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SDSU DEPARTMENT OF CONSUMER SCIENCES

# Developing a Spending Plan/Budget

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According to the 2011 US Financial Capability Study, conducted by the FINRA Investor Education Foundation, 57% of South Dakotans said that they spend equal to or more than their income and 54% indicated it was difficult to cover monthly expenses and pay all their bills. Developing a plan of what is spent every month can help alleviate some of these difficulties.

A spending plan (budget) is the key to financial comfort and success. A spending plan is a personal plan for what money is spent and saved. By creating one it helps organize money, reach goals, control spending, and help with having funds to cover unexpected emergencies.

Sticking to a spending plan requires careful planning, self-discipline, and the ability to say no to unnecessary spending. The ability to manage money has to be learned, developed, and practiced daily. More money is usually not the answer to solving financial concern for most families. Instead, developing a plan for better money management will aid families in feeling satisfied as they set goals and work towards securing a financial future. It allows individuals the ability to control their future by deciding where they want to go, when to get there, and what is needed to get it done.

Creating a spending plan may seem like a stressful thing to do. However, it only requires a few steps. Each step below will be explained further in this publication.

- Calculate Income
- Calculate Expense
- Calculate and Analyze Monthly Balance
- Make Necessary Adjustments

## STEP 1: Calculate Income

Begin by listing all monthly household income. Include salaries or wages as well as other sources of income that are commonly overlooked such as child support, tips, unemployment benefits, public assistance (including food assistance), and interest & dividends. Be sure to use the net amount (take-home amount) rather than the gross amount. If income varies each month, it's best to use either the average or the lower figure for planning purposes. Do not use irregular income, such as a tax refund, to calculate your income.

| Monthly Income | |
|---|---|
| Salaries & Wages<br>Use take home pay | $ |
| Interest & Dividends<br>Include any interest or dividends received from bank accounts and investments. | $ |
| Other Income<br>Include all income (see above paragraph for possible income) | $ |
| **TOTAL MONTHLY INCOME** | $ |

## STEP 2: Calculate Expenses

The next step is to estimate expenses (money spent). Expenses typically fall within three categories: fixed, flexible, and occasional.

Fixed expenses are those in which the amount does not change from month to month. These may include rent/mortgage payments, auto loans, and insurance installment payments. Savings can also be added to this category if there is a plan in place to put away a certain amount of money in savings every month.

Flexible expenses vary in amount, but occur every month. These may include food, clothing, entertainment, and utilities (if not on a budget plan with utility company).

Occasional expenses may be fixed or flexible, but do not occur every month. Take the total spent yearly and divide by 11 to find the monthly amount to save (use 11 months instead of 12 to give a little cushion). Some examples of occasional expenses are taxes, car insurance (if premium not paid monthly), licenses, and gifts.

| Monthly Expenses | | | |
|---|---|---|---|
| Fixed Expenses | | | |
| Savings (Pay yourself first) | $ | Car loan | $ |
| Rent/Mortgage | $ | Telephone/Internet | $ |
| Property Insurance | $ | Car Insurance | $ |
| Health Insurance | $ | Personal Property Taxes | $ |
| Real Estate Taxes | $ | Vehicle Loan(s) | $ |
| Other Loan(s) | $ | Other Debt | $ |
| Emergency Fund | $ | Childcare (including child support) | $ |
| Other: | $ | Other: | $ |
| Other: | $ | Other: | $ |
| **Fixed Expenses Subtotal:** | | **$** | |
| Flexible Expenses | | | |
| Food at home | $ | Food away from home | $ |
| Clothing | $ | Laundry/clothing maintenance | $ |
| Home/office supplies | $ | Personal care | $ |
| Reading material | $ | Recreation/entertainment | $ |
| Cable, DVD rental, etc. | $ | Household maintenance | $ |
| Transportation | $ | Children's expenses | $ |
| Educational expenses | $ | Medical expenses | $ |
| Utilities | $ | Other: | $ |
| Other: | $ | Other: | $ |
| **Flexible Expenses Subtotal:** | | **$** | |
| Occasional Expenses | | | |
| Travel/vacation | $ | Gifts | $ |
| Holidays | $ | Licenses | $ |
| Contributions | $ | Other | $ |
| Other | $ | Other | $ |
| **Occasional Expenses Subtotal:** | | **$** | |
| **TOTAL EXPENSES** | | **$** | |

## How Much Should Expenses Be

There is no "magic" amount of what should be spent in each expense category every month. There are some general rules of thumb, but every family is different and has different needs. Below are some general monthly spending guidelines and what Americans spent on average in 2011.

| Table 1 | |
|---|---|
| Housing (including utilities, taxes, and maintenance) | 32 – 35% |
| Food (at and away from home) | 16 – 20% |
| Transportation (including insurance) | 17 – 19% |
| Clothing and services | 5 – 7% |
| Healthcare (including insurance) | 5 – 9% |
| Entertainment | 3 – 6% |
| Savings (including retirement) | 2 – 10% |
| Other expenses | 7 -12% |
| Source: Adapted from Managing Your Monty: Developing a Spending Plan from New Mexico State University Extension | |

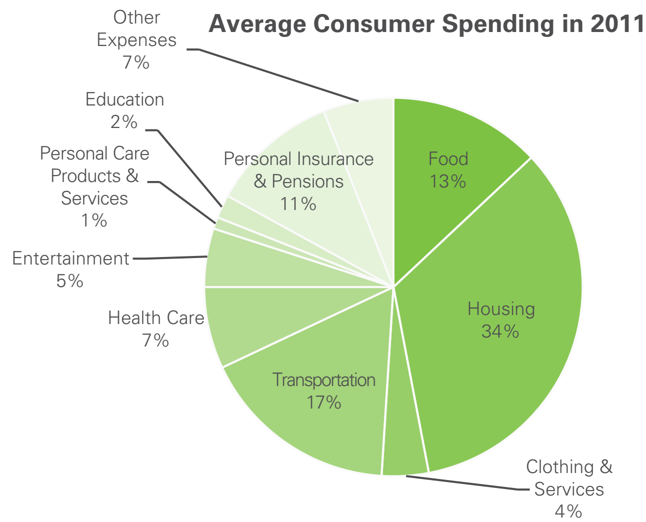


Figure 1: Source: Consumer Expenditure Survey (Income before Taxes: Average Annual Expenditures and characteristics) – Due to rounding amount may not equal 100%.

**Table 2**

| Expense Category | All Consumers | Less than $5,000 | $5,000 to $9,999 | $10,000 to $14,999 | $15,000 to $19,999 | $20,000 to $29,999 | $30,000 to $39,999 | $40,000 to $49,999 | $50,000 to $69,999 | $70,000 and more |
|---|---|---|---|---|---|---|---|---|---|---|
| Average annual expenditure | $49,705 | $22,960 | $20,884 | $19,959 | $24,806 | $30,398 | $36,769 | $40,306 | $50,034 | $81,767 |
| Food | 13% | 15% | 17% | 16% | 15% | 14% | 14% | 13% | 13% | 12% |
| Housing | 34% | 37% | 39% | 42% | 40% | 39% | 37% | 36% | 34% | 31% |
| Clothing & Services | 4% | 5% | 4% | 4% | 3% | 3% | 4% | 3% | 4% | 3% |
| Transportation | 17% | 15% | 15% | 13% | 16% | 15% | 17% | 18% | 18% | 17% |
| Health Care | 7% | 5% | 5% | 8% | 8% | 9% | 7% | 8% | 7% | 6% |
| Entertainment | 5% | 4% | 5% | 5% | 4% | 5% | 5% | 5% | 6% | 5% |
| Personal Care | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Education | 2% | 8% | 4% | 2% | 1% | 2% | 1% | 1% | 1% | 2% |
| Personal Insurance & Pensions | 11% | 1% | 1% | 2% | 3% | 5% | 6% | 8% | 10% | 15% |
| Other Expenses | 7% | 8% | 7% | 7% | 8% | 7% | 7% | 7% | 6% | 7% |

Source: Consumer Expenditure Survey (Income before Taxes: Average Annual Expenditures and characteristics) – Due to rounding amounts may not equal 100%.

## STEP 3: Calculate and Analyze Monthly Balance

The next step is to compare income and expenses. If the number is positive, set the extra money aside for an emergency fund. An emergency fund should consist of 3-6 months of expenses for unexpected expenses or loss of income.

If the difference is negative, look for spending leaks, make an adjustment to spending, and/or find additional income. For other services, contact a local Department of Social Services Office or go to http://sdbridgetobenefits.org/ to use the free screening tool to determine eligibility.

| | |
|---|---|
| Total Income | $ |
| - | |
| Total Expenses | $ |
| = | |
| Difference | $ |

## STEP 4: Make Necessary Adjustments

Remember that a spending plan is a working document. Adjustments will need to be made as the family/individual situation changes. Involving the entire family will help in making it easier to obtain goals. Keeping track of spending will help ensure that money is available for needed items. There is no guarantee for financial security, but by following these steps it may make the road a little less rocky.

## Related SDSU Extension Resources

### Search iGrow.org for the following resources.

- Setting SMART Financial Goals (04-2003-2013)
- Feeding Your Family for Less (04-2001-2012)
- Strategies for Households (04-1003-2012)
- Needs vs. Wants (04-2000-2013)
- Tracking Income and Expenses (04-2021-2013)

## Sources

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