

# Got Budget?

## Why Budget? Here are 12 good reasons:

1. A budget is a guide that tells you whether you're going in the direction you want to be headed in financially. You may have goals and dreams but if you don't set up guidelines for reaching them and you don't measure your progress, you may end up going so far in the wrong direction you can never make it back. Can you imagine the government or a major corporation operating without a budget? No, and neither should you.
2. A budget lets you control your money instead of your money controlling you.
3. A budget will tell you if you're living within your means. Before the widespread use of credit cards, you could tell if you were living within your means because you had money left over after paying all your bills. The use of credit cards has made this much less obvious. Many people don't realize they're living far beyond their means until they're knee deep in debt.
4. A budget can help you meet your savings goals. It includes a mechanism for setting aside money for savings and investments.
5. Following a realistic budget frees up spare cash so you can use your money on the things that really matter to you instead of frittering it away on things you don't even remember buying.
6. A budget helps your entire family focus on common goals.
7. A budget helps you prepare for emergencies or large or unanticipated expenses that might otherwise knock you for a loop financially.
8. A budget can improve your marriage. A good budget is not just a spending plan; it's a communication tool. Done right, a budget can bring the two of you closer together as you identify and work towards common goals and reduce arguments about money. That's got to be good for your sex life!
9. A budget reveals areas where you're spending too much money so you can refocus on your most important goals.
10. A budget can *keep* you out of debt or help you *get* out of debt.
11. A budget actually creates extra money for you to do use on things that matter to you.
12. A budget helps you sleep better at night because you don't lie awake worrying about how you're going to make ends meet.



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# Guilt Free Budgeting

Without a budget, many of us just muddle through, trying to stay one step ahead of our bills. If the word "budget" makes you cringe, think of the process as (1) summarizing how you spend your income and (2) creating guidelines for your spending. No blame, no shame, no deprivation, and no guilt.

Thinking of a budget as a financial diet is a sure way to set yourself up for failure. A budget is simply (1) a tool to increase your consciousness of how and where you spend your money, and (2) a guideline to help you spend your money on the things that are most important to you.

## **Step One: Set Up Categories**

The first step is setting up income and expense categories to track. A common mistake is to try to fit your spending into somebody else's categories. While basic categories such as housing, utilities, insurance, and food apply to all of us, we each have expenses that are unique to our personal situation.

A successful budget will include categories that reflect the way YOU actually spend money. For example, if you regularly eat lunch out at work, you'll want a subcategory under "Food" for "Lunches Out." Think about your hobbies (golfing, crafts, gardening) and your habits (smoking, drinking, buying a cup of coffee every day) to identify other spending categories. The idea is to become more aware of where your money goes so you can make conscious decisions about spending.

If it helps to start with a simple spreadsheet, but be sure to add and delete categories to customize the worksheet to your needs.

## **Step Two: Calculate Budget Amounts**

To get started, collect as many of your pay stubs, bills, and receipts as possible. Calculate your average monthly gross pay (before taxes) by adding the gross pay on four pay stubs if you're paid weekly, or two pay stubs if you're paid twice a month. If your pay varies substantially from pay period to pay period, try to come up with as accurate a monthly average as possible. Now do the same for any interest income, dividends, bonuses, or other miscellaneous income.

Next, start going through your bills for at least the last three months and listing monthly expenses on a budget worksheet. Make your categories detailed enough to provide you with useful information about your spending habits, but not so detailed that you become bogged down in trivial details. Remember, this has to be something you'll stick with for the long term, so you don't want it to be too much of a chore.

To come up with your monthly budgeted amounts for each category, it's important to walk a fine line between realistically reflecting your actual expenses and setting targeted spending levels that will enable you to save money. Even seemingly fixed costs such as housing or utilities can often be reduced. Start out by reviewing your bills from the last several months, and entering monthly budgeted amounts for each category. Later, when you have a better grasp on your spending, you'll look for ways to reduce many of these expenses.

## **Step Three: Record Your Expenses**

When you've identified and listed monthly estimates for your budgeted amounts, use your checkbook to record your expenses for the month in the appropriate categories. Don't forget to record your cash expenditures. Jot them down in a little notebook as you spend the cash, or scribble them on a piece of paper and stick it in a file to be categorized and totaled at the end of the month. Maybe doing it weekly would be easier. Heck, maybe even daily! You may be shocked at where your cash goes, especially if you make frequent ATM withdrawals from your bank accounts.

Subtotal the income and expense categories and (drum roll, please!) subtract the total expenses from the total income to arrive at your net income.

If you've recorded all of your income and expenditures for the month, this will be the amount of money you have left over for savings, emergency funds, etc.

If the number is negative, your expenses are greater than your income. Don't be discouraged. Chances are, your situation can be greatly improved by changing your spending habits.

If you're fortunate enough to have a positive net income, be sure to transfer most of it to a savings or investment account at the end of each month. Extra cash left in a regular checking account has a way of getting spent.

### **Step Four: Set Goals and Make Adjustments**

After you've tracked your actual spending for a month or two, you'll be better able to identify where you can comfortably make cuts and adjustments to start saving money. Consider this a process of self-discovery. Many people don't have a clear idea of where their money goes until they start tracking their spending, and then they are usually very surprised at how much they spend in certain categories over a month's or several months' time. **You can't control your money until you know how much you have and where it goes.**

Once you've got the budgeting process in place, take an in-depth look at your largest spending categories, brainstorm about ways to reduce spending in specific categories, and set realistic goals. Don't overlook the smaller spending categories, either. Sometimes these are the easiest to make cuts in because the spending may be more discretionary, and small amounts can add up quickly.

If you stick with the budgeting process past the first month or two, you'll begin to see a pattern in your spending, and you'll be able to identify areas where you can painlessly save money that you can use to build an emergency fund or save for an important purchase or goal. Cutting costs becomes a challenge that can be very rewarding, especially as you see your savings grow. Following a budget can set you free from the burden of debt and the constant worry that you won't be able to obtain your financial goals.



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