

We continue Navigating the Financial Roadway. This month we will examine the **Control System** for your Spending Plan. As always, you can find previous articles in this series and downloadable forms on our website (www.livingwellokc.org – go to the “Managing Money” page and click on “Navigating the Financial Roadway”).

No matter how good a spending plan is, if it is not used, it is a waste of time! It would be like spending weeks or months planning a trip, plotting your route on a map, making reservations at hotels, etc. and then just “chucking” all your data and striking out blind with no plan!

Our goal is this.....

- 1) To establish a level of spending for each expense category that you have decided to include in your spending plan.
- 2) Allocate spendable income to those categories.
- 3) Knowing where you stand in each category at all times.

K.I.S. (Keep It Simple) The most common reason people abandon their spending plan is that it's too complicated and they get bogged down maintaining it. **We want to keep our plan as simple as possible and still make sure that we have enough detail to adequately track income and spending.**

One of the easiest ways to understand the control system is to compare to the *“Old Envelope System.”* In times past, many employers paid wages in cash. Families would take the cash from their pay and put it into envelopes with certain spending needs marked on them, such as groceries, rent, clothing, etc. As a need or payment came due, money was withdrawn from the appropriate envelope and spent. The system was quite simple and very effective when properly used. In other words, as long as cash wasn't taken out of an envelope and used for the wrong category of spending.

And, the main rule was this: when an envelope was empty, there was no more spending for that category until more income came in to replenish it. The “envelope system” is a great way to view our spending

plan technique. Donna and I actually used the envelope system in the beginning, for about a year, to get us on the right track financially.

We use the **Income Allocation Form** to divide spendable income among the various expense categories (you can find this form on our website). **This is simply a predetermined plan of how each paycheck or source of income is going to be spent.** First, you write the amount of money you have determined for each month in each category in the Monthly Allocation column.

Next, you divide the monthly allocation for each category by the pay period. It is not mandatory that paychecks be divided evenly, in fact, it is very unlikely that will be possible. **The important thing is that money is available when an expenditure is due.** Therefore, money has to be allocated during the month to meet obligations that come due at the appropriate times the next month.

The main control tools are the **Expense Account Pages**. There is a separate account page for each spending plane expense category, just like each had its own envelope under the old cash system mentioned earlier. **The purpose of these account pages is to document all transactions for the month (both deposits and expenditures).**

We must also remember that having a written spending plan that is consistently maintained still does not mean you don't have to keep a balanced checkbook. Your checkbook should always be balanced and must always equal the sum of all your expense category balances.

Discipline is probably the most important factor in the entire spending plan process. The main precept of this discipline is: **You spend money for goods and services based on the spending plan expense category balances, not the balance of your checkbook.** Since you allocate and accumulate income in advance of expenditures, you will typically carry a higher balance in your checking account than you would if you were not utilizing a spending plan.