

A young man and woman are smiling and looking at each other in a convertible car. The background is a blurred city street with several signs: a diamond-shaped sign that says "Income vs. Expenses", a rectangular sign with an arrow pointing left that says "P.Y.F.", and another rectangular sign with an arrow pointing left that says "GOALS".

Unit 2 - Budgeting: Making the Most of Your Money



Did You Know?

Almost 60 percent of millionaires use a budget to manage their money.

— *The Millionaire Next Door: The Surprising Secrets of America's Wealthy.*

What is a Spending Plan

A Spending Plan is an outline of your financial values and priorities.

It is your **Income – Expenses = Savings**

A Spending Plan shows us:

- What money is coming in the near future
- How much you spend on basic needs
- How much you need to set aside for periodic or unexpected expenses
- What is left over for wants or goals



Why Have a Spending Plan?

- Puts you in control of spending and saving
- Helps you set priorities and make decisions
- Helps you live within your means
- Protects your credit rating
- Helps you maintain savings and investments
- Helps to you teach your children about money



1st Steps of a Spending Plan

- Track Your Expenses
- Live Within Your Means
- Pay Yourself First
- Plug Spending Leaks
- Develop a Spending Plan



Expense Categories

Fixed

- Stay the same each month
- Ex: Rent/mortgage payment

Variable

- Costs each month that change
- Ex: Groceries or utilities

Periodic or Unexpected

- Costs you don't pay every month
- Ex: Medical bills or taxes



FIXED, VARIABLE, OR PERIODIC?			
Expense	Fixed	Variable	Periodic
Loan Payment	X		
Electric Bill		X	
Twice-yearly Insurance Payment			X
???			
???			



Pay Yourself First!

Think there's no money left to save? Here are a few ideas:

- Make savings part of your spending plan, and treat it like your monthly rent payment.
- Arrange for a certain amount of money to be automatically deducted from your paycheck and deposited into a savings account. Ask your employer if this is an option. If you don't see the money, you probably won't miss it, but that \$10, \$15, or \$20 every week will add up quickly.
- Put the money from a raise, refund, or bonus into savings.
- After you pay off a loan, use that same amount of money to 1) begin paying off another loan, or 2) put the amount into savings. Don't be tempted to spend it just because one loan is paid off.



Live Within Your Means

Identifying Needs vs. Wants:

Work Uniform

Car Insurance

Smart Phone

Spring Break Trip

Internet @ Home

Bottled Water

Gift for your best friend

Gift for your grandma

Other examples....



“Gotta Get It” Gauge

Five questions to ask before you make a purchase?

1. Do I need this?
2. If not, do I at least **really** want it? (And will I still want it tomorrow?)
3. Is this something I must buy now? (Or can I take some time to think about it?)
4. Am I sure that it will get used or worn frequently?
5. If I buy it now, will I have enough money left over to buy the other things I'll need soon?



Plug Spending Leaks

Item	Cost of item	Cost per month	Cost per year
Mochas	\$2.50	\$50.00	\$600.00
Magazines	\$4.00	\$8.00	\$96.00
Movies	\$10.00	\$10.00	\$120.00
Dinner Out	\$20.00	\$40.00	\$480.00

Total Savings \$1296.00



How to Build a Budget

1. Decide on a time frame for tracking expenses (week, two weeks, month).
2. List all money you have coming in (income).
3. Make categories for all expenses.
4. Subtract total expenses from income.
5. Study your budget and your financial plan to make sure it fits with your plans and goals.



Jessica's Budget

Answer Key

Jessica's Monthly Budget	
Estimated Income:	
Paycheck (after taxes)	\$560 *
Interest Earned	15 *
Total Estimated Income:	\$575
Fixed Expenses:	
Savings (P.Y.F.)	100
Car Payment	200 *
Insurance	50 *
Estimated Variable Expenses:	
Cell Phone	40
Gas	45
Clothing	50
Video Game/Music	20
Electronics	20
Food	25
Recreation	25
Total Estimated Expenses:	\$575

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Estimated Income:	
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Total Estimated Income:	\$575
Fixed Expenses:	
Savings (P.Y.F.)	100
Car Payment	200
Insurance	50
Estimated Variable Expenses:	
Cell Phone	35
Gas	40
Clothing	40
Music/Electronics	40
Food	40
Recreation	30
Total Estimated Expenses:	\$575

Tracking Income and Expenses

Collect and record the following:

- Pay stubs
- Credit card & bank statements
- Check registers
- Check stubs and cancelled checks
- Receipts: Grocery, ATM, restaurants, etc.

Where:

- Notebooks
- Spreadsheet (bankrate.com)
- Online tools (mint.com, your bank, etc)

