

Budgeting 101



This series of lessons was designed to meet the needs of gifted children for extension beyond the standard curriculum with the greatest ease of use for the educator. The lessons may be given to the students for individual self-guided work, or they may be taught in a classroom or a home-school setting.

Introduction

The real world is full of subjects not taught in school. With a glimpse into some of those matters, this unit will explore employment, budgets and credit cards, providing an informational foundation for that day when you are out in that real world on your own.

Learning Objectives

After completing the lessons in this unit, students will be able to:

- Understand how to read a paycheck
- Identify the difference between wants and needs
- Create a weekly and monthly budget
- Analyze the risks involved in using credit cards

Lesson 1: Get a job

Living independently in the real world requires you to support yourself financially, which means having a job. There are a variety of jobs for people starting out, although many will begin in an entry-level position — that is, a job that requires no specific skills or talents to perform it and one in which you most likely will be trained on the job. Such jobs usually pay the legal minimum wage and can be found by searching online career sites.

TO DO:

- Get three applications from various locations and compare them.
- Fill out the applications and have an adult review them.
- Ask yourself: Would you hire **you** based on what you see on the application? Why or why not?
- Evaluate what you have done in your life that could count as work experience.
- What could you use from school that could enhance your application and help you to stand out from others your age?

Lesson 2: Cha-ching! Getting paid

Congratulations on landing that job! After the first week or two, depending on if you are paid weekly or biweekly, you will receive a paycheck. The total, called your gross pay, is calculated by multiplying your rate of pay by the number of hours you worked. But — sorry! — you don't get to keep all the money you just earned. Subtracted from that gross amount are Federal Withholding, Social Security, and Medicare taxes, leaving you with your net pay — the amount you get to take home.



TO DO:

- Find out what the minimum wage is currently.
- Find out which taxes you must pay in your state.
- Calculate your gross pay based on a 40-hour workweek.
- Using that calculation, now figure the amount of taxes (Federal Withholding, etc.) you will owe.
- What is your net pay?
- List what you think you will need to spend your money on each week.

Lesson 3: Home sweet home

Consider your new home. Do you want more than one bedroom? What about amenities? These are among the questions to answer. Make a list, ranking the items you really must have down to the one you can skip and not miss.

How much you have to spend on an apartment or house depends on your take-home pay. General consensus calls for spending no more than one quarter to one third of net income on housing. Dividing your monthly net pay (from Lesson 2) by 3 will give you a maximum estimate to spend monthly on an apartment or house.



TO DO:

- Could you find an affordable apartment?
- What about your list of amenities — did your apartment have all of them?
- Compare and contrast this to the apartment you may have chosen without your budget guide.
- How much per hour would you need to make to be able to afford the apartment you really wanted?
- What type of jobs would you be able to find making that hourly rate?

Lesson 4: Where all my money goes, a.k.a., budget

While it would be nice to buy anything we want after paying rent, we still have other expenses. The easiest way to keep track of these is by creating a budget, which is a listing of the money you have to spend in a week or a month and the things you need to spend that money on.

- What are some things you will need to pay for each week?
- Which of those are needs and which are wants?
- What categories would you divide your budget into?

Your budget has estimated costs and adjusted costs. An estimate is what you *think* you will spend for the budget time period, and the adjusted number is what you actually spend. For example, your estimate for laundry expenses may come in less than budgeted if your mom does your laundry for you one week.

Create a monthly budget that looks something like this:

EXPENSES	ESTIMATED BUDGET	ADJUSTED BUDGET
Housing		
Food		
Transportation		
Clothing		
Insurance/ Medical		
Savings		
Fun/ Entertainment		
Phone/Utilities		
Other		

You've already calculated your net income and your monthly housing expense, which you can enter on the chart. (Net income - housing expense = the amount you have left for your other expense categories.) Did you plan on having a car? If so, how much is your monthly car payment? If having a car is not an option, you should research the cost of using public transportation to get around.

- What surprised you about budgeting?
- Did your budget list include all of the ones on the chart above?
- Which ones did you leave off? Why didn't you think to include those?
- What do you think the "other" category would be for?
- How will you calculate your utilities and phone costs?
- Which of these are fixed expenses and why?

Example (for teacher reference) uses $\$7.25/\text{hour}$
 $\times 40 \text{ hours}$

 $= \$290 \text{ gross } (\$239.72 \text{ net}) \text{ and a } \$958.88 \text{ monthly take-home pay}$

EXPENSES	ESTIMATED BUDGET	ADJUSTED BUDGET
Housing	\$87.50 (\$350 per month)	\$87.50 (won't change weekly)
Food	\$60.65	\$60.65
Transportation	\$10 (75 cents for bus)	\$9 (\$7.50 for work + a trip for groceries)
Clothing	\$5 (washer/dryer in apt)	\$5 (laundry soap)
Insurance/ medical	\$20	\$20
Savings	\$10	\$10
Fun/ entertainment	\$10	\$10
Phone/ utilities	\$31.57	\$31.57
Other	\$5	\$5

Phone: $\$96.28 / 4 = \24.07
Utilities: $\$30 / 4 = \7.50



TO DO:

Keep track of everything — every penny — you spend in a week's time. Now add up the cost of items you are not currently paying for, such as the cost of school breakfasts and lunches paid for by your parents. Then estimate the cost of dinners and snacks, of school items, and of items like clothing, gas money, personal hygiene products, etc.

Calculate those monthly expenses. Was it more than you expected? Which figure was most shocking to you?

Lesson 5: Charge! The world of credit

Credit cards are a mixed bag. They can be used to pay for something for which you do not have ready cash, but if unchecked, they can lead to debt from which you will have trouble resolving.

The line of credit extended to you is based on your credit score, a three-digit number determined by information in your credit report. The purpose of that score is to predict your risk of becoming delinquent in your credit payments in the 24 months after scoring.

Credit scores range from 300 to 850, with the higher the score, the lower the calculated risk. Several factors with varying weights make up the score formula, including payment history, amount of debt, length of credit history, new credit, and types of credit used. By law, you have the right to a free annual credit report from each reporting agency, but the formula can yield different scores from different reporting agencies, which is among the things that makes credit confusing and hard to manage.

Choosing a credit card can be complicated. The offer you receive in the mailbox might not be a good choice. The first question to ask: "What are the monthly fees?" Some cards require a monthly fee simply to have the credit account — even if you have a zero balance. In addition to the finance charges, other fees can quickly turn your zero balance into a distant memory.

The key to successful use of credit cards is this: **Never** charge more to the card than you can afford to pay off each month.

TO DO:

- Calculate how long it would take you to pay off a \$200 charge if you had an interest rate of 29.99% and only made the minimum monthly payment of \$25.
- How much longer would it take if you missed a payment and incurred a \$50 late fee?
- Where would your credit card payment be listed on your budget?
- What percentage of your weekly budget would a \$75 a month credit card debt cost you?
- After looking at your budget and learning about credit cards, do you think you can afford to have one? Why or why not?

