Extension Service
West Virginia University

Living Within Your Means

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"Making ends meet" can be frustrating and at times overwhelming. The challenge is similar for the young, single adult; the family whose breadwinner has been laid off; and the retired senior who is on a fixed income that does not have a cost of living increase. Those in each of these situations are probably struggling to live within their means.

A Financial Plan

Many people expect to retire and have the means to do all the things they couldn't do while they were working. Without a financial plan, that will not happen.

A financial plan is like a map. Most people would not consider taking a trip to an unfamiliar destination without a highway map or very detailed directions. Yet many folks arrive at retirement to find an insecure financial plan, if there is one at all.

Financial planning is a process, not a product. Steps in the financial planning process are like those used in making any decision–set goals; gather and analyze all resources and related information; create a plan; implement the plan; and continuously monitor and change the plan.

The needs and wants of each family member should be a part of the process when setting goals. The needs and wants go back to individual and family values. It is important to spend time discussing your family's values and the importance placed on each.

Setting goals is the critical first step in financial planning. Your goals give direction to your plan. To be effective, goals should always be in writing and should be meaningful to you. As you begin to create goals, you will find you have short-term, intermediate, and long-term ones. Short-term goals can be achieved within three months; intermediate goals have a time frame of three to six months; and long-term goals have a target completion date a year or more in the future.

Goals should be defined as **SMART** (specific, measurable, attainable, realistic, and time-bound). Using the SMART approach to goal-setting will help families make sure that all family members understand and buy into the goal.

An example of a family's goal is:

Specific: "to provide a four-year college education for three children," ***not*** "to provide well for the children."

Measurable: "Each child will need $40,000 for four years of college," ***not*** "Each child will need lots of money."

Attainable: "We will put $25 per month into a savings plan for each child beginning when they are born," ***not*** "I'll win the lottery and use it to pay for their education."

Realistic: "Each child's savings and financial aid will enable them to go to an in-state school," ***not*** "They will be able to go to any school in the country with this plan!"

Time-bound: "Each child will have $10,000 for college when they are ready to attend," ***not*** "I want to save enough money by the time they're 18."

The next step is to analyze all of the information and resources available. If the current income is not sufficient to meet your goals, you can change your goals and look for ways to increase your income.

The use of credit, if carefully managed, can help a family reach goals more quickly; however, if not managed well, credit can easily lead to financial crisis.

A Spending Plan

A spending plan is a plan for managing money during a given period (week, month, or year). Managing money has three simple parts: amount of income, spending, and saving. Before you can know how to spend or save, you must know how much money is coming in each month. Income and spending should balance each other. In other words, you should not spend more money than you have.

Knowing how much income you have is the starting point for creating a personal spending plan, and it is always a limited amount.

When beginning to develop a spending plan, keep a record of all expenses for a month or two to determine where the money is currently being spent. You may find a few surprises! After taking a close look at spending patterns, you may be able to see places where spending can be adjusted.

This is the time to set long-term, intermediate, and short-term goals for your spending and savings plan. Once the goals are agreed upon, the planning can begin.

The first step to creating a spending plan is to list all income available to the family. Be sure to use the "take home pay" or net income.

Next, determine your expenses. Expenses are either *fixed* or *flexible*. *Fixed* expenses occur each month, such as mortgage, rent, or utilities. *Flexible* expenses are such things as clothing, food, and recreation. (Flexible expenses can upset a spending plan if they are not controlled.) Subtract fixed expenses from your income to see how much remains for flexible spending.

Pay Yourself First!

A good spending plan includes paying oneself first by putting a certain amount into a savings plan for emergencies. An emergency fund is equal to two or three months' income. When the emergency fund is complete, then consider other means of saving.

When your spending and savings plan is complete, use it as a tool, but keep it flexible. If the plan isn't working, don't throw it out–change it!

7 Ways to Save Money

1. Shop at the lower-priced food stores.
2. Conduct a home energy audit to identify ways to save on home heating and cooling.
3. Check with your phone company to see if a flat rate or another plan will save you the most money.
4. Check your local phone bill to see if you have optional services you don't need or use and drop them.
5. Compare price-per-ounce or other unit prices on shelf labels.
6. Ask your physician and pharmacist if there is a generic replacement for your prescription.
7. Ask your physician if he or she has prescription samples that you can have.

Challenge: Keep an accurate list of all purchases you make for one month. See if you have any surprises (how much you spend for wants that you can do without). If you are comfortable doing so, share with your group members at your next meeting.

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