About Bank On

Bank On Hampton Roads is truly a unique experience. Like a wellness plan for your finances, Bank On Hampton Roads offers all the education, support and encouragement you need to launch your financial plans. In this 10-month program, participants are encouraged to take the financial challenge to:

• Increase Income
• Grow Savings
• Reduce Debt
• Improve Credit Score
• Protect Assets

The way Bank On Hampton Roads works is you attend one class per month and meet with a personal financial coach once per month. In class you will learn some of the strategies for overcoming paycheck to paycheck living and speedy ways to reduce debt and see your savings grow. As you meet with your financial coach, you will build a financial plan centered on your goals and your dreams. With the combination of knowledge and improved financial management techniques, you can see your dreams become reality!

Bank On Hampton Roads is one of over 70 programs across the United States organized to improve your financial opportunities by building relationships with trusted financial partners and empowering you to take greater financial control.

Classes begin in January, April, and September and the program is absolutely free to the participant.

Many of Bank On Hampton Roads resources are available online at www.bankonhr.org.

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Welcome to the Money Management 2: Adjusting Your Spending Plan module! Taking charge of our financial futures begins with getting our monthly cash flow under control. This month, we will refine our spending plan and learn some ways we can accelerate our plans to increase savings and reduce debt.

Objectives
After completing this module, you will be able to:
- Understand how to evaluate your spending plan
- Avoid financial pitfalls that hinder our budgeting
- Understand how to increase income and plan for variable income
- Select the right tracking system for you
- Know how to record credit purchases
- Prioritize savings
- Know how to allocate between debt and savings
- Compare spending plan to actual and guideline

Participant Materials
This Money Management 2 Participant Guide contains:
- Information to help you learn the material
- Tools and instructions to evaluate and adjust your budget
- A glossary of the terms used in this module
Money Management 2: Adjusting Your Spending Plan

1. A spending plan helps to: Select all that apply.
   a) Reach my goals
   b) Increase financial control
   c) Direct assets after my death
   d) Reduce fees paid

2. What are conditions that may cause your spending plan to fail? Select all that apply.
   a) Spending leaks due to giving into temptation
   b) Not accounting for credit card purchases
   c) Not accounting for periodic expenses
   d) Surprise unplanned expenses

3. A spending plan includes: Select all that apply.
   a) Debt repayment
   b) Current Needs
   c) Periodic Expenses
   d) Savings

4. When adjusting your spending plan, you should: Select all that apply.
   a) Ignore any credit purchases
   b) Eliminate “needs” from spending plan
   c) Assess what expenses are controllable and which are not controllable
   d) Evaluate if additional income is needed

5. Which is NOT a method of tracking spending?
   a) Character Method
   b) Envelope Method
   c) Receipts Method
   d) Register Method
In Money Management 1: Building Your Spending Plan, we discussed the basics of how to build a spending plan. Elements of the spending plan include:

**Plan for Goals** ~ Over the last couple of months, you have been gathering data to use in developing a solid spending plan. Goals motivate us as we tighten the reigns and make hard choices with our daily spending. Our goals are the finish line in our journey to financial freedom.

**Track Monthly Expenses** ~ Your spending tracker as well as data from other sources will help you paint a picture of where your money currently goes.

**Forecast Periodic Expenses** ~ We also discussed periodic spending and how much we need to save for those expenses that do not happen monthly.

**Organize Data** ~ Organize this tracked expenses into categories.

**Build Spending Plan** ~ Using collected data on our current expenses, periodic needs and goals, established a spending plan.

If your plan isn’t there yet, not to worry, we are about to show you how you can evaluate and adjust your plan. Remember, this is a process and it may take a couple of months before you have everything included. That is why we are continuing to track our monthly expenses to see how they compare with our spending plan. This month we will discuss how to evaluate and adjust our plan so that it becomes something we can depend on.

**Evaluate and Adjust the Plan** ~ In this lesson, we will give you the tools you need to evaluate your spending plan and strategies for adjusting your plan.
Evaluate and Adjust Your Spending Plan

Almost no one creates a perfect spending plan on the first try, but eventually, you will be able to plan ahead and have your money go where you want it to go. As you use your spending plan to guide your actual spending, you will be taking daily steps to improve the quality of your current and future financial life.

Keep in mind that a spending plan that works for you at this point in your life will not necessarily work for you as your lifestyle changes and as needs change. Initially, you will monitor and adjust your spending plan monthly as you get more data; but once operational, your spending plan should not need to change much until there is a change to your lifestyle that requires it.

Your spending plan developed last month probably fell into one of three categories. Depending on where your plan landed, we may learn something about what is going on.

More Expenses than Income ~ According to FINRA Foundation Survey, more than 50% of Americans spend at least everything they make with 1 in 5 households spending more than their income. Isn’t that true for a lot of us? We don’t have spare money at the end of the month because we have too many obligations. There are a couple of possibilities here:

- We may have actually underestimated income or had less income than we planned. This may be true if you have had some hours cut or have lost work because of illness or some other hardship.
- More often, the expenses are greater than income; and we have been spending a lot of time robbing Peter, paying Paul and trying to manipulate the timing of transactions to keep things afloat.
- If you are in this category, we have good news: there is hope! You can develop a plan to meet your needs. It may require some creative planning, but we have some strategies to help you get there.

Same Income and Expenses ~ If you have the same income and expenses, congratulations! You have a balanced budget. You have spent only the money that you had and hopefully included the savings needed for emergencies, periodic expenses and goals.

You are in great shape if the plan reflects your ACTUAL spending. Many people develop a balanced budget and then put the piece of paper in a drawer and walk away. A budget only works for you if it gives direction to your actual spending choices.

More Income than Expenses ~ If you had more income than expenses, you are not alone. Many people start with a budget that may not capture all the needs and wants.

- Occasionally, people forget to remove taxes and other withholdings from income which makes their budget appear to have more than they really do.
- Alternatively, they may have underestimated some expenses or forgot to include something. That is why the detailed tracking over a period of time really does help us to capture more expenses in our monthly budget.
- Don’t worry. If you are in this category of people, we have some strategies you can use to tweak your plan this month and bring it closer to reality.
Evaluate and Adjust the Plan

So how do we get started on evaluating and adjusting our spending plans? It starts at the beginning... evaluating income.

More Income ~ Some may really need more income to make our spending plan work. We can cut expenses only so much, and then there is no more to cut. We need to look at other income sources to be able to maintain our current standard of living. Some of us may have irregular income that makes it hard to plan. We will discuss how you can make a spending plan work even with variable income.

Manage Expenses ~ Others may be living on someone else’s standard of living on a regular basis. They spend more than we have coming in, but if they were to reign in some expenses, they would have enough to enjoy a good quality of life. Bottom line is, everyone needs to live within their means. Today we will talk about how to determine real needs vs. just wants. We will also discuss how to handle debts and the importance of having regular savings each month.

Record Keeping Systems ~ We will discuss different ways of tracking and recording expenses to get a plan that works for you. So often, the best plan is the one you will use. If you have a tracking system that is difficult, you won’t use it. Let’s find something that does work for you.

Guideline Spending ~ When it comes to how much to spend in certain categories, we often don’t know if we spend more or less than other households. We can use a guideline to compare our spending with national averages. This will help us to see where we can find places to pare the spending and leave more for other categories and especially savings.

Expenses cannot be more than income on a regular basis. Our monthly spending plan should ensure that we are living within our means and having a little go to savings too.
Increasing Income

Let’s face it, sometimes we just need more money to make our budget work. Here are some ideas to help you get started.

**Short-Term:** These are things that can be implemented more quickly.

**Additional Work** ~ You may be able to pick up some extra hours at work or finding a part-time supplemental job. You may not need to keep these in place long term, but use them to get you over a hump to eliminate a debt or establish savings. There are more options than ever for doing part-time work, even from within your home as you have available time.

**Tax Adjustments** ~ If you consistently receive a large refund at tax time, you may want to consider increasing your exemptions to increase your take home pay each month. By having that income monthly, you can address your regular expenses rather than blowing it when the refund windfall comes.

**Selling Assets** ~ Selling assets can help you de-clutter your spaces and get rid of some of the items that are hanging around unused. A good old fashioned yard sale may generate enough income to get a debt paid off or to pay for some special expense. Selling assets really is a short-term emergency type of solution. You only have so many assets you can sell; and once they are gone, they can no longer generate income or be used for your purposes.

**Hobby Income** ~ Developing hobbies may bring in some short-term income and might even lead to a small business at some point. Do you have a special talent or craft? Are you a closet musician waiting to come out or a crafter who can sell homemade items or teach others how to make them? Get creative.

**Long-Term:** You may want to develop your career options through education and skills development. Extend yourself at work to take on some harder tasks and show them what you are made of or finish your certificate or degree to qualify you for more employment options.
Variable Income

Before we address how to manage expenses, let’s talk a little more about income for a moment. If you have a variable income, it can be tricky to set up a budget. You may have difficulty knowing what you can afford each month. If you work solely on commission, it can be even more difficult to plan a budget.

Here are some basic tips to get you started:

**Salary + Commissions** ~ If you receive a base salary plus commission, construct your budget entirely on your base salary. This should cover your basic necessities (mortgage/rent, utilities, and food). From there, use commissions to help you cover your other obligations.

If you work for tips or receive the bulk of your salary in commissions, you may want to look back at a few months to determine what is the “low month” for income and base your spending plan for essentials on that month. Then add in the goals and non-essential expenses with the months that have extra income.

**Irregular Pay** ~ If you have a paycheck that varies from week to week according to the hours you work, then you should base your budget on the lowest paycheck amount and go from there. This will give you breathing room if you do have a tough month with low hours. The base salary is used to cover all the essential expenses, and the higher months are used to fund the goals, non-essential expenses, and debt reduction.

**Overtime** ~ If you receive overtime occasionally, build your spending plan using your regular pay and use overtime to help you get closer to your financial goals whether it means more savings or more allocated to reducing debt.

**Beyond Basics** ~ After you have determined what you need to cover the basic expenses, you should prioritize your other expenses. This includes your car payment, car insurance, medical expenses, and other debts. You should also put a certain amount into savings each month to cover yourself if you have month where you do not make enough to cover your living expenses. It is important to remember that your fun money should come at the end of the list of your priorities. You need to meet your obligations first. This can be difficult to do, but it is important.

**Savings is a “Must”** ~ One way that you can help yourself to succeed on a variable income budget is to follow the suggestions above and then slowly save up enough to cover an entire month’s budget. Once you do this, you can simply transfer that money into your account at the beginning of the month. Then you will put your paychecks into your savings account, ready to transfer at the beginning of the next month. This way, you will know how much you need to cut back when you are having a lean month.

No matter whether your income is fixed or variable, reserving funds in abundant months is essential to covering expenses in either low income or high expense months.
Managing Expenses

The money we spend each month is divided between the past, the present and the future. We often don’t think about it in those terms, but the truth is retailers try to focus us on payments rather than the total cost of ownership of items we purchase. This is particularly true for larger items. They prey on our desire for instant gratification but leave us with a stream of payments that linger long into the future. When we are adjusting our spending plan, we should include ALL spending, not just the spending in the current month.

Present ~ We spend for present needs when we pay for our housing, utilities, food, childcare, etc. Taxes come out of current spending as does any of our charitable giving. Present needs will take the largest portion of our monthly budget. If we aren’t careful though, we can find that our spending plan only covers current needs and never gets to the place of funding our future needs.

Past ~ When we take money from current spending to pay for purchases we made in the past, we are incurring fees and interest for the use of that money. These decisions may have been wise if they secure our sources of income and provide for our basic needs. Borrowing money to have a car so you can get to work may be a wise choice, particularly if the car payment is affordable and your transportation is reliable.

We run into danger when past spending impacts our ability to meet our current needs and to establish savings for the future. When we use credit to purchase “wants” and to avoid controlling an issue with our monthly spending plan, we run the risk of having our past dominate our future. Working together with your coach, you will be developing a plan to get out of debt and to be free of the debt monkey on your back. By reducing the amounts we pay for past purchases, we free up money for present and future needs.

Do you see the past constraining your ability to move your spending plan forward? We will talk a little later about some strategies for dealing with debt; and next month, the entire lesson is dedicated to credit, so you won’t want to miss that.

Future ~ By building a plan for the future, you give your budget a forward look. The problem with this chart is that past choices dictate how we move forward. By reversing the order and controlling expenses, you can take control of the past and the future at the same time. You are advancing yourself toward your goals by first establishing emergency savings, then goal savings and investing for longer term retirement and education savings for children.

One trick for including future spending is to automate your savings. For emergency savings and periodic, that could mean that you have a portion of your pay sent directly to your savings rather than transferring it out of your checking. When you don’t see it in your checking account, it is less tempting to use that money for other purchases. For investing, many employers have a retirement plan you can participate in. Sometimes employers even match your contributions. That is a huge win for your future!
Separating Wants and Needs

Having a spending plan allows us to make strategic decisions about where our money should go. The first priority of any budget is to fund the household needs. Then as there is excess, you add wants into your budget.

It is not wrong to include wants in your budget if you can afford them, but not at the expense of needs. In our Crisis mode lesson, we discussed prioritizing those essential expenses. Knowing the difference between your wants and needs will help you be successful.

<table>
<thead>
<tr>
<th>Wants</th>
<th>Needs</th>
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<tbody>
<tr>
<td>Home phone (landline)</td>
<td>Cell phone(s)</td>
</tr>
<tr>
<td>Cable or satellite television</td>
<td>High-speed internet access</td>
</tr>
<tr>
<td>Gym membership or other memberships</td>
<td>Eating out at restaurants</td>
</tr>
<tr>
<td>A second or third vehicle for kids to drive</td>
<td>Vacation trips</td>
</tr>
<tr>
<td>New clothing for every style and season</td>
<td>Purchasing music, books or other hobby items</td>
</tr>
<tr>
<td>Going to concerts, movies or other events</td>
<td>Being able to buy lunch instead of “brown bagging” it</td>
</tr>
</tbody>
</table>

Life is meant to be lived, not survived. Treat yourself to some wants along the way, but do so when you can afford them. Enjoy those wants as the extras that they are.
In your Financial Empowerment Passport, there is a Financial Decision Tree. You can write down some ideas of your own as we discuss them as a class. The things you write down will be aspects of YOUR budget that you can control and can’t control. As you look through the categories of your budget, are there things that you could gain greater control over to cut spending and increase savings?

For example, evaluate your housing expenses and determine what you can control. We might be able to control utility expenses and could choose to eliminate our landline. Rent cannot be controlled in the short term because of the lease agreement. Cell phones and cable may be governed by contract, but there could also be some adjustment that can be made if you contact your vendor and explore options with them.

Why is this important? Because often, the uncontrollable costs are dominant and demanding. But if we can’t control them, it does not make sense to invest a lot of energy worrying about them. We take the actions we CAN take in the controllable side of the equation. Over time, we will see that as we control what we CAN control, we get a better handle on the other pieces of the spending plan as well.

For this coming month, pick one or two of those controllable expenses and see if you can’t reduce some of that current spending so you have enough to fund all your categories and to increase the amounts you dedicate to savings and debt reduction.

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<thead>
<tr>
<th>CATEGORY</th>
<th>CONTrollable</th>
<th>NOT CONTROLLABLE</th>
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</thead>
<tbody>
<tr>
<td>Savings</td>
<td></td>
<td>RENT (contract)</td>
</tr>
<tr>
<td>Housing</td>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>Cell phone?, cable?</td>
<td></td>
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<tr>
<td>Auto</td>
<td>Fuel</td>
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</tr>
<tr>
<td>Debt</td>
<td>Eating Out</td>
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<td>Entertainment</td>
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<td>Clothing</td>
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<td>Medical</td>
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<td>Investments</td>
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<td>Education</td>
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<td>Childcare</td>
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<tr>
<td>Charitable</td>
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Reducing Expenses by Category

Making simple changes in your life can often cut your spending by significant amounts in several key categories.

Food
- Save eating out for special occasions and make your own meals at home.
- Plan your grocery purchases by using a list.
- Clip coupons.
- Join grocery store "membership clubs" that qualify you for automatic discounts.
- Buy generic brands.
- Shop at discount stores.
- Buy items in bulk if you typically use large quantities.
- Carry your lunch to work at least some of the time. This is easier if you make enough dinner to set aside a portion to carry to work the next day.
- When eating out, skip the soda and opt for a free glass of water to save as much as one-fourth on your total bill.

Clothing
- Look for sales instead of paying full price.
- Shop at consignment and thrift shops.
- Sell usable clothing you no longer want or wear at consignment stores or rummage sales to recapture some of its cost.
- Save receipts so you can return clothing or shoes that have flaws or fall apart after being worn just one or two times.
- Make clothing last longer by learning to perform simple repairs with hand sewing, such as mending small rips or replacing buttons. Supplies for a simple repair typically cost less than $2.

Transportation
- Determine how many vehicles your family really needs.
- Ride your bike when weather allows. Inexpensive bikes are often available at garage sales or moving sales.
- Share rides within your family or with coworkers to reduce gasoline costs.
- Combine your trips when you run errands.
- Use public transportation if it's available in your community.
- Perform timely car maintenance to reduce repair costs.

Shelter
- Consider the size and type of home that best meets your needs, which can include an apartment, condo, duplex or single-family home. Many families have a bigger house than they need.
- Buy or rent the home you need rather than the biggest house or your "dream house."
- Consider sharing your home to reduce expenses. If an older member of your family is looking for company or your home is too large for your needs, you may be the perfect match.
- Learn to make basic repairs and renovations yourself. Barring medical disability, almost anyone can paint or paper a room, for example.
Everyday Ways to Save con’t

Utilities

- Decide whether you really need both a cell phone and a landline. Ponder whether you can pick one and eliminate the other.
- Review services from telephone, cable, Internet, and wireless companies. You may be paying for services you don’t need.
- Look for telephone, cable, cell and Internet bundles that offer considerable savings for using multiple services from a single vendor.
- Consider the power usage of small appliances before making a purchase. A heated foot mat typically consumes far less power than a space heater, for example, at a comparable purchase price.
- Look for the “Energy Star” symbol when buying appliances or light bulbs to spend less on electricity and qualify for rebates from many power companies. Figure the payback period of appliance purchases to determine whether you truly achieve savings.
- Turn off anything that isn’t in use, ranging from the air conditioner to overhead lights.
- Buy a drying rack or put up a clothesline rather than using the dryer for some laundry, especially items that dry quickly, such as lightweight athletic shorts or lingerie.
- Run the washing machine or dishwasher with full loads whenever possible.
- Use a programmable thermostat to automatically adjust the temperature when you’re not at home and when you’re asleep. Even when you’re up and about, try setting it a few degrees colder when the furnace is running and a few degrees warmer when the air conditioner is on.

Entertainment

- Borrow books, CDs and DVDs from the library instead of buying them.
- Visit rummage sales to find low-cost reading materials, movies and recreational items ranging from baseball gloves to knitting needles. (One family found a $20 ping pong table with paddles and a net that generated roughly 200 hours of fun during a single summer.)
- Read magazines and newspapers at the library and cancel your subscriptions. Another option is sharing books, magazines and newspapers with coworkers or family to reduce subscription costs.
- Pare down or cancel your internet, smart phone, cable or satellite television bill.
- Meet friends for weekly walks or low-cost craft sessions instead of shopping or lunch.
- Share spending tips with friends. Chances are, they have their own ways to save.
- Turn hobbies into gifts for friends.
- Substitute local vacations for faraway travels. Explore regional tourist sites, take advantage of amusement parks nearby or visit family.

Use it up, wear it out, make it do or do without.
New England proverb
Set Yourself Up for Success

Revisit Temptations List ~ A few months ago, we developed a Temptations List you can find it in your Financial Empowerment Passport. One of the biggest reasons our budgets fail is that we are not adequately addressing these financial weaknesses. We all have them, but there may be different triggers for each of us. If you were able to implement the strategies you outlined, congratulations! You may have saved yourself a lot of headaches. If you still fell prey to those temptations, now is the time to revisit or revise your strategies to ensure they don’t catch you again next month.

Track spending to monitor progress ~ Tracking our spending really helps to identify those spending leaks. By tracking spending, we can evaluate how well we are doing in overcoming those temptations and may even uncover more of those periodic expenses we didn’t think of on first pass.

Working with family members ~ If you are married, you need to talk together as a couple about both of your temptations and work a plan together to overcome any overspending. It is important that, as a couple, you are pulling in the same direction when it comes to building a plan to reach your goals.

Be Realistic ~ Sometimes, we build an aggressive plan to address temptations that may not be realistic. You may not be able to quit a temptation cold turkey. If coffee is your temptation, you may choose to limit the number of times you get coffee from your favorite vendor and make coffee less expensively at home. You are more successful knowing that you can “cheat” from time to time, but it is also important to limit how much you can spend and stick to that.

If you have a compulsive spending problem, you may need to seek additional help and keep yourself away from stores; but that is not the case with most people. It is usually just a matter of discipline.

Spending allowance ~ After you’ve allocated money to cover bills and expenses, try to include a little spending money for the adults and older children in the family. This spending allowance can be used for both needs and wants and should be broken into weekly amounts. That makes it easier for people to make wise spending choices by forcing them to ask, “How can I make myself happy with this amount of money for the next seven days?” This helps people to separate what they truly must have and what they can live without.
The Right Tracking System for You

There are many ways to track expenses, and the best method is the one that works for you.

**Envelope Method** ~ Label a stack of envelopes based on your budget categories (e.g., groceries, dining out, gas). After you get paid, fill each envelope with the money allotted for it in your budget. For example, if you allow $100 for clothing, put $100 in cash in your clothing envelope for the month. Once you've spent all the money in a given envelope, you're done spending for that category. You must budget down to the last dime if you're going to successfully implement the envelope method.

**Calendar Method** ~ List on a calendar when your bills are due and mark them off once they are paid. Be sure to note the dates and payment amounts.

**Register Method** ~ Write down all your spending in a notebook that you carry with you at all times, just like you record checks in your checkbook register. You can create a notebook with different columns for your budget categories, so you can quickly see how you've spent in that category.

**Receipts Method** ~ Keep receipts for everything you buy and write on the receipt what budget category it goes to. At the end of the day (or week), add up all the receipts in each category and compare totals against your budget.

**Budget Spreadsheets and Personal Finance Software** ~ If you have access to a personal computer, you can create your own spreadsheet with columns for your income, date it is received, expenses, their due dates, and the date you paid the bill. Include space under the income and expense columns to total each. Use the help function of your spreadsheet software for instructions, if needed.

Inexpensive Personal finance programs are also available for people who prefer tracking electronically.

Any budget you develop must be livable if it is to be workable.

Using a computer to manage your finances is relatively simple. Updating information is quick and easy. It is important to enter transactions frequently to truly understand your financial position.

**NOTE:** Bank On Virginia Beach Blog has an interactive Excel sheet you may want to use as well. [http://www.bankonhr.org](http://www.bankonhr.org)
Dealing with Debt

Debt has the ability to take money away from your current needs as you allocate it for things that were purchased in the past. We will be spending time discussing the good, the bad and the ugly about credit in upcoming sessions. For now, as you are building your spending plan to sustain your quality of life, know that the more you can reduce debt, the more you free up cash flow for other priorities and naturally improve your net worth by reducing your liabilities. Win – win.

Debt frequently becomes the reason that we do not establish savings. Because debt constrains our cash flow, we delay future goals to pay off past purchases.

**Evaluate debt** ~ To deal with debt, you first need to know:
- how much debt you are dealing with
- what the payments and interest rates are

The size of the debt and the amount of the interest will help you determine the debt’s priority. Use your debt list from the first homework assignment (Financial Assessment in your Passport) to evaluate where you are with debt.

**Prioritize debt** ~ We will be discussing the establishment of a debt snowball in future sessions where you accelerate debt repayment. For now, the easiest way to prioritize will likely be by the size of the debt. As you pay off smaller debts, apply the payment to the next bigger debt and see how quickly you can make debt a thing of the past.

**Create a repayment plan** ~ Once prioritized, create a plan to pay off one debt at a time. If your payments are not affordable, you may want to talk with your bank or credit union about a consolidation or other loan strategy. NOTE: unless you stop getting into debt, you will never get out of debt. You must address the use of credit if repayment is to be accomplished.

**Celebrate success** ~ Every time a debt is paid off, find a way to celebrate as a family without spending too much cash. Little celebrations keep you motivated to take on the next debt and to stick with the plan long-term. You may be repaying for years, but as you pay off one, celebrate the milestone so that there is an immediate sense of accomplishment.

Completing the list of outstanding debts will show you how much is required for total monthly payments.
Credit Purchases

Consider an example of what would happen if you didn’t budget for a periodic expense or you simply use your credit card to purchase an item like many people do.

**Example: Cindy’s Holiday Purchase:**
Cindy starts with a balanced budget. Her income and expenses are the same, meaning that all her income has been allocated to various expense categories.

All of the sudden, Cindy remembers she has to fund her Christmas gifts. Because she has spent all the income for the month, she pulls out her credit card to make the purchases. She essentially has another source of income for the month in the form of credit income to offset the additional expense she incurred for gifts.

By recording the credit income on the income side of her spending tracker, she recognizes this additional source of income. This could also apply if she were getting funds from anywhere else. If she took out a loan or if she used her savings, she would record the additional source of income that was used to fund the spending.

Rather than just counting this credit income as debt right off the bat, she recorded the expense in its proper category in the month of the purchase. Now she has a good record of purchases for each category and can use this in the future as she prepares for next year’s purchases. Next year, she will use the periodic expense planner and save for the purchase, so it doesn’t have to be put on credit.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500 earned income</td>
<td>$2,500 regular monthly</td>
</tr>
<tr>
<td>$ 600 credit income</td>
<td>$ 600 add’l expense (Gifts)</td>
</tr>
<tr>
<td>$3,100 total income</td>
<td>$3,100 total expenses</td>
</tr>
</tbody>
</table>
**Spending by Category**

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income</td>
<td>$2,500.00</td>
<td>$2,500.00</td>
</tr>
<tr>
<td>Credit Income</td>
<td></td>
<td>$600.00</td>
</tr>
<tr>
<td>Net Income</td>
<td>$2,500.00</td>
<td>$3,100.00</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular Expenses (Categorized)</td>
<td>$2,500.00</td>
<td>$2,500.00</td>
</tr>
<tr>
<td>Add'l Expense (Gift)</td>
<td></td>
<td>$600.00</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$2,500.00</td>
<td>$3,100.00</td>
</tr>
</tbody>
</table>

Now, here is what it will look like in your spending tracker. The regular expenses would be categorized in their proper categories and you would categorize the additional expense in its proper category.

We recorded the earned income of $2,500. We added the credit card income of $600 to total to the $3,100 income.

On the expense side, we record our monthly expenses in their categories just like before, but we also record that additional spending of $600 to bring us to $3,100 of spending. Both income and expenses balance again.

We still end up with our balanced spending plan, by recording all sources of income and all spending regardless of how it was funded.

In summary, we record the purchases we make for the month in their proper expense category. We then record the additional source of funding for that month as a new source of income.

Now, when the credit card bill comes in the next month, there is no new income to record there, but there will be an additional monthly payment you need to make on that credit purchase. You will record that payment in the debt category. Ultimately as we get better at planning for periodic expenses, we will rely less and less on the credit card to fund those expenses.
Importance of Savings

Periodic Savings: Reserving funds for periodic expenses helps you plan for large expenses that are outside of your day-to-day spending. This is where you save for life's smaller upsets and unforeseen demands: the car breaks down, the refrigerator finally dies or your youngest needs braces. It also helps with those expected expenses that do not occur each month like taxes or holidays. As you plan for periodic expenses each month, set those amounts aside until the expenses actually come due. Then you will have the cash you need at the time when you need it.

Emergency Savings ~ Saving for emergencies makes it possible to cope when the unthinkable occurs. Emergency savings should never be tapped when the car breaks down or the roof needs repair. Instead, emergency savings are reserved for truly dire occurrences like an interruption to your income or an overwhelming unexpected expense. Typically speaking, you should set a goal of saving enough money to replace income and/or cover ongoing expenses for at least one month.

Goal Savings ~ Making lifestyle changes is easier when we know what we’re working toward. Some of us want to take a vacation, others may want a new car. Once we have that vision, we may need to start setting money aside in order to achieve it. That’s where goal savings come into the picture. We want to turn those goals from wishes into attainable milestones. We can’t do that if we don’t put some funds toward those goals. We took some time in last month’s homework to prioritize our most important goals. Those are the ones that get funded first. If you have a limited amount you can dedicate to your goals, save your money for the highest priority goal and then tackle the next one after the first is completed.

Retirement Savings ~ Unless you are a government employee, few employers offer pensions anymore. This means that we have to establish our own savings for our retirement. This is money you control and no employer can take from you. To gradually build up retirement saving, you might want to start at 1% with subsequent 1% increases as you free up additional funds. In many cases, you may have to live on your retirement savings while waiting for initial pension or Social Security payments. Many pension plans don’t issue a payment until two to three months or even longer after you retire. Social Security may take up to two months before the first check arrives after you become eligible.

Treat savings as bill that must be paid to yourself.
Debt Reduction and Savings

A lot of people struggle when they first start building a budget about how much to allocate to debt reduction and how much to put to savings.

Debt Reduction ~ It seems to make sense to allocate as much as you can to debt reduction, after all you are paying interest on all that debt. Getting out of debt as quickly as possible seems to make sense. When allocating between debt and savings, you want to be sure you are paying at least the minimum payment on debts.

Savings ~ However, if you don’t build your emergency savings or set aside money for the periodic expenses, you may find yourself needing to INCREASE your debt rather than decreasing it. Savings keeps you from having to go to the credit card for unplanned or periodic purchases. The way to stop dependence on using credit for purchases is to build your savings.

Concurrent strategy ~ Now, you can’t just ignore the debt to focus on building savings either. So this is going to be something you work on concurrently. You want to pay at least the minimum balances on the debt and then make sure some funds are going to establish emergency savings and a reserve fund for periodic expenses.

Retirement ~ If you work for an employer that offers an employer match for retirement, you don’t want to miss out on that free money either. Contributing to your retirement will ensure your future is secure even as you are taking care of your basic needs today.
Comparing Actual vs. Planned Spending

In your Financial Empowerment Passport, there is a form that is similar to this one. You will use it to test your budget this month. As you can see, continuing to track your spending for a while is important until you get your budget operational. Not all budget categories are included in this example. When you complete your Spending by Category vs. Budget form, you will include all of your spending categories.

In this example, Jerry established a spending plan and compared it with his actual spending for the month. The spending plan is developed before the month begins. Actual expenses occur throughout the month. Let’s see how Jerry did. He has some actual spending that deviated from the spending plan. We will examine just a few of his budget categories. He estimated his spending in the budget listed in the spending plan column. When he compared his actual spending to the spending plan, there were a few categories that were different. Let’s take a look and help Jerry with some good recommendations from the class.

**Income** ~ Jerry did a good job estimating earned income. There is additional income because Jerry took money out of his savings to cover some periodic expenses.

**Savings** ~ Actual savings was less than planned. Sometimes when we have a deviation it is because our budget needs adjusting. Sometimes it is something that we planned for or is a one time expense that will not be recurring. We compare to see if our spending plan needs to change or we need to get greater control over a category.
In Jerry’s case, his son was graduating from high school, and he threw him a party. The additional expense is a periodic expense. He did take some from his savings account and the remainder he reduced his monthly savings. Does his budget need to change because of this? [Answer: no, because it was a planned periodic expense and his savings budget did accommodate that expense.]

**Housing** ~ Now let’s take a look at housing. His spending was a little higher than budget because he forgot to add in the bill for his landline when he created his plan. Should he change this budget item? Why? [Instructor: Let the class come up with ideas. The discussion could lead to a change to incorporate the cost of the landline or keep the budget the same and make an adjustment to get rid of the landline.]

Your spending plan will not mirror someone else’s because it is a measure of what you value and hold dear. Your choices are your choices to make; but, ultimately, we need to make our spending choices fit within the constraints of our income. Take the students through evaluating the remaining deviations.

**Groceries** ~ He bought extra for the graduation party but not that much. When he bought groceries, he stayed under $250; but midway through the month, he found that he had to go back for some extras for the party.

**Misc.** ~ This included graduation gifts, postage, haircut and allowance. The graduation gifts were included in periodic spending, but the expense just happened to occur this month.

If you are saving for periodic expenses, it is expected that you will draw from that savings to pay for these expenses as they happen. In this case, he reduced the amount he put into savings and redirected it to pay for the periodic expense this month. If you do draw from savings, you would show that as additional income in your tracker for the month.

Together with your coach, you will go through the same exercise with your budget this month.
Determining whether our spending plan is realistic may need more than just a sampling of our actual expenses for a month. Guidelines are based on national averages and are not meant to be the “rule” for my spending, but if I have a category that is consuming my budget, it is helpful to compare the percent of my take home that is spent with the guideline percentages. It is a useful tool to determine where I can focus when I need to make some adjustments.

For instance, if I am spending 10% of everything I bring home on going out and having fun (entertainment) then I need to recognize that other categories will have to be decreased to accommodate my lifestyle.

We live in an area where the cost of housing can be rather high, but if my rent and utilities exceed this guideline amount, I will surely have to adjust in other categories. Your particular lifestyle can impact how much you spend in a particular area. For instance, if you are single and have a roommate to share expenses, more of your income can be redirected from housing to other categories.

For your assignment this month, you will be challenged to calculate the percentage of what you spend in your budget categories and compare with this guideline.
Using a Guideline

Sometimes, we need a benchmark of some sort to find out if our budget is realistic. For instance, I don’t know how much you spend on groceries, I only know what I spend each month on groceries. Is my spending normal? Guideline budgets are not meant to dictate how you should spend your money, but they can be helpful in identifying categories of the budget that may not be realistic.

Let’s look at this example ~

**Savings** ~ This percentage is much less than the guideline budget. We know that we are trying to build savings, so perhaps he should plan to increase savings over time to get closer to the guideline. Perhaps he could begin small and grow that savings over time.

**Housing** ~ This percentage variance was reasonable. Unless there are some housing expenses we didn’t capture in the budget, there would be no reason to look at increasing the budget, but perhaps there are still some ways to save a few dollars in Housing that we can use for other categories.

**Groceries** ~ He overspent the budget but still underspent according to the guideline. This may mean that his budget may not be realistic long term, or it may mean that he is able to save some in the grocery category to fund other categories. Jerry should monitor the grocery spending for a couple of months and see if he can really live within his estimate or if he needs to adjust.

**Misc.** ~ We already know that he had a large month for Miscellaneous spending, but his planned spending would suggest that he should spend less than 1% on Miscellaneous. Is that OK? Is he being too aggressive with his budget? Again, he will need to monitor that category over the next couple of months and see if he can stay within his estimated budget regularly.

**Adjusting Your Budget** ~ If you have allocated all of your income to various categories and your budget is adjusted, it will mean that not just one category changes, but perhaps several. You cannot spend more than your income. Making adjustments can take some thought and some time. Your coach can help you through the decision making process.

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual %</th>
<th>Guideline</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>100%</td>
<td>100%</td>
<td>0</td>
</tr>
<tr>
<td>Savings</td>
<td>1%</td>
<td>7%</td>
<td>-6%</td>
</tr>
<tr>
<td>Housing</td>
<td>35%</td>
<td>38%</td>
<td>-3%</td>
</tr>
<tr>
<td>Groceries</td>
<td>11%</td>
<td>15%</td>
<td>-1%</td>
</tr>
<tr>
<td>Misc.</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Plan monthly expenses before month begins ~ A spending plan that works is one that anticipates your future needs and allocates money to meet them. Your spending plan is a map to how you plan to spend your funds. It is developed before the month begins.

Pay yourself first ~ When you include savings as a bill that gets paid each month, you make sure that it happens. Automating savings will make sure that you pay yourself first. You may want to consider having it deposited directly from your paycheck.

Plan for periodic and goals ~ A good spending plan allocates funds for the periodic before they happen. Remember if we don’t plan for the periodic expenses, we likely will revert to using a credit card to fund them.

Compare actual spending with planned ~ When we track our spending, we want to record our spending no matter how it was funded. If it came from our paycheck, from credit card or from our savings, we would include that spending and then reflect the additional income source.

Rollover unspent money to be used in future months ~ Over time, as you underspend in a particular category, you can roll over the excess to savings to help build up your reserve for future months that may have higher expenses and for periodic expenses like car repairs and medical costs.

If you receive extra money, make a plan in advance for how it will be spent. Will you use it to accelerate debt reduction or build savings? Do you have a goal you are working toward? You may also decide to use part of the money for a special treat for you or the family. You still need to decide where the money goes, or you may end up overspending.
1. **Planning for future includes: Select all that apply.**
   - a) Savings
   - b) Rent
   - c) Periodic expenses
   - d) Funding goals

2. **A guideline spending plan should be followed no matter what.**
   - a) True
   - b) False

3. **If you purchase something on credit, your spending tracker this month should include: Select all that apply.**
   - a) Debt repayment
   - b) Additional credit card income
   - c) Periodic expenses
   - d) Expense categorized

4. **To minimize use of credit card spending: Select all that apply.**
   - a) Shop while things are on sale
   - b) Pay yourself first
   - c) Purchase only “in-store”
   - d) Plan for periodic purchases

5. **When budgeting with variable income: Select all that apply.**
   - a) Use first-in, first-out method
   - b) Build plan on low income months
   - c) Look to history to find an “average” income
   - d) Use higher income months to advance debt reduction and goal savings.
Glossary

**Calendar Method:** Budgeting method to help you pay your bills on time by your recording when they are due and marking them off once they are paid.

**Debt Snowball:** Method of accelerating debt repayment to minimize time in debt and interest paid.

**Envelope Method:** Budgeting method that allows you to spend the money in the envelope of a budget category only on an item of that category. For example, the money in the grocery envelope may only be used for groceries.

**Guideline Spending:** National averages for amounts typically spent in a given category. Guidelines are a rule of thumb measure for reasonableness and are not intended to be a “rule” for spending.

**Periodic Reserve:** Money held from current spending to cover a future periodic need.

**Receipts Method:** Budgeting method that lets you track your previous spending by writing your budget category on your receipt and later adding your receipts by category to compare to your budget.

**Register Method:** Budgeting method that encourages you to organize your spending in columns by budget category as you spend it, so you always know how much you have spent at any given time.