



HOW TO USE THE COMPASS SPENDING PLAN

Do you know how your great grandparents kept a budget before people used checks, credit and debit cards and online banking? Simple! They used the cash-in-the-envelope system. They labeled envelopes for various spending categories and at the beginning of the month put a budgeted amount of cash in each envelope. And, for example, when the “clothes” envelope was empty, they didn’t spend anymore on clothes that month. It was simple and effective. You’ll use a similar system with the Compass Spending Plan.

We have designed the Compass Spending Plan system with everything you need to be successful! At the bottom of the form you just opened (Free Compass Spending Plan), you will see 4 large tabs labeled, Description of Categories, Detailed Spending plan, Percentage Guide and Spending Tracker. These are the tools that will help you complete your Detailed Spending Plan and allow you to stay on track with your spending in the future.

1. LIST YOUR INCOME.

List all your income in the “Income” section of the Detailed Spending Plan.

Many people don’t receive steady, predictable income. This is especially common for the self-employed and commissioned salesperson. If your income is not consistent, estimate your yearly income and divide by 12 to determine your average monthly income.

Business expense reimbursements should not be considered income. Avoid the temptation to spend expense money as if it were income. This can lead to increased debt when those bills come due.

2. LIST YOUR ESTIMATED EXPENSES.

Complete and total each expense category on the Detailed Spending Plan. We’ve designed it to be very detailed to help you identify what you are actually spending. After you complete and total the 18 expense categories, your worksheet will add them together to determine your total expenses.

Not all spending is consistent each month. Spending that varies include:

Irregular monthly expenses - such as food and utility bills. Simply estimate what you spend in an average month. As you continue to use the Spending Plan, you will become more accurate in projecting these expenses.

Expenses that don’t occur every month - such as auto maintenance, medical bills, clothing, and vacations. Use the list on the next page to compute the average

monthly cost by estimating the annual amount spent for an item and divide by 12. For example, if you spend \$600 a year for home repairs, set aside \$50 a month to pay for repairs.

3. CHECK OUT THE PERCENTAGES

How much of your income should be spent on food, clothes, housing, and so forth? It's helpful to compare the percent of income you're spending for these items to recommended percentages that work for thousands of people. But remember, they are only *recommended*. If you have unusually high or low income, these numbers could change dramatically. For example, if your income is very high, the percentage you spend on food will be much lower than a person who earns a fraction of your income.

If you are spending more than the recommended amount for an item, it may be necessary to reduce your spending in that area to enjoy a balanced Spending Plan.

4. TRACK YOUR MONTHLY EXPENSES

After completing your budget, you can then use the Spending Plan Tracker to track your expenses and see how they line up with the amounts on your Detailed Spending Plan. Anytime you make a purchase, simply put the purchase amount in the appropriate date and category. As you continue to track your income and spending, you'll discover that your Spending Plan is always changing and in need of tweaking. Your income may change, the interest you earn will fluctuate, and spending certainly will not be static. You will constantly refine the Spending Plan with one simple objective in mind: *spend less than you earn!*

Using a Tracking Sheet each month will remind you to try to continue to reduce spending and increase income so that your monthly surplus will grow.