

## ***PAY-YOURSELF-FIRST BUDGETING: STUDENT HANDOUT***

**Note to Students:** Review the following information, then answer the questions in your group.

- ∞ You can't create a healthy financial life unless you have more income than expenses. Understanding and setting goals for your income and expenses is called the process of setting a budget.
- ∞ An effective budget requires you to prioritize what you spend your money on and which expenses are necessary and which are luxuries.
- ∞ Many financial planners say that the thing you should start with in a budget is paying yourself first. This simply means setting aside money for saving before you pay the bills and buy things for yourself. This encourages you to build good financial habits and to be in a position to take advantage of opportunities that may arise.
- ∞ Once you have done this, you can begin the process of learning how to invest your money in a responsible manner that will help you reach your future goals.

Many financial planners suggest you start creating a budget by making sure you spend money according to the recommendations below. It is especially important to allocate pay-yourself-first savings of at least 10 percent of your monthly income so that you can afford to invest your money to grow in the future.

Your mission is to provide Ethan with some guidance about how to adjust his budget. He earns \$2,500 after taxes each month. Column A is what Ethan spent his money on in the past month. For column B, identify what the maximum should be for that category, based on the recommendations below. For example, you should not be spending more than 33 percent of your after-tax income on rent or a house payment. Multiply 33 percent (0.33) by \$2,500 to get \$825. Ethan should spend no more than \$825 on rent.

For column C, identify what your group recommends he spend on that item and provide your rationale. Use the recommendations below to determine column B -- what percentage of his monthly income he should allocate toward:

- ∞ Housing 33%
- ∞ Utilities 7%
- ∞ Food 10%
- ∞ Health 5%
- ∞ Transportation 15%
- ∞ Entertainment 5%
- ∞ Clothes 5%
- ∞ Miscellaneous (personal items, gifts, etc.) 10%
- ∞ Pay-Yourself-First Savings 10%

**Income for the Month: \$2,500**

<b>Expenses</b>	<b>What He Spent</b>	<b>Don't Go Over</b>	<b>Recommendation</b>
House Payment	700		
Phone	175		
Groceries	150		
Dining Out	350		
Health Insurance	0		
Car Payment	250		
Car Insurance	150		
Gas and Tolls	150		
Speeding Tickets	75		
Movies and Video Games	175		
Clothes	175		
Gifts	250		
Credit Card Bill	300		
Charity	100		

Savings and Investments	0		
<b>Total Spending</b>	<b>\$3,000</b>		

In which areas was Ethan spending more than the recommended percentages?

In which areas was Ethan spending less than the recommended percentages?

Other than following the budget recommendations, what criteria did you use to make your recommendations?