Spending Plan

A spending plan is a strategy for saving and spending money. It is meant as a guide to help you track how much money comes into your home and how it needs to be divided to meet expenses, reduce debt and reach your financial goals more easily. A spending plan is the first step in taking control of your personal finances.

Start by calculating your income and expenses and then organize them into a monthly spending chart. Recurring monthly expenses such as rent, mortgage, and insurance are considered fixed expenses. Variable expenses are items like groceries, entertainment, and clothing because they are flexible and not paid on a particular schedule. Here are some categories and guidelines that could be used to determine how you allocate funds among expenses:

- 30 percent housing
- 20 percent transportation
- 10-20 percent food
- 10 percent insurance
- 20-30 percent taxes, healthcare, entertainment, savings, other

Debt should not exceed 15 percent of a person's spending plan and people should try to save or invest at least five percent.

First determine which expenses are needs and which are wants, and work on reducing the wants while meeting their needs. To see where your money is actually being spent you should track spending over a period of time. There are many free financial programs offered online, such as mint.com, to help with this task. Mint calculates your average spending in any category to help you easily create a budget based on historical spending and compare your spending year-to-year or month-to-month, whatever fits your style. This allows you to see where you can cut back on expenses to accomplish your goals; whether it's minimizing debt or saving for long- or short-term goals. Some fixed expenses that are not needs could be reduced or eliminated; such as unlimited text messaging or specialty cable channels.

If expenses are greater than income, you will want to decrease expenses and try to find ways of increasing your income (such as applying for public benefits, pursuing higher education, or looking for a career/job that pays higher wages). Saving money for your financial goals should be part of any solid spending plan and measured against SMART goals criteria. Goals should be:

S - Specific
M - Measurable
A - Attainable
R - Relevant
T - Time-Specific

Resources:
Mint mint.com
Practical Money Skills practicalmoneyskills.com
Better Budgeting betterbudgeting.com
Maryland Cash Campaign mdcash.org