Session 3
Looking at income and expenses

In today's lesson you will understand some standard deductions from your income and we will talk more about expenses that may come up in the future. First let's discuss your income.

Some of you may have had a job before and other's may have not and that is okay. Once you do start working and receive a paycheck you will notice two amounts for your pay: gross pay and net pay.

Gross pay is the total amount you earn before deductions are taken from your check

Net pay is the total amount you earn after your deductions are made.

We may think if we make $10 an hour and work 10 hours than we will receive $100, but unfortunately that is not the case. There are a set of standard deductions taken from each check, such as:

Federal Tax – Depending on our overall income, we have to pay a certain amount of our earnings to the Federal Government

Social Security tax – We pay a certain percent of our income towards this as well, however when you retire or in some cases of disability you will have the opportunity later in life to receive Social Security benefits

State Tax – Just like the federal tax, our states also receive a certain percent of our earnings. In some cases, you may also see your city or county take out taxes as well. There are a few states that do not have a state tax.

Medicare – Medicare deductions are primarily used to help senior citizens with their medical expenses

401 (K) – Some employers will automatically deduct a certain amount of your pre-tax paycheck and put it towards a retirement plan. This money is still yours – it is simply being saved up for you for when you retire, and in some cases, employers will match your 401 (K) contributions up to a limit

Insurance – If you receive health insurance from your job, a part of that cost is usually deducted from your paycheck.

As you can see there are many deductions from your gross pay before you actually bring home a check, for that reason it is always best to build a budget based on your net pay and not your gross pay.

Session 3 Activity
Focus on Income

Income is any money you receive. You can receive income from a full-time or part-time job, birthday gifts, an allowance, scholarships, prizes or from proceeds/profit you make from items you sell – cookies, clothes, etc. Money from a regular job is money you can count on. Some jobs will pay you an hourly rate and you will receive a paycheck every one or two weeks. Other jobs will pay you an annual salary, and that amount will get divided into regular pay periods, such as one every two weeks. Other jobs are contract work – meaning you get paid for a specific project and a specific amount of time. For example, you might decide to be a painter or a hair stylist and get paid for each job you do.

During the school year it is difficult to find free time after school, homework, sports and other activities. But if you manage your time well you can probably find some free hours during the week or on the weekend.

When do you have free time during the week or weekends?

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Sometimes we can look at activities we enjoy or talents we have and they can help us earn income in our spare time. Some things about ourselves we may not see as a talent, but it may be valued by others. Even if we are not able to use our interests and activities to earn extra income when we are younger, they may still give us an idea of what we would like to do with our lives as we grow up.

What talents do you have? ____

What are you good at doing or making? _____________________________

What kinds of activities do you enjoy? ______________________________

Session 3 Activity
Introduction to Expenses

Now that we have talked about income, we want to discuss some common expenses that we may have as adults.

Expenses are anything you spend money on: food, transportation, rent, shoes, video games etc.

To make a budget you will need to classify all of your expenses. You do not have to list every item of food you buy or every grocery store you go to; instead you can have one category called "Groceries" and budget a certain amount to cover all expenses that pertain to groceries.

There are two types of expenses: Essential Expenses and Discretionary Expenses.

Essential Expenses are money you must spend, such as:

Savings: it is a good idea when you start making money that you put away a certain amount in savings. For this program we encourage you to put 10% of your net pay into savings

Home/Apartment - Monthly rent or mortgage payment, including insurance and any maintenance

Groceries – Food purchased to be prepared or eaten at home

Transportation – Gas, cost of public transportation or the cost or maintaining a car, including insurance

Utilities – Electric bills, water, sewage, cable tv, mobile phone and home phone bills

Medical – doctor visits, prescriptions, urgent care

Discretionary Expenses comes from money that you'd like to spend, but do not have to such as:

Eating out – Money spent on food prepared out of the house, including food purchased at restaurants or coffee at coffee shops

Health and fitness – Gym memberships, non-essential doctor visits, dentist or eyecare visits

Entertainment – Movie tickets or DVD rentals, concert tickets or any other money spent on recreation

Shopping – Clothing, electronics, books or sporting goods

Personal Care – Haircuts or styling, manicures and pedicures

Gifts and Donations – Gifts for friends or family or donations to charity

Session 3 Conclusion

Today we were introduced to the idea of income and expenses. We will use the information we learned today to look at budgeting in our next lesson. To conclude today's session, I want you to think about a term you may have heard before:

"Living paycheck to paycheck."

Unfortunately, many Americans would describe themselves as living exactly that way. Living paycheck to paycheck means that whatever money comes in each month, all of that money is in turn spent just to cover monthly expenses, with nothing left over.

Your family may not live this way but if you do or know a family that does It is certainly nothing to be ashamed of, I know my family lived this way when I was growing up and even still is today. Our goal through this Money Matters program is for you to discover ways for you to be able to avoid this issue when you get older, even if it is one you do not deal with today.

Sometimes in order for us to get ahead we may have to make personal sacrifices as we discussed in earlier sessions and prioritize things that we need first and maybe avoid spending money on what we only want. Also, if your income allows in the future, we recommend following the 10 Percent Rule. The 10 percent rule states that whenever you receive any income at all, whether it is birthday cash or a paycheck from a job, that 10 percent of that money go into a savings account.

Setting aside 10 percent of your net income in a savings account can do even more than help you save for big long-term expenses; one of the most important benefits is that this 10 percent acts as a safety net. If you are living paycheck to paycheck, without putting anything aside, you will have no money left over in case of emergency or unexpected expenses; for example if you lose your job you will not have the safety net of that savings account while you look for a new job.