

Developing a Budget Spending Plan

The Consumption Assumption

Most Americans are in the top 1 percent of the world's income, and we often assume our abundance is for our enjoyment. The journey to developing a spending plan begins with changing our assumptions about consumption. A focus on spending money solely to acquire things and be comfortable causes us to live as if our time on earth is all that matters. This incorrect perspective distracts us from what matters most to God.

Then He said to them, "Beware and be on your guard against every form of greed; for not even when one has an abundance does his life consist of his possessions."
(Luke 12:15 NASB)

One of the most frightening verses in Scripture highlights the peril of a life fixated on the temporal.

As they had their pasture, they became satisfied, and being satisfied, their heart became proud; therefore, they forgot Me. (Hosea 13:6 NASB)

Having an abundance makes it easy to become consumptive, which frequently leads to a migration of our hope from God to our riches. Is it any wonder history shows that when our wealth increases, our dependence on God usually decreases?

Where Is Our Focus?

It is our heart's focus, not our actual level of spending, which determines whether we love things and use people or love people and use things.

Do not love the world, or the things in the world. If anyone loves the world, the love of the Father is not in him. For all that is in the world - the desires of the flesh and the desires of the eyes and pride of life - is not from the Father but is from the world. (I John 2:15-16 ESV)

The Bible does not provide strict mandates explaining what amount of spending is consumptive and what is balanced. It is a matter of the heart whether our wealth is our treasure, regardless of how much we have.

For where your treasure is, there your heart will be also. (Matt. 6:21 ESV)

Give an Account

The primary principle in the Bible in regards to money is that God owns it all.

"The silver is Mine, and the gold is Mine," declares the Lord of hosts. (Hag. 2:8 ESV)

The earth is the Lord's and the fullness thereof, the world and those who dwell therein, (Ps. 24:1 ESV)

We are simply called to be faithful stewards of what belongs to Him. And, as stewards, our responsibility is to manage what we possess in God’s best interest. This is what Scripture calls being faithful, or trustworthy.

Moreover, it is required of stewards that they be found faithful. (I Cor. 4:2 ESV)

As a steward of God’s resources, we should have a plan for how we are going to use God’s money, and we should be able to give an account of how it was spent. These are the two key components of a spending plan.

The Priority Order of Spending

While the Bible does not promote the same level of spending for everyone, I believe that Scripture makes it clear that we should not spend more than we earn. (For retirees, this equates to spending an amount that is likely to preserve assets for one’s expected lifetime). Below are two of the many verses that bring me to this conclusion.

Keep your life free from the love of money, and be content with what you have, for he has said, “I will never leave you nor forsake you.” (Heb. 13:5 ESV)

Precious treasure and oil are in a wise man’s dwelling, but a foolish man devours it. (Prov. 21:20 ESV)

Scripture also seems to dictate that certain types of spending have a higher priority for Christians than others. We are told to do our giving first, to make sure we can pay our taxes and our debts, and to have some level of savings in order to meet future needs. The remainder of our spending should only be done after these priorities are met. Unfortunately, most of us do this backwards. We spend on lifestyle first, usually don’t save enough, have too much debt, struggle to pay our taxes, and give our leftovers (if any). The Priority Order of Spending chart helps us to have a biblical understanding of our income and expenses.

THE PRIORITY ORDER OF SPENDING

INCOME

Deut 8:17-18 Otherwise, you may say in your heart, 'My power and the strength of my hand made me this wealth.' But you shall remember the Lord your God, for it is He who is giving you power to make wealth...

GIVING

2 Cor. 9:6-8 ...Let each one do just as he has purposed in his heart...cheerfully...

PAY TAXES

Rom 13:7 Render to all what is due them; tax to whom tax is due...

DEBT REPAYMENTS

Prov 22:7 The rich rules over the poor, and the borrower becomes the lender's slave.

SAVINGS

Prov 13:11 He who gathers money little by little makes it grow.

LIVING EXPENSES

Matt 6:24 No one can serve two masters...
Phil 4:11 I have learned to be content...

Predetermine Your Spending

Our spending habits speak volumes about our priorities. When we review how we use our money, we are more likely to make wise and God-honoring decisions about our future spending. The goal of a spending plan is to help us spend money in a way that is consistent with our priorities. It is also one of the most effective ways to protect us from being consumptive and prevent our hope from drifting away from God and toward money.

The reality is that most of us will not meet our giving, savings, debt reduction, and other spending goals without a predetermined plan (a budget) and a good tracking system. For example, most Christians I meet want to give more to their church and other charities. The problem is that they don't know how they can. They are stuck financially. A spending plan combined with a tracking system for all of our expenses is needed to accomplish goals such as this. It just will not happen accidentally or by chance.

Step One – Prayer and Unity

Begin the process of developing a spending plan by praying. Ask God to bless your efforts and to give you the wisdom and discipline to be a faithful steward.

Commit your work to the Lord and your plans will be established. (Prov. 16:3
ESV)

A successful spending plan must be a team effort. Both husband and wife need to participate in the process. Be aware of the areas of the budget that are most important to your spouse. Work together to create a plan that will result in money being spent according to both of your goals in a God-honoring manner.

Step Two – Determine Your Current Spending

Most people do not know what they are actually earning and spending. In order to develop a spending plan, you must begin by determining your current spending. The good news is that in most cases you can obtain a very accurate summary of your income and expenses over the past few months by using an account aggregation program like Quicken, YNAB, EveryDollar, or PocketSmith. Quicken is my personal favorite. In addition to helping you determine your recent past spending, using one of these will also be critical in tracking your future spending.

Overview of Account Aggregation

Account aggregation is a scrapping technology that lets you see all your balances and transactions in one place on your computer or phone. These programs are committed to protecting your privacy, using the same security that banks use for online banking.

Setting up your Account Aggregation

Identify every account where you spend money including your checking accounts, savings accounts and all credit cards. You will need to have your online login information for each of these accounts. If you have not yet set up online instructions for these accounts, do this before establishing your account aggregation program.

Once all of your accounts are entered, you will have a complete summary of 1-3 months of past spending. In addition, you will be set up to track your future spending.

The program you choose will attempt to categorize your transactions automatically. This may not be perfect, but you will be amazed how many items are automatically categorized correctly.

Step Three – Create Your Spending Plan

Go to www.compass1.org/resources/spending-plans/

Scroll down and look near the middle of the page for “Excel” under Interactive. Save this Excel file on your computer.

INTERACTIVE

Plan and track with our convenient Excel and Fillable PDF tools.

EXCEL

FILLABLE PDF

Begin to populate the categories on the tab “Compass Spending Plan”. Use data from your recent spending and the percentages to guide your entries for each of the applicable categories. If one of the account aggregation programs does not work for you, use the tab “Spending Plan Tracker” to track your expenses over the next month.

Other Income		
Income Total		0.00
Giving and Taxes		
Compass Spending Plan	Spending Plan Tracker	Category Descriptions
Percentage Guide		

Of course, the total cannot exceed 100%. Begin by completing the Tithe/Church Giving, Other Giving, Taxes, Debt Payments and Savings categories. As we discussed before, these are the first priorities. The amount you have left is the maximum amount you can spend. However, it is important to consider if you should spend less than what you could spend. This is a personal decision that must not be legalistic, but based on prayer and conversation with your spouse. The goal is to find a spending level that fights against the consumption assumption and allocates money according to what matters the most to you.

You will need your pay stubs to help determine the amounts deducted from your gross pay since the account aggregation programs will only capture your net income.

How to Use the Compass Spending Plan

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.

Step Four – Tracking

Now that you have your Spending Plan, it is time to load it into your account aggregation program. This will give you a way to monitor your progress on meeting your Spending Plan, allowing you to make adjustments where necessary. Since the account aggregation programs update your information on a daily basis, you are always up to date on knowing where you stand.

Load your Spending Plan into your Account Aggregation Program

Log in to your account aggregation account and enter your spending plan into the budget area. This process will be unique to the program you choose, but it should not be difficult to determine. One of the traits I appreciate about Quicken is the ability to enter different amounts for each month. This is helpful since many budget categories do not occur in equal monthly amounts.

Tips on Using Your Account Aggregation Program

While account aggregation programs are wonderful, there are some tips that are important to know in order to maximize their effectiveness. Since these programs will only track your net pay, you should only enter your net monthly income (the amount that actually gets deposited into your bank account) for your income. In a similar manner, you will not enter your paycheck deductions as expenses in the budget.

Your Spending Plan spreadsheet will still account for your gross income and all of your paycheck deductions, but the budget that you put into your account aggregation program will only include your net pay and you will not enter paycheck deductions as expenses.

Monitor your Account Aggregation Program to Track your Progress

This is the real key to this process. A lot of people have budgets. But a budget does not help you if you do not track your expenses and monitor your progress.

Categorizing Transactions

All of your spending transactions will be captured and shown as transactions. These programs do an incredible job automatically categorizing your expenses. For example, it will know that Exxon is Fuel and that Kroger is Groceries. Occasionally, you find a transaction in the wrong category or one that shows up as Uncategorized. These will demand a little attention from you. To change a category, simply click on the box and choose the appropriate category.

If you know that you always want that expense to be categorized the same way in the future, you will want to check the box that says, “Always rename and categorize as ...” This is a very important tip, as it will change all future expenses with this description to your chosen category. With a little maintenance on the front end, your program will accurately categorize all of your spending with only a little effort from you.

Checks

Your program will almost always know (or quickly learn) how to categorize your auto drafts, bill pay, debit card, and credit card purchases. As smart as these programs are, though, they will not know how to categorize your checks. These will show up with a check number and an amount, but will only list CHECK as the category. It is necessary for you to list the description of the purchase and the category.

All Spending Must Be in a Budgeted Category

It is critical that every transaction falls into one of your budgeted categories. Otherwise, you will not have an accurate picture of how you are doing in meeting your Spending Plan.

Additional Resources

You now have what you need to develop a Spending Plan, track your expenses, and monitor your progress. While this is a foundational piece of being a faithful steward of what God has entrusted to you, Compass has amassed a host of helpful resources on their website at www.compass1.org/resources/.