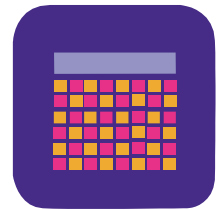




Tracking Income/Expenses and Developing a Spending Plan

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This publication is about gaining control over your money. It's about learning to make the most of your income so that the bills get paid, you have food for the entire month, you have a cushion to cover emergencies, AND some dollars are left over for special occasions and saving for the future.



Using a budget (spending plan) puts you in the driver's seat

Are you a person for whom the word "budget" brings visions of restrictions and rules? Or does it help you see yourself and your family in the driver's seat, making financial decisions without a lot of hassle?

In truth, a budget (sometimes called a spending plan) creates an opportunity to ensure that you are spending your money on the items that you truly need and want! It's a way of coordinating your income and expenditures so that there's enough money for day-to-day living as well as savings for important long-term goals. A budget is simply a plan on a paper. YOU create it. YOU control it. YOU can change it. It isn't until you write things down that

you actually begin to see the sources and uses of your money.

Your spending plan—if it's to work—must be custom made for you. Budgets cut from magazines can provide ideas and help you compare yourself to others, but they should never be adopted "as is." The allocations in your custom plan will depend on your age, total income, family composition, and the unique goals, values, and lifestyle of your family.

Three steps are essential before you begin to develop your spending plan.

- First, it's important to sit down with your family and talk about what is

most important to you and set some specific short-and long-term financial goals.

- Second, it's very helpful to designate a business area in your home where records can be organized and stored.
- Third, you'll need to collect information about your income and expenses for two or three months. With facts in hand you can be more realistic in your planning.

(Historically, people tend to overestimate their income and underestimate their expenses.)

Writing a Monthly Spending Plan

Developing a personal spending plan for you and your family involves four major steps. Inquire at your county Michigan State University Extension office about a spending plan worksheet for recording your data.

1. Determine the net monthly income for your household.

Your **net** monthly income is the money available to spend each month **after taxes and other deductions** are taken out. Net monthly wages are one-twelfth of your net annual wages. If you are paid weekly, multiply your weekly wage by 52 and divide by 12 to get the monthly total. Those paid every two weeks should multiply by 26 and divide by 12. It's important to consider the take-home pay of everyone in the household who contributes to the family income. If income varies each month, it's best to use the average or lower figure for planning purposes.

Income sources:

- Wages for all family members
- Social Security and retirement benefits
- Food assistance programs
- Unemployment compensation
- Family Independence Agency payments
- Child support

2. Calculate your monthly expenses

Expenses generally fall into one of three categories: fixed, controllable, and periodic.

- **FIXED** expense items are set financial obligations that are due

on a specific date each month. These include payments that are the same amount each month such as rent or mortgage payments and car payments. The level of other fixed monthly payments such as utility bills and credit card payments may vary, but are always due on the same date.

- **CONTROLLABLE** expenses are items over which you have control or choice each month, e.g. food, entertainment, clothing, health care, etc.
- **PERIODIC** expenses may be fixed or controllable but do not occur every month. Examples include insurance premiums, holiday gifts, and property taxes. You will need to determine the monthly portion of periodic expenses to include in your monthly budget.

3. Calculate and analyze your monthly balance. Do you have a surplus or deficit?

Subtract the total of your fixed, controllable, and the monthly portion of your periodic expenses from your monthly income. This is your balance and the amount by which you will need to increase or decrease your monthly expenses.

Income/Expense Balance

+ Net Monthly income

- Monthly expenses
(Fixed, controllable
and 1/12 of periodic)

= Balance (surplus or deficit)

4. Analyze your monthly financial situation and make necessary adjustments.

Sit down with your family and take a hard look at your income/expense balance. Make revisions to bring your income and spending into balance and in support of your family's goals. Ask these questions.

? **Is your spending plan helping you achieve your short- and long-term financial goals?**

- Goals will often help you determine an appropriate spending level for various budget categories.

? **If your income EXCEEDS expenses and there is EXTRA cash on hand, what will you do?**

- Increase debt payments
- Increase contributions to saving or investment accounts

? **If your income exceeds expenses but there is NO cash left, what will you do?**

- Figure out how money is "falling through the cracks" and not being noticed.
- Keep a written record of all expenses.
- Give allowances to family members.

? **What if expenses are more than income?**

Reduce expenses

- Eliminate use of credit cards
- Take your lunch to work
- Sell boat, etc
- Barter

Increase income

- Get a better job
- Decide that additional family members will work

Tips for turning potential 'budget blockers' into 'budget boosters'

Financial counselors have seen it happen. Families invest time and energy in developing a spending plan but act in ways that sabotage its success. Here are some tips to keep this from happening to you.

Be realistic. Reverse the tendency to overestimate income and underestimate expenses, and rid yourself of the assumption that, once complete, your budget will be perfect. Remember that most plans require continual review and reworking to keep them usable.

Involve all family members in the budget-making process. It's the best way to ensure "buy-in" by all concerned. If you understand your family's financial situation and have helped to make decisions about the family money, you're much more likely to help make ends meet. This also helps families learn to talk about money, a very stressful topic for many families.

Keep your plan in a visible place. Think of it as a working document that needs reviewing and updating on a monthly basis. You've wasted your time if your plan becomes buried or forgotten.

Avoid spending sprees. They undermine your spending plan. Personal allowances have proven to be a big help to many people. They give each family member the opportunity for complete control over some of the family resources but still provide important limits.

Count on financial emergencies. If contributions to an emergency fund aren't built into a spending plan, dollars to cover emergencies will have to be "stolen" from other categories and your plan will be jeopardized.

Techniques for tracking and recording expenses

Systems for tracking expenses vary from simple envelope systems to those requiring computer savvy and complex software. Each has pros and cons. It is important to choose approaches that fit your temperament and time so that they will really be used.

The Envelope System involves dividing monthly cash into envelopes marked with budget categories. It's easy and works well if most payments are made with cash. However, it requires keeping cash around the house and involves the possibility that control will be lost if money is borrowed from one envelope to pay expenses in another.

A Checkbook System is safe and works well for those who deposit all income into a checking account and make most payments by check. It requires that on a periodic basis (probably monthly) expenses paid by check and by credit card be grouped

and incorporated into the spending plan.

A Multi-Column Account Book (often called an account ledger) can also be used to record expenses. It provides a good at-a-glance picture of a family's spending. The recording and calculations take time. The results depend on all family members reporting expenses daily.

The Receipt Can System requires that family members drop receipts for all expenditures into a designated container. On a weekly basis, receipts are sorted by spending categories and recorded. The method is easy, but requires that receipts be obtained for all purchases and that all family members participate.

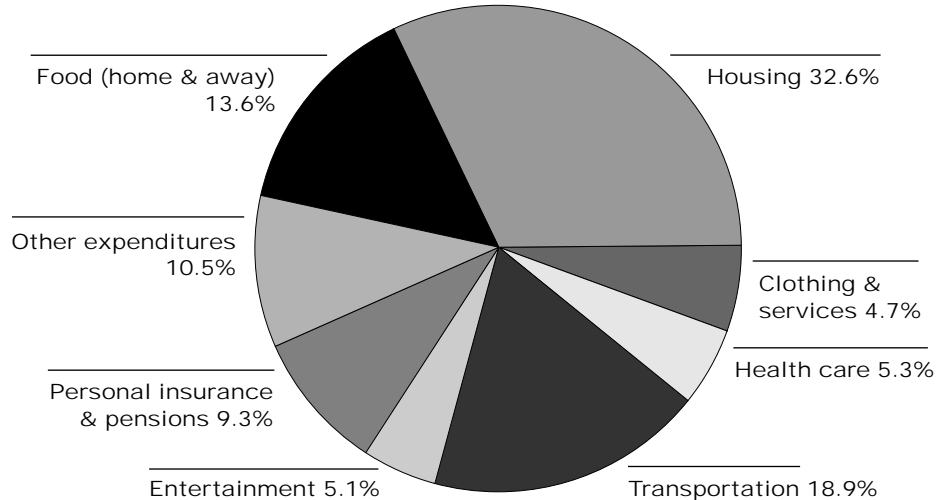
A Spending Calendar is useful for prompting timely payment of monthly bills and recording daily expenses. It would need to be combined with other options for recording CASH and charge expenses.

Computer Programs provide printouts of expenses by categories. The data-entry process can be time consuming and requires that all family members are skilled and conscientious about entering data. Purchasing a computer and financial software is more expensive than other methods.

A Pocket Note Pad can provide a valuable place to record cash expenditures while in stores. The data can easily be transferred later into an account book.

How does your spending compare?

People often wonder how their spending compares with that of other families. At the risk of lumping all families into one pot, here is how U.S. households with an average before-tax income of \$43,951 spent their money as reported by the Bureau of Labor statistics in the 1999 Consumer Expenditure Study. How might differences in your spending be explained?



Tips to encourage prompt payment of bills

Having control over your money involves knowing what comes in, what is going out, balancing the two, AND making certain that bills are paid on time and late fees are avoided. Proven techniques include...

Automatic bank drafts. This is a good technique for bills that recur monthly. Contact your bank to make arrangements for monthly payments to be paid automatically from your checking account.

Monthly spending calendar. Well in advance, prepare a spending calendar for each month. Write in the due dates for fixed monthly expenses and periodic payments that are due that month. Once payments are made, circle the item to indicate payment. The calendar also provides an opportunity to review the

distribution of payments during the month. If too many have piled up at one time, arrangements can be made for a new date.

Create a "Bills to be Paid" folder. Depending on the due dates for your bills, schedule one or two days per month to regularly sit down and pay the bills that have accumulated in the folder.



Quotes:

The future is that time when you'll wish you had done what you aren't doing now.

Ben Franklin

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