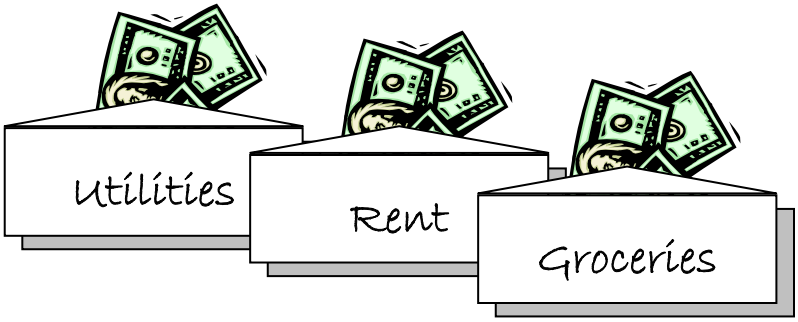
FPA PRO BONO

LIVING WITH A SPENDING PLAN

Creating a Spending Plan is one thing. Living by it is another. Even after you've decided how to allocate your income between your various Needs and Wants, how do you actually stay inside the lines? Try some of these common techniques. One of them, or the combination of several, should fit your style.

Envelope Method

When you get your paycheck, put cash into separate envelopes marked with categories from your Spending Plan. For spending in a particular category, use money from that envelope – i.e. use money from your "Entertainment" envelope to go to the movies. Once an envelope is empty, no more spending in that category!

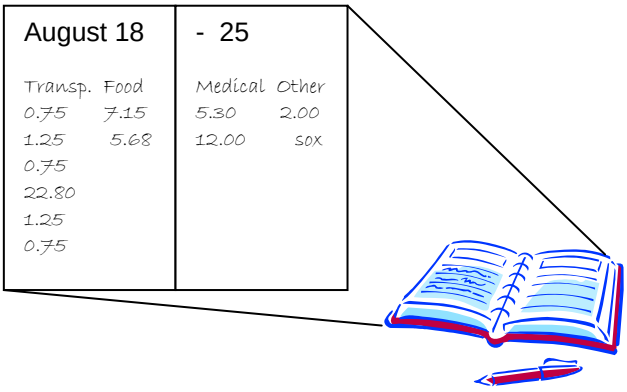


Don't "borrow" from an envelope for spending outside its category. And keep your envelopes safe from thieves.

Key to Success: Don't "borrow" from your envelopes for spending outside your Spending Plan.

Register Method

Write down all your spending in a notebook that you carry with you at all time, just like you record checks in your check book register. You can even create a notebook with separate columns for your Spending Plan categories so that you can quickly see how much you've spent in that category.



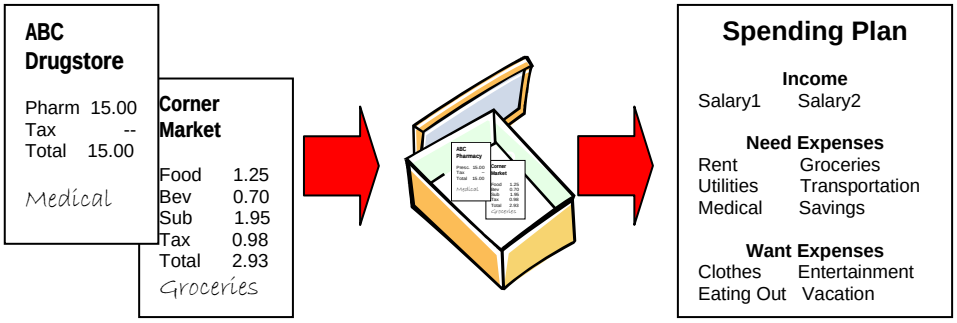
Every day or week, compare your spending (and those of other family members) against your Spending Plan. Adjust your future spending accordingly.

Every member of the family must participate. If a one person just can't do it, he or she can be a category – for example, record in your notebook every time you give your child his or her allowance.

Key to Success: Write down every purchase immediately, no matter how small.

Receipts Method

Keep receipts for everything you buy. If you didn't get a receipt for a particular purchase, make your own on a piece of paper. Try writing on the receipt what Spending Plan category it goes to. Put all of your receipts into a "Receipt Box" at the end of the day.



Each day (or week or month, whatever works best), add up all of the receipts in each

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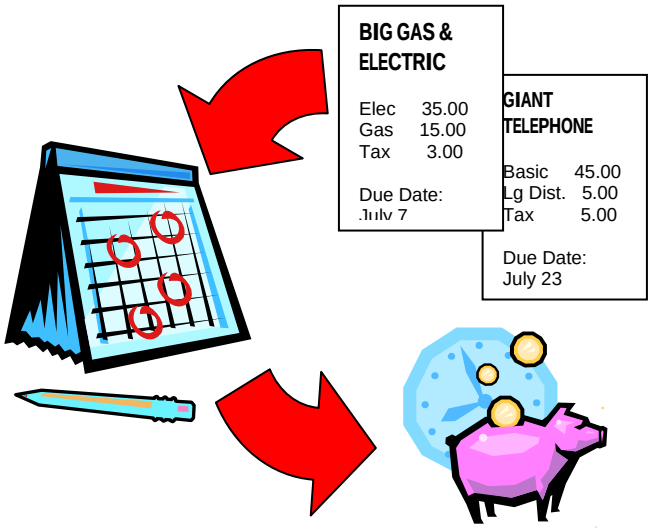
category and compare the totals with your Spending Plan. Adjust your future spending accordingly.

Key to Success: Stick to the review schedule – if you skip once or twice and the receipts start to pile up, it may be hard to get back on track.

Calendar Method

Get a monthly calendar with space to write for each day. Note each paycheck you will receive and each bill you need to pay. Whenever you receive a paycheck, check it off, then look at all the bills due before the next paycheck and set aside the money for them right away. Then check off each bill as you pay it.



For bills that aren't monthly, make a partial payment each month. If you pay a car insurance premium of $300 every six months, set aside $50 each month. Then you'll have $300 when the bill is due. Also, treat your savings like a bill and set aside money for that every month.

It might be a good idea to have a checking account just for paying bills. Ask your bank or credit union to automatically transfer the amount you need from your paycheck into your bill-paying account each month. That way, the bill-paying money isn't mixed with your daily expenses money and will be there when the bills are due.

Key to Success: Be sure to set aside enough for each bill, especially bills that fluctuate like that for heating. Estimate what you'll need based on past bills, keep a cushion in your bill-paying account, or ask your utility to calculate the average so that you pay the same amount each month.

Leftover Method

Have your bank or credit union automatically route pre-set amounts from your paycheck into separate accounts for bill payments and savings. What's "left over" in your regular checking account is all available for spending, so there's no need to keep track of daily transactions. Be sure to allocate money for savings.

Use the Envelope, Register or Receipts method for a few months first to get a feel for your spending habits. The Leftover Method works for people who do not overspend day to day but need help building savings. If you are an "I-just-don't-know-where-my-money-goes" person, this method probably is not for you.

Key to Success: If your leftover account runs low, don't dip into your bill-paying or savings accounts. If you keep running out, use one of the other methods to figure out where you may be overspending.

Use What Works For You

One method may not be enough for you, so mix it up! For example, use the Calendar Method for periodic bills like rent and utilities, and the Register Method for daily purchases. Figure out a system that's simple and fits your lifestyle. Also, build an Emergency Fund that's enough to cover three-to-six months of key expenses. That will help you weather unexpected financial storms like a car repair without busting your Spending Plan. Remember, living with a Spending Plan doesn't mean you have to deprive yourself of everything you like. It means choosing when and how you spend your hard-earned money to get the things you truly care about.

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