



MATERIALS & PREPARATION

- Spending Plan Resource sheet (pages 1.63-1.64)
- Spending Plan sheet (page 1.65) one for each student
- FIT Work 1.3 sheet (page 1.68)



FIT Tool: Spending Plan 1



Slide Presentation 1.3

LESSON 1.3 SPENDING PLANS

This lesson has students learning about and creating spending plans. Students identify ways to reduce expenses and increase income to avoid negative cash flow and prevent debt. The concept of Pay Yourself First[®] is explored. For the FIT Work, students identify typical teenage income sources and expenses and create a spending plan for a fictitious scenario.

LEARNING GOALS

- Students create spending plans based on fictitious scenarios.
- Students compile information on how to reduce expenses and increase savings.
- Students critique spending plans and determine how to adjust the plan to avoid negative cash flow.

JUMP\$TART PERSONAL FINANCIAL EDUCATION NATIONAL STANDARDS ALIGNMENT

- Financial Responsibility and Decision-Making
- Income and Careers
- Planning and Money Management
- Saving and Investing

DO THIS

1. Present the following scenario:
John is a middle school student who has a part-time job earning \$75 a month. His grandmother sends him \$5 at the beginning of each month. Every month, John saves \$15 and pays his mom \$15 for his cell phone. Typically, he pays \$5 to his brother for gas money, \$10 for food, \$10 for movies, \$5 for school supplies, and \$10 for tennis.
2. Ask students if they think John has enough money to cover expenses? Discuss how they determined their answer. Introduce the concept of a spending plan (another name for spending plan is budget). Define a spending plan as a tool which is used to record and track projected and actual income and expenses over a period of time.

NOTES:

3. Use **FIT Tool: Spending Plan 1** to walk students through the creation of John's spending plan. Introduce fixed expenses, which are expenses that occur every period and are typically about the same amount. Introduce variable expenses, which are expenses that may or may not occur every period and do not have a constant value.

Introduce Pay Yourself First[®], which is the idea that savings should be a regular part of a spending plan and should happen before variable expenses. Introduce earned and unearned income. Define earned income as money generated from employment or retirement funds. Define unearned income as money received for no exchange, such as a gift. The answer key for John's Spending Plan is on page 1.66.

4. Discuss John's spending plan and what he could do with the remaining money after his expenses. Discuss increasing savings and/or charitable giving as possible options. Define charitable giving as the act of donating money, time, or resources to support a cause intended to promote good or improve quality of life.

5. Group students in teams of 2-3. Either provide student groups with the **Spending Plan** sheet (page 1.65) or have them use the FIT Tool: Spending Plan 1.

6. Present the following scenario:
Julia is in high school and has a part-time job earning \$200 each month. Every month, she puts \$50 in her savings account and pays \$55 for car insurance. She typically spends \$30 on gas, \$25 on food, \$30 on clothing, \$50 on entertainment, \$10 on school supplies, and donates \$10 to her favorite charities.

7. Have teams discuss and complete a spending plan for Julia's scenario. Go over the spending plan as a class using the FIT Tool: Spending Plan 1. The answer key is on page 1.67.

8. Share and discuss with the students that many people, similar to Julia, have expenses which exceed their income. This is called negative cash flow. Negative cash flow typically results in debt. Part of being financially independent is spending less than you earn.

9. Ask the students what Julia could do to reduce her spending and eliminate her negative cash flow. Brainstorm, discuss, and document on the presentation display (chalkboard, whiteboard, overhead, SMART Board[™]) ways to reduce expenses and spending.

NOTES:

Examples:

- Doing comparison shopping
- Using coupons
- Avoiding impulse purchases
- Buying items “on sale”
- Carpooling, walking, or riding a bike
- Eating at home
- Eliminating/reducing impulse purchases – vending machines, convenience stores, etc.
- Shopping at thrift stores
- Wearing hand-me-down clothes
- Using “frequent shopper” cards

10. Ask students to identify ways to increase income. Brainstorm, discuss, and document on the presentation display ways that people can increase their personal income. Examples:

- After school/weekend job
- Additional chores around the house
- Yard work
- Babysitting
- Summer job
- Dog walking
- House sitting
- Garage sale
- Provide a service

11. Have teams craft recommendations for Julia on how to balance out her spending plan to avoid negative cash flow.

12. Have teams present their recommendations to the class and discuss.

13. Discuss how financial independence is achieved by reducing spending, earning more, saving more, and avoiding negative cash flow. In addition, a spending plan is a tool to assist one in tracking and monitoring income and expenses, and avoiding negative cash flow.

Optional: **FIT Work 1.3** sheet (page 1.68). Students explore the typical income sources and expenses of a teenager and create a spending plan for a fictitious scenario. Remind students that they are responsible for keeping all FIT Work in the PF Portfolio. The answer key is on page 1.69.

FIT WORK



NOTES:

ASSESSMENT



- Review Spending Plan sheets for completion.
- Observe how teams work together – look for collaboration, leadership, communication, and teamwork qualities and skills.
- Review FIT Work 1.3 sheet for completion and mastery of content.

PFP



- Spending Plan sheet (page 1.65)
- FIT Work 1.3 sheet (page 1.68)

Spending Plan Resource

Throughout the **Yes, You Can** curriculum students create multiple spending plans. There are two templates included for students to use. The one in this lesson is basic and designed to help them get comfortable with the concept. Learning to create spending plans is a skill that a student can use throughout his/her life.

The FIT Tool: Spending Plans can be used to enhance spending plan instruction. It is an interactive tool that can assist with the creation of spending plans. In addition, students may want to use this FIT Tool throughout the curriculum to assist with classroom tasks and project presentations, and print off their completed plans.

Spending Plan 101

A spending plan is a great tool to help with money management and goal setting. Properly used it can help people feel more secure about where they are financially – today and in the future.

A spending plan can help individuals:

- Stay out of debt
- Identify areas for potential savings
- Create a cushion for unforeseen expenses
- Save money for long-term goals
- Avoid impulse spending
- Establish financial control and direction

Pay Yourself First®

One way to increase financial security and make long-term goals a reality is to make a commitment to Pay Yourself First. That means, before paying monthly bills, before setting aside money for vacation or a new car, before going out to eat or to a movie, an individual's first commitment each month should be to him/herself.

Many families find automatic investments make achieving their long-term goals easier. With an automatic investment, individuals always pay themselves first, thereby keeping their financial future a top priority.

Here's how it works:

Each month, a person arranges to have a set amount of money deducted from his/her paycheck or withdrawn from a bank account and directly deposited into an investment vehicle. The easiest way to stay committed to an automatic investment is if they are made on a regular schedule with a fixed dollar amount. For example, \$100 on the 15th of each month to a college account for a child.

Some common methods of automatic investing include:

- Deductions from a personal checking or savings account
- Direct deposits from paycheck
- Direct deposits from other sources, such as military allotments or Social Security payments
- Contributing to an employer retirement plan, such as a 401(k), by payroll deduction (this is one of the most common methods of automatic investing)

How to Create a Spending Plan

Collect documentation

Gather paycheck stubs, statements, payment booklets, check registers, credit card statements/bills, and receipts. Divide annual salaries and expenses by 12 to identify monthly amounts.

Spending Plan Resource

Total the net earnings

Calculate how much money is expected to be earned this month after taxes (only include income sources that are dependable).

Total the monthly expenses

List all fixed monthly expenses. This could include rent, home mortgage, utilities, loans, insurance, and minimum payments on debts/credit cards. Practice “Pay Yourself First” and include monthly money saved to emergency funds, stocks, bonds, mutual funds, and 529 college funds.

List all variable monthly expenses which include things like savings, groceries, entertainment, car repairs, medical bills, eating out, and charitable giving.

Subtract monthly expenses from earnings

The resulting figure is either a surplus, a deficit or the spending plan is balanced.

Rework your spending plan

If the spending plan comes out on the negative side, the monthly expenses should be reviewed and cuts should be made until the plan comes out with a positive figure. If the spending plan comes out with money left over, increasing savings and/or paying more on debts should be considered.

Invest in yourself

The spending plan should be reviewed at least once a month and assessed whether it is meeting changing needs. This also means adjusting expenses and/or income to reach long-range financial goals.

Note:

- Records should be kept of all purchases and payments. Receipts should be kept and transactions should be recorded in a notebook, or a money management computer program such as Quicken®, Quickbooks®, or Microsoft Money®.
- No two months are exactly alike. New spending plans should be created each month.

SPENDING PLAN

Name _____

Date _____

MONTHLY INCOME

Earned Income \$ _____

Unearned Income \$ _____

Total Income \$ _____

MONTHLY EXPENSES

Fixed Expenses

Pay Yourself First® \$ _____

Car payment \$ _____

Car insurance \$ _____

Other \$ _____

Total Fixed Expenses \$ _____

Variable Expenses

Savings \$ _____

Gas \$ _____

Food \$ _____

Clothing \$ _____

Entertainment \$ _____

School supplies \$ _____

Activities \$ _____

Charitable giving \$ _____

Other \$ _____

Total Variable Expenses \$ _____

Total Expenses \$ _____

Income – Expenses = \$ _____

SPENDING PLAN

Name JULIA

Date _____

MONTHLY INCOME

Earned Income \$ 200
Unearned Income \$ 0

Total Income \$ 200

MONTHLY EXPENSES

Fixed Expenses

Pay Yourself First® \$ 50
Car payment \$ 0
Car insurance \$ 55
Other \$ 0

Total Fixed Expenses \$ 105

Variable Expenses

Savings \$ 0
Gas \$ 30
Food \$ 25
Clothing \$ 30
Entertainment \$ 50
School supplies \$ 10
Activities \$ 0
Charitable giving \$ 10
Other \$ 0

Total Variable Expenses \$ 155

Total Expenses \$ 260

Income – Expenses = \$ - (\$60)

FIT Work 1.3

Name _____

Date _____

What are the typical income sources and expenses of a teenager?

Income Sources:

Expenses:

Complete a spending plan for Abigail and answer the questions.

Abigail is in high school and earns \$50 each month babysitting. She spends \$10 on movies, \$15 on eating out and \$15 on new clothes. She puts \$5 in her savings account. What should she do with her left-over money? Why?

MONTHLY INCOME

Earned Income \$ _____

Unearned Income \$ _____

Total Income \$ _____

MONTHLY EXPENSES

Fixed Expenses

Pay Yourself First® \$ _____

Car payment \$ _____

Car insurance \$ _____

Other \$ _____

Total Fixed Expenses \$ _____

Variable Expenses

Savings \$ _____

Gas \$ _____

Food \$ _____

Clothing \$ _____

Entertainment \$ _____

School supplies \$ _____

Activities \$ _____

Charitable giving \$ _____

Other \$ _____

Total Variable Expenses \$ _____

Total Expenses \$ _____

Income – Expenses = \$ _____

FIT Work 1.3

Name _____

Date _____

What are the typical income sources and expenses of a teenager?

Income Sources:

part-time jobs, summer jobs, mowing yards, babysitting

Expenses:

eating out, movies, mp3 downloads, clothes, school activities, gas, charitable giving

Complete a spending plan for Abigail and answer the questions.

Abigail is in high school and earns \$50 each month babysitting. She spends \$10 on movies, \$15 on eating out and \$15 on new clothes. She puts \$5 in her savings account. What should she do with her left-over money? Why? Abigail should put the left-over money in her savings account in order to take advantage of the interest.

MONTHLY INCOME

Earned Income	\$50	_____
Unearned Income	\$0	_____
Total Income	\$50	_____

MONTHLY EXPENSES

Fixed Expenses

Pay Yourself First®	\$5	_____
Car payment	\$	_____
Car insurance	\$	_____
Other	\$	_____
Total Fixed Expenses	\$5	_____

Variable Expenses

Savings	\$5	_____
Gas	\$	_____
Food	\$15	_____
Clothing	\$15	_____
Entertainment	\$10	_____
School supplies	\$	_____
Activities	\$	_____
Charitable giving	\$	_____
Other	\$	_____
Total Variable Expenses	\$45	_____

Total Expenses **\$50** _____

Income – Expenses = **\$0** _____