

Getting a Handle on Spending

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If ever there was a time to develop a spending plan (budget), this is it. With fast run-ups in the cost of food, gasoline, and utilities, not to mention high costs for health care and subprime mortgages that are resetting to higher monthly payments, many families are feeling the pinch. It is not uncommon to see families paying \$100 to \$200 a month (or more) for food and gasoline than they were a year ago. That extra monthly spending has to come from somewhere and a spending plan can help "find" it.

A spending plan is a plan for spending and saving money. In other words, a comparison of what you earn (income) and where the money goes (savings and household expenses). A spending plan provides direction for future spending so that there is sufficient income with which to pay expenses. Yes, "spending plan" is a fancy word for "budget." However, it is a more positive term because it includes the word "spending." Most people like to spend money. The word "plan" also emphasizes control of your money, rather than the other way around. The word "budget," on the other hand, is often perceived negatively (e.g., deprivation) and discourages people from taking financial control.

Spending plans provide a number of advantages. They can force people to make choices in the way they spend money and to prioritize needs and wants. They can also help you live within your income if the plan that is written down on paper is carried through in real life. In addition, savings can be included for financial goals such as a new car or retirement. Many people also report that spending plans reduce worrying, out-of-control feelings, and family fights about money.

Financial planning experts all agree that there are three sustainable ways to get monthly cash flow in line in a spending plan so that household expenses (including savings) are less than or equal to income: increase income, reduce expenses, or do a little of both. Occasional "windfalls" such as economic stimulus checks and the proceeds of a garage sale are also helpful but can't be counted on for regular income.

If you have never bothered to prepare a spending plan (budget) before, now is the time to start. First make a list of what you earn and spend. Household earnings include net (after-tax) income, benefit payments (e.g., Social Security, unemployment, disability), child support or alimony, public assistance, self employment income, interest on savings and investments, and other income sources.

Once you total monthly income, do the same for expenses. Using spending records as a guide, list fixed expenses such as housing, car loan payments, and insurance premiums. Next, list flexible expenses such as food, transportation, and gifts. Finally, make a list of periodic expenses and divide the annual by cost by 12 to arrive at a monthly cost. For example, \$4,000 of annual property taxes costs \$333 monthly.

Be sure to set aside money for financial goals as a monthly "expense." If you lack an emergency fund of at least three months' expenses, include a "line item" in your spending plan to build up your cash reserves gradually. If you have access to "automated" savings plans, such as a 401(k), sign up today. Even a small amount of savings (e.g., \$20 per paycheck) will grow substantially over time.

Spending plans should balance the "bottom line." In other words, income should equal expenses, including savings. It generally takes several attempts to get the numbers to balance out. This is perfectly normal and to be expected. If you are working the numbers by hand, use a pencil with a good eraser.

Remember, "people don't plan to fail, they fail to plan." This is a phrase used often by financial planners. A spending plan can help you take charge of your money in these tough economic times.