

We work hard for our money. And yet, all too often we wonder why we fall short at the end of the week or month. Furthermore, if we had negative experiences with money in the past, such as during our childhood or within relationships, we may find it hard to pay attention to our money because it brings a sense of discomfort. Or perhaps we were never taught the skills to manage it. Creating a healthy relationship with your money by understanding and proactively managing the money you bring in and the money you spend can empower you to make thoughtful decisions about how and when you use your money. One way to do this is by understanding your cash flow (income and expenses) and creating a spending plan – a tool to manage your cash flow so that you can meet your financial needs, obligations and wants.



Before we learn how to create a spending plan, let's review a few common financial terms.

## Common Financial Terminology

Financial Term	Meaning
<b>Personal Values</b>	What is important to you. For example, family, community, education, or health may be a few values that are important to you. Your values will influence your finances.
<b>Priorities</b>	Reflects your values that are MOST important to you. In terms of money, you may prioritize your spending, your savings, or your debt payments based on your values. For example, you may prioritize saving for school, giving to charity, or regular family outings.
<b>Needs</b>	What you need to survive. For example, you need food, shelter, health insurance, and basic clothing. A car can also be a need if you have no other way to get to work.
<b>Obligations</b>	Financial commitments you make based on an agreement. For example, a contract that you sign (mortgage or auto loan, lease) obligates you to the repayment terms or you could be in default of the agreement. Child support or alimony payments are also obligations.
<b>Wants</b>	Things you would like to have but aren't necessary for survival. For example, you may like shopping for home decorations, going to the movies, or buying toys for your children.
<b>Income</b>	All the money you have coming in. <b>Gross income</b> is what you earn before taxes or other deductions are taken from your pay. <b>Net income</b> is your gross income minus taxes and other deductions – this is your take-home pay. Different types of income include salary, child support paid to you, SSI or SSDI, and 3SquaresVT.
<b>Expenses</b>	Refers to all the money you have going out. Expenses can include utilities, rent, mortgage, health insurance, groceries, and clothing.
<b>Credit</b>	Money that someone is willing to lend you. One way is in the form of a credit card. For example, a credit card may have a limit of \$1000. That is the amount of credit

Financial Term	Meaning
	you have. Once you buy something on the credit card, the amount you spent now becomes debt.
<b>Debt</b>	The money you owe. Student loans, credit card balances, car loans, and mortgages are examples of debt.
<b>Cash flow</b>	Demonstrates how the money flows in and out over the course of a week, a month, or a year.
<b>Budget</b>	An estimate of income and expenses for a set period of time such as a week or a month.
<b>Spending plan</b>	Basically, a cash flow budget. It is a plan you create to distribute your income among the mix of things you need and want.
<b>Spending Leak</b>	When you have money flowing out that you are not fully aware of and isn't necessarily money that you want to be spending. The spending items are very personalized and are often based on what you value.
<b>Level Payment Plan</b>	An arrangement you make with a utility company so that you pay the same amount every month (based on the previous 12 months' payments). This is helpful, for example, to get ahead of higher winter utility bills. Level payments reduce the shock of a suddenly high monthly bill that is beyond your normal monthly budget or spending plan.
<b>Savings</b>	Money you set aside to use later, can be for something specific – such as new car tires or retirement, or can be for something that is not yet known – like for a “rainy day.”
<b>Emergency fund</b>	Money saved to cover the cost of many minor emergencies. Many people think they have to start with three to six times their monthly income, which may feel out of reach. However, even starting with a goal of \$500 is meaningful.



**Reflection Question:** What terms did you already know and what terms were new for you?

## Understanding Cash Flow

Cash flow demonstrates how your money flows in and out, over the course of a week, a month, or a year. Cash flow can be used as a budget tool to account for when money and other financial resources are expected and when they must be used on needs, obligations, and wants. To understand your cash flow, you must first track your income and expenses.



### Tracking your income and expenses (or spending)

Income can come in several forms – they may be earned wages from a job (salary and tips), alimony or child support payments, social security or disability income, or other support payments such as 3 Squares VT or SNAP. Writing down your sources of income and the days of the week or month you receive that income is helpful to determine when it is best to spend and to save.

Many people who track their spending for even a week discover that they are spending money in small ways that add up and sometimes don't match their priorities. By tracking spending, many people find money to save for emergencies, unexpected expenses, and goals. Others are able to better balance their budgets.

Spending tracker categories may include:

Category	Description
<b>Cell phone</b>	Any costs related to having and using your cell phone
<b>Debt payment</b>	Credit card payments, payday loan payments, pawn loan payments, auto title loan payments, other loan payments
<b>Eating out</b>	Any meals or beverages purchased outside of the home
<b>Education + childcare</b>	Childcare costs, school supplies, school materials fees, field trips, other activity fees
<b>Entertainment + personal care</b>	Movies or concerts, sports equipment/fees, sporting events, lottery tickets, alcohol, books/CDs, subscriptions, streaming services, haircuts, hygiene items, dry cleaning
<b>Groceries + other supplies</b>	Food and beverages brought into the home, household supplies (diapers, paper towels, etc.)
<b>Health expenses</b>	Co-payments, medication, eye care, dental care, health insurance premiums
<b>Helping others</b>	Donations to religious organizations or other charities, gifts
<b>Housing + utilities</b>	Rent, mortgage, insurance, property taxes, electricity, gas, water and sewage, landline, television, Internet service
<b>Pets</b>	Food, vet bills, and other costs associated with caring for your pets
<b>Transport</b>	Gas, car payment, insurance, repairs, transit fares, ride services, cabs
<b>Other</b>	<ul style="list-style-type: none"> <li>• Court-ordered expenses (child support, restitution)</li> <li>• Household items (things for your home like cleaning supplies, kitchen appliances, furniture, other equipment)</li> <li>• Savings (saving for emergencies, goals, back-to-school expenses, holiday purchases, children's education, retirement)</li> <li>• Tools or other job-related expenses (equipment, special clothing, job-related books, machinery, working animals or livestock, union dues)</li> </ul>

*Courtesy of Consumer Financial Protection Bureau*

Approaches you may use to track your income and spending include:

- Using existing Microsoft Excel or Google Sheets templates or create your own.
- Downloading Mint.com or using your bank's online/mobile options.
- Keeping an envelope of receipts that you review each night or each week.
- Keeping a notebook to write down what you make or spend, and when.

Documenting your weekly or monthly income and expenses/spending not only gives you an overall picture of your cash flow, but also helps you be more proactive with your money.

## Analyzing Spending

Once you have captured your cash flow, you can analyze your spending. Look for any trends such as items that are the same every month (like rent, car, or cell phone payments). These are often your needs and obligations. Identify spending you can let go of or choose to spend less on — these will generally be your wants.

Take a look at your total income and benefits and your total expenses for each week for a one-month period. Do you have enough to cover all of your expenses each week? Are there things you can adjust or postpone so you have enough to cover your needs each week?



Let's look at an example. Below is **Kristen's Monthly Cash Flow**. (Note: this is only a sampling of possible income (inflow) and expenses/spending (outflow) categories.)

	Week 1	Week 2	Week 3	Week 4	
Beginning Cash Balance	257	-326	-127	-621	
Ending Cash Balance	-326	-127	-621	36	
<b>INFLOWS</b>					<b>Total</b>
<i>Income</i>					
Wages & Tips (full-time job)		932		932	1,864
Wages & Tips (part-time job)	60	60	60	60	
3 Squares Vermont	412				412
<b>Total INFLOWS</b>	<b>472</b>	<b>992</b>	<b>60</b>	<b>992</b>	<b>2,516</b>
<b>OUTFLOWS</b>					<b>Total</b>
<i>Debts</i>					
Car Payments			185		185
Credit Card Payments			45		45
Student Loan Payments		235			235
Other Loan Payments				100	100
<i>Other Living Expenses</i>					
Auto: Fuel	60	60	60	60	240
Auto: Maintenance					0
Child Care	50	50	50	50	200
Food: Eating Out	25	25	25	25	100
Food: Groceries	200	80	80	80	440
Insurance: Auto		150			150
Home: Maintenance & Supplies		25			25
Home: Rent	700				700
Miscellaneous	20	20	20	20	80
Utilities: Electricity		85			
Utilities: Cell phone			66		
Utilities: Internet			23		
Utilities: TV		63			63
<b>Total OUTFLOWS</b>	<b>1,055</b>	<b>793</b>	<b>554</b>	<b>335</b>	<b>2,737</b>
<b>NET CASH FLOW</b>	<b>-583</b>	<b>199</b>	<b>-494</b>	<b>657</b>	<b>-221</b>



**Reflection Question:** What do you notice about Kristen's weekly and monthly cash flow?

Kristen started the month with \$257. In Week 1, she brought in \$472 and spent \$1055. This left her overdrawn (in the negative) by \$326. Her cash flow for Week 1 (the amount she brought in minus the amount she spent) is also negative ( $\$472 - \$1055 = -\$583$ ). This is not a good start to her month.

Further reviewing Kristen's Monthly Cash Flow, you may notice:

- Her ending cash balance at the end of weeks 1 through 3 is negative meaning at the end of these weeks, she is out of money.
- She also has a negative cash flow during week 1 and week 3. This means she spent more in these weeks than her income.
- Some important budget items – such as savings, health insurance and car maintenance – are not included.

Even though Kristen ended the month with a positive cash balance (\$36), her total net cash flow at the end of the month is negative, meaning her expenses are more than her income. If she doesn't make immediate changes, she will likely end the next month with a negative cash balance.

## Improving Cash Flow

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So now what? If your weekly cash flow tends to be negative, there are several improvement strategies you may consider:

### Revisit Due Dates

- Negotiate new due dates for bills so that they are due after you receive income or at later times in the month so that not all big expenses occur at one time. For example, instead of owing both rent and your car payment at the beginning of the month, negotiate moving your car payment due date to the second half of the month after a pay date.

Example:

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Groceries -\$85	Gas bill -\$79		Paycheck +\$750			

### Spread Out Payments

- Negotiate dividing large monthly payments into two smaller ones due at different times. For example, you may talk to your landlord about paying half of the rent on the first and the second half on the 15<sup>th</sup> of the month.
- Change large lump-sum semi-annual or annual payments into smaller monthly payments for expenses such as auto insurance.
- Look into level payment plans for utility bills so that you pay a pre-determined amount each month based on your historical usage. Also ask if you qualify for any energy assistance programs in your area.

### Lower Monthly Debt Payments

- Explore options to consolidate debt to lower monthly payments by talking to your local credit union or looking into debt consolidation programs.
- Find repayment options that may lower student loan payments.

- Look into refinancing your mortgage for a lower interest rate or talk with your lender about a loan modification.
- Consider refinancing your auto loan to a lower interest rate, if feasible, or consider selling your car and buying a less expensive one.

### Get Ahead of Non-Monthly Expenses

- Automatically deposit a monthly amount into a savings account for non-monthly expected expenses (e.g., annual car registration).
- Make sure your tax withholding is correct so you don't owe money at the end of the year.

### Plug Spending Leaks

- Spending leaks are when you have money flowing out that you are not fully aware of. Spending is very personal and often falls into the "want" category of spending. Your "wants" are often based on your values and what you consider a spending leak may be different than what someone else considers a spending leak. For example, you may treat yourself to a coffee on your way to work every day – which may be part of your spending plan. But if there was a price/cup increase (or you started buying a larger size) and you find your end of week/month cash balance is lower than you expected, you may have a spending leak.

Let's revisit Kristen's Cash Flow.

	Week 1	Week 2	Week 3	Week 4	
Beginning Cash Balance	257	-326	-127	-621	
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Kristen has several strategies she may consider to improve her net cash flow at the end of each week and find additional cash at the end of the month that she may redirect towards savings and health insurance (both missing from her cash flow/spending plan). These include:

- Lower expenses
  - Negotiate a lower student loan payment.
  - Shop around for cheaper auto insurance rates.
  - Let go of eating out every week and choose to eat out every other week.
- Spread out bills by negotiating a change to her due dates such as rent and car payment.
- Consider a flat payment budget plan for utilities for a more predictable cash flow especially during winter months when heating bills are higher.
- Increase her income by asking for a raise, considering a higher paying job, or taking on a second job.



**Reflection Question:** What other suggestions do you have for Kristen?

## Creating a Spending Plan

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Once you have analyzed your cash flow, you can use this information to create a spending plan to distribute your income among the mix of things you need, are obligated to, and want. It will help you:

- Manage your finances and make choices about where to best spend your money.
- Make sure you have money to pay bills on time, even when your bills and income change each month.
- Ensure you include all of your money coming in and going out, and savings goals.
- Set aside money for the things you enjoy.

With you in control, a good spending plan can keep you from spending money without thinking.

There are many templates and tools you can use to create your spending plan. It all comes down to what works best for you. For example, if you used the [Cash Flow/Spending Plan Template \(Spreadsheet\)](#) to analyze and balance your cash flow, you can continue to use this template as your spending plan. You may also prefer to use a calendar so you can visualize when and why your money moves. Whatever tool you choose, what is most important is that you stay in control of your money by proactively checking what you actually bring in and spend compared to your plan on a weekly or monthly basis.

## Conclusion

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Money can be intimidating especially if you've had negative messages about or experiences with it. Working through discomfort and taking control of your money is an important step towards becoming financially empowered to make wise decisions about your money. Being proactive about monitoring your income and spending, and making adjustments to fit your priorities will help you stick to your plan and, in time, reach your goals.



## Activity: My Monthly Cash Flow and Spending Plan

1. **Write down your income.** Make a list of all the income (net) you receive each month, and the days you receive it.

### My Income

Source <i>E.g., XYZ Company</i>	Amount <i>\$620</i>	When Rec'd <i>Every Wed.</i>

2. **Write down your debts.** Make a list of all of your debts, their due dates and amounts due.

### My Debts

Bill <i>E.g., 1<sup>st</sup> Bank of Vermont (Car Loan)</i> <i>Chase Bank (Visa)</i>	Due Date <i>14<sup>th</sup></i> <i>22<sup>nd</sup></i>	Amount Due <i>\$350</i> <i>\$50</i>

3. **Track your spending.** To understand where your money goes, use any of the tools mentioned earlier (e.g., save and review receipts or use a banking app) to track and record your expenses by spending category on a weekly basis for one month using the My Weekly Spending below.



You may find it helpful to wait until the beginning of a month so the first of the month falls within week 1. Week 5 may or may not be used depending on what day the end of the month falls.

### My Weekly Spending

Expense Category	Week 1	Week 2	Week 3	Week 4	Week 5
Auto: Fuel					
Auto: Maintenance					
Child Care					
Clothing					
Education					
Entertainment / Recreation					
Food: Eating Out					
Food: Groceries					
Gifts Given					
Insurance: Auto					
Insurance: Health					
Insurance: Home/Rental					
Insurance: Life					
Home: Maintenance & Supplies					
Home: Furniture / Appliances					
Home: Property Taxes					
Home: Rent					
Medical					
Miscellaneous					
Subscriptions					
Utilities: Electricity					
Utilities: Fuel					
Utilities: Cell phone					
Utilities: Internet					
Utilities: TV					
Utilities: Water / Trash					
Vacation and Travel					
Emergency Fund					
Retirement Fund					
Other Savings					
Other:					
Other:					

4. **Analyze your cash flow.** Now it's time to put all your information together to see a snapshot of all of your income and expenses for the month so that you can determine if there are opportunities to better control your monthly budget/spending.

Download the [\*\*Cash Flow/Spending Plan Template \(Spreadsheet\)\*\*](#) to input your income, debt payments and expenses that you captured on a weekly basis for a month. This spreadsheet will automatically do all the calculations.

When analyzing your cash flow, look for:

- Negative cash and cashflow balances at the end of each week.
  - Negative cash and cashflow balances at the end of the month.
  - Expense categories not included in your monthly spending such as insurance, saving for emergencies, or other priorities (including fun), and ways to spread your income into these categories even if only by a little bit.
  - Opportunities to improve your cash flow.
5. **Plug your spending leaks.** Use the table below to think about those “want” items you regularly spend money on. The items listed are only examples – change or add additional items so that it reflects your spending. For each item, write down:
- the item cost,
  - how much you spend each month on this item, and
  - how much you spend each year on this item.

Spending Item (Examples)	Cost of Item(s)	Cost Per Month	Cost Per Year
<i>E.g., Large coffee from Dunkin Donuts 2x/day</i>	<i>\$2.09</i>	<i>\$125</i>	<i>\$1500</i>
Clothes, makeup, etc.			
Convenient store/gas station purchases (snacks)			
Eating out			
Coffee			
Magazines/books			
DVD Rentals (Redbox, etc.)			
Streaming services (Netflix/Hulu/Amazon Prime)			
Gifts			
Cable TV			
Data charges on cell phone			
Internet			
Alcohol and Bars			
Cigarettes			

Next ask yourself,

- Am I spending more than I planned? Has the price changed, and I didn't realize it?
- Will changing my spending on these items help me better balance my cash flow so I can meet my money goals?
- Would I prefer to use this money in another way?

Upon completing this activity, you can make informed decisions to improve your cash flow, if necessary, and establish your spending plan.