

Fundamentals of Budgeting Workshop



Accredited Course

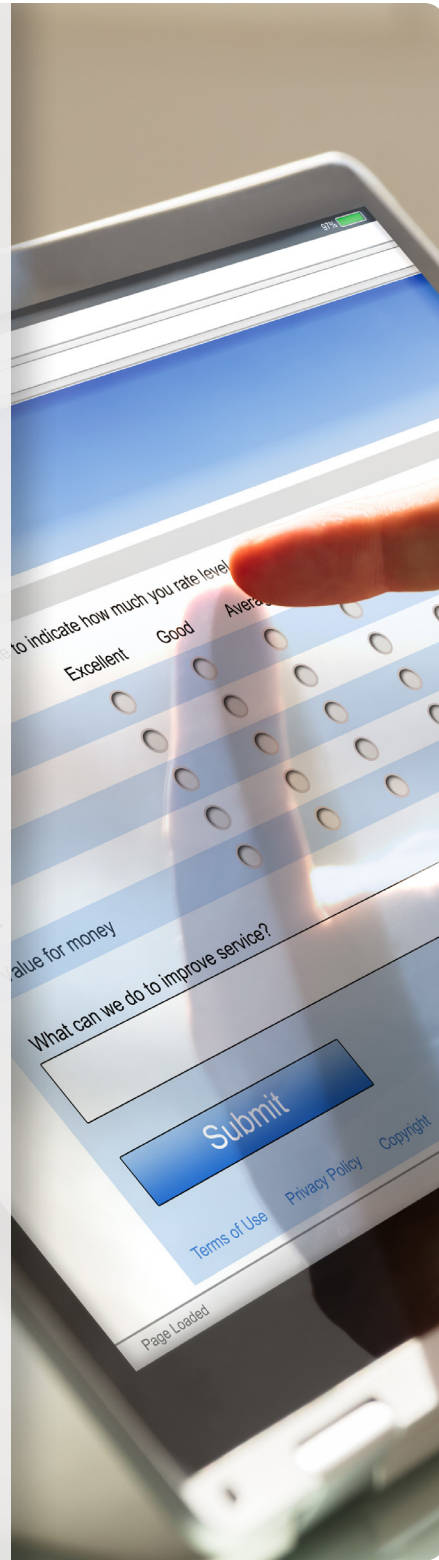
Student Guide

Fundamentals of Budgeting Workshop

This workshop is designed to teach you how to create and automate a budget. A budget is the basis of a strong financial life and represents the first step toward attaining your desired lifestyle and reaching your financial goals. Budgeting commonly helps people reach their savings goals, while at the same time meeting regular expenses.

In the first part of this workshop, you will develop basic knowledge about what a budget is and why a person makes a budget. You also will learn how to identify and reduce expenses.

In part two of this workshop, you will be provided with action steps for creating a solid budget and will develop your own budget. You will have the opportunity to automate your financial accounting systems to facilitate regular review and revisions. You will leave this workshop with a complete and accurate budget in place.



KWR

The purpose of a KWR chart is to help you organize your thoughts about information. A KWR chart provides you with a method to organize and simplify your thoughts when reading complex information.

Education Reason – Research shows that, when you connect existing knowledge about a topic to a new topic you are learning, it is easier to pick up the new concept and increase your knowledge about the subject matter. By connecting previous experiences to new information as you learn it, it becomes easier to recall and retain the information you have learned.

How a KWR Works – Using a KWR chart will help you organize and clarify your thoughts. Let's dig deeper into how this type of chart works.

K stands for what you already know about a subject or topic. One way to approach using this column is to brainstorm any words, terms, or phrases you have heard or associate with that topic. For example, you might think about the term “finance” and associate words like money, wealth, happiness, rich, or vacation when you hear that term. This activity can be expanded by choosing a word that you wrote down, such as money, and asking yourself “What made me think of that word, and why do I associate it with wealth?” This activity can be extensive, and you should be open to writing down as much information as possible without worrying about whether it is right or wrong.

W stands for what you want to learn about a topic. Always be sure to remember that no question is stupid, so write down anything that comes to mind. Thinking about the term finance, you may have questions such as “What makes someone wealthy?” or “How do I start a savings account?” The list of questions could be endless, and that's ok. Each question will help strengthen your understanding of the topic and expand your knowledge.

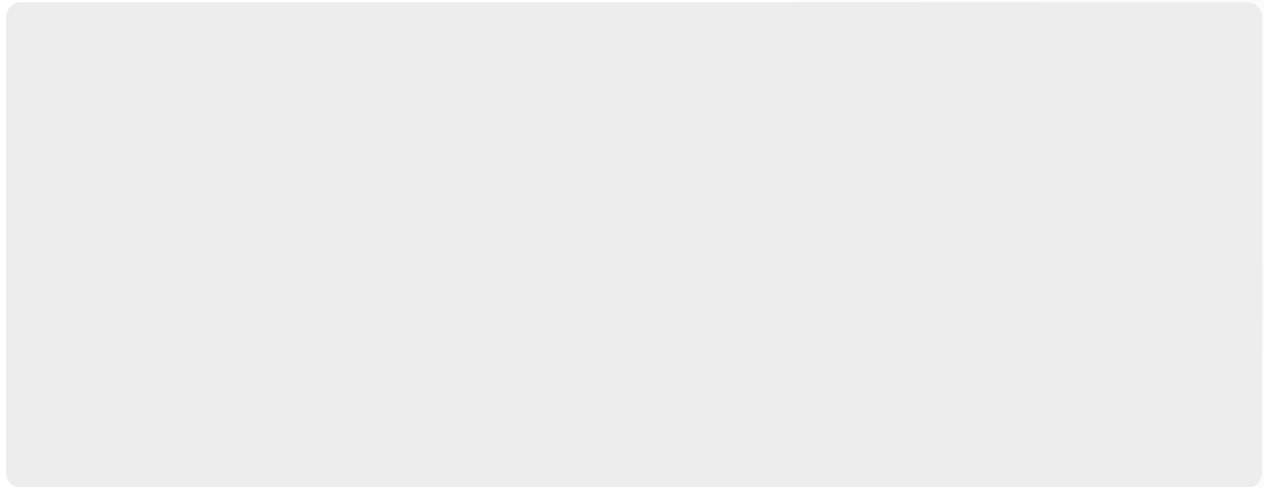
Another great question to ask yourself is “What would I like to learn more about regarding this idea?” This way of thinking helps change your perspective and approach to the question.

Finally, **R** stands for how this information relates to your life. This column helps you sort your thoughts about how you can take information and immediately apply it to your life. For example, you may realize that you associate wealth with being bad or that being wealthy means others will suffer. These thoughts could then lead you to start thinking about how you approach money and why you are hesitant to make more money or appear wealthy to others. The R column allows you to expand on the first two columns, while making deeper connections to your current life status.

Instructions – Using the chart provided below, you will complete your KWR chart by listing what you currently know about this topic, what you want to know, and how this topic relates to your life. There are no right or wrong answers. Just reflect on the topic and write down whatever comes to mind for each question.

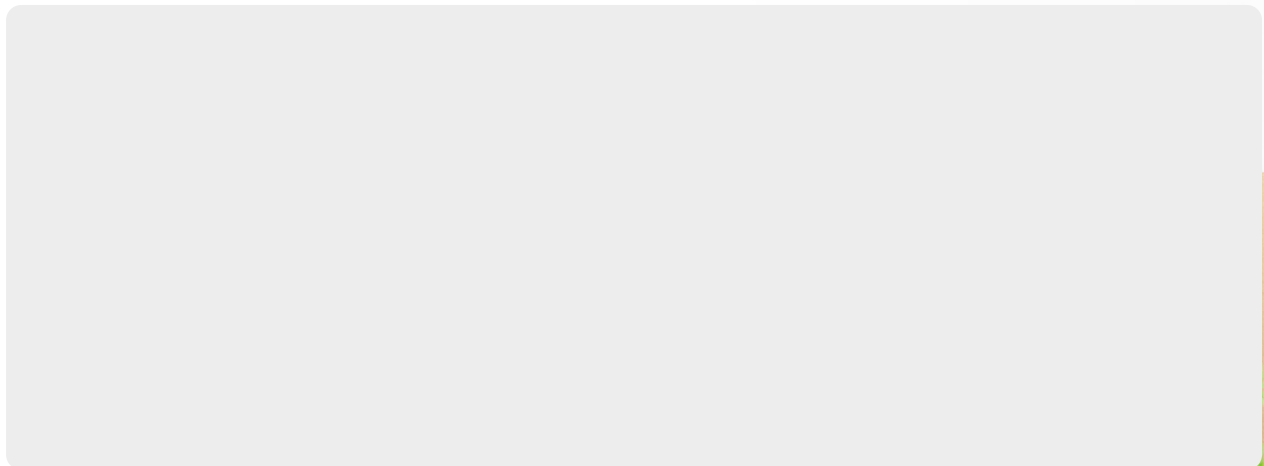
K

What I Know. Think about what you already know about this topic and make a list that includes all these ideas. Don't worry about whether it's right or wrong; give yourself the freedom to write whatever comes to your mind about the topic.



W

What I Want to Know. What questions do you have about this topic, and what do you want to know more about? List all your questions. Also, note any areas about which you may be unsure and that you would like to learn more about.



R

How It Relates to My Life. How does this topic relate to your life? List the ways in which you think this topic may affect your life and the personal reasons you have for picking up the information.

Blank area for student response.



Share Additional Insight

Once you complete the lesson, answer the following questions.

1. What is one thing you learned about this topic that surprised you?
2. How could you share this knowledge to help others learn more about this topic?
3. What topic or idea do you feel you didn't learn enough about and would like to expand your knowledge on further?
4. What is one habit or change you would like to make in your life, given the information you just learned?

5. How did learning about this information make you feel?

6. How will this information change your life in a more positive way?

7. How can I expand your learning once this class is done?

After completing this activity, rate your level of experience, on a scale of 1-10, about your understanding of this topic.

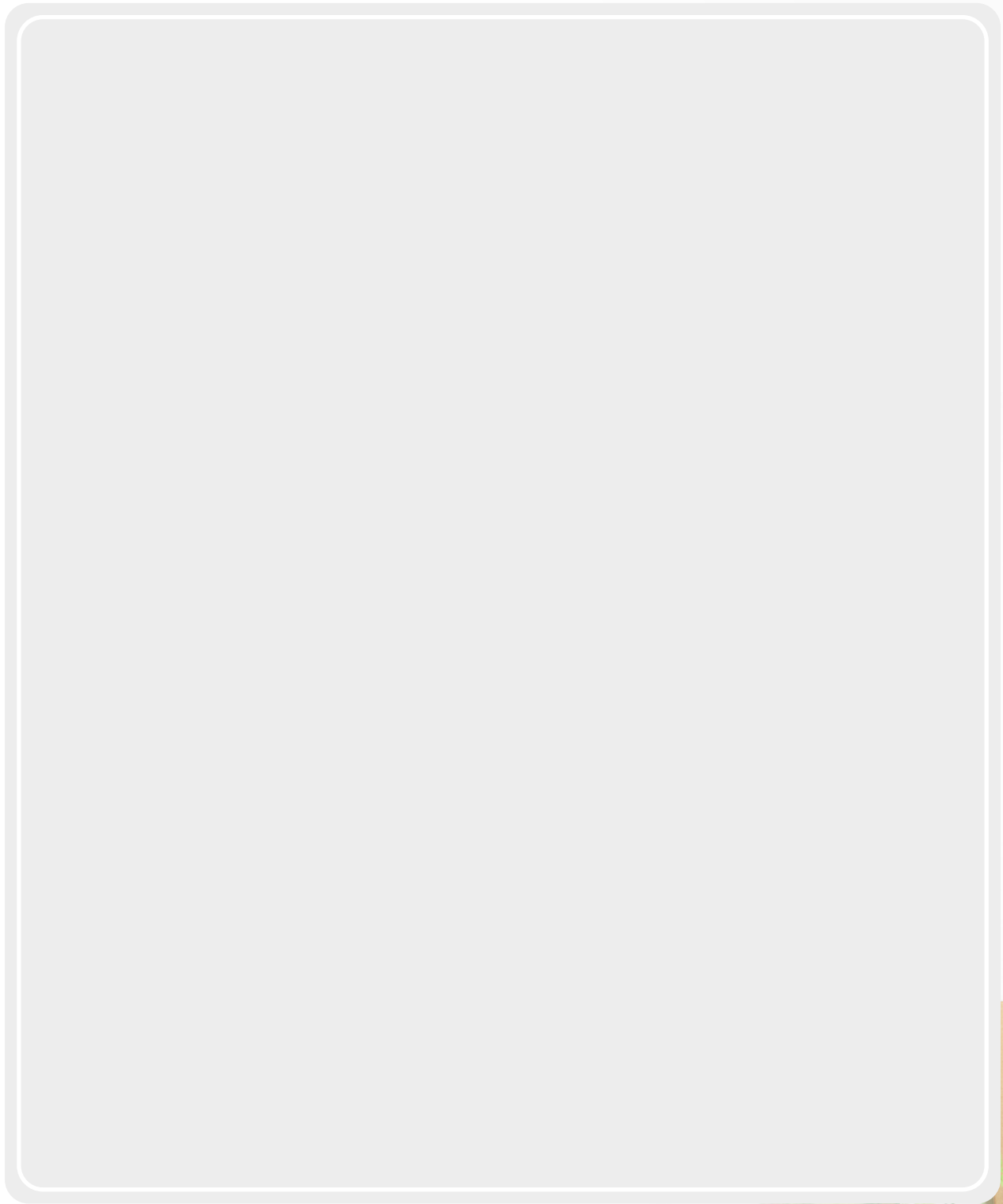
Rate:

1 – I understand little about this topic

10 – I feel confident in the content I have learned and would be able to share my knowledge with other

KWR

Next, make a list of all the topics or ideas about which you would be interested in learning more.





Savings, Expenses & Budgeting

Pre-Education Case Study:

Level – Financial Challenges & Recovery

A case study is essentially a story – it provides an illustration of how financial lessons can be put into action by real people in real-world situations. Case studies are engaging and relatable, and offer solid evidence of the practical value financial education has to help people solve problems and make sound life decisions.

Financial Challenges & Recovery

Pre-budgeting Case Scenarios

Meet Paul and Lisa

Paul (age 27) and Lisa (age 26) met in college, and were married six months ago. Paul is a sales representative for a medical supply company, and Lisa works as a second grade teacher at a local school. After celebrating an eight-day honeymoon in Mexico, the couple is settling into their new living situation – a rented two bedroom apartment in the heart of the city’s bustling urban scene. Lisa feels they are treading water financially, and is constantly stressed about the fact that they live paycheck-to-paycheck. Paul is not stressed about their situation ; he is happy with his career path and the fact that they live right in the heart of the entertainment district.

Lisa finally convinces Paul that they need to meet with a financial advisor to review their situation and gain some advice and suggestions. One of the first tasks they accomplish is setting short- and long-term goals:

Joint

- Buy a home within four years
- Start a family within three years
- Be able to contribute (tithe) regularly to their church

Paul

- Buy a used boat for weekend recreation
- Pay down his credit card debt

Lisa

- Begin participating in her school’s 403b retirement plan
- Pay off student loans by age 35
- Fund an Emergency Account with three months of living expenses



Another critical step in the process is to put together a current spending plan – or budget – so there is clear and open transparency about their income and expenses. Neither Paul nor Lisa has ever used a written budget, and Paul is especially resistant because he feels a budget is restrictive and not worth the time and effort. Nevertheless, the financial advisor convinces them to document their income and expenses for the previous month, as a starting point. Here is what they came up with:

Paul's net income = \$3,875	Car insurance (2 cars) = \$210
Lisa's net income = \$1,850	Dining out & entertainment = \$350
Total net income = \$5,725	Church = \$120
	Credit cards (x3) – \$535 (minimum payments)
Rent = \$1,700	Student loans (x2) - \$700
Utilities = \$400	Clothes - \$100
Cell Phones = \$180	Dry cleaning - \$60
Groceries = \$600	Gasoline - \$105
Gym memberships = \$110	Spotify subscription - \$20
Paul's car payment = \$380	
	Total expenses = \$5,570

Other important information:

- Paul is contributing to his company's 401k plan, at 3% per paycheck. His company matches up to 5% of an employee's contribution. Current balance is \$8,100.
- Lisa has elected not to participate in her 403b plan, and is not receiving the 7% match for which she is eligible.
- The couple currently has \$600 set aside for emergencies.
- The couple has \$2,000 set aside in a savings account.
- The interest rates on the three credit cards are 12.99%, 18.50%, and 22.99%.
- Lisa drives a 2004 Ford Focus which is paid in full but has 145,000 miles on it.
- They do not currently have renter's insurance.



Based on their situation and goals, answer the following questions:

1. Why do you think Paul and Lisa have different financial goals and perspectives when it comes to their finances?
2. What specific advice and/or suggestions would you give this couple to help them start working toward their financial goals?
3. Are the goals (both joint and individual) this couple has set realistic, given their current financial situation?



4. Looking ahead 2-3 years, what life changes will likely affect their financial situation?

5. What are the key learning points from this case study?





Savings, Expenses & Budgeting

Pre-Education Case Study:

Level – Financial Foundation & Growth

A case study is essentially a story – it provides an illustration of how financial lessons can be put into action by real people in real-world situations. Case studies are engaging and relatable, and offer solid evidence of the practical value financial education has to help people solve problems and make sound life decisions.

Financial Foundation & Growth

Pre-budgeting Case Scenarios

Meet Michael, age 18

Michael is a freshman at the Westlake Community College. He is undecided on a major, and felt that Westlake would be a good place to start his undergraduate studies. Michael was a good athlete at his high school, participating in both football and track & field. In addition, for the past two years he has held down a part-time job at the local hardware store, where he is a trusted employee.

Michael has just had a difficult conversation with his father about a series of late payments he made on his 2008 Jeep Tahoe, which he bought last year. Michael was able to save enough money to put a \$500 deposit down on the purchase of the Tahoe, which carried a \$7,000 price tag. Since Michael had no credit history, the dealership required a co-signer on the loan, and Michael's father agreed to be his co-signer. Michael made the first six payments on time, and was starting to establish a good credit history. However, he has been 30+ days late on two recent payments, and is now 60+ days late on his current payment. The finance company has informed him that he is in jeopardy of losing the vehicle to repossession. In addition, the late payments have been reported to the credit bureaus and now appear on both his credit report and his father's, causing a drop of 100 points in each of their credit scores.

Michael agreed to try to document (from memory and receipts) his budget and spending for the past three months, in an attempt to shed light on his recent financial struggles. Here is what he put together:

Month 1	
Income	\$501.25
Car payment	\$185 (paid 30 days late)
Gasoline	\$54
Cell Phone	\$75
Eating out	\$130
Textbooks	\$215
Concert	\$80
Deposit into savings	\$25

Month 2	
Income	\$641.05
Car payment	\$185 (paid 30 days late)
Gasoline	\$68
Cell Phone	\$115 (data overage)
Eating out	\$70
Clothes (2 new dress shirts)	\$80
Golf weekend	\$160
Groceries	\$50
Deposit into savings	\$0

Month 3	
Income	\$700.65
Car payment	\$0 (60 days past due)
Gasoline	\$116 (friend borrowed car to move)
Cell Phone	\$75
Eating out	\$125
Graduation gifts for friends	\$65
Tire replacement (x2)	\$212
Groceries	\$80
Gym membership (annual)	\$360
Deposit into savings	\$0



Michael's father used his own savings to cover Michael's tuition expenses for this first year at college. In addition, he agreed to allow Michael to stay on his auto insurance provided that he does well at school and continues to work. After the fall semester, Michael earned a 2.5 GPA, which was lower than he expected, especially considering he only had 10 credits.

Due to the serious impact on his credit because of the late payments on the car, Michael's father is now unable to refinance his mortgage, which he had planned to do this year. In addition, his insurance premiums have increased \$43 per month because of the drop in his credit score. Therefore, Michael's father has given Michael one month to put together a working budget which includes the full car payment, a new contribution of \$50 per month for insurance, and a minimum deposit of \$50 into his savings account. If these conditions do not happen, the car will be repossessed.

In the fall, Michael was planning on enrolling at a four-year university. However, he is now wondering whether that's feasible. He has \$180 in savings, and a very angry finance company calling him daily.

1. How did Michael get into this situation?

2. What advice and/or suggestions would you give him to get on the right financial path?



3. If you were the finance company, how would you deal with Michael?

4. Is Michael's father being too harsh with his requirements?

5. What are the key learning points from this case study?



Budgeting Fundamentals & Overview

This topic is designed to introduce you to the concept of budgeting and how creating a strong budget benefits you and contributes to your lifestyle choices. The definition of a budget, its main components, how it helps you, where to start, and the potential consequences of not budgeting are covered.




Time Investment
25 minutes

Budgeting Fundamentals & Overview

Today's hectic lifestyles can make it hard to keep track of your money. But taking the time to create a workable budget has many benefits, and even saves you time in the long run. Budgeting gives you control over your money and keeps you focused on your financial goals. When you organize your savings and spending into a budget, you stay aware of what's going on with your money – how much comes in, how much goes out, and where it goes.

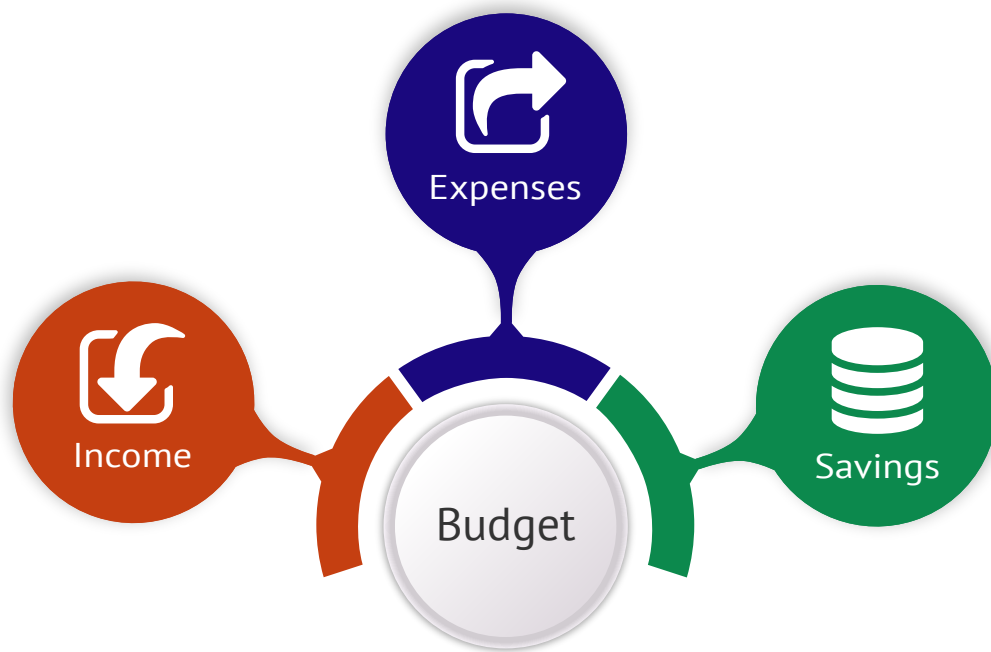
A good budget lets you decide in advance how your money works for you, enabling you to save for expected and unexpected costs. Budgets also clarify areas where you can eliminate unnecessary expenses – like late fees, penalties, and interest – and thereby even create more money for yourself.

Some people resist making a budget because they think it means they have to make sacrifices and stop enjoying things. But in fact, the reverse is true: rather than stop you from enjoying things, budgeting ensures that you can enjoy things when you want to. Having a plan and a budget can mean all the difference between living well and barely scraping by.



Budget Defined

A personal budget may be defined as: “A finance plan that allocates future personal income toward expenses, savings, and debt repayment.” A budget typically comprises three elements: your income, your expenses, and your savings.



- Income: Any money you earn from a range of sources including your salary, interest income, share dividends, and other investment income.
- Expenses: Outgoing funds you pay to others, including but not limited to your rent/mortgage, food purchases, car payments, insurance, clothes, TV/cable, Internet service, power, gas and water, and mobile phone bill.
- Savings is what you have left over after paying your expenses. If you spend more than you earn, you are adding to your debt. If you are saving more than you spend, you are adding to your savings. Savings can take the form of cash, stocks, bonds, precious metals, and gems, among other things.

A budget simply compares how much money you earn with how much money you spend or save.

Why Budget?

When some people hear the word ‘budget,’ they immediately think we’re talking about restricting what you spend money on and eliminating all the fun in your life! Budgets are simply a means of understanding how much money you have and what you currently spend money on, and then developing a plan that proactively identifies how to allocate your income to benefit you now and in the future.

How a Budget Helps You

Budgeting can free you from worrying about your finances on a day-to-day basis. Have you ever realized the end of the month is coming and you’re not 100% sure you have enough funds to cover all the bills? An accurate budget can take much of the worry and stress out of your life. A budget helps you prioritize your spending and track how you are doing against your plan. A little advance planning right now not only prepares you for some of the financial challenges that may arise in the future, it can give you the peace of mind that comes with greater financial certainty and security.





Where to Start

Budgeting usually starts with an empty Excel spreadsheet, a haphazard pile of receipts, and a frustrated look on your face. Fear not, this situation won't last! By adopting the four stages of successful budgeting, soon you will be transforming your personal finances:

1. Understand your money and how you are spending it
2. Make tough decisions about prioritizing your spending
3. Budget with a lifestyle in mind
4. Build a budget that allows you to save money

A budget also helps you to realize when you need to reduce your spending or what income you need to generate to support your desired lifestyle or financial goals.

With the information in your budget, you can put a solid plan into place that is easy to follow and will assist you to prepare for the future.

Top Goal of Budgeting

One of the most important reasons to budget is to save money. The amount you decide to save each month should be set aside before you start paying your bills and planning your spending. Planning your savings in advance will help you prioritize your future security and move toward overall financial wellness.

Budget with an Affordable Lifestyle in Mind

Most people confuse budgeting with cutting spending. In reality, budgeting is about ensuring that you see the big picture, enabling you to make clear decisions about what matters most in your life. Do the math. If you want that big overseas trip, the money to pay for it must come from somewhere. You can either re-prioritize other expenses, or increase your income to accommodate your goals – within reason.

Once you've clarified the aspects of your lifestyle that you want to prioritize, split them into three areas:

- a) Items that create meaning and bring joy to your life.
- b) Experiences you wish to explore later in life but that can wait for the time being.
- c) Enjoyable gadgets or experiences you would like to have, but that are optional.

Prioritize Your Preferred Lifestyle

Once you've completed your list of lifestyle preferences, you can review your budget spreadsheets with fresh eyes.

Remember to make sure that your list reflects your priorities. You can always cut down or reduce your spending in an area that is less important to you to balance your budget.

Further, for financial goals that take some time – months, or even years – you always have the opportunity to review and adjust these goals. Is that new computer still important to you six months after you originally set it as a target? There is no shame in re-evaluating your goals. In fact, we encourage it! Your goals should adapt as your priorities change.



Remember: Budgeting Takes Time, Patience, and Effort

Even if your first attempts at a budget don't go quite the way you planned, it doesn't mean budgeting doesn't work for you. Simply adjust your budget, look at ways to track your spending more effectively – perhaps using one of the many great apps or software programs available on the market – and try again.

Did you set a realistic food budget? Forgot to include your friend's birthday present cost? You used more water and gas than you budgeted for? Adjust your budget and set more appropriately realistic price tags on these expenses.

What Happens Without a Personal Budget in Place

Falling into the overspending trap is all too easy. The consequence of failing to live within your means is potentially being caught in a debt cycle, which can be difficult and expensive to escape from. Straying into debt can severely limit your spending power in the future, as more and more of your income is absorbed into paying down your debt.

Carrying a debt load can also affect your ability to save, invest, and work toward a secure future. Remember, a primary goal of your budget is to save money regularly; without a budget, saving money is very difficult.



Budgeting is about Saving Money

When you get serious about managing your personal finances, better budgeting will help you end up with more money to manage. Savvy saving and investing may help you increase and diversify the income line at the top of your budget, opening the door to more options in your preferred lifestyle.





Conclusion

Successful budgeting is a simple way to keep track of how you earn money, and how you spend it. It may not be magic, but an accurate budget is a great way to bring discipline and order to your personal finances. Always use your budget to put yourself in a position of understanding where your money goes, and use your budget information to guide important financial decisions. Earning more than you spend may be unfashionable, but it is the path toward a low-stress, comfortable life!



Activity:

Aligning Budgets to Lifestyle

The purpose of this activity is to get you thinking about how developing a strong budget can make a difference in terms of one's lifestyle and available options.

Activity: Aligning Budgets to Lifestyle

Read the scenarios below and answer the questions to help align each character’s lifestyle choices to his or her finances.

Scenario 1

Justin is in his first year at university studying business management. Coming from a fairly wealthy family, Justin is used to having nice things and spending whatever money he has. Now Justin lives in a fraternity house at the university where he pays a flat amount every semester for housing and food. His parents give him a monthly allowance and he earned a scholarship that pays for his tuition and books. Justin drives a BMW that he financed right after he graduated from high school, and he has a credit card that he uses to pay for incidental expenses. His parents have agreed to pay half of the monthly car payment and keep Justin on their insurance policy. Justin is responsible for the other half of the payment, plus gas and maintenance. Justin loves to hang out with his college friends, go out to eat, and attend concerts and sporting events. However, he is struggling to keep up on his car payments, gas, and maintenance costs while still having enough left over to go out to dinner, concerts, or ball games. He wants to keep the car because it makes him feel like he has status among his circle of friends, but at the same time he wants to be able to actually hang out with those friends. Justin has been using his credit card to pay for dinners and events, and now the card has a substantial balance. Justin is starting to make late payments or miss payments altogether.

1. What is at stake in Justin’s life if he continues on his current path?

2. What is the most significant or pressing problem Justin faces right now?

3. What plan of action would you recommend for Justin?

Scenario 2

Paula worked her way through beauty school, recently graduated and got her license, and has landed her dream job as a stylist and makeup artist at a prestigious salon. She has rented a small apartment nearby and takes Uber to and from work each day. Every workday morning she stops at the café next door to the salon to grab coffee and breakfast, and she likes to go out with her co-workers for lunch every day. Paula wants to establish a strong clientele and then start saving up to buy a car, but she also feels responsible to wear nice clothes and keep up her appearance so her clients have confidence in her styling abilities. The salon pays her weekly on every Friday. Paula has multiple bills that come due at the first of each month – rent, gas/electric, cell phone, Internet, cable, renter’s insurance, and her Bloomingdale’s retail credit card. She has a habit of shopping at Bloomingdale’s two or three times a month for clothing and makeup. Sometimes Paula realizes the first of the month is drawing near and she doesn’t know if she has enough funds to cover all her bills. In fact, she isn’t always even sure how much money she has in her accounts. Although Paula wants to save up for a car, she often finds herself wondering where all her money has gone at the end of the week. She usually has enough to get by, but never feels like she has enough left over to put into savings.

1. How serious is Paula’s situation?
2. What are Paula’s goals?
3. What advice would you give Paula if she were your friend?

Activity: Aligning Budgets to Lifestyle

Scenario 3

George is a recent divorcé who works at Value Mart as an operations manager. Value Mart has encountered financial difficulties and, as a result, George's hours have been cut to three-quarter time. Since the divorce, he has been struggling to separate his own debts from his ex-wife's and has hired an attorney to help him. George has been paying the attorney fees out of his savings, but his savings account is rapidly dwindling. He has incurred \$16,000 in personal loan debt to help make up for his lost earnings. He hopes that Value Mart will get back on its feet and he will be able to increase his hours again soon. Three months ago, George met a woman in whom he is very interested. They have had several dates and really like each other. His woman friend won a trip to Cancún for spring break. She is urging George to come with her. George really wants to go. But he knows that, even though the airfare and hotel are covered in the prize package, he would have to spend money he doesn't have in order to pay for food and entertainment. As his friend is pressing him to make a decision, George finally decides, "What the heck," and takes out a payday loan to cover the trip. When he gets home, he finds a pile of bills waiting in his mailbox. He's worried and stressed, especially because now the payday loan and its large interest fee will be deducted from his next paycheck.

1. How would you feel if you were in George's shoes?

2. What is contributing to the problems George is facing?

3. What are your thoughts on how George has managed his income?





Quiz:

Budgeting Fundamentals & Overview

Quiz

1. A budget can be defined as:
 - a) A personal plan for how finances will be used in the future.
 - b) An organized list of bills and expenses that must be paid.
 - c) A financial plan that accounts for income, expenses, debt payments, and savings.
 - d) A prioritized record of income and debts.
2. Saving money is one of the main reasons for an individual to follow a budget.
 - a) True
 - b) False
3. The financial and lifestyle goals you establish today are likely to be exactly the same a year from now.
 - a) True
 - b) False
4. Carrying a debt load, even for a short period, can negatively affect your financial security.
 - a) True
 - b) False
5. One of the main benefits of budgeting is that it reduces stress and worry about money. By having a clear picture of your monthly income and expenses and by sticking to a budget plan, you can avoid worrying about whether you have enough money to cover your monthly bills.
 - a) True
 - b) False
6. Maria has been asked to cover for a colleague at work for a couple of extra hours this evening. Normally, Maria's mother would be able to watch her daughter, but on such short notice she will not be available. Maria is a little concerned that she will now have to pay her neighbor's daughter to babysit. In this scenario, Maria is thinking about her _____.
 - a) income
 - b) expenses
 - c) savings
 - d) investments

Quiz: Budgeting Fundamentals & Overview

7. Lexi has received a \$300 refund check for an overpayment she made. It's the end of the month and all of her bills have been paid. Therefore, Lexi has decided to put this money aside. In this scenario, Lexi is thinking about her _____.
- a) income
 - b) expenses
 - c) savings
 - d) investments
8. Aaron works at a car wash where, at the end of each day, all the tips are pooled and divided equally among the staff. Today has been a busy day and Aaron is expecting to bring home an additional \$50 in tips. In this scenario, Aaron is thinking about his _____.
- a) income
 - b) expenses
 - c) savings
 - d) investments
9. A few months ago, Jack landed his first job after college. He works part-time for now, but will be full-time by the end of the year. Now Jack has realized that he's spending more money than he's bringing in, in the form of paying rent, student loans, car payments, and his credit card balance. Jack's best friend has suggested he make a budget to get back on track. Which of the following is true about Jack's situation? More than one answer may be correct.
- a) Jack needs to prioritize his debts and expenses.
 - b) Jack should set a lifestyle goal and organize his budget around that goal.
 - c) Jack's budget should account for future changes to his income.
 - d) Jack will not be able to have a social life until his job is full-time.



Quiz: Budgeting Fundamentals & Overview

10. Andrea and Joanne are friends who share an apartment. They split the rent and utilities equally. They created a chart (below) to look at their finances. All of the following except _____ are true about the ladies' finances.

	Andrea	Joanne
Income/month	\$5,000.00	\$5,000.00
Rent & utilities	\$1,000.00	\$1,000.00
Food	\$900.00	\$1,500.00
Transportation	\$500.00	\$600.00
Insurance	\$600.00	\$500.00
Entertainment	\$2,000.00	\$500.00
Savings	0.00	\$900.00

- a) Andrea is able to manage her finances better than Joanne because Andrea is able to prioritize the lifestyle she values.
- b) Andrea is spending more for entertainment than for food.
- c) The ladies can lower their spending for rent & utilities by switching providers.
- d) The ladies can save a lot more on food if they pool their money for groceries instead of buying food separately.



Identifying & Reducing Your Expenses

This topic covers the three types of expenses – fixed, periodic, and variable – and offers some options for lowering the monthly amounts you pay. Various strategies for evaluating and assessing your options, and then taking action steps to reduce expenses, are discussed.



Time Investment
1.5 hours



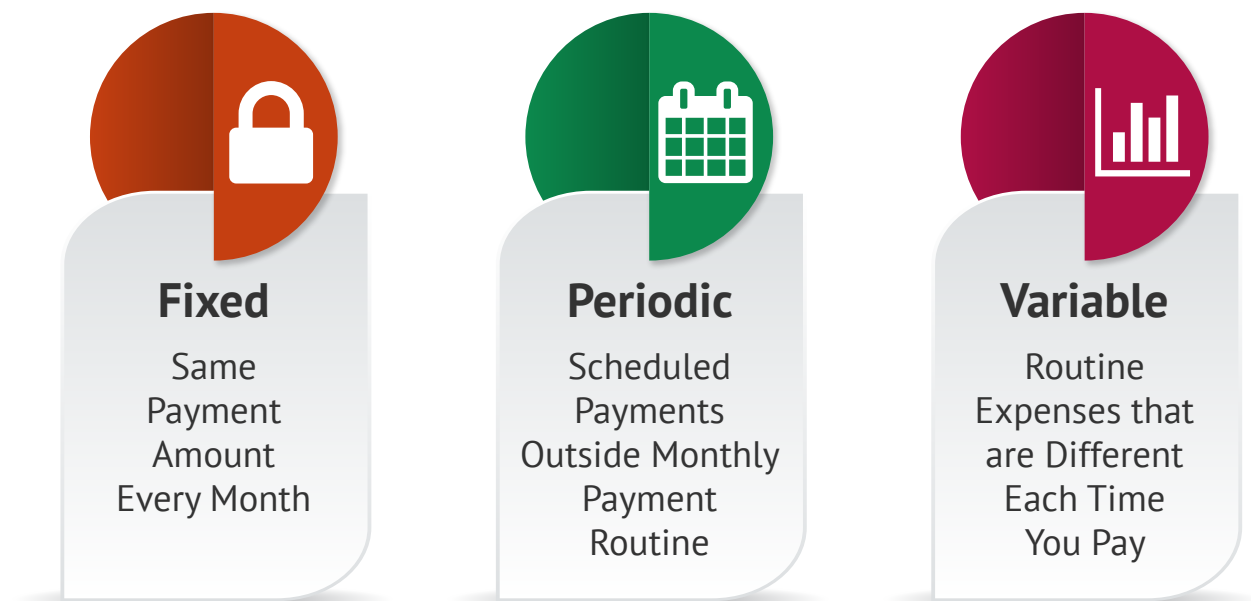
Identifying & Reducing Your Expenses
Savings, Expenses & Budgeting

Identifying & Reducing Your Expenses

One of the most important aspects of budgeting is to understand your expenses. When you look in detail at where your money goes, this first thing you will notice is that not all expenses are equal, but rather fall into different categories.

Expenses can be categorized into three types: Fixed, Periodic, and Variable

Expense Types



Understanding the differences between the three types of expenses will help you gain control over them. Once you have identified what your expenses are, and how they are distributed across the three expense types, you can get to work exploring ways to reduce them!

Fixed Expenses

Fixed expenses are defined as those expenses for which the payment remains the same from period to period.

These types of expenses include fixed-rate payments such as car loans, rent or mortgage payments, insurance premiums, monthly gym memberships, or any other monthly bills that don't vary from month to month.

Fixed expenses are easy to track and simple to include in your monthly budget, because the amounts rarely change.

Periodic Expenses

Periodic expenses are defined as expenses that fall outside the routine monthly billing cycle, but rather are payable at various times throughout the year. Car registration is an example of a periodic expense, because your car registration is paid annually. You should plan for periodic expenses in your budget by saving a little each month to put toward that bill. To calculate how much you need to save each month, simply divide the total periodic payment by the number of months until your next periodic bill is due. The figure you get is the amount you should save each month toward that bill. For example, if you pay a quarterly bill of \$300 for a certain expense, you should allocate \$100 per month into savings so you can meet that bill when it falls due.



Variable Expenses

Variable expenses are defined as those expenses that you routinely incur, but where the amount you are required to pay varies. The amount you spend on these expenses typically falls under your control. Variable expenses include groceries, dining out, entertainment, and personal care items.

Most of us see cash vanishing each month into the black hole that is coffee and takeaway meals. This area is one on which you should really get a firm grip. Try creating a separate checking account with a predefined amount that you are allowed to spend on variable expenses each week or month.

When you're looking to trim expenses from a household budget, it's usually easier to start with variable spending, as these expenses are much easier to "shave" than your fixed expenses. However, there are options that can help you reduce your fixed payments as well.



Evaluating Expenses & Assessing Your Options

Consideration. Do I really need this expense?

If the answer is an emphatic “No,” then: Stop, Sell, or Cancel. Review termination terms in any service contract before you cancel to make sure you are not violating a contract or incurring additional cancellation fees.

If the answer is “Yes,” then: Reduce, Negotiate, Transfer, Manage. Your goal in applying each of these expense reduction strategies is to lower your expenses.

Reduce: How often do I incur these expenses?

Look at how often you are incurring regular expenses. If eating out or takeaway meals are major expenses, check how frequently you buy pre-prepared food. Try taking your lunch to work and cooking your meals at home, and look at the difference that makes to your monthly budget. If such expenses are a huge part of your lifestyle (for example, you eat all your meals out), start with small steps: try eating out only three times a week rather than seven. You’ll have a higher probability of being able to maintain small changes than hard “shock” changes over time.

Negotiate: Can I get a better deal?

If you are happy with the expense and the company you are using, then try negotiating for lower prices or a better rate.

Transfer: Can I lower my expenses by changing service providers?

Change service providers by selecting those that offer sharper pricing or better terms. Such changes may range from refinancing existing loans, to switching cable companies, internet service, or electric or gas utilities.

Manage: How effectively am I really managing my expenses?

Some changes are obvious, like paying your bills on time to avoid late penalties or ensuring that your account is never overdrawn to avoid overdraft fees. Other choices may be more subtle, such as unplugging your appliances at night or swapping all your light bulbs out for more energy-efficient versions.

Rent Expenses

Rents rise and fall according to the availability of rental properties in your area and local demand. However, you have a few options when it comes to lowering your rent. If you like your place, negotiate with the landlord to lower your rent.

- Do your research: Are rental rates going up or down in your area?
- Being an excellent tenant helps. “No-hassle” tenants are desirable to landlords.
- If financially possible, offer to pay multiple months’ rent up front in exchange for a reduced overall cost negotiation.
- Determine if you can opt out of certain shared amenities.
- Be cordial, but clear that you may be ready to move out at a moment’s notice. An empty rental is lost money to a landlord. Be sure to check your rental terms; some rentals are month-to-month, while others have one year+ lease terms.
- The primary thing to remember when negotiating is that you are asking your landlord for something. Therefore, you should expect to provide something in return to make the deal “fair” and attractive to the landlord.
- Lastly, set appropriate expectations. Asking for 20% off your rent will likely get you laughed out of the office. Shoot for a realistic reduction.



Home Ownership Expenses

Mortgage

Look into options for refinancing your loan. Factor in how long you plan to live in your property, the costs and fees associated with refinancing, and your monthly savings before you lock in a new loan.

Property Taxes

You are taxed on the appraised value of your home at the local property tax rate. If you suspect you are being taxed on a value higher than your home is worth, look into obtaining an updated property appraisal. If your property is appraised at a lower amount than the one on which you're being taxed, look into making a property tax appeal.

Maintenance

As homes age, their maintenance costs inevitably rise. Weigh the cost of preventive maintenance against your likely future repair costs. Take preventive measures in areas that will generate the best returns. Spending \$20 to waterproof your deck and outdoor furniture each year, to prevent wood rot damage that might cost you thousands, is an example of a good preventive maintenance decision.



Utilities

Electric, Gas, Water

Look to reduce your utility consumption: some obvious solutions are to turn off lights that are not in use, do larger loads of laundry, adjust your thermostat a few degrees higher or lower (depending on the season), and install energy- and water-efficient fixtures. Use less; pay less. But you also can explore utility discount programs offered in your area. One common program is a “reliability” charge that typically applies to electricity. This charge is what you pay the utility company to obtain top priority in the event there is a lack of supply for the utility. Opting out of the program reduces your bill, but it also deprioritizes your home. For example, if you don’t pay a reliability charge to your electric company, in the event of a “brownout” – in which the demand for electricity reaches maximum supply – your home would be “turned off” to reduce the total load on the electrical system.

Cell Phone

People tend to buy new smartphones every two years or less – as soon as their contracts expire. But do you really need that fancy upgrade? Think about buying less expensive phones, or gently-used refurbished models.

Getting locked into a two-year contract with a huge cancellation fee for switching is another place where you can potentially cut back. Try using a prepaid or no-contract option.

Check your cell phone bill to uncover things you don’t really need. For example, if you’re paying for



phone insurance, ask yourself, “Did I buy a phone I can’t actually afford?” Instead of paying \$13 a month for insurance, set a little aside each month to replace your phone if you need to. Are you paying for premium voicemail or 411 service? Cut out the services you don’t really use.

Most cell providers offer payment plans with zero interest. Paying off your device balance will reduce your monthly payment, but doesn’t really save you in interest. You’re just paying in bulk to get the monthly payment off your back.

Landline Telephone

If you’re one of the remaining few people who still have a landline, negotiate with your phone company for a better package at a lower rate. Phone companies know landlines are “on the way out” and try diligently to bundle landlines with other services, such as Internet. Mention that you’re considering canceling your landline account to gain leverage.

Internet & Cable Service

There are three ways to cut the cost of your cable or Internet charges:

- 1) If you’re happy with your current provider, call to negotiate the rates. If you never ask, you’ll never receive.
- 2) Consider bundling services such as television with Internet to lower your overall costs.
- 3) Switch to a provider that offers better pricing. Watch out for short-term introductory offers that expire and lock you into a significantly higher monthly charge thereafter.



Transportation Expenses

Vehicle Loans

You have a few options to lower your car loan payment:

1. Look into refinancing options.
2. Consider selling your car and buying a used car with a lower monthly payment (if you're not paying cash).
3. If the interest rate on your car loan is high and you can't refinance your loan at a lower interest rate, consider using some of your savings in lower-return accounts to pay down the debt. If the interest rate you pay on loans is higher than the interest rates you earn through investments or savings accounts, it is typically better to reduce the debt.

Vehicle Leases

For most consumers, leasing is not the best long-term financial option for vehicles. You effectively pay up-front for the depreciation of the vehicle over a few years. However, for small business owners or individuals in unique financial positions where leasing is the better option, consider:

1. Choosing a car with a high residual value, in which case purchasing the vehicle post-lease may be attractive.
2. Look out for car leasing special offers and contract hire deals.
3. Lower your contract mileage allowance.

Registration

Be sure to always pay your registration on time. The late fees stack up quickly. Unfortunately, auto registration is typically a flat rate based on the value of your vehicle. So outside of moving to a different state or buying a car of lesser value, there is little you can do to reduce this expense.

Fuel

Fuel is a commodity that is heavily regulated and standardized. Fuel from one station will be the same as fuel from another. Along your route to errands or work, keep an eye out for the best price. Don't bother going too far out of your way; the extra fuel you use can outweigh your savings.

Also make sure that your tires are inflated to the recommended PSI for the seasonal weather conditions you expect. Underinflated tires are less fuel efficient.

Lastly, practice defensive driving habits. Not only is defensive driving safer for you and everyone else on the road, but fast acceleration and stop-and-go driving caused by following other vehicles too closely wastes fuel.

Maintenance

Like your home, the older your car gets, the more dollars it consumes. Stick to the regular service schedule to avoid unpleasant surprises later on.

Public Transport

If you regularly use trains, buses, or ferry services, buying a weekly, monthly, or annual ticket can save you big bucks. Check out the available public transport options to help reign in your transportation costs.



Insurance

The advent of comparison price websites has changed the way we buy insurance forever. Get online and compare value and prices. Look for price breaks attached to bundling and unbundling different insurance products. Bundling options may be available for:

- Vehicle
- Home / Rental
- Health Insurance
- Life Insurance
- Disability
- Umbrella / Accident



Loan & Debt Expenses

The smartest way to lower your loan and debt expenses is not to incur them in the first place! However, if that ship has already sailed, you can explore your options for consolidating credit cards and smaller loans into a single new loan. Check to be sure that the fees and charges attached to taking out a fresh loan don't exceed your target savings. Prioritize paying down the loan or debt with the highest interest rate first, which usually means targeting your credit cards.

A good rule of thumb is never to go into debt to pay for your living expenses. Similarly, always avoid retail store cards – the discounts they offer rarely exceed their much higher interest rates.

Remember, once you have taken out a credit card, take your time closing it. Canceling a credit card account can affect your available credit ratio, and thus may damage your credit score. Avoid opening and closing accounts too quickly or too frequently.

Set up a schedule to contact your creditors regularly to learn whether any interest rate reduction is available for your account. As with most services: if you don't ask, you won't receive.

Fees & Charges

Account Fees

Financial Institutions are far more flexible than they once were. If you have held your account for a while or are opening a new account, ask your bank to waive your account fees. Alternatively, change financial institutions; they often offer incentives to acquire new customers.

Credit Card Fees & Interest

When it comes to reducing your credit card interest rate, waiving fees or raising your credit limit, there is usually room to negotiate with your credit card provider. Make sure you pay on time to avoid late fees and don't exceed your credit limit.

Late Fees

Set up an autopay system to avoid late fees altogether.

Overdraft

Explore overdraft protection. Monitor your account regularly and set up a monthly budget to track where your money is going.

Variable Personal Expenses

Groceries

Look for weekly specials and coupons: plan your meals around these specials. Also explore the savings of buying in bulk.

Vitamins & Supplements

Look for generic brands that come at a lower shelf price. Check out the labels. Most times the exact same active ingredients are present at the same dosage levels in the off-brand products compared to the brand name labels. You are literally paying more for the name in most cases.

Subscriptions

If you have fallen in love with a magazine, software package, or monthly delivery service, taking out a multi-year subscription can save you a lot.

Personal Care

Clothing: Wait for the regular main sales, or look for end-of-year or end-of-financial-year clearance sales.

Personal Grooming: Having your hair and nails done by an apprentice can save you up to 80% of the cost of a professional cut.

Education

Educational Expenses: Look for scholarships. Many employers subsidize employee education.

Professional Development Courses: Check whether your preferred course offers reduced prices for certain memberships.

Books: Time to hit the second-hand market, shop online, or contact students from the previous semester and buy their used books. Always check the difference between book editions before buying the newest. Sometimes the update represents just a few added activities or grammatical corrections, even though it's released as a new "edition."

Health & Fitness

Gym Membership: Gyms often offer introductory packages, waive the initiation fee, or reduce the price for their annual packages.

Prescriptions: Just as with vitamins, sometimes you pay more for the brand name. Many

pharmacists offer both brand-name pharmaceuticals and generic versions. Always consult with your doctor and pharmacist before making a final decision.

Eye Care: If you can wait for those new frames and lenses, buy them when they go on sale.

Kids & Caregiving

Children's Activities: Coupons, kids' club memberships, and special deals are ways to access affordable activities for your kids. Not every weekend trip needs to be to the expensive local amusement park.

Caregivers and Daycare: Coordinate care with family members, trusted friends, and neighbors. You may be able to arrange a mutually beneficial agreement by networking.

Pets

Pet Supplies: Buy in bulk to cut down on your per-meal costs. Clip coupons.

Veterinarian: Most people have a preferred vet. However, for routine services such as vaccinations, price check different veterinarians in your local area to see whether savings are available. Some vets offer free clinics, and local government agencies sometimes run vaccination or general pet health programs as well.





Conclusion

A budget is a key component of a sound financial plan, and expenses are an important piece of a budget. This topic has covered the three types of expenses – fixed, periodic, and variable – to help you categorize and identify where your money goes each month. Once you’ve identified your expenses, you can look for areas where you can trim away excess spending. Cutting back on something even as small as one drink at a coffee shop every day can add up to substantial savings over a year’s time. Making the effort to review all your expenses and plan to lower them can make a big difference in how soon you reach your goals.



Activity:

Lowering Your Expenses

In this activity, you will review all the expenses in your budget and come up with a plan for lowering them.

Activity: Lowering Your Expenses

Go through each expense listed below and determine the course of action you will take for each expense. Then start working the plan. Some people choose to develop a master action plan for all expenses at once, while others attack just one or two categories on a regular schedule.

Regardless of the method you choose, we suggest you start with the areas that are causing the most problems to your budget. Furthermore, hold yourself accountable by setting an estimated completion date.

Legend:

N/A (Not Applicable) – Items you mark as “N/A” on the activity below mean that you do not have that expense and thus do not need to consider action.

Negotiate – Items you mark as “Negotiate” mean that you will contact the supplier or lender and open up discussions to achieve revision to your current terms. For example, you can talk with your cell phone service provider to ask if there are ways to reduce your bill. You can contact credit card companies to discuss reduced interest rates.

Transfer – Items you mark as “Transfer” mean that you will attempt to reduce the expense by transferring to a different service provider or purchase source. For example, switch your Internet service provider to a less expensive plan; or get your hair cut at the beauty school rather than by a professional stylist.

Reduce – Items you mark as “Reduce” mean that you will try to reduce your consumption in a given area. For example, you will cut down on eating dinner out from 7 days a week to 4 days a week; or take a thermos of homemade coffee to work instead of stopping at the coffee shop every morning.

Cancel – Items you mark as “Cancel” mean that you will cancel that expense because you don’t really need or use it. For example, you will cancel your newspaper delivery subscription because you read the paper digitally.

Sell – Items you mark as “Sell” are items you intend to sell. For example, you might sell your car and start taking public transportation; sell your home at a profit; or sell last semester’s college textbooks to an incoming student.

No Change – Items you mark as “No Change” will be those areas where you do not intend to make any revisions to your budget.

Activity: Lowering Your Expenses

Home Renting Expenses		Actions (Select One)			Completion Date (MM/YY)
Rent	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Renters Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Home Ownership Expenses					
Fixed Rate Mortgage Payments	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Adjustable Rate Mortgage Payments	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Property Taxes	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Homeowner Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
HOA Dues or Assessments	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Maintenance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Utilities					
Electric	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Gas	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Water/Garbage	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Cable/Satellite	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Phone (cell)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Phone (land line)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Internet	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Home Security	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Other Insurance

Health Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Life Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Long-term Disability	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Umbrella Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Kids & Caregiving

Children's Activities	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Child Care	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Child Support	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Alimony	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Caregiver	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Pets

Pet Supplies	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Veterinarian	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Pet Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Grooming & Boarding	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Educational Expenses

Professional Development	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
School Tuition	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Books	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

MSC

Donations / Charity	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Transportation Expenses

Vehicle 1 Payments	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Vehicle 2 Payments	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Insurance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Registration	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Gas	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Maintenance	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Public Transportation	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Taxi / Ride Sharing	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Loans & Debt Expense

Credit Cards	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Personal Loans	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Student Loan	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Tax Debt	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Appliance Loans	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Fees & Charges

Banking Fees	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Credit Card Fees	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Mismanagement fees (late, overdraft)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other Fees	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Variable Personal Expenses	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Groceries	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Vitamins & Supplements	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Cell Phone	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Personal Items	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Subscriptions	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Entertainment

Entertainment (movies, concerts)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Eating Out & Drinks	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Hobbies & Recreation	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Random Purchases	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Activity: Lowering Your Expenses

Personal Care

Clothing	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Laundry / Dry-cleaning	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Personal Grooming (hair, nails)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Skin Care (makeup, lotions)	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____

Health & Fitness

Gym Membership	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Alternative Medicine	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Supplements & Vitamins	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Doctor Visits	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Dentist Visits	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Prescriptions	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Eye Care	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____
Other	N/A	Negotiate Cancel	Transfer Sell	Reduce No Change	____ / ____



Quiz:

Identifying & Reducing Your Expenses

Quiz

- How would you categorize purchasing a smoothie from a health food store?
 - Fixed expense
 - Periodic expense
 - Variable expense
 - All of the above
- Credit card interest rates and mortgage loan rates are non-negotiable.
 - True
 - False
- Canceling a credit card can positively affect your credit score.
 - True
 - False
- Decide the category to which each of the following expenses belongs.
 - Occasional dinner and a movie
 - Student loan monthly payment
 - Annual subscription service fee
 - Membership dues for a professional organization paid
 - Infrequent salon and spa visit
 - Quarterly home insurance premium

a) Fixed Expenses

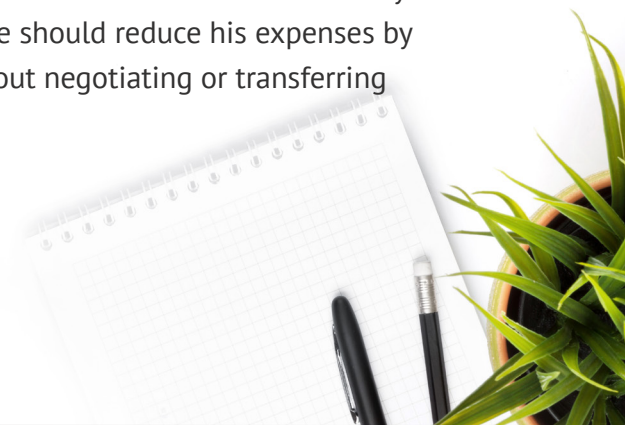
b) Periodic Expenses

c) Variable Expenses
- Ramone has decided to switch his satellite TV service to a subscription streaming service which is 30% less expensive. Of which part of expense evaluation is this an example?
 - Consideration
 - Reduce
 - Negotiate
 - Transfer
 - Manage



Quiz: Identifying & Reducing Your Expenses

6. At the end of each month, Theo reassesses her expenses to see how effective her budgeting really was. Of which part of expense evaluation is this an example?
- a) Consideration
 - b) Reduce
 - c) Negotiate
 - d) Transfer
 - e) Manage
7. Felicia gets her dog Pongo groomed once a month and also likes to buy a small bag of expensive gourmet dog treats as a reward for him. However, the expense of the treats is now adding up, and Felicia has decided to purchase a large bag of less expensive treats to reward Pongo with instead. Of which part of expense evaluation is this an example?
- a) Consideration
 - b) Reduce
 - c) Negotiate
 - d) Transfer
 - e) Manage
8. Priya and her family have lived in their home for 12 years. The local home market value has decreased by about 20% during this time. In this scenario, what is the best option for Priya to reduce her home ownership expenses?
- a) She should obtain an updated property appraisal to potentially lower her property taxes.
 - b) She should remodel her home and list it for sale.
 - c) She should pay more toward the principal and interest of her mortgage.
 - d) She should not do anything. Market fluctuations are normal and do not affect expenses.
9. Luis has been paying for a monthly streaming video service for over three years, but rarely watches any movies or shows on it. In this case, Luis should first consider whether he really needs the service. If he doesn't want the service anymore, he should reduce his expenses by canceling it. If he still wants the service, he should think about negotiating or transferring the service to get a better deal.
- a) True
 - b) False



Create Your Budget & Automate

The primary reason to create a budget is to build savings. That way you have money to spend on the things you want now, but also ensure that you have enough set aside to reach your long-term goals. In this topic, you will take the appropriate steps to create a workable budget and automate your financial accounting to make regular review and adjustment easy.



Time Investment
1 hour



Create Your Budget & Automate
Savings, Expenses & Budgeting

Create Your Budget & Automate

Wouldn't it be nice to have money for the things you want now, while still making sure you have enough for later? That's the goal of creating a budget and savings plan. Saving money is the cornerstone of a financially secure lifestyle, and building a clear budget may help you save more.

Did you know that about 70% of lottery winners waste all of their earnings within just a few years? And the majority of people – not just lottery winners – are experiencing financial problems. Many of those people could have avoided financial problems if they simply had a budget in place and followed basic guidelines.

At the fundamental level, a budget is a plan for how to handle your money. Income, expenses, and savings are the essential elements of a budget. Let's walk through the process of creating a budget together.



Budgeting Steps

Your first step in creating a budget is to enter your take-home income. If you receive a paycheck, use the net pay – that is, the amount you receive after all the taxes and other fees are deducted. If you receive tips or any other compensation from additional sources, be sure to add that into your income as well.

Your next step is to plan out your savings. Remember that the key goal of creating a budget is to save money. It's important to build a budget where you put aside at least 10% of your money for long-term savings. This money should be set aside before you purchase any wants – items you don't absolutely need for survival – or pay for items that generate additional income.

Once you complete the income and savings sections of your budget, next move on to listing your fixed expenses. Fixed expenses are the bills toward which you pay the same amount each month like rent, car payment, and insurance. Next, account for the fixed expenses you pay annually: car registration, gym membership dues, or anything else you pay every year. Enter these expenses into your monthly budget by taking the annual payment and dividing it by 12. For example, if your gym membership costs \$240 a year, you should be saving \$20 a month toward that bill.

The next step is to calculate your variable expenses. Some variable expenses are obvious. Utilities are a prime example: the more water you use, the higher your water bill will be. The amount varies from month to month.

However, some expenses are harder to pin down. Most of us have cash that vanishes each month into unknown voids, like stops for coffee, movies, events, or extra groceries. These are small, possibly infrequent purchases that may not register in your memory when you sit down to do your budget review.





For the next month, set a goal to get a handle on your variable expenses. Identify some or all of the “voids” into which your funds are “disappearing.”

There are several ways to track spending: save receipts, carry a small notebook, or tap into the variety of available cell phone apps and online money management tools. Another easy way to track day-to-day spending is by using only your credit or debit card to perform transactions. This way, all transactions show up on your monthly banking statement. If you are required to use cash at some point during the month, set yourself a calendar reminder to include X amount in cash purchase for Item Y when you do your budget check. You can manually add it to your budget tracking at that time.

It’s important to get into the habit of budgeting before buying. This financial philosophy suggests that you should always budget and include all the costs associated with an item before you make a purchase decision. Consider what you can afford to spend on “wants” after you put money aside in savings and your needs are taken care of. Budgeting before you make a purchase helps you set clear spending limits to mitigate the possibility of becoming emotionally involved in purchase decisions. Emotional attachments often lead people to spend well beyond their budgets. Additionally, if you require yourself to set aside money each pay period in order to purchase the item you want, you give yourself time to consider the purchase. Is it still important to you a month or two later, after you have accumulated the amount you need for the purchase?

Each of us has a limited amount of money available to spend. Being able to manage our spending is critical to achieving financial success. More importantly, when you spend wisely you have more money available to save, and also to invest if you so choose.

Budget Step 1

Enter your income – Total net (take-home) pay, tips, and any other compensation.

Budget Step 2

Plan your savings – Set aside at least 10% of your income before you purchase any “wants.”

Budget Step 3

List fixed expenses – Rent, car payment, insurance. Account for annual fixed expenses (gym memberships, auto registration, etc.) by dividing the annual payment by 12.

Budget Step 4

Calculate variable expenses – Coffee, movies, special events. Track variable expenses for a month and adjust accordingly.

Budget Step 5

Set up your budget to automate and organize your finances online. This step will ensure that you can accurately monitor your budget and make adjustments.





Setting Up Automated Accounts

1) Open Checking & Savings Accounts

If you do not already have checking and savings accounts open, shop around for the best financial institution to suit your needs. Banks and credit unions offer similar services such as checking and savings accounts, mortgages, and auto loans. However, they differ in that a bank is a company, and like most companies their primary aim is to maximize shareholder profits. A credit union, on the other hand, is a cooperative institution in which each member holds a share. There are pros and cons to choosing each type of financial institution, so you should investigate the differences before you decide which is best for you.

Further, banking products can have different benefits and terms from bank to bank and credit union to credit union. Be sure you understand exactly what your accounts offer and what they will cost you. Free checking, online banking, and savings account interest rates are common differentiators among banks and credit unions.

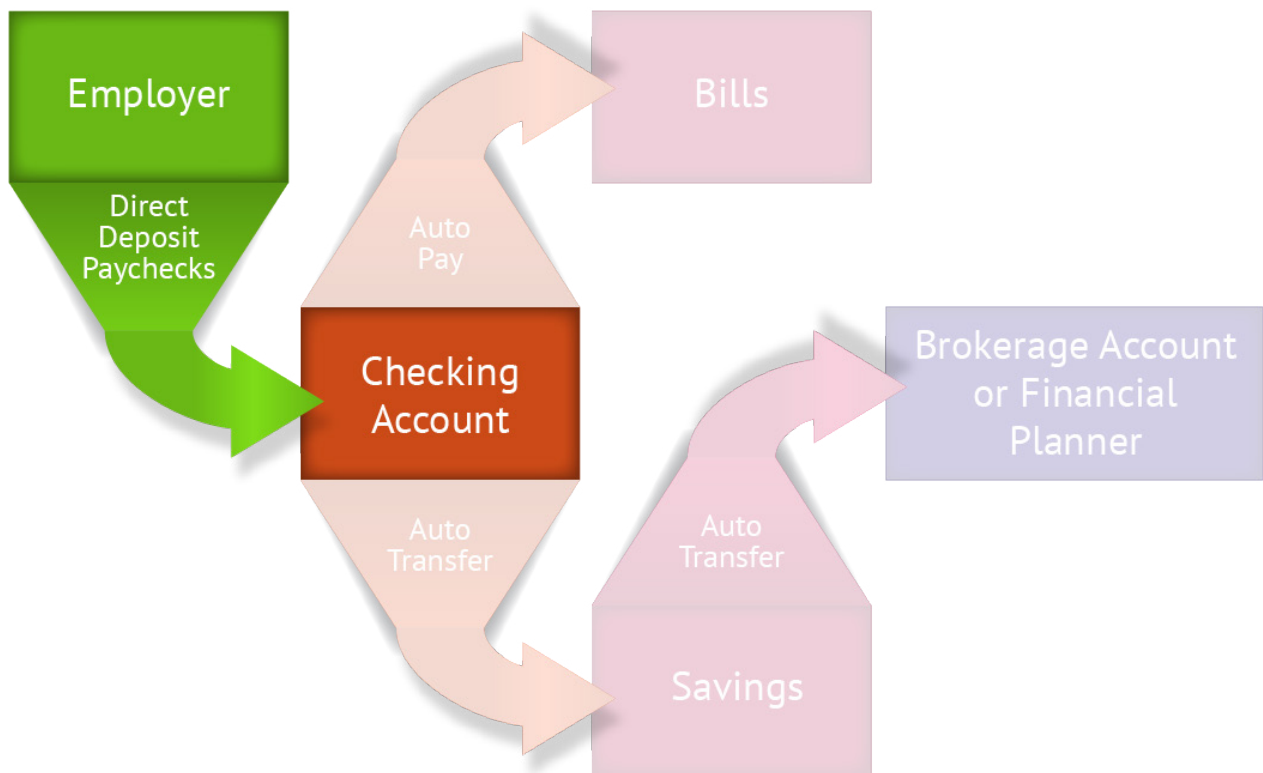
Many banks and credit unions offer online and automatic transaction services for paying bills, saving, and investing. These services are important to have in order to automate your budgeting system.

2) Set Up Direct Deposit

Have your employer directly deposit your paycheck into your account every pay period, if they offer that option. Direct deposit is safer than getting a paper check. You don't have to worry about losing your check, spilling coffee on it, or the dog eating it. You also don't have to worry about a mailed check taking a day or two longer to arrive due to a recent holiday when mail services are shut down.

Direct deposit also saves you time and money. You don't have to pay anyone to cash your check, or waste gas money and time driving around to get it cashed.

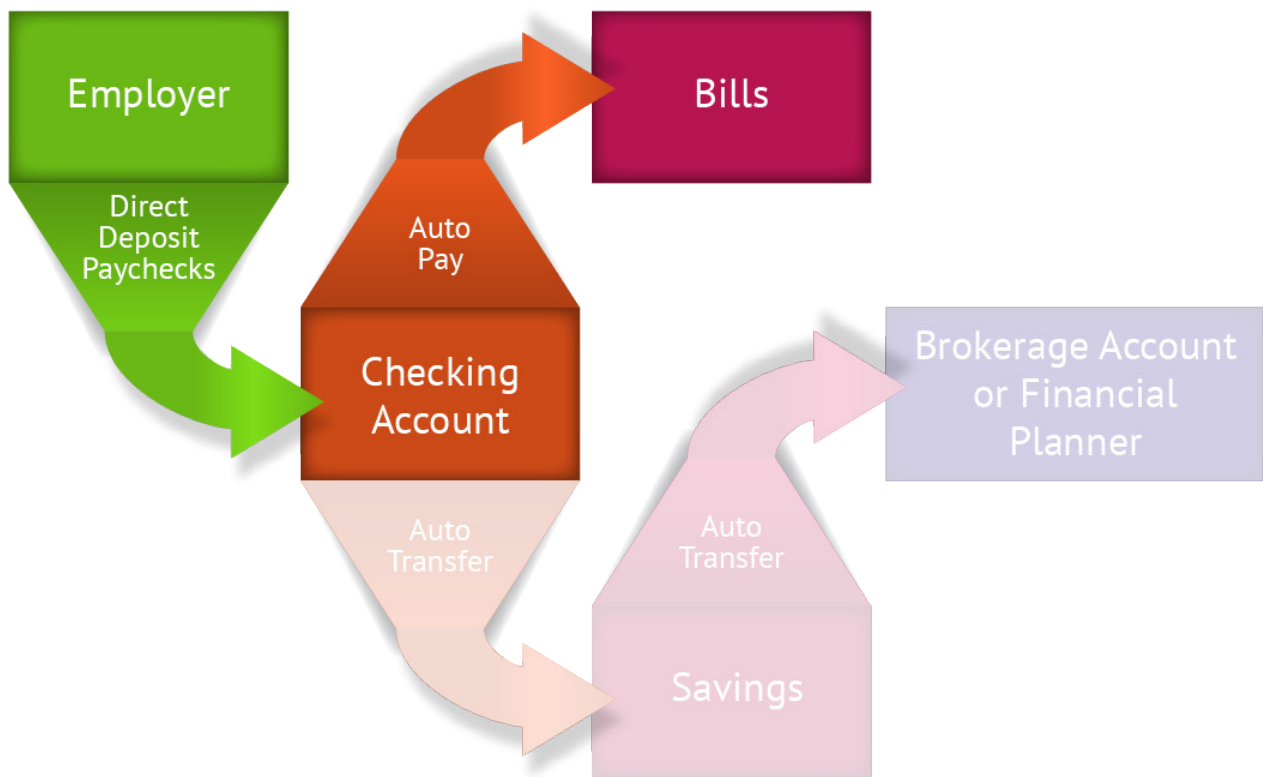
If your employer doesn't offer direct deposit, don't worry; your automation plan isn't automatically crushed. While you will still have to deposit your checks manually and face the associated risks, the rest of your automation plan can still be accomplished.



3) Automatically Pay Bills

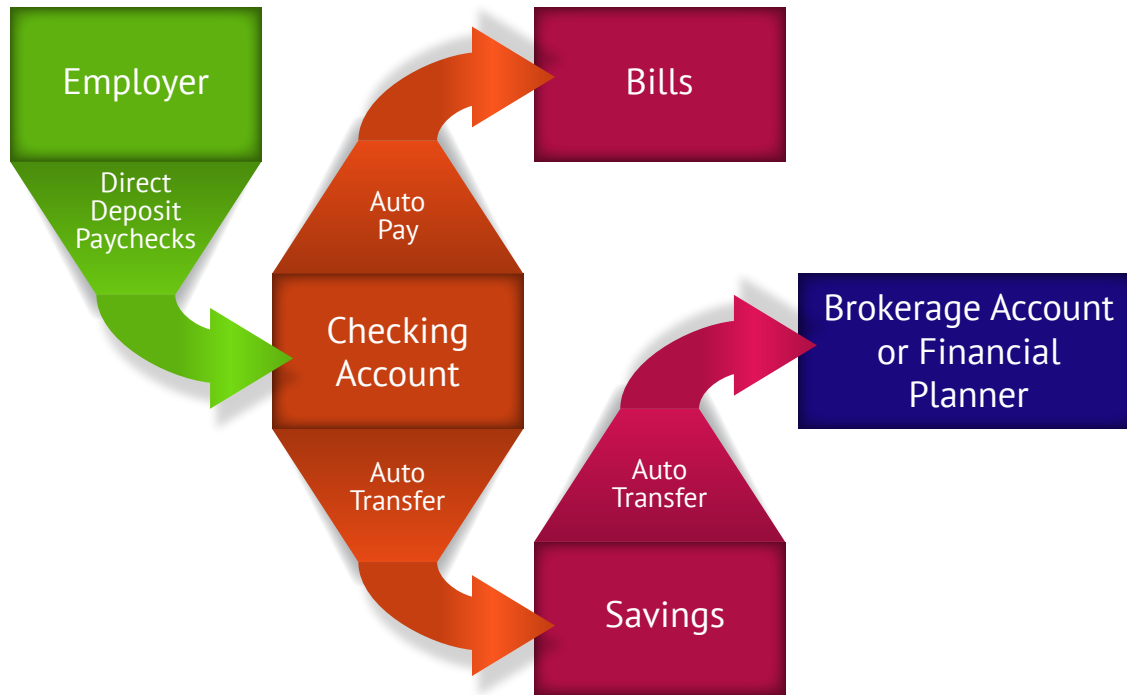
Set up your online banking to automatically pay all your bills each month. Automating your bill payments will save you time. It also saves you money, because if you accidentally pay your bills late, you also will be forced to pay a late fee on each late payment. Late fees can be as high as \$40 or more, and really add up quickly. Can you really afford to waste money on late fees?

When you set up automatic bill pay properly, it also protects your credit by ensuring that all your accounts are paid on time every month. Even one late payment will hurt your credit score and, if you have several, your credit can be severely damaged.



4) Automate Savings / Investments

You also can set up your bank accounts to “pay yourself” first. Have your budgeted amount of savings or investment contributions automatically sent to the appropriate savings or investment accounts through automatic transfer. Some banks even waive account fees when you make an automatic transfer of at least a certain amount to your savings account each month. Be sure to find out whether your financial institution offers such a benefit.



5) What's Left Over?

The remaining amount of money you have, after all your bills are paid and your savings contributions are made, is what you can use for “want” purchases, or to cover large spikes in variable expenses that may occur occasionally.

Using Third-party Financial Tracking Services

Third-party, online money management services allow you to connect all your online billing and banking accounts into a single dashboard; bringing all your financial accounts into one spot where you can view and track them. A popular third-party service called Mint allows you to do just that.

However, keep in mind that third-party online money management services pose two key risks:

1) Advertisements

If the service is “free,” then they probably are selling advertising that is targeted to you on the website. If you decide to use such a third-party service, keep in mind that not everything that appears on your dashboard may be the correct financial product for you.

Offers for obtaining your credit score, 0% interest credit cards, or high-interest savings funds are common ways in which advertisers attempt to reach you through the “free” service you are using. There may be nothing wrong with these services; they may be the perfect match for your needs. But on the other hand, they may not be.

Just keep in mind that “free” services are most commonly free because advertisers are paying the service provider to allow them to advertise to you.



2) Connecting Multiple Financial Accounts to a Single Location

When you link your online banking, car loan account, credit card account, utility company account, etc. to a single dashboard, there is a risk that these accounts may become compromised. That risk is especially high if you use a similar or identical user name and password for your financial accounts.

While it is unlikely that too much damage can be done directly from the dashboard, centralizing your accounts reveals critical information about those accounts. If your main dashboard account is compromised, the attacker can then see all the accounts you have linked to the dashboard. And say you used the same username – maybe even the same password – for each individual online account as you did for your central dashboard account.

If the attacker knows your credentials for the central dashboard and the online financial accounts you have linked to it, how many of those linked accounts could the attacker access with the same credentials you used on the central dashboard? Obviously, disciplined online security practices are important to mitigating your risk. Vary your user names and passwords. There are online random password generators you can use to come up with passwords that are hard to hack, and also secure password management systems you can use to organize and recall your passwords.





Conclusion

A budget comprises three essential elements: income, expenses, and savings. The primary objective of creating a working budget is to build up your savings, which in turn gets you closer to your long-range financial goals. This topic has laid out the steps for developing a budget and automating your accounts to help you stay within your budget parameters. Setting up, monitoring, and adjusting your budget over time forms an essential process toward securing your financial future.



Activity:

Completing Your Budget


This activity involves completing your initial budget plan. You are provided with a link to an Excel spreadsheet that lays out each component of your budget including income, savings, fixed and variable expenses. You can use this spreadsheet tool to create your initial budget, and return to review, evaluate, and adjust it over time.

Activity: Completing Your Budget

Complete the budget on the Excel spreadsheet linked below. If you are not entirely sure about the amount of a particular item, a rough estimate will work for now; the key is to at least get started.


Be sure to enter each amount as a monthly figure. Remember to divide your periodic bills (those paid annually, quarterly, etc.) so you enter the monthly amount of your bills and income.


Expenses

 Home Renting Expenses	Current	Goal
Rent		
Renters Insurance		
Other		
Other		
Sub Total:		

 Home Ownership Expense	Current	Goal
Fixed Rate Mortgage Payments		
Adjustable Rate Mortgage Payments		
Property Taxes		
Homeowner Insurance		
HOA Dues or Assessments		
Maintenance		
Other		
Sub Total:		


Activity: Completing Your Budget

 Utilities	Current	Goal
Electric		
Gas		
Water / Garbage		
Cable/Satellite		
Phone (cell)		
Internet		
Home Security		
Other		
Sub Total:		

 Other Insurance		
Health Insurance		
Life Insurance		
Long-term Disability		
Umbrella Insurance		
Other Insurance		
Sub Total:		




Activity: Completing Your Budget

 Kids & Caregiving	Current	Goal
Children's Activities		
Child Care		
Child Support		
Alimony		
Caregiver		
Sub Total:		

 Pets	Current	Goal
Pet Supplies		
Veterinarian		
Pet Insurance		
Grooming & Boarding		
Other		
Sub Total:		


 Educational Expenses	Current	Goal
Professional Development		
School Tuition		
Books		
Other		
Other		
Sub Total:		


Activity: Completing Your Budget


 Transportation Expenses	Current	Goal
Vehicle 1 Payments		
Vehicle 2 Payments		
Insurance		
Registration		
Gas		
Maintenance		
Public Transportation		
Taxi / Ride Sharing		
Other		
Sub Total:		

 Health & Fitness		
Gym Membership		
Alternative Medicine		
Supplements & Vitamins		
Doctor Visits		
Dentist Visits		
Prescriptions		
Eye Care		
Other		
Sub Total:		


Activity: Completing Your Budget


 Fees & Charges	Current	Goal
Banking Fees		
Credit Card Fees		
Mismanagement fees (late, overdraft)		
Other Fees		
Sub Total:		


 Loans & Debt Expense	Current	Goal
Credit Cards		
Personal Loans		
Student Loan		
Tax Debt		
Appliance Loans		
Other		
Sub Total:		

 Variable Personal Expenses	Current	Goal
Groceries		
Vitamins & Supplements		
Cell Phone		
Personal Items		
Subscriptions		
Other		
Sub Total:		

Activity: Completing Your Budget


 Entertainment	Current	Goal
Entertainment (movies, concerts)		
Eating Out & Drinks		
Hobbies & Recreation		
Random Purchases		
Other		
Sub Total:		

 Personal Care		
Clothing		
Laundry / Dry-cleaning		
Personal Grooming (hair, nails)		
Skin Care (makeup, lotions)		
Other		
Sub Total:		

 MSC		
Donations / Charity		
Other		
Sub Total:		



Activity: Completing Your Budget

 Monthly Savings Contributions	Current	Goal
Emergency Fund		
Short-term Fund		
Long-term Fund		
Other		
Other		
Sub Total:		


Total Current Expenses


Total Goal Expenses



Activity: Completing Your Budget

Income

 Employment Income	Current	Goal
Gross Income from Employment Source 1	+	+
Federal Income Tax	-	-
State & Local Tax	-	-
Social Security & Medicare	-	-
Sub Total:		
Gross Income from Employment Source 2	+	+
Federal Income Tax	-	-
State & Local Tax	-	-
Social Security & Medicare	-	-
Sub Total:		

 Other Income		
Social Security	+	+
Pensions	+	+
Annuities	+	+
Other	+	+
Sub Total:		



Activity: Completing Your Budget

 Investment Income	Current	Goal
Interest Income	+	+
Taxes	-	-
Equity Investments Income	+	+
Taxes	-	-
Real Estate Investments Income	+	+
Taxes	-	-
Business Investment Income	+	+
Taxes	-	-
Other Investment Income	+	+
Taxes	-	-
Sub Total:		

Total Current Income

Total Goal Income

- Total Current Expenses

- Total Goal Expenses

= Net Current

= Net Goal

Activity: Completing Your Budget

Set Goals & Prioritize

Now that you have a completed budget, it's time to create goals. As you think through where to allocate your money each month, ask yourself, "Which items are needs? Which items are wants?"

Create a Plan – this is the step where you actually allocate your available funds across all the various expense categories. The end result of any monthly budget is to:

- a. Make sure all needs are accounted for.
- b. Make sure money is being saved and is available for future and unexpected events.
- c. Make sure the budget is flexible enough that the variable categories (restaurants, clothing, recreation) are present, but don't derail the overall budget goals.
- d. Make sure that you're living below or within your means, and don't have a budget deficit after expenses are deducted from income.

Regular Budget Evaluation – a budget is intended to be reviewed. For some people, their budgets will remain relatively stable and unchanged for months, provided no major life events occur like job loss, disability, or emergencies. For others, their financial lives change frequently. Incomes rise; incomes fall. Expenses are eliminated, but new expenses emerge. Everyone's situation is different. The key is to get into a regular pattern of adjusting your budget at least quarterly, and possibly more often depending on what is happening with your individual




Activity:

Automating Your Financial Tracking

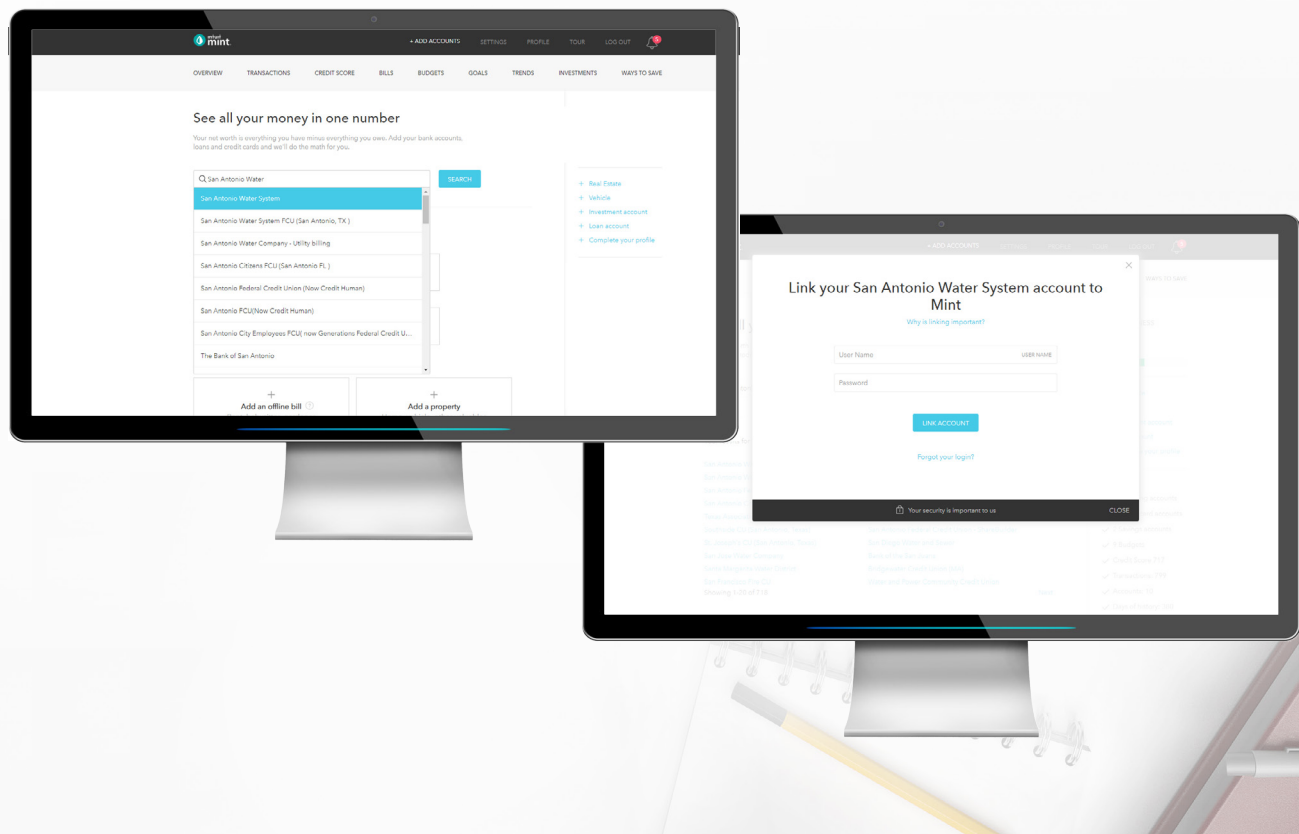
This activity guides you to automate your financial accounts using a third-party online system. Online money management accounts pull together various financial accounts, so you can get an overall picture of all your finances in one place. The instructions provided here are for using the Mint.com system to organize all your accounts into a single dashboard.

Activity: Automating Your Financial Tracking

Set up your online money management account to automate and organize all your finances. We will provide you details for setting up a Mint.com account, but you can locate a different program that offers similar tracking features if you prefer.

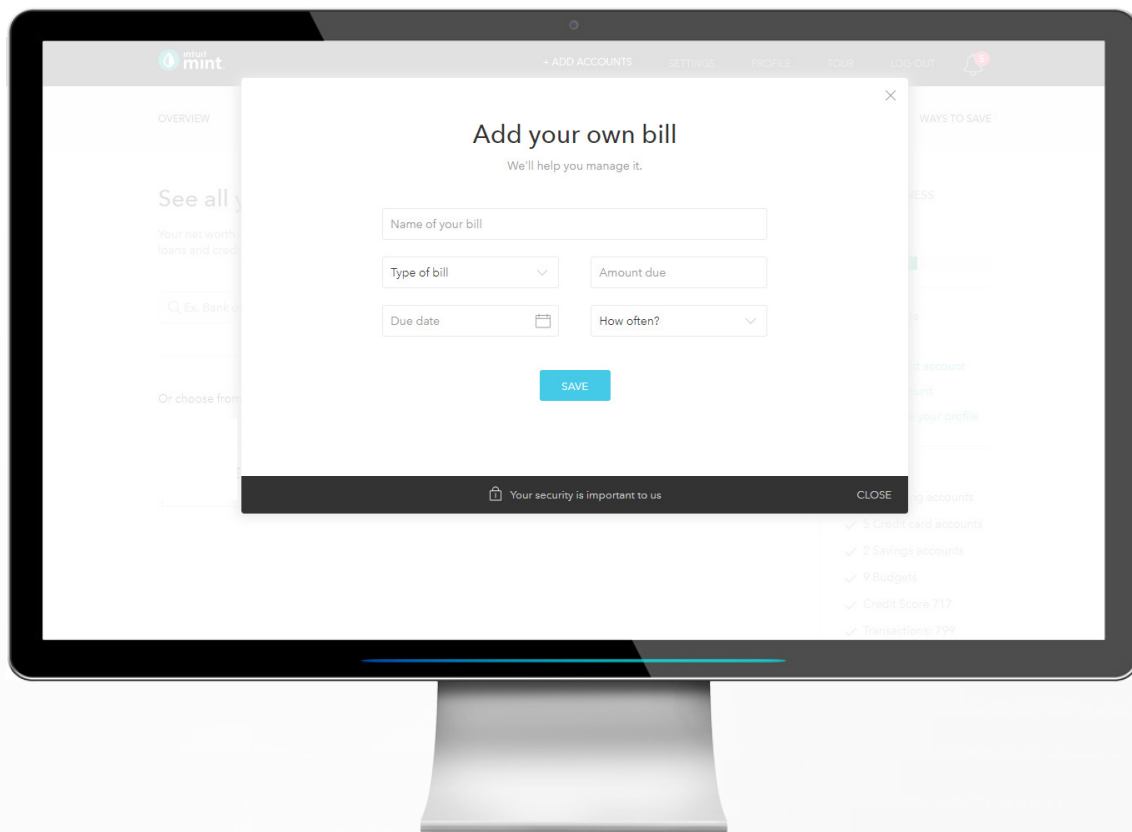
1. Create an account:  Visit: [mint.com](https://www.mint.com/)
<https://www.mint.com/>
2. Connect your financial accounts.
 - a. Click on “Add Accounts” in the main menu.
 - b. Search for the service provider handling your account (name of bank, credit card company, etc.). If Mint has a connection with that provider, its name will come up in the search results. Selecting the account option from the search will then ask you to connect directly to that account by entering its credentials.

For example, if you want to connect your bank accounts, enter your bank’s name into the search field, select your bank from the search results, and then log in with your online banking credentials. Mint will pull all the data from your bank accounts into the Mint system.



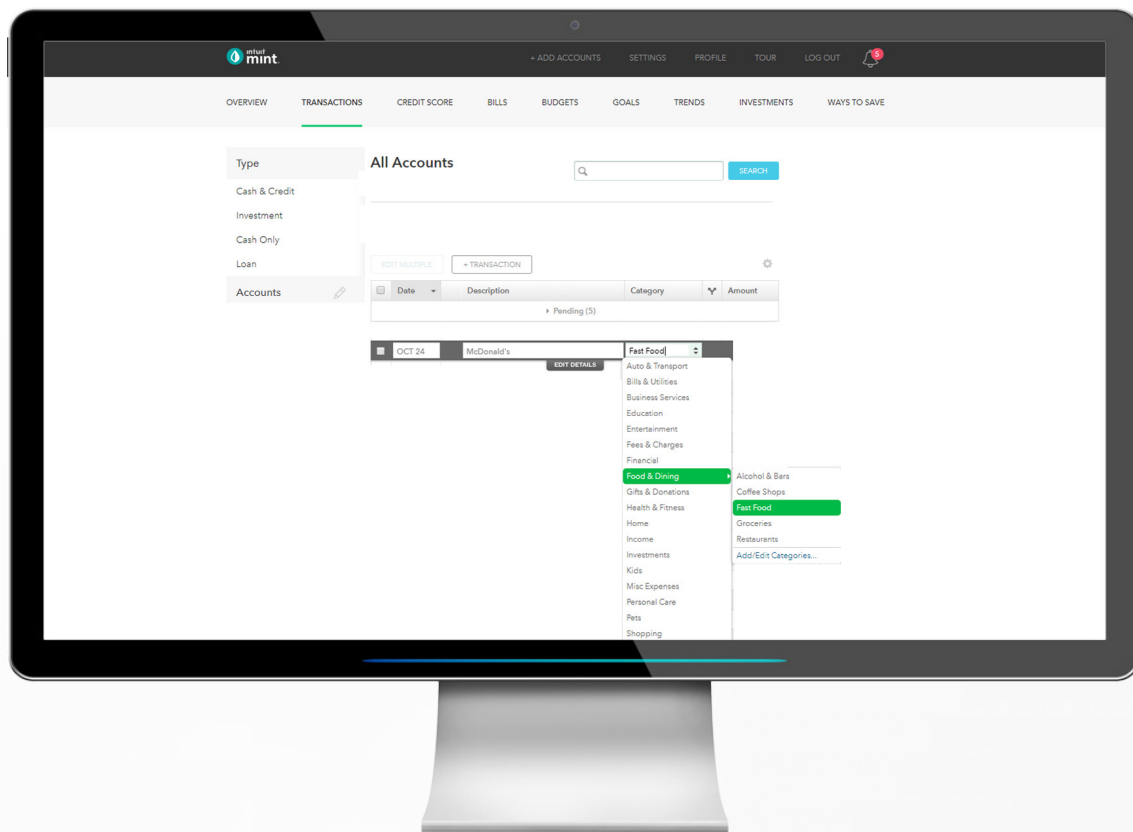
Activity: Automating Your Financial Tracking

3. If the income or expense account you are trying to connect does not have online services or cannot be found in the Mint search feature, you can manually add it using the “Add an Offline Bill” feature.



Activity: Automating Your Financial Tracking

- Once you have connected all your individual accounts to Mint, review your expenses in the Mint “Transactions” section and categorize them as you see fit. Mint provides many common budget categories; you can also create your own.



Activity: Automating Your Financial Tracking

Here is a reference guide that describes how the budget categories are listed on our budget worksheet and how to categorize them on Mint. If you use this system, the budget categories you set up on Mint will match the budget categories from this course.

Income. Select category in Mint: Income



Investments. Select category in Mint: Investments



Transfers. Select category in Mint: Transfers



Home Renters Expenses. Select category in Mint: Home



Home Ownership Expense. Select category in Mint: Home



Utilities. Select category in Mint: Utilities



Transportation Expenses. Select category in Mint: Auto & Transport



Other Insurance. Create a new category in Mint with these steps:



Loans & Debt Expense. Create a new category in Mint with these steps:



Activity: Automating Your Financial Tracking

Variable Personal Expenses. Create a new category in Mint with these steps:

Msc Expense > Add Category > Name Variable Personal Expense

Personal Care. Select category in Mint: Personal Care

Select Category > Personal Care

Entertainment. Select category in Mint: Entertainment

Select Category > Entertainment

Educational Expenses. Select category in Mint: Education

Select Category > Education

Health & Fitness. Select category in Mint: Health & Fitness

Select Category > Health & Fitness

Kids & Caregiving. Select category in Mint: Kids

Select Category > Kids

Pets. Select category in Mint: Pets

Select Category > Pets

Fees & Charges. Select category in Mint: Fees & Charges

Select Category > Fees & Charges

Use your credit or debit card for every purchase to ensure that all your spending is tracked and accounted for.

Once it's set up, review your budget monthly. Creating a budget is a cumulative and gradual process, and you may need to revise your budget regularly as your goals, income, and expenses change.



Quiz:

Create Your Budget & Automate

Quiz

1. The “net” pay indicated on your paycheck is the money you receive after taxes and any other fees are taken out.
 - a) True
 - b) False
2. When setting up your budget, you should always take variable expenses into account before fixed expenses.
 - a) True
 - b) False
3. Using your debit card for the majority of your purchases is a good way to keep track of expenses.
 - a) True
 - b) False
4. Banks and credit unions offer financial services that are quite different from each other.
 - a) True
 - b) False
5. Opting to receive your salary through direct deposit instead of a paper check can save you both time and money.
 - a) True
 - b) False
6. Which of the following statements is/are true with respect to third-party online money management services? More than one answer may be correct.
 - a) These services allow users to see multiple accounts on one screen or dashboard.
 - b) These services are mainly for high-income individuals and business owners.
 - c) These services may display advertisements for other financial services.
 - d) These services are risky since information can be compromised.

Quiz: Create Your Budget & Automate

7. Zoey wants to start tracking her expenses in order to better manage her finances. Which of the following are ways she can track her expenditures? More than one answer may be correct.
- a) She can carry a small notebook and record all her purchases/expenses in it.
 - b) She can use a cell phone or online app such as Mint to track her expenses.
 - c) She can use cash to pay for everything and monitor the amount she spends.
 - d) She can use a debit card or credit card to pay for everything, which can help her monitor her expenditures.
8. Jett is setting up a budget. His net monthly pay is \$4,700 and he just paid off his last debt. What is the minimum amount he should set aside each month as long-term savings goal?
- a) Since he has no debt, he can save any amount.
 - b) 25% of his pay.
 - c) 10% of his pay.
 - d) Since he has no debt, he does not need long-term savings.
9. Brad's annual car registration costs \$390. What is the minimum amount of money he should save each month to cover this fixed expense?
- a) \$19.50
 - b) \$30
 - c) \$32.50
 - d) \$39
10. Brad has set up automatic payments for his fixed monthly expenses and automatic transfers to his savings account. However, he has been charged overdraft fees the past few months. All of the following except _____ are possible reasons for the overdraft.
- a) Brad could have been living above his means.
 - b) Brad has been living below his means.
 - c) Brad could have purchased items that were not in his budget.
 - d) Brad could have miscalculated his total automatic transfers and payments.

