Action Plan:
START A SPENDING PLAN

DIFFICULTY: MODERATE

WHAT YOU'LL NEED:

- Calculator
- Spending Plan worksheet

A spending plan gives you control. Your plan will clearly show how much money you have coming in, what you're spending it on and where you can make trade-offs to come up with extra cash. It's also your first step in meeting larger financial goals. With a spending plan in place you will be better able to find the money you'll need to reach them.

Begin by adding up your monthly expenses and subtracting them from your take-home pay (the Spending Plan worksheet on can help). Then think about your financial priorities beyond your monthly bills, such as paying off high-interest credit-card debt, building an emergency fund and saving for college or retirement.

Keep in mind that some of these longer-term goals can help you stretch your money even further – paying off credit-card debt can free up more cash because you won't have those bills hanging over your head and won't have to pay interest every month. Contributions to a Thrift Savings Plan or other pre-tax retirement saving plan lower your taxable income then grow tax-deferred for the future. And building an emergency fund gives you a cushion that can help you avoid expensive debt.

If you're married, complete this Action Plan with your spouse. You'll want to set goals and identify any expenses you can reduce together. This will help avoid misunderstandings or overspending.

THIS ACTION PLAN REQUIRES SIX STEPS:

1. **Add up your monthly expenses.** List the bills you have to pay every month, such as your mortgage or rent, car payment, insurance premiums, utilities and phone bills.
2. **Add up your household's monthly take-home pay.** This includes after-tax pay for you and your spouse and any other income, such as investment or rental income.
3. **Subtract your expenses from your income.** If you're close to zero or get a negative number take a second look at your non-essential expenses, such as cable TV, entertainment and travel. These items are easier to trim if you're spending too much or if that money is needed elsewhere.
4. **List your other financial priorities**. List priorities such as building up an emergency fund, paying off credit-card debt and saving for retirement or college. Estimate how much you would need to meet your goal and when you'd want to reach it. Then divide the time (in months) into the amount. This will give you monthly savings targets for each priority.
5. **Match your money with your expenses and your goals.** When your income and expenses are clearly laid out, you'll see where you can make trade-offs to come up with more cash that can improve your longer-term financial situation. Adjust your spending until you're spending less than you make or are saving enough to meet your other financial priorities.
6. **Review your plan and priorities every few months.** A spending plan is a "living document" that will change with your needs and situation. Life happens. And your spending plan should be flexible enough to change with whatever comes your way.