

The SPENDING PLAN:

Simple Steps To Financial Wellness

Consumer Alert!

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Credit Counseling



Did you know:

- **43% of American families spend more than they earn.**
- **On average, Americans spend \$1.22 for each dollar earned.**

(Source: <http://moneycentral.msn.com/content/SavingandDebt/P70581.asp>)

Can You Answer “Yes”?

In the last year, **have you ever:**

- ☐ had an argument over money issues?
- ☐ used one credit card to pay off another?
- ☐ had difficulty keeping track of your bills or credit cards?
- ☐ felt like you're living paycheck to paycheck?
- ☐ only been able to make your minimum monthly payment?

If you answered “yes” to any of these questions, you might be headed for serious trouble or you may at least be suffering from money management blues. Fortunately, there is a cure – a good Spending Plan (otherwise known as budgeting).

What Is A Spending Plan?

A Spending Plan is simply a plan for how you will spend your money. An effective Spending Plan is **an important tool for creating and maintaining your financial health**. Through budgeting, you will clearly see what money you bring in (income) and where it is spent (expenses). If you ever wonder where your money seems to disappear to, this plan will help you find the mystery leaks, plug the holes, and make choices that will help you reach your goals.

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Why Make A Spending Plan?

A Spending Plan will help you:

- **gain control over your spending**
- **feel better by relieving stress**
- **be prepared for emergencies**
- **get out of debt (and stay out)**
- **start saving and build financial wealth.**



Starting Your Spending Plan

On the following pages, you will find **clear worksheets** and simple step-by-step directions for creating an effective monthly Spending Plan. The worksheets are designed to help you:

- ✧ Clearly see your current income and expenses.
- ✧ Determine how much you are spending on certain types of expenses.
- ✧ Take better control of your expenses.

As you fill in the forms, remember that your Spending Plan is flexible. You can and should make adjustments as needed, so you may want to use a pencil for the worksheets. If you prefer to use a computer (which can save you time by doing the math for you), you can get these resources online at www.knowdebt.org.

The budgeting process is broken down for you into **five steps**:

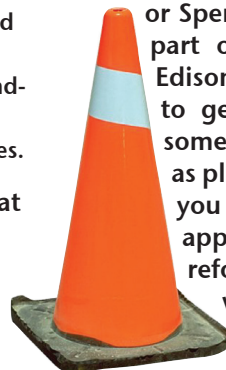
1. List your monthly **Household Income*** - the amount of money you take in each month.

2. List your monthly **Fixed Expenses*** - payments on things you need each month in order to live (these amounts are usually the same each month).
3. List your monthly **Variable Expenses*** - payments on other things you need (but you have some control over the amount).
4. List your monthly **Optional Expenses*** - the amounts you choose to spend on any other things (including impulse choices and other wants).
5. Create **Your Financial Wealth Action Plan*** - calculate your totals, understand your numbers, choose targets, and take actions to meet your goals.

*For ease in preparation, a separate worksheet is provided for each step.

Dealing With Budget Barriers

Stuff happens. Let nothing distract you from your goal. When you encounter an obstacle or a set back, remember it is only temporary – this too, will pass. You should not be concerned about making adjustments to your worksheets or Spending Plan. It is a natural part of the process. It took Edison more than 1000 tries to get his lightbulb right. If something doesn't go exactly as planned this month – relax, you are normal. Make the appropriate adjustments and refocus on your goals. You will succeed!







Keep in mind the primary purpose of the Spending Plan is to help you spend less than you earn. Be open to new ways to make that happen, especially when you encounter an obstacle. Living within your means is the keystone to financial wellness and future prosperity.

To Begin:

First Make yourself several copies of the five worksheets and action plan (enlarge them, if desired). You can use these copies to plan or to make changes to your budget.

Second Fill out a copy of worksheets 1 to 4 (income & expenses) for the next month. To complete as much as you can, gather your paystubs for the last month, your monthly account statements, bills and receipts. If you haven't kept these, begin saving them.

As you go:

-  If an item on the worksheet does not apply to you, leave it blank. The items listed are not all inclusive, however, they should be enough to get started. If you want, you can add items in the blank lines at the bottom of each category.
-  For any expense that does not occur monthly, calculate what it works out to on a monthly basis. For example, if you pay \$600 for car insurance every 6 months that works out to \$100 per month (amount / number of months = monthly).
-  For now, leave the "Actually Spent" column blank.
-  To help you with your planning, below each category title there is a suggested range (%) for how much of your Take Home Pay (THP) you might spend.

Third Use your individual results to complete *Your Financial Wealth Action Plan (final worksheet)*.

Fourth Read the final section (*Spending Plan Follow Through*) and apply the points to make your plan a success!

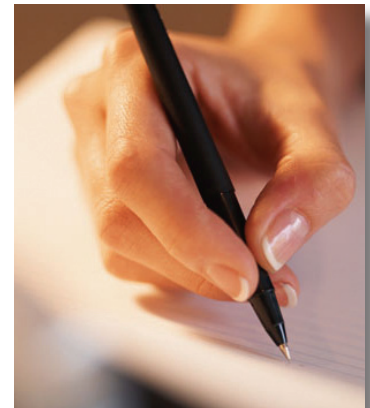


If you prefer to use a computer (which can save you time by doing the math for you), these worksheets are online at www.knowdebt.org. Or if you are reading the PDF version of this publication, you can click on the paperclip in the box below to open the attached spreadsheet file.



Worksheet 1: Monthly Household Income

Sources of Income	Subtotal	Total Income
Self (before any taxes/deductions)		
Job		
Job 2		
Spouse (before any taxes/deductions)		
Job		
Job 2		
Investment Income (monthly check or deposit; actual income, not deductions)		
Annuities		
401k or 403b		
Savings		
IRA		
Other Income		
Family		
Child Support		
Alimony		
Church, Charity		
Government (SSI, Disability, etc.)		
Rent, Room, Board, etc.		
Total Monthly Income (Enter on worksheet 5)		



Remember, your Spending Plan will be successful to the extent you are consistent with it, so do not give up! This is an ongoing learning process, so be patient with yourself. Allow yourself time to make the budgeting activities habit. It will be worth it in the long run.

Worksheet 2: Monthly Fixed Expenses (necessary)

Category		Subtotals	Totals	Actual
Charitable Gifts				
Payroll Taxes (Federal, State, SSI, med., etc.)				
Savings				
<5-10% of THP	Emergency			
	Education			
	Retirement (401k, etc)			
Housing				
<25-35% of THP	First Mortgage			
	Second Mortgage			
	Rent			
	Taxes			
	Insurance			
	Required Repairs			
	Association Fees			
Transportation				
<10-15% of THP	Car payment 1(required for work/health)			
	Car payment 2(required for work/health)			
	Insurance			
	Gas & Oil			
	License & Tags			
	State Inspections			
	Taxes			
	Maintenance/Repairs (required)			
	Public Transportation			
Utilities				
<5-10% of THP	Electricity			
	Gas or Oil			
	Water/Sewer			
	Trash			
	Phone (primary)			
Obligations				
	Child Support			
	Alimony			
	Medical Insurance			
	Required Medicine			
Monthly Fixed Expenses Total (Enter on worksheet 5)				

Worksheet 3: Monthly Variable Expenses

Category		Subtotals	Totals	Actual
Personal				
<5-10% of THP	Child Care			
	Cosmetics/Toiletries			
	Hair Care			
	Nonprescription Drugs			
	Dentist			
Food				
<5-15% of THP	Groceries			
	Household Supplies			
Clothing				
<5-10% of THP	Children			
	Adults			
	Cleaners/Laundry			
Debts (unsecured)				
<5-10% of THP	Credit Card 1:			
	Credit Card 2:			
	Credit Card 3:			
	Dept. Card 1:			
	Dept. Card 2:			
	Loan 1:			
	Loan 2:			
	Student Loan:			
	Medical Bill 1:			
	Medical Bill 2:			
	Other			
Monthly Variable Expenses Total (Enter on worksheet 5)				

Worksheet 4: Monthly Optional Expenses

Category		Subtotals	Totals	Actual
Personal				
<5-10% of THP	Life Insurance			
	Secondary Phone			
	Smoking/Alcohol			
	Subscriptions			
	"Reward \$"			
	Restaurant/Take Out			
	Dental Insurance			
	Home Security			
Recreation				
<5-10% of THP	Entertainment			
	Cable/Satellite			
	Vacation			
	Babysitter			
	Gifts			
	Pets			
Monthly Optional Expenses Total (Enter on worksheet 5)				

Worksheet 5: Monthly Totals

Total Income (sheet 1)	:	
subtract Total Fixed Expenses (sheet 2):	-	
	Subtotal:	
subtract Total Variable Expenses (sheet 3):	-	
	Subtotal:	
subtract Total Optional Expenses (sheet 4):	-	
	Grand Total:	

Understanding Your Numbers (Where are you?)

A ➤ If your Grand Total is a positive number: Congratulations, you are building financial wealth! If you have an emergency fund of at least \$1000 and you save at least 10% of your income, please pass on your financial wisdom to others. Please read the last page to look for possible tweaks to your Spending Plan.

B ➤ If your Grand Total is zero: Congratulations, you have what is known as a balanced budget. If you do not have an emergency fund of at least \$1000 or if you are not saving at least 10% of your income, please complete Your Financial Wealth Action Plan to take your Spending Plan to the next level.

C ➤ If your Grand Total is a negative number: Take heart, you have done much of the work needed to turn your situation around. Please continue to the next section.

Your Financial Wealth Action Plan

Adjusting Your Spending Plan (Where do you want to be?)

Target 1. Review the items on your Optional Expenses page - worksheet 4. These expenses are the least necessary. Choose which amounts you will immediately lower or eliminate until you reach your financial goals. List the actions you will take below. Be specific: Do what? When?

Target 2. Review the items on your Variable Expenses page - worksheet 3. These expenses are the next most adjustable. Choose ways you can lower any of these amounts for both the short and long term. For suggestions on how you can reduce these expenses, see the resources listed in the *To Find Out More* section at the end of this publication. List the actions you will take below.

Target 3. Review the items on your Fixed Expenses page - worksheet 2. Consider these expenses carefully. Ask yourself the following types of questions: Do I have more house or car than I can afford? What items could I change? How much time and cost would be involved? List the actions you will take below.

Target 4. Review the items on your Household Income page - worksheet 1. Are there ways you or another family member can increase your household income such as getting more hours at work, getting an additional job, or getting a new job that pays more? List the actions you will take below.

➤ **Actions I Will Take:**

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on its right side, suggesting it's resting on a surface.

Spending Plan Follow Through

Making It Work

Watch. Keep a close eye on three categories where overspending can most commonly occur: Clothing, Food and Gas. To help you track and control your spending here, you can use a journal, or a software program, or another method known as the “envelope system.” For this last method, get three envelopes. Write one category title on the outside of each envelope. Decide how much money you think is appropriate to spend per month on that category and place that amount of cash in the envelope. If you use it all up, you should not spend any more on that category until the next month. At the end of the month, if you have money left over in an envelope then you can take half to reward yourself for doing well and put the other half into a savings account.

Record. Keep a record of every single thing you spend money on for the next month. This can be done by keeping your receipts or you can write down the expenses in a pocket notebook or something similar that you can keep with you. An old unused check register works great!

Update. Update your expenses, on worksheets 2 to 4, at least once a week and review them monthly. At the end of the month, go back and fill in the “Actually Spent” column on the worksheets to see where you most need to make adjustments. Try to think ahead to anticipate the next month.

Finally

❑ **Create an emergency fund.** Pay yourself first. Take a little out of each paycheck until you have built up a savings account of \$1000. It is important that you have an emergency fund for things like car repairs, roof leaks, and other unexpected events. With this fund, you will have money that is earning you some interest while there is no emergency. When the emergency happens, you can use that money instead of being tempted to use a credit card which often makes the situation worse in the long run.

□ **Give yourself “Reward \$”** (spending cash) to use on something to reward yourself or to just spend spontaneously. Decide a reasonable limit in advance.

█ **Freeze your credit card spending.** Leave the cards at home to avoid spending on impulse. If you have to go all the way home to get the card and drive back to get the item, you will have time to cool down and really think about it.

■ **Keep your eyes on the prize.** Stay focused on your long term goal of financial health.



- Read the Federal Trade Commission publications at www.ftc.gov/ftc/consumer.htm: *66 Ways to Save Money*; *Knee Deep in Debt*; and more.
- Visit these other helpful websites: www.lowermybills.com; www.financialplan.about.com; www.bankrate.com.