Center for the Women of New York

CENTER FOR THE WOMEN OF NEW YORK

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Financial Literacy Series

Workshop 6

FEMALE FINANCIAL FREEDOM

Budgeting: The Foundation of Financial Planning

Hosted by

Cecilia Venosta-Wiygul, President

Guest Speaker

Kathleen M. Carroll, E.A.

Center for the Women of New York

The Center for the Women of New York advocates for women's rights and full equality. Since 1987 CWNY has been empowering women to reach their full potential by offering services that provide the skills, information, and support they need to address economic, emotional, and legal challenges.

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Given the vast women's needs due to the pandemic, in 2021, CWNY's focus is Women's Health and Wellbeing (physical and mental) and Women's Financial Independence.

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Help us learn what geographic areas we are reaching with our financial literacy series.

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Q & A

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KATHLEEN M. CARROLL, E.A.

Kathy is a professional Accountant (Enrolled Agent to practice before the Internal Revenue Service). She has been practicing Accounting and providing Bookkeeping Services since 1981 to the present. She works with individual and corporate clients.

She directed and ran the Student Association Income Tax Preparation Program at Queens College for twenty-six years (1983-2009). She also ran an annual seminar at the International Students and Scholars Office at Queens College (2008-2017). These programs provided free, on-campus tax prep and advice to students.

She received a B.S. in Accounting from the C.W. Post Center of Long Island University and attended a graduate program at New York University.

KATHLEEN M. CARROLL, E.A.

Kathy volunteers at the Center for the Women of New York as current Treasurer and former Vice President of Finance. She provides job and vocational training, presents at our Financial Literacy Programs, and is the CWNY Work Readiness Program Advisor.

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FEMALE FINANCIAL FREEDOM

Budgeting: The Foundation of Financial Planning

Overview

In the first presentation of this series, a lot of general information was presented including the many items that are typically considered in a financial plan. These items range from basic things such as one's weekly or monthly income and expenses (current planning) to more complex things such as how to plan for a home purchase, education or retirement (future planning). As we discussed, good financial planning involves the establishment of goals. Financial goals can be reached through a strong foundation. That foundation is the creation of a budget.

What is a Budget?

A budget is, very simply, a spending plan. (Kapoor, Sixth Edition, page 54). In order to reach your financial goals, you must know what your income and expenses are, and how this information affects what you hope to achieve.

Nearly three in 10 (28 percent) U.S. adults have no emergency savings, according to Bankrate's latest Financial Security Index. One in four have a rainy day fund, but not enough money to cover three months' worth of living expenses. (https://www.bankrate.com/banking/savings/financial-security-june-2019/)

Income

After financial goals have been established, and ideally put into writing so they can be reviewed and revisited often, the fist step in making a budget is to estimate your income. Although budgets can be made for any time frame, usually a period of one month is a good place to start as many bills, such as rent, phone bills, utility bills and car payments are due once each month.

Timing of Income

The most important consideration is that you will have enough available funds to pay bills each month as they come due. Most people receive pay from their work on a regular basis. The timing of pay often varies from company to company, however. Each employer has its own pay schedule which will affect an employees' receipt of income (cash flow). For example, two people taking home exactly the same amount may have to plan and budget differently depending on whether they are paid on a weekly, bi-weekly, or monthly schedule as their money will be coming in at different times during the month.

Difference between gross and net pay

Almost anyone, when asked how much they make at their job, will speak in terms of their gross pay; for example, “I make $52,000 per year”. That may be very true, but many people do not keep in mind that they do not have $1,000 per week available to them. While many items may be deducted from one’s pay, the minimum deductions are FICA (social security), Medicare, and federal, state and local income taxes. Just these minimum deductions may reduce one’s take home pay by about 25% per pay period. This would leave about $750 per week to budget for expenses and potential savings.

Expenses

In general, most people have the same categories of monthly expenses. Depending on age and income, the categories may be expanded to include additional items that need to be paid each month. The most basic expense categories are housing, food, transportation, clothing and utilities. A long-standing rule of thumb from published sources (streeteasy.com, Nerdwallet.com, etc.) is that one should not spend more than 30% of their **gross** income on housing each month. In the example just shown,
$52,000 x .30 = $15,600 /12 months = $1,300 per month.
However, this expense would actually be over 40% of one's take home pay:
$750 x 4.3 weeks = $3,225 take home pay.
$1,300/$3,225 = 40.3% of take home pay.

Formulating the Budget

In our hypothetical example,we now know two of the major components:

Take home pay $3,225 monthly

Rent: - $1,300 monthly

Balance $1,925 remaining

The next step would be to analyze remaining monthly expenses to see where they fit into budget. It is important to actually know the amount of the expense, not just to estimate it, and to know when it is due. Over the years, more and more people have placed bills on “autopay” from their bank accounts. While this is very convenient as the money is withdrawn from your account automatically, it may cause one to lose sight of what the bills actually are over time.

Example continued

So in our example, the person has $1,925 left over for (possible categories):

Food, phone, electric, transportation, clothing

$1,925/ 4.3 = $447.67 per week for remaining expenses after rent is paid.

Example continued

Using general amounts:

Phone: $60-$100 per month

Electric: $50-$80 per month

Food: $15 per day x 30 days = $450 per month

Transportation: may vary greatly depending on whether one has a car or not. Owning a car has its own subset of expenses that would need to be budgeted (beyond the actual cost of the car) including gas, insurance, registration fees, and potential repairs.

Example continued

So now we have considered $630 in monthly expenses in addition to rent. So now the budget looks like:

Monthly available income :	$3,225
Rent	- $1,300
Phone, electric, food	- $ 630
Balance remaining	$1,295

Example continued - Budget Conclusions

So based on this simple example, this person would (theoretically), have $1,295 remaining at the end of the month for any other expenses they may have (approximately $300 per week). Keep in mind that this is the simplest of budgets. The expenses that have been included (rent, etc.) are called “fixed” expenses: they do not change from month to month. I have not included expenses that may be discretionary (not happening all the time, such as clothes/variable). But this simple budget gives an idea of (1) how not to overspend based on monthly income and (2) how to possibly have some money to put into savings or investments.

Importance of timely payments

Lack of available funds could lead to late payments. Late payments usually cause a fee to be incurred (extra money spent) and also harm credit, which can in turn delay the fulfillment of future financial goals. Even if a bill is paid one day late, the late fee may be significant even it it will not be reported to a credit agency. As mentioned earlier, if payments are withdrawn automatically from one's bank account, that will avoid the chance of a late payment. However, if the funds are not available in the bank account, you may incur a bank overdraft fee even if the bank honors the payment. So it is important in budgeting to avoid unnecessary and costly fees.

Summary

Using just this simple example, written down, one can see the importance of monthly budgeting. Many people say

“I don’t know where my money goes”. The purpose of the budget is to help you know where it goes so that you can stay focused on current expenses and future plans.

Thank you!!

RESOURCES

For information on the latest 13th Edition of *Personal Finance* available in print or ebook.

Kapoor, Jack R, Les R. Dlabay, and Robert J. Hughes. *Personal Finance*. Boston, Mass: McGraw Hill/Irwin, 2020.

RESOURCES

NYS Department of Taxation	tax.ny.gov
Internal Revenue Service	irs.gov
E-File	e-file.com
American Savings Education Council & Choose to Save	asec.org
Financial Literacy & Education Commission	mymoney.gov
Pension & Welfare Benefits Administration	https://www.dol.gov/general/topic/retirement
Social Security Administration	socialsecurity.gov
Women's Institute for Financial Education	wife.org
Women's Institute for a Secure Retirement	wiserwomen.org
AARP	aarp.org

Thank You!

Kathleen M. Carroll, E.A.

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