ESTABLISHING A SUCCESSFUL SPENDING PLAN

Financial planning and financial stability begins with a well-prepared spending plan. It serves as a guide for current and future spending, promptly paying your bills, and maintaining good credit. An effective spending plan is an important tool for creating and maintaining your financial health.

WHY MAKE A SPENDING PLAN?

Most of the time, no one likes to keep track of their spending. Doing so takes valuable time away from your already busy schedule and from the activities that you love most in life. Without a highly motivating reason, the process may be doomed to fail from the start. The following are a few of the most common "positive" or "proactive" reasons to develop a spending plan:

- To be debt free – Stop paying a large part of your income to high interest debt
- To pay your bills on time – Stop paying late, overage and reinstatement fees.
- To feel better – Relieve stress by having a plan
- To establish savings – Be prepared in the event of an emergency or unforeseen expense, such as a sudden car repair or a short-term loss of income
- To have good credit – Being current with monthly bills and paying on time
- To keep what you have worked hard to gain – Avoid repossession or foreclosure

If you haven't been proactive, you may need to act quickly to avoid serious consequences. Many individuals have inadvertently committed a large portion of their paycheck to making monthly debt payments, due to their reliance on borrowing (credit cards, equity and personal loans, etc.). Many are now living on less than their means because of these monthly payment obligations. Others, through no fault of their own, have endured a job loss or medical bills that have put them in financial difficulty.

Try to set your sights on the most positive financial future that you can realistically imagine. Following are a few of the more "proactive" reasons to begin:

- To buy a home
- To put your children through college, without going deep into debt
- To save for a particular item, such as a wedding ring or special vacation
- To have financial independence or retire by a certain age

SET SPECIFIC GOALS TO STAY ON TRACK

Identify the detailed financial goals that will help shape your future. Specify whether each goal is short term (one year or less), mid-term (greater than one year/less than five years) or long term (five years or more). Attach a dollar value and a date to each goal. Write them down. You may want to post your goals where you will see them every day. Some people put a picture of the goal such as a magazine photo of their "dream car", where they will see it daily and be inspired.

Please note: Be sure the strategies you follow have been fully discussed with your Money Coach

DISCUSS YOUR GOALS WITH FAMILY MEMBERS

Determine your family's most important goals. Allocate money to those items that will help you achieve your goals, the family's welfare, and the family's overall happiness. Shared family goals provide a greater incentive. It's much easier to forego a dinner out or new clothes, when you know another more important dream moves closer to realization.

In addition, all family members need to become involved with the success of the spending plan. Families often encounter problems when family financial goals are not discussed and mutually agreed upon.

PREPARING A SPENDING PLAN

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. Add together all of your expected "take home" pay for the entire year and then divide that number by twelve to get your "average monthly income".

2. **Identify "Historical" Spending** – Gather the details on your spending for the last three to six 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 categories as you gather more experience in tracking your expenses. Be sure to include once-a-year or periodic expenses; for example, if you pay your property taxes semi-annually, you will 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 Debts vs. Expenses** – A debt is a bill that can be permanently paid off: car payment, credit cards, boat loan, dentist bills, and club fees. Expenses include payments for rent, gas, electricity, phone bill, car insurance and groceries. These are on-going expenses that will likely be with you the rest of your life.

4. **Categorize Expenses** – Allocate your expenses into the appropriate categories outlined in the worksheet provided. You may need to add categories that are specific to your needs. Once you've allocated all of your expenses, identify whether each category is essential or nonessential. Essential expenses are those that you need, such as your mortgage payment or utilities. Nonessential expenses are those that you want, such as cable, entertainment or a cell phone. Expenses include payments for rent, gas, electricity, phone bill, car insurance and groceries. These are on-going expenses that will reoccur regularly.

5. **List All Uses of Cash** – 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 cash, grocery store cash back, bank deposit cash back, and credit card charges. Categorize all expenditures, i.e., how much was spent on food, entertainment, restaurants, etc.

Please note: Be sure the strategies you follow have been fully discussed with your Money Coach

6. Create a Spending Plan – Once you've determined where your money has gone in the past, you will need to determine where you want it to go in the future. This plan should include your savings goals, as well as your monthly and periodic expenses. Start by subtracting your total monthly expenses from your total monthly income. If you have more expenses than income, you have your work cut out for you. You can either increase your income or reduce your expenses to balance your income and expenses.

First, go back through your nonessential expenses to identify which categories you are able to reduce in the future. Keep in mind that even some essential expenses can be reduced. You may choose to sell a car and eliminate a car payment, or to refinance your home to live within your means.

You may also choose to take on a second job or seek a higher paying job to increase your income. If you make large contributions to your retirement plan, but are not able to make your credit card payments on time, you may want to temporarily cut your retirement contributions to increase your take home pay. Try to contribute up to the employer match if possible so you do not lose the free match.

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 how the money slipped through your fingers. Are you making ATM withdrawals and have no idea where the cash was spent? Are you eating out for lunch when working, 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 are one of the very few individuals that are not spending more than they make each month. You may want to increase the amount that you are saving each month toward your financial goals. Congratulations!

Pay yourself first by allocating a portion of your income to savings: five to ten percent of your income is a good place to start. Savings can include a savings account, 401k plans, IRAs, etc. Begin with a small amount and always pay this amount first each month. Increase the amount as much as your spending plan will allow. Use unexpected income such as overtime or bonus money to reduce credit card or other debt, or to increase savings. Do not use this money for impulse spending.

Plan to save a portion of your income each month to create an emergency fund, and also to help you accomplish your financial goals. Be sure to include a "savings" category in your list of expense categories. If you don't "pay yourself first", you are unlikely to pay yourself at all. You can set your savings goals according to what you believe you can afford, or according to your long-term savings goals.

For example, if you plan to buy a used car for $7,000 in three years, you would need to save $182 per month in an account paying 4% annually to achieve your goal. There are simple, user-friendly financial calculators available online to help you determine what your monthly savings will need to be in order to accomplish a particular goal.

Please note: Be sure the strategies you follow have been fully discussed with your Money Coach

7. Track Ongoing Spending – Now that you have created a spending plan, you will need to create a system that:

- Identifies your expenses soon after they are incurred
- Allows you to tell how much you have left to spend in each category

A combination of financial software (such as Quicken or MSN Money for example) 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. Your job is simply to put your new financial strategy into practice in your daily life.

For those of us who don't have access to a computer or simply aren't "computer people", 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. You will need to hold on to all of your receipts; maintain your checkbook balance, and avoid using ATM or cash for purchases that you may not remember later. 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.

In years past, many people cashed their paychecks and put the money into envelopes for each of their spending categories: one for rent, one for groceries, etc. Nowadays, it may be unwise to keep your entire paycheck in cash in your home, but it is possible to apply this envelope 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.

8. Revise Your Plan – Money management is an evolving process. Once you have established your initial plan and lived with it for a time, you will 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 OK to make adjustments in your plan as long as you do not lose sight of your personal financial goals and objectives. Most 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. For a yearly plan, divide your income and expenses by the number of your pay periods. Most people are paid weekly or bi-weekly. Most bills are paid monthly and not all are due at the same time of the month. Estimate the due date of the bills and allocate your paychecks accordingly. Also, allocate part of each paycheck towards possible new expenses. To anticipate future monthly expenses:

- Review pay-stubs, tax returns, and credit card bills, check books and other financial records
- Keep accurate records and plan for the entire year
- Review your total spending each month and compare it to your yearly plan

Please note: Be sure the strategies you follow have been fully discussed with your Money Coach

9. 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.

Please note: Be sure the strategies you follow have been fully discussed with your Money Coach

www.clcincorporated.com
Toll Free: 1-800-541-9701