



Effective Strategies for Personal Money Management

Many people think if they had more money, life would be better. Yet, many studies show that sudden wealth doesn't bring more happiness. In fact, it often brings less. Too often the money causes personal crises, like broken friendships, divorce, even bankruptcy. More money may sometimes make life easier, but it doesn't always make people happier.

In contrast, using effective money management strategies can create the effect of having more money without actually having to earn it. By managing the money you have more efficiently, you can have more now, and more importantly, you can have a more secure financial future.

Some people feel that if they "could just earn more money" or if they "could invest their money more cleverly," all their financial problems would be solved. The reality is that day-to-day spending decisions have a greater impact on an individual's long term financial well-being than the sum total of all his or her investment decisions. No one

can tell you which is the right choice, buying now or saving for the future, but finding the right balance is important for financial security.

A key to successful personal money management is developing a comprehensive financial plan. Research studies have shown that people with a financial plan tend to save more money, feel better about their progress and make more

Everyday spending decisions have a greater impact on a family's long term financial well-being than all of their investment decisions.

appropriate decisions about how to meet their goals. A written plan is more effective than a mental one. It helps jog your memory about what

actions are needed to reach your goals and it enables you to check your progress more easily than relying on a hazy recollection.

A financial plan can be developed in four steps:

- Set Goals
- Assess your present situation
- Write your plan
- Follow through and check on your plan

Set Goals

First, take time to set goals and decide as a family what you hope to accomplish financially. Knowing what is important to you is a critical first step in an effective money management plan. Use the Setting Goals worksheet to decide which are the most important family financial goals and how much will be needed each month to

accomplish the goals. You may decide that some goals are important enough to be listed, but will not be worked on this year. Reviewing your financial goals on a yearly basis is a good practice. The review can help you decide if you are still committed to those same goals or if new priorities have come into the picture.

Assess Your Present Situation

Next, prepare a Net Worth Statement and take an inventory of your assets (what you own) and liabilities (what you owe). The Net Worth Statement provides an annual snapshot of your financial status on one day. If you computerize your record keeping, you may find you can easily produce a net worth statement every time you update your records.

If you find yourself spending more than you planned, create ways to change habits.

- **Don't go to the mall just to pass time.**
- **Go to the library instead of the bookstore. Borrow videos from the library instead of buying or renting – this not only saves money, it prevents clutter!**
- **Have your kids clean their rooms. They'll find so many things they've forgotten they own, it'll be like a birthday all over.**
- **Skip the uptown theater and go to community theater or high school productions instead.**
- **Eat out less frequently or eat at less expensive places.**
- **When you need a particular item, check out the consignment store first.**

credit card statements, bank statements, and pay stubs to provide a realistic picture of past spending. For people without those records and little idea of where their money goes, keeping track of every actual expense during a three or four-week period will help them collect the information needed. If you are satisfied with past spending and saving practices, your Spending Plan may look very much

The Income and Expense Statement looks back at the previous 12 months to review how money was spent. Information about income, savings, and expenses can be gathered from receipts, check registers,

like your Income and Expense Statement. If, however, you are trying to achieve new goals, you will need to carefully review the Income and Expense Statement to see where spending changes can be planned.

Write Your Plan

The Spending Plan, Worksheets A through D, will produce a forecast of how the family

decides it will spend its money over the next 12 months. This can be a difficult process

because you must trade-off spending for some goals in favor of others. Some expenses are quite predictable, or fixed. You know when the spending will occur and how much it will cost. Other expenses are

difficult to estimate, but records of past expenses, such as the Income and Expense Statement, can help you make sound decisions on how much to plan to spend for each category.

Follow Through and Check on Your Plan

Finally, follow through on your Spending by comparing your actual spending to your plan. Record spending on the Spending Plan, or on a self-designed computer spreadsheet, or on computer software designed for this specific purpose. The computer programs offer a more automated and less tedious method than a paper and pencil budget for planning and recording spending. This step will involve keeping track of how money is spent, comparing it to the spending plan, and deciding if adjustments are needed. When actual spending doesn't match the spending plan, the plan may need to be revised, or changes may be needed in the ways money is spent.

To help you reach your financial goals, you are encouraged to question some of your basic spending habits. You may find that a few changes in everyday money management can make the difference between achieving a goal or not. Consider the following strategies:

1. Comparison shop
2. Pay off credit cards
3. Put savings and investments on autopilot
4. Buy the right insurance at the lowest cost
5. Match housing costs to housing needs
6. Minimize transportation expenses
7. Use new income to meet long term goals

By using effective money management strategies that reduce unrewarding spending, you can increase the amount of money available without actually having to earn it. By managing the money you have more efficiently, you can have more now, you can have more free time to do the things you really want to do and, most importantly, you can have a more secure financial future.

Give up something that you do only because of habit -- that daily cup of coffee or espresso, a pack or two of cigarettes, subscribing to a newspaper (or buying it at the newsstand) that you don't read. And do you subscribe to magazines that no one actually reads?? Daily lottery tickets?? Do all these nickels and dimes really matter??

Consider this: if you made a conscious effort to stop smoking or drinking espresso with your morning doughnut, or eating lunch out or whatever else you spend money on out of habit rather than pleasure and instead saved that \$6.00 per day, at the end of the year, you'd have \$2190. If you invested that amount every year for the next 10 years at 8% (monthly contributions to a good mutual fund should help you accomplish this goal), at the end of the ten years, you'd have \$31,733. Continue this for 20 years, and you'll have \$100,214. 30 years? Can you believe those nickels and dimes are now worth \$248,214.

Think about that the next time you buy a soda, candy bar or bag of chips...





Worksheet – Setting Goals

Step 1: On a separate sheet of paper, each family member who participates in the family's financial decisions should write down, without discussing with anyone else, his or her own financial needs, wants, desires and goals. Then put a dollar cost next to each item.

Step 2: Share the lists with other family members and discuss the goals you have in common and those that previously were unknown to others.

Step 3: Combine the lists and agree on a single set of goals the family can work towards.

Step 4: Put a priority on each goal. Decide which is the family's top priority, which is second, third, etc.

Step 5: Finally, put a date to be accomplished on each goal.

Step 6: Estimate how much to set aside in the monthly spending plan and annually to work toward this goal.

Step 7: Write the combined list of family goals below.

Priority	Goal	Total Cost	Target Date	Number of Months to Goal	Amount to Save Each Month

Worksheet - Net Worth Statement

Date Prepared: _____

ASSETS (what you own)	CURRENT CASH VALUE
Checking Accounts	
Savings Accounts	
Brokerage Accounts	
Money Market Accounts/Funds	
Certificates of Deposit	
IRA Accounts	
Keough Accounts	
Other Retirement Accounts	
Pension/Profit Sharing	
Life Insurance – cash value	
Annuities	
Bonds – government	
Bonds – corporate	
Mutual Funds	
Stocks	
Other Securities	
Receivables - \$\$ owed to you	
Home	
Automobiles	
Other Personal Property:	
Household Furnishings	
Jewelry	
Other:	
Other:	
TOTAL ASSETS	

LIABILITIES (what you owe)	CURRENT BALANCE
Home Mortgages	
Other Mortgages	
Automobile Loans	
Credit Card Balances	
Installment Accounts	
Contracts/Money Borrowed	
Income Taxes	
Other:	
Other:	
TOTAL LIABILITIES	

TOTAL ASSETS	-	TOTAL LIABILITIES	=	NET WORTH
	<i>Minus</i>		<i>Equals</i>	

Worksheet - Income and Expense Statement*

Name: _____ From (Mo/Yr): _____ to _____

TAKE-HOME INCOME (A):	SAVINGS AND EXPENSES (continued) (C):
Salary 1	Savings Account 1
Salary 2	Savings Account 2
Bonus	Rent/Mortgage
Interest/Dividends	Property Tax
Child Support/Alimony	Homeowners Insurance
Rental Income	Water/Sewer/Garbage
Gifts	Gas/Oil for Heating
Other	Electric
Total Income (A):	Telephone
	Cell Phone
SAVINGS AND EXPENSES (B):	Cable
Groceries	Car Payment
Household Supplies	Car Insurance
Home Maintenance	Health Insurance
Gasoline	Life/Disability Insurance
Car Repairs/Maintenance	Tuition/Student Loan
Clothing	Alimony/Child Support
Doctor/Dentist	Dues/Professional Fees
Prescriptions	Debt 1
Gifts	Debt 2
Donations	Other
Entertainment	
Cigarettes, Alcohol	
Newspapers, Magazines	
Hobbies, Clubs, Sports	
Childcare	
Personal Allowance	TOTAL (C):
Miscellaneous	+ TOTAL (B):
TOTAL (B):	TOTAL SAVINGS AND EXPENSES:

*Enter information from a previous 12 month period.

Worksheet - Spending Plan

Income – Worksheet A

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12 mo Total
Salary 1													
Salary 2													
Bonus													
Interest/Dividends													
Child Sup/Alimony													
Rental Income													
Gifts													
Other													
Total (A)													

Fill in all sources of income you expect during the next 12 months. List take-home pay rather than gross pay. If you are paid every week or every two weeks, figure out which months will have higher income. Round all figures to the nearest dollar

Savings and Expenses – Worksheet B

	Month:			Month:			Month:			Month:		
	Planned	Actual	Difference	Planned	Actual	Difference	Planned	Actual	Difference	Planned	Actual	Difference
Groceries												
Household Supplies												
Home Maintenance												
Gasoline												
Car Repairs/Maintenance												
Clothing												
Doctor/Dentist												
Prescriptions												
Gifts												
Donations												
Entertainment												
Cigarettes/Alcohol												
Newspapers, Magazines												
Hobbies, Clubs, Sports												
Childcare												
Personal Allowance												
Personal Allowance												
Miscellaneous												
Total (B)												

Make two additional copies of Worksheets B and C so that you will have spaces for 12 months to plan expenditures. Fill in the names of the months across the top on Worksheets B and C. Use last year’s expenses, which can be found in checkbook stubs, receipts, and credit card bills as a guide for completing Worksheets B and C. Try to anticipate the actual month when purchases will occur. Adjust expenses that you think may increase during the year. Cross out categories that do not apply and add new category names if you need additional lines. Purchases that you are planning to make by credit card should be entered by category name. For example, clothing to be purchased on a credit card should be listed as Clothing.

Savings and Expenses – Worksheet C

	Month:			Month:			Month:			Month:		
	Planned	Actual	Difference	Planned	Actual	Difference	Planned	Actual	Difference	Planned	Actual	Difference
Savings Account 1												
Savings Account 2												
Rent/Mortgage												
Property Tax												
Homeowners Insurance												
Water/Sewer/Garbage												
Gas/Oil for Heating												
Electric												
Telephone												
Cell Phone												
Cable												
Car Payment												
Car Insurance												
Health Insurance												
Life/Disability Insurance												
Tuition/Student Loan												
Alimony/Child Support												
Dues & Professional Fees												
Debt 1												
Debt 2												
Other												
Total (C)												

Summary – Worksheet D

Total the amount for income on Worksheet A and for your planned expenditures on Worksheets B and C and place these

SUMMARY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12 mo Total
Net carried forward													
Total Income (A)													
Less Total (B)													
Less Total (C)													
Net (+ or -)													

totals above in the corresponding months. Then, beginning in January, subtract the amounts for Lines B and C from the amount on Line A. The difference goes on the Net line. The Net figure is carried to the top line under February. Be sure the + or – sign goes with the amount. Add February’s Total Income (A) amount to the top line, or, if the Net is negative, subtract the Net from Line A. Then subtract the February totals for Lines B and C to calculate the net amount. This Net figure will be carried to the top line under March. Proceed through the entire year calculating the monthly Net figure and carrying it forward to the next month. This Spending Plan will give you a picture of how your cash will flow during the year. Some months may be negative. You may want to shift spending to another month in your plan so that spending will not be greater than income.

The real value in creating a Spending Plan is using it as a guide to achieve your goals. The spaces on Worksheets B and C will help you compare your plan with your actual spending in each category. If you find over several months that you are not spending approximately what you planned to spend, you may want to first examine your goals. Are these goals still important? Is everyone in the family committed to the same goals? If the goals are still accurate, then you may want to look at the amount of money planned for the categories where spending doesn’t match the plan and decide if these categories need to be increased or decreased.

The Center for Personal and Financial Education is a nonprofit, educational resource and research center whose primary mission is to increase financial literacy at all age levels. It was formed in 1996 as a joint venture between the University of Rhode Island Cooperative Extension and the Consumer Credit Counseling Service of Rhode Island.

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