



The Keys to a Successful Spending Plan

Plan Your Future

Planning your financial future will be an ongoing process throughout your life. It allows you to evaluate all aspects of your financial life including income, spending and saving. By developing a spending plan, you will have more financial freedom and ability to get through financial emergencies and to prepare for retirement.

Get Started Today

The beginning is always the hardest! Discuss with those people within your household the things that are important to them. Everyone in your house has a different priority and this will dictate how each feels about money. Values influence your purchasing decisions. For example, one person may prefer to spend money on entertainment, while another would rather buy clothes. Understanding different priorities will allow you to deal effectively with conflicts.

Set Financial Goals

Before you can create a plan for spending and saving, financial goals must be established. Goals reflect values and provide direction for planning. Establishing goals will help to balance needs and wants.

Both short-term and long-term goals are important. Short-term goals are things you would like to accomplish in the next few years. Long-term goals, on the other hand, require long-range planning and are not obtained for at least a few years or more. Goals change continuously over a lifetime; as goals are reached, new ones should be established.

Each member of the family has his/her own ideas about which goals are important. Everyone should sit down together to identify goals. Open communication among all family members helps prioritize the goals that are acceptable to everyone.

Remember, seldom is anyone in a position to provide everything everyone wants. However, by setting goals that reflect your values, you are making progress toward creating a plan that will ensure financial stability.

Estimate Available Income

Begin your spending plan by determining your available income. This figure reflects your total income that might come from wages, pensions, public assistance, and investments minus deductions like all taxes, social security, and health insurance premiums. The total amount of money left after subtracting deductions from your total income equals your available income.

Check Your Spending

Compare recent and past spending patterns. This will remove the guesswork from financial planning. Identify your past spending patterns by reviewing cancelled checks, receipts, charge statements, and other useful records of expenses for the past two to three months. Reconstructing spending habits as accurately as possible will make your planning easier.

Expense categories need to be identified as “fixed” or “flexible.” Fixed expenses occur at specific times and rarely change. Flexible expenses fluctuate from month to month and may possibly be altered to balance the plan. Estimate each category for the year and average them for each month. By averaging, you will provide for those expenses that occur less frequently. Car insurance will no longer be a surprise.

Develop Your Spending

Now that you have determined your values, goals, available income, and you have tracked your spending habits, a spending plan has to be designed.

Be realistic and create a plan with which you can live. Be careful not to budget too tightly and radically change your life style. Don't expect to account for every penny. If your plan is too closely budgeted, it will not work.

Now it's time to see how close your spending estimates were. For two to three months, keep all receipts, bills, and charge card statements. Record the amount you actually spent each month.

Now, compare the two amounts (estimated and actual) by category and total them. If categories are too low or high, review them to see where you can cut costs or make revisions.

An overall spending plan should be developed for one year and be divided into smaller parts, usually one month. One-year planning allows you to anticipate and prepare for changes in your financial situation. It will also provide the opportunity to set aside money for large expenses as well as plan for those frequent purchases.

By knowing your income, comparing your actual and estimated spending, and analyzing your spending habits, you will also have an idea about how much money is available for savings, entertainment, or vacations, plus how much credit you can afford.

Review the Plan

To be successful, the plan will require periodic evaluations. Do not be surprised if in the beginning, actual expenses are quite different from estimated expenses. Your plan will become more realistic as you continue the process.

A review should be conducted and changes made every two to three months. If there is a change in your finances such as divorce, death, children beginning or finishing school, or parental care, the plan should be revised. To assist in the evaluation, ask yourself:

“Is my plan helping me meet my needs?”

“Am I saving money and/or achieving my goals?”

Most importantly, remember that a plan is meant as a guide for meeting needs and wants. Use it to control spending while making your money work for you.