

Money for Life

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Nearly everyone *uses* money, but not everyone *manages* their money. **Managing your money means:**

⇒ telling it where to go, rather than wondering where it went.

⇒ making sure that your money is used in the ways that are most important to you, so that when you look back (at the end of the month or the end of the year), you'll be happy with where your money went.

Managing money involves many tasks, including planning, communicating, information-gathering, and decision-making. Another basic money management task is **tracking-- keeping track of where your money goes.**

Why is tracking important?

Tracking helps you plan your spending.

Knowing how you've been using your money helps you make a spending/saving plan that will be realistic and useful to you. It also helps you adjust your plan as your family's needs change.

Tracking also helps you follow your plan. For example, suppose you plan to spend \$400 each month on food for your family. By tracking your food spending, you can help make sure you follow your plan. If tracking helps you notice half-way through the month that you've already spent \$300, then you'll know you need to be careful for the rest of the month in order to stay within your planned \$400 amount.

Tracking Methods

Ledgers. An account book is a typical ledger -- columns for different types of expenses, and rows for writing in the expenses of a particular day. After spending is recorded each day, then totals for each column are added up... at the end of the week or the end of the month.

A ledger or account book gives you a picture of how you've used your money, and allows you to compare this month's spending with spending in other months.

Variations. Ledgers come in many forms:

- many columns and small boxes;

- fewer columns and larger boxes;
- a month at a time, or a week (easier to add up!);
- ledger-calendar combinations;
- a checkbook register made into a ledger, so you enter your expenses as you record your checks.

Computer programs. Several very useful computer programs are available for family financial record-keeping. Basically, a computer program works in about the same way as a ledger -- each expense needs to be recorded in the appropriate category. Computer programs:

- do all the adding for you,
- provide up-to-date totals in the middle of the month, so you can quickly find out where you stand in relation to your spending plan.
- may provide special reports and graphs that may be useful to you.

PEACH System (Perfectly Easy Accounting Can for Households). Set aside a container (an old peach can, a box, or some other container) to be the official "receipt holder" for all family expenses. Every day, all family members put all their receipts for the day into the can. No receipt? Write the expense on a slip of paper instead.

Once a week, one person sorts the receipts into categories and adds up the totals. The totals are recorded in a money record book. The PEACH method is easy to do. Everyone in the household must help, but one person takes the lead.

Envelope System. This method involves one envelope for each type of expense -- for example, one for food, for gas, for rent, and so on. Write on each envelope the amount needed (and the due date,

if there is one). Cash your paycheck and divide the cash among the appropriate envelopes.

Whenever you spend money, be sure you take it from the right envelope. If you're running out of cash in an envelope, you'll see it, and you'll know you need to spend carefully.

Make your own rules about transferring money between envelopes. With the envelope method, you can't fool yourself; if you choose to take money from Envelope A to put in Envelope B, it will be clear you need to adjust your Envelope A spending.

The envelope method involves no adding and subtracting. It can be risky to have a lot of cash around the house or in your wallet, so people often choose to write checks for their basic bills, and use the envelope method only for flexible expenses like groceries, gas and recreation.

Evaluate Your Spending

At the end of the week or month, ask yourself:

- Is all or most of my income accounted for? (if not, where did the rest go?)
- Did I spend more or less in certain categories than normal? Why?
- Did I spend more or less than you planned? Why?
- Will I change my plan or my spending next time?

What if I get tired of tracking?

Keeping track of spending is extremely valuable. However, if you really dislike it, consider a compromise. It's better to keep track part of the time than not at all!

Begin by keeping track of all your spending for a month or more. That will give you some good information. Then, if you can't bear to keep it up, let it go. But come back to tracking again periodically. Try to keep track of your spending for at least 1-2 months every year so you can see how your spending patterns change over time.

Another way of compromising, after tracking all spending for at least a month, is to identify 2-4 categories that most require attention, and focus your efforts on tracking those. That will help you to keep your spending in those categories within the limits you planned.

It is especially important to track spending for several months when something *changes* in your lifestyle. For example it's wise to track spending if:

- you move to a new home or a new town,
- a new member is added to your household (or if one leaves), or
- someone retires or changes jobs.

Choice

As you work to manage your money well, you may at times feel restricted; you may get tired of always staying within the limits.

If that happens, remind yourself that this is YOUR plan. If you don't like it – or if it is preventing you from doing things that are important to you – then you should change it so that it truly helps you use your money the way YOU want it used.

In addition, every time your good management enables you to accomplish an important goal (paying off a debt, enjoying a special vacation, building a 3-month emergency fund, ...) be sure to celebrate. Remind yourself that the reason for your success is that you took control, made a plan, and set up a system to help you follow your plan.

When you recognize the benefits of planning and tracking your spending, it will no longer feel like a burden. Instead, you will see it for what it is: a smart strategy that takes you where you want to go.

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