

# Creating and Following a Spending Plan

Three of the most common causes of financial stress are debt, lack of savings, and spending more than you make. Creating, and sticking to, a spending plan can help reduce stress in all three areas. If you stick to a spending plan and spend *less* than you make, you'll improve your financial situation over time. If you spend *more* than you make, your financial situation will gradually deteriorate and become more of a burden over time. With a well thought-out and executed spending plan, you can gain control over your money.

## What Do You Need?

To create a spending plan, you need to know your current financial situation. This information includes:

- » Income (both gross income and take-home pay)
- » Account balances (bank accounts, savings, retirement)
- » Monthly expenses (food, clothing, housing, entertainment, utilities, etc.)
- » Debts (balances, monthly payment amounts, and interest rates)

Knowing all this information will be the key to creating a spending plan that is realistic and achievable. Once you know the basics of your current financial situation, you need to decide what type of spending plan you want to use.

## Types of Spending Plans

There are many ways to create the right spending plan for you and your family. Find many free resources online that can help you create your spending plan and track your progress, including at [www.urs.org](http://www.urs.org) (visit the Financial Wellness section). To help give you some ideas, the following are a few types of spending plans that you could use.

### Zero-Based Budget

In a zero-based budget, you keep track of every dollar that comes in and goes out each month. Also, every dollar has a purpose and is allocated to a certain category. If you have extra money at the end of the month, there's already a plan for where it's going to be allocated (such as making extra payments on debt or going into an emergency savings fund or a retirement account).

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This type of spending plan tends to work best for detail-oriented people. It takes a lot of work to keep track of every dollar. Even if you feel this type of budget won't work for you long-term, it may be a good idea to try it for a month or two, so you have a better idea of exactly how you're spending your money.

### **Savings First Spending Plan**

In a savings first spending plan, the focus is to automate your savings. This plan ensures you set aside money for your essential expenses (rent, mortgage, car payments, food, etc.), emergency savings, retirement, extra debt payments, and any other financial goals first. The remaining amount is what you have left to spend on non-essential expenses.

In order to accomplish this, automate the savings process as much as possible. One way to do this is to have your paycheck go to several different accounts (even at different financial institutions), each with its own purpose. This way you don't even see money going into savings so you aren't tempted to spend it on other things that can sidetrack you from your financial goals.

### **Envelope Method**

If you think a cash-based spending plan might help you, consider the envelope method. In this method, you literally put cash into various envelopes labeled for their purpose (rent, entertainment, gas, savings, credit card payments). Once an envelope runs out, you're not able to spend in that category for the rest of the month. We often spend differently when we use cash compared to when we spend with a debit or credit card, and this can help us mentally stay on track with our spending plan.

### **Take Control**

You can be in control of your financial life. With some effort and consistency, you can accomplish your financial goals. You may need to experiment with more than one type of spending plan. But don't get discouraged. Keep trying and learning, and eventually you will make significant progress toward your financial goals and reducing your financial stress.

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