



Parent \$marts

Setting the Stage for Financial Success

Creating a budget or spending plan for the first time can be confusing and frustrating. However, parents need to help their students understand the importance of budgeting and living within their means. A budget is a tool to help students take stock of what they have and what they owe. More importantly, a budget keeps students in control of their spending, instead of letting their spending control how they live.

As your student transitions to financial independence, recognize that their perceptions about living expenses and college costs are likely to be unrealistic. Here are some helpful tips for helping your student prepare a realistic spending plan.

Distinguish Needs from Wants

Help your student prioritize and distinguish between needs and wants. **Needs** are those things required or needed to live. Examples of basic needs include food, air, water, and shelter. Needs can vary depending on age and lifestyle. **Wants** are things that you would like to have but may not be necessary to survive. Wants are often referred to as those things that make our life more comfortable. Examples of wants include designer clothes and shoes, concert tickets, and a big screen television.

Identify and List Expenses

As your student begins preparing a spending plan, help your student to think about and make a list of all the expenses they will have. Once a list of expenses has been identified, help them

determine which expenses are fixed and which are flexible. A **fixed expense** is a set amount of money that is paid on a regular basis. Fixed expenses are often difficult to change. Examples of fixed expenses include rent, utilities, car and credit payments, insurance, and savings. A **flexible expense** is an expense that can be changed; you decide how and when to spend your money. Examples of flexible expenses include food, recreation/entertainment, personal items, and clothing.

Key Points to Remember about Budgeting.

- Budgets are based on the choices you make using your values, goals, and available resources.
- Money is a limited resource.
- Even the best budget plans can be changed by an emergency or crisis.

Determine Your Income

Income is the amount of money available to meet monthly fixed and flexible expenses. It is important to distinguish between gross income and take home pay. **Gross income** is the amount of money you have before taxes and deductions. **Take home pay** is the amount of money you actually have available to meet monthly fixed and flexible expenses. Take

home pay should be used when establishing your monthly spending plan.

To calculate monthly income, have your student add up all their sources of income. Income sources can include salary/wages, tips, interest, and social security.

Live Within Your Means

Help your student compare their income and expenses. Expenses should not exceed income. If expenses are more than income, students should look for ways to cut back. Some ideas might include eating out less often or not having cable television. Help your student to think about ways to save money. See the activity at the end of this fact sheet to identify ways to save money.

Prepare for An Emergency

Saving for the unexpected can help prepare you for an emergency. A good rule of thumb is to pay yourself first each month. By making a payment to your savings account each month you are preparing for the unexpected such as job loss or car repairs.

Preparing a realistic spending plan takes time and practice. The tips identified above are guidelines to share with your student so they can establish a spending plan that meets their values, goals, and available resources. Help your student take control of their finances by preparing a spending plan today!

Cutting Back Can Save You Money!

Expense	How Often	Price	Savings/Year
Soft Drink	1/day	\$1.00	\$365.00
Fast Food Lunch	5 days/week	\$5.00	\$1300.00
Movie	1/week	\$7.50	\$390.00
Cigarettes	1 pack/day	\$4.75	\$1733.75
Music CD	1/month	\$17.00	\$204.00
Total			\$3992.75

- Prices shown are typical costs. Discounts/coupons are not considered in this example

Calculate Your Savings

Expense	How Often	Price	Savings/Year
Total			

Source: All My Money, University of Illinois Extension, 2001.

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