Taking Money Management Home

by Gordon Tiffany and Kathryn Kurre

At work, you are a professional closely involved in the financial management of your organization. You know that sound financial management is essential to the success of your organization.

Then you go home. If you are a typical, busy public manager, you may not always be as diligent with your own personal financial affairs. Who has the time or energy to spend on personal money management after a 50-plus-hour work week?

Who wants to go home to pay bills, balance the checkbook, track spending, and monitor personal investments? If you're lucky, you might have a partner who is willing to share these tasks; but, even then, you still have a responsibility to play an active role in managing the family's money.

YOU ARE IN THE PUBLIC EYE

How you manage your personal finances can make a difference at work. Even the appearance of extravagant spending can cause the public to question your judgment. Failing to set a good example for your staff by not saving diligently for your own retirement can show a lack of discipline. Expect no sympathy for your debt-related worries from the public or from elected officials—and especially not from your staff.

Such public scrutiny is not always fair, but it is a truth of the local government management profession: You are highly visible in your community, so you must assume that everything you do is known to your neighbors, friends, and those who may not be your friends.

The public does not understand the unusual financial challenges for the manager's family. There are ethical constraints on personal investments and outside employment, financial burdens arising from successive moves needed to advance professionally, costs of relocating your family at less than ideal times, and sometimes necessary compromises in a partner's career.

And the public does not appreciate the ongoing uncertainty that is a reality for a professional selected by an elected board, a professional who can be dismissed at any time.

Nevertheless, there is good news. ICMA data show that managers have more employment stability today than they did in decades past. The average job tenure for city and county managers increased from 5.4 years in 1989 to 7.5 years in 2006. Salaries and benefits have improved, and more managers have employment agreements providing severance packages.

You are successful at building personal financial security. Most managers do a good job of managing their own money, even if they do so with less fervor than when administering the public's dollars.

Many of the same financial principles apply both at home and at work, only on a smaller scale. Financial rules at home are more flexible and accountability is personal rather than legal and political. The typical family budget, if there is one, is one page with perhaps a dozen lines, in contrast with the budget volumes and detailed accounting required at work. The financial "staff" at home is one or two people instead of a department of full-time professionals.

So, what makes the typical public manager successful at building personal financial security? What financial skills do public managers use at work that they can take home to apply in their personal lives?

You are goal oriented. The philosopher Yogi Berra observed, "If you don't know where you are going, you might end up someplace else."

At work you have financial forecasts, clear organizational goals, and measurable objectives. Spending and revenue projections stretch out several years to help keep a focus on the long-term consequences of today's decisions. You consider alternative strategies: financing options, spending priorities, service delivery methods.

At home you also need a vision of what you hope to achieve financially. When do you want to retire? What do you need to set aside today to reach that goal? How can you rid yourself of debt by the time you retire? What is the expected family contribution to children's college; when will the funds be needed and how will they be accumulated?

It does not take a management report for such decisions at home, of course, but seeing your financial options and choices in writing makes adequate reflection of them more likely.

These life goals are family matters. Couples who determine their important goals together, compromising as needed, become a more successful financial team.

You keep track. At work, you know how your organization is doing financially, regularly comparing actual expenditures and revenues. You adjust spending as needed to avoid a crisis.

Budgets, combined with systematic tracking of spending, can be powerful tools for the family just as they are at work. Budgeting helps you set spending priorities; and by monitoring your expenses, you can find the elusive answer to that common question, "Where does it all go, anyway?"

Another helpful financial tracking tool is the net worth statement. The personal net worth statement is really not different from the balance sheet for the various enterprise funds at work. By annually seeing how your assets compare with your liabilities, and how this relationship changes over time, you have a means of monitoring both your debt and your progress as you build net worth.

You make informed decisions. At work, major financial decisions are made only after deliberation and consideration of alternatives. They are based on research and reason. Major family financial decisions warrant proportional scrutiny.

It can help to write down your reasons for each big financial move, such as refinancing a mortgage, setting up a particular college savings account, purchasing life insurance, or buying an investment. It does not take a management report for such decisions at home, of course, but seeing your financial options and choices in writing makes adequate reflection of them more likely.

You save. Managers know that saving toward a "rainy day" fund for their organization is desirable, but none would say that it's easy. Local governments that manage to build a reserve have an easier time when financial challenges arise. This is no different at home.

Another way many governments save is familiar to many public managers—sinking funds. Sinking funds are built with regular deposits for such a specific purpose as purchasing capital equipment or making bond payments. Saving at home should be as methodical.

Saving is *the* prerequisite for personal financial security. Unfortunately, Americans as a whole have not learned this lesson. According to the U.S. Department of Commerce, our collective personal savings rate for April 2008 was less than *1 percent!*

Employer-sponsored retirement plans with automatic deposits from your paycheck make saving for retirement as painless as possible. But retirement is not the only family goal worthy of saving for, and many families have discovered the benefits of automatic savings for other things, too. Automatic transfers from your paycheck to savings accounts make saving money easier and more effective than relying on the leftover money in your checking account at the end of the month.

You invest. Managers who share the responsibility for investing public money, such as public retirement funds, know that they have a fiduciary duty to invest competently. They have recognized investment objectives, follow the laws and established procedures, and may have enlisted help from professional investment advisers.

As an investor at home, you may feel as if you're on your own. You may be suspicious of commission-generating investments suggested by financial salespeople. You may be baffled as you seek insight from investing authorities, from popular books claiming to have discovered the best investing scheme, or from personal finance magazines. You may ask yourself, "Can't this be simpler?"

You are not alone. There are plenty of data to help evaluate the funds available to the do-it-yourself investor. Lots of good investing information is available online; however, you should be careful to separate sales propaganda from useful information.

The good news is that there are some simple rules to follow when investing: You should match investments with your time horizon for withdrawing the money, select an appropriate asset allocation, avoid market timing and chasing performance, and rebalance your investment portfolio annually.

For those seeking more support or who just do not want to spend a lot of time monitoring and managing their retirement investments, diversified funds-of-funds can be used, including those that adjust the risk level as the date for the use of the money approaches. In addition, individual help is available from ICMA-RC's representatives and through such services as ICMA-RC's Guided Pathways™ program.

You manage debt. Public managers know laws are in place to protect governments from their own imprudent borrowing. Legal debt limits and stringent oversight at times require a public vote to authorize borrowing. The revenue source that will support debt payments must be identified ahead of time.

Families should manage debt with comparable care and should have in place debt policies similar to those at work. What is the target date to be mortgage free? How is routine credit card use monitored to avoid charging too many items? How much should be saved toward a major purchase to avoid borrowing more than is desirable?

Having a system for saving important personal financial records at home—and for disposing of unneeded papers—is extremely important.

What are the alternatives to borrowing and how can costs be managed by paying off debts faster? Occasional borrowing is, for most families, a practical necessity, but debt should not compromise your savings goals or jeopardize your long-term financial security.

You manage risks. At the office you have an established risk management program. You systematically identify risks and determine how to reduce the probability and severity of losses. You decide which risks to insure and which to self-insure. You compare polices, set deductibles, and maintain reserves to cover projected cash exposures.

Why not use a similar approach to identify, assess, and manage the risks your family faces? Loss of family income caused by death, disability, or extended unemployment is certainly just as serious for your family as any hazard that you might encounter at work.

Life insurance needs change over time, and so should your insurance coverage. If you have young children depending on your income, for example, and you have not had time to accumulate considerable savings, your family's life insurance need is probably at its peak. As you approach retirement and have a sizable nest egg and fewer dependents, your life insurance needs are likely to decrease.

Remember the "forgotten risk"—disability. How are you managing the risk of losing your income owing to a disability? According to the National Association of Insurance Commissioners (NAIC), one out of every seven workers will suffer a disability of five years or longer before age 65.

If you are 45 years old, your chances of experiencing a disability lasting at least three months before age 65 is 44 percent. If you are 35 years old, the chance is as high as 50 percent!

For property coverage, do you understand exclusions on your property insurance policy for which you may need additional coverage? Is your property adequately protected from flood, hurricane, earthquake, or risks for which special coverage may be needed? Do you have only the legally required minimum auto liability protection, or have you increased this coverage to a reasonable level?

Are there personal liability concerns arising from work? And, if so, are you secure with the indemnification provided by your employer? Is it effective even if you are no longer on the payroll? Do you have general liability coverage as part of your homeowner's policy?

In case of unemployment or at the time of retirement (especially if retiring before Medicare begins at age 65), do you know how you will continue to secure family health insurance? And, as you approach retirement, how will you pay for nursing home or other long-term-care needs?

Not all risks can be managed with insurance. A manager's family should have a larger cash reserve than other workers who enjoy more secure employment. A cash reserve equal to at least six months of living expenses is a reasonable target. The reserve should be invested in cash-type investments in an account that can be accessed quickly, such as an FDIC-insured money market account. Retirement savings accounts are not emergency funds, although they may be available as a last resort.

You use technology. At work, you would not consider having your staff do accounting manually. It is too inefficient and error prone. Today's technology has become indispensable in the management of public organizations.

Similar financial management tools available for home use include personal financial management software programs like Quicken and Microsoft Money. In addition, if your income taxes are relatively straightforward, tax preparation software reduces arithmetic errors, helps you stay within the rules and limits of the IRS, and allows you to identify legitimate but often overlooked tax deductions.

The Internet is a great tool to use for research as well as bill paying and banking. Online research of major purchases allows you to compare features and prices. And comparing online such financial products and services as credit cards and insurance can reduce costs significantly.

Online banking and bill paying are both more convenient and sometimes even cheaper and more secure than writing and mailing checks—but you must have a strong firewall and antivirus protection on your personal computer, just as you do at work.

Investment account statements, insurance documents, and bank statements can be received securely online instead of by mail. You can also monitor your credit bureau accounts for free at www.annualcreditreport.com.

You are organized. At work you have filing systems, possibly even electronic records, so that you can quickly retrieve important documents.

Having a system for saving important personal financial records at home—and for disposing of unneeded papers—is extremely important as well. In an emergency, such documents as a health care power of attorney or living will can be found quickly. The Federal Citizen Information Center has suggestions for family record keeping. To view this information, go to www.pueblo.gsa.gov, then do a site search for "home filing system."

You can also download ICMA-RC's free "Personal Financial Database" to keep an inventory of your most important records. To find this document, go to www.ICMARC.org, click on "Individual," then click the "Planning and Tools" tab, then click the "Articles" tab.

Capable financial management is essential to the success of your organization. At work, you would never consider using less than your best financial management knowledge and skills. Don't leave that at the office. Your family finances deserve the same attention. **PM**

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PM Why Employee Performance Should Be Made a Priority

It is sometimes hard to find any manager or employee who believes that the performance appraisal practices in their organization add value. There may be no other management responsibility that causes more friction between managers and employees. This is true in every sector.

For managers, the policy requiring them to complete an appraisal form for an employee has been less popular than going to the dentist. All too many employees are similarly not comfortable with the way their performance is evaluated. Some critics would argue it's a no-win for everyone.

The problems seem especially true in the public sector. The reasons for this are explored in the November 2008 *IQ Report* "Managing Employee Performance: Planning a Best Practice Approach," written by Howard Risher, author and management consultant, Wayne, Pennsylvania.

Despite the widely recognized problems and the many critics, there are organizations where performance management is a valued process that does contribute to improved performance. People in management positions clearly understand the importance of good performance and the value of their better performers.

They are also uncomfortable, if not angry, when they see poor performers who are allowed to disrupt or diminish the efforts of a work group. A common thread across these organizations is that the leaders have made performance a priority.

It's also true, however, that when performance management practices are dysfunctional or ineffective, the performance system is rarely the core problem. Employee performance management cannot be isolated from other practices involved in the management of an organization; it does not occur in a vacuum. And it does not depend on forms or software. Effective performance management is a day-to-day management responsibility.

For more information on the *IQ Report*, visit bookstore.icma.org and search for item number E-43517.