

## YOUR FINANCIAL ROAD MAP: WHERE DO YOU WANT TO GO?

**DAY:** 3

**TITLE:** YOUR FINANCIAL ROAD MAP: Financial Planning, cont.

**TARGET COMPETENCY:** Understand the components of a spending plan.

### OBJECTIVES:

- Examine reasons to keep track of your spending habits and understand its benefits
- Identify various sources of income and expenses
- Explain the purpose of paying yourself first (PYF)
- Learn how to build a budget
- Examine forms of record keeping involved with budgeting and cash management
- Understand how a budget will change throughout your life cycle.

### HANDOUTS/MATERIALS

- NEFE Unit 2 (selected portions)
  - Student Guide
  - Adapted NEFE Unit 2 PPT
- Handout: Pay Stub Analysis (student)
- Handout: Pay Stub Analysis (instructor)

### LESSON SUMMARY:

The personal budget is a working tool that many people can use to take control of their money. This unit will help students learn how to channel money toward goals they established in their financial plans. Like financial plans, a budget is meant to be flexible and serve as a guideline. Most important, it's only effective if you stick to it!

### LESSON OUTLINE:

MINUTES	CONTENT
	<p><b>Recommendation:</b> Skip Part 1 (of Unit 2) in NEFE because students will not have had time to create an adequate spending log of their own. May revisit this section later in the coming weeks.</p> <p><b>Recommendation:</b> This unit covers includes some basic math components. Student may need access to calculators.</p>
10	<p><b>Intro: Creating a SPENDING PLAN (Budget)</b></p> <p>A spending plan is a tool for managing our money during a given period of time. A budget and a spending plan are synonymous, but sometimes “budget” evokes a negative response from people – kind of like a “diet.”</p>

	<p>It is important to remember that a spending plan, or budget, is NOT about denying yourself things you want and need. It's about seeing all of your options and making the smartest choices.</p> <p>Yesterday, you learned about how your values affect your financial needs and goals. A spending plan is also based on what you value. For example:</p> <p><b>ASK:</b> If someone gave you \$100, what would you spend it on? Prompt student with follow-up rhetorical questions: would your best friend spend in the same way? Your brother or your mom? Probably not because you each have unique values and needs.</p> <ul style="list-style-type: none"> <li>• Ask for a couple of students want to share their answers. Ask some follow-up questions: <ul style="list-style-type: none"> <li>○ Does your answer relate back to your SMART goals (from yesterday's exercise/homework)? Why or why not?</li> <li>○ Do you think your response would be different or the same next month?</li> </ul> </li> </ul> <p><b>SLIDES:</b> Review adapted PPT Slides 1-4 (NEFE comments are included on notes pages).</p>
<p style="text-align: center;"><b>5</b></p>	<p><b>EXPENSES</b></p> <p>Introduce students to the three types of expenses (<b>NEFE page 19</b>): Fixed, Variable and Periodic. Ask students to brainstorm a couple of examples within each category (Can do together or in groups).</p> <p>Discuss the importance of Paying Yourself First (pages 20-21).</p> <p><b>SLIDES:</b> Review adapted PPT Slides 5 – 7.</p>
<p style="text-align: center;"><b>5</b></p>	<p><b>NEEDS vs. WANTS</b></p> <p><b>ASK:</b> What is the difference between a need and a want?</p> <p>"Needs" are what we need to live. "Wants" include everything else we might like to have, but we don't need to survive. Share some examples.</p> <p>As a group, review the list on <b>Slide 8</b> and determine if the item is a need or a want. (<i>Note: some may vary depending on individual perspectives and circumstances</i>). Underscore to your students that "wants" are not intrinsically bad, but we need to understand how/when to prioritize them in our planning process. Separating "needs" from "wants" can help</p>

	<p>get spending under control, which can lead to more goals being achieved.</p> <p><b>SLIDE 9:</b> Gotta Get It Gauge – simple tools for students to use to encourage thoughtful purchasing. Talk about the concept of <b>deferred gratification</b>.</p> <p><b>SLIDE 10:</b> Plug Spending Leaks. Explain that a spending leak is a small trickle of money you spend each month that can add up to A LOT of money over time. Often, we don't realize how much we're spending on these items. Spending leaks are the "wants" in our budgeting process.</p> <p>As students track their expenses in their Spending Logs, they may see leaks that can be plug. We will review this more next week when the students complete their spending logs.</p>
<b>10</b>	<p><b>Building a Budget</b></p> <p>Review the components of a budget on page 22 (and Slide 11). Break into pairs and complete <b>Assignment 2-4</b> (Building a monthly budget for Jessica). Specific results may vary. <b>Slide 12</b> provides two examples. Ask these follow-up questions:</p> <ul style="list-style-type: none"> <li>• Did any pair come up with a different budget (from the slides)?</li> <li>• Did you identify any spending leaks in Jessica's budget? Explain.</li> <li>• Name a fixed expense in Jessica's budget? A variable? A periodic?</li> <li>• Based on your budget, when will Jessica be able to visit her Grandparents? Did she meet her goal?</li> </ul>
<b>5</b>	<p><b>Keeping Track</b></p> <p>Briefly, review Slide 13 and pages 23 -24 about different methods for keeping track of one's expenses: what to hold onto and how to keep track of your budget. Discuss the pros and cons of each method.</p> <p><b>Homework:</b> Ask a parent or other adult about the methods s/he uses to organize and track finances.</p>
<b>15</b>	<p><b>Income</b> (NEFE pages 17-18)</p> <p>We've spent most of the lesson talking about expenses, so let's finish the say talking about income (who doesn't like to talk about income?!). Income is the money you receive. It's the money you earn from a job, but it's can also be your allowance, a birthday check from a relative,</p>

	<p>money from selling your stuff at a yard sale, even the interest you earn in a savings account.</p> <p><b>Ask:</b> How many of the students have had a job where they received a paycheck (i.e., not informal work like a babysitting job). Where you surprised at the size of your first paycheck – most likely it was smaller than you expected due to <b>payroll deductions</b>. The four most common tax deductions on a pay stub are:</p> <ol style="list-style-type: none"> <li>1. Federal income tax</li> <li>2. State income tax (NONE in NV) – may want to speak to why this is the case.</li> <li>3. Social Security tax, and</li> <li>4. Medicare tax .</li> </ol> <p>Review their definitions on p. 18. Also, present the concept of Gross (pre-tax) and Net (post-tax) income. An easy way to remember the difference is that your “take home salary” is the money you net (like a fish).</p> <p><b>Exercise:</b> Analyzing a Pay Stub. Ask students to take a few minutes to complete the questions at the bottom of the page. Encourage students to use calculators and/or ask questions, if they need additional assistance. Underscore: understanding how to read your paystub is an important money management skill. Review the answers together.</p> <p>For more information about teaching taxes:  <a href="http://www.irs.gov/app/understandingTaxes/index.jsp">http://www.irs.gov/app/understandingTaxes/index.jsp</a></p>
<p style="text-align: center;"><b>3</b></p>	<p><b>Conclusion:</b> Income – Expenses = Savings. And Savings = Goals.</p> <p>Remind students to continue working on their Spending Log. They will need it to create an actual budget in the coming weeks.</p>
<p style="text-align: center;"><b>5</b></p>	<p><b>Assessment</b></p> <p>Answer True or False:</p> <ul style="list-style-type: none"> <li>• A spending plan differs from a budget because it has a longer timeline.</li> <li>• Your net income = gross income – taxes.</li> <li>• Your Netflix membership is an example of a variable expense.</li> <li>• Your Netflix membership is an example of a “need.”</li> <li>• The four most common tax deductions on a pay stub are: Federal Income Tax, Social Security Tax, Medicare Tax, and Sales Tax.</li> </ul>

**HOMEWORK:**

1. Ask a parent or other adult about what methods s/he uses to organize and track finances.
2. Continue working on Spending Logs.

**ADDITIONAL RESOURCES:**

Budget Worksheet (Excel Spreadsheet), attached

**IRS- Understanding Taxes**

<http://www.irs.gov/app/understandingTaxes/index.jsp>

The IRS partnered with education professionals to create an interactive tax education program for high school and community college classrooms. The website contains lesson plans and activities to help make sense of the U.S. tax system.