

OHIO STATE UNIVERSITY EXTENSION

A SIX LESSON SERIES

YOUR MANAGE MONEY

Lesson 5: *Develop Your Monthly Budget*



THE OHIO STATE UNIVERSITY



MANAGE YOUR MONEY

Lesson 5

This lesson uses Worksheets: L and M and Activity 5-1

Develop Your Monthly Budget

Most people feel that no matter what their income, they need more money to meet their expenses and feel secure. However, more money is not always the answer. The key to successful money management lies in how you plan and then, actually spend your money. The following practices may signal serious money management problems. Are you:

- uncertain where your money goes?
- dipping into savings to pay current bills?
- paying only the minimum amount due each month on credit card bills?
- delaying payment of some bills you normally would have paid on time?
- uncertain about how much you owe?

- living from paycheck to paycheck without having 3 months' living expenses saved?

Even if you answered "Yes" to all of the above, don't be too discouraged. You still can learn ways to get more from your dollars, have greater satisfaction from your spending, and set aside money to pay bills when they are due. You must first understand that you have a limited amount of money available to you and you are going to live within those confines.

The secret lies in knowing where you are now, where you want to go in the future, making a workable plan to get there, and then following your plan. A budget is simply a tool to help you deal honestly with your financial reality, and a successful budget often requires difficult decisions and full cooperation of all who spend the family money. Consider a few guiding principles:

- Review the financial goals you and your household set in Lesson 1. What needs to happen to reach each goal? What current spending habits need to change? It is very important



that everyone affected by the plan has some say in it.

- Together decide what each person will do to help control the household spending. Review - Worksheet I: **My Plan to Change Spending Habits in Lesson 3**. Encourage, support, and show appreciation for one another's efforts.
- If possible, provide every family member with a personal weekly allowance of free-to-spend money. The amount is not as important as the liberty to spend it without answering to anyone.
- Learn and practice comparison shopping skills.
- Make it a habit to save something, no matter how small, from every paycheck.
- Learn to live within your income and keep your credit under control.
- Celebrate your success!

Spending Patterns

There is no one-size-fits-all or correct way to prioritize and spend money, so you must plan and spend according to your own situation and priorities. However, data about spending patterns of others may be useful as you examine your own spending habits.

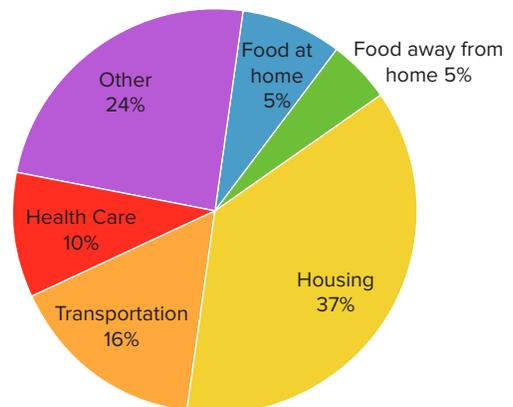
The pie charts below reflect 2016 data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. These show average annual expenditures of surveyed households at two before-tax income levels for households with less income compared to those with more income. Note that these reflect expense categories as a percent of total expenditures—not as a percent of total income.

Notice the spending differences between the income levels. You can see that as income increases, a smaller percentage of total spending goes to housing and food, even though more dollars are spent in those categories. Generally, housing, food, and transportation account for about two-thirds of household spending. Health expenses generally account for a tenth of a household's spending. This means about one-third is spent on other expenses, which include: clothing, entertainment, education, alcohol and tobacco,

personal care, life insurance, retirement savings, and miscellaneous expenditures. Generally, these other expenses create the real money management opportunities and challenges because they are variable expenses. They can change from month to month.

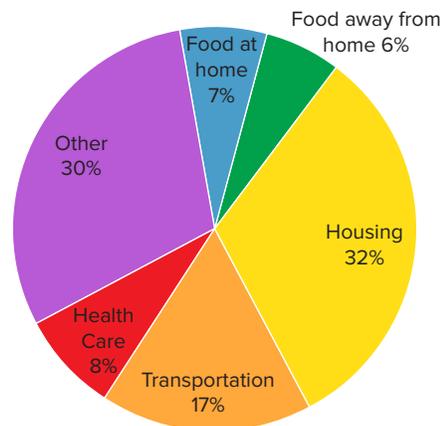
Lower Middle Income

Income between \$20,000 and \$38,000
Annual Spending: \$37,000



Upper Middle Income

Income between \$64,000 and \$108,000
Annual Spending: \$65,000



When it comes to planning your household spending, think of all the money you have coming in and available every month as your monthly "money pie." If you cut one really big piece from the pie (spend a lot in one category), the other pieces (categories) must be smaller to make ends meet. In other words, if you don't have enough money for all your expenses, you must either spend less or make more. It's best to portion your obligations as you can afford them, so you don't find yourself in over your head with costly debt for years to come.

Six Steps to Your Balanced Monthly Budget

Many people have a vague budget they keep “in their head.” However, those who take the time to sit down and create a written plan for their spending are more likely to reach their financial goals. When it comes to budgets, one size never fits all, but the following planning process will work for anyone. You already have a good start through your work in the other lessons. The worksheets in this lesson bring it all together and guide you to a plan that reflects YOUR situation—your needs, wants, desires, and resources. Take time to complete each of the six steps. This may take several hours, so set aside the time needed to focus on building your plan. You may need to stop before all six steps are complete, so dedicate workspace so you can return as needed. You will also need a calculator.

Worksheet L: My Monthly Spending Plan, at the end of this lesson, will be used in the six steps to creating a balanced monthly budget. If possible, make several copies of the blank form before you begin. It’s best to use a pencil because you will likely need to adjust amounts in each step until you are satisfied with your plan. If you plan



to use a computer, there are fillable budgeting worksheets available online that reflect the basic framework of the steps below. An example is available at budgetworksheets.org

Before you begin, go back and locate the Day-to-Day-Dollar Tracker records you started in Lesson 1 on page 9. These will help you build a successful spending plan, especially if you have tracked your spending for four weeks or more. You will also need the Goal Setting worksheet(s) you completed: Worksheet D from Lesson 1. Next, locate Worksheets F, G, and H you completed in Lesson 2.

Eating Out

We all need food – it’s basic to survival. But if you’re a typical American, you have a lot of choices that can meet your need for food, and those choices come with different price tags. Generally, the more convenient and comfortable it is for you, the more you’ll pay.

Look at the following ‘chicken dinner’ example. It’s a study of extremes – from you doing nearly all of the work to you doing basically nothing to provide yourself a chicken dinner. You could:

1. Purchase whole chickens in bulk from a local meat processor, then keep frozen until ready to thaw, cut up, and cook
2. Watch for raw boneless chicken breasts to go on sale at the grocery store, then cook it at home
3. Purchase ready-to-eat hot chicken from the grocery deli
4. Stop at a fast food restaurant and sit down to your chicken meal
5. Go to an up-scale restaurant, order chicken cordon bleu, pay the menu price, and tip your server

It should be no surprise that the price per pound of ready-to-eat chicken goes up when you hire a butcher, a cook, as well as someone to serve you and clean up. If you eat chicken, which of the above strategies do you use the most? It’s likely you’ll save money if you do more of the work yourself. Keep in mind, however, that time is also a valuable resource that, once spent, cannot be used to do something else.

Activity 5-1: Your Spending Pie

Now take a few moments to fill out your own “money pie” using the information you gathered in **Lesson 2: Worksheet G: My Current Monthly Expenses**.

First, record your net monthly income from **Lesson 2 Activity: 2-1**.

Next, determine your current expenses in each category. Use Worksheet E from Lesson 2. Here are the categories used:

- **Housing:** This includes rent, mortgage, utilities, home insurance, property taxes, etc.)
- **Transportation:** This includes car payments, gasoline, car maintenance, public transit, and insurance
- **Food:** This includes all groceries and eating out
- **Healthcare:** This includes doctor, dental, insurance, and prescriptions
- **Other:** This includes clothing, personal care, recreation, life insurance, retirement savings, education, and miscellaneous.

Once you add up the totals for each category, determine what percent of your net income goes to each. For example, if you spent \$1,100 on housing last month and your total spending was \$3,000, then about 37% (one-third of your pie) of all your spending last month went to housing ($\$1,100 \div \$3,000 \times 100 = 37\%$). Compare the size of your spending slices to the average American household pies on page 2. Are any of your spending pie slices very different? If so, this may indicate places you can make adjustments.

Instructions for planning how you use your money in the future:

Worksheet L: My Monthly Spending Plan.

Step 1: Know your income. To make a plan to live within your income, you must know how much money you have to work with each month. You gathered this information on page 2 of **Lesson 2, Activity 2-1: Your Monthly Income**. If the amount of monthly income recorded is still correct and likely to continue, enter your total net (take home) income for the monthly plan on at the top of Worksheet L: My Monthly Spending Plan on page 10. (Throughout the rest of these instructions, we will call Worksheet L your Spending Plan.) If your net household income will change, or if it is sporadic, you must estimate how much monthly net income you are likely to average every month over the next 12 months, and enter that amount as your net monthly income.

Step 2: Budget for your financial goals. Look back at the financial goals you set in Lesson 1, **Worksheet D: Goal Setting as a Household**. These goals reflect your values. Because your goals are not experienced as a regular monthly living expense, it's important to regularly set aside

money in your monthly budget to reach your goals. Record the amount you plan to set aside every month for your goals on page 11 at the SAVINGS area, Written Financial Goals line.

Step 3: Estimate your monthly fixed expenses. As you remember from Lesson 2, fixed expenses stay basically the same each month and are committed for a period of time. Your completed **Worksheet G: My Current Monthly Expenses** from Lesson 2 will help you identify your fixed expenses and estimate the amounts you should include on Your Spending Plan. Your financial records of past spending are also good sources of information.

Step 4: Estimate your regular variable expenses. Variable expenses occur each month, but unlike fixed expenses, the amounts spent change. Typical variable expenses include items such as food, clothing, transportation, and entertainment. Now, refer to **Worksheet G: My Current Monthly Expenses** you completed in Lesson 2. Reflect on

the money you identified as “Variable” and when you noted that you could control the amount spent.

Adjust the categories as needed for your situation. Unlike fixed expenses, you generally have more control over the timing and amounts spent.

Step 5: Estimate your occasional expenses. You used **Worksheet H: Occasional / Annual Expenses** in Lesson 2 to record how much you are likely to spend on occasional expenses that do not happen every month. Examples include holidays, birthdays, home maintenance, school supplies, insurance payments, and license plates. These expenses can creep up on you and if you don’t think ahead, you may not have the money to pay for them. Don’t let occasional expenses sabotage your financial plans. Take the total annual estimate at the bottom of your **Worksheet H** from Lesson 2, divide that amount by 12 to get the amount of money you need to save each month. List that amount on Your Spending Plan under “Occasional and/or Annual Expenses.”

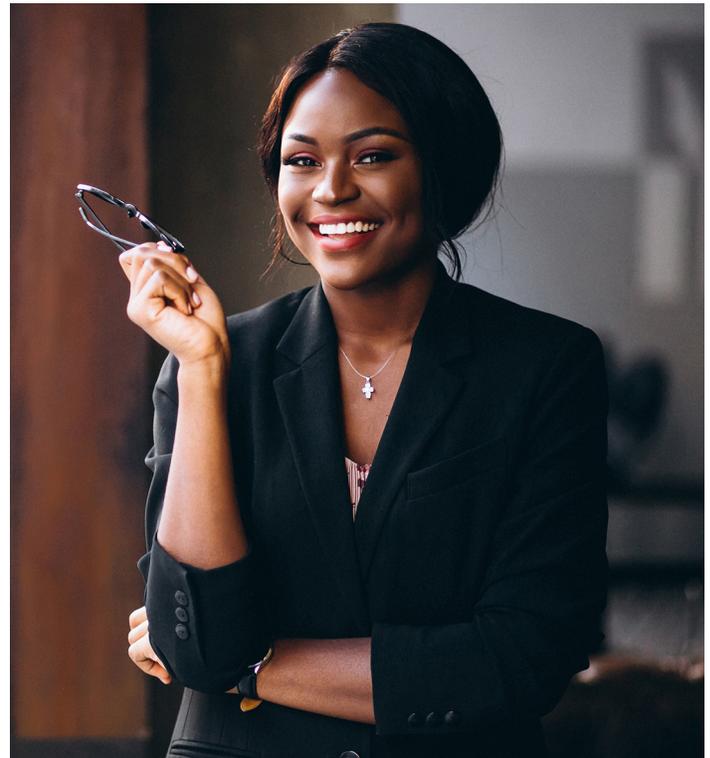
Step 6: Compare income and spending and make adjustments to achieve balance. If your income and expenses don’t balance— which often happens the first time— you will need to make adjustments. Look back on your completed **Worksheet G: My Current Monthly Expenses** and note all items that you recorded as places you could

You are a Fixed expense: Pay Yourself First!

When listing your expenses, plan for savings first. Before paying any bills, deposit the money you need to set aside for an emergency fund, your financial goals, and occasional expenses.

Put it in an interest-bearing account and your money will grow until the expenses come due.

Paying yourself first gives you a systematic way to make your money grow. No matter what one’s job or income, this system works! Doing this on payday keeps your entire paycheck from slipping through your fingers. If you wait until the end of the month, there may be nothing left to save.



control. If your income exceeds your expenses, consider additional savings or investment goals. However, if your expenses are greater than your income—here are your three balancing options:

1: Increase income. This may mean a new or second job for yourself and/or family member(s). Brainstorm other ideas with your family. Perhaps you can receive rent for storage or living space, pet sit, or tutor students to make that needed increase in income now. There are now many opportunities to increase income using Apps or online sharing economy services such as Uber, Airbnb and others. Be certain you are getting benefits that you are eligible for such as the Earned Income Credit, SNAP benefits (food assistance), cash assistance, and day care cost assistance. Also, consider a longer-range solution such as getting more education or training that would increase earning power in future years.

2: Reduce expenses. This option can often make the quickest and most impactful difference. Keep in mind that the most critical time to control fixed expenses is before you commit to a financial obligation. You have an element of control each time you make a variable expense purchase.

As you review each expense, consider whether it is a need, a want, or a desire. Here’s a reminder

of what those terms mean: a need is something you must have to live (clean water, basic food you cook yourself, a dependable car to get to work, etc.); a want is a way to meet these needs with more style, comfort, or ease (steak instead of hamburger, a new SUV instead of a seven-year-old used car, etc.); a desire is something you wish you had but it does not fulfill any basic need (jewelry, season tickets to sporting events, collectables, a purchased coffee every morning, etc.). Cutting back on desire spending can free up money to pay for needs and wants. And sometimes wants must give way to basic needs, so take a look at your spending habits to see if you can find some that are costing you money. Revisit

Lesson 3 for more information. Also review your spending pie from earlier in this lesson.

Study how you use your money and where it goes, then ask yourself, “Where can I cut back? What can I do differently that will help me make ends meet?”

3: Adjust debt payments. Consider negotiating reduced payments with your creditors, or consolidating your loans to lower your monthly payments. However, it is important to understand what these changes may add to your costs long term. Working with an outside agency in a structured debt management program may reduce late fees and interest charges.

Credit Counseling Agencies Offered in the United States

National Foundation for Credit Counseling® (NFCC)

Website: nfcc.org ● Phone: 877-402-6322

- Has Certified Credit Counselors
- Counseling provided face-to-face or by phone
- Fee for Repayment Plan
- No fee for reviewing finances and creating a budget
- Nonprofit organization

LIST OF CREDIT COUNSELING AGENCIES APPROVED PURSUANT TO 11 U.S.C. § 111

Website: justice.gov/ust/list-credit-counseling-agencies-approved-pursuant-11-usc-111

- Go to website and enter your state or territory
- You will be taken to approved credit counseling agencies that you can contact
- Scroll down until you see the highlighted section that is closest to your location
- If there is no highlighted section then choose one in a neighboring state or territory
- Several services are offered in English and Spanish
- If looking for another language, the web page provides a list of agencies and the languages they offer (there is a drop down list of languages to choose from)

ConsumerCredit.com/American Consumer Credit Counseling

Website: consumercredit.com ● Phone: 800-769-3571

- Nonprofit organization
- Initial counseling session and creating a budget is free
- One-time fee to enroll in the debt management program (less than \$50) and a monthly fee for each account (less than \$10)
- Counseling provided by phone
- Counseling offered face-to-face only in California, Massachusetts, and Texas
- Better Business Bureau A+ rating
- Approved credit counseling agency by specific governmental agencies or organizations and accepted as meeting their standards and requirements

These references were active as of March 2018

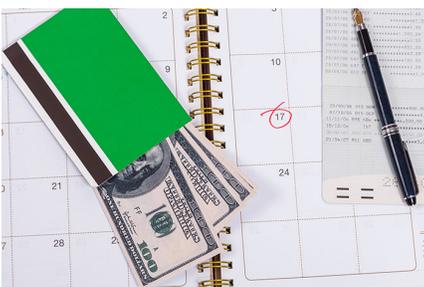


Agencies will work with you by phone, fax, mail, Internet, and even face-to-face. Look for a non-profit consumer credit-counseling agency and be sure to ask questions about fees and procedures before signing anything.

Sometimes a combination of the above three strategies works best. Small changes in each option may work better for you than trying to make up the difference through a single option.

Work through **Worksheet M: Balance the Bottom Line on page 12** to develop a strategy for increasing income, reducing expenses, or a combination of both.

How you decide to balance your income with your expenses is up to you and your co-spenders. Think about where you are now and where you want to be in five or ten years.



Your long-term plan should reflect the goals that are most important to you and the loved ones in your home.

Remember, good money management is more than a mathematical formula because it's tied so closely with life's ups and downs. Your financial plan is likely to change as your life situation changes, but that's okay. The object of a good budget is help you reach your goals, not to force you to conform to rigid rules.

Don't be discouraged if your first budget plan doesn't work out right away. You may have to revise it several times until it fits your situation. You will also need to review it periodically to be sure it continues to help you use your income in the best way for you.

Action Steps for Lesson 5

Check each step after you have completed it.

- Complete **Activity 5-1: Your Spending Pie**
- Copy and use **Worksheet L: My Monthly Spending Plan** of this lesson. Be certain to make paying yourself first a priority. This includes setting aside money for savings, goals, and occasional expenses.
- Work on it until you and the members of your household agree to the plan.
- Complete **Worksheet M: Balance the Bottom Line** of this lesson.

- Rework your budgeted amount to balance income and expenses and complete appropriate steps listed below:
 - ▶ Take steps to increase income.
 - ▶ Discuss and write down how each spender in the family will help reduce expenses.
 - ▶ Develop a written and realistic debt repayment plan. Negotiate with creditors if you need to do so.

More Information and Sources

Family Budgeting & Consumer Information

From the Federal Trade Commission (600 Pennsylvania Ave, Washington D.C. 20580: consumer.ftc.gov; (search by title):

Setting Out on Your Own (August 2012)
It's Never Too Early – or Too Late – to Save (April 2014)

From the Federal Citizen Information Center (FCIC) at publications.usa.gov

Coping With Debt
My New Money Goal



From the American Institute of CPAs at: feedthepig.org

From Money Management International, Member of the National Foundation for Credit Counseling
Your 30-step path to financial wellness at: financialliteracymonth.com/30Steps.aspx

USDA Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average.

Updated monthly at cnp.usda.gov/USDA-FoodPlansCostofFood

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Worksheet L: My Monthly Spending Plan

LIST YOUR NET MONTHLY INCOME (TAKE HOME PAY) FROM **Activity 2-1 in Lesson 2** on page 2 here:

\$ _____

SPENDING CATEGORIES		Spending Monthly Amount Planned	Is this expense "Fixed" or "Variable"	Could I spend less without making major changes? Yes or No	Amount I Actually Spent
HOUSING	Rent/Mortgage				
	Homeowners/Rent Insurance				
	Utilities (list each separately below – include phones)				
	Property Taxes/Community Fees				
	Other housing related				
TRANSPORTATION	Car Payment(s)				
	Gasoline				
	Parking/Public Transport				
	Car Insurance				
FOOD	Groceries				
	Eating Out				
	School Lunch Program				
CLOTHING					
MEDICAL	Prescriptions				
	Health/Dental Insurance				
	Doctor(s)				
	Dentist				
	Other monthly medical				
EDUCATION/ CHILD CARE	Tuition/Supplies				
	Child Care				
	Student Loan(s)				

Continued: Worksheet L: My Monthly Spending Plan

SPENDING CATEGORIES		Spending Monthly Amount Planned	Is this expense "Fixed" or "Variable"	Could I spend less without making major changes? Yes or No	Amount I Actually Spent
ENTERTAINMENT	Pets				
	Hobbies/Movies/Games				
	Vacation				
GIVING/CHARITY (includes loans to family and friends)					
OTHER DEBT PAYMENTS (credit cards, Rent-To-Own, re-paying family member, etc.)					
SAVINGS	Written Financial Goals (Lesson 1 Goal Setting Worksheet D)				
	Occasional/Annual Expense Fund (Maintenance – car, home, etc., birthdays, holidays, license fees, etc. from Lesson 2 Worksheet H)				
	Emergency Fund (Home Repair, Emergency Room Visit, etc.)				
	Retirement Account(s)				
	Other savings				
Misc. – Things that I spend money on that are not listed above (Tobacco, alcohol, caffeine beverages, haircuts, dry cleaning, etc.)					
TOTAL MONTHLY SPENDING PLANNED					ACTUALLY SPENT:
			\$		\$

Worksheet M: Balance the Bottom Line of Your Monthly Spending

Look to see what expenses you decided are fixed and which are variable on Worksheet L, pages 9 and 10. Normally, fixed expenses are things you cannot change without a lot of trouble and additional expense, and variable expenses are for things you have control over like clothing, vacations, groceries, etc.

A. TOTAL Net Monthly Income (take-home pay) from page 2 of Lesson 2, Activity 2-1. \$	B. Add up all of the planned fixed expenses you identified in Worksheet L - on pages 9 & 10 and enter the total below: \$	C. Add up all of the variable expenses you identified in Worksheet L - on pages 9 & 10 and enter the total below: \$
	Total Expenses: Fixed (B) and Variable (C) combined from above. As a double check, this should equal the total at the bottom of Worksheet L - page 10: 'TOTAL MONTHLY SPENDING PLANNED' \$	
	Total Income A above minus Total Expenses B + C: \$	

If your monthly income is higher than your planned monthly expenses, strongly consider putting the extra dollars into SAVINGS – especially for an Emergency Fund. Once you have saved enough for at least three months of living expenses (three times more than **B + C** above), you can more confidently direct additional dollars to other expenses.

If your monthly expenses are greater than your income, use the following to brainstorm ways to earn more or spend less so you can balance your spending plan.

Three ways I could increase my income:	What I can do:	How much could I increase my income?
Idea #1		
Idea #2		
Idea #3		
Five ways I could reduce spending:	What I can do:	How much could I save?
Idea #1		
Idea #2		
Idea #3		
Idea #4		
Idea #5		



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College of Education and Human Ecology
College of Food, Agricultural, and Environmental Sciences

Manage Your Money

Lesson:

1 - 2 - 3 - 4 - **5** - 6



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