

*THE 50/30/20
RULE OF MONEY:
A WORKSHOP*

Financial Smarts Program
Peer Mentoring Workshop



WHAT YOU WILL LEARN

- What is the 50/30/20 Rule?
- What are the Benefits of the Rule?
- How you can use it.
- Practice with hands on Case Studies.



WHY USE A BUDGETING FRAMEWORK?

- Budgeting is just about balancing your income with your expenses.
- It is meant to give you financial security!
- It works best when you have a goal you are working towards.



WHAT IS THE 50/30/20 RULE?

The 50/30/20 Rule is a budgeting framework that makes it easy to track your finances and save money. It prioritizes saving money to help you reach your financial goals.



HOW IT WORKS

50% - NEEDS

- What you can't live without and can not avoid.
- A few examples are: Rent or Mortgage, Car Payments, Groceries, utilities etc.

30% - WANTS

- Personal, Discretionary, or Nonessential Spending.
- A few examples are: Eating Out, Netflix, New Handbags or Shoes, Newest Devices etc.

20% - SAVING

- Money you put towards your future financial goals.
- A few examples are: An Emergency Fund, Saving for A Down-payment, IRA Contributions, Extra Loan payments to pay it off sooner etc.



WHAT ARE THE BENEFITS?

- Will help you know your financial situation
- Will help you determine what to cut back on
- Will help reduce financial stress!
- It's a simpler budgeting process.
- Will help achieve your financial goals.



HOW TO GET STARTED?

1. Gather all important financial documents (income, bills etc.)
2. Determine your Monthly Income
3. Calculate your Monthly Expenses
4. Set your Savings goal – Why are you saving?
5. Build a Budget



GENERAL TERMINOLOGY

Variable expenses

Expenses that vary from one period to another and often can be controlled

Fixed expenses

Expenses that are consistent from one period to another

Deficit

When expenses exceed income during a time period

Surplus

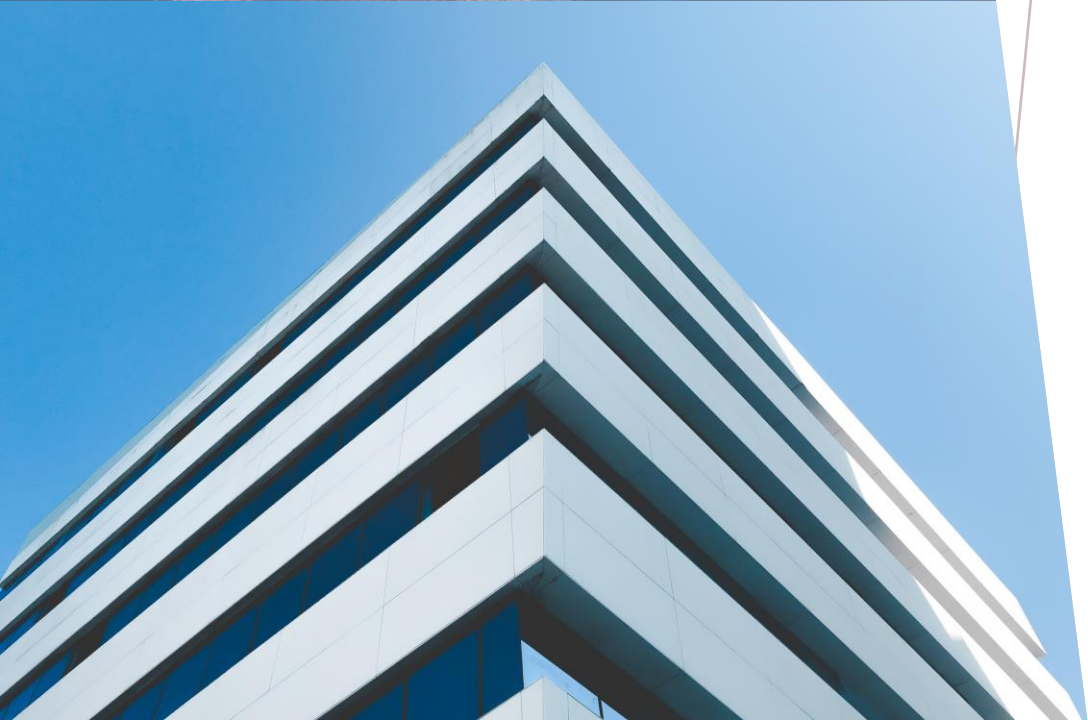
When income exceeds expenses during a time period

Assets

Monetary value of property owned

Liabilities

Monetary value of what you owe. It is considered a type of debt.



WHAT IS CONSIDERED INCOME?

Wages/Salaries

Capital Gains

Interest

Pensions

Dividends

Business
Income

JOE

- Works at Pizza Hut for 20 hours per week with an hourly wage of \$12.50.
- Sells Collectables on Ebay, gets about \$200 per month.
- Invests in stock and earns about \$300 per month.

What is Joe's Monthly Income?

\$1500





TRACKING MONTHLY EXPENSES

- If you do not already, spend the next month keeping track of what you spend your money on.
- Keep note of how much you spend on the following:

Bills

Groceries

Entertainment

Loans

Everyday
Purchases

Living
Expenses

JOE

- Spends \$200 on groceries per month.
- Has a Netflix subscription (\$12.99/month)
- Pays monthly phone bill of \$50.
- Spends \$100 per month on taking care of his cat.

What are Joe's Monthly Needs?

\$350





CASH FLOW STATEMENT

- Also known as the Income Vs. Expenses Statement, is used to show whether someone is living within their income.
- It reflects the cash flow during a certain period of time and so, it provides the timing of cash flow.
- Timing is very important when it comes to cash flow!

HOW TO CREATE A CASH FLOW STATEMENT

Step 1

- List and total all income (active and passive income)

Step 2

- List and total all expenses (fixed and variable expenses)

Step 3

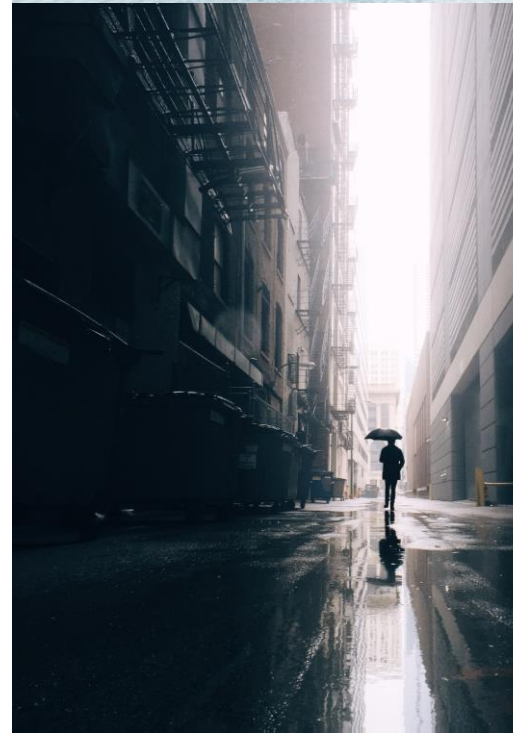
- Calculate the difference to find the surplus or deficit

JOE

January Income	January Expenses
Salary - \$1000	Groceries - \$200
Stocks - \$300	Phone Bill - \$50
Ebay Sales - \$200	Netflix – \$12.99
	Pet Care - \$100
	Shopping - \$150

Is Joe living within his monthly Income?

YES



WAYS TO SAVE

Simple saving account

This account is a smart way to save funds until they're needed. It bears interests., and It's a good place to keep an emergency fund.

Certificate of Deposit

CD is an interest-earning savings account valid for a fixed period – between 3 months and five years- and offers a higher fixed interest rate. Not as flexible as other accounts and you lose interest of the whole period if you withdraw money prior to maturity date.

Money Market account

Type of savings account, but a slightly higher interest rate, usually a higher required minimum balance. A smart option for an emergency fund or a revolving savings account.

Money Market mutual Fund

A money market account in a mutual fund investment company rather than a bank Interest is calculated daily, and an investor can withdraw funds at any time.¹ Money market mutual funds typically have a higher rate of return.



EMERGENCY FUND

- An account used to set aside funds needed in the event of a personal financial dilemma.
- Experts advise keeping 3-6 months' expenses in an emergency fund.
- The fund must be **liquid!** You need to be able to access it quickly and easily in case of an emergency.
- Basic savings accounts, certificates of deposit (CDs), or money market mutual funds are great for an emergency fund.



QUESTIONS?

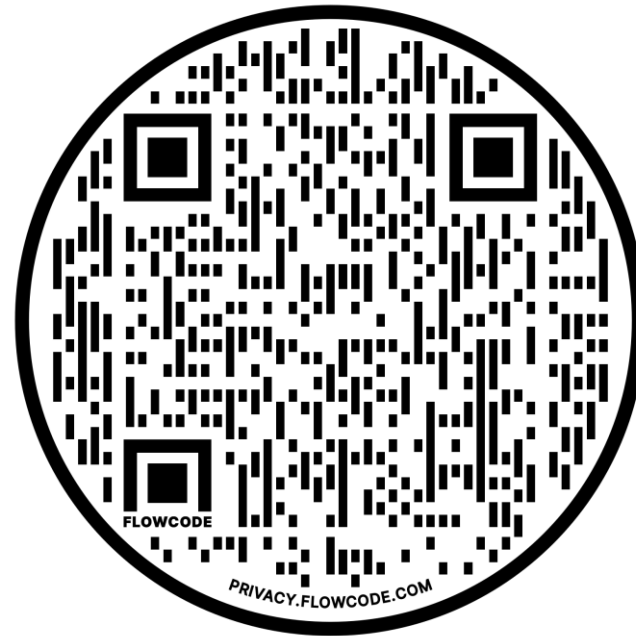
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GETTING A PEER MENTOR

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