Cutting Back Expenses?

If you find that your expenses are more than your income, you can take steps to develop a spending plan and move toward balancing your budget.

Begin by listing your expenses, starting with expenses that provide basic needs for living. Some of these are fixed, such as rent or mortgage payments, car payments, or installment loan payments. Some are variable, such as clothing or consumer goods. These expenses have some flexibility.

It is important to know what you are currently spending to find ways to reduce spending and balance your budget. “The most important step is to write it down,” says J. Michael Collins, family and consumer economics specialist with the University of Wisconsin–Extension. “Once you have it on paper you have a much better sense of where the money goes. Pick one week and track everything you spend. You will probably be surprised.”

When you are listing your expenses don’t forget those irregular expenses that might not be due on a monthly basis; for example, auto insurance that is due quarterly.

Label your receipts by categories, and sort them on a regular basis, such as weekly or monthly. Add up totals in each expense category and record the amounts in a notebook, ledger or computer spreadsheet. Compare them with the planned amounts from a spending plan. Other methods, including computer software programs, exist for tracking spending.

All strategies, however, work most effectively when you: (1) Keep records simple and avoid unnecessary detail; (2) appoint one person in the household to assume responsibility for recording family expenses; (3) set a regular time schedule for record keeping; and (4) analyze expenditures regularly, checking to see if all expenditures are listed, if all financial obligations are being met, and whether you are spending within your income.

After you have your list, the next step is think about what can be reduced or completely cut out. Think about how a repeating weekly or daily expense will add up over an entire year. That $3 coffee could be more than $500 per year, for example.

“Try to be critical of yourself,” says Collins. “Realistically consider your situation and imagine how easy or hard it would be to give up cable TV, eating out or even a second car.”

It is essential to involve family members in this decision–making process. The whole family needs to be on board. The new spending plan will be more successful if family members are part of the decision–making and planning. They will then understand the need to make the tough choices.

How can you save more?

–Buy gently used clothing. Instead of spending $60 or more on name brand jeans with holes, your teenager may find “cool” jeans for $6.
- Save on energy costs. Turn down the thermostat 5 degrees. Turn off lights or a television when no one is in the room to save money on the electric bill.

- Deferring on a repair or doing it yourself. If you don’t have the skills or the tools, perhaps there is a neighbor or friend that can help.

It is essential to stick to your spending plan. With less income, each spending decision is critical. Finding ways to pinch pennies can add up to dollars you can use to make ends meet.

Even in good economic times, financial experts recommend a spending plan for effective money management. But good financial planning is an even more essential tool in tough times. Setting priorities for spending is a necessary step in finding a way to balance your budget—especially when you have less money available to spend.

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