A GUIDE TO YOUR PERSONAL FINANCES

What Every Seafarer Needs to Consider

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Introduction

Life at sea for a Seafarer is often challenging, sometimes difficult, but also rewarding. Fortunately, the Seafarers International Union and its affiliated Plans have made every effort to give you the tools for a successful career at sea and ashore. But a sometimes-overlooked component of a maritime career involves learning to manage personal finances to accommodate the ups and downs of maritime employment. Only you can smooth out the financial crests and troths you will encounter as a Seafarer.

During your career at sea you must learn to cope with the cyclical nature of employment in the maritime industry. The availability of maritime jobs is largely determined by the amount of cargo that needs to be shipped. When the economy is expanding, there are ever-larger amounts of cargo to be transported, but when the economy is in recession there is less cargo available. This expansion and contraction of the job market is said to be caused by the "business cycle."

All shipboard employment is temporary. Even so-called "permanent jobs" are shared on a rotating basis. After obtaining a job at an SIU hiring hall, you may join a ship's crew for an indeterminate period of time. You sign ships articles for the duration of a voyage, but the length of the voyage may be uncertain. When the ship "pays off" you will have to return to the hiring hall where the process begins all over again. This allows you to string together an endless number of temporary jobs into a lifetime career.

Those who built the SIU were, like you, merchant mariners. They were more than familiar with the financial problems faced by a Seafarer. Like other trade unionists of the time, they struggled for higher wages and better working conditions. But the SIU also fought to secure multi-employer vacation benefits so that Seafarers would have income while "on the beach." They understood that the difference between "being unemployed" and "being on vacation" was simply a matter of money.

From the beginning, the Seafarers established a hiring hall system which provided for equitable access to available work. No longer would Seafarers have to wait for jobs at a "fink hall" run by the shipowners. In 1951, the SIU established a health care and hospitalization plan to ensure that Seafarers would be taken care of when ill or injured. Ten years later, the SIU began paying retirement benefits to Seafarers who could no longer work due to age or disability. The SIU created the Paul Hall Center for Maritime Training and Education in 1967 so that Seafarers could improve their job skills and advance their careers as professional seamen. All of this was built to provide you and your family with financial security.

You, too, have a role to play in your success and that of the SIU. When aboard ship, you must conduct yourself in a professional manner and perform your job duties to the best of your ability. Remember, when you perform well on the job it reflects well on our organization. In addition, you must do all you can to remain healthy and fit. Working at sea is physically demanding and requires that you be in good physical condition. You should also make every effort to upgrade your knowhow and skills at the Paul Hall Center. Not only will this increase your earning potential, but it makes you a more valuable crew member. Finally, it makes sense to learn how to manage your personal finances. This booklet is meant to help you with the basics.

I. Learning to budget your money

The secret to managing your finances is to create a budget. A budget is not a list of things you can't afford, nor is it supposed to keep you from doing the things you want to do. In actuality, a budget is a way of thinking about your income and expenses that allows you to make wiser financial choices.

WHY YOU NEED A BUDGET

A textbook might define the word budget as "the established limit on the amount of expected expenses during a defined future period of time." For most people this definition would be accurate, but for a Seafarer it leaves out the most important variable: the amount of future earnings.

Most workers receive a periodic paycheck in a relatively constant amount. Except for overtime pay and occasional annual increases, most workers can expect to receive the same pay year in and year out. But the typical Seafarer is in a very different situation. The total length of a voyage and the total amount of earnings for that voyage cannot be predicted. Even with so-called "permanent jobs," pay periods and total earnings will vary from year to year depending on when the voyage began. Consequently, a Seafarer's budget must balance expected earnings with expected expenses, which is a more complex task.

Regardless of how difficult it is to establish, a Seafarer needs to have a budget. Learning to estimate your future earnings and expenses forms the basis for planning a secure future.

ESTIMATING YOUR FUTURE EARNINGS

For purposes of budgeting, your earnings are the sum of your base monthly wages and vacation benefits. Overtime in excess of eight hours should not be included in earnings estimates since the amount maybe uncertain. The base monthly wage for a specific rating on a particular vessel can be found in the collective bargaining agreement.

By using a conservative method of estimating your earnings, you will always have a surplus in your budget that is created by additional overtime pay. When saved, this surplus can create the down payment on a large purchase or a reserve fund to pay unanticipated expenses.

ESTIMATING YOUR FUTURE EXPENSES

When estimating your expenses, it is helpful to sort them by category. Not only will this help you prioritize your budget, but it allows you to gain insight into what you are spending your money on.

Perhaps the most basic expense category is wants vs. needs. For example, you might want a bigger flat screen TV, but you need to replace your broken washing machine. Categorizing expenses can help you decide what you need to buy now and what can wait.

Similarly, it is useful to categorize expenses as fixed or variable. For example, your car payment is a fixed cost since it is the same amount each month, while your electric bill is a variable cost that changes from month to month. Variable costs should be watched closely since they have the potential to upset your budget.

Still another category to consider is anticipated vs. unanticipated expenses. For example, your home may suffer storm damage that your homeowner's insurance does not cover. The cost of repairs is an unanticipated cost for which you cannot budget. You must have a reserve fund to cover unanticipated expenses.

When estimating expenses, you should figure each amount on an annual basis. For example, if you are spending $150 a month on cable TV, you should estimate the cost to be $1,800 annually. Similarly, if you are spending $650 every 6 months for car insurance, you should estimate the cost to be $1,300 annually. Annualizing expenses will provide you with a clearer picture of just how much you are spending on a given expense.

CREATING A BUDGET

When creating a budget, your goal should be to strike a balance between expected earnings and expected expenses. Think of this process as a "balance scale" with your earnings on one side and your expenses on the other.

By adjusting your earnings upward and/or your expenses downward, your budget can be balanced. Most workers can only balance a budget by cutting back on expenses, but a Seafarer can "put a thumb" on the earnings side of the scale by staying aboard a vessel longer.

Many people figure their budgets on a computer using either a spreadsheet or special budgeting software. Still others use a notebook and pencil while a few keep it all in their head. However you keep your budget, the goal is the same: balancing earnings with expenses.

BANKING AND BILL PAYING

Once you have established a budget and you are satisfied that your expenses have been estimated correctly, you need to arrange for banking services. At the very least you will need a checking account to pay your bills and a savings account to maintain your reserve fund.

When setting up your checking account you should arrange for overdraft protection. With overdraft protection, your checks will clear even if they are written for more than the balance in your account. Deposits are not always credited in a timely fashion and besides, people make mistakes, so overdraft protection is important. Keep in mind, too, that checking accounts are often mistakenly overdrafted when more than one person has access to the same account. You can have overdraft protection for your checking account by linking it to your savings account or by applying for a separate line of credit.

Many banks offer automatic bill paying. You can arrange to have the bank pay reoccurring expenses like car payments or utility bills from your checking account. If you are comfortable with your computer, you should also consider online banking. With online banking you can manage your checking account while you are at sea.

When you sign on a ship you can arrange to have a portion of your wages payed to you as an allotment. Your wages can be automatically deposited to your bank as you earn them. By combining your allotment with online banking, bill paying is literally at your fingertips.

II. Using credit wisely

Much has been written lately concerning consumer debt and its effect on the economy. Specifically, it is the easy availability and unwise use of credit that is of concern. However, for Seafarers, credit can be a tool to manage their daily affairs and achieve their long-term goals.

In today's consumer society, a credit card is an absolute necessity. Unless you have a credit card, it is nearly impossible to make a hotel reservation, purchase an airline ticket, rent a car, or fill the car's gas tank. Used properly, a credit card can be a powerful tool for managing your daily expenses, but beware if you use it to borrow money.

For the typical Seafarer, paying on an installment loan is a fact of life. Expensive durable goods such as major appliances or motor vehicles might be paid for using an installment loan. For almost everyone, home ownership is only possible through the use of a mortgage loan. But for those who go to sea for a living, buying a new car or owning a comfortable home can make it all worthwhile.

HOW CREDIT WORKS

Simply put, a credit transaction is the process by which you borrow money. But a closer look reveals that a credit transaction has four parts. These parts are: the present value, the interest rate, the term, and the monthly payment.

The present value is the amount of money that you are initially borrowing. The interest rate is a percentage of the present value that you pay to borrow money. The term is the number of months that it will take to pay the loan back. The monthly payment is the amount of money you pay each month to repay the loan.

The amount of the monthly payment is figured using a formula that takes into account the present value, the interest rate, and the term of the loan. Changing the amounts of these three variables will change the amount of the monthly payment. For example, if the present value or the interest rate increases, the monthly payment goes up. But if the term increases, the monthly payment goes down.

There are two basic types of credit transactions: installment loans and revolving credit. Installment loans have a fixed term and monthly payment, while revolving credit has an open-ended term and minimum payment.

When you borrow money using a credit card, you are using revolving credit. If the amount of your monthly payment is large enough, you may be paying down the amount borrowed. However, if you make the minimum payment, you may be paying only part of the interest and none of the amount borrowed. Worse still, if you continue to use the credit card, your payments will go towards the new purchases while interest will make the amount you borrowed grow. Also, the interest rate charged on credit card loans is often much greater than that charged on fixed-term loans. Although it is easy to borrow using a credit card, that's not a wise decision, since you may end up with a balance you can't afford to pay down.

MAKING WISE CREDIT CHOICES

The key to making wise credit choices is answering a few simple questions. Before you borrow, be certain that you are borrowing for a worthwhile purpose. Keep in mind that interest charges will increase the price of anything you buy with a loan. In addition, you must make certain that the terms of the credit agreement fit into your budget and are affordable over the long run. Most importantly, you should be wary of borrowing more than you can afford based upon what you have budgeted.

When purchasing a new car, the dealer may offer you an installment loan that includes either a reduced interest rate or a "rebate." A rebate is an amount that is credited toward your down payment, thus reducing the amount you need to borrow. It is up to you to choose between a lower interest rate or the rebate, but either one will lower your monthly payment. Unless you are financing the entire cost of the car, choosing the rebate is almost always a better deal since it gives you more equity in the car from the start and reduces the amount of your loan.

REFERENCE INQUIRIES AND CREDIT CHECKS

When you apply for credit, the lender will want to verify your employment. They do this by contacting the SIU and making what is called a "reference inquiry." When answering a reference inquiry, the Union will provide the lender with an estimate of your potential earnings. Since most Seafarers work less than 12 months a year, the earnings estimate that the lender receives from the Union may be higher than your actual earnings. Consequently, a lender may be willing to loan you more than you can afford to pay back. Keep this in mind when applying for credit.

Before offering you a loan, the lender will also check your credit file and score. The lender will request your credit file from one of the major credit reporting services. Your credit file contains a listing of your past and present credit transactions, including your payment history. Based on the information in your file, the credit reporting service will assign you a credit score. The lender will approve or deny your loan application based largely on your credit score. Even if your loan is approved, you may be charged a higher interest rate if your credit score is low.

Your credit file and score are very important, since it is not just lenders that check them. Landlords often verify your payment history before leasing you an apartment. Some auto insurers figure policy premiums based on your credit score. Even the United States government reviews your credit file before issuing you a security clearance.

To make certain that the information in your credit file is accurate and complete, you should regularly review your credit reports. You are entitled to a free credit report from each of the three credit reporting services once every 12 months. When requesting your free credit reports, space the timing of your requests over the 12-month period. For example, request a credit report from TransUnion today, another from Experian in about 4 months, and another from Equifax in 8 months or so. Visit www.annualcreditreport.com or call 877-322-8228 to request your free credit reports.

III. What you need to know about paying income tax

Much has been written on the subject of income tax that is of little value to a Seafarer. Some may view the payment of income tax as an unpleasant subject that is understood only by tax preparers. But the more you know about paying your income tax, the less you are likely to pay. In addition, the more you know, the less likely you are to have an unanticipated tax bill. What follows are tax tips that apply specifically to Seafarers.

HAVING ENOUGH TAX WITHHELD FROM YOUR PAY

Each time you sign on a vessel or file for vacation benefits, you will need to complete a W-4 Form. The W-4 Form tells your employer how much tax to withhold from your pay. If you complete your W-4 Form correctly, you should have enough tax withheld to pay what you owe. But if you claim to be married when you are not, or overstate the number of dependents you have, the amount of tax withheld will be reduced. Later, when you file your income tax return, you may have a large tax bill since you did not have enough tax withheld from your pay.

If you complete all of your W-4 Forms correctly, you may find that you are due a refund when you file your income tax return. Having a large tax refund should be viewed positively, since it may be added to your savings or used to pay an unanticipated expense. Resist the temptation to "micro-manage" your tax withholding by adjusting your W-4 Forms, since it may result in a large tax bill.

BALANCING YOUR INCOME YEAR TO YEAR

Your income, and consequently your income tax, may vary from year to year. This may be due in part to economic conditions, but it is more likely the result of decisions you have made.

When you decide to remain aboard a vessel for an extended period, your income for that year will increase. In the year following such a voyage, your income may be reduced if you choose to remain "on the beach" for an extended period. Obviously, your income tax will be much greater in the year with the larger income. In fact, you may even pay income tax at a higher rate for that year due to your increased income.

To reduce your tax burden, you need to even out your income from year to year. A Seafarer can deal with this problem in two ways. First, you can reduce your taxable income in the year with the high earnings by contributing to your Seafarers 401k pension account. Since your 401k contributions are made on a pre-tax basis, they are subtracted from your gross income.

Second, you can choose to file for your Seafarers vacation benefits in the year following the year with the high earnings. In this way, you can defer income tax on your vacation benefits to the year with lower earnings (the year you are "on the beach").

MOVING EXPENSES THAT MAY REDUCE YOUR TAX BILL

The cost of moving from your present home another one may be subtracted from your income when filing your tax return. You can subtract moving expenses whether or not you itemize deductions, but your move must be to a location that is at least 50 miles from your previous home. Moving expenses include the cost of moving your household goods and personal effects. The cost of your travel from your old home to the new one can also be included as a moving expense.

OTHER EXPENSES YOU MAY BE ABLE TO DEDUCT

Seafarers who itemize deductions on their income tax return may claim certain expenses as "Unreimbursed Employee Business Expenses." The cost of paying union dues, including working dues and initiation fees, can be claimed as an itemized deduction if they exceed 2% of adjusted gross income. Small tools such as a steward's knife set are deductible as a business expense. The cost of protective equipment such as goggles and gloves is also deductible.

Again, you can only deduct the amount of your expenses that is more than 2% of your adjusted gross income. Unless you are married and your spouse also claims unreimbursed employee business expenses, this 2% exclusion may keep you from claiming your expenses.

RECORDKEEPING

Good recordkeeping is the secret to filing an income tax return that is accurate and complete. Your tax preparer will need to review your records to complete your tax return. You don't need to have an elaborate filing system. For most Seafarers, one large shoebox will do.

The most important documents to save are the W-2 Forms you receive after the end of the year. You will receive a W-2 Form from each of your employers. In addition, if you have filed for vacation benefits during the year, you will receive a W-2 Form from the Seafarers Vacation Plan. Other documents worth saving include discharges, pay vouchers, check stubs, dues receipts, as well as receipts for travel and moving expenses, but when in doubt toss it in the shoebox.

IV. Why you need savings

Saving for the future should be part of your personal finance strategy. Having money in reserve can help smooth out the rough spots in life that everyone encounters.

Setting money aside for the future is a habit that is best acquired when you are young. This is because time is your friend when growing your savings. However, it is never too late to become a saver.

SHORT-TERM SAVINGS

To manage your monthly expenses effectively, you need to have some short-term savings. For most Seafarers, this takes the form of a checking account balance that is carried from month to month. If you want a checking account free of monthly service charges, most banks will require you to carry a minimum balance. But more importantly, carrying a balance will allow you to pay next month's bills with this month's pay. Accumulating short-term savings is best done early in your career so you can avoid living "paycheck to paycheck" later.

YOUR RESERVE FUND

What most people think of as savings is what is better referred to as a reserve fund. Sometimes called "saving for a rainy day," money saved in a reserve fund allows you to pay unanticipated expenses. It is difficult to say just how much money you should have in your reserve fund but your past experience with unanticipated expenses and your comfort with risk should guide you. For example, if you are a homeowner with an insurance policy that has a $5,000 deductible, you need at least a $5,000 reserve fund.

SAVING FOR THE DOWN PAYMENT

Saving for the down payment on a home is only slightly different from other types of savings. When saving for a down payment, you need to have a goal in mind that fixes both the amount of the down payment and a specific length of time. For example, your goal may be to accumulate a down payment of $25,000 over the next five years.

Putting aside $410 per month will easily meet this goal, assuming you have the willpower to let your savings grow untouched. Owning a home is not beyond reach for any Seafarer who plans and saves.

The size of your down payment may sometimes affect the terms of a loan agreement. In general, the larger your down payment, the lower the interest rate will be. Beware of loans that promise "no down payment," since these loans typically have the highest interest rates.

SAVING FOR RETIREMENT

As is the case with other types of savings, the real trick to saving for retirement is to begin early. The compounding of interest causes your savings to grow over time and this is never truer than with retirement savings. Even small contributions will grow to a large amount if made early and regularly over a long period of time. To make the most of your retirement savings, you should read the companion booklet to this one, titled "Building a Secure Retirement."

CONCLUSION

Now that you have read through this booklet, you may think that there is nothing more to learn about personal finance. But there is a wealth of information about personal finance both in print and on the internet. A list of suggested reading is included at the end of this booklet.

Before concluding, let's review the most important points from this booklet:

- **Budgeting –** Having a budget allows you to balance your income and expenses while letting you know where your money is going.
- **Credit –** Credit is a tool that when used wisely can help you manage your expenses and achieve your goals.
- **Income Tax –** Income tax is not a problem if the proper amount is withheld from your pay and you keep good records.
- **Savings –** Because money grows over time, the key to saving is to start when you are young.

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