COOPERATIVE EXTENSION SERVICE
UNIVERSITY OF KENTUCKY COLLEGE OF AGRICULTURE, FOOD AND ENVIRONMENT, LEXINGTON, KY 40546

MONEY WI$E
VALUING PEOPLE. VALUING MONEY.
MANAGING IN TOUGH TIMES INITIATIVE

FAMILY FINANCIAL MANAGEMENT

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Volume 5, Issue 1

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THIS MONTH'S TOPIC:

Take Control of Your Finances in Tough Times

The feeling of financial stability is important for most individuals. Unfortunately, regardless of age, income level, or education families often find themselves in difficult financial circumstances. If you experienced a change in your financial situation or the general nature of the economy has placed a strain on your finances, it is important to approach your current financial situation with a plan. Implementing good money management practices can help you rebound from your current financial situation and allow you to be better prepared for the future.

Step One: Identify Your Income

Be realistic with yourself and your spouse about your finances. Start by identifying all sources of monthly income. Individuals often think of their paychecks from their employers as their only source of income. However, many people may have other sources of income, such as interest earned on investments, child support payments, unemployment benefits, food stamps, or Social Security. To determine your total income for the month, list each source of income, the amount, and how often you receive the income.

If you receive your paycheck twice per month, multiply the amount by two to determine your monthly income from wages. Do the same for each income source.

Step Two: Identify Your Current Expenses

Start by making a list of your fixed expenses, or those expenses that are usually the same amount and due at the same time each month. Examples of fixed expenses may include your mortgage or rent payment or insurance premiums. Next, identify your flexible expenses. Flexible expenses are those expenses that vary from month to month, such as entertainment, food expenses, or personal care items. If you are struggling to identify your flexible expenses, you may want to keep a spending journal for a week or more to track your spending habits. Use this as a guide to estimate your flexible expenses for the month. You may find ways to or reduce your spending, such as taking your lunch to work instead of eating out.

Step Three: Compare Your Income and Expenses

After you have identified your income sources and expenses, compare your total monthly income to your monthly expenses. Use your answers to the following questions as a guide to help you evaluate your current spending habits.

- Are you spending more than you make?
- Are you able to pay your bills on time?
- Did you include savings as a monthly expense item?

Step Four: Scaling Back

A recent study found that 40% of Americans are living paycheck to paycheck. Often consumers who are "maxed out", or who consume all of their current income are less likely to be able to adapt to changing economic circumstances, such as price increases on goods and services like gasoline or groceries. However, for many of us scaling back is an option. As you review your expenses answer the following questions:

- Do you have premium television or phone services that you could reduce?
- Do you have subscriptions to magazines or newspapers that you could access for free online?
- Could you take your lunch to work and save on food purchased away from home?
- Do you have any spending leaks, such as dining out, vending machine purchases, late fees, or lottery tickets?

In addition to reducing current expenses, also consider if there are ways you can reduce or delay new expenses or purchases.

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Step Five: Develop a Recovery Plan

Regardless of your current financial situation, tracking your current income and expenses is a sound money management strategy. However, if your family has experienced a specific financial crisis, such as job loss or medical illness, it is important to develop a recovery plan for your family's finances. A recovery plan includes setting financial goals and developing a household budget to help work toward reaching those goals. Start with the knowledge gained by identifying income sources and tracking your expenses to develop a spending plan on paper for the next month. Continue to track your expenses and adapt your spending plan as necessary.

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MoneyWise is a Managing in Tough Times initiative