

# MANAGING



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## Setting spending priorities

**W**hen faced with reduced income, act quickly to cut expenses, and make a spending plan so you can pay your bills when they are due.

If your income will be reduced for more than a month, adjust your spending habits right away. You can use the worksheets in this fact sheet to help you maintain control of your finances and meet family needs with less money.

### How do other families cope?

Studies show families respond to reduced income by cutting back their spending. First, they **spend less for nonessentials** such as eating out, vacations, and home furnishings.

As unemployment or reduced income continues, many families also **spend less on basic needs** including food, shelter, transportation, and medical care.

Some families also say they revise their budgets. Most families who do this **make a new spending plan** that includes a revised plan for paying bills on time.

Borrowing money or using credit to pay bills often brings only temporary relief. For those families who did use more credit, the more money they borrowed and the more unhappy they were with their financial situation.

Researchers found that families who did not change their spending during unemployment felt dissatisfied and out of control.

Families who quickly made changes in their spending habits were the most satisfied with how they were managing during unemployment.

### Discussing money problems

Many people try to hide financial problems from themselves or from family members. Denying such problems can work against you. The worry and stress from financial uncertainty and lack of cash may make your situation more difficult to handle.

Try to look realistically at your situation and actively seek solutions to your problems — despite the discomfort.

### Because spending decisions affect the whole family...

- Talk with your family about your situation.
- Let them know you need to change your spending habits, and explain the choices.
- Involve them in deciding spending priorities.
- Listen carefully to each person's concerns.

As your family talks about what is most important, be sure you listen to everyone's concerns. Supporting each other can help you pull together as a family and get through these difficult times.

When family members understand the tough choices needed and take part in decision-making, they will accept those decisions more readily.

# Making a spending plan

## Worksheet 1

A spending plan is always an effective tool to help you get the most for your money. Making a spending plan is even more important when your income drops suddenly.

### A spending plan helps you...

- Make decisions about how to spend your money.
- Provide for family needs before wants.
- Match your spending to your current income.
- Prevent family arguments over money.

Worksheet 1 can help you set up a monthly spending plan for your current income. By comparing your income and planned expenses before and after your income decreased, you can see what changes you need to make.

## Step 1 — Determine monthly income

**Use Worksheet 1: Monthly spending plan** on page 5 to see how your spending needs to change because of your reduced income. Add up your income before it was reduced, then add up your current income.

Use **take-home** amounts — what you actually have to spend after taxes and other deductions. Convert weekly or bi-weekly earnings to monthly earnings using the formula at the bottom of Worksheet 1.

### Include income from...

- Employed family members' take-home earnings used for family expenses
- Tips or commissions
- Unemployment Compensation or Workers' Compensation
- Interest or dividends
- Withdrawal from savings
- Child support, maintenance, or alimony
- Public assistance
- Social Security
- Veterans' benefits

## Step 2 — List monthly expenses

If you had a spending plan before your income was reduced, you probably know your monthly expenses. In this case, record expenses from your old plan in the column labeled "Previous payment" on Worksheet 1.

If you did not already have a spending plan, use old financial records, canceled checks, bills, and receipts to figure out how much you have been spending for each expense item.

It often helps to divide spending into two expense categories:

1. **Fixed expenses** are the same each month and are difficult to change quickly, like rent or mortgage payments.
2. **Variable expenses** are more **flexible**. Because these expenses vary from month to month, they are easier to adjust. **Monitor variable expenses closely**. These can be "budget busters."

Use the fixed and variable expenses listed below to select those that match your family's needs, or add your own.

### Typical fixed expenses

- **Housing** — Rent or mortgage payments and property taxes
- **Transportation** — Car or truck loan or lease payment debt, license and registration fees, monthly mass transit or bus passes
- **Utilities** — Electricity, natural gas or fuel oil, water and sewer, waste disposal

- **Insurance** — Health, vehicle, property, life
- **Phone** — Basic charges, cell phones, pagers, Internet
- **Cable or satellite TV** or cable Internet service
- **Child care, elder care**
- **Installment loans (credit contracts)** — Monthly debt you must repay on loans for appliances, furniture, or other family need

### Common variable expenses

- **Food** — Groceries, school lunches, eating out
- **Transportation and vehicle upkeep** — Gasoline and motor oil, car or truck servicing and repairs, parking, bus or taxi fares
- **Medical care** — Doctor, dentist, clinic, hospital, medicine, prescription eye-glasses
- **Household operations and upkeep** — Repairs, replacements, cleaning supplies, paper supplies, equipment
- **Clothing and personal care** — Clothing purchases, laundry, dry cleaning, hair care, cosmetics, toiletries
- **Education and recreation** — Books, magazines, newspapers, lessons, tuition, school supplies, computer upgrades and supplies, sports, club dues, hobbies, music, videos, entertainment, vacation
- **Emergency savings** — Money you set aside for unexpected expenses or periodic bills
- **Credit payments** — Credit card or charge account debt
- **Personal loan obligations** — Debt you must repay to family or friends
- **Personal allowances, children's allowances**
- **Pet or working animal expenses** — Food, veterinary bills
- **Gifts and contributions** — Holiday, birthday, special event, or occasion
- **Other** — Tobacco, alcohol, lottery tickets

Remember, not all expenses are monthly. Property taxes, insurance premiums, and holiday gifts come once or twice a year. It's easy to forget about these, and then not have the money to pay for them.

For these expenses, figure the annual amount, and divide by 12. This gives the monthly amounts you need to set aside each month so you can pay the bills when they come. Mark these expenses with an **S** to indicate “**Save item**” on your monthly spending plan.

Also remember that you do not spend this money each month. Instead, let it accumulate in a savings account or other safe place until you need it.

Be sure your plan includes some money each month set aside for emergency savings. That way, you will have money for unexpected expenses and bills.

### Step 3 — Adjust amounts to spend

As you look at what you were spending before your income was reduced and decide how much you can spend now, answer these questions:

- Which expense items are **essential** to your family's well-being?
- Which expense items have the **highest priority**? For help determining this, see the fact sheet in this series *Deciding which bills to pay first/Cómo decidir qué cuentas pagar primero*.
- How much can you afford to spend now for each expense item?
- Which expenses can you **reduce or do without** to keep your spending within your current income?

Use these answers to adjust the amounts to spend for each **expense** item. Enter the new amounts in the column labeled “Adjusted amount.” Total these adjusted amounts to use in Step 4.

### Step 4 — Balance income and expenses

When your income is reduced, it may be very difficult to keep your spending within your income. Subtract your total adjusted spending amounts from total current income.

#### If your expenses exceed your income...

- **Cut back on spending.** What lifestyle changes can each family member make to spend less money? Discuss ideas and incentives as a family. For help reducing flexible spending, see the fact sheet in this series *Strategies for spending less/Cómo gastar menos*.
- **Increase your income.** What is the possibility for part-time or temporary work to supplement your reduced income? Consider your family's non-dollar resources, too. See the fact sheet in this series *Bartering/El trueque*.
- **Look at your other assets.** What savings, investments, or property do you have that could be used or converted to cash to meet expenses? Keep in mind that borrowing and using savings are only temporary solutions. See the fact sheet in this series *Making the most of what you have/Cómo sacar el mayor provecho de lo que tiene*.
- **Reduce your fixed expenses.** If too much of your income is going to fixed expenses such as housing or debt payments, there may not be enough money left to cover your other living expenses. You may need to refinance your loans, move to lower-cost housing, or surrender property to your creditor to get out from under some of your debt. See these fact sheets in this series *Talking with creditors/Comunicación con los acreedores* and *Keeping a roof overhead/Cómo asegurarse de que la familia tenga donde cobijarse*.

#### Parents who owe child support:

Contact your family court right away about obtaining a lower support order as a result of your reduced income — **before** you miss a payment. Do this immediately, because support obligations cannot be lowered retroactively.

## Making your spending plan work Worksheet 2

Once you have a spending plan that sets amounts for essential family needs and balances your spending with your income, **stick to it**. Writing it down is not enough. You must put your plan into action to guide your spending.

Use **Worksheet 2: Weekly money management plan** on page 6 to decide which bills to pay and how much you will spend each week. Using this form helps you match your spending with both the available income and the dates the bills are due.

In the first column, list the expense items and adjusted amounts from your spending plan worksheet. Then fill in the weekly columns to indicate which expenses and how much you will pay from the income you receive that week.

You will notice that Worksheet 2 is divided into three sections to indicate money management plan priorities.

### Section 1 — Basic living expenses

The first section indicates expenses that have to be paid first. These are typically the highest priority expenses covering basic living needs such as housing.

### Section 2 — Other expenses

The second section is for expenses that need to be addressed, but can be flexible. For example, you need to buy food, but the amount you spend may vary.

For less important expense items, you can choose to do without or put them off until later. For example, you can redefine “entertainment” as playing a game together and watching a free video from the library, rather than going to the mall and out for a movie.

## Section 3 — Debt payments

The last section is debt, which is important to pay but not as essential as housing or food. So debt is addressed third.

After completing the third section, if you have money left over, go back to Section 2 and fill in amounts for expense items that you skipped.

For how you can use this form to plan your spending each week, see the sample weekly money management plan on page 7.

### Set up weekly money meetings

Set aside time each week to take care of your money management tasks. Having a set time each week helps you make a commitment to work with finances regularly.

#### Tips for weekly money meetings

- Schedule weekly meetings at a quiet, convenient time when you will be alert and undisturbed. Some people schedule their money meetings just before they get paid. This helps them have a plan for their money before they cash their checks.
- Have your meeting in pleasant surroundings. Find a comfortable, peaceful place. Some people have their money meetings at a coffee shop; others prefer their kitchen table.
- Put this time and place on your calendar.
- Have on hand the tools and paperwork you need — spending and money management plans, bills, pencil, eraser, calculator, checkbook, phone, and your computer if you use it for your finances.

- During your money meeting, you can do a variety of tasks:

- Pay bills.
- Balance your checkbook.
- Plan and review your spending plan and debt repayment strategies.
- List or review your goals.

- Limit your meetings to an hour or less to keep them manageable and doable.
- Finish money meetings with a treat. Reward yourself with something you enjoy that does not hurt you financially. For example, take a relaxing bath or nap, go for a walk, call a friend, read a book, or watch a movie or sporting event.

One of the best outcomes of having regular money meetings is that if something unexpected comes up, you can take care of it quickly and get back on track sooner.

Also, if you have any money worries during the week, you can write them down to work on during your money meeting. This relieves the stress of having to think about money concerns all the time.

## Managing on a seasonal or irregular income

If you are self-employed, seasonally employed, or receive income from tips or commissions, your family income may change a lot from month to month. In that case, look ahead and carefully estimate your income. It may help to estimate your income for a whole year, so you can see when and how much your monthly income changes.

Even though your income may change from one month to the next, many of your living expenses stay the same each month. This mismatch of income and expenses creates uncertainty that can cause feelings of insecurity and increase family tension.

**Reduce this uncertainty by establishing a monthly family living allowance.** Use expenses you identified as part of your spending plan to determine your monthly living allowance — what it costs your family to live each month.

When you receive income, deposit a major portion of it in a special savings or money market account where it will earn interest, yet still be readily available. Then, each month, “pay” yourself by withdrawing the amount of your family living allowance and putting it into your checking account to pay bills.

Use your monthly spending plan and weekly money management plan to stay within your family living allowance. Avoid the temptation to spend more money in the months when your income is greater.

As a family on a seasonal or irregular income, you might schedule some major expenses when you have more income. For example, arrange to pay when you can afford insurance premiums, clothing purchases, and routine medical and dental care.



# Worksheet 1: Monthly spending plan

\_\_\_\_\_ Month

For explanations and more examples, use the directions for "Making a spending plan" on pages 2-3. Modify expense item labels according to your family's needs.

## Monthly income

Income source	Income before being reduced, take-home*	Current income, take-home*
Salary, wages	\$ _____	\$ _____
Unemployment or Workers' Compensation	\$ _____	\$ _____
Other income	\$ _____	\$ _____
<b>TOTAL monthly income</b>	\$ _____	\$ _____

## Monthly expenses

Expense item	Previous payment	Adjusted amount
Fixed expenses	\$ _____	\$ _____
Housing	\$ _____	\$ _____
Transportation	\$ _____	\$ _____
Utilities	\$ _____	\$ _____
Insurance	\$ _____	\$ _____
Phone	\$ _____	\$ _____
Cable TV	\$ _____	\$ _____
Child care, elder care	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Installment debt	\$ _____	\$ _____

## Variable expenses

Food	\$ _____	\$ _____
Transportation upkeep	\$ _____	\$ _____
Medical care	\$ _____	\$ _____
Household upkeep	\$ _____	\$ _____
Clothing, personal care	\$ _____	\$ _____
Education, recreation	\$ _____	\$ _____
Emergency savings	\$ _____	\$ _____
Credit card debt	\$ _____	\$ _____
Personal loan debt	\$ _____	\$ _____
Personal allowances	\$ _____	\$ _____
Pets or working animals	\$ _____	\$ _____
Gifts	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
<b>TOTAL monthly expenses</b>	\$ _____	\$ _____
TOTAL monthly income	\$ _____	\$ _____
TOTAL monthly expenses	– \$ _____	– \$ _____
Difference	= \$ _____	= \$ _____

If your expenses exceed your income, go back to page 3. Try some of the ways listed to balance your income and expenses before you start Worksheet 2.

\* Because most bills are monthly, it's easiest to look at monthly income and expenses. To convert to monthly amounts: Multiply weekly income times 4.33 and bi-weekly income times 2.17.





## Worksheet 2: Weekly money management plan—sample

		Week 1	Week 2	Week 3	Week 4
<b>Income</b>					
Monthly income	\$986.00 (Child support)	\$193.00	\$300.00 (Child support)	\$193.00	\$300.00
Food Stamps	\$320.00	+ 80.00	+ 80.00	+ 80.00	+ 80.00
<b>TOTAL monthly income</b>	<b>\$1,306.00</b>	<b>\$273.00</b>	<b>\$380.00</b>	<b>\$273.00</b>	<b>\$380.00</b>
<b>Expenses</b>					
<b>Section 1. Basic living expenses</b>					
Rent (Subsidized housing)	\$214.00	\$35.00	\$75.00	\$34.00	\$70.00
Electric/Gas (Budget plan)	40.00	20.00		20.00	
Water/Sewer					
Car payment	188.00	40.00	54.00	40.00	54.00
Car insurance	75.00	15.00	25.00	10.00	25.00
Phone card	10.00	10.00	10.00	10.00	10.00
Phone	30.00				
<b>Section 2. Other expenses</b>					
Groceries (Food Stamps)	\$320.00	\$80.00	\$80.00	\$80.00	\$80.00
Discount store	60.00	10.00	20.00	10.00	20.00
Gas for car	100.00	25.00	25.00	25.00	25.00
Car repair (Save)	20.00			20.00	
Child school expenses	10.00		10.00		
Clothing (Save)	34.00		10.00		24.00
Laundry (Save)	64.00	16.00	16.00	16.00	16.00
Cable TV	37.00	37.00			
Pets (Save)	8.00	4.00		4.00	
Gifts (Save)	18.00		9.00		9.00
Movies out/Videos	12.00	3.00	3.00	3.00	3.00
Going out/Recreation					
Emergency savings (Save)	10.00		10.00		
<b>Section 3. Debt payments</b>					
Credit card	25.00		25.00		
<b>TOTAL monthly expenses after changes</b>	<b>\$1,275.00</b>	<b>\$295.00</b>	<b>\$372.00</b>	<b>\$272.00</b>	<b>\$336.00</b>





## Stick to your plans!

Good for you for making a spending plan and following it through.

Living on less income may be temporary or prolonged. Getting the most from your income during this time requires careful planning and wise spending decisions.

Making a spending plan based on what you and your family consider most important and making your spending plan work can help you balance your spending and income.

Working on money management tasks at scheduled, weekly money meetings can ensure that you have the money for the things your family needs most, and relieve the stress of financial worries. Keep up the good work.

## Resources

### For help setting spending priorities...

See these money management fact sheets in this series, in English or Spanish:

*Setting spending priorities* (B3459-01)/  
*Cómo decidir cuáles son los gastos más importantes* (B3459-01S)

*Strategies for spending less* (B3459-02)/  
*Cómo gastar menos* (B3459-02S)

*Deciding which bills to pay first* (B3459-03)/  
*Cómo decidir qué cuentas pagar primero* (B3459-03S)

*Talking with creditors* (B3459-04)/  
*Comunicación con los acreedores* (B3459-04S)

*Keeping a roof overhead* (B3459-05)/  
*Cómo asegurarse de que la familia tenga donde cobijarse* (B3459-05S)

*Meeting your insurance needs* (B3459-06)/  
*Cómo pagar por el seguro que necesita* (B3459-06S)

*Bartering* (B3459-07)/  
*El trueque* (B3459-07S)

*Making the most of what you have* (B3459-08)/  
*Cómo sacar el mayor provecho de lo que tiene* (B3459-08S)

*Deciding if bankruptcy is an option for you* (B3459-09)/  
*Cómo decidir si la protección por bancarrota es una buena opción para usted* (B3459-09S)

*Taking care of yourself* (B3459-10)/  
*Cómo satisfacer las necesidades personales* (B3459-10S)

*How you can help when mom or dad is unemployed* (B3459-11)/  
*Cómo puedes ayudar cuando tu papá o tu mamá está sin empleo* (B3459-11S)

*Helping children cope* (B3459-12)/  
*Cómo ayudarles a los niños a sobrellevar las dificultades* (B3459-12S)

*Community agencies that can help* (B3459-13)/  
*Las agencias comunitarias pueden ayudar* (B3459-13S)

*Looking for a job—Watch out for scams* (B3459-14)/  
*Búsqueda de trabajo—Tenga cuidado con las estafas* (B3459-14S)

*Where to go for help finding a job* (B3459-15)/  
*Dónde conseguir ayuda para encontrar empleo* (B3459-15S)

*Starting your own business* (B3459-16)/  
*Cómo iniciar su propio negocio* (B3459-16S)



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