Frost

Budgeting

PARTICIPANT'S GUIDE

Table of Contents

Marta’s Story

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.

Which of these financial documents would Marta need for her budget? Circle the documents you think she’ll need.

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

Note: The financial documents listed here are not the only ones needed to build a budget, and some aren’t needed.

Marta's Budget Plan

Marta is a 40-year old woman who works two jobs, one at a grocery store and another as a hostess at a restaurant. She is a single parent.

Marta's Monthly Income	$2,000

Marta's Needs	**Monthly Expenses**
Rent	$600
Groceries	$200
Utilities	$100
Car Expenses	$200
Car insurance	$120
Total	**$1,220**

Disposable Income = Income – Needs: ___________________________

Marta's Wants:	**Monthly Expenses**
Coffee	$20
Restaurants	$50
Entertainment	$40
Clothing	$100
Total	**$210**

Marta's Monthly Savings Contribution	$**100**

Marta's Debts	**Monthly Payment**
Credit cards	$200
Student loans	$100
Total	$**300**

Strategies for Budgeting

1. **50-30-20 Rule**
    - No more than 50% of income on needs
    - No more than 30% of income on wants
    - At least 20% of income on savings or debt repayment

2. **The Categories Method**
   This method is a more detailed breakdown of percentages and categories, and it allocates income according to the detailed needs of a person or household. By thinking about the specific categories that you spend money on each month, you can predict how much of your income will be left over for savings and make adjustments to meet your goals. Here is an example of a categories budget:

    - 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

Strategies for Paying Off Debt

1. **Ladder Method**
    a. List all of your debts from highest interest rate to lowest interest rate.
    b. Depending on the budget method (50-30-20 Rule or Categories Method) determine what percentage of income should be allocated to debt payments.
    c. Ensure that your monthly minimum payments are met for each debt category.
    d. Pay off the debt with the highest interest rate first.

    Marta's Debt
    Take a look at Marta's debt worksheet below.

    Which debt should she pay off first using the Ladder Method?

Debt	Balance	Interest Rate
Credit Card A	$400	23%
Credit Card B	$300	18%
Student loans	$7,000	12%

2. **Snowball Method**
    a. List all of your debts from smallest balance to largest balance.
    b. Depending on your budget method (50-30-20 Rule or Categories Method) determine how much you have allotted for debt reduction.
    c. Ensure that your monthly minimum payments are met for each debt category.
    d. Pay off the smallest balance first.

    Marta's Debt
    Look again at Marta's debt worksheet below.

    Which debt should she pay off first using the Snowball Method?

Debt	Balance	Interest Rate
Credit Card A	$400	23%
Credit Card B	$300	18%
Student loans	$7,000	12%

My Current Financial Snapshot

Building a budget does not have to be complicated. There are five basic steps. Many of you may already be taking some of these actions.

Step 1: Get Organized

Ask yourself the following questions:

- Do you know where your important financial documents are—such as your tax returns, W-2s, bills, and loan documents?

  ☐ Done
  ☐ Need to complete
  I plan to complete this action by ______________________________.

- Do you have a system to keep these documents organized so that they are easy to find?

  ☐ Done
  ☐ Need to complete
  I plan to complete this action by ______________________________.

Step 2: List income

Ask yourself,

- Do you know how much money you make each month? Your income may come from sources such as wages, tips, public assistance, child support, alimony, or social security.

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Step 3: List expenses

Ask yourself the following questions:

- Do you know how much money you spend per month?
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by ______________________________.

- Do you spend most of your money on necessities such as rent, insurance, or groceries?

  ☐ Done
  ☐ Need to complete
  I plan to complete this action by ___________________________.

- Or do you spend more than you should on "wants" such as lottery tickets or fast food?

  ☐ Done
  ☐ Need to complete
  I plan to complete this action by ___________________________.

Step 4: List Savings

Ask yourself the following questions:

- Do you have any money left over after your expenses each month?
- Do you know how much you set aside as savings each month?
- Do you have any savings accounts or other methods for saving?

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Step 5: List Debt

Ask yourself the following questions:

- Do you have any loans, mortgages, or credit card debts?
- Do you know how much debt you owe?

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Budget Worksheet

Income	$

Expenses	$
Rent	$
Utilities	$
Internet, phone, etc.	$
Groceries	$
Gas	$
Parking, tolls, etc.	$
Car insurance	$
Transportation (other)	$
Health insurance	$
Debts	$
Savings	$
	$
	$
	$
	$
	$

My Goals

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

GOAL ______________________________ COST

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

GOAL ______________________________ COST

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

GOAL ______________________________ COST

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Maintaining Financial Strength and Health

- Create a budget.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

- Compile daily receipts (if any) and total them, along with other bills, each week to make tracking your monthly income and expenses more efficient.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

- Regularly review all my bills and credit card statements to make sure there are no mystery purchases or mistakes.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

- Review my budget regularly to ensure that I am staying on track and make adjustments as necessary.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

- Reflect on my financial goals daily, weekly, or monthly.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

- (Optional) Discuss my personal financial goals with a financial planner.
  ☐ Done
  ☐ Need to complete
  I plan to complete this action by____________________________.

Common Terms

- **Income:** “Income” refers to the amount of money earned from a paycheck, social security, or other benefits.

- **Expenses:** “Expenses” refers to the amount of money spent each month on bills and other items. It’s helpful to think of expenses in two categories: Needs and Wants.

- **Needs:** “Needs” are things that are necessary for your health and well-being, like electricity, gas for your car, mortgage payments or rent, groceries, child care, etc.

- **Wants:** “Wants” are things you can live without, such as dinners at restaurants, beauty products, or lottery tickets. Sometimes, a want can turn into a need. For example, a new winter coat could be a want, but if your old one is torn or lost, then a new one can become a need.

- **Disposable income:** “Disposable income” is the amount of income left over after paying expenses (needs). Disposable income is money available to spend on wants, to put in a savings account, and/or to pay down debt. It is possible for the amount of disposable income to be zero, or it may be negative. Creating and using a budget can help you find ways to make this amount positive in the future.

- **Savings:** “Savings” refers to money that is put aside for safekeeping, a specific savings purpose, or an emergency fund. Depositing money into an interest-earning savings account at a financial institution is one way to increase savings even further.

- **Interest-earning or interest-bearing account:** These terms refer to any bank account—checking, savings, or money market—that allows the account holder to earn interest on the money in that account.