

# DEVELOPING YOUR SPENDING PLAN



Notes

## MODULE DESCRIPTION

The focus of this sixty minute session is to provide the necessary background and tools to assist the participant in developing financial goals and to develop a written plan to achieve those goals.

## LEARNING OBJECTIVES

At the conclusion of this program, participants will be able to:

- Develop one short- or long-term financial goal.
- Identify the four primary areas of a spending plan.
- Define net income.
- State the ideal distribution for total net income.
- List three ways to improve any spending plan.
- Name one source of help in developing a spending plan.

## REFERENCES

OPNAV Instruction 1740.5A, Personal Financial Management Education, Training and Counseling Program

Command Financial Specialist Training Manual, NAVPERS 15608D (or later)

Garman, E. T. and R.E. Forgue, 1997.  
*Personal Finance.*

New York: Houghton Mifflin Company.

[www.consumer-action.org](http://www.consumer-action.org)

(Consumer Education and Advocacy)

[www.lifelines.navy.mil](http://www.lifelines.navy.mil)

(Lifelines Services Network)

[www.dfas.mil](http://www.dfas.mil)

(Defense Finance and Accounting Service)

<http://www.bls.gov/>

(Department of Labor Consumer Expenditure Survey)



# DEVELOPING YOUR SPENDING PLAN



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## MODULE PREPARATION

Handouts:

- Financial Planning Pyramid
- Financial Planning Worksheet

Materials:

- Tic Tac Toe Questions or Game Show Pro software/projector
- Pencils and scratch paper
- Token prizes or candy

## SUMMARY OF PARTICIPANT ACTIVITIES

**Financial Goal Setting Activity:** After a brief explanation of long- and short-term goals have participants write a goal and then introduce themselves and read their goals.

**Average American Expenses Activity:** In this activity participants guess how much the “average American” spends on living expenses. The purpose is to get participants to focus on how much they spend each month, and, if they have no idea, it gets them to realize the value of tracking expenses over a period of time in order to learn how much they spend.

**Debt-to-Income Activity:** Participants have the opportunity to calculate their debt-to-income ratio in class.

**Tic Tac Toe Summary Activity:** A quick gameshow type summary and review session content. Can be played with Gameshow Pro or manually.



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## CURRICULUM OUTLINE

1. **Workshop Overview** (5 Minutes)
2. **Financial Goals** (10 Minutes)
3. **Financial Planning Pyramid** (5 Minutes)
4. **Developing Your Spending Plan** (5 minutes)
  - a. Purpose
  - b. Advantages of Having a Plan
  - c. Ways to Improve Your Spending Plan
  - d. Components of Your Spending Plan
5. **Net Worth** (2 Minutes)
6. **Income** (5 Minutes)
7. **Savings** (5 Minutes)
8. **Expenses** (10 Minutes)
9. **Indebtedness** (10 Minutes)
  - a. Debt-to-Income Ratio
  - b. Surplus or Deficit
10. **Spending Plan** (2 Minutes)
12. **Sources of Help** (5 Minutes)
13. **Summary** (5 Minutes)



# DEVELOPING YOUR SPENDING PLAN



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## CURRICULUM CONTENT

**HANDOUTS:** Financial Planning Pyramid  
Financial Planning Worksheet

## WORKSHOP OVERVIEW

Welcome to Developing Your Spending Plan. During our time together today we're going to talk about your financial goals and the importance of having a written plan to help you obtain your goals. We'll make sure you understand the components of the Financial Planning Worksheet, how to complete it, and how to find some solutions to your financial challenges. Finally, we'll discuss some sources of help that are available. Although you won't actually complete your financial plan today because you probably didn't come in with all of the information you need, you will leave with all the tools you need to complete a plan. Make sure and take lots of notes on your handouts.

## FINANCIAL GOALS

Successful people have goals. They take control of their money and plan its use. It's important to commit your financial goals in writing. In a moment I'm going to ask you to write down one financial goal that you would like to achieve. It can be a short-term goal, meaning you could achieve it within the next five years, or it can be a long-term goal, meaning it will probably take you more than five years to achieve it.

Goal Setting forces you to decide what you want to accomplish. You've probably heard of the idea of setting SMART goals. A well-written goal needs to be:

- Specific
- Measurable
- Action-oriented
- Realistic
- Timely (start and stop dates)

Your goals will likely change over the years and that's fine. Adapt your plan to meet changes.



Slide 1

*Distribute handouts to participants. Introduce yourself to the class.*



Slide 2



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# DEVELOPING YOUR SPENDING PLAN



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## **An example of a weak long-term goal would be: "I want to be rich."**

We all want to be rich, but this goal does not have a specific plan. How will you get rich, by what age, starting when?

Written using the SMART Goal technique, the goal states, "I plan to have \$1M in assets by age 65. To achieve my goal I will invest \$250 per month in mutual funds with an average earning of 10%." Excellent goal! It is specific as to how much to save, has an end point and identifies what will be done to make it happen.

## **Other SMART goal examples:**

### **I will pay cash for a new SUV within the next 3 years.**

#### **To achieve my goal I will:**

- Increase my savings contribution by \$200 a month.
- Use \$5000 from my SRB installment.
- Sell my current vehicle for at least \$7000.
- Use my existing savings of \$5000.
- Cash in \$5000 worth of savings bonds.

### **I will buy a house within the next five years.**

#### **To achieve this goal I will:**

- Get a copy of my credit report within 30 days.
- Pay off my car loan one year early by making double payments each month.
- Close charge accounts except for my VISA.
- Double my current savings to equal \$500 per month to be able to have \$30,000 for closing costs, down payment and other expenses.



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# DEVELOPING YOUR SPENDING PLAN



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## PARTICIPANT ACTIVITY:

### Financial Goal Setting

**Time:** 5-10 Minutes

**Preparation:** None

**Procedure:** Ask participants to turn to page five of the Financial Planning Worksheet, and direct their attention to the “Setting Your Goals” section. Have participants draft a long- or short-term SMART goal. After a few minutes instruct participants to stand, introduce themselves and read their goal. Tactfully tweak participant goals to make them “SMART” as appropriate. When all have finished, congratulate them on putting their goal in writing.





### THE FINANCIAL PLANNING PYRAMID

The Financial Planning Pyramid gives us a visual picture of steps involved in successful management of personal finances.

**The management level includes the most basic elements of financial planning:**

- Adequate income
- Controlled spending
- Adequate insurance

**The next level of the Pyramid is savings:**

- Reserve fund
- Emergency fund
- Goal Getter fund

A reserve fund is for expenses that occur less frequently than monthly. Expenses such as car insurance, school tuition and holiday shopping need to be planned for. An emergency fund is just that, funds to use in case you need to go home on emergency leave, or the transmission needs to be replaced, or the dog needs surgery. The goal-getter fund is to save for your short-term goals. Money is kept in liquid accounts such as savings accounts or CDs where you can easily access when needed. These three funds don't necessarily have to be kept separately.

**The third level of the Pyramid is the investing level:**

- TSP
- IRA
- Stocks, Bonds, Mutual Funds

Investing is different from savings. More gain is involved, but so is more risk. Don't invest money you may need in the short term.

It's critical to have the foundation of your personal Financial Planning Pyramid in place before considering investment options. A well-developed plan helps to form a firm foundation for achieving your financial goals.



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# DEVELOPING YOUR SPENDING PLAN



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## DEVELOPING YOUR SPENDING PLAN

What is a spending plan? According to Webster's Dictionary, a plan is "a method devised for achieving an end". A spending plan is a written method to achieve your financial goals by measuring and managing the money that comes in and goes out of your family. A common name for a spending plan is a budget.

### An effective plan:

- Is a guide and servant - not a master
- Doesn't need to be down to the penny
- Is easy to understand
- Is a reflection of your needs, wants, values and goals
- Is based on current income and expenses
- Is practical and realistic
- Is flexible
- Provides for pleasures as well as necessities

### A written spending plan can help you:

- Live within your income
- Realize personal goals
- Maintain a good credit history
- Get more for your money
- Reduce financial stress and arguments
- Achieve financial competence and confidence

The **Financial Planning Worksheet** you have is the spending plan form we're going to talk about today. You'll see that this is much more than just a budget.

There are five major components to the Worksheet: A Net Worth Statement on page one, a Budget or Cash Flow plan on pages two through four, an Action Plan on page five, a paycheck by paycheck Spending Plan on page six, and an expense tracking form on pages seven and eight. We will primarily be talking about the budget portion of the Worksheet, but let's first take a quick look at the first page.



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# DEVELOPING YOUR SPENDING PLAN



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## NET WORTH

The first page of the Worksheet has a variety of personal information on the top half, and the bottom half is a “Net Worth Statement”. On this form you simply list the total value of everything you own on the left, and the total value of everything you owe on the right. When you subtract one from the other you are left with a figure we call your “Net Worth”. This is a measure of your wealth, a snapshot of your finances, and if you are running your finances according to good financial principles you should see this number go up year after year.

The four primary elements of the budget portion of the Financial Planning Worksheet (pages two through four) are:

- Income
- Expenses
- Savings
- Indebtedness

We’ll look at each of these four areas of the Financial Planning Worksheet in some depth and then I’ll briefly comment on the remaining sections.

## INCOME

The income section is on page two of the Worksheet. This information comes directly from your LES. Shortly we are going to go over some general guidelines for how your money should be spent if you want to build wealth. Before we do that, we all need to understand a few terms.

### Income definitions:

- Gross - your total pay, everything you earn
- Net - your total pay (gross) less taxes
- Take-Home - net pay less any other deductions or automatic allotments. This is what ends up in your account each payday



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# DEVELOPING YOUR SPENDING PLAN



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To determine your income, copy all pay and allowances you are entitled to from your Leave and Earnings Statement (LES) or use a current pay chart to calculate your gross pay on page two. Remember this figure could be different from your taxable pay. All taxable items will have an \* next to it in the entitlements section. Another way of knowing which of your entitlements is taxable is anything that ends in the word "pay" is taxable. Next list all monies deducted from your pay:

- Taxes
- SGLI
- FSGLI
- TSP
- Dental
- Advance pay
- Overpayments
- Armed Forces Retirement Home
- Charitable contributions
- Allotments

Subtract your total deductions (B) from your gross pay (A) to calculate Service Member's take-home pay for the month (A-B on the worksheet). If you divide Take-Home Pay by two, you should get the amount of your direct deposit.

It is important to know your total net monthly income. Total monthly income is the final income calculation on this page. With all the automatic deductions most service members have, it is difficult to keep track of the actual money you have control of. To calculate your total net monthly income, all deductions that were made in the deductions section need to be added back except taxes and Armed Forces Retirement Home assessment. Then add any additional income that is coming into the family such as income from a part-time job, a spouse's income, rental property income, child support, etc.





### SAVINGS

Turn to page three. On this page and the next you will list all of the money you spend. Why do you think Savings is the first category? How many of you think of Savings as an expense (as something you 'spend' money on)? Savings is broken down into three areas. Most financial advisors suggest you save a total of 5-10% of net income. The average American saves only about 2-3%; however, the average millionaire saves 10%. Which category do you want to be in? Savings is level two of the Financial Planning Pyramid. It is divided into three funds:

- Reserve
- Emergency
- Goal Getter

As we mentioned earlier, it is not necessary to have three separate accounts, but some people do to help discipline their efforts.

The reserve fund is money set aside for items that occur each year and are expected expenses such as vacations, holidays, and insurance.

The emergency fund is money set aside for the unexpected such as car repairs, replacing broken appliances, emergency leave, spouse leaving a job, etc. Planners often suggest that 1-3 months of net pay should be set aside for this fund.

The goal-getter fund is for items you set as goals to purchase such as a diamond ring, new vehicle, or new home. These would be short-term goals that you want to achieve in the next five years.



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## EXPENSES

### PARTICIPANT ACTIVITY:

#### Average American Expenses

**Time:** 10 Minutes

**Preparation:** Scratch paper and pencils

**Procedure:** Ask the class, "How much do you spend on groceries every month?" Get a few answers. Then ask, "How much do you spend on transportation each month?" Get a few answers. Pass out scratch paper and ask participants to number it 1 – 8.

**State the following:** Every year the Department of Labor's does a survey called the Consumer Expenditure Survey. They interview over 100,000 people. In 2002, the average income before taxes of the 100,000 + people interviewed was \$49,430 annually or \$4119 per month. This is slightly more than a first class petty officer with 12 years of service with dependents and BAH. Sea pay, incentive pays, other allowances, etc. are not included.

The average age of people surveyed was 48 years old which is considerably older than a first class petty officer. The average number in the family was 2.5 people. The average family had 2 vehicles and 66% were home owners.

Let's guess at how much this "average" American family spends each month. I'll read the category and you write a dollar amount.



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*You can do this activity two ways: have participants answer each question and then go back through with the answers that follow, or let participants shout out answers one question at a time, and give them the correct answer as you go along. Updated statistics are available at [www.bls.gov](http://www.bls.gov).*





### AVERAGE AMERICAN EXPENSES QUESTION AND ANSWER BANK

1. How much does the average family of 2.5 people spend on food each month? Let's consider food at home and then put a slash and write an amount for food eaten out.  
Answer: \$448 (at home: \$258; away from home: \$190)
2. How much does the average family spend on housing? Remember, 66% owned their home. This would include taxes, insurance, and upkeep.  
Answer: \$1,107
3. How much does the average family spend on clothing and services? Services would be things like hair cuts, dry cleaning, etc.  
Answer: \$146
4. How much does the average family spend on transportation? Remember, our average family has two vehicles and this includes payments, gas, maintenance and car insurance.  
Answer: \$647
5. How much does the average family spend on health care each month? Remember, they probably have to pay something for health insurance.  
Answer: \$196
6. How much does the average family spend for entertainment each month?  
Answer: \$173
7. How much does the average family spend on personal insurance and pensions? This would include things like life insurance, contributions to their 401K, etc.  
Answer: \$325
8. How much does the family spend on everything else? Tuition, vet bills, stamps, church contributions, whatever you can spend money on.  
Answer: \$349





### Tracking Expenses

Now we know how much the average American spends each month, how much do you spend? The best way to find out is simply to track your expenses for a month. Most people have almost 10% of their income unaccounted for. They simply don't know where it went. There are lots of ways to track expenses. There's a form on pages seven and eight you can use. It's kind of big to carry around. Lots of people keep a sticky in their wallet or purse and write everything they spend on that. You have to write everything down- the \$1 for a Coke, the \$3.50 for Girl Scout cookies, the \$5 you loan to a coworker, etc. Don't forget to include voluntary allotments.

After you've written everything down for a month, group your expenditures into categories similar to those listed on page three of the Financial Planning Worksheet. Is anyone currently tracking, or has tracked expenses in the past? If so, what method did you find and what did you learn about your spending patterns?

Living expenses take up the majority of your income. Some expenses are fixed, such as rent and insurance. Others are variable, such as entertainment, food and clothing. You can control variable expenses and adjust the amounts you spend in these categories in order to have more to use somewhere else.

The tracking exercise will give you a more accurate picture of your spending than trying to guess how much you spend in each category. If you can't commit to tracking expenses try to do it for two weeks. Get family members involved. It can be a family project.



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### INDEBTEDNESS

Page four is the indebtedness section. This is where you list all of your outstanding debt along with the minimum payment required and the annual percentage rate (APR) charged.

**Include:**

- Credit cards (bank, department store, gas, etc.)
- Car loans
- Personal loans
- Consolidation loans
- Student loans
- Advanced payments
- Over payments
- Indebtedness to NMCRS, NEX, family and friends

DO NOT include your mortgage. For our purposes, your mortgage is a living expense. DO include any rental property you have that is not your primary residence.

**The ideal distribution of your net income (total pay minus taxes) is:**

- 70% living expenses
- 20% for indebtedness
- 10% for savings

Percentages will vary in different households based on our different lifestyles. A single service member will have lower living expenses than a married service member with children. This is a guide to assist you in balancing your budget.



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### Debt-to-Income Ratio

Monitoring your debt-to-income ratio is a good way to get a quick check of your financial health. Calculate your debt-to-income ratio as a means of measuring whether or not additional credit is affordable.

First determine your net monthly income by identifying everything you make in one month minus only what is being withheld for taxes. Then total all monthly payments. Remember not to include mortgage payments. Divide the minimum monthly payments by the total net monthly income to determine your debt-to-income ratio. Minimum payments divided by net income multiplied by 100 is your ratio. Notice that the formula is written at the bottom of page four.

#### **Credit use guidelines:**

- Less than 15% - use caution
- 15% - 20% - fully extended
- 21% - 30% - overextended
- Greater than 30% - seek help

The use of credit has evolved from a luxury to almost a necessity. It all depends on how you use it. Credit cards are often used for wants rather than emergencies or planned needs. This, along with impulse spending, gets many people in the overextended debt range. We'll talk about resources for dealing with this problem in a few minutes.



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### Surplus or Deficit

At the bottom of page four you will notice a Summary section where you can determine whether you have a surplus or a deficit at the end of month. Income minus savings minus living expenses determines what you have left to pay debts. This number minus debt payments is what you have at the end of the month. Is it positive or negative? If it's positive, great! What are you doing with that extra money? Start a savings program. If it's negative then you need to make some adjustments.

**There are three ways to improve your spending plan, which means create a more positive cash flow. You can:**

- Decrease living expenses
- Increase income
- Decrease indebtedness

### What are some ways to reduce expenses?

- Cut back to basic cable
- Eliminate telephone land line if you have a cell phone
- Check books out from library rather than buying
- Use public transportation rather than drive
- Turn off lights when not in a room
- Use environmental gadgets to reduce water flow/waste
- Use cell phone or phone cards to call long distance
- Send email rather than calling
- Trade child care duty with another couple
- Pack your lunch
- Shop at thrift stores

### What are some ways to increase income?

- Spouse gets a job
- Active duty person gets a part-time civilian job
- Review and change tax filing status and exemptions
- Enroll in any federal or state programs you may qualify for such as WIC or SSI.



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*Ask questions and wait for answers. Possible responses are listed for Instructor information.*



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## What are some ways to decrease indebtedness?

- Pay off debts
- Stop using credit cards
- Shop for the lowest interest rates
- May consider consolidating
- Seek help if in serious debt as interest accrual and late fees may be waived by some creditors if in a non-profit debt management program.

Document ways to improve your spending plan on Page five, which is the Action Plan of the Worksheet. When you construct your budget for the first time, use the “Actual” column. After you have decided what changes and improvements to make on Page five, go back and recalculate your surplus or deficit by using the “Projected” column on pages two through four.

## SPENDING PLAN

The last part of your Financial Planning Worksheet is your Spending Plan. All of the details you have worked out can be put together on one page to provide you with a specific amount to spend in each category. This is a paycheck-by-paycheck plan of how the bills get paid.

Your take home pay is reflected at the top. List only what is deposited into your account each pay day and then note all other expenses as indicated. If you have allotments coming out of your salary do not include them again on this page.

Note the (P) for “planning”. This is where you list what you plan on paying with each paycheck. The (A) is the “actual” amount you spent or paid for the items. The spending plan allows a forecast of four months so you don’t forget quarterly payments

When used as a working document your spending plan forces you to make deliberate spending decisions. If you consider buying an item not on the plan then you must make a choice, take on more debt or spend money allotted to something else.



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## SOURCES OF HELP

A business would bring in a consultant if it started to run into financial problems. If you're having financial difficulties or need assistance creating a spending plan, get help.

### Sources of help include:

- Your Command Financial Specialist
- Fleet and Family Support Centers Financial Educators
- Navy-Marine Corps Relief Society
- Debt Management Programs at Credit Unions
- Consumer Credit Counseling Services or other non-profit financial education organizations.

Some of these services are even available online or by telephone.

## SUMMARY

We've talked about having SMART financial goals and a written plan to achieve your goals during this hour. Let's summarize by playing a quick game.



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### PARTICIPANT ACTIVITY:

#### Tic Tac Toe Summary

**Time:** 5-10 Minutes

**Preparation:** Set up and use the Gameshow Pro Software for the Tic Tac Toe game or simply draw a Tic Tac Toe board on a white board, chalk board or chart paper.

**Explain the Game to Participants:**

- The goal is to get three squares in a row (across, down, or diagonally) or win five of the nine squares. The team that wins the game receives a prize.
- To win a square, a team must answer the question correctly; an X or O is placed on the square. Only one team is allowed to answer a question.
- *For example:* the X team picks a numbered square to display a question on the game board and verbally provides an answer to that question. If the answer is judged to be correct, an X goes into that square. The O team picks the next square regardless of whether the answer was correct or incorrect. The same process is then repeated for the O team. A team can select any square. The game is over when a team gets three squares in a row or five of the nine squares or when time is called.
- Divide the room down the middle to form two teams and begin play using the Questions Bank that follows.





### TIC TAC TOE GAME QUESTION BANK

1. **What are the four primary areas on the Financial Planning Worksheet?**  
Income, Expenses, Indebtedness, Savings. Also take Spending Plan, Action Plan and Spending Record
2. **What are three ways any budget can be improved?**  
Decrease expenses, Decrease indebtedness, Increase income
3. **What are at least three characteristics of a SMART goal?**  
Specific, Measurable, Action-oriented, Realistic, Timely (Start and stop dates.)
4. **What is the difference between a long- and short-term goal?**  
Short term is five years or less. Long term is over five years to achieve.
5. **Name at least two things that must be at the base of your financial plan or pyramid.**  
Adequate income, Controlled spending, Adequate insurance
6. **Name a type of initial savings fund?**  
Emergency fund, Reserve fund, Goal-getters fund
7. **What is the definition of "net income"?**  
Total pay (gross) less taxes
8. **What is the definition of "gross income"?**  
Your total pay, everything you earn.
9. **List at least three ways having a written spending plan can help you.**
  - Live within your income
  - Realize personal goals
  - Maintain a good credit history
  - Get more for your money
  - Reduce financial stress and arguments
  - Achieve financial competence and confidence
10. **Name at least one source of help for developing your spending plan.**
  - Your Command Financial Specialist
  - Fleet and Family Support Center
  - Navy-Marine Corps Relief Society Budget Counselors
  - Debt Management Programs at Credit Unions
  - Consumer Credit Counseling Services or other non-profit debt management counseling program



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- 11. What is the suggested distribution ratio for net income?**  
70% Living Expenses, 20% Indebtedness, 10% Savings
- 12. What does it mean if you have a debt-to-income ratio that is higher than 30% excluding your mortgage?**  
You need to seek help
- 13. How long should you track expenses in order to get a realistic picture of your spending habits?**  
Accept any answer of 30 days or more
- 14. How much of your income should you save each month?**  
10%

