



BUDGETS 101

-UNDERSTANDING PERSONAL MONEY MANAGEMENT-

Why should I care about a budget?

- 80 % of teens 13-18 years old think "it's important to me to have a lot of money in my life." Budgeting will help you achieve this goal.
- Having a budget helps you with not spending money that you don't have. This can lead to paying even more money for things like overdraft fees or interest on credit cards.
- When you save money or invest money, it earns interest.
- If you deposited \$20 a week into a savings account that earns the current national average interest rate (0.11%), you will have \$10,000 in less than 11 years.

Have you ever thought about where all of your money goes? It's important to understand how we choose to spend our money and what the financial impact of those decisions can be. A simple way to manage your money is through the use of a budget. The information contained in these pages will help you to better understand both the basics and benefits of creating and using a personal spending plan.

IMPORTANT TERMINOLOGY:

- **Benefit:** An advantage gained from something or an outcome that contributes to wellbeing.
- **Budget:** A plan used to decide the amount of money an individual can spend, and how it will be spent.
- **Cost:** The price paid for a good or service.
- **Expense:** Money used to purchase goods and services.
- **Income:** Money received from sources such as wages, allowance, interest, sale of goods or property, etc.
- **Need:** Something that is considered an essential or necessary requirement for life.
- **Want:** Something that is desired in order to increase quality of life but it is not required.



ADDITIONAL CONCEPTS TO CONSIDER:

COST COMPARISON

Comparing the cost of two or more goods or services in an effort to find the best value.

COST BENEFIT ANALYSIS

Analyzing whether the cost of an item is more than, equal to, less than the benefit that comes from purchasing that item.

CONCEPTS IN ACTION

1. List something you want to do or purchase.

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.....

2. What is the cost?

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.....

3. What is the benefit?

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.....



CALCULATING FUTURE EXPENSES

The process of identifying the cost of meeting future needs and goals.

Goals are the object of a person’s ambition or effort; an aim or desired result to be accomplished over a specific period of time. There are short-term, medium term, and longterm goals.

HOW DOES THIS RELATE TO ME?

Identify 3 financial goals. Think about what is needed to accomplish each goal.

► **Short-term goal:**

► **Medium-term goal:**

► **Long-term goal:**

“A budget gives you the ability and the confidence to plan for the future because you know **exactly** how much money you have to work with right now.

Ethan Lewis

BUDGET

A plan for future spending and saving, weighing estimated income against estimated expenses.

HOW DOES THIS RELATE TO ME?

Choose one of your goals from above and estimate its expense . How much income do you estimate will be needed to support your goal?

► **Chosen goal:**

► **Estimated monetary expense:**

► **Estimated income needed:**

CREATING A PERSONAL BUDGET

INCOME: *(Gross Pay vs. Net Pay)*

Gross monthly income is your hourly wages times the number of hours you work in an average month or your annual salary divided by 12. This could also include income from an allowance, gift, etc.	1. \$
Payroll deductions include Federal and State taxes, Social Security plans and insurance costs (typically 30 percent of your gross monthly income if coming from a work wage).	2. \$
Net monthly income is total take-home pay, minus payroll deductions. <i>*This is the number you use for your monthly budget.</i>	3. \$

MONTHLY EXPENSES: *(When estimating your monthly expenses, determine how much you spend in each category based on a honest look at your spending habits. Base this budget on your net income, not your gross income.)*

Housing includes monthly rent or mortgage payments (preferably no more than 30% of your income)	4. \$
Utilities are services in your home like electricity, heating costs, telephone service, Internet service, cable, TV, etc.	5. \$
Food expenses vary for single people and families. Be sure to include eating out.	6. \$
Transportation costs include public transportation fares or car payments, gas and insurance. Also include car repairs and other costs needed to maintain a vehicle.	7. \$
Clothing includes work and casual clothes, shoes, coats and accessories. If you don't buy clothes every month, estimate your yearly expenses and divide by 12.	8. \$
Entertainment includes money spent on going to the movies, going to concerts, DVD or streaming video rentals, video games, buying books/magazines/apps/music, going out to other events, etc.	9. \$
Miscellaneous expenses cover all the things you might spend money on regularly, like cell phone service plans, cosmetics, toiletries, haircuts/styling, gifts for others, household cleaning supplies, pet products, prescriptions, other medical costs, etc.	10. \$
Savings whether in a bank account or investments, are important for unexpected emergencies, large purchases and retirement.	11. \$
Debt includes credit card bills and other monthly payments.	12. \$
Total Monthly Expenses =	13. \$
Total Amount Available = (Net Income - Monthly Expenses)	14. \$

BUDGETING TIPS:

Understand the goal of a budget and your financial goals. The primary reason for a budget is to help you track your money while ensuring you don't spend more than you bring in. It's also important to determine and prioritize your financial goals so that you can achieve them more efficiently.

Start out by tracking your expenses for 1 week. This will allow you to see how quickly expenses add up in a short period of time, and will assist in determining trends in your spending habits.

Remember to save before you spend. It's important to include a savings plan in your budget so that you accomplish the goal of spending less than you make. Saving also ensures that you have funds set aside in case of an unplanned financial emergency.

Stick to it! After creating a budget, it's important to review it on a regular basis so that you can achieve your financial goals.

ADDITIONAL RESOURCES:

FDIC Money Smart

<https://www.fdic.gov/consumers/consumer/moneysmart/index.html>

The 50 - 30 -20 Rule

<https://mint.intuit.com/blog/budgeting/50-30-20/>

My Spending Rules to Live By

https://files.consumerfinance.gov/f/201603_cfpb_rules-to-live-by_my-spending-rule-to-live-by.pdf

Resources used in this publication:

- FDIC Money Smart
- 2013 MnCareers Facilitator Guide

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