Developing Your Spending Plan

Personal Financial Management Standardized Curriculum - 2010

Developing Your Spending Plan

MODULE DESCRIPTION

Developing Your Spending Plan is a 70- to 90-minute program that provides the necessary background and tools to help learners develop financial goals and a written plan to achieve those goals.

LEARNING OBJECTIVES

Terminal: Upon conclusion of this module, learners should be able to establish financial goals and complete a spending plan using the *Financial Planning Worksheet*.

Enabling:

- Participating in the *Spending Plan Exercise*, learners will correctly complete the following areas of a financial planning worksheet: income, savings, expenses, indebtedness, summary and action plan.
- Using the SMART criteria, learners will write two short-term goals and one long-term goal.

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Print Module

Print Module Handouts

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MODULE PREPARATION

Handouts:

- *Financial Planning Pyramid*
- *Financial Planning Worksheet Checklist*
- *Financial Planning Worksheet*
- *Spending Plan Exercise*
- *Sources of Help for Military Consumers*

Materials (varies depending on activities chosen):

- Developing Your Spending Plan PowerPoint slides
- Bowling for Budgets Review Game
- Calculators
- Pencils and scratch paper
- Chart paper and markers

SUMMARY OF LEARNER ACTIVITIES

Spending Plan exercise: A scenario-based activity in which learners practice completing a financial planning worksheet.

Bowling for Budgets review game (optional): A quick question-and-answer review of session content.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
2. The Financial Planning Pyramid (5 minutes)
3. Developing Your Spending Plan (5 minutes)
    a. What is a spending plan?
    b. What is an effective plan?
    c. What are the benefits of an effective plan?
4. The Financial Planning Worksheet (50 minutes)
    a. The Net Worth Section
    b. The Cash Flow or Budget Section
        i. Income
        ii. Savings
        iii. Learner Activity: Spending Plan Exercise — Income and Savings
        iv. Living Expenses
        v. Learner Activity: Spending Plan Exercise — Living Expenses
        vi. Indebtedness
        vii. Summary
        viii. Learner Activity: Spending Plan Exercise — Indebtedness and Summary
    c. Your Debt-to-Income Ratio

- d. Your Action Plan
- e. Setting SMART Financial Goals
    - i. Learner Activity: Spending Plan Exercise — Action Plan and Goals
- f. The Spending Plan
- g. The Electronic Financial Planning Worksheet

5. Summary (5–25 minutes)
    - a. Sources of Help
    - b. Let's Review
    - c. Concluding Activity
        - i. Optional Learner Review Activity: Bowling for Budgets Review Game

CONTENT

WELCOME AND INTRODUCTION

SLIDE 1

Welcome to "Developing Your Spending Plan." In this program, you will learn about the importance of developing financial goals and having a written plan to help you make your goals a reality. Using the *Financial Planning Worksheet*, a comprehensive financial planning tool, you will learn how to account for all of your income, document living expenses and detail your indebtedness. You will also learn easy ways to improve your cash flow, reduce unnecessary living expenses, pay off debt and know where to go for help.

THE FINANCIAL PLANNING PYRAMID

SLIDE 2

Trainer's note: Ask learners to refer to the *Financial Planning Pyramid* handout. Invite them to take notes as you review each level.

The *Financial Planning Pyramid* gives us a visual picture of the steps involved in successful management of personal finances. Like building a house on a strong foundation, the pyramid provides a foundation for your financial future.

The Management Level includes the most basic elements of planning and is the first step in building wealth. This level includes:

- **Adequate income:** Using all of your pay, allowances and benefits offered by your employer.
- **Controlled spending:** Using some type of a written plan.
- **Adequate insurance:** Using appropriate insurance to protect against financial loss.

The second level of the pyramid, the Savings Level, includes three funds. These funds do not necessarily have to be separate accounts, but they need to be accounted for separately. The funds include:

- **Reserve:** For expenses that do not occur monthly, such as car insurance, school tuition, birthdays and anniversaries, and holiday shopping.
- **Emergency:** For unexpected expenses such as emergency leave, auto repairs, broken appliances or things like sick pets. Most financial advisers recommend that you maintain one to three months of monthly living expenses in your emergency fund.

- **Goal-getter:** For your short-term goals — financial goals for which the money is needed in the next five years or less. Money is kept in liquid accounts such as savings accounts or short-term CDs, where it is easily accessed.

The last level is the Investing Level. This level includes all of the tools that can be used in an effective investment plan. Investing is different from savings — more gain is involved, but so is more risk. Investing is for long-term financial goals, those for which the money is needed in more than five years. Do not invest money you may need in the short term.

Before investing, it is critical to first give attention to the Management and Savings levels of the Financial Planning Pyramid because they are the building blocks of successful financial management. Once you have established your spending and savings plans, you can then move into the investment arena. You work hard for your money; why not let it work hard for you? You can get more information on savings and investments from your Command Financial Specialist (CFS) or the Navy Fleet and Family Support Center (FFSC). You can also get additional information by attending a "Saving and Investing" and/or "Planning for Your Retirement" class at your local FFSC.

SLIDE 3

SLIDE 4

DEVELOPING YOUR SPENDING PLAN

What is a spending plan?

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 pocket. A common name for a spending plan is a budget.

What is an effective plan?

An effective plan is:

- **A guide and servant — not a master.** Some people think of a budget or a spending plan much like a diet — I have to suffer through this, and it will be painful, but hopefully in the end I'll achieve my goals. If your spending plan is well crafted, it will not feel restrictive. In fact, it should free you from worry and meet your needs and wants.

- **Is not necessarily a down-to-the-penny accounting.** That is not to say it cannot be down to the penny, and some people like to be that specific with their money. However, if you are not much of an accountant, do not worry. The spending plan process will help you build up to accurate and effective numbers.
- **Easy to understand.** A spending plan, in its simplest form, is a list of money that comes in and money that goes out. It should not be any more complex than it needs to be for your situation. Although this program will introduce you to an eight-page tool, if your financial situation is straightforward, you may not need to use the complete form or a simpler form may work. Keep the process as simple as you can.
- **A reflection of your needs, wants, values and goals.** The spending plan is *your* spending plan. It should reflect the way you actually spend your money. Anyone in your household who earns or spends the money should be involved in the budgeting process. For example, if you are married, your spouse should be included in discussing and completing the plan.

SLIDE 5

- **Based on current income and expenses.** If you do not know what your current income and expenses are, you will need to find out. Service members can usually list their income easily, but listing expenses may take more effort, especially if the person putting the plan together does not spend all of the money in the family. Again, include everyone who spends the money in the process, and if you need to, track spending for a pay period or two to get accurate numbers.
- **Practical and realistic.** An effective spending plan has to be based on reality. You may want to spend only $50 a month on gas for your car, but is that realistic? You may want to start riding your bike rather than driving, but is that practical? As you work through your spending plan, be sure to keep it real.
- **Flexible.** A spending plan should not be a straitjacket. Build in flexibility by adding in a cushion, or better yet, build up your emergency and reserve savings so you can be flexible when you need to be.
- **Provides for pleasures as well as necessities.** Service members and their families work hard for their money and make sacrifices every day that most civilians do not. It bears repeating that your spending plan

need not be so restrictive that you have no room for some of life's pleasures. There are times when everyone needs to cut back, but it is reasonable and expected that people will build into their spending plan some money for pleasures, as well as necessities.

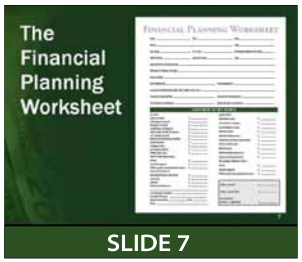
SLIDE 6

WHAT ARE THE BENEFITS OF AN EFFECTIVE PLAN?

Planning will help you:

- **Live within your income:** By putting everything down in black and white, and by planning and tracking spending, you will have a guide that keeps your spending in line with your financial goals and expectations.
- **Realize personal goals:** Part of developing a spending plan involves setting your goals down on paper and listing the steps needed to achieve those goals.
- **Maintain a good credit history:** The first step in having good credit is to pay your bills on time. An effective, written spending plan provides the foundation for a great credit report. And since the ultimate goal of any spending plan is to help you build wealth, not debt, as your assets grow and your debt is kept to a minimum, your credit report will look better and better.
- **Get more for your money:** A spending plan is the single best way to help find "leaks" in your spending. By tracking your income and expenses, you may find money you did not know you had. You could find that you've been spending money on things that you do not really need or value. Many people even find that there is money 'lost'… they do not know where some of their money goes. You should be able to account for 100 percent of your money and ensure it is going only where you want it to go.
- **Reduce financial stress and arguments:** Planning income and expenses, writing down goals and working together with your spouse will greatly reduce financial stress and arguments. Money is a top reason service members experience stress on the job. It is also one of the top things couples fight about. Much of this can be avoided by planning your spending, and a written plan is the key.

- **Achieve financial competence and confidence:** Imagine how it would feel to have just reached an important financial goal in your life — perhaps it was to buy a house, to finance a child's education or to retire early. Imagine how it would feel to know that when you decide not to spend money on something you want, you are saving the money for something even more important, something you have planned for. Imagine what it would feel like to be fully in control of your money, with low debt, adequate savings and an investment plan in place. A spending plan is not the key to all happiness, but it will open the door to a sense of financial competence and confidence.



THE FINANCIAL PLANNING WORKSHEET

The *Financial Planning Worksheet* is the spending plan form used in the Navy's Personal Financial Management program. You will see that it is much more than just a budget document.

There are five major components to the worksheet:

1. A net worth statement on Page 1.
2. A budget or cash flow plan on Pages 2-4.
3. An action plan on Page 5.
4. A paycheck-by-paycheck spending plan on Page 6.
5. An expense tracking forms on Pages 7-8.

The *Financial Planning Worksheet Checklist* provides a list of items needed to accurately complete the worksheet. Collect your financial documents and use them to fill in the appropriate sections. Be sure to use a pencil and have a calculator handy.

Trainer's note: Ask learners to refer to the *Financial Planning Worksheet Checklist* and the ***Financial Planning Worksheet***. Explain that the checklist will help them get organized and gather the documentation they need to accurately fill out the worksheet.

The Net Worth Section

The first page of the worksheet has personal information on the top half; the bottom half is a net worth statement. On this form, you list the total value of everything you own on the left and the total balance due for everything you owe on the right. When you subtract one from the other, you are left with your net worth.

Net worth is your assets minus your liabilities, or what you own minus what you owe. This is a measure of your wealth, and if you are running your finances according to good financial principles, you should see this number go up year after year. Ideally, you should have a positive net worth, but for many people just starting out, it is common to have a negative net worth.

It is important that you accurately estimate the value of what you own (items in the assets column). To find the value of savings bonds, go to <http://www.savingsbond.gov>. If you do not know your home's value, you can get an estimate at <http://www.homegain.com>. And to find your car's value check <http://www.kbb.com> or <http://www.nada.com>.

Since your net worth is a measure of your wealth, it is a number you should track regularly, year to year for example, to ensure that you are building wealth and not debt. Using sound financial principles in the way you manage your money will ensure that each year the "bottom line" increases and you are indeed moving in the direction of building wealth.

SLIDE 9

The Cash Flow or Budget Section

The four primary elements of the budget portion of the *Financial Planning Worksheet* (Pages 2-4) are:

- Income
- Savings
- Living expenses
- Indebtedness

SLIDE 10

Income:

The income section is on Page 2 of the worksheet. This information comes directly from your Leave and Earnings Statement (LES). There are different terms used for different combinations of pays and deductions:

- **Gross income:** Your total pay and allowances; everything you earn.
- **Net income:** Your gross income minus taxes.

- **Take-home pay:** Your net income less any other deductions or automatic allotments. This is the amount that is deposited in your account each payday.

To determine your income, copy all of your pay and allowances from your LES or use a current pay chart to calculate your gross pay on Page 2 of the worksheet. Remember: This figure could be different from your taxable pay. All taxable items will have an asterisk (*) beside them in the entitlements section on your *Financial Planning Worksheet*. Another way of knowing which of your entitlements is taxable is that anything taxable ends in the word "pay."

Next, list all deductions from your pay. These could include:

Taxes.

- Servicemembers' Group Life Insurance (SGLI)
- Family SGLI (FSGLI)
- Thrift savings plan (TSP)
- Dental
- Advance pay
- Overpayments
- Armed Forces Retirement Home
- Contributions or payments to military aid organizations like Navy-Marine Corps Relief Society
- Allotments

Subtract your total deductions (B) from your gross pay (A) to calculate the take-home pay for the month (A minus 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 the amount of your total net monthly income, the final income calculation on this page, because it is an accurate picture of the amount of 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 the Armed Forces Retirement

Home assessment. Then add any additional income, such as income from a part-time job, a spouse's income, rental property income, child support, etc. Copy this amount into the appropriate box in the Summary section at the bottom of Page 4.

SLIDE 11

Savings:

Turn to Page 3 of the worksheet. On this page and the next, you will list all of the money you spend. Why do you think Savings is the first category? Do you think of savings as an expense (as something you "spend" money on)? There is room in this section to list any monthly amounts put into savings funds, as well as entries for investments and/or the thrift savings plan (TSP). When you total the monthly savings and investment amounts, copy it into the appropriate box in the Summary section at the bottom of Page 4.

Most financial advisers suggest you save 5 percent to 10 percent of net income. The average American saves less than 4 percent (Bureau of Economic Analysis, February 2010). However, the average millionaire saves 10 percent, and the Navy's Personal Financial Management program recommends setting 10 percent of net income as a monthly goal for this category.

Learner Activity: Spending Plan Exercise — Income and Savings

Purpose: To allow learners the opportunity to practice calculating gross, net and take-home pay, as well as calculating monthly saving and investment expenses.

Time: 15 minutes

Procedure: Distribute the *Spending Plan Exercise* handout and *Financial Planning Worksheet*. Explain to learners that they will be practicing the skills necessary for them to calculate their own spending plan. Go over the directions on the handout for Sections 1 and 2. Ask if anyone has questions about the instructions before they get started. Make sure everyone has a calculator and pencil and then allow them several minutes to complete their calculations. Review the answers with the class before proceeding to the next section.

Section 1
Answers: (A) Total military compensation: $4,047.47
(B) Total deductions: $930.71
Take-home pay: (A minus B) = $3,116.76
Net income: $4,248.09

Section 2
Answers: Total savings: $200
Total investments: $63.83
Total monthly savings and investments: $263.83 (6.21 percent of income)

SLIDE 12

Living Expenses:

This section, on Page 3 of the *Financial Planning Worksheet*, lists the most common living expenses. Work down the page and complete the "Actual" column. If you know you spend money on an item but do not know how much, you may need to track your spending for one or two pay periods. Monthly expense categories included in the worksheet are:

- Housing and utilities
- Food
- Transportation
- Child care
- Clothing
- Insurance/health care
- Leisure/entertainment

SLIDE 13

Tracking expenses: How much do you spend each month on living expenses? The best way to find out is simply to track your expenses for a month. Most people who are building their first spending plan cannot account for 10 percent of their income — they simply do not know where the money goes.

There are lots of ways to track expenses. There are forms on Pages 7 and 8 you can use, or keep a small notebook in your wallet or purse to record every purchase. Be sure to write everything down — the $2 for an energy drink, the $6 for lunch, the $5 for coffee, the $15 you loaned to a coworker, etc. You can also try keeping receipts from every purchase and totaling them up at the end of the week. After you've written everything down for a month, group your expenditures into categories similar to those listed on Page 3 of the worksheet and enter them on the form.

Living expenses take up the majority of your income, on average 70% of it. 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 to have more to use somewhere else.

Tracking expenses will give you a more honest picture of your spending than trying to guess how much you spend in each category. If you cannot commit to tracking expenses for a whole month, try to do it for two weeks. Get family members involved. It can be a family project. After you calculate your total monthly living expenses, copy the amount into the appropriate box in the Summary at the bottom of Page 4.

Learner Activity: Spending Plan Exercise — Living Expenses

Purpose: This section provides a chance for the learners to calculate the Living Expense component of the Spending Plan Exercise.

Time: 10 minutes

Procedure: Ask learners to turn to Section 3 in their exercise handout. Explain that they are to put the listed expenses in the appropriate categories and calculate the total monthly living expenses. Review the answers with the class before proceeding to the next section.

Section 3
Answers: Total Living Expenses: $3,032.50 (71.39 percent of income)

SLIDE 14

Indebtedness:

Page 4 of the *Financial Planning Worksheet* includes 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
- Overpayments
- Indebtedness to Navy-Marine Corps Relief Society, Navy Exchange, family and friends

Do not include your mortgage. For our purposes, your mortgage is a living expense.

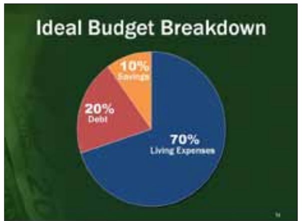
Do include any rental property you have that is not your primary residence.

When you total your monthly debt payments, copy the amount into the appropriate box in the Summary at the bottom of the page.

SLIDE 15

Summary:

With the numbers added to the Summary on Page 4, you can determine whether you have a surplus (money left over) or a deficit (more money going out than coming in) at the end of the 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 (this is also lost money or money that is unaccounted for, otherwise it would be listed somewhere on Pages 3 or 4 already!). Is your bottom line positive or negative? If it is positive, that is great, but what are you doing with that extra money? If you are accounting for all of your money, there should be no surplus or deficit. If there is a surplus, this is a great opportunity to build your savings or pay down (or off) your debt. If there is a deficit, double-check your calculations to ensure there are no mistakes. If the deficit amount is correct, it is time to make some changes. No one can survive for long in a deficit budget. We will examine some options for working with a deficit a little later in the class.



SLIDE 16

The Summary information also can be used to calculate what percentage of your net income goes to living expenses, to indebtedness and to savings. Financial experts suggest that the ideal distribution of your net income is:

- 70 percent to living expenses.
- 20 percent to debt payments.
- 10 percent to savings.

These percentages will vary in different households based on different lifestyles, but these guidelines prove effective in helping build wealth and keeping debt to a reasonable level.

Trainer's note: Using the information from the scenario, you can point out the breakdown of the budget (71.39/14.59/6.21). Some learners may point out that the breakdown does not equal 100 percent. Use this to ask learners to identify where the remaining percentage is (It is shown as a surplus in Pete and Jennifer's summary) and ask what actions they would recommend to get this budget even closer to the 70/20/10 model.

Learner Activity: Spending Plan Exercise—Indebtedness and Summary

Purpose: This section provides a chance for the learners to calculate the indebtedness and summary section of the *Financial Planning Worksheet*.

Time: 10 minutes

Procedure: Ask learners to turn to Section 4 in their exercise handout. Review the variables needed to calculate indebtedness: creditor, monthly payment, balance on the account and interest rate. Instruct learners to complete Section 4, and tell them that you will go over the answers with them before going to Section 5. After completing Section 4, tell learners that they now have all the information necessary to calculate the "bottom line" of this spending plan. This summary will determine whether the budget has a surplus or deficit. When learners have finished the summary, you should review the answers with them before going ahead with the lesson.

Section 4
Answers: Total monthly payments: $620
Total indebtedness: $4,610

Section 5

Answers: Net Income: $4248.09
Savings and Investments: $263.83
Living Expenses: $3032.50
Amount Left to Pay Debts: $951.76
Total Monthly Debt Payments: $620
Surplus or Deficit: +$331.76

Trainer's note: Based on the minimum monthly payments and the net income, the debt-to-income ratio for this spending plan is 14 percent. Have the learners use the information on net income and total minimum debt payments to calculate debt-to-income ratio as illustrated in Slide 17.

SLIDE 17

YOUR DEBT-TO-INCOME RATIO

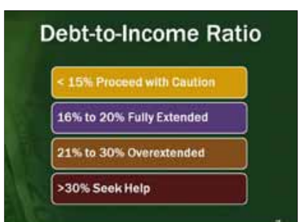
Monitoring your debt-to-income ratio is a good way to get a quick check of your financial health. Under the 70-20-10 guidelines, the "20" is the debt-to-income ratio. Calculate your debt-to-income ratio to measure whether additional credit is affordable. Divide the minimum monthly debt payments by the total monthly net income to determine your debt-to-income ratio.

For Example:

Pete and Jennifer have a net income (after taxes) of $4,248 (rounded). The total of their minimum monthly payments is $620. The debt-to-income ratio calculation would be:

620/4248 = 0.146
0.146 x 100 = 14.6

Therefore, their debt-to-income ratio is **14.6%**



SLIDE 18

The following guidelines are used to determine a "safe" level of debt:

- **Less than 15 percent:** Use caution when taking on more debt.
- **15 percent to 20 percent:** Fully extended; refrain from taking on additional debt.
- **20 percent to 30 percent:** Overextended; do not take on additional debt and establish a plan to pay down existing debt.

- **More than 30 percent:** Seek help to reduce debt from a reputable debt-management source.

In the *Spending Plan Exercise*, Pete and Jennifer fall in the "less than 15 percent" category, which means they have a manageable debt level. For some, the use of credit has evolved from a luxury to almost a necessity. Credit cards are often used for wants rather than emergencies or planned needs. This, along with impulse spending, gets many people into the "overextended" debt range. If you find yourself with too much debt, there are resources available to you. These resources are identified and will be discussed at the end of the module.

SLIDE 19

YOUR ACTION PLAN

Page 5 of the *Financial Planning Worksheet* shows three ways to improve your spending plan, which can create a more positive cash flow. You can:

- Increase income.
- Decrease living expenses.
- Decrease indebtedness.

Decreasing living expenses produces the most immediate results. A well-managed budget that decreases living expenses can see results within days.

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 for which you qualify, such as Women, Infants, and Children (WIC) or Supplemental Security Income (SSI)

What are some ways to decrease living expenses?

- Cut back to basic cable.
- Get all-in-one packages for cable, Internet and cell phone.
- Eliminate your telephone land line if you have a cell phone.

- Check books out from library rather than buying.
- Use public transportation or carpool rather than drive.
- Turn off the lights in unoccupied rooms.
- Ask for military and other discounts.
- Send e-mail rather than calling.
- Trade child-care duty or meal duties with another couple.
- Cook at home and pack your lunch.
- Shop at thrift stores.

What are some ways to decrease indebtedness?

- Pay off debts.
- Stop using credit cards.
- Pay down debt using a power pay plan.
- Shop for the lowest interest rates.
- Consider consolidation loans.
- Seek help if you are in serious debt. Accrued interest and late fees may be waived by some creditors if you enroll in a non-profit debt management program.

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 5, go back and recalculate your surplus or deficit by using the "Projected" column on Pages 2 through 4.

SLIDE 20

Setting SMART Financial Goals

Successful people have goals. They take control of their money and plan its use. It is important to commit to your financial goals by putting them in writing. A goals can be short-term, meaning you could achieve it within the next five years, or it can be long-term, meaning it will probably take you more than five years to achieve.

Goal setting forces you to decide what you want to accomplish with your money and clearly defines the steps to take. A well-written goal is a SMART goal. SMART means:

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

Goals will likely change over the years, and that is fine. Adapt your plan to meet those changes.

SLIDE 21

A typical financial goal is something like this: *"I want to be rich."*

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

A goal written using the SMART technique would state, "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 8%." Excellent goal! It is specific; it states a specific savings plan, has an end point and identifies what will be done to make it happen.

Here is one additional example of a SMART goal:

"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.
- Double my current savings to equal $500 per month to be able to have $30,000 for closing costs, down payment and other expenses.

Comprehensive, accurate and effective spending plans are developed with the ultimate goal of building wealth, not debt. Start this process by envisioning what you would like to achieve with your money and then put your goals in writing using the SMART process.

Learner Activity: Spending Plan Exercise — Action Plan and Goals

Purpose: This section provides the opportunity for the learners to discuss the different options available in the action plan and then practice writing SMART financial goals.

Time: 10 minutes

Materials: *Spending Plan Exercise* handout

Procedure: Ask learners to turn to Section 6 and list at least three actions that could improve Pete and Jennifer's budget. Tell learners that when they complete the section, they are to think now about their own financial situation and use the SMART criteria to develop two short-term goals and one long-term goal for their own spending plan in Section 7. Guide learners as necessary in choosing the appropriate components of a SMART goal and answer questions as needed. Once they are done with this section, take a couple of minutes and review. Suggest that learners use this exercise as an example when they are completing their own spending plan on the *Financial Planning Worksheet*.

SLIDE 22

THE SPENDING PLAN

Page 6 of the *Financial Planning Worksheet* is a paycheck-by-paycheck 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.

For the income amount, you can use either the amount of your take-home pay or your total net income. Check the box to indicate the amount you will base the spending plan on.

If you choose to use take-home pay, list only what is deposited into your account each payday and then note all other expenses as indicated. If you use take-home pay and have allotments, do not include them again on this page.

If you use the net income amount, include all expenses whether paid by allotment or directly by you.

Note the (P) for "planning." This is where you list what you plan to pay with each paycheck. The (A) is the "actual" amount you spent or paid for the items. The spending plan allows a forecast of three months so you do not 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.

SLIDE 23

THE ELECTRONIC FINANCIAL PLANNING WORKSHEET

The *Electronic Financial Planning Worksheet* (eFPW) is available online or through your CFS. This Excel version automatically does calculations and fills in the spending plan. It is available through your CFS, through the FFSC website or its financial educators, or on the Commander, Navy Installations Command (CNIC) website at: <http://www.cnic.navy.mil/navycni/groups/public/@hq/@ffr/documents/document/cnicd_a065808.xls>

SUMMARY

SLIDE 24

SOURCES OF HELP

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

Trainer's Note: Refer learners to the *Sources of Help for Military Consumers* handout.

Sources of help include:

- Your Command Financial Specialist
- Fleet and Family Support Center financial educators
- Navy-Marine Corps Relief Society
- Debt management programs at credit unions (both on and off the installation)
- Consumer Credit Counseling Services or other non-profit financial education organizations

Some of these services are available online or by telephone.

SLIDE 25

LET'S REVIEW

Understanding the fundamentals of the *Financial Planning Worksheet* provides you with a broad understanding of financial planning and the road to financial security. To review the five components of the worksheet:

1. The "net worth" section on Page 1 helps you measure your current wealth by subtracting everything you owe (debts) from everything you own (assets). Your net worth should increase every year.
2. The "cash flow" or budget section on Pages 2 through 4 allows you to calculate monthly net income, total monthly savings and living expenses, total monthly debt payments, surplus or deficit, and debt-to-income ratios. A great goal for your cash flow is to have 70 percent of your money going to living expenses, no more than 20 percent to debt payments and at least 10 percent to savings and investments.
3. The "action plan" on Page 5 helps you plan ways to cut expenses and debt payments and increase income, and it provides a place to write down financial goals. It includes space for referrals and additional education/training. Commit to your intentions by putting them in writing and making the necessary changes in your cash flow.
4. The "spending plan" on Page 6 provides a paycheck-by-paycheck plan to ensure your actual day-to-day spending is in line with the amounts you have budgeted. Carry this plan with you at all times and refer to it when you are faced with an unplanned expense. Look at the spending plan and ask yourself, "Of all the things I've already thought about and planned for, which am I willing to give up in order to spend the money on something else?" Update your spending plan as income and expenses change.
5. Two expense-tracking pages are provided for your convenience on Pages 7 and 8. Everyone benefits from tracking expenses for a month or two. It is not as hard as it seems, since you only have to track out-of-pocket expenses. Everything else is usually paid for with a check, automatic deductions or a credit card, so you'll have a written record of them already.

These are not just the components of the *Financial Planning Worksheet*; they are the critical components of any well-crafted and effective financial plan. Once you understand and use these components, you are well on your way to building wealth and financial security.

CONCLUDING ACTIVITY

Optional Learner Review Activity: Bowling for Budgets Review Game

See "Introduction to the Modules: PowerPoint Games"

Bowling for Budgets Review Game

1. What are the five components of the *Financial Planning Worksheet*?
   - Net worth
   - Cash flow or budget
   - Action plan
   - Spending plan
   - Expense tracking
2. What are the four parts of the cash flow or budget portion of the worksheet?
   - Income
   - Savings
   - Living expenses
   - Indebtedness
3. What are three ways any budget can be improved?
   - Decrease living expenses
   - Decrease indebtedness
   - Increase income
4. In goal-setting, what does SMART stand for?
   - Specific
   - Measurable
   - Action-oriented
   - Realistic
   - Timely (start and stop dates)
5. What is the difference between a short- and long-term goal?

   A short-term goal is a goal to be achieved in five years or less. Long-term is more than five years.
6. Name two of the three things that form the foundation or Management Level of the Financial Planning Pyramid.
   - Adequate income
   - Controlled spending
   - Adequate insurance
7. What are the three types of savings funds on the Savings Level of the Financial Planning Pyramid?
   - Emergency
   - Reserve
   - Goal-getter
8. What is the definition of "net income"?

   Total pay and allowances (gross) less taxes
9. What are the guidelines (percentages) for a well-balanced budget?

   70 percent living expenses, 20 percent indebtedness, 10 percent savings
10. Net worth is a measure of wealth. What is the formula for net worth?

    Assets minus liabilities, or what you own minus what you owe.
11. 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.

12. What is the definition of gross income?

    Total pay and allowances, everything you earn.

13. Name at least one source of help for developing your spending plan.

    - 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

14. What does it mean if you have a debt-to-income ratio that is higher than 40 percent, excluding your mortgage?

    You need to seek help!

15. How long should you track expenses to get a realistic picture of your spending habits?

    30 days or more.

16. How much of your income should you save each month?

    10 percent.

17. Where can you get a copy of the Excel version of the *Financial Planning Worksheet*?

    From the CNIC website, your Command Financial Specialist, your FFSC financial educator, or at <http://www.cnic.navy.mil>.

18. When should you start working on your spending plan?

    Today! (only acceptable answer!)