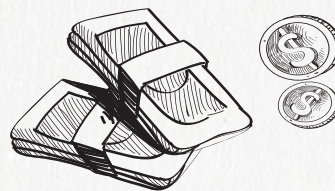


CHAPTER 1: Begin with a Budget



Did You Know?

The average American family spends 33% of the household budget on housing. Transportation is the second most costly item at 15.8% of the budget, while food holds third place at 12.7%, but personal insurance/retirement saving is a close runner-up, at 11.9%.¹

As you probably know, a **budget** is an itemized list of income and expenses over a given period of time. It allows you to plan how you will spend your money and is a critical tool for setting and reaching financial goals.

As you move into adulthood, your financial responsibilities are likely to increase, making your budget more complex — and more important. You will find yourself budgeting for **needs** like rent or a mortgage, utilities (such as electric power), insurance, and retirement. At the same time, your **wants** will likely take up more of your budget as your income increases.

To see how complex a household budget can be, take a look at this example. Some key items to notice:

- **Income:** This person earns \$4,000 per month. As a student, your earnings are probably only hundreds per month. Which budget do you think is easier to plan and manage? Why?
- **Home and Living Expenses:** These add up to nearly half of this person's monthly income. Do you think that's an appropriate percentage?
- **Financial Obligations:** Listing long-term and retirement savings goals as financial obligations provides a monthly reminder that setting aside money for the future is not just an option — it is vital for financial security.
- **Cash short/extra:** Even though it's listed last, this is an important item. By budgeting some extra money each month, you can build a cushion for unexpected expenditures and any overspending.

Budgeting is the foundation of financial management. Making a budget, and keeping track of how well you stay within your budget, is the best way to make sure you meet your financial responsibilities and achieve your financial goals all through life.

MONTHLY HOUSEHOLD BUDGET	Need or Want?	Amount Budgeted	% of Income
INCOME			
Net pay		\$4,000.00	100.00%
EXPENSES			
HOME & LIVING			
Mortgage/rent		\$1,000.00	25.00%
Utilities (electricity, etc.)		\$250.00	6.25%
Cellphone		\$80.00	2.00%
Cable TV		\$90.00	2.25%
Internet		\$50.00	1.25%
Groceries		\$240.00	6.00%
Dining out		\$200.00	5.00%
Total Home & Living Expenses		\$1,910.00	47.75%
TRANSPORTATION			
Car payment		\$250.00	6.25%
Gas/fuel		\$100.00	2.50%
Car insurance		\$80.00	2.00%
Repairs & maintenance		\$50.00	1.25%
Parking		\$60.00	1.50%
Total Transportation Expenses		\$540.00	13.50%
FINANCIAL OBLIGATIONS			
Long-term savings		\$100.00	2.50%
Retirement (401 k, Roth IRA)		\$200.00	5.00%
Credit card payments		\$150.00	3.75%
Student loans		\$80.00	2.00%
Total Financial Obligations		\$530.00	13.25%
ENTERTAINMENT			
Music service		\$40.00	1.00%
Movies		\$50.00	1.25%
Sporting events/concerts		\$100.00	2.50%
Other activities		\$50.00	1.25%
Total Entertainment Expenses		\$240.00	6.00%
HEALTH			
Health insurance		\$150.00	3.75%
Medication, vitamins, etc.		\$40.00	1.00%
Life insurance		\$20.00	0.50%
Total Health Expenses		\$210.00	5.25%
PERSONAL CARE			
New clothing		\$100.00	2.50%
Laundry, dry cleaning		\$40.00	1.00%
Salon/barber		\$60.00	1.50%
Hair product, cosmetics, etc.		\$20.00	0.50%
Total Personal Expenses		\$220.00	5.50%
MISCELLANEOUS			
Charitable donations		\$50.00	1.25%
Gifts		\$50.00	1.25%
Other		\$50.00	1.25%
Total Miscellaneous Expenses		\$150.00	3.75%
TOTAL EXPENSES			
Cash short/extra		\$200.00	5.00%

¹ www.bls.gov/news.release/pdf/cesmy.pdf

Saving for Emergencies

The key to successful budgeting lies in making sure you do not spend more than you earn. But unexpected expenses occur. Your car might break down or you might become ill. If your budget is tight, and you have not put money aside to cover these sorts of events, then it can be very easy to get off budget and incur unwanted costs and debt.

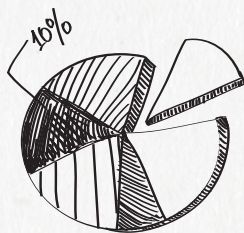
Experts recommend keeping enough money to cover 6-12 months' worth of monthly expenses in an emergency long-term savings account (like the one listed under Financial Obligations in the example budget). This is the potential amount of time it would take to find a new job, but the

money can also be used to cover other emergencies. Emergency savings should be kept separate from your spending and short-term savings, in an account that is accessible within a few days and ideally earns interest, like a **Certificate of Deposit (CD)** account. Investing in stocks or other market-dependent funds is not recommended, because you can't risk losing some of your savings. Once you've built up your emergency savings, you can begin another account for short-term savings items like car repairs, home improvements, and vacations.



Activity 1 BALANCING ACT

Learning to balance needs and wants can take time and practice.



PART 1

Review this sample budget and fill in the column labeled “Need or Want?” with N’s and W’s. Then answer the questions below.

1. What percentage of this person’s budget is going to needs? To wants?

Needs: _____% Wants: _____%

2. Based on this budget, approximately how much should this person have set aside in an emergency long-term savings account? \$ _____

By depositing \$100 per month into long-term savings, how long will it take to build up that amount (excluding interest)?

3. How much could this person go over budget each month and still not use up all their income?

\$ _____

What is the benefit of having this kind of “extra” money in a budget?

PART 2

Now step into the future and put together your own monthly budget using the template on the next page. Some major expenses are already filled in, but you can decide how much to spend on the other budget items. You can use the sample budget to estimate expenses for individual items, or research typical expenses for yourself.

As you create your budget, assume the following:

- You have an annual salary of \$36,000 net pay (after taxes).
- Your budget must cover all your monthly expenses.
- You should deposit 5% of your income each month into a long-term savings account.
- You should have some extra money at the end of each month to help cover any overspending.

SAMPLE BUDGET

MONTHLY HOUSEHOLD BUDGET	Need or Want?	Amount Budgeted	% of Income
INCOME			
Net pay		\$4,000.00	100.00%
EXPENSES			
HOME & LIVING			
Mortgage/rent		\$1,000.00	25.00%
Utilities (electricity, etc.)		\$250.00	6.25%
Cellphone		\$80.00	2.00%
Cable TV		\$90.00	2.25%
Internet		\$50.00	1.25%
Groceries		\$240.00	6.00%
Dining out		\$200.00	5.00%
Total Home & Living Expenses		\$1,910.00	47.75%
TRANSPORTATION			
Car payment		\$250.00	6.25%
Gas/fuel		\$100.00	2.50%
Car insurance		\$80.00	2.00%
Repairs & maintenance		\$50.00	1.25%
Parking		\$60.00	1.50%
Total Transportation Expenses		\$540.00	13.50%
FINANCIAL OBLIGATIONS			
Long-term savings		\$100.00	2.50%
Retirement (401 k, Roth IRA)		\$200.00	5.00%
Credit card payments		\$150.00	3.75%
Student loans		\$80.00	2.00%
Total Financial Obligations		\$530.00	13.25%
ENTERTAINMENT			
Music service		\$40.00	1.00%
Movies		\$50.00	1.25%
Sporting events/concerts		\$100.00	2.50%
Other activities		\$50.00	1.25%
Total Entertainment Expenses		\$240.00	6.00%
HEALTH			
Health insurance		\$150.00	3.75%
Medication, vitamins, etc.		\$40.00	1.00%
Life insurance		\$20.00	0.50%
Total Health Expenses		\$210.00	5.25%
PERSONAL CARE			
New clothing		\$100.00	2.50%
Laundry, dry cleaning		\$40.00	1.00%
Salon/barber		\$60.00	1.50%
Hair product, cosmetics, etc.		\$20.00	0.50%
Total Personal Expenses		\$220.00	5.50%
MISCELLANEOUS			
Charitable donations		\$50.00	1.25%
Gifts		\$50.00	1.25%
Other		\$50.00	1.25%
Total Miscellaneous Expenses		\$150.00	3.75%
TOTAL EXPENSES			
Cash short/extra		\$200.00	5.00%

After you complete your budget, answer the questions below.

1. What is the difference between annual and monthly income in your budget and the sample budget?

Annual income difference: \$ _____

Monthly income difference: \$ _____

2. What formulas did you use to calculate monthly income and monthly long-term savings?

Monthly income: _____

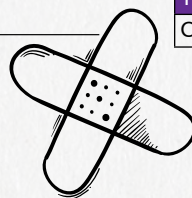
Monthly savings: _____

3. How does the percentage of income allocated for needs and wants in your budget differ from the percentage in the sample budget? Why?

4. Where did you reduce expenses — or cut an expense entirely — to keep your budget under your monthly income? How did you make those choices?

5. Were you able to incorporate 5% savings into your budget? If yes, how did you do it? If no, why did you make that decision?

6. Suppose you are in a car accident and need to pay a \$500 insurance deductible to repair your car, plus \$1,000 in medical bills from injuries you sustained in the accident. In addition, you miss 2 weeks of work because of your injuries, resulting in the loss of pay during that time, since you don't have any paid time off remaining for the year. All totaled, this equals one month's income. Review your budget carefully and decide where you can realistically make the cuts necessary to pay for your car repairs and medical bills and make up for lost wages over the course of one year. Use this space to explain your choices.



BUDGET TEMPLATE

MONTHLY HOUSEHOLD BUDGET	Amount Budgeted	% of Income
INCOME		
Net pay	\$	100.00%
EXPENSES		
HOME & LIVING		
Mortgage/rent	\$1,000.00	33.3%
Utilities (electricity, etc.)	\$250.00	8.3%
Cellphone	\$	%
Cable TV	\$	%
Internet	\$	%
Groceries	\$	%
Dining out	\$	%
Total Home & Living Expenses	\$	%
TRANSPORTATION		
Car payment	\$250.00	8.3%
Gas/fuel	\$	%
Car insurance	\$80.00	2.7%
Repairs & maintenance	\$	%
Parking	\$	%
Total Transportation Expenses	\$	%
FINANCIAL OBLIGATIONS		
Long-term savings	\$	%
Retirement (401 k, Roth IRA)	\$	%
Credit card payments	\$	%
Student loans	\$200.00	6.7%
Total Financial Obligations	\$	%
ENTERTAINMENT		
Music service	\$	%
Movies	\$	%
Sporting events/concerts	\$	%
Other activities	\$	%
Total Entertainment Expenses	\$	%
HEALTH		
Health insurance	\$	%
Medication, vitamins, etc.	\$	%
Life insurance	\$150.00	5%
Total Health Expenses	\$	%
PERSONAL CARE		
New clothing	\$	%
Laundry, dry cleaning	\$	%
Salon/barber	\$	%
Hair product, cosmetics, etc.	\$	%
Total Personal Expenses	\$	%
MISCELLANEOUS		
Charitable donations	\$	%
Gifts	\$	%
Other	\$	%
Total Miscellaneous Expenses	\$	%
TOTAL EXPENSES	\$	%
Cash short/extra	\$	%