Creating a Spending Plan

Saving

Once you know your income, the first category to consider is savings. "What?" you might ask. "Isn't a spending plan meant for planning what you spend?" It's true that plans help you manage your spending. But they also help manage what you save.

Wise financial experts often say, "It's not what you earn that matters, it's what you keep." All of the income in the world won't help you if you spend every dime. If you make a million and spend a million, what are you left with? Zero. In a way, you're no better off than the person who makes $100 and spends $100. You might have bought a lot of stuff in the process, but you're still left with nothing.

Why Save?

Saving is important because it helps you care for yourself over the long term. If you're lucky, you'll live many years. There may be times when you'll need extra money for an expense you didn't expect. There may be times when you'll need money for a special purchase. If you're a good saver, you'll have that money when you need it.

Plus, having savings helps you to feel secure. When you've got money saved, that's just the point—you have it. It's best to develop a balance between spending and saving. Both are important money management skills.

The easiest way to save money is to follow one simple principle: pay yourself first. Every time you receive any income, make a point to save some. A good rule of thumb is to save 10 percent of all you earn. Some people even save 20 percent or 50 percent!

When you create your budget, make "savings" your first expense category. Put your savings away before you spend any of your income. Saving is like writing a paycheck to yourself. It shows that your goals are important.

- You may wish to have two savings accounts, or even three. One account can be for savings that you never touch. You can let that savings build up so you're ready to invest one day. (For more on investing, visit the Investing section of this website, http://www.learningtogive.org/moneysmartchoices/
- A second savings account can be for a big purchase, perhaps a long-term goal of more than a year. You might wish to save for a car or a vacation, for example. If you start now, your funds will grow before you know it.
- A third savings account might be for purchases in the short-term time frame of usually less than a year. You might want to buy a special pair of shoes or a ticket to a concert. A good savings plan will help you reach your goals. You'll be amazed at how easy it can be!

Spending

After savings, the next step in creating a spending plan is to consider your spending habits. Once you've set aside money to save, you'll have a certain amount of income left. This is the money you can spend.

When planning your spending, you must make choices. You have a certain amount of money to work with. How will you divide it up? When making spending choices, it helps to know the difference between needs and wants. You should make sure your spending covers a balance of both.

Needs vs. Wants

"Needs" are items that you truly must have. These are things you can't get along without. For instance, we all need a place to live and food to eat. We need water and clothing. We may not want to spend our money on these things, but they're important. We have to make sure they're covered first.

"Wants" are items that you would like to have. You could do without these items if you had to. For instance, you might want a new shirt or a certain CD. You might want to go to the movies or to buy a cool video game. You don't really need these things like you need food and shelter. You just feel that they're important because they appeal to you in some way.

Having Balance

When you plan your spending, you're in charge. You get to decide how you will use your money to support yourself. If you can cover a balance of needs and wants, you'll have the best results.

Sure, it's exciting to spend your money on wants. Everyone loves to have fun new things. It's important to give yourself some things you want, so that you enjoy your money. If you only spent your money on things you needed, that would be pretty dull. But you must make sure to cover your needs as well. If you don't plan for your needs, you might miss something important.

When creating your spending plan, try for a balance of needs and wants. Consider your needs first. Set aside money for the important things, like school supplies or gas for your car. Then be sure to plan for some wants. If you're like most people, you probably have a lot of wants, so you may not be able to buy all of them. That's perfectly OK. Focus on the most important ones instead.

Investing

Along with covering your needs and wants, you might want to use some of your money for investing. Chances are, you may not have a lot of money to put toward investing right now. But you can start small and watch your money grow.

Investing is the process of earning money with your money. Investing wisely is the key to a secure future. Through investing, you can grow your money so eventually you can retire. This means you have enough money saved so that you no longer have to work. If you invest well, you can even retire early!

As a young person, you've got a huge advantage over adults. That advantage is time. Time is your best friend when you're saving money. That's especially true when you're investing for the future. Here's how it works:

- Todd and Sarah each invest $1,000 per year. That's only $19.24 per week. Todd waits to start until he's 31 years old. Sarah starts when she's only 24.
- Both investors contribute the same amount to their investments. Both earn the same amount of interest on their money (9 percent). Todd contributes $1,000 per year for 34 years. He stops investing when he's 65. After 34 years, he has put away $34,000. With interest, he has a total of $196,982 at age 65.

- Sarah contributes $1,000 per year for 9 years. She stops investing when she's 31. She only puts away $9,000 total. She leaves the money in the account and lets it earn interest for the next 34 years. By the time Sarah is 65, she has earned $243,863! Sarah made more money than Todd because her money earned interest longer. That's thanks to the power of time.

Even a small amount of money can make a difference if you start early. The longer you invest, the more your money will grow.

Donating

Finally, an important part of your spending plan involves the money that you choose to share with others. This type of giving is called donating. In the next section, we'll talk about why giving is important. For now, we'll look at the different ways to donate and how a spending plan can help you do so.

Giving money

Your spending plan will help you know how much money you have to help support important causes. Some people choose to give 10 percent of their income away. Others give less than 10 percent, or more. The amount you give is up to you. What's important is that you plan your giving wisely.

In your spending plan, you may wish to include a category for donating funds. This category includes money that you will give to organizations and even individuals. It's a good idea to choose a set amount for giving each month. Make it an amount that you easily can afford. There's no point to giving if it's draining for you. Your giving should make you feel empowered.

Volunteering your time

In addition to giving money, you may wish to donate your time to support causes. Time donations aren't factored into a spending plan. But they're important to mention because they're very valuable. Most organizations can use help in the form of financial support. Many also can use volunteer time.

When you volunteer, you give of your time to help a group or individual. You don't charge any money for your services—you simply donate your time. Volunteering can go a long way to help many organizations. Plus, it can be especially rewarding. When you donate money, you may not see how your gifts are put to use. When you volunteer, you see your work in action! You get to experience how your time donation helps.