



# Budgeting 101

Presented by UMassFive

## One of the greatest satisfactions in life is having a sense of control over your finances.

Through careful planning and use of simple money management techniques, you and your family can feel more confident about your ability to live within your means, handle emergencies, reduce debt, and save for the future.

Financial awareness is defined as understanding where you are, where you want to go, and what you want to do with your money. Understanding how to manage money and credit, and developing the discipline to do it well, can make a real difference in your life.

This booklet will help you understand and improve your financial situation through four basic steps toward successful money management.

### Remember: **You Can Do it.**

It will take some effort to follow these steps completely. The process may require making some changes, and these changes, whether big or small, may seem difficult or awkward at first. Remember that in addition to remaining both flexible and realistic during this process, you must also be honest with yourself, believe in yourself, and be open to alternatives. **You have the power to take control of your money.**

#### STEP 1: ASSESS YOUR FINANCIAL SITUATION

In order to improve your financial outlook, you'll need to have a good idea of where you are right now. On the next few pages we've included some handy quizzes and worksheets that will help you **create a budget, identify expenses**, and see where your debt-to-income ratio stands.

#### STEP 2: SET FINANCIAL GOALS

Establishing goals will help you determine where you want to go financially, and recording your goals will motivate you to make the changes necessary to achieve them. Because each family member has a different perspective on what he or she considers a financial priority, it is important to make goal-setting a family affair.

# Financial Skills—are you making smart choices?

By writing down your habits in the following Financial Skills Assessment, you can easily identify areas that require improvement, and motivate yourself to do better..

PLEASE SELECT ONE

## As a rule, do you:

	ALWAYS	SOMETIMES	NEVER
01. Pay your rent / mortgage payment and utility bills on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
02. Save 10 percent of your net income?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
03. Keep 3 months of your net income in an emergency fund?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
04. Plan ahead for large expenses such as taxes and insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
05. Set goals and keep a budget for your income?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
06. Spend no more than 20 percent of your net income on credit related payments, excluding your home mortgage?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
07. Comparison shop for the purchase of most items?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
08. Use credit only for expensive purchases, or when you have money in the bank to cover the charge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
09. Regularly monitor your checking account transactions history online or via statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Keep yourself financially current by reading consumer articles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

TOTAL: ALWAYS \_\_\_\_\_ SOMETIMES \_\_\_\_\_ NEVER \_\_\_\_\_

## Scoring your answers:

**Always:** 2 points    **Sometimes:** 1 points    **Never:** 0 points

**0 -10 Points:** Indicates a need to take control of your finances. Develop and practice better money management skills.

**11-15 Points:** Reflects a good effort to manage your money effectively. Determine what changes can be made to improve your financial well being.

**16 -20 Points:** Demonstrates the ability to manage your finances successfully. Continue to make money management a priority in your household.

# Calculate Your Net Worth

When it comes to pinpointing your direction on your financial journey, you should always know where you're starting from. Calculating your net worth will show you how your Assets and Liabilities balance one another out.

**Assets** are defined as physical property like a home or a car; or intangible rights like money that is owed to you by someone else.

**Liabilities** are debts that you owe to someone else. Loans like a mortgage or auto loan, or the balances you've charged on your credit cards would all fall within this category.

## Assets

### Cash & Cash Equivalents

- Cash \$ \_\_\_\_\_
- Checking Account Balances \$ \_\_\_\_\_
- Savings (Standard) Account Balances \$ \_\_\_\_\_
- Cash Value: Life Insurance & Annuities \$ \_\_\_\_\_
- Other \$ \_\_\_\_\_

### Real Property (Market Value)

- Real Estate \$ \_\_\_\_\_
- Car (Auto) \$ \_\_\_\_\_
- Personal Property \$ \_\_\_\_\_

### Investments

- Certificates of Deposit (CD's or Term Share Certificates) \$ \_\_\_\_\_
- Bonds \$ \_\_\_\_\_
- Mutual Funds \$ \_\_\_\_\_
- Stocks \$ \_\_\_\_\_
- Other \$ \_\_\_\_\_

### Retirement Assets

- IRA \$ \_\_\_\_\_
- Pension Fund (Vested Balance) \$ \_\_\_\_\_
- Mutual Funds \$ \_\_\_\_\_
- Other \$ \_\_\_\_\_

### Total Assets

\$ \_\_\_\_\_

## Liabilities

### Mortgage (Principal Only)

\$ \_\_\_\_\_

### Other Debt

- Auto Loans \$ \_\_\_\_\_
- Home Improvement Loans \$ \_\_\_\_\_
- Student Loans \$ \_\_\_\_\_
- Other Loans \$ \_\_\_\_\_
- Credit Card Balances \$ \_\_\_\_\_

### Taxes Owed

- Federal \$ \_\_\_\_\_
- State & Local \$ \_\_\_\_\_

### Contractual Obligations

- (eg., Leases, Tuition) \$ \_\_\_\_\_

### Total Liabilities

\$ \_\_\_\_\_

## Add it up!

**Total Assets** \$ \_\_\_\_\_

**(-) Total Liabilities** \$ \_\_\_\_\_

**(=) \$** \_\_\_\_\_

**Net Worth**

A positive net worth indicates that your assets are larger than your liabilities, while a negative result indicates that your liabilities are larger than your assets. Pay attention to your trend year-after-year. The direction your net worth is moving in says more about financial habits than one year of data alone.

# Write Out Your Financial Goals & Timelines

**Short-term** goals are financial priorities that can be accomplished within one year. **Mid-term** are goals that can be accomplished in one to five years. **Long-term** goals may take five years or more to accomplish.

	Goal	Target Date	Cost Estimate	Amount Currently Saved	Amount Needed Per Month to Reach Goal
SHORT-TERM	01	/ /	\$	\$	\$
	02	/ /	\$	\$	\$
	03	/ /	\$	\$	\$
MID-TERM	01	/ /	\$	\$	\$
	02	/ /	\$	\$	\$
	03	/ /	\$	\$	\$
LONG-TERM	01	/ /	\$	\$	\$
	02	/ /	\$	\$	\$
	03	/ /	\$	\$	\$

## STEP 3: CREATE A BUDGET

# Monthly Income Worksheet

	Household Paycheck #1	Household Paycheck #2	Household Paycheck #3	Total
<b>1. Sources of Paychecks</b>				
<b>2. Monthly Gross Income</b>				
<b>3. Deductions</b>				
Federal Income Tax				
FICA/Retirement				
Medical Insurance				
Life Insurance				
Dental Insurance				
Co. Stock Purchase				
Payroll Deduction Saving (401k)				
Union Dues				
Child Support				
Other				
Other				
<b>4. Monthly Net Earned Income</b>				
<b>5. Other Monthly Income</b>				
<b>6. Additional Periodic Income</b>				
<b>7. Total Monthly Net Income</b>				

## & Create a Budget (using the worksheets on the following pages)

### Record Monthly Income

- Using your sources of paychecks (**section 1**), list all sources of monthly earned income of all individuals living in the household involved in the family budget, including full-time, part-time, and self-employment income.
- Calculate your Gross Income and your Net Earned Income (**sections 2–4**) – This means listing your taxes and deductions. This is a good opportunity to review your deductions. If you regularly receive large tax refunds, you may be able to review your tax forms in order to free up more money per paycheck to pay down your debts.
- Other Monthly Income (**section 5**) – Examples: Social Security, Rental Income, Disability Compensation, Temporary Assistance to Needy Families, Alimony, Industrial Compensation, Annuities, Stock Dividends, Child Support, Royalties, Allotments, Boarders, etc.
- Additional Periodic Income (**section 6**) – Divide any income that you receive less than once a month so that you get the monthly amount. For example, if you receive one check every quarter, multiply by four and divide by 12.
- Calculate your Total Monthly Net Income (**section 7**) – If you do not have anything listed in sections 5 and 6, this should be the same as your Net Earned Income.

### Record Monthly Expenses

Recording monthly expenses means documenting and tracking exactly how you spend your money. Although some expenses occur more frequently or less frequently than once a month, it is important to track each expense as a monthly total. For the purposes of this workbook, we will be looking at expenses as Basic (expenses that cannot be eliminated, but may be reduced) and Discretionary (expenses that are optional).

# Monthly Expense Worksheet (Basic vs Discretionary)

## Basic Expenses

<b>Housing</b>	
• Mortgage/Rent	\$ _____
• Groceries	\$ _____
<b>Utilities</b>	
• Internet	\$ _____
• Oil	\$ _____
• Gas	\$ _____
• Water / Sewer	\$ _____
• Electricity	\$ _____
• Phone (Cell and/or Landline)	\$ _____
• Garbage Collection / Recycling	\$ _____
<b>Transportation</b>	
• Public Transportation	\$ _____
• Vehicle Loan Payment	\$ _____
• Gas	\$ _____
• Parking & Highway Tolls	\$ _____
• Vehicle Repairs /Maintenance	\$ _____
• Inspection / Registration	\$ _____
<b>Insurance</b>	
• Homeowners / Renter's Insurance	\$ _____
• Medical Insurance *	\$ _____
• Vehicle Insurance	\$ _____
• Vision / Dental Insurance *	\$ _____
<b>Taxes</b>	
• Federal Income *	\$ _____
<b>Child Care</b>	
• Child Care	\$ _____
• Child Support / Alimony *	\$ _____
• Clothing	\$ _____
• Health Products / Prescriptions	\$ _____
<b>Personal</b>	
• Clothing	\$ _____
• Dry Cleaning / Laundromat	\$ _____
• Cleaning Supplies	\$ _____
• Health Products / Prescriptions	\$ _____
• Barber / Hair Stylist	\$ _____
• Savings	\$ _____
• Retirement *	\$ _____
• Medical / Dental Co-pay / Out of Pocket	\$ _____
<b>Pet Care</b>	
• Food & Supplies	\$ _____
• Veterinary Appointments	\$ _____
• Prescriptions	\$ _____

## Discretionary Spending

<b>Utilities</b>	
• Cable	\$ _____
• Netflix / Hulu/ HBO Subscriptions	\$ _____
<b>Entertainment</b>	
• Dining Out	\$ _____
• Music / Audiobook Streaming Services	\$ _____
• Hobbies / Lessons	\$ _____
• Movies Out	\$ _____
• Sporting Events	\$ _____
• Vacations	\$ _____
<b>Fees</b>	
• Bank / Credit Union Charges / ATM	\$ _____
• Charitable Expenses	\$ _____
<b>Misc</b>	
• Coffee	\$ _____
• Alcohol / Tobacco	\$ _____
• Gifts / Holiday Expenses	\$ _____
<b>Other Discretionary Spending</b>	
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

### Add it up!

<b>Monthly Basic Expenses Total</b>	\$ _____
<b>(+) Monthly Discretionary Spending Total</b>	\$ _____
<b>(=) \$</b>	_____
<hr/>	
<b>(-) Monthly Net Income</b> (left page)	\$ _____
<b>(-) Additional Loan Payments</b>	\$ _____
<hr/>	
<b>(=) Surplus / Deficit (+ or -)</b>	\$ _____

\* Leave blank if this is already deducted from your Monthly Net Income on the previous page.

# Compare Income to Expenses

Now that you have your income and expenses listed out, it is time to identify opportunities to save money. Every dollar saved in your budget can go directly to paying your debt so your surplus / deficit line item equals zero.

### If you have a Surplus (+):

- Are you saving enough? Even when your primary goal is to pay down debt, it is important that you are saving for an emergency fund. If you do not, then a single bad week could cause you to increase your debt or prevent you from making a debt payment, causing a major setback.
- The remainder of this excess should go towards additional loan payments.

### If you have a Deficit (-) but you can still cover your basic expenses:

- First, make sure you are consistently covering your basic expenses. If this is the case, paying down your debt may be as simple as removing, or drastically cutting one or more discretionary expenses.

### If you have a Deficit (-) and you cannot cover your basic expenses:

- It may be time to start asking yourself questions regarding lifestyle changes. The following section, "Tips for Lowering Basic Expenses," will help.

## Tips for Lowering Basic Expenses

Some of the following suggestions are meant to help you think about things differently. This may be necessary if you cannot cover your basic expenses, and it can be helpful if you are simply looking for additional funds to pay off your debt more quickly.

- Consider seeking additional income. You don't need to make enough to quit your day job, just enough to make your goals.
- Look at competitor's prices for insurance and utilities to see if you can save money by switching.
- Look at your cell phone usage to see if you are always paying for much more data than you use.
- Explore refinancing options for your auto loan or mortgage.
- If you are a meat eater, consider using less meat in your meals and mixing in beans or other legumes (vegetable protein is much cheaper than animal protein, stretching out your budget).
- Always shop with a list. Before grocery shopping, make a schedule for the meals you're going to make. This will help ensure that you are buying foods that make sense, and are realistic to cook given your daily routine.
- Only purchase clothing on sale.
- Shop in your closet before purchasing new clothing.
- Host or attend clothing swaps with your friends.
- Explore less expensive but equally effective health and beauty products; try new hairstyles that are easier to maintain in between appointments.
- If you rent, look for more affordable apartments or homes. If you own and have an extra room, consider renting it.

# Evaluating How your Budget Works

A working budget is more than a formula for the spending of future income. It becomes the family's plan for saving as well as spending and a road map for reaching your goals. While it requires you to estimate your available income and to make decisions about spending those funds, your budget will help you implement a money management plan for your future.

## A successful budget should:

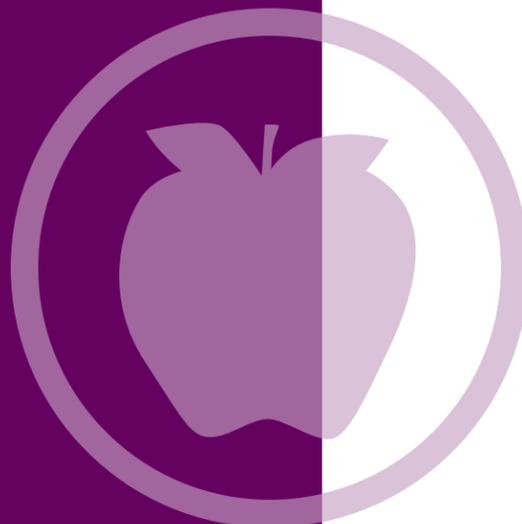
- Help increase savings
- Prevent impulsive spending
- Determine what you can afford
- Identify expenses that can be reduced
- Help repay debt

There is no single "budget formula" that is successful for all households. Every household chooses to spend money in its own way, to meet its own needs. The secret to successful budgeting is to develop a realistic plan that is workable for your family and unique circumstances, and then follow it.

## Budget Allocation Guide

The allocation range below is a guide. You should not exceed the maximum range for any of these categories.

Category	Percentage of Budget
Housing	35 - 40%
Food	15 - 30%
Personal Debt	10 - 20%
Utilities	7 - 15%
Transportation	6 - 20%
Savings	5 - 10%
Insurance	4 - 6%
Clothing	3 - 10%
Health	2 - 8%
Personal Care	2 - 4%
Misc. Items	1 - 4%



## STEP 4:

# Commit to a Savings Plan

Saving by regularly setting aside part of your income is an essential component of any money management plan. In addition to the money set aside, saving provides the opportunity to earn money through compound interest. Savings can provide the money needed to manage regular financial obligations, and increase financial security and a sense of well-being. Develop and commit to a savings plan that includes money for these situations:

- Periodic living expenses – Each pay period, set aside the amount that is budgeted for an expense but not actually spent during that pay period. Use a savings account or interest-bearing checking account in which funds can be easily deposited and withdrawn, and will yield some interest.
- An emergency fund – Each pay period, set aside the amount that is budgeted until the goal of a 3–6 month living expense cushion is achieved. Put it into a short-term Certificate of Deposit (CD) or a Money Market account.
- Short-, mid-, and long-term goals – Set aside money each month to fund financial goals. Select an interest bearing account for the short range goals, and a savings instrument, such as a CD, for saving between nine months and two years. If saving for more than two years, consult an investment advisor for more options.

Money can be saved or invested—and there are differences between the two. Both allow your money to work for you. But the differences between savings and investment products arise in the rate of return and amount of risk involved. Questions that should be considered when evaluating a savings or an investment instrument are:

- What is the interest rate?
- For how long must I invest the money?
- Can I have access to it at any time or is there a penalty if it is withdrawn early?
- Are there tax penalties if I withdraw the money early?
- What risks will be associated with my investment?

**How do you calculate how fast your investments will grow? Use the Rule of 72: Any interest rate divided into the number 72 will give you the number of years necessary to double your money:**

	3% = Doubles in 24 years		6% = Doubles in 12 years		9% = Doubles in 8 years	
0 years	Initial Investment	\$2,000	Initial Investment	\$2,000	Initial Investment	\$2,000
24 years	Money Doubles Once	\$4,000	Money Doubles Twice	\$8,000	Money Doubles 3 Times	\$16,000
48 years	Money Doubles Twice	\$8,000	Money Doubles 4 Times	\$32,000	Money Doubles 6 Times	\$128,000



## STEP 4: TAKE CONTROL

You've determined your budget, and you know how to get where you want to be financially. To help ensure success, ask everyone in your household to follow this personal money management commitment:

**Communicate:** Take the time to talk about each other's needs and wants so that everyone feels a part of the plan.

**Cooperate:** Be prepared to compromise and work cooperatively. Agree within the family that everyone will take turns getting what he or she wants and even giving up something that is wanted. Work toward a financial partnership.

**Control:** Every family member must exercise control and avoid unnecessary spending. Strive to live within the family's income and to limit the use of credit to preset limits. Make savings a family priority. Then together, you can take control of your financial future.

## Helpful Links

### Financial Resources

[www.greenpath.com](http://www.greenpath.com)

[www.mint.com](http://www.mint.com)

### Credit Report Information

By law, everyone is entitled to a free copy of their credit report from each of the three credit bureaus once per year. The first year you request your report you should ask for all three, but moving forward, it may be beneficial to request one at a time. Staggering your free reports in this fashion allows you to keep a closer eye on your report throughout the year. Note: your credit reports will not list your numerical credit score.

[www.annualcreditreport.com](http://www.annualcreditreport.com)

### To contact the three credit bureaus directly:

[www.equifax.com](http://www.equifax.com)

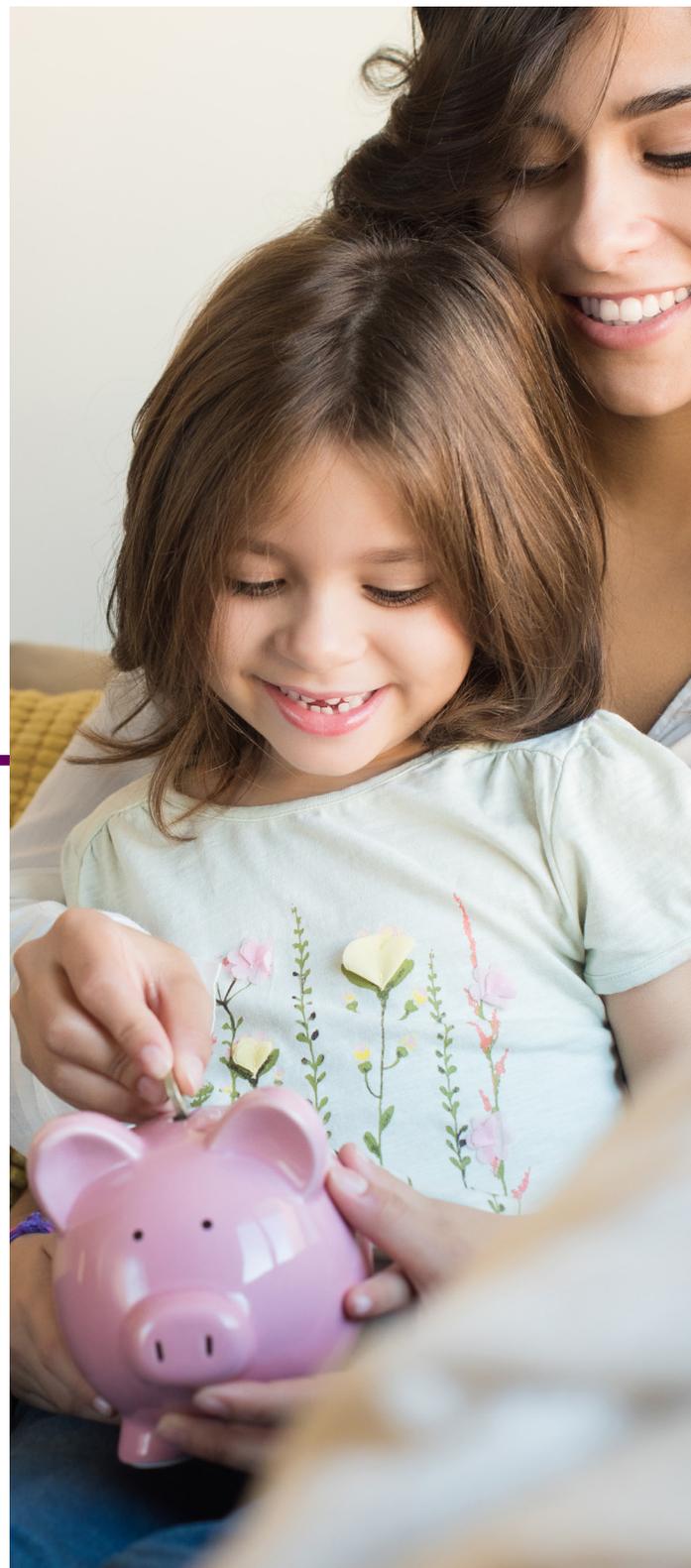
[www.experian.com](http://www.experian.com)

[www.transunion.com](http://www.transunion.com)

### To be taken off credit card solicitation lists

[www.dmachoice.org](http://www.dmachoice.org)

[www.optoutprescreen.com](http://www.optoutprescreen.com)



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