Managing Your Money: Developing A Spending Plan

Circular 594

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Cooperative Extension Service • College of Agricultural, Consumer and Environmental Sciences

INTRODUCTION

Most people believe they need more money to meet their expenses, no matter how much income they earn. However, additional money may not always be the answer. How you plan to and actually spend your money are more important than how much money you have.

The following are some signals that may indicate real money problems are approaching. Do any of these apply to you? Do you

- Dip into savings or borrow to pay current bills?

- Pay only the minimum amount due each month on credit card or charge accounts?

- Delay payment of some bills you normally would have paid on time?

- Borrow to pay for items you used to buy with cash?

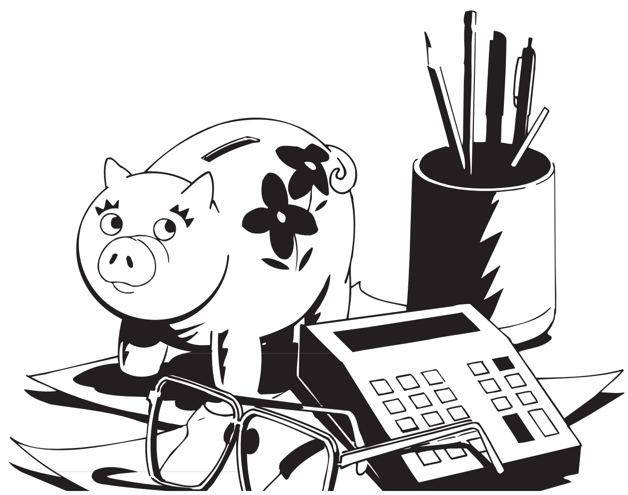
- Take out new loans to pay old ones or to get lower monthly payments?

- Not know exactly where your money goes?

Even if you answered "yes" to all of the above, there is still hope for you. There are things you can do to get more for your money and have greater satisfaction in your spending. You must accept the fact that you only have a certain amount of money available to you, and that you must live within these limits. You may feel that this is an impossible task, but it is possible for most people to accomplish.

SPENDING PLAN

The secret lies in knowing—financially—where you are now, knowing where you want to go in the future, and



figuring out how to get there. A tool that will greatly help you is a spending plan or budget.

A spending plan works in a way similar to charting your route to a new and unfamiliar vacation spot. You just have to find out which roads to take in order to reach your final destination. Or, in this case, your financial destinations, which are your future goals.

A Successful Spending Plan

By now you know that achieving a successful financial management plan requires that you make some difficult decisions. Here are some of the other things you may need to do.

- Gather the entire household together and have a discussion about what needs to happen in order for your family to reach its financial goals. It is very important for everyone affected by the plan to have some say in it.

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Table 1. Monthly Spending Guidelines

Housing (including utilities, taxes, and maintenance)	31.8–35%
Food	15.6–20%
Transportation (including insurance)	17–19%
Clothing and services	5–7%
Healthcare (including insurance)	5–9%
Entertainment	3–6%
Savings (including retirement)	2–10%
All other	7–12%

Note: All other includes alcoholic beverages, reading materials, education, tobacco, personal care, cash contributions (e.g., to charities), life and disability insurance, and miscellaneous expenditures.

- Decide what each person needs to do to help control the family spending.
- Provide every family member with a personal allowance if you can. The amount is not as important as their personal choice in spending this money.
- Agree within the family that everyone will take turns getting what they want, but everyone must also be willing to give up something.
- Learn and practice sound decision-making and shopping skills to get the most for your money.
- Make it a habit to save something—no matter how small—from every paycheck. Pay yourself first.
- Learn to live within your income and keep your credit use under control.

Spending Guidelines

Spending guideline percentages may be useful as you examine your spending habits. These spending guidelines are for comparison purposes only (Table 1). They are not strict rules. These figures are based on national data from the U.S. Department of Labor. Remember, these show only the average expenditures of surveyed households, not the amounts families should spend.

One family may choose to spend 40% of their monthly take-home (net) income on housing and less on clothing and transportation. Another may choose to spend more on transportation and less on housing. It's up to you to decide your priorities. However, when you are setting spending guidelines, make sure that the combined percentages equal 100%. Be sure to include all credit-related expenditures in the appropriate category (e.g., credit card payments to pay for new carpeting). You can see that housing, food, and transportation take about two-thirds of the family budget and about one-third goes for all other expenses. That's where the challenges of money management come in.

Here's an example of how to calculate your spending percentages. If your monthly take-home pay is $1,000 and you spend $350 a month on housing, you are spending 35% of your income on housing.

(350 / 1,000) x 100 = 35%

The most important thing for you to remember is that your take-home pay is like a pie. If you cut one slice too big, all of the other pieces will have to be cut smaller so that everyone gets a taste. Otherwise there will be someone who won't get a piece of the pie. If you cut too big of a slice from your paycheck, you will probably find yourself having to borrow to make ends meet.

Make A Written Spending Plan

You can use Worksheet 1 to help guide your spending. These guidelines will assist you in developing a money management plan that fits your specific needs. If you follow each step, it will also save you from complicated bookkeeping. This guidance won't work miracles for you, but it will help show you how to get the most out of your money. For a workable plan, four steps are necessary:

1. Add up your total income, including any funds you receive in addition to your earnings. **Do not** include any irregular income, such as overtime or bonuses, when calculating your total income.
2. Figure out your total fixed expenses, such as rent or mortgage, insurance premiums, or car payments.
3. Create a savings/emergency fund that's adequate to cover emergencies and achieve special goals. Ideally, your emergency fund will have enough money to cover three to six months' worth of expenses.
4. Estimate how much you need for day-to-day living expenses.

While these steps are listed in sequence, it's likely you will arrive at your final estimates by considering them as a group. You may need to do some adjusting to the amount in each step until you have what you feel is a satisfactory plan. After going through each step and filling out Worksheet 1, you will have a better idea about where your money is going and how much you have left over.

Before you begin to work out your plan, it is important to remember that good money management starts long before you begin keeping track of dollars and cents. As discussed in previous lessons (Circulars 591–593), your plan is a personal or family matter. You need to take a long, hard look at your values. Your goals will reflect your values. No one can tell you what your lifestyle ought to be. Only you can decide how your income is spent. Effective money management will depend on the way you choose to live and the goals you plan to achieve.

So, where do you cut expenses to keep the budget balanced? Travel? Clothes? Entertainment? Education? That's up to you. Think about where you are now and where you want to be in 5 or 10 years. Your long-term plan should reflect the goals you and your family have decided are most important.

Plan for Savings

When making your budget, plan for savings first. You can grow richer each month if you pay yourself first. Here's an idea you might want to try: Before paying any bills, determine an amount to pay yourself first, maybe 5 or 10% of your paycheck. Then deposit that amount into a savings account before paying any bills. Think of this as a bill you have to pay, just like any other bill. When you do this at the beginning of the month, your entire paycheck will not slip through your fingers. If you wait until the end of the month, there may be nothing left to save. Increase the percent you pay to yourself until you reach 10%.

Paying yourself first gives you a systematic way to make your money grow. Regardless of the kind of job you have or your income, this system works.

Another technique you might try for saving money is to empty your change into a coffee can or jar each day. At the end of the month, roll the coins and deposit them into your savings account. You may be able to save up to $30 a month this way.

CONCLUSION

- It is important to know and understand how you are spending your money. A spending plan (or budget) can help you learn to live within your means and accomplish your future goals.

- Creating a spending plan means making difficult decisions and involving the whole family in the decision-making process.

- Setting spending guidelines can help you examine where you are spending your money so that you can know where you can save and get the most out of your money. The guidelines you set should be specific to you and your family's situation.

- Remember, good money management is more than a mathematical formula. Family life is unpredictable, which is why saving is so important.

- Writing out your spending plan using Worksheet 1 can help you create a budget that fits your and your family's specific needs.

- Don't forget to save by paying yourself first. Try to work up to saving 10% of your income.

- Your money management plan is always subject to change when your life situation changes. The objective of a good budget is to use your money to help reach your goals, not to force you to conform to rigid rules.

- Don't be discouraged if your budget plan doesn't work right away. You may need to revise it several times until it fits with your wants and needs.

- Review your budget from time to time to be sure it continues to help you use your income in the best way.

For additional information, see Guide G-258, *Managing Your Family's Money* (http://aces.nmsu.edu/pubs/_g/g-258.pdf).

Excel spreadsheet versions of some of these worksheets are available at http://aces.nmsu.edu/pubs/_g/#circ.

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WORKSHEET 1

Balancing Your Budget

Not everyone can use the same budget or spending plan. Each family has unique needs, wants, and resources. Therefore, money should be managed so that you are able to meet your needs and wants and still get the most from your income. Take the time to complete each of the five steps to keeping your budget balanced.

Ideally, when you start your budget you will have goals (financial and non-financial) written up. This allows you to plan ahead so you can set aside money for savings. It is also a good idea to complete a budget to figure out your current financial situation before planning for future undertakings.

Step 1: Estimate Your Income

Think of all the types of income you receive throughout the year, including the ones you expect to receive. List them all in the table below.

Income Sources	Weekly	Twice A Month	Monthly	Other
Wages (take-home)				
Child support				
Unemployment insurance				
Temporary Assistance for Needy Families (TANF)				
Pension/retirement				
Social Security				
Interest/dividends				
Alimony				
Tax refund				
Other				
Total				

Decide on a budgeting period you are interested in. The easiest one would be a paycheck period (e.g., biweekly or monthly). A student may be interested in budgeting for a whole semester or 18 weeks. Others may budget for a one-year period, which includes taxes, insurance, school expenses, and seasonal income.

Planning period: ___________________________ to ______________________________

Total income for the planning period $ ____

Step 2: Estimate Fixed Expenses and Savings (other than consumer debt)

The table below has been designed to budget for each month. You may change the table to a weekly basis.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Housing												
Rent or mortgage												
Major utility bills												
Other												
Protection												
Life insurance												
Health insurance												
Disability insurance												
Car insurance												
Household insurance												
Other												
Contributions												
Religious												
Donations												
Other												
Taxes Paid												
Licenses												
Regular Savings												
Short-term goals												
Long-term goals												
Emergency Fund (see Step 3)												
Other Major Items												

Step 3: Emergency Fund

How much emergency fund savings do you currently have? $__________

How much do you need for your household's monthly basic living expenses? $__________

As mentioned previously, your emergency fund savings should be enough to cover three to six months of your household's basic living expenses.

How much more money do you need to add to your current emergency fund in order to cover three to six months of basic living expenses? $__________

Spread out this planned emergency fund savings in Step 2's Emergency Fund row. For example, if you are budgeting for an entire year, divide the amount you need to add to your emergency fund by 12 months. This is the amount you should set aside each month to reach your emergency fund savings goal.

Step 4: Estimate Flexible Expenses

	Weekly/Monthly Amount
Food and Beverages	
At home	______________
Away from home	______________
Household Costs	
Operations (utilities)	______________
Maintenance (upkeep)	______________
Supplies (cleaning, paper)	______________
Clothing	
Purchase	______________
Repair	______________
Laundry, cleaning	______________
Transportation	
Buses, trains	______________
Personal car	______________
Operations	______________
Parking	______________
Personal Care	______________
Medical/Dental	______________
Recreation	______________
Gifts	______________
Personal	______________
Allowances	______________
Entertainment	______________
Other Expenses	______________

Note: Your household accounts are the best sources of information for expense estimates. Adjust the figures to reflect changes that have occurred in your own situation. If you do not have a system for keeping household records, start now to keep track of your expenses so you can control unnecessary spending leaks and get more mileage out of your income. See Circular 596, *Managing Your Money: Keeping Records in Order* (http://aces.nmsu.edu/pubs/_circulars/CR596.pdf), for more information on recordkeeping.

Periodic expenses, such as tuition, other school-related expenses, and taxes (personal, home, credit), may be divided so they can be spread out evenly during your budgeting period.

STEP 5: Compare Income and Expenses

Total all your expenses and compare them with your expected income. If your income exceeds your expenses, plan for more debt repayment, savings, etc. If your expenses exceed your income, rework your plan to reduce flexible expenses, reschedule debt repayment, etc.

Planning Period	**Dates** ____________________ **to** **Dates**____________________	
	Planned	**Actual**
Total Income (from Step 1)	____________________	____________________
Expenses		
Fixed expenses & savings (from Step 2)	____________________	____________________
Debt repayment[a]	____________________	____________________
Flexible living expenses (from Step 4)	____________________	____________________
Total Expenses	____________________	____________________

[a]Circular 592 Worksheet 1 (http://aces.nmsu.edu/pubs/_circulars/CR592.pdf)

Balances should be recorded with a positive or negative number (+ or -).

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