Families Taking Charge: Setting Spending Priorities

Revised By Celia Ray Hayhoe, Ph.D., CFP®, Family Resource Management Specialist

Faced with a reduced income, many families wait six months or longer before they reduce their spending, accumulating debt and unpaid bills. Families need to cut back on spending right away by developing a spending plan to help pay their bills and living expenses.

Many people try to hide financial problems from themselves or family members. Not facing problems can be very destructive because the worry and stress caused by financial uncertainty and lack of cash may be worse than the financial problem itself. It's important to look realistically at the situation and actively seek solutions to problems, despite the discomfort.

Because spending decisions affect the whole family, talk with the family about the situation. Let them know the family needs to change their spending. Involve them in deciding spending priorities. If family members understand the tough choices that must be made and have a voice in making the decisions, they will be more willing to accept the decisions. As your family talks about what is most important, be sure to listen to what others say. Supporting each other can help you pull together as a family and get through these hard times.

How Other Families Handle Reduced Income

Studies show families respond to reduced income by cutting back on their spending. Spending for nonessentials such as luxuries, vacations, eating out, and home furnishings is eliminated or reduced first. As the period of unemployment or reduced income continues, many families also report reduced spending for basic needs including food, shelter, transportation and medical care. Families also say they revise their budgets. Most make a new spending plan that includes a revised plan for getting the bills paid. This is a time when you may find it useful to use a written spending plan.

Some families reported using more credit as a way to manage during unemployment. Borrowing or using credit to pay bills often brings only temporary relief. For those families who did increase their use of credit, the more they borrowed, the more unhappy they were with their financial situation. Studies also found that families who quickly made changes in their spending habits were the most satisfied with how they were managing during unemployment. Families who didn't make changes felt more out of control and more dissatisfied.

Making a Spending Plan

A spending plan is always an effective tool to help you get the most for your money. It is even more important when you have a sudden change in your income. A spending plan helps you:

- make decisions about how to spend your money
- provide for needs before wants
- match your spending to your current income
- prevent family arguments over money

Worksheet 1, "Monthly Spending Plan," can help you set up a spending plan for your current income. By comparing your income and planned expenses before and after your income was reduced, you can see what changes are needed.

Step 1 Your Income (Worksheet 1A)

Add up your current total family income from all sources. Include Unemployment Compensation as well as income from other family members if it is used for family expenses. Use the take-home amount, or what you actually have to spend after deductions.

Do you receive income from any of these sources?

- Earnings from employed family members
- Unemployment Compensation , Social Security
- Gifts from outside the family
- Withdrawals from savings
- Tips, bonuses, and commissions
- Interest or dividends
- Child support or alimony
- Public assistance
- Veterans benefits

Monthly Spending Plan (Worksheet 1A)

Step 1 – Your Income (Take-Home)*	Before Reduction	Adjusted Amount
Salary, wages	$	$
Unemployment Compensation	$	$
Cash gifts	$	$
Public assistance	$	$
Tips, bonuses and commissions	$	$
Social Security, Railroad Retirement or Veterans benefits	$	$
Withdrawals from savings	$	$
Child support and/or alimony	$	$
Interest and dividends	$	$
Other Income	$	$
A. Total Monthly Income	***$***	***$***

Step 2 Your Monthly Expenses (Worksheet 1B)

If you had a spending plan before your income was reduced, you probably know how much you were spending for monthly expenses. If not, use old records, canceled checks, bills and receipts to figure out how much you spent on the following categories.

- **Housing**—mortgage or rent payments, (property taxes & home insurance if included in your mortgage payment)
- **Utilities**—electricity, gas, oil, phone, water, cable TV
- **Food**—groceries, eating out, school lunches
- **Transportation**—gas, car repairs and maintenance, parking, bus, taxi fares
- **Medical care**—doctor, dentist, clinic, hospital, medicine, glasses
- **Credit payments**—car payments, installment loans, credit cards, charge accounts
- **Household Expenses and Maintenance**—repairs, cleaning supplies, paper supplies, towels, equipment
- **Clothing and Personal Care**—new clothing purchases, laundry, dry cleaning, hair care, cosmetics, toiletries
- **Education and Recreation**— books, magazines, newspapers, lessons, tuition, hobbies, club dues, sports, pet expenses, entertainment, vacation, alcohol, tobacco
- **Miscellaneous**—child care, regular contributions, personal allowances, child support paid, alimony paid.

As you think about what you were spending and try to plan how much you can now spend, ask yourself these questions:

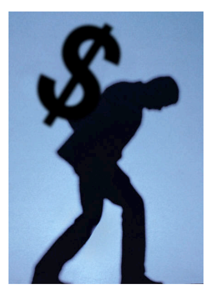
- Which expenses are essential to your family's well-being?
- Which expenses have the highest priority? Publication 354-101 in this series, "How to Decide Which Bills to Pay First," can help you determine this.
- Which areas can you reduce to keep your spending within your income?
- How much can you afford to spend in each category?

Adjust the amounts you spend in each expense category and enter the new amount in the column labeled "Adjusted Amount" on the spending plan worksheet.

Monthly Spending Plan (Worksheet 1B)

Step 2 – Monthly Expenses	Before Reduction	Adjusted Amount
Housing– mortgage or rent payment	$	$
Utilities– electric, gas, water, phone, cell phone	$	$
Food– at home and away	$	$
Transportation– gas, car repairs	$	S
Medical Care– doctor, dentist, hospital , prescriptions	$	$
Credit and Loan Payments– loans, health, car, property	$	$
Household Operations and Maintenance– repairs, cleaning supplies, etc.	$	$
Clothing and Personal Care– clothes, laundry, toiletries, haircuts, etc.	$	$
Education and Recreation– movie rentals, vacations, cable, school supplies	$	$
Child care and allowances	$	$
Miscellaneous	$	$
Savings and/or funds set aside for seasonal and occasional expenses. See worksheet 2	$	$
B. Total Monthly Expenses	***$***	***$***

Remember, not all your expenses are monthly. Property taxes, insurance premiums and holiday gifts come once or twice a year. It's easy to forget and then not have the money to pay for them. Worksheet 2, "Occasional and Seasonal Expenses," can help you identify and anticipate these expenses. You will need to set aside some money in your monthly spending plan to meet these occasional costs. You will need to complete this worksheet before you can finish Worksheet 1B.



Occasional and Seasonal Expenses (Worksheet 2)

Some big expenses like property taxes (car and land if not included in the payment), license plates and car inspections, and different types of insurance premiums come up only once or twice a year. Others are seasonal, such as school clothes in the fall and holiday gifts in December and special holiday meals. Some expenses, like gifts, happen more often but not every month. Use this chart to help you estimate these expenses and include them in your spending plan. Total all the expenses, divide by 12, and put that amount in the row before Total Monthly Expenses. For example, if your expenses add to $480, then 480/12=$40. You would enter $40 in the row before total expenses.

Worksheet 2 -Expense Amount

January	July
February	August
March	September
April	October
May	November
June	December

Step 3—Balance Income and Expenses

Add up your adjusted expenses and compare the total to your current income. When your income is reduced, it may be very difficult to stay within your income. What can you do if your expenses are greater than your income?

- Cut back on spending. See Publication 354-098 in this series, "Spending Less," for suggestions, particularly for reducing flexible expenses.

- Increase your income. What are the possibilities for part-time or temporary work to help supplement your income during this period of unemployment? Use your non-dollar resources.

- Look at your assets. What savings, investments or property do you have that could be used or converted to cash to meet expenses? Keep in mind that borrowing and using savings may be only temporary solutions.

- Reduce your fixed expenses. If too much of your income is going to fixed expenses such as housing or debt payments, there may not be enough money left to cover your other living expenses. You may need to refinance your loans, move to lower-cost housing, or surrender the property to your creditor to get out from under some of your debt.

Step 3 – Balance Income and Expenses	
Total Monthly Income (1A)	
Total Monthly Expenses (1B)	
Total Monthly Income (1A) should be the same as Total Monthly Expenses (1B)	

Making Your Spending Plan Work

Once you have a spending plan that sets spending amounts for essential family needs and balances your spending with your income, you'll have to stick to it. Writing it down is not enough. You must use the plan to guide your spending.

Keep track of your spending to be sure you don't exceed the spending amounts you set in your spending plan. Keep a record of what you spend in each expense category to be sure you don't exceed the amount on your spending plan. By keeping track of what you have spent, it's easier to control your spending and live within your income.

Managing on a Seasonal or Irregular Income

If you are self-employed, seasonally employed or receive income from tips or commissions, your family income may change a lot from month to month. In that case, look ahead and carefully estimate your income. It may be helpful to estimate your income for a whole year so you can see when and how much it changes.

Even though your income may change from one month to the next, many of your living expenses are the same each month. This mismatch of income and expenses creates uncertainty that can cause feelings of insecurity and increase family tension.

Reduce this uncertainty by establishing a monthly family living allowance. Use expenses you identified as part of your spending plan to determine your monthly living allowance, or what it costs your family to live each month.

When you receive income, deposit a major portion of it in a special savings or money market account where it will earn interest but still be readily available. Then, pay yourself each month by withdrawing the amount of your family living allowance and putting it into your checking account to pay your bills. Avoid the temptation to spend more money in the months when your income is greater.

As a family on a seasonal or irregular income, you may want to schedule some major expenses such as insurance premiums, clothing purchases, and non-emergency medical and dental care to coincide with times of more income.

Summary

Living on a reduced income may be temporary or prolonged. Getting the most from your income during this time requires careful planning and wise spending decisions.

References

Boelter, Linda. “Setting Spending Priorities.” Cooperative Extension, University of Wisconsin-Extension. 1991.
Texas Agricultural Extension Service. “Coping with Unemployment.” 1986.
Wilhelm, M.S., D.R. Iams, and C.A. Ridley. “Changes in Consumption Management During Unemployment and Their Impact on Economic Satisfaction.” University of Arizona. 1987.

Original by Irene Leech, Extension Specialist, Consumer Education, Virginia Tech, with the assistance of Don Cloud.
Reviewers:
Cristin Sprenger, Extension Agent, Family and Consumer Sciences, Augusta County
Kimberly Cardwell, Extension Agent, Family and Consumer Sciences, Spotsylvania County