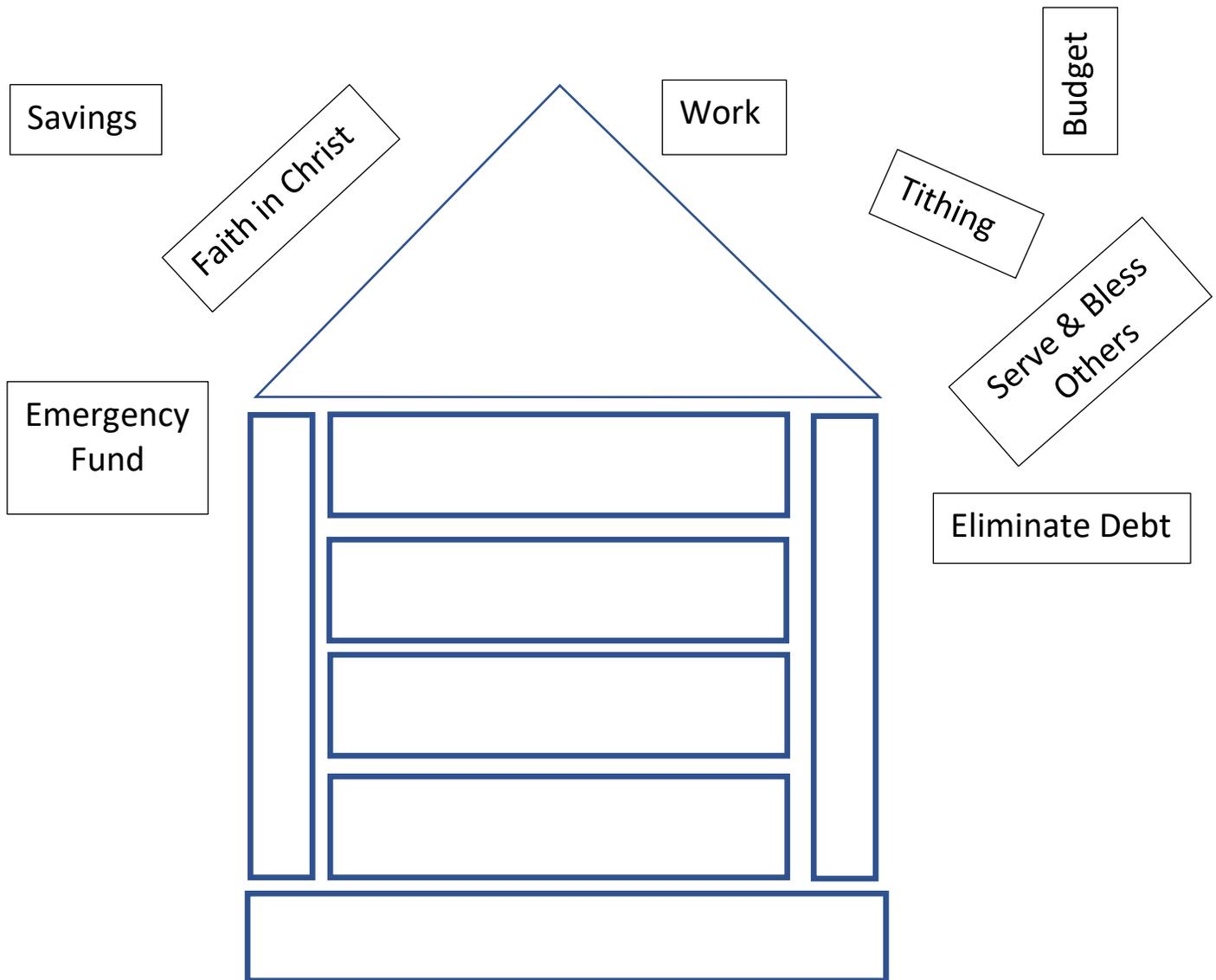


FINANCE LESSON # 2 Budget and Debt

ACTIVITY: Review with a partner the Financial Stewardship Success Map
DISCUSS the Foundation, Walls, 1st, 2nd, 3rd, 4th Levels, and the Roof.



BUDGET

DISCUSS: Why do you think “budget” is a wall on the Financial Stewardship Success Map instead of a layer?

READ: Today we will discuss **one of the most vital tools** for building financial security and becoming self-reliant: creating and effectively using a budget. A budget is a plan. Using a budget, you plan how you will use your money for a certain period of time.

Following a budget will help you take control of your temporal life, put off the natural man and invite the Spirit into your life. Budgeting can also help you to protect you and (your family) from hardship as you use it to allocate money for building an emergency fund, paying down debt, and saving for future expenses. **Creating and following a budget is an act of faith. We cannot predict the future, and costs often arise unexpectedly. It is important to remember that a budget must be flexible—continually adjusted and improved.** When you create a budget, remember that it will need to be consistently reviewed and revised. If you go over budget, **don't give up!** It may take several months of adjustments before you have an effective budget

1. BUILD A BUDGET

READ: In the following activities, we will practice creating a budget.

For today, you will estimate the asked-for amounts based on what you know and what you have learned from tracking your income and expenses. One of your commitments will be to repeat this exercise with real numbers using the table at the end of this packet.

A BUDGET IS YOU TELLING YOUR MONEY WHERE TO GO INSTEAD OF AT THE END OF THE MONTH WONDERING WHERE YOUR MONEY WENT.

READ: To create a budget you will need to classify and estimate your expenses. You have been tracking your expenses and placing them in the categories. Now we will split our expenses into two types: “Fixed” and “Variable.”

DISCUSS the difference between Variable and Fixed Expenses
Below are some examples

Fixed Expenses (F)	Variable Expenses (V)
Tithing	Groceries
Emergency Fund	Eating Out
Savings	Fuel and Transportation
Mortgage/Rent/Housing for college	Entertainment
Car Payment/Bus Pass	Class Fees
Insurance payment	
Tuition	
Other Bills (Cell Phone)	

ACTIVITY: Write your fixed and variable expenses in the sample budget. Write an F/V in the “Type” column, and estimate the amount of the expense in the third column.

As you add expenses, keep a running balance of how much income is left in the “Balance” column.

*****When it comes to budgeting, the most important variable expenses are the ones you have the most control over. These are directly controlled by your spending habits. For many variable expenses, you can make the choice to spend more or less in these areas.**

DESCRIPTION	TYPE	INCOME	EXPENSE	BALANCE
Paycheck		\$400.00		
Movie ticket	V		\$10.00	\$390.00

2. BALANCE A BUDGET

Read: As you put together your budget, you may find that you have more in expenses than income. If this is your situation, you are not alone. And this is a problem you can solve. There are two ways to fix this challenge: **Earn more income, or spend less money.** For now, let’s discuss how we can **use a budget to help us spend less by learning how to control how much we spend on our wants.**

ACTIVITY

Step 1: Individually analyze your current spending patterns by checking the boxes in the following chart. **Could you adjust your spending to better prioritize long-term needs over short-term wants?**

HOW DO I FEEL ABOUT MY SPENDING?	I SPEND TOO LITTLE	I FEEL GOOD ABOUT MY SPENDING	I SPEND TOO MUCH
Eating out at restaurants			
Snacks and beverages			
Entertainment			
Rent/Housing for college			
Clothing			
Cell Phone			
Personal Products - makeup			
Transportation			

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3. Find and Use a Budgeting System:

ACTIVITY

- Divide into two groups. One group takes the “Envelope System” and the other group takes the “Digital System”. (found at the end of the packet)
- Read and discuss the Pro’s and Con’s of the system you are reading about.
- Share with the group.

4. HOLD YOURSELF ACCOUNTABLE

Read: You can only succeed in sticking to a budget by holding yourself accountable. Weekly review your goals and budget and to make adjustments if necessary. If you have a difficult time holding yourself accountable, it may be wise to report your progress to someone else—a friend, action partner, mentor, or financial adviser. The important thing is that you make time to consistently evaluate your progress and that you make changes as needed.

Discuss: Why is it important to hold yourself accountable? How will you hold yourself accountable to your budget?

EMERGENCY FUND & SAVINGS:

BUILD A ONE-MONTH EMERGENCY FUND

DISCUSS: Why do I need an emergency fund?

READ: By tracking your expenses for at least four weeks, you will identify the amount of money required for one month’s worth of living expenses. Your one-month emergency fund should equal this amount. For your one-month emergency fund, you should save cash in a safe and accessible place such as a bank account. Do not use this money for anything other than emergencies. If you have an emergency and must use money from your one-month emergency fund, immediately begin putting money back into the fund until it is full. Later, after you have paid down all of your consumer debt, you will begin to save enough money to cover your expenses for three to six months.

You should work to build a one-month emergency fund as fast as possible. Put any extra money you have toward your emergency fund until it is complete. Even if you have debt, make only the minimum required debt payment until you have built a one-month emergency fund. To help speed up this process, you may want to sell some things you can live without, or eliminate some unnecessary expenses.

SAVINGS:

READ: Elder L. Tom Perry taught, “**Pay yourself a predetermined amount directly into savings.** . . . It is amazing to me that so many people work all of their lives for the grocer, the landlord, the power company, the automobile salesman, and the bank, and yet think so little of their own efforts that they pay themselves nothing”

READ: When people hear the term investing, they may think of a loud and chaotic trading floor with people selling stocks and bonds. While that may be part of investing, investing is also the act of putting time, effort, or money into something and expecting some type of a return. In this sense, investing is an element of self-reliance.

DISCUSS the three ways to invest listed below:

1. Save money
2. Pursue home ownership
3. Seek education

PONDER: Take a minute to think about the following question and write down your thoughts: What would I most like to save up for?

DEBT

Understanding debt

READ: Debt is borrowing money that is not yours. It typically comes with a cost, known as interest. Interest is a percentage of the amount owed. You end up paying more for what you borrowed, **sometimes a lot more.** Debts come with expected payments, and an overall expectation to repay all that you borrowed plus interest. **For example: interest on a credit card is 18-21%.**

DISCUSS: Why do people borrow money?

READ: Prophets have always counseled us to avoid debt. President Heber J. Grant taught, “If there is any one thing that will bring peace and contentment into the human heart, and into the family, it is to live within our means. And if there is any one thing that is grinding and discouraging and disheartening, it is to have debts and obligations that one cannot meet”

Avoiding Debt

READ: Prophets have counseled that there are very few justifiable reasons to go into debt and that when you do incur debt you should pay it off as quickly as possible. President Gordon B. Hinckley taught that “reasonable debt for the purchase of an affordable home and perhaps for a few other necessary things is acceptable. But from where I sit, I see in a very vivid way the terrible tragedies of many who have unwisely borrowed for things they really do not need”. Depending on the circumstances, debt may be acceptable for the following expenses:

- Rent, housing, or home
- Reasonable educational expenses that will lead to better work
- Modest, basic transportation

You should likely avoid going into debt for items other than these. Instead, save up for expenses.

DISCUSS: Look into your future. Do you see yourself accumulating any DEBT in the next four years? If so WHY? What can you do to keep that debt to a minimum?

PONDER and SHARE: What is one thing I have learned from this lesson that I will use to become more Financially Self Reliant?

COMMITMENTS

- I will work on creating a budget and sticking to it. I will adjust when necessary.
- I will start an emergency fund ** even if it is a small amount I will save \$\$ every month into this fund.
- I will begin to create a savings account even if it is a small monthly amount.
- I will try and avoid unnecessary debt and if I must incur some debt then I will pay it off as soon as I can.
- I will be grateful daily for all the Lord has blessed me with.

THE ENVELOPE SYSTEM

The cash envelope system is simple: immediately after being paid, you place the amount of money you have allotted to spend in each budget category into its own envelope. For example, let's say you have budgeted \$50 for the "transportation" category this month. When you receive your pay for the month or for the next few weeks, deposit that amount (in cash) into an envelope labeled "transportation" No money—and this means no money—comes out of that envelope except to pay for transportation. If you go to the gas station and find you've left the envelope at home, go home and get the envelope! Keep a written record (in a simple notebook) of all expenses, so that you can later review it to remind you where your money is going. In another envelope, place the budgeted amount for your entertainment expenses. You will take from this second envelope when appropriate the portion needed for those costs, and track each expense in your notebook. Divide each of your budget categories in this same way. Each time you get paid, deposit the appropriate portion of your monthly budgeted amount into each envelope so that the total amount placed in each envelope each month is the amount predetermined in your written budget. Do not spend more than you have budgeted. When the envelope is empty, you are done! If you must spend more in that category, you will have to take it out of another envelope. For the first few months this will require adjustments. Within that period you should gain a more accurate picture of whether your initial budgeted numbers are adequate—you'll learn the real average over a couple of months. Some use the envelope system for everything. **Others use this cash-only system for those categories that tend to tempt them to overspend, or for which it is easy to lose track or lose control, like food, restaurants, entertainment, gasoline, and clothing.** Any left-over should go toward your financial priority

DIGITAL SYSTEMS

If seeing extra cash tempts you to spend more than you otherwise would, then using a debit card may be your best option. As with the cash-envelope method, a debit card draws from money already in your bank account. When using a debit card, it is critical to track your expenses because, unlike the cash envelope system, a debit card does not provide hard boundaries between budget categories. You can record your expenses with a pen and paper or with a mobile phone or computer application. Numerous financial management apps are available for cell phones or other mobile devices. These apps can store and organize information for you, and you can then access it from your home computer or other devices, as well. Spend some time researching the best apps available, using "money management," "personal finance tools," or "budgeting apps" as search terms. Many very good ones are free or cost very little. Remember, to keep your information secure, access your personal financial information only from your own devices, not from public computers.

DESCRIPTION	FIXED OR VARIABLE	INCOME	EXPENSE	BALANCE
Income Job, Scholarships, Loans	F			
Tithes/Offerings	F			
1 Month Emergency Fund			20.00	
Savings			20.00	
Rent/Housing			\$800 - \$1,500	
Utilities				
Groceries/Food Meal Plan at college				
Debt Payment Loan/Credit Card			\$500 at 20% = \$100 interest payment/month	
Transportation Car Payment Bus Pass Gas				
Entertainment				
Cell Phone				
Wi Fi				
Books/Fees				
Tuition				
Personal Items Clothing, Make-up, Gym membership				
Miscellaneous				