

# Living Within Your Means

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While we all want to be financially secure, many of us have limited available resources. It is challenging, frustrating, and at times overwhelming to “make ends meet.” Often we have “more month than money.”

This situation is no respecter of age. Older, retired adults sometimes find themselves strapped financially as the cost of living rises and their incomes remain fixed. Middle-aged adults find themselves unemployed or over-spending or both.

Young adults who are accustomed to having what they want, when they want it, use credit cards to maintain that lifestyle. This study topic will provide participants with information to help them meet the challenge of living within their means.



## Objectives for this topic are for participants to:

- understand that each person’s financial situation is different;
- understand the importance of setting financial goals that are SMART (specific, measurable, attainable, realistic, and time-bound);
- improve skills in developing a spending plan;
- increase awareness and use of strategies to save money.

## Different People= Different Financial Situations

Financial situations are as varied as individuals and family units and as numerous as the different levels of income. Some of the factors that affect your financial situation are:

- level of education or training
- family’s values
- fringe benefits/retirement

Education or training is important in securing a job. Job availability may make it necessary to move to a different area to become employed. A family’s values are a factor in a family’s decision about whether the husband, the wife, or both work outside the home. Many families find it necessary for both to work in order to have the necessities and many of their wants, with little, if anything, left for savings.

Fringe benefits, including insurance and retirement plans, are also factors in deciding which family member is employed.

It is important to be aware of retirement plans and put as much as possible into savings. This requires a family to carefully look at their income and expenses and determine how they can save even a small amount.

Unfortunately, too many adults discover too late that they do not have an adequate retirement plan. They find themselves forced to make difficult decisions and become dependent on others. Remember, you are never too young to start planning for retirement.

## Financial Planning

Sound financial planning is the key to managing resources. A financial plan is like a map. Most people would not consider beginning a journey to an unfamiliar destination without a highway map or detailed directions. Yet many people expect to arrive at a secure financial destination without a plan.

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 the resources and related information, create a plan, implement the plan, and continuously monitor and modify the plan.

Setting goals is the critical first step. Goals should be SMART (specific, measurable, attainable, realistic, and time-bound). By defining specific goals, families can make sure that all family members understand and buy into the goal. For example, a goal stating that the family wants to provide a four-year college education to each child is much more specific than a goal stating that the family wants to provide well for the children. Each goal should be measurable; how else will you know if you have reached your goal? Goals should be attainable and realistic for the family. Time-bound is the last standard for a smart goal; set the time frame in which you wish to accomplish the goal.

Setting goals as a family can be the foundation for strong family communication. Each person's needs and wants should be a part of the decision-making process when goals are set. Younger family members may need help in defining the difference between needs and wants. Begin to look at needs that are basic for survival—food, clothing, shelter. Then add personal development needs, such as an education or pursuit of other training opportunities. Wants are the “extras” that would be nice to have and that would make family members happy, more fulfilled, or more successful. For a 12-year-old, shoes are a need while designer tennis shoes are a want. For an adult, transportation is a need but an expensive sports car is a want.

Needs and wants go back to individual and family values. Spend some time discussing your family's

values and the importance placed on each. Money, status, giving to others, security, community involvement, and education are all examples of values. Each of these has an impact on the way we use money.

When a family understands its values, it can begin to create SMART goals. Each plan will have short-term, intermediate, and long-term goals. Short-term goals can be achieved within three months; an example might be saving for a television. Intermediate goals have a time frame of three to six months; an example might be planning for a family vacation. Long-term goals have a target accomplishment date a year or more in the future, such as a college education. When a goal is accomplished, the financial plan can be modified to direct resources toward another goal.

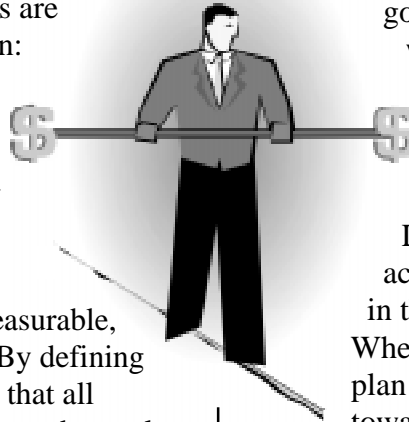
The next step is to analyze all the information available. Begin with current income and expenses; incorporate projected income and expenses. If the current income is not sufficient to meet your goals, you can modify the goals and look for ways to increase your income.

The use of credit, if carefully managed, can help a family to reach goals more quickly. The use of a mortgage to buy a home, rather than saving for years, is sound financial planning for most families. However, credit, if not managed well, can easily lead to a financial crisis.

Be sure to include risk management and insurance coverage. Risk management needs will vary with the ages of family members; families with young children will emphasize insurance coverage to care for the children in case a parent dies. When children are independent, long-term care needs may be more prominent in the plan.

Investments are another part of a financial plan. In considering investments, it is wise to seek the help of an experienced professional.

Finally, create a long-range plan and break it down into a working document for one year. As you implement the plan, update it to reflect changing circumstances.



## Developing a Spending Plan

According to AARP's Women's Financial Information Program, spending money without an expense plan is like driving without headlights. At the very least, you can wind up in a "financial ditch." It doesn't matter how much or how little money we have, we still need a spending plan. Most people work hard for their money, but often they do not take time to plan how to spend and save it.

What is a spending plan? It 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 we can know how to spend or save, we must know how much money is coming in each month. Income and spending should balance each other. In other words, we should not spend more money than we have.

Having a spending plan can increase our security and peace of mind. Knowing how much income we have is the starting point for creating a personal spending plan, and it is always a limited amount. Therefore, the amount you have for spending or saving is also limited.

When a spending plan is being developed, each family member, including children, needs to be considered. Each family member should have an amount (however large or small) to use as he or she pleases. A family meeting with honest discussion can accomplish this.

## Where Does the Money Go?

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 in creating a spending plan is to list all income available to the family. Be sure to use the net income or "take home pay." Next, determine your expenses. Basically, expenses are either *fixed* or *flexible*. Fixed expenses occur each month such as mortgage, rent, utilities, or credit card payments. We may have some control over these expenses before they are established, but little control once they are in place. Flexible expenses are such things

as clothing, food, recreation, and transportation. 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 of income. When the emergency plan is complete, then consider other means of saving, such as mutual funds, bonds, or IRAs.

When your spending/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! It is a tool for achieving *your* goals.

## Keeping Track

Once you've planned where you want your money to go, you'll need a system for paying bills on time, monitoring your spending plan, and keeping track of statements and receipts.

### **Activity: Record-Keeping Ideas (10 minutes)**

Take turns reading the following statements aloud. Mark your answers. Then share some record-keeping ideas that work for you.

- |   |   |  |
|---|---|--|
| Y | N | 1. I attend to bill paying and record keeping at appointed times:<br>__weekly, __biweekly, __monthly.  |
| Y | N | 2. I put incoming bills and statements in a special location:<br>__a desk, __a drawer, __other.  |
| Y | N | 3. If I need to return a purchase, I can always find the sales slip.   |
| Y | N | 4. I keep track of my expenditures and total them each month to monitor my spending plan.  |
| Y | N | 5. I file all tax-related receipts and statements in a good place so I can easily find them at tax time.   |
| Y | N | 6. I keep an organized file at home for bank and credit card statements, investment receipts, and all other papers relating to the management of my income and expenses. |

### **Activity: Sample Case Study**

Break into small groups and discuss how George and Lucy can cut back in order to start a regular savings program.

George Brown and his wife, Lucy, have four children, ages 2, 5, 7, and 13. They have no savings and live paycheck to paycheck. George works as a night watchman at a large bank, earning \$22,000 per year. Lucy is on the housekeeping staff of a large hotel. Her salary is \$13,400 per year.

The Browns rent a large house with five bedrooms. Lucy's brother, Frank, who has a decent-paying job, lives with them but does not contribute to the rent or food costs. Both George and Lucy have large families and often cook dinner for many family members on weekends.

George and Lucy lease two cars. The payment on George's truck is \$299 a month. His lease is due to expire in three months. Lucy's minivan, in the first year of a four-year lease, has a payment of \$269 per month. The car leasing companies require the Browns to have collision insurance coverage. Their premium is \$3,189 per year.

Lucy takes the children with her grocery shopping. She makes a list before she goes, but often buys items that the children ask for that are not on her list. George and Lucy are not college graduates. They want their children to be able to go to college. They want to start a college saving fund.

## **7 Ways to Save Money**

1. Shop at the lower-priced food stores (car pool to save on gasoline costs).
2. Conduct a home energy audit to identify ways to save on home heating.
3. Check with your phone company to see if a flat rate or measured service plan will save you the most money.
4. Check your local phone bill to see if you have optional services you that don't really 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.

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