Developing a Savings and Spending Plan

Many Americans carry some form of debt today, as they choose to buy now and pay later. The following basic spending strategies help you control the amount of debt you create:

- **Spend less than your income**. This savings tactic works well during the working years and will continue to benefit you in your retirement years.
- **Take control of how you spend money**. Tracking what you spend using a pencil and paper, a spreadsheet on a computer, or money management software can help you avoid potential debt traps.
- **Build an emergency fund to cover at least three months of living expenses**. Using emergency funds for unexpected expenses or infrequent but anticipated expenses (such as repairing a damaged roof, replacing a broken dryer, or buying new automobile tires) avoids the use of expensive debt.

If you find yourself in a situation in which you must go into debt, the following guidelines can help you sensibly manage your financial obligations:

1. Know the costs of using credit. Read the fine print. Be aware of when fees could be assessed and when higher finance charges can be applied.
2. Lower the costs of using credit by:
    - Paying all of your bills on time, every month.
    - Being aware of universal default. If borrowers pay even one creditor late—a credit card, utility company or other—their credit costs could go up without notice.
    - Never spending more than 30 percent of a credit limit from any one source.
3. Know what you owe and reduce your debt by setting goals.
4. Methodically pay off your debt instead of selling an asset to eliminate it all at once.
5. Pay down or pay off a mortgage after paying off high-interest debt, such as auto loans, credit cards and payday loans.
6. If your spending is under control but your overall debt is too high, consider downsizing your home, moving to a less-expensive area, or taking on a part-time job. Even small cutbacks in expenses can add up to big savings over time.
7. Do not hesitate to get help in addressing personal debt issues from a qualified financial advisor.

The following are steps you can take to assist in creating your budget but you will first need to gather the documentation listed here to assist you:

- Your last 12 months' worth of bank account statements
- Your last 12 months' worth of credit card statements
- Last two paystubs for you (and your spouse if you are married)
- Colored highlighters (use to group your expenses together into different categories)
- Last year's tax return

STEP 1 – Make a list of all your fixed or required monthly obligations

To make an effective budget, break this list down into three parts:

- Essentials: this includes expenses that cover food, clothing, housing, transportation and health care.
- Non-essential monthly obligations: non-essentials are things such as cable, cell phone, gym memberships, subscriptions and other items.
- Required non-monthly expenses: items like property taxes, insurance premiums, auto registration and home warranties may come up once a year. Be sure to take these periodic expenses and calculate their cost on a monthly basis and include it in your budget.

STEP 2 – Research your costs for health care

- Account for all your expected health care costs keeping in mind premiums may go up annually. In addition, factor in the cost of dental, eye care and hearing.

STEP 3 – List all your optional expenses

- This all the fun stuff, like travel, hobbies, sports and entertainment.

STEP 4 - Calculate expenses vs. income

- Total all your expenses.
- Total all your income.
- Subtract your monthly expenses by your monthly income. Hopefully, there is excess income for savings which can be used for optional expenses, home improvements, crises, etc. If your income is not enough to pay your expenses you will need to reevaluate your expenses.

Attached is an example budget spreadsheet. You can use this to assist you with preparing your monthly expense list.

Budget Calculator

Directions: Fill in the blanks for sections 1, 2, 3 and 4. Then transfer the totals to section 5 for results.

Section 1: Income

	Monthly	Annually		Monthly	Annually
Your Primary Income	______	______	Investment Income	______	______
Your Spouse's Income	______	______	Real Estate Investment Income	______	______
Child Support or Alimony	______	______	Business Income	______	______
Social Security Income	______	______	Other Income	______	______
Disability Income	______	______	**Total Income**		

Section 2: Necessary Expenses

	Monthly	Annually		Monthly	Annually
Payroll Taxes	______	______	Home or Renter's Insurance	______	______
Other Income Deductions	______	______	Health (Insurance/Care/Prescriptions/etc.)	______	______
Rent or Mortgage	______	______	Dental (Insurance/Care/etc.)	______	______
2nd Mortgage or Home Equity Loan	______	______	Life Insurance Costs	______	______
Property Taxes	______	______	Student Loans	______	______
Water	______	______	Home Repairs	______	______
Garbage	______	______	Home Supplies	______	______
Gas & Electric	______	______	Dry Cleaning	______	______
Auto Insurance	______	______	Laundry	______	______
Auto Repairs	______	______	Investment Real Estate Expenses	______	______
Food & Groceries (Not Dining Out)	______	______	Business Income Expenses	______	______
Clothing (Necessary)	______	______	Childcare (Daycare & Babysitters)	______	______
Telephone (Not Mobile Phone)	______	______	Other Dependent Expenses	______	______
			Total Necessary Expenses		

Section 3: Discretionary Expenses

	Monthly	Annually		Monthly	Annually
Credit Card Bills	______	______	Dining Out	______	______
Tithing/Charitable Donations	______	______	Travel & Vacation	______	______
Auto Loan(s)	______	______	Pet(s), Pet Care & Pet Food	______	______
Gasoline	______	______	Clothing (Above What's Needed)	______	______
Cable or Satelite TV	______	______	Internet Access	______	______
Mobile Phone(s)	______	______	Computer Costs	______	______
Home Improvement	______	______	Gym Membership	______	______
Home Security	______	______	Beer & Alcohol	______	______
Garden Supplies	______	______	Cigarettes & Tobacco		
Entertainment (Not Dining Out)	______	______	**Total Descretionary Expenses**		

Section 4: Investment Spending

(Only include fixed monthly or yearly investments here, not discretionary investing.)

	Monthly	Annually		Monthly	Annually
401K, 401B Deposits	______	______	Brokerage Deposits	______	______
IRA Deposits	______	______	Other		
Employee Stock Plans	______	______	**Total Investment Spending**		

Section 5: Results

NOTE: Bring totals down from sections 1, 2, 3 and 4, and to find Percentage column, Monthly column is divided by Annually column.

	Monthly	Annually	Percent	
Total Income	______	______	______	
Necessary Expenses	______	______	______	
Discretionary Income	______	______	______	
Investment Spending	______	______	______	
Descretionary Income Less Investments	______	______	______	
Descretionary Spending				*Keep this as low as possible*
Amount Remaining to Save or Invest				*Try to keep this percentage above 5%, above 20% is outstanding*