

For your household of 4 individuals, with a combined annual income of \$50,000, you must put together a monthly household budget that includes the following:

- Identification of the 4 individuals, their ages, relation to you and dependent/nondependent
- For each category a paragraph explanation of your household's lifestyle. For example where you shop, what you buy, is this an area where you economize or where you splurge, what items do you wish you could buy but cannot afford and other facts that explain your spending choices.
- Income Tax with 1040 form as a backup
- budget with expenses broken down into major categories with appropriate backup from either a newspaper, the internet or a source you identify

Categories include, but are not limited to:

- **Income tax - You need to fill out the lines that are circled. If you end up owing tax, divide what you owe by 12 (convert to monthly) and include taxes in your budget.**
 - dependent deductible
 - mortgage interest deductible
 - IRA deductible No more than \$4,500 may be deducted in any one year.
 - charitable donations deductible
 - other deductions
- **Savings: This is optional, but if you want a better life in the future, you should save.**
 - for an "emergency"
 - your retirement
 - college
- **Housing Part 1**
 - Mortgage (Home Ad + mortgage ad = mortgage calculation)
 - Homeowners Insurance
 - property tax (rate for town X value of your house)
 - home repair / maintenance
 - OR
 - rent
- **Housing Part 2**
 - electric
 - water/sewer (home owners only)
 - Heat (oil or gas)
 - Furniture (Home furniture / 10 / 12)¹
 - bedrooms for all 4 people
 - complete dining room
 - complete living room
- **Transportation - You must get to your job in *Boston***
 - T pass (If you live on a subway or bus line)
 - car payment (car X auto loan)
 - auto insurance
 - gas (Miles to work X gas mileage of car X150% for other driving)
 - \$50/month for auto repair if your car has +100,000 miles

¹ You will not need to furnish your whole house in one month. This assumes that you replace everything on a ten year cycle. (Convert all purchases to once every ten years, divide by 10) Sofa's get stained, chairs break, mattresses get sag, you redecorate etc. (Convert that annual figure to a monthly figure divide by 12)

- **Food** *You must include a menu for one full week detailing 3 meals plus snacks for each member of your household. Drink a coke in econ class? Include it!*
 - Groceries
 - make a list of menus of what you will eat when you are home for one week.
 - Observe what you eat. Eat off the menu you make for a day to make sure your menu is complete
 - Then go to www.peapod.com or a grocery store and make a list of the prices of all the items that you will need.
 - Multiply those grocery costs by 4 to get your monthly grocery bill.
 - For meals away from home - indicate where you are eating/taking out
 - eating out Number of meals in a month X cost - include 15% tip
 - dinner take out Number of meals in a month X cost
 - breakfast take out Number of meals in a month X cost
 - lunch take out Number of meals in a month X cost
 - kids school lunch Number of meals in a month X cost
- **Medical**
 - Health & Dental insurance provided by employer & deducted from pay check
 - copayment - \$10 each visit - plan on each household member = 2 visits/year and 5 visits/year for >65 years old members
 - ◇ For the following- duplicate your real experience. If you wear glasses, have allergies etc.; include them!
 - prescription drugs
 - glasses/ contacts + supplies
 - nonprescription medical supplies
- **Communications**
 - Cell phone
 - landline phone
 - internet
- **Clothing**
 - Kids
 - adults
- **Entertainment**
 - cable
 - health club
 - kid's activities
 - kid's equipment for activities
 - movies
 - video games
 - video/DVDs
 - CDs
 - home electronics
- **Miscellaneous**
 - toiletries
 - hair cuts
 - gifts
 - vacation
 - pets
 - laundry (if you rent, your apt will not have a washer/dryer)
 - charitable giving

The following are a list of things that you do not have to research, but that you must include into your household budget. All items are listed on a **per month** basis. These numbers are based upon surveys of various households in the Greater Boston area.

Housing

- Electric \$25
- Heat \$75
- Water/Sewer (only if you own the house) \$50
- Insurance (approximation) 15% of your mortgage

Clothing (These amounts are for all 4 individuals for 1 month. Divide by 4 to get the figure for any one household member.)

- Shop at the name brand stores in the Mall \$450
- Walmart/Kmart/Target for everything \$250
- Goodwill/Salvation Army \$150
- Remember that not everything can be purchased second hand; ie underwear.

Groceries

- You must detail out your groceries. However it is not possible to feed a household of four for less than \$400.
- Selected Web sites that you will find useful
- www.bostonglobe.com click on real estate to find housing or cars to find a car
- www.mbta.com T, bus and commuter rail passes
- www.irs.gov questions about filling out the tax form
- www.loanstore.com click on affordability calculator to figure how much house you can afford to buy.

- Pass out paycheck and W-2 form
 - Figure what your take home pay is. How much do you get in your wallet after everything is taken out? (Economists call this *disposable income*.)
 - Remember you get paid 2X a month
 - How much \$\$ do they have in their wallet to spend a month?
 - Calculate your Annual Income after taxes - you'll need this to figure housing.
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- The rule of thumb is not to spend more than 1/3 of your after-tax income on housing.

Buying a House

- If you want to buy a house go to www.loanstore.com and click on the affordability calculator.
 - You now figure how much house they can afford. You are to assume a 30 year fixed rate, 0 points, 5.75% mortgage with 33% of after-tax income for mortgage payment, 10% down payment and annual property tax and insurance of \$3,000.
 - Go to the affordability calculator of www.loanstore.com.
 - Note: You will pay the house price for a house. But your monthly budget will assume you already paid the 10% down payment on the house and now you will include the mortgage number in your monthly budget.
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- Now go find a house that you can afford.
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- Suggested Web sites www.bostonglobe.com click on real estate.
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- Once you have decided on a house, calculate your property taxes.
 - Go to <http://yourtown.boston.com/>, enter your town and look up the residential property tax rate.
 - ANNUAL property taxes = price of house/1,000 X property tax rate
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- Renting an apartment
 - www.bostonglobe.com click on real estate
 - search among the apartment listings till you find something you like
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- Homework for next class - Finish this exercise and do Housing Part #2

Housing Part 2

Consult the back up page for utilities and calculate furniture costs

- electric
 - water/sewer (home owners only)
 - Heat (oil or gas)
 - Furniture (Home furniture / 10 / 12)²
 - bedrooms for all 4 people
 - complete dining room
 - complete living room
- SAVE THE SUNDAY CIRCULARS THAT COME IN THE SUNDAY PAPER. YOU MAY WANT THOSE ADS AS BACKUP FOR FURNITURE AND HOME ELECTRONICS PURCHASES.

¹ You will not need to furnish your whole house in one month. This assumes that you replace everything on a ten year cycle. (Convert all purchases to once every ten years, divide by 10) Sofa's get stained, chairs break, mattresses get sag, you redecorate etc. (Convert that annual figure to a monthly figure divide by 12)

- Decide if you can afford to buy a car or if you will take public transportation.
- Consider the transportation needs of all 4 members of your household

- Public Transportation
 - If you live near a bus or train line, buy a T pass for yourself and all the adults in your household. www.mbtta.com

- If you choose to buy a car
 - www.boston.com click on cars
 - Find a car that you can afford. You probably want to choose the cheapest car you can live with. You still have a lot more expenses to budget.
 - Since you don't have cash saved to buy the car you will have to take out a car loan.
 - Click payment calculator to see what your monthly payment on this car would be.
 - Find out the miles per gallon (mpg) of your car. Scroll down on the page of your car to click on *specs and equipment* to get mpg
 - Use mapquest.com click on directions to calculate how many miles it is from your home to work.
 - Calculate total miles driven per month = miles to work X 40 (to and from work for 20 days) X 1.5 (this covers miscellaneous trips and errands)
 - Calculate your monthly gas bill gas bill = miles / mpg of car X \$1.85 a gallon of gas.
 - In order to drive a car in Massachusetts, you must have car insurance.
 - Call up an insurance company and ask them for a quote on your car. Tell them that you are 35 years old. If you can find this information on the web, great. Last year we were unable to find a web site that freely gave car insurance information.

Homework for next Class - Finish this exercise and complete the Entertainment section

- **Entertainment**
 - cable
 - health club
 - kid's activities
 - kid's equipment for activities
 - movies
 - video games
 - video/DVDs
 - CDs
 - home electronics (list of appliances X 20%/12)³

³ You will not need to buy all your home electronics in one month. This assumes that you replace everything on a five year cycle. (Convert all purchases to once every five years, divide by 5) Technology changes, tape becomes disk, computers advance, small screen becomes big screen and your friends break things. (Convert that annual figure to a monthly figure divide by 12)

- Make a chart like the one attached showing all the food and drinks that your household consumes in a week.
- Go grocery shopping for your household for a week. www.peapod.com
- Multiply your weekly groceries by 4 X
 - For meals away from home - indicate where you are eating/taking out
 - eating out Number of meals in a month X cost - include 15% tip
 - dinner take out Number of meals in a month X cost
 - breakfast take out Number of meals in a month X cost
 - lunch take out Number of meals in a month X cost
 - kids school lunch Number of meals in a month X cost
- Homework for next class: Finish the Food section

	breakfast	lunch	snacks	dinner					
ME	Dunkin Donuts lg. coffee bagel	Take out	diet coke	mac n' cheese broccoli milk rolls cake & frosting					
Member 2	cheerios milk apple juice	School lunch	pretzels apple						
member 3	2 eggs toast coffee	fruit hummus pita yoghurt	Chai tea						
member 4	cheerios milk bananna OJ	school lunch	gatorade chips						

- Complete the following portions of your budget. Utilize various web sites to get the best deals. For medical prices www.drugstore.com
- **Medical**
 - Health & Dental insurance provided by employer & deducted from pay check
 - copayment - \$10 each visit - plan on each household member = 2 visits/year and 5 visits/year for >65 years old members
 - ◇ For the following- duplicate your real experience. If you wear glasses, have allergies etc.; include them!
 - prescription drugs
 - glasses/ contacts + supplies
 - nonprescription medical supplies
- **Communications**
 - Cell phone
 - landline phone
 - internet

Homework for next Class - Finish this exercise and complete the Clothing and Miscellaneous sections

- **Clothing** (These amounts are for all 4 individuals for 1 month. Divide by 4 to get the figure for any one household member.)
 - Shop at the name brand stores in the Mall \$450
 - Walmart/Kmart/Target for everything \$250
 - Goodwill/Salvation Army \$150
- Remember that not everything can be purchased second hand; ie underwear.
- **Miscellaneous** Check out www.drugstore.com
 - toiletries
 - hair cuts
 - gifts
 - vacation
 - pets
 - laundry (if you rent, your apt will not have a washer/dryer)
 - charitable giving

- Pull out your paycheck and W-2 form
- Fill in the circled items on the 1040 form. (Excuse the 2002 form. I couldn't find a tax form in September.)
- When you finish your taxes you should have all parts of your spending categories spent. Does your budget balance? Go down the listing of everything on the introduction sheet. Don't forget to include the line item deductions from your paycheck. If you spent more than you had, now is the time to look for ways to economize. Smaller house, apartment, public transport instead of a car, brown bag your lunch more often or whatever else you can do to save money.

Final Assignment due: _____

- Review the requirements on the introduction sheet.
- I need to see:
 - a numbers budget with expenses broken down into major categories with appropriate backup from either a newspaper, the internet or a source you identify
 - Identification of the 4 individuals, their ages, relation to you and dependent/nondependent
 - For each category, a paragraph explanation of your household's lifestyle. For example where you shop, what you buy, is this an area where you economize or where you splurge, what items do you wish you could buy but cannot afford and other facts that explain your spending choices.
 - Income Tax with 1040 form as a backup

You must figure out a way to live within your household's \$50,000 income