Daily Union – Saturday, October 25, 2014

Vol1 Issue 42 – Getting Ahead

Scenario: It's payday, Hooray! Bart even put in some extra overtime so that he could buy a couple tickets to "the game." After work on Friday, he sat down with pay stub, calculator, pen, and bills in hand. An hour later, he finally finished his bill paying tasks only to find that he has just enough to pay for gas and groceries until his next paycheck. Wow! Where did it all go? He looked online at his bank statement only to discover he had used his debit card a lot more than he realized. He opens his credit card bill. Yikes! How did that balance get so high? Bart, again this month, seems to only be able to make the minimum payment on his credit card. What happened to the overtime money? He worked all those hours only to find the money all but gone, once bills are paid. No game tickets this weekend!

Can you relate to Bart's situation? I know I can!

Sometimes the money we earn seems to slip between our fingers faster than our hands can make it. We find ourselves feeling stressed about our finances and wondering how we can ever "get ahead." This article is the first in a three-part series that will offer actions and resources to help you develop skills to manage your money more efficiently so that you can "get ahead" and enjoy life more.

Perhaps the most critical step to taking control of your financial future is to <u>develop a spending plan</u>. A spending plan is a strategic tool used to guide your spending and saving. It helps you keep track of the flow of money in your household and helps you determine how your income should be split up to pay expenses and meet your financial goals.

Developing a spending plan will take some time and effort, but will pay off by giving you a financial map to guide your efforts in becoming more financially secure, i.e. to "get ahead." As you begin to work out a spending plan, start by identifying what your financial goals are. Financial goals are statements about what you want to be able to afford. They can be short-term or long-term goals. In the opening scenario, Bart wanted to buy tickets to the "the game", but he ran short on extra money. If he had developed a spending plan in advance, he could manage his money and put some of it away into savings to pay for the tickets. Buying the tickets is an example of a short-term financial goal. These goals are designed to help us save an amount of money for a specific purchase within a few weeks or months. Long-term financial goals, on the other hand, are ones that ensure we are saving an amount of money to purchase something within a few years, such as a car. Setting short-term and long-term financial goals will help us make decisions about how we spend and save our earnings.

Once financial goals have been set, the next step to creating your spending plan is to identify your income. Calculate the total of your salary/wages with other financial resources coming in to your household such as food stamps, seasonal earnings, and other sources of money. Use your net income rather than your gross income. This will make sure you are building your spending plan around money that is available to you for the purpose of spending and saving.

The third step is to track your spending. Tracking spending allows you to see where the money you earn is being spent. You should keep track of all household spending for at least a full month. Every penny you spend needs to be recorded. There are several different ways you can do this. One way is to use a calendar with large enough daily spaces to write down all purchases. Another way is to purchase a notebook or journal to record spending by the day. You could ask your bank for an extra account register to record your spending in. Remember to include ALL purchases – your coffee from the coffee shop, gas, vending machine purchases, car payment, rent, lunch at the fast food restaurant, etc. It ALL needs recorded. Write down the date, the item(s) purchased, and the cost. Total the spending for each day, then total the 7 days of each week for at least a full month.

The next step is to evaluate your income and spending. Compare them by calculating the difference between your estimated total monthly income and the total monthly spending. If you want to reach your household and savings goals, your income needs to be greater than your spending. If you end up with a negative number, you are spending more than you are making. Typically, this means you are putting additional purchases on credit. If you have a positive number, you have money available to put in savings. If you want to reach your financial goals and “get ahead”, it is important that you make saving a frequent, consistent financial habit.

Once you have identified whether your income/spending balance is positive or negative, you can identify your savings goals. Savings goals include emergency reserve goals, short-term goals, and long-term goals.

The final step is to complete a spending plan worksheet. This type of form becomes the key piece in creating your road map to financial security. Next week, I will share how you can use a spending plan to help make important financial decisions as well as give you some tips for managing money. If you want a spending plan worksheet to get started with, contact me at the Geary County Extension office 785-238-4161. Until next time, keep living resourcefully!