The Spending Plan – "Expense Categories, random thoughts" **Ed Edwards**

Navigating the Financial Roadway

Starting in January of this year, we are explaining the step-by-step process of setting up a written spending plan and putting it into place. In January, we looked at "Getting Started," where we determine exactly where you're currently spending money using an expense diary and the "Existing Spending Plan" form. The second month, we went to the next leg of the journey, "Mapping Out the Route," which is the starting point of creating your "New Spending Plan." We discussed some of the "road hazards" you'll no doubt encounter along the way. March and April issues dealt with explanation of the expense categories used in the spending forms. If you missed any articles, you can find them and the downloadable forms on our website (www.livingwellokc.org, see the page "Managing Money" and click on "Navigating the Financial Roadway"). This month we will finish up the expense topic with some random thoughts about expenses.

How to plan for "irregular expenses"

These was mentioned several times as the individual expense categories were discussed. Irregular expenses are such things as utility bills, car repairs, medical expenditures, clothing, etc. – expenses that vary from month to month. Even though you will spend varying amounts each month for those types of expenses, you must establish a baseline amount to deposit in each category monthly. Without budgeting monthly for these irregular type expenses, we find ourselves doing crisis planning, which is actually not planning at all. And this often results in debt accumulation as we charge expenses on credit cards or borrow money.

Often there is a tendency to not budget for things like car repairs because we say "we can't afford that." Actually, we can't afford not to! It's not a lot of fun to have an unexpected expense come along and have no funds set aside to pay for it. It is important to remember that accumulating balances in individual expenses accounts usually doesn't happen instantly, unless you happen to have an extremely large bank balance to start with. It will normally take months, perhaps even years to get to the point where all expense categories are fully funded, but if you are determined and consistent, it will happen! If unexpected expenses do occur in a category that isn't fully funded yet, do not panic. You may have to "borrow" from another category to cover the expense (the amount borrowed will have to be paid back to that category). However, this must not be done month to month on a routine basis, as that will defeat the purpose of long range planning of a spending plan…..that purpose is to PLAN AHEAD!

Bookkeeping problems

We recommend that only one person actually physically maintain the spending plan (whether on paper or computer), otherwise, confusion usually results. Some people have a natural tendency to do a better job with the actual bookkeeping task, typically the more "detail oriented" person. Many times, in the beginning however, it is good to rotate these duties between husband and wife until both are thoroughly familiar with the process. Regardless of who does the bookkeeping, for married couples there must be agreement in all areas of the spending plan and both must know how the system works….good communication is absolutely essential!

An accurately balanced checkbook is a must. We strongly recommend that husbands and wives not have separate checking accounts. We have seldom seen that work well and it usually hampers togetherness and agreement about finances.

Hidden debts

A common error is to overlook non-monthly type debt, such as doctor/hospital bills, loans from family or friends, etc. Then, when they are due, there is no budget allocation available. It is critical to establish and maintain your Debt Summary form. That form also becomes a "pay-off goal" sheet. We'll cover debt elimination in a future insert.

Putting together the plan

If you are in the process of "Navigating the Financial Roadway" to this point, you should be ready to put together an "Existing Spending Plan." This is a very important step in the entire process. Add up all you monthly expense categories. Subtract the monthly expense total from your total net spendable income. If income exceeds expenses, congratulations! You only need to analyze your expense category allocations to make sure they are where you want them to be; and then, control spending to maximize the surplus income. But, if expenses exceed income, a detailed analysis will be necessary to correct the situation and restore a proper balance.

Next month we will begin looking at the Control System, which includes Existing Spending Plan analysis and setting up a "New Spending Plan."

May 2006 Ed Edwards