

# Budgeting and Financial Planning

Why should people make a plan for how to get and spend money? What strategies can be used to do this most effectively?

# Budgets

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- **Budget**: A plan for how a person, family, or organization will raise and spend money.
- Why do you think it is important for families to create a budget?
- **Fixed Costs**: Charges/costs that will be the same every month, no matter how often something is used.
  - Rent/Mortgage payments: The money you owe for housing will be the same every month whether you spend one night or every night there.
  - Car payments: Same as rent.
  - What are some other fixed costs?

# Budgets

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- **Variable Costs:** Charges/costs that will change depending on how much of something is used.
  - Food: eating more or buying more expensive foods will cost more.
  - Travel: Driving more will require more gas, meaning more money.
  - Entertainment: Choosing to go out to eat, to movies, buy video games, etc. Everything costs money. The more stuff you want to buy, the more money you will need.

# Creating a Family Budget

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1. List all of your fixed costs for each month.
2. Estimate your variable costs based on previous experience. (This can be difficult at first, but you will learn more as you become a more experienced consumer).
3. Set an amount you want to save each month and put it into your savings account as soon as you get paid.
4. List large purchases you may want to make this year (vacations, home improvements, etc.) and determine additional money to save to achieve these goals.

# Types of Accounts

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- There are many different ways of holding your money.
  1. You can keep all of your money as **cash** in your piggy bank at home.
    - Why do you think this is risky?
  2. You can keep your money in a **checking account** at a bank. At any time you can write a check, use your debit card, or withdraw cash.
    - Interest: A percentage increase on the total amount of an account or debt. You can be paid interest by the bank for holding your money there.
    - Why would a bank choose not to offer interest on checking accounts?

# Types of Accounts

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3. **Savings Accounts:** It is very easy to deposit money into a savings account, but most do not allow checks or debit cards.

- Some banks charge extra each time a customer withdraws money from their savings account.

- Why would banks offer higher interest rates on savings accounts than on checking accounts?

4. **Certificates of Deposit (CDs):** Like a savings account, except that consumers agree not to withdraw any money for a set period of time, often 6 months or one year.

- Why would banks offer higher interest rates on CDs than on savings accounts?

# Types of Accounts

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## **5. Individual Retirement Accounts (IRAs):**

Accounts that allow you to deposit money now that is being saved for retirement.

- The money is usually invested in the stock market in the hope that it will grow faster than at normal interest rates.

- Many IRAs allow depositors to save their income without being taxed for its growth over time.

- Which of these accounts is best for money you need to spend now? Why?
- Which is best for money you want to save for later? Why?

# Debt

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- Building debt is not always bad.
- Most people will need to take a loan of some kind during their lives.
- Banks are more willing to offer loans, or low interest rates, to people with a good credit history/credit score.
- You can build a good history/score by paying back your debts on time or early.
  - Credit cards only help your score if you pay back the money quickly.
  - You can also build credit by having bills and utilities in your name and paying them on time every time.



# Checking Accounts

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In what ways do we access that money?

# How to Write a Check

**Payee:** The person or company you are paying. You can make out a check to yourself. You can also make it out to "Cash", but that's risky. The bank will cash it for anyone. If it's stolen, you could lose your money.

**Date:** The day you write a check. A bank may refuse to pay a check that is more than six months old.

Corey Phillips  
579 Stonehaven  
Hometown, IL 60067

208  
3130212

May 12 19 97

Pay to the order of Margaret Lytle \$ 28.50

• Twenty-eight and 50/100 Dollars

American Bank  
345 Lake Street  
Hometown, IL 60067

Memo shower gift

Corey Phillips

⑆ 259 74832 ⑆ 0000473210 ⑆ 0206

**Amount:** The amount to be paid. You write this in both words and numbers. If words and numbers don't agree, the bank may use the amount written in words. Or it may return the check for you to correct. If someone else changes the amount, the bank should not cash the check. If it does, it must refund your money.

**Signature:** Your signature approves the payment. If someone else signs your name to a check, it is forgery. You are usually not responsible if the bank cashes a forged check. You can ask the bank to refund your money.

# Debt

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- Your **debt** is the money you owe to creditors. People build debt by taking loans for homes, cars, education, starting a new business, etc.
- People also build debt when making purchases with credit cards. Buying on credit is like taking a small loan.
- Every loan will include **interest**. Banks and credit card companies charge interest on loans in order to make money.
- Different kinds of loans have higher interest rates, especially credit cards. The higher the interest rate, the more money you end up paying back.
- Secured debt vs unsecured debt (pers fi pII)

# Good Debt vs. Bad Debt

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## **Good debt**

- is an investment that will grow in value,
- may help generate long-term income,
- and is also generally low-interest debt.

## **Bad debt**

- is a poor investment (loses value quickly),
- does not generate long-term income,
- and is generally high-interest debt.

 Can't afford it? Don't need it? **Don't buy it.**

# Good debt vs. bad debt

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With your seat partners, classify each of the following as good or bad debt:

- Home loan in an area with good schools and likely to grow in population
- College loan of \$75K to be a photographer
- Credit card bill with only minimum payments (1-3%) made for 6 months
- Car loan for a practical used car
- Credit card bill paid in full at the end of the month
- College loan to Wake Tech for completion of HVAC repair specialist program
- Car loan for a new car that doesn't have a high resale value
- Payday/cash advance loan

# Building Wealth

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- There are many strategies you can use to make the money you make work for you.
  1. Put money in savings accounts and CDs: The money will grow at a slow rate of interest, but it is guaranteed to grow.
  2. Buy US Government Bonds and Treasury Bills: Similar to a CD, when you buy a US govt. bond, you can sell it back to the government years later at a much higher price.

# Building Wealth

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3. Buy a home: In most economic situations, house prices rise over time. When you buy a house, you should be able to sell it several years later for more money.

4. Invest in the Stock Market: When you buy shares of stock you are buying pieces of ownership in a corporation.

- You can make money from stocks in two ways: 1) Dividends: You get a piece of the company's profits for owning some of the company. 2) Capital Gains: Selling your shares of stock at a higher price than when you bought it.

- Which wealth building strategies are safe? Which are risky? Why do people use the risky strategies?