

Participant Guide



# SETTING FINANCIAL GOALS



FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

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## Money Smart for Young Adults Modules

### Bank On It

An introduction to bank services

### Borrowing Basics

An introduction to credit

### Check It Out

How to choose and keep a checking account

### Charge It Right

How to make a credit card work for you

### Setting Financial Goals

How to keep track of your money

### Paying for College and Cars

Know what you are borrowing before you buy

### Pay Yourself First

Why you should save, save, save

### A Roof Over Your Head

What home ownership and renting are all about

## Your Guides

Students from Lakeview High are going to be your guides in this lesson.



### Jasmine

**Hobbies:** Hanging out with friends, shopping, collecting teddy bears

**School life:** Likes English class, swims on the swim team

**Job:** Works weekends and holidays at her aunt's gift shop

**Family:** Younger brother named Dominique, large extended family

**Future plans:** Go to an in-state college and become an exercise physiologist



### Todd

**Personality:** Shy, good sense of humor, intelligent

**School life:** Likes school, but does not work very hard at it

**Jobs:** Two part-time jobs (fast food and a grocery store)

**Family:** Mom and sister

**Future plans:** Attend college; he is not sure where he wants to go or how he will pay for it, but is saving all he can

## Ramón



**Hobbies:** Going to the movies or playing mini golf with his girlfriend

**School life:** Plays on the soccer team

**Family:** Born in the United States (U.S.), but his parents are from Peru; he has a little sister and an older brother who is a pilot in the Air Force

**Job:** Repairing computers; wants to work for NASA some day

**Future plans:** Attend college on a soccer scholarship to study engineering

## Grace



**Hobbies:** Art, drawing fashion sketches

**School life:** Does not really fit into the “high school scene”

**Family:** Two parents, no siblings

**Job:** Works at a clothing store at the mall

**Future plans:** Enroll in Fashion Design School

## Checking In

### Welcome



Welcome to *Setting Financial Goals*! One of the first steps to financial security is planning and following through on a personal spending plan or budget. Budgeting is about choices—choosing how to make money and choosing how to spend money.

### Purpose

The *Setting Financial Goals* module will show you how to manage your money. You will prepare a personal spending plan and identify ways to decrease spending and increase income.

### Objectives



After completing this module, you will be able to:

- Track daily spending habits.
- Prepare a personal spending plan or budget to estimate monthly income and expenses.
- Identify ways to decrease spending and increase income.
- Identify budgeting tools that will help you manage your money.

### Student Materials

You have a copy of the *Setting Financial Goals* Participant Guide. You can take it home and use it as a reference. It contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module



## Pre-Assessment

1. Select all that apply. Your financial goals should be:
  - a. Realistic
  - b. Aligned with a timeframe
  - c. Organized by milestones
  - d. Open-ended and flexible
  
2. The main reason that it is helpful to track daily spending habits is to:
  - a. Enter them on a computer spreadsheet
  - b. Know exactly how your money is spent
  - c. Increase your income
  - d. Decrease your spending
  
3. Before you prepare a spending plan, the two most important things you must know are:
  - a. Total income and expenses
  - b. Your car payment
  - c. How to plan for savings and food
  - d. What you spend on your phone bill and movies
  
4. Which of the following are generally considered examples of a flexible expense? Select all that apply.
  - a. Car payment
  - b. Car insurance
  - c. Cell phone bill
  - d. Personal expenses
  
5. Which of the following are generally considered examples of a fixed expense? Select all that apply.
  - a. Car payment
  - b. Car insurance
  - c. Personal expenses
  - d. Cell phone bill
  
6. Adopt the habit of paying yourself first. On your

worksheets, list savings as:

- a. A fixed expense
  - b. Income
  - c. Entertainment
  - d. A flexible expense
7. “Increasing cash flow” means:
- a. You must get a part-time job to fill up free time
  - b. Getting more money from the Automated Teller Machine (ATM)
  - c. Borrowing money from a family member
  - d. Lowering your expenses so you have more money at the end of the month
8. On a pay stub, deductions made for Social Security are often referred to as:
- a. SSD
  - b. FICA
  - c. Retirement
  - d. Social-S
9. Social Security benefits may include:
- a. Retirement benefits
  - b. Disability benefits
  - c. Survivor benefits
  - d. All of the above
10. On a typical pay stub, Net pay (sometimes referred to as take-home pay) is often smaller than:
- a. Total Social Security deductions
  - b. Gross pay
  - c. Overtime hours
  - d. Bonus pay

11. If you earn \$10.00 an hour at a part-time job and you work 16 hours in a week, your take-home pay for that week will likely be:
- Exactly \$160.00
  - Slightly more than \$160.00
  - Less than \$160.00, due to deductions
  - Automatically deposited
12. If you are having trouble paying your bills, you should first:
- Try to increase the limit on one or more of your credit cards
  - Talk to a payday lender to get some extra cash
  - Talk with a parent or guardian
  - Stop all payments



## Why Create a Spending Plan?



A good way to start taking control of your financial situation is to develop a personal spending plan.

- What is a personal spending plan?
- What is the purpose of creating a personal spending plan?

## Financial Goals



Setting financial goals will help you create and stick to a spending plan.

Consider your goals when creating a spending plan. They should:

- **Be realistic:** A student working part time is not likely to be able to afford a new car every couple of years.
- **Be specific:** “I plan/want to save \$5,000.00 for a down payment to buy a new Honda Civic.”
- **Have a timeframe:** “I plan/want to pay off my credit card within the next 12 months.”
- **State the action to be taken:** “I will ask my bank to transfer a certain amount of funds from my checking account into my savings account each month.”
- **Have milestones:** For example, “My goal is to purchase a bicycle that costs \$800.00 by paying for it without borrowing money. To do so, I asked my employer to transfer \$50.00 from each of my paychecks into a savings account I set up to purchase the bicycle. Every couple of months, I plan to check to see how much money I have.”

## Preparing a Spending Plan



Spending and saving are about choices—choosing how to use your money. Knowing what your income and expenses are every month will help you take control of your financial situation. You will then be able to meet some financial goals you might set for yourself.

There are four steps to preparing a personal spending plan. They are:

1. Keep track of your daily spending.
2. Determine what your monthly income and expenses are the month before they are due.
3. Find ways to decrease spending.
4. Find ways to increase income.

### Step 1: Keep Track of Your Daily Spending



Do you know where your money goes each month? What do you spend it on? Can you list everything exactly? Have you ever had any money and then spent it, but you do not remember exactly what you bought?

What is the difference between a “need” and a “want”? Needs are expenses that are absolutely necessary (e.g., your housing, utilities, food, and transportation). Wants are optional purchases (e.g., music, magazines or books, and eating out). Some items can be both a need and a want. For example you need to eat, but you could pack a lunch instead of paying to eat out at a restaurant or cafeteria every day.

If you want to be in control of your money, you must understand where your money goes. One way to do this is to keep a personal spending diary to record everything you spend. It is particularly important to track the money you spend on optional purchases or “wants” (e.g., eating at restaurants and entertainment).



### Activity 1: Daily Spending Diary

Use this to track your daily spending. Be sure to write down everything you spend money on, no matter how small the amount!

Day	What did I spend my money on today?
Sunday	
Monday	
Tuesday	
Wednesday	
Thursday	
Friday	
Saturday	



## Step 2: Determine Income and Expenses

The next step to perform in preparing a personal spending plan is to determine your monthly income and expenses.

Income is money that comes to you from:

- Various jobs or work, like cutting grass or babysitting wages
- Allowances
- Odd jobs
- Interest and dividends
- Other sources, including tips

Expenses are the items you spend money on each month. They might be from:

- Cell phone bill
- Car payment
- Movies, compact discs (CDs) or music downloads, or other entertainment
- Clothes
- Eating out
- Personal items (makeup, cologne, etc.)
- Savings for college or other future purchases



## Activity 2: Monthly Income and Expense Worksheet

The Monthly Income and Expense Worksheet is prepared on a monthly basis and will help you determine how much money you have coming in, how much is going out, and whether or not you have enough income to pay your bills and expenses each month.

Follow your instructor’s directions when completing this worksheet.

My Income		My Expenses	
		<b>Fixed Expenses</b>	
		Car Payment	\$150.00
		Car Insurance	\$30.00
		Loans/credit cards	\$10.00
		Savings	\$25.00
		<b>Flexible Expenses</b>	
		Gas/car maintenance	\$60.00
		Cell phone	\$30.00
		Entertainment	\$40.00
		Personal Expenses	\$25.00
<b>Total Income</b>	<b>\$</b>	<b>Total Expenses</b>	<b>\$</b>

*\*Remember to plan for income and expenses that do not occur on a monthly basis.*

## What You REALLY Earn: Income



### Gross Income versus Net Income

When creating a spending plan, remember that your employer has to subtract certain taxes and other deductions from your paycheck.

$$\text{Gross income} - \text{deductions} = \text{Net income}$$

**Gross income** is your total income without (before) deductions.

**Net income** is gross income after deductions (e.g., federal and state income

taxes, Social Security taxes, retirement savings contributions, and premiums for medical insurance).

Social Security is like an insurance plan. On some pay stubs, it is called *FICA*, which stands for Federal Insurance Contributions Act. Social Security benefits include:

- **Retirement benefits** paid every month to eligible retired workers, as early as age 62
- **Disability benefits** paid every month to eligible workers of all ages who have a severe disability
- **Family benefits** paid every month to spouses and children of eligible retired and disabled workers
- **Survivor benefits** paid every month to the eligible widow or widower and children of a deceased worker
- **Medicare benefits** paid as needed to help with hospital bills and offer limited coverage of stays in skilled nursing facilities, hospice care, and other medical services to people 65 or older and to younger people who are disabled

Once you are 25 or older, and are not already receiving Social Security benefits, you will receive a Social Security statement just before your birthday each year. This statement is a record of your earnings and the Social Security taxes you have paid during your working years. The statement provides estimates of the monthly Social Security retirement, disability, and survivors' benefits you and your family could be eligible to receive.

### Activity 3: What Grace REALLY Earned



Review a paystub that Grace received from her employer. Pay stubs like this are attached to her check each week, and contain information about how much she worked and how much she earned. It also details all of the deductions that were made.

<u><i>The Fashion Place at the Walnut Grove Shopping Mall</i></u>	
<b>Employee Identification:</b> Grace	<b>Check Date:</b> August 19 <sup>th</sup>
<b>Hourly Rate:</b> \$10.00/hour	<b>Hours Worked:</b> 16
<b>Gross Earnings:</b>	<b>\$160.00</b>
<b>Deductions:</b>	
Federal Income Tax	\$20.00
State Income Tax	\$7.50
Social Security (FICA)	\$9.00
Medicare/Medicaid	\$2.40
Insurance	\$0.00
<b>Net Pay:</b>	<b>\$121.10</b>

What deductions were made to Grace’s gross pay? Does Grace pay for insurance coverage? Not all states have income tax. Does yours?

### Paying Up: Expenses



Expenses include everything a person might pay for in a time period. For someone on his or her own, this might include housing and car payments; gas, food, and utilities; or other things like daycare or insurance.

- **Fixed** expenses do not change from month to month.
- **Flexible** expenses might change from month to month, like a heating bill that is lower in May than in December.

### Step 3: Decreasing Spending



Decreasing spending increases the amount of money you have left each month. This is also referred to as “increasing your cash flow.”

What are some ways you can reduce your spending?

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## Step 4: Increasing Income



Other than finding a job or finding a job that pays more, what are some ways you can increase your income?

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## Budgeting Tools



Planning tools help you keep spending and savings records, so that you can more easily carry out your personal spending plan. These tools include:

- The monthly payment schedule
- The monthly payment calendar
- The computer system

### Monthly Payment Schedule

The monthly payment schedule:

- Helps you plan in advance when you will pay your bills.
- Lets you record in advance when you will receive income to pay those bills.



### Activity 4: Monthly Payment Schedule

Enter the income and expense information in the Monthly Payment Schedule. Your income and savings payment are already listed for you. Fill in the rest of the monthly payment schedule using these additional expenses, amounts, and dates:

- Car payment: \$150.00 due 4/1
- Car insurance: \$300.00 due 4/1
- Gas/car maintenance: \$60.00 due 4/2
- Personal expenses: \$25.00 due 4/3
- Cell phone: \$30.00 due 4/6
- Credit card/loan: \$10.00 due 4/20
- Entertainment: \$40.00 due 4/28

#### Completed Monthly Payment Schedule Month: April

Income	Expenses/Bills	Date Income Received or Expense Due Date	Amount Due	Date Paid
Take-home pay		4/1	\$425.00	
	Savings	4/1	\$25.00	

### Activity 5: Monthly Payment Calendar



Another budgeting tool that will help you carry out your personal spending plan is the Monthly Payment Calendar. Many people find it easier to see when things are due.

Transfer the income sources and expenses from the Monthly Income and Expense Worksheet or Monthly Payment Schedule to the appropriate dates (e.g., when income is received or bills are due) on the calendar. Note: you can mark through or cross out the entry when you pay the expense.

Month _____						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1 \$425.00 paycheck	2 \$60.00 gas/car maintenance	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					



### Another Way to Track Your Budget: The Computer

If you do not want to use paper, or you pay bills in cash instead of with a checking account, you can use a computer to keep track of expenses.

On a personal computer, you can create a spreadsheet to track your income and expenses.

You may also want to purchase a personal finance program. They are available for less than \$75.00. Using one of these programs to manage your finances is relatively simple. Once you set it up, updating information is quick and easy. You should enter transactions frequently so that you always have a good grasp on your financial position.

Your financial institution may also offer you online access to free or low-cost services that can help you track your money.

There are many different ways to track your spending plan. You can find one that works for you.

### Help! I Cannot Pay My Bills!



What payments do you think you should make first if you do not have enough money to pay all of your bills?

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If you are having trouble paying all of your bills:

- **Talk with a parent, guardian, or another adult you trust** and let them know that your bills exceed the money you are bringing in. You may be able to work together to identify ways you can increase your income, reduce your expenses, and adjust your spending plan.
- **Pay your necessary expenses first.** For example, you may rely on a vehicle to get to and from a part-time job. Since this job is likely the biggest source of your income, losing the car may result in also losing the job—worsening your situation. In this respect, staying current on your car payments would be a priority.

- **Pay off loans with the highest interest rate first to save on interest.** If you have several credit cards with outstanding balances, focus on paying off the one with the highest interest rate first.
- **Talk to your creditors as soon as you think you will have a problem making a payment.** Your creditor may be willing to reduce your payments or change the terms to accommodate your situation. Some creditors might offer extensions, accept smaller payments over a longer period of time, or accept partial payments.



### Activity 6: A Hole in Todd's Pocket

Read the scenario below. With your group, work out a spending plan for Todd!

#### Scenario

Todd gets an allowance. He does chores around the house for which he earns \$100.00 a month. His cell phone bill is \$30.00 a month. The rest of his money goes toward savings (\$10.00); going out with his friends (\$25.00); and clothes, MP3 downloads, and video games (\$35.00). Right now he has \$70.00 in savings.

Last month, Todd went much too far over his allowable minutes. His cell phone bill ended up being \$256.00! If he continues to pay his regular payment of \$30.00 a month, he will continue to owe the extra charges.

#### Develop a Spending Plan

Using what you have learned in this module, make a plan for Todd to pay his cell phone bill. Suggest ways he could lower his expenses and/or increase his income.



## Module Summary



Congratulations! You have completed the *Setting Financial Goals* module. We have covered a lot of information today about how to save for the future. You learned:

- How to track what you spend each day so you know exactly where your money goes.
- How to prepare a personal spending plan to estimate monthly income and expenses so that you do not run out of money at the end of the month.
- Ways to decrease spending and increase income to help you manage your money.
- Which tools you can use to help you manage your money.

You should now be able to take this information and begin managing your money effectively.



## Knowledge Check

1. Your financial goals should consist of what? Select all that apply.
  - a. Specific information
  - b. Milestones
  - c. Actions to be taken
  - d. Items you want to purchase
  
2. You will be more likely to do this if you track daily spending habits by:
  - a. Reducing deductions from your paycheck
  - b. Working more hours
  - c. Purchasing a larger number of items
  - d. Understanding how your money is spent
  
3. You cannot prepare a personal spending plan without first knowing these two things.
  - a. Your total income and expenses
  - b. Your address and zip code
  - c. Your overtime hours and vacation pay
  - d. Your savings account's interest rate and fees
  
4. Select all of the flexible expense items from the list.
  - a. Personal expenses
  - b. Monthly car payment
  - c. Cell phone bill
  - d. Savings
  
5. Select all of the fixed expense items from the list.
  - a. Monthly cable television bill
  - b. Savings
  - c. Personal expenses
  - d. Monthly car payment

6. You can pay yourself first by listing this item as a flexible expense on your worksheet.
  - a. Clothing expenses
  - b. Entertainment costs
  - c. Savings
  - d. Tuition fees
  
7. If you increase your cash flow, then you have:
  - a. Agreed to work no fewer than 4 hours of overtime each week
  - b. Lowered your expenses and increased the amount of money you have at the end of the month
  - c. Doubled the amount of cash you are able to access from Automated Teller Machines (ATMs)
  - d. Arranged for your boss to pay you twice a week instead of once a week
  
8. When you see the acronym FICA on your pay stub, it refers to deductions made for:
  - a. State income tax
  - b. Your local plant-a-tree program
  - c. Social Security
  - d. Federal income tax
  
9. Social Security benefits do not include:
  - a. Retirement benefits
  - b. Employer-funded pension benefits
  - c. Survivor benefits
  - d. Disability benefits
  
10. Gross pay (on your pay stub) is usually the larger amount when compared to what other items? Select all that apply.
  - a. Year-to-date earnings
  - b. Federal income tax deduction
  - c. Net pay
  - d. FICA deduction

11. If you worked 10 hours in 1 week at your part-time job and you earn \$8.00 an hour, your take-home pay for that week will likely be:
  - a. Slightly more than \$80.00
  - b. Withheld until you earn at least \$100.00
  - c. Less than \$80.00, due to deductions
  - d. Exactly \$80.00
  
12. You should do this if you are having trouble paying your bills.
  - a. Talk with a parent or guardian
  - b. Ask close friends to loan you some money
  - c. Stop paying them until you have saved enough money to continue
  - d. Apply for at least one additional credit card

## Glossary

**Fixed Expenses:** Expenses with amounts that do not change from month to month.

**Flexible Expenses:** Expenses with amounts that often change from month to month.

**Gross Income:** Total income without deductions.

**Net Income:** Gross income minus deductions including Social Security and other taxes.

**Spending Plan:** A step-by-step plan for meeting expenses in a given period of time:

1. Keep track of your daily spending
2. Determine what your monthly income and expenses are the month before they are due
3. Find ways to decrease spending
4. Find ways to increase income

## For Further Information

### Federal Deposit Insurance Corporation (FDIC)

[www.fdic.gov/consumer](http://www.fdic.gov/consumer)

1-877-ASK-FDIC (275-3342)

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

### U.S. Financial Literacy and Education Commission

[www.mymoney.gov](http://www.mymoney.gov)

1-888-My-Money (696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balance your checkbook, or invest in your 401k the resources on MyMoney.gov can help you. Throughout the site you will find important information from federal agencies.

### Federal Consumer Information Center

[www.pueblo.gsa.gov](http://www.pueblo.gsa.gov)

1-800-688-9889

The Federal Consumer Information Center (FCIC) provides free online consumer information to help the public. The FCIC produces the Consumer Action Handbook, which is designed to help citizens find the best sources for assistance with their consumer problems and questions.