



## Budget Plans

Without a plan for financial success, it is difficult to know which decisions are the right ones to make. Creating and sticking to a budget will provide you with a clearer financial picture and give you a better sense of control over your money.

### The Value of Budgeting

Creating and living within a budget is not as complicated as one might think. In fact, it will simplify your life. Instead of worrying about living beyond your means, you will be in control of your spending and saving decisions.

To create a budget that will work, you must follow a simple rule: you cannot spend more than you earn over an extended period of time. Some kinds of debt are unavoidable, such as owing \$100,000 for a home mortgage loan. These debts are managed through monthly payments over a known period of time. Creating a budget will help you avoid the kinds of debt that keep you from realizing your long-term financial dreams.

The goals of creating a budget are to:

- Make your debts and expenses manageable
- Reduce debt as quickly as possible
- Have income which exceeds expenditures, thus allowing for savings
- Help you change negative spending habits
- To achieve these goals, it may be necessary to increase your earnings by working overtime or taking a second job. However, most people find it easier to control their spending. Abiding by a budget plan is a useful technique for doing this.

### Getting Started

To get started on your budget, you will need your paycheck stubs, bank and investment statements, bills and credit card statements, receipts, paper and a pen (you can also use the budget worksheet below). Ultimately, you can follow your preference of an annual, biannual, quarterly, monthly or per-paycheck budget. However, it is recommended that you begin by estimating monthly income and expenses to get an accurate sense of how much you are earning and how much you are spending over a reasonable period of time. Here are the steps involved:

Estimate your take-home pay by looking at the net (after tax) amount on your paycheck stubs. It is easy to be fooled into thinking you have more money than

you do by looking at your gross income. Take-home pay is the only pay that counts. Bank statements may also be useful to measure such non-wage income as interest, dividends, etc. Be sure to include alimony and child-support monies.

Calculate your expenditures. Identify all of your typical expenses, and list categories for each, such as mortgage payments, car loans, transportation costs, utilities, child and elder care costs, food and clothing bills, education expenses, medical bills, car repairs, retirement savings, religious contributions, entertainment purchases, miscellaneous expenses, etc. It is easy to track certain categories, such as utility bills and loans, but it may be more difficult to determine exactly what is spent on entertainment, gifts and other out-of-pocket purchases, especially if you lack receipts.

Subtract all expenditures from revenues. If you have a surplus, aim to save as much of it as possible. If you have a deficit, you will need to cut certain expenditures. In the end, your budget must be in balance. Experts recommend setting a goal of saving at least 10 percent of your earnings and having at least three months' income set aside for emergencies.

#### Tips for Living Within Your Budget

Focus on savings versus spending. Rethink your priorities. Put off buying unnecessary items today, and dedicate that money toward a future dream purchase. See if you can top how much you have saved each month.

Make wise cuts. Evaluate your expenditures by listing them in order of priority, and determine which purchases can be eliminated or reduced. Rethink big-ticket items like home remodeling to make sure they are really necessary and that you get the best return on your investment.

Document every transaction. Create a system to file and organize your revenues and expenditures. Consider buying a ledger sheet to record these transactions. Set up a filing system using plastic trays, a hanging-file cabinet or paper envelopes. File all receipts and bill stubs in different categories as you process them. Also, keep your checkbook register up to date.

Computerize your efforts. Consider buying a financial-management program such as Quicken or Microsoft Money, which can help you log every transaction, track savings and expenditures easily and balance your accounts electronically through your bank.

Monitor your budget on a monthly or weekly basis. Check the budget regularly to see if you are on track and to keep you motivated. Compare the amounts spent to the amounts budgeted, and adjust your spending habits accordingly. Pay special attention to the entertainment category.

Predetermine your withdrawals. Before going to the bank or cash machine, know exactly how much money you are going to withdraw. Make this money last a designated period of time. Write checks to yourself for different expenditures, and try to stay within those amounts.

Pay off your credit card balance each month. When using credit cards, make an entry in your financial or checkbook register for each individual charge the day the charge is made. This will prevent charge card bills from catching you by surprise without adequate cash in your bank account to cover them.

Be a team player. Confide in your spouse, and have your spouse follow these procedures as well. Once you have created a budget worksheet to properly deal with your financial situation, you will enjoy greater peace of mind knowing exactly how you have spent your money. Staying within your budget may not be easy at times, but with the right discipline and commitment, you should be able to stay on course and achieve your future financial dreams.

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