

**Financial
Well-being
*MANAGING YOUR
MONTHLY EXPENSES***



MANAGING YOUR MONTHLY EXPENSES

As you review your financial situation there is one behavior that determines whether or not you have funds to save: **On a monthly basis do you spend more that you make?**

A study in 2012 showed that:

- 41% of households spend less than they earn,
- 36% break even, and
- 19% spend more than they earn.

Also, several sources estimate that less than half of U.S. households have \$400 or less in savings to cover unexpected expenses (an emergency fund).

Creating a budget is a great way to build an emergency fund. Remember, it is not how much you make, but how much you spend that gets you in trouble. To better understand your expenses, track your spend for at least three months. This helps you see where you spend and where you can save.



Let's start

If you have a budget and are tracking your expenses, great! If you don't have a budget, we can help you get started!

The first step is to determine how much you are spending each month. Track your basic expenses every month, as well as your infrequent expenses (ex. semi-annual car insurance payment, school expenses, car tires or other maintenance, dentist appointment costs, or other medical expenses) so that you can try to plan for them as well. The infrequent expenses are tricky and harder to predict and that is why we suggest that you put savings aside for an emergency fund as you create your budget.

To track those expenses, try one of these approaches for three months:

1. Expense journal
2. Envelope system
3. Spreadsheet budget
4. Budgeting app



What approach is right for you?

The first two approaches, **expense journal** and **envelope system**, are your best options if:

1. You don't have a checking account and/or credit card (you pay with cash and therefore don't have the data to populate an app), or
2. You are not tech savvy or are concerned about sharing your data with a third party, or
3. You have a limited number of expenses each month.

If you use a computer frequently, the **spreadsheet budget** approach might be the right solution for you.

If you have a checking account or credit card that you use for your monthly expenses, then a **budgeting app** might be best.

With all of these systems you will need to set up a spending / savings plan, review your progress, and adjust your approach to meet your goal. Financial well-being is a journey, not a destination.

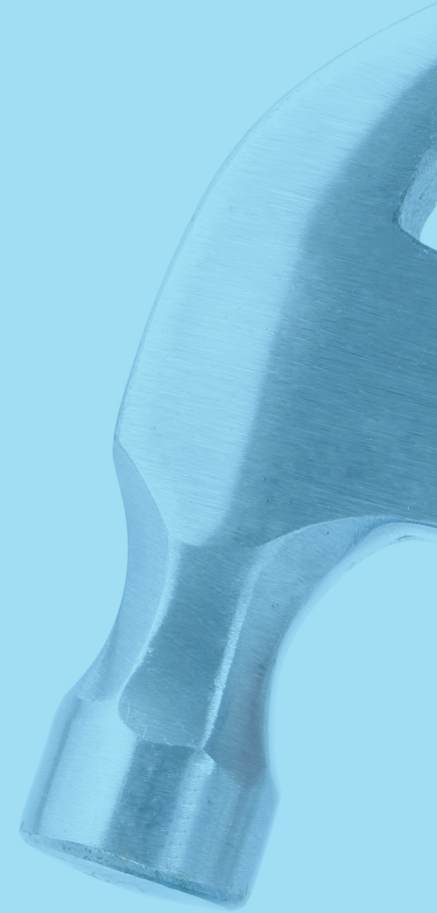


Regardless of the approach you use, start by breaking out your income and expenses to capture the following:

1. Income (amount after taxes)
2. Housing and Utilities
3. Food
4. Transportation (car note, car maintenance expenses, gas, auto insurance)
5. Education / Childcare
6. Personal (hair care, clothing, medical, entertainment, charity, life insurance)
7. Debt (credit card payments, student loans)
8. Savings

Capture the information in a way that allows you to look at your payments on a week-to-week, or month-to-month basis. Ensure that you have enough money to make all of the payments during a pay period. Keep it simple. You could break out your spending into more categories, but starting out it can make things complicated and hard to manage.

We recommend only using the categories above to get started. Take it slowly and if you notice you are spending too much in one category, you can break that category down into multiple categories for more detail.



For example, if you think that your monthly clothing spend is using up most of your money for entertainment or medical bills, you could break clothing out as a separate category.

If you are not sure how much you should spend in each category, here are some suggestions to get you started:

| | |
|---------------------|-------|
| Food | 10% |
| Transportation | 15% |
| Education/Childcare | 12.5% |
| Personal Care | 15% |
| Debt | 7.5% |
| Savings | 10% |

This breakout is a general guideline and your situation may be different, especially if you have an expense that is higher than the national average. For example, if you live in a city with high housing costs you would need to cut back on the other types of expenses to make up for this expense.

Envelope System – this approach divides your income into different envelopes. It covers your basic expenses and helps identify any extra expenses not covered by the cash in each envelope.



Start by putting money from your paycheck into an envelope each month for each category above. The amount that you put in each envelope depends on how much you spend in each category. If you have several different paychecks in a month, the distribution may depend on the time in the month, as well. Make sure you cover all of the necessities and also put money into your savings envelope.

The benefit of the envelope system is that it helps you to see where your money is going. You can see when one envelope is getting low and when you have cash left over in other envelope categories.

Write down the expenses as you pay them from the envelope or keep a receipt in the envelope. This gives you additional information you can use to improve your budget and save more money for emergencies.

Expense Journal – this approach has you keep a journal of all your cash and/or credit card expenses during the month.

Write down on a piece of paper your expenses for each day and how you are paying for things (cash, credit cards, checks, electronic transfers).



At the end of the month, review the total amounts and types of payments and compare them to your income. Finally, compare the total spend by category to the guidelines above. If you are spending more than the planned % in a certain category, look at that category to see if/how you can cut back on those expenses.

Spreadsheet Budget – this approach allows you to create a list of your expenses and also summarize the transactions by month or category. Having this information in a spreadsheet could save you some time and make it easier for you to understand your financial situation.

To help you get started the spreadsheet will have the basic expense categories broken out in the file. On an ongoing basis, enter your daily expenses (similar to the Expense Journal example above).

The added advantage of the spreadsheet is that it is easier to create a budget since the spreadsheet has the basic budget structure in the file. Click [HERE](#) for a basic spreadsheet budget to get started.

Budgeting App – there are quite a few apps out there and a couple of them are free. Using a more robust app will allow you to connect your bank accounts,



investment accounts (including 401k accounts), credit cards, etc. directly to the app. You can also download your balances, deposits, earnings, and expenses from these accounts on a regular basis. The app also reviews your transactions and suggests categories for some of your expenses.

Some apps give you the ability to manually apply a category label to an expense or change the category so that each expense is applied to the right category. The app may also be able to set up a budget per category, track your expenses against the budget and even send you notifications when you exceed the budget. If you are tech savvy, not afraid to use a third party app, and have financial institutions that will work with an outside application, using one of the higher rated apps could be the best solution for you.

Things that you should consider as you select an app/program:

- 1. Security** – ensure that it has the same level of security that your financial institution has and has a privacy policy that allows you to control how your data is used.



2. Fit – make sure it provides you with information and tools in a format that is easy to use and helps you to manage your expenses.

3. Cost – several are free, but some have a monthly fee – make sure you account for that in your expenses!

4. Integration – confirm it will connect to your financial institutions.

5. Rating – review current users' feedback to confirm they are satisfied with the experience. Make sure they rate the topics that are important to you with high marks.

Whichever approach you choose, the most important thing is that you start tracking your expenses and work toward creating a budget. After you have tracked your expenses for a couple of months, you should have a basic understanding of where your money is going and be able to set up a simple budget. Take your time, keep it simple and easy to manage, track where your money is going, and adjust your spending so that you can save some of each paycheck and improve your financial picture!



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