

## TRAIN THE TRAINER: Financial Education

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# Webinar #4: Cash Flow Management – Making It Through the Month

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Facilitator:  
Kimberly Zimmerman Rand

# Training Goals

- Define the cash flow method of money management
- Describe how cash flow differs from budgeting
- Identify sources and uses of income
- Discuss three methods for tracking cash flow
- Consider how to respond to positive or negative cash flow

# Why the “cash flow” method of money management?

- You need money to pay your financial obligations at different times of the month!
- By lining up income and expenses in a chronological format there is less need for pay-day loans, using credit cards to pay for monthly expenses, etc.
- The key message is “you can’t pay for things if you don’t have the cash”

# Budget vs. Cash Flow

## Budget

- “Future” document, used in planning
- Clients create goals and then plan the use of their income and expenses to achieve it
- Involves trial-and-error

## Cash Flow

- “Past” document
- Looks at amount and timing of income and expenses throughout the month
- Using “real” data allows for a more customized spending plan

# Identifying Sources of Income

- Salaries and wages from employment
- Self-employment earnings
- Public benefits
- Interest from savings accounts
- Money from selling possessions
- Tax refunds
- Receiving gifts of money

# Identifying Uses of Income

- Rent/mortgage payments
- Utilities: electricity, natural gas, oil, etc.
- Communications: cell phone, data plan, internet service
- Insurance: car, home, renters, etc.
- Food: groceries, eating out
- Transportation: private vehicle gas & maintenance, public transportation costs
- Clothing
- Personal care items
- Child care
- Purchasing gifts for others
- Entertainment

# “Regular” Sources and Uses of Income

## Sources:

- Salaried work, paychecks
- Public benefits
- Interest on accounts

## Uses:

- Mortgage or Rent
- Insurance payments
- Installment loans (car, student)

# “Irregular” Sources and Uses of Income

## Sources:

- Self employment
- Money from selling possessions
- Gift money

## Uses:

- Groceries
- Vehicle gas and maintenance
- Purchasing gifts for others



# Developing a Cash Flow Tool Part I: Forecasting

- Identify sources and uses of funds
  - A 3-month period allows for fluctuations in cash flow (quarterly insurance, holidays, etc.)
- Enter information into a visual document to “see” when money enters and exits household:
  - Envelope Method
  - Calendar Method
  - Spreadsheet Method

# Cash Flow: Envelope Method

- Visual and tactile method to track cash flow
- Create a stack of envelopes and label each with an expense category
- The amount due (or budgeted for) is placed in each corresponding envelope
- Once the envelope is empty, the money for that category is gone
- Challenge: Not “borrowing” from one envelope to pay another!

# Cash Flow: Calendar Method

Rent -\$800	Gas -\$42		Groceries -\$92			Electricity -\$48
	Gas -\$36		Groceries -\$89		Paycheck +\$900	
	Gas -\$38		Groceries -\$103			Yard Sale +\$200
	Gas -\$43	Car Repair -\$275	Groceries -\$97		Paycheck +\$900	
	Gas -\$27					

# Cash Flow: Spreadsheet Method

Date	Income (+)	Expenses (-)	Daily Sum (=)
5/14/2012			0
5/15/2012	920.83		920.83
5/16/2012			920.83
5/17/2012			920.83
5/18/2012		126	794.83
5/19/2012		95	699.83
5/20/2012			699.83
5/21/2012			699.83
5/22/2012			699.83
5/23/2012		60	639.83
5/24/2012			639.83
5/25/2012		126	513.83
5/26/2012		125	388.83
5/27/2012			388.83
5/28/2012			388.83
5/29/2012			388.83
5/30/2012	920.83		1309.66
5/31/2012			1309.66

# Cash Flow: On-line Methods

[www.mvelopes.com](http://www.mvelopes.com)

[www.mint.com](http://www.mint.com)

[www.onebudget.com](http://www.onebudget.com)

[www.budgetsketch.com](http://www.budgetsketch.com)

# Developing a Cash Flow Tool Part II: Tracking

- For this method to be useful it must be used!
- A three-month time period allows for fluctuations in income and expenses

# What to do with a positive cash flow

- Set up an emergency fund/savings account
- Pay down high interest debt on credit cards or installment loans
- Enroll in an employer-sponsored retirement account, or 401k

# What to do with a negative cash flow I

- Bring in more income through overtime work, second job, self-employment
- Visit [massresources.org](http://massresources.org) to determine what public benefits you might be eligible for
- Sell some possessions in a yard sale, Craigslist, etc.
- Do you have an extra room? Consider renting it out!



# What to do with a negative cash flow II

- Spend less on “needs” by becoming a smarter shopper
- “Strategic” use of credit
- Reduce “wants” in monthly spending by prioritizing where the money goes (goal setting)
- Request that due dates be adjusted on certain expenses to better align with the receipt of regular income

## In Review

- While budgeting is helpful in planning, cash flows show “past” data
- Cash flows show how funds enter and exit a household
- Cash flows provide a **visual** way of effective money management
- Cash flows help your clients to make decisions about income and expenses

Questions?