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FINANCIAL BASICS

CREATING A HOUSEHOLD BUDGET

Statistics tell us that the leading cause of household stress is money. Yet many people do not have a system for knowing where their money goes once it comes in the door.

Budget planning

- Retirement accounts may be a good place to consider putting any surplus income.
- It is a good idea to review your budget once a year and see if you need to make any significant changes.

Keeping track of spending — so you can understand your habits and spend more wisely — is an important reason for creating a household budget.

This infosheet can be a starting place for those creating a household budget for the first time and is intended to provide helpful hints. It is based on the same principles as many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting program you may want to use.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Calculate the difference between what you earn and what you spend.
- Get your spending in line with your earnings.

After you collect the information suggested here, you may use a ledger, spreadsheet or personal finance program to create your budget.

Know what you earn

List your take-home income. Any income that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, pensions, royalties and child support payments. Gifts or bonuses may be included, but only if you are certain you will receive them in the coming year.

Key points

- Most financial experts recommend that you set aside an emergency fund with enough money to cover six months of expenses in case you are disabled or laid off.
- You do not have to create an emergency fund all at once or panic if you do not have one in place. But you could designate an account that will serve as an emergency fund and begin to put money in it. Even if you only add $10 per month, it is a good way to start.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

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Make sure you deduct all applicable taxes and prepaycheck contributions so your income total represents money you actually have to spend.

Know where you spend it

Create a monthly list of your expenses. Start with your essentials — shelter, food, clothing — and then move on to nonessential expenses.

Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards predictably.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it is easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.

If you buy groceries at Food Mart, beauty supplies at Beauty Mart and visit Wholesale Mart once per month for items that you buy in bulk, these can all be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by 12 or spread quarterly payments out over a year. The following list is a suggested starting point for categorizing your expenses.

This list offers you a way to organize an overall household budget

Housing

Mortgage payment

Rent payment

Line-of-credit payments

Other home loan payments

Home/Rental insurance

Real estate taxes (if paid separately from your mortgage)

Condo fees

Home improvement expenses

Landscaping expenses

Other municipal fees or expenses
(landscaping, trash removal, etc.)

Home decorating expenses

Utilities

Electricity

Heating

Water/Sewer

Telephone

Cell phone

Internet access

Long-distance telephone

Cable TV

Household consumables

Groceries

Takeout food

Health products and medicines

Cleaning products

Beauty aids

Dry cleaning

Transportation

Car payments

Car insurance

Car maintenance

Gas

Rental cars

Public transportation

Commuting costs

Predictable travel expenses
(for annual family trips, vacations, etc.)

Essentials

Health care expenses

Pension contributions

Savings contributions

Mutual fund account contributions

Investment account contributions

Emergency fund (See first page for information on keeping an emergency fund.)

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Entertainment

Dinners out

Club memberships

Movie and theater tickets

Video rentals/streaming

Tickets to sporting events

Vacation expenses

Child care

Daycare

Tuition

Music lessons

Babysitters

Birthday party gifts

Student loans

School pictures

School activity fees

College savings accounts

Other

Charitable donations

Gift expenses for

- birthdays
- holidays
- graduations
- showers, weddings, etc.

Hair care

Hobby expenses

Separate essential from nonessential expenses

Before you compare your income with your expenses, use a highlighter and quickly separate your list into items you consider essential and those you consider nonessential. This quick step will be helpful when you are looking for places to trim expenses.

Calculate the difference between what you earn and what you spend

Add up your monthly expenses and compare them with your monthly income.

Get your spending in line with your earnings

After you have added up your monthly expenses and compared them with your monthly income, you will be left with two possible courses of action, depending on the results.

If your expenses are greater than your income, it is time to get serious. Next to the column in which you recorded last year's expenses, make a new column for your current year budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you may want to take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of how you can get expenses in line with your income.

If your expenses are less than your income, you may want to consider as options an emergency fund, investments, retirement accounts and college planning accounts. You may want to look at nonessential items and cut where you can to provide for these other accounts. You may also want to build in an inflationary increase in certain items.

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