

Skills for Living

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Topic 17-4

Managing Your Money

- In this topic, you will learn about managing your money, as well as
 - ❖ **Earning an income**
 - ❖ **Understanding your paycheck**
 - ❖ **The basics of budgeting**
 - ❖ **Reducing flexible expenses**
 - ❖ **Budgeting with a computer**

Managing Your Money

Objectives for Topic 17-4

After studying this topic, you will be able to

- discuss work compensation
- describe the deductions taken from an employee's paycheck
- distinguish between gross income and net income

Managing Your Money

Objectives for Topic 17-4

- prepare a personal budget
- list ways to reduce flexible expenses
- explain how a computer can be used to help manage money

Topic 17-4 Terms

- ❖ budget
- ❖ hourly wage
- ❖ salary
- ❖ fringe benefits
- ❖ gross income
- ❖ net income
- ❖ fixed expense
- ❖ flexible expense

Managing Your Money

- Money is an important resource
- A *budget* is a plan to help you manage your money wisely

Earning an Income

- An *hourly wage* is the amount of money paid for each hour of work
- A *salary* is a set amount of money paid for a certain period of time
- *Fringe benefits* are financial extras provided by the employer in addition to the regular paycheck

Understanding Your Paycheck

- What deductions come out of your paycheck, and where do they go?

Hourly wage Hours worked Gross pay Amount withheld for federal income tax Amount withheld for social security tax Amount withheld for state income tax

REGULAR RATE	REGULAR HOURS	OTHER HOURS	REGULAR EARNINGS	OTHER EARNINGS	TAXABLE ADJUSTMENT	NONTAXABLE ADJUSTMENT	TAXABLE GROSS EARNINGS
6.50	17.5		113.75				113.75
TOTAL EARNINGS		DEDUCTIONS					
113.75		FED W/H TAX	FICA	STATE TAX	LOCAL TAX		
5.47		8.53		2.85			
YEAR TO DATE TOTALS							
EARNINGS		FED W/H TAX	FICA	STATE TAX	LOCAL TAX		
525.00		25.26		39.36		13.14	
INS							
SOCIAL SECURITY NO. 123-45-6789		Joseph E. Williamson					
CHECK NO.		PERIOD ENDING	NET PAY				
15007		2/10/xx	96.40				

FOR YOUR RECORDS
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Employee's social security number Employee's name Total earned and withheld so far this year Last day of pay period Net pay (the amount on the paycheck)

Paychecks and Paycheck Deductions

- ***Gross income*** is the amount of money earned before deductions
- ***Net income*** is the amount of money earned after deductions, also called ***take-home pay***

Taxes and Other Deductions

- Some of the most common paycheck deductions include
 - ❖ federal and state income tax
 - ❖ Social Security taxes
 - ❖ health and life insurances
 - ❖ saving and retirement plans
 - ❖ union dues
 - ❖ charitable contributions

Income Taxes

- Your employer deducts federal and state taxes from your paycheck
- The government uses the tax money to provide services, programs, and facilities to all citizens
- The more you earn, the higher the rate of taxes you will have to pay

Social Security Taxes

- This amount may be listed under the letters *FICA* (Federal Insurance Contributions Act) on your paycheck stub
- Whatever you pay, your employer pays a matching amount for you

Other Deductions

- These deductions are made with your permission
- Deductions may be made for benefits such as
 - ❖ health insurance
 - ❖ life insurance
 - ❖ retirement plan
 - ❖ credit union savings plan

The Basics of Budgeting

- A budget
 - ❖ reflects income and expenses for a given period of time
 - ❖ can be set up using a few basic steps



	A	B	
1	Food	House	Car
2	297.62	796.81	324.23
3	265.81	796.81	311.56
4	190.93	796.81	354.89

Establish Financial Goals

- Set goals for your spending to
 - ❖ meet all commitments
 - ❖ fulfill basic needs
- Determine
 - ❖ short-term financial goals
 - ❖ long-term financial goals
- List an estimate for each item's cost

Determine Sources of Income

■ *Earned income* is the money you receive for working

- ❖ salary
- ❖ wages
- ❖ tips
- ❖ commissions

■ *Unearned income* includes

- ❖ interest on bank accounts
- ❖ dividends on stocks
- ❖ prizes
- ❖ gifts

Estimate Expenses

■ *Fixed expenses* are items that cost set amounts that you are committed to pay

- ❖ mortgage
- ❖ rent
- ❖ installment payments
- ❖ insurance
- ❖ savings

■ *Flexible expenses* are costs that occur repeatedly, but vary in amount

- ❖ food
- ❖ clothing
- ❖ transportation
- ❖ recreation

Compare Income and Expenses

- If income is greater than expenses,
 - ❖ put money toward goals
- If income equals expenses,
 - ❖ you will be able to meet all commitments
- If income is less than expenses,
 - ❖ check budget, increase income, decrease expenses

Write the Budget and Keep Records

- Putting a budget in written form
 - ❖ helps you keep track of spending
 - ❖ helps you stay in the budget
- Choose the recording method that is easiest for you
- Check to see if any expenses get too large

Evaluate the Budget

Weekly Budget			
Income		Expenses	
		Fixed	Flexible
Allowance	\$20	Savings \$50	Lunch \$15
Part-time job	80		Gas 20
		Total 50	Total 35
Total Income	100	Total Expenses	85

- Check budget every few months
- Make adjustments if necessary
- The budget should be flexible so you can make adjustments if you need to

Reducing Flexible Expenses

- Because flexible expenses vary, you can make efforts to decrease them
 - ❖ food
 - ❖ clothing
 - ❖ transportation
 - ❖ recreation
 - ❖ other expenses
 - ❖ future expenses

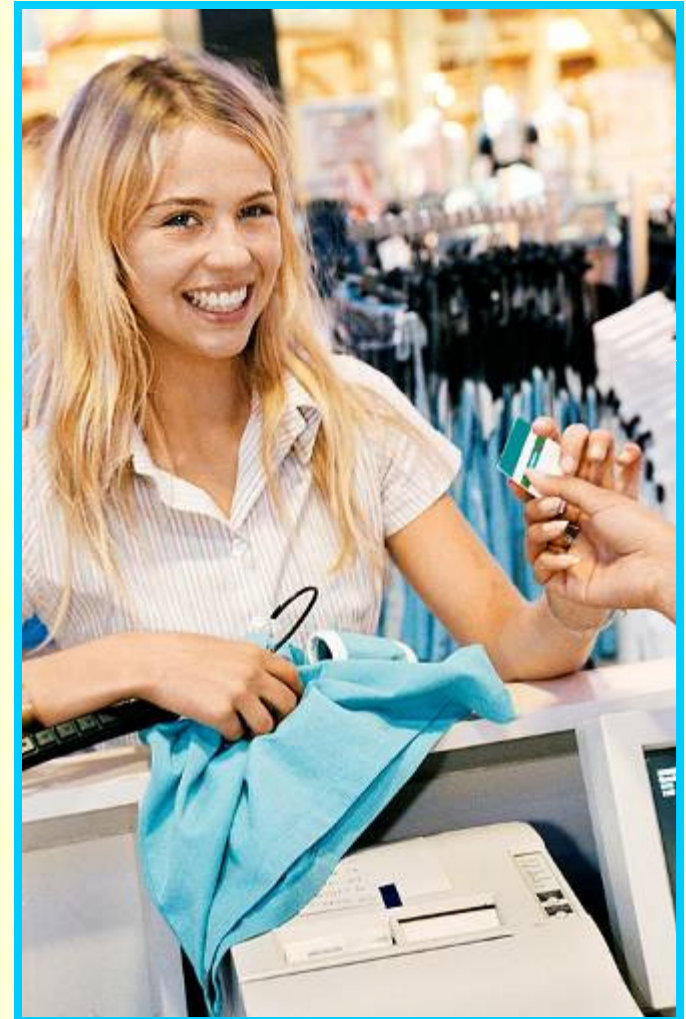
Food



- To cut down on food spending,
 - ❖ eat at home instead of restaurants or picking up fast-food
 - ❖ make items from scratch instead of convenience foods
 - ❖ give up extra snacks

Clothing

- To cut down on clothing spending,
 - ❖ purchase good-quality clothes
 - ❖ avoid buying clothes that must be dry-cleaned
 - ❖ make your own clothes
 - ❖ do your own repairs and alterations



Transportation

- To save on transportation costs,
 - ❖ try to carpool with friends
 - ❖ do regular maintenance on your car to avoid more costly repairs
 - ❖ use public transportation

Recreation

- To cut down on recreation costs,
 - ❖ evaluate recreational expense in relation to other expenses
 - ❖ decide how much you can afford to spend on vacations, hobbies, and entertainment
 - ❖ choose cheaper alternatives to activities you enjoy

Other Expenses

- You may need separate categories for items such as
 - ❖ grooming products and services
 - ❖ school supplies
 - ❖ gifts



Future Expenses

- You will become responsible for expenses such as
 - ❖ utilities
 - ❖ home repairs
 - ❖ furnishings
 - ❖ health care

Unexpected Expenses

- Every person needs an emergency fund they can tap to meet unexpected needs
- These can include loss of income or health emergency

Budgeting with a Computer

- A computer with appropriate software can make money management easier
- You can use a computer to
 - ❖ pay bills online
 - ❖ print out year-end reports for taxes and budgeting
 - ❖ keep track of investments

Summary for Topic 17-4

- Being able to earn an income is important to most teens
- Understanding your paycheck involves understanding the deductions made
- To establish a budget, you must determine your sources of income and estimate your fixed and flexible expenses
- A budget is a helpful tool for managing money to reach financial goals

Summary for Topic 17-4

- After evaluation, you may find it necessary to reduce some of your flexible expenses to balance your budget
- A home computer can make family budgeting, bill paying, and investment analysis easier