Counting Your Money

Section Objectives

"Counting your money" and managing your money wisely is the most important part of your trip on the road to personal financial success. It is a critical step in achieving financial security. Money management is about choosing how to spend and save your money. In some instances, you may need to change your spending habits so you can afford purchasing large items like a home or a vehicle.

This section will help you understand how to manage your money and how vehicle expenses can affect your budget. It will make you a more confident and successful buyer. After completing this section you will be able to:

- Understand how to establish a spending plan
- Know how to set your financial goals
- Recognize ways to save

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Key Terms

Budget — A plan of incoming and outgoing monies, also known as expense and income.

Down Payment — Initial money spent purchasing property or a vehicle

Expenses — An expense is any outgoing payment made by a business or individual, these are classified as:

- **Fixed Expenses** — Bills that are due at a particular time or on a regular schedule
- **Flexible Expenses** — Expenses that occur by choice and are subject to change
- **Variable Expenses** — Variable expenses are those expenses that occur regularly. They are consistent and predictable, but the amounts change.

Income — Financial gain accruing over a period of time that can come from several sources like interest from a savings account, gifts, tips, bonuses, child support and, of course, your salary from employment

- **Gross Income** — Total amount of money earned before any taxes and payroll deductions are subtracted.
- **Net Income** — Gross income minus taxes and payroll deductions, take home pay.
- **Bi-weekly Income** — Payment every two weeks, generally every other Friday
- **Semi-monthly Income** — Payment every two weeks; for example on the 15th and the 30th.

Savings — An amount of money put aside that can be used later.

How Do You Use Your Money?

The process of managing your money and establishing a budget will help you know how you are spending your money, how much money you have coming in, how much money you spend on expenses and how much money you have left for savings and/or major purchases.

Why Do You Need a Budget?

You need a budget to guide your savings and spending habits. One way to figure out a budget is to determine where your money goes, what you usually spend your money on, and what categories this spending falls into. Tracking your spending is the necessary first step to understanding how you can manage your money most optimally.

Parts of a Budget

In order to complete a budget you need to know what your income and monthly expenses are by keeping track of how much money comes in and how much money goes out. Below is a simple example that will help you get started.

Money Coming In – Money Going Out

Money Coming In (Income)	Money Going Out (Expenses)	Available Funds (Income – Expenses=Balance)
	Weekly	
Salary	ATM withdraw	
	Checks	
	Payments	

Income

Income is a financial gain accruing over a period of time that can come from several sources like interest from a savings accounts, gifts, tips, bonuses, child support and, of course, employment. In general terms when considering a budget we refer to "net income" or "take home pay" which is the amount of money you actually receive in your paycheck after taxes and any other deductions. Usually, Taxes, Social Security and Medicare deductions are subtracted automatically from your check.

How to Figure Out Your Net Income

In order to figure your net annual (yearly) and net monthly income, lets use the following steps. Net Income = amount remaining after taxes and payroll deductions.

Exercise

Check the box by the answer that describes how often you get paid.

Step 1: Determine how often you get paid.

- Weekly
- Bi-weekly (every two weeks)
- Semi-monthly, (twice a month)
- Monthly (once a month)

Step 2: Calculate your gross monthly income

Take home pay	How are you paid?	Multiply by:	Equals net annual income	Divided by 12 equals gross monthly income
$	*Weekly*	*52*		
$	*Biweekly*	*26*		
$	*Monthly*	*12*		

Expenses

In general when considering a budget, consider personal expenses. An expense is the amount of money spent on bills, other payments and basic "cost of living" expenses. In order to have an accurate picture of your personal finances when working on your spending plan or budget, it is recommended that you consider the three most common types of expenses as shown below.

Types of Expenses

To figure out your expenses, first, collect all your bills, your credit card statements, your checkbook register, and receipts for gas, groceries and anything else you buy with cash, check or debit card. Include things that are billed periodically during the year such as taxes and insurance. Remember that some expenses are for items that are considered "needs" and others are for things that are "wants". This is helpful when budget adjustments are necessary.

Fixed Expenses

Bills (payments) that are due at a particular time or on a regular schedule are considered fixed expenses. The amount of fixed expenses by definition remains the same or changes according to a known schedule. Some examples of fixed expenses are housing, credit obligations, insurance, family, gifts and contributions.

- Credit Obligations: Includes vehicle payment, other personal loans, credit card debts
- Housing: includes rent or mortgage.
- 2nd mortgage and home equity loans.
- Insurance: This can include homeowner's or renter's insurance, automobile and life insurance.
- Family: This includes tuition, child support, alimony and day care.
- Gifts and Contributions: A regular amount that you give to charity or your church.

Exercise

Write down some of the items that make up your fixed expenses, using the list above.

______________________________ ______________________________

______________________________ ______________________________

______________________________ ______________________________

Variable Expenses

Variable expenses are those expenses that occur regularly. They are consistent and predictable, but the amounts change. Some examples of variable expenses are:

- Transportation: Bus or subway fares, gasoline, vehicle maintenance and repairs
- Food: Groceries, lunches, snacks, beverages
- Utilities: Electric power, gas, water, cellular and long distance phone bills
- Credit cards: Credit cards and other loans where the monthly amounts change.
- Personal needs: Expenses such as hair, nails, toiletries.
- Health care: Doctors, dentists, prescriptions

Exercise

Write down some of the items that make up your variable expenses, using the list above.

______________________________ ______________________________

______________________________ ______________________________

______________________________ ______________________________

Flexible Expenses

Flexible expenses are for things you "want" rather than "need". Generally, they occur by choice and you may consider them "fun" expenses. These expenses are the ones that can be adjusted or taken out of your budget to find money for something else. Some examples of flexible expenses are:

- Clothing: New shoes, fashion jeans
- Entertainment: Movies, concert tickets, make-up, sports
- Fashionable Accessories: Diamond earrings, bracelets, hair pins
- Gadgets: I-pods, cameras, cell phones

Exercise

Write down some of the items that make up your flexible expenses, using the list above.

______________________________ ______________________________

______________________________ ______________________________

______________________________ ______________________________

Savings

Pay yourself first!

Most people set up a monthly budget listing their income and expenses first. However, it is often recommended that you "pay yourself first" before you go on to your list of expenses. Determine an amount to save between five and ten percent or an amount that is comfortable for you. Deposit this amount into a savings account before paying any bills. If you wait until you pay your expenses there may be nothing left to save. Paying yourself first gives you an orderly way to make your money grow.

Why is saving important?

Savings set aside can be easily accessed in an emergency. Most financial planners advise that a good rule of thumb is to set aside an emergency fund equal to three to six months' worth of living expenses. Also, savings will help you attain special goals that you may never have the money to achieve—such as having the down payment to buy a vehicle or home.

Savings in Banks and Credit Unions

You have several options on where to save your money. You can open a savings account in a bank or a credit union.

Savings in US banks are insured up to $100,000. The FDIC – short for the Federal Deposit Insurance Corporation – is an independent agency of the United States government. The FDIC protects you against the loss of your deposits if an FDIC-insured bank or savings association fails. FDIC insurance is backed by the full faith and credit of the United States government.
The FDIC insures deposit accounts such as checking, NOW and savings accounts, money market deposit accounts, and certificates of deposit (CDs). The basic insurance amount is $100,000 per depositor per insured bank.

If you or your family has $100,000 or less in all of your deposit accounts at the same insured bank, you do not need to worry about your insurance coverage. Your funds are fully insured.
The FDIC does not insure the money you invest in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if you purchased these products from an insured bank. The FDIC also does not insure U.S. Treasury bills, bonds, or notes. These are backed by the full faith and credit of the United States government.

A credit union is a cooperative financial institution, owned and controlled by the people who use its services. These people are members. Credit unions serve groups that share something in common, such as where they work, live, or go to church. Credit unions are not-for-profit, and exist to provide a safe, convenient place for members to save money and to get loans at reasonable rates.

Credit unions, like other financial institutions, are closely regulated. And they operate in a very prudent manner. The National Credit Union Share Insurance Fund (NCUSIF), administered by the National Credit Union Administration, an agency of the federal government, insures deposits of credit union members at more than 9,000 federal and state-chartered credit unions nationwide. Deposits are insured up to $100,000.

Why is important to develop a personal or family budget?

The family budget is really nothing more than a listing of expenses and incoming monies on month to month basis. While some people believe that the budget must be a complicated mess of numbers and accounting practices, the common person will find that simplicity is the best method. Complicating the situation will only create confusion and therefore bring about the downfall of the entire system that is designed to protect all involved. So the first rule of the family budget should most certainly be to keep it simple.

One of the major issues that many people have with the family budget is the belief that such measures will limit the control one has over their money. This is a myth that many financial experts have tried to diffuse for many years. The fact is that the personal family budget simply acts as a guide so you know where the money you bring in must go on a monthly basis. In all truth, the money is already allocated, but it allows for sound financial planning when you know the expenses that you have against the money you have coming in. The control you have over your money is never changed by a budget, but it is something that makes sense for a person who wants to lead a stress free life when it comes to money matters.

When you look over a family budget you will be able to ascertain areas where savings can occur. For instance, you will have a side by side comparison of the expenses you have to compare to the incoming money. The end result is the profit or extra money you have each month. What you do with that money is your own decision. However, this also proves useful when thinking about making a change. Perhaps you are thinking about moving to a larger home. In this case you will need to see how much you can afford each month for the payments. With the family budget in place and kept up to date you have the information you need right at your fingertips.

The need for a personal or family budget cannot be stressed enough. Having a set amount that you spend each and every month on expenses gives you peace of mind. It is sound financial planning when you sit down and figure out how much you have and how much you need. This will ensure you continued financial safety and security when it comes to your family.

Budget Worksheet

To create your budget, you will need to know how to estimate your income and expenses. Before you start, take a look at your checkbook record, pay stubs, bills and receipts to help you make accurate estimates. Then fill in the worksheet on this page with your income and expenses.

Budget Before Owning a Vehicle

Monthly Income

Your weekly pay $________________ x 52 divided by 12 $________________
(take home pay)

or

Your bi-weekly pay $________________ x 26 divided by 12 $________________
(take home pay)

or

Your semi-monthly pay $________________ x 26 divided by 12 $________________
(take home pay)

=

Your Monthly Take-home pay **$________________ (1a)**

Other monthly income

Second job $________________

Regular overtime $________________

Public assistance $________________

Child support $________________

Pension $________________

Social Security $________________

Other

Total Other Monthly Income **$________________ (1b)**

TOTAL NET MONTHLY INCOME **$________________ (Add (1a) and (1b)**

Monthly Expenses

ITEM	AMOUNT
FIXED EXPENSES	
Savings	
Savings	______
Investment	______
Retirement	______
Housing	
Rent/Mortgage	______
Property Taxes	______
Electricity	______
Gas/Oil Heating	______
Telephones	______
(Landline and	______
Cell phones)	______
Water and Sewer	______
Garbage	______
Maintenance	
Insurance	______
Home Owner's Insurance	______
Medical	______
Life and Disability	______
Gifts and Donations	
Religious/Charity	______
Birthdays/Holidays	______
Other	______
Credit Obligations	
2nd Mortgage/Home	______
Equity Loan	______
Credit Card Payments	______
Student Loan	______
Medical Bills	______
Family	
Child Support/Alimony	______
Tuition	______
Day Care	______
VARIABLE EXPENSES	
Health Care	______
Doctor	______
Dentist	______
Prescriptions	

	AMOUNT
VARIABLE EXPENSES	
Clothing	
Apparel/Shoes	______
Dry Cleaning/Laundry	______
Other	______
Education	
Books, Papers	______
Supplies	______
Lessons (sports, dance, music)	______
Food	
Groceries	______
School/Work Lunches	______
Transportation	
Public Transportation	______
Groceries	______
FLEXIBLE EXPENSES	
Entertainment	______
Movies	______
Concerts, Theater	______
Video Rentals	______
Cable/Satellite TV	______
Restaurants/Take Out	______
Vacation Trips	______
Sporting Events	______
Newspapers, Books	______
Magazines	______
Gambling/Lottery	______
Personal	
Beauty Shop	______
Barber	______
Children's Allowance	______
Other	______

Total Monthly Expenses ______

______	-	______	=	______
Total Net Monthly Income		**Total Monthly Expenses**	=	**Total left for Additional Purchases or Savings**

Finding a Vehicle That Fits Your Personal or Family Budget

The vehicle of your dreams may come in many sizes, colors or models. We see them in magazines, newspapers, the Internet or just passing us by, however, you should try to find a vehicle that fits your budget. The vehicle of your dreams comes along with a vehicle payment and other expenses such as insurance, vehicle registration and taxes. You will enjoy financial health and will have more disposable income if you stay within your means.

Before you get too excited about any vehicle in particular, you should:

- Determine whether or not you can afford to get behind a wheel
- This is where your monthly budget comes into play.
- Set aside between 15 to 20% of your income for your vehicle payment
- After subtracting credit card payments and other loan expenses
- Add different vehicle payment amounts to your budget to see how a vehicle will impact your budget.

If you are planning to purchase a home within the next three years, you might want to wait and purchase your new vehicle after you have purchased the home. A mortgage lender will consider your monthly vehicle payment as a reduction of your income available to buy a home. In general, if you only have about two years left of vehicle payments, the lender will not count them against your income.

Choosing a Vehicle – How Much Will it Cost

The vehicle payment is not the only thing you need to consider when planning to buy a vehicle. There are other expenses that will impact your budget. Among these are:

Cost of purchasing a vehicle

- Down payment
- Taxes
- Registration and title
- Other (fees, service contract, etc.)

Vehicle Operating costs

- Gasoline and oil
- Parking and tolls
- Storage (renting garage space)
- Insurance
- Maintenance and other operating costs

We recommend that you estimate these expenses to determine the vehicle payment that you can afford and how the new expenses will impact your personal budget.

Section Review

Circle the correct answer:

1. A budget helps you keep track of your expenses
   a. True
   b. False

2. What is an example of a fixed expense?
   a. buying pizza
   b. paying the house
   c. paying the hairdresser
   d. buying gas

3. A budget is a planning tool used to
   a. pay creditors
   b. track income and expenses
   c. apply for a loan
   d. request your credit report

4. A guideline for your monthly vehicle payment should be 25-30% of your income.
   a. True
   b. False

5. Financial advisors suggest that 3- 6 months worth of living expenses should be set aside for an emergency fund.
   a. True
   b. False

6. The FDIC insures deposits in U.S. banks up to
   a. $50,000.00
   b. $5,000.00
   c. $100,000.00
   d. none of the above

7. An example of a variable expense is
   a. movies
   b. rent
   c. groceries
   d. none of the above

8. A payment twice a month, is a
   a. monthly payment
   b. bi-monthly payment
   c. bi-weekly payment
   d. none of the above

9. An example of a vehicle expense is monthly insurance.
   a. True
   b. False

10. Dealer incentives may lower your vehicle payment
    a. True
    b. False

Additional Learning Resources

Publications

The American Financial Services Association Education Foundation offers publications that you may find useful. For example:

- Understanding Vehicle Financing
- Consumer Budget Planner
- The Consumer's Almanac

Go to http://www.afsaef.org or call (888) 400-2233 to order these publications.

Web Sites and Contact Information

- AFSA Education Foundation: http://www.afsaef.org
- The Jump$tart Coalition for Personal Financial literacy: jumpstart.org