How to Budget Guide

This presentation will help you create, plan, and stick to a budget. We will address the why and how's of budgeting to not only help you get your budget up and running, but also give you tools and tips to help you stick to your budget which will allow you to start saving for the future.

- The reasons for budgeting. Many people are heasitant to being budgeting. Often people think budgeting is too difficult and complicated. Others wonder why they need create and stick to a budget. Here are a couple reasons why it's a good idea for everyone to start a budget:
    - The key to smart spending is knowing your expenses and spending less than you make. Creating a budget makes it easier to do that.
    - Budgeting allows you to identify how much you're spending and make sure your money is being used they way you want it to be used.
    - Budgeting allows you to evaluate your current spending and make goals that take into account long-term objectives. Vacation you've always wanted to take? Big purchase you want to make? Setting a goal is a great way to motivate you to jump start a budget.
    - It also allows you to track your spending and make sure you stay within your guidelines. Does it seem like a lot of your money is slipping through the cracks? Budgeting is a great way to keep an eye on your spending so you can be sure your money goes where you want it to.
- Identifying you monthly income is the first step to creating a sucessful budget. For your budget to be sucessful, you need to first figure out how much money you have coming in. Once you figure out how much money is coming in, you can determine how much you can spend. The next couple steps are going to show you how to do that.
    - To set a monthly budget, you first need to determine how much income you have.
        - The first step is to identify the *frequency of your paydays* each month.
        - Next, indicate your anticipated or actual *net income* per payday. Note that your net income is the pay you receive after taxes and other deductions have been taken from your paycheck. It is important to use net income, rather than gross income.
        - Next, list your *expenses by category.* Listing expenses by categoy will help you divide essential expenses from non-essential ones. Once you recognize which is which, it will become easier to diffirentiate and cut back on the non-essential ones.
        - Once you've listed all your expendatures, deduct that number from your net income. What you have left is your *surplus.*
    - Make sure you include all sources of income such as salaries, interest, pension and any other income–including a spouse's income if you're married.

    - If you get a salary, be sure to use your take-home pay rather than your gross pay. Taxes are usually taken out automatically, but if you're self employed or they're not taken out for another reason, remember to include them as another expense.
- Identifying monthly expenses; A good way to keep track of your budget is to make a list or chart of all monthly expenses. If one month has greater or fewer expenses, average them out over three of four months.
    - The best way to do this is to keep track of how much you spend for one month.
    - There are two types of expenses; fixed and flexable.
        - Fixed expenses usually do not change from month to month, such as rent and insurance payments.
        - Flexible expenses do change from month to month, like food or entertainment.
- Identifying upcoming expenses and allotting for unexpected expenses
    - Planning and managing your budget will allow you to make all of your scheduled payments on time or ahead of time, which is essential to a good credit rating. Then, when you need to borrow, your high credit score will pay big dividends by allowing you to borrow at the best repayment terms.
    - Items you pay for every month – groceries, child care, rent, utilities, etc. should be relatively consistent and easier to include in your budget.
    - A good rule of thumb is the 1% rule – budget 1% of the value of your home and car for various repairs and upkeep. If your car is worth $10,000, allow $1,000 per year. Some years you'll spend $0, but some years you may spend $4,000 to repace the new transmission. Follow the 1% rule to minimize out-of-pocket costs on unexpected expenses.
    - Another stradegy is to assume miscelaneous costs will be up to 10% of your monthly spending and work those costs into your budget. You may spend less than that, but if you do need it for unexpected expenses, it will already be worked into the budget and you won't have to break the bank.
    - Remember: Your budget will **always** have unexpected expenses – leave room for them!
- Creating a budget and checking to see if it's balanced
    - A budget is a simple math problem. To get the correct answer, you must use the correct numbers. You start with **NET INCOME—the** amount of money you actually receive at your payday. From that number, you subtract all your **EXPENSES** to be paid from that income—the bills you pay, the services you use, the items you buy. The difference between your income and expenses is your **MARGIN.**
    - If you do the math and come up with zero remaining—or worse, a negative number—you have **NO MARGIN.** Taking on any additional commitments, like a borrowing choice that requires a regular payment, is a recipe for disaster. If, on the other hand, you have steady net income with money left over after expenses, you have a margin with which to borrow now and repay over time.
- Readjusting a budget

- You cannot make a budget once and expect it to be your guide month after month. You must instead manage it daily and be aware of changes that might enhance or limit your financial opportunities.
- Remember to revisit your budget and categorize needs and wants. This can be a good way to cut back on unnecessary expenses.
- A budget isn't a legally binding contract that can never be changed. Rather, you *should* adjust your budget, especially in the beginning.
- Life changes like a marriage, divorce, or birth, will require a budget adjustment.

- Analyzing a budget to maximize your money and make good choices
    - It is important to make a distinction between things you want and things you need. This way, if you're spending more than you make, the things you want – luxeries, can be the first to be cut back.
    - Although it may be tough to cut back, look for items you can give up for the short term or something you can cut to make up part of the shortfall.
    - Balancing your checkbook or bank acount is an important step to maximize your money. Overdraft and insufficient funds fees are unnecessary and can really add up.
- Tracking expenses
    - Keeping an eye on your expenses may give you an idea of how they might develop over time – is your car insurance rate rising? It may be a good idea to shop around and look for another provider.
    - For some, withdrawing a weekly amount in cash may help you stick to your budget. It may be a lot earier to say no to unnecessary purchases when it will take the last of that weeks cash than when you only have to swipe a card.
    - Other options for tracking expenses include:
        - Writing each expenditure under a category column in a ledger book or notebook.
        - Using a software spredsheet like Microsoft Excel or Open Office Calc.
        - Using a personal finance software program such as Microsoft Money or Quicken.
        - You can also sign up for an online application such as Mint.
    - Don't forget: Budgeting is not about the tool, its about the plan. Budgeting with paper and pen is just as effective as the latest app or program!
    - At the end of each period, look at all your expenses. Where did you spend the most? The least? You may be surprised by how much you spend each month!
- Troubleshooting a budget
    - Your budget might not work during the first one to three months as you get it adjusted to your actual income and expenses. Keep working on it and don't be afraid to adjust the numbers up and down as you need to.
    - It's easy to underestimate how much you'll spend on some categories, especially things like food and gas. If you see that you're consistently

overspending in those categories, you might need to leave more room in those sections.
  - If you find that you keep dipping into your savings, a CD or account with early withdrawl penalties might be a good idea. Banks and other institutions pay more interest if you agree to let them use your money for a longer amount of time.
  - A budget needs to be flexible so that any unforeseen changes can be accommodated. For a first-time budgeter, one suggestion may be to calculate general monthly needs, then add an additional 30-50% as a 'cushion' until you have a better grasp on your spending habits. This cushion can help make up for the items you may not think of when budgeting, which are generally necessary expenses but may have unexpected timing. The absence of a cushion may result in you "busting the budget," which can strain both your funds and the relationships which depend on them.
  - Food costs “eating up” your budget? Eating out less may be a great way to cut back. More meals at home can mean more money for other things.
  - Living on a budget doesn't mean you can't enjoy your usual hobbies and entertainment. It just means you've decided ahead of time how much you're going to spend on those things. The point of budgeting is not to cut out all the fun things from your life – its about how to make all the pieces fit together.
  - REMEMBER: You have to actually use your budget if you want it to work! Don't just the numbers on paper and walk away from it. Refer to it often throughout the month. Track your progress to see how you're doing.
- Effect of debt on a budget
  - Some amount of debt can be alright and in some cases, even benificial to your credit rating. Nobody is expected to buy a car or a home with one large payment. The important part is knowing how much debt you have and paying it off as quickly as possible. Extending the length of your loan will bring down the monthly payment but will increase the price of the item in the long run.
  - Keeping up on credit card debt is an important part of maintaining a good credit score. Some consumers make only the minimum payment on their card balance, and while that may prevent them from defaulting on that account, it might also have some unintended effects to their credit score.
    - With the standard minimum payment of 4% being charged by major credit card companies, it will take several years to pay down a debt. Why? Because you're also having to pay an average of 18.9% interest on the credit card balance to boot, which can be disasterous to your budget.
    - Consider getting a new 0% balance transfer credit card and transfer the balances of your high interest cards. You can find these cards available along with a low interest rate also. It may take some searching but you might be surprised how quickly you can lower your debt once you do.