

Developing a Personal Spending Plan

Overview: This material explains the process of creating a personal monthly spending plan to guide spending decisions.

Objective: Show basic components of a monthly spending plan and review the different categories that are typically included in the plan.

Introduction:

As the name implies, a spending plan helps people plan how they will spend their money. It is sometimes called a budget, but for many people the word "budget" carries a lot of negative baggage. The term "spending plan" is more proactive and conveys the idea that the individual is in charge of making their spending decisions.

There are many ways to create a spending plan. This form has been chosen to help teach the components of a basic spending plan, but it is only one of many ways that a spending plan could be designed. In order for a spending plan to work, it must make sense to the person using it. Some people will prefer using a linear approach, others a more creative format and some people may prefer to use computer programs or envelopes, instead of standard paper and pencil forms.

Step 1. General Guidelines. Read the following directions before starting to fill out the basic spending plan.

- A. Always use a pencil. A spending plan is a fluid tool that will be in constant change. That is why we always use pencils.
- B. Have a calculator available.
- C. Do not judge yourself; try to be as honest as you can. Take this time to document your expenditures. Do not get distracted by making judgments on your expenditures.

Step 2. Instructions: Please use these directions to help you fill in your spending plan using the form on page 13.

Monthly Net Income

In the bottom right hand corner, enter the amount of net monthly income coming into the household. Net income is the amount of money you get on your check after taxes and other deductions have been subtracted. You may have more than one source of income during a month. This is the place to identify all the income that comes in each month. You determined this amount on the form on page 7.

Monthly Basic Living Expenses Categories

Basic living expenses begin at the top of the left hand corner. The categories listed in this spending plan are just examples--each person will have their own unique categories. Be sure to allow this flexibility while you are collecting numbers and developing categories. If you don't have any expenses for tobacco products, cross out the category and replace it with one that is unique to you, for example horseback riding.

This is a monthly spending plan. All numbers should indicate a monthly amount. If the category is not paid monthly, you need to determine what amount must be set aside each month for this expense and indicate that this is a "Save Item" by putting an "S" by the item. This is a reminder to save this amount each month. For example if you pay your property taxes of \$2,400.00 once a year, take the yearly amount and divide by 12, to get \$200.00. This is the monthly figure that will be put into your spending plan. Now put an "S" on the left side of your property tax category to remind you to save \$200.00 each month.

Expenses are divided into two categories: Fixed and Variable. A fixed expense is an expense that is difficult to change, like rent. A variable expense is more flexible, like food. Generally, fixed expenses are a top priority to pay each month.

Fill out your own spending plan using amounts that best reflect your own financial situation.

Fixed Expenses - are expenses that are difficult to change. They usually include:

Housing: Mortgage or rent, homeowners or renters insurance, property taxes, association fees, lot rent. If your house insurance and real estate taxes are not included in your mortgage, you need to make separate categories for them.

Utilities: Gas (LP or Natural), electric, water, garbage.

Communication: Phone (basic charges), cell phone, Internet, pagers.

Transportation: Car/truck payment(s), lease payment, insurance, bus/taxi/subway fares

Health Care: Health insurance (list private pay only, not what is taken out of your paycheck), prescriptions (constant monthly expenses), supplements (consistent monthly expenses).

Child Care: This may be a seasonal amount. Divide your annual cost by 12 and make this a save item. For example if you only use day care 9 months of the year, take the total amount, \$1800; divide by 12 months, \$150 dollars a month should be saved.

Variable Expenses - are expenses that you can change by being creative month to month.

Food: Groceries (food items bought at a grocery store, or items picked up as needed such as milk and bread), Eating Out (dining outside the home for fun), Work/School lunches, Take-out (buy already prepared food to take home and eat), and Snacks. It's helpful to keep each of these expenses separate. This will create more awareness and give you more control over your money.

Communication: Long distance phone charges if they are billed separately.

Maintenance: House maintenance, yard maintenance, car maintenance (These may be easiest to determine by estimating the amounts you spend in a year and dividing by 12 to make a monthly save item.)

People may have trouble figuring out a realistic figure. Try thinking ahead of expenses related to your house, car, or yard over the next year. Or you can reflect back on last year and think about how much you spent. Some things to think about are expenses you may incur such as buying tires or brakes for your car this year? Any other major repairs you are already aware of such as roof, siding?

Fuel: Fuel purchased for vehicles such as cars, trucks, snowmobiles, and boats.

Clothes: Total cost of all clothes purchased in one year for everyone in the household divided by 12 to make a monthly save item. This includes back-to-school shopping, special articles of clothing for specific events or activities, everyday clothes, work clothes.

If this is difficult, sometimes separating information makes the task less overwhelming. Suggest making a separate list for each person involved—dad, \$400; mom, \$600; daughter \$500; or for different clothes or shopping events. For example, - back-to-school, work, spring shopping, sporting clothes. Then add the different lists up to get a total yearly figure and divide by 12 for a monthly amount.

Gifts: Make a list of all the people you purchase holiday gifts for and an amount you plan to spend on them. Then make a list next to these names of the amount you will spend on birthday presents for any of these people. Think ahead for the next year will you need to by presents for a wedding, graduation, birth, or another special event? Add all these figures together and divide by 12 months to get a monthly amount. This is a save item

Cable/Satellite: This is a variable expense because your bill can be adjusted by choosing different plans or options if you are interested in decreasing expenses in this category.

Tobacco Products

Entertainment: Hobbies, recreation, attending special events, drinking, sports including hunting/fishing, pool, bowling, travel. Dining out can be included here instead of under food, if you wish.

Travel: You can also make travel a separate category to include all the expenses incurred when traveling for pleasure including eating, gas, lodging, and entertainment.

Pets: Expenses include pet food (if not included at groceries or stuff stores), veterinarian services and pet store purchases.

Laundry/Dry Cleaning: Expense incurred when caring for clothes. Laundry detergent is not included if it is already included in groceries or stuff stores.

"Stuff" Stores: These are monthly expenditures made at stores like Wal-Mart, Target, Shopko, Home Depot, Menards, Fleet Farm, K-Mart (the stores where "stuff" is purchased).

Miscellaneous: Be careful to not include this category if money is tight. It is a way to create too much steam (unconscious spending) in a spending plan and decrease awareness of spending. The more specific you are about where your money goes, the more control and awareness you will have.

Emergency Savings: Make this mandatory. Save at least \$10.00 a month for unexpected expenses.

Have you forgotten any items? Is there anything that might be unique to your life style, a hobby or interest, perhaps taxes for people who have to pay on a quarterly basis?

Step 3. Monthly Debt Payments

Now make a list of debts in the upper right side of the spending plan. or if there are more debts, use a separate sheet. Debt in this spending plan includes consumer debt. Do not include mortgage or car loans unless you are behind in your payments, then list back payments only. Enter the name of creditor, total amount owed and monthly payment you intend to make.

Step 4. Determine the total amounts for monthly income, expenses and debts.

Step 5. Use the Determining Remaining Amount Worksheet (pg 15) to identify a remaining amount. This worksheet has four steps.

First, write the total amount of income you determined from your spending plan.

Second, add up the total amount of expenses, the total amount of debt, and any additional savings you may have (short, long, or retirement savings that is not taken out of your check). Put the total amount of these three items under the total amount of income.

Third, subtract the total amount of step two from step one.

Fourth, you now have a remaining amount. If this amount is zero or a positive number it means that you are living within your income. If this amount is a negative number, it represents the amount that you are short each month. To help resolve this, you need to develop strategies to increase income or/and decrease expense.

Ask yourself if the remaining amount feels accurate to you. Does it seem like you have money extra each month, or that you are short each month? If you agree that this amount is reasonable, continue on. If you feel it is not correct, go back and look at the spending plan to see what needs to be adjusted. You may have forgotten an expense item that needs to be added. Live your spending plan for awhile. That will help it be more accurate.