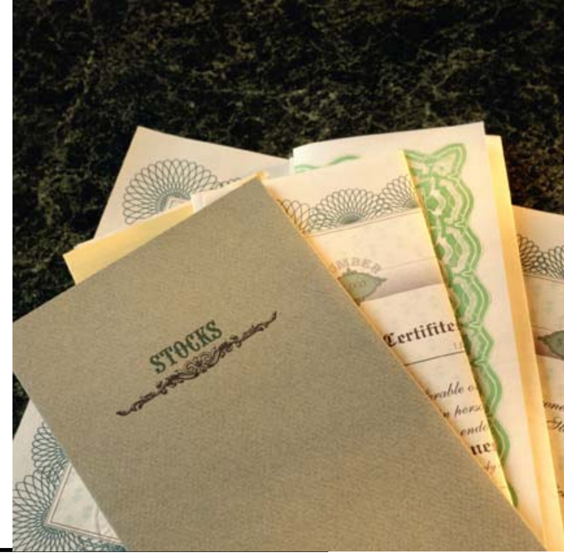
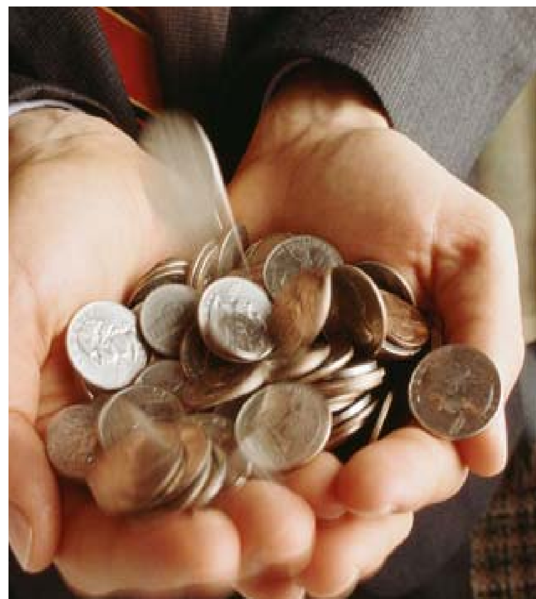
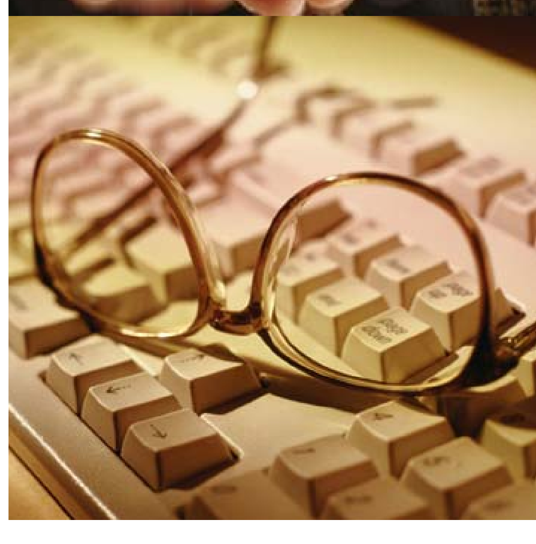


Developing Your Spending Plan





Top Financial Plan Compared to Business Plan

Everyone here already had his or her own business. It is the business of managing your own personal finances. Your assets are those things you own and your liabilities are what you owe, debt payments, loans, etc. The goal of financial planning is to have a positive net worth. This happens when your assets are greater than your liabilities. Do you have a positive net worth at the moment? Are you losing money or making a profit? Certain elements are required to set up a business. How does managing your personal family financial resources relate to managing your own business?

Developing a Financial Plan

The first element a successful business must have is a plan. It is important that you have a plan for your personal finances as well. A plan is a Guide and Servant - not a Master.

- A good plan is: • *A Guide* - It doesn't need to be down to the penny. It needs to be easy to understand and require a minimum amount of effort and time.
- *Personal and Unique* - It is a reflection of your needs and wants, your values and your goals.
- *Practical and Realistic* - It is based on current income and expense. It allows for future possibilities and probabilities.
- *Flexible* - Changes when you change and when things around you change.
- *Pleasures and Necessities* - A good plan provides for pleasures as well as the necessities.

How does it help? Planning is effective because planners think before spending. A plan will 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 competence and confidence

The Financial Planning Pyramid:

The financial planning pyramid gives us a visual picture of the steps involved in successful management of personal finances and helps explain the relationship among the tiers. The most basic elements in Level 1.

Level 1– Management

1. Adequate Income
2. Controlled Spending
3. Insurance

Level 2 – Savings

1. Reserve Fund 2.
2. Emergency Fund
3. 3. Goal Getter Fund

Level 3 – Investing

It is difficult to build a healthy structure without the foundation and today's class will focus on the management level. The top of the pyramid is the Investment level. This tier is beyond the scope of today's presentation, but you may want to learn more about building your financial security by reviewing the Savings and Investments module.

Critical Areas of a Financial Plan: The four critical areas of the budget portion of the financial planning worksheet (FPW) are income, living expenses, indebtedness, and savings.

Income - all of you are providing services for the Navy, so look at yourself as a subcontractor. A business has cash flow. You have your pay and allowances. That is your income.

Family/Personal Living Expenses - daily operating expenses are needed to operate a business. You also have basic day-to-day expenses to maintain your standard of living.

Indebtedness - (Management–Level 1) Bills for goods and services provided to your business. This represents credit you have used to purchase items. Examples of indebtedness are credit card use, car loan, gas card use, rent-to-own items, and in-store financing. d.

Savings - (Savings–Level 2) Where do they fit in? Most people say they don't have anything left over at the end of each month to save. Have you ever heard the saying, *"pay yourself first?"* That is exactly where savings fits in first, not last. Once you have adequate income, a budget in place, controlled spending, and insurance you are ready to move up the pyramid and save. There are three types of savings funds: a reserve fund, an emergency fund and a goal-getter fund.

Top **Develop a Personal Financial Plan using the Financial Planning Worksheet**

A Financial Plan has 4 distinct parts:

- Net Worth Statement to show your assets and liabilities
- Budget consisting of income and outgoing monthly expenses
- Action Plan
- Spending Plan

Background and Net Worth

You may be surprised at what you've accumulated financially. This page shows your net worth, which are your assets minus your liabilities. A Net Worth Statement is a snapshot of your financial picture at a particular moment in time. It will change as your financial situation changes.

This information comes directly from your LES.

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.

Entitlements - Copy all pay and allowances that you are entitled to from your Leave and Earnings Statement (LES) or use a current pay chart to calculate your gross pay. Remember that this figure could be different from your taxable pay. All items taxable will have an * next to it in the entitlements section. •

Deductions - List all allotments, SGLI, FSGLI, TSP, dental, taxes, advance pay, or overpayments, and Armed Forces Retirement Home in this section. Subtract your total deductions (B) from your gross pay (A) to calculate Service member's Take Home Pay. Take Home Pay should be the amount of your direct deposit. •

Total Net Monthly Income - It is important that individuals know what their family's total net monthly in-come is. With all the automatic deductions that most service members have, it is difficult to keep track of the actual money one has 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) plus any additional income that is coming into the family (i.e., part-time job, spouse's income, or child support).

Savings. Savings are broken down into three areas. Most Financial Advisors suggest one should save a total of 5-10% of their 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 - Level 2 is broken down into three funds called the Reserve Fund, the Emergency Fund and the Goal Getter Fund. It is not necessary to have three separate accounts, but some people do to help discipline their efforts.

- **Reserve Fund** - This is money set aside for those items that occur each year and are expected expenses such as vacations, holidays, and insurance.

- **Emergency Fund** - This money is set aside for the unexpected; breakdowns, sickness, repairs, and disasters. Planners often suggest that 1-3 months of net pay should be set aside for this fund.

- **Goal-Getter Fund** - This money is for items you set as goals such as a diamond ring, new vehicle, or new home.

- **Family/Personal Living Expenses** - There are many line items listed on this page to help you look closely at how you spend your money. Living expenses can easily take up the majority of your income. Some expenses are fixed, such as rent and insurance. Others are variable, such as entertainment, personal and subscriptions. You can control even your utilities. You can control variable expenses and adjust the amounts you spend in these categories in order to have more to use somewhere else.

- **How much cash do you spend weekly** - $25, $50, $100? Do you have a $20 in your pocket on Monday and Tuesday it's gone? Where is the majority of your money spent? Is it usually on impulse items like soda, beer, eating out, and entertainment? If you track these expenses for a month the majority of you will be shocked to find just where you money goes and many of you will change your spending habits. By recording how you spend your money on this page, you can decide if you want to continue the patterns you've developed or change your spending behavior. If you track expenses through recordkeeping and curtail spending, up to 10% of your income may be recovered.

- **Indebtedness** - This section allows you to list all of your outstanding debt: money owed for goods and services, along with the minimum payment required and the APR (Annual Percent-age Rate) charged. This is where you put your credit card debt, car loan, and other use of financing.

- **Net income breakdown -** The ideal breakdown for your total net income from is **70/20/10**.

  - **70% for Family/Personal Living Expenses.**

  - **20% for Indebtedness.**

  - **10% for Savings.**

This is an excellent guideline. The percentages may 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. This is important to keep in mind as we talk about indebtedness and use of credit.

- **Debt-to-Income Ratio:** 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. Do not include mortgage payments. Minimum payments divided by net income multiplied by 100 is your ratio.

- **Credit card usage guidelines:**

  - Less than 15% - *use caution*

  - 15% - 20% - *fully extended*

  - 21% - 30% - *overextended*

  - Greater than 30% - *seek help*

Today credit has evolved from a luxury to 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. Poorly managed credit will lead to serious indebtedness. For further information on use of credit, review the Credit Management module.

Surplus or Deficit: At the bottom of this page you will notice a place for you to determine your end of month situation. 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! If it's negative then you need to make some adjustments. Let's go on to the Action Plan and discuss these options.

Action Plan. Option Section: There are three ways that you can create a more positive cash flow in your financial plan. You want to consider each option and then do some brainstorming to determine ways that might work best. Your options must fit your needs and lifestyles. Let's take a look at the three areas.

- **"Decreasing Living Expenses"** - review each category of monthly living expenses to determine how you can cut back.

- **"Increasing Income"** - You can do this by seeking a second job or encouraging your spouse to seek employment and reviewing your tax filing status and special credits or exemptions you may be entitled to take. Check with your Volunteer

Income Tax Assistant for information at your command. You may be able to increase your exemptions each month, which will add income to your monthly take home pay to be used for savings and/or reducing debt. You should also seek pay and budget assistance from your Command Financial Specialist. In addition, you may want to visit PSD for further detail on pay and deductions.

- **"Decreasing Indebtedness"** - Cut credit card usage, shop for the lowest interest rates and be a savvy shopper. If serious debt exists see a Financial Educator, Command Financial Specialist, or a debt management counselor.

Goal Setting Section: We have talked about the importance of developing a financial plan, and how to actually put one together. All of this is in vain if you don't have a clear purpose for why you are doing it. Successful people take control of their money and plan its use. This is why it is so important to commit in writing what your financial goals are. Take a few minutes and write down one financial goal that you would like to achieve before you leave this class. The key is now in your hands. This section will help you to organize your financial goals.

SMART Goals: Decide what you want to accomplish. To get where you want to go, take a look at where you are now, then make plans for achieving your goals and, most importantly, follow your plan. Follow the idea of setting SMART goals. A goal needs to be specific, measurable, action-oriented, realistic, and time and cost constrained. Always write down your goals. To make your goals effective they must be specific and measurable as well as having clear start and end dates. This will help make them real to you because you can clearly see when you will get there. Your goals will likely change over the years and that's OK. Just adapt your plan to meet these changes.

Examples:

- **Bad Goal** - I want to be rich. We all want that, but this goal does not have enough information. How will you accomplish that, by what age, starting when?

- **Good Goal** - I would like to have $1M in assets by age 65 and will invest $166 per month to reach that goal. 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. 3. Short and long term goals: Short-term goals are those that can be reached in 5 years or less.

- **Long-term goals take longer and usually cost more.** These take a more concentrated commitment to your entire financial plan. 'Buying a boat in three years' is a short-term goal. 'Retiring at 60 with the mortgage paid off ' is a long-term goal. To reach any goal you will always need to save something. Pay yourself first, even $50 per paycheck becomes $1200 in a year.

- **Spending Plan.** This is the most important part of the plan because this is where it all comes together. 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. Put only what is deposited into your account each payday and then note all other expenses as indicated. Remember; if you have allotments coming out of your salary do not include them again on the Spending Plan. This is where you list what you plan on paying with each paycheck. The (A) will be the 'ACTUAL' amount you spent or paid for the items. The Spending Plan allows a forecast of four months so you do not forget those quarterly payments for insurance, dues, or whatever the expense may be. When preparing this plan, don't forget to include seasonal and special expenses. These include: Christmas, birthdays, and anniversaries...

A good Spending Plan used as a working document forces you to make deliberate spending decisions. Planning is the key. 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.

This is a great tool for monitoring your progress each month to make sure that you are following your plan. Reward yourself for following the plan when you do better than you estimated. For example, the electric bill was $75 this month rather that $100 so take the $25 and put it where you will see the money grow to reach the goals you set earlier.

Recordkeeping. Recordkeeping will help you increase your profits. The way to do that is to list what you spend daily. This can be difficult, but it is easier if you make it a part of your daily routine. You begin by keeping a record for 30 days of how much you spend each day and what it was for.

Utilize this handout to record your expenses daily. You can stick a post-it note in your wallet if that makes it easier for you to remember to use it. Just be sure to identify the purpose of each expenditure. At the end of the month, total each category. Now you have the information you need to determine if you are spending your money the way you really want. Who is in control here? You can take charge of the $20 bills that fly out of your wallet by knowing where they go and then deciding if that type of expense is really important to you. One soda per workday = $.50, one per day per month = $10, and per year = $120.

Benefits of using a Monthly Spending Record:

- Provides a record of daily expenses
- Identifies expenditure purpose
- Totals monthly expenses for each category
- Provides figures to establish a realistic financial plan
- Allows for adjustments

Top Sources of Help

Few situations are really impossible. A business would bring in a consultant if it started to run into financial problems. Don't bury your head in the sand. Get help if you feel your money is control-ling you instead of you controlling your money. There are several sources of help:

- Your Command Financial Specialist
- Fleet and Family Support Centers Financial Educators
- Navy Relief Budget Counselors
- Debt Management Programs at Credit Unions
- Consumer Credit Counseling Services (Non-Profits)

Summary

Finances and family:
If you are married or sharing financial responsibilities with someone else, remember to include them in the planning process. Partners in relationships may have very different spending and saving styles. Conflict over money is a frequent cause of marital problems. Avoid conflict by communicating early on and work out compromises as necessary. In order for your plan to work, everyone in the family who spends money needs to follow it, so include them all in planning, too.

Purpose of a financial plan:
Please take these valuable financial planning tools home with you and complete them, using the actual figures for your specific situation. The purpose of the financial plan is for you to determine where you are now, where you want to go, and how you plan to get there by starting TODAY!

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