Budgeting

Lesson 1: Student Activities | Hall of Fame: Ages 18+

FINANCIAL FOOTBALL

Every Play Counts in Budgeting

Creating a realistic and specific budget is key to managing your money. In this module, you will learn how to build and maintain a budget that aligns with your goals.

Getting Game-Ready: For many, a budget can feel like a complex game plan with too many moves to master. However, just like a complex play, a budget comes down to a simple and solid plan backed by plenty of practice. Putting the plan into action, you'll hone your skills with each step you take.

As you work to master each run or pass, you'll learn to develop your balance. This balance is essential to successfully managing your money. You need to develop and maintain a balance between where your money comes from and where your money goes. You can then compare these and see if they are in sync. If you are spending more money than you are making (through part-time jobs, a stipend, an allowance from your parents, etc.), your budget will fall out of balance, making it difficult to save money and reach your financial goals.

Module Level: Hall of Fame, Ages 18+

Subjects: Economics, Math, Finance, Consumer Sciences, Life Skills

Materials: Facilitators may print and photocopy handouts and quizzes for you, and direct you to the online resources below.

- **Pre- and Post-Test questions:** Answer five questions before completing the Budgeting activities to see how much you already know about the topic. After you've finished all the activities with your teacher and classmates, try taking the quiz again to see how your understanding has grown.
- **Practical Money Skills Budgeting resources:** practicalmoneyskills.com/ff01
- **Budget Worksheet:** practicalmoneyskills.com/ff03
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

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Learning Objectives

- Identify and examine current spending habits
- Identify the various expenses associated with your current lifestyle
- Determine the difference between a "want" and a "need"
- Create a working personal budget that supports your personal financial goals and evolves with your lives
- Understand the relationship between managing income and expense volatility (or fluctuations), a budget, and savings goals

Key Terms and Concepts

Before you start the lesson, review the key terms and concepts below. The answers to each budgeting question will get you prepped and game-ready.

What exactly is a budget?

A budget is a financial plan that takes income and expenses into account and provides estimates for how much you make and spend over a given period of time.

Although four out of five Americans use a budget to plan their spending, according to a 2015 Bankrate survey, 18% of all Americans only keep a mental budget.[1] Putting your budget on paper or in a basic spreadsheet is essential if you want a healthy financial future. You can also use mobile apps that support your budget and goals. An accurate monthly budget can help you reach your financial goals, whether you're saving for a car, buying a home, or paying off student loans. By sticking to a budget, you can save thousands of dollars each year and avoid overspending. (practicalmoneyskills.com/ff01)

What should I be tracking in a budget?

Use a budget to track your income and expenses; to determine exactly how much money you have coming in and how you're spending it. Take control of your finances by following these five steps for budgeting:

1. Set Guidelines and Financial Goals

   If you choose to spend more for some expenses, remember to reduce other costs accordingly. Set guidelines on how much money should go toward different expenses and financial goals.

2. Add Up Your Income

   To set a monthly budget, you need to know how much money you're earning. Make sure you include all income like salary, interest, pension, and any other sources.

3. Estimate Expenses

   Reevaluate needs and wants when determining monthly fixed and flexible expenses.

4. Find the Difference

   Subtract your expenses from your income to find how much disposable income you have. If it's a negative number, reduce your expenses.

Key Terms and Concepts, cont.

5. Track, Trim, and Target

After creating your budget, track your actual income and expenses. You may be surprised to see what you spend on unnecessary expenses. Adjust your budget to fit your lifestyle and financial goals.

How should I categorize needs vs. wants in my spending? Is it wrong to spend money on wants?

It's a balancing act. You need to buy a jacket, but you also want to buy a new phone. How do you choose? Consider your wants and needs. Not sure where an item fits? Ask yourself a few questions. What items do you need and are they necessary for your survival? Would it negatively impact your daily life if you were not able to pay for this item? Next, evaluate your current financial situation and make two lists — one for needs and one for wants. As you make the list, ask yourself the following:

- Which things are most closely aligned to my goals and values?
- What is the opportunity cost of this item, meaning the benefit or value associated with another product, that you must forgo in order to purchase this one?
- How will this benefit me now and in the future?

Did You Know?

If you do not complete Form W-4 because you are working as an independent contractor, taxes are not being deducted from your paycheck.

When your list is complete, reevaluate what qualifies as a need before making any purchases that will impact your budget. Spending money on something you want versus something you need is called discretionary spending. Examples of discretionary spending: a soda and snack at a convenience store, movie tickets, or a summer vacation.

Wants and discretionary spending aren't bad things. In fact, a want can be an excellent motivator for saving money. However, too much discretionary spending can just as easily be the downfall that prevents monthly saving. By carefully and constantly monitoring discretionary spending habits, you make your opportunities to save easier to recognize.

What is the difference between fixed and variable expenses?

As you sort your expenses, you'll find some expenses stay the same from month to month, such as vehicle or phone payments — these are your fixed expenses. Other expenses may be lower or higher each month, such as water or power bills or groceries — these are your flexible or variable expenses.

Did You Know?

If you work as a contractor or freelancer, it's important to put money aside regularly from each paycheck for taxes.

What is the difference between gross and net income?

Gross income is the total amount of income an employee earns from a job before taxes are taken out.

Net income is the amount an employee earns once taxes and other expenses, such as health insurance, have been deducted from gross pay.

Key Terms and Concepts, cont.

What strategies can I use to budget for specific events (friend's birthday, local music festival, etc.)?

Are you gearing up for a friend's birthday or a local music festival? Budgeting for seasonal events and trips will not only help you manage your finances better, but also offer you more efficient ways to save.

There are a few simple strategies you can use to budget for specific events:

1. **Plan it out.** Before you start shopping, figure out how much you can spend and then set a SMART (Specific, Measurable, Attainable, Relevant, Time-Related) goal. Don't leave anything out — it's better to know ahead of time if your budget will be tight.
2. **Start early and take time to get ready.** The earlier you start, the easier it'll be to avoid last-minute shopping and spending more than you can afford.
3. **Shop around and take advantage of technology.** Play it smart and comparison-shop, check for coupons or deals, and take advantage of free shipping when possible.
4. **Expect the unexpected.** Keep unknowns, such as baggage fees and transaction fees, in mind when planning, and set aside an extra 10 to 15% of your event budget for surprise costs.
5. **Get creative and learn from experience.** Look for ways to get crafty and cut costs, such as making your own decorations or checking out thrift stores for supplies. Keep track of expenses and write notes for the future about what worked best.

How do I determine my net worth? What is the difference between an asset and a liability?

Creating and sticking to a budget is key to building a strong financial foundation. It's a smart habit that will help you throughout life; it can also support building your overall net worth.

Net worth is your financial wealth at one point in time. The formula to calculate net worth is simple:
Net worth = Assets – Liabilities

Did You Know?

You cannot always count on having same-day access to paychecks that were deposited into your accounts.

An **asset** is something that you own that has positive economic value. Growing your assets leads to a higher net worth.
Examples of an asset:
savings account, stocks, antique jewelry, and real estate.

A **liability** is something that you owe, something that has negative economic value. Excessive liabilities can detract from your overall financial picture.
Examples of a liability: home loan, auto loan, and unpaid credit card balances.

Generally speaking, the key to greater net worth is maximizing assets while minimizing liabilities.

[1]Bankrate Money Pulse Poll, Jan. 7, 2015

Student Activities

> Budgeting Pre- and Post-Test

> Budget Worksheet

> Impulse Purchase Infographic

Budgeting Pre- and Post-Test

Student Name: ______________________________

Directions: Answer the questions with the most appropriate answer, noting a, b, c, d or filling in the blank.

1. What is the purpose of a personal budget?

2. What is an example of a flexible expense?

a. Rent payment

b. Property tax

c. Groceries

d. Insurance

3. What is the first step in creating a budget?

a. Determine your average monthly income and expenses

b. Invest extra funds

c. Divide your income by your expenses

d. Open a new checking account

4. Which is the best budgeting strategy for someone whose income varies greatly from one paycheck to the next?

a. Use payday loans to manage income dips

b. Maintain a savings account with at least three months' worth of expenses

c. Wait until you have the money to pay bills, even if you have to pay bills late

d. Rely on credit cards to manage income dips

5. You can budget for annual expenses, such as car registration, by putting a little money aside each month.

a. True

b. False

Budget Worksheet

Monthly Net Income	
Income #1	$
Income #2	$
Interest	$
Other (i.e., Passive Income)	$
TOTAL INCOME	**$**

Savings	
Saving for Emergencies	$
Saving for Short-Term Goals	$
TOTAL INCOME AVAILABLE TO SPEND	**$**

Monthly Flexible Expenses	
Food/Groceries	$
Entertainment (Movies, Restaurants, Special Events, Vacations)	$
Medical	$
Education	$
Utilities	$
Personal Care (Haircut, Toiletries)	$
Clothing/Shoes	$
Philanthropy/Gifts	$
Child/Dependent	$
Home Improvement/Maintenance	$
Pet Care	$
Travel	$
Other	$
TOTAL FLEXIBLE EXPENSES	**$**

Monthly Fixed Expenses	
Housing	$
Debt Payments (Student Loan, Credit Card, Personal Loans)	$
Insurance	$
Child Care (Babysitting/Child Support)	$
Transportation	$
Phone/Cable	$
Other	$
TOTAL FIXED EXPENSES	**$**
TOTAL EXPENSES **(add flexible and fixed expenses)**	**$**

TOTAL MONTHLY INCOME AVAILABLE TO SPEND	**$**
TOTAL EXPENSES	**$**
SUBTRACT TOTAL EXPENSES FROM TOTAL INCOME AVAILABLE TO SPEND (should equal $0)	**$**

Impulse Buying in the United States

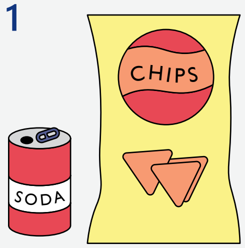
Did you know that the average American impulsively spends over $5,000 a year? These are often small purchases that you might not even remember making. Acknowledging areas of overspending can be an eye-opening experience. Creating a budget and sticking to it can help you save money and reach your short- and long-term financial goals.

These unplanned expenses could add up to $5,400 a year and a whopping **$324,000 over a lifetime.**

The 5 Most Common Impulse Buys

The average American spends **$450** a month on impulse buys.

1

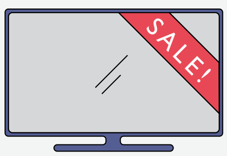


Food/Groceries

2

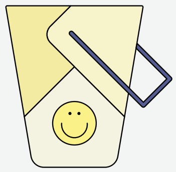
Clothing

3



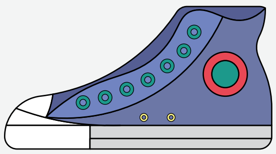
Household Supplies

4



Takeout Food

5



Shoes

Use this template to help build a balanced budget

practicalmoneyskills.com/ff03

Quick Tips to Reduce Impulse Shopping

- Stick to a shopping list
- Be aware of advertising tactics in the store and online
- Track your spending to keep a clear picture of where your money is going
- Ask yourself: How you will feel about the purchase in a day? In a few months?
- Create a visual of your big financial goals to remind yourself of personal priorities

Statistics from public news survey of 2,000 Americans in 2018, by Slickdeals.

Glossary of Terms

Study this list of personal finance terms to warm up before playing Financial Football. By mastering these terms, you will have a better opportunity to answer questions in the game correctly and score.

Assets: Anything of material value owned by an individual or company. This may include your house, car, furniture — anything that's worth money.

Bad debt: Debt taken on for items that a consumer cannot afford and that does not generate opportunities for future income. (See good debt)

Bookkeeping: The recording of financial transactions and exchanges.

Budget: A plan for future spending and saving, weighing estimated income against estimated expenses.

Cash flow: The total amount of money being transferred into or out of a business, account, or an individual's budget.

Cost comparison: Comparing the cost of two or more goods or services in an effort to find the best value.

Cost-benefit analysis: Analyzing whether the cost of an item is more than, equal to, or less than the benefit that comes from its purchase.

Expenses: The money an individual spends regularly for items or services.

Federal taxable wages: The sum of all earnings by an employee that are eligible for a specific taxation.

Financial advisor: A professional who provides financial services and advice to individuals or businesses.

Financial partnership: A relationship that requires financial interdependence, contribution, and communication.

Financial plan: A strategy for handling one's finances to ensure the greatest future benefit.

Fixed expenses: Personal expenses that are the same each month.

Good debt: The concept that sometimes it is worth taking on certain types of debt in order to generate income in the long run. Some common examples of good or "useful" debt include college education loans and real estate.

Gross income: The total amount of money an individual has earned before voluntary deductions, such as 401(k) contributions, and involuntary deductions, such as taxes are taken out.

Impulse spending: Spur-of-the-moment, unplanned decision to buy, made just before a purchase.

Income: Payment received for goods or services, including employment.

Income tax: Tax levied by a government directly on personal income.

Income volatility: The variance of income, meaning the amount of divergence from the average.

Liabilities: Everything that you owe, which may include your mortgage, credit card balance, interest, student loans, and loans from family and friends.

Glossary of Terms, cont.

Long-term financial goal: A financial goal that will take longer than a year to achieve.

Needs: Items needed in order to live, such as clothing, food, and shelter.

Net income: The amount an employee earns once taxes and other items are deducted from gross pay.

Net worth: Your financial wealth at one point in time. The formula to calculate net worth is simple:
Net worth = assets – liabilities

Opportunity cost: The benefit or value that one must give up in order to buy or achieve something else.

Purchase price: The price paid for an item or service.

Short-term financial goal: A financial goal that will require less than six months to achieve.

Tuition: Fees paid in exchange for instruction from a school (e.g., primary, high school, college, vocational).

Unexpected expenses: Unplanned for and unforeseen expenses. An emergency fund can help with these expenses.

Variable expenses: Expenses that change in price and frequency each month.