Budgeting

Lesson 1: Teacher's Guide | Hall of Fame: Ages 18+

FINANCIAL FOOTBALL

Every Play Counts in Budgeting

Creating a realistic and specific budget is key to managing money well. This 45-minute module prepares students by helping them build and maintain a budget that aligns with their goals.

Getting Your Class 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, students will hone their skills with each step they take.

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

Module Level: Hall of Fame, Ages 18+

Time Outline: 45 minutes total

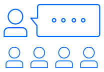
Subjects: Economics, Math, Finance, Consumer Sciences, Life Skills

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

- **Pre- and Post-Test questions:** You can use this short grouping of questions as a quick, formative assessment for the Budgeting module or as a Pre- and Post-Test at the beginning and completion of the entire module series.
- **Practical Money Skills Budgeting resources:** practicalmoneyskills.com/ff01
- **Budget Worksheet:** practicalmoneyskills.com/ff03
- **Impulse Purchase Infographic**
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

Icon Key

Activity
Assign the given activity to students and have them complete it individually or with a group, depending on the instructions.



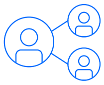
Ask
Pose questions to your students and have them respond.

Assign
Designate individuals or groups to complete a particular assignment.

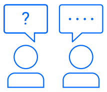
Debrief
Examine the activities as a whole group and compare answers and findings.

Did You Know?
Share these fun facts with students throughout the lesson.

Pre- and Post-Test
Have students take the Pre-Test before the lesson, and take the Post-Test after completing the lesson.



Share
Read or paraphrase the lesson content to students.



Turn and Talk
Have students turn to a partner and discuss a specific topic or question.

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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 "need" and a "want"
– Create a working personal budget that supports students' personal financial goals and evolves with their 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 question will help you get students prepped and game-ready. Get deeper information around these concepts in the Facilitator Script section on pages 7 to 9 of this guide.

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 Money Pulse Poll[1], 18% of all Americans keep only a mental budget. 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 be tracked in a budget?

You can 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. Help students take control of their 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 from a part-time job, 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.

Learning Objectives, 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 cell phone. How do you choose? Have students consider their wants and needs and ask themselves 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, have students evaluate their current financial situation and make two lists — one for needs and one for wants. As they make the list, have them ask themselves 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, which I 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.[2]

When the list is complete, have them reevaluate what qualifies as a need before making any purchases that will impact their budget. Tell them 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 opportunities to save easier to recognize.

What is the difference between fixed and variable expenses?

As students sort their expenses, they'll find some expenses stay the same from month to month, such as rent payments; these are their fixed expenses. Other expenses, such as a utility bill or groceries, may be lower or higher each month; these are their 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 items such as health insurance have been deducted from gross pay.

Learning Objectives, cont.

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

Are you gearing up for your 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 students 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 students 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

An **asset** is something 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.

Did You Know?

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

A **liability** is something 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.

Module Section Outline with Facilitator Script

Introduction: Warm-Up

Prep: Draw a horizontal line on the board and label it from $0 to $5,000+ in increments of $1,000. Have a blank sticky note posted on the scale, meant to represent how much the average American spends impulsively every year.

Ask: Tell students to: "Write down your initials on your own sticky note, walk up to the board and place it on the scale to show how much you think the average American spends impulsively per year."

Share: When everyone is done, reveal the correct answer: $5,400

Optional Pre-Test: Refer students to page 8 of the Student Activities guide. Have students answer the questions with the most appropriate answer, noting a, b, c or d or filling in the blank.

Needs vs. Wants

Group Poll: Ask students for their opinions: What is the most common impulse purchase in our group (candy/takeout, clothes/shoes, magazines/books)? Note that, for most Americans, it is food.

Ask: Start a discussion with students about the following questions. Do you think impulse purchases are generally needs or wants? (wants) Some items, like food, are essential for survival, but certain types of food may also be short-term wants. It's important to remember that buying something you want isn't a bad thing. Identifying an item we want, like a new phone, can be a great way to motivate yourself to save. It's all a balancing act. By being thoughtful about how much we are spending on our needs and wants, we are better prepared to meet our goals.

Optional Did-You-Know Fact: Share national statistics on impulse buying; reference the infographic located on page 10 of the Student Activities guide.

- The average person spends $450 a month on impulse purchases
- These unplanned expenses add up to $5,400 a year and a whopping $324,000 over a lifetime

Top 5 Most Common Impulse Purchases

- Food/groceries
- Clothing
- Household supplies
- Takeout food
- Shoes

Module Section Outline with Facilitator Script, cont.

Share: Equip students to spend wisely. Ask them: Why do I want it? How would I feel three months after buying it? Will this purchase be more or less valuable in five years? Over time, do I think experiences make me happier, or do possessions? Which things are most important to me?

Finding Balance: Budgeting Basics

Share: National Averages for Common Budget Categories
Average Americans' Spending Habits[3]

33% Housing
16% Transportation
13% Groceries
11% Life Insurance & Pensions
10% All other expenditures
8% Health Care
5% Entertainment
3% Apparel and Services

Group Brainstorm: As a class or in small groups, have students brainstorm examples of needs and wants, and fixed and flexible expenses for each category. Display or hand out copies of the Build a Budget worksheet on page 9 of the Student Activities guide.

Examine: Discuss these parts of a budget

- Income
  - **Turn and Talk:** Brainstorm with students around the ways we earn money
- Expenses (fixed, flexible)
  - **Turn and Talk:** Sort current expenses as a group

Share: Explain that a budget is a personal plan that should be aligned with your values and reflect your goals. Everyone's budget will differ slightly and reflects one's personal cash flow and priorities.

Net Worth and Creating a Budget

Share: Explain to students that the bigger picture of budgeting is monitoring our spending, using strategies to avoid impulse purchases, and maximizing our savings. These small financial decisions can lead to building wealth or positive net worth over time.

Module Section Outline with Facilitator Script, cont.

Share: Discuss how students can calculate net worth
- Remind them of the formula: assets minus liabilities
- Note that examples of assets might include savings accounts, real estate, and investments
- Discuss how examples of liabilities might include car loan or credit card debt
- **Ask:** What budgeting choices could support building wealth over time?

Did You Know?

Fewer than half of Americans make more than they spend. This problem is compounded by the fact that 34% of U.S. households have had unstable income.[4]

Share: Have students create a budget where they spend less than they make in order to build savings and stability. They can do so using the Budget Worksheet on page 9 of the Student Activities guide, and by following these steps:
- Add up your after-tax, after-savings income
- Estimate expenses
- Minimize fixed expenses to better manage income changes
- Figure out the difference
- Choose a way to track it

Activity: Create a personal budget; have students turn to page 9 of their Student Activities guide.

Share: A budget is a flexible plan that will change and be adapted to your life. Ask students when they might need to adjust their budget to fit changes in their lives. They can use these tools to help reconfigure their budget.

- Rework Your Budget financial calculator: practicalmoneyskills.com/ff05
- Emergency Fund financial calculator: practicalmoneyskills.com/ff06
- Travel & Seasonal Expenses financial calculator: practicalmoneyskills.com/ff07

Closing: Group Discussion

Group Discussion: Start a discussion with your students. Ask them: If your goal is to build wealth, where should you budget money to be spent? What items should you most consider avoiding? At your age, what can you do to begin building wealth now?

Optional Post-Test: Have the class turn to page 8 of the Student Activities guide. Have students answer the questions with the most appropriate answer, noting a, b, c or d or filling in the blank.

[1] 2015 Bankrate Money Pulse poll
[2] IRS.gov, Independent Contractor (Self-Employed) or Employee?
[3] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditures Survey, 2017
[4] The Pew Charitable Trusts' Survey of American Family Finances, 2015

Lesson 1 Budgeting: Answer Keys

> Budgeting Pre- and Post-Test

> Budget Worksheet

> Impulse Purchase Infographic

Budgeting Pre- and Post-Test

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

Answer Key

1. What is the purpose of a personal budget?

(Possible answer: Make a plan to organize your finances and manage your money)

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

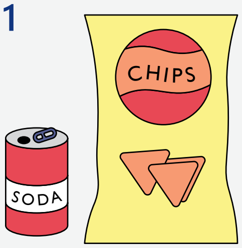
Quick Tips to Reduce Impulse Shopping

- 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

The 5 Most Common Impulse Buys

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

1



Food/Groceries

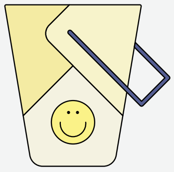
2

Clothing

3

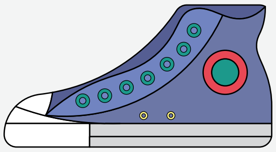
Household Supplies

4



Takeout Food

5



Shoes

Use this template to help build a balanced budget

practicalmoneyskills.com/ff03

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

Glossary of Terms

Have students study this list of personal finance terms to warm up before playing Financial Football. By mastering these terms, students 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.