

BUDGETING MODULE

Outcomes:

- Increased awareness of how personal values and goals affect spending patterns.
- Ability to distinguish between needs/wants, to set priorities, and adjust to reduced resources.
- Understanding of the importance of planning and decision making in the budgeting process.
- Development of a savings plan and spending plan.

Overview

Budgeting is a strategy for making sure we make conscious spending choices, ensuring that our money goes where we want. To do this, we need to identify the underlying values and factors that affect our spending. The process of differentiating between wants and needs is, for many participants, one of the most powerful parts of the entire economic empowerment series.

Tracking spending and identifying savings goals is an important part of this module as well as the development of a spending plan.

Saving and budgeting is hard for everyone, but especially for those who don't have "surplus" income. While the historic pattern has been that the rich save and the poor eat hand-to-mouth, the pattern of savings stratified by income class reversed over the past decade, during the alleged "economic boom." So high are the incomes of the richest Americans, that when they spend a lot rather than save a lot, the economy booms—at least for them. In recent years, the savings rate of high-income households declined very sharply, and the increased savings of the poor partly paid for the upper-class consumption spree.

The overall savings rate (savings as a percent of income) fell from 5.9 to 1.3 percent over the 1990s, however, the poorest fifth of Americans nearly doubled their savings rate, from \$3.80 per \$100 earned to \$7.10 per \$100 earned. Because servicing debt counts as "savings," we can speculate that the poor spent the 1990s digging out from under the accumulated debts of the previous recession.

Since acquiring assets is such an important part of economic security, this module stresses the establishment of budgeting and savings *habits* and goals.

Considerations

- This module is an excellent "starter" workshop. It works well as an introduction to a longer series.
- When discussing budgets and "needs vs. wants" it's critical for the facilitator to convey that in an ideal world, everyone could afford *both* their wants and needs, and that often it is the wants that make life worth living. It's important to stress that for most people, "joy" and "comfort" are needs. Therefore, budgeting is about making choices about which needs and wants are most important, NOT necessarily about cutting out wants.
- Program participants may have difficulty with the math in this module. The facilitator can help by modeling calculator use, doing sample calculations for the group, and helping people individually.



- Often, program participants who are shelter residents have difficulty estimating the “real life” costs for rent, childcare, utilities. It’s useful to bring a copy of MASSFESS standards and a rough estimate of current housing costs so that the calculations are realistic. Handing out extra blank budgets can help participants rework their budgets as their situations change.
- This module contains an array of activities aimed at helping participants identify and prioritize values and goals, as well as to develop concrete strategies for achieving them.

Data adapted from “Who got all of the 1990s boom?” by Michael Ash, Staff Economist, Center for Popular Economics.

List of Activities in the Budgeting Module

ACTIVITY	DESCRIPTION	TIME
Budget Basics	Overview discussion of budgeting process.	5-10 min.
Needs vs. Wants	Participants identify and rank their needs and wants on a worksheet.	10-15 min.
Budget Bingo	Participants simulate allocating resources using beans to represent income. Excellent for students with limited English.	10-20 min.
Little Things Add Up	Participants calculate the real cost of their habits and the worth of their “disposable income.”	5-10 min.
Financial Goal Setting	Participants set short and long-term financial goals for themselves and calculate the amount needed biweekly to reach the goals.	20-40 min.
Developing a Spending Plan	Participants develop individual spending plans.	30-60 min.
Values Auction	Participants rank their values and explore how values influence their spending choices.	15-30 min.
Getting More for Your Money	Participants exchange strategies for saving money and making their money go further.	15-20 min.
Envelope Budgeting	Participants set up a budgeting system.	10-15 min.
Paying Bills on Time	Participants set up a system to anticipate expenses and control cash flow.	15-20 min.
Tracking Expenses	Participants track and analyze their spending habits.	15 min., over two sessions.
My Money M.O.	Participants assess their spending personalities and discuss their tendencies with family members.	As needed

List of Materials in the Budgeting Module

- Needs Vs. Wants (Activity Sheet)
- Budget Bingo (Activity Sheet)
- What If You Saved the Money Instead? (Handout)
- Financial Goal Setting (Activity Sheet)
- Spending Plan (Activity Sheet)
- Monthly Payment Schedule (Handout)
- Monthly Bill Payment Schedule (Handout)
- My Money M.O. (Handout)

BUDGETING ACTIVITY #1

Budget Basics

A. Objectives

Participants become familiar with the concept of budgeting and its importance.

B. Time Needed

5-10 minutes

Description

1. Work with participants to generate a definition of budgets. (Official definition: *a plan for the coordination of resources and expenditures; the amount of money that is available for, required for, or assigned to a particular purpose*). Ask participants to share their experiences with budgets. What's worked for them, what hasn't?
2. Explain that budgets are based on choices we make using our values, goals, and available resources. A budget based on someone else's formula (percentages, average costs, etc.) is doomed to fail.
3. Explain that most of us must work with other people, usually family members, in setting up a budget. People have different priorities and different approaches to financial decision-making. The key is regular communication. Encourage participants to discuss their budget with their children so that they can learn about the process. When they want something that's not in the budget, it's helpful to explain why.
4. Emphasize that even the best budget plans can be changed by an emergency or crisis. Such situations reduce income. Spending plans must be flexible enough to allow for the unexpected. An emergency fund provides a cushion to cover crisis-related expenses.
5. Financial management must be learned. Financial management must be practiced. We are all controlled by our habits. Some habits lead to choices we like. Others lead to choices we do not like. To be satisfied and control our financial situations, we must look at our choices and repeat the ones we like and change the ones that do not help us reach our goals.
6. Explain that an important part of the budgeting process is identifying our goals. Some goals are set for the near future or short term. Other goals may require long-range planning and saving. Keep in mind that estimated costs for long-term goals should be revised from time to time as market conditions and prices change.

BUDGETING ACTIVITY #2 Needs Vs. Wants

A. Objectives

Participants identify, differentiate between, and rank their needs and wants.

B. Time Needed

10-15 minutes

C. Materials

- Activity sheet: “Needs Vs. Wants”
- Pencils

Description

1. Ask participants to differentiate between wants and needs. What are characteristics of each? What are some examples?
2. Distribute the activity sheet and ask participants to identify and rank their wants and needs.
3. Ask participants to share their lists and to discuss how their wants and needs differ.
4. Discuss which themes are universal and which are individual. Ask, what is surprising/difficult about this exercise?

BUDGETING ACTIVITY #3

Budget Bingo

A. Objectives

- Participants practice making choices about resource allocation.
- Participants practice prioritization.

B. Time Needed

10-20 minutes

C. Materials

- Activity sheet: “Budget Bingo”
- 20 beans per participant

Description

1. Explain that making choices is a big part of managing money, and that there is seldom enough money for all the things we'd like to do. This activity is designed to help us think about what is most important.
2. Round 1: Conduct the game on an individual or small-group basis. Each small group simulates a family. Give each individual or group a set of game cards and 20 beans. Ask them to allocate their beans to reflect the proportion of income that goes to each category in “real life.” For example, if a participant spends a quarter of her income on rent, she should put 5 beans on “housing.” If this activity is done in groups, the members must agree about how beans are spent.
3. After the participants are done, they can “present” their charts, explaining the priorities that underlie their choices.
4. Round 2: One family member just lost his or her job, so their budget is now 13 beans. Instruct the groups to adjust their spending to that level. Each group should return 7 beans to you after making new choices.
5. Discuss the following questions: If you had played the game by yourself, would the beans have been spent differently? Why? Compare your decisions to the group and other groups. How did the values, goals, and past experiences of the group members affect their choices? When you cut back to a 13 bean budget, did you change some of your choices to use non-money resources such as time, skills, or community services instead of spending beans? What was the first and last items you gave up? Why?

BUDGETING ACTIVITY #4

Little Things Add Up

A. Objectives

- Participants determine the true cost of their “habits.”
- Participants realize the size of their discretionary income.

B. Time Needed

5-10 minutes

C. Materials

- Paper and pencils
- Calculators
- Handout: “What if you Saved the Money Instead?”

Description

1. Introduce the concept: “little things add up.” Ask the group for examples of “wants” that they purchase on a regular basis (examples: daily coffee, diet sodas, cigarettes, scratch tickets, cell phone calls).
2. Ask each participant to write down the name and cost of one of their recurring “extra” expenses. Then ask them to write down how frequently they buy it.
3. Guide participants through the math to determine how much they spend annually on the item(s).
4. Discuss alternatives. Participants are often shocked to find that even while they *think* they have “no money” they in fact spend hundreds (sometimes thousands!) of dollars on these items. It’s important that the participants themselves generate alternatives. The idea isn’t to eliminate the expenditure entirely—but to find a way to pay less, cut back on quantity, think about how could the money be used differently.
5. Distribute and discuss the handout, “What if You Saved the Money Instead?”

BUDGETING ACTIVITY #5

Financial Goal Setting

A. Objectives

- Participants set long and short-term savings goals.
- Participants practice adjusting their goals so that they are attainable.

B. Time Needed

20-40 minutes

C. Materials

- Activity Sheet: “Financial Goal Setting”
- Pencils
- Calculators

Description

1. Explain that unless we set goals and set-aside the funds, we will never reach those goals. Sometimes when we see how little it might be necessary to save, it becomes more hopeful and possible. It is important to determine where the money will come from each month in order to meet the goals. Does this mean we skimp somewhere else in the budget? Do we use direct deposit into a savings account and not touch that money? Can we dedicate an earned income credit refund to our savings goals?

2. Work through the example on the “Financial Goal Setting” activity sheet in a group. Then ask each person to work independently on one example of a short-term savings goal and one long-term savings goal.

Optional:

- a.) Distribute blank pieces of bright color paper. Have participants title it “ My Future”
- b.) Ask participant to draw a picture (using no words) that best depicts where (s)he would like to be in 3 years (new apartment, in school, etc).. Discuss some of the financial strategies for getting there and how they relate to the financial goal setting. Segue into the next activity; development of a spending plan.

BUDGETING ACTIVITY #6

Developing a Spending Plan

A. Objectives

- Participants develop spending plan or sample budgets.
- Participants' determine their own minimum salary goals, based on personal budgets.
- Participants develop realistic expectation about the true costs of "self sufficiency."

B. Time Needed

30-60 minutes

C. Materials

- Calculators
- Activity Sheet: "Spending Plan"

Considerations

- The participants should not expect to immediately earn enough to support themselves without subsidies. The majority of participants will need some sort of training to obtain a job that will support all their needs. Given welfare reform, participants may be under time limits. Their planning must be realistic. Once the participants have determined their minimum salary requirements, they should think about developing transitional budgets--budgets that reflect the effect of employment on their different forms of assistance. The transitional budgets can be used as the basis for decisions around what kinds of jobs they might consider in the short term as they work towards their long-term goals.
- Emphasize that these budgets are for participants' personal use. It is vital to acknowledge the need for privacy and possible discomfort in disclosing their private financial information.
- Most people easily identify big items, like rent, electricity, weekly food shopping trip, but forget lots of small "hidden costs" which add up. Push participants to budget for expenses like haircuts, cell phone fees, etc.

One illustration of Hidden Costs might be those associated with owning a car:

Original purchase: \$1000, a 3 year loan at 10% interest = \$32 per month, \$376/year

Taxes: \$50 at purchase; excise tax, \$20 per year

Insurance: \$60 -150 per month, \$1200 per year

Repairs: \$200 per year

Gasoline: \$400 per year (5000 miles at 15 miles per gallon at \$1.25 a gallon)

First year Total: \$2246

Following years Total: \$2196

(Activity continues on next page)

BUDGETING ACTIVITY #6 (CONTINUED)

Developing a Spending Plan

Description

1. Explain that we need to know how much we need for essentials in order to know how much we need to earn. Until we know how much we will need to earn, we cannot decide what real job choices we have. Developing a spending plan is a way to do this. A spending plan is personal and private.

2. Review the Family Self Sufficiency Standard developed by the Women's Educational Industrial Union and Wider Opportunities for Women. This standard outlines the real cost of living for women with families, factoring in costs of child care and housing. (You can download it at http://www.weiu.org/pdf_files/SSSReportOriginal.pdf). How does this compare to their expenses? What expenses would they add? How much have today's costs risen since 1997?

3. Ask participants to complete their own budgets and factor out in-kind support and subsidies to arrive at the minimum salary that they need. Using the draft minimum budget as a base, ask participants to estimate their anticipated minimum salary. This budget will be characterized as the "minimum salary budget"- the amount needed for a basic, decent standard of living. Depending on time, the minimum salary budget might then be modified for "options", which might include additional food, entertainment, a T pass, owning a car.

4. Optional - Personal to National Budgets

Discuss the importance of a "salary goal" when investigating jobs and career paths and emphasize that this figure is the "take-home pay", after taxes have been taken out, so the real salary is higher.

- What is the annual, weekly, hourly equivalent amount of salary goal?
- How does this income compare with income distribution in the United States?

How does the hourly amount compare to the minimum wage? \$6 per hour, \$240 per week, \$1032 per month, \$12480 per year.

BUDGETING ACTIVITY #7

Values Auction

A. Objectives

- Participants understand how their values influence how they handle money.
- Participants understand how spending habits reflect values and priorities over time.

B. Time Needed

15-30 minutes

C. Materials

- 15 index cards with one phrase/item on each (see list below for ideas)
- Play money so that each person can get \$100 in bills

Description

1. Ask participants “What is important to you, and to your family or household? Brainstorm a number of values and possibilities including those below. Write them all down on the flip chart.

- A good school system in my neighborhood
- A new car with a CD player and air conditioning
- A house in a walking distance of a recreation center with a playground
- Peace among all countries of the world
- Helpful and friendly neighbors
- To own and manage my own business
- A close-knit family
- A good relationship with a partner
- A fulfilling and satisfying job
- A closet full of stylish clothes
- The opportunity to go to school
- A safe neighborhood to walk home in at night
- A family vacation in Florida
- A raise and a promotion at work
- To work to eliminate prejudice in society
- To become rich and famous

2. Distribute the money to each participant, asking one person to act as the “banker,” taking money and giving change when needed.

3. Call out auction items so that participants can bid. Continue until all items are “sold.”

4. Ask: What’s it like to assign a dollar amount to different values? How does this happen in real life? Which values are the “hottest”? Why? How do you think your choices might change over time?

BUDGETING ACTIVITY #8

Getting More for Your Money

A. Objectives

Participants share strategies for making sound investments and saving money.

B. Time Needed

15-20 minutes

C. Materials

- Calculators
- Large yellow post-its
- Pencils

Description

1. Explain that saving and budgeting means finding ways to pay less for things we want and need. We all have ways we save money and tips to share—in this activity, we'll compare notes and share strategies.
2. Give each participant a stack of post-its and ask him/her to write down ideas for saving money.
3. Write categories on the newsprint, and ask participants to put their ideas under the headings that fit. Categories may include: housing, utilities, groceries, transportation, personal needs, recreation, shopping, "other."
4. Once completed, review and clarify the items in each category. As follow up, you can consolidate the suggestions into a resource list, which can later be distributed to participants.

Some examples to get the group started:

- Coupons - redeem at stores that offer double or triple coupons
- Review flyers for what is on sale and plan your menu around sale items
- Buy generic versus name brands
- Bulk buying - perhaps split with other people
- Consignment shops - sell your used toys and clothing and purchase second hand items
- Food suggestions: cook a whole chicken and make several dinners versus buying parts at higher prices. Homemade soup is easy to make and freeze.

BUDGETING ACTIVITY #9

Envelope Budgeting

A. Objectives

- Participants practice allocating their money.
- Participants learn a system for income allocation.

B. Time Needed

10-15 minutes

C. Materials

- 6 small envelopes per participant
- Pencils

Description

1. Ask participants to name each area of spending—and then to label a separate envelope for each spending category—food, rent, transportation, utilities, clothes, loan payments, etc. They should specify what falls under each category (for example, should “eating out” fall under “food” or “recreation”?)
2. Ask participants to determine how much they spend in each category, and to write the amount they spend in each area on the outside of the envelope.
3. Tell the participants that when they get paid they can divide the cash among the envelopes according to their plan. Encourage them to try not to shift money from one envelope to another.
4. Have participants store the envelopes in a safe place. When going out, they should carry only the envelope related to the items on their shopping list, or only the exact amount they need. This helps cut down on impulse buying.
5. Encourage participants to transfer any money left in the envelopes into a savings account or new envelope. Encourage participants to try the system for a month or two, then plan a time to follow-up if you can. Participants may need help adapting dollar estimates to reality and building in a cushion for unexpected expenses.
6. Discuss the limitations of this system, alternatives, modifications. Will participants want to keep so much cash at home? What are some other ways they could allocate their income? How will they pay bills with cash? Would it make sense to have separate bank accounts for this purpose?

BUDGETING ACTIVITY #10

Paying Bills on Time

A. Objectives

- Participants differentiate between fixed and flexible expenses.
- Participants identify cash flow patterns and plan accordingly.

B. Time Needed

15-20 minutes

C. Materials

- Activity Sheets: “Monthly Bill Payment Schedule” and “Monthly Payment Schedule”
- Pencils

Description

1. Ask participants to differentiate between fixed and variable expenses. Brainstorm a list of each.
2. Discuss how timing affects the different expenses. Are there certain items that participants buy only after they’ve been paid? When do they pay bills? What are their current habits? How does it feel when bills and income arrive at different times?
3. Ask participants to share some of the consequences of paying bills after their due date. The list should include: late fees, eviction, reconnect fees, cost repossessed car, interest, poor credit history ...
4. Ask participants to estimate late costs for various bills. As a group, calculate how much could be saved by avoiding late fees.
5. Ask class for strategies they’ve used for paying bills on time. Work as a group to come up with different “bill paying systems,” including envelope budgeting, direct deposit, automatic billing, consolidating credit cards, adjusting billing cycles, etc.
6. Distribute and walk participants through the activity sheets “Monthly Bill Paying Schedule” and “Bill Payment Schedules.” Instruct participants to go home and review due dates on all bills for one month and also note pay days on this sheet. They should use the worksheet to take stock of their “monthly financial cycles” and try to move due dates if possible or holdover money left from one week to use for the expenses of the next week.

BUDGETING ACTIVITY #11

Tracking Expenses

A. Objectives

- Identify spending patterns.
- Quantify spending.

B. Time Needed

15 minutes to present; 5-10 minutes per day for one week

C. Materials

- Small notebook
- Pencils

Description

1. Discuss the importance of tracking expenses. Ask participants to recall how much money they spent yesterday, and today, and on what. Push them to recall bus fare, lottery tickets, phone calls, coffee, tips, snacks, etc. Walk around the room to observe that they are recording the item and the amounts. Discuss how hard it is to remember the small incidentals we buy every day. Make the link between this exercise and the development of a spending plan.
2. Ask participants to track expenses for a week and then analyze their spending. This may take 5-10 minutes a day for one week.
3. After a week, ask: where did the money go? What was surprising? What were the major categories? What was the experience like? What patterns emerged? What did you learn about yourself?

FOLLOW-UP BUDGETING ACTIVITY

My Money M.O.

A. Objectives

- Participants discuss their spending patterns with family members.
- Participants analyze their own spending patterns.

B. Time Needed

As needed—to be done at home

C. Materials

- Discussion Questions
- Handout: “My Money “M.O.”

Description

1. Encourage participants to follow-up the series with a discussion at home about financial values and goals with family members and self. They can ask family members how they’d respond to these statements, and discuss the handout, “My Money M.O.”

Some statements to start off the discussion:

1. I’m too tight with money.
2. Sometimes I buy things I don’t need just because they are on sale.
3. I believe in enjoying today and letting tomorrow worry about itself.
4. The best thing I do with money is _____?
5. I’d like to see less money spent on _____ and see more dollars go for _____.