L2. Budgeting

Source: Teaching Financial Literacy To Teens: Making Money By Jean Folger http://www.investopedia.com

Spending Plan

A budget, sometimes called a "spending plan," is an outline of anticipated income and expenses that can be used to **track actual cash flow** and **set spending goals**. A budget is an important financial tool that can help your teen:

•Plan for expenses. **Short-term** expenses happen in the next month; **mid-term** expenses occur in between one month and a year; **long-term** expenses are longer than one year.

•Cut spending. A budget shows you just how much money you're spending on certain things. When you see this, you might **have an incentive to cut spending** on certain things.

•Spend wisely. (deficit vs. surplus) If your teen is **spending more than he/she earns**, something will have to change; namely, he or she will have to earn more, spend less, or a combination of the two. If your teen earns more than he or she spends, help him or her determine what to do with the surplus (e.g., save money for a car, make an investment, etc.).

•Save for future goals. Help your teen "find" the money to **set aside** for future expenses. With a budget, you can identify areas of extra spending and **reallocate that money towards** a future goal.

•Develop lifelong money management skills. It is priceless to learn as a teenager how to **save for a goal**. For most people, this is not as simple as setting aside a certain chunk of money each paycheck; it usually involves making spending choices, and **prioritizing** savings over wants.

Creating a Budget

A budget is an outline of income and expenses. In order to create a useful budget, we need to **make accurate and realistic projections**: how much money is going to come in vs how much money is going to go out. It is a good idea to have your teen **record all of his or her expenses** - even the tiny ones - for a couple months before sitting down and developing a budget. This will help ensure realistic numbers in the budget.

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Income and Expense Projections

To create the budget, help your teen write down (or enter, depending on the method chosen for budgeting) all of the income sources and all of the known expenses for needs: the goods and services that he or she must pay for, such as for car insurance and rent (it is a good idea to think of saving as a need). After those expenses have been accounted for, any surplus can be allocated to the remaining wants.

Category	January	February	March	April	May	June	July
Income							
Allowance	$60.00	$60.00	$60.00	$60.00	$60.00	$60.00	$60.00
Bonuses						$100.00	
Gifts			$100.00				
Interest	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00
Tips	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
Wages	$280.00	$280.00	$280.00	$280.00	$280.00	$540.00	$540.00
Income total	**$392.00**	**$392.00**	**$492.00**	**$392.00**	**$392.00**	**$752.00**	**$652.00**
Expenses							
Car							
Car loan	$100.00	$100.00	$100.00	$100.00	$100.00	$100.00	$100.00
Insurance	$25.00	$25.00	$25.00	$25.00	$25.00	$25.00	$25.00
Gas	$60.00	$60.00	$60.00	$60.00	$60.00	$60.00	$60.00
Maintenance	$30.00			$30.00			$30.00
Entertainment	$80.00	$80.00	$80.00	$80.00	$80.00	$100.00	$100.00
Food							
Snacks	$16.00	$16.00	$16.00	$16.00	$16.00	$16.00	$16.00
Dining out	$30.00	$30.00	$30.00	$30.00	$30.00	$50.00	$50.00
Personal							
Clothes	$100.00					$100.00	
Haircuts		$25.00			$25.00		
Savings	$39.00	$39.00	$49.00	$39.00	$39.00	$75.00	$65.00
Sharing							
Cell phone	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
Expense total	**$530.00**	**$425.00**	**$410.00**	**$430.00**	**$425.00**	**$576.00**	**$496.00**
Income - Expenses	**-$138.00**	**-$33.00**	**$82.00**	**-$38.00**	**-$33.00**	**$176.00**	**$156.00**

Without this budget, the hypothetical teen in this example may have been **unable to meet his or her financial obligations** one or more times. With limited income, the budget is tight and expenses such as the car loan, insurance and cell phone, **which cannot be changed, have to be paid first.** Any surplus can then be divided among the other categories, reallocating as necessary until expenses fall within the income constraints.

The first month's budget may be an **eye opener** for your teen: a budget really enforces the fact that **money is in limited supply** (for the vast majority of people) and that, as a result, we have to make spending choices. It may be **tough for your teen to realize** that he or she can only go out to dinner once during February, for example, but it will be a lot harder to not have the money to pay a required bill, such as the car insurance. Planning, however tough it may be at times, helps ensure that money is intentionally - and well - spent.

Inflation

Inflation is the steady increase in the price of goods and services. It is usually measured in terms of a specific annual percentage. Inflation helps explain why things cost more over time. Historically, inflation has averaged about 3% each year, although there have been time periods where inflation has reached double digits.

There are two points to make:

One is that inflation can directly **affect his or her buying power**. For example, we can find out that $500 in 1997 has the same buying power as $723.26 in 2013:

The second point is the relation between inflation and salary increases. If your teen has a job, ideally his or her **wages will increase more than the rate of inflation**. For example, if inflation is 2%, any salary increase should be at least 3% so it's not just keeping pace with inflation (in this case, it really isn't a pay increase at all because he or she will not have increased his or her buying power).

Budgeting should take inflation into consideration: many of the goods and services that your teen is accustomed to purchasing may increase in price next year as a result of inflation. Making sure your child understands this concept can help him or her plan more accurately and **avoid going over budget in the future**.

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Elective Courses

Money Management

L2. Budgeting

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Match the questions with the answers

Questions	Answers
01. What is a budget? …………	a. money is in limited supply
02. What are the three types of budgeting? …….	b. make accurate projections & record all your expenses
03. What is inflation? ………….	c. it's a spending plan
04. What are the benefits of budgeting? ………	d. they are unable to meet their financial obligations
05. How can you draft a budget? ..…………	e. it's a steady increase in prices of goods and services
06. What is a common pitfall for people who don't budget? ………….	f. it may affect your buying power
07. What should you do if you have a deficit? ……….	g. short-term, mid-term and long-term
08. What should you do if you have surplus? ………..	h. cut spending, spend wisely, prioritize, reallocate funds for a goal, set aside for future expenses
09. What is a tough realization when you develop a budget? ………………	i. cut spending and increase income (if possible)
10. Why is inflation important for accurate budgeting? ……………..	j. set out an investment plan