PFL Academy

Chapter 1.5: Managing Your Income Effectively

Student Activity Packet

THE CHALLENGE

Casey earns $3,000/month and follows the 50/30/20 rule: $1,500 for needs, $900 for wants, and $600 for savings. Casey automates savings, tracks expenses weekly, and has built a 3-month emergency fund ($4,500). Taylor earns the same amount but has no budget, spends freely, accumulated $4,000 in credit card debt, and has no savings. Same income—very different outcomes.

Why does income management—not just income level—often determine financial outcomes?

Learning Objectives

- Create a personal budget using the 50/30/20 rule.
- Differentiate between financial needs and wants.
- Understand the importance of emergency funds and savings.

CORE CONCEPTS

Term	Definition
Budget	A plan that tracks income and expenses to guide financial decisions.
50/30/20 Rule	Budgeting framework: 50% for needs, 30% for wants, 20% for savings/debt repayment.
Needs	Essential expenses required for basic living (housing, utilities, groceries, transportation).
Wants	Non-essential expenses that enhance life but aren't required (entertainment, dining out).
Emergency Fund	Money set aside specifically for unexpected expenses (goal: 3-6 months of expenses).

Background: Many people live paycheck to paycheck not because they don't earn enough, but because they lack income management strategies. The 50/30/20 rule provides a simple framework: 50% needs, 30% wants, 20% savings. The strategy "pay yourself first" means automatically setting aside savings before spending on anything else. Financial experts recommend an emergency fund of 3-6 months of essential expenses; even $500-$1,000 provides significant protection.

APPLY IT

PART A: NEEDS VS. WANTS CLASSIFICATION

Classify each expense and explain any that might be "borderline."

Expense	Need or Want?	Explanation (if borderline)
Rent payment		
Streaming services ($45/month)		
Basic cell phone plan		
Dining out with friends		
Groceries		
Latest iPhone upgrade		

Hint: *Some items are clearly needs or wants, but others depend on context. A cell phone may be a need, but the latest premium model is a want. Basic groceries are needs, but specialty gourmet items are wants.*

PART B: BUDGET ALLOCATION

Apply the 50/30/20 rule to this income scenario. Then critique the sample budget.

2. Monthly net income: $2,400. Calculate the target amounts for each category:

Category	Percentage	Target Amount
Needs	50%	
Wants	30%	
Savings/Debt	20%	

3. Alex has the same $2,400 income but spends: Needs $1,400, Wants $850, Savings $150. What's wrong with this budget, and what specific change would you recommend?

PART C: PERSONAL APPLICATION

4. List your top 3 monthly expenses. Classify each as a need or want:

---

5. What is ONE "want" expense you could reduce to increase your savings? How much could you save monthly?

CHECK YOUR UNDERSTANDING

1. According to the 50/30/20 rule, what percentage should go toward savings and debt repayment?

- ☐ A. 50%
- ☐ B. 30%
- ☐ C. 20%
- ☐ D. 10%

2. Explain why the line between "needs" and "wants" isn't always clear. Give one example of an expense that could be either.

---

3. Calculation: Jamie earns $3,200/month and wants to build a $4,800 emergency fund (3 months of essential expenses). If Jamie saves 20% of income monthly, how long will it take to reach this goal?

Show your work:

Answer: ____________ months

4. Casey and Taylor both earn $3,000/month. Casey has a 3-month emergency fund and no debt. Taylor has $4,000 in credit card debt and no savings. List TWO specific differences in their approaches that explain these different outcomes.

---

5. Reflection: Do you currently follow a budget? What is ONE specific change you could implement immediately to improve your financial management?
