



# Managing Your Money: Developing A Spending Plan

COLLEGE OF  
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HOME ECONOMICS

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**SCIENCE**  
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# Managing Your Money: Developing A Spending Plan

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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 ones 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 come to grips with the fact 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 go 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 in order to reach your final destination. Or in this case, your financial destination—your future goals.

## 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 is 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.

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- 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 spending 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 (credit cards payments to pay for new carpeting). You can see 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.

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Housing (including utilities, taxes and maintenance): .....	31.8–35 percent
Food: .....	15.6–20 percent
Transportation (including insurance): .....	17–19 percent
Clothing and Services: .....	5–7 percent
Health Care (including insurance): .....	5–9 percent
Entertainment: .....	3–6 percent
Savings (including retirement): ....	2–10 percent
All other: .....	7–12 percent

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Note: All other includes alcoholic beverages, reading materials, education, tobacco, personal care, cash contributions, life and disability insurance and miscellaneous expenditures.

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.

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

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. Or 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

This circular contains Work Sheet 1, to help guide your spending. 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, 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. Provide for a savings/emergency fund that's adequate to meet 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 of the amount in each step until you have what you feel is a satisfactory plan. After going through each step and filling out Work Sheet 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 good money management starts long before you begin keeping track of dollars and cents. As discussed in previous lessons, 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 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.

For additional information, you can request Guide G-258, *Managing Your Family's Money*, from your county Extension office or visit on the Web at: <http://www.cahe.nmsu.edu/pubs/>

## WORK SHEET 1

### 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 five steps to keeping your budget balanced.

#### Step 1: Estimate Your Income

##### Income Sources

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

**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
<b>Housing</b>												
Rent or mortgage												
Major fuel bills												
Other												
<b>Protection</b>												
Life insurance												
Health insurance												
Disability insurance												
Car insurance												
Household insurance												
Other												
<b>Contributions</b>												
Religious												
Donations												
Other												
<b>Taxes</b>												
<b>Licenses</b>												
<b>Regular Savings</b>												
Short term goals												
Long term goals												
<b>Other Major Items</b>												

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

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

Step 3: Emergency Fund

Accumulate fund to \$ \_\_\_\_\_

\$ \_\_\_\_\_ (Transfer to Balance Sheet)

**Yearly Totals:** \$ \_\_\_\_\_ (Transfer to Balance Sheet)

Amount for fund Weekly/ Monthly \$ \_\_\_\_\_

Step 4: Estimate Flexible Expenses

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

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.

STEP 5: Compare Income and Expenses

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.) \_\_\_\_\_

	<u>Dates</u>		<u>Dates</u>	
	<u>Actual</u>	<u>Planned</u>	<u>Actual</u>	<u>Planned</u>
<b>Income</b> (total)	_____	_____	_____	_____
<b>Expenses</b>	_____	_____	_____	_____
Fixed	_____	_____	_____	_____
Emergency fund	_____	_____	_____	_____
Debt repayment (Circular 592 Work Sheet 1)	_____	_____	_____	_____
Flexible living expenses	_____	_____	_____	_____
Total expenses	_____	_____	_____	_____
Balance (+ or -)	_____			



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Wide Web at [www.cahe.nmsu.edu](http://www.cahe.nmsu.edu).

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