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# Budgeting

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# Workshop Goals

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In this workshop, you will...

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- 1) Explore the importance of creating and maintaining a budget.
- 2) Examine the differences between wants and needs.
- 3) Set goals for spending, saving, and debt repayment.



# Budget Overview

## What is a budget?

It can be an estimate of income and expenses for a set period of time, a road map, or a financial plan.

## Why use a budget?

It can help you understand your spending habits, create a savings plan, or pay off debts.

## When can you use a budget?

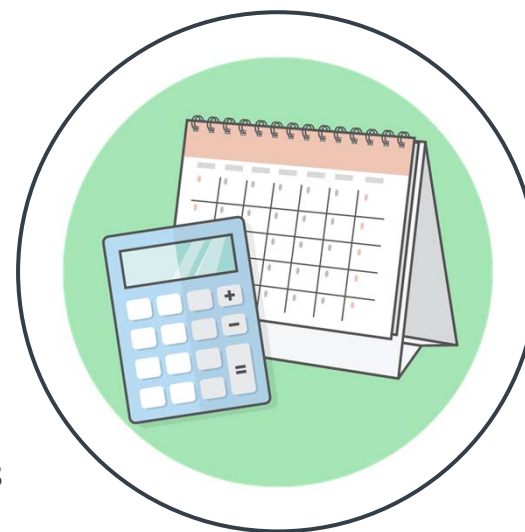
Budgets can be used regularly to help you maintain good financial practices, or they can be used to help you achieve a specific goal.



# How to Build a Budget

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- Step **1** **Step 1: Get Organized**  
Locate and organize financial documents.
- Step **2** **Step 2: List Income**  
How much money is earned each month after taxes from a paycheck, Social Security, or other means?
- Step **3** **Step 3: List Expenses**  
How much money is spent each month, and on what?
- Step **4** **Step 4: List Savings**  
How much money is set aside for savings?
- Step **5** **Step 5: List Debt**  
How much money is owed to creditors?



# Marta's Story

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- Marta is a 40-year-old woman who works two jobs, one at a grocery store and another as a hostess at a restaurant.
- Marta often feels overwhelmed by her large debt. She has also paid bills late in the past. One reason is that her personal finances are not very organized.
- Let's see how the five-step plan can help her better understand her options, behaviors, and solutions.



# Marta's Required Documents

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Which of these financial documents would Marta need for her budget?



- Loan statements
- Credit reports
- Receipts
- Tax returns
- Tax estimates
- Bills
- Deposit slips
- W-2s
- Passport
- Credit card statements
- Credit card offers
- Financial institution statements
- Internet offers
- Pay stubs
- Social benefits statements

# Marta's Current Spending



Marta's Monthly Income: **\$2,000**

Total Expenses: **Needs + Wants**  
 Disposable Income: **Income – Needs**

## Needs

Rent	\$600
Groceries	\$200
Utilities	\$100
Car Payment	\$200
Car Insurance	\$120
<b>Total</b>	<b>\$1,220</b>

## Wants

Coffee	\$20
Restaurants	\$50
Entertainment	\$40
Clothing	\$100
<b>Total</b>	<b>\$210</b>

## Debt

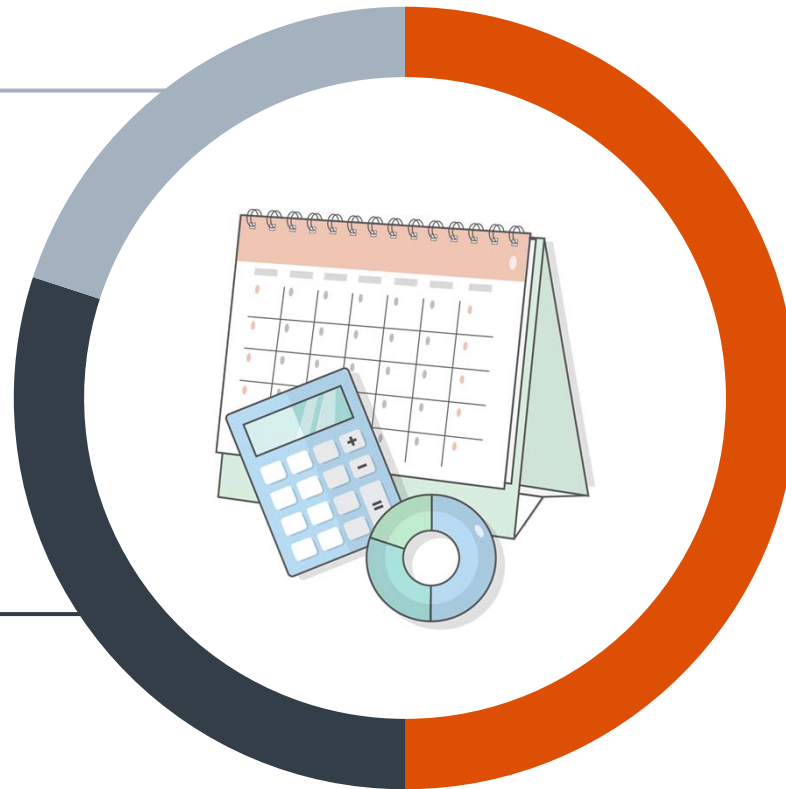
Credit card	\$200
Student loans	\$100
<b>Total</b>	<b>\$300</b>
<b>Savings Contribution</b>	<b>\$100</b>

# 50-30-20 Rule

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At least 20%  
of income on  
savings and/or  
debt repayment

No more than  
30% of income  
on wants



No more than  
50% of income  
on needs



# Gross and Net Income: What's the Difference?

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## **Gross income:**

**Gross income** is the amount of money you earn before anything is taken out for taxes.

## **Net income:**

**Net income** is the amount of money you earn after all taxes are taken out of your pay.

# Categories Method

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The Categories Method is a more detailed breakdown of percentages and categories:

**30%** for housing

**10%** for utilities and other housing expenditures, including renter's insurance

**10%** for groceries

**10%** for transportation, including car loan

**10%** for debt repayment (student loans and credit cards)

**10%** for savings

**5%** for dining out

**5%** for car insurance and miscellaneous auto expenses

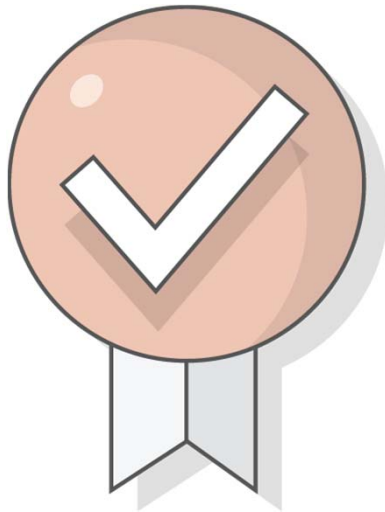
**5%** for clothing

**5%** for entertainment



# Setting Goals

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**Short-term goals** can be accomplished in a few months or up to two years.

**Medium-term goals** can be accomplished in two to five years.

**Long-term goals** can be accomplished in more than five years.

# Strategies for Paying Off Debt



## Ladder Method

- List all of your debts from highest to lowest interest rate.
- Depending on your budget method (50-30-20 Rule or Categories Method), determine how much you have allotted for debt reduction.
- Ensure that your monthly minimum payments are met for each debt category.
- Choose the highest interest rate loan to pay off first.

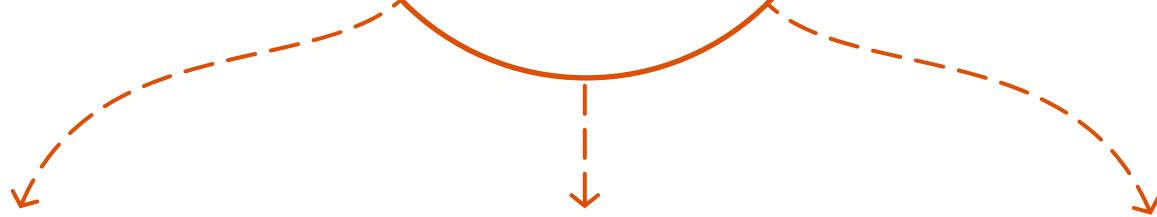


## Snowball Method

- List all of your debts from smallest to largest balance.
- Depending on your budget method (50-30-20 Rule or Categories Method), determine how much you have allotted for debt reduction.
- Ensure that your monthly minimum payments are met for each debt category.
- Choose the loan with the smallest balance to pay off first.

# Maintaining Financial Strength and Health

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Have daily, weekly, and monthly check-ins

Meet with a financial institution representative

Discuss personal finance with a financial planner

# Summary

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## Remember...

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- 1) There are lots of strategies for budgeting, but the important thing is that you use one to manage your spending, savings, and debt repayment.
- 2) When approaching your debt repayment, consider strategies like the Ladder Method or the Snowball Method to help you.
- 3) Speak to someone you trust, like family, a friend, or your financial institution representative for additional support.

