

Financial Management

 Working for Wisconsin Families

 UW Extension

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Capture the Power of a Spending Plan



“Why doesn’t my spending plan work?” Even with the best of intentions this can happen to you. You take the time to write out a spending plan and then it just doesn’t work out.

Imagine a pot of boiling water. The steam from the pot is flowing out and you are unable to control it or use it. You get frustrated and put a tight lid on the pot to stop the steam from escaping, resulting in an explosion. Or you set up a structure to capture the steam so you have control over the steam and are able to use it for ironing or pressure cooking.

The same principles apply to a spending plan. The purpose of a spending plan is to help you have more control over your money and increase your ability to use your money the way you intend. Spending plans don’t work if you set your goals too tight so there is not room for movement or too loose so there is too much room for unobserved spending. The purpose of a spending plan is to help you have more control over your money so you can make good choices - choices that support your financial goals.

Set realistic goals

What you think you spend and what you actually spend could be very different. The best way to determine realistic numbers is to track your spending in a specific area of your budget for one to four weeks. The amount spent for food is often underestimated. You can easily forget to account for small purchases.



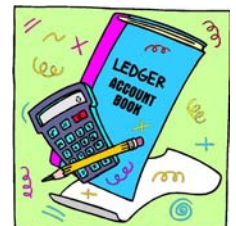
For example you may not have included the cup of coffee purchased every morning. If your coffee costs 50¢, that adds up to \$3.50 a week, \$14 a month, and \$168 a year. This is the type of expenditure that can sabotage a spending plan if it’s not accounted for in your plan.



To find out what you spend in a month on food, track all food purchases by writing down what you spend, keeping receipts, or using your check book register. This includes groceries, snacks, eating out, take out, work/school lunches, coffee/pop, and treats.

Be specific

If your categories are too general it can allow for overspending. For example, one woman had a spending plan with these categories: Mortgage, Insurance, Car Payment, Utilities, Groceries, and “Everything Else.” When asked what was included in “Everything Else” the list was quite long. Spending plan categories need to be very specific to help you understand where your money is being spent. The “Miscellaneous” category that accounts for books, magazines, music, snacks, emergencies, and donations is too general and allows for too much unobserved spending.



Instead of miscellaneous, list each item as a separate category, reading material, music, snacks, emergencies and donations. This will help you see where your money is going and to help you decide

where you might want to make changes in your spending. For instance if you needed to spend less, instead of decreasing your general fund of miscellaneous” you could decide to decrease spending in a specific area. If you decide to spend \$10 less a month on reading materials, you can then get creative on how to get your reading needs met differently. For example: join a book club, buy used books, barter with a friend, or use the library.

Non-Monthly Expenses

An effective way to prepare for non monthly expenses (expenses that occur every few months) in your spending plan is to have specific categories that alert you to save for these future expenses. You can tag these categories as Save Items. Save Items are non-monthly expenses such as water bills, insurance payments, gifts, or taxes. For example, if your car insurance is \$800 every 4 months, you need to save \$200 a month in order to have the \$800 when the bill is due. On your spending plan, you would record \$200 a month for car insurance and mark it with an “S” to identify it as a Save Item. Add together all your Save Items for the month and set aside this total every month.



Allow for the unexpected



No matter how much we plan, life has its own agenda. An unexpected expense can create havoc with any spending plan. The best way to deal with the unpredictability of life is to have layers of protection. In our spending plans this can happen by developing categories of savings that will build up over time. These categories would be for expenses we know could happen in the future, but there is no time frame attached to them. These categories could be labeled car repair, house repairs, yard expenses, medical expenses, emergency expenses. Then you will be ready when the unexpected pops up. Over time, \$20 or \$50 a month will add up and create a layer of protection for you when life brings an unexpected expense.

Unexpected Expenses		
S	Car Repair	\$
S	House Repair	\$
S	Yard Expenses	\$
S	Medical Expenses	\$
	Emergency Expenses	\$

Non-Monthly Expenses		
S	Car Insurance	\$200
S	Water Bill	\$
S	Gifts	\$
S	Taxes	\$

Saving money is not the only way to plan for the unexpected—there are other ways to help you stay within your spending plan. For example, having health insurance, car insurance, disability insurance, and being aware of your community resources.

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