

# Steps to Successful Money Management



How you spend your money today determines what you have 6 months from now, a year from now, 5 years from now, or in your lifetime. You control your financial destiny. You are responsible for how much money you earn and how much money you spend.

Successful money management requires careful planning. It also requires self-discipline and the ability to say no to unnecessary spending. The ability to manage money has to be learned, developed, and practiced daily.

This publication discusses six steps to help you become a successful money manager:

1. Determine your goals
2. Calculate your living expenses
3. Estimate your income
4. Balance your income with your expenses
5. Develop a spending plan
6. Adjust your plan to changes

## Step One: Determine Your Goals

Good money management begins with goal setting. Goals give you direction and a purpose for the way you spend your money. They motivate and encourage you as you work toward doing things that are important to you.

In setting goals, think about the things that are important to you and your family. The list below can help you decide which things are more important to you than others. Select the things you and your family feel are most important and place a 1 beside them. Place a 2 beside the things that are somewhat important, and a 3 beside the things that are not very important to you and your family.

You may have trouble deciding which item is more important than another. It's even harder when two or more people live together as a family unit and share money. Communicating, compromising, and giving priority to items that benefit the entire family can help you reach results that are the most satisfying to all family members.

- |                                 |                          |
|---------------------------------|--------------------------|
| _____ religion                  | _____ recreation         |
| _____ education                 | _____ family activities  |
| _____ save money                | _____ home furnishings   |
| _____ transportation            | _____ new house          |
| _____ start a new business      | _____ travel             |
| _____ pay off debts             | _____ make lots of money |
| _____ personal appearance       | _____ other: _____       |
| _____ culture (plays, concerts) | _____ other: _____       |

Once you have decided what is important to you, you can see the things you want to work toward. For example, if you placed a 1 beside "family activities," your goal may be to go on a family vacation.

You may find it helpful to think first about long-term goals—those you hope to reach in 10 or 20 years or perhaps even longer. Next, decide your goals for the more immediate future—the next 5 years, for example. Then list your short-term goals for the coming year. This way, your budget includes some savings toward long-term and intermediate goals, and you will not let short-term goals push other goals aside.

Be as specific as possible in setting goals. Your family may decide its long-term goals are a debt-free home, education for children, and savings for retirement. For the coming 5-year period, goals might be buying a car, making a down payment on a home, and buying a washer and dryer. Goals for this year might be reducing debts, establishing an emergency fund, and buying a vacuum cleaner.

As the size, age, and income of the family change, goals change. For example, a young couple works to establish and furnish their home. The family with growing children tries to provide adequate food, clothing, housing, and education with some extras. After children leave home, the parents concentrate on completing financial arrangements for retirement years.

Set goals that are specific, measurable, realistic, and achievable within a given time period. By following these criteria, you can make your dreams come true within a set period of time.

When you have decided your goals, write them down on **Worksheet 1**. You will want to refer to them as you develop your spending plan.

<b>Worksheet 1. Family Goals</b>				
<b>Goal</b>	<b>When</b>	<b>Total cost</b>	<b>Amount per month</b>	<b>Completed</b>
Short term (within the year)				
Intermediate (1–5 years)				
Long term (over 5 years)				

## **Step Two: Calculate Your Living Expenses**

Once you have listed your goals, calculate your expenses. Begin by listing fixed, flexible, and periodic expenses.

Fixed expenses are the budget items that you pay a certain amount of money for every month for a specified period of time. Some examples of fixed expenses are rent or mortgage, car loans, and credit card payments.

Flexible expenses vary from month to month and can be controlled and managed to some extent. They are generally more difficult to forecast than fixed expenses. Examples of flexible expenses include food, clothing, gas, telephone, and personal care.

Periodic expenses—such as insurance, car license tags, and Christmas gifts—occur perhaps one or more times a year, but not monthly. The key to managing periodic expenses is to “divide and conquer.” Divide the yearly total by 12 and set aside that amount each month. When the expense occurs, the money is there.

Using **Worksheets 2A and 2B**, list your family’s current expenses. Canceled checks, receipts, bills, and bank books can serve as reminders for helping you estimate realistic amounts for each applicable category. Be sure to include all expenses as accurately as possible. Remember, small expenses add up and can be important in developing a workable spending plan.

**Worksheet 2A. Expenses**

Item	Current Actual	Amounts		
		Week	Month	Year
<b>Savings, investments</b>				
<b>Housing (rent or mortgage)</b>				
Home furnishings and equipment				
Household maintenance and repairs				
<b>Utilities</b>				
Electricity				
Gas or other fuel				
Water and sewage				
Telephone				
Garbage				
Cable TV				
<b>Child care</b>				
<b>Household help</b>				
<b>Transportation</b>				
Automobile payments				
Gas				
Maintenance				
Bus, Taxi				
<b>Food and groceries</b>				
Meals eaten out				
Alcohol and tobacco				
<b>Clothing</b>				
<b>Personal care</b>				
Laundry/dry cleaning				
Hair care				
Spa or health club				
<b>Insurance</b>				
Automobile				
Property				
Home				
Medical				
Disability				
Other				
<b>Medical</b>				
Doctor				
Dentist				
Drugs				
Others				
<b>Recreation, entertainment, vacation</b>				
<b>Business expenses and dues</b>				
<b>Taxes</b>				
<b>Gifts</b>				
<b>Contributions</b>				
<b>Education or self-improvement</b>				
<b>Monthly credit payments</b>				
Department stores				
Bank charge cards				
Oil companies				
Loans				
Other				
<b>Miscellaneous</b>				
	Total			

**Worksheet 2B. Periodic Expenses Planner**

Item	Month(s) needed	Amount spent last year	Amount budgeted this year	Average monthly amount
<b>Automobile</b>				
License				
Inspection				
Maintenance				
<b>Insurance</b>				
Automobile				
Other				
<b>Gifts</b>				
Christmas				
Birthdays				
Other				
<b>Medical Checkups</b>				
Physical				
Dental				
<b>Organizational Dues</b>				
<b>School</b>				
Tuition				
Supplies				
Books				
<b>Subscriptions</b>				
Magazines				
Record, book clubs				
<b>Taxes</b>				
Income				
Real Estate				
<b>Vacations</b>				
<b>Totals</b>		\$ _____	\$ _____	\$ _____

### Step Three: Estimate Your Income

The third step to successful money management is to estimate your income. This should not be difficult, since the greatest part of income usually comes from salaries or wages. Here are other sources of income:

- Cash gifts and inheritances
- Child support and alimony
- Commissions, tips, and bonuses
- Farm income
- Interest and dividends
- Pensions and profit-sharing benefits
- Profits from sale of assets
- Public assistance
- Rental income
- Social Security
- Tax refunds

List your income on **Worksheet 3**. Write down all funds you expect to receive during the coming year. Start with fixed amounts that family members get regularly,

such as wages or pensions. Put down the variable income you anticipate—interest from savings accounts, dividends from stocks, gifts, and money from other sources.

When your earnings are irregular, base your estimate on your previous income and current prospects. If your income fluctuates sharply—as it may for seasonal workers, commissioned salespeople, farmers, and other self-employed people—play it safe by making two estimates. Work out the smallest and largest figures you can reasonably expect. Plan first on the basis of the low-income figure, then consider how you will use additional amounts if they are available.

You usually figure income on a monthly basis. If you are paid on a weekly or biweekly basis, monthly income can be figured as 4½ times the weekly rates. It is better to estimate low and use the 4-week income as your baseline. This leaves the extra four weekly or two biweekly paychecks as a “bonus” you can set aside for savings, emergency expenses, or for a special occasion, such as Christmas expenses.

<b>Worksheet 3. Determine Income</b>								
	Per week		Biweekly		*Per month		Per year	
	gross	net	gross	net	gross	net	gross	net
Paycheck #1								
Paycheck #2								
Paycheck #3								
Paycheck #4								
Tips								
Commission								
Interest								
Dividends								
Gifts								
Annuities								
Social Security								
Retirement benefits								
Child support								
Alimony								
Public assistance								
Veterans' benefits								
Other								
<b>Totals</b>								

\*Multiply weekly pay by 4.3 to get monthly amount.

## Step Four: Balance Your Income and Expenses

Once you have a clear picture of your expenses and income, you can begin to allocate your money. This involves comparing income and expenses (on a monthly and yearly basis) and reaching a balance that is realistic and workable.

If your income is irregular, you must take extra care when you allocate. You will want to set aside enough extra in the months when you have higher income to cover the months when your income is reduced.

When the budget for the year is not in balance, then there is trouble. You have three options:

One is to use savings or borrow money to meet the total budget deficit for the year. This may keep you from reaching your goals.

Another option is to reduce expenses, or perhaps even cut some out of the budget. This may require sacrifice, determination and the discipline to stick to your decisions.

A third choice is to increase your income by taking a second job, finding another job that pays more, or adding another earner to the family. This is probably the most difficult option, since it probably will mean a great change in lifestyle. Also, finding another job may be difficult or even impossible.

## Step Five: Develop a Spending Plan

Now that you have established a balance between estimated income and expenses, the next step is to develop a spending plan. A spending plan may cover any convenient budget period. But most plans are for 12 months and go along with the calendar year.

Using a record-keeping book, such as MSU Extension Form 126 *Family Expense Record Book*, plan your spending by deciding category by category how much to spend. Use the information you recorded in **Worksheet 2** to help you decide whether to continue your present pattern of spending or to make changes. If you are satisfied with what your dollars have given your family in the past, allow similar amounts in your estimates of future expenses.

If you are not satisfied with what you got for your money last year or last month, look critically at your spending. Until you study your records, you may be unaware of overspending and poor buying habits.

Be realistic in revising your allowances for expenses, however. **Table 1** can suggest overall guidelines for spending. These guidelines, along with your record of expenses, can help you decide if the revisions are realistic and workable.

Item	Percentage
Housing (include utilities and supplies)	33–35
Food	18–25
Transportation (gasoline-oil/public transportation)	7–9
Clothing	6–12
Medical (including dental, prescriptions, health insurance)	6–8
Automobile insurance	2–3
Life insurance	2–5
Education advancement	1–2
Credit obligations (include automobile payment)	12–15
Savings	2–10
Recreation/entertainment	2–6
Church/charities	2–6

Be sure to relate your financial goals listed on **Worksheet 1** to your future expenditures. Check to see that future spending plans include items you and your family have determined to be important to you.

Write down how much you plan to spend in each category for the budget period, then try to stick to your plan. As you make purchases, write down how much you spent in the appropriate categories. At the end of the budget period, total each category. Compare what you spent with what you planned to spend. If your spending was quite different from your plan, find out why so you can improve the next plan.

If your plan did not provide for your family's needs, revise it. If the plan suited your needs but you had trouble sticking to it, use stricter self-discipline and better management next time.

A spending plan is something you keep working and reworking until it suits your family and satisfies individual members. Do not expect to have a perfect spending plan the first time you set up one. But with each succeeding budget, you can expect improvement.

## **Step Six: Adjust Your Plan to Changes**

Although you may be satisfied with your present plan, you need to change it from time to time. As circumstances change, you need to adjust your spending plan according to your new goals, needs, and resources.

By thinking through your expenses, setting goals, and keeping records, you are in a better position to make revisions that reflect what is important to you and your family.

There is no magic plan that guarantees financial security. And, because families have different goals, there is no single "right" way to plan. However, what you have in the future depends on what you do with your money today.

## **For More Information**

Maddux, Esther M. and Kuzinak, Ann. *How to Make Your Money Go Further*, Circular 759-1, University of Georgia Cooperative Extension Service, 1984.

Stephenson, Mary J. *Competent Financial Planning: Spending Plans*, Bulletin 311, University of Maryland Cooperative Extension Service, 1986.

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