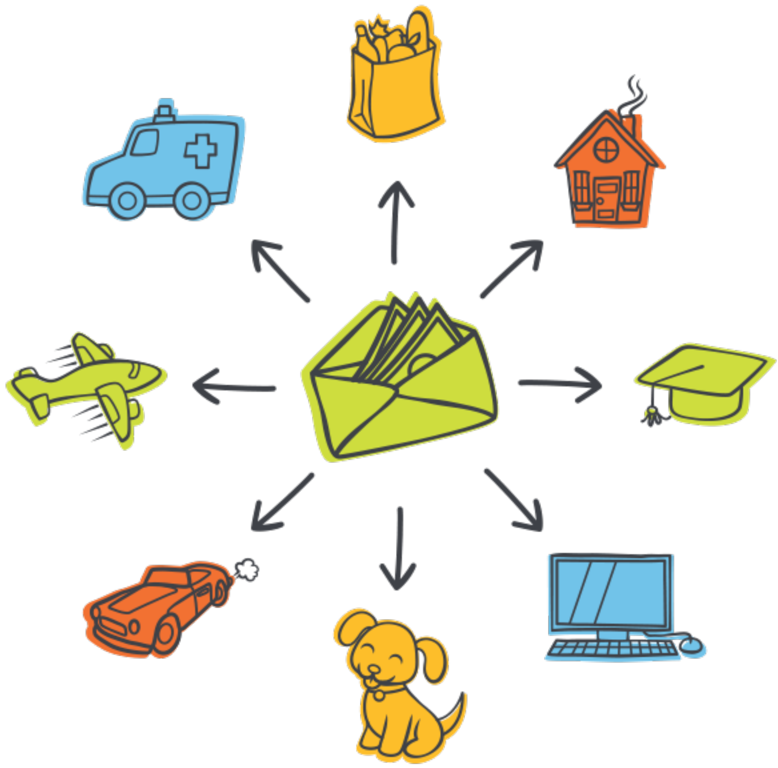
Name: Date: Period:

Spending Plan (1.4)



In this section we will answer:

- How can a spending plan help me better manage my spending habits?
- What is a spending plan?
- How do I use a spending plan?

Warm Up Conversation

Directions: Brainstorm ways you think that businesses use sales and marketing tactics to entice shoppers to buy things. Use these questions to prompt your brainstorming.

1. What is in the store window to get you to walk in? What techniques are used to get you into the door?

2. What is the first thing you see when you walk into the store? Are you ever tempted to buy it?

3. What do you have to walk past in order to get to the object you want to buy? Did you ever pick up anything on the way?

4. When standing in line at the register, have you ever picked up anything on display to buy?

5. When you get your item, do you receive any coupons or flyers that will encourage you to come back? Do they have expiration dates?

6. Have you or your family experienced any accidents in the last 6 months to 12 months?

Whoops! Repair or Replace?

Directions: In groups of 2 you will be assigned a "whoops" scenario. You will need to locate information on repair or replacement costs. You will then have to tell the class if we should repair or replace the items.

If you are having trouble finding information use the phrase, "*How much would it cost to fix…" or "How much would it cost to replace…*" to search for information.

Whoops! Scenario:

Cost to repair:	
Where are you getting the repair?	How much does the repair cost?

Cost of replacement:	
Where are you getting the repair?	How much does the repair cost?

Should we repair or replace? Why?:

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.

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.3 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.

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

Activity 1.7: My Income

1. What kinds of income do you normally receive throughout the year?

2. Are there certain times when you seem to earn more money than usual?

3. What are some predictions you can make about your income this year based on what you've earned before?

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.

Expenses can be classified into three types:

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

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.

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.

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.

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

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?

Activity 1.8: My expenses

Directions: 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.

Percent	Expense Type:
%	
%	
%	
%	
%	
%	
100%	

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."**

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?

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.

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

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.

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!

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.

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.)

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.

Task: Maya's spending plan

Scenario:

Maya is a senior in high school. She earns $8 an hour working approximately 25 hours a week at the local grocery store. An estimated 30 percent of her pay is deducted for taxes. Maya also earns approximately $15 each month in interest on savings.
Maya still owes money on her used car ($235 a month), but she doesn't pay rent because she lives with her parents. She is responsible for the following expenses every month: cellphone ($35–$45), gas ($40–$60), and auto insurance ($50). Maya likes to play video games and listen to music, so she frequently buys games and music. Maya typically buys her own clothes and electronic gadgets, but she also receives gifts from her family for special occasions.

One of Maya's short-term goals is to take a trip to visit her grandparents right after graduation. She expects this to cost $1,000, and she has already saved $500. A long-term goal is to attend college over the next four to five years at the local state school. She plans to pay part of the tuition from her savings and will need to find other funding sources. So far she has set aside $7,000 for her college fund.

Directions: Create a monthly spending plan for Maya using the information provided. Use this Spending Plan worksheet to build the plan. (Option: Download the spreadsheet file from www.hsfpp.org to easily adjust the income and expense amounts.)

Step 1: List Maya's anticipated monthly income sources and amounts. Calculate the total income she expects to receive in a month.

Maya's Monthly Income:	Amounts
Maya's Total Income:	

Step 2: Add expense categories and insert predicted amounts for each category. Remember to include "pay yourself first" amounts to build up Maya's trip fund and college fund. Calculate the predicted total amount needed to cover expenses and savings goals.

Maya's Monthly Expenses and PYF:	Amounts
Maya's Total Expenses:	

Step 3: Compare the total income to total expenses. Make adjustments to the expense amounts to ensure that Maya can cover the expenses with the income she expects each month.

Total Income:	
Total Expenses:	
Difference:	

Challenge 1-c: My spending plan

For this challenge task, create a spending plan to guide your spending for the next several weeks or the next month, or create a plan for a specific large purchase. Add this plan to your personal financial planning portfolio to use as a model whenever your future circumstances change.

Directions: Do you have to pay for a major purchase, save money for an upcoming event such as a class trip, or take responsibility for regular expenses every month? Apply what you have learned about spending plans as you complete this challenge to plan for your spending responsibility.

❑ 1. Preview the criteria listed in the Scoring Guide to plan for your assessment.
❑ 2. Review your financial goals and spending log.
❑ 3. Write up a spending plan so you can pay for the things or events you need and want. Use the form below or create your own spreadsheet.
❑ 4. Self-assess your work using the Scoring Guide. Optional: Ask a classmate or family member to peer assess your work using the Scoring Guide to evaluate your work.

Purpose of My Spending Plan:

My Income:	Amounts
My Total Income:	$

My Expenses:	Amounts
My Total Expenses:	$