Blueprint for Family Money Management

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Budgets, or spending plans, are increasing in popularity as individuals and families strive to balance income with expenses. The family resource management "executive" faces the task of identifying needs and wants of family members and, through use of effective management skills, converting available income into contentment.

This publication outlines basic techniques for designing a spending plan to meet your income and expenses; take a look at these guidelines for a successful budget.

1. Determine which people the budget will affect. If you are married and/or have a family, then your spouse and children must be involved in the planning process if the budget is to succeed. As children mature, give them increased responsibility in money management and in planning the family budget. Similarly, both spouses should share responsibility for the family spending plan and contribute to its development.

2. Provide a personal allowance for each person that will be their own to do with as they choose. Do not commit every cent of income to needed items or the budget will become a strait jacket and will surely fail. For the family close to bankruptcy there are non-profit financial counseling organizations available to help defer and prorate indebtedness.

3. Increasing income will not solve money problems for everyone. It may mean there is more money to manage poorly. Money problems frequently arise shortly after a pay raise. The expectation of increased income leads people to increase spending immediately, in excess of the actual take-home amount; they soon find themselves overextended.

Four kinds of "poor" people have been identified as:

- the absolute poor who are receiving public assistance in order to survive.
- the working poor who are just barely making it.
- the middle income poor who have no security (one third of the families in the U.S. with incomes of $16,000 per year have no savings in the bank).
- those with large incomes who have no cash. Their income may be $68,000 per year but they are locked into credit agreements which use up available income.

4. Take a hard look at your values and goals. Before you begin to list expenses, you must have a clear picture of what it is you and your family want to achieve with your resources. "Everytime you spend a dime or dollar you're

buying a small part of a way of living. Your spending moves you closer to what you want out of life or puts you on a treadmill that never gets anywhere."

Make a list of what is really important to you and your family. Is it travel, recreation, or a secure retirement? Since goals will reflect the values you hold, list them in order of importance. Attach a dollar value needed to reach the goal as well as a target date. Goals may be short or long range; they may require a few resources or a very large share of your total available resources. It's important to set priorities and to know where your commitments really are.

With these guidelines, we'll now look at a way of managing family income to achieve greater satisfaction. Your goals are where you want to go. Your spending plan is how you get there.

Worksheet 1. Total Cash Income

The first step in designing a workable plan for money management is to determine how much money you have to work with for the coming year. You must be honest with yourself at this stage and list amounts that are fact, not fiction. Use accurate, recent records, such as paycheck receipts, income tax records, or bank deposit receipts.

List income from all sources. This should include your regular take-home pay after deductions for taxes, union dues, or automatic withholdings before you receive your paycheck. Other sources of income may be Social Security payments; income from the sale of securities, your car or other assets; income in the form of a tax refund; yearly cash gifts; interest on savings; money owed you by others; rent received; alimony payments, etc. If you must estimate, be conservative and list the minimum expected. You should now have an accurate monthly figure that tells you how much income you have for saving and spending.

Use worksheet 1 to list income amounts, when income is to be received, and the sources of all income.

Worksheet 2. Fixed Expenses and Savings

Expenses can be divided into three categories. The first includes money set aside for expenditures where you have previously agreed to spend a specific amount of your income and have signed a contract or undertaken a fixed obligation. The second category is for savings—money set aside for deferred spending or for an emergency fund. This is where you take action to accomplish your long and short term goals. The third and last category is for daily living expenses and will be listed on Worksheet 4.

Fixed expenses are generally large sums divided into periodic payments. The payments may be due monthly, quarterly, biennially, or annually. You may expect to complete payment within 90 days or the payments may continue over many years, as for a home or automobile. It is a good money management technique to spread the burden of debt payments equally over 12 months. If a $120 premium for automobile insurance comes due in January and July, put $20 into a special savings account and label it, "auto insurance." It can be difficult to start this habit if large premiums are due very soon. The current monthly income may be strained to meet the payment, but once you put periodic payments into your spending and saving money management plan, you'll be able to take these financial strains in stride.

Typical fixed expenses are:

- rent or mortgage payments.
- regular, predictable household expenses—telephone, water, garbage, cable TV, electricity when at least a portion of the bill is set at a minimum or covered by an equal payment plan.
- regular installment payments such as automobile loans, large appliance loan contracts, and revolving charge accounts with monthly minimum payments.
- monthly payments toward support of other persons such as elderly parents, alimony, and child support.
- large, annual payments for insurance, property taxes, non-withheld income taxes, education costs, etc. Most of these expenses will increase with inflation so, to avoid unpleasant surprises, put aside last year's amount times the rate of inflation.
- expenses where a reasonable portion can be estimated as for long term medical treatment—orthodontia.
- pledged contributions, membership fees, automobile registration, safe deposit box rental, subscriptions.

Savings, all too often, are equal to the amount income left over at the end of the month and, despite good intentions, there is seldom anything left over. Start now to reach your goals. Put savings at the top of your list of values and pay yourself first!

Do you have a reserve fund large enough to cushion the effect of an unexpected financial crisis? Illness, loss of a job, or an unanticipated auto expense are examples of the unexpected that we should expect and prepare for by building up an emergency fund. How big should it be? An amount equal to two or three months income is one rule, but also consider the amounts of your fixed expenses and the size of your other financial resources (disability insurance, health insurance, credit worthiness, and a spouse's ability to support the family).

Once your emergency reserve reaches the amount you have decided upon, keep it intact except for its intended use. Keep it readily available, but earning interest, as in a pass book savings account.

If you have difficulty setting aside *regular,* monthly amounts for a reserve, you have several options, each of which will strengthen a faltering self discipline. You can direct your bank to transfer the amount you specify into a savings account or your employer will withhold from your paycheck for the purchase of U.S. Savings Bonds. Do not let a lack of self-discipline rob you of an emergency fund and peace of mind. No matter how small the amount, make saving a habit, not an event.

Once you've reached your goal for an emergency fund, the money from this practice can be used to meet short and long term goals or to take advantage of a special opportunity. Having a savings account that is not earmarked for necessities gives you a degree of independence not possible when every month lasts longer than the money.

Worksheet 2 is a suggested form for your fixed expenses and savings.

Worksheet 3. Income Available for Flexible Expenses

This worksheet is a summary of Worksheet 1 and Worksheet 2. First, record the income available for each month. If all your income is received in 12 equal amounts, once each month, this figure will be the same in each of the monthly columns. If income is received on an irregular basis, it is best to spread the excess equally over the following months until the next payment is received. Unless you do, you may find yourself short of money in the months when income is lower. If you receive an unexpected bonus, look over your list of goals and decide where the money can be spent or saved. This may be the money you need to pay off a large premium and launch you on the monthly "put aside" system. It may be that you could pay off a loan.

Second, enter the totals from Worksheet 2. Here, again, divide the amount of total expenses to find out how much of the burden will be shared by each month's income.

Subtract expenses from income; the difference is what you have left over for flexible expenses (what you can expect to spend on day-to-day living costs).

Worksheet 3 is a suggested form for this summary of income, fixed expenses and savings, and income available for flexible expenses.

Worksheet 4. Flexible Living Expenses

Your flexible living expenses are those over which you have the most control. They also may vary from month-to-month for a number of reasons. If you pay for electricity to heat your home on an equal payment plan, you were able to include it on Worksheet 2 as a fixed expense. If you pay the full amount—whatever it is, month-by-month, it may fall to a minimum low in the summer and rise to frightening heights in the winter. Food may cost less if you have a vegetable garden in the summer.

Do you know where your money goes? If you're one of the few people who's kept detailed records of spending, you may be able to list your expenditures and how much money was spent. It is necessary to have some basis for deciding how much it costs to feed and clothe your family and how much it takes to buy the life style you enjoy. One way to see where your money goes is to keep tabs on one kind of expenditure (such as food and grocery store items) for one month. Then check another category of expenditures the following month until you have a good idea of where the money goes.

Don't try to record every penny spent or you will quickly become discouraged. It is accurate enough to keep track of 90 to 95 percent. Add on just a little to make up for unreported spending. Saving sales slips and paying by check are two methods to keep a spending record.

Here are some main categories for grouping day-to-day living expenses:

- Food and related items, personal care items, paper products, etc. purchased along with food at supermarkets; food eaten away from home (including tips).
- Household operation—repairs, maintenance, utilities and improvements not included with fixed expenses; household help.
- Furnishings and equipment not included with fixed expenses on Worksheet 2 (utilities, small appliances, sofa pillows).
- Clothing, dry cleaning, and accessories.
- Recreation and entertainment—books, records, tapes, entertaining not included with food category, babysitting, hobbies, lessons, and fees not included on Worksheet 2.
- Medical care not covered on Worksheet 2.
- Transportation—gas and oil for regular upkeep plus maintenance and repairs.
- Gifts and special occasions such as Christmas, birthdays, anniversaries.
- Other things and non-things.

Adjust this list to fit your situation. It can also serve as a basis for reminding you of ways in which people spend their money. Complete your list with carefully estimated amounts of what you spend. At first you may not be able to make estimates for the entire year. Try to estimate expenses for one or two months. As prices continue to rise and your living situation changes, make adjustments in spending estimates.

Use the suggested form for Worksheet 4.

How do the two totals on Worksheet 4 compare? If the bottom line is larger than the one above it, your budget is in good shape. If the upper line is larger, some changes need to be made.

First of all, look over the list of flexible living expenses on Worksheet 4. Is it possible to spend less in some categories without a drastic change in your lifestyle? Be cautious when it comes to cutting down. If you lower the amount to be spent for food, you may find that you have set an impossible limit. Food prices may be rising sharply so if you cut the dollars allocated for food, ask yourself what you are willing to do. If you can be content eating stew instead of steak, then it's possible to decrease the budgeted amount.

Do not completely eliminate one category for the sake of a balanced budget unless it is for a low priority goal. Perhaps what you can do is delay a clothing purchase until a time when other expenditures will be less. If you live in a cold climate, it isn't possible to eliminate winter coats for children, but you can look for ways to stretch your dollars. You may be able to find good, usable clothing in a thrift shop, or you may decide to do without a second pair of fashionable boots. Free, community sponsored forms of entertainment may be as enjoyable as an expensive weekend at a ski resort. Look at your goals and question low priority items. Don't force yourself into a budget that doesn't let you do important things, but do keep spending less than income or your money management plan will not help you.

Apply Guidelines

Now you have a spending plan, and it's time to put it to work for you. If you've designed it carefully, it should work well. You can help by applying some guidelines:

- Buy wisely. Develop or improve your shopping skills. Take advantage of sales and specials; use Extension bulletins and other sources of consumer information; read Extension news releases that tell of good buys.
- Limit unnecessary purchases. Plan your purchases of large items according to your budget and list of goals; make a shopping list and resist impulse buying.
- Look for alternatives that will be just as good but cost less. Ride a bike or walk instead of driving, whenever possible; read magazines at the library in place of purchasing them; plan a family evening at home instead of going to a movie.
- Control debt. Use installment credit only when necessary. Luxuries should be on a cash basis only. Pay yourself the interest by saving ahead for the purchase.
- Increase the lifetime of what you have; treat appliances and furnishings with care (and teach children to do the same); avoid wasting food by storing it properly; recycle clothing and other items to save your dollars right now and extra dollars in the future by conserving our nation's resources.
- Review and revise your spending plan to keep it working for you; involve all family members in the decision-making.
- Keep tabs on how you're spending; set aside a place in your home for family financial records; keep receipts of tax deductible expenditures. Get the most mileage per dollar possible from your income.

Worksheet 1. Total Cash Income.

Source	Amount	Date of receipt											
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total													

Worksheet 2. Fixed Expenses and Savings.

Item:	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Savings													
Insurance: Auto													
Home													
Life													
Health													
Rent or mortgage													
Loans: Auto													
Appliances													
Personal allowances:													
Total													

Worksheet 3. Income Available for Flexible Expenses.

Summary	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
A. From Worksheet 1, your monthly income:												
B. From Worksheet 2, your total fixed expenses and savings, divided by 12:												
C. Subtract (B) from (A). This is the amount of income available for flexible living costs:												

Worksheet 4. Flexible Living Expenses.

Expense category	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Food and related items												
Household operation												
Furnishings and equipment												
Clothing and related items												
Recreation and entertainment..												
Medical care												
Transportation												
Gifts and special occasions ..												
Other—things and non-things												
This is how much I think we will spend for day-to-day expenses												
From WORKSHEET 3. This is the amount of income available for flexible living expenses												

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