

3 Planning: Money Management and Budgeting

Activity: Managing Your Resources

AS YOU READ, Learn the vocabulary. **AFTER YOU READ,** check your understanding through Fact and Idea Review, Critical Thinking Questions, and an Extension Activity.

Budgeting to Meet Your Financial Goals:

A **budget** is just a plan for controlling spending and encouraging **saving**. The purpose of a budget is to help you see what your income and spending looks like. Having a clear picture of how much money you have and what you spend it on will allow you to evaluate your habits and make better choices with your money.

A budget also lets you decide how much money you can afford to set aside for an emergency fund, and how much you want to save for future goals like school, buying a car or home, or taking a trip. To create a budget you need to estimate your income. This should be income after taxes, health insurance, and other deductions have been taken out. Then, estimate your expenses based on past spending or averages. Creating a line in your budget for savings may sound strange when your budget is mostly about spending. If you consider savings as another budget line item you will guarantee that you will have money saved for your future.

Most Americans spend the bulk of their budgets on housing, followed by transportation and food. Health care, life insurance, retirement, clothing, and entertainment make up smaller amounts of the typical American's budget.

Discretionary expenses, such as vacations, concert tickets, and sporting events, are often the first and easiest to cut from a bloated budget. Reducing food costs requires more effort, because you cannot live without food. Cutting coupons, buying generic brands, starting a garden, and not eating out are all ways to reduce your spending on food. Fixed costs like auto or health insurance can be harder to reduce but you can shop for cheaper car insurance, drive a less expensive car, or use your bike or public transportation. To add money to your budget, you or members of your family can work additional hours, work toward a promotion, or take on a second job.

A good budget can be adapted to your circumstances. If there is a life-changing event in your family, such as a job loss or a transfer to another state, your budget should be able to accommodate that. You may have to temporarily dip into your emergency fund, but eventually you should be able to go back to your revised budget and rebuild your savings.

Your budget should also address long-term goals, not just what you spend money on now. As an individual and a member of a family, you have goals like school or retirement. You have to plan for these events by setting aside realistic amounts of money in your budget.

Vocabulary

Saving – setting aside money for future use

Budget – a plan for spending and saving based on income and expenses

Discretionary expenses – expense categories that are not absolutely necessary, such as vacations or entertainment

Fact and Idea Review

1. What are some examples of individual and family resources?

2. What is the purpose and benefit of a budget?

3. What is the importance of having a savings plan?

Critical Thinking

1. Explain how budgeting is critical to meeting financial goals. How do a budget and a person’s financial goals impact other life goals?

2. How would you suggest a person should manage resources to meet his or her financial goals over a lifetime?

Extension Activity

Come up with two short-term and two long-term financial goals. Research to find how much money you will need to reach these goals. Create a table to show the goals and what is needed to meet these goals. Now create a family budget to help you meet these financial goals. For your budget, you may use your family's expenses or research to find the average cost of typical expenses in your area. What are some areas in which you could reduce spending? Summarize how a person can better manage resources in a family budget.

Household budget	
Mortgage/Rent payment	
Auto loan	
Auto insurance	
Auto expenses (gas, etc.)	
Groceries (\$x/week)	
Utilities	
Phone Bill	
Medical	
Loan payment	
Life/Health insurance	
Vacation	
Entertainment	
Savings (college/retirement)	
Weekly Cash (\$x/week)	
Total Expenses	

1. Perform a SWOT Analysis on the Johnson household and fill in your ideas below.

Internal Factors	External Factors
Strengths	Opportunities
Weaknesses	Threats

2. What financial advice would you give the Johnson family household to increase their net worth moving forward?

3. If you could ask three additional questions about their financial circumstances, what would you want to know about the Johnsons?

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4. What does it mean to have a negative net worth?

5. List three major life events that would cause a household's net worth to decrease dramatically. Why would these events be problematic financially?

6. On average, would you expect a professional athlete to have a positive or negative net worth? Explain.

7. At what life stage would you expect the average person's net worth to reach its peak? Defend your reasoning.

Financial Documents and Records:

Purpose: To develop a system for maintaining and storing financial documents and records.



Financial Planning Activities: Indicate the location of the following records, and create files for the eight major categories of financial documents.

Suggested Websites & Apps: www.kiplinger.com, www.usa.gov, FileThis, DropBox

Item	Home file	Safe deposit box	Other (specify location – computer file, app, online)
1. Personal/employment records - Budget, financial statements			
2. Personal/employment records - Current resume, Social Security card - Educational transcripts - Birth, marriage, divorce certificates citizenship, military papers - Adoptions, custody papers			
3. Tax records			
4. Financial services/consumer credit records - Unused or canceled checks - Savings, passbook statements - Credit card information, statements - Credit contracts			
5. Consumer purchase, housing, and automobile records - Warranties, receipts, owner’s manuals - Lease or mortgage papers, title, deed, property tax info - Automobile title - Auto registration - Auto service records			
6. Insurance records - Insurance policies - Home inventory - Medical information (health history)			

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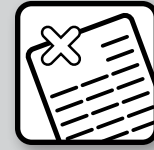
7. Investment records - Broker statements - Stock/bond records - Rare coins, stamps, and collectibles			
8. Estate planning and retirement - Will - Pension, Social Security info			

What's Next for Your Personal Financial Plan?

- Use an online program for storing your financial documents and records.
- Decide if various documents may no longer be needed; plan to shred.

Name _____ Date _____ Period _____

Creating a Personal Balance Sheet



Purpose: To determine your current financial position.

Financial Planning Activities: List current values of your assets; list amounts owed for liabilities; subtract total liabilities from total assets to determine your net worth.

Suggested Websites & Apps: www.kiplinger.com, money.com, www.thebalance.com, Personal Capital

Liquid assets

Checking account balance _____
 Savings/money market accounts, funds _____
 Cash value of life insurance _____
 Other _____
Total liquid assets _____

Household assets and possessions

Current market value of home _____
 Market value of automobiles _____
 Furniture _____
 Television, electronics, phone, computer _____
 Jewelry _____
 Other _____
 Other _____
Total household assets _____

Investment assets

Savings certificates _____
 Stocks and bonds _____
 Retirement accounts _____
 Mutual funds _____
 Other _____
Total investment assets _____

Total assets

Current liabilities

Charge account and credit card balances _____
 Loan balances _____
 Other _____
 Other _____
Total current liabilities _____

Long-term liabilities

Mortgage	_____
Other _____	_____
<i>Total long-term liabilities</i>	_____
Total Liabilities	_____
Net worth (assets minus liabilities)	_____

What's Next for Your Personal Financial Plan?

- Compare your net worth to previous balance sheets.
- Decide how often you will prepare a balance sheet.

Name _____ Date _____ Period _____

Creating a Personal Cash Flow Statement



Purpose: To maintain a record of cash inflows and outflows for a month (or three months).

Financial Planning Activities: Record inflows and outflows of cash for a one- (or three-) month period.

Suggested Websites & Apps: www.americasaces.org, money.com, Spending Tracker, EveryDollar

For month ending _____

Cash inflows

Salary (take-home) _____

Other income _____

Other income _____

Total Income _____

Cash outflows

Fixed expenses

Mortgage or rent _____

Loan Payments _____

Insurance _____

Other _____

Other _____

Total Fixed Outflows _____

Variable expenses

Food _____

Clothing _____

Electricity _____

Phone/Cable/Internet _____

Water _____

Transportation _____

Personal care _____

Medical expenses _____

Recreation/entertainment _____

Gifts _____

Donations _____

Other _____

Other _____

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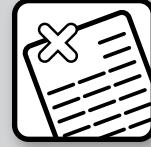
Total Variable outflows	_____
Total outflows	_____
Surplus/Deficit	_____
Allocation of surplus	
Emergency savings	_____
Financial goal savings	_____
Other savings _____	_____

What's Next for Your Personal Financial Plan?

- Decide which areas of spending need to be revised.
- Use your spending patterns to prepare a budget.

Name _____ Date _____ Period _____

Developing a Personal Budget



Purpose: To compare projected and actual spending for a one- (or three-) month period.

Financial Planning Activities: Estimate projected spending based on your cash flow statement, and maintain records for actual spending for these same budget categories.

Suggested Websites & Apps: www.betterbudgeting.com, www.asec.org, www.mymoney.gov, Mint, YNAB

Budgeted amounts

<i>Income</i>	Dollar	Percent	Variance
Salary			
Other _____			
Total income		100%	
Expenses			
Fixed expenses: Mortgage or rent			
Property taxes			
Loan payments			
Insurance			
Other _____			
Total fixed expenses			
Emergency fund/savings			
Savings for _____			
Savings for _____			
Total Savings			
Variable expenses: Food			
Utilities			
Clothing			
Transportation costs			
Personal care			
Medical and health care			
Entertainment			
Education			
Gifts/donations			
Miscellaneous			
Other _____			
Other _____			
Total variable expenses			
Total expenses		100%	

What's Next for Your Personal Financial Plan?

- Evaluate the appropriateness of your budget for your current life situation.
- Are your budgeting activities helping you achieve your financial goals?

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