



## UNIT 1

## Being Financially Responsible

## Topic

## Budgeting for Success

## LEARNING OBJECTIVE(S)

Students will:

- **understand** the steps involved in developing a budget, including identifying sources of income and the cost of fixed and variable expenses.
- **apply** their understanding of budgets to **critique** the budget of another person.
- **evaluate** the budget recommendations of their peers.

## Title

Budgeting Dilemmas

## Overview

*What expenses will you have in the future and how much will they cost? How does developing a budget help you manage your money?* After learning what makes up a budget, student “financial counselor” groups will identify issues and present solutions for the budgets of fictional clients. They then will share recommendations with the class and offer feedback to other groups.

## Financial Literacy Theme

Being Financially Responsible

## 21st Century Skill(s)

Collaboration, Communication, Critical Thinking

## Key Terms

Budget, fixed expenses, variable expenses, financial counselors

## Materials

- **Budget Dilemma Student Handout**—one copy per student (Option for groups to see only their client’s budget or all four. All budgets should be displayed during the group presentations.)
- **Financial Counseling Results Student Handout**—one copy per student

## Pathway to Financial Success

In Schools

## Connect

**How does this connect to the student?**

While budgeting is something many people know they *should* do, it is often avoided. Getting students comfortable with budgeting and into the habit of doing it often at a young age can increase the likelihood that they do it throughout their lives.

**How does this connect to careers?**

**Certified Public Accountant:** Students who enjoy budgeting might consider a career in accounting. The American Institute of Certified Public Accountants' [Start Here Go Places](#) website offers information for students (and teachers) on accounting as a career.

**Financial Counselors:** This is a growing field along with financial therapy and financial social work. People in each field work with clients to help them achieve financial goals.

**How does this connect to the world?**

Understanding how budgets work and the challenges of balancing expenses with income can help students better understand challenges faced by governments, businesses, and other organizations.

## Prepare

**Background:** Budgets allow individuals to plan and track income and expenses; yet, only 40% of American adults actively use one<sup>1</sup>. Many people find budgets to be prescriptive and limiting—akin to being placed on a restrictive diet. Encourage students to think about a budget as a spending plan instead—focusing on how it guides their spending rather than limits it. What someone includes in their budget is up to them and often varies by age. Budgets for teens often focus on their most common expenses: food, clothing, cars, accessories and cosmetics, shoes, video games and electronics, and entertainment (music, movie, and events). Expenses such as housing, insurance, and groceries are typically added as one gets older.

## Engage

- Challenge students to think about expenses they will have once they are living independently. Which do they think will be their largest expenses? Ask students how much money they will need each month to pay for their basic *needs* (housing, transportation, clothing, food). \$500? \$1,000? \$2,000? More? How much *more* will they need to pay for everything else—their *wants* (eating out, pets, vacation, entertainment, etc.)?

## Teach

1. Invite students to share what they already know about budgeting and how using a budget helps people track their income and expenses. Explain that many people use a budget to determine whether they will have enough money to pay for their needs and wants. A **budget** shows the sources of people's income as well as their expenses. Discuss

<sup>1</sup>[https://nfcc.org/wp-content/uploads/2017/03/NFCC\\_BECU\\_2017-FLS\\_datashet-with-key-findings.pdf](https://nfcc.org/wp-content/uploads/2017/03/NFCC_BECU_2017-FLS_datashet-with-key-findings.pdf)

## Pathway to Financial Success

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how some expenses can be **fixed** (the same every month) while others are **variable** (different from one month to another). Challenge students to suggest expenses that fit into each category.

2. Inform students that they will be working in small groups as **financial counselors** (people who help clients develop budgets and make wise financial decisions). Their “client” has prepared a budget and wants their advice. Their task is to determine if their client’s budget seems realistic and to give advice on how to balance his/her budget.
3. Distribute the **Budget Dilemma Student Handout** to students. Note: Students may receive the budgets of all four clients or only the one their group will review. If they receive all four, they may compare and contrast, but they can also reference them during the other groups’ presentations.
4. (Optional) Review and discuss one budget with students as an example before dividing students into groups.
5. Encourage students to form small groups. Challenge each group to name its financial counseling firm while you distribute materials. Assign groups to a specific client (Max, Chloe, Fernando, or Via). More than one group can have the same client, if needed.
6. Direct students to examine their client’s budget and use the questions provided on the handout to prompt discussion. Explain that they will have 20 minutes to review the budget and reach consensus on a recommendation to share with the class. Confirm that problems with the client budgets may not be obvious right away but that they should be able to find ways to improve each budget through collaboration and analysis. Each group should appoint a spokesperson to briefly present its recommendations (2–3 minutes per group). If available, students should use the Internet to research the cost of items and determine whether the proposed expenses are realistic.
7. Give students ample time to work in their groups. Check in with each group. If necessary, the questions below can be used to guide groups to the problem with each budget.

Max:

- Is it a good idea for Max to spend his entire paycheck (all of his income) every month? For example, what might happen if his truck needs new tires?
- What might happen if his roommate moves out or is not paying his/her portion of the rent?
- What utilities has he included in his estimate? Are any utilities covered in his rent? Is this number realistic for utilities? Is Max sharing the utilities expense with his roommate?
- How does Max determine his transportation expenses? He must provide his own transportation to customers’ homes, but who will be paying for gas? How might changes in gas prices affect his budget? What if the used truck gets much worse gas mileage than Max anticipated?
- Is \$63 a reasonable amount to spend for an entire month of entertainment?
- Are there any budget items you think may have been left out (for example cell phones or attending concerts to write reviews for social media)?

Chloe:

- What is the biggest problem right now with Chloe's budget? Look at her total expenses versus her total income.
- What are Chloe's options for getting her budget to balance?
- What utilities are covered in the utility category?
- What is Chloe's biggest anticipated expense? Are there other options she could consider to reduce this expense?

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- Is Chloe making any allowances for unexpected expenses or emergencies in her budget?
- What changes could she make in her spending? In her income?
- Do her expenses seem reasonable? Has she considered all of her expenses?
- What will happen if Chloe has an unexpected expense?

Fernando:

- Compare his wage income versus his tips income. Would it help to know how much he made in wages/ tips before he came up with this estimate? Is there a risk that Fernando's income may not be higher than before? What might happen if the restaurant is not very busy during some of his shifts?
- Could the "better shifts" interfere with Fernando's school schedule and thus his future income?
- Are there any expenses Fernando may have missed in his calculations? How is Fernando getting to work and classes?
- Are the estimates for his expenses realistic?
- What will happen if Fernando has an unexpected expense?

Via:

- If Via found an apartment that accepted pets, would she move out of her parents' home? How might that impact her budget?
- Consider how many years it will take Via to pay off all her college loans.
- What is a typical down payment amount to buy a house? How might the amount affect her living arrangements?
- Does she plan to have multiple pets at her parents' home and how might this affect someone's budget?

8. Distribute the **Financial Counseling Results Student Handout** to students.
9. One at a time, invite each group to present client recommendations and take questions from classmates. Guide students to take notes on the **Financial Counseling Result Handout**.
10. Debrief the presentations. As groups present, ask the other groups: Would you hire this group for financial counseling? Why or why not? What could they do better for future clients?
11. After listening to all groups, ask: What common problems did you find with all of the clients? What steps could be taken to avoid these problems when you are creating a budget for yourself? Why might it be difficult for someone to stay with the plan he/she has created for his/her budget?
12. Summarize what students learned. Budgets are useful tools to help plan for both income and expenses. Since people have different expenses, their budgets may differ. People should plan for both fixed and variable expenses and those for which they cannot plan.

## Extend

- **Action:** Challenge students to develop their own personal budgets. What expenses will they have? How much income will they need to support their expenses?
- **Technology:** Discuss ways people use technology to track expenses and budget their money. Students should compare various spreadsheet templates, apps, and software used for budgeting. Which would they use and why?

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- **Family:** Encourage students to discuss budgeting with members of their families. How do they track expenses? Do they maintain a budget? How often do they review it? If they do not use a budget, why?

## Standards Correlation

[National Standards for Financial Literacy](#) from the [Council for Economic Education](#)

2. A budget includes fixed and variable expenses, as well as income, savings, and taxes.
2. People may revise their budget based on unplanned expenses and changes in income.

# Budget Dilemma—Max

**Directions:** Review Max’s budget with your group. Consider the following when preparing your analysis and recommendations:

- Does your client have enough income to pay for his expenses?
- Are both the income and expenses realistic? Which expenses are fixed? Variable? Are any expenses missing?
- What concerns do you have about the budget Max is proposing?
- What questions will you ask him?
- What advice will you provide?

**Client Profile:** Max spends much of his free time playing the drums in a band and going to see other musicians perform live. He’s developed a following on social media from the concert reviews he shares. While he dreams of becoming a famous musician someday, he knows that won’t pay the bills for now. Max recently graduated from vocational school where he studied plumbing. He’s landed a job as an apprentice with a local plumbing company where he will start working at a rate of \$13 per hour. Max will need his own transportation to get to the homes of his customers. He found a good deal on a used truck that he thinks will work well for him. He’s planning to live with a roommate to reduce his housing expenses and is confident he can keep his budget balanced.

## Monthly Budget:

<b>Income:</b> Job (40 hours a week; \$13/hour; after taxes) <sup>2</sup>	\$1,531
<b>Expenses:</b>	
Rent (half of rent on a 2 bedroom apartment)	\$600
Utilities	\$120
Car payment	\$323
Gas	\$150
Car insurance	\$125
Groceries	\$150
Entertainment	\$63
<b>Total Expenses:</b>	<b>\$1,531</b>

<sup>2</sup><https://www.adp.com/tools-and-resources/calculators-and-tools/payroll-calculators/salary-paycheck-calculator.aspx>

# Budget Dilemma—Chloe

**Directions:** Review Chloe’s budget with your group. Consider the following when preparing your analysis and recommendations:

- Does your client have enough income to pay for his expenses?
- Are both the income and expenses realistic? Which expenses are fixed? Variable? Are any expenses missing?
- What concerns do you have about the budget Max is proposing?
- What questions will you ask him?
- What advice will you provide?

**Client Profile:** Chloe is 22 and recently graduated from college. She’s excited about her new job and moving out on her own. After interviews at seven schools, she’s been offered a position teaching second grade with a starting salary of \$36,141<sup>3</sup> a year. She’s confident she’ll be able to get her own apartment but expects her student loan payment to be the next largest bill she has each month. She’s worried because her initial budget already has her spending more than she makes.

## Monthly Budget:

<b>Income:</b> Salary (after taxes)	\$2,270
<b>Expenses:</b>	
Rent	\$1,250
Utilities	\$175
Gas	\$75
Car insurance	\$90
Student loan repayment	\$550
Cell phone	\$73
Groceries	\$115
Entertainment	\$63
<b>Total Expenses:</b>	<b>\$2,391</b>

<sup>3</sup><https://articles.niche.com/teacher-salaries-in-america/>

# Fernando's Budget

**Directions:** Review Fernando's budget with your group. Consider the following when preparing your analysis and recommendations:

- Does your client have enough income to pay for his expenses?
- Are both the income and expenses realistic? Which expenses are fixed? Variable? Are any expenses missing?
- What concerns do you have about the budget Max is proposing?
- What questions will you ask him?
- What advice will you provide?

**Client Profile:** Fernando is starting his senior year of college in the fall. He will be living off-campus for the first time and hopes to save money by making most of his own meals. The manager at the restaurant where he waited tables last year has promised him better shifts this year. He's hoping that means more tips. His parents will be paying his rent and helping with groceries, but they said the rest is up to him. Fernando is already starting to pay down his student loans. His parents also want him to learn what it is like paying bills so he'll be ready when he graduates.

## Monthly Budget:

### Income:

Wage (15 hours a week; \$2.13/hour; after taxes) <sup>4</sup>	\$115
Tips (after taxes)	\$350
Gifts (money from parents)	\$600
<b>Total Income:</b>	<b>\$1,065</b>

### Expenses:

Rent (includes utilities)	\$550
Student loan repayment	\$250
Cell phone	\$25
Groceries	\$175
Textbooks and school supplies	\$50
<b>Total Expenses:</b>	<b>\$1,065</b>

<sup>4</sup><https://www.dol.gov/whd/state/tipped.htm#foot1>



# Via's Budget

**Directions:** Review Via's budget with your group. Consider the following when preparing your analysis and recommendations:

- Does your client have enough income to pay for his expenses?
- Are both the income and expenses realistic? Which expenses are fixed? Variable? Are any expenses missing?
- What concerns do you have about the budget Max is proposing?
- What questions will you ask him?
- What advice will you provide?

**Client Profile:** Via has turned her passion for animals into a career as a veterinarian. Between her undergraduate and veterinary degrees, she has amassed significant student loan debt—more than \$250,000! Her student loan repayment is more than what some people pay for rent or a mortgage for a house. For now, she's moved back in with her parents, but she wants to buy her own place as soon as she can afford it. She wants to have multiple pets and none of the places she's looked at to rent will allow that. She wants to set aside money each month toward a down payment on her own home.

## Monthly Budget:

<b>Income:</b> Salary (after taxes)	\$4,464
<b>Expenses:</b>	
Rent (charged by parents)	\$300
Saving for down payment on a house	\$1,000
Car payment	\$727
Gas, maintenance, and car insurance	\$245
Student loan repayment	\$1,600
Cell phone	\$74
Groceries	\$80
Clothes	\$100
Entertainment	\$100
Emergency/general savings fund	\$200
<b>Total Expenses:</b>	<b>\$4,426</b>

<p><b>Max</b> <i>Miniature of Max's Budget</i></p> <p>What is Max's biggest budgeting challenge?</p> <p>What additional information is needed from Max?</p> <p>What is the best advice Max received?</p>	<p><b>Chloe</b> <i>Miniature of Chloe's Budget</i></p> <p>What is Chloe's biggest budgeting challenge?</p> <p>What additional information is needed from Chloe?</p> <p>What is the best advice Chloe received?</p>
<p><b>Fernando</b> <i>Miniature of Fernando's Budget</i></p> <p>What is Fernando's biggest budgeting challenge?</p> <p>What additional information is needed from Fernando?</p> <p>What is the best advice Fernando received?</p>	<p><b>Via</b> <i>Miniature of Via's Budget</i></p> <p>What is Via's biggest budgeting challenge?</p> <p>What additional information is needed from Via?</p> <p>What is the best advice Via received?</p>