# BUILDING A BETTER BUDGET

**Why Budget?**
If you are one of the many people for whom the word "budget" is the same as the word "denial," you may be surprised to learn that the opposite is true. A well-designed budget is the best way for you to reach goals and achieve financial independence without having to sacrifice all of life's pleasures.

Budgeting means analyzing what you have coming in and then developing a reasonable and goal-oriented plan for what goes out. Though your budget should be as unique as you are, there is a common rule: expenses should never exceed income. It should also be livable – flexible enough to allow for some changes, but not so loose as to be ineffective. Essentially, a budget is a tool to make the most out of your money. With it, you will be able to identify and eliminate wasteful spending while keeping and even adding to those expenses that are truly important to you.

**Obstacles to Getting Started**
Various psychological obstacles prevent many people from starting a budget. Each person has his or her own reasons for delaying the budgeting process.

It is easy to put off budgeting if you have a negative association with it in the first place. Therefore, keep in mind that budgeting is not about hardship, but about reaching your goals. And the sooner you start, the faster you will reach those goals. Another common internal block is the belief that there will never be enough money to pay for bills, much less save for an expensive goal. Yet many people fritter away countless dollars on unintended purchases simply because they don't budget. A plan that you develop based on your income and needs will enable you to prioritize your expenses – redirecting your cash to where you really want it to go.

The past holds the key to the present. What you did up until today is what has led you to your current situation. You can avoid repeating past mistakes by analyzing them carefully and making a conscious decision to make healthier choices. Similarly, you can reinforce your existing strong habits by understanding how they positively impact your budget.

Sometimes people postpone budgeting because the size of their goal seems overwhelming. If, for example, your dream is to purchase a million dollar home in the next couple of years, yet you have a $20,000 annual income and no current savings, you are setting yourself up for discouragement. Use your budget to create more realistic goals for yourself.

Sometimes people put off developing a budget because they fear change. Budgeting, though, gives you the opportunity to break habits that may have prevented you from achieving your goals. For example, maybe you have become accustomed to turning to credit cards to pay for the things you want. A budget can help you stop that practice because you'll plan ahead for the things you want instead of charging them.

By concentrating on the positive aspects of developing a budget, you will be able to overcome any obstacles. Always remember that the advantages of creating an effective spending and savings plan far outweigh the disadvantages.

**Set Goals**
Goals are important to all budgets. They are the final reward that encourages you to stick to your plan. To improve the odds that you will achieve your financial dreams, all your goals should have the same basic characteristics. In the words of author Paul J. Meyer, they should be S.M.A.R.T.:

- Specific
- Measurable
- Attainable
- Realistic
- Time-bound

Think about what you really want out of your money. Would you like to repay debt, buy a new car, or save for a down payment for a home? Each of these is a good example of a strong goal: they are specific rather than vague (e.g., the goal of "saving money" or "being able to relax about money"). After you decide what you would like to save for, determine how much it will cost and the time frame for achieving it.
The next step is ensuring the goal is measurable. You should be able to break the price down into amounts that you can regularly deposit so you can monitor growth and track progress. For example, you may have a goal of taking a vacation one year from today. After researching the best deal, you have determined that it will cost you a total of $2,000. Therefore you will need

to set aside approximately $166 per month for twelve months ($2,000/12). Watching your savings grow as you advance toward your goal date will keep the drive to save strong.

Strive to keep your goals reasonable and reachable. Too modest a goal and you may not have the desire to continue, overly large and you can find yourself too discouraged to keep going.

Lastly, your aspirations should have a proposed end date. This will let you know how much you need to save each month and will help you keep your progress on track.

Once you have determined your goals, you are ready to distribute them into time frame categories. A short-term goal will take 12 months or less to achieve, a mid-term goal from one to five years, and a long-term goal will take more than five years. Many people will have more than one goal for each category. If that is the case, there may not be enough money to save for all your goals simultaneously. You will have to prioritize according to demand and desire.

The calculation for short-term goals is simple: the amount of the goal divided by the number of months you have to save. There is little time for interest accumulation to help build savings. For mid- and long-term goals, however, the calculation is more complicated if you choose to invest your savings. Years of compounding interest will greatly increase your dollar power – you can afford to save less each month because interest will add to the total. It is also important to keep in mind that, due to inflation, the cost mid- and long-term goals may be higher in the future than they are now. The total goal amount should be the estimated cost at purchase, not the current cost.

> *Example:*
> *You would like to save $10,000 in 10 years. To achieve that goal with no investment earnings, you would need to set aside $84 each month. However, if you invested your savings into an account with an average return of 7%, you would only have to save $58 each month to reach your goal.*

You can use the "How much should I save each month?" calculator at www.balancepro.net/education/calculators.html to calculate how much you should save each month factoring in the rate of return. For investments with a variable return, like stocks, use a conservative estimate of what you expect the return to be.

To record your goals and develop a savings plan for achieving them, complete the Financial Goals Worksheet on page 6.

**Establish an Emergency Account**

Establishing and maintaining an emergency savings account is key to any sound financial plan. Having money in a liquid account (one that you can quickly access without tax or penalty consequences) will prevent you from turning to your credit cards or friends and family in times of financial crisis. A good rule of thumb is having three to six times the amount of your essential living expenses readily available.

> *Example:*
> *You have determined that your total monthly living expenses are $2,400. This includes such nonessential expenses as dining out, gifts, and gym membership. However, your essentials (rent, basic food needs, gas, utilities, etc.) run you $1,500 per month. In this case, an appropriate emergency account amount would be at least $4,500 ($1,500 x 3).*

**Repay Debt while Saving for Other Goals**

If you have debt you would like to eliminate, you may be wondering if it wise to address it before putting money toward your other financial goals.

The answer is that you often can – and probably should – do both at the same time. Having an emergency fund will help you avoid using credit for unexpected expenses. And by starting the fund now - even if all you can manage is $10 per month - you will get a jump-start on establishing healthy money management habits.

You may want to put less vital goals (such as a vacation or a new computer) on hold while you concentrate on repaying credit card and unsecured loan obligations. In most cases the interest charged on consumer debt is much higher than the interest earned on savings vehicles.

Saving for retirement is also recommended while repaying debt. Employer sponsored retirement plans, such as a 401(k) or 403(b), have many advantages that can help you maximize your dollars, both in the present and the future. If you do not contribute, you will miss out on such benefits as reducing your taxable income and letting pre-tax dollars collect interest. And since many employers match contributions up to a certain percentage, you lose free money by not taking advantage of the plan.

**Delete Your Credit Card Debt**
Why prioritize repaying credit cards as fast as possible and avoid unnecessary debt in the future? Because this type of debt can be very expensive to hold onto.

Credit Card Example:
- Balance: $2,000
- Interest rate: 19.8%
- Minimum payment: 2.5% of the balance or $20, whichever is higher

If you make only the minimum payments:
- It will take almost 14.5 years to repay.
- It will cost $2,848 in interest. (And that's if you never made another purchase on it!)

**Start Saving Now**
So why do today what you can do tomorrow? Because waiting to save money until after you have paid all of your bills almost guarantees that you will put nothing aside. With money in a wallet or checking account, the urge to spend it often surpasses the desire to save it. However, by beginning with saving – depositing money into a savings account before or as other bills are paid – you can defeat the urge to postpone this very important task.

When you build your budget, you should be putting a fixed savings amount into your essential expenses. Why? Because your dreams – your goals – should take on as much importance to your budget as other necessary expenses.

**Track Where It Goes**
The last step to take before setting up your budget is to gain an accurate understanding of where you are spending your money every month. Ever wonder how the $40 ATM "fast cash" disappeared so quickly without any memory of where it went? An accurate budget depends on first being highly aware of every purchase you make.

There are several good methods you can use to track spending. However, when you begin the process, try to spend as you normally would. You can make adjustments based on your discoveries later.

- **Write it down.** Record your purchases using the Weekly Tracking Worksheet on page 7 or a small notebook. Make sure to note the date, item, and cost. Add up your spending at the end of the day and week. After several weeks of doing this, you will have a good idea of where and how you spend your cash.
- **Keep receipts.** Keeping receipts from each purchase you make and tallying them up at the end of the day is another method of tracking expenses. However, it won't be absolutely accurate if you make purchases where no receipt is given, such as a newspaper or soda from a machine.
- **Use checks or debit cards.** While you aren't guaranteed a completely accurate record, using a debit card or credit to track purchases gives you a handy electronic record of expenses. Of course, remember that using a credit card doesn't give you an excuse to expand your spending habits.
- **Monitor ATM use.** While keeping tabs on how much cash you extract from the ATM won't help you with tracking all of your purchases, it will help you become aware of how often you go and how quickly you spend that cash.
- **Use expense tracking software.** Plugging your expenses into tracking software cuts down on paperwork and makes it easier to look at your past spending habits. Some software even links to your accounts and automatically imports checking account and credit card purchases.

**Constructing Your Budget**
What does a budget look like? Remember that a budget is nothing more than a spending and savings plan. You can create it with a pen and paper using the Essential and Discretionary Expenses Worksheet on pages 8-9, or with a computer spreadsheet. Whatever shape it takes, your personal budget should include your income, expenses, and action items.

**Income**
Begin with income, as it will determine what you can afford to spend and save each month. Don't forget the primary rule of budgeting: expenses should always fit within earnings.

When completing the Monthly Income Worksheet on page 9, avoid overestimating your income. If you work overtime hours, include the extra income only if you are absolutely sure that it will continue. It is always best to use conservative figures for income. You may not be able to (or want to) work those hours in the future. Bonuses are also problematic when estimating income for the purposes of a budget – include them only if they are guaranteed.

If you are self-employed, or your income fluctuates because of commissions or seasonal work, you may have some challenges estimating your income exactly. In this case, use the previous year's income as a base and estimate whether you think you will be earning more or less. Again, be conservative. It is better to have money left over than be caught not being able to meet your expenses.

You should list both your gross (pre-tax) and net (post-tax) income. If you get a large tax refund, you may want to increase the exemptions you claim on IRS Form W-4. This will reduce the amount of money taken out of each paycheck for taxes, increasing your net income. It is better to have the extra money throughout the year to put in savings and/or pay down debt than to wait until you file your return to get the cash. However, you do not want to increase your exemptions so much that you wind up owing money come tax time. The IRS's withholding calculator (www.irs.gov/individuals) is a helpful tool for determining the proper number of exemptions to claim.

**Expenses**

When developing the expense section, you should have two columns to work with – one for what you have been spending your money on (using the tracking work you have already done) and the other for proposed spending.

Evaluate your cash flow by listing all of your expenses in the current column. Make sure you include everything. Many well-intentioned plans are tripped up by not accounting for such "unexpected" expenses as car repairs or veterinary bills. A workable budget makes room for the financial outlays that arise throughout the year. Of course, there are those truly unexpected expenses that you simply cannot plan for. This is why an emergency account should be part of your budget.

Some essential expenses will be fixed (the same amount every month, such as your rent) while others will be variable (for example, your gas and electric bill may be more or less expensive based on the season). For those bills that fluctuate, determine an average by totaling what it typically costs you for the year, then divide that amount by 12 months.

Discretionary expenses are those that if you had to, you could live without. This is not to say they aren't important – they make life fun and interesting. However, they will probably be your focal point when determining where to make cuts. Reducing nonessential expenses may be your answer to repaying debt, living within your means, or saving for a more important goal.

Total your current expenses and then subtract the sum from your current income. Are you over or under? If you find there is more going out than is coming in, don't panic. Very often this means you are charging what you cannot afford to pay with cash. This realization may be the very call to action that you need to make positive budgetary changes.

The proposed column is where you actively decide where you want your dollars to go each month. Using the current side as a guide, consider each expense carefully. If you are spending more than you are earning, some expenses will need to be reduced or cut. If you are not spending more than you are earning, you may want to keep things as they are now or you may want to rearrange your spending to better suit your wants and needs (e.g., reduce your dining out costs so that you will have money to take tap dancing lessons). As long as you are spending less than you are earning and dedicate enough money to meet your needs, you can spend your cash however you want.

Your goals are of vital importance to your budget. Again, in the proposed column, enter the amount you have earmarked for short-, mid-, and long-term goals. They are now an expense and you can "pay yourself" as you would any other important bill.

**Action Items**

The next step is to take action. If you found that your income is insufficient to pay for the expenses you consider important, consider ways to increase it. Do you have the opportunity to work longer hours or acquire part-time work? Now may be the perfect time to ask for a raise or seek out a better paying job. If you have property that you don't need or use, consider selling it. The proceeds can be an instant emergency account.

If you determine that decreasing spending will empower you to achieve your goals, act now to make that a reality. Call your cable company to change your television package, get cheaper long distance, or cancel your cell phone. Substitute dining out for eating in more often, or skip gourmet coffees and make your own. Use your creativity to brainstorm ways to cuts costs and then put them into action.

One essential action item is to open a savings account, if you don't already have one. To help you save effectively, sign up for automatic deposit with your financial institution. Your monthly savings amount can be regularly transferred from your checking account into a savings account. If your goal is to save for retirement, your employer will deduct the amount from your paycheck for you. It's up to you to make it happen.

| Action Items | Will Complete By |
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**Budget Busters**
So, how do you stay on track with your newly developed budget? Start by avoiding the budget busters that can sabotage the best-laid plans.

- **Debt –** Credit cards are wonderful tools that you can use to your advantage. But if you keep a revolving balance, chances are you are spending beyond your means. Because debt can so easily spiral out of control, limit credit card use to only when you can afford to repay the balances in full. For the outstanding balances that you currently have, contact the creditor and request that your interest rates be reduced. The lower your interest rate, the more efficiently you can repay your debt. They are under no obligation to make an adjustment, but if you have been a good customer, they might.
- **Spending –** You make powerful choices everyday. From food to clothes to a mortgage payment, you not only have the power to spend, but also to save. To help you make the best decisions possible (and to keep you on your newly developed budget), take a moment to assess your money choices before you open your wallet.

**Money Choice Assessment**
- **Do I need it? –** A want is a desire – something that if you had to, you could live without. A need is essential – living without it would cause extreme hardship. Simple? Not always. Wants can often feel like needs. Perhaps you have an expensive car payment and have to juggle bills every month to pay it. This want can mimic a need – certainly you require a vehicle to get you to and from work and perform the functions of everyday life. But does it really have to be a luxury SUV when an economy car or truck can provide the same transportation?
- **Do I need it now? –** Do you need this item immediately or can you wait for it? A good rule is to never buy without first weighing the consequences. If you have to charge it, and then pay dearly because of high interest rates, is it worth it? If you have determined that you really do need the item but don't have the funds to pay for it today, consider saving for it. You don't have to abandon what you want – just delay until you have the money to pay for it.
- **What would happen if I didn't have it? –** Simply asking yourself this question can make the difference between bringing home a shopping bag full of impulse items and saving for things that you really do want or need. So, when standing next to the 50% off sale shelf, ask yourself: what if I didn't? How would my life be affected without this pair of shoes, that DVD player, those 600 thread-count sheets? If you would be truly better off and you have the money to pay for it without sacrificing other necessary items, it passed the test. Otherwise, your options are to not buy it or buy it later after saving for it.

**Stay Motivated**
You can stay motivated to stick to your budget by using the following techniques:

- **Visualize success.** Picture yourself where you want to be financially, or tape a photo of your goals to your computer or refrigerator.
- **Stay organized.** Pay your bills on time, set up an area in your home for money management, and have your budget on hand and refer to it often.
- **Be realistic.** Recognize that you won't achieve your goals overnight and that changing habits takes commitment.
- **Monitor progress.** Enjoy the process of watching your dollars grow. Marvel at your savings account each month – it is a real achievement.
- **Expect setbacks.** They happen. By knowing that they will eventually occur, you will be prepared and won't be tempted to abandon your dreams.
- **Reward yourself along the way.** Your hard work deserves recognition from the most important person: you!

**What Are You Going to Do Now?**
Keep the plan going! Decide now what specific tasks you will need to complete to achieve your goals. What can you do today, in the next three months, this year? Mark your calendar with proposed milestones.

A well-developed budget is your springboard to financial independence. It will help you clarify objectives, organize your finances, refine spending, and attain those goals you previously only dreamed of. Success takes time. But by starting now, you will be that much closer tomorrow.

FINANCIAL GOALS WORKSHEET

| | YOUR GOALS | TARGET DATE | TOTAL NEEDED | CURRENT SAVINGS | ADDITIONAL SAVINGS NEEDED | PAY PERIODS UNTIL TARGET DATE | SAVINGS NEEDED PER PAY PERIOD | SAVINGS NEEDED PER MONTH |
|---|---|---|---|---|---|---|---|---|
| Short-term Goals (under 1 year) | | | | | | | | |
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| Mid-term Goals (1-5 years) | | | | | | | | |
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| Long-term Goals (over 5 years) | | | | | | | | |
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**Schedule your private one-on-one for personalized financial tips today!**

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## WEEKLY TRACKING WORKSHEET

| ITEM | MON | TUE | WED | THU | FRI | SAT | SUN | TOTAL EXPENS-ES | WEEKLY BUDGET | OVER / UNDER |
|---|---|---|---|---|---|---|---|---|---|---|
| Groceries | | | | | | | | | | |
| Restaurants | | | | | | | | | | |
| Laundry/Dry Cleaning | | | | | | | | | | |
| Medical/ Dental | | | | | | | | | | |
| Auto/Gas/ Parking | | | | | | | | | | |
| Other Transportation | | | | | | | | | | |
| Child Care | | | | | | | | | | |
| Personal Care | | | | | | | | | | |
| Clothing | | | | | | | | | | |
| Bank Fees/ Postage | | | | | | | | | | |
| Entertainment | | | | | | | | | | |
| Books/ Music/Video | | | | | | | | | | |
| Cigarettes/ Alcohol | | | | | | | | | | |
| Gifts/Cards | | | | | | | | | | |
| Home/ Garden | | | | | | | | | | |
| Church/ Charity Contributions | | | | | | | | | | |
| Other | | | | | | | | | | |
| Other | | | | | | | | | | |
| Other | | | | | | | | | | |
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| Other | | | | | | | | | | |
| Other | | | | | | | | | | |
| **WEEKLY EXPENSE TOTALS** | | | | | | | | | | |

Notes

## ESSENTIAL EXPENSES WORKSHEET

Household expenses are categorized into essential and discretionary. Since many expenses are variable, such as utilities and groceries, it is important to average these expenses. Other expenses are periodic (such as insurance or vehicle registration). Again, calculate the annual amount and divide by 12.

| CATEGORY | EXPENSE | AVERAGE PER MONTH | GOAL PER MONTH |
|---|---|---|---|
| Housing | Rent/Mortgage | | |
| | 2nd Mortgage/Equity Line | | |
| | Homeowner's/Renter's Insurance | | |
| | Condo Fees/HOA Dues | | |
| | Home Maintenance/Monitored Alarm | | |
| | Lawn/Garden/Pool | | |
| | Gas/Electric | | |
| | Water/Sewer/Garbage | | |
| | Internet/Cable/Satellite | | |
| | Landline/Cell Phone | | |
| Food | Groceries/Household Items | | |
| | At Work/School | | |
| Insurance (exclude payroll deducted amounts) | Health/Dental/Vision | | |
| | Life/Disability | | |
| Medical Care (exclude payroll deducted amounts) | Doctor/Chiropractor | | |
| | Optometrist/Lenses | | |
| | Dentist/Orthodontist | | |
| | Prescriptions | | |
| Transportation (exclude payroll deducted amounts) | Vehicle Payment #1 | | |
| | Vehicle Payment #2 | | |
| | Auto Insurance | | |
| | Registration | | |
| | Gasoline/Oil | | |
| | Maintenance/Repairs | | |
| | Public Transportation/Tolls/Parking | | |
| Child Care (exclude payroll deducted amounts) | Daycare | | |
| | Child Support/Alimony | | |
| Miscellaneous | Banking Fees | | |
| | Union Dues | | |
| Income Taxes | Federal/State Tax Repayment | | |
| | Estimated Tax Payments (Self-Employed) | | |
| Savings | Emergency | | |
| | Goals | | |
| **TOTAL ESSENTIAL EXPENSES** | | | |

## DISCRETIONARY EXPENSES WORKSHEET

| CATEGORY | EXPENSE | AVERAGE PER MONTH | GOAL PER MONTH |
|---|---|---|---|
| Personal | Beauty/Barber | | |
| | Clothing/Jewelry | | |
| | Laundry | | |
| | Cosmetics/Manicure | | |
| Entertainment | Movies/Concerts/Theater | | |
| | Books/Magazines | | |
| | CD/DVD | | |
| | Dining Out | | |
| | Sports/Hobbies | | |
| | Vacation/Travel | | |
| | Other | | |
| Miscellaneous | Tuition/Lessons | | |
| | Pet Care | | |
| | Postage | | |
| | Holiday/Birthday/Gifts | | |
| | Cigarettes/Alcohol | | |
| | Charity/Religious Contributions | | |
| | Other | | |
| | Other | | |
| **TOTAL DISCRETIONARY EXPENSES** | | | |

## MONTHLY INCOME WORKSHEET

Enter your gross and net (after taxes) income from all sources. For income received infrequently, such as bonuses or tax returns, calculate the annual income, then divide by 12 to find the monthly amount.

| SOURCE | YOURS | SPOUSE/PARTNER |
|---|---|---|
| Income Source/Employer | | |
| Part-time Employer/Second Job | | |
| Retirement/Pension | | |
| Child Support/Alimony | | |
| Social Security | | |
| Food Stamps | | |
| Unemployment Insurance | | |
| Support from Family/Friends | | |
| Rental Income | | |
| Other Income (variable or periodic) | | |
| **TOTAL MONTHLY INCOME** | | |