BUDGETING TOOLBOX

"HOW TO" EBOOK

SIMPLIFYING YOUR BUDGETING NEEDS

www.dollarotter.com

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BUILD AN EMERGENCY FUND

We hear this over and over "Save your money" or "You have to get a budget". As redundant as this may sound, there is so much truth in the sentences that sends frustration and sometimes pain up our spines.

From an early age, most of us have heard that we need to save but how can we save if we don't have the extra cash to put away? Well, consider savings as your spare tire for your car. If you were to take a road trip from Texas to Colorado, you would plot your coordination into a GPS and enjoy a long road trip. However, should your tire hit a deep pothole and cause your car to receive a flat while stranded out in West Texas, you'll be happy to some degree that you can continue on with your road trip after you change the tire.

Well, savings acts in a similar fashion as the spare tire. When you have engine failure or mechanical problems with your automobile, the air conditioning unit fails to turn cool on a hot summer day, your child's bike gets stolen, or perhaps your refrigerator fails, most of us have become accustomed to pulling out our credit cards and swiping our plastic credit. This is what not to do because of something called compound interest. This is your enemy when it comes to credit.

When you have saved smartly, you can avoid what most Americans do (charge their purchase) and you have the ability to pay cash. Yes, it stings, but you avoid receiving those pesky bills the following month not to mention the savings in interest and possible late fees.

Saving money can be a difficult task when most Americans are already currently living paycheck-to-paycheck. But while conditioning your mindset to begin saving slowly, whether $20 a week or $40 a week, you are establishing a positive habit that will allow you to quickly reach your goals. Remember, Rome wasn't built in a day. The point of this is that like the Great Egyptian Pyramids, you have to build it slowly brick by brick. Once you become accustomed to saving, it is very important to recognize that nobody can touch unless it is a TRUE EMERGENCY so when that flat tire does occur or your AC unit gives out, you'll be thrilled you put away some cash for a rainy day.

GOAL: SLOWLY BUILD UP TO $1,000 FOR YOUR EMERGENCY FUND.

With each paycheck, set aside a designated amount as "emergency fund" until you can reach $1,000. If it takes 4 months or longer, so be it. MOST IMPORTANTLY: DO NOT TOUCH IT unless it's a real emergency!

PURCHASE TERM LIFE INSURANCE

This is essential because accidents happen, life happens, and tragic events happen. Nobody wants to talk about it but that makes things worse. Protect your family and your finances by covering yourself with life insurance. Life insurance policies come in two main forms with some variation under each. The two most common forms are Term and Whole (Permanent) Life Insurance.

I have very strong feelings about whole life which I get into more depth on DollarOtter.com but know that term is as it states "Term" because it is for a particular set of time such as 10-year, 20-year, etc. Premiums are typically cheaper for term than whole life. This is because whole life basically charges for two things: life insurance and cash value. Because it has two pots of funds, it is more costly but you are covered until one's death, typically.

The problem with whole life is that while it may have a "Cash Value", insurance companies will penalize you if you try to touch the money within a particular time frame--usually 7 years. And if you touch the money, the company penalizes you in many instances. This is like walking into a bank to get your own money out of your savings account. When you kindly ask the bank teller that you would like to withdrawal $5,000, how would you feel if the teller said, "Okay, but there is a 3% penalty to withdrawal to include any taxes from gains you may have earned on it."

You would never put your money into that bank. Same concept. Yes, your beneficiary might get the money upon your death, maybe, because there is so much red tape on these policies now days. If you had a $200,000 policy and the cash value was $160,000, then you are not receiving $360,000 but rather one of the other.

Basically it is your money from the start and you just paid the insurance companies to hold it at ridiculous rates.
With term, you pay for coverage for a specific period and my recommendation is to invest the difference in a mutual fund, IRA, or something similar that can go towards your retirement.

Term assurance was the original and first form of life cover policy and has been a product offered by insurers for well over 100 years. Romans were one of the first writers of life insurance policies. It was a form of security for their troops to help pay for funerals as well as assist the surviving family.

Term cover policies are still a very popular form of life cover as in most cases a term life policy will be the cheapest form of life cover on offer. You will often Dave Ramsey and Suze Orman recommend such coverage. Even some companies such as Primerica, only offer term coverage. Term cover will offer a substantial payout to beneficiaries in the event of the policyholder's demise. But does not have a cash lump payout to the policyholder at his or her retirement as with many whole-life deals. For this reason, in most cases, the premiums paid for term life cover will be substantially cheaper the whole or universal insurance policies.

ACHIEVE DEBT-FREEDOM

Every summer as a child, my family would take a road trip. Typically, these road trips were to see family members; however, these were road trips, nevertheless. Back then, the electronic GPS or phone GPS was non-existent to ordinary folks. We used the ancient Rand McNally maps that were as wide as the van sometimes and I used to love just staring at the maps examining the different vast city names and distances in between. The point is that while we have traveled the route many times, a map was necessary. Today, when traveling, we have a habit of setting the GPS in our phones to start traveling with full confidence in this little piece of technology. We do this because it is highly efficient and reliable. Without this great technology, we could probably still manage to figure out a way to arrive at our destination, but it wouldn't be as effective without it. We would waste time, gas, and money.

A financial GPS is highly recommended to families by financial planners because we want families to be efficient in saving money and time. If you still haven't made one, here is how you can easily make an effective plan or Financial Roadmap.

Know your debts: The first step towards making the plan is to identify your debt situation to be debt free soon. Carefully go through all your credit card statements, loan, and other statements. Calculate the amount you owe on various cards or loans etc. and identify the exact amount you have to repay. Sometimes you may even be shocked by the enormity of the amount you have to repay. However, the idea is to know how much exactly you owe so that you can make arrangements accordingly and be debt free. Also, you will need to observe the interest rate being pushed on your debts. We will talk about compounding interest later but once you review the interest rates on your debts, I want you to look at Chapter 12, Rule of 72.

Prioritize: Once you have come to know the exact amount you have to pay back, you need to prioritize the payments. Consider which ones you will be paid quickly and which ones later. The best thing to do if you have some debts is to choose those that have higher rates of interest and pay them back promptly. Otherwise, you will be paying more every month including the interest, and it will be difficult to be debt free. Another option is to select the debts you can pay off the fastest to free up some capital. In the diagram below, I have an example of the Debt Stacking Payment Plan. This plan is designed to allow your monthly payments to be consistent while taking next paid off debt payment and applying to the next debt amount. If you are consistent, you will be amazed at how quickly debt can be tackled and the amount of interest you save. Make the priority list according to your convenience.

DEBT STACKING PAYMENT PLAN

Devise a plan: It's time to get serious about getting out of debt and in order to do that, budgeting will play a vital role.

You must organize your debts by balance, interest rate, and time to pay off the debts as seen below. This will prioritize the order of which debts to pay off first. (See below).

DEBT STACKING PAYMENT PLAN

Type of Debt	Monthly Payment	Monthly Payment	Monthly Payment	Monthly Payment	Monthly Payment
Retail Card	$220				
Credit Card 1	$300	$520			
Credit Card 2	$320	$320	$840		
Auto Loan	$540	$540	$540	$1,380	
Mortgage	$1,200	$1,200	$1,200	$1,200	$2,580

Note: If your mortgage has more than 3 years to payoff, move the mortgage debt to the bottom of the debt list.

Step 1 Devise a Plan: Sort and organize your debt by highest interest rate to lowest. Next determine which bill has the lowest balance that can be paid in 2-4 months. After creating your priority list, it is time to devise a plan to be debt free. Write down the monthly payment amount due from each bill. The payment plan should help you to pay off the priority loans easily so you will be making minimum payments on the bills ranked from #2 and on. This focuses the payments on bill #1 to quickly pay that off so in the next month once paid off, that payment can be applied to debt #2. So try to put all the extra money towards the payment of the loans. You can also make double payments to decrease the repayment amount. In case of the other smaller loans, you can make the minimum payments until you are ready to pay them off.

Step 2 Establish Automatic Payments: To be debt free quickly, use the automatic repayment method. The best option to make timely repayment is to set up an automatic repayment from your bank account. This can save you a lot of time and also be assured that the payments will be made on time. There is no need to fear about deferring the payments. However, ensure that your account has the amount during that time. By following these procedures, you can easily clear all your debt to be debt free.

BUDGETING

1. List your Income & Expense

At the top of your budget sheet or piece of paper, list out any & all income such as salaries, paychecks, alimony, bonuses, child support, etc that is after-tax (your take home pay). List out every single item of debt & expense that is recurring and non-recurring (annual car tag registration, magazine subscriptions).

2. Group into Categories.

Organize into several categories such as Housing, Insurance, Utilities, Debt/Loans, Entertainment, Giving, Insurance, etc

Assign each category a percentage. For instance, if your total housing is $2,500 with HOA, insurance, etc, divide that amount by the total amount of expenses and debt and multiply by 100 to get a percentage. Example: $2,500 / $$6,300 (total debt & expenses) = 0.3968 x 100 = 39.7%

This makes a helpful resource for later when deciding which category to start reducing expenses.

housing

mortgage/rent $ _____
hoa _____
insurance _____
repairs _____
misc _____

utilities

electricity $ _____
gas _____
water _____
sewer / trash _____
phone _____
security sys. _____
internet _____
cable _____

fixed debt

total (tab 1) _____

revolving debt

total (tab 2) _____

food

grocercies _____
dining out _____

insurance

auto _____
life _____
health/medical _____
other _____

savings

emergency _____
savings _____
IRAs _____
investments _____

misc

1: _____ _____
2: _____ _____
3: _____ _____
4: _____ _____
5: _____ _____
6 _____ _____
7: _____ _____

BUDGETING

3. Research

A common mistake households make when budgeting is the failure to review accurate expenses. To avoid making such mistakes, review previous bank statements, credit card statements, etc to record actual costs. This will strengthen your budgeting forecast.

4. Cut Expenses

Determine where money can be saved in your budget. Perhaps you noticed that the entertainment or food category can be reduced. Find ways to cut these. Even if you cut these expenses for one month, you will find you don't really need it and the cut expenses are putting money back into your pocket.

Go to **https://www.dollarotter.com/saving-money-1** for tips to save money on your household expenses from grocery shopping to utilities.

5. Put Extra Money to Work

Once expenses are reduced/cut, put this extra money towards building an emergency fund or towards paying off debt. This is not extra income to do other things with. When I mentioned you have to get serious, I mean it!

BUDGETING

6. Balance your Budget to ZERO!

Assign every dollar of your income to a category to ensure your balance total equals to $0. This is crucial because when you have a balance more than $0, you aren't managing your money. This is a "free" money to do what you want because that's how you start living beyond your means.

If you have a positive balance and not equaling to zero, then assign those dollars to a category such as savings, emergency fund, new car fund, etc. If you have a negative balance, then you probably have more debt than your take home pay. Review Paying Off Debt to learn how to take control of this and for assistance.

7. Review Regularly!

At a minimum you should sit with your spouse and discuss your budget. How often should we review our budget? This really depends on your financial situation. If you are paying off debt and do not have a good track record of sticking to your budget, I recommend weekly.

If you are doing well with sticking to your budget and living within your means, then perhaps at a minimum, monthly. Every situation is different and you will need to determine what works best for your family.

debt calculator

or visit: https://www.daveramsey.com/fpu/debt-calculator

MONTHLY

financial budget planner

INCOME		January	February	March	April	May	June	July	August	September	October	November	December
Monthly Salary:	$	○	○	○	○	○	○	○	○	○	○	○	○
Other Income:	$	○	○	○	○	○	○	○	○	○	○	○	○
Misc Income:	$	○	○	○	○	○	○	○	○	○	○	○	○

EXPENSES

Description	Payment Date Due	Payment Amount Due	Actual Payment Amount	January	February	March	April	May	June	July	August	September	October	November	December
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○

Total Expenses	$	$
Total Surplus/Shortfall	$	$

MONTHLY

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INCOME

		January	February	March	April	May	June	July	August	September	October	November	December
Monthly Salary:	$	○	○	○	○	○	○	○	○	○	○	○	○
Other Income:	$	○	○	○	○	○	○	○	○	○	○	○	○
Misc Income:	$	○	○	○	○	○	○	○	○	○	○	○	○

EXPENSES

Description	Payment Date Due	Payment Amount Due	Actual Payment Amount	January	February	March	April	May	June	July	August	September	October	November	December
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○
		$	$	○	○	○	○	○	○	○	○	○	○	○	○

Total Expenses	$	$
Total Surplus/Shortfall	$	$

MONTHLY BUDGET

MONTH: _____

INCOME

INCOME	
MISC INCOME	
TOTAL	

EXPENSES

HOUSING	BUDGETED	ACTUAL
MORTGAGE/RENT		
HOA/INSURANCE		
REPAIRS		
TAXES		
TOTAL		

UTILITIES	BUDGETED	ACTUAL
ELECTRICITY		
GAS		
WATER		
TRASH/SEWER		
INTERNET		
PHONE		
TOTAL		

AUTO	BUDGETED	ACTUAL
AUTO LOAN		
AUTO INSURANCE		
MAINTENANCE		
FUEL		
CAR WASH		
TOTAL		

SAVINGS	BUDGETED	ACTUAL
EMERGENCY FUND		
SAVINGS ACCOUNT		
IRA/401(K) etc		
TOTAL		

OTHER DEBT	BUDGETED	ACTUAL
CONSUMER LOAN 1		
CONSUMER LOAN 2		
CREDIT CARD 1		
CREDIT CARD 2		
TOTAL		

MEDICAL	BUDGETED	ACTUAL
CLINICAL/ER		
PRESCRIPTIONS		
MISC		
TOTAL		

FOOD	BUDGETED	ACTUAL
GROCERCIES		
DINING OUT		
TOTAL		

MISC	BUDGETED	ACTUAL
MOVIE NIGHT		
CLOTHING		
KID SUPPLIES		
COSMETICS		
SCHOOL ACTIVITIES		
TITHES/CHARITY		
TOTAL		