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# **Making and Keeping a Budget**

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## Making and Keeping a Budget

This session will focus on providing you with both information about this topic as well as new ideas and activities for making the training engaging.

Specifically, during this session you will be:

- Identifying sources and uses of money
- Anticipating fluctuations and life events
- Developing a budget by setting targets
- Monitoring a budget
- Keeping records to support budget maintenance

Are “making and keeping a budget” important topics to address in financial education for AFI Participants? YES NO

What are some reasons for or against including them:

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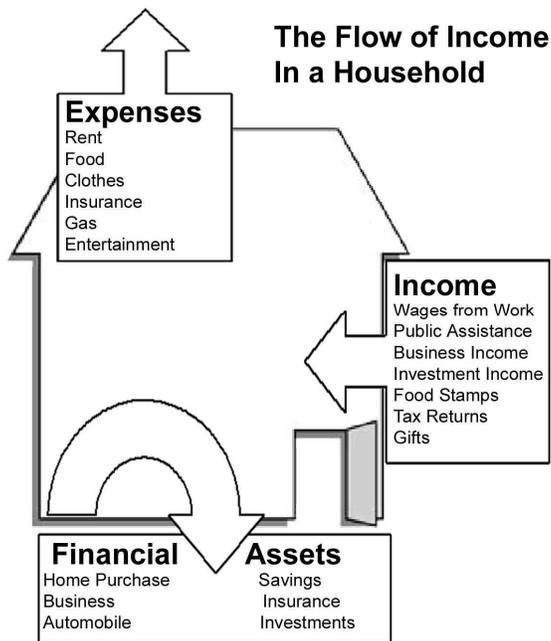
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### General Flow for a Budgeting Session

*Budgeting has been covered more than any other topic in financial literacy education. Most practitioners feel that budgeting is central to financial education. Most approaches tend to be incomplete or not very engaging. Following is one approach that attempts to address both of these typical shortcomings in facilitating a session on budgeting.*

<b>Topic</b>	<b>Approach</b>	<b>Rationale</b>
<i>Brainstorm association of “feeling” words with the term or concept of budget.</i>	<i>Opener</i>	<i>Surface negative feelings associated with budgets and budgeting.</i>
<i>Bean Game</i>	<i>Simulation</i>	<i>Making decisions related to limited resources and choices not specific to participants situation.</i>
<i>Overview of Budgeting Process</i>	<i>Presentation</i>	<i>Provide the facts succinctly using visual aids.</i>
<i>Series of Exercises for Each Step in the Budgeting Process</i>	<i>Variety of Approaches</i>	<i>Cover each step using different techniques; provide time at the end of each step for personal application.</i>

## Materials for the Training (from other Sources)<sup>38</sup>



Step 1: Figure out where you want to go (See previous chapter)

Step 2: Figure out where you are

Step 3: Figure out how you will get where you want to go (Set Targets)

Step 4: Monitor Your Progress Step

### Step 1: Figure Out Where You Want to Go

### Goals—Turning Your Dreams into Reality

Goals are what you want to do. Setting goals is about taking your dreams and turning them into things you can reach for. They are simple, clear statements about where you want to end up.

Sometimes you may have a goal for the day. You may have a goal you want to achieve by the end of the week.

➤ **What do you want to do by the end of the week? Write it down.**

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Goals can be short term or long term. A short-term goal is something you want to do within a year—it can be by the end of a day, end of the week, within a month or by the end of the year. Short-term goals are what you wrote above.

Goals can also be long term. A long-term goal is one that takes more than a year.

<sup>38</sup> This entire section (pages 77 - 103) is from materials developed by Inger Giuffrida for the Youth Financial Empowerment curriculum for the Share Our Strength (SOS)/Operation Frontline *Saving Smart, Spending Smart* and Thrivent Financial for Lutheran's *Your Values, Your Choices, Your Money. Your Values, Your Choices, Your Money*. Please cite when using. Thanks!



➤ **What are some of your long- term goals? Write them down.**

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## SMART Goals

One way to make goals simple and clear is to make them SMART. SMART stands for:

- Specific**—focused
- Measurable**—you can tell if it’s been achieved
- Achievable**—realistic
- Results-oriented**—written about the end you are trying to get to
- Timebound**—there is a specific time by which the goal will be reached

While goals are SMART, they do NOT go into how the goal will be reached. The “how” is the plan. Goals provide the destination and the direction for your plans. So, you can’t make a plan without a goal. This applies to how you get and use your money, too.

 **A budget is just a plan for how you use your money. You can’t make a budget without having goals.**



### Exercise—SMART Goals

Check the SMART box next to the statement if you think the goal is SMART. Check the NOT SMART box if the goal is not SMART.

	SMART	Not SMART
I will exercise more.		
I will save \$5000 for my child’s education in a 529 plan within 5 years.		
I will buy a house for my family.		
I will complete my LPN certification by January of next year.		



## *What are the advantages of making goals SMART?*

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### **Making Your Goals Work for You**

***Reaching your goals is the result of many small decisions you make daily.***

Just thinking about what you want to achieve is not enough. You need to write your goals down on paper. You've done this! And, you need to review them regularly. In fact, you may want to post your goals somewhere you'll see them every day. Reaching your

goals is the result of many small decisions you make daily. Keeping your goals somewhere you will see them every day will:

- remind you about what is most important to you,**
- keep you focused on your goals, and**
- give you motivation to reach for your goals.**

You also must revise your goals from time to time. One reason to revise a goal is that you may have reached the goal! If this is the case, celebrate your success first. Then set a new goal. Another time to revise a goal may be if things change. The goals you have may not make sense, given changes in your life. Set new goals that do!

Finally, be sure to make the goals challenging enough that you need to reach for them. Keep goals achievable, but make sure you are stretching for them—this keeps you moving forward.

### **Resources—Fuel for Goals**

All goals require resources. Resources are the things you will use to reach your goals. Think of them as fuel for your goals. Without resources, you may not be able to reach many goals. Resources include: your time, money or other financial resources, your skills, and your connections with other people to name a few. Different goals require different kinds of resources.



## Exercise—Identify the Resources

Read the following goals statements. What resources do you think will be necessary to reach each goal?

Goal	Resources Required
I will find an affordable and secure apartment by January.	
I will save \$2000 in my IDA for a down payment and closing costs on a home in 18 months.	

## Making Your Goals Work for You

Once you write your goals, you can figure out what it will take to reach them. Remember, all goals require resources. Not all goals require financial resources or money.

For those goals that need money, your budget will be your road map to reaching them. Before you can make a budget, you need to figure out how much you need to save for your goals. You can also figure out the other resources you need to reach your goals.

Here are the steps to figuring out the resources, time and costs to reach your goals:

- **Step 1: Write goals. You've already done this!**
- **Step 2: List all of the resources you need to reach this goal.**
- **Step 3: If money is needed, estimate the amount you will need to reach the goal. If you don't know the amount, do some research.**
- **Step 4: Figure out how many months you have to save. Count the months from now until the end time written in your goal statement.**
- **Step 5: Divide the money needed to reach goal by the months to save. This gives the amount you need to save each month. This is what you will include in your budget!**



Look at the example below to see how each step works.

Long-Term Goal—EXAMPLE	Resources Needed	Money Needed to Reach Goal	Months to Save	Amount to Save Each Month
I will save enough money for a security deposit and first months rent two years from today. <b>STEP 1</b>	Bank account Job Direct deposit to savings account Help finding an apartment <b>STEP 2</b>	\$1,000 <b>STEP 3</b>	24 <b>STEP 4</b>	\$ 42.50 <b>STEP 5</b>

### Too Much To Save

Sometimes people find that when they figure out the resources, time and costs of all of their goals, they need to save more than they can. If this happens to you, try one of the following:

1. **Figure out which goals are most important**—which goal is most important to you reaching your vision for your life? Focus on that goal first. And, remember your IDA earns match. This is money you don't want to give up. This should be a priority
2. **Change the time frame**—maybe you can plan to reach some goals a little later. This will give you more time to save for them. And the amount you will have to save each month will be a little less.
3. **Explore other resources**—be sure to explore all of the opportunities that may be available to you as a young person transitioning from foster care. There are programs to help you with rent, education, job training, business development and more (see Chapter 10 for more info.). These can help reduce the amount you may have to save for a specific goal.



### Small Group Exercise—How Much To Save Each Month

Complete the chart. Calculate how much the individual has to save monthly to reach his/her goals in the timeframe he/she has chosen.

Short-Term Goals	Resources Needed	Money Needed to Reach Goal	Months to Save	Amount to Save Each Month
I will save for holiday gifts and special meals by November 30.		\$500	8	



<b>Short-Term Goals</b>	<b>Resources Needed</b>	<b>Money Needed to Reach Goal</b>	<b>Months to Save</b>	<b>Amount to Save Each Month</b>
I will save \$150 for each of my three children for back to school clothing, shoes and supplies by August 1.			10	

<b>Long-Term Goals</b>	<b>Resources Needed</b>	<b>Money Needed to Reach Goal</b>	<b>Months to Save</b>	<b>Amount to Save Each Month</b>
I will save \$8000 in my IDA to help pay for my nursing degree at the university in 3.5 years.		\$4,000		
I will pay down my \$7,525 of credit card debt in 6 years.		\$7,525		

<b>Total to Budget for Savings Each Month (Is this feasible?)</b>	
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## Step 2: Figure Out Where You Are

Before you make a plan about how to use your money so you can reach your goals, you need to know how you get and use your money now. There are three things you will do in this step:

- 1) **Identify where all of your money comes from and how much comes from each source**
- 2) **Figure out how you use your money now**—how you share, save and spend now
- 3) **Compare your sources and uses**

### 1) Sources of Income

Knowing the amount of money coming into your household is the first part of figuring out your current financial picture. You probably have a good idea of how much you have coming into your household. But sometimes people overlook some of the sources they have coming in.



#### Individual Exercise—Sources of Income

Use the following list. Check off all of the sources of money coming into your house.

✓	Source of Income	✓	Source of Income
	Wages (full time job)		Public Assistance (TANF benefits)
	Wages (part time job)		Social Security Disability (SSD)
	Self-Employment Income		Supplemental Security Income (SSI)
	Bonuses (from job)		Investment Income (Stocks, bonds, etc.)
	Commissions		Social Security Retirement
	Severance Payment		Pension
	Unemployment		Other retirement income
	Child Support		Social Security Survivors
	Alimony		Inheritance
	Earned Income Tax Credit		Other:
	Gifts		Other:
	Food Stamp Program		Other:



## Amount of Income

Now that you know all of your sources of income, you need to figure out how much you get from each source. This is sometimes trickier than it sounds. As you know, some income comes into your home regularly. Some income may come only once in a while or one time per year. For example:

1. You may get a paycheck every other week.
2. You may get child support monthly.
3. You may get your Earned Income Tax Credit once a year.

For some sources, it is the same amount every time. For others it changes each time you get the income. If you work hourly and your hours change, this may be true. When you are making a budget, you need to be aware of these changes in your income.

Be sure to gather records before you complete your “Sources of Income” Worksheet. This includes payment stubs, benefits statements, and deposit records. Instead of guessing the amount of money coming in, you will have a list based on actual amounts. Following is a list of different sources of income and the records you may have.

<b>Source of Income</b>	<b>Records</b>
<b><i>Wages (full or part time job)</i></b>	Stub from Check; Deposit slip; Bank Account Statement
<b><i>Self-Employment Income</i></b>	Invoices; Receipts for Payment; Deposit Slips; Bank Account Statement
<b><i>Bonuses</i></b>	Stub from Check; Letter from Employer Stating Bonus Amount
<b><i>Commissions</i></b>	Stub from Check; Copies of Commission Checks; Deposit Slips; Bank Account Statement
<b><i>Unemployment</i></b>	Notice of Benefits from State Agency; Check Stub or Photocopy of Check from State Department of Labor or Economic Security
<b><i>Severance Payments</i></b>	Letter from Employer Stating Terms; Deposit Slips; Bank Account Statement
<b><i>Child Support</i></b>	Statement from State Disbursement Unit; Court Order (states amount of child support and schedule of payments); Deposit Records; Bank Account Statement
<b><i>Earned Income Tax Credit</i></b>	Tax Return; Deposit Records; Bank Account Statement (if using Direct Deposit); Stub from Check if Paper
<b><i>Gift</i></b>	Deposit Records; Bank Account Statement
<b><i>Food Stamp Program</i></b>	Notice of Benefits from Food Stamp Office; Balance of Account (online); Receipts from Grocery Purchases



<b>Public Assistance (TANF benefits)</b>	Notice of Cash Assistance from Local Department of Social Services; Stub from Check; Deposit Records; Bank Account Statement (if using Direct Deposit)
<b>Social Security Disability (SSD) and Supplemental Security Income (SSI)</b>	Notice of Benefits from Social Security Administration; Stub from Check; Deposit Records; Bank Account Statement (if using Direct Deposit)
<b>Social Security Retirement</b>	Notice of Benefits from Social Security Administration; Stub from Check; Bank Account Statement (if using Direct Deposit)
<b>Pension</b>	Stub from Check; Bank Account Statement (if using Direct Deposit)
<b>Social Security Survivors</b>	Notice of Benefits; Stub from Check; Bank Account Statement (if using Direct Deposit)

Some of these records may be hard to understand. Use one of your community resources to help understand them. For example, if you don't understand your SSI statement, get help from the Social Security Administration. Even a paycheck can be hard to read. There are many numbers on a paycheck stub. You need to be sure you understand your paycheck stub before writing down the amount because you don't take home what you make.

## Reading Your Paycheck

It would be one thing if your paycheck just listed the amount you make. But it doesn't. The paycheck and the paycheck stub contain a lot of information. You need to know what it says in order to know how much income is actually coming into your house. You want to make sure you are basing your budget on the amount you have. It is also important to understand why money is taken out of your paycheck.

### **Gross Pay (Earnings) vs. Net Pay (Earnings)**

Gross pay is the total amount you are paid for your work. If you earn a salary, it is a fixed amount every paycheck based on your yearly salary.

- If, you are paid a salary of \$24,000, your gross pay would be \$924 every other week.  
 $\$24,000/26 \text{ pay periods} = \$924 \text{ per pay period}$
- If you are paid hourly, it is your hourly rate times the number of hours you worked. In the example, *Anna worked 79 hours at a rate of \$8.35 per hour. Her gross pay is 659.65.*  
 $79 \text{ hours} \times \$8.35/\text{hour} = \$659.65$

*This is not what Anna takes home.*

*Anna actually brings home her net pay (earnings). Net pay is gross pay less any deductions. Anna's net pay is \$474.99.*



## **Deductions**

Deductions are what an employer takes out of your gross pay. Your employer must take out some of the things by law. Withholding for taxes is one of the things the law tells your employer to take out. Some of the deductions are for employment benefits. Health insurance is an example of a deduction for a benefit.

Following are the deductions on Anna's paycheck:

1) **Federal Withholding**—This is a service your employer provides. The employer takes out an estimate of what you owe in taxes and sends it to the government. When you do your taxes, it is likely you will not owe money because of these withholdings. *Anna had \$67.81 withheld in Federal Income Taxes.*

2) **Social Security and Medicare**—This is often presented as FICA on a paycheck. FICA stands for Federal Insurance Contributions Act. FICA includes your contributions to Social Security—money paid to you after you retire. This is 6.2% of your gross pay. It also includes Medicare, which is health insurance you get after you retire. This is 1.45% of your gross pay. Your employer matches these contributions you make to FICA by law. It is another benefit of employment. *Anna paid \$50.46 for FICA. Her employer also paid \$50.46 to match Anna's contribution. The employer sent a total of \$100.92 to the government on Anna's behalf.*

3) **State, County, City Withholding**—Just like Federal Withholding, these are income taxes withheld from your paycheck. (Not all states, counties or cities have an income tax.) *Anna had \$16.49 withheld for state income tax. She had \$9.89 withheld for city income tax.*

4) **Health Insurance (Top Choice PPO)**—Most people have to pay part or all of their health insurance—if they have it as a benefit. While it may seem like a lot, it is less than the full cost. *Anna has to pay \$40 from her paycheck. It costs her \$80 per month. Her health insurance premium probably costs closer to \$300. Her employer pays the rest. This is another benefit of employment.*

There may be other deductions or benefits on your paycheck. Get help from your manager or the human resources department where you work if you need help understanding your paycheck.



## 2) Uses of Income

There are 3 ways you can use your financial resources:

- SHARE
- SAVE or INVEST in Assets
- SPEND

SHARING means you are giving some of your financial resources to help others. You may choose to share with your faith based community, a nonprofit group in your community, or another charity.

SAVING means putting money aside to use another day. SAVING is the key to reaching your goals. INVESTING also requires setting money aside. Where you put your money is generally different when you invest versus save.

SPENDING is the money you use to meet your needs, your obligations and your wants. As a steward of your financial resources, you are striving to balance the way you use your money among these 3 groups.

### Saving

“Pay yourself first.” You may have heard this piece of advice.



***What do you think it means to pay yourself first?***

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“Pay yourself first” means save some of your money BEFORE you use it for other things. Saving means setting aside some of the money that comes into your household. It means giving up something today so you can use the money later. Saving is the key to achieving many of the goals you have set for yourself. You have figured out how much you would need to save to reach your goals. You also figured how long it would take to save the full amount you need.

Saving is also a way to give you and your family a little cushion. If you have some money set aside and you have an emergency, you can use the savings to help pay for the emergency. Savings can help you plan for and pay for life events—birth of a baby, illness, or the death of a family member. Saving is also how you will succeed in an IDA program.



**What are some other reasons for you to save?**

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You may already be saving. If you are, congratulations! You may be able to use this information to help you save more. You may want to save, but just don't feel like you have enough. You can start with small amounts. Making the budget may help you find money to save. Even saving small amounts can help you reach your goals.

## **Where to Save**

When you start saving, you need to decide where you will keep the money you save. You can put the money you save in a box in your house. (Or in a jar in the kitchen or in a bank on your dresser.) There are two problems with this:

- 1) It can be lost, stolen or destroyed.
- 2) It is easy for you to dip into if you are looking for some money.

Another way to save is in an account made just for this purpose. This is called a savings account. You can get a savings account at banks, credit unions or other financial institutions. This is a good idea because:

- 1) Your money is safe—it can't be lost, destroyed or even stolen.
- 2) It is harder for you to get to your money to spend it.

If you have an IDA, you already have a place to save—in your account. If you want to get an account, start with a bank or credit union in your neighborhood.

## **How to Save**

The easiest way to save is using direct deposit. (See side bar called *Direct Deposit*.) You can only do this if you have wage employment or some other form of electronic payment that is regular. Most people who save and have a paycheck use direct deposit to do it.

You can have part of your check put into your savings automatically. After a while, you won't even miss it. And before you know it, you have a lot in savings.

Here is an example. You get 26 paychecks in one year (1 every other week). You decide to have \$20 taken out of your net pay in each check and put into savings using direct deposit. You have the other \$630 put into checking to pay for your expenses. At the end of one year, you have saved a total of \$520. And you don't have to do anything except fill out the direct deposit form one time!



Paycheck Number	Amount of Paycheck	Amount Put Into Checking	Amount Put Into Savings	Paycheck Number	Amount of Paycheck	Amount Put Into Checking	Amount Put Into Savings
1	650	630	20	14	650	630	20
2	650	630	20	15	650	630	20
3	650	630	20	16	650	630	20
4	650	630	20	17	650	630	20
5	650	630	20	18	650	630	20
6	650	630	20	19	650	630	20
7	650	630	20	20	650	630	20
8	650	630	20	21	650	630	20
9	650	630	20	22	650	630	20
10	650	630	20	23	650	630	20
11	650	630	20	24	650	630	20
12	650	630	20	25	650	630	20
13	650	630	20	26	650	630	20

**Total Savings for the Year     \$    520**

## Where to Find the Money to Save

There are three ways to find money to save.

- 1) You can increase your sources of income. And keep your level of spending the same.
- 2) You can cut your spending.
- 3) Or you can do a little of both.

You will explore ways to increase your sources of income and cut your expenses later in this section. In the next section, you will look at how you spend your money now, which is the first step to making cuts in your spending. Any cuts you make in spending can be put into savings!

## Spending

If you are like most people, you spend most of your financial resources. Spending is everything that is not sharing or savings.

You spend for things you **NEED**:

Food Housing Clothing	Transportation Electricity Childcare
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You spend on **OBLIGATIONS** you have already made with your money:



Credit card payments Charge card payments Student loan payments Back child support payments	Payment on money borrowed from friends or family Judgments and liens Taxes
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You also spend for things that you **WANT**:

Designer clothing Cell phone service Cable or satellite television	Magazine subscriptions Gifts for other people Eating out
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Some expenses are the same every month. These are fixed expenses. Some change from month to month. These are called variable.

Finally, there are some uses that occur every month (or even more often, like groceries). There are some that occur once in a while or once a year. Like income, this irregular flow of money OUT of the household can make budgeting a little bit more challenging.

### Small Group Work--CASE STUDY: Anna Washington Examines Her Spending



Anna uses some of her income on the items listed below. See if you can identify whether they are:

- A need, obligation or want
- Optional or not optional
- Fixed or variable
- Regular or not regular

Check one in each category for each expense.

	Need	Obligation	Want			Fixed	Variable		Regular	Not Regular
<i>Rent (Example)</i>	X					X			X	
<i>Car Payment</i>										
<i>Car Insurance</i>										
<i>Groceries</i>										
<i>Cable television</i>										
<i>Eating out for lunch</i>										



	Need	Obligation	Want			Fixed	Variable		Regular	Not Regular
<i>Clothing from the Gap</i>										
<i>Long distance telephone</i>										
<i>Child support payments</i>										
<i>Credit card payment</i>										

Why do you think it is important to identify whether a use of money is:

- A need, obligation or want
- Fixed or variable
- Regular or not regular

**It can help you zero in on the items to cut back on so you can save more.**



### Individual Reflection

***What if Anna wanted to find money to save for her IDA? Out of the 10 uses of money above, where could she look to cut back a little?***

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## Step 3: Figure Out Where You Want to Go (Set Targets)

If you find:

- You are using more than you have coming in OR
- The amount coming in equals the amount you are using OR
- You want to save money for your goals and don't seem to have anything left . . .

You have 3 choices to change it.

1. **You can try to increase the amount of money coming into you house.**
2. **You can cut back on your spending.**
3. **You can do a little of both. Find a way to increase your income a little. Find ways to cut your spending a little.**

Following are some ideas for increasing income and cutting expenses.

### Part 1: Finding Money to Save--Increasing Income

There are basically four ways to increase your income:

**Option 1:** Get another job. This can be in addition to the job you have. Part-time work can be used to help you:

- Pay down debt.
- Build up emergency savings.
- Save for a specific purpose—your goals.

Having another part-time job can be short-term. Long enough to pay off your debt or build an emergency savings.

**Option 2:** Get more education or training to earn more at your job. This means you have to invest time and possibly money. Be sure that the investment in education does pay off. Find out if the course or degree will mean an increase in your hourly wage or salary.

Understand the terms of any loan for education. Many people take on debt for education. Sadly, sometimes this education does not lead to higher wages and creates a mountain of debt.

**Option 3:** Start your own small business. This is not an option for everyone. If you have a special skill, you may be able to start your own small business even on a part-time basis. Many people provide services such as:

- Landscaping
- Lawn mowing
- Office support
- Home repair work



- Pet sitting
- Child care
- Bookkeeping
- Different areas of consulting

to customers during evenings and weekends to supplement their jobs.

Some people also make things to be sold.

**Option 4:** Make sure you have all of your public benefits. You may qualify for Food Stamp Assistance, health insurance, or the forms of public assistance. Make sure that you use these benefits. These create income. Then you can use cash they free up to pay down debt or save for your goals including your IDA.

## **Part 2: Finding Money to Save—Cutting Spending**

### **1. Find some bills to cut out or reduce altogether.**

Here are some ideas:

- a. Get rid of unused or minimally used memberships such as gym memberships.
- b. Get rid of services that you are not fully using or which you could do on your own at a fraction of the cost:
  - i. Cleaning
  - ii. Yard
  - iii. Yard fertilization
- c. Cut out cable or premium cable
- d. Credit cards—pay them off or call to negotiate lower rates to save you money
- e. Use the air conditioning and heater less; determine if one of the payment plans makes sense for you
- f. Pay off your car or sell it and get a less expensive and reliable (CarFax) used car that is also energy efficient (higher mileage on average).
- g. Explore increasing insurance deductibles to lower premium rates.

### EXAMPLE UTILITY PAYMENT PLANS THAT CAN MAKE A DIFFERENCE: OG & E Payment Plans

#### Time-of-Use Rate

This rewards decreased usage during peak summer demand hours. June through September, you'll receive a much lower rate during off-peak hours but pay a higher rate during our peak load hours (times vary according to your rate class), excluding weekends and holidays. You'll also pay a time-of-use meter charge. During the winter season, Time-of-Use customers revert to our standard rates.

#### Average Monthly Billing

Knowing ahead of time what to expect from your monthly electric bill simplifies planning your budget. Our Average Monthly Billing plan is designed to level out those unusually high bills that occur during months of high electricity use. Your total annual cost for electricity remains the same, but you have the convenience of a more consistent bill each month.

#### Guaranteed Flat Bill

Our Guaranteed Flat Bill (GFB) plan means paying the same monthly amount for your electric bill for one full year – regardless how much electricity you use in summer heat or winter cold. There are no increases due to changes in fuel prices or electric rates. Unlike our Average Monthly Billing Plan, GFB has no roll-over feature that constantly changes your monthly bill. You're not liable for any overage during your GFB enrollment period when you complete the one-year agreement. GFB is open to Oklahoma customers only. Some conditions apply.

#### Auto Pay

With Auto Pay, your electric bill is automatically deducted from your checking or savings account each month. You will still receive an OG&E bill each month that shows your usage and the date your payment will be withdrawn from your bank account. You will have 10 days from the date your bill is mailed to contact OG&E to stop the withdrawal if you have questions about your bill. To sign up, print and complete the [Auto Pay application](#) form and mail it to the following address:



### Small Group Work—Contest: Finding Bills to Cut Out or Reduce

- With your team, identify ways to cut or reduce bills.
- Make your ideas specific.
- Identify as many ideas as you can.

## 2. Take some time to making decisions.

Before spending, you can ask yourself the following:

- What are my financial goals and priorities? Will this help me reach my important goals?
- Do I really need this item?

If yes, what are my alternatives?



- Buy it.
- Continue to use what I already have.
- Make it instead of buy it.
- Borrow from another person.
- Substitute something less expensive.
- Rent instead of buy.

Keep a card with your goals in your wallet. If you have a credit or debt card, use a rubber band to keep your goal card attached to your credit or debit card. Every time you make a purchase, you will be reminded of your goals and priorities.

### 3. Understand opportunity costs.

This is an economic term. Opportunity costs are the things you give up to get something. People who study economics would say the opportunity cost is the cost of the next best alternative you are giving up.

Many of your goals are about the future. You are saving money today to achieve a goal in the future.

***➤What are the opportunity costs of saving in your IDA? For your children's education or your retirement?***

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Another way to use this idea of opportunity costs is on spending. If you buy something today, what are you giving up in the future?

For example, you may want a new couch. You have a couch, but it's out of date in terms of style. A new couch will cost \$800.

***➤What is the opportunity cost of buying that couch if you are saving in your IDA for education? Or to pay off your debt to increase improve your credit history and scores?***

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## Another Way to Calculate Opportunity Costs

1. Determine your hourly wage.
2. Divide the cost of an item you feel you want by your hourly wage.
3. That is the number of hours of your life required to get that item.
  1. *Determine your hourly wage = \$9.25*
  2. *Divide the cost of an item by your hourly wage. Dinner at the Olive Garden for 4 = \$60*
  3. *That is the number of hours of your life required to get that item.*  
 $\$60/\$9.25 = 6.5 \text{ hours}$

- *Is the thing worth those hours of your life?*

## 4. Plug Spending Leaks<sup>39</sup>

Another way to find money to save is to find spending leaks and then plug them. Spending leaks are those things people spend money on without thinking about. People leak money on lunches at fast food restaurants, coffee at coffee shops, newspapers, magazine, gifts for friends, drinks on the run (individual bottles of soda or water) and treats for children to name a few.

***Beware of little expenses;  
a small leak will sink a great ship.***

***- Benjamin Franklin***

Once you find the leaks, you can plug them. The money you save can be put into savings for your goals.

Write down your spending leaks on the leaky barrel. Next to each, calculate how much the leak costs on a daily (if appropriate), weekly, monthly and annual basis. Add up all of the leaks on an annual basis and write that in the box at the bottom.

Write down your spending leaks on the leaky barrel. Next to each, calculate how much the



Finding the spending leaks is only half of the exercise. Once you find the leaks, find ways to plug them. Start with the biggest leaks first. These have the biggest impact. Next to each of your leaks, write down one way you can plug them. Any spending leak you plug is money that can be saved. Total all of the money you can save by plugging your spending leaks. You can use the table below instead of the leaky barrel.

<sup>39</sup> Based on Share Our Strength/Operation Frontline ***Saving Smart, Spending Smart*** by Inger Giuffrida and Peter Genuardi.



### Exercise--Plugging Spending Leaks

Write down your leaks in the first column. In the second column estimate the amount weekly you leak weekly. In the third column, estimate that leak on a monthly basis.

Spending Leak	Amount Per Month	Amount Per Year	Alternative	Monthly Cost	Amount to Savings Monthly
<b>Example:</b> Daily Coffee at the Quick Stop	$\$1.09 \times 30 = \$32.70$	$\$32.70 \times 12 = 392.40$	Make Coffee at Home; Get a Travel Mug (one time cost of \$10); Monthly Cost Filters and Coffee	Approximately \$10	$\$32.70 - \$10 = \$22.70$ (Annual amount to savings = \$272.40)



## 5. Comparison shop.

Another strategy for finding money to save is comparison shopping. With comparison shopping you can compare alternatives before making a spending decision. Comparison shopping is the act of comparing prices of to find the best bargain.

Things to consider when comparison shopping:

- Brand Name vs. Store Brand or Generic**—there are some brand names that may work better for you. Figure out which brands you really need to keep. In general, store brands or generic brands are less expensive. Be sure to check this, though. ***Also, store brands and generic brands are often made by the brand name companies. The only difference is the labeling and the marketing.***
- Quality**—there may be a difference in quality for items. For example, organic apples cost more, but they have not pesticides in them. You need to determine for which products you are willing to pay more for quality.

You can comparison shop for items by calculating the price per unit. It isn't hard to do and it can mean savings for you.

**Calculating Price Per Unit** The formula is simple: Take the dollar amount of the product and divide it by the number of units in the package. For example, a 32 ounce container of Quaker Oats sells for \$3.99.

$\$3.99 \text{ divided by } 32 \text{ ounces} = \$0.13 \text{ per ounce.}$

You can compare that to the store brand, which sells a 28 ounce container of oats for \$3.19.

$\$3.19 \text{ divided by } 28 \text{ ounces} = \$0.11 \text{ per ounce.}$

**Because this math can be hard to do in your head, always shop with a calculator, a pen and paper.**

Be sure you are comparing apples to apples when comparison shopping. This means:

- Ounces to ounces
- Paper towel sheets to paper towel sheets
- Number of diapers to number of diapers

This can be difficult because sometimes the quantity of items is expressed differently.

Being able to pinpoint the exact amount you are spending puts you in control of your budget. When you are considering the purchase of a product being able to calculate the price per unit will ensure that you get the best deal on the products you intend to purchase.



## Part 3: Making the Budget

Remember the key reasons for a budget:

1. **It helps you reach your goals.**
2. **It helps you avoid the bumps, potholes and diversions that may keep you from reaching your goals.**
3. **It helps you take care of your financial resources.**
4. **It helps you make choices about how you use your financial resources.**

Making a budget is about setting targets for how you use your money. This is where you decide how you want to use your money going forward.

You know your sources of income. You know the amounts that come in from each source. Unless you are going to try to increase your income, your targets are the amounts that come in from each source each month. You also know how you have been using your financial resources.

You will set targets for how you plan to share some of your money. Remember, you may not feel you can share right now. That is OK! It is something to work toward. Continue to focus on sharing your talents and time. You will also set target amounts for saving based on your goals. And, because of these targets, you will probably need to cut back on some of your spending.

You also know there are some things you can't cut back on or change with the way you use your money. You can't get rid of your obligations. And, you can't get rid of your needs without making major changes in your life. For example, if you are paying \$600 in rent, you may be able to find a place for \$550. But moving is a major change. And the costs may outweigh the \$50 per month saving. Or, maybe not. You get to decide!

But, you can cut your wants, optional or variable expenses. The good news is that you've already made those decisions. You already decided which expenses to cut. And, you've figured out how you're going to do it. You also identified your spending leaks and figured out ways to plug them.

Now, you're going to take all that information and put it in one place.

You can use the budget form provided in the appendix to this handout, use a spreadsheet at home, or use one of the online sites or downloadable programs available from one of these sites:

- [www.buxfer.com](http://www.buxfer.com)
- [www.quickenonline.com](http://www.quickenonline.com)
- [www.mint.com](http://www.mint.com)
- [www.mvelopes.com](http://www.mvelopes.com)

- [www.pearbudget.com](http://www.pearbudget.com)
- [www.wesabe.com](http://www.wesabe.com)

Many of these sites charge a monthly or annual fee for use of service.

Mint (<http://mint.com>), Intuit's Quicken Online (<http://quickenonline.com>) and Wesabe (<http://wesabe.com>), among others, automatically synchronize their records with those of your financial institutions and then categorize transactions to track your spending. There's no extra software to install -- though these three provide basic, free iPhone applications for on-the-go access.

The only catch is that in most cases, you must store your bank account passwords on these sites. (All three say they encrypt these data to block them from being misused.)



### **Remember the key reasons for a budget:**

- **It helps you reach your goals.**
- **It helps you avoid the bumps, potholes and diversions that may keep you from reaching your goals.**
- **It helps you steward your financial resources.**
- **It helps you make choices about how you use your financial resources.**

Making a budget is about setting targets for how you use your money. This is where you decide how you want to use your money going forward.

You know your sources of income. You know the amounts that come in from each source. Unless you are going to try to increase your income, your targets are the amounts that come in from each source each month. You also know how you have been using your financial resources.

You will set targets for how you plan to share some of your money. Remember, you may not feel you can share right now. That is OK! It is something to work toward. Continue to focus on sharing your talents and time. You will also set target amounts for saving based on your goals. And, because of these targets, you will probably need to cut back on some of your spending.

You also know there are some things you can't cut back on or change with the way you use your money. You can't get rid of your obligations. And, you can't get rid of your needs without making major changes in your life. For example, if you are paying \$600 in rent, you may be able to find a place for \$550. But moving is a major change. And the costs may outweigh the \$50 per month saving. Or, maybe not. You get to decide!



But, you can cut your wants, optional or variable expenses. The good news is that you've already made those decisions. You already decided which expenses to cut. And, you've figured out how you're going to do it. You also identified your spending leaks and figured out ways to plug them.

Now, you're going to take all that information and put it in one place.

Use a pencil. You may need to make changes.

<i>Income</i>	<b>Planned (Monthly Target)</b>	<b>Actual</b>	<b>Difference</b>
Salary — your own (after taxes)	\$ _____	\$ _____	\$ _____
Salary — others in household (after taxes)	\$ _____	\$ _____	\$ _____
Housing Voucher			
Job bonuses	\$ _____	\$ _____	\$ _____
Self-employment	\$ _____	\$ _____	\$ _____
Second job salary	\$ _____	\$ _____	\$ _____
Child support	\$ _____	\$ _____	\$ _____
Social security or Supplemental Security Income	\$ _____	\$ _____	\$ _____
Gifts	\$ _____	\$ _____	\$ _____
Tax refund	\$ _____	\$ _____	\$ _____
Earned Income Tax Credit	\$ _____	\$ _____	\$ _____
Public assistance	\$ _____	\$ _____	\$ _____
Education and Training Voucher			
Disability	\$ _____	\$ _____	\$ _____
Other			
_____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____
<b>Total Cash Income</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>

<b>Uses</b>	<b>Planned (Monthly Target)</b>	<b>Actual</b>	<b>Difference</b>
<b>Sharing</b>			
	\$ _____	\$ _____	\$ _____
	\$ _____	\$ _____	\$ _____
<b>Savings/investment</b>			
— Emergency Fund			
— Goal 1:	\$ _____	\$ _____	\$ _____
— Goal 2:	\$ _____	\$ _____	\$ _____
— Goal 3:	\$ _____	\$ _____	\$ _____
<b>Debt repayment</b>			
— Credit card payments	\$ _____	\$ _____	\$ _____
— Loan payments	\$ _____	\$ _____	\$ _____
— Other debt			
— Other debt			



Uses	Planned (Monthly Target)	Actual	Difference
<b>Fixed Expenses</b>			
Housing (mortgage or rent)	\$	\$	\$
Child support or support to other family members	\$	\$	\$
Property or renter's insurance	\$	\$	\$
Other insurance premiums	\$	\$	\$
<b>Variable Expenses</b>			
Utilities	\$	\$	\$
Cell Phone	\$	\$	\$
Telephone			
— Local charges	\$	\$	\$
— Long distance charges	\$	\$	\$
Groceries	\$	\$	\$
Snacks/meals eaten out	\$	\$	\$
Transportation			
— Car payment	\$	\$	\$
— Gas	\$	\$	\$
— Car repairs	\$	\$	\$
— Bus fare, other	\$	\$	\$
Childcare	\$	\$	\$
Doctor or dentist bills	\$	\$	\$
Pet care	\$	\$	\$
Union or professional association dues	\$	\$	\$
Clothing/uniforms			
— Purchase cost	\$	\$	\$
— Dry cleaning bills	\$	\$	\$
Education or training expenses	\$	\$	\$
Donations	\$	\$	\$
Home improvements or repairs	\$	\$	\$
Gifts	\$	\$	\$
Personal expenses (allowances, toiletries, etc.)	\$	\$	\$
Other (cable TV, classes, etc.)			
_____	\$	\$	\$
_____	\$	\$	\$
_____	\$	\$	\$
_____	\$	\$	\$
_____	\$	\$	\$
<b>Total Monthly Expenses</b>	\$ _____	\$ _____	\$ _____



## Step 4: Monitor Your Progress<sup>40</sup>

Once you have made your budget, you need to keep track of how you spend on a regular basis. This can be very difficult to do, but it **is the most important part of budgeting**. Each month, write down in the “actual” column how much you earned and spent. If you spent less than you budgeted, congratulations. You have more money to save. If you spend more than you budgeted, you will need to cut back in that or another category next month.

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<sup>40</sup> From Share Our Strength/Operation Frontline Saving Smart, Spending Smart by Inger Giuffrida and Peter Genuardi.



## Applying This Topic to Your Target Audience

Which sections of material covered in the budgeting section would be most relevant to the people you serve?

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What would you cut out? Why?

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What was missing for the people you serve?

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The most valuable part of this session was:

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What new ideas will you incorporate into your financial education training?

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What additional information about or ideas for facilitating budgeting would be most helpful to you?

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