

Financial Planning and Budgeting

Being a good money manager is not something that comes naturally, it takes a lot of thought. A person has to plan what to do with their money. Before you set up a financial planning system, think about your own personal values. What is important to you? What parts of your life deserve the most attention? Think about how you can reflect these values in the way you use money. Do not do it alone, ask others for guidance, especially family and relatives who have had experiences with money matters.

Financial Planning is a multi-step process. Below are six basic steps to starting a plan.

1. **Determine your current situation:** How much have you spent or over-spent in the past? Think how you can monitor your spending habits more carefully in the future.
2. **Set and prioritize your goals:** Decide what goals you have for the short, medium, and long term. Your goals must be specific, measurable, and realistic. Which are the most important to you?
3. **Develop a long-term plan:** Be realistic! How can you work towards your goals without a lot of trouble? If it involves working more and spending less it may not be something you can do for very long.
4. **Organize your records:** There are so many ways, especially electronically. However it is often the simplest record-keeping system that works best and the easiest to follow to achieve your goals.
5. **Set up a budget:** Reflect the 3 R's – Reality, Responsibility, and Restraint. Once you start a budget, constantly monitor it to see how you are doing. You may have to make several changes over time based on realistic or unrealistic issues faced.
6. **Keep it simple:** Do not over-complicate how to track your progress and follow through with your plan.

Figuring out where you are financially involves two key items:

Income – the money coming in [money earned in exchange for work, or received from investments, allowances, or gifts]

Expenses – the money going out [the goods or services people pay for with their money]

For most students, income is usually on an irregular basis (an occasional babysitting job, a birthday check from a close relative). Be realistic when determining your income, do not assume that you will always be able to work every weekend when you are at school. The smartest plan is to only use the income you know will be reliable.

A good way to evaluate your spending is to keep track of your expenses for a month, one week at a time. Make a detailed list (or a log) of your spending. Create a simple chart and create categories for each area of spending. You might prefer to create a second table just to monitor your daily spending habits. The two charts below will give you a better idea for these plans.

Daily Spending Log				
Date	Item or Service	Where Purchased	Cost	Category
March 11	Latte	Starbucks	\$ 4.25	Food
March 12	Manicure	Just Nails	\$15.00	Grooming
March 13	Movie	Multiplex Five	\$20.00	Entertainment
March 14	Bus Pass	MTA	\$36.00	Transportation

The final product may look something like the chart shown below

Spending Chart					
	Week 1	Week 2	Week 3	Week 4	Total
Sports/Hobbies	\$24.00	\$32.00	\$21.00	\$27.00	\$ 104.00
Food	\$13.00	\$20.45	\$16.10	\$18.00	\$ 67.55
Clothing	\$ 0.00	\$0.00	\$40.00	\$8.00	\$ 48.00
Grooming	\$0.00	\$20.00	\$0.00	\$0.00	\$ 20.00
Entertainment	\$9.00	\$21.75	\$9.00	\$18.00	\$ 57.75
Transportation	\$0.00	\$35.00	\$0.00	\$0.00	\$ 35.00
				TOTAL	\$ 332.30

By viewing the completed chart, you can easily locate the areas where the most is spent and the areas you can cut back on. In this case, it is definitely Sports and Hobbies.

Something to think about: The average American experiences more than 5,000 advertising impressions every day. That is 1 advertising expressions every 17 seconds! What are advertising impressions? They include TV commercials, online ads, commercial text messages, logos on clothing, billboards pushing products, and much, much more. With all of this going on and people wanting you to spend your hard-earned money, how is it possible to save?

Assignment 1.

Identify the goods and services you purchase on a “**typical**” day at school.

Fill in or list the item or category with an accurate estimate of the amount you spend on each. Do not repeat any expenses even if they fit into another category. Once completed, think about your own responses to the questions asked at the bottom of the table.

My Typical Daily Spending at School	
Item/Category	Amount Spent
Breakfast	
Lunch	
Dinner (after school events)	
Snacks from Vending Machine	
Coffee/Teas	
Sodas/Water	
Outside Vendors	
Other:	
Other:	
Other:	
TOTAL	

Now multiply this amount x 4 which will give you an estimate for one month \$ _____

- 1) Did my spending reflect what is important to me?
- 2) What percentage of my spending is for absolute necessities?
- 3) Am I surprised by how much money I spend in a typical week/month?
- 4) Would I be embarrassed if my family/friends saw my list?
- 5) How many were wants? How many were needs?

Important Definitions to Know and Understand

Budget: A plan for how to use your money during a given time based on expected income

Short-Term Goals: occupations, goods or services to be obtained or achieved in the next two to five years

Medium-Term Goals: occupations, goods or services to be obtained in five to ten years

Long-Term Goals: occupations, goods or services to be obtained or achieved in ten or more years

Assignment 2.

Complete realistically the Goal Chart Below.

My Goal Chart	
My Life in 5 Years: 1. 2. 3.	How to get there: 1. 2. 3.
My Life in 10 years: 1. 2. 3.	How to get there: 1. 2. 3.
My Life in 20 years: 1. 2. 3.	How to get there: 1. 2. 3.

Do your money habits of today fit your goals? (Y/N) _____

What changes would you start to think about today that could affect your future?

Two types of expenses in the future you need to understand now.

1. **Fixed Expenses:** These are expenses such as rent or a mortgage, health insurance premiums and student loan payments that stay the same from month to month and must be paid no matter what.
2. **Variable Expenses:** These are expenses such as auto repairs, clothing and dental/medical costs, and credit card bills that vary from month to month.

Some fixed expenses do vary from month to month, e.g. the price of gas fluctuates a little but the total is always about the same every month.

Among your variable expenses are **unexpected expenses**. They can often catch you off-guard. A good examples of this are auto repairs or plumbing problems. It is difficult to predict when the car is going to break down or when a pipe is going to burst in the house, but they are usually at the worst possible time.

Many people try to plan for unexpected expenses by creating an **Emergency fund**. Setting aside about 5% of your monthly income can help ensure that you are prepared for any unexpected expense. It will give you a piece of mind knowing that you have money available for such untimely incidents.

The Benefits of having a good budget

The **good news** is having a **Budget Surplus**: when you have money left over after all expenses have been paid.

The **bad news** is having a **Budget Deficit**: when there is not enough money to cover expenses.

The Key qualities of a Good Budget

1. **It is based on your values** – make sure you use your money wisely and that it reflects who you are as a person.
2. **It is geared towards your goals** – remember your short, medium, and long-term goals
3. **It is practical** – do not plan above your means, be realistic but do not cut yourself short
4. **It is flexible** – you can modify or change as your life and occupations change. Do not be rigid.
5. **It is accessible and easy to use** – do not start it and then put it somewhere “safe” so that you cannot find it. Look at it weekly, bi-weekly, and monthly to make sure you are on track.