



The Financial Puzzle: Putting the Pieces Together

Sissy R. Osteen, Ph.D., CFP®

Associate Professor
Resource Management Specialist

Statements like “I have too much money at the end of the month” are often said as a joke. The reality of not having enough money to meet basic needs is no laughing matter. The best way to gain control of finances is to establish and manage a plan for spending. Planning for spending is a financial practice that many consumers fail to do. This leads to frustration with money matters and overuse of credit.

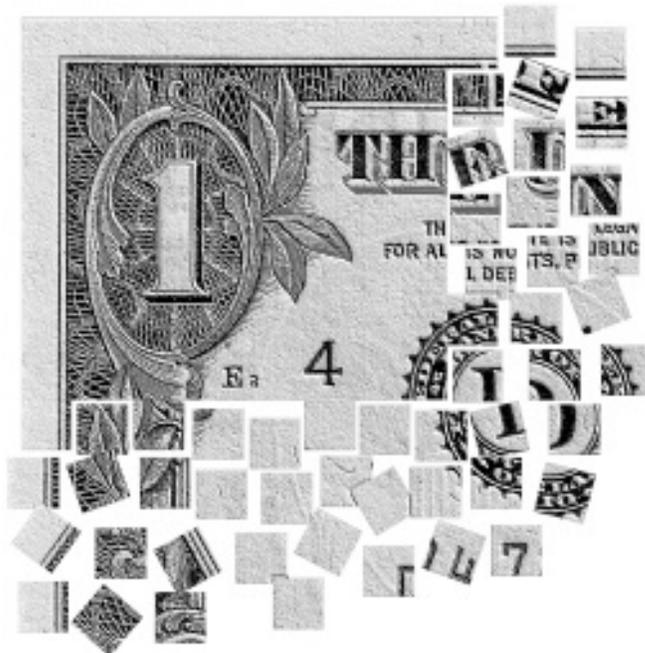
There are several steps that ensure success and put together the pieces of the financial puzzle. The worksheets provided could help determine where a family is, where they want to be, and how they can get there. The most important pieces to the puzzle are income, expenses, reserve accounts, and credit use.

Income. To find out where an individual is, determine how much money is available. Worksheet 1 will help determine all sources of income. The most common source of income for most families and individuals is take home pay from work outside of the home. Use monthly net income rather than monthly gross income when planning. With net income, or take home pay, deductions have already been made for many expenses. Don't list these again on the expense sheet. Overtime pay and other sources of income that are not regular or reliable can be used as a resource but should not be included in monthly net income. Changes in economic conditions can lead to a sharp reduction in overtime opportunities.

Expenses. In order to plan for spending, it is important to know where the money is going. If this is not known, write down how much and where spending occurs each month. This can be as simple as using a pocket sized tablet and a pencil or a computer with some money management software. Once spending is known, planning can begin.

When filling out a monthly expense sheet (Worksheet 2) it is important to be as realistic and honest as possible. It is natural to underestimate expenses because it makes people feel in control. In the “current” column list all expenses. When completed, if they are too high, mark which expenses can be changed in the “adjusted” column. The “actual” column can be used to record actual spending for a month to determine how accurately current expenses are estimated. The “periodic” column is used to help determine reserve account amounts.

Oklahoma Cooperative Extension Fact Sheets
are also available on our website at:
<http://osufacts.okstate.edu>



Reserve Account. Some bills are paid quarterly, semiannually, or annually such as car insurance and property taxes. Money needs to be set aside to pay these periodic expenses when they come due. The easiest way to do this is to place money needed for future bills into a separate account. Using a savings account will keep it out of the immediate reach and will actually earn some money (i.e. interest) as well. Figure the actual amount needed to set aside by following the directions supplied with Worksheets 2 and 3. This is the most important step in planning because one large annual bill can completely undo a spending plan and lead to excessive credit use.

Credit Use. There are many advantages to using credit if it is handled wisely. Misuse of credit can be very costly. Financial educators recommend that no more than 15 percent of monthly net income should be spent on credit payments. For example a household

with \$3,000 net income per month paying more than \$450 in credit card payments is probably headed for trouble. This figure does not include house payments. Use Worksheet 4 to determine if credit use fits within these guidelines.

Putting It Together. Putting everything in writing is just the first step. It takes time to make adjustments that will make all the pieces come together. Once the plan is finalized, changes in financial habits may be required. These changes take time and energy. It can

help to remember what your goals are and how good it feels to reach them. For more information on money management and other resources, please visit www.fcs.okstate.edu

Explanation of monthly expenses

1. **Savings** is the most important part of expenses and should be figured first. Base this amount on savings goals that are established (example: \$200 to go into Roth IRA or college savings fund).

**Worksheet 1
Monthly Net Income**

<i>Source of Income</i>	<i>Weekly</i>	<i>Bi-Weekly</i>	<i>Monthly</i>	<i>Yearly</i>
Paycheck #1				
Paycheck #2				
Tips				
Social Security/SSI				
Retirement				
Public Assistance				
Alimony				
Child Support				
Veterans' Benefits				
Unemployment				
Interest & Dividends				
Student Loans				
Income Tax Refunds				
Other				
Monthly Total (enter on line 27 of Worksheet 2)				

Monthly Expenses Worksheet 2

	Current	Actual	Adjusted	Periodic
1. Savings				
2. Rent or house payment				
3. Home repairs, maintenance*				
4. Utilities				
5. Groceries				
6. Meals eaten away from home				
7. Toiletries				
8. Tobacco, alcohol				
9. Diapers, formula, baby supplies				
10. Allowance, school expenses*				
11. Barber, beauty shop				
12. Gasoline				
13. Car maintenance*				
14. Insurance*				
15. Medical*				
16. Clothing*				
17. Dry cleaning, laundry				
18. Gifts*				
19. Newspapers				
20. Vacations*, out of town trips				
21. Entertainment				
22. Contributions				
23. Child care/child support				
24. Pet expense*				
25. Miscellaneous*				
26. Total Monthly Expenses				
27. Total monthly net income (Worksheet 1)				
28. Monthly living expenses (Worksheet 2)				
29. Balance for creditors (subtract 28 from 27)				
30. Payments on debt (from worksheet 4)				
31. Amount left (subtract 30 from 29)				
32. *For Reserve Account (total periodic expenses/12)				

2. **Rent or house payment-** the actual amount paid per month for rent or mortgage payment. Include lot rent with a mobile home.
 3. **Home repairs and maintenance-** all the costs expended on the home during the year including: paint and wallpaper; yard care supplies; chemicals and treatment for a pool or septic tank. Add all of these and put total amount in the "periodic" column.
 4. **Utilities-** expenses for gas, electricity, water, and telephone (including cell phone and internet), trash pick up, sewer, etc.
 5. **Groceries-** all food items purchased for preparing meals at home.
 6. **Meals away from home-** all meals eaten away from home; work and school lunches; snacks and colas, and dinners out.
 7. **Toiletries-** all personal care items: toothpaste, shampoo and hair care products, make-up, deodorant, cologne, soap and lotions; household cleaning supplies; detergents, trash bags, etc.
 8. **Tobacco products** (such as cigarettes, cigars, pipe or chewing tobacco) and alcoholic beverages.
 9. **Diapers, formula, and baby supplies-** things purchased regularly for baby care.
 10. **Allowance, school expenses-** any money given to children or other family members; expenses for school such as lab fees, cost of field trips, sports, special lessons and tutoring; and school supplies. If some of this is an irregular expense, remember to enter that amount in the "periodic" column.
 11. **Barber, beauty shop-** expenses for going to a shop for haircuts, coloring, or styling, as well as manicures. If some of this is an irregular expense, remember to enter that amount in the "periodic" column.
 12. **Gasoline-** the amount spent to fill up the car with gasoline. If this is a weekly expense, remember to multiply the weekly amount by 52 and divide by 12 to get a monthly amount.
 13. **Car maintenance-** this is difficult to determine because we don't anticipate repairs. Base repairs on life of the car, the year, and repair records. Call a garage that specializes in a model to ask questions. In addition, figure out how much is spent in a year on oil changes, what is needed for replacing tires, and what it costs each year to get license tags replaced. Enter totals in the "periodic" column.
 14. **Insurance-** life, car, renters, health (if not deducted from paycheck), and property insurance not included in the mortgage payment. If car and house insurance are paid periodically enter totals in the "periodic" column.
 15. **Medical-** expenses for doctors; dentists; eyeglasses and contacts; medications; money to cover the deductible, co-pay, or out-of-pocket expenses on medical or health insurance.
 16. **Clothing-** clothing items, shoes and accessories. To get a good estimate, determine how often you shop, example; beginning of school year or summer sales, and how much is spent at these times. Total, and enter totals in the "periodic" column.
 17. **Dry-cleaning and laundry-** expenses for the washing and cleaning of clothes outside the home.
 18. **Gifts-** consider how many people are shopped for during the year, how much is spent per gift, and how much is spent on average for each gift-giving occasion. If you make most gifts, don't forget to include the cost of materials. Enter your totals in the "periodic" column.
 19. **Newspapers-** cost of subscriptions for newspapers, magazines, record and video clubs, and costs for books and newspapers bought from the newsstand.
 20. **Vacations, out of town trips-** times when you leave town and spend extra on hotels, transportation, or dining out.
 21. **Entertainment-** Renting videos, going to movies, concerts, plays, sporting events, pay-per-view, cable television, satellite payments, health club memberships, etc.
 22. **Contributions-** monetary contributions to church, or charities unless they are deducted from paycheck.
 23. **Childcare/child support-** expenses paid to someone else for caring for a child, and any support paid to someone for child who does not live with you unless it is deducted from your check.
 24. **Pet expenses-** food, grooming, veterinarian visits, etc.; expenses for farm animals.
 25. **Miscellaneous-** any expenses not already included except for creditor bills. Consider income taxes; maintenance fees; property taxes or regime fees for property; professional fees etc.
 26. Total of lines 1 through 25.
- Explanation for filling out the bottom of the budget form**
27. Total monthly net income is the totaled amount from worksheet 1.
 28. The total of all the expenses from budget (line 26). Subtract this amount from net income (line 27).
 29. Amount left over from income to pay anyone else owed money.
 30. From Worksheet 4. If you already know your creditor payments and don't intend to complete Worksheet 4 enter the amount here.
 31. Amount left is what is left after living expenses and paying creditors. This is money for other purposes like an emergency savings. If there is a significant amount left over, increase the savings amount in line 1 of the spending plan.
 32. *After adding the living expenses on your budget, go back and separately add the items in the "periodic" column. Only add expenses that you are not paying monthly. For instance if you pay insurance monthly instead of every 3 to 6 months, don't add this in. This total gives you the amount of your monthly expenses that should be deposited into a separate account (your reserve account) each month for periodic bills. If you need more help determining periodic expenses you can use Worksheet 3. Remember this step can mean the difference between success and failure!

Worksheet 3

Periodic Expenses

Use this chart to help estimate periodic expenses and include them in a spending plan. Think of expenses that fall into each specific month and add them together. Don't forget to list them on Worksheet 2.

<u>Year 20</u>	Annual Item(s)	Amount Amount	Monthly (Annual/12)
Month			
January	Ex: School clothes	\$300	\$25
January			
February			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
TOTALS		*	

* Total periodic expenses for one year = \$ _____ ÷ 12 = \$ _____ Total monthly expenses. This amount should match the amount in the last column. This is the actual amount of money to be deposited in your reserve account each month.

Worksheet 4

Credit Accounts

Creditor/Loan Source and Account Numbers	Balance Owed	Payment Amount	Payment Due Date	Annual Percentage Rate (APR)
Example: Mortgage: Bank of America	\$58,000	\$600	5 th	6.25%
Mortgage				
Second Mortgage				
Car or Truck Payment				
Education Debt				
Credit Cards				
Medical Bills				
Other Debt				
TOTALS				

The Oklahoma Cooperative Extension Service

Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

Oklahoma State University, in compliance with Title VI and VII of the Civil Rights Act of 1964, Executive Order 11246 as amended, Title IX of the Education Amendments of 1972, Americans with Disabilities Act of 1990, and other federal laws and regulations, does not discriminate on the basis of race, color, national origin, gender, age, religion, disability, or status as a veteran in any of its policies, practices, or procedures. This includes but is not limited to admissions, employment, financial aid, and educational services.

Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Robert E. Whitson, Director of Cooperative Extension Service, Oklahoma State University, Stillwater, Oklahoma. This publication is printed and issued by Oklahoma State University as authorized by the Vice President, Dean, and Director of the Division of Agricultural Sciences and Natural Resources and has been prepared and distributed at a cost of 42 cents per copy. 0909 Revised GH.