Definitions and Creating a Spending Plan

Save

Save: *to put by as a store or reserve (such as part of an allowance each week); to accumulate or put aside for a particular purpose or occasion (example: to purchase a portable listening device or save for a vacation trip in the short term (less than a year). This is often done by placing money to be saved in a low risk, low return savings account.*

All of the income in the world won't help if you spend every dime. If you make a million and spend a million, what are you left with? Zero. In a way, you're no better off than the person who makes $100 and spends $100. You might have bought a lot of things in the process, but you're still left with nothing.

Saving is important because it helps you care for yourself over the long term. If you're a good saver, you'll have that money when you need it. Plus, having savings helps you to feel secure. The easiest way to save money is to follow one simple principle: **PAY YOURSELF FIRST!** Every time you receive any income, make a point to save some. A good plan is to save 10 percent of all you earn. Some people even save 20 percent or 50 percent!
When creating a spending plan (budget), make "savings" the first expense category.
You may wish to have more than one savings account:

- One account can be for savings that you never touch. You can let that savings build up so you're ready to invest one day.
- A second savings account can be for a big purchase, perhaps a long-term goal of more than a year. You might wish to save for a car or a vacation, for example.
- A third savings account might be for purchases in the short-term, usually less than a year. You might want to buy a special pair of shoes or a ticket to a concert.

Spend

Spend: *to pay out, trade money for goods or services, use money freely. Spending includes paying taxes, donating to charity, and spending on other wants and needs.*

Once you've set aside money to save, you'll have a certain amount of income left. This is the money you can spend. When making spending choices, it helps to know the difference between needs and wants. You should make sure your spending covers needs first, then wants.

Needs vs. Wants

"Needs" are items that you truly must have. For instance, we all need a place to live and food to eat. We need water and clothing. We may not want to spend our money on these things, but they must be paid for first because they sustain life.

“Wants” are items that you would *like* to have. You could do without these items if you had to. For instance, you might want a new shirt or a certain CD. You might want to go to the movies or to buy a cool video game. You don’t really need these things like you need food and shelter.

When creating your spending plan, try for a balance of needs and wants. Consider your needs first. Set aside money for the important things, like school supplies or basic clothing. Then be sure to plan for some wants.

Credit: the opportunity to borrow money or receive goods or services in return for a promise to pay later such as credit cards.

Credit can be constructively used to meet wants and needs, but it can also be misused.

Invest

Invest: *a way of saving where money is put someplace with the hope and intention of making a financial gain in the longer term.*

Saving becomes investing when money is directed to a place where it will increase in value. Investing is the process of earning money with your money. Investing wisely is the key to a secure future. Through investing, you can grow your money so eventually you can retire. This means you have enough money saved so that you no longer have to work. Even a small amount of money can make a difference if you start early. The longer you invest, the more your money will grow.

Donate

Donate: to voluntarily make a free gift of money, goods or service (giving time, talent or treasure), esp. to a charity or charitable cause (example - giving money, food, and/ or volunteering at a food pantry). Donate is a form of spending.

Finally, an important part of your spending plan involves the money that you choose to share with others. This type of giving is called donating. In the next section, we’ll talk about why giving is important. For now, we’ll look at the different ways to donate and how a spending plan can help you do so.

Your spending plan will help you know how much money you have to help support important causes. Some people choose to give 10 percent of their income away. Others give less than 10 percent, or more. The amount you give is up to you. What’s important is that you plan your giving wisely.
In your spending plan, you may wish to include a category for donating funds. This category includes money that you will give to organizations and even individuals. It’s a good idea to choose a set amount for giving each month

A GOOD SPENDING PLAN has three basic characteristics:

It lists all of your sources of income.
It lists all of your expenses, and how much money you plan to spend on each expense.
It’s realistic. This quality is the most important. It must be realistic in order to work.