

Managing in Tough Times

BUILD A BUDGET: YOUR TOOL FOR ANYTIME FINANCIAL SUCCESS

A budget, or spending plan, is a tool to help families gain an understanding of their money during both good times and challenging times. 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, develop financial management skills and fulfill their goals while living within their means.

Unfortunately, the word budget frightens some consumers as much as the word diet. It makes them think of deprivation and restrictions or loss of freedom — especially during those times when money is tight. Actually, a budget brings more freedom: the freedom to make dreams come true.



YOUR FAMILY BUDGET (SPENDING PLAN)

Spending plans may range from a very simple list on a blank page to a book of detailed record sheets or a simple electronic document or ledger, but all budgets include two main parts: **income and expenses**. Households are rarely alike. No spending plan will apply to everyone. Individual needs 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.

Build 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. If your income drops, it can be downsized by cutting back on flexible or unnecessary expenses. Likewise, it can be adjusted upward when your income increases.

STEPS TO SUCCESS:

To develop your personal or family spending plan, follow these five simple steps:

1. Calculate your monthly income (see box 1 on page 4). 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 six months and dividing by six.
2. Determine the monthly amount needed for periodic expenses. Some expenses only come once or twice a year. To plan for them, complete the Periodic Expense Worksheet on page 3 to determine the total amount you need for each month. Enter your total monthly periodic expenses in Section 2c of the budget worksheet on page 4.
3. Calculate your monthly fixed expenses. These expenses, like rent or mortgage, utilities, a car note, credit card payments and insurance, vary little from



month to month. Enter this data in Section 2a of the budget worksheet on page 5.

4. Determine the amount you need to spend on necessary but flexible (or controllable) expenses each month. These expenses vary each month and can be controlled and managed to some extent. Food, clothing, household expenses and personal needs are examples of flexible expenses. When times are tough, consider cutting back on nonessential flexible expenses, such as entertainment, charity or gifts, pets and eating out. They are “wants” that can be eliminated if funds are not available. Enter this data in Section 2b of the Budget Worksheet on page 5.
5. Subtract total monthly expenses from total monthly income (Box 3 of the Budget Worksheet on page 4). 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.

Life Saver: 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 three months’ take-home pay is ideal. Six months is ideal if your income is based on commission or is 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.

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?
- During a crisis, explore the possibility of filing for unemployment, SNAP benefits or other government programs.
- 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 or savings for future short- and long-term goals, like buying a home, saving for retirement or funding your child’s education

Once you have drafted a spending plan that provides for essential family needs and balances expenses with income, discuss the plan with your family. To make this budget work, it must be developed by the entire family.

Talk with your family about spending and saving money. Review the 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 in both good and challenging times. 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.



PERIODIC EXPENSE WORKSHEET

| 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 to 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 | |



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 of others in home | \$ _____ |
| Public assistance/SNAP | \$ _____ |
| Unemployment/disability | \$ _____ |
| Child support/alimony | \$ _____ |
| Social Security/retirement | \$ _____ |
| Other | \$ _____ |
| Other | \$ _____ |
| Total net monthly income | \$ _____ |
| *After tax withholding and other deductions | |

3. COMPARE INCOME AND EXPENSES

| | |
|--|-----------------|
| *Net monthly income | \$ _____ |
| Estimated expenses: | \$ _____ |
| Fixed.....\$ _____ | |
| Flexible.....\$ _____ | |
| 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, licenses, 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. |
| March | Sep. |
| April | Oct. |
| May | Nov. |
| June | Dec. |
| | Total Periodic Expenses \$ _____ |
| Total Periodic Expenses = Monthly portion periodic expenses | |



SPENDING PLAN (BUDGET) WORKSHEET

| 2A. FIXED EXPENSES | |
|---|----|
| Housing | |
| Rent or mortgage | \$ |
| Insurance/taxes* | \$ |
| Utilities | |
| Telephone | \$ |
| Heating | \$ |
| Electricity | \$ |
| Trash/garbage | \$ |
| Water | \$ |
| Sewer | \$ |
| Cable | \$ |
| Other: | \$ |
| Credit card payments | |
| | \$ |
| | \$ |
| | \$ |
| | \$ |
| Auto | |
| Loan/lease payment | \$ |
| Boat/RV loan payment | \$ |
| Insurance | \$ |
| Family | |
| Child support/alimony | \$ |
| Child/elder care | \$ |
| Insurance | |
| Life | \$ |
| Health | \$ |
| Disability | \$ |
| Long-term care | \$ |
| Other fixed expenses | \$ |
| Total monthly estimate of fixed spending | \$ |

| 2B. CONTROLLABLE EXPENSES | |
|--|----|
| Savings | |
| Monthly portion of periodic expenses | \$ |
| Emergency fund | \$ |
| Saving for long-term goals | \$ |
| Food | |
| Groceries | \$ |
| Meals at work/school | \$ |
| Food eaten out | \$ |
| Household expenses | |
| Maintenance and cleaning supplies | \$ |
| Furnishings and appliances | \$ |
| Outside upkeep and lawn | \$ |
| Transportation | |
| Gas | \$ |
| Auto repairs and upkeep | \$ |
| Other transportation costs | \$ |
| Personal expenses | |
| Medical care | \$ |
| Health club or other fees | \$ |
| Personal care items | \$ |
| Clothing | \$ |
| Laundry and dry cleaning | \$ |
| Diapers | \$ |
| Internet service | \$ |
| Cell phone | \$ |
| Charity/gifts | \$ |
| Recreation and entertainment | \$ |
| Other monthly controllable expense | \$ |
| Total monthly estimate of controllable expenses | \$ |



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PUB3157-A online 9/20 Rev.

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