

# Keys to your Financial Future



Key Five  
Paying Bills and Budgeting

# Spending Money

## How to spend your income:

- ▶ Save or invest it.
- ▶ Share it.
- ▶ Spend it.

## You can spend your money on:

- ▶ Needs-Things you MUST have to SURVIVE.
- ▶ Obligations-Things you MUST Pay because you owe the money, are under contract or have been ordered by courts or government to pay them.
- ▶ Wants- Things you desire but are not necessary for survival.

How people see expenses is often based on their own values.

# Layla's Story

Layla just started working as a paralegal in a law firm. She is so excited. She waited tables in a local restaurant six nights a week to earn money to pay for school. To start work, Layla felt she needed professional attire. She went to a department store and bought two new suits. While there, she invested in high quality make up as well. During her orientation at her new job, she was invited to open a 401K. Anything she saved in her 401K would be matched by her employer. Since retirement was so far in the future and she needed all her money now, she did not fill out the paper work. On her second day of work, her new colleagues invited her out to lunch. She couldn't say no. She ended up eating lunch in a nice restaurant every day.

On Wednesday, she got a call from her caseworker. She had fallen two months behind on her child support payments. To avoid wage garnishment she took a cash advance on her credit card to catch up. On Saturday, she sat down to pay her bills. She was late on her cell phone payment, and her car payment was due next week. She also needed to go grocery shopping. On the way to the store, she got a massage because she was feeling so much stress.

- ▶ What were Layla's needs?
- ▶ What were her wants?
- ▶ What values do you see in Layla's spending choices?
- ▶ What were her obligations?
- ▶ Do you think she confused her needs, wants, and obligations? If so which ones?
- ▶ What could she have done differently to ensure her needs and obligations were met?

# Bills Vs. Expenses

- ▶ Bills- Recurring, they happen regularly and are predictable. Example rent.
- ▶ Expenses- Aren't bills but you spend money on them. Example groceries.
  
- ▶ Who are your key resources when you need help paying a bill?
- ▶ Why is it important to pay your bills on time all the time?

# By paying your bills on time, you:

- ▶ Avoid late fees and penalties- so you save money.
- ▶ Avoid loss of services, such as utilities or cell phone.
- ▶ Avoid large deposits to re-establish services cutoff due to late or non payment.
- ▶ Avoid repossession of vehicle.
- ▶ Avoid losing your apartment or home.
- ▶ Maintain or improve your credit history and scores.
- ▶ Ensure people will continue doing business with you.

# Paying Bills

- ▶ What are some benefits/risk of using cash?
- ▶ Benefits/risk of prepaid cards?
- ▶ Benefits/risk of checks
- ▶ Benefit/risk of automatic bill payment
- ▶ Benefit/risk of online banking?
- ▶ Benefits/risk of peer to peer payment?

# Checking Accounts

- ▶ **Checking account**- An account at a bank or credit union. When you open a checking account, you deposit money into it.
- ▶ **Balance**- What is in your checking account.

## You can pay bills with your checking account by:

- ▶ Writing checks.
- ▶ Using your debit card.
- ▶ Making withdraws of cash at an ATM and using the cash.
- ▶ Using online bill payments.
- ▶ Setting up automatic debits from your account.
- ▶ Remember each time you use one of these options your balance will go down!



# Checking Accounts

- ▶ If you use your account and there is not enough funds the transaction will be **declined** or you will pay fees if you have **overdraft protection**. This will happen if you use your debit card, write a check, have an automatic debt scheduled or withdraw funds using an ATM.
- ▶ **NSF-(Nonsufficient funds)-** Or overdraft fees. (The business that the payments were intended for may also charge a fee.)

# Keeping Track of your Checking Account

The best way to make sure you don't run into trouble with a checking account **keep track of each:**

- ▶ Deposit or withdrawal you make online, using a mobile app, in person or at an ATM.
- ▶ Bills you pay electronically out of your checking account
- ▶ Automatic Debit.
- ▶ Purchase you make with a debit card.
- ▶ Check your write.

Beware of authorized holds on your account. This happens when you use your debit card to buy gas, rent a car, or get a hotel room.

## There are several ways for you to keep track of your checking account:

- ▶ **Use the check register provided by the bank or credit union.** Write down the date, purpose and amount of each transaction.
- ▶ **Sign up for online banking.** You can check your account at any time of the day from computer or secure connection.
- ▶ **Use the bank or credit unions mobile app.** You can check your account anywhere from your phone.
- ▶ **Review your account statements.** If you have online banking or mobile app, you will have almost real-time access to your statements all day everyday.

# Make a Bill Calendar

- ▶ **Bill Calendar**- A calendar for just your bills where you can write in the dates, amount, and when payments are due.

# Budget

- ▶ What is a budget?
- ▶ Budget- A plan to use your money to reach your goals.
- ▶ How do you feel about budgets?
- ▶ Why don't budgets work for some people?
- ▶ When would you use a budget?

# Geraldine's Housing Budget

Geraldine has been living with roommates for five years. She is ready for her own place. She has a good job managing a local restaurant and makes \$14.50/hour or \$2,500 per month. She has saved \$1,800 for this move and has an additional \$900 in an emergency savings fund. She's found a small apartment she loves for \$800 per month. The security deposit is \$800. She does not have to pay deposits on her utilities but has been given an estimate of \$150/month for all her utilities not including her cell phone or internet service. Internet will be an additional \$35 per month. Renter's insurance will cost \$12 per month. She has a bed, dresser, couch and television she plans to move. She has budgeted \$600 to get a small kitchen table, a chair, and coffee table. She also needs new linens (\$200), some basic kitchen appliances like a coffee maker (\$200) and cleaning supplies like a broom, mop, cleaner and paper towels (\$100)- a total of \$500 for all of these costs.

- ▶ Can Geraldine can afford this new apartment? Why or why not?

# How to Make a Budget

## Some approaches are:

- ▶ The envelope system
- ▶ Monthly budget
- ▶ Cash-flow budget
- ▶ Mobile budgeting banking app

**These approaches should put you in control of your money so you can reach your goals!**



# Alicia's Cash Flow Budget

Alicia wants to save money so she can return to school to become an EMT. She started school but stopped attending when her life got complicated-she was taking care of her grandmother during an illness. Unfortunately, she had \$15,000 in student loan debt and no degree. She has a construction job earning \$12.50 per hour. This is full time. She also provides child care for a cousin on weekends and is paid in cash. She shares an apartment with two friends and all expenses related to the apartment are divided among the three of them including pet care expenses for their dog and cat. Despite a steady job and SNAP benefits, she still finds herself failing behind on payments from time to time, and she cant figure out why.

- ▶ When does Alicia seem to run out of money?
- ▶ What causes her to run out of money?
- ▶ How does SNAP benefits factor into her budget?
- ▶ What can Alicia do to improve her cash flow?

# Bringing a Budget into Balance

There are four strategies to bringing a budget into balance:

- ▶ Increase sources of income and financial resources.
- ▶ Decrease uses of income and financial resources.
- ▶ Match the timing of sources and uses and get help.
- ▶ Get help.

# Your Cash Flow Budget

1. Set or revisit your goals.
2. Figure out how much and when you can expect your income and other financial resources every week.
3. Write down your current spending-amounts and spending.
4. Identify obligations.
5. Make the cash-flow budget.
6. Track your actual spending and compare it to your cash flow budget.

# Antonio's Story

Antonio has been working at a local department store for a year. He makes nearly \$11.00 an hour. His job is 12 miles from his apartment, and he relies on his car to get to and from work as well as trade school in the evening. Business has been slow, and he's only been working about 28 hours per week. He usually works 40 hours and often gets six to 12 hours of overtime. With his hours cut, he can't pay all his bills. He has rent, utilities, a car payment, car insurance, renters insurance, a cell phone bill and a couple of bills in collections he has been late paying. He's paid his rent, most of his utilities and his phone bill. And, because of all the calls from the debt collectors, he made those payments too. Now, he doesn't have enough money for his car payment. He assumes that since it's just one month he's missing his car payment that he should be okay.

- ▶ What do you think could be the short term consequences of Antonio not making his car payment?
- ▶ What could be the long-term consequences of Antonio not making his car payment.