



Charting Your Course to Home Ownership

Managing Your Family Finances: Develop a Family Budget

A budget, or spending plan, like a compass, can guide families to get a grip on their money. It can help families spend their hard-earned dollars more effectively, live within their income, reduce the need for consumer credit, save for a home and other goals and develop skills in financial management.

Unfortunately, the word budget, or spending plan, frightens some consumers as much as the word diet. It makes them think of deprivation and restrictions or loss of freedom. Actually, a budget brings more freedom: the freedom to make dreams come true. If you create your own spending plan, how can it keep you from doing exactly as you like?

Your Family Budget (Spending Plan) – The Tool to “Chart Your Course” for the Future!

Spending plans may range from a very simple list on a blank page to a book of detailed record sheets, but all budgets include two main parts: income and expenses. Households are rarely alike – thus no spending plan will apply to everyone. Individual and family needs, tastes and economic situations vary from one to another – even when they have identical income and the same number of family members.

Create a budget that is realistic and workable for you and your family. Be willing to try new ideas and make adjustments. A spending plan may require many revisions before it fits your needs and works well.

To develop your own spending plan, follow these 5 simple steps:

1. Calculate your monthly income. Include the income of all earners in your household. Write down the net (the amount actually available to spend after deductions). If your income varies from month to month, determine your average monthly income by adding your income for the past 6 months and dividing by 6.
2. Determine the monthly amount needed for periodic expenses. Some expenses only come once or twice a year. To plan for them, determine the total amount you need for each month. Total your monthly needs then divide by 12. This will tell you the amount you need to budget each month to cover these expenses.

Periodic Expense Category

| Periodic expenses are those that don't occur every month. They can be either fixed (such as car insurance) or predictable (such as changing the oil in the car) or variable (such as car repairs). Remember, plan for periodic expenses! Good money managers look at each month to predict what periodic expenses will occur that month. | Monthly Total |
|--|----------------------|
| January | |
| February | |
| March | |
| April | |
| May | |
| June | |
| July | |
| August | |
| September | |
| October | |
| November | |
| December | |
| Total annual periodic expenses | |



Anchor Deeper: When developing your spending plan, always include savings as an expense category. This is often referred to as “Paying Yourself First.” Remember, emergency savings equal to 3 months’ take-home pay is ideal (6 months if your income is on commission or seasonal). It may also be helpful to plan to give every family member an “allowance.” Everyone needs a little money to spend without having to account for every cent!

3. Calculate your monthly fixed expenses. These expenses (like rent or mortgage, car note and insurance) vary little from month to month.
4. Determine your monthly flexible (or controllable) expenses. These expenses vary each month and can be controlled and managed to some extent. Food, clothing and entertainment are examples of flexible expenses.
5. Subtract total monthly expenses from total monthly income. If you are spending more than you are making, you must find a way to “cut” from your expenses in order to balance your budget and live within your means. Before making cuts, ask yourself:
 - Which expenses are essential to your family’s well-being?
 - Which expenses have the highest priority?
 - Which expenses can be reduced to keep your family’s spending within its income?
 - How much can be afforded in each category?

Then, adjust the amounts you plan to spend in each expense category and enter the revised amount in your budget worksheet.

What can be done if expenses are greater than income?

- Increase income. What are the possibilities for part-time or temporary work to increase income? Can other family members get a job?
- Cut spending. You may be able to cut back on utilities, food, gas, clothing, entertainment, contributions or gifts.
- Reduce fixed expenses. If too much money is being spent on fixed expenses such as housing or debt payments, there may not be enough money left over for your other living expenses. You may find it necessary to refinance loans, move to lower cost housing or even sell assets to reduce debt load.
- Look at other assets. Do you have savings, investments or property that could be used or converted to cash?

What should you do if your income exceeds your expenses?

Allocate the extra dollars to debt reduction, savings for future short- and long-term goals like buying a home, saving for retirement or funding your child’s education.

Once you have developed a spending plan that provides for essential family needs and balances expenses with income, review the plan with your family.

Talk with your family about spending and saving money. Write down needs and wants or dreams of each individual and the family as a whole. Separating real needs from wants is the hard part! No family ever has enough to do everything it would like. Be prepared for some healthy discussions and difficult choices.

If family members have a voice when tough choices have to be made, they will be more willing to work together to live within your means and work toward family goals.

Getting the most from your income requires careful planning and wise spending decisions. A spending plan based on what your family considers to be the most important can help balance spending with available income and resources. These step-by-step procedures will help you develop your spending plan.

Resources:

- Federal Deposit Insurance Corporation. (2008). "Money Matters." *Money Smart*. Retrieved April 18, 2008 from <http://69.0.254.19/wwMS/english/main.htm>
- Goeting, M. (2007). *Developing a spending plan*. Bozeman, Mont. Montana State University Extension. Retrieved April 19, 2008 from <http://msuextension.org/publications/FamilyFinancialManagement/MT199703HR.pdf>
- Howell, B. ((2005). "Manage Money Successfully." Starkville, Miss. Mississippi State University Extension. Retrieved April 18, 2008 from <http://msucares.com/pubs/publications/p1738.pdf>

Spending Plan (Budget) Worksheet

Instructions:

1. Calculate monthly net income in box 1
2. Estimate monthly expenses [sum of fixed (2a), controllable (2b) and monthly portion of periodic expenses (2c)]
3. Compare income and expenses and make adjustments

| 1. Monthly net income | |
|--|-----------------|
| Net*monthly wages | \$ _____ |
| Net monthly wages of others in home | \$ _____ |
| Public Assistance/food stamps | \$ _____ |
| Unemployment/disability | \$ _____ |
| Child support/alimony | \$ _____ |
| Social Security/retirement | \$ _____ |
| Other | \$ _____ |
| Other | \$ _____ |
| Total net monthly income | \$ _____ |
| <small>*After tax withholding and other deductions</small> | |

| 3. Compare income and expenses | |
|--|-----------------|
| *Net monthly income | \$ _____ |
| Estimated expenses: | |
| Fixed.....\$ _____ | |
| Controllable.....\$ _____ | |
| Periodic.....\$ _____ (monthly portion) | |
| Minus..... | \$ _____ |
| Balance..... | \$ _____ |

2c. Periodic expenses

Periodic expenses come up once or twice a year. Fill in the estimated costs under the month they are due. Taxes, insurance premiums, car maintenance, tires, license, birthdays, holidays, educational costs and vacations are examples. Do not include taxes withheld from your paycheck, but do include estimated tax payments you make to the IRS. Add your total yearly periodic expenses and divide by 12 to determine the monthly portion.

| | |
|-------------|------------|
| Jan _____ | July _____ |
| Feb _____ | Aug _____ |
| Mar _____ | Sep _____ |
| April _____ | Oct _____ |
| May _____ | Nov _____ |
| June _____ | Dec _____ |

Total Periodic Expenses \$ _____

Total Periodic Expenses ÷ 12 = Monthly portion periodic expenses

Spending Plan (Budget) Work Sheet

| 2a. Fixed Expenses | | 2b. Controllable Expenses | |
|---|-----------|--|-----------|
| Housing | | Savings | |
| Rent or Mortgage | \$ | Monthly portion of periodic expenses | \$ |
| Insurance/Taxes | \$ | Emergency fund | \$ |
| Utilities | | Saving for long-term goals | \$ |
| Telephone | \$ | Food | |
| Heating/Gas | \$ | Groceries | \$ |
| Electricity | \$ | Meals at work/school | \$ |
| Trash/garbage | \$ | Food eaten out | \$ |
| Water | \$ | Household expenses | |
| Sewer | \$ | Maintenance & cleaning supplies | \$ |
| Cable | \$ | Furnishings & appliances | \$ |
| Other: | \$ | Outside upkeep & lawn | \$ |
| Credit Card payments | | Transportation | |
| | \$ | Gas | \$ |
| | \$ | Auto repairs & upkeep | \$ |
| | \$ | Other transportation costs | \$ |
| | \$ | Personal expenses | |
| Auto | | Medical care | \$ |
| Loan/lease payment | \$ | Health club or other fees | \$ |
| Boat/RV loan payment | \$ | Personal care items | \$ |
| Insurance | \$ | Clothing | \$ |
| Family Care | | Laundry and dry cleaning | \$ |
| Child support/alimony | \$ | Diapers | \$ |
| Child/elder care | \$ | Internet service | \$ |
| Insurance | | Cell phone | \$ |
| Life | \$ | Charity/gifts | \$ |
| Health | \$ | Recreation and Entertainment | \$ |
| Disability | \$ | Other monthly controllable expense | \$ |
| Long-term care | \$ | | |
| Other fixed expenses | \$ | | |
| Total monthly estimate of fixed spending | \$ | Total monthly estimate of controllable expenses | \$ |

Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.

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This material is based on work supported by the Restoring Home Ownership in Louisiana Hurricane Recovery project funded in part by USDA Cooperative State Research, Education and Extension Service, Smith-Lever Special Needs project number 2007-41210-03986.

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 Pub. 3086-D 09/08

Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 and June 30, 1914, in cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension Service provides equal opportunities in programs and employment. This institution is an equal opportunity provider.