



# ***Managing Money***

## ***Developing a Spending Plan***

# ***Managing Money: Developing a Spending Plan***

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Constance Kratzer, Ph.D.

Now that you have a good idea of what your current income and expenses are, it is time to develop a spending plan. Most people believe they need more money to meet their expenses, no matter how much income they have. However, additional money may not always be the answer. More important is how you plan and actually spend your money.

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

- Dip into savings to pay current bills?
- Pay only the minimum amount due each month on 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 loans or to get lower monthly payments?
- Really know exactly where your money goes?

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

## **Spending Plan**

The secret lies in knowing where you are now, where you want to be in the future and figuring out how to get there. It’s similar to charting your route to a new and unfamiliar vacation spot. You just have to find out which roads to take to reach your final destination, or in this case, your financial destination.

## **A Successful Plan**

By now you know 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.
- 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 size 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.

### Some Spending Guidelines

Spending guideline percentages may be useful as you examine your spending habits. These guidelines are for comparison purposes only. They are not hard and fast 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 percent of their 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 percent. Be sure to include all credit-related expenditures in the appropriate category, such as credit cards payments to pay for new carpeting. 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.

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

$$\frac{350}{1,000} \times 100 = 35 \text{ percent}$$

Housing (including utilities, taxes and maintenance)	31.8–35 %
Food	15.6–20 %
Transportation (including insurance)	17–19 %
Clothing and Services	5–7 %
Health Care (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, life and disability insurance and miscellaneous expenditures.

The most important thing for you to remember is 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 everyone gets a taste. Otherwise there will be someone who won't get a piece of the pie. If you do this with your paycheck, you will probably find yourself having to borrow to make ends meet.

### Make A Written Spending Plan

Follow the steps in the Spending Plan Work Sheet to help make your spending plan. These guidelines will assure you develop a money management plan that fits your special needs. If you follow each step, it also will save you from a complicated job of bookkeeping. This won't work miracles for you, but it will help show you the way to get the most out of your money. For a workable plan, the following steps are necessary:

- 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.
- Figure out your total fixed expenses, such as rent or mortgage, insurance premiums or car payments.

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- Provide for a savings/emergency fund that is adequate to meet emergencies and achieve special goals. Ideally your emergency fund will have enough money to cover three to six months of expenses.
- 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 adjust the amount in each step until you have what you feel is a satisfactory plan. After going through each step and filling out the Spending Plan Work Sheet, 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 good money management starts long before you begin keeping track of dollars and cents. 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 how 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 five or 10 years. Your long-term plan should reflect the goals you and your family have decided are most important. If your expenses were more than your income or you are looking for ways to cut expenses to increase the amount available for savings, the section on spending leaks will help you find ways to plug those leaks.

### **Plan for Savings**

When making out 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—say 5 or 10 percent—of your paycheck. Then, deposit the 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 yourself until you reach 10 percent.

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 put them into your savings account. You may be able to save up to \$30 a month this way.

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

Your money management plan always is subject to change if 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 this budget plan doesn't work right away. You may have to revise it several times until it fits your wants and needs. Then review it from time to time to be sure it continues to help you use your income in the best way.

### **Determine How Much You Owe**

It is necessary to include all of your credit obligations as part of your expenses. Use the How Much Do You Owe Work Sheet to gain a clear idea of all of your credit obligations—both loans and credit card use. List credit-related expenses in the appropriate expense category.

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## **Managing Money: Developing a Spending Plan**

## Spending Plan Work Sheet

### Balancing Your Budget

Everyone can't use the same budget or spending plan. Each family has unique needs, wants and resources. Therefore, the 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 steps to balance your budget.

### Estimate Your Income Income Sources

	Weekly	Twice A Month	Monthly	Other
Wages (take-home)				
Child support				
Unemployment insurance				
TANF				
Pension/retirement				
Social Security				
Interest/dividends				
Alimony				
Other				
Total				

Total income for the planning period \$ \_\_\_\_\_

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Housing												
Rent or mortgage												
Major fuel bills												
Protection												
Life insurance												
Health insurance												
Disability insurance												
Car insurance												
Household insurance												
Other												
Contributions												
Religious												
Donations												
Other												
Taxes												
Licenses												
Regular Savings												
Short-term goals												
Long-term goals												
Other Major Items												

Set Aside Weekly (divide by 52) \$ \_\_\_\_\_

Set Aside Monthly (divide by 12) \$ \_\_\_\_\_

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### Step 3: Emergency Fund

Accumulate fund to	\$
Yearly Totals:	\$ (Transfer to Balance Sheet)
Amount for fund weekly/monthly	\$

### Step 4: Estimate Flexible Expenses

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

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 spending leaks and get more mileage out of your income. now to keep track of your expenses so you can control unnecessary spending leaks and get more mileage out of your income.

## STEP 5: Compare Income and Expenses

### Comparison of income and expenses (Balance Sheet)

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

**Planning Periods** (weekly, monthly, etc.)

	Dates		Dates	
	Actual	Planned	Actual	Planned
Income (total)				
Expenses				
Fixed				
Emergency fund				
Debt repayment				
Flexible living expenses				
Total expenses				
Balance (+ or -)				

### Managing Money: Developing a Spending Plan

## How Much Do You Owe Work Sheet

### How Much Do You Owe?

This work sheet will help you analyze your credit obligations. It is important for you to gather all of this information before you begin developing a money management plan. Do not include mortgage payments. Complete all the blanks that apply. Include all loans and credit cards.

Company	Amount Still Owed	Due Date	Months Left to Pay	Monthly Payment	*APR	Amount Past Due

Total Amount Still Owed: \$ \_\_\_\_\_

\*APR. Annual Percentage Rate

**Note: The average family should not commit more than 15 to 20 percent of its take-home pay to pay off consumer debts. If your family is larger, you may need to keep it even lower.**

To determine how much of your take-home pay goes toward consumer debt repayment, you need to calculate your consumer debt-service ratio.

$$\text{Consumer Debt Service Ratio} = \frac{\text{Consumer Debt Repayment (monthly)}}{\text{Disposable income (monthly)}}$$

Consumer debt equals monthly repayments for all **non-mortgage** consumer debts, including home-equity credit-line loans.

Take-home pay, sometimes called net pay or disposable income, is the income available after mandatory deductions for taxes and insurance. Irregular sources of earned or unearned income, such as interest earned or overtime earnings, are not included in disposable income for these calculations.

*This resource is one in a series on **Managing Money** which include:*

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**Making your Money Work:**

Determining What Is Important to You  
Where Are You Now? (Net Worth Statement)  
Stop Spending Leaks  
Developing a Spending Plan

**Using Credit:**

What Is Credit and How Much Credit Can I Afford?  
Types of Credit: What Are Your Choices?  
Credit Cards  
Credit Reports

**Building Savings:**

Ways to Save  
How Your Money Can Grow  
Where to Save  
Investment Options

**Selecting Financial Institutions:**

Selecting a Financial Institution  
Checking Accounts  
Savings Accounts

**Creating a Record System:**

Keeping Records in Order  
Where to Keep Records

**Determining Readiness:**

Financial Readiness  
Benefits and Challenges

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