

Budgeting

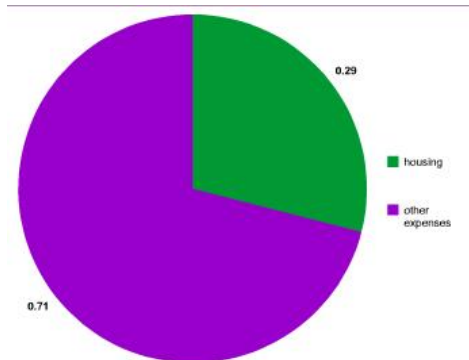
Pretest

1. What is gross monthly pay?
 - a. The monthly pay after taxes are deducted.
 - b. The monthly pay before taxes and insurance are deducted.
 - c. The hourly pay times 2080.
2. What is net monthly pay?
 - a. Weekly pay times 4.
 - b. If you get paid twice a month, it is the pay from 2 checks.
 - c. Monthly pay after taxes and insurance are deducted.
3. When you are figuring your monthly budget which figure should you start with, net monthly pay or gross monthly pay.
 - a. Net monthly pay.
 - b. Gross monthly pay.
4. One additional source of income is the balance available on credit cards.
 - a. True
 - b. False
5. If you can't save at least \$50 per month there is just no point in bothering to save at all.
 - a. True
 - b. False
6. Saving money on things like groceries is part of home economics, but not economic literacy.
 - a. True
 - b. False
7. The best time to shop for groceries is on your way home from work right after you pick up your children from day care. Let them help put the groceries in the cart.
 - a. True
 - b. False
8. If you have a history of paying your bills on time a lender won't be concerned about how much money you are making.
 - a. True
 - b. False
9. How much of your gross monthly income should you spend for housing?
 - a. 50%
 - b. one third
 - c. 15%
 - d. 29%
10. It does not matter when you shop for groceries as long as everything you buy is on sale.

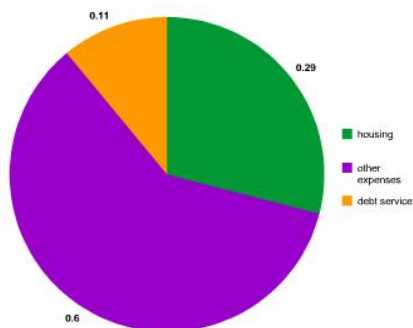
- a. True
- b. False

Budgeting Module

In this Economic Literacy Education program we approach your household budget in the way that bankers approach a budget. The banking, or lending, industry states that no more than 29% of your gross income should be spent on housing and that includes either your rent or the amount you pay for your mortgage which includes principal, interest, taxes and insurance.



Another banking industry guideline is that no more than 40% of your gross monthly income should be used for housing costs and regular monthly debt payments combined. Your regular monthly debt could be car payments, credit card payments, or student loan payments. So if you need the entire 29% of your gross monthly income for rent or your home mortgage payment, you will have only 11% of your gross income left for regular monthly debt servicing.



Let's stop for a minute and talk about the difference between gross monthly pay and net monthly pay.

- **Gross** monthly pay is your pay **before** any deductions are made for taxes or insurance. Gross annual pay is the amount of money you make each year before any deductions are made for taxes or insurance.

- **Net** monthly pay is your pay **after** any deductions are made for taxes or insurance. Net annual pay is the amount of money you make each year after any deductions are made for taxes or insurance.

In this chapter we work with the gross pay figure. There are two reasons for this. First, it is easier to figure gross pay. To find your gross pay for the year, just multiply your hourly pay times 2080. To find your gross monthly income, divide that figure by 12.

More importantly, lenders decide whether or not you can afford to repay a loan based on the gross monthly pay figure. So during this chapter we will work with your gross pay.

Now please review the Budgeting Table of Contents in your textbook. You see that this unit is divided into four parts:

- **Budget Introduction** This page shows you that a household budget is a tool that will allow you to take control of your money.
- **Calculating the Budget** This is a lot of work so you will need a calculator and pencil. You may also need to locate
 - last year's tax return
 - your most recent pay stubs
 - records of your monthly bills
- **Planning the Budget** In this portion of the lesson you develop a plan that will help you set up a budget for your household and stay on it.
- **Saving** Here you will explore and discover some ways that you can save money so you can deposit into your IDA savings account regularly.

Once you have all your materials together you will need to start by figuring out the basic information you need:

- Calculate your average monthly income that can be used for monthly bills. Use the formula given above or use the figures from your pay stubs or tax return. Pages 6-10 of the textbook will help you do this.
- Calculate the amount of money you can afford to spend on each category of your household budget according to the guidelines of this book. The guidelines for a household with no child care costs is on page 2, while the guidelines for a household with child care costs is on page 4.
- Calculate how much you are actually spending in each category. You have homework from the first class session to help with this.

Here's a page by page outline of this chapter of your textbook:

- Page 1 tells how a budget can help you.
- Pages 2, 3, 4 and 5 help you calculate your household budget. You will use these pages after you calculate your income with pages 6 through 10.

- Page 2 shows the guidelines for a household budget for a household with no child care costs.
- Page 3 is the worksheet to figure your own model household budget if you have no child care costs. You will return to
- Page 4 shows the guidelines for a household budget for a household with child care costs.
- Page 5 is the worksheet to figure your own model household budget if you do have child care costs.
- Pages 6, 7, 8, 9 and 10 are worksheets for calculating your income. You may need to complete all 5 of these pages as the first step toward figuring your gross monthly income, if you have several sources of income. For example, both you and your spouse could work and earn an income so use a worksheet for each of you. You may have more than one job. Use a different worksheet for each job. You may receive a monthly child support payment or social security benefit payment. Complete a worksheet for each of those payments.
- Page 6 explains how to complete page 10 if
 - your income is a fixed monthly amount.
 - your income is a fixed annual amount.
 - you are paid hourly. You will need to convert your hourly rate of pay into a gross monthly income amount before you can complete this exercise.
- Pages 7, 8 and 9 are worksheets for different sources of income. You may need one or all of these pages.
- Page 10 lets you put together all the information from pages 6, 7, 8 and 9.
- Now you are ready to do the exercise on page 3 (if you have no child care costs) or page 5 (if you do have child care costs.)
- Page 11 is a worksheet for determining what you actually spend in each budget category. Remember the homework you did before this class? You had to collect your current actual budget expenses and determine how much you are actually spending in each category. Now is the time to pull that worksheet out. On page 11, enter the amount you are actually spending in the blank at the right in each of the budget categories. Total your actual expenses.
- Page 12 helps you compare the actual amount you spend with the budgeted amounts:
 - Take the figures from page 3 or page 5 and enter them in the first column "Figure from Budget Worksheet."
 - Take the figures from page 11 and enter them in the middle column "Figure from My Budget."
 - Calculate the difference in each category and write that difference in the last column labeled "Difference." You may be spending more or less than the budget guidelines. Show the difference as + or - the amount.
 - Now look at the bottom of page 12. This is where you will set your budget goals. First determine and write down your Financial Plan and what adjustments you will make to balance your budget.

- Next complete the Time Line portion of the worksheet. Here determine how long you will need to meet these budget goals and enter that in the Time Line.
- Page 13 has Ten Basic Rules of Money Management from Credit Counseling of Arkansas.
- Pages 14 and 15 explain The Envelope Method. Carefully think through your own money and your own expenses.
- On page 15 fill in the “other” line from Checking, Savings and Cash in the envelope.
- Page 16 asks “Where Did All the Money Go?” Remember your homework assignment for this lesson. Does it make even more sense now after reading this page?
- Page 17 explains how saving even a little bit regularly can help you acquire a lot of money over a number of years.
- Page 19 gives you ways to lower your grocery bill to bring it in line with the budget guidelines.
- Page 20 explains ways to save on entertainment. Can you think of more ideas?
- Page 21, “Creative Savings,” challenges you to think of other ways to save money regularly.

Posttest

1. How should you figure gross monthly pay?
 - a) Multiply hourly pay times 2080 and divide by 12.
 - b) Multiply weekly pay times 4.
 - c) Look at your pay check.
2. What is net monthly pay, according to your book?
 - a) Weekly pay times 4.
 - b) If you get paid twice a month, it is the pay from 2 checks.
 - c) Monthly pay after taxes and insurance are deducted.
 - d) Less than gross monthly pay.
3. Which figure should you start with when you are figuring your monthly budget, net monthly pay or gross monthly pay?
 - a) Net monthly pay
 - b) Gross monthly pay
4. Is this statement true or false? “If you manage your credit cards wisely you can always use the available balance on your credit cards as an additional source of income”
 - a) True
 - b) False
5. Is this statement true or false? “Even a modest regular monthly saving, like \$10 per month can add up to a nice savings balance over a period of several years.”
 - a) True
 - b) False

6. Is this statement true or false? "Saving money on regular expenses like groceries or entertainment is one part of economic literacy."
 - a) True
 - b) False
7. Is this statement true or false? "It is always more economical to buy items in large packages or quantities."
 - a) True
 - b) False
8. When should you not shop for groceries?
 - a) When you are hungry
 - b) When you are bored
 - c) When you have your children with you
 - d) All of the above
9. How much of your gross monthly pay should you spend for housing?
 - a) One third
 - b) 29%
 - c) As much as it costs to get the housing you want
 - d) One week's pay
10. Is this statement true or false? "If you are living on a really tight budget you will never be able to save as much as \$25 a month regularly."
 - a) True
 - b) False