

Budgeting for Teens Activity

Money-related topics can be stressful for most people. When you are a teenager and have your first part-time job, regularly receiving money or income often leads to a variety of decisions. Should I buy the latest video game? I really want that new pair of basketball shoes. Should I be saving money for college?

There are costs associated with everything and some costs are higher than the amount of money you have on hand. When you are faced with that sort of dilemma, the choices you have are earn more or spend less. There is a strong link between earning money and spending.



Nearly every financial advisor has the same advice when doing any sort of financial planning. **Spend less than you earn.** The concept is so simple but, unfortunately, many people fall into the trap of taking on debt and don't realize the problems that can result. Typically, bad habits can be difficult to break so it's best to avoid it from the beginning.

Step 1: Earned Income

When you look at your paycheck, you will see there are two income levels: gross and net. Gross is the amount of money you earn before taxes and other deductions are subtracted. Typically, these deductions include federal and state income tax, Medicare and FICA (Social Security). Your net income is the amount of money left in your paycheck after the deductions. Some refer to net income as your "take-home pay".

Let's do a calculation and help Eduardo figure out what his net income is. He works at the neighborhood supermarket stocking shelves and bringing carts in from the parking lot. He works 25 hours per week and earns \$13.00 per hour.

Eduardo's weekly gross income is _____

Eduardo's employer deducts the following from his paycheck:

Federal Income Tax (18%) _____

State Income Tax (3%) _____

Medicare and FICA (7.65%) _____

What is Eduardo's weekly net income? _____

<https://deldhub.gacec.delaware.gov/pdf/SampleBudgetforTeens.pdf>

"5 Ways Making a Budget Can Ease Financial Stress." *Mint*, 16 Dec. 2014, www.mint.com/budgeting-3/5-ways-making-a-budget-can-ease-financial-stress.

When Eduardo begins to think about managing his money, he must consider both his **net income** and expenses. **Net income** is what matters because that's how much he has available to spend.

Step 2: Developing a Budget

A budget is a great way to start off being disciplined with managing your money. Basically, a budget is a tool or plan allowing you to visually see a listing of all your income and all of your expenses – and help you spend your money wisely. You will want to compare the two numbers to determine if your expenses are greater than your income. If that's the case, then you will want to revisit how much you are spending and where to see if any adjustments can be made.

There are key areas that developing a realistic budget can help you:

1. **Build your savings.** When you don't have a budget in place, it's tempting to spend all of your money – especially if the money's in a checking account because you see it and assume it's available for use. Any money you have left over at the end of the month should be put into a savings account.
2. **Good decisions.** A budget shows you what your income and expenses are. That information is helpful when you identify ways to save money. There may be expense items that can be eliminated, such as high-priced coffee. There may be other expenses that can't be eliminated but can be reduced.
3. **Long-term plans.** Think about your plans for the future. What type of things do you hope to buy or do? A budget can help you set aside money, so you can accomplish the things you want. How much money would you need to save for a large-purchase item in the future? Perhaps a vacation or a vehicle will make the list.
4. **Becoming self-disciplined.** Most people struggle with this area and it's tough. A budget can be challenging when the first few times you work with it. However, once you stay within your budget, you will notice the routine becomes much easier.

Most importantly, a budget helps you stay within your means – spending less than you earn.

<https://deldhub.gacec.delaware.gov/pdf/SampleBudgetforTeens.pdf>

“5 Ways Making a Budget Can Ease Financial Stress.” *Mint*, 16 Dec. 2014, www.mint.com/budgeting-3/5-ways-making-a-budget-can-ease-financial-stress.