BULLETIN 622

steps toward planned $pending

COOPERATIVE EXTENSION SERVICE
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STEPS TOWARD PLANNED SPENDING

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"How should we spend our income? How much should be spent for food, for clothing, for gasoline?

These are questions you might ask whether your monthly income is $300 or $1,000, whether you are an individual, a newly married couple, a family, or are about to retire.

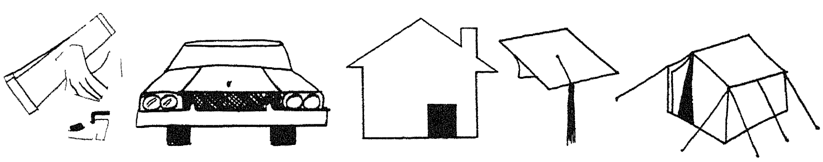
How a household should spend its income can be decided only by the individuals involved. Your spending plan will be unique. It will depend on your level of income, the number of household members and their ages, where you live, what you do, and what kind of responsibilities you have.

STEP 1: Set Your Goals

Before you develop a spending plan, you and the other members of the household need to decide what you want your income to buy. You must know your goals, and when you want to reach those goals.

Some of your goals are likely to be long-term goals; others may be more immediate. The goals of your household might include buying a new car this year, paying off old debts within two years, moving to a more comfortable house within five years, saving for further education, and saving for a vacation next year.

Goals and circumstances change as time passes. Therefore, any spending plan must be flexible. You may have some goals that seem impossible to reach right now. List them anyway. Then estimate the cost of reaching each goal on your list. Next, set some priorities. Which goals are most important? Which ones are important now? Which ones can wait a while? Can you take small steps now to help you reach important goals in the future?



STEP 2: Estimate Income

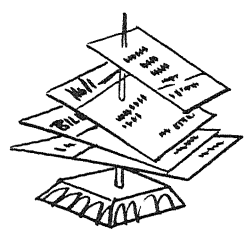
Figure your total household income for one year. Write down all funds that you expect to receive during the year. Start with fixed amounts that members of the household receive regularly — wages, salaries, social security benefits, pensions, allowances, and any other payments. Then put down the variable income you expect to receive — interest from savings accounts and bonds, rents, gifts and money from other sources.

If the income your household receives varies widely from month to month, it is more difficult to estimate the amount of money you have available. In that case, a high and low estimate should be made. It is safer to plan your spending in terms of the low estimate. It is easier to adjust the plan to a higher income than it is to adjust it to a lower one. The essentials might well be purchased from the low estimate, and the "like-to-have" or "will-get-sometime" items can be purchased if the income proves to be the higher amount estimated. One way to make an estimate of irregular income is to take an average of your household's income for the past several years.

STEP 3: Know What You Have Been Spending

Records of past expenditures can help you estimate future expenses. They indicate the price range within which you buy, the total spent for various types of items, and the frequency of your purchases.

Records of past spending reveal some of your spending habits. They may show where a different method of purchasing would mean a saving. For example, if you buy a magazine from the newstand almost every week or every month, you may find that a yearly subscription is cheaper. Your records may show that some members of the household are getting an unusual share of the money that goes into personal, recreational or other items. An adjustment may be made if all household members understand the situation.



Getting the facts down on paper may show that because you have skimped or neglected one area of living costs, another has gone up. Cutting down on regular auto maintenance, for instance, may cause an increase in auto repair bills. Records of spending may also be used to prevent paying the same bill twice.

STEP 4: Estimate espenses

In estimating your household living costs, start by listing those items which cost the same amount month after month or year after year. These are called **fixed costs.** Some of these items may be insurance payments, rent or mortgage payments, and taxes.

The next items to list are those that have **relatively fixed costs.** They may vary slightly from month to month or year to year. Some examples are food, the telephone bill, electricity, and transportation.

Still another class of items — **variable cost** items — need to be listed. These include clothing, home furnishings, appliances and equipment, and recreation. When funds are tight these are the purchases which can more easily be postponed. You may even decide to do without or to repair or remodel old items to make them last longer.

When estimating your cost of living, it is well to include a fund for unexpected expenses or emergencies, as well as a definite plan for savings, investments, and insurance against possible losses. Unexpected expenses, such as a general rise in food prices or heating fuel prices may occur. Emergencies, such as a major medical bill, come to everyone sooner or later. The amount of saving for the future depends on how much you can and are willing to do without in order to have something you want in the future.

STEP 5: Balance Income and Living Costs

Your estimated household income is likely to be less than the estimated cost of your wants and needs. If your estimated income is larger than estimated expenses there is no problem. If your income is smaller, there are two choices: increase the income or decrease the wants. The best choice depends on what is most important to you.

Every household needs to put first things first. Necessities, although they may not be the same for every household, should come first in your spending plan. Comforts and luxuries should come next and should be listed from most important to least important. As soon as the necessities are taken care of, try to include an occasional luxury for all members of the household — it can do a lot for morale and well-being.

Ways to Balance a Spending Plan

A. Get More Money

After checking priorities and comparing various needs against funds, you may say "We will have to have more money."

A number of ways to get more money might be considered. An additional member of your household may take a full or part-time job. Or someone who is presently employed might work longer hours. If your household has its own business or farm, you might make changes

YOUR SPENDING

	Last Year	This Year	Totals This Year
INCOME AND SAVINGS			
Income (before taxes)	$	$	$
. . . .			
. . . .			
. . . .			
Income			
SAVINGS AND INVESTMENTS			
Life Insurance			
Savings-Accounts, other moneys			
Investments-major furnishings, equipment-house improvements			
Emergency Fund			
. . . .			
. . . .			
EXPENSES			
Fixed Expenses			
Insurance-accident, liability, fire, health			
Taxes - income, social security, property			
Housing - rent, mortgage payments			
Debts - Interest, Installment payments			
Relatively Fixed Expenses			
Food			
Utilities - coal, electricity, gas, oil, water			
Supplies and Services - laundry, cleaning			
. . . .			
. . . .			

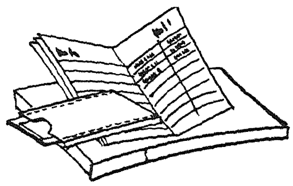
PLAN-Work Sheet

	Last Year	This Year	Totals This Year
Variable Expenses	$	$	$
Clothing - garments, material, accessories			
Upkeep on house - small equipment & furn., repairs			
Transportation - auto expenses, other travel			
Health - doctor, dentist, drugs, oculist, etc.			
Education - magazines, books, lessons, tuition			
Recreation - admissions, hobbies			
Gifts and Contributions			

	Last Year	This Year	Totals This Year
SUMMARY			
Income and Savings	$	$	$
Income (before taxes)			
Savings and Investments			
Total Funds Available	**$**	**$**	**$**
Expenses			
Fixed Expenses			
Relatively Fixed Expenses			
Variable Expenses			
Total Expenses	$	$	$
Balance	$	$	$

to increase income or cut expenses. Or, perhaps marketable items can be produced at home in available spare time and sold at a profit.

If an additional member of your household decides to take a job, the net income after deducting employment expenses will need to be estimated. The person's skill and training will help to determine gross earnings. To arrive at net earning, make deductions for additional expenses, such as income and social security taxes; increased clothing, food, and transportation costs; and services purchased which had previously been performed by the additional job holder — such as care of children, home maintenance, and household work. The net earnings from additional employment may or may not add to your household's money income. And there are other personal and household considerations to be weighed when deciding whether an additional adult or a teenaged child should work away from home.



B. Use of Credit

The use of credit could allow your household to buy some things sooner when cash is short. However, it only postpones or spreads out payments and it may add finance charges or interest to the cost of things purchased. Three types of consumer credit are available: charge accounts, installment purchases, and consumer loans. Consumer loans are available from such sources as credit unions, banks, savings and loan associations, and small loan companies.

In all cases, buying with installment payments or using consumer loans means paying interest or carrying charges. Many credit card charge accounts also have a finance charge if they are not paid in full within thirty days after you are billed.

Any one of the above sources of credit may be best for your family to use in specific circumstances. One of the important factors in your choice is the cost of credit. It is not unusual to pay an annual percentage rate (APR) of 12 to 30 percent on installment purchases and consumer loans. Lower cost sources may include borrowing on whole life insurance policies or from your credit union. Or avoid borrowing entirely by withdrawing money from your savings account.

When you use credit, two rules to follow to keep the cost down are: (1) make as large a down payment as possible and (2) pay the balance as quickly as possible. Always buying on the installment plan may be a sign of poor planning. However, the occasional use of credit may be a way to get more satisfaction from the money you have.

Good management of the use of credit includes investigating several sources as to interest rates, reputation of the lender, and terms of payment. It also means doing some arithmetic to know how much credit you are actually getting. Be sure you can see how and when you will pay before you commit yourself to pay a debt.

C. Do-It-Yourself

It is possible to live better than your income might suggest if you use more time and less money to produce the things you want. You can get more from your income by gardening, canning, baking, remodeling, sewing, making simple home repairs, doing routine car maintenance, and possibly even assisting in home building and major home repairs.

Do-it-yourself activities require time, skill, equipment, and physical effort. If these resources are not available, money may be wasted rather than saved. You can develop some skills, such as sewing, gardening, painting, and doing simple carpentry jobs. Start with small and inexpensive projects to develop your skills before moving on to bigger projects.

When you do not have the skills and attempt the job anyway, the results may be wasteful or even harmful. A poor electrical wiring job may result in a fire. A poor tailoring job on expensive fabric may produce a suit which the intended wearer leaves hanging in the closet. Careful consideration should be given to time, skills, and investment in equipment before you decide whether a do-it-yourself project will save money and produce a desirable product.

D. Be an Informed Consumer

It is a challenge to learn about what you are buying. There are more fibers, models, appliances, services, and gadgets today than ever before. Unless you carefully define what is needed in a product and then select an item with the features that best meet that need, money can be spent without the need being satisfied.

All consumers have at times made purchases that they found to be poor buys. Perhaps you have purchased a product that didn't do what you expected it to do. It didn't hold up. It didn't look right. Or, perhaps, there was no place to store it when it was not in use.

Learning about a product or service before you go shopping is one way to be a more efficient consumer. As you shop, learn more by reading labels and examining products. Talk with salespeople too; learn to know when they are providing real information and when they are just encouraging you to buy. Learn to resist high pressure selling and impulse buying. Shop with a list — to help you come home with the things you need and leave the unnecessary items in the store.

The need to be informed has only started when you buy an item. Proper use and care of purchases is equally important. For example, a vacuum cleaner can do countless jobs, but it was never intended to pick up pins or gravel. Cars require regular maintenance. A garment can be ruined by the first laundering, if care instructions are not followed.

Perhaps you are a bargain hunter. It can be a good way to save money. The important part of bargain hunting is to know when a bargain is really a bargain. If you do not need an item, it is never a bargain. If something is damaged or in poor repair, the cost of getting it into usable condition must be added to the bargain price. The lowest priced item is not always the best bargain.

E. Community Facilities

Other ways to stretch your money include the use of free or low cost community facilities and sharing services with neighbors. Parks, recreation centers, museums, and art galleries offer much entertainment at little or no cost. Likewise, tax-supported health departments, adult education programs, and libraries provide some services free. You and your neighbors may exchange baby sitting, errand running, and other services that save each other money.

STEP 6: Putting the Plan into Action

Once you have balanced wants and needs with your estimated income, it is time to put the plan into action. If the spending plan is made and put aside, it will not be effective. For best results, members of the household should frequently check their spending against the plan.

The plan should guide you, not control you. A flexible plan is a livable plan. Life is too uncertain and needs and wants are too changeable for you to plan far in advance. Prices may change, income may go up or down considerably, emergencies beyond those provided for may develop.

If a major change in needs occurs, your plan may need revamping. If your household has thought through its expenditures, you are in a better position to make needed changes than is a household that has done no real planning.

STEP 7: Check Actual Spending Against the Plan

What you actually spend may be quite different from the original plan. This is all right, if you know why there is a difference and you are willing to accept that difference. Checking can be done only if both the plan and the actual expenditures are written down and are compared during the year.

There are many forms that such a plan might take. If your household has an income and expenses that are about the same each month, divide these yearly amounts by twelve to develop a monthly plan. If your household has seasonal or irregular income and large fixed expenses which makes each month quite different from any other month, develop a plan which fits each individual month.

The work sheet — Your Spending Plan — is one type of form that you might use or adapt to your needs. It is an annual plan. The same headings can be used for a monthly plan. Many people will want more detailed headings under each type of expense and perhaps under income as well. Others may be able to use this for the annual plan, but they will need to do much "scratch paper" figuring on the side to be sure all the items are included. This work sheet is a suggested form to help you start planning — it is not the only kind of form you might follow to plan your spending.

SUMMARY

Steps Toward Planned Spending

1. Set your goals.
2. Estimate income.
3. Know what you have been spending.
4. Estimate expenses.
5. Balance income and living costs.
6. Put the plan into action.
7. Check actual spending against the plan.

General Suggestions

Think positively — planning can help.
Know what you want your plan to do for you.
Make your own plan.
Have all household members help to make and carry out plans.
Provide for possible emergencies.
Don't guess. Get facts to help you make decisions.
Allow flexibility.
Be honest. If your spending is different from your plan, know why. Decide whether to accept the difference or to try to eliminate it.
If at first you don't succeed, find out why — then try again.

Additional Information

The following bulletins and record books, available from your County Extension Office, can be helpful:

- Home Account Book
- Planning Financial Security
- Using Consumer Credit