

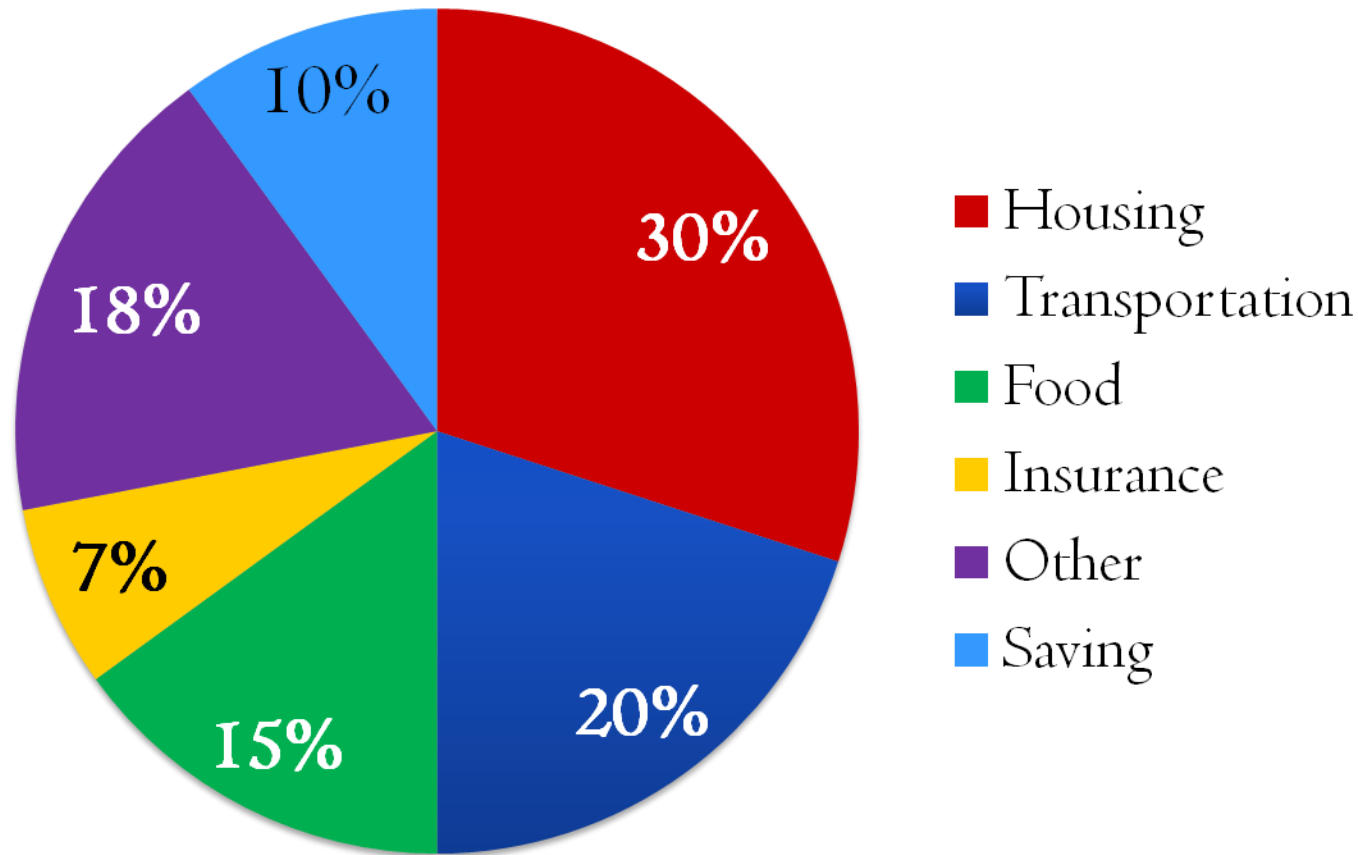
# SPENDING PLANS

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Take Charge of Your Finances

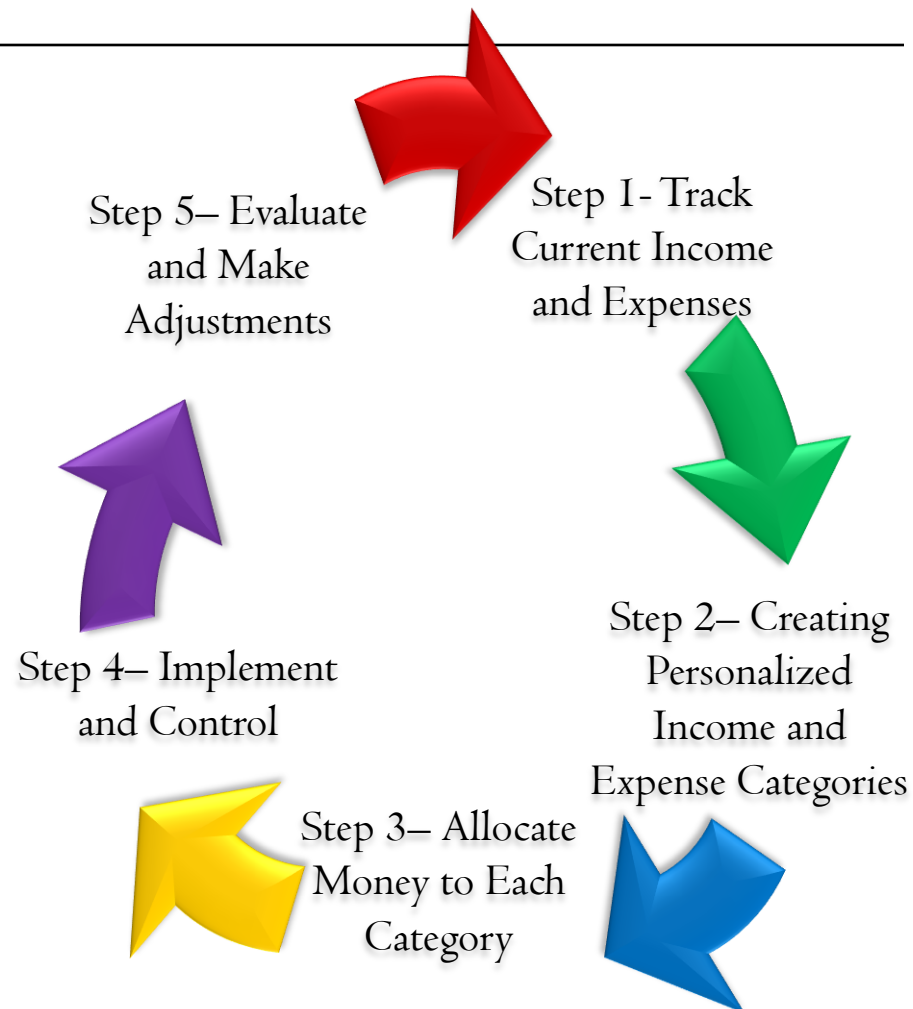


# RECOMMENDED SPENDING PLAN CATEGORY PIE CHART



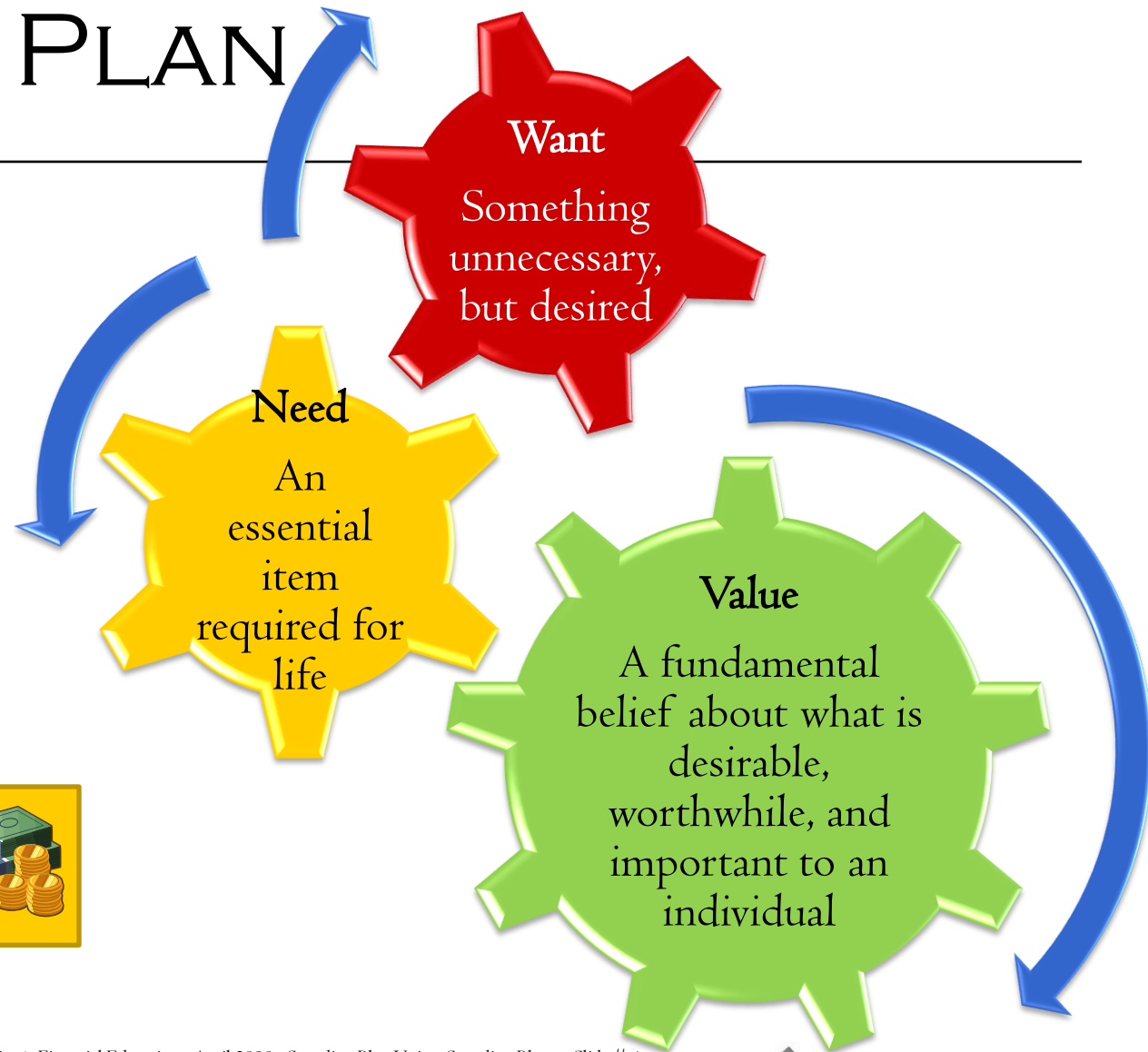
# HAVING A PLAN

- **Financial planning** is a process individuals engage in to achieve long-term financial success while having a quality standard of daily living
- A **Spending plan** is a paper or electronic document used to record both planned and actual income through expenditures over a period of time



# SPENDING PLAN

- Each individual has a unique spending plan based upon the following elements:



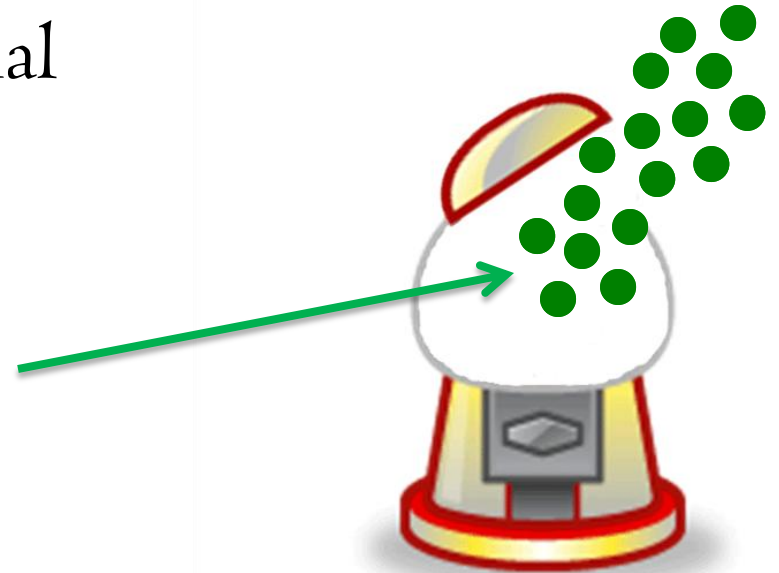
What does the Brown Family value?



# INCOME

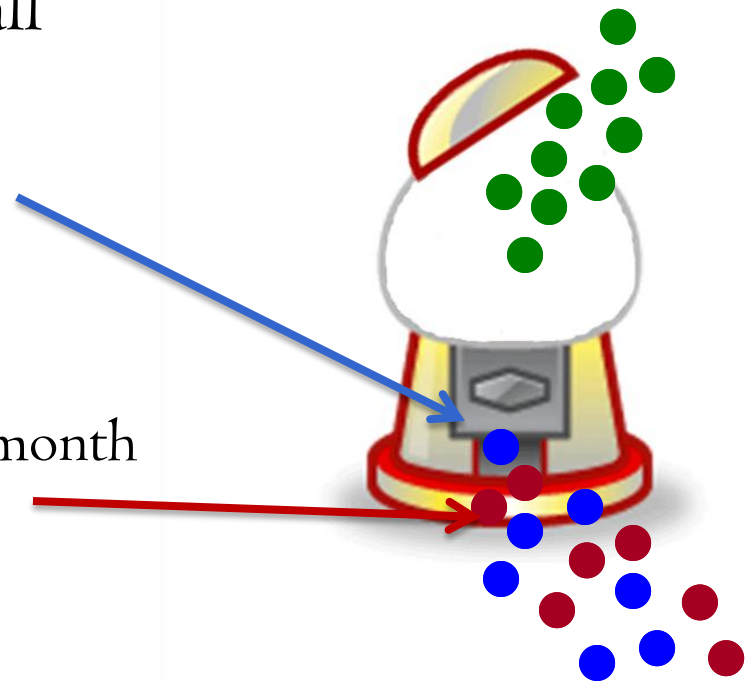
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- Gumball machine represents components of the financial planning process
- **Income** is money earned
  - Gumballs going into the machine
  - Wages from a job, allowance, gifts



# EXPENSES

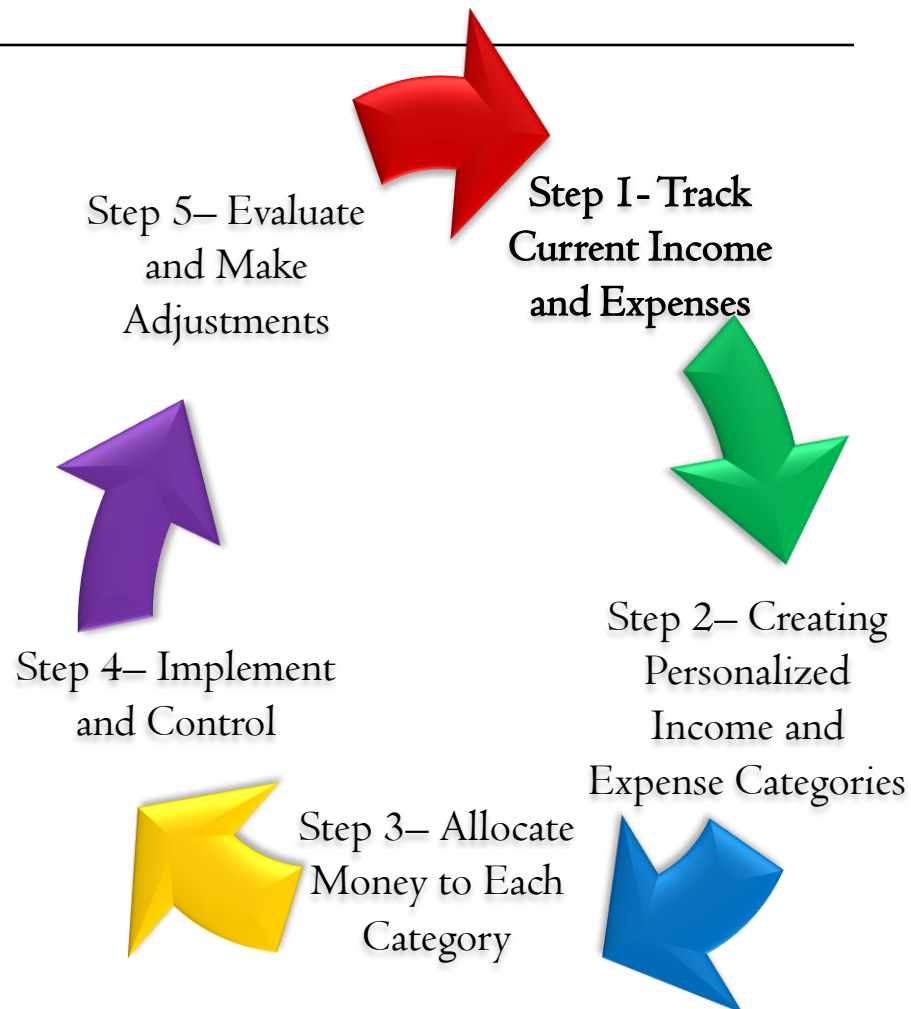
- Expense is money spent
- Money going out of the gumball machine
  - **Fixed expenses** may have a fixed amount due each month and are contractual
  - **Flexible expenses** can vary each month in the amount owed and are not contractual



# DEVELOPING A SPENDING PLAN

## – STEP 1

- Track current income and expenses
  - Individuals will determine what income and expenses they have within a give period of time
    - Usually concurrent with an individual's pay day
      - Monthly
      - Bi-monthly



# TRACKING METHODS

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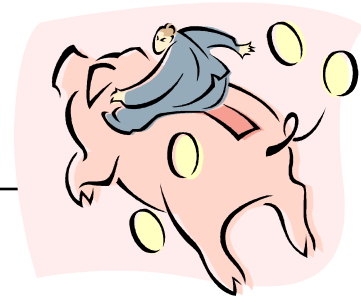
*Must work for the individual!*

*There is not one right method!*

- ❑ Carrying a small notebook and writing down all expenses
- ❑ Keep all receipts
- ❑ Use a debit card if your depository institution creates spending reports for your account
- ❑ Input information into a cell phone



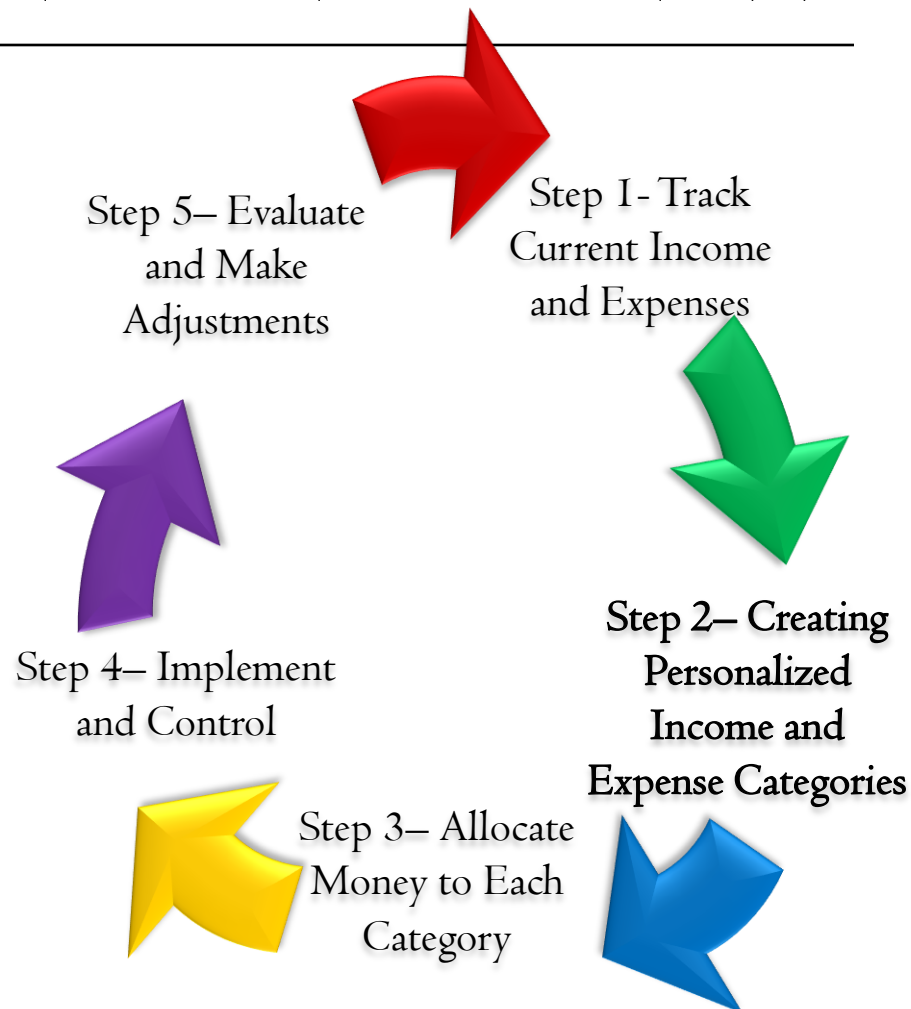
# THE COSTS ADD UP



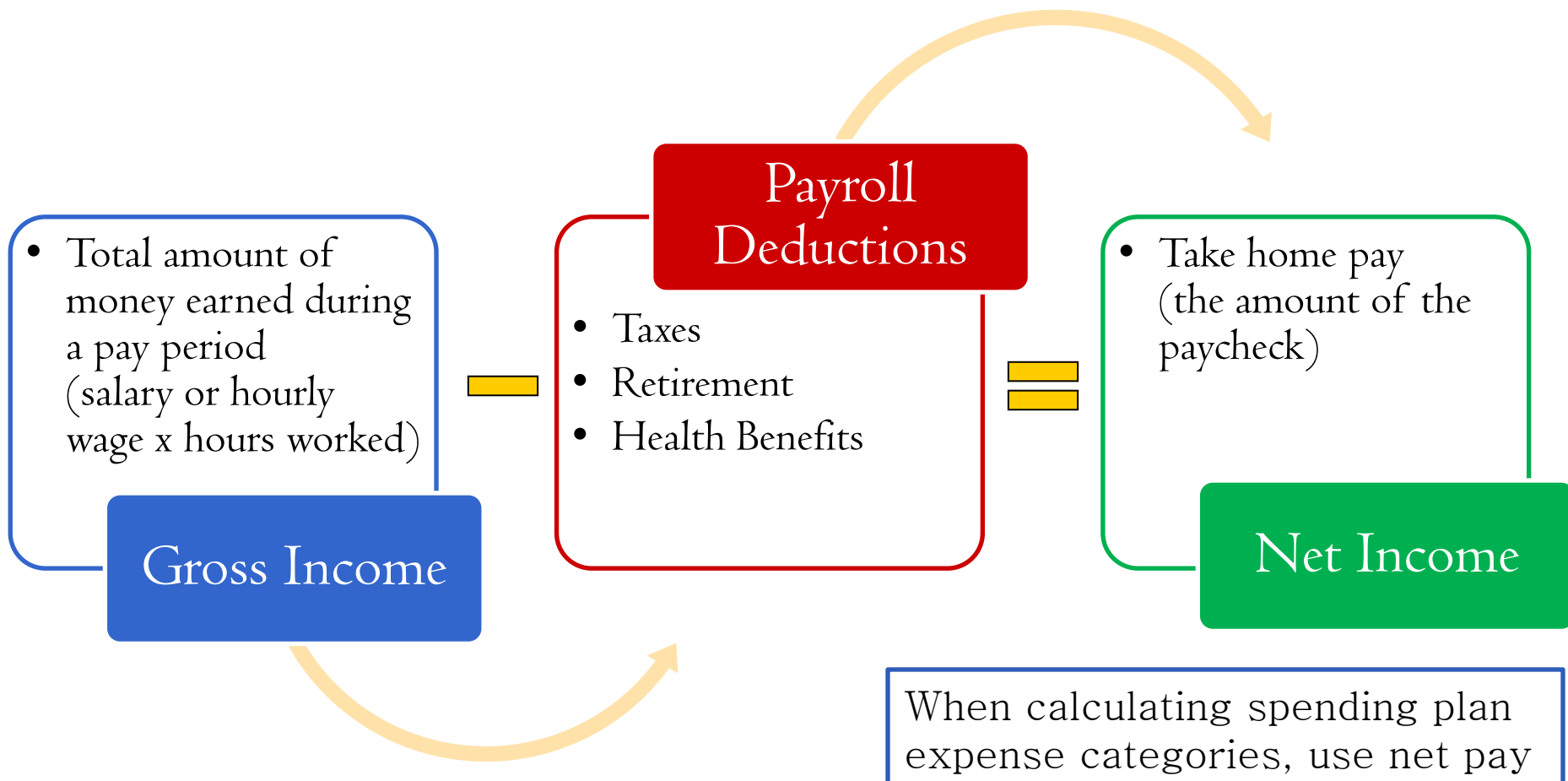
- Monthly haircut
  - \$35.00 per month
  - \$420 per year
- Weekly date night at the movies with popcorn
  - \$30 per week
  - \$1,560
- Daily Latté
  - \$3.75 each time
  - \$1,365 per year
- Eating lunch out 5 days per week
  - \$5-\$10 each time
  - \$1,300-\$2,600 per year
- Daily sport drink
  - \$2.00 each daily
  - \$728 per year

# CREATING PERSONALIZED INCOME AND EXPENSES CATEGORIES – STEP 2

- Each spending plan is unique because of individual and family values
- Categories are based upon the individuals/families income and expenses



# GROSS VS. NET PAY



# PAYROLL DEDUCTIONS

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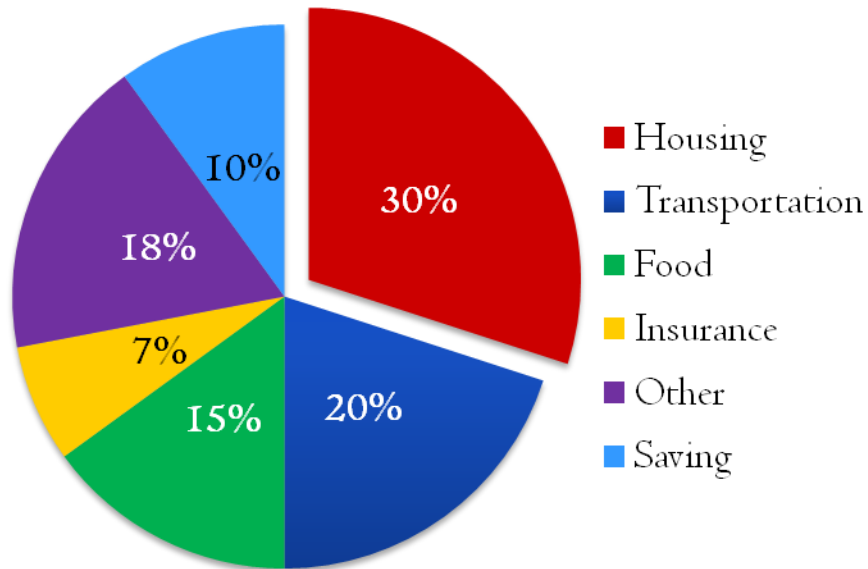
- Taxes
  - Required by local, state, and federal governments
  - They provide public goods and services
  - They account for approximately 30% of an individual's gross income
  
- Payroll deductions:
  - Federal (mandatory)
  - State (If applicable)
  - Federal Insurance Contribution Act (FICA) (mandatory)
  - Retirement (depends upon the employer)
  - Health care benefits (depends upon the employer)

# HOUSING



## □ Housing

- Housing is the largest of the four major expenditures
- Recommended 30% of an individual's net income
  - **Monthly payment** – A fee charged each month to live in a home
  - **Utilities** – include electricity, water, and garbage fees



# HOUSING

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## □ Housing

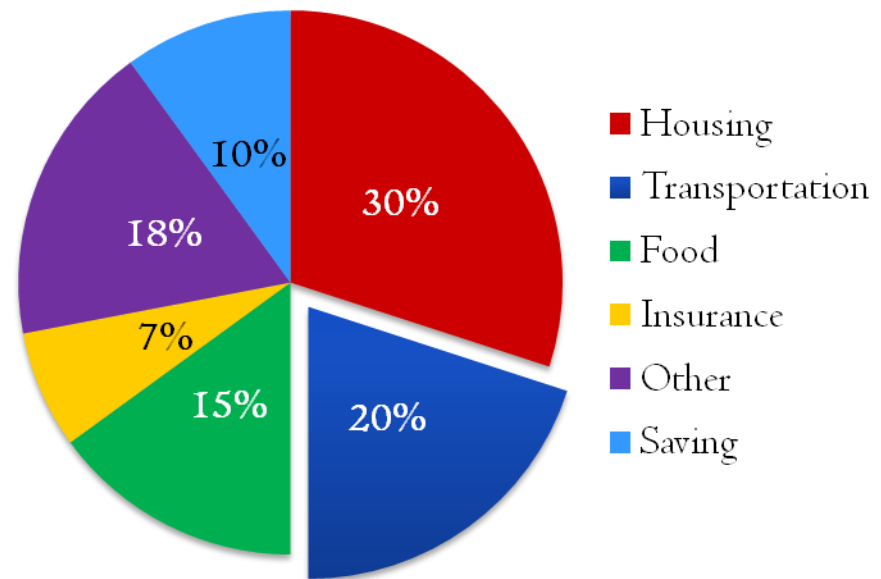
- **Home or renters insurance** – purchased to protect the home and possessions inside from loss
- **Taxes** – paid by the owner of the home
- **Maintenance** – includes paying for the upkeep of a home

# TRANSPORTATION



## □ Transportation

- The second largest major expenditures
- Recommended 20% of an individual's net income
- **Monthly payment** – is made if a loan is taken out to purchase a vehicle



# TRANSPORTATION

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- **Transportation**
  - **License and registration** – are required by law to own a vehicle
  - **Insurance** – required by law to protect the vehicle and individuals if involved in an accident
  - **Maintenance** – costs keep automobiles running smoothly
  - **Fuel** – to operate the vehicle
  - **Public transportation fees** – including bus, metro pass, taxis or parking fees

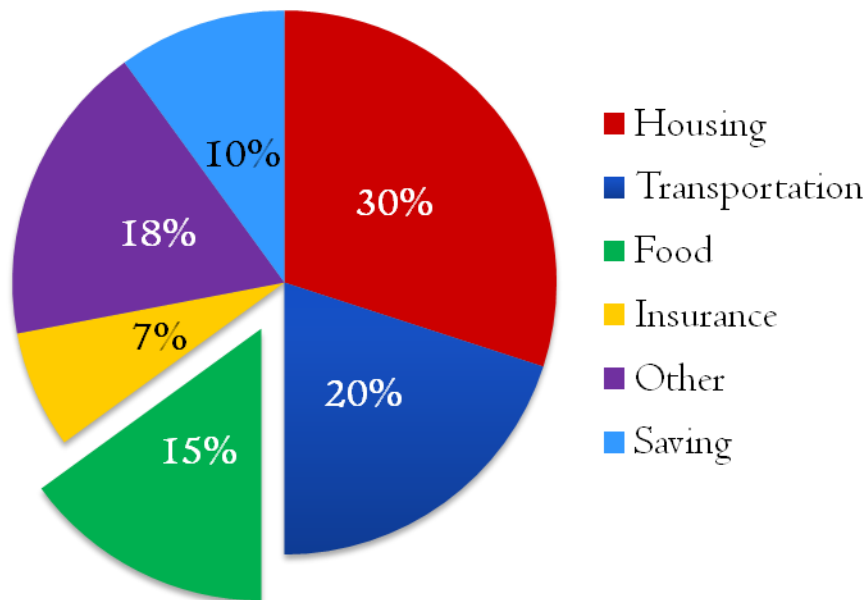


# FOOD

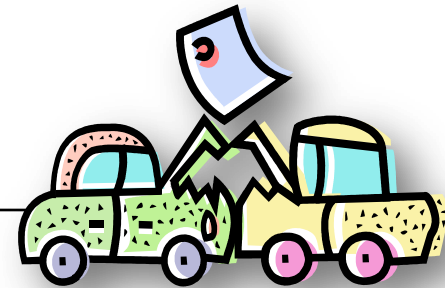


## □ Food

- The third most expensive category within an individual's spending plan
- Recommended 15% of an individual's net income

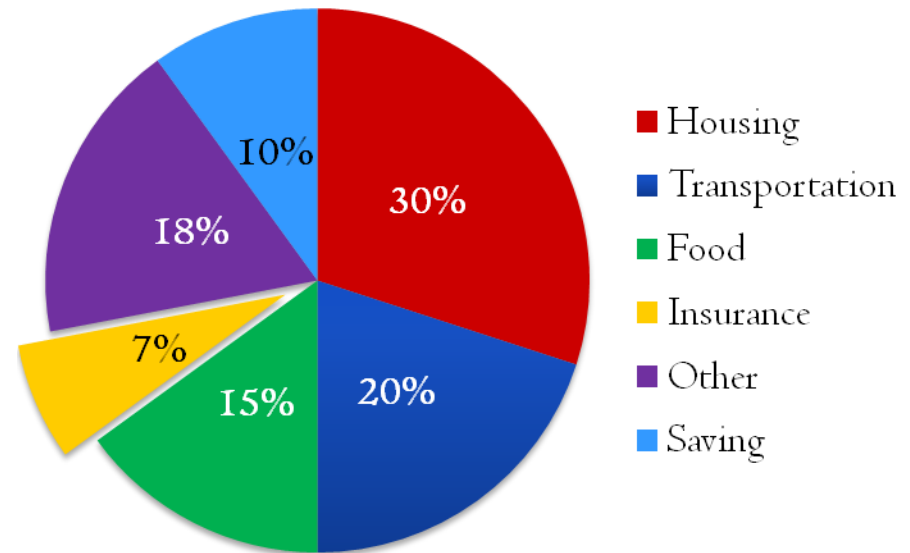


# INSURANCE



## □ Insurance

- Arrangement between an individual and an insurance company to protect the individual against risk
  - **Risk** is uncertainty about a situation's outcome
- Recommended 7% of an individual's income

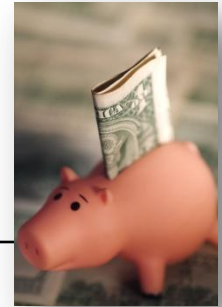


# INSURANCE

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- Includes the following:
  - **Health** – pays a portion of health care expenses if one is sick or injured
  - **Disability** – provides financial support if an individual is injured and cannot work
  - **Life** – provides financial support to an individual's beneficiaries upon death

# ADDITIONAL EXPENSES

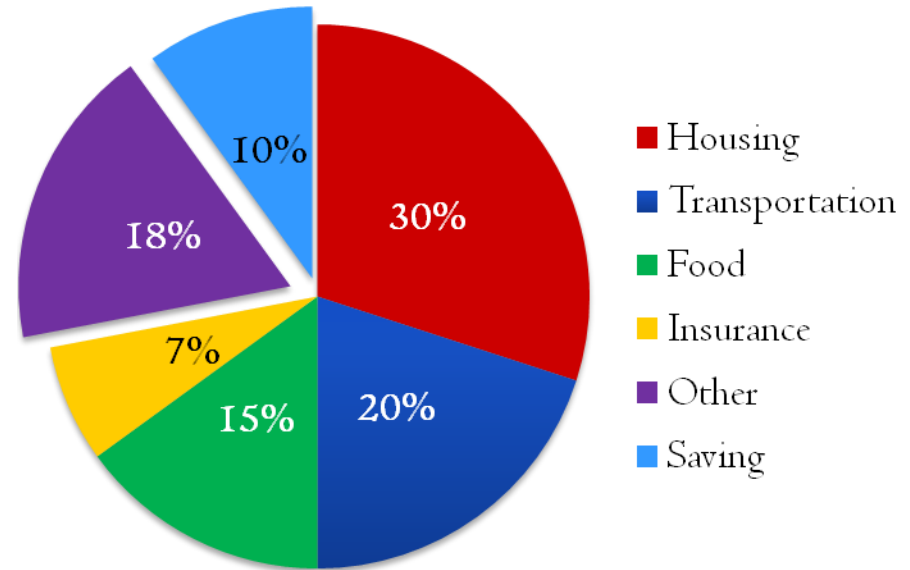


## □ Savings and investing

- Save 3-6 months of income that is available in a liquid account for emergencies

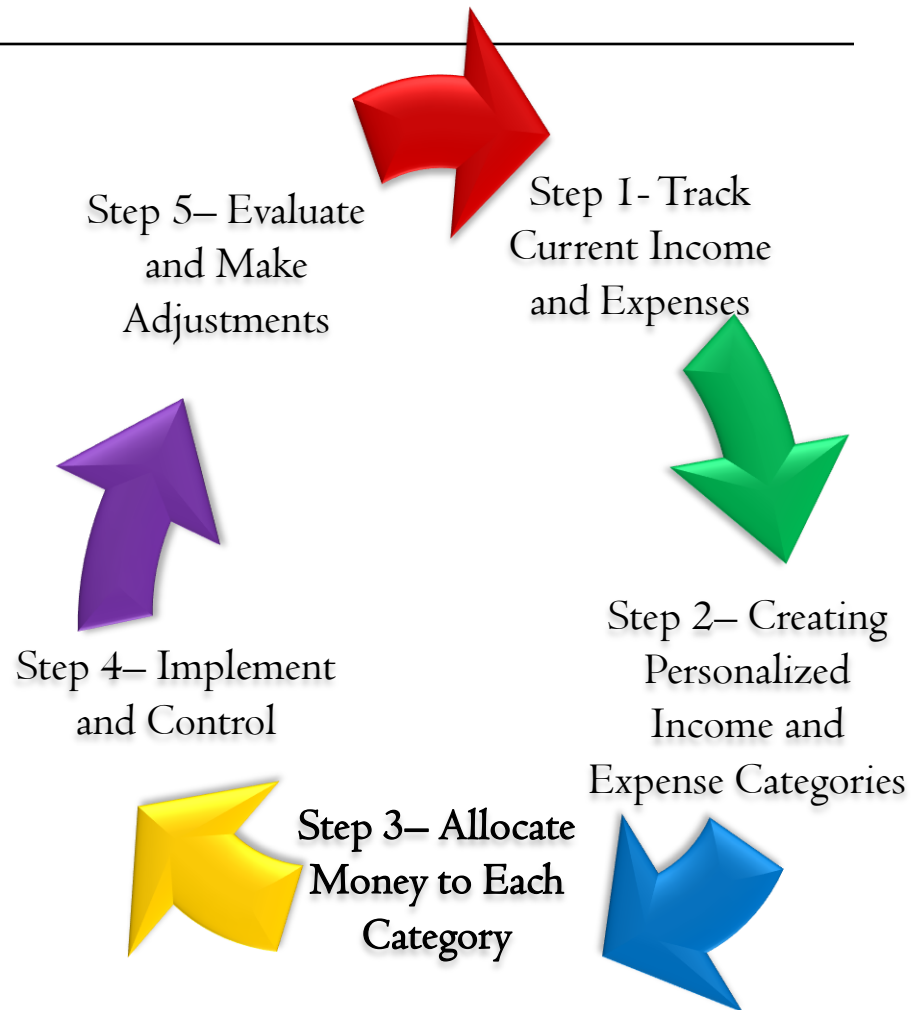
## □ Other

- Fulfills additional needs and accounts for 18% of an individual's net income



# ALLOCATE MONEY TO EACH CATEGORY — STEP 3

- Reference tracking from step one to be realistic about expenditures and income
  - Think if there were any unique expenses in the past month that should be included
- Consider changes that need to be made
  - Identify ways to implement that change
- Consider financial goals and money that needs to be allocated



# SPENDING PLAN TEMPLATE

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- Each individual/family uses a different program to create a spending plan
  - Paper and pencil
  - Online software such as Quicken
  - Electronic programs such as Microsoft Excel and Word
- Must be something that an individual can manage effectively

# SPENDING PLAN TEMPLATE

Income	Amount	
Wages	\$	
<b>Total Income</b>	<b>\$</b>	
Expenses	Amount	Percentage of income used for each expenditure
Housing Rent or mortgage Utilities Maintenance Insurance	\$	
Food Eating out Groceries	\$	
<b>Total Expenses</b>	<b>\$</b>	
<b>Total Income – Total Expenses</b>	<b>\$</b>	

# ALLOCATE MONEY TO EACH CATEGORY



- **Net gain** there is remaining money to either save, spend or invest
- **Net loss** an individual is spending more money that he/she is earning and has to use credit (borrowed money) to meet their financial obligations
- A spending plan should have income and expense matching one another (reach zero)



# THE BROWN FAMILY

## Complete Step 2

- Review spending plan categories
- Answer taxes question



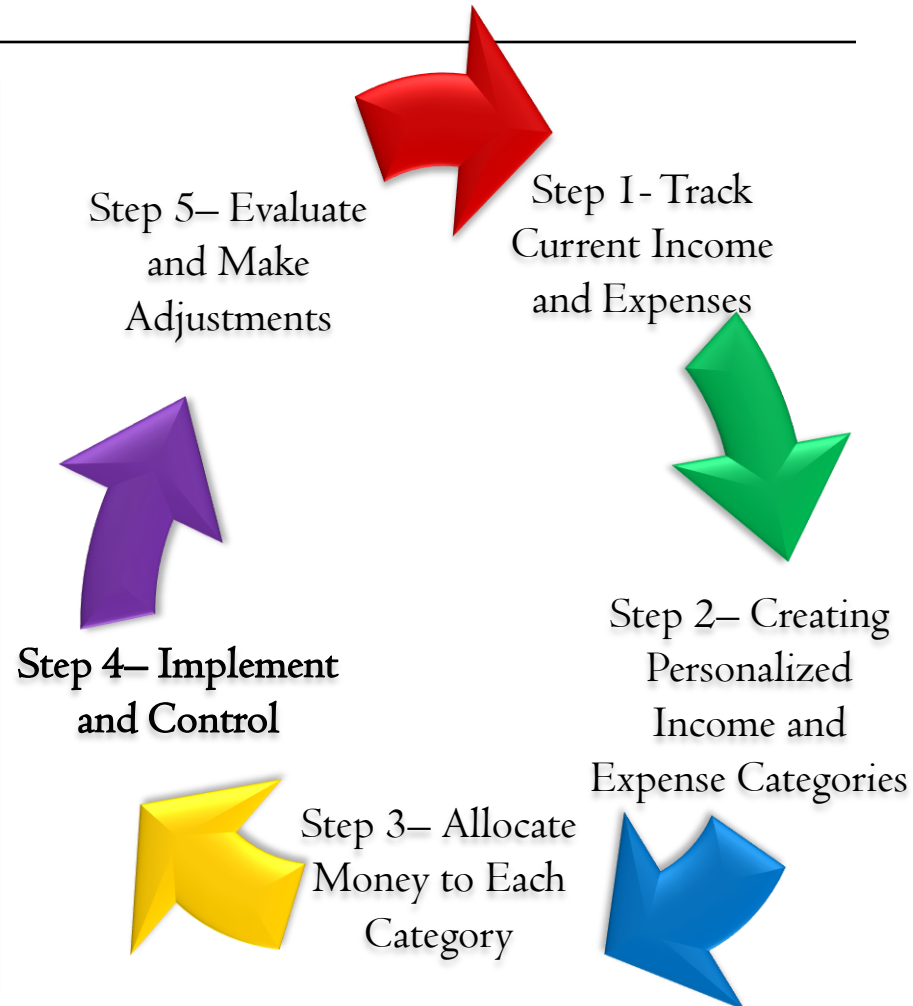
## Complete Step 3

- Complete the spending plan with the Brown families income and expenses
- Analyze the pie chart
  - Similarities
  - Differences
  - Adjustments



# IMPLEMENT AND CONTROL — STEP 4

- When individuals implement their spending plan
- Must develop control systems to track their income and expenses
  - Continually compare them to their spending plan to ensure they are on-track and make changes to prevent credit or savings use



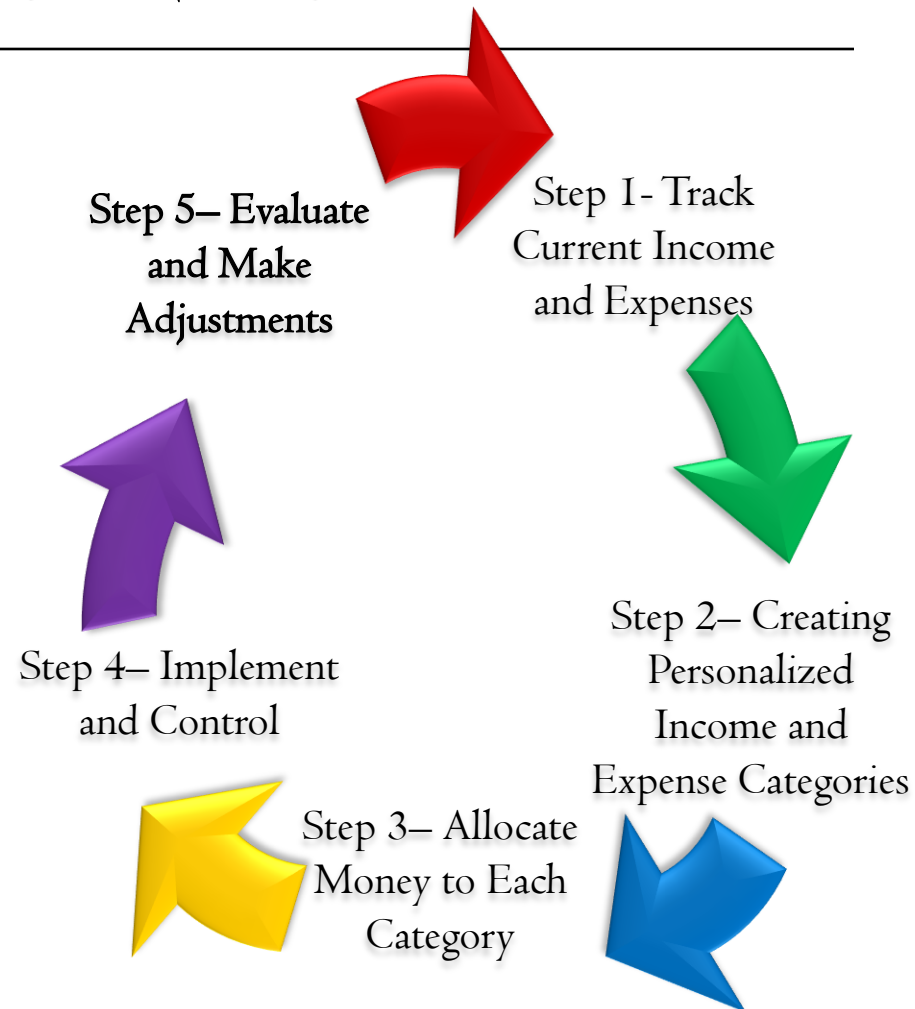
# IMPLEMENT AND CONTROL

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- There is not one correct control system. Depends upon the individual/family
  - **Envelope systems** – individuals place the actual budget amount of cash from a paycheck into a specific envelope system for the expense
  - **Check register system** – This helps consumers to track all expenditures in a checkbook register which has been divided into spending plan categories
  - **Electronic spending plan systems** – Multiple types of software are available for consumers to use to help keep track of their financial records

# EVALUATE AND MAKE ADJUSTMENTS – STEP 5

- Assess if spending plan is working
- Make changes if necessary
- Analyze if goals are being met
- Begin the process again



# THE BROWN FAMILY

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## Complete Step 4

- Identify control systems for the Brown family
- Analyze the purpose of a control system
- Brainstorm advice for a family who does not have a control system in place



## Complete Step 5

- Identify expenses encountered, but not included
- Identify ways to adjust their spending plan
- Create a new spending plan



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# LONG-TERM POSITIVE IMPACT OF A SPENDING PLAN?

*To know where your money is going!*

*To build long-term wealth!*

*To create long-term financial security!*

# NET WORTH STATEMENT

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- A **net worth statement** describes an individual or family's overall financial condition on a specified date
- The components include:
  - **Assets** – Everything a person owns with monetary value
  - **Liabilities** – Debts or what is owed to others
  - **Net Worth** – the amount of money left when liabilities are subtracted from assets (indicates wealth)

# WHO IS WEALTHIER?

Juanita – earns \$35,000 per year

Assets	
Home	\$60,000
Retirement	\$24,000
Automobile	\$8,000
<b>Total Assets</b>	<b>\$92,000</b>
Liabilities	
College loan	\$6,000
Mortgage	\$35,000
<b>Total Liabilities</b>	<b>\$41,000</b>
<b>Net Worth</b>	<b>\$51,000</b>

Alexis – earns \$100,000 per year

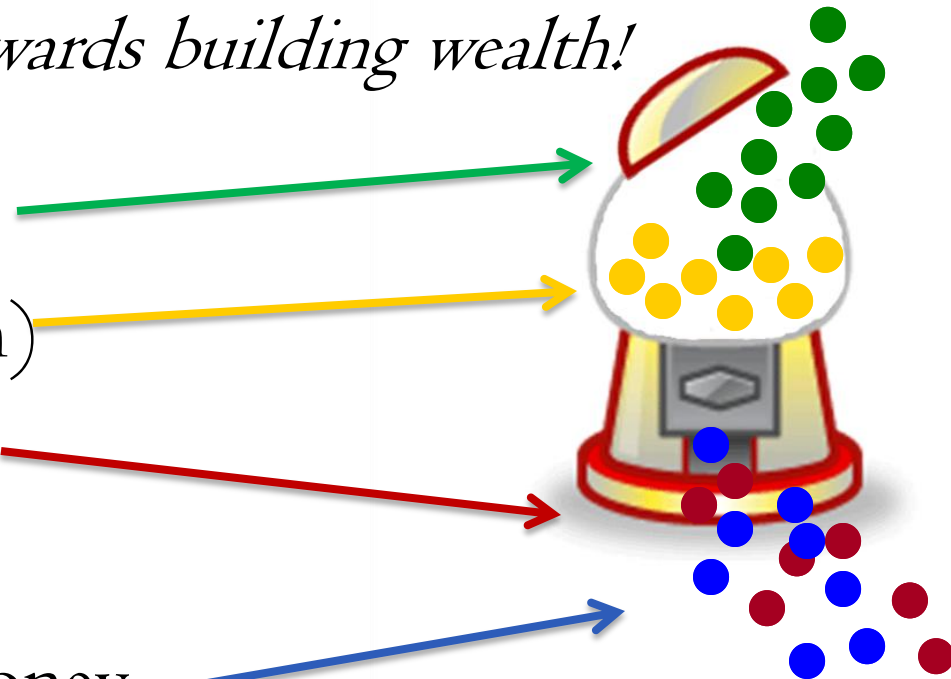
Assets	
Home	\$75,000
Retirement	\$35,000
Automobile	\$8,000
<b>Total Assets</b>	<b>\$118,000</b>
Liabilities	
College loan	\$10,000
Automobile loan	\$4,000
Credit card debt	\$20,000
Mortgage	\$65,000
<b>Total Liabilities</b>	<b>\$99,000</b>
<b>Net Worth</b>	<b>\$19,000</b>



# GUMBALL ANALOGY

*Always have more money coming in than out!*  
*Work towards building wealth!*

- **Income** (money in)
- **Net Worth** (wealth)
- **Flexible Expenses**  
(money out)
- **Fixed Expenses** (money  
out)



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# ANY QUESTIONS

