



YOUR BANK AND YOU

BUDGET

1. Discussion

Pose the question to the class: *What is a budget?* Spend some time discussing their ideas and exploring meaning and content of the term budget. Show the *Overhead #1* keeping the bottom half covered. Give this answer to class: A step by step plan of allocating income to meet expenses in a given period of time. Ask, "Has anyone ever completed a budget? Have your parents? Have you ever seen one? We're going to work through one now." Reveal the bottom half of the transparency.

2. Budget Components

- Discuss the idea of what constitutes income. Solicit ideas from students and write them on the overhead/board. Help them differentiate between "salary" income and "wage" income. Then suggest to them the concepts of bonuses, gifts, incentives, overtime, and commissions. Help them understand that although these are income, most times they are neither consistent nor reliable and therefore must be used judiciously in the budgeting process.
- Ask them, "What are expenses?" For each item define the term, solicit ideas from students of examples and write them on overhead. Give your own examples if the dialogue falters. See that the following points are made:
 - Fixed – Mandatory, regular payments on obligations where the amount is usually the same. Examples: Rent, house or car payments, insurance premiums.
 - Flexible – Necessary, regular expenses over which individuals can exercise some control. Examples: Utility bills, clothing, groceries.
 - Discretionary – Spending totally within your control. Example: Entertainment, CD's, cosmetics, magazines, impulse shopping.

3. Create Your Own Budget:

Show the *Overhead #2* and discuss the following steps for creating a budget. As part of your discussion stress the fact that budgeting can be as detailed or general as they want and must be flexible to accommodate changes in income or necessary expenses.

- Evaluate Income (All sources)
- Evaluate expenses:
 - Fixed – necessary regular payments or obligations i.e. loan or rent payment
 - Flexible – necessary expenses over which a person has control i.e. utility bills
 - Discretionary – Spending totally within individuals' control i.e. entertainment, CD's or whimsical shopping sprees.
- Enter income and expenses into blank budget sheet.
- Analyze whether income will cover the expenses outlined in your budget.
 - If no - where can expenses be reduced or eliminated.
 - If yes –Determine where expenses can be reduced or eliminated to build up savings.

4. Budgeting Tools

- Show the students *Overhead #3* of which there is a copy in the students' handouts. Explain that this is a spending diary and is useful in keeping track of the money they spend so that they know how to develop their budget as well as to help keep them within their budget guidelines once it is set.
 - Track expenses on a daily basis for one week.
 - Determine discretionary expenses.
 - Evaluate spending – where can they save money during the week?
- Next show them the monthly payment calendar. Explain that the weekly diary should be integrated into this and, together with monthly fixed and flexible expenses, should create a working, monthly budget.
 - How to use Calendar:
 - Determine due dates of fixed and flexible expenses.
 - *NOTE: Overhead 4 has examples to point out. Student Handout is blank to copy and use ---- please advise them.*
 - Enter the payment dates on the calendar.
- Ask students the benefit of using a calendar. Responses should include:
 - Ease in tracking due dates of payments
 - Avoid late payments (a 5% late fee equates to a 60% interest rate on a loan)
 - The ability to schedule payments to coincide with income
 - Knowing amounts of what can be spent and when in discretionary terms
 - Knowing how much you have left for the month at any point in the month

5. Budget Exercise

Instructor Note: This exercise illustrates budgeting for fixed, flexible and discretionary expenses. There are two scenario packets that should be handed out randomly throughout the class. There are different budgetary items in each packet. The monthly income is clearly stated but the expenses are not totaled. The totals will be revealed on the overheads during the exercise after they complete their budgets.

- First scenario is a College Graduate. The income is compensatory with a college degree. This life scenario has enough money to fulfill the expenses within their budget.
- Second scenario is a High School Graduate. Income compensatory with level of education and much lower than College Graduate. This budget will not balance.
- After handing out the scenarios explain that they are each to complete the blank budget worksheet with income and expenses from their scenario sheet. They should insert expenses into proper categories (fixed, flexible, discretionary) and total them. Emphasize that income should balance with expenses.
- Using the BUDGET EXERCISE TEACHING GUIDE (Appendix A) Complete *Overhead 5* to demonstrate how the budget should be completed for College Graduate.
 - As you complete the budget, point out or explain:
 - Pay Your Self First – Always earmark money in your budget to put into savings.
 - Save for other expenses such as car maintenance, vacations, new computer, etc.
 - Ask if any students with College scenario had anything different.
- Using BUDGET EXERCISE TEACHING GUIDE (Appendix B)- Complete *Overhead 6* for High School Graduate
 - NOTE: These students do not have enough \$\$ to pay expenses outlined in their budget. Ask for ideas of how to cut expenses (Flexible expenses, etc.). Because they do not have enough income to pay bills what are they unable to do that the College Graduates are?

Answer: Save! They cannot pay themselves first. What fun is a paycheck if you cannot save any for yourself for a great vacation or a new computer, etc?

Using *Overhead #6*, discuss with them what would happen to the HS Graduate if his car broke down and he wound up with a \$200 repair bill?

What should the High School Graduate do to balance his budget? Begin a discussion on how discretionary expenses can be evaluated and trimmed to allow a surplus to cover more pressing expenses.

6. The Advantages/Incentives for Creating a Budget and Sticking to it.

Display *Overhead #7* and begin a discussion on the advantages of a budget.

Budgeting helps you control your financial situation by:

- Allowing individuals to plan ahead for expenses.
- Reducing money-related anxiety.
- Helping to avoid overspending.
- Creating a savings plan.
- Helping avoid late fees & additional interest charges associated with late payments.
- Class Discussion – Solicit Other Ideas and write them into blanks.

7. Be the Boss of your Money! Eight Simple Ways to Cut Expenses & Save

Display *Overhead #8* and begin a discussion on the tips to saving on expenses. The kids should really relate to this as they have probably been harassed by their parents on many of these issues.

- Adjust flexible expenses

Watch utility use. Turn off lights, shorten showers, keep thermostat at thrifty level. Minimize extra phone services.

Always fill up gas tank and pay at the pump if possible. This removes temptations to buy snacks/drinks when entering the convenience store to pay.

If you smoke – QUIT! This habit can cost the average smoker approximately \$1,100 per year and increased medical bills and health problems.

Take lunch to work instead of eating out – better for health and pocketbook.

Annual cost of Fast Food Value Meal (5 days per week): \$910. Annual cost of sack lunches (5 days a week): \$45

Keep soda in desk/locker instead of buying from vending machine. Annual cost of 1 soda per day from vending machine (5 days a week): \$195. Annual cost of soda 12 - packs from store = to 1 soda each day (5 days per week): \$75.

- Plan discretionary expenses.

Before buying on impulse – walk around the store with it. Think of what else could be done with the money that is about to be spent on that CD or new pair of shoes. Chances are you may decide you do not need to purchase at this time and put it back.

When making a major purchase (new TV, CD player, etc.) look through store ads, comparison shop and educate yourself prior to purchase. This helps to find the best deal for your hard-earned money.

- Do not carry cash – too easy to spend.
- Pay off debt as fast as possible. For example: Increase the payment to the Clothing Store Credit Card from \$40 to \$50. This will decrease the time to pay it off from 25 months to 19 months.
- When this card is paid, take that excess and apply to other debt payments. As debt pays down start saving the money that was before applied to debt payments.

- Control use of credit cards. Don't use to purchase "soft" items such as food and gas. You will end up paying much more for the items if you carry the balance and interest accrues.
- Pay bills on time! Late fees and extra finance charges add up – yes even on your phone bill.
- Change Jar – Put excess change in the jar. When full, treat yourself to an item on your wish list.
- Open a savings account in another bank with branches farther away from home to avoid easy access. Pay yourself at payday (direct deposit is the best) into that account. Watch it grow.

Remember ----- Always Pay Yourself First

8. Blank Budget Sheet

Instructor Note: The last page of the Student Handouts is a blank budget sheet for their own personal use. Encourage them to spend the next week tracking Daily Expenses, completing Payment Calendar and Budget Worksheet. This is a great exercise to do with parents so students can see what the household budget and expenses are.