A budget is a tool to make certain that you balance your expenditures with your income to secure your financial future.
A consumer makes many financial decisions throughout their lifetime that affects their financial security. We are often driven by habits that affect our finances. For example, it has become popular for many people to stop and purchase coffee on their way to work when they could make coffee at home or even at work for a fraction of the cost.

Sometimes people purchase clothing items, not because they need them, but simply because they are on sale. If they never wear that clothing item, that bargain was not really a bargain. They would have been better off purchasing something that cost a little more, but wore all the time or saving their money.
Resources Are Limited

- Financial planning can help consumers and their families with their economic choices.

Failure to Plan is Planning to Fail.

-Benjamin Franklin

In a dream world you would have enough money to purchase anything and everything your heart desired! We live in the real world. We have a limited amount of money to spend and we need to take time to prioritize our goals so that we do not run out of money before getting the things we really need and want.

We tend to live in an “instant gratification” society where we want things now! Creating a budget helps you identify your needs, examine what you really want and determine what you can afford.

Strive to make budgeting a HABIT. With a little practice, you may decide not to stop at the local convenience store for a beverage and wait until you get home to get something out of the refrigerator. If you don’t budget, you run the chance of running out of money before the next payday and not meeting your immediate needs.

Failing to plan is equivalent to setting yourself up for failure.
What is Financial Planning?
The process of managing financial resources (money) so you can achieve your goals and dreams.

It involves dealing with financial limitations that come with every stage of life. Financial planning is a journey, not a destination!

A budget that might work this month for you might not work for you six months down the road. Life changes. Our needs change and our priorities change. It is important to continually monitor your budget. If you see there is an area where you are spending more on a regular basis, that area of your budget needs to be re-evaluated and changed. Unless your income has increased, this means spending less in another area of your budget. Your financial decisions are limited to your income. When you are career planning, you might want to consider what kind of lifestyle you want to have. Your career dictates your income and your income affects your lifestyle.
Here is a model of financial decision making. You define your objective or set your goals. Determine what your choices might be. Evaluate the choices, make a decision and then evaluate the decision. The process starts all over as you set new goals. Keep in mind; it does not end with making a decision. Sometimes we do not make the best decision. Evaluating the decision, whether it is good or bad, helps us to make better decisions in the future.
The First Step…

- Define the objective….
  - To Develop and Maintain a Healthy Financial Life!

Your ultimate objective is to have a healthy financial life.
The First Step...

- A good financial plan allows the consumer and the family to:
  - Live within their income
  - Identify goals
  - Prepare for emergencies
  - Be financially independent

Your ultimate objective is to have a healthy financial life. This means living within your income, identify goals, prepare for emergencies and be financially independent. Living within your income means that you write down all your expenses and if they are greater than your income, you figure out how to make adjustments. Identifying and prioritizing goals will help you to do this. You prepare for emergencies through a savings plan. You should make a commitment to “Pay Yourself First”. This means that before you start spending, deposit a set amount, say 5% of your income, into a savings account. That way you have something to fall back on when that financial emergency arises. This helps you to be financially independent.
BUDGET

• The financial plan for:
  – Spending $
  – Saving $
Income includes money coming in from your job, allowance, gifts or interest earned on investments. After you figure out what your income is, you need to estimate your expenses. Your expenses include money going out for life’s necessities as well as money spent for fun. Many of these expenses are fixed. That means you cannot adjust them. This would include rent or house payment, car payments or other installment payments that do not change. Flexible spending includes utilities, food, entertainment, revolving credit (which we will talk about in a future lesson) and expenses that change from month to month.
Preparing a Budget:

- Start with Income
  - Gross Income (before taxes)
  - Net Income (after taxes)
  - Be sure to include irregular payments like
    - Bonuses
    - Tips
    - Gifts
    - Interest payments from savings and investments

Let’s take a look at income. If your income comes from a job, your gross income is what you are paid before taxes. It is not what you see on your check when you are actually paid. Most people are a little disappointed when they get their first job and do the math to figure out what they will make on that first paycheck and then receive a lot less. Taxes cover the cost of government programs and as a citizen we have a responsibility to pay taxes. In addition to regular income, you may have irregular income such as tips, bonuses, gifts or interest payments from savings or investments.
Preparing a Budget: Next Step

- Identify Expenses
  - Fixed Expenses
    - Rent or Mortgage
    - Car Payment
    - Credit Card Payment
  - Variable Expenses
    - Groceries
    - Clothing
    - Entertainment

Identify Expenses

Fixed Expenses – regular payments that don’t change
- Rent or Mortgage
- Car Payment
- Credit Card Payment

Variable Expenses – amounts can change
- Groceries
- Clothing
- Entertainment
“Pay Yourself First” was mentioned earlier. This idea treats saving as a fixed expense. We already mentioned saving as a way to provide for financial emergencies, but you may also wish to save to spend.
Most families like to take a vacation at least once a year. You might want to save a down payment on a new car. Some money in savings should be designated for long term savings. If you have children, you might want to save to provide for their college education by saving in advance.

You should definitely start saving for retirement. You might think, “I am young, retirement is years away. Why should I save now?” The younger you start saving for your retirement, the more time your money has to grow. This translates into possibly having the finances and option to retire at a younger age.

The government allows for pre-tax dollars to be spent on education and retirement. This saves you money on taxes while you are saving so it does not cost you so much to save.
The BUDGET On A Monthly Basis..

- INCOME = Money comes in 😊
- Expenses = Money goes out 😞
- Balanced Budget = Zero!
  - If the ending amount is + => More Savings! 😊
  - If the Ending amount is - => Reduce Expenses
    OR
    Increase Income!

Take your income, all the money coming in and subtract your expenses or all the money going out. If your answer is zero, you have done an excellent job budgeting. If you have extra money, that’s great! It provides money for extra savings or maybe more entertainment. If your ending amount is negative, you have overspent and something needs to be adjusted. You either need to cut back on expenses or figure out a way to increase your income.
Here are some websites that will help you get some budget practice.

- Click the links to get some Budget Practice:
- "Determining Your Budget" from TheMint.org
- "Creating a Budget" from "learnfree.org"
Resources