- **Reduce your debt** — ultimately, you save more money by reducing your debt sooner rather than later. The longer it takes to pay off your debts, the less money you are able to keep in your pocket.
- **Create an emergency account** — unexpected life events happen, so to be as prepared as possible, keep an account that has reserve money that can sustain your household for a few months.
- **Live within your means** — don't rack up large credit card balances or take out unnecessary loans to accommodate your lifestyle. Attempt to save more than you spend on a regular basis.



# Final tips

Entering the civilian workforce is a significant financial effort that requires diligent preparation. The following investment tips will help you prepare for this transition:

- Be prepared financially for a six-month to one-year job search.
- By creating a budget, you can:
  - Identify your monthly income and expenses.
  - Track your spending against your plan.
  - Evaluate your spending habits.
  - Set financial goals.
  - Select costs that can be reduced to meet your financial goals.
- Use cash to control your spending.
- Follow suggested guidelines when using debit and credit cards.
- Check all three credit agencies (Experian, Equifax and TransUnion Corporation) for your credit report at least once a year to ensure accuracy.
- Save for your future by paying yourself first, reducing your debt, creating an emergency account and living within your means.

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