

Financial Literacy 101

Fact Sheet: Your Spending Decisions

Financial Health for Students

If you've ever tried to get in shape, you know that there's no magic formula for exercising and eating right. You simply need the discipline to put your knowledge to work in the real world, even when it would be so easy to skip a trip to the gym.

Becoming financially healthy is not so different – there are just a few rules to follow, but mastering your own behavior, especially your daily spending decisions, can be the greatest challenge.

Being financially healthy means being fully aware of the consequences of your spending decisions, and choosing the decisions that are right for you. For most people, this means minimizing debt, especially credit card debt, while planning for the future.

Financial Decisions & Consequences

Getting in good financial shape can be a challenge, and not just for college students – Americans are going deeper and deeper into debt every year. In fact, the credit card debt of the average family has doubled in the last few years alone.

Unplanned debt can happen for a variety of reasons, from unexpected medical bills to the loss of a job. But a major source of debt is lack of planning - most people make uninformed and potentially wasteful spending decisions all the time. For example, buying an extra latte from Starbucks each day will cost over \$5,100 over four years!

When you consider the average credit card debt of recent grads is around \$4,000, it's not hard to see how small decisions can contribute to a big problem!

The first step towards financial health is creating a budget you can live with.

What is a Budget?

A budget is a spending and savings plan based on your expenses and income. Expenses are anything you spend money on – from tuition to food. Your income may come not only from jobs, but from educational loans, help from your parents, or any other source.

For most people, the goal of making a budget is to avoid debt by minimizing expenses. Since students often cannot avoid college debt, an alternate goal should be to minimize unplanned debt. By tracking your spending over a week or two, you'll get a good idea of what you're spending money on. You may find that some of your "expenses" are really luxuries that could be avoided with little difference to your lifestyle. By reducing unnecessary spending, you'll be in a better position to minimize your college debt.



Making Your Budget

Making a budget is easy - the goal is to have your income exceed your expenses.

- **Step 1** - Figure out approximately how much money you'll have over the next year. Estimate your income from student loans, scholarships, a part-time job, summer earnings, help you may receive from your parents, and your current savings. Once you have a figure, divide it by twelve to get your monthly income.
- **Step 2** - Determine expenses. Include tuition, food, lodging, phone bills, books and supplies, laundry, and transportation. Don't forget other expenses such as clothes, haircuts, entertainment, snacks, and anything else.
- **Step 3** - Subtract your expenses from your income. The figure you calculate is your cash flow – that is, the overall balance of your expenses and income.

If you have a negative cash flow, that means you are losing money. Consider reducing your expenses or earning additional income. If earning more is not possible, your expenses should be minimized so that they are as close as possible to your income.

If you have a positive cash flow, consider how best to save that money or how to reduce your dependence on educational loans. Many students automatically accept all the loan aid they qualify for. If you can get by on less, you can easily reduce the total cost of your college education.

[Visit your My Student Aid page to use our interactive budget calculator.](#)

Visit the Resources area of FinancialLiteracy101.org for more information.