



EDUCATOR GUIDE



A LONG HISTORY: People Helping People.

Maine credit unions have a long history of providing financial education. Between volunteering to teach youth financial education in schools and hosting Financial Fitness Fairs, credit unions across the state collectively expose nearly 20,000 Maine students to financial literacy and money management concepts each year. Maine credit unions also provide financial education to our state's adult population--whether it be older adults, New Mainers, food pantry clients, or other groups. Maine credit unions recognize the the importance of equipping people with the knowledge and skills they need to help them manage their money effectively.

LESSON:

MONTHLY BUDGET SIMULATION

Introduction:

Greet the group. Tell them your name, describe what you do for work at the credit union, and share some fun information about yourself.

Explain to the group that you're here volunteering on behalf of your credit union, an organization that is happy to teach people of all ages about saving and spending money. Additionally, explain that your credit union is also a place where people can safely keep their money.

Volunteer Tips

When speaking to the group, remember to be yourself. People appreciate authenticity and you will establish better credibility if your personality shines through.

Encourage dialogue amongst the group as you progress through the lesson plan.

Write your introduction notes and/or talking points here:


What is a budget?

While distributing the Maine Credit Unions Money Books to each participant, tell the group you're here to talk about budgeting. Tell them there were many financial topics you thought about discussing with them today, but budgeting is the foundation of financial stability, and is a priority topic when it comes to financial education.

Explain to the group that a budget is a calculation plan over a defined period, where people track their income and expenses, as well as estimate future resources and expenditures for an upcoming period of time. By doing so, they can plan accordingly, making sure they have enough money allocated to cover the cost of their upcoming bills and needs--such as housing, clothing, and food.

Tell them that a budget can also be a helpful tool as people attempt to build an emergency fund, save for major expenses--such as a home or car--and pay for wants without jeopardizing their ability to cover the costs of necessary expenses.

Explain that ultimately, a budget is a tool that is utilized in both the day-to-day and long-term, and puts people on stronger financial footing.



Pre-Lesson Survey

Please answer these questions:

1. Electricity is a fixed expense.
True False
2. Discretionary income is the income you're left with after taxes and essential expenses have been paid for.
True False
3. Gross income is:
A. An individual's "take-home" pay after taxes, health insurance, retirement contributions, and other applicable deductions have been subtracted.
B. An individual's total income from all sources--including wages, investments, interest, and other forms of income--before the subtraction of any taxes or deductions.
C. Income considered money earned without actively working for it. Examples include rental income, alimony, child support, unemployment benefits, Social Security benefits, and worker's compensation.
D. None of the above.
4. Which of these is not considered a variable expense?
A. Groceries
B. Gasoline
C. Rent
D. Medical Care
5. How confident do I feel about my ability to create and follow a budget?
1 2 3 4 5 6 7 8 9 10

1 MAINE CREDIT UNIONS MONEY BOOK

Next, ask the group to turn their Maine Credit Unions Money Books to page 1. Tell them on this page, they'll find a pre-training survey to test their current knowledge about budgeting. Ask them to take a few minutes and complete the survey, but also add that they will not be graded on it. Instead, let them know they'll take a post-training survey at the end of the lesson. They will then be able to compare their results and see how much they've learned.

After giving the group a few minutes to complete the survey, ask them to turn their Maine Credit Unions Money Books to page 2.

Tell them that on page 3, they will be discussing how needs can turn into wants. Explain that people need food, water, shelter, and clothing to survive, but expenditures in these four fundamental categories can become wants through unnecessary enhancements or overspending.

For example, tell the group that to stay hydrated, all people need is water. If someone's home was hooked up to town or city water, their water bill would be a need, as it pays for delivery, supply, and treatment of their water. If someone's home has a well, they can get hydrated at no extra expense--unless the well or well pump needed to be repaired or replaced, which would also be a need.

Water can become a want, though, if people are paying for bottled water, seltzer water, flavored water, or other hydrating drinks--such as sports drinks, teas, and soda.

Tell them that as a group, they need to discuss how the three other basic needs (food, shelter, and clothing) can become wants through unnecessary enhancements or overspending. Ask them to begin sharing their ideas out loud and have them fill in the sections as they brainstorm.

If not already mentioned, share the following with the group:

Food	Shelter	Clothing
Dining out	Extra bedrooms	Designer brands
Desserts (ice cream)	Pool or hot tub	Excessive amounts
Snack foods (chips)	Heated flooring	

Thank the group for going through the exercise of revisiting wants and needs. Explain that truly understanding and becoming cognizant of the difference is an important part of successfully balancing a budget.

Next, ask the group to turn their Maine Credit Unions Money Books to page 4.

How Needs Can Become Wants

As a group, you will be discussing how needs can turn into wants. People need food, water, shelter, and clothing to survive, but expenditures in these four fundamental categories can become wants through unnecessary enhancements or overspending.

Example
To stay hydrated, all people need is water.
 Water can become a want, though, if people are paying for bottled water, seltzer water, flavored water, or other hydrating drinks--such as sports drinks, teas, and soda.

How can the three other basic needs (food, shelter, and clothing) become wants through unnecessary enhancements or overspending? As examples are shared, note them below:

Food	Shelter	Clothing
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

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Income & Expenses

Tell the group that a budget helps people track what money is coming in, understand where their money is going, and make financial adjustments--that way they can meet their goals. Explain that budgets bring together two main factors:

Income - Money people receive, including a paycheck from their job; assets and investments; public benefits; or entitlements, such as child support and alimony.

Expenses - Money allocated towards spending, sharing, and saving.

Understanding Income & Expenses

A budget helps people track what money is coming in, understand where their money is going, and make financial adjustments--that way they can meet their goals. Budgets bring together two main factors:



In order for people to balance a realistic budget, set financial goals, and use their money to their advantage, they need to understand the three main types of income.



Earned Income

This type of income includes wages, salaries, tips, and commissions. Making money through earned income means you're exchanging time, energy, or material participation in exchange for money.



Passive Income

This income is considered money earned without actively working for it. Examples include rental income, alimony, child support, unemployment benefits, Social Security benefits, and worker's compensation.



Portfolio Income

This type of income comes from your financial portfolio, which includes interest, dividends, and capital gains. For example, if you have money in a savings account, money market account, or certificate of deposit (CD) at your credit union, the interest earned on that money is considered portfolio income.

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Tell the group that thinking about your income and expenses can be stressful--especially if you are worried about making ends meet. Explain that as a group, we'll talk about and practice putting information about income and expenses into a monthly plan. The process can empower you to make choices and implement changes, if needed.

Tell them that in the long run, budgeting can help reduce stress about money. At the end of the day, health is true wealth. Not only is financial stability good for your wallet, but it's also good for your physical and mental well-being.

Ask the group to look at the bottom of page 4, where we'll start talking about income.

Explain that income is money people receive, including earnings from working at a job; gains from assets and investments; gifts; or public benefits or entitlements that pay money, such as child support or alimony.

Tell the group that in order for people to balance a realistic budget, set financial goals, and use their money to their advantage, they need to understand the three main types of income.

The first type of income is one that people are usually most familiar with: earned income.

This type of income includes wages, salaries, tips, and commissions. Making money through earned income means you're exchanging time, energy, or material participation in exchange for money.

The second type of income is passive income. This income is considered money earned without actively working for it. Examples include rental income, alimony, child support, unemployment benefits, Social Security benefits, and worker's compensation.


The third type of income is portfolio income. This type of income comes from your financial portfolio, which includes interest, dividends, and capital gains. For example, if you have money in a savings account, money market account, or certificate of deposit (CD) at your credit union, the interest earned on that money is considered portfolio income.

If you were to sell something for more than you paid for it, the difference would be called your capital gain.

Portfolio income can also be generated through investments, such as stocks and bonds. When you purchase bonds, you're essentially lending money to a corporation or government, which in return pays you interest. Buying stock means you become a part-owner of the company, allowing you to share in its profits.

Next, ask the group to turn their Maine Credit Unions Money Books to page 5.

Understanding Income & Expenses



When looking at your financial statements, you will likely see both gross income and net income listed.

Earnings Statement	
Amount	Amount
Gross Income	1,000.00
Less: Social Security Tax	(76.43)
Less: Medicare Tax	(14.50)
Less: Federal Income Tax	(100.00)
Less: Health Insurance	(50.00)
Less: Retirement Contributions	(20.00)
Net Income	539.07

Gross Income
This is an individual's total income from all sources—including wages, investments, interest, and other forms of income—before the subtraction of any taxes or deductions.

Net Income
This is an individual's "take-home" income after taxes, health insurance, retirement contributions, and other applicable deductions have been subtracted from the original gross income.
When you're balancing a budget, you should reference your net income. If you look at your gross income instead, you may think you have more discretionary income than you actually do.

Discretionary Income
This is the income you're left with after taxes and the cost of your essential expenses—food, clothing, housing, and necessary bills—have been factored in. Nonessential items like luxury goods, entertainment, cosmetics, and other wants are usually paid for with funds from discretionary income.

THIS IS NOT A CHECK

NON-NEGOTIABLE

SAMPLE PAY STATEMENT

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Gross vs. Net

Tell the group that when they're looking at financial statements, they'll likely see both gross income and net income listed.

Offer the following definitions to the group:

Gross income

This is an individual's total income from all sources-- including wages, investments, interest, and other forms of income--before the subtraction of any taxes or deductions.

Net income

This is an individual's "take-home" income after taxes, health insurance, retirement contributions, and other applicable deductions have been subtracted from the original gross income.

Tell the group that when they're balancing a budget, they need to reference their net income. If they look at their gross income instead, they may think they have more discretionary income than they actually do.

Explain to the group that **discretionary income** is the income you're left with after taxes and the cost of your essential expenses—food, clothing, housing, and necessary bills—have been factored in. Nonessential items like luxury goods, entertainment, cosmetics, and other wants are usually paid for with funds from discretionary income.

Next, ask the group to turn their Maine Credit Unions Money Books to page 6.

Fixed vs. Variable Expenses

Tell the group on the top of page 6, they'll see the two categories of expenses: fixed and variable. Explain that when creating a budget, it's important for them to know that not all expenses are the same. Define the following for the group:

Fixed expenses - These are expenses that don't typically change in cost from month-to-month.

Variable expenses - These are expenses that are likely to change in cost from month-to-month.

Explain to the group they can expect their fixed expenses to stay the same, or close to it, over time.

When they sit down to make their monthly budget, they won't have to guess how much they'll pay toward fixed expenses. They can simply carry over those amounts from last month's budget--making their budget more predictable and easy to follow.

Explain to the group that while variable expenses may recur from month-to-month, the amount paid in any given month could be different from previous payments or future payments. Budgeting for variable expenses can be more challenging, as they are less predictable.

Tell the group that ultimately, a large part of budgeting is determining the difference between wants and needs. The best way to do this is to remember that needs are the things you can't live without, while wants are things you enjoy but aren't necessary to your daily life.

Understanding Income & Expenses

Fixed Expenses
These are expenses that don't typically change in cost from month-to-month.

Variable Expenses
These are expenses that are likely to change in cost from month-to-month.

You can expect your fixed expenses to stay the same, or close to it, over time. When you sit down to make your monthly budget, you won't have to guess how much you'll pay toward fixed expenses. You can simply carry over those amounts from last month's budget--making your budget more predictable and easy to follow.

Examples of fixed expenses can include rent or mortgage payments, auto loan payments, childcare costs, insurance premiums, gym memberships, and internet service.

While variable expenses may recur from month-to-month, the amount paid in any given month could be different from previous payments or future payments. Budgeting for variable expenses can be more challenging, as they are less predictable.

Examples of variable expenses include groceries, gasoline, dining out, some utilities (electricity, water, and heat), medical care, and property maintenance.

Look back at your historical monthly spending habits from page 2. Categorize your expenditures as either fixed or variable below:

Fixed	Variable
_____	_____
_____	_____
_____	_____
_____	_____

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For example, many fixed costs are needs, like rent and insurance. Meanwhile, some variable costs—such as eating out and going to the movies—likely fall under the wants category.

Ask the group to look at the bottom of page 6, where they will take a few minutes to categorize their expenditures from the last month as either fixed or variable. Remind the students that they can reference their list of expenses from page 2.

When it looks like the group is finished categorizing their lists, ask them to share some examples of fixed expenses. Ask for a volunteer(s) or call on individuals to share one or two examples.

Fixed	Variable
Rent / Mortgage, Car	Groceries, Gas, Dining Out
Childcare, Insurance	Electricity, Water, Heat
Gym Membership, Internet	Medical Care, Maintenance

Next, repeat the exercise, but ask for examples of variable expenses.

As a group, discuss if all the examples of fixed and variable expenses shared were listed in the appropriate category.

Next, ask the group to turn their Maine Credit Unions Money Books to page 7.

Budgeting Pyramid

On this page, you will find a budgeting pyramid. Below the pyramid, there are six expenditure examples. Arrange the six expenses into the pyramid in order of their importance, with 1 being the most essential expense, and 6 being the least essential expense.



- Grocery Bill
- Credit Card Payment
- Rent or Mortgage Payment
- Emergency Fund Contribution
- New Video Game Console
- Savings Account Contribution

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Budgeting Pyramid

Tell them that on page 7, they will see a budget pyramid. Below the pyramid, they will find six expenditure examples. Tell the group that they will have a few minutes to arrange the six expenses into the pyramid in order of their importance, with 1 being the most essential expense, and 6 being the least essential expense.

- Grocery Bill
- Credit Card Payment
- Rent or Mortgage Payment
- Emergency Fund Contribution
- New Video Game Console
- Savings Account Contribution



When it looks like the group is finished with their pyramids, ask if there is a volunteer(s) that would like to share their order.

After a participant(s) has shared their order, share the following with them--offering insight as to why the expenses are prioritized the way they are.

1. **Grocery Bill** - Food and water are the most essential needs, as people can't survive without them.
2. **Rent or Mortgage Payment** - Everyone needs a roof over their heads and is on the next tier in regard to survival.
3. **Credit Card Payment** - Once food, water, and shelter are taken care of, paying off high-interest debt should be the next priority--that way it doesn't continue to build and get out of control.
4. **Emergency Savings Contribution** - An emergency fund is important, as you never know what unexpected expenses might pop up. You don't want to borrow money in the event of an emergency if you can help it.
5. **Savings Account Contribution** - People should aim to save away 10% of any money they earn or receive, but they should fund their emergency fund and pay down high interest debt first.
6. **New Video Game Console** - Optional purchases (wants) are the least important when it comes to prioritization. Frivolous purchases on wants can quickly derail a budget if the essentials aren't paid for first.

Next, ask the group to turn their Maine Credit Unions Money Books to page 8.

Creating a Budget

Explain that on page 9, they'll see the steps of creating a budget. Remind the group that they already talked about and completed activities related to these steps. Now, it's time to see how it all comes together.

Share the following steps with the group:

Step 1: Calculate Your Net Income

The foundation of an effective budget is your net income. Also referred to as your take-home pay, this is your total pay minus taxes and deductions. If you were to focus on your total salary (gross income) instead of your net income, you could overspend--thinking you have more available money than you do.

Step 2: Track Your Spending

Track and categorize your expenses to see where your money is going, what can be reduced, and what can be eliminated. Start with your fixed expenses, such as your rent or mortgage, car payment, and insurance premiums. After that, list your variable expenses, such as groceries, gasoline, and dining out. Next, prioritize your expenses based on what might happen if you don't pay them. For example, if you didn't pay your rent, you could lose your housing. Having a roof over your head is a need, so that would be a high priority expense.

Step 3: Set Goals

Before you start pulling your budget together, make a list of both short- and long-term goals. These goals can keep you accountable and motivated to stick to your budget.

Step 4: Make Your Plan

Look at the expenses you tracked to get a sense of what you'll be spending in the coming months. Using the example budget sheet on the next page, prioritize your expenses and set yourself realistic spending limits for each category. Reference this sheet before any expenditures and compare your actual spending against what you intended to spend.

Steps of Creating a Budget



Step 1: Calculate Your Net Income

The foundation of an effective budget is your net income. Also referred to as your take-home pay, this is your total pay minus taxes and deductions. If you were to focus on your total salary (gross income) instead of your net income, you could overspend--thinking you have more available money than you do.



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Step 3: Set Goals

Before you start pulling your budget together, make a list of both short- and long-term goals. These goals can keep you accountable and motivated to stick to your budget.



Step 4: Make Your Plan

Look at the expenses you tracked to get a sense of what you'll be spending in the coming months. Using the example budget sheet on the next page, prioritize your expenses and set yourself realistic spending limits for each category. Reference this sheet before any expenditures and compare your actual spending against what you intended to spend.



Step 5: Adjust Accordingly

Now that your income and expenses are documented in one place, look to see if adjustments are needed. If your spending exceeds your income, look at your wants category to see what you can reduce or eliminate. Next, look at your fixed expenses. Could you, perhaps, save money by shopping around for a better rate or negotiating? Even if you aren't spending more than your income, are you saving enough away each month? A good rule of thumb is saving away 10% of any money you earn or receive.

An example of a budget sheet can be found on page 10.

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Example Budget Sheet

Income	Planned	Actual
Paycheck		
Additional Income		
Total Income		
Fixed Expenses	Planned	Actual
Variable Expenses	Planned	Actual
Total Expenses		

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Sample Budget Sheet - Page 10

Step 5: Adjust Accordingly

Now that your income and expenses are documented in one place, look to see if adjustments are needed. If your spending exceeds your income, look at your wants category to see what you can reduce or eliminate. Next, look at your fixed expenses. Could you, perhaps, save money by shopping around for a better rate or negotiating? Even if you aren't spending more than your income, are you saving enough away each month? A good rule of thumb is saving away 10% of any money you earn or receive.

Remind the group that an example budget sheet can be found on page 10 of their Maine Credit Unions Money Books.

Next, ask the group to turn their Maine Credit Unions Money Books to page 11.

A Successful Budget

Tell the group that on this page, they will see two example budgets. Give the group a few minutes to review the examples and then ask them to determine the most successful budget and the least successful budget.

When it looks like the group is finished with the activity, ask for a volunteer(s) to share what they believe to do the most successful budget. Next, ask for a volunteer(s) to share what they believe to do the least successful budget. After hearing from the group, offer the following answers:

Least Successful: Budget A

While Lincoln didn't spend more than he earned, he wasn't able to allocate any money toward his car fund. He also overspent on personal shopping, entertainment, dining out, and on gifts. Additionally, he faced a \$25 fee for exceeding the data limit on his cell phone plan. While he didn't find himself in debt, he's no closer to his goal. Lincoln needs to work on not exceeding planned amounts.

Most Successful: Budget B

Like Lincoln, Sam didn't spend more than she earned. She did overspend in some areas, but she was able to save towards her goal--even if it wasn't the full amount. Her budget was more successful because she saved towards her goal, added to her emergency fund, and paid down debt. She could, however, still improve by practicing more self restraint and not exceeding planned amounts in the entertainment and dining out categories.

Income	Planned	Actual
Paycheck	\$800	\$800.00
Additional Income	\$0	\$0
Total Income	\$800	\$800
Fixed Expenses		
Saving for a car	\$200	\$0
Cell Phone	\$75	\$100
Car Payment to Parents	\$100	\$100
Variable Expenses		
Personal Shopping	\$50	\$150
Entertainment	\$100	\$165
Dining Out	\$100	\$150
Occasional Spending (gifts, repairs, etc.)	\$100	\$135
Total Expenses	\$725	\$800

Income	Planned	Actual
Paycheck	\$3,500	\$3,500
Additional Income	\$0	\$0
Total Income	\$3,500	\$3,500
Fixed Expenses		
Saving for a house	\$500	\$500
Rent	\$700	\$700
Car payment	\$350	\$350
Car Insurance	\$100	\$100
Internet/Streaming	\$125	\$125
Cell Phone	\$75	\$75
Student Loans	\$400	\$400
Emergency Fund	\$100	\$100
Variable Expenses		
Personal Shopping	\$50	\$150
Entertainment	\$100	\$150
Dining Out	\$100	\$150
Occasional Spending (gifts, repairs, etc.)	\$100	\$100
Groceries	\$350	\$375
Gas	\$100	\$110
Utilities	\$300	\$315
Total Expenses	\$3450	\$3500

Post-Lesson Survey

Ask the group to think back to the pre-training survey they took earlier. Tell them they'll now be taking the post-training survey on the last page of their Money Book, where they will be able to compare their results and see how much they've learned today.

Review the answers with the group:

1. False
2. True
3. B
4. C

Post-Lesson Survey

Please answer these questions:

1. Electricity is a fixed expense.
True False
2. Discretionary income is the income you're left with after taxes and essential expenses have been paid for.
True False
3. Gross income is:
A. An individual's "take-home" pay after taxes, health insurance, retirement contributions, and other applicable deductions have been subtracted.
B. An individual's total income from all sources—including wages, investments, interest, and other forms of income—before the subtraction of any taxes or deductions.
C. Income considered money earned without actively working for it. Examples include rental income, alimony, child support, unemployment benefits, Social Security benefits, and worker's compensation.
D. None of the above
4. Which of these is not considered a variable expense?
A. Groceries
B. Gasoline
C. Rent
D. Medical Care
5. How confident do I feel about my ability to create and follow a budget?
1 2 3 4 5 6 7 8 9 10

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Thank the group for participating and learning how to track income and expenses, make and follow a budget, and adjust by prioritizing—including increasing income and decreasing expenses.

THANK YOU, CREDIT UNION VOLUNTEERS!

Your time and commitment to financial education are important and appreciated.