

Budgets Are Beautiful

Cast: Budget Bob (radio host), Dr. Penny Saver, Connie, Calvin, Minnie, All (all parts and/or entire class)

Setting: Have two chairs and table in front of the classroom for Dr. Saver and Budget Bob. Place Connie, Calvin and Minnie in desks at various places around the room.

All

And here is your radio host, Budget Bob!

Budget Bob

Hello, financial health fans! Welcome to the nation's newest financial advice show, Budgets Are Beautiful. This is the radio call-in show that lets you, the radio listener, get the latest advice on how to manage your family finances. Today our topic is how to improve your skills at managing your family's finances. Our guest today is a successful family financial planner, Dr. Penny Saver. Dr. Saver has helped hundreds of families and has a Ph.D., an M.A., and an S.U.V. Hello, Dr. Saver. Welcome to the show.

Dr. Saver

Hello Bob, and hello to all those people who are tuned in today. This is so exciting for me to talk with you about budgets! I am ready to take your questions.

Budget Bob

Here is our first caller: Connie from Connecticut. You're on the air, Connie.

Connie

Hi, Dr. Saver. I am having a disagreement with my husband regarding the meaning of some financial vocabulary. He heard someone on another call-in show talking about how to spend disposable income. My husband laughed and said that all of our income is disposable. He said that we dispose of all our income by the end of every month. Sometimes we dispose of our income before the end of the month. I think he was joking, but could you tell me: What do financial planners mean by disposable income?

Dr. Saver

Actually, your husband was not too far off. Disposable income is the money that you have left to spend or save as you wish after you pay your taxes, Social Security, and the other deductions that have been taken out of your gross pay. It is sometimes called net income. While disposable income can be used in many ways, most families have important financial obligations. Rent, car payments, and food bills add up quickly, so tough choices need to be made.

Budget Bob

That sounds kind of gloomy, Dr. Saver. Do you have any advice for Connie and her husband on how to get better use out of their disposable income?

Dr. Saver

Financial planners suggest that setting up and sticking to a family budget is the first step toward financial success. I advise families to start by setting a monthly budget.

To do this, you make a list of your income and expenses. Under income, list all the money you anticipate earning for the year. For most people, most income will be what they earn from their jobs. If your income varies month to month, divide your annual income by 12 and use the answer for the monthly income in your budget.

Then list your expenses. To help make sure your list of expenses is complete, look at last year's bills, credit card statements, and bank records. To determine the amount you spend on items you buy with cash, keep track of your out-of-pocket spending for a month or two. After you've done all this, you will have a good idea of where your money goes each month. Common expenses are rent, car payments, insurance, groceries, and so forth. Don't forget to list your savings amounts for each of your goals. If you wait to save what's left at the end of the month, you will never begin saving.

Now, subtract your expenses from your income. I hope that this is a positive number! If it is—if you have more income than expenses—then you have surplus cash that can be put to other uses. If, however, the number is negative, then you will need to cut your expenses, increase your income, or use some of your savings to get through the month.

All

Lesson #1: Remember to budget! Income and expenses matter and you should track them each month.

Budget Bob

Here is our next caller: Calvin from California. You're on the air, Cal.

Calvin

Hello Dr. Saver. Thanks for taking my call. My wife and I started to write a monthly budget and we learned right away that not all expenses are the same. Some seem to stay pretty much the same each month while others change. Do other people have this same situation?

Dr. Saver

Great question! Families ordinarily have what we call fixed expenses and variable expenses. Fixed expenses are ones that are relatively constant each month. These are a family's definite obligations such as a house payment, rent payment, car payment, and medical insurance. These expenses are hard to change in the short term, so we say they are "fixed." Variable expenses are ones that are likely to change in the short term. Examples include telephone bills, groceries, medical bills not covered by insurance, entertainment, recreation, charge account purchases, and so forth.

These are expenses over which you have more short-term control. Occasional expenses or periodic expenses are those that occur once or a few times a year. Personal property taxes, income taxes, car insurance, birthday gifts and holiday gifts are examples of expenses that get some people in trouble because they forget to plan for them.

Budget Bob

Dr. Saver, I sometimes hear advisors say, "Pay yourself first." In other words, set money aside from your disposable income to put into your savings plan. How does this idea of "pay yourself first" fit into the family's expenses?

Dr. Saver

I tell my clients to include their savings goals in the fixed expenses part of their budget. I like this approach because it shows how important saving is to individual and family financial health. Under the saving part of the budget, a family or individual could list funds saved for emergencies, as well as other cash set aside for long-term savings and investments. Ideally, a person's income is enough to pay their expenses each month, including money for saving. However, if a person's monthly expenses are greater than their monthly income, then they might have to spend less on something else to balance their budget. Another option might be to increase their income by working more hours. If a person can't do this, they may have to borrow money to pay their expenses. Too much debt can be difficult for a budget because it means paying back what you borrow, plus the interest charge paid to the lender. On the other hand, if a person's income is greater than their expenses, they have extra money left over that they could spend on something else, including adding more money to their savings. That is more fun than trying to give up something else!

All

Lesson #2: Give yourself money first! Saving is an important part of your budget, as well as balancing your budget, each month.

Budget Bob

Here is our next caller, Minnie from Minnesota. You're on the air, Minnie.

Minnie

I just love this show, Dr. Saver. Here is my question. My sister Emily told me that she heard on television that people might have high incomes and still have a low net girth. What's all this about net girth? Is it true that people who have high incomes are also thin?

Dr. Saver

Minnie, I think that you misunderstood your sister. I think she was referring to the idea of net worth, not net girth. Let me explain. People can have high incomes and still not be wealthy. When we measure wealth, we are measuring net worth. Here is how to figure your net worth. Net worth is determined by two factors. First, list your assets and their value. Assets are what a person owns, including the value of any savings, house, car, and personal possessions. Next, list your liabilities. Liabilities are the money you owe others such as payments on a home mortgage, car loan, credit

card debt, college loans, and so forth. If your assets are greater than your liabilities, then you have a positive net worth. If your liabilities are greater than your assets, then you have a negative net worth. Individuals can have a large income and, because of their liabilities, still have a negative net worth.

Minnie

Can I follow up on that last point? Do you mean to say that you can't tell whether a person is wealthy just by knowing where they live, what they drive, and where they travel?

Dr. Saver

That is exactly what I mean, Minnie. People who live in big homes, drive extravagant cars, and take around-the-world cruises probably have high incomes. That does not mean that they are wealthy. We measure wealth by calculating net worth. Many people of modest income have achieved a high net worth—many are millionaires—by living below their means.

All

Lesson #3: Net worth is important! Know your number.

Budget Bob

Well, Dr. Saver, that is all the time we have for today's show. Thank you for being with us.

Dr. Saver

You're welcome, Bob. Thanks for inviting me.

Budget Bob

Be sure to join us tomorrow when we will speak to Ms. Bonnie Bonds, another financial advisor. Bonnie's topic is "What Is Gross about Your Gross Income?" We hope you will tune in to the show tomorrow. We will be waiting for your call.

All

That's all, folks!

