

Important Points To Remember When Creating Your Budget

Important Considerations When Creating Your Budget

Your budget is a planning tool that helps you make the best use of your money. It should be a living document that changes, over time, to meet your changing needs and financial goals.

Goals provide a clear idea of what you want to accomplish with your money, and they are a necessary ingredient in creating your budget. These should include short-term goals such as saving for a vacation or down payment on a car or house. Long-term goals are objectives that may take a number of years to reach such as saving for a child's education or your own retirement. Perhaps your immediate goal is to make certain that all bills are paid on time and that you can eliminate your credit card debts. After setting and prioritizing goals, the next step is to determine what resources exist to help you reach your goals. Make a list of all income sources. This will tell you what you have to work with.

Resources are the tools that are available for use in achieving our goals. Few of us have the financial resources to do everything we want so it's usually necessary to *prioritize* our goals. Which goals are most important to you? These goals should be met first.

Your after tax income is the money that is "spendable" ... it can be used to meet basic living expenses and for the attainment of your financial goals. You may find that your expenses are greater than your income; or, that your income is greater than your expenses. In either case, you will want to make judgments about what is, and is not, important and adjust your spending accordingly.

Next, itemize your expenses. Some expenses are uncontrollable ... you simply cannot change them. Most people think that taxes are an example of an uncontrollable expense. However, you *can* control your Federal Income Tax withholding to some degree. If, on April 15th, you always owe more money than has been withheld, you may want to increase your tax withholding. Conversely, if you regularly receive a sizable refund, you may want to talk with your tax professional and reduce your withholding so that you minimize the refund. Remember, that money is not growing on a money tree on the bank of the Potomac River. It is your money that the government has been using it interest free; money that could be included in your paycheck to help you reach your financial goals. As you look at your expenses, divide them into two categories.

The first category is "fixed expenses". These are the bills that must be paid every month; things like food, shelter, utilities, and car payments and similar automotive

expenses. Fixed expenses are those that cannot be eliminated.

The second category is “discretionary expenses”. These are the bills that can be significantly reduced or even eliminated. They represent items that people can live without.

If you are uncertain about how much your normal monthly expenses really are, keep a diary or expense log for ninety (90) days. Write down every penny that you spend and what it was for. At the end of these three months, you will know exactly where your money went and you will be better positioned to decide if you received “best value” for your hard earned dollars.

Take time to put together a personal “balance sheet”; a list of what you own versus what you owe. Your total assets minus your total liabilities equal your net worth.

Keys To Remember

Budgets are written on paper, preferably with a pencil, because they need to change over time ... they are not carved in stone. Plan to review your budget regularly, perhaps once every three months, and recognize that you probably will have to make changes to meet your changing circumstances and financial goals.

Give yourself some flexibility. If you make your budget too strict, you’re guaranteeing yourself frustration and disappointment. There will be expenses that you underestimated, over-estimated, or just plain forgot. You’ll want to make adjustments as you discover these.

When you review your budget, don’t be too hard on yourself if you find that you have not strictly complied with it. You’re forming new spending and money management habits. The process takes time.

If you are overspending in a particular category, it’s likely that the expense was underestimated and needs to be adjusted upwards; or, you may choose to change your spending habits so that you can live within the limits that you have set for yourself.

Your budget needs to as unique as you are... no one else’s budget will work for you. To be a tool that you can use to help you achieve your financial goals, it should reflect your values; your hopes and dreams for the future.

Set your goals and pursue them. If you fall short, don’t give up. With perseverance and determination, you can develop a budget that will enable you to achieve your financial goals.

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