



# Budgeting 101: Tools to reach your goals

Latino Community Credit Union & Latino  
Community Development Center



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

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# INTRODUCTION



## DISCUSSION TOPIC

**What are your savings goals? What are your family's savings goals?  
Why do you want to learn how to make a budget?**

Understanding how you currently spend your money is very important. Are you saving enough? How can you improve your money management skills to reach your future financial goals?

Think about you and your family's objectives, so you can start saving toward them. Each person and each family has a different savings goal, that is why you should discuss your goals with your partner or your family to figure out what goals you want to reach and when. For instance:



- **EMERGENCIES**
- **A HOME COMPUTER**
- **HIGHER EDUCATION**
- **RETIREMENT**
- **DOWN PAYMENT ON A HOUSE**

<b>SHORT TERM GOALS</b>	<b>MIDTERM GOALS</b>	<b>LONG TERM GOALS</b>
<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<ul style="list-style-type: none"><li>- Emergency savings fund</li><li>- Buy a family computer</li></ul>	<ul style="list-style-type: none"><li>- Down payment on a house</li></ul>	<ul style="list-style-type: none"><li>- Higher education</li><li>- Retirement</li></ul>

## Do you want to start saving money, but don't know where to start?

Efficient money management starts with a good plan – a budget. In this section, you will learn how to create a budget and how this can help you learn more about your spending habits. The more you know about your spending habits, the better you will be able to control and increase your savings capacity. You'll also find information about how to set goals and the different types of accounts that you can use to save.

Remember, it's never too early or too late to start saving. It is in your best interest to develop a strong savings habit.

**To stick to your budget you need self-control** and you need to understand the importance of good money management. For example, if I need to make a specific purchase, I can put my savings in an account that earns interest while I reach my goal, or I can charge it to a credit card and pay a much higher interest rate.



### EXAMPLE

**Now that you've had a chance to think about your goals, jot them down and identify them as short terms, midterm, or long term.**

**My goal is...**

## WHAT ACCOUNT IS BEST TO REACH MY GOALS?

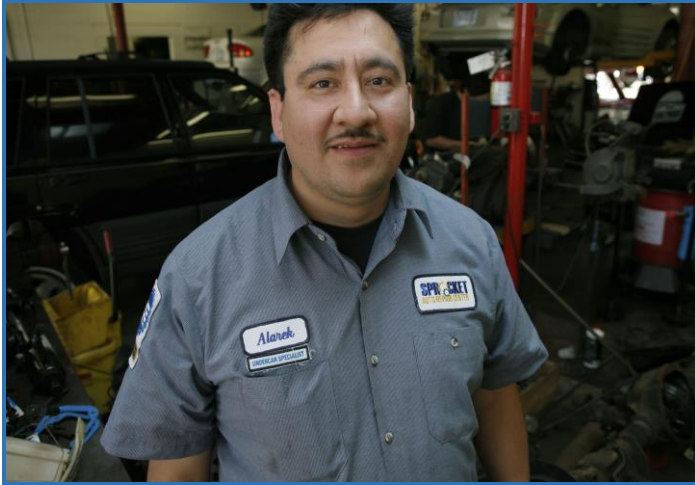
The account that you should use will depend on your needs:

- **FOR SHORT TERM GOALS**, it is best to use accounts that let you withdraw money at any time without any fees or withdrawal penalties, like a basic savings account or a *Money Market* account.
- **FOR MIDTERM TO LONG TERM GOALS**, for these types of goals, you can try to find an investment account that earn more interest over time. Higher earning accounts like certificates of deposits usually require that you deposit and keep the money in that account for a specific term (usually 6 months or longer) during which you cannot make withdrawals.
- **FOR LONG TERM GOALS**, such as pursuing a higher education or retirement there are special types of accounts. Ask your financial institution to find out which accounts would work best for your savings goals.

TYPE OF ACCOUNTS	GENERAL INFORMATION	HOW CAN THIS BE USED?
<b>BASIC SAVINGS ACCOUNT</b>	Your savings earn interest. You can deposit, withdraw, or close the account at any time.	Emergency funds, short term goals.
<b>MONEY MARKET</b>	Earn more interest than the basic savings account. It usually requires a higher minimum balance. You can deposit, withdraw or close the account at any time.	Emergency fund, short term goals.
<b>CERTIFICATE OF DEPOSIT OR SHARE TERM CERTIFICATE</b>	These savings accounts earn the highest interest rates. Usually you have to maintain a higher minimum balance for a minimum 6 month term. During the term, you cannot deposit, withdraw, or close the account without paying an early withdrawal penalty.	Midterm to long term goals.
<b>INVESTMENT ACCOUNTS</b>	Your savings are invested in stocks or bonds. You can earn more interest, but you could also lose some of your principal balance.	Midterm to long term goals.
<b>SPECIAL ACCOUNTS FOR HIGHER EDUCATION AND RETIREMENT</b>	There are many different options. These account usually have a tax-advantage that can help you save without paying income tax on those deposits if those funds are used for their intended purposes.	Higher education or retirement.

## SAVINGS STORIES

### ALAREK – PERSONAL HOME COMPUTER



Alarek knows that having a computer at home would be very beneficial for his son Alejandro, who is starting High School next year. With the computer, Alejandro could finish his homework and do research much more quickly by doing it online.

Alarek found a \$550 computer that perfectly fits his needs. Alejandro has already saved \$200, so Alarek only needs to save \$70 each month for 5 months to come up with the remaining \$350.

**SAVINGS GOAL: \$70 PER MONTH X 5 MONTHS = \$350**

This is a short term goal, so Alarek is going to deposit these funds into a *Money Market Account* which will let him withdraw funds anytime he likes while allowing him to earn a higher interest rate than a basic savings account.

## RACHEL - EMERGENCIES



Rachel could pay her monthly expenses, but she was not used to saving.

When she was let go from her job it took her four months to find a new one. Since she did not have any savings, she had to ask her family and friends for help until she was able to get back on her feet.

Rachel did not want to have to ask for help again, so she decided to start saving for any future emergencies.

Rachel's monthly expenses total \$1,000, so she needs to save between \$3,000 to \$6,000 just for emergencies. Rachel thought of ways to reduce her spending habits to be able to save for an emergency. She found out that she could save \$125 a month if she started bringing her lunch to work instead of buying lunch every day. Based on her savings, Rachel has decided to save \$125 a month for 2 years, to reach her \$3,000 goal for emergency funds. After she reaches her initial \$3,000 goal, Rachel will keep saving for her future emergency fund.

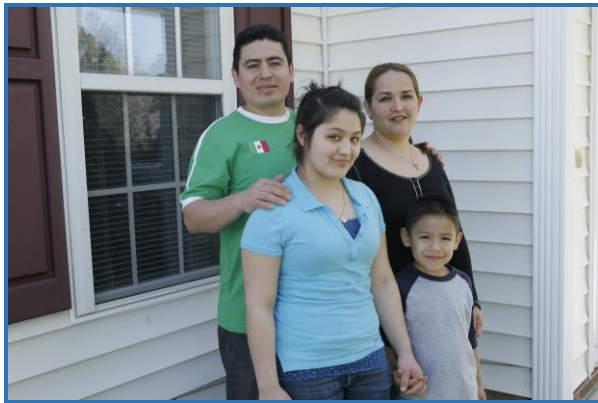
Experts recommend having enough savings to cover **3 to 6 months' worth of monthly expenses** (rent, food, utility bills, etc.) in the event of an emergency.

**SAVINGS GOAL: \$125 PER MONTH X 24 MONTHS = \$3,000**

It is generally advisable to deposit your emergency fund savings into an **interest-bearing account that lets you withdraw your funds at any time**, like a basic savings account. Another good option is a *Money Market* account, that allows you to earn more interest, but it does usually require a minimum balance.



## MELISSA AND RODRIGO – HOMEOWNERSHIP



Melissa and Rodrigo have decided to buy a house for their family and to stop paying rent every month. They met with a loan officer at their financial institution to figure out how they can start saving for a new home.

Melissa and Rodrigo need to take into account all of the initial costs and fees associated with purchasing a house:

DOWN PAYMENT	CLOSING COSTS	OTHER EXPENSES
<p>This is the biggest expense when purchasing a house. The more Melissa and Rodrigo can put down on a house, the lower their monthly mortgage payment will be.</p>	<p>These are costs that Melissa and Rodrigo will have to pay when they sign their closing documents for the purchase of their property. These costs tend to total approximately 3% of the house's purchase price.</p>	<p>Melissa and Rodrigo will also have to save for other expenses incidental to purchasing a house, like moving expenses or new furniture.</p>

Melissa and Rodrigo got together with their loan officer and figured out that they would need to save \$10,000 for a down payment on a house. They have already saved \$5,000, so they only need to save another \$5,000, or \$277 a month for 18 months to reach their goal.

**SAVINGS GOAL: \$ 277.78 PER MONTH X 18 MONTHS = \$5,000**

This is a midterm goal (1-5 years), so Melissa and Rodrigo can deposit the \$5,000 that they have already saved in a Certificate of Deposit (or Share Term Certificate) that will earn more interest than a basic savings account or a *Money Market*. In exchange for a higher interest rate, Melissa and Rodrigo will have to leave their money in that account without making any withdrawals for a specific period of time (18 months).

## ANA MARIA - EDUCATION



Ana Maria has a 2 year old daughter named Sofia. She is worried about how and when to start saving for her daughter's higher education expenses.

She has 16 years to save for Sofia's education, but the sooner she gets started, the smaller her monthly contribution will be, and the more money she will have when Sofia goes off to college.

Ana Maria calculated that the cost of a 4-year program at a public university in 16 years would be around \$200,000. Her goal is to save approximately 33% or \$60,000. She could supplement the remaining amount with her monthly income and with financial aid and educational loans.

To save \$60,000, Ana Maria will need to save approximately \$2,950 each year (or \$246 each month) in an account that earns a 4% interest rate over 16 years to reach her savings goal for Sofia's higher education expenses. Ana Maria will have to check on the account's progress in the future to see if she can save a little more each month.

For most parents, it is tough to save the entire amount needed for their child's higher education expenses. This is why experts recommend that parents **save between 33% and 50% of the costs associated with higher education.**

**SAVINGS GOAL: \$246 PER MONTH (AT A 4% INTEREST RATE) X 16 YEARS = \$66,000**

Ideally, parents should start saving for their children's education expenses at birth. Experts recommend saving about 10% of your salary, or \$2,500 a year (or \$50 a week). If this amount is too much for your family to save right now, save as much as you can, even if it is only \$15 or \$25 a month.

The two most common educational savings accounts are the **529 plan and the Coverdell savings plan**. These accounts earn higher interest rates and have some financial benefits. Deposits made into these accounts are not tax deductible, but when you withdraw the money to pay for your child's higher education expenses, you will not have to pay taxes on that money.

**You can find an online calculator** to help you calculate the cost of your child's higher education expenses and how much you will have to save. Try:  
<http://www.finaid.org/calculators/>

## ROBERT – RETIREMENT



Robert knows that he can't rely solely on his social security benefits during his retirement. He's 30 years old and he's worried because he still has not started saving for his retirement. Robert knows that it's better to start early on, since he will earn interest on the money he deposits into his account **AS WELL AS** on the deposits' earned interest.

For example, if Robert were to start today, at age 30, saving \$175 each month, at a 6% average interest rate, he will have saved \$234,013 when he turns 65-years-old. But if he waits until he turns 45 to start saving, he will have only saved \$77,249! That's a big difference!

Amount of monthly deposit	Starting Age	Rate of Return	Amount earned by age 65
\$175	30	6%	\$234,013
\$175	45	6%	\$77,249

Robert talked to his financial institution and found out that he can open a special retirement savings account that will earn a higher interest rate.

**The traditional Individual Retirement Account (IRA) and the Roth IRA** both earn interest and have different financial advantages. You can open one of these accounts with a valid Social Security Number (SSN) or Individual Tax Identification Number (ITIN).

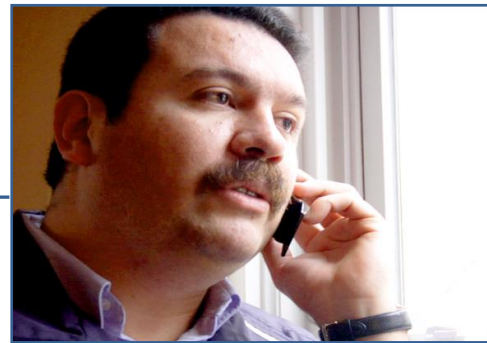
Some employers offer a **401(k) plan or 403(b)** retirement plan. Puede aportar dinero a esas cuentas sin pagar impuestos y algunos empleadores también aportarán algo de dinero por usted cada mes. Ésta es una excelente opción si su empleador la ofrece.



## DISCUSSION TOPIC

Have you ever created a budget? If you have, would you like to share your experience? If you have not, what has held you back?

## MYTH BUSTERS



**I'll never be able to stick to a budget.**

It might be a lot easier if you involve your family, set your goals and all work toward the same goal!

**I don't earn enough to save.**

Anyone can save! Saving even a small amount can add up. If two people save \$10 a week, at the end of the year, they will have saved more than \$1,000.

**My employer doesn't offer a retirement savings plan, so I can't save for retirement.**

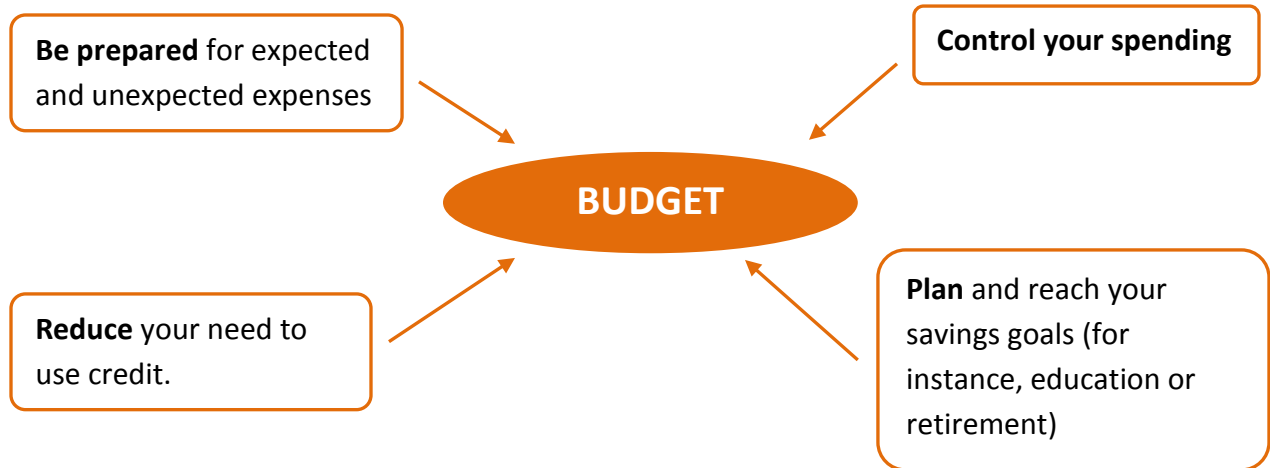
You can open a special retirement account yourself, like an Individual Retirement Account (IRA). Inquire at your financial institution.

**My son is still too young, I don't need to start saving for his education yet.**

It's better to save money for educational expenses a little at a time. The cost of college is ever increasing. If you put money in an account that earns a good interest rate you'll have less to worry about when your son or daughter turns 18.

# HOW TO CREATE A BUDGET

A budget is a plan that helps you understand how you use every dollar that you earn. When you stick to a budget, you know how much, when and where you money comes from and where it goes. You can use this knowledge to re-direct money that is spent inefficiently toward your savings goal.



## HOW DO I GET STARTED?

You can make a weekly or monthly Budget. Save and organize your receipts and bills, so you can find out how you spend your money. The worksheets that follow will give you a chance to take control of your spending by creating a budget of your weekly and monthly expenses.

## ELEMENTS OF A BUDGET

<b>INCOME:</b>	Any money that goes into your pocket from your full-time, part-time, or seasonal jobs.
<b>EXPENSES:</b>	Money spent on food, clothing, bills, and other purchases.
<b>DEBTS:</b>	Money that you owe to another person or a company, like a loan or a credit card.
<b>SAVINGS GOALS:</b>	Money that you have earmarked to save for a specific goal.

# MONTHLY BUDGET—WORKSHEET



Category	Expenses	Monthly Expenses
HOUSING EXPENSES	Rent/mortgage	
	Insurance/taxes	
	Maintenance	
	Gas/electric	
	Water/Waste Mgmt	
	Phone/Cellphone	
	Internet/Cable	
FOOD	Food/Homegoods	
MEDICAL EXPENSES	Insurance	
	Doctor visits	
	Prescription drugs	
TRANSPORTATION	Auto insurance	
	Taxes & Registration	
	Gasoline	
	Maintenance	
	Public transit	
CHILDREN	Daycare	
	Clothing	
	School supplies	
INCOME TAXES	Prior year	
DEBTS	Loan payment	
	Credit card payment	
PERSONAL	Beauty/hairdresser	
	Clothing	
ENTERTAINMENT	Movies/concerts, etc.	
	Restaurants	
	Vacation/travel	
MISCELLANEOUS	Remittances	
	Telephone cards	
	Gifts	
	Cigarettes/Alcohol	
	Donations /Charity	
	Other	
<b>TOTAL MONTHLY EXPENSES</b>		

Income	You	Spouse
Job (Net income)		
Part-time job (net income)		
Government assistance		
Disability insurance		
Assistance from friends and family		
Other		
<b>Total monthly income</b>		

Savings	Monthly Savings
Emergency	
Education	
Retirement	
Other	
<b>Total monthly savings</b>	

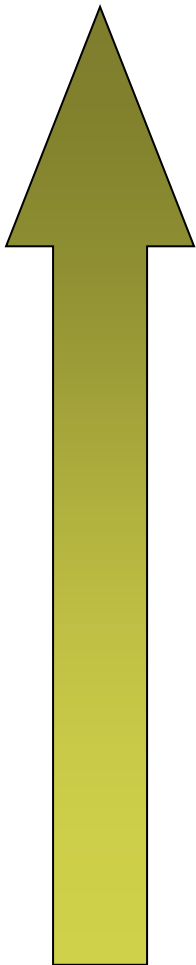
Creating your own budget is easy! Estimate your monthly income and expenses and subtract them to find your balance. Don't forget to include your monthly savings.

For some of your annual expense, like taxes, you'll have to divide the total amount by 12.

<b>TOTAL INCOME</b>	
- Expense total	-
- Savings total	-
<b>= Monthly balance*</b>	<b>=</b>

**Congratulations! You've created your Budget!**  
 \*If you're left with a surplus, consider depositing the extra money in your savings account to reach your savings goals more quickly. If your expenses exceed your income, you will have to take steps to reduce your expenses (or increase your income).

## STEPS TO INCREASE YOUR SAVINGS



1. Make a plan to **reduce your debts**, like money you owe on a loan or credit card. Start using your credit card only if you are going to be able to pay the balance in full at the end of the month.
2. **Always pay your bills on time** to avoid fees. Make sure you pay more than the minimum balance on your loan to save money on interest.
3. **Don't buy** your lunch. Make it at home and bring it to work.
4. **Use coupons** for discounts on your everyday shopping.
5. Make a **shopping list**. Wait a few days before buying something that is not on your list, you might discover you don't really need it.
6. **Set your thermostat at home**. Try setting it at 75 degrees in the summer and 65 degrees in the winter.
7. Wash your clothing using **cold water**.
8. **Plan your outings** to avoid wasting gasoline.
9. When shopping for groceries, try to **avoid shopping with kids**.
10. **Don't use check cashing services**, pawn shops, rent-to-own stores that let you rent your furniture or electronics while you pay them off. These types of services can end up costing you a lot of money.

Test the following: **Is your income greater than your expenses?** If that is not the case, then it means you are spending more than you earn, so you have reduce your expenses!

## IN PRACTICE – CREATE A PLAN OF ACTION

To help you practice what you have learned, we have added a few ideas that you can start implementing right away.

On the left column, check at least 3 things you need to do to reach your goals and set a deadline for you to meet those goals.

	Possible Goals	Deadline	Amount
	Open a checking account to have access to a debit card and to pay your monthly bills online or by phone.		
	Find out if your employer offers direct deposit.		
	Cancel your cable subscription.		
	Review your cell phone contract and try to find a less expensive option.		
	Avoid dining at restaurants.		
	Research financial institutions to find out what types of savings accounts they offer and how much interest you can earn.		
	Set a monthly savings goal based on your budget.		
	If you don't have one, open a savings account in which you can deposit funds automatically.		
	If you already have debt, make a plan to reduce that debt.		
	If you think you are paying too much in interest for your loans, ask about a refinance.		
	If your car needs expensive repairs, find out how much you would need to replace it with a newer car.		
	If you have children, open an account to save for their higher education.		
	Find out if your employer offers a retirement plan and how you could benefit from it.		