

CHAPTER 4: BUILDING FINANCIAL SECURITY



OBJECTIVE:

To discover information and tools for spending and saving wisely.

In **Chapter 1**, you spent time developing personal financial goals or SMART goals. It is likely that they included developing a savings plan to reach a specific goal. In this chapter, we will focus on ways to help you reach your savings goals. We recommend two approaches depending on what kind of person you are.

THE BUDGETER

You've heard it before ... "in order to achieve your financial goals, you need to plan for them." This plan for your money is called a budget. Everyone has a plan for your money, so you need to have one too! The "Budgeter" is the kind of person who finds that having a written spending plan or budget is useful. Budgeters are willing to track their expenses for 1–3 months to make sure that their expenses match what they budgeted for that item, and are interested in refining this written budget over time in order to gain more control over their money. We will review a budgeting process that will help you establish and use a budget if that appeals to you. People who are willing to take the time to learn how to use a budget often find that their savings power is boosted and their stress around money lessens because they have a tool to control their money rather than having their money control them!

THE NON-BUDGETER

In our experience, we have also found that there are people who don't find written plans useful but have found a way to manage their cash flow and save money without a detailed budget. By paying yourself first (by automatically depositing money from your paycheck into a savings account), you will train yourself to spend at a lower level. As Suze Orman, financial planner and author of many financial books, says "*The more you make, the more you will spend. The less you think you make, the less you will spend.*" So put a set amount of money away into savings before you ever see it.

The Power of Money and Time

PAY YOURSELF FIRST AND MAKE IT AUTOMATIC

1. Decide how much of each paycheck you wish to save, considering your financial goals and when you would like to achieve them. A budget will help you decide what you can free up to boost your savings. Certified Financial Planners recommend that you save 10% of your gross income (before taxes) each paycheck. If you cannot save 10%, start with whatever you can!
2. Determine where you want to put your savings. You should set aside a portion of each paycheck and have it automatically deposited into a savings account with your bank, credit union, or mutual fund company. The type of account you choose will depend on your savings goals. See chapter 5 for more information.
3. Watch your savings grow.

VALUES AND SPENDING

Before we get into where and how you are spending your money, it is important to think about what is important to you. Doing this exercise can help you identify what is really important to you before you begin to refine your budget.

Values are beliefs or ideas that you consider important or desirable. Everyone has values, but everyone does not value the same things equally.

To help you recognize some of your own money values, read the pairs of words on the next page. Circle one value in each pair that would be your first choice if you had \$50 to spend. You must make one choice in each pair. Then on page 50, we'll see which values you might want to keep in mind as you create and refine your budget.



FITNESS TIP

SAVE EACH MONTH AND MAKE IT AUTOMATIC!

Whether you are a Budgeter or Non-Budgeter, the most important step you can take to build financial security in your life is *to make automatic deposits into a savings account each month!* Make it easy to put in and hard to get out (don't combine it with checking or with any account that gives you easy access to it through an ATM card or transfer option).

Note: If buying a home is your goal, try to save the difference between your current rent and the amount your mortgage will be to test your ability to pay it.

Mortgage amount will be	\$1,100
Current rent is	- \$800
Amount to save each month	<u>\$300</u>

If you had \$50, what would you spend it on?

8. Hobbies
5. Church/Giving

9. Social activities
3. Clothes

1. Savings
4. Sports/Recreation

7. Home
3. Clothes

2. Food
4. Sports/Recreation

5. Church/Giving
10. Personal appearance

1. Savings
8. Hobbies

7. Home
4. Sports/Recreation

2. Food
8. Hobbies

10. Personal appearance
2. Food

9. Social activities
5. Church/Giving

10. Personal appearance
3. Clothes

1. Savings
5. Church/Giving

8. Hobbies
3. Clothes

2. Food
5. Church/Giving

6. Car
7. Home

1. Savings
9. Social activities

8. Hobbies
4. Sports/Recreation

2. Food
9. Social activities

4. Sports/Recreation
3. Clothes

3. Clothes
5. Church/Giving

8. Hobbies
9. Social activities

5. Church/Giving
4. Sports/Recreation

6. Car
1. Savings

9. Social activities
4. Sports/Recreation

6. Car
10. Personal appearance

10. Personal appearance
1. Savings

5. Church/Giving
6. Car

2. Food
1. Savings

8. Hobbies
6. Car

9. Social activities
7. Home

6. Car
2. Food

10. Personal appearance
9. Social activities

3. Clothes
6. Car

8. Hobbies
10. Personal appearance

6. Car
4. Sports/Recreation

7. Home
1. Savings

10. Personal appearance
4. Sports/Recreation

7. Home
8. Hobbies

3. Clothes
2. Food

5. Church/Giving
7. Home

3. Clothes
1. Savings

9. Social activities
6. Car

10. Personal appearance
7. Home

7. Home
2. Food

Count all the times you circled each word and write the total in the spaces below:

- | | |
|----------------------------|-------------------------------|
| _____ 1. Savings | _____ 6. Car |
| _____ 2. Food | _____ 7. Home |
| _____ 3. Clothes | _____ 8. Hobbies |
| _____ 4. Sports/Recreation | _____ 9. Social Activities |
| _____ 5. Church/Giving | _____ 10. Personal Appearance |

Now rank the item counts by organizing items from highest count to lowest count. If there is a tie, write the items in the order you choose.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

The list above reflects the items you consider most important in their order of importance. By knowing your values, you can design a personal spending plan that will fit your values. The closer your budget fits your values, the easier it will be to follow it.

Sources: www.hsfpp.nefe.org; NeighborWorks America

Check out this online tool to help analyze values and financial decisions:

<http://www.smartaboutmoney.org/Tools/10-Basic-Steps>

Budget to Meet Your Goals

A budget is a planning tool that helps you reach your savings goals.

HOW DO I CREATE A SUCCESSFUL BUDGET?

1. Establish your savings goals.
2. Know your net monthly family income (what you take home after taxes) and base your budget on this amount.
3. Know what your expenses are by tracking fixed and changing expenses.
4. Make a one-month budget (include savings-remember to pay yourself first!)
5. Track your expenses and income for one month to see if the amount you budgeted equals what you actually spent.
6. Evaluate your spending choices and decide whether you need to increase or decrease your budget in particular areas. Do your current spending habits match your values from the previous page?
7. Continue to refine your budget so that the budgeted amounts and the money actually spent are more consistent over time, better match your values, and you have more control over your spending and savings.
8. Develop a yearly budget customized to your family's needs to meet your savings goals.

KEYS TO SUCCESSFUL BUDGETING

- Include the whole family and decide how the money will be spent, who will pay the bills, and who will maintain the budget.
- Pay yourself first! Develop savings goals and establish a savings habit. Try to save 10% or more of your income. If you can't manage 10% right away, save a smaller amount on a regular basis and increase it little by little as you can.
- Decide which are your family's most important goals. Think about the difference between WANTS and NEEDS for you and your family. (Use the time-cost analysis to evaluate spending choices. For example, if you make \$10/hour and want to buy a \$30 item, you will need to work three hours to pay for this item. Is the item worth three hours of your time?)
- Pay down debt and don't let it build up again.
- Remember to include savings reserves in your budget for irregular bills and unexpected expenses (as a homeowner, you'll need reserves for home maintenance).
- Keep good records but make the process as simple as you can.
- Budgeting is a long-term process. It will take time to make it work for you and your family. You will succeed if you are determined and patient!



FITNESS TIP

Start saving for retirement now...no matter what your age is! If you're 45 and start putting \$100 per month into an account that averages 10% return, you'll have \$71,880 by age 65. If you're 35 and put \$100 per month into an account that averages 10% return you will have \$206,440 by 65. If you start at 25 and put \$100 into an account averaging a 10% return, you will have \$555,454 by age 65.

Budgeting Worksheet

FAMILY BUDGET	Budgeted Amount	Actual Amount	Proposed Change
NET MONTHLY INCOME			
Head of Household #1			
Head of household #2			
Other Income			
Child Support			
Total Income			
MONTHLY EXPENSES			
Housing: Rent/Mortgage			
Savings			
Groceries: Food, Household Products/Baby Needs			
Water			
Gas			
Electric			
Sewage/Garbage			
Telephone: Landline and Cell Phone			
Cable TV/Internet			
Home Maintenance: Repairs, Yard, etc.			
Day Care/Baby Sitter			
School Loan/Tuition			
School/Work Lunches			
Child Support			
Car Payment(s)			
Car Insurance			
Car Maintenance			
Car - Gas			
Health and/or Life Insurance			
Medical: Physicians, Dentist, Eye, etc.			
Clothing, Laundry, Dry Cleaning			
Entertainment: Movies, Concerts, etc.			
Restaurants/Eating Out			
Haircuts			
Family Advancement: Piano, Gymnastics, etc.			
Credit Card			
Credit Card			
Credit Card			
Cash/ATM			
Gifts: Birthdays, Anniversaries, Holidays			
Furniture			
Vacations			
Other:			
Other:			
Other:			
TOTAL EXPENSES			

Calculating Your Net Income

Your **net income** is how much money you actually take home each month.

Knowing how much is coming in each month is a very important component to being successful with your budget. Let's figure out how much it is.

IF YOU GET PAID...	USE THIS FORMULA TO CALCULATE YOUR NET MONTHLY INCOME:
Monthly	Use monthly net payment amount
Twice Monthly/Bimonthly (24 times per year)	One paycheck net pay x 2 pay periods
Biweekly (26 times per year)	(Biweekly net pay x 26 pay periods) / 12 months
Weekly (52 times per year)	(Weekly net pay x 52 pay periods) / 12 months
If your income changes because you are self-employed, your hours fluctuate, you receive tips or commission, it's a little more complicated	We recommend taking an average of the last 2 years, or however long you can.

If you receive \$1000 per paycheck...

...and are paid every 2 weeks, or biweekly:

\$1000 x 26 pay checks = \$_____ per year / 12 = \$_____ per month

...and are paid 2 times per month, or bimonthly:

\$1000 x 24 pay checks = \$_____ per year / 12 = \$_____ per month

If you are self-employed, tipped or receive commission, we recommend taking an average of the last 2 years.

Year 1 total net income + Year 2 total net income = 2 year total / 24 months = average monthly net pay

\$26,000 + \$33,000 = \$59,000 / 24 = \$2,458 average monthly net pay.

How much do you take home?

\$ _____ x _____ = _____ / 12 months = \$ _____

Net paycheck amount x number of pay checks per year = annual net income / 12 months = average monthly net income

Tracking Expenses

TRACKING YOUR EXPENSES CAN HELP YOU IN TWO WAYS:

1. **Give you an understanding of how much and where you spend your money so you can develop accurate categories for your budget.** The budget sample we use in this manual has suggested categories but they may not work for you. It may be more helpful to develop categories that best represent areas where you spend money. Some examples that might be unique to a particular person would include: eating out, books and CDs, workout classes, charitable giving, or whatever category fits for you.
2. **Confirm whether the amount you budgeted equals what you actually spent in a particular category each month.** Many of the changing expenses entered on the budget sheet initially come from our best guess of what we spend. If you want to increase your control over your spending, you need to understand and evaluate where your money is going.

There are many systems for tracking and organizing your expenses into meaningful categories. Which system you use will depend on how much attention you want to pay to tracking expenses on a daily or weekly basis, as well as your preference around the convenience of each method. Here are some suggestions for you to consider:

- Use the Expense Tracker on pages 55-56 with defined categories. This sheet works best if you know most of your categories of spending ahead of time.
- Use the Tracking Log on page 57 without defined categories if you want to record your expenses and then decide what categories they should be placed in later.
- Collect receipts and log them onto an expense tracker at the end of the day or week. Some people store receipts in a bowl and tally them up at the end of the day or week. Be careful not to wait too long to add these up, as you may give up if the stack of receipts gets too overwhelming.
- Carry a small notebook in your purse or back pocket and record your expenses on a daily basis.
- Use a computer program, an online banking service or mobile app that helps you categorize and track expenses.

SOME HELPFUL HINTS TO HELP YOU STAY ON TRACK:

- Develop a support system or buddy system so you can check in with each other and provide encouragement when you lose motivation.
- Don't let the receipts or paper build up – find a system that works for you whether it is a nightly ritual or a Sunday practice over your morning coffee.
- Make a commitment to track your expenses for at least 30 days or longer if possible. Remember – you don't have to do this forever, but do check in from time to time to make sure you are still on track or to make adjustments.
- Tracking spending for one month will give you a good idea about your spending habits. To truly get an accurate picture, tracking needs to continue for 60-90 days. Items like haircuts, facials, birthday presents and Holiday food shopping do not happen every month. You may have an automobile schedule for replacing your oil, tires, windshield wipers etc. For irregular items like these, calculate how much you will need over a year and divide by twelve to see how much you can save each month to cover these irregular expenses. How detailed of a budget you create is up to you.

Expense Tracker (Option 1 – Example)

DATE	PAID TO	GROCERIES/ HOUSEHOLD PRODUCTS	PERSONAL ITEMS	MEALS OUT	CLOTHING	UTILITIES	PHONE	CAR GAS	OTHER ENTERTAIN- MENT	MEDICAL	MISC	OTHER
7/12	Avon		\$22.20									
7/12	Seats				\$46							
7/13	PNM					\$58.40						
7/13	Starbuck's										\$4.10	
7/14	Albertson's	\$73.80										
7/14	Maria's Restaurant			\$48.70								
7/15	Starbuck's										\$3.60	
7/15	Netflix								\$24			
7/15	Chevron							\$26.20				
7/15	Drycleaners											\$13.50
7/16	Water/Refuse					\$47.30						
7/16	Trader Joe's	\$24.90										
7/16	Payless Shoes				\$23							
7/16	Walgreens		\$14.80									
7/17	Starbuck's										\$3.60	
7/17	Big 5 Sports - Sam's bday											\$36.70
7/17	Target - Sam's bday											\$16.10
7/17	McDonald's			\$4.80								
7/18	Smith's	\$32.10										
7/18	Red Box - movie rental								\$8			
7/18	Target		\$27.90									
7/18	Albertson's Pharmacy									\$80		
SUBTOTAL		\$98.70	\$64.90	\$53.50	\$69	\$105.70	\$32.10	\$26.20	\$32	\$80	\$11.30	\$66.30

Expense Tracker (Option 2)

Date	Amount	Method (cash, credit, check, debit)	Spent On	Category

Budgeting Worksheet by Pay Period

It is important that you know which paychecks will cover specific bills so that you will have a plan that assures that you won't have any late payments. Many companies are using a new system to scan checks so that payments will be processed more quickly. Therefore, consumers need to make sure that the money to pay their bills is available in their checking account when they mail the payment out.

Example:

1st Payment of the month Feb. 2

Net pay = \$1,140

EXPENSE	DUE	AMOUNT
Automatic Savings	Feb 2	\$50
Internet	Feb 10	\$65
Car Payment	Feb 16	\$150
Food	for 2 weeks	\$200
Utilities	mid month	\$120
Day Care	Feb 5 (drop off)	\$225
Gas		\$80
Entertainment		\$50
Car/Health Insurance	Put into savings for yearly expense of \$1200	\$100
Cushion		\$100
TOTAL		\$1,140

2nd Payment of the month Feb. 16

Net pay = \$1,140

EXPENSE	DUE	AMOUNT
Automatic Savings	Feb 16	\$50
March Mortgage/Rent	March 1	\$675
Food	for 2 weeks	\$200
Clothing/Personal		\$140
Cell Phone	Feb 20	\$75
TOTAL		\$1,140

You can use the monthly budget worksheet to budget out yearly and monthly expenses, and/or use the above format to refine which paychecks will cover specific bills or expenses.

Budgeting Worksheet by Pay Period

Now you try it. Fill in the blank charts below with your own monthly expenses and their due dates. Use this tool to keep you on track and to help you make your payments on time.

1st Payment of the month _____ Net pay = \$_____

EXPENSE	DUE	AMOUNT
TOTAL		

2nd Payment of the month _____ Net pay = \$_____

EXPENSE	DUE	AMOUNT
TOTAL		

You can use the monthly budget worksheet to budget out yearly and monthly expenses, and/or use the above format to refine which paychecks will cover specific bills or expenses.

Monthly Payment Calendar

- Transfer your expenses to the dates they need to be mailed on the Monthly Payment Calendar Worksheet.
- Check off each bill as it is paid.

Month: **February**

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
1	2 PAYDAY Auto deposit Auto savings	3 Car/health Insurance	4	5 Day care drop off pmt Phone bill	6 Cell phone	7
8	9	10 Car payment	11 Utilities	12	13	14
15	16 PAYDAY Auto deposit Auto savings	17	18	19	20	21
22	23 Mortgage/ Rent payment	24	25	26	27	28



FITNESS TIP

Many companies give away free calendars throughout the year. Grab one and use it to track your bills and payments. You can even put in your paydays right away so you know what to expect for the year.

Monthly Payment Calendar

- Transfer your expenses to the dates they need to be mailed on the Monthly Payment Calendar Worksheet.
- Check off each bill as it is paid.

Month:

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY

Case Study: How to Budget for a Home Purchase

Henry and Gail Martinez have been married for three years. Last year they had their first child, and the desire to own their own home became stronger. After meeting with a Home Purchase Advisor, they realized they would be comfortable with a \$1,000 monthly payment. This would allow them a home purchase of about \$162,000, with a minimum 2% down payment of \$3,245.

Their savings goals are: To buy a home in one year and to have a reserve savings account to cover two months of essential expenses in case of an emergency.

They currently have \$3,000 set aside in savings (this will cover their reserve savings goal). They still need to figure out how to save an additional \$3,245 over the next year.

In order to reach their goal, Henry and Gail will need to save \$_____ per month.

Income: Henry is a shift manager at ACME TIRES. Gail graduated from UNM and is a staff writer at a local newspaper. Together they net \$4,245 a month.

Expenses: Gail and Henry have tracked their monthly expenses for the past month and are currently spending \$4,467 (detailed on the following page).

CONSIDER SOME OF THE FOLLOWING CHOICES:

1. **Food and childcare:** Henry and Gail spend \$875 on food items. They often purchase frozen food and pre-cooked items. Their child-care bill, including daily lunches for their child, is \$557 monthly.
2. **Debt:** Henry and Gail have a total balance of \$3,500 on their VISA, MasterCard, department store credit cards, and a \$900 furniture loan. The interest rates are around 19.9% on each account.
3. **Car payment debt:** They also have a car payment of \$280 with 14 payments left.
4. **Cable TV:** They have premium cable TV channels that cost \$120 monthly.
5. **Entertainment:** Gail and Henry go out to dinner four times a month (\$170) and have a set "date night" at the movies the first week of every month.
6. **Magazines:** Gail buys four magazines each month and Henry buys two (all 6 total \$30 monthly).
7. **Medical bills:** In addition to their medical insurance co-pay of \$50, there was an uncovered expense of \$150 for a hospital visit. Henry and Gail set up a monthly payment of \$30. No interest is being charged.
8. **Miscellaneous Spending:** Henry and Gail have \$200 in pocket cash each month between them.
9. **Additional expenses** are listed on the budget attached. Review all expenses carefully.

How will you help Gail and Henry meet their savings goals?

The Martinez Family's Budget Worksheet

FAMILY BUDGET AMOUNT	ACTUAL AMOUNT	PROPOSED CHANGE	AMOUNT SAVED
NET MONTHLY INCOME			
Head of Household #1	\$2,270		
Head of household #2	1,975		
Other Income	0		
Total Income	\$4,245		
MONTHLY EXPENSES			
Housing: Rent/Mortgage	950		
Savings			
Groceries: Food, Household Products/Baby Needs	875		
Water	50		
Gas	45		
Electric	80		
Cell Phone	150		
Landline	60		
Internet	55		
Cable TV	120		
Day Care/Baby Sitter	557		
Life Insurance	20		
Car Insurance	120		
Car Maintenance			
Car Payment(s)	280		
Car Gas	180		
Health Insurance	150		
Clothing	50		
Entertainment: Movies, Restaurants	195		
Credit Cards - VISA	35		
Credit Cards - MasterCard	25		
Credit Cards - Dept. Store	15		
Furniture: Installment Account	45		
Medical	30		
Student Loan	90		
Pocket Cash	200		
Gifts: Birthdays, Anniversaries, Holidays			
Gym Membership	60		
Haircuts			
Magazines	30		
TOTAL EXPENSES	\$4,467		

Some expenses are the same each month, or fixed. Other expenses change each month or do not occur every month. These are fluctuating expenses. When budgeting, it is important to leave a little space for the fluctuating expenses, or even plan for them long-term. For example, you can save \$10 per month for your holiday spending now and know that you will have enough when the time comes.

21 Ways to Save

Here is a list of ideas to help you save money. Keep in mind that not every idea will work for every person. See if you can fit a few of these ideas into your life. Add your own ideas to the list.

- **The #1 thing you can do: Pay yourself first** - Auto deposit from your paycheck into a savings account every month. Whether you save 10% of your paycheck or \$10, the result is that you are developing a savings habit. Make sure you save money in an account that is "easy to put into" and "difficult to take money out of."

Here are some other ideas:

- **Catch coins** - collect your spare change in jar
- **Freeze credit cards** - literally!
- **Explore phone cards** or cell phone plans for long distance
- **Review insurance coverage/deductibles** - if you raise your deductibles, your premiums will go down. Evaluate whether you are adequately insured and explore options.
- **Review your W-4 exemptions**
- **Use consignment shops** or shop at garage sales
- **Save on utilities** by conserving energy and water
- **Barter/trade**
- **Budget for occasional bills** such as car insurance, vacations, and holiday gift giving
- **Note which habits cost you money** and re-evaluate their importance
- **Plan and limit your ATM withdrawals**
- **Eliminate non-sufficient fund charges** by using a budget and know which checks pay which bills so you never have to pay a late fee
- **Establish a gift giving agreement** with friends and family during the holidays
- **Circulate kids toys**
- **Call your credit card company** and request a lower rate
- **Use the library** instead of bookstores
- **Use a list** when grocery shopping
- **Have separate checking and savings accounts**
- **Treat yourself** to small rewards
- **Use compact fluorescent light bulbs** to cut your electric bill dramatically
- _____
- _____

