

# Finance Plans & Budgeting

Create the Perfect Personal Finance Plan & Budget You Can Stick To



## **Create the Perfect Personal Finance Plan & Budget You Can Stick To**

Sit amongst a group of friends and associates and mention the word budget and suddenly everyone has somewhere else they need to be. No one wants to talk about budgets, no one wants to think about budgets, and no one wants to follow a budget. However, when looked at with open eyes a budget is actually a fantastic thing. Don't believe it?

This report is dedicated to not only showing you why a budget is a beautiful thing but how to create a budget that works for you, how to get out of debt – and stay out, and how to plan for the future with confidence.

### **Why you want to create a personal budget.**

Here are three reasons “budget” may become your favorite word.

1. A budget puts you in control your money instead of your money controlling you. What did you spend your last \$100 on? Chances are, you probably don't remember. Many people have no idea where their money goes. When you set, and follow, a realistic budget your cash is freed so you're able to spend your money on things that are important to you and your family rather than spending it on purchases you won't remember buying the next day.
2. A budget improves your love life. There's little worse than the relationship stress money can cause. Debt causes tremendous stress and so does the fear that you won't be able to pay your bills. It can ruin your health and it can destroy relationships. When you form a financial plan with your family you work together as a team to reach your goals. The lines of communication are opened and the stress is eliminated because you have a plan and a team of support. Additionally, when you're all on the same page financially, there are no arguments about money, which makes better relationships with your spouse and your children.
3. Most people would agree that it is better to live within your means than to get into debt however many don't realize they're living beyond their means until it is too late and the debt has become overwhelming – and stressful. A sound budget keeps you living within your means and prevents or eliminates debt. A structured and realistic budget prevents the “Oops I spent too much on my credit card this month” mistake that we often make month after month until we're paying more on our

minimum balance than on our mortgage. Don't let it get to this point. Take advantage of the power of a budget and gain control over your financial life.

There is absolutely no downside to forming a budget and we've only scratched the surface of the benefits they provide. Take a few minutes to realistically analyze your spending habits, your income, and your financial goals. I promise you'll be glad you did.

Now that you're ready to create a budget, let's take a look at how to make the task easier.

### **Tips for creating a realistic and easy to follow budget**

Tip #1 Think positively about your money. Money, and budget, are not bad things. In fact money is wonderful! Money enables you to have a wonderful roof over your head, to wear the clothes that help you tell the world who you are and what you're about. Money buys education opportunities, cultural experiences, and money enables you to help others in need. You certainly wouldn't think money was bad if you were giving it to Katrina victims or the parents of a child with a debilitating disease. So that's the first tip to creating a budget – think positively about your money.

Tip #2 List the categories that you live by. If eating out is a major part of your life then you'll want to have a dining out category. If after school activities are a large part of your child's life and your family expenses then that is a category for your budget. Many budget forms have categories that won't make sense for your lifestyle. If you want to create a budget that you can live by, that is easy to use, and easy to follow, create categories that make sense to you and your family.

Tip #3 Be realistic about your income. This is more difficult for self employed individuals, commission based sales people, or business owners because business fluctuates. For regularly employed people with a regular and predictable paycheck, your budget should reflect your current paycheck – after taxes.

If you're dealing with unpredictable income, take a look at the minimum you've made over the past 5 years and base your budget on that income. This way, all your financial bases are covered. If you use the highest income you've made in the past 5 years then there may be months when you make less and your budget won't work. The good news is that when you use your minimum average income you will often have extra money. Plan how you'll use this extra money so it doesn't get fettered away.

Tip #4 Set realistic financial goals. Budgeting isn't about tracking your costs and going without. It's about setting and attaining your financial goals. It's about success, not failure. Before you sit down to create a budget, take a few minutes to evaluate and document your financial goals. Do you want to save for a vacation? For college? For retirement? For a new car? What are your goals? Without goals, a budget is nothing more than a detailed checkbook register.

Tip #5 Plan for fun. If your budget, and categories, are all about financial burdens a budget will be painful to create and more painful to live by. Make time, and financial room, for fun in your life. If you love to go to the movies, create a budget category for going to the movies once a month. If you absolutely love skiing or taking your children to the zoo then fit that fun time into your budget.

One of the most difficult aspects of creating a budget is finding a budgeting tool that works for you. Often the simplest strategies are the best. When budgeting, a spreadsheet is likely the simplest tool you can use. Whether you use excel, an open source spreadsheet program, the Google spreadsheet program or something else, the approach is the same and the good news is – it'll only take you a few minutes to create and update each week or month.



## How to create your budget spreadsheet

Step 1. Open Excel or your favorite spreadsheet program, open a new spreadsheet and give it a name. If you want to lighten up the budgeting process, give it a positive name like “The Best Life Budget.”

Step 2. Create 4 columns and name them: Category: Monthly Budget Amount: Actual Amount: Difference. If you want to really track your budget on a closer basis, add a column for each week of the month. It will look like this:

Category: Monthly Budget Amount: Week 1 spending: Week 2: Week 3: Week 4: Monthly Total Spending:

Step 3. Begin creating your rows and main categories. Under the caption of Income, consider the following sub categories:

- Wages
- Bonuses
- Interest Income
- Investment Income
- Misc

This information is generally found on your pay check stub and monthly bank and investment account reports.

Step 4. Your next category is your income after taxes. Consider the following sub categories:

- Federal Income Tax
- State and Local Income Tax
- Social Security/Medicare Tax
- Income after taxes

Step 5. Now we start taking a look at your expenses. It is helpful to break your expenses into categories that fit your lifestyle. Some category options are:

- Home
- Utilities
- Food
- Family
- Medical
- Transportation
- Debt
- Entertainment
- Pets
- Clothing
- Miscellaneous
- Investments and Savings
- Donations

Step 6. Within each of your expenses categories you'll want to have descriptions. For example, under the category of Pets you could have: food, veterinary expenses, grooming, and boarding

Step 7. Your very last two rows will be something along the lines of

- Total Investments and Expenses
- Spendable income minus total expenses and investments

That's it in a nutshell. Spend some time working with your categories so you have a budget that works for you and encompasses all of your expenses. The last thing you'll want is your indefinable miscellaneous category to be your biggest expense – that won't help at all! Once your categories are defined and listed, it will take you a few minutes to create the spreadsheet. For ease of use, consider printing out your budget and placing it in a location that is easy to access. Keeping your spreadsheet on your computer is excellent for archiving the information and Excel certainly makes it easy to compile the data, however it will be easier to stick to your budget if you can see how much you have to spend

## **The key to keeping an accurate budget**

Okay, we've spent a lot of time talking about budgets, but what about basic recordkeeping. Good recordkeeping is the key to being able to maintain a good budget. If you don't keep good records, where are you going to find the receipts, checks, and pay stubs you need to complete your budget? If you don't keep good records, how will you know your budget is correct? The answer is simple, keep good records and balance your checkbook!

Here are 3 great tips to make balancing your checkbook easy enough for the non-accountants among us:

**Tip #1** Keep track of all of your expenses and income. This can be tricky with electronic checks, direct deposit, and bill pay tools. Using your checkbook register, a simple spreadsheet program, or a simple home accounting software package, you can easily record every transaction. I like to keep a folder where I can write each transaction on a little post it or yes sometimes I even write them on a napkin or the back of my child's homework. All the receipts are stuffed in there, everything. Once a week, I take this folder and enter the information onto my spreadsheet. This information is useful when you have a discrepancy between what you think you have in your account and what the bank tells you.

**Tip #2** Use the worksheet your bank provides to balance your account every month. This worksheet is so straightforward anyone can use it and you can accomplish this task while watching your favorite television program at night. The worksheet usually begins by asking your for your ending balance from your bank statement. You then add your deposits and subtract your expenses that are not on your statement and you should come up with match the balance you have in your checkbook register or on your spreadsheet. By tracking your expenses and deposits as suggested in tip #1 all of your information is at your fingertips and finding any discrepancies is quick and easy. Better yet, discrepancies are less common and it will literally take you less than 10 minutes to balance, if you do it monthly. The longer you wait to balance your account, the more information you'll have to go through and the more likely it is, you'll have errors.

**Tip #3** If you do find any errors, take a look at your math first. It is easy to accidentally hit the wrong number on your calculator or to forget to carry your 1. Other common math errors include basic addition and subtraction, reversing numbers, subtracting a deposit, automatic payments not deducted, ATM/debit card transactions not deducted, and fees or dividends not accounted for.



Don't wait until you're in the same situation I was in to start balancing your checkbook. Spend a few minutes every month and do it right. You'll be glad you did.

If you don't take the time to keep accurate records, balance your checkbook and follow a spending plan you can find yourself in a bit of financial trouble. The problem occurs often, in fact many experts are considering it an epidemic with the average household having more than \$10,000 in credit card debt. That's a lot of debt. How does it happen and what can you do to prevent it?

### **Live within your means.**

Living within your means is a freeing way to live your life. It means no debt – debt is one of the most common causes for relationship stress. Living within your means gives you the freedom to save money for special things rather than always scrimping to pay your bills. Quite honestly, living within your means is the only way to live.

Here are a few tips to help keep your life on track and your financial status right where it belongs.

Tip #1 Keep track of your spending. It is important to know where your money goes. Once you have an idea of what you're spending your money on, you can begin to control it.

Tip #2 Buy a used car or at least keep your new car for more than a couple years. A new car depreciates the moment you drive it off the lot. Sometimes it depreciates as much as 50%. A used car already has that depreciation figured into the cost.

Tip #3 Don't be afraid to grocery shop with coupons or stock up on items for sale. I love it when the grocery offers buy one get one free items, particularly when the items are large ticket items like meats. Not only do I save tons of money but when I can't figure out what to make for dinner, I can just open my freezer and I have options.

Tip #4 Do buy quality clothing items, not quantity. When you're shopping for yourself don't make clothing whimsical purchases or follow the latest trend. What's better? Spending \$100 on a pair of jeans that will be out of style next season or spending \$150 on a pair of jeans you can wear for 5 years?

Tip #5 If you have credit card debt, develop a plan to get out of it. A debt elimination plan begins with reducing your interest rate. A phone call to your creditor can usually start the process. Next, stop charging on those credit cards and get busy paying them down. Pay more than the minimum balance or you'll never get it done. A great way to manage the process is to develop a monthly budget. Your budget will contain your income, expenses including debt, and your savings.

### **Saving money.**

We've talked a lot about how to control your finances but what about the future? Personal finances aren't just about making ends meet and staying out of debt. Personal finance is about having financial goals and planning for the future, because the truth is, things happen. People get sick, cars break down, vacations need to be taken, homes fall into disrepair, children go to college and hopefully retirement is part of your future.

Here are a few tips to help you save money for the little and the big expenses.

Step 1. Create a budget. We've already discussed creating a budget in detail, and it is your first step. Once you have a budget created it makes the rest of these steps significantly easier.

Step 2. Create spending goals. How much you spend on the majority of expenses in your life is up to you. You don't have to spend \$1000 a month on going to the movies. When you create a spending goal, you begin to control your money in a positive way.

Step 3. Create savings goals. Include both short term and long term savings goals. Short term goals give you more immediate satisfaction like saving for a new coat or a vacation. Long term goals like college or retirement are important too. Both types of goals will have time lines and a planned amount to save each month. For example if you're saving for a family vacation your goal may be to put away \$200 every month for two years.

Step 4. Create a separate savings account for your goals. If your savings and your checking mingle then you run the risk of using your savings to pay for bills or things you want to buy.

Step 5. Put away money for emergencies. This is particularly important in this day and age where people can get laid off from their jobs or businesses can go under without notice. Additionally, if you're self employed, a savings is particularly important. Experts advise to have a minimum of 6 months

salary set aside just in case.

Saving money doesn't have to be a painful process. With the right planning and a good budget, saving money can be a very positive and empowering experience. After all, it's worth your time and a little effort to make your future more secure, to provide a good role model for your children, and to enjoy the fruits of your labor.

Don't forget that the occasional splurge – as long as it isn't a big screen TV kind of expensive splurge is okay. A budget isn't a money diet, it is a spending plan. Leave a bit of wiggle room in your budget for a monthly splurge. After all, money is for enjoying!

### **What are you saving for?**

One aspect of a budget that is often left out is the 'savings' expense. When developing a budget or financial goals it can be tricky to figure out how far in advance you should plan. Here's how to figure it all out:

What are your financial goals? List your financial goals on a piece of paper. They might be goals like:

- To save for my child's college education
- To save for retirement
- To save money for emergencies
- To buy a new car or house

Once your financial goals are listed, here are a few calculations you can make to know how much to save.

**Emergency fund:** Experts advice people to set aside at least three to six months of cash or liquid assets (investments you can easily convert to cash) in the event of a loss of job, medical emergency, short-term disability, etc. Figure out how much you have after your current expenses to set aside this emergency fund and create a goal. If you make \$3000/month then you'll want to set aside a minimum of \$9000. This doesn't mean you have to save it all tomorrow – begin saving for it and create a plan. Maybe you'll be able to save that much in a year, maybe it'll take two.

**Debt:** Most experts agree that your total monthly debt payments shouldn't exceed 36% of your gross monthly income. This debt includes your mortgage, car payments, and credit card debt. Add up your

debt and calculate your monthly gross income to see where you are. If you're above this ration, create a plan to get your debt down quickly.

**Savings:** You've probably heard the rule that you need to save 10% of your income. This rule is a good rule to follow, assuming you are placing additional money into a retirement account. Use this 10% rule with your other savings goals including your emergency account, college education, or other goals.

**Retirement:** Experts tell us that our retirement income should be 75-80% of pre retirement income. This means if you're making \$50,000 right now, your retirement income will need to be \$37,500.

Using these numbers will help you determine exactly how much you need to save, how much you have to work with, and how long it will take you to save the money. A little basic planning and goal setting will make the process understandable and manageable. The numbers presented here, and the guidelines, are just that guidelines. Your budget and financial plan needs to meet your needs and the needs of your family. This is why it is important to set financial goals and to save with a purpose.

### **Get out of debt.**

Many people are struggling with bad credit. It doesn't take much unfortunately to derail your credit. A few missed or late payments on any credit card or loan can send creditors knocking on your door and a world of stress in your life. Here's how to get your credit back on track fast:

Eliminate credit card debt as quickly as possible. Here's how:

**Step #1** List all of your credit cards, including your outstanding balance, your interest rate, and the minimum payment percentage and the minimum payment according to your latest statement. Yes, this is going to be painful and may strike a chord of panic in your chest. Don't panic. This is the first step to gaining control of your finances and your credit back on track.

**Step #2** Once you have that list, highlight or circle the credit card with the highest interest rate. This is the card you're going to attack first.

**Step #3** Add up the minimum payments for all of your cards. This means if you have 5 credit cards, what minimum balance do you owe on each and what is the total of your minimum balances?

**Step #4** Create a budget. Yep, another scary word but a budget will tell you exactly what you have to spend each month and how much you have to pay off your credit card balances.

**Step #5** Pay the minimum balance on each credit card you have EXCEPT the one with the highest percentage rate. On this card you will pay as much as you can on top of the minimum balance. So if your minimum balance is \$125, and you've budgeted to pay an extra \$100 toward your credit card debt, you'll make a payment of \$225.

Once your balance is paid off from your highest credit card, move onto the next highest credit card percentage rate. Continue the process until your debt is paid off.

**Note:** To speed up your debt reduction plan, call your credit card companies and see if you can lower the percentage rate. If they will not lower your credit card rate, consider shopping around for a card with a lower rate. If possible, transfer the balances on your high rate cards to cards with a lower rate or consider a home equity line of credit. Keep in mind that you will likely incur a fee for this transfer or the loan. Make sure you cancel the card that you just transferred the balance from. You certainly don't need the temptation of a card with a zero balance to ruin your progress.

The key to creating a personal finance plan you can work with is to take it one step at a time. If you try to plan your future, clear your debt, and create a budget all in one day, you're likely to need a vacation or to just throw up your hands and go shopping. Take it slow and think about your budget first. It is the key to taking control over the rest of your personal finance future.

