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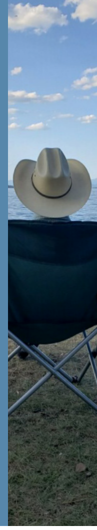
MontGuide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FAMILY FINANCIAL MANAGEMENT
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Developing a Spending Plan

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A spending plan helps reduce the need for consumer credit, save for things wanted, and live within your income. This MontGuide, with worksheets, will help to balance income and expenses so money is available for things a person or family wants and needs most.

IN TODAY'S ECONOMY, MANY CIRCUMSTANCES CAN LEAD to a person's interest in developing a spending plan. Perhaps expenses feel like they are getting out of control or someone is in debt. A sudden drop in income as the result of temporary layoffs, cutbacks or downsizing at a company may necessitate tracking expenses. The loss of child support, illness, death of a family member, unplanned pregnancy, or divorce may also contribute to a person's desire to develop a spending plan.

Families who have a spending plan say it is an effective tool to help them get a grip on their money. A spending plan can help families spend earned dollars more effectively, live within their income, reduce the need for consumer credit, save for things wanted and develop skills in financial management.

Decide which family member will take the leadership role in organizing the income and expense records so that a spending plan can be developed, reviewed and modified as needed.

Step 1 – List income

Begin by listing the income of all earners in the household. On the Monthly Spending Plan Worksheet (page 5), record the take-home figure, or the amount actually available to spend after deductions (base estimates on previous income and current prospects). If income fluctuates sharply, as it may for seasonal workers, commissioned workers, farmers, ranchers, and other self-employed people, play it safe by making two estimates. Work out the least and most income figures that can be reasonably expected. How long can those incomes be depended upon? Are there other family members who are potential income earners? Possible sources of income include:

- Earnings from employed family members
- Unemployment insurance compensation
- Withdrawals from savings
- Tips or commissions
- Interest or dividends
- Social Security
- Child support or spousal maintenance (alimony)
- Public assistance
- Veteran's benefits
- Retirement plan benefits

Step 2 – Monthly Expenses

People frequently ask: What ***should*** our spending plan look like? How much ***should*** we spend for food, clothing, transportation and so on? Are we spending ***too much*** on housing?

Households are rarely alike – thus a "typical" spending plan will not apply to everyone. There can be no hard-and-fast rules for family spending, because individual needs and wants, tastes and economic circumstances vary from family to family – even when they have identical income and the same number of family members. However, there are various sources of cost of living information that can be used as guidelines to compare how one family's spending differs from the average spending pattern of others.

- **The Consumer Expenditure Survey:** The Bureau of Labor Statistics (BLS) regularly collects, analyzes and publishes data on consumer spending patterns (see chart, page 4). The data are annual averages based on the experiences of a large number of consumers. One family's spending will, of course, be different. Compare annual expenses with the BLS averages for the year 2023[1] on page 4.

[1] The Consumer Expenditure Survey data is not available for 2024 at the time of printing.

For example, assume the total income is between $30,000 and $39,999. Find the appropriate annual income column at the top of the chart. The expenses for the expenditure categories are listed under that column. The average family spends $18,348 on housing, $7,759 on transportation, $4,430 on food at home, and so on.

- **"Rule of Thumb" guide:** Examples of financial "Rule of Thumb" guides for various categories of expenditures are listed below:
  - **Housing.** Traditionally, the "rule of thumb" for housing expenditures was 30 percent of net monthly income or a maximum home purchase expense of two and a half times annual income. However, these guidelines have become outdated. Today, lenders usually look for the following two income ratios:
    1. A house payment, including taxes and insurance payments, not exceeding 28 percent of gross income.
    2. Total obligations for mortgage payment, taxes, insurance, and long-term debt not exceeding 33 to 36 percent of gross monthly income.
  - **Emergency fund.** The amount of an emergency fund needed depends upon many factors, including family size, income, total assets and lifestyle. There are three guidelines to determine the amount:
    1. Equal to three months' income, or
    2. Equal to six months of income for a large family, or
    3. More than six months of income if self-employed.
  - **Debt.** The amount of debt families can safely assume depends on income, living expenses and current debt obligations. Two rules of thumb for limiting consumer debt are:
    1. Maximum owed on credit purchases should not exceed 20 percent of annual take-home pay (excluding home mortgage payments).
    2. Maximum debt should not exceed what can be paid with 10 percent of income over 12 to 24 months.

Remember the "Rule of Thumb" guidelines are general and should be used cautiously. They do not take into account unique factors about particular families. For example, larger families may spend higher-than-average amounts for such items as food and clothing; thus leaving less income for housing, transportation and so on.

- **Categories:** If a family member has tracked expenses, the amount spent monthly for family living expenses is known. If not, use records, such as canceled checks, bills, and credit cards and other receipts to figure out how much is spent. List the amount for each category on the appropriate lines in Step 2 of the worksheet on page 5.
  - **Housing:** mortgage or rent payments, property taxes.
  - **Utilities:** electricity, gas, oil, water, TV, Internet, and cell phone.
  - **Household operations and maintenance:** repairs, cleaning supplies, paper supplies, equipment, pets and supplies.
  - **Food:** groceries, eating out, school lunches, snacks.
  - **Transportation:** gas, car repairs, maintenance, parking, bus, taxi fares, airfares.
  - **Medical care:** doctor, dentist, clinic, hospital, medicine, glasses.
  - **Credit payments:** car payments, installment loans, credit cards, charge accounts (If credit payments are broken out into the appropriate family living expense category, this may give a more realistic idea of actual costs for clothing, entertainment and eating out, for example).
  - **Insurance:** health, life, property, auto, disability, long-term care.
  - **Clothing and personal care:** clothing purchases, laundry, hair care, cosmetics, toiletries.
  - **Education and recreation**: books, magazines, newspapers, lessons, tuition, hobbies, club dues, sports, entertainment, vacations.
  - **Miscellaneous:** child care, gifts, contributions, personal allowances, child support, alcohol, tobacco.
  - **Savings:** funds set aside for seasonal and occasional expenses, short-term and long-term goals (college fund, technical school, retirement).

Remember, not all expenses are monthly. Because some items, such as property taxes or insurance premiums, come due once or twice a year, families often forget about them and do not have the money to pay for them when the bill arrives electronically or in the mail. Be sure to include non-monthly expenses in the spending plan. The MSU Extension MontGuide, *Schedule of Non-Monthly Family Living Expenses* (MT198910HR) can help identify what month these bills are due. The MontGuide also shows how to calculate the amount to set aside in the monthly spending plan to meet these occasional costs. An easy online form that does the calculations is at: montana.edu/extensionecon/familyeconomics/scheduleofnonmonthlyexpensesworksheet-blank.xlsx.

Step 3 – Balance income and expenses

Consider what amount was spent in each category. Plan how much to spend and ask these questions:

- Which expenses are essential to the family's well-being?
- Which expenses have the highest priority?
- Which areas can be reduced to keep the family's spending within its income?

Subtract total monthly expenses from total monthly income. The result is the amount that is extra or that must be cut from expenses. If cuts are necessary, adjust the amounts planned to spend in each expense category and enter the new amount in the column labeled "Revised Amount" on the spending plan worksheet on page 5.

Add the revised expenses and compare the total to the projected income. It may be clear there isn't enough projected income to cover current fixed obligations, or to pay necessary living expenses. If this is the case, difficult decisions must be made. What can be done if expenses are greater than income?

- **Increase income.** What are the possibilities for part-time or temporary work to help supplement income? Can other family members seek employment?
- **Cut spending.** It may be possible to cut back on utilities, food, gasoline, clothing, recreation, contributions or gifts. USDA has low-cost menus and other resources to help families reduce expenses (fns.usda.gov/research/cnpp/usda-food-plans).
- **Reduce fixed expenses.** If too much income is going to fixed expenses, such as housing or debt payments, there may not be enough money left to cover other living expenses. This dilemma may make it necessary to refinance loans, move to lower-cost housing, or sell the property to reduce fixed expenses.
- **Look at other assets.** What savings, investments or property could be used or converted to cash to meet expenses?

What can be done if income is greater than expenses? Allocate the extra dollars to savings for future short-term and long-term goals (education, buying a home, retirement). See MontGuide, *Track'n Your Savings Goals* (MT200303HR) and watch savings grow.

Step 4 – Review, track expenses, and revise spending plan

Once an initial spending plan is developed that provides for essential family needs and balances expenses with income, review the proposed plan with the family. Spending decisions affect the whole family, so it is important to talk with them and explain why everyone needs to be involved with the process of developing a spending plan.

Family members can decide what their needs and wants are and rank them according to importance. Becoming aware of the family's needs can help work out the details of a spending plan. If family members understand tough choices must be made, and if they have a voice in deciding, they will be more willing to accept decisions requiring a sacrifice on their part.

Keep a record of what is spent in each expense category to discover if the amount matches what was budgeted for that category. If more was spent in one category than planned, a reduction of spending in another category will be necessary.

Be sure to involve other family members in tracking expenses. Give each family member a small notebook to use for daily expenses or use a drawer to keep receipts. Label receipts so the expense category is known for each one. Or, download an app to keep track of spending and finances together.

Another method of tracking is a check register. Use the MontGuide, *Using a Check Register to Track Your Expenses* (MT198703HR) for tracking cash, and credit and debit expenses as well as checks.

After tracking expenses for several months, a family may find they are spending "in the red." If so, consider options: reduce expenses, increase income, or both. Arrange for a family conference. Lay out the records of income and monthly expenses. Were there differences between the family's priorities and actual spending patterns and income? Discuss where cuts can be made with the least sacrifice. Examine spending by category. Discuss ideas for either increasing or decreasing the amounts in the categories.

If the spending plan does not adequately provide for a family's needs, it may need to be revised. If the plan met the family's needs but members had trouble sticking to it, stricter self-discipline and better management may be required in future months. Ask for cooperation from family members about spending.

A spending plan is something to keep working and reworking until it suits the family and satisfies individual members. Do not expect to have a perfect spending plan the first time. With each revision, improvement can be expected. As family circumstances change, redo the spending plan around new goals, needs and wants.

Step 5 – Managing a spending plan

Although family members may pool their income and make financial decisions jointly, usually one person assumes the routine responsibilities of money management: paying bills, balancing the checkbook, handling money and keeping records. The individual with more knowledge and skills for this task should be the main money manager. Adult family members may want to alternate the money manager routine periodically. This is an opportunity to allow all family members to be engaged and learn about the family's spending plan.

Set up a money management filing center to keep all financial records in one place. Include these important materials:

- Spending plan and past spending records
- Bills and receipts
- Bank or credit union statements
- Credit/Debit card receipts and monthly statements
- Income records such as paycheck stubs, Social Security records and pension receipts

Summary

Getting the most from income requires careful planning and wise spending decisions. A spending plan based on what family members consider to be most important can help balance spending with available income and resources. Keeping track of spending will help ensure that money is available for the things a family needs most. The step-by-step procedures outlined here will help clarify priorities, make decisions, and implement and revise a spending plan.

Other resources

Many of the MSU Extension publications are available to download at no cost at: montana.edu/extensionecon/publications.html. Or order free of charge at local MSU Extension offices.

AVERAGE ANNUAL EXPENDITURES (Consumer Expenditure Survey by Income Categories, 2023)

	Income before taxes								
Expenditure Category	**Less than $15,000**	**$15,000-$29,999**	**$30,000-$39,999**	**$40,000-$49,999**	**$50,000-$69,999**	**$70,000-$99,999**	**$100,000-$149,999**	**$150,000-$199,999**	**$200,000 and over**
Food at home	$4,037	$3,624	$4,430	$4,769	$5,536	$6,080	$7,053	$8,622	$9,702
Food away from home	$1,647	$1,556	$2,235	$2,533	$2,877	$3,624	$4,907	$6,643	$8,824
Housing	$12,928	$14,787	$18,348	$18,936	$21,164	$24,424	$28,405	$34,505	$51,055
Apparel and services	$1,039	$929	$1,204	$1,226	$1,339	$2,111	$2,467	$3,014	$4,671
Transportation	$4,909	$5,031	$7,759	$8,261	$10,437	$12,634	$16,653	$21,137	$28,308
Health care	$2,711	$4,248	$4,449	$5,130	$5,479	$6,028	$7,251	$8,061	$10,711
Entertainment	$1,317	$1,513	$2,510	$2,110	$2,309	$3,167	$3,998	$5,879	$9,526
Education	N/A	$452	N/A	N/A	$813	$1,106	$1,253	$2,109	$6,804
Cash contributions	$478	$940	$1,410	$1,401	$1,905	$1,942	$2,398	N/A	$6,461
Personal care	$443	$448	$594	$633	$737	$1,020	$1,143	$1,409	$1,905
Personal insurance and pension	$457	$947	$2,036	$2,910	$4,527	$7,644	$12,472	$18,754	$32,623
Miscellaneous	$359	$496	$789	$841	$1,400	$1,079	$1,307	$1,758	$2,375
Other*	$640	$538	$754	$676	$840	$944	$1,213	$1,593	$1,788
AVERAGE ANNUAL EXPENDITURE	**$30,965**	**$35,509**	**$22,862**	**$49,426**	**$59,363**	**$37,846**	**$43,775**	**$51,242**	**$174,753**

Source: Consumer Expenditure Survey 2023 Calendar year means. www.bls.gov/cex/tables.htm
*Includes tobacco products, smoking supplies and alcohol beverages

MONTHLY SPENDING PLAN WORKSHEET (Month _______________ Year _______________)

	Planned	Revised
Step 1: Income (Take home)*		
Salary, wages	$	$
Unemployment compensation	$	$
Other	$	$
TOTAL MONTHLY INCOME	**$**	**$**

Step 2: Monthly expenses		
Housing (mortgage or rent payment)	$	$
Utilities (electric, energy bills, phone, etc.)	$	$
Food (at home and away)	$	$
Transportation (car, gas, repairs)	$	$
Medical care (doctor, dentist, hospital, labs)	$	$
Debt payments (loans, credit cards)	$	$
Insurance (life, health, auto, home, disability)	$	$
Clothing and personal care (clothes, laundry, toiletries)	$	$
Education and recreation	$	$
Miscellaneous (child care, gifts, allowances)	$	$
Savings (funds set aside for seasonal and occasional expenses, retirement)	$	$
TOTAL MONTHLY EXPENSES	**$**	**$**

Step 3: Balance adjusted income and adjusted expenses		
Total Monthly Income – Total Monthly Expenses =		
Total Revised Monthly Income – Total Revised Monthly Expenses =		

*Because most bills are monthly, it's easiest to look at income on a monthly basis. Multiply weekly income by 4.33 and bi-weekly income by 2.17 to convert to monthly amounts.

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FAMILY FINANCIAL MANAGEMENT (CREDIT AND MONEY MANAGEMENT)

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