



Financial Literacy with Mr. 401(k)
Winter Term 2024 - 2025
December 18, 2024

Making & Spending Money

Class 8: Balancing Needs & Wants – Budgeting Basics





Class Discussion

*Do you think it
is important to
have a plan for
your money?
Why or why
not?*

Budgets are Forecasts:

Forecasts of Income and Forecasts of Expenses

Forecasted Income	\$1,000
Forecasted Expenses	\$800
Surplus (Shortfall)	\$200

Budget Surplus

forecasted income >
forecasted expenses

Forecasted Income	\$1,000
Forecasted Expenses	\$1,000
Surplus (Shortfall)	\$0

Balanced Budget

forecasted income =
forecasted expenses

Forecasted Income	\$800
Forecasted Expenses	\$1,000
Surplus (Shortfall)	-\$200

Budget Shortfall

forecasted income <
forecasted expenses



Class Discussion

*If you got \$100
today, how
would you
decide what to
do with it?*

‘Needs’ vs ‘Wants’

Important: Personal Circumstances Matter



Must Haves

Necessary to satisfy day-to-day needs
(ex. Transportation to/from activities, school, job, etc.)



Should Haves

Important, but generally not necessary to satisfy day-to-day needs
(ex. Basic Personal Vehicle)



Could Haves

Nice to have, but not necessary to satisfy day-to-day needs
(ex. Premium Electric Personal Vehicle)

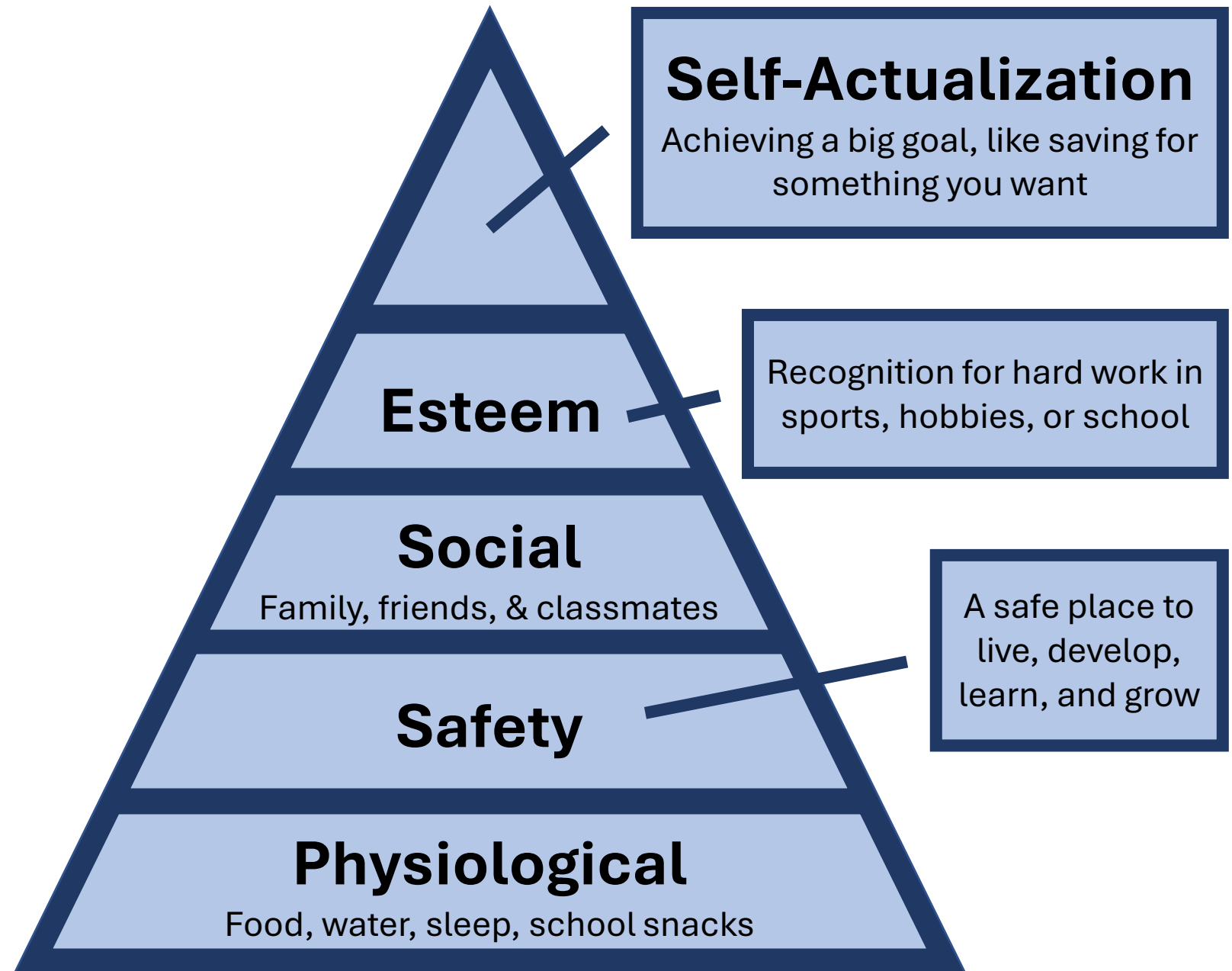


Wants

Entirely discretionary, but may enhance lifestyle
(ex. New High-End Sports Car)

Maslow's Hierarchy of Needs

Maslow's Hierarchy of Needs, created by psychologist Abraham Maslow in 1943, is a five-level model of human needs. People meet basic needs before focusing on higher goals. This model applies to budgeting because you should start with your basic needs (essentials), like food and safety, before spending on extras (wants), like games or fun activities.





Class Discussion

What do you think happens when people spend more money than they make?

Goal-Oriented Budgeting

Step 1

Identify a savings goal (ex. a new bicycle)

Step 2

Determine how much we need and when we need it.

Step 3

Set aside a certain amount routinely (ex. weekly or monthly) to attain the savings goal.

Important

Track progress over time to stay motivated and adjust, if necessary.



Envelope Budgeting System

Step 1

Label envelopes with budget categories.

Step 2

When you receive money, divide it among the envelopes based on your budget plan.

Step 3

Spend only what is in each envelope for that category.

Important

When it's gone, it's gone – this helps prevent overspending and keeps you within budget.



Clothes

25%



Concerts

20%



Hobbies

10%



Investing

20%



Savings

10%



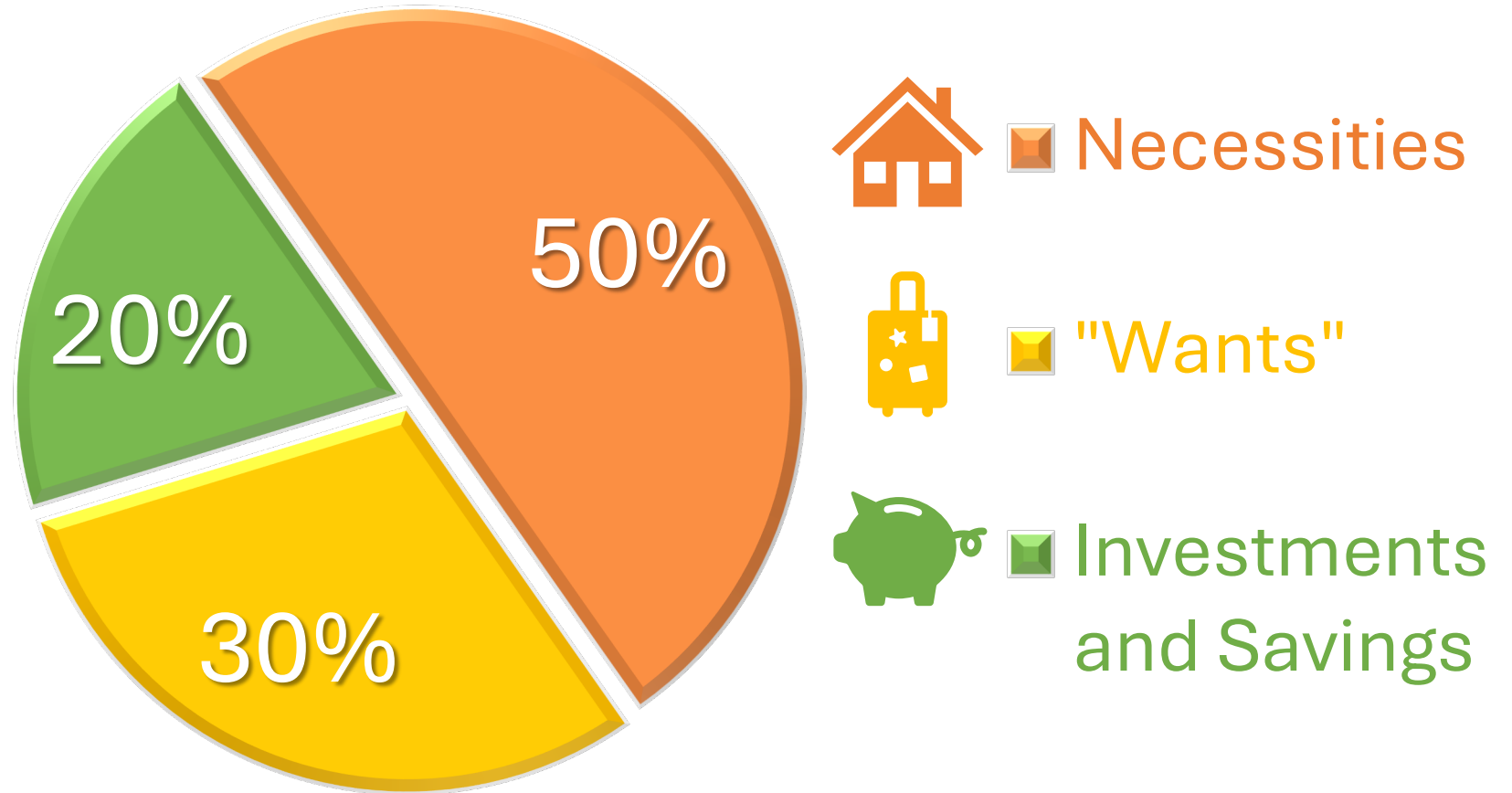
Sports

15%

50/30/20 Budgeting System

Approach

Determine total monthly income. Then, allocate the income as follows: **50%** to necessities, **30%** to wants, and **20%** to investments and savings.





Class Discussion

*Why is it
important to
set money aside
for emergencies,
even as a
student?*

Sample Budget Guide

Budget Item		Approach	Formula
A	= Income	Add up all expected income sources. Include earned income, passive income, and portfolio income.	
B	= Long Term Financial Security	Invest 15% for long term financial security (ex. retirement).	$= A \times 15\%$
C	= Income Taxes	Estimate income taxes from total income and tax rates.	$= A \times [\text{Tax Rates}]$
D	= Emergency Savings	Save 5% of after-tax income for emergencies. Build up 3 to 6 months of expenses in savings.	$= (A - C) \times 5\%$
E	= Essential Expenses	Spend no more than 50% of after-tax income on essential expenses -- all “must haves,” and some “should haves.”	$= (A - C) \times 50\%$
F	= Other Expenses, Savings, or Investments	Use what’s left wisely: can be spent on discretionary expenses – your remaining “should haves,” “could haves,” and some “wants.” The balance could also be saved or invested.	$= A - B - C - D - E$

Simplified Budgeting for Teens

Step 1: Add up your income (A)

- Estimate all the money you make: earned, passive, & portfolio income

Step 2: Save for the future (B & D)

- Invest **15% for long-term goals** (like a big purchase or college)
- Save **5% into an emergency** fund for unexpected surprises like fixing a phone

Step 3: Subtract taxes (C)

- Estimate how much you will pay in taxes or other deductions

Step 4: Cover your needs (E)

- Spend up to 50% of what's left **after taxes** on important things like food, supplies, and transportation

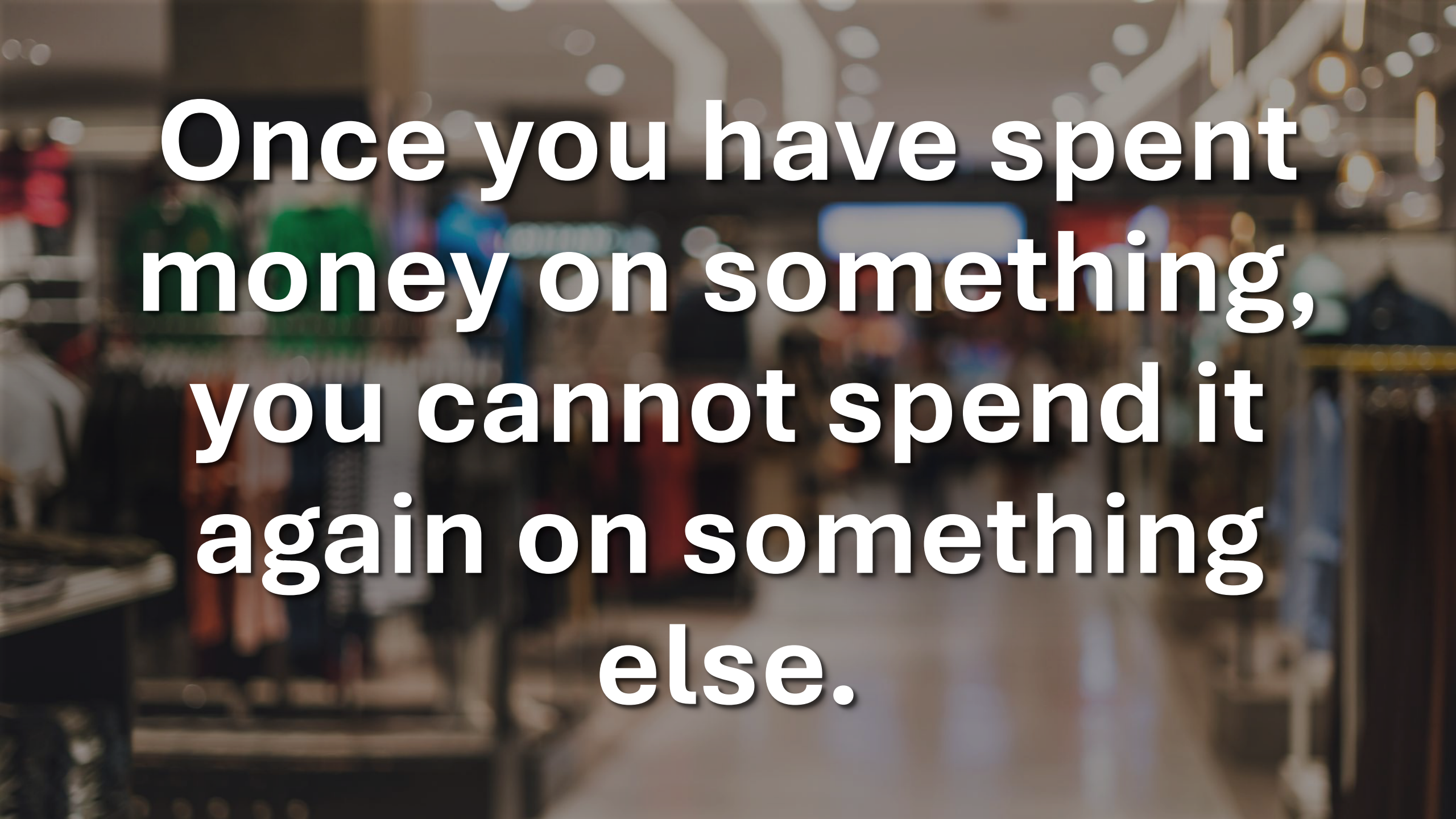
Step 5: Use what's left for wants (F)

- The rest can go to fun stuff (games, movies), extras, or saving/investing even more!

Money Mavericks

Objective: Use the Simplified Budgeting for Teens handout to help a student develop a budget. The student forecasts total income for the year of \$6,000. The student anticipates a 10% income tax rate. Calculate the amounts for Steps 2, 3, 4, and 5.





**Once you have spent
money on something,
you cannot spend it
again on something
else.**

Beware of 'Sneaky' Costs

Don't forget about ancillary costs when budgeting. They add up quickly!



Game Console

\$500 + Sales Tax



Controllers

\$75 Each + Sales Tax



Video Games

\$20 to \$70 Each +
Sales Tax



Monitor or TV

\$200 to \$2,000 +
Sales Tax



Headphones

\$50 Each + Sales Tax



Batteries

\$10 / Pack + Sales Tax



Electricity

\$3 / Month + Taxes



New Console

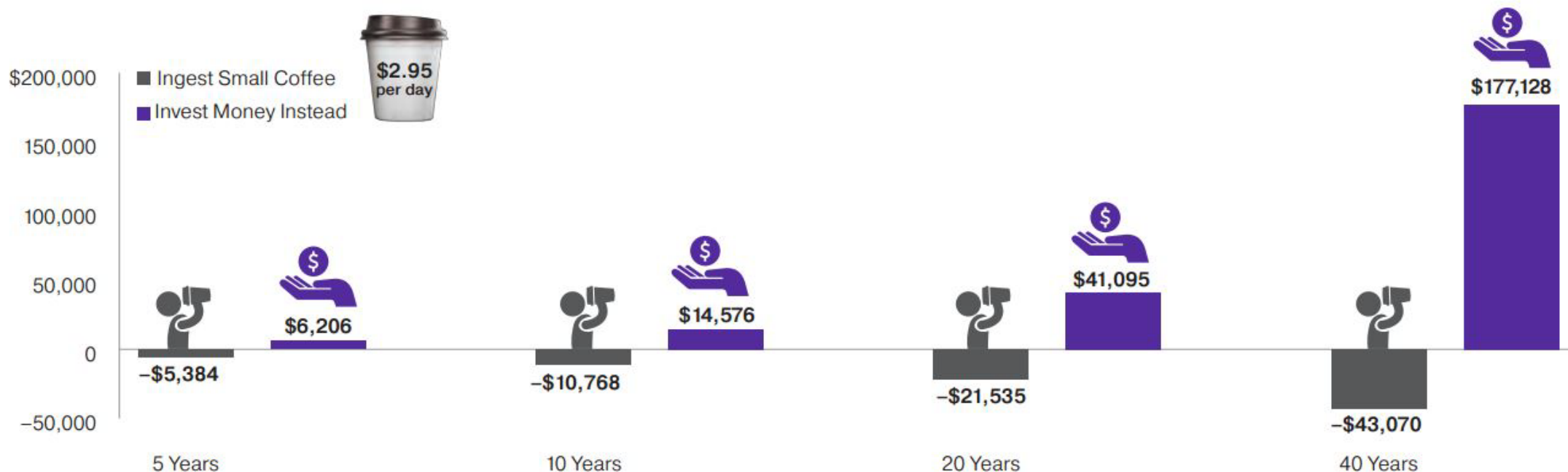
5-Year Obsolescence
\$500 + Sales Tax

Visualizing an “Opportunity Cost”

Every Purchase Has an Opportunity Cost

“In economics, one of the most important concepts is opportunity cost—the idea that once you spend your money on something, you can’t spend it again on something else.” —Malcolm Turnbull

The Opportunity Cost of Drinking a Small Coffee Every Day (Ingest) vs. Investing that Money*





Class Discussion

If you started budgeting today, what would your first savings goal be?



Three Key Takeaways

1. A budget helps forecast income and expenses to manage money better.
2. Prioritizing “needs” over “wants” is essential to building a successful budget.
3. Budgeting systems like Goal-Oriented, Envelope, and 50/30/20 can help you save and spend wisely.



Where to Learn More

- [Budgeting for Teens: 14 Tips for Growing Your Money Young](#), by Mint
- [Budgeting for Teens: What You Need to Know](#) by Rebecca Lake
- [The Budget Book for Young Adults: Guide on Budgeting Basics for Beginners, Including the 50/30/20 Budget Approach](#) by Sasha Winters

Money Mavericks Exercise Answers

Given: Income is \$6,000 and Tax Rates are 10%

Budget Item		Formula	Show Your Work	Answer
A	= Income		\$6,000	\$6,000
B	= Long Term Financial Security	= A x 15%	\$6,000 x 15%	\$900
C	= Income Taxes	= A x [Tax Rates]	\$6,000 x 10%	\$600
D	= Emergency Savings	= (A – C) x 5%	(\$6,000 - \$600) x 5%	\$270
E	= Essential Expenses	= (A – C) x 50%	(\$6,000 - \$600) x 50%	\$2,700
F	= Other Expenses, Savings, or Investments	= A – B – C – D – E	\$6,000 - \$900 - \$600 - \$270 - \$2700	\$1,530

Money Mavericks Exercise Answers

Given: Income is \$6,000 and Tax Rates are 10%

Step 1: Add up your income (A)

- Estimate all the money you make: earned, passive, & portfolio income

\$6,000

Step 2: Save for the future (B & D)

- Invest **15% for long-term goals** (like a big purchase or college)
- Save **5% into an emergency** fund for unexpected surprises like fixing a phone

\$1,200

Step 3: Subtract taxes (C)

- Estimate how much you will pay in taxes or other deductions

\$600

Step 4: Cover your needs (E)

- Spend up to 50% of what's left **after taxes** on important things like food, supplies, and transportation

\$2,100

Step 5: Use what's left for wants (F)

- The rest can go to fun stuff (games, movies), extras, or saving/investing even more!

\$2,100