

NAME: _____

DATE: _____

VIDEO/AUDIO

Pay Yourself First

What + Why: Take control of your paycheck by choosing your savings before your spending chooses you.

James is an apprentice at Chip & Sons Construction. In four months, he will be eligible to take the exam for his certification, which leads to higher pay and more responsibility. The cost of the exam is \$1,200. So far, James has nothing saved to help him achieve this goal.

Each pay period, James plans to save whatever is left after paying his bills. But after splitting rent, utilities, and groceries with his roommates, grabbing dinner out a few times, picking up a designer hoodie he didn't really need, and a few other small purchases that felt fine in the moment, there never seems to be anything left.

What James spends on each pay period:

- ☒ rent
- ☒ utilities
- ☒ groceries
- ☒ eating out
- ☒ designer hoodie
- ☒ other impulse buys
- ☒ There is never any money left.



James talks to his coworker Alex about his financial situation.

James: I've been trying to save for the exam to get my certification, but something always comes up and I run out of money.



Alex: I struggled with that at first, too. Then my aunt told me about "Pay Yourself First," so I decided to try it.

James: Pay Yourself First? What's that?

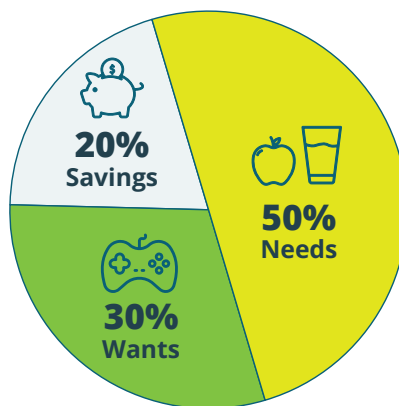
Alex: It means you put aside your savings as soon as you get paid, before you spend anything. You treat it like a bill you have to pay. Now I'm not tempted to spend money just because it's sitting in my account.

Alex: There are a couple ways you can pay yourself first. Some people choose a fixed dollar amount each paycheck. For example, my aunt earns a steady \$1,200 every paycheck. She automatically saves \$200 each time she gets paid. But that won't work for me since my paycheck fluctuates.

Fixed Dollar Amounts

\$1,200 income
– \$200 savings
—————
\$1,000 remaining

Percentage-Based



Alex: I use percentage-based savings. The amount I save adjusts automatically each payday. A common guideline for this is the 50/30/20 rule. You just divide your paycheck into 50 percent for needs, 30 percent for wants, and 20 percent for savings. That 20 percent makes saving a part of your plan from the beginning. And you should set it aside before paying for any of your needs or wants.

Question 1

James plans to implement “Pay Yourself First” to help him save for his certification. He is considering whether a percentage-based savings like the 50/30/20 rule fits his situation. Before deciding, he wants to see how his income would be divided under this guideline. James earns \$2,200 per month. If he followed the 50/30/20 rule, how much would go to each category?

- ☐ a. \$1,100 for needs; \$660 for wants; \$440 for savings.
- ☐ b. \$1,100 for wants; \$660 for needs; \$440 for savings.
- ☐ c. \$1,100 for savings; \$660 for needs; \$440 for wants.
- ☐ d. \$1,100 for needs; \$660 for savings; \$440 for wants.

Answer: a. Under the 50/30/20 rule, \$1,100 would go toward needs, \$660 toward wants, and \$440 toward savings. This guideline helps structure spending while prioritizing saving first.

James decides to try Pay Yourself First to save for his certification. The 50/30/20 split doesn't fit James' situation exactly because his needs take up more than 50 percent of his income. Like Alex's income, James' income sometimes fluctuates. But James still chooses percentage-based saving, so the amount will adjust automatically when he is paid.

This month, he will earn \$2,200. He decides to use automatic transfer to set aside 20 percent of his income into savings before spending any money. Because savings comes out first, he has less money left to spend. He'll need to be more careful about impulse buying and giving in to social pressure. Because his expenses are high, he budgets 61% of his income (or \$1,340) on needs and 19% of his income (or \$420) on wants. He'll continue saving 20% each month until he reaches his goal of \$1,200 to pay for the exam.

By following this savings plan, in four months James saves enough to pay his exam fee. (And he has money left in savings as an emergency cushion!) By paying himself first, the money devoted to savings is already set aside, so James is less likely to make impulse purchases and no longer depends on “leftover” money at the end of

MONTHLY BUDGET

ITEMS	AMOUNT
Income	\$2,200
Savings	\$440
Certification Exam Fund [^]	\$440
Needs	\$1,340
Rent [*]	\$750
Electricity [*]	\$65
Internet [*]	\$25
Groceries	\$300
Car Insurance	\$200
Wants	\$420
Dining out	\$150
Streaming subscriptions	\$50
Entertainment	\$100
Personal spending	\$120

^{*}These expenses are split with his 2 roommates.

^{**}Automatically transferred at payday.

the month. Hopefully James will continue this savings plan to help build his cushion and start aiming toward new financial goals like a down payment on a car or home!

Question 2

Which description represents the 50/30/20 budgeting rule?

- ☐ a. 50% wants, 30% needs, 20% savings
- ☐ b. 50% savings, 30% needs, 20% wants
- ☐ c. 50% needs, 30% wants, 20% savings
- ☐ d. 50% wants, 30% savings, 20% needs

Answer: c. The 50/30/20 rule divides income into 50% for needs, 30% for wants, and 20% for savings.

Question 3

What does “Pay Yourself First” mean?

- ☐ a. Focus on wants first, then expenses and savings.
- ☐ b. Save any money that is left at the end of the month.
- ☐ c. Spend money and adjust savings later.
- ☐ d. Set aside money for savings before spending.

Answer: d. Paying yourself first means saving as soon as you receive income — before spending on anything else.

Question 4

Which Pay Yourself First method works best when income fluctuates?

- ☐ a. 50/30/20 rule
- ☐ b. Fixed dollar amount
- ☐ c. Percent-based saving
- ☐ d. Saving what you can

Answer: c. Percent-based saving adjusts automatically as income changes, helping maintain consistent saving habits.

Question 5

Yuna earns \$1,200 per month and wants to save a specific amount each month to reach her goal. Which Pay Yourself First method is she using?

- ☐ a. 50/30/20 rule
- ☐ b. Fixed dollar amount
- ☐ c. Percent-based saving
- ☐ d. Saving what you can

Answer: b. Since Yuna needs to save a specific amount each month to reach her goal, setting aside a fixed dollar amount helps ensure she stays on track.