FAMILY AND CONSUMER SCIENCES annual lesson series » 2017

Fact Sheet

Spend Some, Save Some, Share Some: Family Budgeting

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Spend no more than 25 percent of your income on housing. Save at least 10 percent of each paycheck. Put aside at least three months living expenses in a rainy day fund. Contribute at least 10 percent of your income to faith-based, community, or other philanthropic causes.

Many of you grew up with certain family guidelines or rules of thumb about how to manage your money. Along the way, the financial landscape has changed and so have your expectations of what constitutes a "good life." If you've ever wondered if your household's spending, saving, and sharing is on track to support your goals, perhaps it's time to revisit those guidelines and expectations, updating them for how you live today.

Household Spending

First, consider data on how families actually spend their money. To account for variations in income, data on American household spending is often reported in five groups, each representing 20 percent of the population ranked by income. These groups are called income quintiles. For ease, the five groups are sometimes collapsed into three groups. Three groups are used here.

Expenditures are typically grouped into broad categories. Examples of categories include food, housing, transportation, clothing, personal care, health care, cash contributions, and insurance and pensions.

Average household expenditures for three groups are compared in Table 1. The data are for 2014, the most current year available. The lower expenditures group reported, on average, $10,308 income, 1.7 persons in the household, .5 earners, and .9 vehicles. Fewer than half (39 percent) were homeowners. The moderate expenditures group reported, on average, $47,056 income, 2.5 persons in the household, 1.3 earners, and 1.9 vehicles. More than half (61 percent) were homeowners. The higher expenditures group reported, on average, $172,952 income, 3.2 persons in the household, 2.1 earners, and 2.8 vehicles. Nearly all (86 percent) were homeowners.

Table 1: Patterns of Major Household Expenditures

	Lower Expenditures (avg.)	*Moderate Expenditures (avg.)*	*Higher Expenditures (avg.)*
Total Expenditures	***$23,713 (%)***	***$45,395 (%)***	***$104,363 (%)***
Food	$3,668 (16)	$5,992 (13)	$11,594 (11)
Food at home	2,506	3,670	6,039
Food away from home	1,162	2,322	5,555
Housing	9,643 (41)	15,448 (34)	31,812 (31)
Transportation	3,555 (15)	8,475 (19)	16,788 (16)
Health Care	1,868 (8)	4,026 (9)	7,219 (7)
Entertainment	1,108 (5)	2,365 (5)	5,629 (5)
Cash Contributions	506 (2)	1,419 (3)	3,966 (4)
All Other Expenditures	4,450 (19)	7,760 (16)	27,354 (26)

Adapted from: Fletcher, C. N. (2006). Patterns of household expenditure: 2006 Consumer Expenditure Survey. Ames, IA: Iowa State University Extension.
Percentages may not add up to 100 because of averaging.

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In Table 1, the "All Other Expenditures" category includes spending for alcohol, clothing, education, insurance and pensions, personal care, reading, tobacco, and miscellaneous items. It is important to keep in mind that these amounts represent averages for all households in each income group whether or not an expense was incurred during the year. The fact that expenditures, on average, exceeded income in the lower income group may be due to incomplete reporting of income, the use of savings, credit, or errors in reporting expenditures.

While these expenditure amounts need to be interpreted with care, they do provide a snapshot of how households actually spent their income in these broad categories in 2014. They should not be interpreted as prescriptive guidelines for individual households, however. Instead, they can be thought of as a glimpse into the spending practices of your friends, neighbors, and relatives.

Now, compare these averages to some of the financial guidelines or rules of thumb you may have picked up over the years. You may be surprised by the comparisons.

Housing

As shown in Table 1, the average percentage expenditure of households in all three of the groups for housing was more than 25 percent. In addition to rent or mortgage, the amounts include spending for property taxes and insurance, utilities, furnishings, maintenance, and repair. While these average expenditures fluctuate from year-to-year, the share of average household expenditures has consistently increased from 35 percent, 31 percent, and 29 percent respectively in 1986 to 41 percent, 34 percent, and 31 percent respectively in 2014. At the same time, the average size of new homes increased from 1,825 ft^2 in 1986 to 2,392 ft^2 in 2010.

Saving

Savings can be thought of as the money households have left from their incomes after taxes are paid and spending for goods and services takes place. A longstanding rule of thumb is that households should save at least 10 percent of their income. In other words, spend 90 percent or less of income after taxes. It has been widely reported that household savings rates in the United States are lower than in many other countries. In fact, a decade ago the household savings rate hovered just above zero and even dipped into the negative zone. The last time the personal savings rate met the guideline was in 1984. For 2015 the rate was 5.1. That means, on average, for every $100 of income, about $5 was set aside in savings.

Emergency or rainy day funds are accumulated to pay for unexpected expenses or to cover periods when income declines or stops unexpectedly due to illness or unemployment. Traditional recommendations were for households to put aside at least three months of living expenses in a savings account for emergencies. In recent years that guideline has become 6 to 9 or even 12 months of living expenses. That is partially a response to changing trends in average length of unemployment. For example, in 1985 the average time that someone was unemployed or between jobs was 15 weeks or just about 4 months. Between 1985 and 2010 it fluctuated between 3 and 5 months. Then, in 2011 it climbed to about 40 weeks. By 2015 the average length of unemployment had decreased to about 29 weeks or 7 months. Keep in mind that those averages are for the entire labor force and that some groups have experienced much longer spells of unemployment. Recent surveys indicate that about half of all households (58 percent) have at least some emergency savings and among those who do, balances total about three and six months of household expenses.

Giving

In Table 1, the "Cash Contributions" category includes contributions to religious, educational, charitable, or political organizations. It also includes cash contributions to persons outside the household, such as alimony and child support payments as well as payments for care of students away from home. As shown, in 2014 the average annual expenditure for all of these types of cash contributions ranged from 2 percent for those with lower average annual expenditures to 4 percent for those at the highest level of average annual expenditures. Analyses of data on contributions and giving by those who itemize deductions on their tax returns have found that average charitable contribution per return as a percentage of adjusted gross income has been 2 percent or just above that since 2008. Data collected in 2006 indicate that approximately 67 percent of households made a charitable contribution. Of those, 45 percent gave to religious organizations. Interestingly, on average those with incomes of $25,000 or less gave a greater percentage of their income to charity in 2012 than those with incomes above $100,000, according to the Chronicle of Philanthropy. Regardless of the data source, average giving is clearly below the traditional guideline of 10 percent.

If you have struggled to implement the traditional spending, saving, and giving recommendations, you are not alone. Do not despair though. It may simply be time to let these general recommendations go. Instead, replace them with individual goals that are more realistic for your life, current financial situation, and goals for the future. You may be wondering how to get started.

Vision for Your Future

What is your vision of the "good life"? Do you want to feel in control of your spending rather than being controlled by it? Do you crave the peace of mind that an emergency or rainy day fund could provide? Are you looking forward to retirement but are not sure if you can ever afford to stop working? Do you want to make an impact by contributing to organizations within your community?

Taking some time to consider how you want to live now and in the future is the first step. It is possible that your initial vision may be unrealistic or at least very difficult to achieve. Keep picturing your future and asking yourself how you might create your vision. By continuing to repeat the process you will likely uncover what is most important to you. You may be surprised to discover that it may not require large sums of money to achieve your vision. Once you have that vision in mind, you can begin creating a plan to achieve it.

Do you and your family have a realistic family budget for the way you live your lives today? Does it support your goals and vision?

Creating a Spending Plan

The idea of a budget often conjures up ideas of sacrifice or doing without. It doesn't have to be that way.

A budget, also called a spending plan, is a guide for how you will use your money over a specific period of time to meet your goals. Of course, to be most useful, it needs to be as realistic as possible. As you use your budget, your income or expenses may change, or you may realize that your initial plan was not realistic. It is often necessary to adjust a spending plan, especially if you are new to the process, and that is OK. Remember, the purpose of the plan is to keep you on track so you can achieve your goals and ultimately your vision of the "good life."

There are many examples of budgets and ways to develop a spending plan. The one best for you is the one that includes enough detail about your income and expenses for you to plan how you will save, spend, and share your money over time. Some families are comfortable planning for a month or even an entire year. Others prefer to plan on a weekly basis, at least initially.

Most budgets will include categories for the expenses listed in Table 1. Expenses can also be divided into fixed, flexible, and occasional expenses.

Fixed expenses are those bills that are the same every month. Examples include rent or house payments, car payments, and possibly utility bills if you have level billing set up. Ideally you will treat the money you set aside for savings as a fixed expense and deposit the same amount each month into a savings account.

Flexible expenses vary from month to month. Examples include food (at home and away from home), personal care items, gas for your car, and household supplies.

Occasional expenses are those items that you buy or pay for periodically but not every month. Examples include taxes, insurance, car maintenance, gifts, holidays, school supplies, and vacations. One way to avoid being surprised by an occasional expense is to estimate the yearly cost for each item and divide by 12 to get an average monthly cost. Add up the average monthly cost for each of your occasional expenses. Include that amount of money each month in your spending plan. For most of us, it is helpful to actually put this money into a savings account until it's needed.

You may be wondering where credit card payments or other debt repayment fits into your budget. Since credit is a payment method rather than a good or service it isn't recorded in the household expenditure data. If you typically carry a balance on your credit card, you will want to include a category for debt repayment in your spending plan. *Know Your Credit* (*bookstore.ksre.ksu.edu/pubs/MF3081.pdf*), available from the K-State Research and Extension bookstore, is a useful publication on this topic.

Spend Some, Save Some, Share Some

Now that you know how families similar to yours actually spend, save, and share their money are you ready to let those traditional rules go? While, the expenditure data should not be interpreted as prescriptive guidelines, it can be a source of information as you develop your own individual and family spending plan that is realistic for your life, current financial situation, and goals for the future.

Planning for Your Future

How do you envision what your life will look like in the future? Use the space below (or a separate sheet of paper) to draw or describe how you'd like to live now and in the future. As you think about what you'll include in your picture or description, you might want to consider how the list on the next page fits into your vision for your future. It's arranged in no particular order.

Budget Basics

Use the guidelines on the next page to begin thinking about and creating your spending plan, keeping in mind that the details in your actual plan are based on your fixed, flexible, occasional expenses as well your personal goals. As you work on your plan, be sure that expenses are less than income!

Types of Expenses

Type of housing	Access to medical care	Living debt free
Saving for future wants	Make and model of automobile	Personal care including nails and hair
Being healthy	The latest clothes	Fun/entertainment
Gifts for others	Education for children	Family trips
Home electronics and entertainment	Latest cell phone	Church or other faith community
Eat out occasionally	Hobbies	Education for self

Anticipated Monthly Income	**Total Income**	**$**
Include: wages, child support/ alimony, cash assistance, and income from any other sources		
Fixed Expenses		
Include: savings, rent/mortgage, car payment, child care payment, debt repayment, set aside for occasional expenses, and any other payments that are the same amount each month		
Flexible Expenses		
Include: food (at home and away from home), personal care items, gas for your car, household supplies, and any other payments that are not the same amount each month		
	Total Expenses	$
Total Income – Total Expenses		**$**

Links to templates for more detailed spending plans are available at http://articles.extension.org/pages/43698/what-should-aw-good-budget-include-and-what-are-the-limitations-of-budgeting

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