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BALANCED MONEY

WORKBOOK

Why live in balance?

Welcome to the balanced money approach to budgeting! Balance is a concept we hear a lot about—eat a balanced diet, keep balance between work and the rest of your life, etc. What many people don't realize is that the concept of balance can also be applied to your spending. When your spending is balanced, you can rest easy knowing that you have enough money for the things you need, enough for some of the things you want, enough to save for your dreams, and adequate savings for when your life doesn't go as planned.

If you think about it, you'll realize that your spending can be summed up in three categories: the money you spend on the things you need (your must-haves), the money you spend on things you want (your wants), and the money you don't spend (savings). The lists below contain examples of items that might be found in each of these categories.

Must-haves

Having balanced money can help keep you safe when things go wrong. With must-haves at 50%, you can better weather a job loss or disability where unemployment insurance or disability insurance typically cover about half your income. If you're a two-income household, you could live on half your income if one of you lost a job. Having must-haves at 50% gives you room to maneuver and make changes if you'd need to scale back spending.

Ask yourself the following questions to help you determine if an item is a must-have:

- If I lost my job, would I keep spending money on this?
- Could I live without this purchase for six months?
- Could I live in safety and dignity without this purchase (at least for a while)?
- Am I legally obligated to pay for this?

Wants

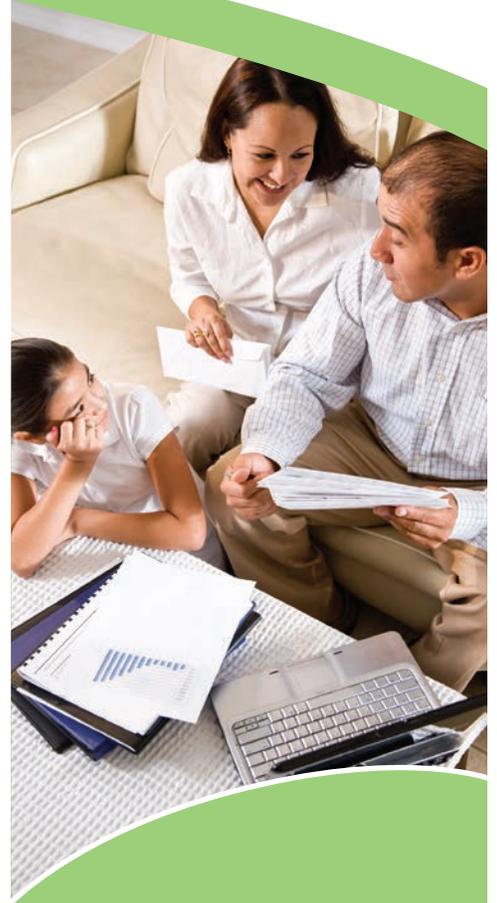
- Clothes*
- Vacations
- Retirement
- Other savings
- Entertainment
- Day care*
- College tuition
- Private education
- Exercise*
- Payment to eliminate debt

Charitable giving

For some, this is a must-have; others may put it under wants. We believe you should make the decision based on your personal values.

*Although we may think of some of these items as necessities, consider whether you would cut back on them if your income were unexpectedly cut in half due to job loss or disability.

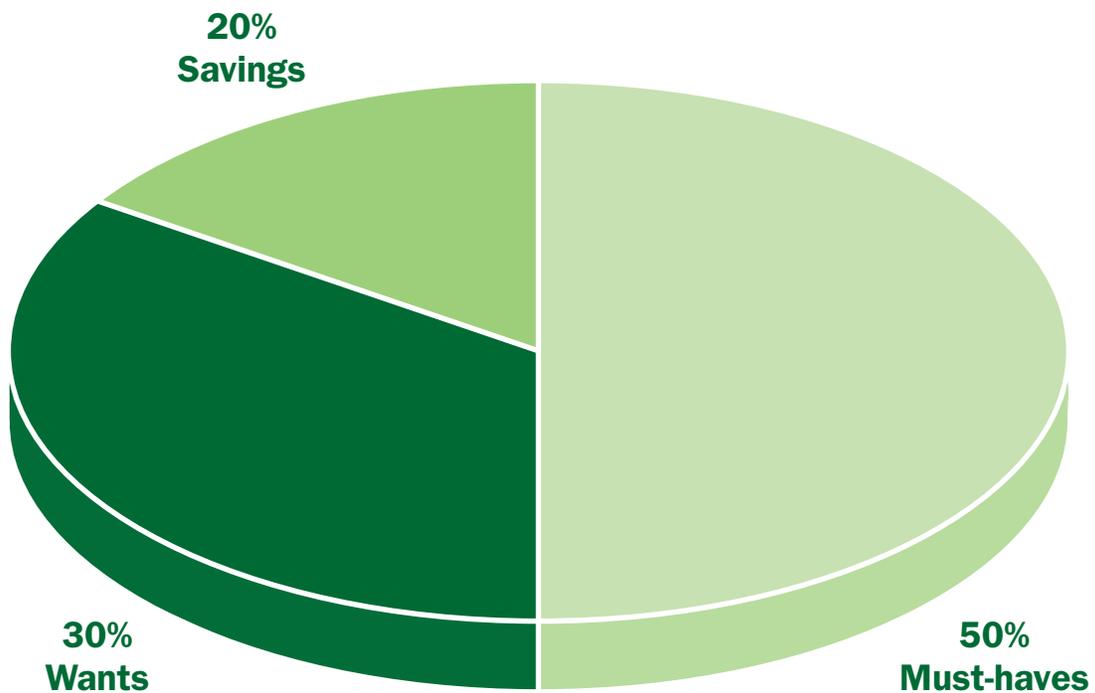
Source: Elizabeth Warren and Amelia Warren Tyagi, *All Your Worth*, 2005.



What is balanced money?

When we talk about these three areas—must-haves, wants and savings—the real question becomes this: How should your monthly income be allocated among these categories, and how close are you to where you should be? The answer to the first part of the question can be summed up as follows: Generally speaking, when you consider your total spending, you should be putting 50% of your after-tax income toward the things you need, or your “must-haves,” 30% toward the things you want and 20% into savings.*

*Keep in mind that individual circumstances vary, and it is possible that the balance that works for you may be different. Your financial coach can help you determine your ideal balance.



Calculating your balanced money score

Your balanced money score reflects how your spending is currently allocated among must-haves, wants and savings. The first step in achieving a balanced financial life is to find out how close you are today. The following pages will walk you through the process of calculating your balanced money score.

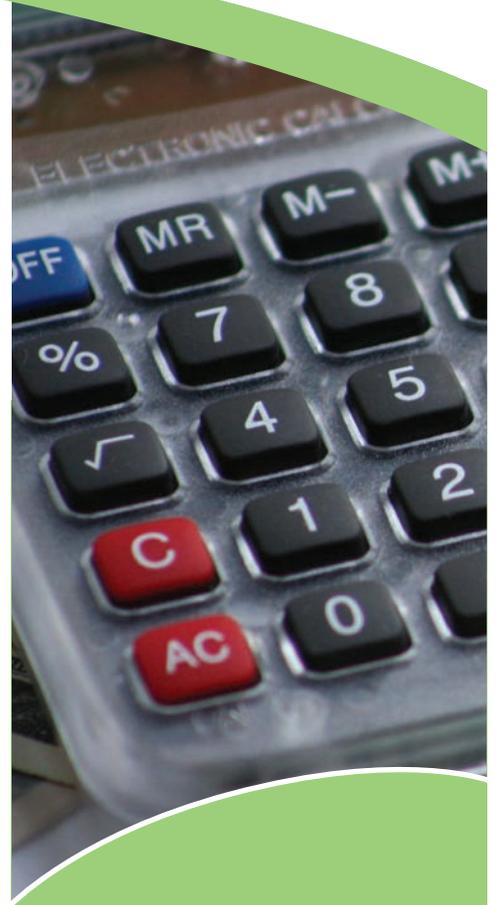
Remember that the purpose of this exercise is to determine where your money goes today, not where you'd like it to go, so be sure to fill in all information as it applies to your situation over the past year.

Before you get started, you'll need a calculator and as many of the documents listed below as you can find.

Each step has worksheets to help you determine your balanced money score. Use the worksheets to populate the information needed for the corresponding E-Z calculators.

Useful documents:

- W-2 (for income and taxes).
- Pay stubs (for 401(k) and employer health insurance).
- Utility bills (gas, electric, basic phone, water, etc.) or monthly average cost.
- Bank statements (one year ago and most recent).
- Credit card statements (one year ago and most recent).





Step 1: Income and taxes

Use your paycheck stub or other income statement to determine your monthly after-tax income. If you do not have monthly income statements or are self-employed, use your annual after-tax income and divide by 12. Be sure to account for your total household income—whether it’s from your spouse or from working more than one job.

Worksheet A

Total after-tax income (can be found on W-2 or paycheck stub)

Monthly average	
Income	
Salary and wages	\$
Other income (bonus, Social Security, interest, etc.)	+ \$
Total after-tax income	= \$
Taxes	
Federal taxes	\$
State taxes	+ \$
Social Security taxes	+ \$
Medicare taxes	+ \$
Local income taxes	+ \$
Total taxes	= \$

E-Z Calculator instructions

Use the totals you generated with Worksheet A to fill out E-Z Calculator A and determine your total after-tax income.

E-Z Calculator A

Savings	Monthly average
Salary/wages/other income	\$
Subtract: taxes (federal, state, local, Social Security, Medicare)	- \$
Total after-tax income	= \$





Step 2: Savings

The tools in this step will help you determine what you save. Start by filling out Chart B below to determine your monthly change in credit card debt—you'll need this information when you fill out Worksheet B.

Chart B—Monthly change in credit card debt

Paying off debts may not sound like savings, but it's another way to get ahead and free up future dollars for future savings. This chart will calculate your monthly change in credit card balance. If the number is positive, congratulations! You're working hard to pay down your credit card balance. If the number is negative, however, be careful. It appears that you are spending on your credit cards, which represents negative savings. Whether positive or negative, this number should be included in your monthly savings calculation (note that a negative number will reduce your savings score).

Balance one year ago	\$
Balance today	- \$
Difference (positive or negative)	= \$
	÷ 12
Monthly change in credit card debt	= \$

Worksheet B

Savings is the easiest category to identify, since we are all generally aware of what we put away each month toward our savings goals. For your retirement contributions, you may include any employer contributions toward your 20%, but keep in mind that you will need to consider the effects on your retirement savings if you leave your job before you are fully vested in your employer's contributions.

Total savings

Monthly average	
Retirement	
Employer-sponsored retirement contributions (self)	\$
Employer-sponsored retirement contributions (spouse)	+ \$
Other retirement contributions (traditional or Roth IRA)	+ \$
Total retirement contributions	= \$
Savings and investments	
Education savings contributions (529, Coverdell, etc.)	\$
Contributions to other savings or investments	+ \$
Total savings contributions and investments	= \$
Monthly debt	
Extra loan payments (mortgage, auto, etc.)	\$
Average monthly change in credit card balance* (total from Chart B)	+ \$
Total monthly debt reduction	= \$

*OK, moment of truth here. If your credit card balance is going down, congratulations! You should add the monthly average to your savings total and keep up the good work. If your credit card balance is increasing, however, you should SUBTRACT this number from your savings total—credit card spending is NEGATIVE savings.



E-Z Calculator instructions

Use the totals you generated with Worksheet B to fill out E-Z Calculator B and determine your total savings.

E-Z Calculator B

Savings	Monthly average
Retirement contributions—self and spouse	\$
Contribution to other savings	+ \$
Monthly debt reduction	+ \$
Total savings	= \$

Step 3: Must-haves

Must-haves are the necessities of life. These are the things that you must pay for no matter what—even if your income is suddenly reduced or eliminated.

There are two tools in this step to help you calculate some of the information you'll need to fill out Worksheet C. **Table C—USDA national monthly costs** can help you determine what your monthly food expenses are. **Chart C—Variable expenses** is optional, but it can help you calculate more accurate averages for Worksheet C by documenting your monthly spending in each area.

Fill in the amounts for your must-haves in Worksheet C below, referencing Table C and Chart C as needed. If you have questions about something that you feel is a must-have but is not on this list, refer to the questions on page 1 to help you determine whether it really belongs in this category.

Worksheet C

Monthly average	
Food	
Basic food (taken from Table C—USDA national monthly food costs)	\$
Food total	= \$
Housing	
Rent or mortgage	\$
Home/renters insurance (if not included in mortgage)	+ \$
Property taxes (if not included in mortgage)	+ \$
Home equity loan or line-of-credit payment	+ \$
Housing total	= \$
Utilities	
Basic phone (landline or noncontractual cell service)	\$
Electric	+ \$
Heat	+ \$
Water	+ \$
Utilities total	= \$

Worksheet C continues on page 11.

Worksheet C (continued)

Monthly average	
Transportation	
Car payment	\$
Car insurance	+ \$
Gasoline	+ \$
Public transportation	+ \$
Parking	+ \$
Car repairs/maintenance	+ \$
Transportation total	= \$
Insurance	
Health insurance	\$
Dental insurance	+ \$
Life insurance	+ \$
Disability income insurance	+ \$
Insurance (excluding auto) total	= \$
Other payments and loans	
Student loans	\$
Contractual obligations (health club dues, cell phone, etc.)	+ \$
Credit card minimums	+ \$
Other installment debt	+ \$
Other payments/loans total	+ \$

Worksheet C continues on page 12.

Worksheet C (continued)

Monthly average	
Minimum credit card payments	
Credit card 1	\$
Credit card 2	+ \$
Credit card 3	+ \$
Credit card 4	+ \$
Minimum credit card payments total	= \$
Other (long-term contracts, child support, other legal obligations, other health care costs/HSA, etc.)	
Other 1	\$
Other 2	+ \$
Other 3	+ \$
Other 4	+ \$
Other total	= \$

Table C—USDA national average monthly food costs

Number of household members	Low-cost plan	Moderate-cost plan
1	\$220	\$275
2	\$490	\$600
3	\$590	\$720
4	\$790	\$980
5	\$950	\$1175
6	\$1045	\$2470

Dollar amounts adapted using averages from:
<http://www.cnpp.usda.gov/Publications/FoodPlans/2014/CostofFoodMay2014.pdf>

Chart C—Variable expense calculations

Some expenses vary each month, like heat and car repair. Use the tables here to document your monthly spending on each area, then calculate the averages to fill out E-Z Calculator C and determine your balanced money score.

	Electric	Heat	Car repair	Health care	Other	Other
Jan						
Feb						
Mar						
Apr						
May						
Jun						
Jul						
Aug						
Sep						
Oct						
Nov						
Dec						
	÷ 12	÷ 12	÷ 12	÷ 12		
Total	= \$	= \$	= \$	= \$		

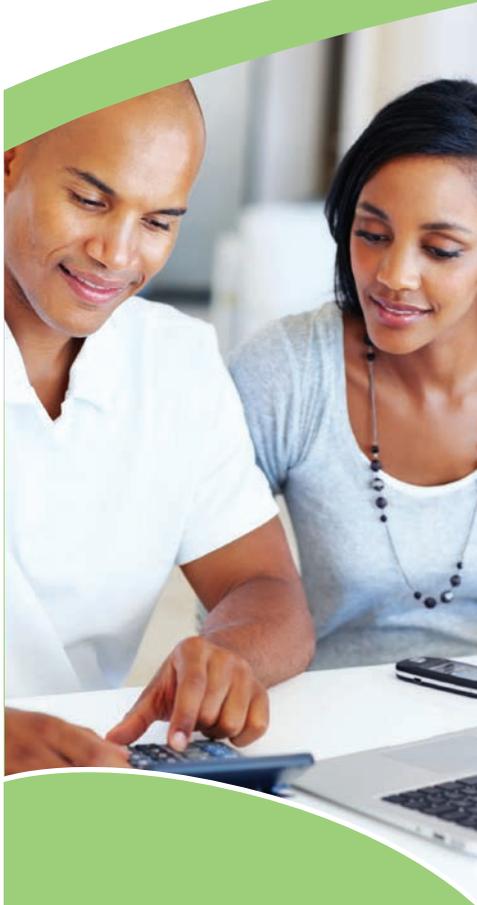
E-Z Calculator instructions

Use the totals you generated with Worksheet C to fill out E-Z Calculator C and determine your total Must-haves.

E-Z Calculator C

Must-haves	Monthly average
Basic food (taken from Table C)	\$
Housing (rent/mortgage, insurance, property taxes, etc.)	+ \$
Utilities (gas, electric, water, sewer, basic phone, etc.)	+ \$
Transportation (car loan, gas, insurance, bus/train, parking)	+ \$
Insurance (health, dental, life, disability income, etc.)	+ \$
Other loan payments	+ \$
Credit card minimums	+ \$
Other (long-term contracts, child support, other legal obligations, etc.)	+ \$
Total Must-haves	= \$





E-Z Calculator instructions

Step 4: Calculate your wants budget

Now that you've calculated your savings and your must-haves, calculating your wants is simple. Since the balanced money score accounts for all of your income, once you know your savings and your must-haves, everything else falls under your "wants" category.

Using your totals from E-Z Calculators A, B and C, fill out the table below to calculate your wants.

E-Z Calculator D

Calculate wants	
Total after-tax income	\$
Total savings	- \$
Total must-haves	- \$
Total wants	= \$

Step 5: Calculate your balanced money score

Now that you've identified your savings, must-haves and wants, use your totals from E-Z Calculators B, C and D to fill out the table below to calculate your balanced money score.

E-Z Calculator E

Use the totals from E-Z Calculator A, B and C to calculate your score.

Amount	Calculation	Your score
Savings \$	$\frac{\text{After-tax income}}{\div \$}$	$\times 100 = \%$
Must-haves \$	$\frac{\text{After-tax income}}{\div \$}$	$\times 100 = \%$
Wants \$	$\frac{\text{After-tax income}}{\div \$}$	$\times 100 = \%$

Congratulations!

You now know your balanced money score. Remember that the 50/30/20 rule is aspirational. Review your percentages with your coach. Think about where you are today and where you'd like to be. Don't forget that some spending areas may change over time, like day care expenses or loan payments, so focus on areas that you can proactively change to move yourself closer to your goal of feeling financially confident and secure.



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