

Planning Family Spending

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1. determine goals
2. Estimate Income
3. Know what you've been spending
4. Estimate Expenses
5. Balance the money and the wants
6. Put the plan in ACTION
7. check actual spending against the Plan.

Bulletin

Agricultural Extension Service
The Ohio State University

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Planning Family Spending

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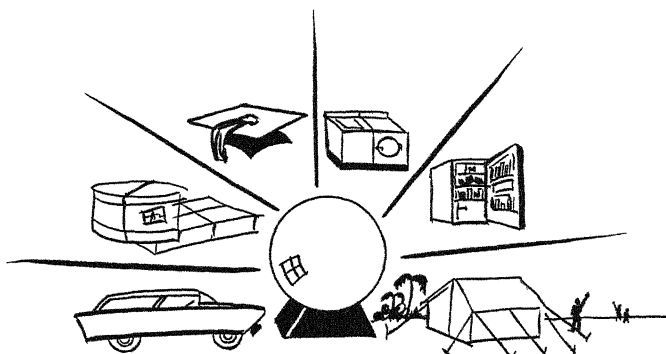
"How should we spend our income? How much should go for food, for clothing, for movies?"

These are questions asked by families whether they have \$500 or \$10,000, whether they are newly married, have children of various ages or are about to retire.

Determine Family Goals

How any family should spend its income can be decided only by that family. The spending plan varies for each family depending on income, the size and age of family members, where they live, what they do and what kind of responsibilities they have.

Before a family can improve its spending plan, it must decide what it wants the income to buy for the members that they do not now have. The family must have pretty well in mind the goals or aims it wants to reach sometime in the future.



Some goals need to be stated as long-time goals; others may be immediate. They may be better food, a more attractive and convenient house, more family celebrations and parties with friends and neighbors, education for children, travel, contributions to church or a variety of other goals.

Family goals change as time passes. Therefore, any spending plan must be flexible. Some things your family wants may seem impossible to get. Do not hesitate to list them. An estimate of the cost of reaching the goals is a part of the plan.

Estimate Income

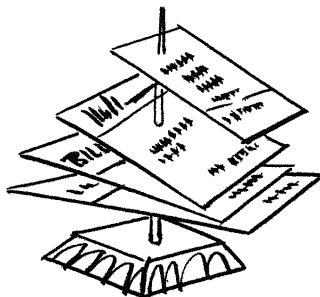
Farm families and others with irregular incomes find it more difficult to estimate income than do salaried families. For that reason a high and low estimate should be made. It is safer for the family living plan to be made in terms of the low estimate.

It is easier to adjust family living to a higher income than it is to adjust it to a lower one. The essentials might well be gotten from the minimum estimate -- and the "like-to-have" or "will-get-sometime" items can come in case the income proves that of the higher estimate. One way to make an estimate of an irregular income is to take an average of the income for the past four or five years.

Know What You Have Been Spending

Records of past expenditures help in estimating cost. They indicate the price range within which a family buys, the total spent for types of items, frequency of purchase, etc.

Records of past spending reveal some of the spending habits of the family. They may show where a different method of purchasing would mean a saving. For example, a family that buys a magazine from the newsstand each week or each month may find that an annual or biennial subscription is cheaper.



Such records may show that some family members are getting an unusual share of the money that goes into personal, recreational or other items. An adjustment may be made if all family members understand the situation.

Getting the facts down on paper may show that because the family has skimped or neglected one phase of family living the cost of another has gone up. Cutting down on milk, vegetables and other protective foods, for instance, may cause an increase in the health bill. Records of spending have also been used to prevent the payment of a bill the second time.

Estimate the Cost

In planning for the year ahead the farm family must consider farm versus family living spending. Should more money go for family living, a better house, the purchase of property and equipment, the construction and repair of farm buildings or to pay off the mortgage? The need for a piece of new household equipment may have to be weighed against a piece of farm machinery. If the whole family is in on making the decision all are apt to be more happy in carrying out the plan.

It is helpful to have a record of past expenditures, even if the spending habits have not been entirely satisfactory. The first step in estimating cost of family living is to list those items for which the costs are the same month after month or year after year. Some of those items may be insurance payments, installment payments and taxes.

The next items that should be put on the plan are those that are relatively fixed. They may vary slightly from month to month or year to year. Some examples are food, utilities and transportation.

Still another class of items -- the variable ones -- needs to be listed. These include clothes, furnishings, equipment and recreation. They are the ones which, in a squeeze, it is easier to decide to do without or make the old do.

When estimating the cost for family living, it is well to include a fund for emergencies and a definite plan for family savings, financial security and protection. Emergencies come to everyone sooner or later. The amount of saving for the future depends on how much the family can and is willing to do without now in order to have something it wants in the future.

Balance the Money and the Wants

The estimated income is very often less than the estimated cost of what a family wants. If the income is the larger, there is little problem. If the income is smaller there are two choices -- increase the income or decrease the wants. The best choice depends on what is important to the family.

It is a fortunate family that has a good sense of values -- that can put first things first. Necessities, although they may not be the same for all families, should come first. Then, with a priority rating, should come the important comforts and the luxuries. It might do a lot for the family morale and well being to include occasionally some luxury for all members after the necessities have been handled.

FAMILY SPENDING

	Last Year	This Year	Totals This Year
Income (before taxes)	\$	\$	\$
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Net Income			
Savings and Accumulations			
Life Insurance			
Savings-Accounts, other moneys			
Investments-Major furnishings, equipment-house improvements			
Emergency Fund			
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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 . .			
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.			

G P L A N - 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			
Benevolences - gifts, contributions			
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SUMMARY OF OPERATING EXPENSES	Last Year	This Year	Totals This Year
Income (before taxes)	\$	\$	\$
Savings and Accumulations			
Fixed Expenses			
Relatively Fixed Expenses			
Variable Expenses			
Total Expenses	\$	\$	\$
Balance	\$	\$	\$

Get More Money

After checking priorities and comparing various needs against funds, a family may say, "We will have to have more money." The ways and means of getting this may not be so easily determined.

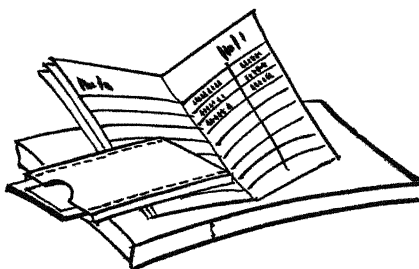
A farm family may change farming practices to increase income or cut expenses. Someone in a family may find additional full or part-time employment. Others may produce a marketable item that can be provided at odd times and in spare minutes.

The solution may be for mother to go to work outside the home as 28 percent of women with husbands now do. The net addition to the family income must be estimated by each family. The skill and training will help determine the gross income added.

To arrive at a net figure, deductions must be made for additional income and social security tax; increased clothing, food, transportation costs; care of children; services purchased rather than performed by the homemaker. The net may or may not add to money income. There are other personal and family considerations to be used in making the decision concerning the woman working away from home.

Use Credit Wisely

The old saying, "a penny saved is a penny earned", is still true. Many families are spending considerable amounts for credit, particularly for installment purchases and short time loans. Although they may have the use of the items, many families find it is a real burden to pay the high financing cost of a small amount on several items over a long period of time. Credit costs money. The family has two choices -- pay less and wait or pay more and avoid waiting.



Three types of credit are available for consumers: charge accounts, installment plans and consumer loans. Consumer loans are available from such sources as credit unions, banks, small loan companies and insurance companies.

In all cases buying with installment payments or consumer loans means paying interest or carrying charges. Many department store charge accounts also have a service or carrying charge.

Any one of the above sources of credit may be best for a family to use in various circumstances. One of the important factors in the choice is what is the cost of the credit. It is not unusual to pay 12 to 30 percent true annual interest on installment and consumer loan credit. Other sources may cost only 6 percent.

If you use installment credit, two good rules to follow 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, wise use of credit may be a way of getting more usefulness from money.

Wise use includes investigating the sources of credit as to cost, reliability and terms of payment. Likewise, it means doing some arithmetic to know how much credit you are actually getting. Be sure you can see how and when you will pay it off before you commit yourself to pay a debt.

Do it Yourself

There is a trend toward "do-it-yourself" home improvements. One of the reasons is the high cost of hiring labor to do these jobs. Many families can have a better living if they can produce things for themselves. They can get more for their money by canning, baking, sewing, laundering, remodeling, making repairs on the house and even by assisting in home building and major repairs. Of course, rural families can cut greatly the amount of money spent for food by producing a large share of it at home.

These "do-it-yourself" activities require time, skill, and in most cases, physical effort. If those resources are not available, money may be wasted rather than saved. A person who lacks skill in sewing may do such a poor job on a garment that it is not satisfactory. If so, money and time may be wasted. One who lacks skill in baking may waste food through failures. Most women, however, can acquire the needed skill for sewing and baking if there is time, interest and physical energy.

Equally wasteful are poor wiring jobs that may result in fire, or crude home improvements which are not satisfactory, or services done by persons who are not physically able to do them properly. Careful consideration should be given to these factors when decisions are being made as to the best solution to a money versus wants problem.

Be an Informed Consumer

A consumer today is challenged more than ever before to learn about what she is buying. There are more fibers, more food products, more appliances, more services, more gadgets. Unless a good plan of what is needed has been made, and the item to fill the need wisely chosen, money can slip away without the need being satisfied.

No doubt every consumer has at one time or another made a purchase that she soon found was a poor buy. It didn't do what she wanted 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.

Reading labels and learning to interpret them is one way to become informed. Learn to know when a sales person is giving real information and when he or she is high pressuring. Proper resistance to high pressure selling and to impulse buying means more money in your pocket when you get home. Shopping with a list will help a consumer come home with what she needs and leave unnecessary items in the store.

The need for being an informed consumer is only started when you purchase an item. The proper use and care of family living items are equally important.

For example, a vacuum cleaner can do countless jobs, but it was never intended to pick up pins or gravel, or to be used when the bag is even half full of dirt. A steam iron deserves to have soft water used in it, even though to sell it the salesman may say this is not necessary. A lovely garment can be ruined by the first laundering, if it is improperly done.

Women, traditionally, are bargain hunters. Good consumers should be aware of bargains. The important part of bargain hunting is to know when a bargain is really a bargain. If an item is not needed it is never a bargain. If something is damaged or in poor repair, the cost of getting it in usable condition must be added to the bargain price. The lowest priced item is not always the best bargain.

Use Community Facilities

Parks, recreation centers, museums, art galleries offer much entertainment to families at little or no cost. Likewise, tax supported health departments, adult education programs, libraries provide services free to families. Neighbors may exchange baby sitting, errand running and other services to stretch family dollars.

Put the Plan Into Action

A good plan can be based on income, records of past expenditures and a careful study of goals, wants and needs, and money extenders. However, if, after it has been made, this plan is put aside, it will not be effective. Best results will be obtained if the family frequently checks its spending against the plan.

A plan should not be considered a fixed order. Instead, the plan should guide the family -- not control it. A flexible plan is a livable plan. Life is too uncertain and needs and wants too changeable for a family 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, the plan may need revamping. The family that has thought through its expenditures is in a better position to make changes needed than the one that has done no real planning.

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. Checking can be done only if the plan is written down and used during the year.

There are many forms that such a plan might take. Some families need a plan broken down month by month. Seasonal or irregular incomes and large fixed expenses may make each month quite different from any other month. Other families may have incomes and expenses that are about the same each month. In the latter case the annual income and expenditures divided by 12 could be used as a monthly plan.

The work sheet -- Family Living Plan -- is one type of form that you may use or adapt to your family needs. It is an annual plan. The same headings can be used for a monthly plan. Many families will want more detailed headings under each type of expense and under income, too. 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 designed to be a suggestion -- not the form.

Summary

Steps Toward Better Family Spending

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

General Suggestions

Accentuate the positive -- planning can help.

Know what you want your plan to do for you.

Make your own plan.

Have all family members help to make and carry out plans.

Provide for possible emergencies.

Don't guess. Get facts to help you make decisions.

Permit flexibility.

Be honest. If you do differently than you have planned, know why and accept it.

If at first you don't succeed, find out why -- then try again.