

# *MONEY TALK*

## SESSION I

### LESSON 4

# MANAGING HOUSEHOLD CASH FLOW



Reproduced with permission from *Money Talk: A Financial Guide for Women* (NRAES-160). Natural Resource, Agriculture, and Engineering Service (NRAES), PO Box 4557, Ithaca, NY 14852-4457.  
<[www.nraes.org](http://www.nraes.org)>

## Managing Household Cash Flow

**T**o get a handle on your household's cash flow, you need a spending plan.

In other words, you need to do a realistic side-by-side comparison of what you earn (income) and where the money goes (savings and household expenses). A spending plan provides direction for future financial decisions and indicates whether there is sufficient income with which to pay expenses.

*Cash flow*—The relationship between household income and expenses.

*Spending plan*—A plan for spending and saving money.

If this sounds like “budgeting,” you’re right. “Spending plan” is a fancy way of saying “budget.” Still, there are subtle differences between the two. First, “spending plan” is a more positive term because it includes the word “spending.” Most people like to spend money. The word “plan” also emphasizes control of your money, rather than letting your money control you. The word “budget,” on the other hand, is often perceived negatively (e.g., deprivation) and discourages people from taking financial control of their lives.

Spending plans provide a number of advantages.

- They help determine where money is currently being spent.
- They force you to make spending choices and prioritize needs and wants.
- They help you live within your income.
- They can include savings for “big ticket” financial goals such as a new car or retirement.
- They can reduce worrying, out-of-control feelings, and family fights about money.

Although not nearly as “sexy” a topic as some “hot” new investment, spending plans are the foundation

of financial planning. Why? Unless money is left over after covering household expenses, little can be done in other areas of personal finance, such as investments or retirement planning.

To prepare a spending plan, it is first necessary to know what you earn and spend. To do this, track your household income and expenses for a full month. Start with gross income so that taxes are viewed as an “expense.” Try to choose a “typical” month rather than the December holiday season, in which people tend to spend more than usual. Household earnings include net (after-tax) income from a job, benefit payments (e.g., Social Security, pension, unemployment, disability), child support or alimony, public assistance, self-employment income, and other income sources (e.g., rental income). Add all income from family members who contribute to household expenses together to obtain a total of monthly household net income.

Now total your monthly expenses for an entire typical month. Using your spending records as a guide, make a list of **fixed expenses** such as housing, car loan payments, and insurance premiums that don't vary over time. Next, make a list of **flexible expenses** such as food, transportation, and gifts that vary from month to month. Finally, make a list of **periodic expenses** (e.g., holiday expenses, quarterly property taxes) that come around only once or a few times a year and divide the annual cost by 12 to arrive at a monthly cost. For example, \$4,000 of annual property taxes would cost \$333 monthly.

Be sure to set aside money to meet financial goals (e.g., \$100 deposited monthly into a mutual fund) as a monthly “expense.” If you lack an emergency fund of 3 months' expenses, include a “line item” in your spending plan to gradually build up your reserves. If you have access to “automated” savings plans, such as a 401(k), sign up today. Even small amounts of savings (e.g., \$15 per paycheck) will grow substantially over time.

Four worksheets are included in this unit to help you manage your money. Use the *Checklist of Expenses* (Exercise I-6) on page 16 as you track your spending so that you don't forget any expense categories. Use the *Household Expenses: Week by Week* (Exercise I-7) worksheet on page 17 to record your actual expenses. Use the *Anticipated Occasional Expenses in Next 12 Months* (Exercise I-8) worksheet on page 18 to determine the annual and monthly cost of nonmonthly expenses (e.g., vacation, quarterly insurance premiums, and property taxes). Use the *Spending Plan Worksheet* (Exercise I-9) on pages 19–20 to total income and expenses and adjust the numbers so that income equals expenses, including savings.

Earn more than you spend and you have positive cash flow. Spend more than you earn and you have negative cash flow. You have three ways to manage cash flow and make it a positive number: earn more, spend less, or do a little of both.

#### Ways to Increase Household Income

- ◊ Adjust tax withholding (e.g., a \$1,000 refund is equal to an additional \$83 per month).
- ◊ Add a second job or work overtime.
- ◊ Start a home-based business or freelance your talents and skills.
- ◊ Increase/collect child support and alimony. (Note: This may require court intervention.)
- ◊ Access public benefits (e.g., low-cost health screenings and pet rabies clinics).
- ◊ Sell assets (e.g., sell a car, have a garage sale).
- ◊ Upgrade job skills through additional education or training.
- ◊ Charge adult children room and board.
- ◊ Use tax benefits not previously used (e.g., earned income tax credit).
- ◊ Collect money previously loaned to others.
- ◊ Establish a barter network (e.g., child care cooperative).
- ◊ House share or take in a compatible boarder or roommate.

#### *Painless Ways to Reduce Expenses*

Literally hundreds of books are available about ways to live on less. Many are organized by spending category. Below are some ideas to consider.

##### *Housing*

- ◊ Consider refinancing an existing mortgage if savings exceed the up-front cost (e.g., points).
- ◊ Ask your mortgage lender to cancel private mortgage insurance when home equity reaches 20% of home value (e.g., \$20,000 of equity on a \$100,000 home).
- ◊ Purchase appliances with a high energy efficiency ratio.

##### *Food*

- ◊ Combine coupons with store sales and/or product rebates for additional savings.
- ◊ Buy in bulk when items are on sale or in season (e.g., produce and canned goods).
- ◊ Buy store or generic brands if they have the cheapest price.

##### *Utilities*

- ◊ Use e-mail in lieu of phone calls to reduce telephone charges.
- ◊ Sign up for a long-distance telephone savings plan and/or generous "anytime" minutes cell phone plan, or use inexpensive prepaid phone cards.
- ◊ Eliminate add-on features to phone service (e.g., caller ID).
- ◊ Compare the cost of cable television and satellite service.
- ◊ Close off unused rooms in the winter to conserve heat.
- ◊ Insulate your hot water heater and reduce the temperature to 120°F.

##### *Transportation*

- ◊ Keep a car as long as possible to reduce depreciation and financing costs.
- ◊ Consider buying a late model used car instead of a new one.

EXERCISE I-6

**Checklist of Expenses**

Child/elder care

- Babysitter
- Day care
- Other

Clothing

- Cleaning & laundry
- Purchases
- School and work uniforms
- Other

Contributions

- Donations to charities
- Dues, union, etc.
- Educational institutions
- Religious institutions
- Other

Education

- Books, papers, & magazines
- Calculators
- Computer & software
- Seminars
- Tuition
- Other

Food

- Bakery & delivered goods
- Groceries & meats
- Lunches
- Milk
- Other

Gifts

- Anniversaries
- Birthdays
- Holidays
- Other

Medical expenses

- Dentist
- Doctor
- Prescriptions & over-the-counter medicine/vitamins
- Other

Housing

- Appliances/appliance repair
- Cable TV
- Electricity
- Furnishings
- Garbage removal
- Gas or oil
- Insurance
- Internet provider
- Property taxes
- Rent/mortgage payments
- Sewage disposal
- Telephone/cell phone
- Utilities
- Water
- Other

Home entertainment

- Food
- Supplies
- Other

Personal care

- Allowances
- Barber & beauty shop
- Manicures
- Toiletries
- Other

Recreation

- Beverages
- Clubs & sports
- Dining out
- Entertainment
- Movies & plays
- Parties
- Video/DVD rentals
- Other

Retirement savings

- Contributions to any other pension plan
- Contributions to IRAs
- Employer retirement plan

Savings

- Bank and savings & loan (S&L) accounts (saving accounts, CDs, money market accounts)
- Mutual funds
- Stocks & bonds
- Other

Taxes

- Income: federal, state, local
- Real estate

Transportation (private)

- Fuel
- Insurance
- License fees
- Maintenance & repairs
- Purchases
- Other

Transportation (public)

- Bus
- Plane
- Train
- Other

Insurance

- Auto
- Disability
- Health
- Life
- Property
- Other

Vacations

Miscellaneous

- Carpooling
- Gifts
- Personal expenses
- Pet expenses
- Postage
- Tobacco products and alcoholic beverages
- Other

EXERCISE I-7

Household Expenses: Week by Week

Household expense	Week of _____	Week of _____	Week of _____	Week of _____	Week of _____
Allowance for children					
Beverages/snacks					
Child/elder care					
Clothing					
Contributions					
Education					
Entertainment					
Food at home					
Food eaten out					
Gifts					
Home furnishings					
Home maintenance					
Insurance					
Loan payments					
Personal care					
Rent/mortgage					
Savings					
Taxes					
Transportation					
Utilities					
Other: (list)					
_____					
_____					
<b>Total</b>					

Adapted from: Hogarth, J. (1991). *Take Control of Your Finances*. Cornell Cooperative Extension, Ithaca, NY.

**EXERCISE I-8**

**Anticipated Occasional Expenses in Next 12 Months**

Fill in the amounts of anticipated expenditures below as best you can. An example is provided. Some examples of occasional expenses are holidays and birthdays, school supplies, car license plates, insurance premiums, and property taxes paid directly to a local tax assessor.

Item	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Add Monthly Figures*	Divide by 12 for Average Monthly Amount**
Auto Insurance			\$415						\$415				\$830	\$69
<b>Totals</b>														

This example shows that \$69 per month should be set aside to pay the auto insurance premium.

Example: \*  $\$415 + \$415 = \$830$   
 \*\*  $\$830 \div 12 = \$69$

Adapted from: Anticipated Occasional Expenditures in Next 12 Months; Rutgers Cooperative Extension, New Jersey Agricultural Experiment Station, Rutgers, The State University of New Jersey, New Brunswick, NJ.

**EXERCISE I-9**

**Spending Plan Worksheet**

- Instructions: 1. Calculate monthly net income under heading 1.  
 2. Estimate monthly expenses (sum of fixed (2a), controllable (2b), and monthly portion of periodic expenses (2c)).  
 3. Compare income and expenses (3) and make adjustments.

**1. Monthly net income**

Gross\* monthly wages \$ \_\_\_\_\_  
 Gross monthly wages of others  
     in home \$ \_\_\_\_\_  
 Public assistance/food stamps \$ \_\_\_\_\_  
 Unemployment/disability \$ \_\_\_\_\_  
 Child support/alimony \$ \_\_\_\_\_  
 Social Security/retirement \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_  
 Total monthly income \$ \_\_\_\_\_

**2a. Fixed expenses**

**Housing**

Rent or mortgage \$ \_\_\_\_\_  
 Insurance/taxes \$ \_\_\_\_\_

**Utilities**

Telephone \$ \_\_\_\_\_  
 Heating (equal payment plan) \$ \_\_\_\_\_  
 Electricity (equal payment plan) \$ \_\_\_\_\_  
 Trash/garbage \$ \_\_\_\_\_  
 Water \$ \_\_\_\_\_  
 Sewer \$ \_\_\_\_\_  
 Cable \$ \_\_\_\_\_  
 Internet service provider \$ \_\_\_\_\_  
 Other: \_\_\_\_\_ \$ \_\_\_\_\_

**Credit card payments**

\_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_\_ \$ \_\_\_\_\_

**Auto**

Loan payment \$ \_\_\_\_\_  
 Insurance\*\* \$ \_\_\_\_\_  
 License \$ \_\_\_\_\_

**Child support/alimony**

\$ \_\_\_\_\_

**Life insurance\*\***

\$ \_\_\_\_\_

**Savings (regular amounts)**

\$ \_\_\_\_\_

**Payroll deductions**

Federal + state income tax \$ \_\_\_\_\_  
 Savings plans \$ \_\_\_\_\_  
 Social Security \$ \_\_\_\_\_  
 Insurance premiums \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_

**Other**

\_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_\_ \$ \_\_\_\_\_

**Total monthly estimated fixed expenses**

\$ \_\_\_\_\_

## 2b. Controllable expenses

### Food

Groceries \$ \_\_\_\_\_

Food eaten out \$ \_\_\_\_\_

### Household expenses

Repairs and supplies \$ \_\_\_\_\_

Furnishings and appliances \$ \_\_\_\_\_

Exterior upkeep \$ \_\_\_\_\_

### Transportation

Gas and repairs \$ \_\_\_\_\_

Other transportation \$ \_\_\_\_\_

Personal care \$ \_\_\_\_\_

Medical care \$ \_\_\_\_\_

Education/reading \$ \_\_\_\_\_

Travel/entertainment \$ \_\_\_\_\_

Child/elder care \$ \_\_\_\_\_

Charity/gifts/special expenses \$ \_\_\_\_\_

Clothing \$ \_\_\_\_\_

Savings \$ \_\_\_\_\_

Other \$ \_\_\_\_\_

**Total monthly estimated  
controllable expenses** \$ \_\_\_\_\_

## 2c. Periodic expenses

Refer to Exercise I-8, page 18.

Periodic expenses come up infrequently (e.g., 1–4 times per year) and include taxes, insurance premiums, auto servicing, tires, licensing, birthdays and holidays, educational costs, vacations, etc. Fill in the estimated costs next to the months they are due. Do not include taxes withheld from your paycheck, but do include estimated tax payments you make to the Internal Revenue Service (IRS).

Adapted from: Matejic, D. (1999). *Programming My Dollars: Where Does My Money Go?* FS063, Rutgers Cooperative Extension. <http://www.rce.rutgers.edu/pubs/pdfs/fs063.pdf>

Add your total periodic expenses for the year and divide by 12 to determine the total monthly portion.

January \$ \_\_\_\_\_

February \$ \_\_\_\_\_

March \$ \_\_\_\_\_

April \$ \_\_\_\_\_

May \$ \_\_\_\_\_

June \$ \_\_\_\_\_

July \$ \_\_\_\_\_

August \$ \_\_\_\_\_

September \$ \_\_\_\_\_

October \$ \_\_\_\_\_

November \$ \_\_\_\_\_

December \$ \_\_\_\_\_

**Total periodic expenses** \$ \_\_\_\_\_

$$\frac{\text{Total periodic expenses}}{12} = \text{Monthly portion periodic expenses}$$

## 3. Compare income and expenses

Total monthly income \$ \_\_\_\_\_

### Estimated expenses

Fixed \$ \_\_\_\_\_

Controllable \$ \_\_\_\_\_

Periodic (monthly portion) \$ \_\_\_\_\_

Total expenses – \$ \_\_\_\_\_

**Balance** \$ \_\_\_\_\_

Now that you have a spending plan, you should make every effort to stick to the designated amounts in each category. It is not enough just to have a plan on paper.

\* Before tax withholding and other deductions.

\*\* Monthly portion of premiums if not paid by employer or automatically deducted from your paycheck or listed with your periodic expenses on page 18.



**EXERCISE I-10**

**Finding Money to Save Worksheet**

If we could do this	We could save this (\$/month)	Your figures
Reduce credit card debt	20.00	_____
Practice smart food buying	25.00	_____
Reduce life insurance costs	30.00	_____
Stop playing the lottery and bingo	25.00	_____
Other _____		_____
Other _____		_____
Other _____		_____
<b>Total estimated savings/month</b>	100.00	_____

(e.g., via a ledger with headings for different expense categories). Each time money is added or spent in a category, the balance changes. Surpluses or deficits in an expense category (e.g., food) can carry over from month to month. The amount in the overall bank account, however, should always remain “in the black.”

**Spreadsheet system**—Two columns are listed on a sheet of paper: “target amount” and “actual amount.” “Target amount” is anticipated income and expenses while “actual amount” lists what really happened. This method provides a comparison of planned and actual figures so that adjustments can be made, if needed.

**“Running balance” system**—This method tracks one account in which funds are held for bill paying. Using a calendar with paydays marked and a list of monthly and occasional (e.g., quarterly property tax) expenses, a projection is made of income and expenses for a 3- to 6-month period. “Extra” paychecks (e.g., a month with five weekly paydays) and occasional expenses (e.g., quarterly property taxes) are inserted as they occur. The ending balance is carried forward into subsequent projections.

**Reserve accounts**—Many people establish special accounts as a “parking place” for earmarked money.

An example is a reserve for occasional expenses. The annual cost for each expense is divided by 12 and saved monthly. Other common reserve accounts are money set aside monthly for home maintenance and emergencies (e.g., unemployment).

On page 22 are examples of three different ways to track expenses versus income.

### Managing an Unpredictable Income

For many people, managing money is a fairly predictable process. They earn the same income each month and pay roughly the same expenses. Of course, there are occasional surprises (e.g., a flat tire), but more often than not, income and household expenses remain pretty much the same. This makes it easy to plan bank deposits so that sufficient money is available to pay bills.

For other people, however, income is irregular and can vary considerably from month to month. For example, real estate agents generally earn the most during the summer. Winter months, on the other hand, often bring a reduced income. Unpredictable and/or irregular income is also a fact of life for many other occupations, including landscapers and self-employed consultants.

### Account Method

Example:	Food account
Balance 3/31:	\$250
April 1:	( 100 )
April 8:	( 100 )
April 13: (paycheck)	+ 250
April 15:	( 100 )
\$200	ETC.

### Spreadsheet Method

	Target amount	Actual amount
<i>Income</i>		
Salary #1	\$900	\$1,000
Salary #2	1,200	1,200
	2,100	2,200
<i>Expenses</i>		
Savings	250	250
Mortgage	755	755
Utilities	235	295
Loan/credit	245	260
Insurance	130	130
Food	300	265
Other	100	280
	\$2,015	\$2,235

### Running Balance Method

Previous month's balance (12/31)		\$265
Jan. 1 bills	(250)	15
Jan. 3 paycheck	+ 400	415
Jan. 10 paycheck	+ 400	815
Midmonth bills	(215)	600
Jan. 17 paycheck	+ 400	1,000
Jan. 24 paycheck	+ 400	1,400
Jan. 31 paycheck	+ 400	1,800
Jan. 31 bills	(1,250)	550
"Fudge factor" (reserve)	(150)	\$400
		Carryover

So how do you manage an irregular income? Plan, plan, plan. The key to developing a spending plan (budget) with an irregular income is stashing away money from high-earning months to draw from when income is lower. There is no other "magic" way.

The first step in managing an unpredictable income is tracking monthly expenses for an entire month. Once you know what it takes to run your household each month, the next step is to determine which months are "feasts" (income greater than expenses) and which are "famines" (income less than expenses). For example, if monthly expenses (including savings) total \$2,000 and household monthly income ranges from \$1,000 to \$5,000, some of the surplus of high-earning months should be saved and doled out gradually over lean months to supplement income. Designate a bank savings account or money market fund to hold surplus income until it is needed.

The biggest problem experienced by irregular earners is not having the organization and/or discipline to set money aside. They spend freely during "the good times" and then have nothing to fall back on when income is reduced. To plan ahead, estimate anticipated income for each month, based on past earnings records. Be conservative with your estimates. Then subtract monthly expenses from income (e.g., \$1,500 income minus \$2,000 expenses equals a \$500 deficit). Calculate the total deficit for all months in which expenses exceed income (e.g., 5 months with deficits: \$500 + \$1,000 + \$1,500 + \$2,000 + \$500 equals \$5,500).

Next, divide the total for the deficit months (in this example, \$5,500) by the number of months in which income exceeds expenses. In this example, there are seven "good" (income greater than expenses) months, and \$5,500 divided by 7 equals \$786. This is the average amount that must be set aside during each "good" month. The actual amount saved per month can vary (some "good" months are better than others), however, as long as the total deficit (\$5,500 in this example) is eventually set aside as a cushion.

Managing an unpredictable income need not be a nightmare. It does take some planning and attention to detail, however. The key to success is simulating a regular paycheck by accumulating funds to draw upon when income is reduced.

**EXERCISE I-12**

**Credit Card Comparison Worksheet**

Name of issuer	APR	Grace period	Annual fee	Other fees	Balance calculation method	Other features
ABC Credit	19.8%	25 days	\$20	\$20: late fee \$20: over limit fee \$2: cash advance fee	Average daily balance (including new purchases)	10% discount on phone calls if charged to credit card.
XYZ Credit	16.0%	None	None	\$15: late fee \$15: over limit fee \$1: transaction fee	Two-cycle average daily balance (including new purchases)	Use of card provides discounts on auto purchases.

EXERCISE I-13

**Credit File Request Form**

Use the following form or the Web addresses below to get a copy of your credit file from the major credit bureaus. Be sure to sign your request and provide a photocopy of identifying documentation (e.g., driver's license).

Experian (formerly TRW)  
www.experian.com

Trans Union Corporation  
www.tuc.com

Equifax Credit Information  
www.equifax.com

Note: When sending for a credit report from any of these credit bureaus, the following information is required:

Date of birth \_\_\_\_\_ Social Security # \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

Marital status \_\_\_\_\_ married \_\_\_\_\_ single

Name \_\_\_\_\_ (include Sr., Jr., III, etc.)  
(first) (middle) (last)

Spouse's name \_\_\_\_\_

Current address \_\_\_\_\_

Previous address(es) within past 5 years \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please send a copy of the following: (check one)

Personal credit file—Free copy to CO, GA, MA, MD, NJ, and VT residents (in 2004–2005; free nationwide after 2005)

Personal credit file—Check enclosed (Note: See credit bureau Web sites for details about costs and national availability of free credit reports.)

Free credit file—Credit denied within the past 60 days by \_\_\_\_\_  
(Name of creditor)

Free credit file—I am on public assistance

Free credit file—I am a victim of identity theft

Enclosed is a photocopy of my/our driver's license(s), or my/our utility bill, or my/our military ID for identification.

Signature \_\_\_\_\_ Signature \_\_\_\_\_

EXERCISE I-14

**Credit Card Safety Record**

Make a list of all of your credit card issuers, account numbers, and creditor contact information.

Name of card	Card user(s)	Account number	Creditor contact information