

## PLAN FOR VICTORY

You've analyzed what you've been spending money on and set some SMART goals to strive for.

Your next step is to create the road map that will guide you to your destination: success.

*In the words of Benjamin Franklin,*

**“ By failing to prepare, you are preparing to fail. ”**

Let's avoid failure by preparing the best route to reach your goals ...



Your map is a **spending plan** or **budget**. It should detail exactly how you're going to use your money to pay for the things you want and need. An effective spending plan not only multiplies your chances of success, it also helps make the journey faster and easier.

WITHOUT a budget ...

- » You have no idea if you're getting closer to your goals—or even if it's likely that you'll ever reach them.
- » You make random purchases of things you don't really want or need.
- » You end up kicking yourself when you don't have money left for something important.
- » You might end up going into debt. (We talk more about that in *Module 2: Borrowing*.)

Budgets are not meant to be like a starvation diet for spending. In fact, if your budget is too restrictive, you'll never stick with it. So, it's best to create one that balances your desire to reach your goals with your desire to be satisfied with the ride.

Almost 60 percent of millionaires use a budget to manage their money.<sup>3</sup> Surprising? It shouldn't be. You can't get rich by mindlessly spending all your money!

A spending plan helps you manage your cash flow so you have the money to pay for the things you need (and want). Managing your cash flow can be a balancing act. You either need to have enough money coming in to pay for everything, or you need to cut back on spending when your cash is limited.

<sup>3</sup>*The Millionaire Next Door: The Surprising Secrets of America's Wealthy.*  
T.J. Stanley and W.D. Danko. 1996



## Activity 1.7: My Income

What kinds of income do you normally receive throughout the year? Are there certain times when you seem to earn or get more money than usual? What are some predictions you can make about your income this year based on what you've earned before?

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## BALANCING ACT, ONE SIDE: INCOME

Think of the money you receive, aka **Income**, as one side of a seesaw. Income consists of any of the following:

- » Paychecks from a job
- » Your allowance
- » Payment for odd jobs such as baby-sitting or yard work
- » A gift card or cash for your birthday
- » Social Security, disability, or unemployment benefits
- » Proceeds from selling your stuff
- » Interest earned on a savings account

If you don't have a job, your income may not be very steady right now. Even if you're employed, your paycheck amount may vary if your hours change each week. That makes predicting your income harder, but not impossible.

Michael's and Selena's incomes during the school year are listed in the following chart. As you can see, Michael regularly makes about \$544 a month, while Selena's income fluctuates a lot more. She says she earns about \$100 a month from her occasional sitting jobs.

Source of Income	Michael	Selena
Part-Time Job (net)*	\$136 a week	\$0
Baby-sitting, Pet-sitting	\$0	\$100 a month
Money Gifts	\$100 a year	\$250 a year
Allowance	\$0	\$10–20 a week
Estimated Monthly Income**	\$544	\$160

\*Wages minus taxes and other required deductions

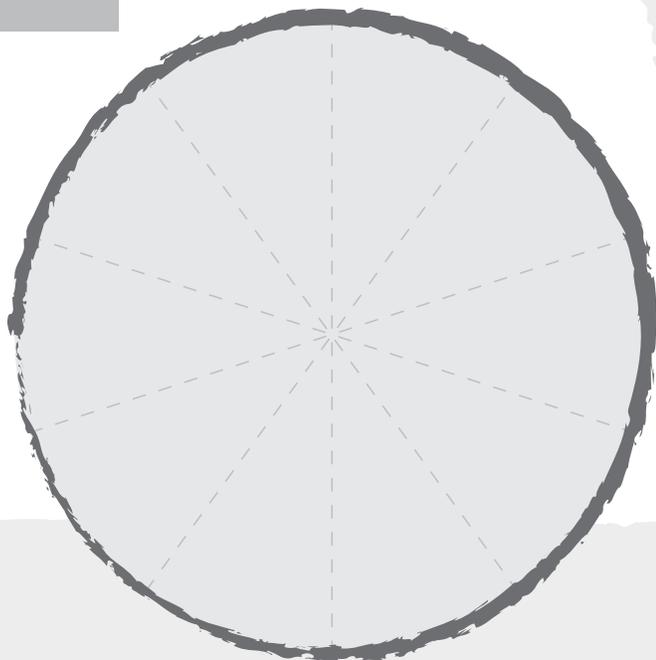
\*\*Not counting the gifts, which are received once or twice a year

## BALANCING ACT, THE OTHER SIDE: EXPENSES

Now let's talk about the other side of the seesaw. **Expenses** are what you spend money on. Use your spending log to see what you have spent in the past to predict what you might spend in the future.

### Activity 1.8: My Expenses

Use your spending log from Activity 1.2: My Disappearing Dollars to group your expenses into categories. Calculate what percent of your total spending is used for each category. Create a pie chart that displays your spending visually.



Expenses can be classified into three types:

**1 Fixed expenses** cost the same every time—often a set monthly payment. These are easy to plan for because you know how much needs to be paid and when. The downside is the amount is set by someone else, so you can't adjust your payment if money is tight.

**2 Variable expenses** are common expenses where the amount is different each time, such as paying for groceries or gas. The advantage is you have control over how much it'll be. For example, you can change how often you eat out and where you go. So if you're really tight for money, you just could stop eating out and save yourself some cash.

One downside is you can spend too much and not have enough left for fixed expenses. You can use your spending log to estimate an amount for your spending plan.

**3 Periodic expenses** arise occasionally during the year, usually less than once a month. School fees and trip expenses are examples. The good news is you don't have to deal with it every month. The bad news is, when you do, it can totally blow your budget.

<b>Fixed Expenses</b>
Gym memberships
Car loans
Student loans
Cellphone bill (unlimited)
<b>Variable Expenses</b>
Food
Entertainment
Cellphone bill (pay-as-you-go)
<b>Periodic or Occasional Expenses</b>
Auto repairs
Car insurance
Prom

Car insurance is a *periodic, fixed expense* if you pay it twice a year. You'll probably want to set aside a fixed amount each month so you have enough set aside when the bill is due. Prom is a *periodic, variable expense*. You know when it is, but how much you spend is up to you.



*Variable, occasional expenses* like auto repairs are the hardest to plan for because you have no idea when or how much they'll be. The best approach is to create an emergency fund you regularly contribute a fixed dollar amount to. We'll talk more about that in the next section.

Michael and Selena have listed the typical monthly expenses from their spending logs in the following chart:

Monthly Expenses	Michael	Selena
<b>Cellphone</b>	\$45	\$0
<b>Car Insurance</b>	\$70	\$0
<b>Food</b>	\$120	\$60
<b>Gas</b>	\$40	\$0
<b>Clothes</b>	\$30	\$60
<b>Entertainment</b>	\$100	\$40
<b>Personal Care</b>	\$5	\$10
<b>Church</b>	\$0	\$8
<b>Total Monthly Expenses</b>	\$410	\$178
<b>Estimated Income</b>	\$544	\$160
<b>Difference</b>	\$_____	\$_____



Compare their typical expenses with their estimated income. How are they doing? Will they be able to meet their savings goals along with paying their expenses?

## PYF FOR A VIP—YOU!

Often, your bigger financial goals will involve things you can't afford to pay for all at once. So, you need to add an "expense" to your spending plan to cover the amount you'll set aside as savings. Smart people know the secret to successful saving is to **PYF**, or "**pay yourself first.**"

*"Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like."*

*~ Actor Will Smith*

The very first thing you should do when you receive money is to set aside a specific amount for your goals (aka PYF fund). Temporarily deposit the amount where you will not be tempted to spend the money for something other than your goal(s). Here are the advantages of doing that:

- » It's like you never even had the money, so you don't really miss it.
- » You avoid taking on debt by saving in advance to pay later for a big-ticket item.
- » Reaching big financial goals is much easier when you regularly save small amounts.
- » Your deposited amount can earn interest and grow while you wait. (You can learn more about interest in *Module 4: Investing.*)

You should treat your PYF as a fixed expense so that you gradually get closer to reaching your bigger goals.



One specific type of PYF fund that's smart to have is an **emergency fund**—because not every expense in your life can be predicted.

At any time you could lose your cellphone or you could experience some other nasty expensive surprise. Unexpected events are stressful enough without your having to wonder how to find the money to deal with them.

So why not start paying yourself first today? Here's how you could do it:

- » Every time you're paid, save 10 percent to a savings account. That's just one dime from every dollar.
- » Save a certain type of income—one teen saves all the tips from her job at a frozen yogurt shop.
- » If you're saving for a specific purchase, see if you can put it on layaway and make payments until it's paid in full.

**No matter how much or how often you're making money, you can always find a way to save!**

Now, it's time to start putting it all together ...

## 6 STEPS TO A WINNING SPENDING PLAN

Imagine you're filling a bucket with rocks. You pour the little rocks in first, then try to place the big rocks inside. But you run out of room before you get all the big ones in. So, you pour them all out and start over.

This time, though, you put the big rocks in first, then pour in the little ones. What happens? The little rocks fill in the spaces around the big rocks, and everything fits perfectly.

This basically describes the approach you need to take with your money. Put your fixed expenses (big rocks) into your income bucket first to make sure they're paid. Then, pour in your variable and periodic expenses (pebbles) to fill the spaces until there's no more room.

When you get to that point and you still have more pebbles, you either have to stop pouring and scoop out some of your pebbles to fit in others or increase the size of your income bucket.



You have to set SMART goals and analyze information such as your spending log before you create a plan. Then, you have to implement the plan and monitor and modify it to make sure you stay on track.

What you need to prepare your spending plan:

- Your SMART goals
- Your spending log

See—it's not so hard. Now, let's dive into the specifics.

These six steps are all it takes to plot your path to money mastery:

- 1 Decide the time frame for tracking your income and expenses.** Will it be weekly, biweekly, or monthly?

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- 2 List your income: all the money you've received or know you have coming in during that time frame.** It's helpful to break down income sources into categories—such as work, allowance, and “other” (for such things as gifts or money you make from selling your stuff). Then, total all your income.

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- 3 Use your spending log to create categories and predict amounts for each of your expenses.** Everything you normally spend money on should have a category, as well as any financial goals you're working toward. Don't forget to include PYF! Then total your expenses.

Michael's Budget	
<b>Income</b>	
Net Pay	<b>\$544</b>
<b>Expenses</b>	
PYF (for tires)	\$160
Insurance	\$70
Cellphone	\$45
Food	\$100
Gas	\$40
Clothes/Personal	\$35
Entertainment	\$80
Gifts	\$15
<b>Total Expenses</b>	<b>\$545</b>

**4 Subtract your total expenses from your total income.** If the result is a minus number, use the DECIDE process to figure out which variable expenses to adjust to make your income equal your expenses. Or brainstorm ways to make more money to cover your shortfall. If the result is a positive number, you may want to think about increasing your PYF amount so that you can reach your goals a little faster!

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**5 Implement the plan.** As you do that, notice what areas you have trouble with. Perhaps you run out of money for an expense early. Or maybe you're not making your PYF payments consistently.

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**6 Review and adjust the plan as needed.** Do your amounts in each of your categories seem in line with your goals and values? Are you able to stick to your plan? Use your notes and tracking to see where you can improve your plan to make progress with your goals. (We'll talk about ways you can stick to the plan in the next section.)

### Challenge 1-C: My Spending Plan

Do you have to pay for regular expenses every month, a big purchase, or an upcoming event such as a class trip? Review your goals and spending log. Write up a spending plan so you can pay for the things you need and want. Look for examples and forms online ([www.hsfpp.org](http://www.hsfpp.org)) to help you make your own spending plan.

## TUNE-UPS FOR YOUR SPENDING

Don't worry about getting your spending plan perfect the first time. The point is to create one and start using it. You can always make adjustments as needed.

**The key is to update your spending plan regularly to keep pace with your changing income, goals, and spending habits.**