

# Creating a Spending Plan

When most people hear the word “budget,” they think of all of the things they can’t afford to spend money on. A spending plan is a more positive way to look at a budget; rather than focusing on what you can’t buy, with a spending plan you’ll focus on what you can buy. Think of it as a roadmap that unites your spending and saving on the way to meeting your overall financial goals. A spending plan is a way to make your spending purposeful and keep your priorities at the top of mind.

## Pieces of the Plan

Before making a spending plan, learn about the different pieces of information you’ll need to include.

**Necessary expenses:** the bills and payments you must make in order to survive and avoid legal trouble. These expenses fall into three categories:

- **Fixed expenses:** Bills that are the same each month. Examples: mortgage or rent, minimum debt payments, phone bill.
- **Irregular expenses:** Bills that don’t recur monthly. Examples: car insurance, medical expenses, subscriptions.
- **Variable expenses:** Bills that fluctuate from month to month. Examples: energy bill, groceries, gas.

**Discretionary spending:** Purchases and spending that is not necessary for survival, such as clothing, restaurant food and entertainment.

**Savings:** Money you save to reach long-term goals, such as buying a house, paying for college or taking a vacation.

**Income:** The money you earn each month, which can come from your paycheck, your partner’s paycheck, investment interest, side jobs, etc.

## Making the Plan

Do the following to set up your spending plan:

**List your bills:** Make a list of all of your necessary expenses—fixed, irregular and variable. The Spending Plan Worksheet has a sample list already, which can be customized.

**Track your spending:** Keep track of how much you spend on each bill in these three categories for several months. It can be helpful to look at previous bank

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statements to analyze past months.

**Budget for necessary expenses:** Use your tracked spending to fill in the “Budgeted Amount” column. This is the amount you plan to spend in future months. You may have to take an average for your irregular and variable expenses, which is why it’s good to track several months of expenditures before creating a spending plan.



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**Calculate your income:** List any applicable income sources and amounts in the “Income” box in your spending plan worksheet. The worksheet will automatically calculate your total income, which is the total amount you have to make a spending plan for.

**Delegate to savings:** Once your necessary expenses and income are entered, check the number in the box labeled “Difference between budget and spent.” This is the amount you have left for savings and discretionary spending. Fill in the “Budgeted Amount” for various savings goals in the “Savings” box.

**Plan for discretionary spending:** Whatever is left in the “Difference between budget and spent” box after budgeting for necessary expenses and savings is what you can use for discretionary spending. Fill in your budget for these items until that box reads “0.” You can include whatever you think you’ll spend money on, from fast food and lattes to new shoes and impulse purchases.

## Following the Plan

Once you have a plan made, you can keep yourself accountable and use the plan as a guide for your monthly spending.

**Track spending:** Every time you pay a bill, make a purchase or transfer money to savings, enter the expense into the “Actually Spent” column for each respective item.

**Redirecting excess:** The worksheet will automatically calculate the difference between your budgeted amount and spent amount, with a running tally of the total amount you have saved or gone over. For example, if you spend \$50 less on gas this month than you budgeted for, the Variable Expenses box will show an excess of \$50. All of your excesses and overages are added together and listed in the “Difference between budget and spent” box. If this number is positive at the end of the month, delegate more to your savings or discretionary spending boxes.

**Recovering from overspending:** If the number in the “Difference between budget and spent” box is negative, that

means you spent more than you planned to. In this case, readjust your discretionary spending budget until the number is zero.

**If you can’t pay:** If you’ve gone over budget on both necessary expenses and discretionary expenses, you’ll have to cut into your savings to pay the bills. It’s good to have an emergency fund for this purpose, so you’re not dipping into a vacation fund when your car needs a new transmission. If this happens repeatedly, you are living beyond your means. Comb through your budget to weed out any “wants” masquerading as “needs.” Find ways to spend less, earn more and re-prioritize so your budget is in balance.

**Readjust budgets:** You may have to readjust the plan monthly, or even weekly, especially at first. If you acquire new expenses (e.g. having a child) or get rid of others (e.g. paying off your car loan), you’ll have to adjust your plan and reallocate your income to accommodate.

**Unexpected income:** Bonuses, commissions and gifts cannot be counted in the Income box, since you can’t count on funds from month to month. Instead, allocate this money toward savings goals when it comes in.

One good thing about using a spending plan worksheet is that you should be able to see, at any given time, how much you have spent on each category and how close you are to exceeding your budget. With this method, you never have to worry about whether or not you can afford something or if you should or shouldn’t have bought it. If it fits into your budget, then you can afford it because your spending plan accounts for all of your spending and savings goals.

The main purpose of a spending plan is to put you in control of your own finances. You may not want to examine how you’ve been spending money, but once you create a spending plan you’ll realize that it really is about purposeful spending, not deprivation. You can choose to spend your money on anything you’d like, but you can’t spend it on everything you’d like. ■