



Budgeting

Check out these budgeting tips

Wants vs. Needs
A need is a necessity, such as housing or food. A want can be anything and may not be a necessity. Be careful when spending on wants.

Pay Yourself First
After budgeting for necessities and before spending anything for wants, always tuck away some money from each paycheck for emergencies into a rainy day savings account.

Before charging
Ask yourself:
1. Do I really need it?
2. Will I still have this five years from now?

If the answers are NO, then wait until you can pay cash.

Budgeting Tips

Budgeting Tips Continued

Rule of Percentages
A good rule of thumb for budgeting your salary is:
70% pay current bills; **20%** save for future purchases; **10%** invest for long-term goals.

Money Tracking
We often spend money without thinking about it. Keep track of all your expenditures (cash, checks, debit cards, ATM withdrawals and credit cards), even the smallest ones. Record them every time in a notebook or register. Review them regularly to make yourself aware of where your money goes.

Fixed, Variable, or Luxury?
Categorize the expenses in your budget. Is it fixed, such as rent or a car payment? Does it vary such as groceries, gas or clothing? Or is it luxury such as newest electronic devices, recreational vehicles, or taking vacations, etc.?

Rule of %s

Rule of 72
If you would like to know how many years it will take to double your money in an interest bearing account, divide that account's interest into 72; e.g., $72 / 4\% = 18$ years.

Let's assume your savings account is paying 8% interest (we wish); how many years will it take to double your money?

What if interest rate is 6%?

And, if you divide 72 by the number of years you wish to invest your money, you will be able to find the interest rate required.

If time is 10 years: $72/10 = 7.2\%$ interest rate needed.

Rule of 72

Cash Flow

Simply measures the money you receive and the money you spend.

Is your bucket full or empty?

Cash Flow

What is a budget?

A plan for using your money in a way that best meets your needs and wants~it is your road map to your financial goals

Budget

The 3 Myths of Budgeting

Myth #1: You have to suffer to use a budget.

Myth #2: You have to be in debt to budget.

Myth #3: You have to spend a lot of extra hours doing paperwork.

Budgeting Myths

Five Steps to the Budgeting Process

- Setting Goals
- Estimating Income
- Estimating Expenses
- Planning for Savings
- Balancing and Adjusting the Budget

5 Steps of Budgeting Process

#1 ~Setting Goals

- Plan to meet your goals.
- Goals give you a target to hit when considering financial aims.
- Goals must be S.M.A.R.T.

- Specific
- Measurable
- Attainable
- Realistic
- Time Bound



Setting Goals

SMART Goals

Specific.....	"Pay for lodging, transportation, meals for a 5-day trip to Washington, D.C."
Measurable...	"\$300 through fundraising, \$50 from birthday money, save \$25 a week."
Attainable....	"If I stick to my plan, I'll have the money when I need it."
Realistic.....	"I still have enough money to live on while I work toward this goal."
Time-Bound..	"I need to have all the money by 6 months from now."

SMART Goals

#2~Estimating Income

Include income for full/part time jobs, allowance, etc.

- How often do you get paid?
- Plan for a month at a time overall.

Disposable Income – the amount of income left over after taxes.

Discretionary Income-the amount of disposable income left after personal necessities or needs are paid.

Estimating Income

#3A~Estimating Expenses - Fixed

Fixed Expenses: those that remain constant and are the same amount each month. To change them will take a major revision in lifestyle.

No more than 60% of your take home pay.

Fixed Expenses

#3B~Estimating Expenses - Variable

Variable Expenses: those that will change according to needs and short-term goals.

Variable Expenses

#4~Planning For Savings

Look at your goals and calculate what you will need per month to meet your goals in a specific time frame.

Save for:

- Gifts
- Retirement
- Education
- Vacation
- Car
- House

Planning for Savings

Pay Yourself First (P.Y.F)



Save at least 10% of your gross income each pay period!

- What type of expense?
- START NOW~Don't wait as that time may never come.

PYF

#5~Balancing and Adjusting the Budget

At the end of the month:

- Balance your budget to make sure income is greater than expenses.
- Live within your budget
- Adjust your budget based on spending patterns
- Less on going out to eat means more in savings

Balancing/Adjusting

Remember your budget isn't written in stone, it's a living document that should change as things in your life change.

Statement

How to Build a Budget

- Decide on a time frame for tracking expenses (week, two weeks, **month**).
- List all money you have coming in (income).
- Make categories for all expenses.
- Subtract total expenses from income.
- Study your budget and your financial plan to make sure it fits with your plans and goals. Work towards your goals!!

Building a Budget

Embrace budgeting

If you've heard it once you've heard it a million times, but creating and sticking to a budget is one of the most important things you can do to increase your savings. Visit [below](#) for guidelines on establishing and maintaining your budget.

<http://www.360financialliteracy.org/Topics/Budgeting-Spending/Budgeting-and-Saving/Establishing-a-budget>

Embrace Budgets

Bill yourself

If you're one of the many who regularly have the "I'll add to my savings from my next paycheck," consider adding saving to your list of monthly bills.

You can't put off your monthly utility bills, so why put off your savings?

Even just ten dollars a month can make a world of difference.

Jack and Jill.pdf

Bill Yourself

Direct your savings

Since saving is often put on the back burner when it comes time to allocating your paycheck, set up a direct deposit from your checking account to your savings for a few days after you receive your paycheck.

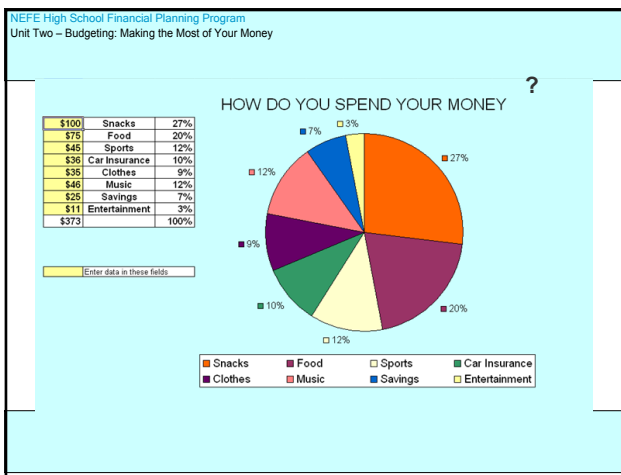
Direct Savings

Count your change

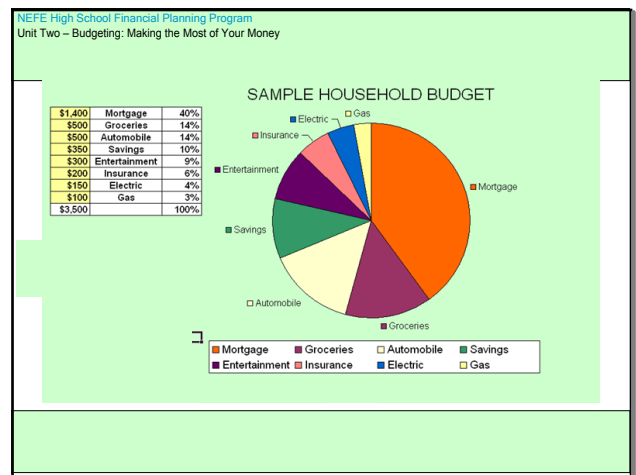
According to the U.S. Treasury, Americans hold approximately fifteen *billion* dollars in loose change. That's a lot of "spare" change that could be put towards savings.

Set up a change jar in a central location in your house and get the whole family involved in saving.

Count Change



Graph



Graph

Reasons for a Spending Plan

- ...Helps you determine where you are spending your money currently.
- ...Helps you decide where to spend your money in the future.
- ...You have an organized way to save for things that cost more.
- ...Puts you in control of your financial future, beginning NOW.

Reasons for spending plan

People Without a Budget...

- ...Are less likely to know what they have.
- ...Have no plan, often coming up short before their next paycheck or allowance.
- ...Are almost certain to have no plan to save for more expensive spending goals.

Without budget

Questions

- Does it make sense to create and live within a budget when you don't have a lot of money?
- What if you find that you are consistently spending more in one area than you had planned to?
- What if you find that you can't live within your budget?

Questions

Questions

- Did my spending reflect what is important to me?
- Two years from now, which of these purchases will still mean something to me?
- Would I be embarrassed if my family or friends saw my list?
- What percentage of my spending is for necessities?

Questions

Keeping Records (& order)

- Alphabetical (Ford, Geico, IRS)
- Alphabetical (Auto, Insurance, House)
- Chronological (January, February)

Keep bills for one year and tax returns for as long as you can.

Keeping records

Net Worth Statement

Has 3 sections:

- **Assets**

A list of items of value that a person owns

- **Liabilities**

Amounts of money that a person owes

- **Net Worth**

The difference between the two (what you are worth on paper)

Net Worth Statement

Net Worth Statement

Assets = **Liabilities** + **Net Worth**

Net Worth = **Assets** - **Liabilities**

Net Worth Statement

Net Worth Statement

Essentially, if you sold all of your assets, paid off all of your liabilities, the money left over would be your net worth.

It is an estimate

Net Worth Statement

Why a Net Worth Statement

- It is a way to measure your overall financial position
- A tool in analyzing your financial situation
- Checks your financial progress
- Is your net worth increasing?

Why net worth statement

Statement of Net Worth

Assets = items of value that a person owns

- House
- Vehicles
- Cash/checking/savings
- Investments (401K)

Statement of Net Worth

Statement of Net Worth

Liabilities = money owed to others or debts

- Mortgage
- Car loans
- Credit card bills
- Student loans

Statement of Net Worth

Statement of Net Worth

- Net Worth = difference between assets and liabilities
- More assets = positive net worth--solvent
- More liabilities = negative net worth--insolvent

Solvent/insolvent

A Statement of Net Worth is most commonly used when applying for credit (a loan).

<http://www.guidestone.org/LearningCenter/IndividualResources/~media/Retirement/Flash/PrepForRet/PersnlNetWrthStmntEdit%20pdf.ashx>

Statement of Net Worth

Families should keep all of the following:

- Income and expense records
- Personal property inventories
- Tax records for the past ten years

Recordkeeping

Pay Stubs

Definitely check for accuracy. It is also good to save until you file your taxes. Check the last pay stub of the year against your W-2...if it matches, shred previous year's pay stubs.

Often need these when applying for a loan.

Pay stubs

Tax Documents

Keep all W-2s you receive, as well as tax documents for any checking, savings, and investment accounts.

You should also keep copies of your completed tax returns (Form 1040) for at least seven years.

Tax returns

Insurance Statements

We will discuss this in a later unit, but if you are paying for car insurance, keep a copy of your "declarations" pages. They contain important information about your policy.

You should also keep the premium notices sent by your insurance company (after paying them promptly) for a year.

Insurance Statements

Loan Statements

Your loan statement usually will show how your loan payment was applied toward your loan balance~the amount applied to reduce your interest, and the amount applied to reduce your principal.

Keep copies of all agreements for loans for as long as long as you have the account.

Loan statements

Credit Card Statements

Usually show your purchases, payments, finance charges and current balance.

Keep your monthly statements for a year, and then shred.

Credit Card Statements

Receipts and Warranties for “Big Ticket Items”

Anytime you make a big purchase hang on to your receipts. If you get a warranty booklet or owner’s manual, keep that as well. This documentation can help you get an item fixed or replaced if you ever have a problem.

Big Ticket Items

Delayed Gratification

- Willingness to give up something you want now in return for something better later.

Instead of buying a used TV for \$200; you save up and buy a new TV for \$600.

Delayed gratification

Delayed Gratification

- Saving money over time to make a major purchase.
- Waiting to buy a new product until the price goes down.
- What are other examples?

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Delayed gratification

Satellite Decisions

Often a major decision leads to several smaller ones.

Buying a car, what kind of car, how much money to put down, what dealer to buy it from, when to buy it, gasoline, car maintenance, car insurance, room for growth (family)....do you buy?

Satellite Decisions

Attachments

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