

Financial Fitness

Exercises to Shape Up Your Spending



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FINANCIAL FITNESS

Exercises to Shape Up Your Spending



How is your financial health? If budget bumps and bulges or money worries are adding stress to your life, you may need to do an annual checkup to assess your financial fitness and start getting your family's finances in good shape.

To take charge of your physical health, doctors encourage you to "know your numbers," such as blood pressure, cholesterol, blood sugar, and body mass index. Financial advisers also encourage you to know your numbers and look for money management problems that might need attention.

Do an annual checkup to take charge of your financial health by answering the following questions:

- ✓ Do you spend less than you earn?
- ✓ Do you spend no more than 15 to 20 percent of your monthly income for credit payments, including car payments, credit cards, and all other debts (not including your house payment or mortgage)?
- ✓ Do you have an emergency savings fund to cover at least 3 months of your living expenses?

If you answered "yes" to all of the questions above, then your finances should be in great shape! If you answered "no" to any of the above, or you are unsure, you may need to complete a few money management exercises to shape up your spending.

Exercise 1: Identify Income

List all sources of income and resources used to pay expenses for one month. If you have several jobs or earners in the family, list each paycheck separately. Use net income or take-home pay amounts (after deductions for taxes, insurance, etc.). Add all income and resources to get your total monthly income.

For example, if your total monthly credit payments equal \$500 and your total monthly income equals \$2,500, divide \$500 by \$2,500 to get .20 (20 percent). Most families cannot afford to spend more than 15 to 20 percent of their income on consumer debt.

Exercise 2: List Debts

Write down each credit account with the monthly payment. Include car payments, credit cards, and all loans, except your house. Total the monthly payments and divide that number by your total monthly income.

$$\frac{\text{Your Monthly Payments}}{\text{Your Total Monthly Income}} = \text{Your Debt to Income Ratio}$$

If debt seems to be a problem for you, look for Extension Publication 1737 How to Get Out of Debt.

If the answer is more than .20 (20 percent), it is time to start finding ways to lower your debt load.

Exercise 3: Track Expenses

List regular *fixed expenses*, like house payment or rent and other credit payments, first. That's the easy part. Fixed expenses usually stay about the same each month and are hard to control unless you make major changes.

Flexible expenses that vary from month to month are harder to estimate. Record how much you spend for one whole month on flexible expenses, like groceries, utilities, and gasoline.

To track *daily expenses*, write down every cent you spend every day for a whole week. This can be a real eye-opener! You may be surprised to learn how much you spend on sodas, snacks, eating out, and other daily or weekly purchases. Be sure to include these when you list past actual monthly living expenses.

Exercise 4: Calculate Periodic Expenses

Periodic expenses that you pay only once or twice a year can cause budget problems if you don't plan for them. Think through a normal year and make a list of the things you might need to buy for each month. Have you remembered to include things like gifts, school clothes, dues, subscriptions, season tickets, taxes, insurance, car license tags, vacations, holidays, and special occasions like birthdays, weddings, graduations, and baby showers?

What repairs, health care, and "emergency" expenses might you expect? Most "unexpected" expenses are not really surprises, but because they are not regular monthly payments, you might not be ready for them when they come up. Plan for these expenses so they won't surprise you.

Shouldn't you expect at least one or two trips to the doctor's office each year, especially if you have children? Will your aging car or home need repairs? Bald tires eventually blow out or go flat, and 10-year-old appliances will need to be replaced sooner or later.

Add up all of these periodic expenses to get an annual total and divide by 12. This is the amount you need to save every month to cover the annual periodic expenses not already included in your monthly living expenses.

$$\frac{\text{Total annual expenses}}{\div 12} = \text{Amount to save monthly}$$

Exercise 5: Compare Income to Expenses

Compare your income with your expenses. If you are spending less than you earn, you should have money to save for a rainy day and for future goals. Good for you!

If you find you are spending more than you earn, you have only two choices: 1) reduce expenses or 2) increase income. Although it may be hard to find ways to spend less or to earn more money, your financial health depends on it.

One way to control spending on flexible expenses that seem to get out-of-hand is to use a cash-basis envelope method. You will need several plain envelopes. On each envelope, write the name of a category like food, personal allowance, and gifts. In each envelope, put the amount of cash you can afford to spend on that category. When the envelope is empty, it's time to stop spending!



Now that you have a good idea of how much your income and expenses have been in the past, you are ready to create a future spending plan. Use the Monthly Living Expenses Worksheet to make choices about how much you will spend on each expense in the coming months. Which flexible expenses can you lower or cut out? Don't forget to include savings for periodic annual expenses and for emergencies in your plan (see Exercise 6). Make sure to balance your budget by spending less than you earn.

Total monthly income _____
 minus - _____
 Total monthly living expenses _____
 equals = _____
 Surplus or deficit income. _____

Exercise 6: Compare Expenses to Savings

Financially healthy families have an emergency savings account with enough money to cover at least 3 months of living expenses. Unfortunately, many families are just one paycheck away from bankruptcy and have no savings at all. How does your savings account compare to your total monthly living expenses?

If you have no savings, start with the amount you need to cover periodic expenses each month. Then begin saving for true emergencies until you have enough to cover your living expenses for 3 months.

_____ x 3 = _____
 Monthly living expenses Savings needed
 emergency fund

Let's review the financial fitness exercises that can help you to shape up your spending.

1. Identify Income
2. List Debts
3. Track Monthly Expenses
4. Calculate Periodic Expenses
5. Compare Income to Expenses
6. Compare Expenses to Savings

Working to complete these exercises can be hard work, much like a treadmill test in a physical exam. It may not be something you want to do every day, but going through these exercises at least once or twice a year can help you see the areas you need to work on. It also can show if you are getting better at managing your finances.

What you don't know CAN hurt you! Hidden financial health problems usually continue to get worse until you take action. If you have found that you have problems areas, then it is time to shape up your spending by reducing unnecessary expenses, plugging spending leaks, and starting a savings plan for healthy future.

Identify Income

Worksheet 1

	Week 1	Week 2	Week 3	Week 4	Week 5	Monthly Total	Future Plan
Paycheck No. 1							
Paycheck No. 2							
Paycheck No. 3							
Paycheck No. 4							
Tips							
Commission							
Interest							
Dividends							
Gifts							
Food Stamps							
Social Security							
Retirement benefits							
Child support							
Alimony							
Public assistance							
Veterans' benefits							
Tax Credits							
Other							
Totals							

Monthly Living Expenses

Worksheet 2A

	Past Actual Expenses	Future Spending Plan
Housing		
Mortgage payment or rent		
Insurance		
Utilities		
Gas		
Electricity		
Water and sewage		
Telephone		
Trash collection		
Furnishings		
Maintenance and repair		
Property taxes		
Food		
Groceries		
Meals eaten out		
Transportation		
Car payment		
Gasoline		
Insurance		
License/registration fees		
Maintenance and repairs		
Parking and tolls		
Rental, taxi, bus, subway		
Clothing		
Purchases		
Cleaning, laundry, repairs		
Medical		
Insurance		
Medicine		
Hospital		
Doctor		
Dentist		
Life/Disability Insurance		

Monthly Living Expenses (continued)

Worksheet 2B

	Past Actual Expenses	Future Spending Plan
Child Care		
Personal		
Books		
Magazines, newspapers		
Tuition, course fees		
Barber, hairdresser		
Toiletries and cosmetics		
Postage, stationery		
Recreation and Entertainment		
Movies, plays, concerts		
Cable or satellite TV		
Club dues		
Alcoholic beverages		
Tobacco		
Sporting goods		
Vacation		
Allowances		
Donations		
Gifts		
Birthdays		
Holidays		
All others		
Savings		
Monthly Credit Payments		
Department stores		
Bank charge cards		
Oil companies		
Loans		
Other		
Miscellaneous		
Alimony, support payments		
Other		
Total Monthly Expenses	\$	\$

Worksheet 3

Debts Owed

Purpose of Loan or Credit	Creditor	Monthly Payment	Interest APR	Total Balance Owed
Car loans				
Installment loans				
Credit cards				
Store accounts				
Others				
Total Owed	Monthly:	Balances:		

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