

Building a Spending Plan: Step 5 - Are You Living On What You Make?¹

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Now that you have calculated your income (Step 3; <http://edis.ifas.ufl.edu/he823>) and totaled your fixed and flexible expenses (Step 4; <http://edis.ifas.ufl.edu/he824>), it is time to do another calculation. You need to determine if you are living on what you make (total expenses do not exceed total net income) or if you are spending more than you make (total expenses exceed total net income).

Use Table 1 if you think your total income is more than your total expenses. Use Table 2 if you think your total expenses are more than your total income.

Table 1.

Total Income (Step 3)	\$
Minus	-
Total Expenses (Step 4, Table 3)	\$
Total Surplus	\$

Table 2.

Total Expenses (Step 4, Table 3)	\$
Minus	-
Total Income (Step 3)	\$
Total Deficit	\$

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If you used Table 1, the amount of surplus (unspent money) is available for you to use for additional savings or to reach your short- or long-term goals. For example, you can save all or part of it; you can purchase something with the money; or you might use it as an extra payment on an installment loan or mortgage.

If you used Table 2, you have deficit spending. This is the amount of money you must subtract from your expenses in order to keep from spending more than you make. Return to the flexible expenses page in Step 3 and determine which categories you can reduce or cut out. The total adjustments to the categories must be equal to or greater than this total deficit. This will help you monitor your expenses in coming months so you do not overspend your budget.

Do this step monthly after you have made purchases and paid bills. If you have to use Table 2, then you are overspending for your income. Make a plan to adjust your spending for the current and coming months so you will get back on budget. It will be increasingly difficult to reach your short- and long-term financial goals if you continue to overspend. Deficit spending usually results in debt that becomes difficult to pay off.

You can change your spending plan. Review your income, debts, and spending. Take a hard look at your flexible expenses. Control your flexible expenses by reducing the need for them or adjusting what is spent on them.

Review your financial goals in Step 1. Are you contributing money monthly to them? **Remember a simple rule: If it helps you reach your goals, do it. If not, don't!**

Review all of your expenses, and then ask yourself the following questions (or similar ones, as necessary). Is this really how you want to spend your money? How much is maintenance costing on your car? How much is the auto insurance? Could you save money by doing more cooking at home instead of eating out? Are you planning your gift giving? Do you really need to buy gifts for all those relatives? Consider gifts you can give that don't cost money, such as doing an activity with them or helping them do something around the house they cannot do themselves.

You can become more creative at acquiring goods and services. Here are some ideas:

- **Share.** Share ideas, items, and skills with others. Buy in bulk and split the cost with a friend when it can save you money.



Figure 1. Credits: iStockphoto

- **Trade.** One can swap or trade products or skills. Trade things you don't need by selling or exchanging them.
- **Repair or make it.** It may be cheaper to make or repair it if you have the skills, time, and supplies needed.
- **Shop around.** Buy from sales, secondhand stores, or discount stores.
- **Negotiate for lower prices.**
- **Pay your bills on time.** It saves you money because businesses charge late fees for payments after the due date.

For the rest of the steps in the *Building a Spending Plan* series, visit http://edis.ifas.ufl.edu/topic_series_building_a_spending_plan.