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ReliaBalance™: A Financial Management Technique Designed to Encourage More Informed Daily Financial Decisions

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Abstract: Maintaining relevance is a priority for Extension. Financial management is a relevant issue for many people. Because many financial management programs are designed by institutions that benefit financially from the programs, unbiased information can be difficult to find. Extension is uniquely positioned to provide unbiased financial management education. ReliaBalance™ provides solutions to the budgeting and credit card management challenges of daily financial management. Because daily financial management is the foundation for other financial management decisions, the system provides Extension educators a vehicle for implementing a financial management program.

Introduction

Research has shown many Americans are inadequately educated in personal finance (Chen & Volpe, 1998). Low savings, high debt loads, revolving credit card balances, and high bankruptcy rates have been well documented (Porter & Christenbury, 1999). Research has also shown personal financial education to be an effective tool for improving financial behavior (Osteen, Muske, & Jones, 2007). Extension's role as a personal finance education provider has been well established (Oleson, 2004). Although Extension programs like Money 2000 have had a significant impact, additional personal financial awareness tools have been requested (O'Neill, Xiao, Bristow, Brennan, & Kerbel, 2000). This article introduces a new personal financial management technique designed to increase financial awareness among consumers.

Methodology

ReliaBalance™ is designed to eliminate the risks associated with time-deferred expenses. Budgets create a spending plan (Figure 1), but if the spending plan is not directly accounted for in our account balance, it can be difficult to know the difference between dedicated funds and discretionary funds.

Figure 1.
Budget Example

Budget	
House Payment	700
Electric Bill	50
Natural Gas Bill	50
Phone Bill	40
Water Bill	50
Credit Card Debt	50
Car Payment	200
Cable TV	40
Car Insurance	100
Total Budgeted Expenses	1280

ReliaBalance™ incorporates budgeted spending into the account balance when the spending is budgeted for instead of when it is actually spent. Because budgeted items are accounted for in the account balance at the time of budgeting instead of when they are actually spent, the money is not confused with discretionary spending money. This prevents unexpected shortfalls in the account balance.

Accounting for budgeted expenses in the account balance when they are budgeted is accomplished by creating a holding account. Because its purpose is strictly informational, the holding account does not require setting up an additional account at the bank or making actual money transfers. Budgeted expenses are assigned to this holding account with an entry in the transaction register. The sum total of the budgeted expenses is subtracted from the account balance (Figure 2). Although there is no actual money transferred, the entry separates money that is required to pay for budgeted expenses from money that is available for discretionary spending.

Figure 2.
Transaction Register Example

Transaction Register						
Date	Trans#	Type	Description	Payment(-)	Deposit(+)	Balance
1/1			Opening Balance			0.00
1/1		Deposit	Pay Check		1700.00	1700.00

1/1		Trans HA	Budgeted Expenses	1280.00		470.00
1/4		Credit Card	Gas	30.00		440.00
1/6	1301	Check	Z-Mart	49.53		390.47
1/10		Debit Card	Sandwich Shop	16.25		374.22
1/12		Trans HA	House Payment		700.00	1074.22
1/12	1302	Check	A1 Mortgage	695.32		378.90
1/17		Debit Card	ABC Hardware	15.74		363.16
1/19		Trans HA	Car Ins. and payment		300.00	663.16
1/19	1303	Check	FCP Bank- car payment	197.64		465.52
1/19	1304	Check	All-City Insurance	92.37		373.15
1/21		Credit Card	Gas	40.00		333.15
1/22		Trans HA	Elec.,gas,phone,water,tv		230.00	563.15
1/22	1305	Check	PDQ Power	45.03		518.12
1/22	1306	Check	Quitock Gas Company	48.97		469.15
1/22	1307	Check	Rest Communications	33.45		435.70
1/22	1308	Check	Big City	49.82		385.88
1/22	1309	Check	Bomcast	37.38		348.50
1/24		Trans HA	Credit Card Purchases		70.00	418.50
1/24	1310	Check	Credit Card Company	69.02		349.48

This simple step makes the balance in the transaction register the actual available balance. Because the balance in the account does not include money that will be needed for previously committed expenses, when daily spending decisions need to be made, the account balance can be used as a reference without the risk of spending money needed to pay upcoming expenses.

When budgeted expenses come due, money that has been set aside in the holding account is returned to the transaction register balance and used to pay the budgeted expense (Figure 2). This process creates stability in the daily account balance.

A similar principle is used to account for credit card purchases. When a credit card purchase is made, the purchase is entered into the transaction register and the amount of the purchase is subtracted from the transaction register balance. This money is assigned to the holding account. When the credit card bill is due, these entries are added together. The total is returned to the account balance, and the bill is paid (Figure 2). This process prevents unintended accumulation of credit card debt.

Entries in the transaction register assigning money to the holding account can be rounded up to make adding and subtracting the money from the account balance more convenient. The rounding error will be accounted for when the money is returned to the account balance. Because the initial entry was rounded up, a small

amount of savings is returned to the account balance when the money is returned.

The system is easily implemented into computer money management programs by creating a separate holding account in the program. Implementing the system into a computer program allows the user to reconcile the holding account entries through the same process that other transactions are reconciled.

Implications

ReliaBalance™ provides clients with the conveniences of modern financial practices, but limits the risks associated with time-deferred financial commitments. This framework provides a foundation for informed daily financial decision making, which is the foundation for reaching other financial goals.

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