

## How to Budget

*courtesy of AICCCA member,  
Pioneer Credit Counseling*

The cornerstone of a great financial foundation is a good and thorough budget. Many times a budget can be intimidating and difficult to follow. Many of you have either tried and given up or have never bothered to start one. With the start of the New Year there is no better time than the present to establish a strong budget.

The purpose of a budget is for you to see where your money is going instead of asking where it went each month. Once you know where your money is going, you can adjust accordingly and be able to save more of your money.



The first thing that you need to do is determine your income, or take home pay. This is the amount of money that you have after taxes. Account for all the income in the house, including your spouse or income from extra employment.

Next you need to figure out your monthly fixed expenses. These are the items that are the same each month. They can include rent or mortgage, car payment, insurance, cable, electric, or student loan payments. The other fixed expense you should have is your savings account. You should make it a priority to pay yourself a set amount each month. Dr. bills can also be considered a fixed expense even if you don't have one every month. By putting a set amount aside for the doctor each month you will be able to pay the bill faster when you have to visit the doctor.

You will now need to find your monthly variable expenses. These expenses include things like groceries, entertainment, clothing, gas, or anything else that doesn't require a regular monthly payment. Try and have a category for everything that you spend money on each month. Your variable expenses are where you are going to adjust your spending, as these expenses are not set in stone. There may be some exceptions like gas; you may spend more or less based on how much you drive during a specific month. Use the past couple of months to help you estimate how much you are spending on these categories each month.

Now that you have your fixed and variable expenses figured out you need to compare that to your income. Add up all of your expenses and see how it matched up to your income. Your expenses should equal your income precisely. If you have more income than expenses than you need to find a place for that extra income. You can assign it to savings or to a category you know could use some extra funding.

Now if your expenses are more than your income than you need to find places to adjust your expenses so you are not heading into a debt problem.

When you first start a budget you are going to make some mistakes and that's ok. For the next two months thoroughly track all of your expenses. If you are buying things besides groceries at the grocery store categorize it accordingly. Find a place for every purchase so you know precisely where every dollar goes. By tracking your expenses you may be surprised to learn just what you are spending money on.

## **How to Budget** (continued)

Don't just think that a budget is only for those who are living paycheck to paycheck. It may be even more important for those who are able to pay all their bills each month and purchase all their needs and still have some left over each month. When you budget when you have money you have many opportunities to let your money grow.

With a budget you will be able to dedicate more money to your personal savings, which will bail you out in emergency and help you avoid having to use a credit card. You can also save up for purchases and pay for them with cash instead of using plastic.

If you have outstanding debt you can adjust your budget so you are able to pay more towards your debt and pay it off faster while saving a ton on fees and interest.

Another perk with having extra money each month is an opportunity to invest money to benefit your future finances. Once you have built up your savings to where you are comfortable enough handling a financial emergency, take a look at what safe investment opportunities may be available for you. You may have a company 401k plan that you can now dedicate some money to each month thanks to your budget.

A budget can open a lot of financial doors for you. It may not be easy, but if you dedicate your time and energy the efforts will pay off for you.