The Budget
"A Road Map to Financial Security"

Life Smarts:

1. Create a step-by-step budget for a family of three and for yourself.
2. Create a family budget with your parents/guardians.

What is a budget?

The creation of a budget allows you to track **income** (money coming in) and **expenses** (money going out). It can help you get out of debt by showing where you spend money and also help you determine how much money is available to save and invest. It can relieve stress by acting as a roadmap to achieving your money goals. This topic guides you through a comprehensive budget.

1. Should high school students prepare a budget? Explain.

   Answers will vary.

2. Should college students prepare a budget? Explain.

   Answers will vary.

How should you spend your money?

People spend their money in different ways. Only you can determine the type of lifestyle you wish to lead. This is known as your **standard of living**. You may want a big house with a swimming pool and other luxurious items, or you may be content with a small home that's just big enough to accommodate your family.

Did You Know?

Financial experts suggest that 50% of your money be spent on **needs**; 30% spent on **wants**; and 20% spent on **savings**.

A **need** is something you must have to live. A **want** is something you can do without.

How you spend your money is entirely up to you, since you are the one who earned it. Only you can decide whether to spend all of your money or choose to use extra money at the end of each month toward a goal. Financial experts have suggested how most people should spend their money (as a general rule). The key is to plan, or budget, your income so that you have enough money to pay your bills on time and not accumulate debt.

Consumer expenditures

The spending categories below provide an idea of what a typical American family (averaging 2.5 persons) earn and spend during one year. In later sections, you will develop a budget based on the data in the tables obtained from the Bureau of Labor Statistics.

Reference:

http://www.bls.gov/cex/csxann11.pdf

Fill in the blanks below. How much do you think you or your parents spend on each of the following categories per year?

Expenses:

Spending Category	Dollar Amount	Percentage of Total Spent	Dollar Amount Per Year
Food	$6,458.00	12.99%	
Housing	$16,803.00	33.80%	
Clothing, Shoes, Services	$1,740.00	3.50%	
Transportation	$8,293.00	16.68%	
Health Care	$3,313.00	6.67%	
Entertainment	$2,572.00	5.17%	
Personal Care Products and Services	$634.00	1.28%	
Reading	$115.00	0.23%	
Education	$1,051.00	2.11%	
Miscellaneous	$1231.00	2.48%	
Cash Contributions	$1,721.00	3.46%	
Personal Insurance and Pensions	$5,424.00	10.91%	

1. Why do you think people spend more on housing and transportation than on other areas?

Answers will vary.

2. Based on the table above, list the top five categories where consumers spend their money.

Housing, Transportation, Food, Personal Insurance and Pensions, Health care

Income

Let's plan a monthly budget for your family. First, determine how much income you are making. For purposes of this example, let's say you are married, and you and your spouse both work and are raising a child. In the table below, insert the following amounts:

You earn $25,000 and your spouse earns $38,000 annually (after deductions and taxes). This is known as the **take-home pay**. In addition, you have a part-time job that usually brings in another $5,000. Insert these amounts in the "Budget" column, and add them to obtain the **Total Income**.

At the end of the year, your last paycheck stub shows that your actual take-home pay was $23,300 for you and $42,000 for your spouse. In addition, you made $9,000 from your part-time job. Post these figures and total them at the bottom of the "Actual" column. Last, in the "Income Variance" column, subtract the budgeted amount from the actual amount to determine the variance for the three incomes. The **income variance** reveals whether you are under (+) or over (-) the budget amount. The final step is to add the variance amounts to get the "**Total Variance of Income**."

Income Variance = Actual – Budget

Family of Three

Income	Budget	Actual	Income Variance
Salary 1 (take-home pay)	25,000	23,300	-1,700
Salary 2 (take-home pay)	38,000	42,000	4,000
Other income	5,000	9,000	4,000
Other income	0	0	0
Total Income	68,000	74,300	6,300

Use the following formula to calculate how much you earn in one year:

A = Number of hours worked per week

B = Rate of pay per hour

C = 52 weeks in a year

Yearly Pay = A x B x C

Yourself

Income	Actual
How much do you earn in a year? If you don't work, compute how much money your parents give you plus other incoming cash)	$
How much do you think the average teenager earns in a year?	$

Housing expenses

Once you determine your yearly income, list your expenses. Since housing is normally a person's biggest expense, start with that. Housing expenses will include the following: Mortgage Payments, Repairs, Property Taxes, Utilities, and House Insurance.

Housing expenses are estimated to be 35% of your budget. In the following table, compute the "Budget" amount by multiplying the total budget income by the percentage indicated for each category. Mortgage or rent would be calculated as follows:

$68,000 x .20 = $13,600

Complete each budgeted amount similarly, then total the "Budget" column.

At the end of the year, determine the "Actual" amounts for each housing expense as follows: Mortgage = $15,800; Repairs = $8,200; Property Taxes = $2,720; Utilities = $1,700; and House Insurance = $1,500. Insert these amounts into the "Actual" column and total them.

In the "Expense Variance" column, subtract the "Budget" amounts from the "Actual" amounts to get the Expense Variance. This will tell you whether your housing budget is over or under the budgeted amount. Add up the Expense Variance amounts to obtain the "**Total Expense Variance of Housing Expense**." The **expense variance** reveals whether you are over (+) or under (-) the budget amount.

Note: On the expense side, (+) implies over and (-) implies under (which is different from the Income Variance).

Expense Variance = Actual – Budget

Housing Expenses – 35%	Budget	Actual	Expense Variance
Mortgage/rent – 20%	13,600	15,800	2,200
Repairs – 6%	4,080	8,200	4,120
Property taxes – 4%	2,720	2,720	0
Utilities – 3%	2,040	1,700	-340
House insurance – 2%	1,360	1,500	140
Total Housing Expenses	23,800	29,920	6,120

Analyze the amounts on the “Housing Expenses” table and explain how you might allocate the percentages differently next year. List your thoughts.

Transportation expenses

You estimate that transportation expenses will be approximately 15% of your annual household budget. After calculating this amount, determine the budget for each category: Car payments = 5%; Gas = 5%; Insurance = 2%; and Repairs = 3%. In the table that follows, compute the budgeted amount by multiplying the budgeted income ($68,000) by the percent budgeted for each category; then determine the total budget for transportation expenses.

At the end of the year, you determine the "Actual" expenses for each category as follows: Car payments = $3,400; Gasoline and motor oil = $5,450; Car insurance = $2,080; and Repairs = $720.

Write these amounts into each appropriate category and total them.

In the "Expense Variance" column, subtract the "Actual" amount from the "Budget" amount to calculate the Expense Variance for all expenses. This will tell you whether you are over or under your transportation budget amount. Last, add the Expense Variance amounts to obtain the "**Total Expense Variance of Transportation Expenses**." The **expense variance** reveals whether you are over (+) or under (-) the budget amount.

Expense Variance = Actual – Budget

Family of Three

Transportation Expenses – 15%	Budget	Actual	Expense Variance
Car payments – 5%	3,400	3,400	0
Gas and motor oil – 5%	3,400	5,450	2,050
Insurance – 2%	1,360	2,080	720
Repairs – 3%	2,040	720	-1,320
Total Transportation Expenses	10,200	11,650	1,450

How much money would you spend for car transportation? Use the table below to compute how much it would cost you for your yearly transportation expenses.

Yourself

Transportation Expenses	Actual
Car payments	$
Gas and motor oil	$
Insurance	$
Repairs	$
Total Transportation Expenses	

Did You Know?

Statistics show that parents pay on average $500-$1,000 per year to insure a child on their car insurance policy.

Other living expenses

The next category of expenses for which to budget is **Living Expenses**. You determine that living expenses will amount to 25% of your total budgeted income. You budget the following for each category: Healthcare = 4%; Personal Care Products and Services = 1.5%; Food = 10%; Cell phone = 2%; Entertainment = 3%; Vacations = 2%; Life and Personal Insurance = 1%; and Retirement = 1.5%. In the Living Expenses table, compute the budget amount by multiplying the total budgeted income ($68,000) by the percent budgeted for each category; then determine the Total Other Living Expenses.

At the end of the year, you determine your "Actual" expenses for each category as follows: Healthcare = $2,500; Personal Care Products and Services = $950; Food = $6,000; Cell phone = $1,000; Entertainment = $1,900; Vacations = $1,100; Life and Personal Insurance = $680; and Retirement = $1,020. Insert these amounts into the appropriate categories, and add them to get the total.

In the "Expense Variance" column, subtract the "Budget" amount from the "Actual" amount to get the Expense Variance. (This reveals how much you are over or under your budget amount). Last, add the amounts in the variance column to determine the "**Total Expense Variance of Other Living Expenses**." The **expense variance** reveals whether you are over (+) or under (-) the budget amount.

Expense Variance = Actual – Budget

Family of Three

Other Living Expenses – 25%	Budget	Actual	Expense Variance
Healthcare – 4%	2,720	2,500	-220
Personal care products and services – 1.5%	1,020	950	-70
Food – 10%	6,800	6,000	-800
Cell Phone – 2%	1,360	1,000	-360
Entertainment – 3%	2,040	1,900	-140
Vacations – 2%	1,360	1,100	-260
Life and personal insurance – 1%	680	680	0
Retirement – 1.5 %	1,020	1,020	0
Total Other Living Expenses	17,000	15,150	-1,850

How much do you think you spend on each of these per year? Fill in the table on the next page with the estimated amounts.

Yourself

Other Living Expenses	Actual
Personal care products and services	$
Food	$
Cell Phone	$
Entertainment	$
Vacations	$
Total Other Living Expenses	

Debt

As you mature and educate yourself about finances, you understand that it's not healthy to live beyond your means. **Make it a priority to pay off any debt (money you owe) as quickly as possible.** You will learn in a later topic not to use credit cards unless you: (1) can make more than the minimum payment or (2) pay off the balance each month.

Let's say you decide to allocate 15% of your income each year to stay out of debt. You budget the following for each category: Student loans = 2%; Credit cards = 10%; and Personal loans = 3%. In the following table, compute the budget amount by multiplying the total budget income by the percent budgeted for each category; then determine the total budget to pay off debt.

At the end of the year, you determine your "Actual" expenses for each category as follows: Student loans = $1,000; Credit cards = $6,500; and Personal loans = $1,500. Insert these amounts into the appropriate "Actual" amount categories, and add them to get the total amount of debt.

In the "Expense Variance" column, subtract the "Budget" amount from the "Actual" amount to get the Expense Variance. (This reveals how much you are over or under your budget amount.) Lastly, add the amounts in the expense variance column to determine the "**Total Expense Variance of Debt**." The **expense variance** reveals whether you are over (+) or under (-) the budget amount.

Expense Variance = Actual – Budget

Family of Three

Debt – 15% of Budget	Budget	Actual	Expense Variance
Student Loans – 2%	1,360	1,000	-360
Credit Cards – 10%	6,800	6,500	-300
Personal Loans – 3%	2,040	1,500	-540
Total Debt	10,200	9,000	-1,200

Analyze the amounts above. In a five-sentence paragraph, explain your thoughts about the Expense Variance and how you might allocate the percentages differently next year.

Answers will vary.

Why do you think it's important to pay off your credit card balance in full each month, or worst case, pay more than the minimum monthly balance?

Answers will vary.

Savings

There is a saying that you should always "**pay yourself first**." This implies always putting money away for you and your family to enjoy the fun things in life. Of course, this is hard to do when bills arrive weekly. However, if you create the habit of putting money into a **savings** account each time you get paid, you will quickly see your savings account grow. You can then transfer this money into other types of investments where it will grow even faster! You will learn more about investments in another section.

At this point in life, you decide you are able to save 10% of your total income. In the table that follows, compute the budget amount by multiplying the total budget income by the percent budgeted for savings. At the end of the year, you determine that you have saved $6,500.

In the "Expense Variance" column, subtract the "Budget" amount from the "Actual" amount to get the Expense Variance. (This reveals how much you are over or under your budget amount.). Last, add the amounts in the expense variance column to determine the "**Total Expense Variance of Savings**." The **expense variance** reveals whether you are over (+) or under (-) the budget amount.

Expense Variance = Actual – Budget

Family of Three

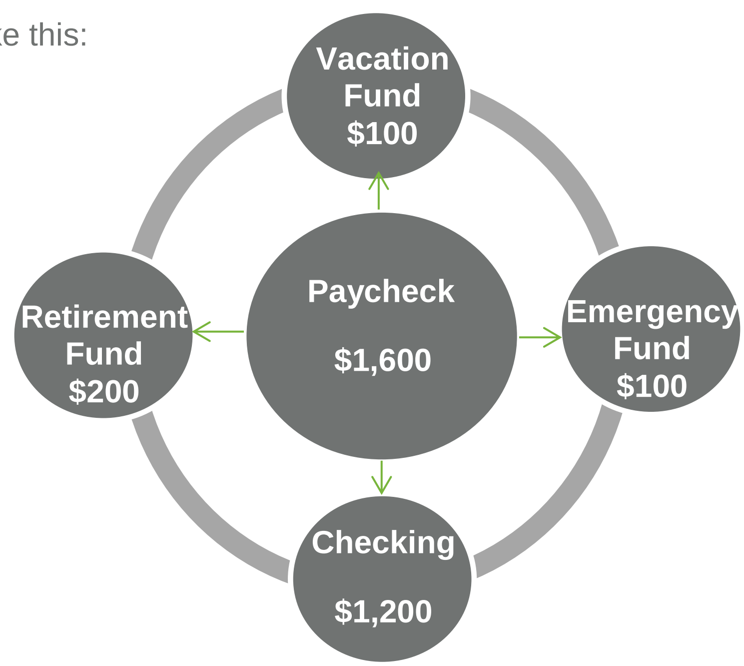
Savings – 10%	Budget	Actual	Variance
Savings	6,800	6,500	-300
Total Savings	6,800	6,500	-300

Now estimate how much money you save a year.

Yourself

	Actual
Savings	$
Total Savings	$

Of course, as your savings account grows, you should put some of it into emergency, investment, vacation, and any other desired funds. **Ask your financial institution to automatically deduct money from each paycheck to be deposited into separate accounts**. For example, let's say your bi-weekly paycheck is $1,600, and you request money be transferred to four different accounts. It would look something like this:



As you can see, most of your paycheck goes into your checking account, because that's the account you use to pay bills. Of course, you can always change the amounts that go into the other accounts. This is why it's a great idea to budget. It gives you a picture of what your income, bills, and savings look like, allowing you to track how and where you spend your money.

Over or under

The last step of budget preparation is the most critical. Did you follow your budgeted plan for the year? This next step will determine if you are over or under budget. Of course, you should hope you are **under** budget, because this means you brought in more money than you spent. If not, and you find yourself **over** budget, you must determine where you overspent and how to avoid letting it happen in the future. Let's see how your plan went.

Complete the following table. You will need to go back to each section and transfer your **total** columns.

Note: Total Variance: A positive **number** signifies "**Under** Budget." This means you brought in more money than you spent. A negative number signifies "**Over** Budget." This means you spent more money than you brought in.

Income			
	Budget	Actual	Variance
Total Income	68,000	74,300	6,300

Expenses			
	Budget	Actual	Variance
Total Housing Expenses	23,800	29,920	6,120
Total Transportation Expenses	10,200	11,650	1,450
Total Other Living Expenses	17,000	15,150	-1,850
Total Debt	10,200	9,000	-1,200
Total Savings	6,800	6,500	-300
Total Expenses	68,000	72,220	4,220

In the table below, subtract your **total expenses** above from the **total income**.

	Budget	Actual	Variance
Total Income – Total Expenses	0	2,080	2,080

If this is a positive number (+), you made more money than you spent. Great planning!

If this is a positive number (+), you stuck to your budget and brought in more money than you spent.

Determine, based on the **Total Variance** in the last column, if you are over or under budget. (Use the information from the Income and Expenses tables.)

Answers will vary.

If you are under budget, explain what you would do with any leftover money.

Answers will vary.

If you are over budget, explain some things you could do to not be short the following year.

Answers will vary.

Answer the following questions:

1. Determine how much you spend on food daily. Estimate the amounts as if you are paying for the meals. Compute how much you would spend weekly by multiplying your daily food budget by seven (7 days in a week). Then transfer the amounts to the following table:

Expense	Daily	Week
Food		
Breakfast		
Lunch		
Dinner		
Snacks		

2. Determine how much you spend on meals and transportation, weekly, and monthly. Transfer the “Food” and “Transportation” expenses totals for the week from Table 1 to Table 2. Compute how much you spend monthly by multiplying the amounts by four (4 weeks in a month).

Expense	Week	Month
Food		
Breakfast		
Lunch		
Dinner		
Snacks		
Transportation		
Car payment		
Gas		
Auto Repair/Maintenance		
Rides from friends/Bus		

3. Determine how much you spend on each of the following items per month. (Transfer the monthly amounts from Table 2). Compute how much you spend on meals and transportation yearly by multiplying the weekly amounts by 52 (yearly total).

Expense	Week	Year
Food		
Breakfast		
Lunch		
Dinner		
Snacks		
Transportation		
Car payment		
Gas		
Auto Repair/Maintenance		
Rides from Friends/Bus		
Personal		
Movies		
Concerts		
Sports		
Cell Phone		
Music		
Gifts for family/friends		
Hobbies		
Clothing		
Grooming		
Other: (list below)		
Total		

4. Add up your monthly and yearly expenses to determine the total amount of money you would spend if your parents were not funding these expenses for you.
    - What is your biggest expense?
    - Are you surprised at how much you would spend in one year?
    - Do you think your parents know how much they spend on you every year?
    - If you were on your own, could you afford to pay for everything? Why or why not?
    - After preparing this budget, are there items you would eliminate if you had to pay for them yourself? Why or why not?

5. On the attached page is a Budget Worksheet template (similar to the one you worked through in this section). Using the income you determined you would make for your chosen career in the Employee Smarts Topic, create your own budget. You may change the expense percentages for each line item to best meet your needs. Pay close attention to the line items that had variances in the sample budget completed in this topic to determine if those percentages were appropriate for you. Reflect on why you would change the percentage if you decide to do so. You have the choice to increase or decrease these percentages as long as they total 100%.

Budget			
Income	**Budget**	**Actual**	**Variance**
Salary 1 (take-home pay)			
Salary 2 (take-home pay)			
Other income			
Other income			
Total Income			

Expense			
Housing Expenses – 35%			
Mortgage/rent – 20%			
Repairs – 6%			
Property taxes – 4%			
Utilities – 3%			
Total Housing Expenses			
Transportation Expenses – 15%			
Car payments – 5%			
Gas and motor oil – 5%			
Insurance – 2%			
Repairs – 3%			
Total Transportation Expenses			
Other Living Expenses – 25%			
Healthcare – 4%			
Personal care products and services – 1.5%			
Food – 10%			
Cell phone – 2%			
Entertainment – 3%			
Vacations – 2%			
Life and personal insurance – 1%			
Retirement – 1.5 %			
Total Other Living Expenses			
Debt – 15% of Budget			
Student Loans – 2%			
Credit Cards – 10%			
Personal Loans – 3%			
Total Debt			
Savings – 10%			
Savings – 10% of budget			
Total Savings			
Total Expenses			
Total Income – Total Expenses			