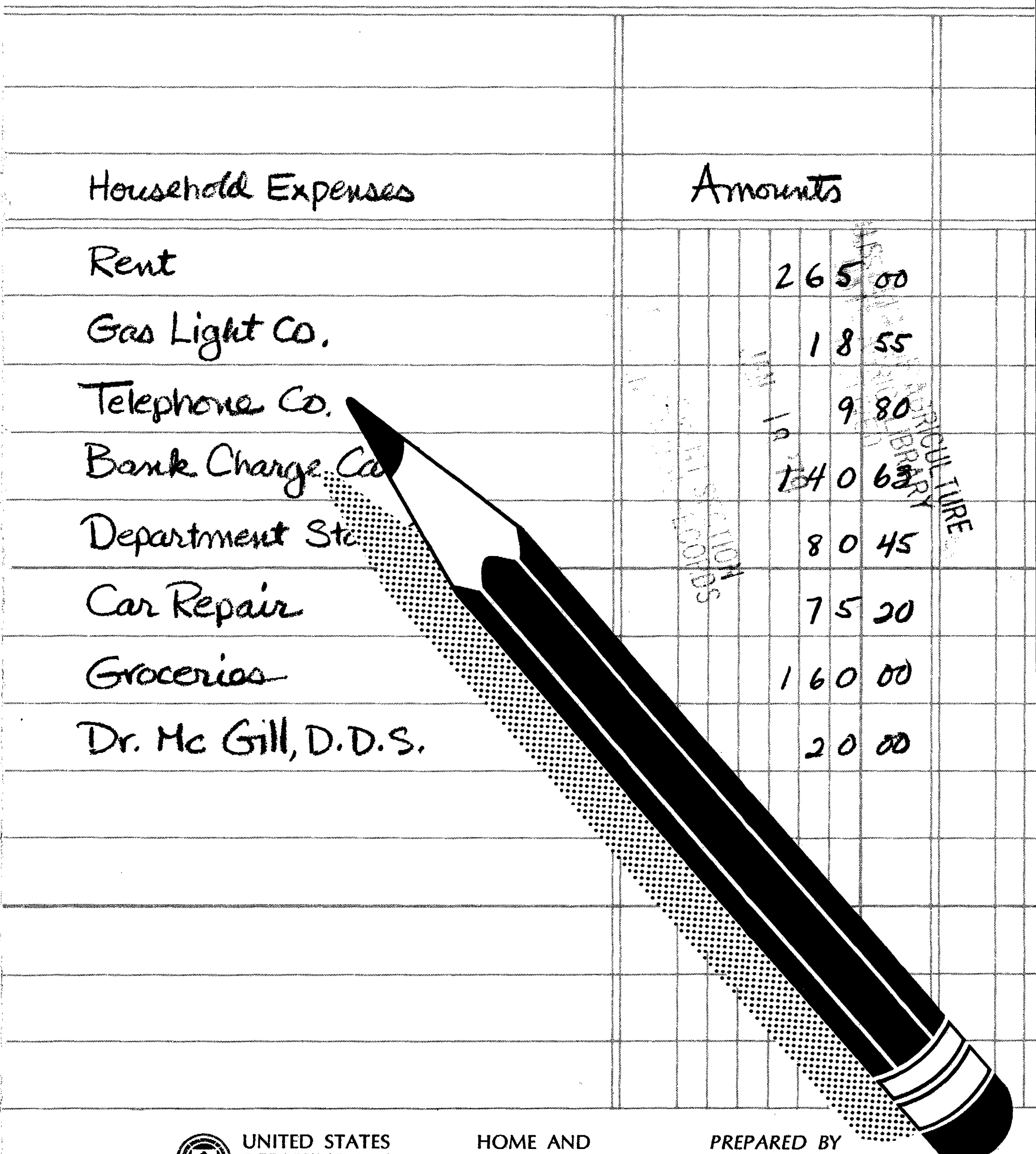
A Guide to Budgeting for the Young Couple



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On January 24, 1978, four USDA agencies—Agricultural Research Service (ARS), Cooperative State Research Service (CSRS), Extension Service (ES), and the National Agricultural Library (NAL)—merged to become a new organization, the Science and Education Administration (SEA), U.S. Department of Agriculture.

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A GUIDE TO BUDGETING FOR THE YOUNG COUPLE

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SEA home economists [1]

If you are a young married couple who wants to make a good start in managing your finances, this publication can be of help to you.

Here you'll find the basic steps setting up and using a simple workable budget—one evolved from your own experience, tailored to your income and situation, and geared to your individual goals.

Budgeting doesn't mean that you will be pinching pennies and neatly recording how you spent every one, but it does mean that you will—

- Make money management a joint venture from the start.
- Face money matters frankly and get problems down on paper.
- Consider each other's wishes.
- Agree on a realistic spending plan.
- Stick to budgeting until your plan works.
- Adjust the plan as your circumstances change.

[1] USDA/SEA. Consumer and Food Economics Institute, Federal Building, Hyattsville, Md. 20782.

WHY A PLAN?

Newlyweds are often more romantic than factual about what it actually costs to run a household. Your views on what you can afford may be a little unrealistic at first. Perhaps you have been living on an income of your own and did not have to share, or you have been in school and dependent on your parents.

Now you find yourselves in an entirely new situation—with new responsibilities. You may be living in a new community, too.

You'd like to establish the right pattern of money management in your marriage, but you hardly know where to begin. You know it's smart to live within your income and, with time, get ahead a little.

If you look about you, you'll notice some young couples seem to have the knack of making ends meet, while others, in the same circumstances, are already carrying heavy debt loads and are often pinched for money. The difference is that some couples are better managers of their resources—they have learned the value of planning.

There's no doubt about it—making and carrying out a spending plan does help. To make a plan, you have to sit down together, talk realistically about money, face facts, and work out any differences you may have about how your income is to be used.

If one of you wants to proceed with caution—save ahead for the things you want to buy—and the other prefers to "live it up" and pay later, you'll need to discuss the pros and cons of both methods and decide on a course of action both of you can accept. Some compromise may be necessary on both sides. This is all to the good. It is when couples fail to communicate with each other about money problems and do not work together as a team in solving them that financial tiffs arise.

If both of you take part in making a spending plan, you will feel better about it and work harder to make it a success. You will be less tempted to buy unnecessary and trivial items because you know what you want your dollars to do for you.

WHAT SPENDING PLAN?

No readymade spending plan fits every couple—or even one couple necessarily. A set percentage of income cannot be assigned rigidly for each budget category.

Each couple has different standards, values, needs, wants, and resources.

For example, if you are a couple who enjoy entertaining at home and want space, serving equipment for a large number of friends, and a generous budget for food, then your particular plan might allow a considerable portion of your income for these budget groups and less for other items.

If you are "car conscious," need a late-model car in your line of work, or like to travel, you may choose to provide a larger transportation allowance and pay less for rent. Perhaps you are entering marriage well supplied with clothes. If this is the case, your first-year budget might allocate a small sum for clothes in order to have more for household furnishings.

What you need is a practical spending plan that fits you—both of you. No "his" and "her" arrangement here, please, even if there is a double income. This is supposed to be a money partnership.

STEPS IN MAKING YOUR PLAN

Set Your Goals

Before you actually make a spending plan, it is a good idea for the two of you to set some goals—some for right now (this month), some for later (6 months or a year), and some for the foreseeable future—perhaps 5 or 10 years from now.

Try to be down-to-earth and cooperative about your goals. Sure you both adore original paintings, but now is hardly the time to hang one on every wall, is it? If you find that your goals are moving in opposite directions—one of you dreaming about a sleek convertible and the other set on paying off a school debt—better bring these aspirations out in the open.

The more specific you are about your immediate and long-time goals, the better. One goal for the first year or any year is, of course, to live comfortably. Other first-year goals might be: Meet the costs for a final year in college...start saving for a better car...buy a chest of drawers. A 5-year goal might be to accumulate a downpayment on a house of your own or to begin a family.

Ready? Now list your goals in the spaces below.

Goals for this month: ________________

____

____

Goals for this year: ________________

____

____

Goals for future years: ________________

____

____

Estimate Your Income

The next step in making a spending plan is to add up how much money will be coming in during the period of your plan. The planning period may be a month, a year, or any length of time you choose.

A year is often the period used, but if this is your first plan, you may want to set up a trial plan for a shorter period to see how it works out.

Write down any money you expect to receive. Include wages or salary from your regular job, net money earned from a farm or a business you operate, interest from a savings account or dividends from stock you may have accumulated before you married, a money gift or loan you expect to get from the family, and any extra income you plan to earn from a second job or from overtime on your present job.

To figure out what your income will be, use this form:

Estimated Money Income ____________
(period)

Item	Amount
Wage or salary of—	
Husband...........................	$______
Wife................................	______
Net profit from business, farm, or profession..................	______
Interest, dividends..................	______
Other................................	______
Total money income......	$______

If your income is irregular, as it may be if you are a farmer, have your own business, or sell on commission, it may be wise to estimate the largest and the smallest amounts of income likely to be available and to use the lower amount for your spending plan. If income is very irregular, you may want to make an estimate for each month or week for the budget period.

Estimate Your Expenses

Now you are ready to estimate your expenses. One way to get an idea of what it costs to live is to call upon the experience of some of your friends who have been married for a year or two, but who are about your age and are in approximately the same income bracket. Even if they give you only a rough idea of costs it will be a start. Dad and mother might have some pretty sound ideas, too.

But the best way to find out what you will need to allow for each of the budget categories is to keep a record of what the two of you actually spend *for a month or two.* Each can carry a little pocket notebook in which to jot down expenditures during a week or pay period. Then total the amounts at a budgeting session.

Or you may prefer to keep an account book in a convenient place at home and both of you make entries in it.

You can use the form on page 11 to help you keep a record of your spending.

Keep the record faithfully for a month or two to find out what you are now spending for the various budget groups, such as food, housing, utilities, household operation, clothing, transportation, entertainment, and personal items. Then you will have a fairly accurate guideline for estimating your expenses in your plan for future spending.

Set Up a Trial Spending Plan

Now you are ready to work out your first spending plan, based on your income, expenses, and goals. A sample of the form you might use is shown on page 7.

Enter fixed expenses

Every family has some expenses that are more or less fixed—expenses that have to be paid in specific amounts at specific times. Start your plan by putting down the fixed expenses you expect to have every month. These will include rent or mortgage payment on your home and payments on installment debts, if you have them.

Next enter the expenses that will come up only once or twice a year, such as real estate, personal property, and income taxes; car license fees and car insurance premiums; life insurance premiums and vacations. It is wise to put aside a definite amount each month toward these large, irregular expenses to spread the cost and have money to meet them when due.

At this point you may want to decide what you can set aside as savings and enter this as a fixed obligation, too.

You would like to get into the habit of saving as soon as possible. Saving together can be almost as much fun as spending together, once you accept the idea that saving money is not punishment, but a systematic, planned way of reaching goals and ambitions. *You do without little things now in anticipation of buying what will give you greater satisfaction later.*

You will find it easier to save for a purpose or toward a goal. A goal for saving might be to accumulate enough to buy furniture. Decide about how large a sum you will need for this and start saving each month toward it.

If you possibly can do so, start to build up an emergency fund. There are bound to be extras that come up at the most unexpected times—like the car battery that has to be replaced the last day of the month, or the unannounced guests who arrive when the grocery budget is at low ebb.

Perhaps you will feel that you must have furniture, a car, or some other costly item before you can possible save enough to pay for it. You may prefer to buy it on the installment plan and pay for it as you use it. Enter these monthly payments in your plan as fixed expenses.

Our Plan for Spending

19____

Item	Jan.	Feb.	Dec.	Total
Total money income				
Major fixed expenses: Taxes: Federal				
State				
Property				
Auto				
Rent or mortgage payment				
Insurance: Medical (including prepaid care)				
Life				
Property				
Auto				
Debt payments: Auto				
Other				
Savings for: Emergency fund				
Flexible expenses: Food and beverages				
Utilities and maintenance (household supplies and services)				
Furnishings and equipment				
Clothing				
Personal care				
Auto upkeep, gas, oil				
Fares, tolls, other				
Medical care (not prepaid or reimbursed)				
Recreation and education				
Gifts and contributions				
Total				

Enter flexible expenses

After you have entered your fixed expenses and your savings, you are ready to consider your flexible expenses. Flexible expenses are those that fluctuate from week to week or month to month and are perhaps the hardest to account for without keeping a record. As a guide for estimating these flexible expenses, you can see how other two-person families allocated money for selected household expenditures. The figures below (based on a recent study) represent the percent of total money income going towards the selected expenditure categories for families at three levels of income. If your income is low to moderate, you can expect about one-third of your total income to be spent on these goods and services necessary for everyday living.

Estimate how much you plan to spend for food and beverages, clothing, transportation, and other budget groups for the period you have decided to budget for. To estimate these expenses, go back over the records you kept (if you kept a record for a month or two) and see what you spent for each of the budget groups and decide if you want to continue this pattern. You may decide you need to spend more on some, and less on others.

While these records will be a big help in estimating expenses for the budget period, they won't be a complete guide. You will probably have some expenses coming up that didn't occur while you were keeping the record. A record kept in July and August, for example, might not include such big expenses as winter coats and suits or fuel for winter heating.

This is the place to list the amount

Selected two-person family expenditures by income level (percent of total money income)

Expenditure	Low income	Medium income	High income
	Percent	*Percent*	*Percent*
Food, total	21	15	12
At home	17	11	8
Away	4	4	4
Electricity, gas, other fuels	6	4	2
Gasoline, oil, coolant, etc.	5	4	3
Housekeeping supplies	2	1	1
Nonprescription drugs & medical supplies	1	1	1
Personal care products and services	2	2	2
Percent of total money income	37	27	21

Note: Food expenditures do not include alcoholic beverages.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey Series: Diary Data 1972*, Report 448-1.

you must set aside monthly to reach the goals you have set.

Remember to include a personal allowance for each of you. A little not-to-be-accounted-for spending gives a sense of freedom.

Compare income, expenses

Now you are ready for the balancing act—to compare your total expected income with the total of your planned expenses for the period you have planned for.

If your income covers your expenses, and you are satisfied with the results—fine. If your expenses add up to more than your income, you'll need to look at all parts of the plan. Where can you cut down? Where are you overspending? You may have to decide what things are most important to you, which ones can wait.

Every young couple needs adequate food, safe and decent housing, and clothes that give a sense of well-being. But you can be well fed on hamburger or on porterhouse steak. If you prefer to eat less expensive but equally nutritious food in order to afford better clothes or to live in a more desirable neighborhood—that is your choice to make.

The solution to money problems is not necessarily more money. Sometimes it is an understanding of how to get more for the money you have, plus the patience, energy, and self-discipline to do it.

It is quite possible that you can do some trimming on your flexible expenses. Once you get in the spirit and put your mind to it—this learning how to cut down can be quite a game—and may give you more true satisfaction in the long run than spending in a haphazard, happy-go-lucky fashion and regretting it later.

Look over your flexible expenses. To reduce them you might—

- Eliminate some items altogether, for the time being at least.
- Spend less for certain items (cut down on cigarettes or pay less for a spring coat).
- Make use of your own skills instead of paying for services (make the cafe curtains you want instead of buying them, wash your car, etc.).
- Take your lunch from home instead of buying it.
- Take advantage of free community services for education and recreation (concerts, parks, libraries, lectures, recreational centers, art exhibits).

Sometimes the need (or was it really a desire?) for something big diminishes with time and some less expensive and more obtainable goal can be substituted.

If you have pared your flexible expenses as far as you think you can, scan your fixed expenses. Maybe you can make some sizable reductions here. Rent is a big item in a budget. Perhaps you should consider moving to a lower priced apartment or making different living arrangements. Perhaps it would be better to turn in a too-expensive car and get a cheaper one to use until you get caught up.

If, after doing all the cutting you think you can or are willing to do, your plan still calls for more than you make or can reasonably expect to pay for in the future, you may want to consider ways of increasing your income.

If both of you are working, you might start looking about for better-paying jobs. In extreme cases, a part-time second job may be the answer. If either of you is not working now, you might consider becoming a dual-income family or you might be able to make some hobby or talent pay off.

Another possibility is to draw on reserves you may have. These are decisions only the two of you can make.

MAKE YOUR PLAN WORK

After your plan is completed, put it to work. This is when the fun really starts! How firm will you be under the salesman's spell? Can you resist impulse spending?

If you are really interested in sound money management and want to form good buying habits, you will find a sufficient supply of consumer information available for your study.

Here are some general guidelines that may help you get the most for your money:

- Take advantage of weekend food specials.
- Inform yourself on a product before you shop for it.
- Get over the idea that everything you buy has to be brand new. Secondhand furniture, for example, may be a good investment for young couples, especially if you are not permanently settled and are likely to move about considerably in the years ahead.
- Be alert to quality. Compare prices.
- Patronize seasonal sales at reliable shops. So-called "white sales" offer towels, sheets, and other household textiles at substantial savings.
- Be knowledgeable in the use of credit. Know what it costs. (See p. 12.)

Keep Records

You will find it helpful to keep track of expenses, at least in the beginning, to find out how your plan works. A spindle for receipts and other notations of amounts spent kept in a handy place, and a recording and adding-up session at the end of the week or month may be all the recordkeeping you need to do.

Or you might like to use a form similar to the partial one shown on page 11 to record your expenses. This form may be easily ruled off on a sheet of paper or in a looseleaf notebook. Allow a separate column for each category of expense you want to keep track of.

You will find it helpful if the column headings conform in general with the headings in your plan, so you can check your expenses against your plan. You can subdivide the groups, though. For example, "Food and Beverages" might be divided into "Food at Home" and "Food Away From Home" and expenses noted separately. Or "Medical Care" might be divided into medical and dental care with separate columns made for each. Or, if you are still in college, you may wish to keep track of your "Education" expenses separate from "Recreation."

At the end of the month or period under consideration, add up your expenses under each heading so you can compare them with your plan.

Keep records simple. The simpler the records, the more likely you are to keep them. Once you've set your spending pattern, records—at least detailed ones—may not be necessary. Recordkeeping of everyday household expenses need not be a continuous process. It is, however, a

Record of Our Expenses

Date	Item (or service) bought	Classified as — Food and beverages	Shelter	Household operation	Gifts and contributions
		$	$	$	$
Total		$	$	$	$

good idea to set up a filing system for keeping receipts of big ticket items, such as appliances, for warranty or insurance claims. You should also keep receipts from insurance premiums, installment loan payments, and out-of-pocket medical expenses, all of which are needed to itemize deductions for income taxes.

Evaluate Your Plan

At the end of the budget period, compare what you actually spent with what you planned to spend.

If the amounts are the same, or reasonably close, were you satisfied with the results? If you spent differently than you planned, why? Was your plan unrealistic or too rigid? Did you buy something you didn't plan for? Did you have an unexpected change in income? Did the plan fail because the two of you didn't see eye to eye on some phases of it? Did one or both of you fall down in keeping records?

If your first plan didn't work in all respects, you shouldn't be discouraged.

A budget is not a "one-shot deal"—something you make once and never touch again. Instead you keep reworking a budget until it works for you and the results satisfy you. This means making, appraising, revising, and remaking until eventually you get to the point where it actually isn't necessary to write down all the facts and figures to have a budget. The whole process becomes sort of second nature to you. All you need to do is carry a plan in your head, if you prefer to budget that way.

If you were perfectly satisfied with your first try at budgeting, you will still need to adjust your plan from time to time. As circumstances change—a move to a different community, the arrival of a baby, or a change in jobs with a change in income—you will discover you need to set new goals and to reorganize your plan around your new goals.

USING CONSUMER CREDIT

The use of credit can help you get the things you need when it is inconvenient for you to pay cash or cash is not available. If you have a charge account, you can take advantage of special sales for clothing and small household items. Personal installment loans can help out in an emergency situation or in buying a car or appliance where you can put up a large downpayment.

The use of consumer credit can also lead to budgeting problems. It is common for young couples to be tempted to buy more than they can afford if they have credit available. You can become so overcommitted to debt payments that other demands on your income, like food, shelter, and recreation, may suffer. And your inability to repay debts now can hurt your chances for obtaining credit in the future.

Credit is a service dealers and financial establishments offer, but *it costs money*. Many couples are unaware of what they pay for it. Whenever you are considering using credit, you should evaluate how important it is for you to have that appliance or new outfit now and pay more for it, rather than wait until you have saved up the cash. The merchandise you buy on credit may also have a higher price tag. Stores that offer goods at the lowest prices (discount stores, factory outlets, etc.) usually do not offer credit. Some stores that do offer credit terms may offer a discount for payment in cash. The cost and availability of credit depends on many factors—

- How much you want to borrow
- How long you want to take to pay it back
- The type of business (retailer or financial institution) extending the credit
- Your credit report which may include bank references, your past loan repayment record, your employment status, and whether you will have collateral to secure the loan.

Types of Credit

There are basically two types of consumer credit—"closed-end" or installment credit where you pay back a one-time loan in a specified period of time and number of payments of equal amount, and "open-end" credit such as revolving charge (bank cards) where loans are made on a continuous basis and you are billed periodically to make at least partial payment.

With closed-end credit, lending costs may be computed by one of several methods. Regardless of the method used, however, the Federal Truth In Lending Act requires that all rates must be stated to you in terms of the *annual percentage rate*. This is the rate you should keep in mind when comparing the costs of credit. To quote any other rate is illegal. In any credit agreement, the Federal Truth In Lending Act also requires that the actual dollar cost of the loan, including any loan-servicing fees, be disclosed to the borrower and labeled clearly as the *finance charge*.

The table that follows shows how the cost of a $200 loan at 8 percent interest payable in 12 monthly installments would vary, depending on the computation method used. Notice especially the difference in the finance charge and in the annual percentage rates. Learn what the finance charge and the annual percentage rate will be before signing any credit contract.

Computation method	Proceeds of loan	Finance charge	Amount to be repaid	Annual percentage rate
	Dollars	*Dollars*	*Dollars*	*Percent*
Discount..............	184.00	16.00	200.00	15.7
Add-on................	200.00	16.00	216.00	14.5
Simple interest.........	200.00	8.78	208.78	8.0

The table below will give you an idea of how the cost of installment credit varies by the type of loan and lender. There are legal lending rate maximums which differ from State to State. Federal credit unions cannot charge more than an annual percentage rate of 12 percent.

With open-end credit there is less variation in the interest rates. Generally, the finance charge for revolving charge accounts and bank cards is figured at 1-1/2 percent per month or 18 percent per year *annual percentage rate.* What does vary in the cost of this type of credit is the balance on

Installment credit annual percentage rates
April and May, 1978

TYPE OF LOAN	Federal credit unions		Commercial banks		Finance companies	
	Maturity	Rate[1]	Maturity	Rate[2]	Maturity[3]	Rate[1]
	Months	*Percent*	*Months*	*Percent*	*Months*	*Percent*
Personal loans...........	NA	11.39	12	13.56	47.4	20.29
New automobiles	NA	10.90	36	10.84	42.7	13.11
Used automobiles	NA	(4)	NA	NA	33.0	17.68
Mobile homes	NA	(4)	84	12.01	129.1	13.50
Other consumer goods....	NA	11.62	24	13.11	25.4	18.90

[1]Rates are a weighted average of loans of various lengths of maturity.
[2]"Most common" rates based on a U.S. Government survey.
[3]Average length of maturity.
[4]Rates are included with "Other consumer goods."

NA=Not Available.

Source: Federal Reserve Board; National Credit Union Administration.

which the finance charge is computed. If the interest rate is applied to the balance after recent credits and payments have been subtracted, it is the least costly for you. The most common method is for the interest to be applied to the average daily balance. Some retailers may even figure finance charges on the previous balance before subtracting any payments or credits. This is the least advantageous to you. Regardless of the method used, the Truth In Lending Act applies to open-end creditors as well, and they must tell you how your finance charge is computed.

There are advantages and disadvantages to using either type of credit. With closed-end credit, it may be advantageous to know exactly how long you will be indebted for and how much you are paying in finance charges. Having a regular payment can help you budget your income. Should other bills come due in one particular month, however, use of closed-end credit does not allow for any flexibility in payment amounts. To obtain an installment loan or contract to purchase goods also, requires you to fill out many forms, and it may take time before your loan is approved. Buying through the use of closed-end credit takes planning, and this may be a deterrent in your decision to use it—perhaps for the better.

With open-end credit, it takes time to have your account approved, but once you have your revolving charge plate, it is very easy to make purchases and have them added to your bill. This can be a convenience to you, but you may also be less aware of the finance charges accrued to a purchase you make now than if you used an installment loan. Periodic statements (bills) for revolving charge accounts will require you to make a minimum payment on the balance due. It is to your advantage to pay *as much* as you can afford each month (rather than the minimum, which some retailers may stress) to avoid finance charges. You do have some flexibility in repaying what you owe, unlike installment loans. Should hard financial times hit one month, you have the option of paying the minimum on your charge account until the next billing period. If you continually pay the minimum on your account, you may eventually pay more in finance charges than you intended.

Federal Credit Laws

Even the most astute borrower can run into problems in using credit. The Fair Credit Billing Act requires open-end creditors to mail your bill at least 14 days before payment is due. Should you ever question the bill, the law specifies the procedures for filing grievances with the creditor so that you can withhold the amount in question without being penalized by an adverse credit report or undue finance charges until an agreement can be reached.

Under the Equal Credit Opportunity Act you cannot be denied credit on the basis of your sex, marital status, or intent to have children. If you feel you have been treated unfairly in a credit application, you have the right under the Fair Credit Reporting Act to review and contest your credit report.

MORE INFORMATION

Listed below are publications prepared by the U.S. Department of Agriculture that may be helpful to you in managing your household. These publications are available from the U.S. Department of Agriculture, Office of Governmental and Public Affairs, Washington, D.C. 20250. Include your ZIP code with your return address.

	Order No.
Family Fare . . . A Guide to Good Nutrition	G 1
Home Canning of Fruits and Vegetables	G 8
Removing Stains From Fabrics	G 62
How to Prevent and Remove Mildew	G 68
Home Care of Purchased Frozen Foods	G 69
Conserving the Nutritive Values in Foods	G 90
Controlling Household Pests	G 96
A Guide to Budgeting for the Family	G 108
How to Buy Fresh Fruits	G 141
How to Buy Fresh Vegetables	G 143
How to Buy Eggs	G 144
How to Buy Beef Roasts	G 146
How to Buy Meat for Your Freezer	G 166
How to Buy Canned and Frozen Vegetables	G 167
Selecting and Financing a Home	G 182
Your Money's Worth in Foods	G 183
How to Buy Dairy Products	G 201
Food for the Family—A Cost-Saving Plan	G 209
Renovate an Old House?	G 212
Home Freezing of Poultry and Poultry Main Dishes	AB 371
How to Use USDA Grades in Buying Foods	G 196

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