LESSON 1.4: EARNING AN INCOME

OKLAHOMA STATE DEPARTMENT OF EDUCATION
CHAMPION EXCELLENCE

Manage Your Income

Standard I

The student will describe the importance of earning an income and explain how to manage personal income using a budget.

Lesson Objectives

- Identify the main parts of a budget.
- Explain the steps for preparing a budget.
- Describe the relationships between budgets and personal goals.

Personal Financial Literacy Vocabulary

Budget: A plan for managing money, dividing up expected income and expenses among spending and saving options based on personal goals during a given time period.

Expenses: The costs of goods and services, including those that are fixed (such as rent and auto loan payments) and those that are variable (such as food, clothing and entertainment).

Financial goal: Desired results from one's efforts to achieve personal economic satisfaction.

Fixed expenses: Expenditures that are the same from week to week or month to month, such as mortgage or rent payments and car payments.

Fixed income: Income that stays the same from week to week or month to month. Usually refers to income from pensions or bonds.

Income: Money earned from investments and employment.

Variable expenses: Expenditures that change from week to week or month to month — for food, clothing, recreation and entertainment, for example.

Variable income: Income that varies from week to week or month to month.

Introduction

Mickey wants to get his own apartment as soon as he graduates from high school. Mom and Dad are not so sure. They know that money is tight at home, and they will not be able to help him financially. Mickey is convinced he can make it on his own. He has a part-time job during the school year and can add more hours once he graduates.

What can Mickey do to see if he can afford to get his own place?

Lesson

Most of us work hard for our money. However, few of us can really explain what happens to it each month. When the paycheck arrives, it seems like a lot of money — but by the end of the month, we are digging in our closet to find an old coat to see if there is extra change in the pocket! What happens? Where does it go?

The reality is this: it is not how much money we make; it is how much money we spend. If we do not learn how to control our spending, we will never have enough money to be happy or to pay our bills. Wealthy people who are careless with their spending will quickly become poor. On the other hand, moderate to low income people could become wealthy if they practice good money management skills.

One of the most important tools we can use to control our spending and to build wealth is budgeting. While it may not sound like fun or may seem too restrictive, it will become our road map to accomplishing our goals.

But, what about the money needed to get there? That is an instant reality check!

Budgets provide the answer to that question. A budget is simply a monthly spending plan. Setting and following a budget puts us in control of our income and guides us toward our personal dreams. It is like following a roadmap when taking a trip.

A budget promotes smart spending habits. It helps us say "no" to the things that will detour our trip. It helps us focus on our destination and establishes the route we take to get there. In addition, a budget provides a safety net for emergencies or other bumps in the road. Those "bumps" include impulse spending, overspending, unexpected expenses and even bankruptcy. Monitoring what we spend is a lot easier than trying to paying bills with money you do not have!

Building a budget is personal and should align with our goals. While there are some basics to follow, a budget is not a "one size fits all" plan. One of the best ways to start is by writing down everything you spend for one month. That means EVERYTHING. Tracking your spending is the only way to know where your money goes. It also helps you know if you are spending money in a way that will accomplish your goals.

Fixed and Variable Income

Income is the money you receive from employment or other sources. When preparing a budget, you have to start by knowing how much you earn. Your earnings will limit the amount of spending you have each month in order to pay your bills and save for future goals. Fixed income is income that is set each month; variable income is income that can fluctuate each month.

For example, if you have a monthly salary of $2,500, that income remains the same from month to month. However, if you are paid per hour, your income is based on the number of hours you work—so your income may vary from month to month. People earning commissions and those who are self-employed also tend to have variable income. When budgeting, you need to average your income for the past 12 months to determine a "typical" monthly income.

In some cases, you may have both fixed and variable income sources. Suppose you work for a set number of hours each month and are paid for those hours – but you also have the option to work overtime or additional hours for more pay. Income from the "set" number of hours is fixed while income from the additional hours is variable.

Fixed and Variable Expenses

Expenses are the costs you pay for the products you buy. Some expenses are fixed and others are variable.

> Fixed expenses are those payments and expenses that stay the same from month to month. Fixed expenses include payments such as a lease or house payment or car insurance; you generally have a contract for a set amount for those costs. They do not vary from month to

month and will not change until the terms of the contract change.

Variable expenses are those payments and expenses that tend to be different each month. Variable expenses include any expenses you can control on a monthly basis. For example, you can adjust your spending on utilities, gasoline, clothes, food, entertainment, and many other products you buy each month.

A cell phone can be either a fixed or variable expense, depending upon your plan. If you have a contract with unlimited minutes and unlimited texts, it is probably a fixed expense. However, if your bill changes monthly based on texting charges, data usage, and minutes used, then it would be a variable expense.

REMINDER

When preparing your budget, be sure to include deposits to your savings account as a FIXED expense. The best budgets always start with paying yourself first!

When making a monthly budget, fixed expenses are set—so enter them into your spending plan first. Then you can enter all of your other expenses. Your income needs to cover all of your expenses, which means you may need to adjust your variable expenses. When possible, it is important to include fun activities, such as dinner with friends or a movie as part of your variable expenses. After all, the purpose of a budget is to help you meet your goals – not limit your fun.

Steps to Preparing a Budget

Now that you have an understanding of the basic components of a budget, you can build a spending plan that will help you accomplish your goals. Budgets are usually set up on a monthly basis, so you may need to multiply your weekly expenses times four to get the monthly amount. Also, if you make weekly or bi-weekly payments, you would also want to convert them to a monthly amount.

Following are the recommended steps for creating and maintaining a good budget that can help keep you from overspending or increasing your debt:

- Set realistic goals. When possible, include an estimate of how much money you need to reach each goal and the timeframe.
- Identify sources of income. Whether you have a job, receive an allowance or have some other regular source of income, it is important to know what amount is available for you to spend each week or each month.
- Identify and track expenses. Keeping a log of how much money you spend will help you stay on course to meet your goals. One of those expenses should be paying yourself by putting part of your income into a savings account. If you have money

saved and you need to make an emergency purchase, then you won't need to borrow money to pay that expense. Most experts recommend putting 10 percent of your income into savings, but the most important thing is to start saving. You can always increase the amount.

- Classify expenses into Fixed and Variable Expenses. Your fixed expenses may be difficult to change immediately, but you can adjust your variable expenses to keep you on target.
- Review and adjust. Preparing a budget is not a one-time event or something that is etched in stone. It should be a flexible document that meets your changing income and expenses. Taking the time to review things several times a year will allow you to make any necessary adjustments. Depending upon your situation, it may be useful to review it even more often.
- Lastly, communicate! If you are preparing a family budget, then all family members should be involved in the process. That includes all sources of income for all family members and all family expenses. If it is your personal budget, you may want to share your goals with your family or friends so they can support you and your financial decisions.

Conclusion

Having budget and following it is one of the most important tools an individual or a family can have to help manage their financial resources. Without a budget, you are left guessing every month if you will have enough money to get by. Budgets should be flexible and change as your income and expenses change. Most successful individuals, just like successful business managers, will review their budget at least several times a year to ensure they are on target for reaching their personal and financial goals.

FINAL NOTE: If Mickey is really serious about moving out, he needs to make a budget to see if he can afford to do it. By making a budget, Mickey can see how much he earns and how much he can afford to spend. Having a budget will also help Mickey show his parents he has a plan to be responsible with his money.

This lesson was written and created by Oklahoma educators in partnership with

Oklahoma CEE Council on Economic Education

Name:________________________________Class Period: ______________________________

Tracking Your Money Review 1.4

Answer the following questions and give the completed lesson to your teacher to review.

1. Which of the following is a fixed expense?
   a. Rent
   b. Food
   c. Entertainment
   d. Clothing

2. Which of the following is a flexible expense?
   a. Loan payment
   b. Eating out
   c. Garbage
   d. Cable

3. Explain the purpose of having a budget.

4. Identify the steps you need to take to prepare a personal budget.

Name:_______________________________Class Period: ______________________________

Daily/Weekly Spending Log Activity 1.4A

Keep a record of all of your spending for at least one week. But realize, a week may not be enough time to really find all of your money habits. You may want to copy this page and keep track for a longer period of time. Write down everything! Also record how you were feeling at the time. Emotions account for a lot of spending and you may not even realize it. After the week is up, look at your log. Do you see any patterns developing? What are some of the "triggers" that start you spending? Do you see spending habits that you want to change? Are you spending more than you actually have? Total the amount you have spent during this week.

Day	*Time*	*Item Purchased*	*$ Amount*	*What was I feeling?*

Name:________________________________Class Period: ______________________________

Student Budget Form Activity 1.4B

Use this form to complete your budget, based on the spending habits found on your tracking form. You may need to adjust your allowance/income to a weekly or monthly amount to complete this assignment.

Allowance/Income_________________

Allowance/Income per week_______________

Allowance/Income per month_______________

FIXED EXPENSES	**Weekly**	**Monthly**
Lunches		
Transportation		
Contributions		
Savings		
Insurance		
Other:		
FLEXIBLE EXPENSES		
Hobbies		
Movies		
Entertainment		
Snacks		
Clothing		
Books/Magazines		
CDs/Tapes/Downloads		
Cell Phone		
Gifts		
Other:		
Other:		
TOTALS		