CHAPTER 1: Spending Wisely

Did You Know?

Research shows that teens spend about 20% of their money on food, and another 20% on clothing.[3]

Have you ever run out of money before receiving your allowance or paycheck and wondered how it happened? Do you know how much you spend per month on coffee outings or vending machine snacks? Have you ever tried to save up for a big purchase, like a car? If you answered yes to any of these questions, then this chapter is for you.

Living within your means — spending no more than you have available from your income — can be challenging. Understanding the difference between a want and a need, carefully budgeting how money is spent, and establishing and maintaining a good credit rating are all essential life skills. In this chapter, you'll take the first step toward sound financial health, as you learn to set spending priorities and create a spreadsheet to plan income and expenses.

Needs vs. Wants

Every day, consumers make choices about how they spend money. Everyone has certain **needs** that must be met in order to survive — living essentials such as food, water, and shelter; societal requirements like clothing and reliable transportation; and financial obligations such as taxes, loans, and insurance.

Wants are things that help you live more comfortably — convenience items, entertainment, and leisure activities. For example, while you need clothing, you don't *need* to wear expensive designer jeans. Food is a need, but dining out at a restaurant is typically a want.

Understanding the difference between needs and wants — and planning spending accordingly — is an essential step in smart spending. Remember to allocate money toward needs first, and then you can use what is left over to cover your wants.

[3] https://www.marketingcharts.com/demographics-and-audiences-80708

Total Cost

The next step toward understanding how you spend money is to think about the **total cost** of the items you buy and activities you participate in. For example:

- If you buy an expensive computer or smartphone, purchasing insurance will increase your monthly bills but could save you a lot of money in the long run.
- Certain sports require a long list of equipment. For a daytrip to go snowboarding, for example, you'll need to factor in the cost of a lift ticket, equipment rentals, gloves, goggles, food at the resort, and transportation to the mountain, etc.
- For services such as haircuts, it's customary to leave a tip of a percentage of the cost. If the cut costs $25 and you leave a 20% tip, your total is $30.

Taxes

Nearly everything we purchase is subject to some sort of **sales tax**. When you buy a book for $13.99, your total cost will be more than $13.99 — a percentage of the sale price is added on in the form of a tax. The tax rate varies from place to place, but it is not unusual to pay 5-10% in sales tax.

To calculate the amount of sales tax due on an item, multiply the cost of the item by the tax rate. Then, add this amount to the item's cost. Using the book mentioned above as an example, this formula would work as follows:

$13.99 (cost of book) x 5% (sales tax rate) = $0.70 (amount of sales tax due)

$13.99 (cost of book) + $0.70 (sales tax) = $14.69 (total cost to purchase the book)

Certain products and services have higher tax rates. These include tobacco products, alcohol, gasoline, hotels, and sometimes restaurants. This higher tax rate is often because of an **excise tax** charged for a particular item. Sometimes an excise tax is added to the price of an item when you check out at the register, and sometimes it is built into the price. For example, there is a federal excise tax of 18.4 cents per gallon of gas, regardless of the price of gas within the specific state. This tax is built into the price of gas at the pump.

Long-term Value

Another element of smart spending is to get the most **value** for your money. Buying things on sale, and comparing costs between similar items can add up to a lot of savings. Remember that value isn't just the price you pay at the register. It's also important to consider the true cost of an item over time. Here are a few things to think about:

- When comparing items that you use and repurchase frequently, look at the **unit cost** to determine which is the better price. For example, a gallon of milk costs $3.69, while a quart is only $1.99. But a gallon of milk is the equivalent of 4 quarts! If you divide the price by the number of units (in this case, quarts), you can get the unit cost:

$3.69 ÷ 4 = $0.92 per quart

$1.99 ÷ 1 = $1.99 per quart

If you drink milk consistently, buying it by the quart instead of the gallon will cost you more than double!

- When purchasing items that you plan to keep for a long time, buy the best **quality** you can afford. That doesn't mean you should spend 6 months' worth of paychecks on a designer handbag. But a $200 purse that lasts 5 years will cost less over time than a $35 purse that falls apart in 6 months.

Activity 1

NEEDS VS. WANTS

Needs and wants can vary from person to person: someone who works remotely may need internet access at home, but free WiFi at the library may be just enough for a retiree. Read through the following list and decide whether you think each item is a need or a want for you.

Expense	Need	Want
Health insurance	☐	☐
The latest iPhone	☐	☐
A mobile phone	☐	☐
Spotify subscription	☐	☐
Car payment	☐	☐
Tickets for a music festival	☐	☐
Application fees for post-secondary education	☐	☐
Gym membership	☐	☐
Haircut	☐	☐
Dry cleaning	☐	☐
New cleats for soccer	☐	☐
Childcare	☐	☐
Buying coffee during work breaks	☐	☐
Donation to a local charity	☐	☐

Click here to clear answers

Were there any items that you weren't sure about? Choose one of the items that you feel might be a "gray" area and explain why you think it is more of a need or a want:

Smart financial planning means making sure your needs are taken care of first and using what's left over for your wants. In the table below, make a list of your six most important needs and wants and how much you spend on them each month.

Need	Expense/ Month	Want	Expense/ Month
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$

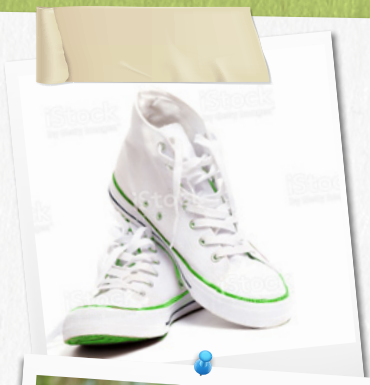
Gifts and Charitable Giving

It may feel really good to donate to the local food pantry or to send Aunt Rose a beautiful birthday gift, but what part does "giving" play in your budget? Is it an obligation as a member of society, or is it something that's nice to include if you have extra money? Write a short paragraph on whether you think gifts and donations to charity are "needs" or "wants" and why. Keep in mind that charitable giving may be tax deductible.

Activity 2

PART 1: DETERMINING COSTS

Answer the following questions to practice stretching your dollar and setting realistic spending expectations. Use the data below to determine the total cost of each item.



1. You purchased a new pair of shoes for $34.99 and the sales tax rate was 7.5%.

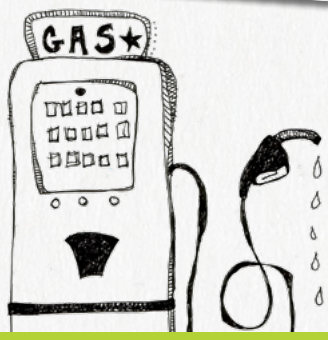
Item cost $_____ x Sales tax rate _____ % = Amount of sales tax $ 0.00

Item cost $_____ + Amount of sales tax $ = Total cost $ 0.00

2. You purchased a bicycle for $199.99 and the sales tax rate was 6.75%.

Item cost $_____ x Sales tax rate _____ % = Amount of sales tax $ 0.00

Item cost $_____ + Amount of sales tax $_____ = Total cost $ 0.00



3. You purchased 14.75 gallons of gasoline at $2.29 per gallon. If the excise tax (included in the price of a gallon of gas) was 18.4 cents per gallon, what is the total amount of excise tax you paid?

Gallons of gas _____ x Excise tax per gallon $_____ = Total tax $ 0.00

What if you had paid $3.59 per gallon of gas? How would this affect the amount of excise tax paid? _____

4. You would like to go to the beach from Saturday to Sunday and stay overnight at a hotel. You already have a bathing suit and flip flops, but will need to purchase sunscreen for $7.99 and a towel for $12.99 (sales tax is 5%). The hotel room costs $89, plus a 3% excise tax, and will be divided among 4 friends. You will also need to pay for 4 meals, including tips, for a total of $60, and a beach pass for $3 each day. If your budget is $150, how much money will you have left over for extra activities and souvenirs?

Sunscreen $_____

Towel $_____

Total $ 0.00

Sales tax $ 0.00

Total Cost $ 0.00

Hotel $_____

Hotel excise tax x_____ %

Total $ 0.00

Divided by friends ÷_____

Total Cost $_____ each

One-day beach pass $_____

Days on beach x _____

Total Cost $ 0.00

Meals & tips $_____

Combined Total Cost $ 0.00

Total budget $_____

Money available for wants $ 0.00

Activity 2

PART 2: COMPARING COSTS

For each question below, use a calculator to determine which is the more economical option.

1. You need a new bottle of conditioner.

Option 1: 2-pack of conditioner for $40.00; each bottle is 16 ounces. No shipping or sales tax.

Price per 2-pack : ($_____ ÷ 2 bottles) ÷ _____ oz.= $_____ per oz.

Option 2: Individual bottle of conditioner; 16 ounces for $25.95.

Price per bottle: $_____ ÷ _____ oz. = $_____ per oz.

Option _____ is more economical.

2. Your favorite online clothing store is offering a membership that allows you unlimited shipping throughout the year for a one-time flat rate of $29.99. Typically, you pay $3.99 shipping for each purchase you make. How many orders will you need to place in order for the membership to be worthwhile?

Flat rate $_____ ÷ Per-order rate $_____ = Base number of orders _____

It would be cheaper to _____.

3. You are moving out on your own and need to buy furniture for your apartment. You found a new couch that costs $1,500 plus 7.5% tax and $50 shipping, or a used couch that is 5 years old, for $700 cash without tax, and it needs about $200 worth of repairs and cleaning. Assuming that a couch lasts 15 years, which is the more economical purchase?

NEW		USED	
Price	$ _____	Price	$ _____
Tax	x _____ %	Cleaning, etc.	$ _____
Cost	$ 0.00	Total Cost	$ 0.00
Shipping	$ _____		
Total Cost	$ 0.00		
Years remaining	÷ _____	Years remaining	÷ _____
Cost per year	$ _____	Cost per year	$ _____

The _____ couch is the more economical option.

Establishing a Plan

Making smart choices about how you spend your money is just a first step. To really take charge of your money, you need to carefully plan and track your spending with a **budget**. By writing down your income and **expenses** over a given period of time, you can make sure you don't spend more than you earn and focus on working toward goals, like saving money for your education or going on vacation.

To get started with a budget, you'll need to follow these steps:

1. *Set a Time Period.* We suggest focusing on one month, as most major expenses like rent and car payments are paid monthly.
2. *Estimate Your Income.* Add up all of the money you expect to receive, including **net pay** from a job, allowance, birthday gifts, etc.
3. *Estimate Your Expenses.* List what you expect to spend on all of your needs and obligations. Do you have a car payment or phone bill? Do you buy your own clothing?
   - Some expenses, like your car payment, are fixed, meaning they don't change month to month. These are simple to add in.
   - Other expenses, like clothing, may change from month to month. Try to go through old receipts or bank statements to estimate your spending. Once you've tracked your spending for a few months, you can update these monthly expenses with a more accurate figure.
4. *Set Savings Goals.* Once your needs are taken care of, set a monthly savings goal to put aside for big-ticket items you'll need down the road, or in case something unexpected happens.
5. *Fun Money.* Calculate how much money you have left and decide how you'd like to spend it — going out to eat, purchasing video games or makeup, joining the gym, etc.

Now you have a plan for your monthly spending. Next, you'll need to track and record how much you actually spend on each item during the month. Then, at the end of the month, you should calculate the difference between what you planned to spend and what you really spent, and use this information to adjust your expectations and spending habits from month to month.

Everyone's budget will look different, depending on his or her particular needs and wants. For example, you may have a car payment while your classmate is able to borrow a parent's vehicle and will only need to factor in the cost of gas. Someone else might need to purchase a bus pass or factor in the cost of Uber transportation.

Complete Activity 3 to see how budgeting works. Then download the budgeting template at ymiclassroom.com/byf/byf_book1_budget_template.xlsx to get started creating your own budget.

Net or Gross Pay?

Let's say you have a part-time job earning $8 an hour and you will be working 20 hours per week. Your gross pay is $160 — that is the amount of money you'd make if you got to keep it all. But all U.S. workers pay income taxes on their earnings. This is money given to the federal, state, or local government to pay for roads, police, and other services. Some workers also contribute a percentage of their pay toward retirement and health insurance. After all these deductions and taxes have been removed from the gross pay, what you have left is called net pay, which is the amount of money you will actually receive. Remember that your budget should be based on your net pay.

Activity 3

ESTABLISHING A PLAN

Look at the sample budget below and fill in the missing information in the yellow boxes. As you read through, think about the many things you spend money on each week or month. Then answer the questions below.

Category	Estimated Monthly Budget	Actual Monthly Budget	Difference
INCOME			
Gross Wages	$270.00	$280.00	**$10.00**
Minus Taxes & Withholdings	-$30.00	$	**-$2.00**
Allowance	$25.00	$25.00	**$0.00**
Gifts & Other Income	$0.00	$35.00	**$35.00**
Interest from Savings Account	$5.00	$4.00	**-$1.00**
INCOME SUBTOTAL	$270.00	$312.00	**$**
EXPENSES			
Basic Living Expenses			
Phone Bill	$30.00	$30.00	**$0.00**
Utilities	$10.00	$9.00	**$1.00**
Groceries/Snacks	$15.00	$12.00	**$3.00**
School			
Books	$55.00	$45.00	**$10.00**
Class Fees/Supplies	$	$20.00	**-$5.00**
Transportation			
Gasoline	$20.00	$25.00	**-$5.00**
Bus Pass	$0.00	$0.00	**$0.00**
Savings			
Savings Contribution	$10.00	$10.00	**$0.00**
Giving			
Charity	$5.00	$5.00	**$0.00**
Gifts	$10.00	$10.00	**$0.00**
Shopping			
Wardrobe Needs	$40.00	$35.00	**$5.00**
Other Shopping	$10.00	$	**$10.00**
Entertainment			
Dining Out	$15.00		**$15.00**
Sports/Gym Membership			**$0.00**
Music/Videos	$5.00		**$5.00**
Hobbies	$10.00		**$10.00**
EXPENSES SUBTOTAL	$250.00	$201.00	**$49.00**
ENDING MONTHLY BALANCE	$20.00	$111.00	**$91.00**

1. What is the formula for calculating the ending monthly balance? _____

_____

2. What would it mean if the ending monthly balance were a negative number? What could this person do to fix the problem? _____

_____

3. Let's say this person needs to cut $20 in spending from their budget. Suggest two different ways to achieve this. For each suggestion, you can change up to 3 line items, as long as the net change is $20.

Suggestion 1:

a. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____

b. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____

c. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____

Suggestion 2:

a. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____

b. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____

c. Item: _____

Old Budgeted Amount: $ _____

New Budgeted Amount: $ _____