The Spending Plan (Budget)

What is the spending plan?

Your spending plan is essentially your budget. By using a more positive name, you can escape the feeling of restriction that often accompanies the term budget. Your spending plan is a tool to help you achieve financial goals that otherwise might seem impossible to reach. It is a way to take charge of your spending on a daily, weekly, and monthly basis so that you can channel your income to achieve your goals. A spending plan is also a way to keep money from slipping away unnoticed, allowing you to take charge of decisions such as what to buy, when to buy it, and why.

How do you create a spending plan?

The first step is to set your budget goals , both short and long term. Goals give you something to look forward to and help you identify what you would eventually like to accomplish with your spending plan. In addition to identifying your financial goals, you need to estimate their cost, factoring in the rate of inflation for long-term goals. This allows you to determine how much must be set aside each month and helps you prioritize your goals. Changes in your income, health, the economy, your family size, and dozens of other variables can affect your plan and force you to sacrifice some of your goals. By prioritizing your goals, you will be prepared to make crucial decisions about what goals to abandon if necessary.

How do you develop a spending plan?

To develop a spending plan , you must first become aware of your monthly expenditures and income. A spending diary, whether computerized or handwritten, will help you to identify your spending patterns and eliminate unnecessary expenditures. Your expenditures analysis should include out-of-pattern expenses (expenses that are not incurred every month, such as annual insurance premiums, automobile registration fees, subscription renewals, and holiday expenditures). Unless you derive income from various and unpredictable sources, your income analysis should be easier. Include your current salary or use estimates based on the past two years.

Once you know how much money you have coming in and where it is going, you can determine what percentage of your gross income goes to each category of expenditures (e.g., housing, taxes, transportation, food, clothing, entertainment). If you have selected goals, such as paying off credit card balances or saving for retirement, then you can try to squeeze money out of one or more of your spending categories to fund the goal. By keeping your plan flexible and periodically reevaluating your progress, you can take control of your financial situation.

How do you implement and monitor the plan?

Once your goals have been identified and your spending plan developed, all you need to do is implement the plan and monitor your progress. To make the process easier, you should include the whole family in the effort, commence the plan at a good time (not just before the holidays or vacation), keep the monitoring process simple, and be flexible. Discipline is necessary, but don't be too hard on yourself or you may become frustrated and abandon the whole effort. Be willing to make adjustments as you go along. You can monitor your plan using modern computer software or old-fashioned paper and pencil.

How do you cut costs if you are spending too much?

If you are spending too much , there are several ways to cut back. One approach is to work on changing your spending habits. Suppose you are spending too much money on particular items (such as clothing) or spending more money at certain times of the month (near payday). By being aware of those habits, you can make appropriate changes. You may also try shopping smarter and reducing restaurant and/or entertainment expenses. Another option is to downsize to a less expensive car or home to reduce
spending.

You may also reduce spending by reducing the cost of your debt . One way is to consolidate or refinance high-interest loans. As mentioned, you shouldn't be too hard on yourself, but make a few changes. In time, you may be able to bring your spending under control.

How do you increase your cash flow?

To maintain your spending plan, you must always have sufficient cash flow. There are a number of ways to increase your cash flow if you need to. You might ask for a raise, take a higher-paying job, take a second job, or turn a hobby into a business. You can sell or liquidate assets and eliminate expenses. You can also borrow your way through a cash flow crisis, provided you can afford the additional loan payments when they come due.

Can you afford to have one spouse stay at home?

If you are developing your spending plan to determine whether a spouse can remain at home , then you have additional factors to consider. You should examine the short-term impact that losing an income will have on you and your family (immediate loss of cash flow) as well as the long-term impact (only one income contributing to the retirement fund, for example). Remember that when one spouse stays home, you may actually reduce some spending categories, such as child-care costs and commuting costs. It is always good to do a second-income analysis to determine the after-tax benefits of having both spouses working, and be prepared to accept lifestyle changes if you decide to have one spouse stay home.

This article is not intended to be exhaustive nor should any discussion be construed as legal or financial advice.