Household Budgeting

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Disclosure of Financial Relationships

- There are no financial relationships with commercial interests to disclose
- There are some apps and vendors mentioned in this presentation. This is not an endorsement of any of these companies or apps. They are used in this presentation as examples only.

Questions and Comments that Were Submitted *

- Need to work on an updated budget for my house and how to maintain.
- Best way to lower credit card debt.
- What are some good ways I can start saving even if it’s just a little bit here and there.
- How much should you have in a savings account to protect yourself should an unexpected tragedy occur?
- How to use budgeting to set financial goals. How to use budgeting to prepare for retirement, i.e. changes in incoming funds, etc.

Why is budgeting important at any income level?

- A budget helps you reach your goals – savings, vacation, retirement, down payment for house, etc. (You cannot borrow a down payment for a house!)
- A budget allows you to better control your spending and saving
- You will be surprised at expenses that we often don’t prepare for *
- A budget is the first step in paying down your debt (knowing what you have)
- Helps you stop overspending (going deeper into debt.) **
- Helps you prepare for emergencies (rule of thumb is 3 – 6 months of net income for savings)

How much of my income is it safe to spend? Elizabeth Warren's 50/30/20 rule

- Begin with your after tax income
- How much of your budget is spent on "needs", also called "essential" spending, such as food, shelter, transportation, health insurance, utilities and minimum debt payments? Limit "needs" to 50% of after-tax income
- Limit "wants" or "non-essential" spending to 30% of after-tax income. This does not include extravagances but the basic things that you enjoy for example, clothing beyond basic needs, cable or other streaming services, eating out, etc.
- Use remaining 20% of income for savings (including retirement savings) and debt repayment. (The minimum payment of a credit card is a need, anything beyond that is from the remaining 20%.)

Review Budget Spreadsheet –

Many free downloadable templates available

Fidelity has free budget worksheet for members to help stay on track with essential vs non-essential expenses, retirement and savings.

Budgeting worksheet

This worksheet will help give you a clear understanding of your expenses— and could help you find a little more money to put away in your workplace savings plan. Fill out the worksheet, indicating your essential expenses (things you need to have) and your discretionary expenses (things you would like to have) and your sources of income.

Monthly spending (50% or less of your take-home pay)				
	Essential (need to have)		**Discretionary** (nice to have)	
Housing				
Mortgage	$	or	$	**Fidelity suggests:** Consider at least the shaded portions on this list, which
Rent/condo fees	$	or	$	
Property tax	$	or	$	

Other Budget Resources

- Many large banks offer free budgeting solutions if you bank with them.
- There are many budget apps available such as "Mint" that will allow you to link all your bank accounts and credit cards and will automatically categorize your spending and income. *
- Some alternatives to Mint but have a monthly fee: Personal Capital, MoneyPatrol, TillerMoney, and YNAB (You Need a Budget).

Debt Strategies

Not all Debt is Bad!
Good Debt Vs Bad Debt

- Good debt is debt incurred to finance an education (student loans) or to make an investment that will increase in value over time (mortgage debt). However, purchasing a home beyond your means or an expensive car turns good debt into bad debt.
- Bad Debt is any debt used to finance items that are consumed now and don't increase in value. Most credit card debt is bad debt.
- Why is the distinction important? To understand that not all debt is bad debt and to focus on which debt to pay off first. Bad debt should be paid off before good debt. Make extra payments on credit cards before making extra payments on mortgage debt.

How Much Debt is too Much Debt?(Debt to Income Ratio)

- According to the 28/36 rule, no more than 28% of gross income should be spent on housing expenses (mortgage, insurance, taxes).
- No more than 36% of gross income should be spent on total debt including housing, car loans, credit cards, etc.
- Gross Income is your income before tax withholdings.
- Many mortgage companies use the 28/36 rule when qualifying you for a mortgage.
- Standards for Debt to Income ratios (DTI):
  - 35% or less – Your debt is at a manageable level.
  - 36% to 49% - Opportunity to improve. You're managing debt adequately but work towards lowering debt.
  - 50% or more – Take action. You may not have enough money left over to save or handle unforeseen expenses.

Strategies for paying off debt

- First – know how much debt you really have. Make a detail of all loans and obligations. What is the outstanding balance? What is the finance rate? What is the minimum payment? *
- You can get a copy of your credit report from all 3 credit bureaus at no cost each year (annualcreditreport.com or call 1-877-322-8228). This will help you see many of your outstanding debt obligations. Note – This is also a good way to check for identity theft. **
- Use your monthly budget to help determine how much more than the minimum you can pay on outstanding debt.
- Having trouble meeting the minimum payments? Look at your (wants or non-essential)inate discretionary (wants or non-essential) spending. Examples are cable TV, gym memberships, dining out, expensive clothing, expensive personal grooming (salon treatments), etc.
- If you've been making on-time payments for at least a year, call your credit card companies and ask for a reduction in the interest rate. The average interest rate is 16% for credit cards so ask for something below 16%.
- Take advantage of promotional offers from credit card companies.

Financial Adviser Dave Ramsey's "Snowball" Strategy for paying off debt

- 1) Sort outstanding balances from lowest to highest.
- 2) Pay the minimum payment on all but the lowest debt balance.
- 3) Pay as much as possible above the minimum payment on the lowest balance. Once that debt is paid off, use all of that payment on the next lowest balance debt, and continue until all debt is paid.
- Example: 3 credit cards with balances of $200, $400, $1,000. Minimum payments of $10, $20, $50, respectively. Pay $20 on the $200 balance, and the minimum on the other 2 cards. When the first card is paid off, pay $40 on the $400 balance until it's paid off, then pay $90 on the $1,000 balance until it's paid off.

The "Stacking" method of paying off debt (Also called the "Avalanche" method)

- Take your list of debts and rank them from highest interest rate to lowest interest rate.
- Make the minimum payment on all debt except for the highest interest rate debt. Pay as much as possible on the highest interest rate.
- When the highest interest rate debt is paid off, pay the minimum plus what you were paying on the previous debt (that you just paid off) on the next highest interest rate debt, until that debt is paid off, and so on until all debt is paid.

Which is better the “Snowball” or the “Stacking” method

- Generally, using the “Stacking” method, you will end up paying less interest overall than the “Snowball” method.
- The “Snowball” method works better for some because of the psychological benefits. It feels good to get a debt completely paid off and encourages you to keep paying off debt and saving.
- It’s a matter of personal preference and which strategy works best for you.

Multiple Free or Inexpensive Debt Tracking Apps

(Article from Veneta Lusk, updated 5/22/2020 https://wellkeptwallet.com/debt=payoff-apps

- Debt Payoff Planner - gives you the option to use the Snowball method or the Avalanche method.
- Debt Manager – Snowball Method
- Debt Free – Snowball Method
- Debt Payoff Assistant – Debt Snowball or Debt Avalanche method.
- DebtTracker – can track debt by name, amount, interest rate, etc.
- Debt Strategy – analyze how different payment amounts help pay off debt sooner.
- Multiple others available.

Are consolidation loans a good idea?

- They can be….
- Pros:
- If the interest rate is lower, you'll pay less overall; however, watch for upfront fees such as 3% of the loan, etc., this impacts any savings.
- It's easier to make one monthly payment rather than multiple payments to different lenders.
- If you are having trouble making your minimum payments, it can help reduce the overall monthly payments.
- Cons:
- Usually has a negative impact on your credit score
- If you haven't addressed the habits that caused the debt in the first place, you could be putting yourself at risk. If you consolidate debt and also start using the credit cards again, the consolidation will cause more harm than good.

Should I take out a home equity loan to pay off outstanding debt?

- Many financial advisers will tell you NO! It seems like a good idea because the interest rates are so much lower and are often tax deductible so why not?
- One reason is because you're using secured debt to payoff unsecured debt. If for some reason you can't make the payments, you end up risking your home.
- As with loan consolidations, if you haven't addressed the issue that caused the debt, it could just perpetuate the problem by freeing up credit cards.
- There are pros however. The interest rates are usually significantly lower and your overall monthly payments can be significantly less.
- If you feel good about the stability of your income stream, it can be a good idea.

Should I take a loan from my retirement plan to pay off debt?

- The pros of retirement plan loans are that they process quickly, have a fairly low interest rate, there's no credit check and you can spend the loan how you want.
- It can be risky though. If you're unable to make the payments, and you're under the age of 59 ½, you'll be subject to a 10% penalty on the balance as well as subject to income taxes.
- Also, the loan is pulled into a separate fund so even though you are paying yourself back with interest, you will not receive any market gains on these funds.

Minimum Payment *

- The Credit Card Act of 2009 requires credit card issuers to give you a "minimum payment warning" on each billing statement.
- This warning shows you, if you only make the minimum payment, the total amount of interest you will pay and the total time, usually in years, that it will take to pay off the credit card balance.
- A lot of companies also show the amount you could pay in order to pay off the debt in 36 months.

Debt Counseling Vs Debt Settlement

- Debt counseling is usually a non-profit service that works with you to evaluate your budget, debts, and credit.
- The debt counseling service may work with you on a debt "management" plan. There is a small monthly fee for this. They will negotiate with credit card companies to lower interest rates and fees. You'll make one monthly payment to them and they'll pay the credit card companies. You will have to cancel your credit cards while you are under a debt management program.
- This could impact your credit score. If debt is settled for lower amount that what was originally owed, the debt will be listed on your credit report as "settled".

Debt Settlement Services – A Last Resort

- If you cannot meet your minimum payments and debt obligations after all efforts to cut "wants" from your budget, then this may be a way to prevent bankruptcy.
- How do they work? They will advise you not to pay your unsecured debt for a few to six months, and after that, they will negotiate with lenders on your behalf to reduce your outstanding balances and lower your payments.
- In most cases, the debt relief company will consolidate your payments to one payment to them. They will charge a percentage (usually 25%) of the negotiated savings. For example, you owed $10,000 and they negotiated a settlement of $6,000, they will charge you 25% of $4,000.
- This will negatively impact your credit score as late payments stay on the credit report for 7 years; however, as you start to make on-time payments your score will continue to improve.
- This is very risky. Credit card companies may not agree to work with the debt settlement agency. When you stop paying on the credit cards for many months you'll incur late fees and interest. Creditors will be calling and may have already initiated a suit against you.
- You may have to pay taxes on the portion of debt that was reduced. "Forgiveness of Debt".

Other ways to reduce debt and save

- Take a close look at the "wants" spending and cut out everything possible.
- Look closely at your monthly bills to eliminate any services you aren't using. (Free trials that you forgot to cancel, gym memberships you aren't using, multiple streaming services).
- Cancel any automatic renewals on your credit cards. *
- Call your cable and internet company and ask for deals. When your promotional pricing expires, ask for a new promotion. They will usually give it to you.
- There are services such as "Truebill" that will negotiate with cable companies, phone companies, etc., to lower your bills. They will also help you cancel unwanted subscriptions.
- Eat in, make coffee at home, take advantage of store coupons and store rewards programs (Kroger Card, Target 5% savings).
- There are apps to sell personal belongings, for example,"OfferUp", to generate some extra cash to pay down your bills.
- Shop for cheaper insurance.
- Keep driving your car after it's paid off! **
- Take advantage of services like GoodRx – provides free prescription coupons.
- Pay bills on time! Late fees are very costly.
- Stick to your budget! ***

Summary

- There are many budget platforms (templates, apps, banks). The important thing is to find the one that works best for you and start your budget.
- There are ways to help you determine if you're keeping on track for financial stability, 50/30/20 rule and 28/36 rule.
- The "Snowball" and the "Avalanche" Methods are two good ways to tackle paying down your debt.
- Debt Consolidation, Home Equity and Retirement Plan Loans aren't necessarily a bad thing. The biggest risk is continuing to spend on your credit cards after the consolidation loan.

Thank you!

Questions?