



How Much Should We Spend?¹

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Most people wonder if their spending compares favorable with others spending. To help compare, lets look at some reasonable limits for the living expenses of families:

Family Living Expenses "Reasonable Limits"

Take-home Pay \$ _____

Item	Per Cent of Take-Home Pay	Our Family
Food	13-15	\$ %
Housing	32-42	\$
Child Care	15-25	\$
Clothing	3.8 - 4.2	\$
Personal	2-5	\$
Transportation	17-18	\$
Medical	6-7	\$
Education and Recreation	0-10	\$
Gifts and Contributions	0-10	\$
Misc. and Emergency	2-10	\$
Savings	0-10	\$
Insurance	0-11	\$
	Total	\$ %

These figures are based on take-home pay. That's pay you actually bring home, not what you make or even what you make after taxes. Most wage earners have deductions besides taxes taken out of their paychecks. These include insurance payments, credit union payments or contributions, and retirement fund payments. It's always safest when looking at a budget to consider just the money you have direct control over-that's the money you actually see on payday. Many mistakes and headaches about a budget start when its figured on gross or even net pay. This is just a little added insurance to help a budget work when you begin with the "take-home pay".

For families not on a regular paycheck- the farm family or any family, in which the major sources of income is from a self owned business - use the total amount of what you spend for family living expenses for your "take-home pay" figure.

What Are You Now Spending?

Write down your total take-home pay on the preceding chart. If both husband and wife are working include take-home pay from both.

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Using records (or reasonable guesses, if you don't have records) jot down what you spend for food, housing and the other categories noted above. Finally, figure out the percentage of take-home pay you spend for each category. Divide amount spent in a category by the total amount of take-home pay. For instance, consider a family with \$3,000 each month. This family spends \$500 for food, so the percentage spent for food is 16.6 percent. ($\$500 \text{ divided by } \$3,000 = 16.6$). That is on the high end of spending range for reasonable limits for food expenses.

Why Do We Spend Different Amounts?

Why do we have a range for the reasonable limits in a family budget? All families are different, so all have different spending patterns. Where you fall in a particular range will depend on several things. Let's consider some of them.

The stage in the family life cycle is an important factor to remember. Newly married couples may have a household to set up, buying among other things furniture, appliances, pots and pans, tableware, and various staples. Families in other stages of the family cycle also have unique needs.

The amount and source of your income is important in determining how much of your paycheck goes for certain things. As income goes up, you probably will spend less (percentage wise) on some things, such as food and medical care, but may spend a larger share of your paycheck on other things such as housing, clothing, or personal items. Depending on what your job is and where it is, you may spend more for clothing, food and transportation than someone who has a different kind of job.

Where you live also determines how much of your paycheck goes for certain items. If you live on a farm, for instance, you may spend a larger percentage of the family budget for transportation than someone who lives in a small town or larger city.

The number of people in the family and the number of breadwinners also help determine how the family paycheck pie is sliced.

Families have different spending priorities because they think different things are important. The family who feels its important to give to the church or to give gifts to others will spend more for gifts and contributions than the family who places a low priority on these items. All families are different. They have different values. They all spend money differently because of their values.

Any Unusual Circumstances?

Your family may have unusual circumstances which can put it at the higher end of the reasonable limits (or maybe even out of the limits altogether). Things like high medical expenses for a family member in poor health, children in college, or a temporary job layoff are just a few examples.

You probably see that if you fit near the upper limit of several of the categories on the chart, you'll only get about half-way down the list before you go over 100 percent. That means there's nothing left for the rest of the categories.

This is a warning signal for you to take a serious look at your money situation. More important than knowing how your spending compares to other families is the fact that you know where your money is going and why. If you don't know, keep track for a month or so. Then, as a family, sit down and look at your records, the more accurate picture of your family's spending the more effective your money control.

What to Do If You Have Problems

Be sure each family member knows the situation, agrees something has to be done, and is willing to cooperate to work out the financial problems.

Look at the records you have of your spending and decide what can be cut, at least temporarily, until the present financial crisis is over.

Cut down on spending. Stop buying on credit until you get all debts paid. Consider consolidating debts into a single, longer-term loan, but be sure the loan is one you can live with. This usually costs more in finance charges than if the debts are paid off as originally agreed upon. Shopping around can save you money, even on credit cost.

Discuss your situation with your financial advisers-your family banker, attorney, or representative of a social service agency trained to help families with financial problems (your minister or social worker, for example).

References

US Department of Labor, Bureau of Labor Statistics. 2004. "Consumer Expenditure Survey" <http://www.bls.gov/news.release/cesan.nr0.htm>

Table 1. Consumer Price Index for all Urban Consumers (CPI-U):US. City average by expenditure category and commodity and service group

Turner, Josephine. 1989. "How Much Should We Spend?" Extension handout. Alabama Extension System, Auburn University, AL

Basic Budget Calculator.
www.epinet.org/datazone/fambud/budget.html