# Creating a Spending Plan

## Ten Steps to get you on your way to better finances

Employee Assistance of the Pacific, LLC

**The following suggestions are helpful in establishing a successful spending plan:**

**1. *Identify income.*** Identify each of your after-tax income sources. If your income varies, use a conservative estimate in your calculations. Do not include overtime or bonuses, as they may not materialize.

**2. *Identify "historical" spending.*** Gather the details on your spending for the last three months. If you are already using financial software, this should be fairly easy. If not, then you will need to use bank statements, cancelled checks, credit card statements, household bills and receipts to create an approximate "historical" spending record. If you have not been tracking your expenses, this may be a difficult, yet worthwhile step.

If you can't determine how much you've spent for a particular category, try to estimate from memory. You will be able to revise your estimates as you refine your tracking process over time. Be sure to include one time or periodic expenses. For example, if you pay your property taxes semi-annually, you need to total your taxes for the year and then divide by twelve in order to estimate your monthly average property tax expense.

**3. *Identify & categorize debts vs. expenses.*** A debt payment is a bill that can be permanently paid off; such as a mortgage, back taxes or child support, a car loan, boat loan, credit cards, medical bills or collections. Expenses include payments for rent, gas, electricity, phone, car insurance and groceries. These are on-going expenses that will likely be with you the rest of your life. Allocate your debts and expenses to the appropriate categories outlined in the worksheet provided. You may need to add categories that are specific to your needs.

**4. *List all uses of cash & credit.*** Account for all cash and credit spending in your plan. You may be surprised at the amount of cash you are unable to account for. Cash includes ATM withdrawals, cash from the grocery store, cash back on a bank deposit, or cash payments for any other reason (kids' allowance, lawn service, tips, etc.). Categorize all cash expenditures (i.e. how much was spent on food, entertainment, restaurants, etc.). Remember to review and account for all credit card spending and categorize each expense accordingly, whether you have paid it off yet or not.

**5. *Create a spending plan.*** Once you've determined where your money has gone in the past, you need to determine where you want it to go in the future. This plan should include your savings goals, as well as your expenses. Start by subtracting your actual total monthly expenses from your total monthly income. If you have more expenses than income, you can either increase your income or reduce your expenses to balance your spending plan.

**6. *Reduce expenses or increase income to balance your spending plan.*** First, go back through your non-essential expenses or "wants" to identify which categories you are able to reduce or eliminate going forward. Typically, this means identifying expenses that are not required, but may be strongly desirable. Often, a "want" can be reduced, rather than eliminated, such as eating out less frequently, using coupons, or eating at less expensive restaurants. A Money Coach session through your EAP can provide suggestions for managing this process.

If you are not able to balance your spending plan by reducing or eliminating non-essential spending, you may need to consider reducing some "essential" or "fixed" expenses. Depending upon the severity of your shortfall, it may be appropriate to consider selling a second car to eliminate a car payment or refinancing your home to reduce your monthly fixed expenses.

You may also choose to take on a second job or seek a higher paying job to increase your income. If you receive a tax refund or owe taxes each year, you can adjust your withholding so that you are not having your employer hold out too much or too little from each paycheck for taxes. A tax refund generally means that you are loaning money to Uncle Sam each month at no interest, then getting it back when you file your taxes. Use the Withholding Calculator at irs.gov to determine where your withholding should be set and fill out a new W-4 form for your employer to make the adjustment. Be sure to run the withholding calculator at the first of each year and whenever you have a change that will affect your taxes. Also, if you make large



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# Creating a Spending Plan (Continued)

contributions to your retirement plan but are struggling to make your credit card payments on time, you may want to temporarily reduce your retirement contributions to increase your take home pay. If you have an employer matching contribution, try to contribute at least the minimum to receive the full employer match, if possible. Otherwise, you lose the “free” money provided as an employee benefit.

If you appear to have money left over at the end of the month, but it’s only on paper, then you haven’t identified all of your expenses. Try to determine where the money slipped through your fingers. Are you making ATM withdrawals and have no idea where the cash was spent? Are you eating work lunches out, paying cash and forgetting to track the expense?

If you actually have extra money left at the end of the month, pat yourself on the back! You may want to increase the amount that you are saving each month for your financial goals. Congratulations!

***7. Pay yourself first.*** Allocate a portion of your income to savings: five to ten percent is a good place to start. Put that amount aside each month without fail, automatically if you can. If you don’t “pay yourself first”, you are unlikely to pay yourself at all. A portion of your savings should be allocated to an emergency fund. Other savings vehicles may include traditional savings and investment accounts, 401(k) plan(s), Roth IRA(s) or IRA(s). Increase the amount going to savings as your spending plan allows. Talk with your Money Coach through your EAP about the most appropriate savings vehicles to meet your needs.

Be sure to include each of your “savings” goals as an expense category in your spending plan. You can set your monthly savings goals according to what you believe you can afford, or according to how much you will need to save in order to accomplish your goal over time. For example, if you plan to buy a used car for $7,000 in three years, you need to save $182 per month in an account paying 4% annually to achieve your goal. Your Money Coach can help you determine what your monthly savings amount should be in order to accomplish a particular goal.

***8. Track ongoing spending.*** Now that you have created a spending plan, you need to create a system that: (1) Identifies your expenses soon after they are incurred; and (2) Tells you how much you have left to spend in each category.

A combination of personal finance software and online banking can cut out a lot of the effort required in this process. If set up properly, financial software programs can tell you exactly what you have spent in each category, and what you have left available to spend. For example, most local banks have mobile apps that allow you to track your spending and your budget.

If you do not have access to a computer or are simply not a “computer person”, it is also possible to use a simple spreadsheet to track your expenses. This method requires setting aside the time to enter the information into your journal on a regular basis, preferably daily. It also requires that you pay close attention to the amount still available to spend in each category.

In years past, many people cashed their paychecks and put the money in envelopes for each of their spending categories: one for rent, one for groceries, etc. Although it may be unwise to keep your entire paycheck in cash in your home, it is possible to apply this system strategically to simplify your accounting. Envelopes can be especially useful for any category from which you make frequent cash purchases. For example, if you know that you have allocated $50/month for work lunches, you can put $50 into an envelope for that purpose. When the envelope is empty, you stop buying work lunches until payday, or you borrow from another category.

***9. Revise your plan.*** Money management is an evolving process. Once you have established your initial plan and lived with it for a time, you need to make revisions. As you become more conscious of your spending habits, you should fine-tune your approach so that your money is working harder for you, instead of the other way around.

It is okay to make adjustments to your plan as long as you do not lose sight of your personal financial goals and objectives. Many families use a 12-month plan, which you can start at any time; you need not wait until January. If this is your first real review of your monthly expenses, do a trial run using a shorter time frame to start. The key to success in tracking your spending is to consistently apply whatever method you decide to use. A few minutes each day can mean the difference between accomplishing your financial goals and getting caught in a cycle of debt.

***10. Celebrate.*** As you make progress toward your financial goals, build in small rewards to keep yourself motivated. When you’ve paid off that daunting credit card, use part of the money that would have gone toward the next payment to do something special for yourself. Then next month, apply that same payment amount to the next goal on your list. **Success in budgeting is not in perfection; it is in persistence.** Like most goals worth working toward, it will take time, commitment, and a passion to succeed. If you stay focused on the vision of your ideal financial future, you will get there.

*This content is informational and does not guarantee eligibility for the program or its services.*

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