Financial Smart Start for Newlyweds

Creating and Sticking to a Budget

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The golden rule of budgeting is to spend less than you earn and save and invest the rest.
– UNKNOWN

Budget Versus Spending Plan

"Budget" is a word that can bring up negative feelings. It is sort of like the word "diet"; it can refer to depriving yourself of things you enjoy. Most financial experts use the term "spending plan," which is much more indicative of what you are doing. You are planning how you are going to use your money more effectively (and not just recording where the money went).

Creating Your Spending Plan

If you completed an income statement, you will know how much money you have to work with. Now you need to find out how much you are spending each month. You probably already know the big stuff, such as a rent or mortgage payment, car payment, utilities (although they are not always the same amount each month) and groceries.

Expenses are usually classified as:

- **Fixed** – a set amount like rent, mortgage, car payments and insurance premiums.
- **Periodic or irregular** – those that come around only occasionally like holiday expenses, property taxes, etc.
- **Flexible or variable** – those that vary each week or month like food, transportation and recreation.

Because periodic expenses do not occur every month, you need to put aside some money to pay for them **when** necessary (i.e., car insurance, property taxes, vehicle registration and birthday/holiday presents). These are special expenses, and you can map out on a calendar when they occur and **how much** they will cost. That way, when these expenses come due you are prepared for them.

The *Household Account Record* is a financial record-keeping tool available from the Cooperative Extension

Service. It can be your one-stop shop for income and expense statements, spending plans, credit management and record keeping. Contact your local county Extension office and ask for publication MP171, *Household Account Record*.

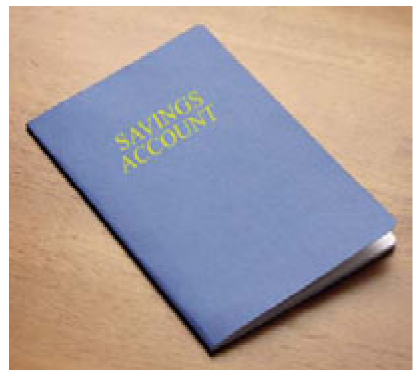
The hardest expenses to track are those "miscellaneous" items like beverages at a ball game, tickets to a movie or a doughnut at work every morning. This money can float into and out of your pockets without much notice, and you may be surprised to find you are spending more than you think. It is sometimes referred to as "phantom spending" because the money seems to disappear so mysteriously. For example, between soccer practice and games, Jody and her husband realized they had spent $75 on specialty juices and other drinks for their children as they traveled from work to home to soccer and back. They kept a journal for a month where they kept track of all the money they spent and its purpose. This may sound very tedious, but it really does work by unraveling the mystery of where the money went.

> Why is there so much month left at the end of the money?
>
> – Anonymous

One young couple, who were going to school and working, found themselves in financial trouble. At an Extension workshop on financial management, they heard about writing down all their expenses in a financial journal and decided to do so. It worked so well they did it for the next three years. After graduating from college, they were able to abandon the journal because they had developed such good habits of spending and saving. You can use the Extension publication MP306, *Expense Record Book*, to track your "phantom spending."

If you feel keeping a journal is just too detailed for you, try saving receipts in a manila envelope, oversized can or basket. At the end of a week or the month, add them up. If you have a computer, software programs can help you keep track of what you spend in each category. Intuit's Quicken or Microsoft's Money are relatively inexpensive programs that can help you know exactly where your income is going. If your "reports" section shows a large number in the "miscellaneous" column, you will know where you need to cut back.

Sometimes couples run into problems because they draw their spending plans too precisely. Everyone needs a little "pocket money" – money they do not have to account for to anyone else before they spend it. If "pocket money" is built in from the beginning, such personal allowances offer some financial freedom and responsibility simultaneously.



Do not overlook putting something into savings each month. Even $5 or $10 a month is a good start. An "emergency fund" can give you the peace of mind to ride out a large, unexpected expense. Most experts recommend an emergency savings fund that will cover at least two months' worth of regular expenses. Another reason to start saving now is the magic of compounding. Once you see the possibilities and how your savings balance grows, it really will seem like magic. The chart below compares two savings plans at 6 percent interest during a 20-year period.

If you begin saving and investing now, your money has more earning potential because you have more time to accumulate interest.

Once you know how much money you can expect to earn each month and how much you owe, it is time to compare. If you are lucky and your income exceeds your outflow, you can move ahead toward your financial goals. However, if your spending exceeds your income, you will need to cut back on expenses. The first places to look for ways to cut spending are on food (at home or away from home), clothing, gifts, transportation and entertainment.

Now Versus Later Savings Over Time at 6 Percent Interest

Start Time	Monthly Amount	Total	End Result With Interest
Start saving today	$40	$9,600	$18,482
Start saving 10 years later	$100	$12,000	$16,388

Before you begin trimming, go back to your goals. Is the way you are spending your money consistent with the goals you agreed upon? Have several unexpected large expenses blown holes in what was basically a good plan? If so, how can you be better prepared in the future? It is important to be able to change your plan as circumstances dictate.

As you move toward your goals, you will want to review your progress. A good time to do this is on a predetermined date – perhaps the end or beginning of the year. Set aside some time to discuss what worked well, what did not work well and what needs to be changed.

> Sometimes couples run into problems because they draw their spending plans too precisely.

No one is born with the natural ability to manage money. Trying to operate financially without a spending plan is like trying to build a house without blueprints. As you go through life together, there will be several other mileposts for which you will need to be prepared financially: the birth of your first child, the purchase of your first house and investing for retirement. The earlier you begin looking toward these mileposts, the better prepared you will be when they arrive.

Recommended Resources

- www.arfamilies.org – The Arkansas Families web site of the Cooperative Extension Service has the latest research-based information on family life, personal finance, nutrition, health and personal development.
- https://powerpay.org – PowerPay features online financial calculators to help you design your best money management plan. Go to https://powerpay.org and click on the "Arkansas" tab. Features include:
  - PowerPay: Discover your fastest debt repayment plan.
  - Spending Plan: Compare what you spend to experts' recommendations.
  - PowerSave: Project savings based on different options.
  - Calculators: Calculate house and transportation costs, emergency savings and more.
- **The Marriage Garden** – Creative, research-based marriage education curriculum that focuses on six keys of healthy marriage relationships (available at www.arfamilies.org or by contacting your local county extension agent).
- ***The Seven Principles for Making Marriage Work*** by John Gottman – A practical guide from the country's foremost relationship expert (available from most booksellers).

You have just completed *Creating and Sticking to a Budget*, FSFCS204.

Please check out these other fact sheets in the **Financial Smart Start for Newlyweds** series:

Financial Smart Start for Newlyweds: Introduction, FSFCS200
Understanding and Sharing Your Financial History, FSFCS201
Debt in Marriage, FSFCS202
Realistic Expectations About Expenses and Income, FSFCS203
Credit and Overspending, FSFCS205
Money, Manipulation and Power, FSFCS206

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