Money becomes easier to understand when we begin with what it does in our own lives. It pays for shelter, food, transportation, and the services we use. It can support someone we love or remain available for a future need. Financial literacy is the ability to understand money and use that understanding to make informed decisions. The starting point is knowing what we have, what we receive, and what we must pay. These sound like simple questions, yet answering them accurately requires more than remembering a salary or glancing at an account balance. We need to see where our money is going and whether our decisions leave us enough to function.

Begin with income, money earned or received over a period. For someone working a job, gross pay is earnings before deductions. Deductions are amounts taken from that pay for purposes such as taxes, insurance, or retirement contributions. Net pay, commonly called take-home pay, is the amount remaining afterward. Suppose a person earns $800 for a week's work and has $150 deducted. Gross pay is $800, but take-home pay is $650. A plan to spend the full $800 would rely on $150 that never reaches the person's account. This is why learning to read a pay statement belongs near the beginning of financial education. We need to understand both what we earned and what is available to use.

Money then leaves through expenses, the costs of living and the purchases we make. Rent, groceries, electricity, entertainment, and transportation all belong in that picture. A budget is a plan for how income will cover expenses, savings, and other obligations during a particular period. Investopedia describes budgeting around expected income and expenses over time. investopedia.com The period is essential: a weekly paycheck cannot be compared directly with a month's bills without adjusting the numbers. If we are planning for one month, we need that month's expected take-home income and that month's costs. Otherwise, we can make a plan that looks reasonable while combining amounts that do not belong together.

Imagine a household receiving $2,800 in monthly net pay. Housing and utilities cost $1,200, food costs $450, transportation costs $350, and other bills and necessary purchases total $600. Together, those costs equal $2,600, leaving $200. That remaining amount is a surplus, the amount by which income exceeds the costs included in our calculation. If costs instead total $2,950, the household has a deficit, a $150 shortfall. Neither word describes anyone's character. They describe a financial condition that requires a response. A surplus creates room for a decision about the remaining money. A deficit means something must change, or the household must use existing savings, borrow, or leave something unpaid. Borrowing may cover the immediate gap, but borrowed money creates an obligation to repay; it is not newly earned income.

Accuracy is more useful than optimism here. If our calculation leaves out laundry, medication, school supplies, or a bill paid every few months, the apparent surplus may already have responsibilities we have not counted. Consumer.gov recommends gathering bills and pay information, recording expenses, and comparing actual spending with the plan. consumer.gov This introduces cash flow, the movement of money into and

out of our finances. A household can receive enough over an entire month and still struggle because a bill arrives before the paycheck needed to cover it. Knowing the amounts tells us whether the plan adds up. Knowing the dates tells us whether the money will be there when required.

There is a difficult truth we should face early: paying all our regular bills does not necessarily mean we are prepared for an unexpected one. Savings is money set aside for later use. An emergency fund is savings reserved for unexpected expenses or interruptions in income. Its purpose is practical. If a necessary repair costs $100 and we have $100 reserved, we can pay without creating a new repayment obligation. If we have no reserve, that same repair may force us to borrow or postpone another payment. Building a reserve requires room in the household's finances, and that room can be painfully small. Still, when money can be set aside, it performs useful work even while sitting untouched: it remains available for a disruption.

Federal Reserve data show why this deserves attention in our community. In its 2025 household survey, 40% of Black adults said they would cover a hypothetical $400 emergency expense entirely with cash or its equivalent, compared with 73% of White adults. The survey's definition includes cash, savings, or a credit card paid off at the next statement. These figures describe how respondents said they would pay; they do not establish that every person outside those percentages lacked $400. Some would choose another method, and some could not cover the expense. federalreserve.gov The distinction prevents an alarming statistic from becoming a misleading one. The reported difference is substantial, but it does not tell us that every household faces the same circumstances or explain the difference by itself.

Our first task is therefore to establish an honest starting point. For one full pay period, record what actually arrives, what leaves, and what must be paid before more income comes in. Use statements and receipts where possible rather than relying entirely on memory. If the numbers reveal a shortage, identify its size and source before blaming yourself or choosing a solution. If they reveal money remaining, decide what portion needs to stay available. Share a small, age-appropriate example with a child: receiving $20 and owing $12 leaves $8 to plan with. A family's financial education can begin with that ordinary calculation. The habit we are developing is the willingness to look closely enough to know what our money can—and cannot—do.