

Budgeting: Automobile

BUDGETING FOR A CAR is a smart decision. Many factors should be considered when creating a budget such as the total cost of the car, auto insurance, down payment, monthly payment, auto trade-in, and maintenance costs. In this lesson you will learn about these factors and how they influence budgeting for an automobile.



Objective:



Describe and analyze automobile budgeting factors.

Key Terms:



auto insurance
budget
budgeting
car dealer
car lease
collision insurance
comprehensive insurance

credit
deductible
down payment
interest rate
liability insurance
loan
monthly payment
negotiable

premium
registration
sticker
tax

Automobile Budgeting Factors

Buying or leasing a car is usually a significant financial investment. Creating a budget can help a person determine how much they can afford to spend. A **budget** is a financial plan for a particular length of time with expenditures and income. Several factors may be considered when creating an automobile budget such as, the total cost of the car, auto insurance, down payment, monthly payment, auto trade-in, and maintenance costs.

DESCRIBE AUTOMOBILE BUDGETING FACTORS

Total Cost of the Car

When purchasing a car it is not just the sticker price that needs to be considered for the total price of the car, taxes, registration, and license plates need to be added in too. A **sticker price** is the advertised price of the car. This price is often displayed on a car side window when it for sale at car dealer. A **car dealer** is a business that sells automobiles. A **tax** is money collected by the government for the sale of items. **Registration** is the information about the owner of the car often collected by state governments. Proof of registration is often in the form of a license plate. The plate is attached to the front, back, or both ends of the car. When leasing a car knowing the terms of the lease affect the total cost. A **car lease** is paying a fee to use a car with the intent to return it at the end of the agreed upon time. A lease differs from renting a car, which is often a daily fee, as it is usually for several months to a few years.

Auto Insurance

Auto insurance is often mandatory when driving a car. **Auto insurance** is an agreement between a person and an insurance company whereby the person pays a premium in exchange for coverage (payment of funds) if something happens to the car or the people riding in the car if there is an accident. A **premium** is the fee charged for insurance. Different states have different rules, so it is best practice to check with a local insurance agent to see what is required.

Down Payment

A **down payment** is the partial amount of money paid upfront on the total amount of a purchase. A down payment is usually paid when a car is bought on credit. **Credit** is the borrowing of money, with the intent to repay the funds. Credit is often in the form of a loan from a bank.

Monthly Payment

If a car is bought on credit, the purchaser will need to make monthly payments. A **monthly payment** is the amount of money owed each month on a loan. A monthly payment is calculated on the loan amount, length of repayment time, and interest rate.

Auto Trade-In

If a person already owns a car, they may trade it in when purchasing another car. In other words the auto dealer accepts the old car as partial payment for the new car.

Maintenance Costs

Maintenance costs must be calculated when creating a budget. Maintenance costs include such things as oil changes and replacing tires.

ANALYZE AUTOMOBILE BUDGETING FACTORS

Budgeting properly can help a person stay on track financially.

Budgeting is the process or act of creating and implementing a budget. Knowing how different factors affect the budget is necessary in the budgeting process. As mentioned previously the total cost of the car, auto insurance, down payment, monthly payment, auto trade-in, and maintenance costs all can affect the automobile budget. How each factor affects the budget differs. It is recommended that a person spend no more than 10%–20% of their income on a car. So if a person makes \$50,000 a year they could afford to purchase a car that was \$5,000 – \$10,000 ($50,000 \times 10\% = 5,000$, $50,000 \times 20\% = 10,000$). Or if they were to have monthly payments, they could spend between \$416 – \$833 a month ($50,000 / 12 \times 10\% = 416$, $50,000 / 12 \times 20\% = 833$)



FIGURE 1. Buying or leasing a car is usually a significant financial investment. Creating a budget can help a person determine how much they can afford to spend.

Total Cost of the Car

The total cost of the car must be considered when purchasing because the sticker price is just a part of the cost. Once the taxes, registration, and license plate fees are added it may increase the cost to be outside of a person's budget. The sticker price might also be negotiable. **Negotiable** is being available for agreement to change. Some car dealers have set sticker prices, but some are willing to lower the price to entice a buyer. When purchasing a car from an individual the same pricing may be true. A person should know before they enter into a discussion about the price of the car if it is negotiable or not. Taxes, registration and license plate fees are usually a set price as they are dictated by a government agency. If a person leases a car, included mileage and length of lease may be negotiated in the cost of the lease. At the end of the lease a person may have the option of purchasing the car rather than returning it to the dealer.

Auto Insurance

The cost and type of auto insurance needs to be considered when buying a car. Usually the more expensive a car is, the more costly the insurance. This is because a more expensive car usually costs more to fix. Many insurance policies have a deductible. A **deductible** is the amount of money a person has to pay before the insurance company will start paying. Usually the higher the deductible, the lower the cost of the insurance. There are different types of auto



FURTHER EXPLORATION...

ONLINE CONNECTION: Teens Shopping for Auto Insurance

Want to learn more about car insurance? Insurance coverage for a teenagers is often high. It is important to know things like earning good grades and driving certain types of vehicles can lower the cost of insurance. To learn more, access the article at http://www.rmiia.org/auto/teens/Buying_Auto_Insurance.asp.

insurance coverage including collision, comprehensive, and liability. **Collision insurance** is coverage for the vehicles involved in an accident. This type of insurance will pay to have the car fixed. **Comprehensive insurance** is coverage for vehicles that is not caused by an accident. This insurance may pay for damage sustained from a hail storm, flood or theft. **Liability insurance** is coverage for injury or death of people involved in the automobile accident. This type of insurance will pay for hospital bills or a set amount of money if a person is killed from the accident.

Down Payment

The down payment effects the cost of the car because it is deducted from the agreed upon price. For example, if a person has \$4000 to pay as a down payment and the car is \$12,000, the amount the person has to borrow on credit is \$8,000.

Monthly Payment

The monthly payment is determined by the amount of the loan, length of repayment time, and interest rate. Amount of the Loan: A **loan** is the money borrowed on credit. This amount usually includes the total price of the car minus the down payment. Loans are usually offered in 36, 48, or 60 month. The recommended length of repayment time is no longer than 48. The longer a person borrows money, the more interest they will have to pay which ultimately means they pay more for the car. Sometimes a loan can be taken out with a zero percent interest rate, in which case the length of repayment time is not affected. An **interest rate** is the percent of money charged on the loan amount.

Auto Trade-In

If a person trades in their old vehicle for a new one, they can negotiate the amount they get paid for the old vehicle. It is best to have an idea of how much a car is worth before considering trading it in. Kelly Blue Book and Edmunds are two of the most popular resources to reference for this information.

Maintenance Costs

Once a person purchases a car there will be continual maintenance to keep it running well. Getting the oil changed regularly is one of the easiest ways to keep the engine maintained. Keeping the tires inflated properly and rotated regularly will help with the cost of gas and extend the life of the tires. There is also routine maintenance that will need to be done at certain mileage marks. Researching the average costs of these services can help a person budget accordingly.



FIGURE 2. Once a person purchases a car there will be continual maintenance to keep it running well. Researching the average costs of these services can help a person budget accordingly.

Summary:



Now that you have learned about budgeting for a car and the factors to consider when creating your budget, you can feel more confident when making decisions. The factors include the total cost of the car, auto insurance, down payment, monthly payment, auto trade-in, and maintenance costs.

Checking Your Knowledge:



1. What is a budget?
2. What is included in the total price of the car?
3. How does a down payment affect a loan amount?
4. What are the different types of insurance?
5. What are some of the maintenance costs you might have for a car?

Expanding Your Knowledge:



Visit a car dealership. Ask a salesperson if you can look at some of the cars. Tell them you are researching different types of cars and give them your budget. Ask them which vehicles they would recommend for you and why.

Web Links:



4 Things to Keep in Mind When Saving for a Car

<https://www.mint.com/budgeting-apps/how-the-right-budget-app-can-help-you-save-for-a-car>

7 Easy Ways to Calculate Your New Car Budget

<https://www.wisebread.com/7-easy-ways-to-calculate-your-new-car-budget>

How to Save For a New Car (for Teens)

[https://m.wikihow.com/Save-For-a-New-Car-\(Hlt25563773_Hlt25563773_Hlt25563774for-Teens\)](https://m.wikihow.com/Save-For-a-New-Car-(Hlt25563773_Hlt25563773_Hlt25563774for-Teens))