

PFL Academy

Teacher Guide: Chapter 1.5 — Managing Your Income Effectively

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	L-03 Income and Taxes

LESSON FLOW

5 min THE CHALLENGE

- Read Casey and Taylor's contrasting scenarios.
- Discussion: "Why do you think two people with the same income can have such different financial situations?"

10 min CORE CONCEPTS

- Write 50/30/20 on the board. Unpack each category with examples.
- Create needs vs. wants T-chart with student input.
- Discuss "pay yourself first" concept and why automatic savings works.

25-30 min APPLY IT

- **Part A (10 min):** Classification activity. Encourage discussion on borderline items.
- **Part B (10 min):** Budget calculations and critique. Check math on percentage calculations.
- **Part C (5-10 min):** Personal application. Connect to students' actual spending patterns.

10 min CHECK YOUR UNDERSTANDING

- Complete in class or assign as homework.
- Review Q4 (Casey vs. Taylor) to reinforce that systems matter more than willpower.

DIFFERENTIATION

Support

- Provide a visual pie chart of 50/30/20 breakdown.
- Pre-sort example expenses into needs/wants categories.
- Walk through Part B calculations step-by-step as a class.
- Use smaller numbers for calculations if needed.

Extension

- Research alternative budgeting methods (envelope system, zero-based budgeting).
- Calculate how compound interest affects emergency fund growth over 5 years.
- Create a detailed monthly budget with actual local living costs.

ANSWER KEY

Part A: Needs vs. Wants Classification

Rent payment: NEED. Essential for shelter.

Streaming services (\$45/month): WANT. Entertainment; could be reduced or eliminated.

Basic cell phone plan: NEED (borderline). Basic communication is needed today; premium plans are wants.

Dining out with friends: WANT. Can prepare food at home for less.

Groceries: NEED. Food is essential; specialty items could be wants.

Latest iPhone upgrade: WANT. Current phone works; upgrade is discretionary.

Part B: Budget Allocation

\$2,400 monthly income:

- Needs (50%): $\$2,400 \times 0.50 = \$1,200$
- Wants (30%): $\$2,400 \times 0.30 = \720
- Savings (20%): $\$2,400 \times 0.20 = \480

3. Alex's Budget Problem: Wants are \$130 over (35% vs 30%), Savings are \$330 under (6% vs 20%). Recommendation: Reduce wants by \$170 (dining out, entertainment) and redirect to savings to reach the 20% target.

Part C: Personal Application

Responses will vary. Look for honest classification of expenses and realistic identification of reducible wants. Even small reductions (\$20-50/month) are meaningful starting points.

Check Your Understanding

1. C (20%)

2. Context matters: A cell phone is a need for communication/safety, but the latest premium model is a want. Basic groceries are needs, but specialty/gourmet items are wants. The base item may be necessary, but upgrades are discretionary.

Jamie's Emergency Fund:

Monthly savings: $\$3,200 \times 0.20 = \640

Time to reach \$4,800: $\$4,800 \div \$640 = 7.5$ months

3. Answer: **7.5 months** (or 8 months rounded up)

4. Two differences: (1) Casey follows a structured budget (50/30/20) while Taylor has no plan; (2) Casey automates savings ("pay yourself first") while Taylor only saves what's left (nothing); (3) Casey tracks expenses weekly while Taylor doesn't track at all.

5. *Should include honest self-assessment and ONE specific, actionable change (e.g., "set up automatic \$50 transfer to savings" or "track all spending for one week").*

COMMON MISCONCEPTIONS

Misconception	Clarification
"I don't make enough money to budget."	Budgeting is MORE important with limited income. It ensures essential needs are covered first and prevents overdrafts or debt. The 50/30/20 percentages work at any income level.
"I'll save what's left at the end of the month."	This rarely works—there's usually nothing "left." Pay yourself first by automating savings when income arrives. Treat savings like a bill that must be paid.

"A budget means I can't have any fun."

The 50/30/20 rule allocates 30% specifically for wants and fun! Budgeting isn't about restriction—it's about intentional spending aligned with your priorities.