Effective Strategies for Personal Money Management

The key to successful money management is developing and following a personal financial plan. Research has shown that people with a financial plan tend to save more money, feel better about their progress, and make more appropriate decisions – no matter what their income. Moreover, a written financial plan is far more effective than a mental one. Seeing your plan in writing helps to remind you about what actions are necessary to reach your goals and it helps you to check your progress more easily than relying on memory alone.

The key to successful money management is developing and following a personal financial plan.

A successful financial plan can be developed in six steps:

1. Set goals
2. Prepare a net worth statement
3. Gather past income and expense records
4. Complete the Spending and Saving Planner
5. Keep records of spending and saving
6. Evaluate

Step 1: 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 and your family is a critical first step in a successful personal financial plan. Use the **Setting Goals** worksheet to decide which financial goals are most important to the family and how much will be needed each month to accomplish these goals.

A well-defined financial goal is:

- **specific** - what you want to achieve.
- **measurable** -- how much money you will need.
- **tied to a time frame** -- when you want to achieve the goal.
- **reasonable** – it can be achieved with the time and money available.

The following is an example of a well-defined financial goal: "I want to buy a house that costs around $150,000 in 2007." This goal is specific, measurable, and tied to a time frame. It is reasonable when you are willing and able to include the goal in your everyday spending priorities.

Prioritize goals in terms of their importance to you and your family. Goals will differ in the length of time needed to achieve them. It may not be possible to start working on all goals in the same year. However, long-term goals need a place in the financial plan over time. Both short- and long-term financial goals will require regular savings.

The first short-term goal for every family should be an **emergency cash reserve**. In addition to the regular savings that are needed to achieve your specific goals, most families also need a "rainy day" fund for the unexpected financial emergencies that happen without warning. The emergency cash reserve should equal 3-6 months of your monthly expenses, if your job is secure. If your job is not secure, a 12-month cash reserve may be a safer cushion. No matter how much you choose to set aside for emergencies, your cash reserve should be easily available, safe, and only used for emergencies. One way to build your cash reserve is to have a regular amount of savings automatically deducted from your paycheck and deposited into a savings account.

Step 2: Prepare a Net Worth Statement

The next step in your financial plan is to look at your present situation by preparing the **Net Worth Statement** (also referred to as a Balance Sheet). A net worth statement adds up all your assets, the things you own, and subtracts from that your liabilities, all the debts you owe. Yearly net worth statements allow you to track your financial progress over time.

Your everyday spending decisions have a greater impact on your long-term financial well-being than all of your investment decisions combined.

Step 3: Gather past income and expense records

To determine how your money has been spent in the past, use the **Past Income and Expenses** worksheet. To get an accurate picture of your past spending, sort through your checkbook registers, receipts, credit card bills, online statements, and whatever other financial records you may have.

Many people are amazed to see how much of their money is spent on take-out lunches, morning coffees, and other expenses that can add up over time. Decide whether these "extras" are really worth the trade-off. Are these everyday "extras" worth giving up money for current expenses and future goals? The reality is that your everyday spending decisions have a greater impact on your long-term financial well-being than of all of your investment decisions combined.

Step 4: Complete the Spending and Saving Planner

The **Spending and Saving Planner** will help you decide how you want to divide your money over the next 12 months. Before you fill in the **Spending and Saving Planner**, consider two things:

- the goals you've set for the future; and
- how you've spent your money in the past.

Will you be able to meet your future goals if you continue to spend as you have in the past? Use the **Spending and Saving Planner** to guide your everyday spending decisions.

If you are looking for ways to control everyday spending, begin with your credit cards. Only use credit cards when you have enough money to pay the bill in full at the end of the month. By reducing your credit card balances, you'll immediately start saving 12%, 18%, 20% or whatever your interest rate may be. Every dollar you spend for interest on credit payments has two effects:

- it increases the cost of current spending by adding interest to the purchase; and
- it reduces the amount you can spend and save tomorrow.

If you think you may have too much debt, check your debt payments to take-home income ratio. Add together all of your debt payments for the year, excluding mortgage payments and credit card charges that are repaid in full each month, and divide by your annual take-home income (income after taxes, benefits and dues are subtracted).

$$\frac{\text{All non-mortgage debt payments for 12 months}}{\text{Take-home income for same 12 months}} = \text{Debt Payments to Take-Home Income Ratio}$$

For example:

All debt payments for 12 months = $10,200
Take-home income for same 12 months = $34,000
Debt Payments to Take-Home Income Ratio = 0.3

$$\frac{\$10,200}{\$34,000} = 0.3$$

Research has shown that when a family's debt payments to take-home income ratio is above 0.2, that is, their total debt payments are greater than 20 percent of their take-home income, financial problems are more likely to occur. Reducing the amount of debt, increasing income, or both will lower the debt payments to take-home income ratio.

Debt payments to take-home income ratio
Keep below 0.2

Another way to stretch your dollars is to comparison shop for all big ticket items and services. It may take more time to shop for the best deals, but when you convert the money you've saved into dollars per hour, you'll find that you're being paid very well for your effort!

Step 5: Keep records of spending and saving

The fifth step involves keeping records of your spending and saving. For each spending and saving line listed on the **Spending and Saving Planner**, there is an "Actual" column to track your spending and saving. Fill in the "Actual" column on a weekly basis. Remembering the items that were purchased and their prices can be difficult after more than week.

Step 6: Evaluate

The last step in a successful financial plan is to periodically evaluate and revise your plan. Compare your planned spending and saving to the amount you actually spent and saved. This step will allow you to measure your progress toward your goals. If you find that, you are not reaching your goals or that family members are dissatisfied with the way money is spent or saved, you will need to decide:

- Are my/our goals still important?
- Is everyone in the family committed to the same goals?
- Are my/our financial goals too ambitious?

If the goals are still important to you, then you may consider:

- Are the planned amounts reasonable?
- Was spending out of control in one or more areas?

If you need to make some revisions to your plan, you are in the majority! No financial plan is set in stone. In fact, your plan should change as your needs change and as you make progress toward your goals.

Another way to evaluate your progress is to compare annual net worth statements. Check your statements for the following:

- how assets have increased or decreased
- how assets have moved from one category to another (for example, from a money market account to equity in your home)
- whether debts are growing faster than assets
- how debts have increased or decreased

Summary

Writing a basic financial plan is not difficult, however it will take time and effort on your part. **Following** the financial plan is the biggest challenge for most people. The pay-off for meeting this challenge will be increased family financial security and satisfaction.

Once you have mastered a basic personal financial plan, decisions will also need to be made about:

- risk management
- tax planning
- investing
- saving for college
- retirement planning
- estate planning
- dealing with later life issues

Spending and Saving Planner

Worksheet 1: Setting Goals

Priority	Goal	Total Cost	Target Date	Number of Months to Goal	Amount to Save Each Month
	Emergency Cash Reserve				
Totals					

ⓘ Instructions for Worksheet 1

- ❑ Each family member who participates in the family's financial decisions should write down, on a separate sheet of paper, without any discussion, his or her own financial needs, wants, desires and goals. Then put a dollar cost next to each item.
- ❑ Share the lists with other family members and discuss the goals you have in common and those that previously were unknown to others.
- ❑ Combine the lists and agree on a single set of goals the family can work towards. Write the agreed-upon list of family goals above.
- ❑ List a priority for each goal. Decide which is the family's 1st priority goal, which is 2nd, 3rd, etc.
- ❑ Enter a date to be accomplished for each goal under Target Date.

- If saving for a goal will not begin during the next 12 months, do not fill in the Number of Months to Goal or Amount to Save Each Month on this form.

Worksheet 2: 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	
Keogh 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	$
minus TOTAL LIABILITIES	$
Equals NET WORTH	$

ⓘ Instructions for Worksheet 2

Assets

- ❑ Gather financial all financial documents including checking and savings account statements, stock and bond information, and retirement account information.
- ❑ Determine the current value of your home, vehicles and other personal property.
- ❑ Add the amounts to determine what you own.

Liabilities

- ❑ Gather your most recent statements of the debts you owe (ex. mortgage, car loan). Enter the current balance on the worksheet.
- ❑ Add the amounts to determine what you owe.

Net Worth

- ❑ Subtract your Liabilities from your Assets to determine your Net Worth.

Using Your Net Worth

- ❑ If this is the first time you have determined your net worth, consider it as a baseline figure. It can be used to measure changes in your net worth next year and in the future.
- ❑ Strive to increase your net worth each year.

Worksheet 3: Past Income and Expenses

	Dollar amount	MVP (Monthly, Variable, Periodic)	Check months when periodic income and expenses occur											
	$		J	F	M	A	M	J	J	A	S	O	N	D
TAKE-HOME INCOME														
Salary 1			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Salary 2			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Bonus			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Interest			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Dividends			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Child Support / Alimony			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Rental Income			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Gifts			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
EXPENSES AND SAVINGS														
Saving / Investing Goal			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Saving / Investing Goal			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Rent / Mortgage			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Property Tax			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Homeowners / Renters Insurance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Appliances / Electronics			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Home Maintenance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Water			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Sewer			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Garbage			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Gas / Oil for Heating			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Electric			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Telephone			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Car Payment			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Car Insurance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Gasoline			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Car Repairs / Maintenance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Clothing			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Groceries / Household Supplies			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Doctor / Dentist			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Prescriptions			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Health Insurance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Life / Disability Insurance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Childcare			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Tuition / School Expenses			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Child Support / Alimony			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal Allowance			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Entertainment			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Eating Out / Vending			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Cigarettes / Alcohol			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Newspapers / Magazines			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Hobbies / Clubs / Sports			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Gifts			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Donations			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Work Expenses			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Cable / Satellite			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Internet Connection(s)			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Cell Phone(s)			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Student Loan			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Debt 1			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Debt 2			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other			☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

ⓘ Instructions for Worksheet 3

- Gather information about how your money was spent last year by collecting pay stubs, checkbook registers, receipts, credit card bills, online statements, and any other financial records you may have. This will help you get the most accurate information. If you do not have complete financial records for the past year, use your best estimates to fill in the blanks.

- Some expenses occur monthly, some on a regular basis during the year (periodic), and others at unpredictable times (variable). Knowing when expenses occur will help prepare a picture of your cash flow over the next 12 months. You will be able to predict which months you will have more income than expenses and which months there will be less income than expenses.

- For income and expenses that are the same every month, enter an ‘M’ (Monthly) in the MVP box. For weekly or bi-weekly expenses estimate the amount spent during one month. For example: Rent or mortgage payments are usually the same each month; write M in the MVP box.

- For income and expenses that occur every month but aren’t the same each month, place a ‘V’ (Variable) in the MVP box. To calculate the amount for a variable expense, average last year’s monthly dollar amounts. For example: A phone bill varies each month; enter a ‘V’ in the MVP box and the monthly average in the Dollar Amount Box.

- For income and expenses that occur occasionally, enter a ‘P’ (Periodic) in the MVP box and check the months when it occurs. The Dollar Amounts box may have either a fixed amount or an average for periodic expenses that occur more than once during the year. For example: If insurance payments are made twice a year, enter a ‘P’ in the MVP box. If the payments vary, enter an average payment in the Dollar Amount box. Then, check the months when payments are due.

- Decide if the amounts on each line of the worksheet are the same as the amounts you plan to spend next year. Fill in the appropriate amount each month in the Planned column of the **Spending and Saving Planner.**

Worksheet 4: Income

Write Months here >						
	Planned	Actual	Difference	Planned	Actual	Difference
Salary 1						
Salary 2						
Bonus						
Interest						
Dividends						
Child Support/Alimony						
Rental Income						
Gifts						
Other						
B: Total Income	**$**	**$**	**$**	**$**	**$**	**$**

ⓘ Instructions for Worksheet 4

- Make 6 copies of this page so that you'll have spaces to forecast income for the next 12 months.
- Use Worksheet 4 to 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.
- Try to project in which months periodic income will occur; enter the dollar amounts in those months.
- If you want to list expenses and savings that are deducted directly from gross pay, add the amount of each deduction back into your take-home pay and list it as an expense.
- As the year progresses, use this worksheet to record the actual income you receive and compare it to your plan.
- Round all figures to the nearest dollar.

Worksheet 5: Savings and Expenses

Write Months here >						
	Planned	Actual	Difference	Planned	Actual	Difference
Saving / Investing Goal 1						
Saving / Investing Goal 2						
Rent / Mortgage						
Property Tax						
Homeowners /Renter's Insurance						
Appliances / Electronics						
Home Maintenance						
Water						
Sewer						
Garbage						
Gas / Oil for Heating						
Electric						
Telephone						
Car Payment						
Car Insurance						
Gasoline						
Car Repairs / Maintenance						
Clothing						
Groceries / Household Supplies						
Doctor / Dentist						
Prescriptions						
Health Insurance						
Life / Disability Insurance						
Childcare						
Tuition / School Expenses						
Child Support / Alimony						
Personal Allowance						
Entertainment						
Eating Out / Vending						
Cigarettes / Alcohol						
Newspapers / Magazines						
Hobbies / Clubs / Sports						
Gifts						
Donations						
Work Expenses						
Cable / Satellite						
Internet Connection(s)						
Cell Phone(s)						
Student Loan						
Debt 1						
Debt 2						
Other						
C: Total Savings & Expenses	$	$	$	$	$	$

ⓘ Instructions for Worksheet 5

- ❑ Make 6 copies of Worksheet 5 so that you will have spaces for 12 months to plan savings and expenses.
- ❑ Fill in the names of the months across the top of the worksheets.
- ❑ Use last year's expenses, found on Worksheet 3, as a guide for planning this year's expenses. Adjust expenses that you think may increase or decrease during this year. Try to anticipate the actual month when purchases will occur.
- ❑ 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.
- ❑ For each goal listed on Worksheet 1, write the monthly amount you plan to save in the Planned box. Do not include goals that you do not plan to save for in the next 12 months.

Worksheet 6: Summary Of Planned Income, Savings And Expenses						
Write Months here >						
A. Net Carried Forward						
B. Total Income from Worksheet 4						
C. Total Savings & Expenses from Worksheet 5						
D. Monthly Net (Line A + Line B – Line C)						

Worksheet 6 of the Spending and Saving Plan will give you a picture of how you want your cash to flow during the next 12 months. Some months may be negative. You may want to revise the plan by shifting spending to another month so that spending will not be greater than income.

ⓘ Instructions for Worksheet 6

- ❑ Make two copies of this page.
- ❑ Take your total planned income and savings and expenses for each month from the previous worksheets and place these totals above in the corresponding months.
- ❑ Place the balance at the beginning of the first month from your checkbook under Net in the first month.
- ❑ Beginning in the first month of the plan, subtract the amount on Line C from the amount on Lines A and B. The difference goes on Line D, Monthly Net.
- ❑ The Net figure is carried to the top line under the second month. Be sure the + or – sign goes with the amount. Add the second month's Total Income (Line B) to the top line, or, if the Net is negative, subtract the Net from Line B.
- ❑ Then, subtract the second month total for Line C to calculate the Net amount.
- ❑ This Net figure will be carried to the top line under the third month.
- ❑ Proceed through the entire year calculating the monthly Net figure and carrying it forward to the next month.

Worksheet 7: Summary Of Actual Income, Savings And Expenses						
Write Months here >						
A. Net Carried Forward						
B. Total Income from Worksheet 4						
C. Total Savings & Expenses from Worksheet 5						
D. Monthly Net (Line A + Line B – Line C)						

The real value in completing the **Spending and Saving Planner** is using it as a guide to achieve your goals. The amounts in the Actual columns 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 Financial Education is an educational resource and research center whose mission is to advance the adoption of sound personal financial practices by developing and delivering personal financial education programs and conducting related research. The Center, established in 1996, is a joint venture between the University of Rhode Island and the Consumer Credit Counseling Service of Southern New England.

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