

Budgeting and Saving 101



Sponsored by:



and





Create a Budget



Get a Handle on Your Debt



Reach a savings goal



Review and Improve your Plans

Phase I:

Create a Budget



Quick Fact

Did you know that an average household spends 80% of their annual income on necessary expenses such as:

- Housing
- Insurance
- Food
- Gas





Creating a Budget

- Reasons to have a budget
 - Helps meet monthly financial obligations
 - Make payments on time
 - Save for retirement
 - Increase savings for emergencies and debts
- To create a budget you need:
1. Discipline 2. Planning 3. Prioritization



Creating a Budget Agenda

5 easy steps

1. Know your income
2. Determine your fixed and variable expenses
3. Prioritize
4. Keep track
5. Review monthly



Step 1: Know your income

Gross Income

Net Income

Gross yearly: \$35,000.00



Net yearly: \$28,000.00

Gross monthly: \$2,916.70



Net monthly: \$2,333.30



Step 2: Determine your fixed and variable expenses

Fixed Expenses

- Expenses that remain the same month after month

*When creating your budget list all your fixed expenses first.

Variable Expenses

- Expenses that change month to month

Step 3: Prioritize

Needs vs. Wants

Ask yourself:

- Do I really need this or do I just want it?
- Is it essential to my life?
- Can I afford to add this expense to my already planned budget?
- Will I need to use my credit card?

Review your
variable expenses



Step 4: Keep Track

- Now that you have created a budget you have to make sure you stick to it
 - Pen and pencil
 - Budget applications/programs
 - Mint.com
 - LearnVest
 - Online banking





Step 5: Review

Why should you review your budget monthly?

You will see if you:

- Are spending more than your net income
- What areas can I cut back on and create a savings fund

Phase 2:

Get a Handle on Your Debt



Quick Fact

A \$1,000 charge on an average credit card will take almost 22 years to pay, and will cost more than \$2,300 in interest (\$3,300 total) — if only 2 percent minimum payments are made.



—Financial Freedom Community



Debt Strategy

Secured Debt

- The bank has something tangible to hold as collateral

Unsecured Debt

- There is no collateral



Collateral: something pledged as security for repayment of a loan, to be forfeited in the event of a default.



Debt Strategy

Certified Financial Professional

- Accredited non profit consumer credit agency
- Member of the National Foundation for Credit Counseling
- www.NFCC.org





Debt Strategy

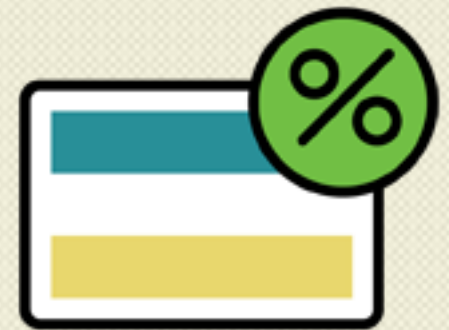
Snowball Method

- Pay off your smallest debt first



High-Rate Method

- Pay off the loans that have the highest interest rate first



Snowball Method

- 1) List loans due from **LOWEST** to highest amount due
- 2) Make minimum payment on **ALL** loans
- 3) Additional money is applied to smallest loan
- 4) Keep paying min and any extra money until smallest debt is paid off
- 5) **STOP** using the credit card you just paid off

Loan		Min Due	Minimum Paid	Extra \$	
Retail Store	\$500	\$25	X	\$30	\$85
Bank of America	\$800	\$45	X		\$45
Frequent Flier	\$1,500	\$100	X		\$100
	\$2,800				\$2,570

Total before
payments

Total after
payments

Snowball Method

6. The money you were paying towards the previous bill apply it towards your next smallest loan
7. Repeat the process that you did for the first loan until all your loans have been paid off

Loans		Min Due	Min Paid	Extra \$	Previous Amount Due	Total
Retail Store	\$500	\$25	X	\$30		
Bank of America	\$800	\$45	X	\$15	\$25	\$85
Frequent Flier	\$1,500	\$100	X			\$100
	\$2,300					\$2,115

Total before payments

Total after payments

High Rate Method

- 1) List loans due from **HIGHEST** to lowest interest rate
- 2) Make minimum payment on **ALL** loans
- 3) Additional money is applied to highest interest rate loan
- 4) Keep paying min and any extra money until highest rate loan is paid off
- 5) **STOP** using the credit card you just paid off

		Interest Rate	Min Due	Min Paid	Extra \$	Total
Frequent Flier	\$1,500	35%	\$100	X	\$30	\$130
Bank Of America	\$500	20%	\$25	X		\$25
Retail Store	\$800	15%	\$45	X		\$45
	\$2,800					\$2,570



Which Method is Better?

Snowball

Supporters say

- Paying off small debts gives them a boost and makes them feel more motivated
- Journal Marketing Research

High Rate

Supporters say

- Over time you will save much more money
- Get out of debt sooner

So which is it?

- Are you the type that pays as little as possible?
- You can't seem to stick to a plan?

In the end both are good methods just remember with **Dedication**, **Determination**, and a **Plan** you can get out of debt.



Phase 3:

Reach a Savings Goal



Quick Fact

The typical amount Americans spent last year on unexpected expenditures was \$2,000. Surprisingly, lower-income households cited the same amount.

- Black Enterprise



Reach a Savings Goal

- What does these unexpected expenditures include?
 - Unemployment
 - Average unemployment rate= 27 plus weeks



Step 1: Set an amount

- How much do I save?

$$\text{Total Expenses} \times 3(\text{months}) = \text{Savings Goal}$$



The number that
you calculated after
creating your
monthly budget

For example: $\$3,500 \times 3 = \$10,500$

Step 2: Set Time Frame

5 years

- $\$10,500 / 5 \text{ years} = \$2,100 \text{ a year}$
- $\$2,100 / 12 \text{ months} = \175 a month

2 years

- $\$10,500 / 2 \text{ years} = \$5,250 \text{ a year}$
- $\$5,250 / 12 \text{ months} = \437.50 a month

*Remember these numbers are based in a monthly budget of \$3,500.





Step 3: Start Saving

- Where do I save my money?
 - Earn Interest
 - Relatively available
 - Safe
- Options
 - Savings Account
 - Money Market Savings Account
 - CD

Savings Tips

- Cable
 - Bundle your services
 - Use the Internet
 - Use an antenna or converter
- When shopping
 - Create a shopping list
 - Coupons
 - Retailme.com
 - Groupon.com
 - Rewards programs

- Entertainment
 - Matinee



Savings Tips

- Transportation

- Carpool
- Public transportation
- Bike

- Live green

- Turn off lights when not in use
- Use a reusable water bottle
- Use less water at home

- Restaurants

- Lunch instead of dinner
- Order water instead of soda/juice
- Cook at home
- Make your coffee at home



Phase 4:

Review and Improve Plans



Review, Review, Review

- Always remember to review and edit your budget
 - Why?



Thank you

This presentation has been brought to you
by:



If you would like to learn more please visit:
www.PocketSmart.org