Budgeting

Lesson 1: Student Activities | Rookie: Ages 11-14

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 on the field, a budget comes down to a simple and solid plan backed by plenty of practice off the field. 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 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 or 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: Rookie, Ages 11-14

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 these 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
  practicalmoneyskills.com/ff02
- **Spending plan handouts:**
  - Build a Budget
  - Lunch Tracker
  - Back-to-School Budget
  - Entertainment Planner
  - Budget Builder
- **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 life
– 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 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 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 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.
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 average each month. You can make changes to your budget to meet your goals.

Learning Objectives, cont.

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 I must forgo in order to purchase this one?
- How will this benefit me now and in the future?

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 include: 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 you sort your expenses, you'll find that some expenses stay the same from month to month, such as cell phone bills or online streaming subscriptions — these are your fixed expenses. Other expenses may be lower or higher each month, such as lunch costs or school supplies — 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 items such as health insurance have been deducted from gross pay.

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.

Learning Objectives, cont.

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 in mind the unknowns, such as needing extra supplies or having the cost of an item or ticket go up. 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. Right now you might want to save up for a new gaming system or to have extra money on a school field trip. In the future you might want a car or a house. It's a smart habit that will help you throughout life; it can also support building your overall net worth.

Did You Know?

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

Net worth is your financial wealth at one point in time. The formula to calculate net worth shows how much a person owns (their assets) minus what they owe to others (liabilities).

Net worth = Assets – Liabilities

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 accounts, collectibles like comic books or baseball cards, vehicles including bikes and cars, stocks, and real estate.

A **liability** is something that you owe, something that has negative value. Excessive liabilities can detract from your overall financial picture.

Examples of a liability: cell phone installment payments, auto loan, and unpaid credit card balances.

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

[1] 2015 Bankrate Money Pulse poll

Student Activities

> Budgeting Pre- and Post-Test

> Budget Builder: Team Spending Plan handout

> 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. A fixed expense is:

a. A concert ticket

b. A movie ticket

c. A bill amount that stays the same every month

d. A credit card bill

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

a. Determine your average monthly earnings (income) and spending (expenses)

b. Create a list of ways to save money

c. Divide your income by your expenses

d. Open a new checking account

4. Which monthly expense is more of a "want" than a "need"?

a. Cell phone bill

b. Video games

c. Lunch costs

d. School supplies

5. Financial strategies can be used to reduce the impact emotion has on decision-making.

a. True

b. False

Budget Builder: Team Spending Plan

Set Your Sights

Directions: Select one of the following spending plan options that is most interesting to you. Consider why.

- Lunch budget
- Back-to-school shopping
- Hosting a party

After you have been divided into small groups, you will work with your team to create a budget for your chosen option.

Lunch Budget

Do you know how much you spend each week and year on lunch? You might be surprised. Record what you spend, adjust your habits, and save money.

Use the Lunch Tracker Financial Calculator

practicalmoneyskills.com/ff09

Do any members of your team buy lunch or bring lunch to school? If so, use the lunch tracker calculator to determine how much could be saved each month by packing lunch. If not, assume that an older friend eats out for lunch three times a week and spends $11 each time. Calculate how much the friend could save by packing a lunch each day.

Do any members of your team eat out with friends? How much is spent? Is eating out a source of overspending?

Budget Builder: Team Spending Plan, cont.

What are social gathering alternatives that are less costly than eating out? What are strategies to spend less when you do eat out with friends?

Back-to-School Shopping

Directions: Imagine the next school year; consider all of your expenses before hitting the stores for back-to-school shopping. Create a budget to save on your school supplies.

Use the Back-to-School Budget Financial Calculator to discover how much you are spending.

practicalmoneyskills.com/ff10

What are your team's top five wants for back-to-school shopping?

The average back-to-school costs can be over $500.[2] What are some strategies for cutting costs?

Estimate the cost of your team's top five needs and top five wants, include individual item costs and total below.

[2]Deloitte 2019 Back-to-School Survey, July 2019

Budget Builder: Team Spending Plan, cont.

Hosting a Party

What kind of event are you having? (Pi Day party, birthday celebration, graduation party, etc.)

What will your budget be for the whole event? (Include food, decorations, entertainment, etc.)

Calculate the costs and record your total. Did you stay within your budget?

Use the Entertainment Planner Calculator to track your expenses.

practicalmoneyskills.com/ff11

How could you rework your budget so you stay within budget?

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.**

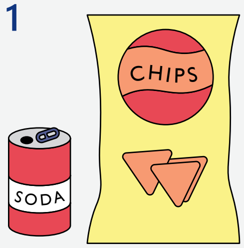
Quick Tips to Reduce Impulse Shopping

- 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

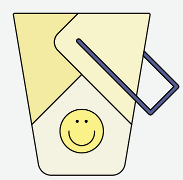
2

Clothing

3

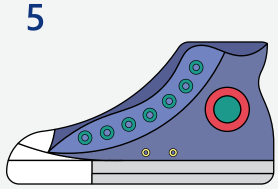
Household Supplies

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

Study this list of personal finance terms to help 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 like 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.

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

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.

Glossary of Terms, cont.

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.