

CREATING A SPENDING PLAN

Some farm families have experienced financial stress during the most recent downturn. Dairy prices are at an all-time low and some families are struggling to make ends meet.

For farmers dealing with variable income, low commodity prices and increasing debt, a spending plan can be a useful tool in managing farm family finances or their household (nonbusiness) finances.

What is a spending plan?

A household spending plan or budget is a financial tool that helps families compare their income, spending, expenses and saving, on a monthly basis.

Tip: A home filing system can assist with managing a monthly household spending plan. For example, filing proof of payment after bills are paid, and storing important documents that might be useful in the future. Download the Michigan State University Extension “Organizing Your Important Papers” (http://msue.anr.msu.edu/uploads/234/69603/GMI_010-7-Getting_Prepared_Getting_Organized_AA-FF.pdf) worksheet for helpful suggestions.

Why is a spending plan important?

- Can identify financial trends
- Helps to confront current financial realities
- Helps to identify if a household is spending too much
- Helps to identify if a household has too much debt

How can a spending plan be helpful?

- Shows the difference between what you spend and what you earn
- Helps to assess your financial health
- Helps identify the difference between needs and wants
- Helps identify areas where you can make changes or adjustments

Tip: For many farm families whose monthly income is inconsistent or variable, a spending plan can be useful in guiding current and future financial decisions.

How do I start?

It is hard to make any changes with your spending when you don't know where your money is going. Therefore, the first step is to track every purchase for one month, and then add them all up. Tracking could include writing every purchase down or saving every receipt. This will help you see what your spending habits are and how much you are spending. Small purchases over time can really add up, so try to “plug your spending leaks” (Rivetto, 2013).



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Next, select or create a spending plan format that works for you (paper and pencil, budget template, spreadsheet or other). For best results, use the same budget template for at least one year to better monitor your progress.

What should a household spending plan include?

- Add income from all sources, including: all jobs, unemployment, child support, governmental assistance or other income.
- Make a list of all expenses, including:
 - **Fixed expenses.** These occur every month, are essential for daily living (such as rent or mortgage) and usually represent needs rather than wants.
 - **Flexible expenses.** These vary each month (for example, food, recreation, personal items and other expenses) and usually represent wants rather than needs.
 - **Occasional expenses.** These nonmonthly expenses occur a few times a year and are often overlooked. Examples could include auto insurance, home and auto repairs, birthdays and holidays, school supplies and other expenses. Try to save monthly for these future expenses so that when they do arrive, it isn't such a strain on your budget.
- Balance your budget. $\text{Saving} + \text{total expenses} = \text{income}$. If this isn't true, then:
 - Increase your income.
 - Decrease your expenses and spending.
 - Use a combination of the above.

(Michigan State University Extension, n.d.)

To save time each month, you may be tempted to use ballpark estimates when inputting financial figures or amounts into your spending plan. Keep in mind, for your spending plan to be truly helpful, you must use accurate amounts. The risk in estimating is thinking that you have a financial cushion, when in reality, there may be a financial deficit.

HOUSEHOLD SPENDING PLAN, CONTINUED

Tip: Don't forget to pay yourself first! Aim to save 10 percent of each paycheck and if possible, have it directly deposited into a savings account.

What are the benefits of completing a spending plan?

- Increased feeling of control over your finances
- Can help you balance your budget which can help you save money (paying bills on time, avoiding late fees and penalty APRs)
- Can help you determine the difference between your needs and wants
- Can help you free up money in your budget for other things, such as debt repayment, savings or other financial goals important to you and your family
- May help build your credit score over time (paying bills on time and decreasing your credit utilization ratio, which is the amount you owe in comparison to your credit limit)

Tips to manage your spending plan

- Review and adjust your budget weekly.
- At the end of each month, review your progress and plan a budget for the next month (don't forget to plan for nonmonthly, occasional expenses).
- Compare your monthly expenses against your monthly budget. How did you do? If you had extra expenses, adjust categories to reflect the change. If you do have a financial emergency, use your emergency fund (if you have one) to avoid a cycle of debt, and then try to replace those emergency funds as soon as possible.
- Adjust your budget from month to month. It is a work in progress.
- Don't forget the importance of setting financial goals.

- If you are dealing with debt, develop a personalized debt-elimination plan using PowerPay (<https://powerpay.org/>), a tool developed by Utah State University Extension.

Tip: Homeowners should save 1 percent to 3 percent of their home value every year for maintenance and repairs. Maintain an emergency fund.

Facts:

In 2015, Michigander's reported:

- Breaking even at the end of the month – 40 percent.
- Spending more than they earn – 14 percent.
- Having no rainy day or emergency fund – 49 percent.

(FINRA Investor Education Foundation, 2015)

RECOMMENDED RESOURCES

- Cooperative Extension Service: <https://nifa.usda.gov/extension>
- Edwards, W., & Fletcher, C. N. (2017). Managing farm family finances. *Ag Decision Maker* (C3-51). Ames: Iowa State University Extension and Outreach. <https://www.extension.iastate.edu/agdm/wholefarm/html/c3-51.html>
- eXtension Financial Security for All: <http://articles.extension.org/pages/9451/financial-security-for-all-contents>
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- Michigan State University Extension. (2014). Organizing your important papers. "Getting Prepared, Getting Organized." *Starting Over After Foreclosure Toolkit*. http://msue.anr.msu.edu/uploads/234/69603/GMI_010-7-Getting_Prepared_Getting_Organized_AA-FF.pdf
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- Michigan State University Extension MI Money Health: Financial workshops, webinars, tools and resources: <http://www.mimoneyhealth.org/>
- U.S. Department of Agriculture, Farm Service Agency: <https://www.fsa.usda.gov/>
- Utah State University Extension. (n.d.). *PowerPay*. <https://powerpay.org/>

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- Rivetto, L. (2013). *Plug up the leaks in your spending plan – Part 1*. East Lansing: Michigan State University Extension. https://www.canr.msu.edu/news/plug_up_the_leaks_in_your_spending_plan_part_1

ACKNOWLEDGMENTS

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