



# Personal Finance 101

Personal finance covers a wide variety of money topics including budgeting, income, expenses, debt, saving, retirement, insurance and others. Understanding how each of these topics works together and affects the others is important for laying the groundwork for a solid financial foundation for you and your family.

## **Budgeting** - Budget Isn't a Bad Word-



Think of it as Managing or Taking Control of Your Money. A budget isn't created to make your life miserable; it is simply a **guide** to help you manage your money. When you create a budget, you take control of your money so that it doesn't control you. You need to know where your money is going whether you are a billionaire or just one of us folks who goes from week to week. If you spend too much, your life will be miserable, and you will need to make changes so that necessary items are covered while cutting back on wasteful spending.

At the very basic level of personal finance you are dealing with a budget - you make money; you spend it.

## **3 actions you can take** to have more money available:

- 1) Cut back on the money you spend- one car instead of two, smaller house, less gas, no Starbucks, etc.
- 2) Increase the amount you make – take on a second job
- 3) Consider less expensive options to buy- cheaper car, house, etc., 7-eleven instead of Starbucks

## **Envelope Accounting**

Envelope Accounting is a method of budgeting where you have envelopes marked for specific budget items. When you receive income, a budgeted amount is put into each envelope. The categories for the envelopes are simply the items you will spend money on during the month - housing, power bill, groceries, water bill, car payment, car gas, entertainment, eating out, clothes, hair-cuts, etc. When the bill is due or you want to spend, go to the envelope and retrieve the money. If you have money left in an envelope at the end of the month, consider saving it. If you run out of money in an envelope, stop spending.

This system can be modified to include only envelopes for the “extras”. All other bills will be paid immediately. Also, if a bill is known ahead of time, an envelope can be marked with the amount due each month and the due date for the bill. One caution with this method - DON'T LOSE THE ENVELOPES.

## **How to Create a Budget**

Creating a budget may not sound like the most exciting thing in the world to do, but it is vital in keeping your financial house in order. Before you begin to create your budget it is important to provide as much information as possible.

1. Think of everything you spend money on and make a list – house payment/rent, car payments, auto insurance, groceries, utility bills, car gas, phone bill, entertainment, laundry, loan payments, credit card payments, retirement, and savings. Now write it down! If you have a computer, put your list there.
2. Record all of your sources of income. If your income is in the form of a regular paycheck where taxes are automatically deducted, then use the net income (the amount they put into your account). Record this total income as a monthly amount. If you are self-employed or have any outside sources of income be sure to record these as well. If you receive government assistance such as food stamps, TANF, SSI, etc., record these as regular income.

Terms to look at for income: 1) GROSS PAY is your total check for this pay period before deductions, savings and taxes. 2) NET PAY is your take-home pay after deductions, taxes and other deductions have been subtracted, the amount deposited into your account. NET = check – federal taxes (@10to35%) – state taxes (@3to7%) – fica (4.2%) - medicare(1.75) – retirement – medical insurance – dental insurance – med flex – vision insurance - savings

3. Break expenses into two categories: fixed and discretionary. Fixed expenses are those that are required expenditures and include your mortgage or rent, groceries, gasoline, car payments, utility bills, water bills, phone service, etc. These expenses are essential and not likely to change (until the next rate hike). Discretionary expenses are the type that will change from month to month and include entertainment, eating out, vacations and gifts. This category is sometimes hard to predict but will be important when making adjustments.

4. Total your monthly income and then add up your monthly expenses. Subtract your expenses from your income. If your end result shows more income than expenses you are off to a good start. Put the “excess” to pay more on credit cards or monthly payments to eliminate the debt faster or add to your savings. If you are showing a higher expense column than income it means some changes will have to be made.

5. Make adjustments to expenses. If you have accurately identified and listed all of your expenses including savings, the ultimate goal would be to have your income and expense columns equal. All income is accounted for and budgeted for a specific expense. If you are in a situation where expenses are higher than income, you should look at your discretionary (changeable) expenses to find areas to cut. You will need to shave dollars in different areas to bring you in to balance.

6. Review your budget monthly. It is important to review your budget on a regular basis to make sure you are staying on track. After the first month take time to sit down and compare the actual expenses with what you thought might be.

Tips:

1. Don't try to fit your expenses into someone else's budget categories. Tailor the categories to fit your own situation.
2. Make your categories detailed enough so you can easily track the expenses but not so detailed that the budget takes too much time to keep.
3. Think of your budget as a tool to help you get out of debt and save money, not as a financial diet.

## Creating Your Budget

### STEP 1: LIST YOUR INCOME

INCOME	November	December	January	February	March	April	May
Wages- 1 <sup>st</sup> job	+						
-federal income tax, 8%	-						
-state income tax, 3%	-						
-social security, 4.2%	-						
-medicare, 1.75%	-						
<b>INCOME FROM 1<sup>ST</sup> JOB</b>							
Wages- 2nd job	+						
-federal income tax	-						
-state income tax	-						
-social security	-						
-medicare	-						
<b>INCOME FROM 2<sup>ND</sup> JOB</b>							

Government assistance							
Food Stamps							
Child Support							
Any other income							
<b>TOTAL FROM ALL INCOME</b>	+						

## STEP 2: LIST YOUR EXPENSES

Use the following list as a guide to list your expenses. If you are not sure of the amount, go back through your receipts, checkbook, EBT transactions or bank statements for the past few weeks or months to get an idea. For items you pay cash for think about how many times per week or month you normally spend money on that item and how much you pay each time. Figure all expenses as a monthly amount. For example, if your property taxes are due once per year, divide the yearly amount by 12.

### HOUSING & UTILITIES

November    December    January    February    March    April    May

Mortgage payment(PI)/rent							
House Insurance - yearly/12							
Property Taxes - yearly/12							
Electric							
Natural gas							
Water/sewer							
Garbage pick-up							
<b>Sub Total Housing</b>							

### HOUSEHOLD

November    December    January    February    March    April    May

Groceries							
Cleaning supplies							
Laundry							
Dry cleaning							
Home improvement projects							
Household needs-towels, rug							
Clothing							
<b>Sub Total Household</b>							

### TRANSPORTATION

November    December    January    February    March    April    May

Car payment							
2 <sup>nd</sup> Car payment							
Insurance							
Gas							
Routine Maintenance							
Repairs							
Public transportation							
<b>Sub Total Transportation</b>							

### ENTERTAINMENT

November    December    January    February    March    April    May

Cable TV or satellite service							
Internet access							
Dining out							
Bars, clubs, etc.							
Sporting events							
<b>Sub Total Entertainment</b>							

### COMMUNICATION

November    December    January    February    March    April    May

Telephone							
Cellular phone							
<b>Sub Total Communication</b>							

<b>HEALTH</b>	November	December	January	February	March	April	May
Medical insurance/payments							
Dental insurance/payments							
Vision insurance/payments							
Weight loss, diet products							
Nutritional supplements							
<b>Sub Total Health</b>							

<b>BEAUTY</b>	November	December	January	February	March	April	May
Haircuts, perms, etc.							
Make-up							
Shampoo, conditioner							
<b>Sub Total Beauty</b>							

<b>OTHER</b>	November	December	January	February	March	April	May
Credit card payments							
Other loan payments							
Child care							
Items for baby/elderly							
Allowances for children							
Book clubs, magazines, music							
Fast food							
Investments							
Vacation							
Spending money							
Donations to church or charity							
Gifts (Christmas, birthdays)							
Emergency fund							
Coffee, soda, cigarettes, etc.							
Other expenditures							
<b>Sub Total Other</b>							

	November	December	January	February	March	April	May
<b>Sub Total Housing</b>							
<b>Sub Total Household</b>							
<b>Sub Total Transportation</b>							
<b>Sub Total Entertainment</b>							
<b>Sub Total Communication</b>							
<b>Sub Total Health</b>							
<b>Sub Total Beauty</b>							
<b>Sub Total Other</b>							
<b>TOTAL EXPENSES</b>							

Start by determining whether you are in debt or in the black. To do this, subtract your expenses from your income (you are in the black) or your income from your expenses (you are in the red). The result will either mean you are doing great (income exceeds expenses) or you are in debt (expenses exceed income).

	November	December	January	February	March	April	May
<b>TOTAL INCOME</b>	+						
<b>TOTAL EXPENSES</b>	-						
<b>CREDIT +</b>							
<b>DEBT -</b>							

STEP 3: CUTTING BACK (if you are in the red) or TRANSFERING EXCESS TO SAVINGS PLAN (if you are in the black)  
 If you have more income than expenses, transfer most of it to pay off bills or to a savings or investment account at the end of each month. Extra cash left in your pocket or a checking account has a way of getting spent.

If you need to cut back, for each expense category try to determine a budget amount that realistically reflects your actual expenses while setting targeted spending levels that will enable you to cut back.

**SUGGESTIONS FOR CUTTING BACK**

Eliminate cable/satellite service or cut back on extra subscription channels. Switch to a cheaper Internet access provider. Switch to a pay-as-you-go phone provider. Talk on the phone less. Try limiting your cell phone usage to 500 min/month. E-mail instead of calling. Research cards for long distance. Some are \$.05/min. or less.

Cut back or stop smoking- better health, more money. Cut back on caffeine and bottled soft drinks. Drink water. Refill your own bottle. Use coupons to save money on groceries. Take lunches to work instead of eating fast food. Eat less! Eat fewer pre-packaged foods. Cook from "scratch" more. Cut down on snacks (it's better for you).

Shop around for cheaper home and auto insurance.

Rent videos instead of going to the movies. RED BOX or Blockbuster Express works great for \$1.27/night.

Turn down the water level on your washing machine and dishwasher if it is adjustable. Turn the lights off. Turn the heat or air conditioning down while you are not home. Don't overheat or overcool your home. Try to keep your heating in winter to 68 and your cooling in summer to 75

Find a bank with a no-fee checking account.

STEP 4: WRITE IT DOWN!

WRITE YOUR BUDGET DOWN! If you don't, you probably won't stick to it. If your largest bills are all due at once, move some up and pay them a little early, rather than trying to fit them all into the same pay period.

**SAMPLE BUDGET**

Here is a sample budget. This sample is based on a bi-monthly pay period with a take-home income of \$2000 per month.

FIRST PAY PERIOD - \$1000

Car payment	291
Car insurance 	139
Day care	150
Electric	50
Natural gas	60
Phone	40
Personal debt	40
Cable TV 	30
Groceries, etc.	140
Gasoline	40
Spending money - fun	20
<b>TOTAL</b>	<b>\$1000</b>

SECOND PAY PERIOD \$1000

Rent	532	
Day care	150	
Credit card	80	
Groceries, etc.	130	
Gasoline	40	
Water bill	20	
Gifts	10	
Car maintenance	10	
Spending money - fun	20	
Kids' allowances	8	
<b>TOTAL</b>	<b>\$1000</b>	

Just one more little tip: When you're trimming down the extras, try to leave one or two items you do just for fun. Otherwise, you may end up feeling deprived and toss the entire budget out.

Remember that your budget will change as your circumstances change, so will your goals and needs. Review your budget every few months to make sure it reflects your goals.

### **SUMMARY**

- You can use computer software or a pencil and paper to create a budget.
- Analyze your spending for a month to see where your income goes. If your living expenses are greater than your income, you'll need to find ways to economize.
- To free up cash for savings, begin by reducing Discretionary Expenses.
- Pay down credit-card debt aggressively. Once the debt is paid off, direct the extra money to savings. Take on a second job to pay off the debt.
- Set aside some of each paycheck for savings. Ask about payroll savings plans and employer-sponsored retirement plan.
- Review your budget periodically to make sure it is still in line with your needs and goals.
- Set a new savings goal for the year ahead -- such as saving 5% or 10% of income for retirement and other priorities.



