

Developing A Spending Plan

Understanding where your money comes from and where it goes are the keys to financial success. This instruction guide and the attached worksheets will help you map out your financial situation and gain control of your spending. Here are seven steps to financial happiness.

- Step 1 Identify Your Income Sources
- Step 2 Examine Your Monthly Expenses
- Step 3 Ponder Your Periodic Expenses
- Step 4 Find Your Financial Goals
- Step 5 Discover Your Debts
- Step 6 Refine Your Monthly Expenses
- Step 7 Set Up Your Spending Plan



STEP 1

Identify Your Income Sources

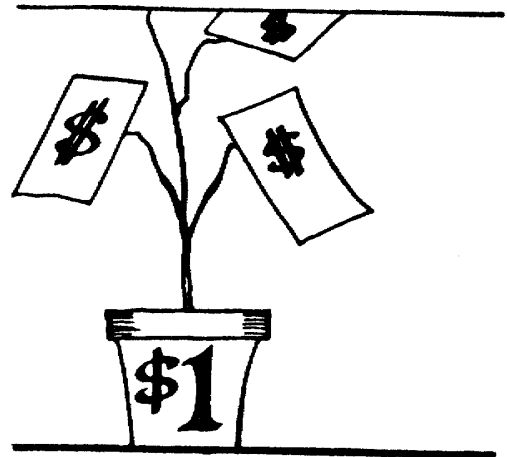


Income comes from various sources and is what we have to live on. Planning the use of our income is the key to financial success.

Identify your sources of income by filling out the Income Sources worksheet. Try to be as accurate as possible.

If your wages are seasonal or change monthly, identify a monthly amount by dividing your annual income by 12. Last year's tax return may help you come up with a figure.

Also, include any other sources of income. Use the worksheet as a guide and then total your monthly and annual income.



Remember - ALWAYS UNDERESTIMATE INCOME.

STEP 2

Examine Your Monthly Expenses



The challenge in setting up a spending plan is making one that reflects your family priorities. How you spend your money says a lot about what is important to you. However, many people do not know where their money goes. Determining where your expenses are is the first step toward financial security.

Identify your monthly expenses by completing the Monthly Expenses worksheet. There are many items listed here; some may apply to you and others may not. Use this as a guide by using categories that best fit your situation. Feel free to cross out categories that aren't appropriate, combine some, and add others that are missing. Try to be as accurate as possible.

Remember - ALWAYS OVERESTIMATE EXPENSES

Where do I get the figures?

Fixed Expenses are those items that are the same every month. Rent/mortgage, car payments, and the cable bill are examples. To find these figures, refer to your checkbook or bill notices.



Flexible Expenses are those items that change each month. These expenses are harder to estimate but you can do it. Here are some ideas:

Estimating Flexible Expenses

- Refer to your checkbook and add up all the amounts spent in each expense category (i.e. food, laundry, utility bills).
- Think about the habits of each of your family members and ask yourself: how much does each person spend on each category in a month? You may need to identify expenses for a week and then multiply by 4.
- Collect receipts for every dollar spent for two weeks and put the receipts in a shoebox or jar. Every member should participate. On every receipt, write down the total amount spent, the category (i.e. food, laundry, clothes) and date. If you don't receive a receipt, write down the same information on a slip of paper and add it to your box/jar.
- At the end of two weeks, separate the receipts by category. Then add the amounts for each category and multiply by 2. This will give you a good estimate of how much you spent in a month.
- Write down the amounts for everything you spend for two weeks. Be sure to identify the category, the amount spent and the date. At the end of two weeks, add up the amounts spent in each category and then multiply by 2 to get a monthly figure. This method may be easier than the receipt method because all you have to do is carry a small logbook. Again, all family members should participate.



Remember - BE AS HONEST AND ACCURATE AS YOU CAN.

STEP 3

Ponder Your Periodic Expenses



Planning for expenses helps you be prepared and reduces the money crunch that can occur each month. Making your spending plan accurate is the key to keeping within your means. Once you've completed Steps 1 and 2 you're on your way. The next four Steps will help you make a spending plan that best fits your situation and will give you better control over your money.

Identify your periodic expenses by using the Spending Calendar worksheet. Periodic expenses are those that come throughout the year, but not every month. To strengthen your spending plan, you need to account for these expenses.

To best use this worksheet, write down the amounts you usually spend for each item listed in each month. For example, a \$550 car insurance payment may be due in January and June. Write \$550 in the January and June columns for the row labeled "car insurance."

For gifts and holidays, think about your family traditions and events. Try to estimate how much you spend for the special celebrations for each month. Don't forget the gifts you purchase for each relative or friend. Be as precise as you can by including the cost of the gift, postage, and card.

Use the "other" categories at the bottom of the sheet if there are other expenses you need to include.

STEP 4 Find Your Financial Goals



Putting money away for your goals helps you achieve them and will make you feel like you are in control of your money.

Identify your financial goals. Reaching your goals can be accomplished easily if you know what they are, can prioritize them, and save for them by incorporating them into your spending plan. Paying for insurance, repairing or replacing an appliance, saving for retirement or your children's education, and having money in case of emergencies may be goals you have.

Fill in the Monthly Savings Plan worksheet so that your short-term and long-term goals are included. Write the name of the goal, the total amount you need, and the date you need it. Then follow the directions to find out how much you need to put aside each month to achieve each of your goals.

If you find that you have too many goals and not enough cash, determine the most important ones by talking with your family and prioritizing the goals. Write the number "1" next to the most important one and "2" for the next important one, and so on.

Once you've decided which ones are most important, add up the monthly savings needed.

An Important Savings Goal: **The Emergency Fund**

An Emergency Fund is money that is set aside to cover unexpected expenses. Every spending plan should have an emergency fund. Having an emergency fund will help you to stop counting on your credit cards to solve emergency situations. If you do not have an emergency fund, you should include this in your list of goals. Generally, an emergency fund is 2 to 3 times your monthly income. Add the emergency fund to your list of goals.

STEP 5



Discover Your Debts

Keeping track of your total debts helps you to see your whole financial situation, set priorities when paying bills and allows you to control your spending.

Identify your liabilities by completing the Liabilities worksheet. Liabilities are also known as debts and include those bills on which you owe as well as any credit debt, loans, or liens.

For each creditor list as much information as you can. Some columns may not apply to you, but be sure to list the Present Monthly Payment, APR (Annual Percentage Rate), and the Balance Owed (this last column will change as you pay off more of your debt).

Once you have listed all of your debt, total the Present Monthly Payment column and the Balance Owed column.

CREDIT TIP:

If you have problems paying your creditors, don't panic and don't avoid them. Here's what to do if you don't have enough money to cover all your debt payments:

1. Identify how much money you have available to pay your creditors. Refer to your spending plan.
2. Typically you'd want to prorate your available money to all creditors. This takes cooperation among creditors and is sometimes hard to accomplish because each creditor must agree to a lower payment.

Another alternative is to prioritize your debts so that at least some creditors get paid. Generally, you want to take care of your family's health and well-being first. This means paying for the house, utilities, insurance, transportation and food first. Next, pay secured debts - those debts for which items were used as collateral in order to acquire the debt. Lastly, pay unsecured debts - examples may include credit cards and medical bills.

3. Contact all creditors and explain your situation. Try to negotiate a lower monthly payment. Use your spending plan as a tool to help you determine how much you can afford to pay.
4. For more information about working with creditors, contact your local county University of Delaware, Cooperative Extension Service office or the Attorney General's office.

STEP 6

Refine Your Monthly Expenses

A spending plan is a tool that can help you live within your means and help you reach your goals. Making your spending plan accurate is the key. This task is accomplished by completing this step.

Make your spending plan more accurate by using the information you've collected in Steps 3 - 5.

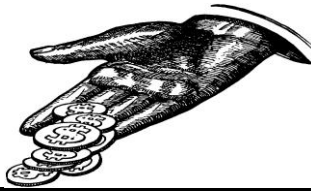
Information from the Spending Calendar worksheet can be used to adjust the Monthly Expenses worksheet. Add up the amounts listed in each row from the Spending Calendar worksheet and divide by 12. This will give you a good idea of the amount you need to save each month in order to meet the periodic expenses you've listed. Transfer this estimated monthly savings amount to the appropriate category on your Monthly Expenses worksheet.

Your savings goals should be transferred to your Monthly Expenses worksheet as well.

The total amount of the "monthly payments" column from your Liabilities worksheet should also be transferred to the Monthly Expenses worksheet. Be careful not to list items twice on your Monthly Expenses worksheet. For example, make sure you don't list your car payment in both the "creditor" and "automobile" expense categories.

Remember - ACCURACY MAKES YOUR SPENDING PLAN MORE LIVEABLE

STEP 7 Set Up Your Spending Plan



The challenge for all of us is to live within our means. Many people find this to be a difficult task. The secret is identifying family and financial priorities, realizing the costs involved, and setting up a spending plan that is based on good information and established priorities. This last step will help you set up a livable monthly spending plan.

To set up an accurate spending plan, you have to review your Monthly Expenses worksheet. This worksheet should contain the information you transferred when completing Step 6.

Add up all your expenses to determine the monthly total amount spent. Then compare this with your total income from the Income Sources worksheet. If you find that your income is greater than your expenses, you will need to decide where you would like to use this extra income.

If your income is less than your expenses, you must review your expense categories on the Monthly Expenses worksheet.

- First, review for priority. Place a star next to the categories that you and your family think are the most important. These are areas where you should focus your energy. The places where there aren't stars are places you can reduce expenses.
- Next, review for accuracy. Are there items that are too high or too low? Review your categories where there are no stars and write in a new amount to be spent on this category. Try not to take money away from other priority categories like savings or the emergency fund.



- Be sure to leave money for the "feel good" items. Many people try to balance their income and spending by cutting back on food, entertainment, and personal items. However, they end up fooling themselves, buying these items anyway, and then feeling guilty or anxious when they can't pay their bills. Because of this, it is important to leave some money for "feel good" items.



- It is better to identify one thing and allow yourself that pleasure than to try to cut back on all your flexible expenses. Each family member should have the flexibility to spend some money on their own "feel good" category.
- Make sure your spending plan really reflects your values. Be sure you are spending on one the items you really "need" before you spend on your "wants." Next time you go shopping think about your wage rate and how many hours you'd need to work in order to purchase the item.... Do you really need that?
- To balance your worksheet you may need to think creatively. Try to think of ways to increase income, decrease expense, decrease use of your credit card and increase the use of community resources and "freebees," and trade resources with others in your community. Engage and communicate with all your family members including the children so they understand what you're doing and why.
- Keep reviewing your Monthly Expenses worksheet until your expenses equal your income.

**REMEMBER - ALL OF LIFE'S MOST IMPORTANT
REWARDS ARE WORTH WORKING FOR.**

**CONCENTRATE ON YOUR FINANCIAL PRIORITIES AND
YOUR GOALS WILL BE ACHIEVED**

- Once you've completed your spending plan, transfer your figures to the worksheet labeled A Financial Plan for_____. Fill in the blank with the month and then use this as a tool to monitor your spending. Try not to spend more than you have allotted for each category.
- Each month write a new spending plan. Use the old one as a guide. Use your checkbook or your collected receipts to keep track of your spending. Use these figures to fine-tune your spending plan.
- You may find that you need to limit some areas of spending. Make this tangible by using the Envelope Method of record keeping. Label an envelope with the expense category and determine the amount that you want to spend. Write this on the envelope. Place this amount of money in the envelope and when the money is gone... that's it. No more money should be spent in this expense category.

This works well with allowances, money set aside for eating out, family fun night as well as groceries and other flexible expense categories. You can make as many envelopes as you need.

- After a few months, you may find that the plan needs to be adjusted. That's fine; just remember to set amounts that are realistic for you and your family.

INCOME



SOURCES

INCOME SOURCES	MONTHLY	ANNUAL
Jobs: Earner 1 Earner 2		
Overtime		
Part-time jobs, Hobbies, Crafts (adult or children)		
Rental Income (Boarders, vacation home, etc.)		
Business Interests		
Interest/Dividends		
Alimony		
Child Support		
Public Assistance (TANF/SSI)		
Social Security		
Veteran's Benefits		
Food Stamps		
Scholarships		
Unemployment Compensation		
Income Tax Refund		
Other		
TOTAL:		

MONTHLY EXPENSES

	\$ MONTHLY		\$ MONTHLY
TOTAL NET INCOME:	_____	CLOTHING	
		Family	_____
		Laundry/Dry Clean	_____
EXPENSES:		PERSONAL	
HOUSING		Barber/Beauty Shop	_____
Rent/Mortgage	_____	Toiletries/Cosmetics	_____
Electricity	_____	Allowances	_____
Heating	_____	Other	_____
Gas	_____	PERSONAL IMPROVEMENT	
Telephone	_____	Books/Magazines	_____
Water/Sewage	_____	Education	_____
Taxes	_____	Lessons (dance/piano)	_____
Supplies/Maintenance/Repairs	_____	Newspapers	_____
Cable TV	_____	Other	_____
Other	_____	RECREATION/ENTERTAINMENT	
FOOD		Vacation	_____
Groceries	_____	Games/Hobbies	_____
Food Away	_____	Tobacco/Alcohol	_____
School/Work Lunches	_____	Other	_____
Beverages	_____	HOLIDAYS/BIRTHDAYS	
TRANSPORTATION		Holidays	_____
Car payment	_____	Birthdays	_____
#2	_____	Cards	_____
Insurance	_____	Other	_____
Repairs/Maintenance	_____	MISCELLANEOUS	
Bus Fares/Parking	_____	Bank Service Charges	_____
Car Registration	_____	Alimony/Child Support	_____
Gas/Oil	_____	Postage/Stationary	_____
INSURANCE		Church/Charity	_____
Home	_____	Child Care	_____
Health	_____	SAVINGS	
Life	_____	Emergency Fund	_____
Other	_____	Short-term Goals	_____
MEDICAL		Long-term Goals	_____
Doctor	_____	Taxes	_____
Dentist	_____	CREDITORS	_____
Optometrist	_____	OTHER	_____
Medications	_____	TOTAL EXPENSES	_____

SPENDING CALENDAR

Write in the expenses you have once or twice a year. This should help you remember when large payments are due. You may be able to spread these out over the year if you plan ahead. To plan ahead, fill in the form along a row, add up the row and divide by 12. Enter this amount in your monthly spending plan and set this amount away for future spending.

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total divided by 12
Holidays													
Birthdays													
School Supplies													
School/Work Clothes													
Car Registration													
Car Insurance													
Other Insurance													
Club Dues													
Repair Fund													
Replacement Fund													
Taxes													
Other													
Other													
Other													
Other:													
Other:													
Other:													
Other:													
TOTAL													

MONTHLY SAVINGS PLAN
SETTING AND ACHIEVING GOALS

My short-term goals (less than one year) are:

GOAL	A AMOUNT NEEDED	B NO. OF MONTHS UNTIL \$ IS NEEDED	MONTHLY SAVINGS NEEDED (Divide A by B)

Total: _____

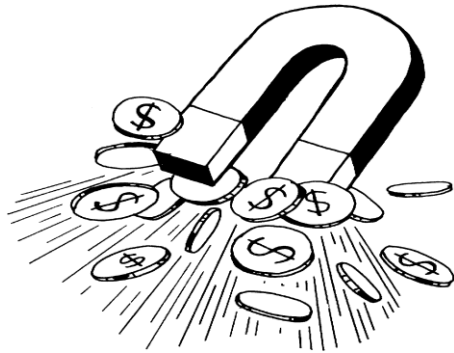
My intermediate and long-term goals are:

GOAL	A AMOUNT NEEDED	B WHEN NEEDED	C SAVINGS FACTOR (See next page)	D YEARLY SAVINGS NEEDED (A x C)	E MONTHLY SAVINGS NEEDED (D/12)
Example: Kitchen Remodeling	\$3,000	In 3 years	.317 (@ 5%)	\$951	\$79.25

Total: _____

SAVINGS FACTOR

YEARS	5%	6%	7%	8%	9%	10%
1	1,000	1,000	1,000	1,000	1,000	1,000
2	.487	.485	.483	.480	.478	.476
3	.317	.314	.311	.308	.305	.302
4	.232	.288	.225	.221	.218	.215
5	.181	.177	.173	.170	.167	.163
6	.147	.143	.139	.136	.132	.129
7	.122	.199	.115	.112	.108	.105
8	.104	.101	.097	.094	.090	.087
9	.090	.087	.083	.080	.076	.073
10	.079	.075	.072	.069	.065	.062
20	.030	.027	.024	.021	.019	.017
30	.015	.012	.010	.008	.007	.006



A FINANCIAL PLAN FOR _____(Month)

	Planned			Planned	
	\$ Monthly	\$ Actual		\$ Monthly	\$ Actual
TOTAL NET INCOME:					
EXPENSES:			CLOTHING		
HOUSING:			Family		
Rent/Mortgage			Laundry/Dry Cleaning		
Electricity			PERSONAL		
Heat			Barber/Beauty Shop		
Gas			Allowances		
Telephone			Beverages		
Water/Sewage			Cigarettes		
Taxes			Gifts		
Supplies/Maint./Repairs			Donations		
Cable TV			WORK EXPENSES		
Water Softener			Dues		
FOOD			Child Care		
Groceries			Uniforms		
Food Away			MISCELLANEOUS		
School/Work Lunches			Recreation		
TRANSPORTATION			Education		
Car Payment			Newspapers/Magazines		
Insurance			Bank Serv. Charges		
Gas and Oil			Alimony/Child Support		
Repairs/Maint.			Clubs, Hobbies		
Bus Fares/Parking			Pets		
Car Registration			SAVINGS		
INSURANCE			Rainy Day Fund		
Home			Emergency Fund		
Health			Short-Term Goals		
Life			Long-Term Goals		
Other			OTHER:		
MEDICAL			_____		
Doctor			_____		
Dentist			_____		
Medications			_____		
			<u>TOTAL EXPENSES</u>		

SUGGESTED BUDGET AND EXPENSE CLASSIFICATIONS AND EXPENSE GUIDELINES

Figures in parentheses are suggested budget limits for each category, in percentages of total budget remaining after taxes. Variations are due to income levels, family size, and primarily, personal choice.

Housing (20%-35%)

- Rent
- Mortgage payments
- Repairs and improvements
- Property insurance
- Property taxes

Utilities (4-7%)

- Gas and electricity
- Waste disposal
- Water
- Telephone

Food (15-30%)

- All food items
- Meals taken out
- Pet food

Family Necessities (2-4%)

- Laundry and dry cleaning
- Toiletries and cosmetics
- Barber and hairdresser
- Postage and stationery
- Minor home furnishings

Medical (2-8%)

- Insurance
- Drugs and medicines
- Hospital bills
- Doctor bills
- Dentist bills

Clothing (3-10%)

- All clothing purchases
- Alterations
- Repairs (shoes and so on)

Automobile and Transportation (2-6%)

- Purchase and installment payments
- Gas and oil
- Insurance
- Repairs
- Rental, taxi, and bus fare

Recreation and Entertainment (2-6%)

- Admissions
- Games and hobbies
- Club dues
- Alcoholic beverages**
- Tobacco
- Photographic supplies

Musical supplies

- Sporting goods

Personal Improvement*

- Books
- Magazines and newspapers
- Tuition and course fees

Short-Term Goal Fund*

- Vacations
- Other special purchases

Savings and Investment (5-9%)

- Long-term goals

Outlays for Fixed Assets (2-8%)

- Major purchases or installment payments on appliances, garden equipment, and furniture

Repairs (appliance, television)

Mad Money (1-4%)

Gifts*

Church and Charity*

Life Insurance

Taxes*

Contingency*

Legal Services

Unspecified debt repayments

Union/professional dues

*These categories have no suggested limits since such expenditures vary greatly from person to person.