

# Budgeting *101*



## **BUDGET GUIDE**

Information to help you build  
your financial future.

## What Exactly is a Budget?

- In this economic climate, more of us are struggling to pay the bills, buy groceries, and fill up our gas tanks.
- Start by tracking your spending and income. The use of a budgeting tool to record everything is the key.
- A **budget** is a plan that shows what money you plan on earning, spending, and saving.
- A budget is also a **spending plan that you decide** upon.

## Budgeting as a Couple

If you're married or have a significant other, make sure you **set and prioritize your goals together** — without criticizing one another's spending habits. You need to know what direction you want your financial lives to take before crafting a budget to get there.

Base your budget on how much you make (income) and what your monthly expenses are. By understanding your monthly income and expenses, you will be better able to manage your cash flow.



## The Grandparent Method

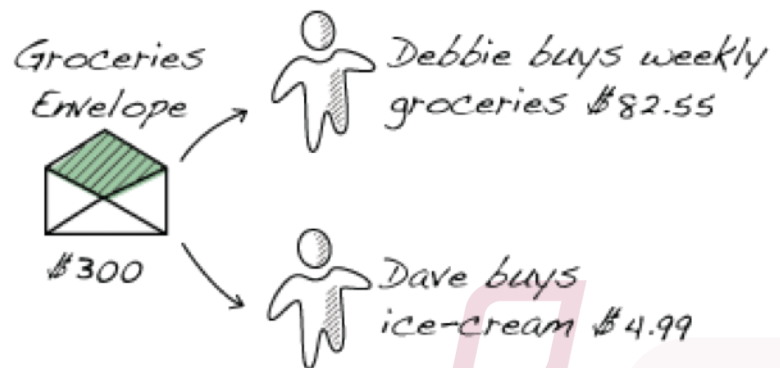
Your grandparents may have used this method: distributing their money into paper envelopes marked with the name of the expense; i.e., electricity, food, rent, etc. When a bill was due, the money was in the envelope to pay it.

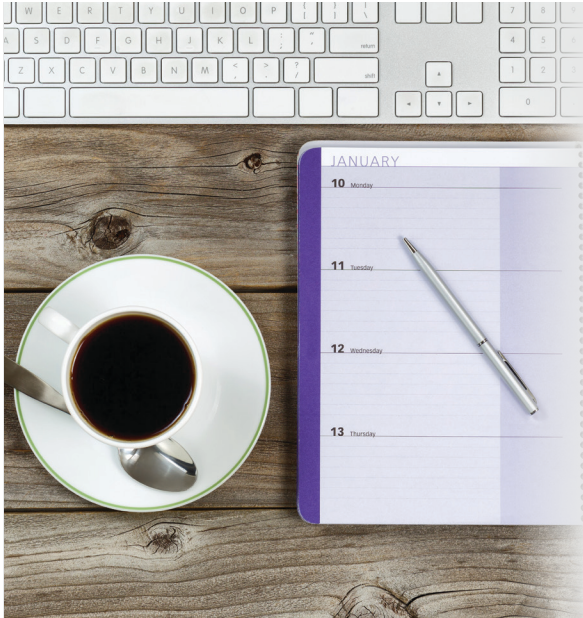
It was a **simple but effective** way to ensure that their bills were paid and that they lived within their means.

## Creating Virtual Envelopes

With a budget, you can create virtual envelopes for your expenses and set your money aside into those envelopes.

- When the mortgage bill needs to be paid, you record the check from the “Mortgage” envelope.
- If you receive a claim reimbursement from your health insurance, you make a deposit into the “Medical” envelope.
- When you get paid, you distribute the money to your envelopes to fill them up again.
- All of your envelopes and their balances should always be on the desk. A glance will tell you if you have enough money to pay the bills.





## Get Your Finances Organized

- Start with your income. Figure out your monthly take home pay. That's the amount you bring home each month after taxes, etc. are withheld.
- Prepare a list of your monthly fixed expenses. Fixed expenses are the payments that you have to make each month, many of which are the same — such as your rent or mortgage payment.
- Take into account utilities (take an average if not a set amount) and any credit payments you have.

## Know Your Flexible Expenses

Flexible (variable) expenses include food, clothing, transportation, household expenses, and personal spending for entertainment, eating out, and other items that **you have control over**.

List your monthly flexible expenses. Your flexible expenses may vary from month to month, but you can control them more readily than you can your fixed expenses. In other words, you can decide how much, if any, you will spend on them.

## Start Budgeting!

### Paying down your credit card debt

It is important to think of paying off your plastic card as a short term fixed expense. Paying only the minimum payment is expensive and reduces your ability to save and achieve a balanced budget.

### Decide how much to save and stick to it

It is important to think of savings as a fixed expense so that you are sure to save a set amount each month. Otherwise, it is easy to spend more on your flexible expenses and forget about savings.

### A common budgeting mistake is using too much cash

ATM withdrawals are easy to lose track of. Credit counselors advise relying on debit cards and checks, as they leave a paper trail.

### Being too strict

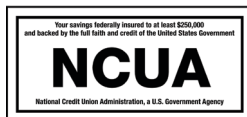
It can be tempting to try to eliminate as many expenses as possible. The enthusiasm to save money is a good impulse, but an overly strict budget is usually doomed to failure. It's okay to budget a modest amount for a hobby, service or activity that boosts your well-being.

### Spending the extras

Unexpected windfalls or raises are fun to spend, but they should go into a savings account and help you reach your long-term financial goals more quickly.



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