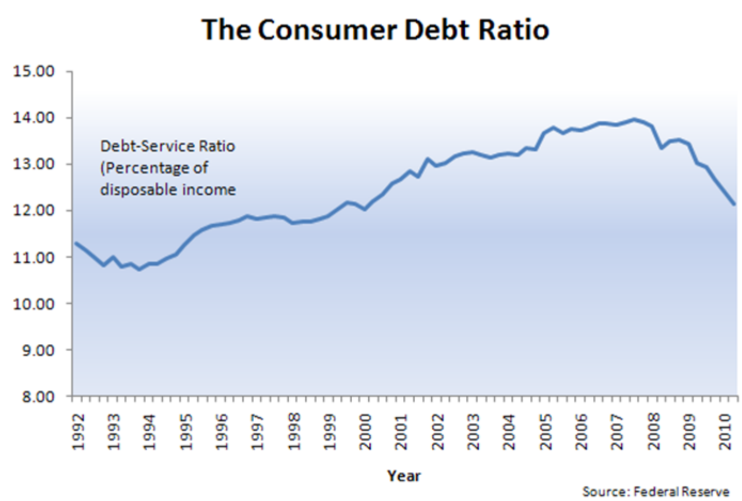
CH.1 - The Need for a Personal Budget

Why do Americans need a personal budget?

For the majority of us, money is a limited resource. Each and every one of us must choose how to use our money wisely. Making wise money decisions isn't easy. What's smart for one family just might break another family's bank. Day to day, we spend money on both *basic* necessities and also on non-necessities that are sometimes luxuries. Some expenses blur the lines. For example, we all need to eat, but do we need to eat lunch at a restaurant every day? Besides using money for consuming, it is up to each of us to build a solid financial future, by using some of our money for savings, investments, and asset building. The best way to build a solid financial future and to actually build wealth is to have a solid game-plan. When it comes to money management, you can't have a viable game-plan without a personal budget. Bills.com has created this free budget guide to help you start your own plan.

Fueled by an increase in credit card usage and record debt levels, the average American is spending more and saving less than before. With credit cards and lender financing, we can all purchase things beyond what we have in the bank or what we can just plain pay off. That gives us convenience and the ability to buy larger ticket items that we all need to live, like cars and homes, but it also means that if you are not careful you can easily accumulate a significant amount in debt. Due to increased spending, the ratio of consumer debt to income reached an all time high in 2007, according to the Federal Reserve. More American families today are experiencing financial hardship, some of them serious enough to lead to bankruptcy. Although the average consumer debt has decreased recently, many Americans are still struggling financially and looking for a way to get out of debt.



The importance of a personal budget

A first step you can take to improve your financial health is to develop your own personal budget. Your budget will help you figure out what you can afford, where your money is going, set appropriate spending targets and really plan for a solid financial future. Having a well managed budget can also help you reduce your debt and avoid getting into deeper financial trouble. Many people without a budget do not realize how quickly and how easily they spend their money. A latte may only cost you $3.00, but purchasing one every day adds up to more than $1,000 per year. If you have the income level to support your expenses, then get all the lattes that you want, but if you are in debt and don't know where your money goes every month… then now's the time to get into money shape!

Making and following a budget helps you understand how you spend your money. It forces you to breakdown your expenses by specific categories (e.g. housing, transportation, food and clothing, entertainment, etc) and can help you set appropriate targets for your cash flows. A budget also helps you identify areas where you can reduce spending, so you can trim your debt and use your money most effectively.

Your budget is your financial plan; you set limits on the amount of money that you will spend on each category of expenses in a given month. Setting limits keeps you accountable on how much you can spend on each category and can prevent you from spending excessively. Once you develop a budget, you must continue to update your budget regularly. Like going to the gym, it is not enough to go once and think you will be fit. It's a little like a diet too. You don't just decide to lose weight. You come up with a plan, and then you stick to it!

Use your budget to plan for your future. When used properly, your budget will help you spend wisely and achieve your financial goals, such as reducing your debt, saving for big-ticket purchases, paying for college education, starting a business or building a retirement fund. A strong budget can also provide peace of mind, since you will feel and be in control of your financial destiny – a very liberating feeling.

Here at Bills.com, we've developed this free personal budget guide to help you take that first step to better money management – and like any great journey, the first step is the most important – but you need to make the commitment to take that step and let us point you in the right direction. The goal of this budget guide is to help you:

- Create a personal budget and analyze your actual expenditures
- Eliminate "unhealthy" debts
- Set long term financial goals
- Meet your long term goals and feel in control of your financial destiny

CH.2 - Creating a Personal Budget

Understanding your financial situation – looking into the money mirror

One of the first steps toward financial freedom is to understand how much money comes in and goes out of your household every month. This is what we call "***cash flow***" and means how much comes in as income and how much goes out as expenses. Hopefully, you have much more coming in than is going out… and if you don't you may need to make some quick changes. Start by creating a Personal Monthly Budget worksheet, provided on the next page. Your worksheet breaks down your income and expenses by *financial categories*, providing you with a snapshot of your entire cash flow picture.

Bills.com Personal Budget Worksheet

INCOME

INCOME (gross)		
Type	Projected	Actual
Income #1	$	$
Income #2	$	$
Interest Income	$	$
Dividend Income	$	$
Investment Income	$	$
Other Income	$	$
Total Gross Income	***$***	***$***

INCOME (tax)		
Type	Projected	Actual
Federal Tax	$	$
State Tax	$	$
Social Security	$	$
Total Income Tax	***$***	***$***

Balancing the Books

Your Cash Flow		
Type	Projected	Actual
Total Net Income	$	$
Total Expenses	$	$
Difference	***$***	***$***

EXPENSES

Housing		
Type	Projected	Actual
Mortgage Payment	$	$
Property Taxes	$	$
Rent	$	$
Home Insurance	$	$
Utility - Electricity	$	$
Utility - Natural Gas	$	$
Utility - Water/Sewer	$	$
Utility - Garbage Collection	$	$
Utility - Local Telephone	$	$
Home Upkeep	$	$
Housing Sub-Total	***$***	***$***

Housing and Other		
Type	Projected	Actual
Food (Home/Groceries)	$	$
Food (Out)	$	$
Clothing	$	$
Cigarettes/Alcohol	$	$
Cable TV/Internet	$	$
Long Distance Phone Bill	$	$
Cell Phone Bill	$	$
Vacation	$	$
Other	$	$
Housing and Other Sub-Total	***$***	***$***

Personal Care		
Type	Projected	Actual
Hair/Nails/Cosmetician	$	$
Gym/Sports	$	$
Dry Cleaning	$	$
Other	$	$
Personal Care Sub-Total	***$***	***$***

Unsecured Debt		
Type	Projected	Actual
Student Loan Payments	$	$
Personal Loan	$	$
Credit Card #1	$	$
Credit Card #2	$	$
Credit Card #3	$	$
Other Loans	$	$
Unsecured Debt Sub-Total	***$***	***$***

Health		
Type	Projected	Actual
Medical Insurance	$	$
Life Insurance	$	$
Out of Pocket Expense	$	$
Health Sub-Total	***$***	***$***

Transportation		
Type	Projected	Actual
Car Insurance	$	$
Car Loan/Lease	$	$
Parking	$	$
Licensing/Registration	$	$
Fuel	$	$
Maintenance	$	$
Bus/Taxi Fare	$	$
Transportation Sub-Total	***$***	***$***

Pets		
Type	Projected	Actual
Food	$	$
Medical	$	$
Grooming	$	$
Other	$	$
Pets Sub-Total	***$***	***$***

Entertainment		
Type	Projected	Actual
Movies	$	$
CDs/Video/DVD	$	$
Sporting Events	$	$
Books/Magazines	$	$
Concerts/Theater	$	$
Other	$	$
Entertainment Sub-Total	***$***	***$***

Misc. Financial		
Type	Projected	Actual
Retirement Fund	$	$
Savings/Rainy Day Fund	$	$
Child Support	$	$
Back Tax Payment Plan	$	$
Legal/Financial Fees	$	$
Charity	$	$
Gifts (birthday/holiday)	$	$
Other	$	$
Misc. Financial Sub-Total	***$***	***$***

Creating a projected budget
Familiarize yourself with the budget worksheet and review the categories listed. You will see that there are a series of main categories and then specific expenses listed within the categories. There are also categories for gross income and taxes on income. Some of your expenses will be the same every month and some will vary. This is one reason why creating and keeping a budget is an ongoing project.

Your projected budget lays out how you want to allocate your money each month. Keep in mind how much you spend on each category. Ideally, your projected budget will not be in the red, or negative, at the end of the month. You should also include provisions for emergencies and savings as well as account for any bills that are not paid monthly, but annually (e.g. insurance and property tax). If you are unsure, then set up a preliminary short-term budget for a three month period. After reviewing your results, you can proceed to a yearly budget.

While it is ideal that you have complete records to review, do not be discouraged if you have incomplete records. You can start keeping thorough records from today onward. Keeping good track of your expenses is not always quick, but it is a crucial step. If you are experiencing financial difficulties, it can be depressing to even look at your bills, but you need to face this challenge. Things are not going to get better unless you take the right steps to make them better.

Identify Your Actual Bills

One way to examine your bills is to break them down into ***fixed*** monthly expenses and ***variable*** expenses. Examples of your fixed expenses include rent or mortgage, health insurance, a car payment, and some utilities. The costs for these expenses typically do not change significantly month-to-month. If possible, you should budget enough of your income to pay off these items each and every month.

If you are unable to cover your basic, fixed expenses, you are facing serious financial trouble. If the only way you are covering your fixed expenses is to run up credit card debt, you should consider debt relief solutions such as credit counseling and debt settlement. Some fixed expenses are not necessary, such as Cable TV, and you may need to eliminate them in order to stabilize your financial ship.

Second, identify your variable expenses. These expenses fluctuate month-to-month. Variable expenses include food, clothing, gasoline, and entertainment costs. In contrast to your fixed costs, your variable costs are easier to work on reducing, so you can increase your cash flow. While certain fixed costs such as your rent/mortgage or car payment *can* be reduced, doing so requires a radical change. You could move to a cheaper residence or replace your car with a less expensive one or even do without a car. Reducing variable expenses on the other hand mostly requires discipline and smaller adjustments that don't typically result in dramatic lifestyle changes.

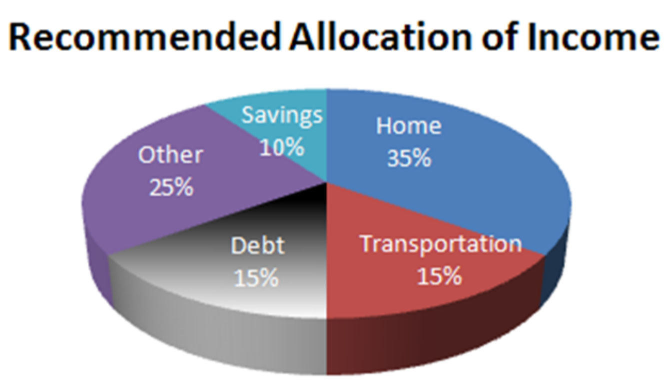
Get started by setting the appropriate monthly budget for each category. When setting your budget for each category, you should consider whether what you are buying is a luxury or a necessity. Really question yourself whether you need it or not. Water is a necessity, but do you need to spend money on bottled water? Even when it comes to something that you define as a necessity, shop around to get the best deal. Every dollar you save is important. Some quick tips are to shop around and compare prices, don't grocery shop when you are hungry (you'll want to put everything into your cart), and use third party sites like Bills.com or Billshrink.com or Home-Account.com to compare and reduce your expenses on things like cell phones, cable, and insurance. If you have a mortgage, see if you can refinance to a lower rate and always compare the lifetime true cost of a loan, including any points or fees incurred.

Next, rank your necessity expenses from most important to least important. Allocate your income first to the items you need the most and the ones that are the most important to you. Do not set a budget for your luxury items for now.

Once you have allocated your income to all the necessary expenses, determine how much you would like to save per month into a savings fund for future use and for building wealth. It's recommended that you save at least 10% of your income to build your net worth. You should also aim to build a rainy-day fund. Money in your rainy-day fund can be used for any emergency situation that arises, such as an accident or unforeseen medical expenses, or for some annual bill that you did not account for in your budget worksheet. Finally, allocate any remaining budget to your luxury expenses such as a gym membership, entertainment, dinning out, etc.

As you are creating your budget, keep in mind that a budget is a tool for you to develop a solid financial strategy and to develop positive cash flow.

Allocate Your Money Wisely
To help you determine how to allocate your income, here is a general guideline on how your household expenses should break down. The chart below shows percentages for each of the five major categories: Home, Transportation, Debt, Other, and Savings. To calculate the recommended spending amount in dollars, multiply each expense percentage by your net income. A good rule of thumb is that expenses should break down approximately as follows:



If you allocate more on a particular category, review your expenses in that category and consider if there is room for you to cut back. You will not be able to easily reduce all your expenses. Generally speaking, you should first look to reduce spending on items that are not considered necessary. If you are way out of line in a big category like "Home" or "Transportation" you may want to do a gut check and even talk with a financial mentor or advisor to see if downsizing, moving, or getting a less expensive car are good ideas.

CH.3 - Steps to Completing Your Personal Budget Worksheet

1. Fill in the area on the worksheet for projected expenses:

Don't worry about complete accuracy. The purpose of filling in the projected numbers is to compare them later on with your actual expenses. Your projected numbers will serve as a basis for you to gauge your knowledge of your own cash flow. The further off you are on your estimates, the more important that it is for you to keep a budget. Also, your projected income and expenses will illustrate whether you think you are earning enough to cover your monthly expenses or need to rely on running up debt to cover your cash outflows.

Example:

EXPENSES

Housing		
Type	Projected	Actual
Mortgage Payment	$ 898.50	
Property Taxes	$ 100.00	
Rent	$ -	
Home Insurance	$ 50.00	
Utility - Electricity	$ 40.50	
Utility - Natural Gas	$ 10.50	
Utility - Water/Sewer	$ 30.00	
Utility - Garbage Collection	$ 20.00	
Utility - Local Telephone	$ -	

Health		
Type	Projected	Actual
Medical Insurance	$ 201.00	$
Life Insurance	$ 20.00	$
Out of Pocket Expense	$ 80.00	$
Health Sub-Total	***$ 301.00***	***$ -***

Transportation		
Type	Projected	Actual
Car Insurance	$ 85.00	$
Car Loan/Lease	$ -	$

2. Fill in the area on the worksheet for projected income and taxes:

Your next step is to fill in projected gross (pre-tax) income amounts. Your sources of income include your primary job, a second job, any interest or investment income, and any alimony and child support. Income can vary from month to month, for positive or negative reasons, such as reduced hours, overtime pay, bonuses, commissions or for seasonal work. Do your best to estimate the average monthly income.

After your income, estimate all of the taxes that are deducted from your paycheck. Include your state and federal income taxes as well as your social security obligations. Include the taxes on any other sources of income such as interest or dividends. Estimate these taxes on a monthly basis.

Example:

INCOME

INCOME (gross)		
Type	Projected	Actual
Income #1	$ 7,500.00	
Income #2	$ -	
Interest Income	$ 100.00	
Dividend Income	$ 200.00	
Investment Income	$ -	
Other Income	$ -	
Total Gross Income	***$ 7,800.00***	***$ -***

INCOME (tax)		
Type	Projected	Actual
Federal Tax	$ 1,500.00	
State Tax	$ 600.00	
Social Security	$ 300.00	
Total Income Tax	***$ 2,400.00***	***$ -***

3. Calculate Your Projected Cash Flow:

- ***Total your projected expenses***
  Calculate your total expenses by adding all the sub-total amounts of each expense category.
- ***Total your projected net income***
  Calculate your total net income by subtracting your total taxes from your gross income total.
- ***Balance your budget***
  Subtract your total expenses from your total net income. Do you have a surplus or a deficit?

Example:

Balancing the Books

	Your Cash Flow	
Type	Projected	Actual
Total Net Income	$ 5,400.00	$ -
Total Expenses	$ 4,850.75	
Difference	***$ 549.25***	***$ -***

4. Gather all the receipts and records of your expenses:

As you collect all of your bills and receipts, there may be bills you just cannot locate. That is Ok. Start keeping all your records in an organized manner. You can do it the old-fashioned way, by keeping copies of all your bills in manila envelopes or you can use an online product like Mint or many other free online budgeting systems. Have an envelope for each main expense category and develop a habit of putting all the receipts in the envelopes at the end of the day. Even when you use an online tool, which requires you to link your bank and credit accounts to the online system, not all of your expenses will appear. Cash purchases need to be manually entered into the online system, so you need to keep the receipts in good order whether you use an online system or not.

5. Fill in Your <u>Actual</u> Monthly Expenses:

Once you gather all your bills, receipts, and bank records, you can start filling in your worksheet. If you can't come up with the exact amount for an expense, estimate what you spent as best you can. Pay particular attention to expense items that are listed on your worksheet that you pay annually or periodically. Because you do not spend money on them each month, it can be easy to leave them out. To calculate annual expenses, take the annual expense for an item and convert it into a monthly amount. For example, if your car insurance is paid once a year and costs you $900, divide by 12 to calculate the monthly amount, which would be $75. Also, look carefully at expenses that vary on a seasonal basis, such as your utility bills. If you know that the dollar amount listed for the most recent month is not representative of what you normally spend, use your best estimate for your average monthly expense and track that category carefully.

Example:

EXPENSES

Housing				
Type	Projected		Actual	
Mortgage Payment	$	898.50	$	895.12
Property Taxes	$	100.00	$	95.58
Rent	$	-	$	-
Home Insurance	$	50.00	$	52.89
Utility - Electricity	$	40.50	$	55.13
Utility - Natural Gas	$	10.50	$	20.58
Utility - Water/Sewer	$	30.00	$	64.75
Utility - Garbage Collection	$	20.00	$	25.84
Utility - Local Telephone	$	-	$	
Home Upkeep	$	-	$	125.89
Housing Sub-Total	***$***	***1,149.50***	***$***	***1,335.78***

6. Figure Your Income and Your Tax Obligations:

- ***Gather all records of your income and taxes***
  Collect your recent pay-stubs. You want to use pay-stubs for a one-month period that best represents your normal income. Include all sources of income.
- ***Fill in your actual monthly income and taxes***
  Enter your actual gross income and tax deductions on the spreadsheet. Your taxes should be clearly itemized on your paystub.

Example:

INCOME

INCOME (gross)				
Type	Projected		Actual	
Income #1	$	7,500.00	$	7,500.00
Income #2	$	-	$	-
Interest Income	$	100.00	$	125.81
Dividend Income	$	200.00	$	145.68
Investment Income	$	-	$	
Other Income	$	-	$	
Total Gross Income	***$***	***7,800.00***	***$***	***7,771.49***

7. Calculate Your Actual Cash Flow:

- ***Total your actual expenses***
  Calculate your total expenses by adding all the sub-total amounts of each expense category.
- ***Total your actual income***
  Calculate your total net income by subtracting your total taxes from your gross income total.
- ***Balance your budget***
  Subtract your total expenses from your total net income. Do you have a surplus or a deficit?

Example:

Balancing the Books

Your Cash Flow				
Type	Projected		Actual	
Total Net Income	$	5,400.00	$	7,771.49
Total Expenses	$	4,850.75		
Difference	***$***	***549.25***	***$***	***7,771.49***

CH.4 - Analyze Your Cash Flow

You have worked hard to prepare a detailed personal budget worksheet. You can now see if your cash flow is positive or negative and by how much. Your first budget worksheet will not be fine-tuned. It is likely that you have left out some expenses. For this reason, you need to prepare worksheets for a three-month period. Your month-to-month adjustments will improve your worksheet's accuracy. Completing the worksheet for a number of months also gives you a solid basis for comparing your projected income and expense totals with your actual totals.

As you work through your worksheets, keep in mind the following questions:

1. Am I cash flow positive or negative?
2. How do my actual income and expense figures compare to my projected figures?
3. Am I properly allocating my resources in order to pay down my debts and to build my savings?

Positive vs. Negative Cash Flow

Are you making more than you spend each month? Great! But, is there an area where you did not realize you are spending so much money? In which areas can you spend less?

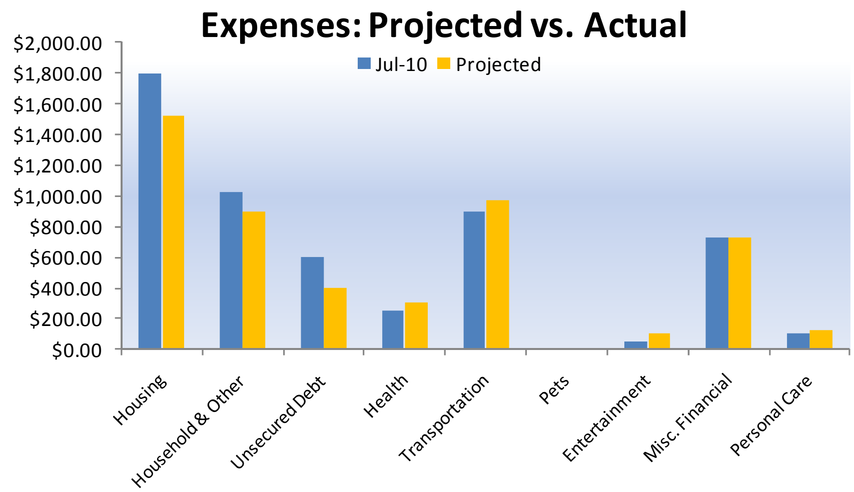
Although your monthly cash flow is an important indicator of your financial situation, you should also review your total liabilities and assets. It is possible for you to have a positive monthly cash flow, but also have a lot of debt. With credit cards, you are only obligated to make the minimum payments on your debt. If you are running up your credit card debt, you may find yourself still able to make the minimum payments and remain cash flow positive. Keep in mind that increasing your debt load will not only decrease your net worth, but also increase the amount you have to pay in interest and debt costs. Use your positive cash flow instead to pay down your debts and become debt free.

If you are spending more than you make, you should reduce your expenses. Review your budget worksheets carefully and determine areas where you can improve your cash flow. If you are getting by through running up credit card debts, you could face serious financial trouble in the future if you cannot reduce your expenses.

Projected Budget vs. Actual Cash Flow

Compare your projected budget against your actual cash flow. This helps you identify areas where you may have over budgeted or under budgeted. It can also reveal categories that you are struggling with and overspending. For example, you may have allocated $150 for entertainment but in reality you may have spent $300. Don't be discouraged if your numbers do not match initially. Instead, use the information to identify why you overspent or why you budgeted the wrong amount. Remember that continuing to compare what you planned and what you actually spent will, over time, improve your projected budget's accuracy and strengthen your discipline for sticking to your planned budget.

A helpful way to view this comparison is demonstrated by the chart below. It illustrates one family's projected versus actual monthly expenses. Note that the family exceeded its projected budget in housing, household expenses, and unsecured debt.



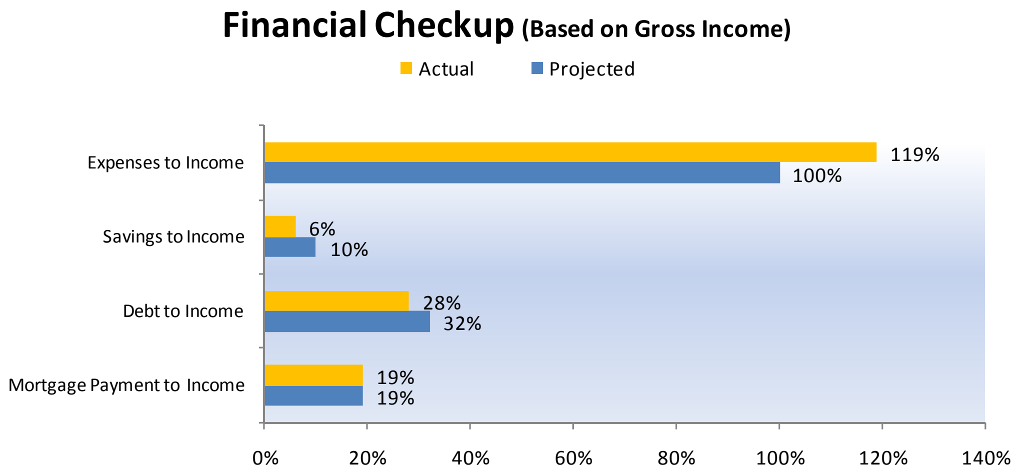
The next step for this family, and for you as you compare your expenses, would be to:

- Carefully review any areas in which the actual expenses exceed the budget projections.
- Review the section above, Chapter 2, "Allocate Your Money Wisely."

Because home expense is most people's largest expense, the following chart focuses on home debt as a percentage of income. Revolving and unsecured debt is also included, because those debts are also used to determine your debt-to-income ratio, when applying for a mortgage. Savings are included because everyone needs to devote funds to savings, for short and long term needs. Use these indicators to help you analyze your cash flow and make the appropriate changes in your spending habit.

Financial parameter	Rule of thumb (should be indicated in your projected budget)
Total Monthly Cash Outflows to Gross Income	100%
Saving to Gross Income	10%
Total Monthly Debt Payments to Gross Income (includes mortgage, credit cards, auto loan, student loan)	44%
Monthly Mortgage Payment to Gross Income	31%

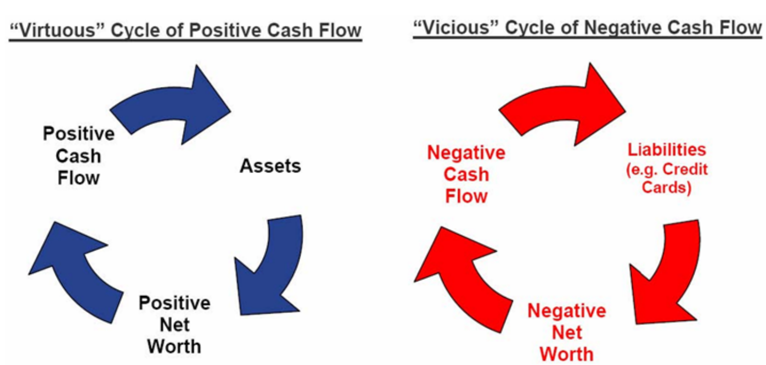
This graph illustrates the family's actual performance in the same categories.



Paying Down Debt and Building Savings
By creating your personal budget, you have fine-tuned your cash flow management, improved your financial position and increased your cash flow. You can then use the money to pay down debt, save money in a rainy-day fund for emergencies, or build an investment portfolio. Proper savings and investments allow you to plan for and realize expensive goals such as a buying a home, paying for a college education, or building a solid retirement fund. While this may seem complicated at first, it really boils down to four relatively simple steps:

1. Spend less than you make.
2. Have at least 4 months of your net income set aside in case of emergency or sudden loss of income or illness.
3. Invest your available cash flow in assets that appreciate to create long-term wealth.
4. Continually evaluate and re-assess, so that your financial strategy remains intact.

Very few people tread financial water; they either are moving forward or they are drowning. With proper budget management, you increase your chances for leaving debt behind and building a solid financial future.



Sticking to your personal budget
Developing your budget is only the first step towards an improved financial situation. Once you have set how much you plan to spend each month, the hardest part will be sticking to your plans. Take the following steps to help you stay on track:

1. *Continue to track how much you spend*
   Just because you've calculated the amount you spent before, does not mean you should stop tracking your expenses. Continue to monitor your spending and see if you are tracking towards the goals you set. Make monitoring your financial health part of your routine.
2. *Use online budget tools and bill pay*
   Tracking all your expense, bills and receipts can be cumbersome. While the old-fashioned manila envelope system works, it makes sense to leverage today's technology and use online bill pay and online budget tools which will automatically record your transactions online for you. This can save you time and improve your organization. Look at tools such as Mint, Mvelopes, Buxfer, or Budget Tracker.
3. *Set reasonable goals*
   Don't expect to change your spending habits overnight. Set reasonable goals you think you can achieve. If you spent $100 on movies each month before, aim for $75 instead of $10 at first. If you find your initial goal too easy, set a harder goal for yourself next month. By achieving your goals, you'll begin to gain momentum and build the motivation you need to change your financial lifestyle and then to keep it in good shape.
4. *Reward yourself*
   From time to time, reward yourself for meeting certain milestones. This helps keep you motivated. Of course, do not reward yourself excessively and dissipate your savings. For example, if you had saved $200 by dining out less, treating yourself to a $200 meal as a reward will leave you in the same position you started in.

Other money saving tips to help you reach your budget goals:

- Use cash or a debit card instead of credit cards to avoid spending more than your income
- Use a shopping list and purchase only the items you planned to buy
- Compare prices, especially for expensive items
- Use coupons

CH.5 - Eliminating 'Unhealthy' Debts

Healthy vs. Unhealthy Debts

Proper debt management is an essential component of budgeting. While just about everyone has some degree of debt, only five types of debt can be healthy:

1. Student Loans - *Because they further one's education and increase future earning potential.*
2. Mortgages - *Because home ownership is an asset that can build equity and net worth.*
3. Necessary Medical Bills - *Because one's health always takes priority.*
4. Business Debts - *Because they are often necessary to build a business and future earnings.*
5. Car Payment- *Because the only way to purchase a car, sometimes, is to finance the purchase.*

Keep in mind that healthy debts are not areas where you are given carte blanche to spend unwisely. Only take out student loans for education that furthers concrete goals. Take out a mortgage only if you can afford it and don't buy a more expensive house than you need. Don't take on a car payment that eats up too large a percentage of your budget. If you are running up debt to capitalize a business, make sure that you have a solid business plan and business budget.

Other types of debt can create more problems than they solve, especially credit card debt. Credit cards are convenient and necessary in our society. Even when you are not running up debt, you need a credit card to shop online, rent a car, or reserve a hotel room; most people need to carry at least one credit card. Having too many credit cards is bad, especially if you use them to run up high debt. Carrying running credit card balances means that you are potentially paying hundreds of dollars in unnecessary interest fees for purchases that may have no lasting value.

This emphasis on lasting value is the surest determinant of whether a debt is healthy or unhealthy. Healthy debt provides lasting value and is aligned with a long-term goal (e.g., a mortgage enables you to become a homeowner). Even under these circumstances, you should not commit to more debt than you can afford to service each month.

To avoid excessive credit card debt, ask yourself -- before you make a credit card purchase -- if you will be able to pay the bill when it comes. If the answer is "no," then don't make the purchase. You also should make absolutely certain that you do not use revolving debt (credit cards, personal loans, etc.) for assets that can depreciate or will be "used up" (electronics, clothes, CDs, food, etc.). These assets will be gone long before the debt is, and the obligation still will be hanging over your head. Also, the interest you pay on these purchases inflates the cost. Would you buy the item if you viewed the cost not as the initial purchase price, but the cost you pay including all the interest? Your $40 pair of jeans could actually cost you $80 if it takes you years to pay it off.

Paying off Credit Card Debts

If you are carrying a credit card balance, you should look to immediately set aside your available cash to pay off your unhealthy debts and avoid paying unnecessary interest. Use your budget as a guide to reduce your expenses and become debt free. More importantly, you should immediately limit your credit card use, so you don't accumulate more debt. This should take a priority over saving until the unhealthy

debt is gone.

Credit card pay-off strategies

1. **Paying minimum payment** each month should be avoided, if possible. If you are able to pay more than the minimum payment, you can save hundreds or thousands in interest. Credit card interest rates can go as high as 29%-39%! The larger your monthly payment, the faster you will pay off the debt and the less interest you will pay. For example, take a credit card debt of $10,000 with a 22% interest rate. If you continued to only make the minimum payments (4% of the monthly balance), it will cost you $18,216 and take 14 years to become debt free, largely because the minimum payment drops each month as you pay down your debt.
2. **Paying a constant amount** each month could save you thousands and will clear out your debt in far less time than paying the minimum amount. For the same scenario above ($10,000 debt and 22% interest rate), a constant payment of $400 per month would cost only $13,094, taking you 3 years to become debt free.

If you are carrying balances on multiple credit cards and can afford more than the minimum payment, you should consider the following strategies. To be effective, both strategies require you to continue paying the same monthly amount towards your debt until all debts have been paid off. Once a credit card has been paid off , don't reduce how much you pay towards your debt. Maintaining the same monthly amount (or even increasing the pay-down amount) will help you get out of debt that much faster and reduce the total cost of your debt.

1. **Avalanche** -- The avalanche method involves paying off your credit cards in the order of the highest interest rates. Once you have decided how much you can afford each month, allocate enough money to only pay off the minimum payment on each credit card. Then apply all the remaining funds to paying off the card with the highest interest rate. Once the first credit card has been paid off, apply every dollar you were using to pay off the highest-interest card and add it to what you were already sending to the second highest-interest credit card. Keep following this strategy and continuing paying the same amount each month towards your debt until all debts have been cleared. Using the avalanche method can result in greater savings by paying less interest in the long run.
2. **Snowball** -- The snowball method involves paying off the lowest debt amount first. Like the avalanche method, budget enough money to pay off the minimum payment on all cards. Then apply any remaining funds towards paying off the credit card with the lowest balance. Once you have paid off the first credit card, continue paying the same monthly amount you started with. Follow the same strategy s the first credit card: Pay only the minimum payments on all other cards while using all the remaining funds to pay off your second lowest debt. Although the snowball method may be more costly than the avalanche method, seeing even a small debt eliminated often helps motivate people to stick to the discipline of paying down debts.

If you are struggling to pay even the minimum payments on your credit cards, there are other alternatives to help you become debt free.

1. Use your savings and retirement funds to pay off as much debt as possible. Start by paying off the account carrying the highest interest rate (the higher the interest rate, the more of your money is being eaten up without paying off principal), and then work your way down to the account with the lowest rate.
2. Unless your employer matches your 401(k) contributions, stop contributing temporarily. It makes more financial sense to pay down your high-interest debt first, particularly when outstanding credit card balances have interest rates of 25% or higher. Pay as much towards your

high-interest debts as you can with the money you were using to invest into the company 401(k). Paying off these debts can be the equivalent of earning up to a 30% return on your 401(k) investments!

3. If you own a home, consider getting a home equity loan or even refinance your mortgage to pay off your unsecured debts. Bills.com has a whole refinance resource center to help you evaluate and qualify for a refinance loan, if this is a good decision for you. Using the proceeds from the home equity loan to pay your unsecured debts will dramatically help your financial situation. In almost every case, this type of loan will have much lower interest rates than your unsecured debts, and it typically is tax deductible – making the effective interest rate even lower.
4. If none of the methods above are available to you, you should seek professional debt management assistance. A credit card counseling program or a debt settlement program may be necessary in order for you to clear out your debt. As an option of last resort, bankruptcy exists if you can demonstrate a severe enough hardship to qualify.

CH.6 – Setting Long Term Goals

Setting goals for education, retirement, or a new home
As you being to feel comfortable using a budget, your budget will help you not only to spend within your means, but also to plan for long term goals. Long term goals such as retirement savings or securing a mortgage can be quite daunting, at first, when you look at how much they cost. However, when you break up the cost into manageable monthly amounts, you can begin to take steps to achieve even ambitious financial goals. It's that first step that is a doozy, but if you commit yourself and take the leap to be financially sound you'll end up at your goal before you know it.

Once you have identified your goals, determine the timeline for achieving your goals. Calculate how much you need to save each month to reach your goals. With that information, you can then review your budget and begin looking for areas to reduce your spending and begin saving for that new home, that big vacation, or paying off your student loans.

Goal Chart Example:

Goal	Timeline	Cost	Monthly Savings Required	Action Plan	Ranking
Down Payment for Mortgage	5 yrs	$20,000	$333.33	Save & establish credit	1
Pay off Student Debt	3 yrs	$10,000	$277.78	Increase monthly payments	2
Trip to Europe	10 yrs	$5,000	$41.67	Cancel cable tv package	4
Add to Retirement Savings	25 yrs	$75,000	$250.00	Cut expenses	3

Don't neglect planning for your retirement. The earlier you get started, the less you have to budget each month to build a sizeable nest-egg.

CH.7 - On the Road to Financial Freedom

By now, you should have a better understanding of why a budget is important. You have learned that creating and maintaining a budget is an essential tool for building financial discipline, allocating your money wisely, and establishing and realizing your financial goals.

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This guide provides basic budgeting tools to help you better manage your income and expenses, and also to help you shed unhealthy, unsecured debts. Creating and maintaining a budget may not be the easiest thing, but with the proper discipline and dedication, you can avoid the pitfalls of unnecessary debt and more readily achieve your financial goals.

Be sure to also check out other tools and articles available on the Bills.com Web site that will empower you to make better financial decisions. Educate yourself about mortgages, debt, credit scores, credit cards, insurance and general financial matters. Not only can you use Bills.com as your go-to research tool for all things financial, you can send us any specific financial question that you have, by using the Ask Bill feature.

Good luck and stay committed to a bright financial future.

Appendix – 12 Month Personal Budget Tracking Sheet

Balancing the Books

	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Total Net Income	$ -	$	$	$	$	$	$	$	$	$	$	$	$
Total Expenses	$ -	$	$	$	$	$	$	$	$	$	$	$	$
Difference	$	$	$	$	$	$	$	$	$	$	$	$	$

INCOME

INCOME (gross)	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Income #1	$	$	$	$	$	$	$	$	$	$	$	$	$
Income #2	$	$	$	$	$	$	$	$	$	$	$	$	$
Interest Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Dividend Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Investment Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Other Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Total Gross Income	$	$	$	$	$	$	$	$	$	$	$	$	$

INCOME (tax)	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Federal tax	$	$	$	$	$	$	$	$	$	$	$	$	$
State tax	$	$	$	$	$	$	$	$	$	$	$	$	$
Social Security	$	$	$	$	$	$	$	$	$	$	$	$	$
Total Income Tax	$	$	$	$	$	$	$	$	$	$	$	$	$

EXPENSES

Housing	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Mortgage Payment	$	$	$	$	$	$	$	$	$	$	$	$	$
Property Taxes	$	$	$	$	$	$	$	$	$	$	$	$	$
Rent	$	$	$	$	$	$	$	$	$	$	$	$	$
Home Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Electricity	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility -Natural Gas	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Water/Sewer Bill	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Garbage Collection	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Local Telephone	$	$	$	$	$	$	$	$	$	$	$	$	$
Home Upkeep	$	$	$	$	$	$	$	$	$	$	$	$	$
Housing Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Household and Other	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Food (Home/Groceries)	$	$	$	$	$	$	$	$	$	$	$	$	$
Food (Out)	$	$	$	$	$	$	$	$	$	$	$	$	$
Clothing	$	$	$	$	$	$	$	$	$	$	$	$	$
Cigarettes/Alcohol	$	$	$	$	$	$	$	$	$	$	$	$	$
Cable TV/Internet	$	$	$	$	$	$	$	$	$	$	$	$	$
Long Distance Phone Bill	$	$	$	$	$	$	$	$	$	$	$	$	$
Cell Phone Bill	$	$	$	$	$	$	$	$	$	$	$	$	$
Vacation	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Household and Other Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Personal Care	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Hair/Nails/Cosmetician	$	$	$	$	$	$	$	$	$	$	$	$	$
Gym / Sports	$	$	$	$	$	$	$	$	$	$	$	$	$
Dry Cleaning	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Personal Care Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Unsecured Debt	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Student Loan Payments	$	$	$	$	$	$	$	$	$	$	$	$	$
Personal Loan	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #1	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #2	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #3	$	$	$	$	$	$	$	$	$	$	$	$	$
Other loans	$	$	$	$	$	$	$	$	$	$	$	$	$
Unsecured Debt Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Health	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Medical Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Life Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Out of Pocket Expense	$	$	$	$	$	$	$	$	$	$	$	$	$
Health Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Transportation	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Car Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Car Loan/Lease	$	$	$	$	$	$	$	$	$	$	$	$	$
Parking	$	$	$	$	$	$	$	$	$	$	$	$	$
Licensing/Registration	$	$	$	$	$	$	$	$	$	$	$	$	$
Fuel	$	$	$	$	$	$	$	$	$	$	$	$	$
Maintenance	$	$	$	$	$	$	$	$	$	$	$	$	$
Bus/Taxi Fare	$	$	$	$	$	$	$	$	$	$	$	$	$
Transportation Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Pets	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Food	$	$	$	$	$	$	$	$	$	$	$	$	$
Medical	$	$	$	$	$	$	$	$	$	$	$	$	$
Grooming	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Pets Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Entertainment	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Movies	$	$	$	$	$	$	$	$	$	$	$	$	$
CDs/Video/DVD	$	$	$	$	$	$	$	$	$	$	$	$	$
Sporting Events	$	$	$	$	$	$	$	$	$	$	$	$	$
Books/Magazines	$	$	$	$	$	$	$	$	$	$	$	$	$
Concerts/Theater	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Entertainment Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$

Misc. Financial	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Retirement Fund	$	$	$	$	$	$	$	$	$	$	$	$	$
Savings/Rainy Day Fund	$	$	$	$	$	$	$	$	$	$	$	$	$
Child Support	$	$	$	$	$	$	$	$	$	$	$	$	$
Back Tax Payment Plan	$	$	$	$	$	$	$	$	$	$	$	$	$
Legal/Financial fees	$	$	$	$	$	$	$	$	$	$	$	$	$
Charity	$	$	$	$	$	$	$	$	$	$	$	$	$
Gifts (birthday/holiday)	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Misc. Financial Sub-Total	$	$	$	$	$	$	$	$	$	$	$	$	$