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Vol. 2 Issue 43 – Spending Plan Specifics

Almost everyone struggles with money management. Last week, I provided an outline of how you can take control of your finances so that bills are more easily paid and the wish list gets shorter. You do this by creating a spending plan and then implementing it in to your daily financial decisions.

The steps to developing your spending plan begin with setting financial goals. From there, you identify your income, followed by writing down every penny you spend over the course of a month. Next, compare your income to your spending and determine if you are living on the money you have coming in, or if you are overextending yourself with the use of credit cards, making only partial payments and/or leaving bills unpaid. Now you can create your spending plan.

The spending plan gives you a tool to use as you make spending decisions. It will help you see where you can limit your spending in order to make headway on your financial security. To begin designing this custom plan, consider the different types of expenses you have. Refer back to the month of spending you kept track of before reaching this point. Each one of those expenses should fall into one of three categories:

Fixed Expenses: These are monthly expenses that do not change very much (unless you make decisions that significantly change your circumstances, such as move to a less expensive apartment.) Examples of expenses in this category would include: rent/house payments, car payments, loans, insurance premiums, etc. These expenses are those in which you have limited control.

Flexible Expenses: Monthly costs in this category would include: groceries, long-distance phone bill/cell phone bill, utilities, gasoline, savings, credit card payments, or car maintenance. These expenses are ones that you can control.

Luxury Expenses: Expenses that you have total control over and are optional fall into this category. They might include such things as new clothes, going out to eat, entertainment (movies, game tickets, etc.) and gifts.

While comparing your income to your spending, you may have discovered that you are spending more than your income or are just “breaking even” with your expenses and income. If either of these holds true, you are not going to be able to become financially secure. Thus, you need to decrease your monthly spending. How?

First, take a critical look at where you can lower your flexible and luxury expenses. You might want to ask yourself:

1) What are my biggest expenses and how can I decrease them?
2) What do I purchase in the "luxury" expenses category that can be cut out of my spending, or be decreased significantly, at the very least? How do these luxury purchases line up with my financial goals? If they have no connection at all, then you might want to put them on hold until you are able to become more financially secure.

Making these changes is not an easy task for most of us. Our culture has taught us that we deserve to get our wants when we want them. This is called immediate gratification and it provides a foundation for financial insecurity. If a person has access to money, our culture supports the idea that we should spend it, no matter what the costs or consequences of that decision might be. Our desire for immediate gratification will ruin any financial plan.

If you want to move forward into financial security, your income needs to be greater than your expenses. The difference between these two becomes money you can save. Creating a monthly savings plan is essential to financial stability and helps curb our desire for immediate gratification. Developing a consistent approach to savings and building that into your spending plan will help put you back in control of your money.

Savings fall into three areas – emergency reserves, short-term savings, and long term savings. These areas align with your financial goals.

Emergency funds are designed to help you work through unexpected life circumstances, such as the loss of a job, medical expenses and the like. Emergency funds should be the first area of savings you secure. Try to put aside two months' worth of living expenses. Avoid using this money.

Short-term savings should be set aside in an account and withdrawn only as you are able to afford your short-term financial goals. You should be able to reach your short-term goals after a few weeks or month of consistent savings.

Long-term savings are funds set aside for investing or for a larger purchase, such as a car or paying for vocational training classes. It may take a few years of consistent saving to reach your long-term financial goals.

If you are not satisfied with your level of financial security, you can only get on solid ground by taking control of your money rather than letting it control you. Sometimes we need help in making this happen. If you can't figure out how to create savings, consider calling a local credit counseling organization to help you with your personal situation. They can assist you in identifying steps that can taken to move toward your financial goals. The Consumer Credit Counseling Services of Topeka has an office located in Manhattan. They offer a variety of financial services and can be contacted by calling 1-800-383-0217. They are funded by various government and private agencies to keep the cost of their services affordable.

You can also call me to help you create a spending plan that will work for you. For more information on budgeting and developing a spending plan, contact me at the Geary County Extension office 238-4161. Until next time, keep living resourcefully!