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Managing Your Money

Managing your money isn't difficult; it just takes time and an understanding of your expenses and income. Good money management is achieved when your income exceeds your expenses. Tracking your income and expenses allows you to have a good understanding of both sides of the equation and allows you to make changes when expenses exceed income.

Income

Income can include any payment you receive from employment, public assistance, retirement accounts, social security, disability, unemployment benefits, tips, child support or any other source. When figuring income, look only at NET income (income received after taxes and any insurances have been taken out).

Expenses

Expenses fall into one of three basic categories; fixed, flexible and occasional.

Fixed expenses are those expenses you pay each month that are the same amount each month (or close to the same amount), and that are paid at the same time each month (or close to the same time). These include expenses such as mortgage/rent, car payment, loan payment, credit card payment, power, cable, etc.

Flexible expenses are those expenses that vary from month to month. These can include expenses for items such as food, clothing, personal care or household items, transportation, medical, etc.

Occasional expenses are those expenses that occur every once in a while. These can include things such as new tires for the car, back-to-school expenses, etc. Occasional expenses can be planned expenses that are accounted for as fixed expenses. For example, if you know your car will need brakes in 4 months, you can set aside an equal amount of money for the four months prior to the purchase so that the money is available when needed.

Tracking

The key to good money management is tracking both income and expenses on a monthly basis. Only when you know exactly what your income was and where your money went (expenses), can you make changes when expenses exceed income. Fixed and flexible expenses should be tracked separately. Fixed expenses can be tracked using a calendar, a computer-based or mobile application, a ledger or spreadsheet, or whatever way works for you. Flexible expenses can be tracked using a chart, a piece of paper, a ledger or spreadsheet, a computer-based or mobile application, or whatever way works for you. The important part is not so much HOW it's tracked, but THAT IT IS tracked.

Once expenses have been tracked and totaled, they can be subtracted from income to determine if expenses were met. If expenses were not met, changes must be made, either by increasing income or decreasing expenses. If expenses must be cut, choices must be made. Only when the expenses have been tracked, though, can we know what choices are available.

Often times, flexible expenses are easiest to cut and must be looked at first. See where your money has gone and what items or services you are willing to cut back on or even give up to make your income cover your expenses. Or, determine how you can make changes to reduce the amount of money you are spending on individual expenses. For example, could you cut your food bill by shopping sales and using coupons?

Fixed expenses can also be trimmed, either through restructuring the payment or by cutting back on or cutting out services. Really examine your fixed expenses to see if you are benefitting from the services you are getting. For example, do you really need to pay for an ultimate cable package if you only watch a couple of channels? Also, shop around for services to make sure you are getting the best deal. It may be possible to keep the same amount of service at a cheaper rate.

Money management is not a one-shot deal. Set a time each month to sit down and go over your income and expenses. Tracking income and expenses must be done at least once a month to be effective, as unexpected expenses can happen at any time to change the expected outcome. Tracking monthly can also help you to start seeing patterns of increased or decreased expenses. This can help in setting spending amounts for the future to stay within income limits. Also, be sure to include saving as a part of your money management plan, as savings can help during times of reduced income or increased expenses.

Common Spending Guidelines (as a percentage of income)

Housing (including utilities and supplies)	33% - 35%	Medical (dental, prescriptions, insurance)	6% - 8%
Food	18% - 25%	Credit obligations	12% - 15%
Transportation	7% - 9%	Savings	2% - 10%
Clothing	6% - 12%	Recreation/entertainment	2% - 10%
Life	2% - 5%	Religious donations/charities	2% - 10%
Auto insurance	2% - 3%		