Money Mechanics

Spending Plans

A SPENDING PLAN is a tool to manage your money. Making a spending plan involves setting long- and short-term goals, analyzing what income you have available to meet those goals, developing a plan, and putting the plan into action.

Identify Goals

Financial security starts with solvency, or the ability to pay monthly bills. The next step is building savings and access to credit to pay unexpected bills. Buying insurance, buying a home, and developing investments come next. The last step is an estate plan **(figure 1).**

Each step may include short- and long-term goals. A spending plan is the key to achieving those goals.

List your goals on a form similar to **figure 2.** (See page 4.) Assign a dollar amount to each goal and a date the money will be needed. Then decide how much money you'd need to set aside each year and each month to reach that goal.

Evaluate Available Income

After you've listed your goals, evaluate your family's available income. Add all income sources including take-home pay, interest, dividends, and bonuses. If your income varies, underestimate income and overestimate expenses. Don't rely on expected bonuses or overtime pay. Neither may happen.

Estate Plan
To transfer accumulated wealth

Investment Plan
To reach specific goals such as a child's education or retirement

Home Ownership
To provide a family shelter and build equity

Risk Protection
To guard against financial loss due to premature death, disability, illness, property damage, and liability

Emergency Savings and Access to Credit
To pay unexpected bills

Solvency
To have enough income to meet current expenses

Figure 1
Steps to financial security.

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Lifelong Money Management

The Lifelong Money Management table can help you see how financial goals and spending will change over time. This guide may help you

- Identify financial priorities at different life stages and
- Avoid common mistakes.

It isn't a complete list of money management needs throughout life. But it is a starting point for long-range planning.

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	Age Gro		
	18 to 24	**25 to 34**	**35 to 44**
What to Do	▪ Develop a record-keeping system ▪ Make a spending plan ▪ Establish a savings program ▪ Establish a credit history ▪ Purchase health, disability, and home/renter's insurance ▪ Consider need for life insurance	▪ Provide for child-rearing costs ▪ Provide for expanding housing needs ▪ Manage increased need for credit ▪ Build education funds for children ▪ Adjust insurance ▪ Write wills	▪ Continue to build education fund ▪ Increase income for expanding needs ▪ Work toward retirement goals
What to Avoid	▪ Overuse of credit ▪ Not having short- and long-term goals or financial plans ▪ Failing to seek help from professionals ▪ Emphasizing current needs and failing to anticipate changes in future life stages	▪ Overuse of credit ▪ Having unrealistic family/personal goals ▪ Not having an emergency fund or savings ▪ Having insufficient insurance ▪ Not involving other family members in financial matters	▪ Overuse of credit ▪ Failing to save for major replacements ▪ Failing to update insurance ▪ Failing to plan for retirement ▪ Failing to manage increased number and complexity of financial needs
What to Accomplish	▪ Assess financial needs ▪ Determine short- and long-term goals ▪ Balance spending, borrowing, and savings plan ▪ Organize financial and legal records and documents ▪ Seek professional advice	▪ Expand savings, insurance, and investments ▪ Invest in additional education/training ▪ Develop financial skills (all family members)	▪ Redefine financial goals ▪ Strengthen savings and investment programs ▪ Diversify income sources

Begin Planning

Use the *Spending Plans Worksheet*, Pm 1454b, to identify your fixed expenses—those you promise to pay on specific dates and in specific amounts such as rent, utilities, and installment loans. Include savings goals as fixed expenses. A good way to do this is to have savings automatically withdrawn from your checking account each month. Add all fixed expenses and subtract the total from your expected income.

Next, identify flexible expenses such as food, clothing, and personal care. Since you aren't committed to specific payments for

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Financial needs and tasks change over time.

Age Group			
35 to 44	**45 to 54**	**55 to 64**	**65 and over**
▪ Continue to build education fund ▪ Increase income for expanding needs ▪ Work toward retirement goals	▪ Support higher education for children ▪ Develop investment portfolio ▪ Update retirement plans ▪ Discuss estate plans with family members	▪ Re-evaluate methods of property transfer at death ▪ Investigate part-time income or volunteer work for retirement ▪ Assess housing for retirement ▪ Meet responsibilities for aging parents	▪ Adjust health insurance coverage ▪ Reevaluate housing ▪ Secure reliable assistance in managing financial affairs ▪ Adjust estate plan
▪ Overuse of credit ▪ Failing to save for major replacements ▪ Failing to update insurance ▪ Failing to plan for retirement ▪ Failing to manage increased number and complexity of financial needs	▪ Having insufficient retirement funds ▪ Having unrealistic ideas about government and private pension plans ▪ Failing to manage increased income ▪ Failing to seek professional help	▪ Not having supplemental retirement funds ▪ Having inadequate pensions ▪ Failing to readjust insurance ▪ Having an out-of-date will ▪ Failing to explore alternatives before retirement	▪ Failing to use community resources ▪ Failing to develop an estate plan ▪ Failing to finance leisure activities ▪ Failing to adjust spending
▪ Redefine financial goals ▪ Strengthen savings and investment programs ▪ Diversify income sources	▪ Adjust spending, savings, and investment plans to changing family needs ▪ Update retirement plan ▪ Make family members aware of estate plan	▪ Figure out expected retirement income ▪ Arrange alternative sources of income ▪ Update savings, insurance, and investment program ▪ Revise estate plan or will	▪ Achieve a satisfying retirement lifestyle ▪ Have an appropriate plan for transfer of property ▪ Have appropriate health care, liability insurance, and supplemental income

If total expenses exceed income, look for ways to cut expenses or to increase your family income.

these expenses, you have more control over them. To arrive at dollar amounts for each flexible expense, consider what you've spent in the past, as well as changes you wish to make in your spending patterns.

Now compare how much you expect to spend on flexible expenses with the money you'll have left after paying fixed expenses. If some trimming is needed, ask yourself and your family what flexible expenses can be cut back or completely cut out. If total expenses still exceed income, look for ways to cut fixed expenses or to increase your family income.

Spending Plans Worksheet

Direc

I. Fixed Expenses	January		February		March		April		May		June		
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Plann
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Total fixed expenses													

What's left for other expenses? $ ________________ – ________________ = $ ________________

Expected annual take-home income — Minus — Planned fixed expenses for year — Remaining inco
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Education													
Gifts													
Other													
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Total flexible expenses (12 months) $ ________________

Do the total flexible expenses
balance the remaining income above?

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Directions: *Use this worksheet to plan expenses and to record the actual amounts spent each month.*

June		July		August		September		October		November		December		Total 12 Months	
Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual

$ ______________________________

Remaining income
(to be allocated among the flexible expenses)

June		July		August		September		October		November		December		Total 12 Months	
Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual

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For more information, visit
www.extension.iastate.edu/financial
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Prepared by Cynthia Needles Fletcher, *professor and extension specialist, Department of Human Development and Family Studies,* and Laura Sternweis, *extension communication specialist.*

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You may find that some long-term goals are unrealistic in light of current demands on your income. You might change the timeline or the amount you will spend. For example, you could save for new furniture for four years rather than three, saving $63 per month. Or, you might decide to shop furniture sales and spend $2,000 rather than $3,000. Rework your spending plan until it fits your needs. Changes in your family's needs and in current prices may require you to review and adjust the plan.

Figure 2
Plan how much money you'll need to set aside for meeting long- and short-term goals.

Goal	Total Cost	Date Needed	Amount to Set Aside Each Year	Amount to Set Aside per Month
Pay car insurance	$600 per year	July 15	$600	$50
Buy new living room furniture	$3,000	3 years from now	$1,000	$84
Total	$	XXXX	$	$

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Lifelong Money Management table adapted from Adult Financial Matrix: Part 1 produced by the American Council of Life Insurance and Science and Education Administration–Extension, USDA Washington, D.C.

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