Financial Education for Worker Cooperative Members

Topic 1: Basic Money Management & Budgeting

Introduction

This curriculum was created as part of a project between the New York City Department of Consumer Affairs Office of Financial Empowerment and Make the Road New York, with the support of Citi Community Development to integrate financial empowerment tools and training into the cooperative development process.

It consists of 5 two-hour-long workshops:

Topic 1: Basic Money Management & Budgeting
Topic 2: Banking & Basic Financial Transactions
Topic 3: Credit
Topic 4: Creating a Profitable Business
Topic 5: Basic Financial Statements

Questions to Think About

How can financial decisions impact our financial stability, security and the ability to build wealth?

What processes and steps are needed to assess our current financial situation?

What tools can be used to take control of our finances and plan?

How do we set goals, and how do we achieve them?

How can we as worker-owners support one another in growing our financial health, and how can our cooperatives better support us?

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Societal barriers

Personal barriers

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Societal barriers include:

- Lack of access to:
  - Opportunity/well-paying jobs
  - Capital
  - Information
  - Education/training
- Immigration status
- Social Isolation
- Language
- Lack of trust in institutions

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Solutions to societal barriers include:

- Creating economic opportunity through:
  - Workers cooperatives
  - Self-employment
  - Education/training
- Seeking out existing support or benefits such as SNAP, food banks, and other resources; subsidized health insurance for children and family
- Creating own mechanisms for financial support such as savings circles; seek out networks for emotional support such as houses of worship, community based organizations

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Personal barriers include:

- High rents and cost of living in New York City
- Living paycheck to paycheck:
  - Any unanticipated event can turn life upside down; no options in an emergency
  - No ability to plan
  - Future is not secure

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Personal barriers include, cont'd:

- Not setting priorities:
  - Distinguish between *needs* and *wants*
  - Ensure that *needs*—basics for our survival—are covered: food, shelter, clothing
  - *Wants*: not needed for survival
- Failure to set goals and plan for the future

Questions to Think About

What Can be Barriers to Financial Stability and Building Wealth?

Personal barriers include, cont'd:

- Attitudes about money
- Unrealistic expectations or no expectations
- Not connecting the dots:
    - Income and expenses are interrelated
    - Wealth is built penny by penny, nickel by nickel…

Solutions to Personal Barriers include:

Evaluating attitudes and views about money

- Money generally looked upon as a “problem”
- Experiences reinforce negative associations with money
- Money controls your life
- Control of money usually associated with making “sacrifices”

Solutions to Personal Barriers include:

- Change Attitudes About Money
  - Reframe your view of money – Use new vocabulary

    - Money is a *tool* – not a problem

    - You can control of money to meet goals & achieve desired quality of life

    - It's not about sacrifices; it's about *choices*
- Taking steps to take control
  - Planning can help to bring stability and security
  - Seek assistance at Financial Empowerment Centers and other community based organization resources

Steps Toward Controlling Your Finances

1. **Assess current financial situation** – income and expense statement
2. **Create a budget**
3. **Create a savings and investment plan**
4. **Create a spending plan**
5. **Integrate budget, savings and investment, and spending plans**
6. **Get support for implementing your plans** – financial counseling, worker co-op manager

Step 1 – Assess the Current Financial Situation

Income and Expense Statement

Identify income – How much is available from all sources

- Regular fixed sources of income, e.g. salary/wages; cooperative distributions or advances
- Other sources of income – odd jobs, investment income, interest
- Public and private benefits, e.g. food stamps (SNAP), social security, disability, WIC, food banks

Step 1 – Assess the Current Financial Situation

Income and Expense Statement

Identify Expenses – What is currently being spent, and/or must be paid?

- Regular fixed expenses – don't change from month to month, e.g., rent, mortgage
- Regular variable expenses – occur monthly, but amounts may vary, e.g. utility bills based on usage
- Flexible expenses – not regularly recurring, e.g. clothing purchases
- Debts:
  - Credit cards, loans, judgments

Step 1 – Assess the Current Financial Situation

Compare Expenses and Income

- Create “Income and Expense Statement” (may be same form used for budget)
  - Periodic – e.g., weekly or monthly
- Positive cash flow – income exceeds expenses
- Break-even point – income equals expenses
- Negative cash flow – expenses exceed income
- Implications of cash flow for budgeting and planning
- Create a method to track expenditures

Step 2 – Create a Budget

What is a Budget?

A plan for applying available income to expenses

- Sets limits
- Creates discipline

Step 2 – Create a Budget

Importance of Budgeting

- Realistic assessment so adjustments can be made
- Increases focus on financial priorities
- Identifies areas where overspending may occur, and raises consciousness of expenditures
- Identifies areas where reduction of expenditures can result in additional cash flow to pay other bills, save or invest

Step 2 – Create a Budget

Budgeting Priorities

- Needs – basic food, shelter and clothing
- Obligations such as credit card debt, or loans which have legal consequences for non-payment
- Savings – reserves
- Investments, retirement, children's education, home purchase
- Wants – discretionary expenses

Step 2 – Create a Budget

Creating the Budget

How do income and expenses match up?

- If income and expenses are equal: Managing, but not making any head way. No cash flow.
  Review Expenses: Are there any reductions in expenses that can be used to pay down debt, increase savings, or investments?

- If income exceeds expenditures: A good position, = positive cash flow.
  Review Expenditures: Are there expenses that can be reduced to increase saving and investment?

Step 2 – Create a Budget

Creating the Budget

If expenses exceed income: You are losing ground, especially if using credit to cover expenses = negative cash flow. Only two options:

1. Increase revenues, *and/or*
2. Decrease expenses

Step 2 – Create a Budget

Prepare the Budget

- Review “Current Income & Expense Statement”
- Prioritize – decide where available funds will be allocated
- Reduce expenditures anywhere possible

Step 3 – Create Savings & Investment Plan

Allocate portions of income to savings and/or investments

Allows for flexibility

Tied to goals

Step 4 – Create a Plan for Discretionary Spending

- **After budget stabilizes financial situation (know upper limits for expenditures)**
- **Allows for flexibility while still living within means – proactive application of funds**
- **Tied to goals**

Step 5 – Integrate, Review & Upgrade

Integrate

- Budget
- Savings & Investment Plan
- Spending Plan

Review and update integrated Budget, Savings & Investment, and Spending Plans

Setting Goals

- **“What You Need”** vs. **“What You Want”**

- **Timelines**
  - Short Term – One year or less
  - Moderate Term – One to five years
  - Long Term – Five to ten years from now

- **Start on SMART and Realistic Plan**

SMART Goal Setting

Specific – “I will save $1,000,” not “I will save more money.”

Measurable – You can easily track whether you have achieved or on the path to achieving your goal (increase savings by $83.33/month to reach $1,000 at year’s end)

Achievable – Requires that you know what action steps must be taken in order to achieve the goal (setting aside $83.33 monthly)

Realistic – It is possible for you to execute, and you have using tools at your disposal (e.g., you have $83.33 left after expenses each month, and will make automatic transfers to savings from each paycheck

Time-based – Set a time for achieving goal (e.g., within one year)

Summary

- **Taking control** and making the right financial decisions today lead to stability and security in the future
- **Assessment** current financial situation
- **Create a budget** to allocate income to priorities
- **Plan to apply excess funds to savings,** investments and then to discretionary spending
- **Integrate budget, savings & investment and spending plan**
- **Set realistic goals**
- **Get support** to help you achieve your goals