



MODULE

01

MONEY

MANAGEMENT:

Control Your Cash Flow

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NEFE HIGH SCHOOL FINANCIAL PLANNING PROGRAM

About the NEFE High School Financial Planning Program Series

By picking up this booklet, you are on your way to making your dreams come true and headed down the path to financial independence. This program series includes six topic modules to introduce you to the fundamentals of mindful money management behaviors. Use what you learn in each module to develop sensible habits to confidently manage your money and adapt to unexpected events.

Program Modules

- 1. MONEY MANAGEMENT: Control Your Cash Flow:** goal setting – decision making – spending plan & budget – money management tips
- 2. BORROWING: Use—Don't Abuse:** application process – loans – credit cards – costs – credit score – debt – rights & responsibilities
- 3. EARNING POWER: More Than a Paycheck:** earning potential – career plan – life stages – employee benefits – take-home pay – lifestyle
- 4. INVESTING: Money Working for You:** savings – investing – goals – options – risks & rewards – time value of money – diversification – plan
- 5. FINANCIAL SERVICES: Care for Your Cash:** account types – fees – service options – transaction tracking – automation – identity protection
- 6. INSURANCE: Protect What You Have:** risk management – costs – claims – insurance types – coverage decisions – insurability factors

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Use the tips and strategies in this guide to do the following:

- » Explore how spending, saving, and values impact your finances.
- » Set SMART money goals.
- » DECIDE to make better money choices.
- » Create a spending plan to reach your goals.
- » Figure out ways to maintain a positive cash flow.

MEET MICHAEL AND SELENA

Michael lives with his mom and two sisters. Since his mom's work hours were cut a few months ago, he's pretty much been on his own moneywise. He worked two jobs last summer to pay cash for a reliable used car, so he doesn't have a car payment. He's back to only one job now that school has started again, and he's struggling to cover his expenses plus save for college, which he hopes to enter next year.

Selena's a freshman who lives with her parents, has a brother in college, and doesn't worry much about money. She loves to shop with her friends, and she earns a little money from occasional baby-sitting and pet-sitting jobs. But she mostly relies on "the bank of mom and dad" to get money as she needs it.





Michael and Selena are going to join us as we talk about money, money, money—how to make the most of your dollars so you can avoid financial stress and get more of what you want out of life.

You're lucky. The adults in your life didn't have guides like this one back when they were in school, and they can probably tell you about some major money blunders they've made (and would love to forget!). So, master the lessons here and you'll get a head start on being in charge of your money ... and your life.

MAKE OVER YOUR MONEY HABITS

Habits can help you soar to success—or keep you panting on the treadmill, with success always out of reach. They're sneaky, too. Because habits are automatic, they kick in before you can stop to think about how they're going to help you or hurt you in the long run.

“ Successful people are simply those with success habits. ”

~ Author Brian Tracy



Activity 1.1a: My Money Habits

What money habits do you have? List your money habits. Mark them as sensible (+), unwise (-), or neutral (N). We'll come back to finish the right-hand column in this chart later.

Habit	+/-/N	Possible Impact
<i>Stopping for fast food on the way home every day</i>	+	<i>Since I could wait to eat until I get home, that money could be used for other, more important things</i>
<i>Putting spare change in a jar every night</i>	+	<i>I can use it to buy something I want in a few months</i>

Right now, your money habits may not seem like a big deal. But habits can stick to you like glue. Good habits help you have self control as you plan to achieve your goals. But bad habits may push you out of the driver's seat and lead you somewhere you really don't want to go. The closer you get to being out on your own, the more you need to be in control of your actions. For that reason, the time to take on good money habits is NOW.

By doing so, you also will find it easier to afford the things you really want today!

DID YOU KNOW?

There is a commonly held belief that if you do something for 21 days, it will become a habit. Applying a sensible money management behavior can become a habit for you in as little as three weeks!

Neither Michael nor Selena uses a plan to manage money. So, to begin the process, they make a list of what they see as their own good and bad money habits, as shown in the following table:

Michael's Habits		Selena's Habits	
-	+	-	+
<i>I buy fast food after school every day.</i>	<i>I pay bills as soon as I get them.</i>	<i>I buy iced coffees after school every day.</i>	<i>I comparison-shop when buying non-clothes items.</i>
<i>I buy a couple DVDs with each paycheck.</i>	<i>I regularly verify my account activity.</i>	<i>My shopping plan is to just 'buy what I love.'</i>	<i>I give \$2 at church every week.</i>



Do any of their habits sound familiar to you?

The problem with unwise habits is the short- and long-term impact they have on your life. Say you're Selena and you spend \$3 on iced coffees after school every day. Assuming you skip them on the weekends, that's \$15 a week on drinks. OK, that's not horrible, right? But what does that add up to in a month? \$_____ In a school year? \$_____

And what do you really have to show for all the money you spent? You could have spent that amount on clothes or a laptop!

It's not that spending money on iced coffees or fast food is necessarily bad. It's OK to have things you enjoy in life. **The question is, could you enjoy certain things less frequently to afford other things you'd enjoy in your life even more?**



Activity 1.1b: My Money Habits

Go back to Activity 1.1a to look at your money habits. Think about how each habit could affect you in the future. For each unwise habit you listed, write down a sensible habit to replace it.

Now, let's solve a mystery ...

THE CASE OF THE DISAPPEARING DOLLARS



Ever open your wallet to pay for something and realize you were down to your last dollar? You get flustered trying to figure out another way to pay and, in the meantime, your brain is racing to grasp “Where’d the rest of my money go?”

The good news is that the thief will be super easy to catch. Just look in the mirror! Then remind yourself how even little expenses add up—fast.

Of course, the only way to be sure of where your money goes is to track your spending. So, put on your detective hat and start keeping what’s called a **spending log**. In it, you’ll record *everything* you spend money on and how much you spend each day. When you review the list, you can bet that your findings will be an eye opener!



Bonus!

Many teens find when they stop buying something out of habit and start buying it only when they really want it, they end up enjoying it more!



Activity 1.2: My Disappearing Dollars

How much money did you spend in the past week? What did you buy? List what you spent money on in the past week (or month), and use the information to gather evidence in the case of Your Disappearing Dollars.

WAITING IS THE SMARTEST MOVE

Excited about getting a raise, Michael went to get a new pair of soccer cleats. He spotted a jacket that looked good on him and decided that because he was now earning more at work, why not buy it, too?

A few days later, a friend reminded him about concert tickets they were supposed to buy the next day. Michael had totally forgotten, and now he didn't have the money. He couldn't wait until payday later in the week because the concert was expected to sell out in hours.

As he was kicking himself for buying the jacket, he thought of his grandmother, who was always lecturing about the importance of waiting until you know you can afford something (also known as **delayed gratification**).



Bonus!

If you're diligent about keeping it, your spending log will reveal a lot about your money habits—good and bad. It'll also give you a wealth of clues about how to reach your financial goals faster and more effectively.

DID YOU KNOW?

Teens typically spend an average of \$18.50 a week.¹

¹ 2011 *Teens and Money Survey*, Charles Schwab & Co. Inc.

Waiting has always been a challenge for Michael. But now he saw her point. Waiting a week to buy the jacket would have been much better than the situation he was now in—especially if he ended up disappointing his friend and missing the concert.



Like Michael, have you ever impulsively bought something, then remembered you needed the money for something else?



Waiting isn't a punishment—it's just smart money sense.

It gives you time to think through your purchase before you spend the money. By taking the time to make sure you really do want the item, and will actually use (or wear) it, you then can buy with the peace of mind of knowing that you won't regret your purchase later.

DID YOU KNOW?

Fifty-seven percent of teens today worry about not having enough money.² Are you one of them?

² *YouthPulse* SM 2010, Harris Interactive



To learn more, visit www.hsfpp.org



Activity 1.3: Why Wait?

There are benefits to waiting to buy something. Can you think of two or three reasons to hold off on a purchase?

Reasons to Wait to Buy Something:

If I don't spend the money now, I'll have money on hand if something more important turns up.

DO YOU NEED IT OR DO YOU WANT IT?

When Michael mentioned his dilemma to his mom, she asked if he needed the jacket. He said, "Kind of." She replied, "You can't 'kind of' need something, Michael. Either you do or you don't. Which is it?"

"Well, I do have a jacket, but it's getting kind of ratty," Michael said. His mom went to the closet to get the old jacket. "This jacket is fine; all it needs is a wash," she said. Michael admitted that she was right. He had wanted the new jacket, but he didn't need it.

Like Michael, we all have a habit of saying we "need" things we really don't. **Needs** are things that are essential to your health and security. You need food, water, a place to live, clothes to wear—and money to pay for it all.

Wants make life more interesting and fun, but you can get by without them. Everyone has wants, and that's OK. But when money is tight, needs have to come first.

The difference can be tricky sometimes. If Michael's jacket really had been in bad shape or no longer fit him, a new jacket would have been a need. But because that wasn't the case, the new jacket was a want.

An item can be considered a need if it's essential to getting a need. For example, you most likely don't need transportation for your health or safety. But when you need a job to pay for necessities like food and rent, and having a reliable way to get to work is required to keep that job, then transportation also becomes a need.



Activity 1.4: My Needs and Wants: Can I Tell the Difference?

Look at your spending log in Activity 1.2. Write down five things you spent money on. Then decide if each is a need or a want. The following list has been started for you:

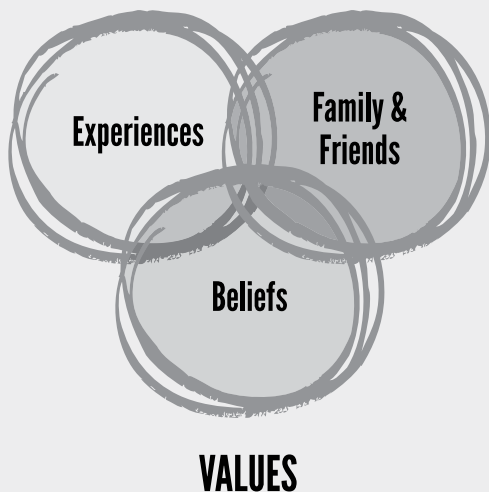
Item	Need?	Want?
<i>Jacket to replace one that is outgrown</i>		
<i>Second jacket that looks good on you</i>		

Review your list. Are you sure your needs are real needs? Do you think your friends or family would agree with your decisions? Are there times when your wants may become a need?

VALUING YOUR VALUES

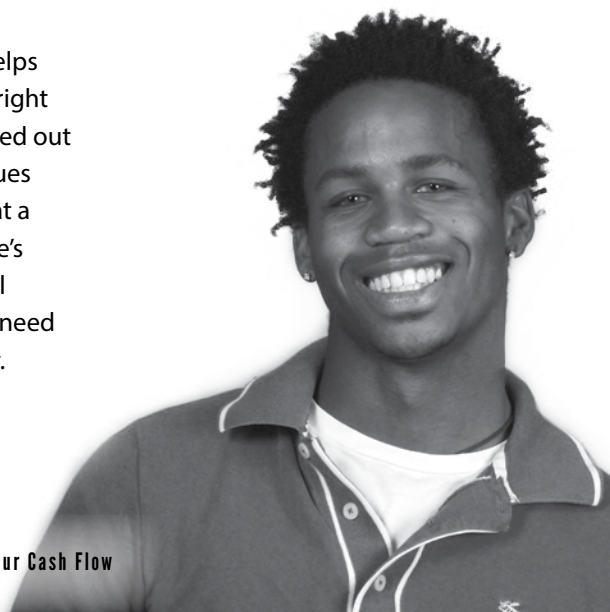
Sometimes, the decision about whether something is a need or a want depends on your **values**—the ideas and beliefs that are most important or most meaningful to you. You probably don't realize it, but all your thoughts, decisions, and actions reflect what you value and how much you value it.

Because many influences shape what we value, everyone's set of values is different. For example, financial security is a basic need everyone has. But what that means is different to each of us.



Selena has financial security from her parents right now. When she needs money, they usually give it to her. She worries about what she'll do when they stop helping her out. So, she's decided she needs to save some money. Basically, that saved money is what it will take to make her feel financially secure so she can live on her own after graduation.

Michael's steady part-time job helps him feel more financially secure right now, although he still gets stressed out about money. One of his top values is independence. He believes that a job that pays twice as much as he's earning now would help him feel secure enough that he wouldn't need to rely on anyone else for money.





Activity 1.5: My Values

What three or four things are most important to you?

Why is each important to you?

Value	Why It's Important

SCORE WITH GOALS

If you were giving a birthday party for your friend, would you just throw it all together at the last minute? Of course not!

First, you'd have to get the OKs from her parents and your parents. Then, you'd need to decide whom to invite and send the invitations far enough ahead of time that the guests wouldn't have made other plans. You also would have to figure out what you'll serve to eat and drink, decide what you're going to wear, and shop for food. And if you're having the party at your house, you no doubt would clean the place beforehand, too.

In other words, you would decide on the goal (a great birthday party) and work backward to figure out everything you'd need to do to make it happen.

**“ Shoot for the moon.
Even if you miss,
you’ll land among
the stars. ”**

~ Musician Brian Littrell

You should do exactly the same thing with your money. Many people spend, spend, spend, and then wonder why they don't have enough money when it's time to pay the bills or why they never have the money for the things they *really* want. If they had set clear goals, created plans to achieve them, and followed the plans as faithfully as they watch their favorite TV shows, they'd be much less stressed and a whole lot happier.

The first critical step, though, is to figure out the desired end result.

FUEL YOUR DREAMS

Money can't buy happiness, but it does play a big role in helping you to achieve what's most important to you. Here are a few examples of personal goals that require money. Can you think of more?

- » Attending prom
- » Taking dance or guitar lessons
- » Going to band or 4-H camp
- » Going to college or a training school
- » Getting a place of my own
- » Getting married, with a fancy wedding
- » Starting (and supporting) a family
- » Saving the polar bears

By figuring out what you need to make your personal goals a reality and setting *financial* goals to get you there, in no time you'll be on your way to enjoying those things.

GET SMART WITH GOALS

Selena mentions to her older brother that she wants to save some money before she graduates from high school. When he asks her how much, she doesn't have a solid answer. When Michael tells a co-worker about needing to get new tires, he's shocked to learn from her that a set of tires costs about \$500.

Selena and Michael both realize it's time to get SMART about their goals. They need goals that are **S**pecific, **M**easurable, **A**ttainable, **R**elevant, and **T**ime-bound.

SMART Goals Guide	
Specific	<ul style="list-style-type: none"> » What exactly needs to be accomplished? » Who else will be involved? » Where will this take place? » Why do I want to accomplish the goal?
Measurable	<ul style="list-style-type: none"> » How will I know I've succeeded? » How much change needs to occur? » How many accomplishments or actions will it take?
Attainable	<ul style="list-style-type: none"> » Do I have, or can I get, the resources needed to achieve the goal? » Is the goal a reasonable stretch for me? (neither out of reach nor too easy) » Are the actions I plan to take likely to bring success?
Relevant	<ul style="list-style-type: none"> » Is this a worthwhile goal for me right now? » Is it meaningful to me—or just something others think I should do? » Would it delay or prevent me from achieving a more important goal? » Am I willing to commit to achieving this goal?
Time-bound	<ul style="list-style-type: none"> » What is the deadline for reaching the goal? » When do I need to take action? » What can I do today?

The SMART acronym is basically a checklist for creating turbocharged goals that will help guide you to success.

After going through the questions, Selena decides on the following goal:

To have \$1,000 by August 1 of the summer after high school graduation so I don't have to worry about money emergencies when I'm on my own. Starting today, I'll put \$25 into my savings account every month until then.

Michael does some research on what tires cost and sets his goal at saving \$500 in the next month. But then he realizes that it's not a realistic goal, given what he's earning right now. So, he tries again and decides on the following goal:

To transfer \$40 from each weekly paycheck into my savings account over the next three months to have at least \$500 set aside to buy new tires for my car.

Satisfied, they start listing other goals they want to set. Help them make the goals SMART in the activity that follows:



Activity 1.6: SMART Goal Makeover

Creating SMART goals will help set you up for success. Can you tell what SMART criteria are missing from the goals below? Rewrite Michael's and Selena's statements into SMART goals. Compare your changes with a classmate or the online examples (www.hsfpp.org).

Goal	SMART Goal
Selena	
<i>Save \$200 for a trip to the outlet mall</i>	
<i>Buy a new MP3 player</i>	
Michael	
<i>Save money for college next year</i>	
<i>Buy a new computer in January</i>	

ARE WE THERE YET?

Deciding that you want something and buying it right away is called **instant gratification**. You saw how well that worked for Michael, though, when he bought the new jacket. You might even know from your own experience how buying on impulse can get you into trouble.

We usually classify goals into one of three categories, which you can see in the following graphic:

Goal Time Span

SHORT »

Up to three months

MEDIUM »

Three months to a year

LONG »

More than a year

Short-, medium-, and long-term goals are all delayed gratification. The only difference is how long you delay. The further away your goal is, the more commitment and patience it will take to reach it. Breaking up longer-term goals into shorter ones (like Selena's monthly savings goal) can help keep you on track and motivated along the way.

GOALS GUT CHECK

Ask anyone in February how they're doing on their New Year's resolutions and you'll hear many people say that they did not follow through on their goals. One reason is a lack of planning, which we'll talk about later.

Another reason is that the goal isn't meaningful. If you don't truly care about a goal, you'll either ignore it or find yourself struggling to achieve it. Starting out your goal statement with "I should ..." is a major warning sign that it may not be meaningful to you.

"Should" goals often reflect other people's values instead of your own. It's OK if your goals aren't the same as those of your family and friends. What matters is that your goals are important to you.



Each time you create a goal, ask yourself the following question:

“On a scale of 1 (not at all) to 5 (extremely), how important is achieving this goal to me?”

If you can't rate a goal with at least a 3, think about whether that's really a goal you need to set for yourself.



Always **write down your goals** and keep the list where you'll see it often. This will remind you of what you're working toward and keep you excited about it.

Sometimes, a goal is a matter of personal responsibility. No one has ever said they're excited about saving to pay their taxes. But millions of Americans put money aside every year for taxes because paying them is a citizen's responsibility—and they value staying out of trouble with the Internal Revenue System (IRS). If you're stuck with a goal you're not thrilled about, figure out what there is about that goal that *is* important to you. Then rewrite it to include that feature.

Reluctantly, Selena added a goal to her list, which you can see in the following table. Note the three possible reasons she might use to make the goal more meaningful.

Goal I'm NOT Excited About	What IS Important Is ...
<p><i>Paying the library for the book I lost.</i></p>	<p><i>I'm feeling guilty and it'll be a relief to clear my conscience.</i></p>
	<p><i>I can't check out any more books until I pay, and I have a term paper coming due.</i></p>
	<p><i>I know my dad is just going to keep asking about it every week until I pay what I owe.</i></p>

Meaningful goals you're excited about achieving: Now, *that's* smart!

Challenge 1-A: My SMART Goals

Take what you've learned about SMART goals and create two or three of your own.

DECIDE TO SUCCEED

Making decisions about money can be hard. Sometimes you have to sacrifice what you want to have now for what you really need—but can't have—until later. Sometimes the best choice for you will disappoint a friend. And if you're in a relationship, your spending priorities might change so you put off focusing on your own goals. There's rarely a perfect solution.

“The indispensable first step to getting the things you want out of life is this: Decide what you want.”

~ Economist Ben Stein

And when you can't count on a steady income stream, making decisions about money can be even harder.

All you can do is make the best decision you can with the information you have at the time.

There's a simple process to help you make the best possible decision. You may be using it already, without even being aware of it. But once you knowingly put that process into use, you'll find it even easier to make better decisions.

Let's walk through the process using a fairly easy decision. It's time for Selena to upgrade her cellphone. How does she DECIDE on upgrades? She fills out the following chart:

Action Steps	Selena's Results
<p>1. Define your goal. What do you want to achieve?</p>	<p><i>Upgrade to a new cellphone this week and spend less than \$100.</i></p>
<p>2. Establish your criteria. What are the features you absolutely must have? And which ones would you like to have?</p>	<p><i>It must be the same wireless network I use now and have a camera and slide-out keyboard. I want it to be blue. I want to be able to download a lot of apps.</i></p>
<p>3. Choose two to three good options. Eliminate any options without your must-haves and choose a couple of the remaining options.</p>	<p><i>After eliminating a bunch of models, there are three I like that either are blue or have a lot of apps.</i></p>
<p>4. Identify the pros and cons. If you have a lot of criteria and options, you may want to make a chart to quickly compare the features of each option.</p>	<p><i>The blue one has the fewest number of apps available, and I can't change that. But I could buy a blue case for it. Of the other two, the less expensive one actually has better consumer ratings.</i></p>
<p>5. Decide what's best. Which option best matches your criteria?</p>	<p><i>I'm going with the less expensive, higher-rated black phone with a lot of apps!</i></p>
<p>6. Evaluate the results. Afterward, note what you do and don't like about your choice so you can add that to your criteria for next time.</p>	<p><i>Love it! (But next time, I'd really love a blue one)</i></p>

One decision will spark a chain of additional decisions to be made. For Selena and her cellphone, the other decisions might include where to buy it and which accessories to get. For each new decision, you simply start the DECIDE process all over again.

THE PLOT THICKENS

Selena's decision was fairly easy because she was choosing between similar items. Economists call what you give up the **opportunity cost** of the decision. For Selena, all she gave up was the phone's color, which she realized she could take steps to fix. Decisions are tougher when the choice involves giving up something more important.



Michael also needs a new cellphone. His carrier will give him a \$50 credit toward a new model. If he wants a more expensive phone, he has to pay the difference. He's torn between an OK phone for \$49 and the one he really wants, which costs \$150.

He has the cash because he just got \$100 for his birthday. But he'd like to spend that money on some new clothes. If he puts aside \$25 every other week, it will take two months for him to save up \$100 for the more expensive phone.



Should Michael buy the nicer cellphone or the new clothes? Or, are there other alternatives?

Challenge 1-B: My Decision

Use the DECIDE strategy for a decision you're facing. You may want to ask your friends and family for their input—to make sure you consider everything! Go online (www.hsfpp.org) to download a guide to help you DECIDE.

PLAN FOR VICTORY

You've analyzed what you've been spending money on and set some SMART goals to strive for.

Your next step is to create the road map that will guide you to your destination: success.

In the words of Benjamin Franklin,

“ By failing to prepare, you are preparing to fail. ”

Let's avoid failure by preparing the best route to reach your goals ...



Your map is a **spending plan** or **budget**. It should detail exactly how you're going to use your money to pay for the things you want and need. An effective spending plan not only multiplies your chances of success, it also helps make the journey faster and easier.

WITHOUT a budget ...

- » You have no idea if you're getting closer to your goals—or even if it's likely that you'll ever reach them.
- » You make random purchases of things you don't really want or need.
- » You end up kicking yourself when you don't have money left for something important.
- » You might end up going into debt. (We talk more about that in *Module 2: Borrowing.*)

Budgets are not meant to be like a starvation diet for spending. In fact, if your budget is too restrictive, you'll never stick with it. So, it's best to create one that balances your desire to reach your goals with your desire to be satisfied with the ride.

Almost 60 percent of millionaires use a budget to manage their money.³ Surprising? It shouldn't be. You can't get rich by mindlessly spending all your money!

A spending plan helps you manage your cash flow so you have the money to pay for the things you need (and want). Managing your cash flow can be a balancing act. You either need to have enough money coming in to pay for everything, or you need to cut back on spending when your cash is limited.

³*The Millionaire Next Door: The Surprising Secrets of America's Wealthy.*
T.J. Stanley and W.D. Danko. 1996





Activity 1.7: My Income

What kinds of income do you normally receive throughout the year? Are there certain times when you seem to earn or get more money than usual? What are some predictions you can make about your income this year based on what you've earned before?

BALANCING ACT, ONE SIDE: INCOME

Think of the money you receive, aka **Income**, as one side of a seesaw. Income consists of any of the following:

- » Paychecks from a job
- » Your allowance
- » Payment for odd jobs such as baby-sitting or yard work
- » A gift card or cash for your birthday
- » Social Security, disability, or unemployment benefits
- » Proceeds from selling your stuff
- » Interest earned on a savings account

If you don't have a job, your income may not be very steady right now. Even if you're employed, your paycheck amount may vary if your hours change each week. That makes predicting your income harder, but not impossible.

Michael’s and Selena’s incomes during the school year are listed in the following chart. As you can see, Michael regularly makes about \$544 a month, while Selena’s income fluctuates a lot more. She says she earns about \$100 a month from her occasional sitting jobs.

Source of Income	Michael	Selena
Part-Time Job (net)*	\$136 a week	\$0
Baby-sitting, Pet-sitting	\$0	\$100 a month
Money Gifts	\$100 a year	\$250 a year
Allowance	\$0	\$10–20 a week
Estimated Monthly Income**	\$544	\$160

*Wages minus taxes and other required deductions

**Not counting the gifts, which are received once or twice a year

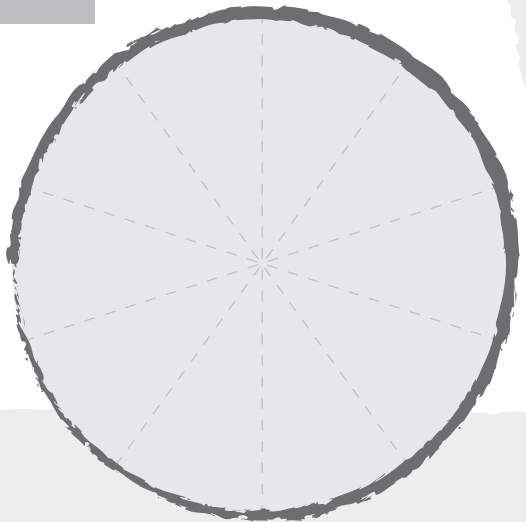
BALANCING ACT, THE OTHER SIDE: EXPENSES

Now let’s talk about the other side of the seesaw. **Expenses** are what you spend money on. Use your spending log to see what you have spent in the past to predict what you might spend in the future.



Activity 1.8: My Expenses

Use your spending log from Activity 1.2: My Disappearing Dollars to group your expenses into categories. Calculate what percent of your total spending is used for each category. Create a pie chart that displays your spending visually.



Expenses can be classified into three types:

1 Fixed expenses cost the same every time—often a set monthly payment. These are easy to plan for because you know how much needs to be paid and when. The downside is the amount is set by someone else, so you can't adjust your payment if money is tight.

2 Variable expenses are common expenses where the amount is different each time, such as paying for groceries or gas. The advantage is you have control over how much it'll be. For example, you can change how often you eat out and where you go. So if you're really tight for money, you just could stop eating out and save yourself some cash.

One downside is you can spend too much and not have enough left for fixed expenses. You can use your spending log to estimate an amount for your spending plan.

3 Periodic expenses arise occasionally during the year, usually less than once a month. School fees and trip expenses are examples. The good news is you don't have to deal with it every month. The bad news is, when you do, it can totally blow your budget.

Fixed Expenses
Gym memberships
Car loans
Student loans
Cellphone bill (unlimited)
Variable Expenses
Food
Entertainment
Cellphone bill (pay-as-you-go)
Periodic or Occasional Expenses
Auto repairs
Car insurance
Prom

Car insurance is a *periodic, fixed expense* if you pay it twice a year. You'll probably want to set aside a fixed amount each month so you have enough set aside when the bill is due. Prom is a *periodic, variable expense*. You know when it is, but how much you spend is up to you.



Variable, occasional expenses like auto repairs are the hardest to plan for because you have no idea when or how much they'll be. The best approach is to create an emergency fund you regularly contribute a fixed dollar amount to. We'll talk more about that in the next section.

Michael and Selena have listed the typical monthly expenses from their spending logs in the following chart:

Monthly Expenses	Michael	Selena
Cellphone	\$45	\$0
Car Insurance	\$70	\$0
Food	\$120	\$60
Gas	\$40	\$0
Clothes	\$30	\$60
Entertainment	\$100	\$40
Personal Care	\$5	\$10
Church	\$0	\$8
Total Monthly Expenses	\$410	\$178
Estimated Income	\$544	\$160
Difference	\$_____	\$_____



Compare their typical expenses with their estimated income. How are they doing? Will they be able to meet their savings goals along with paying their expenses?

PYF FOR A VIP—YOU!

Often, your bigger financial goals will involve things you can't afford to pay for all at once. So, you need to add an "expense" to your spending plan to cover the amount you'll set aside as savings. Smart people know the secret to successful saving is to **PYF**, or "**pay yourself first.**"

"Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like."

~ Actor Will Smith

The very first thing you should do when you receive money is to set aside a specific amount for your goals (aka PYF fund). Temporarily deposit the amount where you will not be tempted to spend the money for something other than your goal(s). Here are the advantages of doing that:

- » It's like you never even had the money, so you don't really miss it.
- » You avoid taking on debt by saving in advance to pay later for a big-ticket item.
- » Reaching big financial goals is much easier when you regularly save small amounts.
- » Your deposited amount can earn interest and grow while you wait. (You can learn more about interest in *Module 4: Investing.*)

You should treat your PYF as a fixed expense so that you gradually get closer to reaching your bigger goals.



One specific type of PYF fund that's smart to have is an **emergency fund**—because not every expense in your life can be predicted.

At any time you could lose your cellphone or you could experience some other nasty expensive surprise. Unexpected events are stressful enough without your having to wonder how to find the money to deal with them.

So why not start paying yourself first today? Here's how you could do it:

- » Every time you're paid, save 10 percent to a savings account. That's just one dime from every dollar.
- » Save a certain type of income—one teen saves all the tips from her job at a frozen yogurt shop.
- » If you're saving for a specific purchase, see if you can put it on layaway and make payments until it's paid in full.

No matter how much or how often you're making money, you can always find a way to save!

Now, it's time to start putting it all together ...

6 STEPS TO A WINNING SPENDING PLAN

Imagine you're filling a bucket with rocks. You pour the little rocks in first, then try to place the big rocks inside. But you run out of room before you get all the big ones in. So, you pour them all out and start over.

This time, though, you put the big rocks in first, then pour in the little ones. What happens? The little rocks fill in the spaces around the big rocks, and everything fits perfectly.

This basically describes the approach you need to take with your money. Put your fixed expenses (big rocks) into your income bucket first to make sure they're paid. Then, pour in your variable and periodic expenses (pebbles) to fill the spaces until there's no more room.

When you get to that point and you still have more pebbles, you either have to stop pouring and scoop out some of your pebbles to fit in others or increase the size of your income bucket.



You have to set SMART goals and analyze information such as your spending log before you create a plan. Then, you have to implement the plan and monitor and modify it to make sure you stay on track.

What you need to prepare your spending plan:

- Your SMART goals
- Your spending log

See—it's not so hard. Now, let's dive into the specifics.

These six steps are all it takes to plot your path to money mastery:

- 1 Decide the time frame for tracking your income and expenses.** Will it be weekly, biweekly, or monthly?

- 2 List your income: all the money you've received or know you have coming in during that time frame.** It's helpful to break down income sources into categories—such as work, allowance, and "other" (for such things as gifts or money you make from selling your stuff). Then, total all your income.

- 3 Use your spending log to create categories and predict amounts for each of your expenses.** Everything you normally spend money on should have a category, as well as any financial goals you're working toward. Don't forget to include PYF! Then total your expenses.

Michael's Budget	
Income	
Net Pay	\$544
Expenses	
PYF (for tires)	\$160
Insurance	\$70
Cellphone	\$45
Food	\$100
Gas	\$40
Clothes/Personal	\$35
Entertainment	\$80
Gifts	\$15
Total Expenses	\$545

4 Subtract your total expenses from your total income. If the result is a minus number, use the DECIDE process to figure out which variable expenses to adjust to make your income equal your expenses. Or brainstorm ways to make more money to cover your shortfall. If the result is a positive number, you may want to think about increasing your PYF amount so that you can reach your goals a little faster!

5 Implement the plan. As you do that, notice what areas you have trouble with. Perhaps you run out of money for an expense early. Or maybe you're not making your PYF payments consistently.

6 Review and adjust the plan as needed. Do your amounts in each of your categories seem in line with your goals and values? Are you able to stick to your plan? Use your notes and tracking to see where you can improve your plan to make progress with your goals. (We'll talk about ways you can stick to the plan in the next section.)

Challenge 1-C: My Spending Plan

Do you have to pay for regular expenses every month, a big purchase, or an upcoming event such as a class trip? Review your goals and spending log. Write up a spending plan so you can pay for the things you need and want. Look for examples and forms online (www.hsfpp.org) to help you make your own spending plan.

TUNE-UPS FOR YOUR SPENDING

Don't worry about getting your spending plan perfect the first time. The point is to create one and start using it. You can always make adjustments as needed.

The key is to update your spending plan regularly to keep pace with your changing income, goals, and spending habits.

CRUISE TO THE FINISH LINE

Once you've developed your plan, you're ready to put it into practice. No one else can do that for you. Of course, knowing what you should do doesn't mean that actually doing it will be easy. The good news: We've got some tips and strategies to help you get rolling.

The basics of maximizing your money comes down to **cash flow**—the money flowing into your pockets as income and flowing out as expenses and debt. It doesn't matter who you are or how much money you have, maintaining a balanced cash flow is crucial. Even Oprah Winfrey has to plan ahead and set aside money to pay a big tax bill.

“Most people fail to realize that in life, it's not how much money you make, it's how much money you keep.”

~ Robert Kiyosaki, author of
Rich Dad, Poor Dad

STAYING ON COURSE

All the planning in the world is useless unless you're committed to being responsible with your money. The sooner you choose to accept that responsibility, the sooner you'll feel more in control of your finances and your life.

So, how do you stay on track with your plan?

- 1 **Use your spending log as an “early warning system.”** Continue to keep track of what you spend, and you'll immediately see when you're starting to spin out of control in an area. Also, just having to record what you spend can help stop you from making a bunch of small, silly purchases.

2 Create an emergency fund, which will give you a money cushion when you're sideswiped by a big, unplanned expense that might throw your budget off course.

3 Share your plan with others. Recruit a friend or family member to hold you accountable and ask you from time to time how your plan is going. Knowing that someone is going to check in with you will inspire you to keep following your plan.

4 Have a system to manage and track your money. Use a system that is convenient for you—such as an envelope system, weekly receipt tally, checking account register, spending plan spreadsheet, or mobile recordkeeping application.

DID YOU KNOW?

In May 2011, more than 10,000 people around the world undertook the Live Below the Line challenge to live on just \$1.50 worth of food and drink each day for five days—what 1.4 billion people around the world must get by on every day.⁴

⁴www.livebelowtheline.com



MONEY 911

Sometimes, the money runs out before the month does. When that happens, you have to look at how you can balance your income and expenses to make your budget work. You can balance it only two ways:

- » Increase your income.
- » Decrease your expenses.

Of course, you're always free to do both!

Get a Bigger Bucket

Remember the bucket of rocks? When you have too many expense rocks, one way to make them fit is to get a bigger income bucket.

The most common way to increase income is to get a job. If you have a job, you can try for a better-paying one, or ask for a raise, or put in for more work hours.

Even busy teens can find ways to make extra cash these days. Consider this high school sophomore in Arizona: He plays varsity sports six months of the year but still finds time to help local business owners market on the Internet and to “flip” cars he buys at local government auctions.

Michael plans to ask for a raise at work, but he's also going to offer tech help to residents of a nearby retirement village. Selena is going to decorate photo frames with beads and sell them at an upcoming community yard sale.



Activity 1.9: My Income Options

What are two ways you can realistically bring in more cash?

Hint: Think about skills or talents you have that other people might need or want.

Plug Your Money Leaks

Ideally, your income bucket is built to hold your expenses rocks. Unfortunately, most people have buckets with holes. Money constantly seeps out, so that the bucket is empty when money is really needed.



Michael realized he gets a parking ticket at school at least once a month.

He knows it's because he's often late and the student parking spaces are filled up. He decides he'll start leaving for school 10 minutes earlier so that he can park legally and not get ticketed.

Selena thought about the curling iron that never worked and the books she's bought but never read. She decides that in the future she will check for reviews online before buying personal care appliances, and she's vowed not to buy more books until she's read the ones she has.



Activity 1.10: My Spending Leaks

What about you? After looking at your spending log, do you recognize any money leaks? If so, ask yourself these questions:

- » What do I wish I'd done with that money instead?
- » Will it take me longer to reach my financial goals now?
- » How can I reduce the impact on my situation now? (Return or sell the item, cancel the membership, etc.)
- » What will I do to keep from making the same mistake again?



If you can't undo what you did, don't beat yourself up about it. Everyone slips up sometimes. The important thing is to plug the leak and try not to make the same mistake again.



7 WAYS TO STRIKE BACK

One way to make your money go further is to fight back against all the sneaky ways that stores, shopping websites, and even restaurants lure you into spending more money with them. Here's how to make sure you're the one in the driver's seat:

- 1 Plan for success.** Decide how much you'll spend before you even leave home. Make a list of what you'll buy. Set a dollar limit on unexpected great deals and impulse purchases.

- 2 Limit temptation.** Pay with cash. Debit and credit cards make it easy to overspend. Counting cash out makes you automatically think, "Wow, is this really worth it to me?"

3 Research your bigger purchases. Read reviews in magazines or on reliable websites. Talk to knowledgeable people you trust. Compare prices by checking other stores or searching online. Taking a little time before buying can save you many dollars and regrets later.

4 Think “used” instead of “new.” You can save a lot of money by buying “gently used” clothes, video games, DVDs, sporting goods, and books. “Refurbished” electronics typically look new and act new, and often come with warranties. There are even websites for trading your books, games, and DVDs with others.

5 Look for discounts before you go. Look for coupons online, in catalogs, or in local newspapers. When you are in a store, ask at the customer service counter about any sales, specials, or coupons.

6 Don’t shop when you’re on top of the world ... or feeling blue. Whenever you’re really up or really down, you’re more likely to buy on a whim. Unfortunately, the feel-good effect of your purchases will likely wear off before you get home.

7 Don’t shop when you’re dieting. Researchers have found there’s a limit on the amount of self-control a person can manage in one day.⁵ So, if you’ve been dieting, working too hard to have fun, or otherwise depriving yourself that day, you may have tapped out your reserves of self-control. Stay home to prevent letting loose with impulsive purchases.



Do you already take any of these smart-shopping measures? Are there other things you do to keep your spending in check? Check online (www.hsfpp.org) for more money management tips.

⁵ University of Minnesota study cited in “Save More Money Without Even Trying,” *Ladies Home Journal*, July 2010

ADDING IT UP

Michael and Selena feel pretty confident with their spending plans and strategies for making the most of their money. Michael is less stressed about his financial situation these days. He likes knowing that when he buys something, he has enough money. He's even convinced his younger sister to start saving her tips from her ice cream parlor job so that she can buy the TV she's been wanting for her room.

Selena showed her dad her goals and spending plan. Every month when they make the trip to deposit her PYF money, they talk about how her plan is working for her. She's also noticed that he doesn't grill her anymore when she comes home from shopping—a perk she didn't expect.

How do you feel about the way you're managing your money now?



Challenge 1-D: My Action Plan

Think about how well you manage your money now. What can you do to make improvements? The habits you have now will continue as you get older. The sooner you replace poor money management habits with sensible habits, the better off you will be when you become financially independent.

I think I do a _____ job of managing my money.

What I do well:

What I will do to improve:

I will share money management tips with the following people:

APPENDIX – MONEY MANAGEMENT AIDS

SMART Goal Guide

Goal Setting

S**Specific****M****Measurable****A****Attainable****R****Relevant****T****Time-Bound**

See examples on pages 15–16.

DECIDE Steps

- 1 Define what you want to achieve.
- 2 Establish your must-have and nice-to-have criteria.
- 3 Choose a few options that match your criteria.
- 4 Identify and compare the pros and cons of each option.
- 5 Decide the most logical option for your situation.
- 6 Evaluate the results and make adjustments for next time.

See an example on page 20.

Stop, Drop, and Think Before You Buy Test

- » Do I need this or do I want it?
- » If I don't need it, why do I want it?
- » Exactly when will I use (or wear) it?
- » Can I find it for less somewhere else?
- » What will I have to give up or put off by buying this now?

Financial Planning Process

Analyze your values, money management habits, and your financial situation.



Set SMART financial goals.



Plan what needs to be done with checkpoints and plan strategies to cope with unexpected events.



Carry out your plan and track your progress using systems that work for you.



Monitor and reflect on your progress; adjust your plan as your situation changes.

Additional NEFE Resources for Teens and Young Adults

Entering the Real World

www.onyourown.org

Just starting out on your own? This blog can help! From lessons learned with real people to money tips, strategies, and options, On Your Own supports you on your path to financial independence.

Prep for College or Workplace

www.cashcourse.org

CashCourse is a website that can help you prepare financially for college or the workforce. It includes worksheets, calculators, and an easy-to-use Budget Wizard to help you manage your money.

Spending Habits

www.spendster.org

Spendster is a YouTube™-like website that showcases people's stories of impulse buying, overspending, or just plain wasting money on stuff they don't need. Watch their video confessions, and then submit your own spending story.

Money Management Tips

www.smartaboutmoney.org/40moneytips

What are the *40 Money Management Tips Every College Student Should Know?*

Find out by downloading this booklet and learning how to stretch your financial resources, whether you're just starting out on your own or heading off to college.





HIGH SCHOOL FINANCIAL PLANNING PROGRAM

“Don’t spend more than you have and keep track of your spending ... be aware of what you do with your money.”

Student ~ 2010

This **NEFE** program will equip students in Grades 8-12 with fundamental personal finance skills to prepare them for financial independence and mindful money management decisions and behaviors.

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