



Financial Literacy: Creating a Spending Plan



Setting Financial Goals

Financial goals are specific to what you want to do with your money within a certain time period. Before you create a spending plan, you should complete the following steps to setting financial goals:

1. Identify and write down your financial goals.
2. Organize your financial goals.
3. Educate yourself.
4. Evaluate your progress.

Why Create a Spending Plan?

A good way to start taking control of your financial situation is to develop a personal spending plan. A *spending plan* is a step-by-step plan for meeting expenses in a given period of time.

Following a spending plan:

- ◆ Helps you reduce the anxiety of not knowing whether you have enough money to pay your bills when they are due
- ◆ Gives you a sense of control over your money, rather than letting money have control over you
- ◆ Helps you build assets that will improve the quality of life for you and your family

A spending plan is all about choices—choosing how to use your money. Knowing what your income and expenses are every month will help you take control of your financial situation.



**It's not your salary that makes you rich,
it's your spending habits.**

~ Charles Jaffe

Spending Plan Steps

There are four steps to preparing a spending plan:

1. Keep track of your daily spending (ask your TRiO Specialist for a spending worksheet)
2. Determine your monthly income and expenses
3. Find ways to decrease spending
4. Find ways to increase income

Budgeting

Understanding where your money goes is key to any budget. A spending plan can help with this process. These are the suggested percentages of net income (take home pay) that should be allocated to your expenses:

- ◆ **Housing:** Spend no more than 35% of net income on housing. Depending on whether you rent or own, include: mortgage/rent, utilities, insurance, taxes and home maintenance.
- ◆ **Savings:** Try to save at least 10% of net income throughout your working life. Make sure you have 3 - 6 months income in an emergency fund before you start saving for other goals.
- ◆ **Transportation:** Spend no more than 15% of net income on transportation: car payment, auto insurance, tag or license maintenance, gasoline and parking.
- ◆ **Debt:** Spend no more than 15% of net income on all other consumer debt: students loans, credit cards, personal loans, tax and medical debts.
- ◆ **Other:** Spend no more than 25% of net income on all other expenses: food, clothing, entertainment, child care, medical expenses, charity and vacations.

~ FDIC Financial Education Curriculum - Money Matters 2003
~ Educator's Credit Union - Guide to Personal Finance

