



Lesson 5: Develop Your Budget

When asked how much money was enough, the rich man replied, "Just a little bit more."

Most people feel no matter what their income, they need more money to meet their expenses. However, more money is not always the answer. The key lies in how you plan and then, actually spend your money.

The following practices may signal real money problems just "around the next bend."

Do you:

- dip into savings to pay current bills?
- pay only the minimum amount due each month on charge accounts?
- delay payment of some bills you normally would have paid on time?
- borrow to pay for items you used to buy with cash?
- take out new loans to pay old ones or to get lower monthly payments?
- not know exactly where your money goes?
- have less than 3 months' expenses in an emergency fund?

Even if you answered "Yes" to all of the above, don't give up hope! You can learn ways to get more from your dollars, have greater satisfaction from your spending, and set aside money to pay bills when they are due. Of course, you must first come to grips with the fact that you have a certain amount of money available to you and you are going to live within those limits.

Although this may seem an impossible task, most people really can do it.

The secret lies in knowing where you are now, where you want to go in the future, and making a plan to get there. It's similar to charting your route to a new and unfamiliar vacation spot. You just have to figure out which roads take you to your final destination—in this case, your financial goals. Think of it as directing your dollars to reach your dreams.



A successful budget often requires difficult decisions and cooperation of all who spend the family money. Consider a few guiding principles:

- Gather the entire household together and review the financial goals you set in Lesson 1. What needs to happen to reach them? It is very important that everyone affected by the plan has some say in it.
 - Together, decide what each person will do to help control the family spending. Review your Personal Plan and Commitment to

Reduce Spending from Lesson 3 (page 3-5). Agree within the family that everyone will take turns having their wants met but must also be willing to give up something as well. Encourage, support, and show appreciation for one another's efforts.

- Provide every family member with a personal allowance if you can. The amount must be fair, but is not as important as the freedom to spend it without answering to anyone.

- Learn and practice sound decision-making and shopping skills to get the most for your money.
- Make it a habit to save something, no matter how small, from every paycheck.
- Learn to live within your income and keep your credit under control.

Spending Patterns

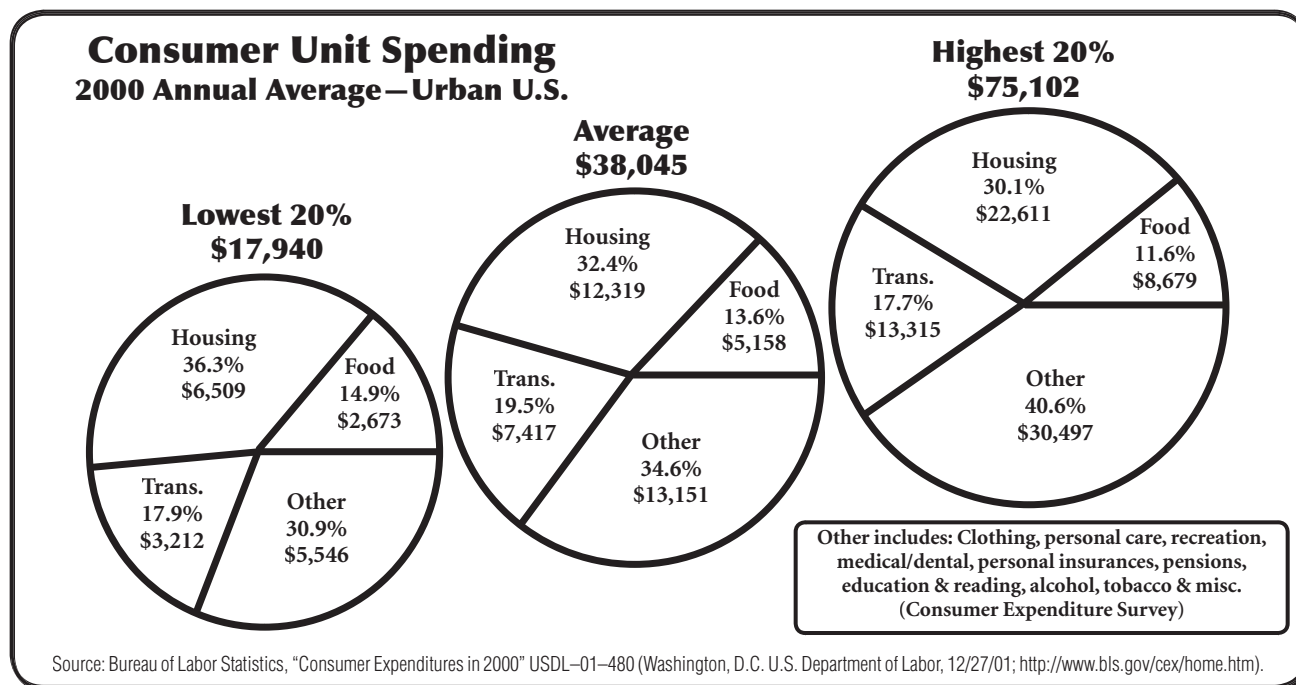
No one can tell you how you should spend your money. You must plan and spend according to your own situation and priorities. However, data about spending patterns of others may be useful as you examine your own spending habits. The pie charts below reflect 2000 data from the U.S. Department of Labor Consumer Expenditure Survey. These show average annual expenditures of surveyed households at three before-tax income levels—the lowest, middle, and highest. Note that these reflect expense categories as a percent of total expenditures—not as a percent of total income.

Notice the spending differences between the income levels. You can see that as income increases, a smaller percentage of total spending goes to housing and food, even though more dollars are spent in those categories. Generally, housing, food, and transportation account for about two-thirds of household spending.

This means about one-third is spent on “other” expenses which include: clothing and services, health care, entertainment, alcoholic beverages, reading, education, tobacco, personal care, cash contributions, personal insurance and pensions, and miscellaneous expenditures. Generally, these “other” expenses create the real money management opportunities and challenges.

Think of all the money you spend as your “money pie.” If you cut one piece really big, the other pieces must be smaller to make ends meet—or someone doesn’t get their share of the pie! Some people promise slices of tomorrow’s pie before it’s baked. That promise means some of tomorrow’s pieces need to be even smaller—or the money pie needs to be bigger. Neither of those options is a “piece of cake.” It’s best to portion your pieces as you go so you don’t find yourself in over your head with costly debt obligations.

Use your spending records from Lesson 2 to see how you are slicing your pie. For example, if you spend \$12,000 on housing in a year and your total spending is \$36,000, then 33%—one-third of your pie—of all your spending goes toward housing. ($\$12,000 \div \$36,000 \times 100 = 33\%$.) Financial software can generate a personal pie chart for you. Compare the size of your spending slices to your financial goals. Are you spending according to your priorities?



Six Steps to Your Balanced Budget

Many people have vague budgets that they keep “in their head.” However, those who take the next step to write it out are more likely to reach their financial goals. When it comes to budgets, one size never fits all. However, the planning process will work for anyone. You already have a good start through your work in the other lessons. The worksheets in this lesson bring it all together and guide you to a plan that reflects YOUR situation—your needs, wants, desires, and resources. Take time to complete each step in the process. Though the steps are numbered, you will probably arrive at your final estimates by considering them as a group. Use a pencil because you may need to adjust amounts in each step until you have what you feel is a satisfactory plan.

Step 1

Set your financial goals. Think again about your values—which should be reflected in your financial goals. No one can tell you what your lifestyle ought to be—but every lifestyle does come with a price tag. Only you can decide how to match your money with your lifestyle and goals.

Look back at the financial goals you set in Lesson 1 (page 1-8). Now, on Worksheet 5-A (page 5-7), in the “planned spending” column, write the total monthly amount you need to set aside to reach the goals you set.

Step 2

Know your income. To make a plan to live within your income, you must know how much money you have to work with. You gathered this information in Lesson 2 on Worksheet 2-C (page 2-8). Now, enter your total income for the monthly planning period on Worksheet 5-D (page 5-10).

Step 3

Estimate your monthly fixed expenses. As you remember from Lesson 2, fixed expenses stay basically the same each month and are committed for a period of time. Although Worksheet 5-A lists typical fixed expenses, you may need to adjust the categories to reflect your situation. Your financial records of past spending—such as your checkbook

register and credit card statements—serve as good information sources to estimate future expenses. You may need to adjust figures to reflect any changes in your situation, such as a rent increase.

Step 4

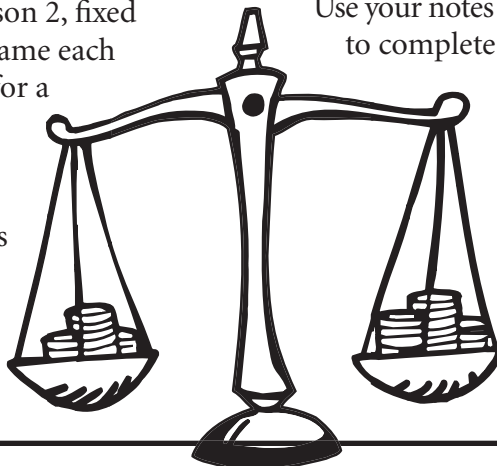
Estimate your regular flexible expenses. Flexible expenses occur each month, but the amounts change so you really have to carefully track expenses for items such as food, clothing, transportation, and entertainment. Lesson 2 Worksheet 2-E: Regular Flexible Spending (page 2-10) will help you make realistic estimates to put on Worksheet 5-B (page 5-8). Again, adjust the categories as needed for your situation. Unlike fixed expenses, you generally have more control over these amounts.

Step 5

Estimate your occasional spending. Don't let those occasional expenses creep up on you and find you without the money to pay them. Use your notes from Worksheet 2-F (page 2-11) to complete Worksheet 5-C: Estimate Your

Occasional Expenses (page 5-9). List the amount and month due for expenses that come periodically throughout the year. Consider expenses such as holidays, birthdays, home maintenance, and school supplies as well as

(continued on page 5-4)



Six Steps to Your Balanced Budget (continued)

insurance payments and license plates.

Worksheet 5-C is set up so you can see your total expenses both by the month and spending category. You can quickly note months with higher expenses as well as what you spend in the various categories. The block in the lower right corner is the total for both the monthly and category spending. Divide this total by 12 and record it on the “Amount to set aside for occasional expenses” line on Worksheet 5-A: Monthly Fixed Expenses (page 5-7).

Step 6

Compare income and spending and make adjustments to achieve balance. If your income and expenses don’t balance—which often happens the first time through—where can you make adjustments? If your income exceeds expenses, consider additional savings or investment goals. However, if your scale tips the other way—with expenses greater than income—here are your balancing options:

- **Increase income.** This may mean a new or second job for family member(s). More education or training may increase earning power down the road. Perhaps you can receive rent for storage or apartment space. Brainstorm other ideas.
- **Reduce expenses.** This option often can make the quickest and biggest difference. As you review each expense, consider whether it is a need, want, or desire. A need is something you must have to live your daily life. A want is a way to meet these needs with more style, comfort, or ease. A desire is something you wish you had but it does not fulfill any basic need. Cutting back on “desire” spending can free up money to pay for needs and wants. Sometimes, even “wants” must give way to basic needs.

Study where your money is going. Where can you cut back? What can you do differently that will have the biggest pay off? The “66 Ways to Save Money” brochure listed in For

More Information offers tips for reducing expenses in transportation, insurance, banking/credit, housing, utilities, and other miscellaneous items.

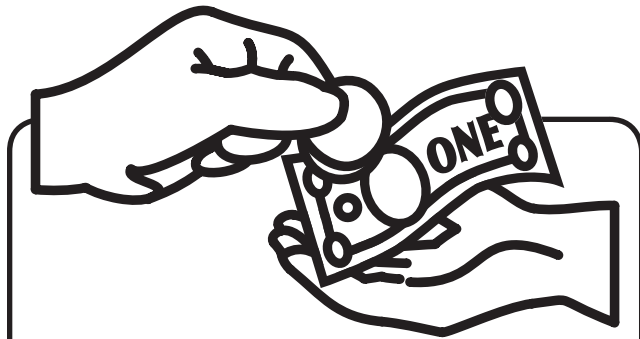
- **Adjust debt payments.** Consider negotiating reduced payments with your creditors. A consolidation loan might also lower monthly payments. However, in the long run, these choices will cost you more. Working with an outside agency in a structured debt management program may reduce late fees and interest charges.

Agencies will work with you by phone, fax, mail, Internet, and even face-to-face. Look for a nonprofit consumer credit-counseling agency and ask questions about fees and procedures before signing anything. For more information about how to select a counseling service, read Ohio State University Extension bulletin *In Over Your Head* as listed in the For More Information section.

- **Sometimes a combination of the above three options works best.** Small changes in each option may work better for you than trying to make up the difference through a single option.

How you decide to balance your income with expenses is up to you. Think about where you are now and where you want to be in five or ten years. Your long-term plan should reflect those goals that are most important to you and your family.

Remember, good money management is more than a mathematical formula because it’s tied so closely with life’s ups and downs. Your money plan is likely to change if your life situation changes. The object of a good budget is to make your money help you reach your goals, not to force you to conform to rigid rules. Don’t be discouraged if your first budget plan doesn’t work out right away. You may have to revise it several times until it fits your situation. You will also need to review it periodically, to be sure it continues to help you use your income in the best way.



YOU are a fixed expense: Pay Yourself First!

The first three lines on Worksheet 5-A put this important financial recommendation into practice. When listing your expenses, plan for savings first. Before paying any bills, deposit the money you need to set aside for an emergency fund, your financial goals, and occasional expenses. Put it in an interest-bearing account, and your money will grow until the expenses come due.

Paying yourself first gives you a systematic way to make your money grow. No matter what one's job or income, this system works! Doing this on payday keeps your entire paycheck from slipping through your fingers. If you wait until the end of the month, there may be nothing left to save.

Action Steps for Lesson 5

Action Steps	✓ Take Action Now
Check each step after you have completed them.	
<input type="checkbox"/> Complete the Fixed Expenses Worksheet (5-A)	
<input type="checkbox"/> Complete the Flexible Expenses Worksheet (5-B)	
<input type="checkbox"/> Complete the Occasional Expenses Worksheet (5-C)	
<input type="checkbox"/> Complete Income and Expenses Comparison Worksheet (5-D)	
<input type="checkbox"/> Rework budget to balance income and expenses and complete appropriate steps listed below:	
<input type="checkbox"/> Take steps to increase income.	
<input type="checkbox"/> Discuss and write down how each spender in the family will help reduce expenses.	
<input type="checkbox"/> Develop a written and realistic debt repayment plan. Negotiate plan with creditors.	

For More Information

From Ohio State University Extension. Ohio residents can contact their county OSU Extension office for copies of these materials. Or, you can download these from <http://ohioline.osu.edu>

Keeping Track of Spending, MM-07-2002
Options for Resourceful Living, MM-09-2002
Home Account Book, Bulletin 723 (\$2.25, plus tax and postage)
In Over Your Head, Bulletin 891 (\$2.25, plus tax and postage)

Other agency publications. From the Federal Citizen Information Center in Pueblo, Colorado. www.pueblo.gsa.gov; click on "money"; scroll to "investing and saving".

66 Ways to Save Money

Software. Money management software can quickly do the financial math and generate reports for you. However, you must keep good spending records and enter accurate data for financial software to be useful. Two widely used programs are listed here.

Microsoft Money 2003™ (or current year) by Microsoft®. Available at office and department stores. Or, go to Microsoft's web site at www.microsoft.com/money.

Quicken 2003™ (or current year) by Quicken. Available at office and department stores. Or, go to Quicken's web site at www.quicken.com.

Sources and References

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- Bureau of Labor Statistics, Consumer Expenditures in 2000 USDL-01-480 (Washington, D.C. U.S. Department of Labor, 12/27/01; <http://www.bls.gov/cex/home.htm>)
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For more information about family life issues, visit <http://families.osu.edu>

Manage Your Money is a six-part self-study course. The lessons include:

- | | |
|------------------------------|---|
| 1. Getting Started | 4. How Much Credit Can You Afford? |
| 2. Where Does Your Money Go? | 5. Develop Your Budget |
| 3. Stop Spending Leaks | 6. Your Net Worth and Financial Records |

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Worksheet 5-A: Estimate Your Monthly Fixed Expenses

Fixed Expenses— These expenses basically stay the same each month and are committed for a period of time.	Planned spending for _____ (Month)	Actual spending for _____ (Month)	Difference (+ or -) (How accurate was your estimate? Use to adjust next month's plan)
Amount to set aside for emergency fund (Lesson 1)	\$	\$	\$
Amount to set aside for financial goals (Lesson 1)	\$	\$	\$
Amount to set aside for occasional expenses (Worksheet 5-C, page 5-9)	\$	\$	\$
Child support/alimony payment	\$	\$	\$
Rent/Mortgage	\$	\$	\$
Utilities—electricity	\$	\$	\$
Gas/propane/oil	\$	\$	\$
Phone(s)—(base amounts)	\$	\$	\$
Internet	\$	\$	\$
Cable	\$	\$	\$
Water	\$	\$	\$
Trash	\$	\$	\$
Monthly Insurance—life	\$	\$	\$
Health (not withheld from pay)	\$	\$	\$
Disability	\$	\$	\$
Auto	\$	\$	\$
Homeowner/renter	\$	\$	\$
Debt payments	\$	\$	\$
Other	\$	\$	\$
Car payment	\$	\$	\$
Loans/rent-to-own	\$	\$	\$
Credit cards	\$	\$	\$
Child Care payments	\$	\$	\$
Contributions/donations	\$	\$	\$
Allowances—adults/children	\$	\$	\$
Other	\$	\$	\$
TOTAL	\$	\$	\$

Worksheet 5-B: Estimate Your Regular Flexible Expenses

Regular Flexible Expenses— These expenses occur each month, but the amounts change. You have more control over these amounts.	Planned spending for _____ (Month)	Actual spending for _____ (Month)	Difference (+ or -) (How accurate was your estimate? Use to adjust next month's plan)
Food and beverages			
At home	\$	\$	\$
Away	\$	\$	\$
Household operations			
Maintenance (upkeep)	\$	\$	\$
Supplies (cleaning, paper, etc.)	\$	\$	\$
Long distance phone	\$	\$	\$
Transportation— gas, bus, taxi, parking	\$	\$	\$
Clothing			
Purchases	\$	\$	\$
Care (laundry, dry cleaning)	\$	\$	\$
Personal care			
Adults	\$	\$	\$
Children	\$	\$	\$
Entertainment and leisure	\$	\$	\$
Pets	\$	\$	\$
Ongoing Medical			
Doctor visits	\$	\$	\$
Dental	\$	\$	\$
Vision	\$	\$	\$
Prescriptions	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
TOTAL	\$	\$	\$

Worksheet 5-C: Estimate Your Occasional Expenses

Year _____	Months												Total Year
Item	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
Automobile (not paid monthly)													
License													\$
Inspection													\$
Maintenance													\$
Insurance													\$
Home (not paid monthly)													
Maintenance, yard													\$
Insurance													\$
Furnishings													\$
Holidays/birthdays/gifts/cards													\$
Travel													\$
Entertaining/parties													\$
Education													
Fees/tuition													\$
Supplies/books													\$
Class/trips/pictures													\$
Medical—out of pocket, such as:													
Doctor visits													\$
Dental													\$
Vision													\$
Prescriptions													\$
Dues/subscriptions													
Magazine/newspaper													\$
CDs, book clubs													\$
Memberships, clubs													\$
Clothes/shoes—adult													\$
Children													\$
Other _____													\$
TOTALS	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Divide Yearly Total by 12 to get the “Amount to set aside for occasional expenses” on Worksheet 5-A: Monthly Fixed Expenses, page 5-7.

÷ 12

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Worksheet 5-D: Compare Income and Expenses

TOTAL INCOME FOR THE MONTHLY PLANNING PERIOD \$ _____
(Transfer amount from Lesson 2, Worksheet 2-C, page 2-8)

BUDGETED EXPENSES

Worksheet 5-A, page 5-7—Fixed Expenses \$ _____

Worksheet 5-B, page 5-8—Flexible Expenses \$ _____

TOTAL BUDGETED EXPENSES – \$ _____
(Add totals of Worksheet 5-A and 5-B above)

DIFFERENCE (INCOME minus EXPENSES) = \$ _____
(+ or -)

If this is a negative number,
review the balancing
options on page 5-4.

Ohio State University Extension (2003)