

Chapter 10 – Finishing the Budget

The whole premise to a budget is to be able to live within one's means, while being able enjoy leisure activities and at the same time save and plan for the future. The general premise is to create cash flow to handle changes in when life and income change. It's one thing to create a budget and maintain it but it is another to look into the future and plan for future retirement. The Table below reflects the budget at the current state in January 2013.

Bill Name	Project	Actual	Remain	Due	Paid	Income	
Mortgage/Rent	\$861		\$861	8/15			
Leftovers (<i>up \$80</i>)	\$783		\$783	N/A	N/A	Check 1	\$2,119
Student Loan	\$300		\$300	8/15		Check 2	\$2,119
Child Care <i>\$161.6</i>	\$300		\$300	8/3			
Groceries <i>\$38.36</i>	\$250		\$250	N/A			
Cable Bill	\$115		\$30	8/14			
Cell Phone	\$115		\$115	8/1			
Auto Insurance <i>\$105</i>	\$105		\$105	8/8			
Dining Out	\$100		\$100	N/A	N/A	Income / Expenses	
Gas/Transit <i>\$22</i>	\$85		\$85	N/A	N/A	To Deposit	\$4,238
Furniture (fin)	\$65		\$65	8/1		In Account	
Health Care	\$60		\$30	N/A	N/A	In FSA	\$56
Bowling	\$55		\$55	8/12		In DCAP	\$264
Gas Utility <i>\$104</i>	\$50		\$50	8/1		Sub Total	\$4,558
Electric Utility	\$50		\$50	8/12		Remain	\$4,558
Credit Card (fin)	\$50		\$50	8/1		Gain/Loss	\$0
Home Phone	\$45		\$45	8/12			
Computer (no int)	\$33		\$33	8/23			
Health Club	\$30		\$30	8/11			
Memberships <i>\$312</i>	\$26		\$26	N/A	N/A		
Hair Cut	\$25		\$30	N/A	N/A		
Life Insurance	\$10		\$10	N/A	N/A		
Supplement							
Trash Service	\$15		\$15	N/A	N/A		
Vitamins	\$10		\$10	N/A	N/A		
Oil Change	\$10		\$10	N/A	N/A		
Other							
Emergency	\$460		\$460	N/A	N/A		
Savings	\$200		\$200	N/A	N/A		
Miscellaneous	\$165		\$165	N/A	N/A		
Rainy Day	\$115		\$115	N/A	N/A		
College Fund	\$100		\$100	N/A	N/A		

The Budget Recap

The fixed bill exercise was performed on all bills with fluctuating payments each year for monthly payments and periodic payments. As this creates the goal having each bill be a fixed amount, upfront money is required to mitigate against negative balances from the first month forward. The following bills are applicable:

Child Care: \$161.6	Gas/Transit: \$22
Groceries: \$38.36	Gas Utility: \$104
Auto Insurance: \$105	Membership: \$312

The total comes to **\$742.96** and this means the money has to come somewhere in the budget to finance. The solution is to draw from items that are not a bill but rather those slated for savings found in the Supplemental category. For this exercise the Emergency and Savings funds will be used.

Bill Name	Project	Actual	Remain
Emergency	\$460	\$460	\$0
Savings	\$200	\$167.96	\$32.04
Rainy Day	\$115	\$115	\$0

The next step was choosing to participate in the FSA and DCAP accounts to lessen the cost burden for Health Care and Child Care costs.

FSA Highlights:

\$56 was per month deposited in the FSA (In two of the 12 months it will be \$84) for the Health Care costs. This put additional money back into the budget due to the lower cost basis for the medical expenses.

DCAP Highlights:

\$264 per month was deposited in the FSA (In two of the 12 months it will be \$394) for the Health Care costs. As with the FSA, this puts additional money back into the budget due to the lower cost basis for child care.

For a regular monthly cycle with two pay periods the addition of the FSA and the DCAP added increased the take home pay by \$80 and it was canceled out and added to spending money and increased that total to \$783. (The checks do not apply as they are not part of the budget)

Paying down the Credit Cards

After establishing changes to the budget for fixed bills and solidification Jasper decided that the Student Loan, the Furniture and the Credit Card would be paid off to increase cash flow. To do this it would take an additional payment of \$250 over the minimum payment for the credit card and furniture and the fixed payment for the student loan. The \$250 would be spread evenly between the Miscellaneous, Savings, Rainy Day, College Fund and the Leftovers at \$50 apiece.

The math showed that it was most advantageous to pay off the Credit Card first, then apply the minimum payment required by the credit card plus additional the \$250 to the Furniture credit

card followed by that minimum payment plus additional the \$250 on top of the fixed Student Loan amount. After 35 months all of the debt will be removed which creates \$415 in additional cash flow and the \$250 drawn from the other savings funds and the Leftover account are back to their original numbers.

Payoff Months	Creditors
7	Credit Card
21	Furniture
35	Student Loan

10.1 The New Budget after Three Years

After establishing the budget the sole purpose is to set goals and develop control of money and as plan is in process there needs to be checkpoints when milestones occur to see if goals were met. In the established budget 36 months later this is what transpired:

Emergency Fund (\$460)

Month 1: zero dollars saved – money was used for upfront cash to pay for fixed bill establishment

Month 2-36: $\$460 \times 35 = \$16,100$. The goal is to 3-6 months of living expenses with six being more realistic cushion. This number is derived from current expenses and does not include spending money or any savings vehicle in the budget. In the event there is a total loss of income the expenses at current levels of \$2,735 multiplied by six equals \$16,410 which is just \$310 shy of the current goal. In addition, in a crisis situation, expenses are cut back further as they are not necessities. By cutting out child care, cable, dining out and memberships \$526 is removed per month meaning the \$16,400 is realistic goal.

When looking at calculations it is a good idea to save money beyond what is mentioned above as a cushion as expenses usually rise over time and the cost of having no health care coverage. Another reason is that the general idea is to live a similar lifestyle without having income as when there was income.

Savings (\$200)

Month 1: \$32.04 saved - \$167.96 was used for upfront cash to pay for fixed bill establishment.

Month 2-35: \$50 per month was used to pay off creditors. $\$150 \times 35 = \$5,250$.

Month 36: Creditors were paid off and Savings moved back to \$200 per month. $1 \times \$200 = \200

Total: \$5,482.04 in Savings account

Miscellaneous (\$165)

Month 1-36: \$50 per month was used to pay off creditors. $36 \times \$115 = \$4,140$

Rainy Day (\$115)

Month 1: zero dollars saved \$115 was used for upfront cash to pay for fixed bill establishment.

Month 2 - 36: \$50 per month was used to pay off creditors. $35 \times \$65 = \$2,275$

Total in Rainy Day: \$2,275

College (\$115)

Month 1-36: \$50 per month was used to pay off creditors. $\$50 \times 36 = \$1,800$

Bonus Checks

Two checks per year at \$2,119 for three years = \$12,876

Totals

Item	Amount
Emergency	\$16,100
Savings	\$5,482
Miscellaneous	\$4,140
Rainy Day	\$2,275
College Fund	\$1,800
Bonus Checks	\$12,714
Total	\$42,511

The results show that liquidity has been established due to planning and discipline. These numbers reflect straight saving of money without spending any of it; however some of this money may not be there after three years.

The **Emergency** fund should not be touched at all costs as that it protection against unforeseen liabilities with income for a 3-6 month period.

The **Savings** is to pay with cash for things outside of the normal budget such as buying a couch, a car or a kayak or taking a vacation so that no interest occurs from buying on credit.

The **Miscellaneous** is used purely to cover items in the month to month budget that cannot be accounted for. If the dishwasher breaks, the dentists need money for a filling or a new vacuum needs to be purchased then they typically can be paid for via this account so the budget stays balanced.

The **Rainy Day** is a long term savings plan to pay for things later in life. It doesn't have to have an expiration period for goal completion it is a more of a "nice to have." This is used for things like a trip across Europe or to buy a motorcycle; things that may not be purchased in the working years in life. This fund can be altered at any point since it is tied to no bill or need to pay for something.

The **College Fund** is always a good idea if one plans to help children with college expenses. The earlier this gets started the better as college tuition almost never decreases in price. This fund at \$1,800 should be aggressively increased it typically only has an 18-year life before it is tapped into. In addition, this money should not be in a savings vehicle rather an education investment account.

The **Bonus Checks** are not tied to any bill or savings. They are simply a bonus to spend the money at free will whether it be for season tickets to sporting event or to take a trip to Mexico. However, anytime bonus money is given investing a portion of it is a good idea. An easy way to do this is to temporarily increase the 401k account for the bonus check period to add to retirement and lower the taxable income for the year.

10.2 Increased Disposable Income

Disposable income is the amount of money that a household has available for spending and saving after income taxes have been accounted for. When maintaining a budget it is like an online newspaper in that it changes frequently. Many items paid for in the budget are by choice rather than necessity which subscribes to the "pay yourself first" theory which provides money outside of expenses first. In the budget the Leftovers are treated as an expense however, it money to spend freely. Consequently, when disposable income is increased and bills are covered it opens many opportunities to buy other things, pay off debt and increase savings and retirement income.

Now that 36 months has been completed Jasper, the 28-year old budgeter is given a raise of \$5,000 extending and the employer is not fully covering the medical/dental/vision plan and is going to charge \$50 per pay period which is pretax. With the raise and the added expense for Medical/Dental/Vision payment at \$100 (\$50 x 2 paychecks) the net pay after taxes comes to \$2,216, an increase of \$97 per pay period.

New Gross Pay:

$$\text{\$85,000} / 26 = \text{\$3,269}$$

New Paycheck with Health Insurance:

- First, the gross pay is multiplied by 3% → $\text{\$3,269} \times 3\% = \text{\$98}$ -
- Second, the \$98 is subtracted from the \$3,269 → $\text{\$3,269} - \text{\$98} = \text{\$3,171}$
- Third, the gross pay is subtracted by \$28 (FSA) → $\text{\$3,171} - \text{\$28} = \text{\$3,143}$
- Fourth, is subtracted by \$138 (DCAP) → $\text{\$3,143} - \text{\$138} = \text{\$3,005}$
- Fifth, the gross pay is subtracted by \$50 (Health Insurance) $\text{\$3,005} - \text{\$50} = \text{\$2,955}$
- Sixth, the \$2,955 is multiplied by the 25% tax rate → $\text{\$2,955} \times .25 = \text{\$739}$
- Seventh, the \$739 is subtracted from \$2,955 → $\text{\$2,955} - \text{\$739} = \text{\$2,219}$

From here the next step is to balance the budget reflecting the decreases in cash flow including the pretax expenses as with the medical/dental/vision deduction and the increase income. With the Student Loan, Credit Card and Furniture paid off, there are also expenses that can decrease for non-interest bearing items such as the Computer payment. Additionally, lifestyle changes, technology and competition can create efficiency and the need for less products and services to achieve the same customer satisfaction such as the removal of the Home Phone. Hence, during the 36-month period Jasper's budget the Increase in Disposable Income Chart shows:

Item	From	To	Monthly Gain/Loss
Emergency Fund Paid off	\$460	\$0	\$460
Increase in Pay (2 checks)	\$2,119	\$2,219	\$194
Student Loan, Paid off	\$300	\$0	\$300
Furniture Paid off	\$65	\$0	\$65
Credit Card Paid off	\$50	\$0	\$50
Removed Home Phone	\$45	\$0	\$45
Computer Paid off	\$33	\$0	\$33
Cell Phone Bill Reduced	\$115	\$85	\$30
Cable Bill Reduced	\$115	\$87	\$28
Total			\$1,205.00

The Subtotal in the budget is now at \$4,764 and the total expenses in the budget add up to \$3,559 and the difference is \$1,205 matching the Increase in Disposable Income chart. The Medical/Vision/Dental at \$100 per month is technically a decrease in income however, it is taken out in the paycheck and therefore not reflected in the budget as it is an after-tax summation

Income	
Check 1	\$2,216
Check 2	\$2,216
Income / Expenses	
To Deposit	\$4,432
In Account	0
In FSA	\$56
In DCAP	\$276
Subtotal	\$4,764
Remain	\$3,559
Gain/Loss	\$1,205

Increase in Expenses

As the exercise to reduce debt and expenses reaches a milestone, the increase in disposable income provides opportunity to pay for things; some by choice and some by circumstance. Budgets can always be expanded to capture each expenditure, although that is huge undertaking to track it down to the level such as the amount of coffee purchased during the week or through a daily spending log. While, it is a useful exercise typically people will not put in the effort to that level of monitoring.

This is where the Leftovers is a valuable piece to the budget. Since it is tied to no expense the cups of coffee are absorbed there and do not have to be tracked unless desired. On the inverse, the option exists outside of Savings and Miscellaneous funds, where regular expenditures baked in the Leftovers can be expanded out in the budget. Doing this will lower the Leftover amount each month however, when increased disposable income occurs, items tracked in the Leftovers can be tracked outside of this area as new expenses providing more free spending. Seeing there is more disposable income to play with Jasper decides to take on new expenditures.

10.4 Adding Term Life Insurance to the Budget

Jasper’s employer had as a benefit that gave the employees term life insurance for a low rate to that of general carriers which was at \$10 per month which is now going away and needs to be addressed . . . The question becomes what type of insurance to get. To get a policy questions asked about age, health history, medications taken and family's health history, if smoke is part of the lifestyle some other questions. Some carriers obtain a blood test to confirm health status.

Term Life Insurance

Your term life insurance offers protection for a pre-set term of one year or more. It provides the most bang for the buck and simplicity more so for individuals needing insurance for under 30 years. Traditionally sold as terms of 5, 10 or 20 years, in which the monthly premium remain fixed throughout the life of the policy. A policy is laid out in a simple format: Coverage, term and monthly or annual premium. For example: a policy for \$500,000, for 20 years at \$38 per month

Term insurance policies build no cash value and they pay a benefit only when a death occurs during the term of the policy coverage. When a death occurs, the beneficiary (the person who will receive the money) collects the face amount (death benefit) of the policy income-tax free. Due to age alone, premium rates for renewals of these policies will normally increase at the end of the guaranteed policy period. Term insurance policies require that you furnish evidence of insurability at renewal to qualify for these rates.

10.5 Pet Wellness Insurance in the Budget

Jasper decides to adopt a puppy from the animal shelter and needs shots and wants to have a wellness plan to care for the new addition to the family. He speaks to the local veterinarian who is offering a discount on one-year wellness plan with a \$96 upfront payment which will save money over the course of the year.

Services and Fees	Regular Monthly Cost	Wellness Plan Monthly Cost
Shots \$600/year	\$50	\$40
Flea/Tick \$36/year	\$3	\$5
Heartworm Rx \$72/year	\$6	\$2
Monthly Grooming \$480/year	\$40	\$25
Total	\$99	\$72

Jasper with cash to spend from savings decides to pay \$96 upfront for the wellness plan which brings his total cost for the year to \$960 as opposed to not having a wellness plan at \$\$1,188 per

year. To account for next year's wellness plan for the upfront portion an additional \$8 is added to the monthly cost bringing the total to \$80. This \$8 will be added to the Supplemental account each month.

10.6 Budgeting for Gifts throughout the Year

Gifts for many are regular occurrence which can impact the budget each month. This is a category that has been previously managed from the Leftovers portion. Gifts can encompass many areas such as birthdays, Mother's Day, Father's Day, bar and bat mitzvah's, Christmas, Kwanzaa, Easter, Passover, housewarming parties, anniversaries and the like.

With this initial thought process, a table is set up to create the budget framework and project costs. The first item of business is list the occasion for a gift, followed by the amount and the month of occurrence.

Occasion	Projected	Month
Mom Birthday	\$50	February
Dad Birthday	\$50	April
Brother Birthday	\$50	August
Son Birthday	\$150	September
Kids Birthday Parties	\$120	Random
Grandma Birthday	\$25	January
Friend (1) Birthday	\$20	March
Friend (2) Birthday	\$25	March
Mom Christmas	\$75	December
Dad Christmas	\$75	December
Brother Christmas	\$75	December
Son Christmas	\$125	December
Grandma Christmas	\$20	December
Father's Day	\$20	June
Mother's Day	\$20	May
Miscellaneous	\$60	Random
Total	\$960.00	

The completed list brings the total to \$960 or \$80 per month. Jasper's thought process is that although the Leftovers have been supplying the cash for the gifts that this category should be on its own to creating a fixed payment each month as with the rest of the bills.

Although, the average is \$80 per month in December alone the amount for gifts totals \$370 which is 50% of Leftovers category. Therefore, the next step is to begin in January (current budget month) and list out the totals for each month rather than each individual item.

Month	Projected	Budget
Jan	\$25	\$80
Feb	\$50	\$80
Mar	\$45	\$80
Apr	\$50	\$80
May	\$20	\$80
Jun	\$20	\$80
Jul	\$0	\$80
Aug	\$50	\$80
Sept	\$150	\$80
Oct	\$0	\$80
Nov	\$0	\$80
Dec	\$370	\$80
Total	\$780.00	\$960.00

The Projected column is \$180 less than the Budget column because that money was not binned to a particular month consequently there will be \$180 leftover at the end of the year to spend if the money as not used.

Month	Budget	Cost	To Supp	From Supp	New Supp Bal
Jan	\$80	\$25	\$55		\$55
Feb	\$80	\$50	\$30		\$85
Mar	\$80	\$45	\$35		\$120
Apr	\$80	\$50	\$30		\$150
May	\$80	\$20	\$60		\$210
Jun	\$80	\$20	\$60		\$270
Jul	\$80	\$0	\$80		\$350
Aug	\$80	\$50	\$30		\$380
Sept	\$80	\$150		(\$70)	\$310
Oct	\$80	\$0	\$80		\$390
Nov	\$80	\$0	\$80		\$470
Dec	\$80	\$370		(\$290)	\$180

Unlike some exercises to project and pay bills such as Child Care, the Gifts category does not require and upfront stipend to balance out the account at the end of the year. The Table above shows that the \$180 is remaining and if all of the money is used during the year it would be left with a zero balance before beginning a new year's cycle. In the event the \$180 is not needed and the budget remained the same, it will be reduced from \$80 to \$65 per month. ($\$780 / 12$)

Saving for Travel / Vacations in the Budget

In the budget every item is treated as an expense even if items tracked are used as savings vehicle. For example, the Emergency Fund is not owed to anyone or any paid service or creditor; it is a choice to put money aside for other purposes. When deciding to take on new expenses they

can be a savings vehicle with a short term goal or it money may be money to have in case it is needed down the road. Based on further analysis Jasper has decided to take a trip in the next year has estimated the cost at \$1,200 (\$100 per month) and is changing Bowling to Sports / Leisure, is adding \$20 per month for a cooking class and \$80 per month for clothing.

Item	From	To	Monthly Increase
Pet	\$0	\$80	\$80
Sports / Leisure	\$55	\$75	\$20
Life Insurance	\$10	\$35	\$25
Gifts/Holidays	\$0	\$960 (yr)	\$80
Travel	\$0	\$1200 (yr)	\$100
Clothes	\$0	\$960 (yr)	\$80
			\$385.00

10.6 Increasing the 401(k) Percentage

The above Table shows an increase of \$385 and subtracting that from the \$1,205 in disposable income leaving a total of \$820. Aside from the added expenses Jasper also chooses to increase his retirement savings and has decided to contribute of \$17,000 per year to his 401(k).

401(k) calculation:

$$\text{\$17,000} / 26 = \text{\$654, per check } \text{\$654} / \text{\$3,269} = 20\%$$

\\$85,000 Salary with 401(k) Increase:

- First, the gross pay is multiplied by 20% → $\text{\$3,269} \times 20\% = \text{\$654}$
- Second, the \$98 is subtracted from the \$3,269 → $\text{\$3,269} - \text{\$654} = \text{\$2,615}$
- Third, the gross pay is subtracted by \$28 (FSA) → $\text{\$2,615} - \text{\$28} = \text{\$2,587}$
- Fourth, is subtracted by \$138 (DCAP) → $\text{\$2,587} - \text{\$138} = \text{\$2,449}$
- Fifth, the gross pay is subtracted by \$50 (Health Insurance) $\text{\$2,449} - \text{\$50} = \text{\$2,399}$
- Sixth, the \$2,399 is multiplied by the 25% tax rate → $\text{\$2,399} \times .25 = \text{\$600}$
- Seventh \$600 is subtracted from \$2,399 → $\text{\$2,399} - \text{\$600} = \text{\$1,799}$

See the updated budget spreadsheet below: See the video for a detailed explanation

Bill Name	Project	Actual	Remain	Due	Paid	Income	
Mortgage/Rent	\$861		\$861	8/15			
Leftovers (<i>down \$32</i>)	\$751		\$751	N/A	N/A	Check 1	\$1,799
Child Care	\$300		\$300	8/3		Check 2	\$1,799
Groceries	\$250		\$250	N/A	N/A		
Auto Insurance	\$105		\$105	8/8			
Travel	\$100		\$100	N/A	N/A		
Dining Out	\$100		\$100	N/A	N/A		
Cable Bill	\$87		\$87	8/1		To Deposit	\$3,598
Cell Phone	\$85		\$85	8/14		In Account	0
Gas/Transit	\$85		\$85	N/A	N/A	In FSA	\$56
Gifts	\$80		\$80	N/A	N/A	In DCAP	\$276
Clothes	\$80		\$80	N/A	N/A	Sub Total	\$3,930
Pet	\$80		\$80	8/1		Remain	\$3,930
Sports / Leisure	\$75		\$75	8/12		Gain/Loss	\$0
Health Care	\$60		\$60	N/A	N/A		
Gas Utility	\$50		\$50	8/1			
Electric Utility	\$50		\$50	8/12			
Life Insurance	\$35		\$35	N/A			
Health Club	\$30		\$30	N/A			
Memberships	\$26		\$26	N/A			
Hair Cut	\$25		\$25	N/A			
Supplement							
Trash Service	\$15		\$15	N/A	N/A		
Vitamins	\$10		\$10	N/A	N/A		
Oil Change	\$10		\$10	N/A	N/A		
Other							
Savings	\$200		\$200	N/A	N/A		
Miscellaneous	\$165		\$165	N/A	N/A		
Rainy Day	\$115		\$115	N/A	N/A		
College Fund	\$100		\$100	N/A	N/A		