Generation Wealth

Budgeting for Financial Independence Freebie

BUDGETING FOR FINANCIAL INDEPENDENCE FACILITATION NOTES

Note to Facilitator:

1. This activity takes approximately 90-100 minutes to teach

2. Its purpose is to:
- define budgeting and Pay Yourself First
- differentiate between saving, spending and sharing
- apply the 20-70-10 rule to create a financial independence budget

Facilitation Process:

To best ensure a learner-centered focus:

1. Scholars should work individually to answer the **Let's Review** questions about the reading before pairing up discuss their answers with their peers.

2. Create some sample 20-70-10 review questions to review with the whole group of scholars prior to releasing them to complete the practice questions individually or in pairs.

3. Allow students think time to calculate the percentages for the examples you complete as a class.

4. Allow space and time for discussion about the reflection questions.

5. Challenge scholars to complete one of the budget templates at home. If their income is inconsistent, they should use the **Weekly Budget Template**. If they have a steady part-time job, then they can use the **Monthly Budget Template**.

Managing Money

Budgeting for Financial Independence

OVERVIEW

In this section, you will learn about how to create a plan for your money using a budget. Budgeting is one of the most important habits that you can develop on your road to financial independence. Robert Kiyosaki, the creator of the Cash Flow Quadrant, once said that "it's not how much money you make, but how much money you keep and how long you keep it for". Let's learn about how to use a budget to help you keep more money so that you can become financially independent sooner!

Budgeting for Young investors

https://bit.ly/207010Budget

WHAT DID YOU LEARN?

What do the numbers 20, 70, and 10 represent?

What does PYF mean?

LET'S DIG DEEPER!

What is a budget?

A **budget** is a plan for how you will save, spend and share your money. Most people follow a monthly budget, but as a young investor your income may not be the same every month, so a weekly budget may work better for you. It doesn't matter if it is weekly or monthly, you can always apply the 20/70/10 Rule

The habit of living by a budget helps you to live below your means, where you spend less than you make. People who spend more than they make develop bad money habits such as going into debt with credit cards and other loans to pay for a lifestyle that they cannot afford. You'll learn more about credit and debt in chapter six. Let's dive into budgeting for financial independence!

20/70/10 Rule

Save 20%

One of the most important rules to remember is the PYF Rule. **PYF** means Pay Yourself First. When you receive income, this is the first rule to follow. You must **pay yourself first**! Try to reach the goal of paying yourself at least 20% of your income. This money will be used for savings and investments.

Your first savings goal should be to build an emergency fund of $500. Emergency expenses will come up in life, but it helps when you are prepared for them. You can use money from this account to pay for incidents like:

- Leaving your new jacket at a movie theater, which most likely won't be seen again.
- Using up all the family data on your monthly cell phone plan accidentally.
- Throwing a basketball through a neighbor's window during a friendly game.

After building your emergency account to $500, your second goal is to use your savings for investments so that your money works hard for you. You're going to learn more about how to invest your money in chapters 10-12 of this handbook.

Opening a Bank Account

Once you start saving money, you should start shopping around for a bank where you'd like to keep your money. The bank is a good place to keep your money until you are ready to invest it because it is protected by the **Federal Deposit Insurance Corporation (FDIC)**. In the event that the bank where you save your money was robbed or lost, the FDIC will ensure that you get every penny of your money back. If you save your money at home and someone steals it, then unfortunately, it's lost forever.

It is never too early to start developing a relationship with your local bank. Most large banks offer free account services for young bankers so make sure you set aside some time to visit your local bank and open up an account.

Spend 70%

70% of your income should be used for spending. You should use spending money to pay for needs first and then, some wants. Maybe you have to pay a part of your cell phone bill each month. This is a need that you would pay from your spending money. If you don't pay your cell phone bill, you risk it being taken away or perhaps the service being cut off. If you want to go out to the movies with your friends on the weekend or buy a new pair of sneakers, this is a want that you would also pay from your spending money.

Share 10%

Use 10% of your income for sharing. Find a charity, church or cause that you want to support by donating at least 10% of what you earn. Sharing is one of the best ways to show gratitude for what you have. Your giving will always be a blessing to those who are in need!

The Relationship between Budgeting and Financial Independence

The purpose of a budget is to use your money to take care of your responsibilities while investing to eventually achieve financial independence. For this reason, when you budget your money it is very important to use your savings to purchase appreciating assets. An asset is a valuable item that is owned. An **appreciating asset** is a valuable item that increases in value over time. There are some appreciating assets that you can buy which can also pay passive income. Some examples of these types of assets include: stocks and real estate.

There are also **depreciating assets** that, even though you own them, they decrease in value over time. Designer clothes and most cars are depreciating assets because they decrease in value immediately after you purchase them. The more you use your money to buy appreciating assets that also pay passive income, the sooner you will be able to achieve financial independence.

The opposite of an asset is a liability. A **liability** is a debt that is owed. Liabilities take money out of your pocket. Some examples of liabilities include student loans and credit cards. A **loan** is money that is borrowed from a bank or lending institution, with the expectation of being paid back with interest. You must be very careful when deciding to take on liabilities like loans and credit cards because if you borrow without a clear plan of how you can pay it back you will end up in serious financial trouble. The more you use your money to buy depreciating assets and pay off liabilities the longer it will take for you to achieve financial independence.

LET'S REVIEW!

Explain the two purposes for the money that you set aside for savings.

What is the relationship between budgeting and financial independence?

Use a calculator to determine the amount of money that Jose, Shelly and Mark should set aside for saving, spending, and sharing based on the 20/70/10 Rule.

1. Jose is a high school senior and walks dogs three days a week after school to earn extra money. Jose earned $80 **last week**. How much money should he set aside for spending, saving, and sharing using the 20/70/10 Rule?

2. Shelly babysits on the weekends as a side hustle to earn extra money. Shelly earned $300 **last month**. How much money should she set aside for spending, saving, and sharing using the 20/70/10 Rule?

3. Mark creates social media content for his neighbor's business. He earned $90 **last week**. How much money should Mark set aside for spending, saving, and sharing using the 20/70/10 Rule?

4. Carrie has a YouTube channel that teaches make-up tips and tricks. She made $500 **last month**. How much money should she set aside for spending, saving, and sharing using the 20/70/10 Rule?

Try Creating Your Own Budget! Use the template on the following pages to create your own weekly or monthly budget using the 20/70/10 Rule!

LET'S REFLECT!

Considering what you now know about budgeting, how will you use a budget to help you manage your money better?

SAMPLE WEEKLY BUDGET

Income	Source	Amount
Week 1	Babysitting	$50
Week 2	Dog Walking	$60
Week 3	No Income	$0
Week 4	Birthday Money	$100
Expenses		
Week 1 = $50 **20% Savings = $10** **70% Spending = $35** **10% Sharing = $5**	Emergency Fund	$10
	Lunch	$10
	Cell Phone (pay to parents)	$25
	Give to Salvation Army	$5
	Total	**$50**
Week 2 = $60 **20% Savings = $12** **70% Spending = $42** **10% Sharing = $6**	Emergency Fund	$12
	Lunch	$17
	Movies	$25
	Give to Salvation Army	$6
	Total	**$60**
Week 3	**NO INCOME**	
Week 4 = $100 **20% Savings = $20** **70% Spending = $70** **10% Sharing = $10**	Stock Investment	$20
	Lunch	$20
	New Jacket	$50
	Give to Salvation Army	$10
	Total	**$100**

SAMPLE MONTHLY BUDGET

Sample Monthly Budget Template	
Net Income (Take home pay):	**$1000**
20% Savings = $200	
Emergency Funds	$100
Investments	$100
70% Spending = $700	
Cell Phone	$100
Car Insurance	$150
Gas	$100
Entertainment	$200
New Sneakers	$150
10% Sharing = $100	
Make a Wish Foundation	$100

WEEKLY BUDGET TEMPLATE

Income	Source	
Week 1		
Week 2		
Week 3		
Week 4		
Expenses	**30/60/10**	
Week 1 = ____ 20% Savings = ___ 70% Spending = ___ 10% Sharing = ___		
	Total	
Week 2 = ____ 20% Savings = ___ 70% Spending = ___ 10% Sharing = ___		
	Total	
Week 3 = ____ 20% Savings = ___ 70% Spending = ___ 10% Sharing = ___		
Week 4 = ____ 20% Savings = ___ 70% Spending = ___ 10% Sharing = ___		
	Total	

MONTHLY BUDGET TEMPLATE

Monthly Budget Template	
Net Income (Take home pay):	
20% Savings =	
Emergency Funds	
Investments	
70% Spending =	
10% Sharing =	