

# Budgets Are Beautiful Call-In Show

## RADIO HOST BUDGET BOB

*Hello, financial health fans! Welcome to the nation's newest financial advice show, Budgets Are Beautiful. This is the radio call-in show that lets you, the radio listener, get the latest advice on how to manage your family finances. Today our topic is how to improve your skills at managing your family's finances. Our guest today is a successful family financial planner, Dr. Penny Saver. Dr. Saver has helped hundreds of families and has a Ph.D., M.A., and an S.U.V. Hello, Dr. Saver. Welcome to the show.*

## DR. SAVER

*Hello Bob, and hello to all those people who are tuned in today. I am ready to take your questions.*

## BUDGET BOB

*Here is our first caller: Connie from Connecticut. You're on the air, Connie.*

## Connie

*Hi ,Dr. Saver. I am having a disagreement with my husband regarding the meaning of some financial vocabulary. He had heard someone on another call-in show talking about how to spend **disposable income**. My husband laughed and said that **all** our income is disposable. He said that we dispose of all our income by the end of every month. Sometimes we dispose of our income **before** the end of the month. I think he was joking, but could you tell me: What do financial planners mean when they talk about disposable income?*

## DR. SAVER

*Actually, your husband was not too far off. Disposable income is the money that you have to spend or save as you wish after you pay your taxes, Social Security, and the other deductions that have been taken out of your gross pay. While disposable income can be used in many ways, most families have important financial obligations. Rent, car payments, and food bills add up quickly, so tough choices need to be made.*

## BUDGET BOB

*That sounds kind of gloomy, Dr. Saver. Do you have any advice for Connie and her husband on how to get better use out of their disposable income?*



## DR. SAVER

Financial planners suggest that setting up and sticking to a family budget is the first step toward financial success. I advise families to start by setting a monthly budget. To do this, you make a list of your income and expenses. Under income, list all the money you anticipate earning for the month. For most people, most income will be what they earn from their jobs. Then list your expenses. Under expenses, write all the expenses you think you will have in the month, item by item. Common expenses are rent, car payment, insurance, groceries, and so forth. Then, subtract your expenses from your income. I hope that this is a positive number! If it is—if you have more income than expenses—then you have surplus cash that can be put to other uses. If, however, the number is negative, then you will need to cut your expenses, increase your income, or spend some of your savings to get through the month.

## BUDGET BOB

Here is our next caller: Calvin from California. You're on the air, Cal.

## Calvin

Hello Dr. Saver. Thanks for taking my call. My wife and I started to write a monthly budget and we learned right away that not all expenses are the same. Some seem to stay pretty much the same each month while others change. Do other people have this same situation? Can you comment on the different types of household expenses?

## DR. SAVER

Great question! Families ordinarily have what we call fixed expenses and variable expenses. Fixed expenses are ones that are relatively constant each month. These are a family's definite obligations such as a house payment, rent payment, car payment, medical insurance, and fuel for the car. These expenses are hard to change in the short term, so we say they are "fixed." Variable expenses are ones that are likely to change in the short term. Telephone, groceries, medical bills not covered by insurance, entertainment, recreation, charge account purchases, and so forth are variable expenses. These are expenses over which you have more short-term control.

## BUDGET BOB

Dr. Saver, I sometimes hear advisors say, "Pay yourself first." In other words, set money aside from your disposable income to put into your savings plan. How does this idea of "pay yourself first" fit into the family's expenses?



## DR. SAVER

I tell my clients to include their savings goal in the fixed expenses part of their budget. I like this approach because it shows how important saving is to future individual and family financial health. Under the saving part of the budget, a family or individual could list funds saved for emergencies, as well as other cash set aside for long-term savings and investments.

## BUDGET BOB

Here is our next caller, Minnie from Minnesota. You're on the air, Minnie.

## Minnie

I just love this show, Dr. Saver. Here is my question. My sister Emily told me that she heard on television that people might have high incomes and still have a low net girth. What's all this about net girth? Is it true that people who have high incomes are also thin?

## DR. SAVER

Minnie, I think that you misunderstood your sister Emily. I think that she was referring to the idea of net **worth**, not net **girth**. Let me explain. People can have high incomes and still not be wealthy. When we measure wealth, we are measuring net worth. Here is how to figure your net worth. Net worth is determined by two factors. First, list your assets and their value. Assets are what a person owns including the value of any savings, house, car, and personal possessions. Next, list your liabilities. Liabilities are the money you owe others such as a home mortgage, car loan, credit card debt, college loans, and so forth. If your assets are greater than your liabilities, then you have a positive net worth. If your liabilities are greater than your assets, then you have a negative net worth. Individuals can have a large income and, due to their liabilities, still have a negative net worth.

## Minnie

Can I follow up on that last point? Do you mean to say that you can't tell whether a person is wealthy just by knowing where they live, what they drive, and where they travel?

## DR. SAVER

That is exactly what I mean, Minnie. People who live in big homes, drive extravagant cars, and take around-the-world cruises probably have high incomes. That does not mean that they are wealthy. We measure wealth by calculating net worth. Many people of modest income have achieved a high net worth—many are millionaires—by living below their means.



## BUDGET BOB

*Well, Dr. Saver, that is all the time we have for today's show. Thank you for being with us.*

## DR. SAVER

*You're welcome, Bob. Thanks for inviting me.*

## BUDGET BOB

Be sure to join us tomorrow when we will speak to Ms. Bonnie Bonds, another financial advisor. Bonnie's topic is "What Is Gross About Your Gross Income?" We hope you will tune in to the show tomorrow. We will be waiting for your call.

# Questions

**1. What is disposable income?**

**2. What does Dr. Saver recommend as the three parts of a family budget?**

**3. What are fixed and variable expenses? Use examples to illustrate each.**

**4. What does this idea of "pay yourself first" mean?**

**5. What is net worth?**