

Chapter 1:

How to Make and Stick to a Budget



How to Make and Stick to a Budget

What's the first thing you think of when you hear the word *budget*? If you're like most people, you think of saving money—and this means making sacrifices. This is why the word budget makes people wince. And, since making a budget will make you aware of all the things you spend money on that you probably should not, it may not be pleasant.

But it's really important to make and stick to a budget. Most young people live from paycheck to paycheck and struggle to get by. They don't have a budget—but they should, and you should, too. A budget will help you save money for emergencies, major events and, eventually, retirement. And it doesn't mean you can't splurge once in a while on a designer jacket or an extravagant dinner.

A budget is a roadmap for spending. It includes how much you earn and how much you spend on necessities such as rent, student loans, utilities, and groceries. It also includes money spent on fun, such as movies and

meals at restaurants. A budget can help you see how much money you have left after paying for necessities. Then you can decide what you should do with this money.

Living without a budget is stressful. You might just pay your bills and spend the leftover money however you like, without thinking ahead. You might run out of money in between paychecks. But what happens if you need gas in your car or you need to pay for public transportation? How will you get to work? Credit cards can be a temporary solution, but you'll have to pay that bill next month, or over time, with interest. This is a problem you can usually avoid if you stick to a budget.



Benefits of Having a Budget

A budget is beneficial for many reasons. It gives you the information you need about where your money goes each month, so you can be sure you can pay your bills on time and don't run out of money before your next paycheck.

This is especially helpful if you use credit and debit cards because then



you are not handling cash and seeing exactly how much money you have left. A budget helps you avoid late fees and interest charges, which can take a big bite out of finances. It lets you control your finances, rather than letting your finances control you.

A budget can help you stick to a savings plan. Tempting purchases may make you feel good, but if you have a long-term savings goal, such as a car or a house, a budget can give you motivation by reminding you about what's important to you. Once you decide how much you have to spend out of each paycheck on necessities and set aside money for savings and fun, you can easily see that a splurge purchase has to come from savings and will affect your plans for the future. You might even see that you can save more money by making a few small changes and reach your savings goal more quickly.

A budget can help you prepare for emergencies. Your car might break down. You might get sick and have to miss work for an extended period of time. You might have to move to a new apartment. If you have money in a savings account, you can continue to pay your necessary bills during an emergency. Saving money takes time, so you should include an amount of money to save in your budget right away and stick with it. Your goal should be to build an emergency fund

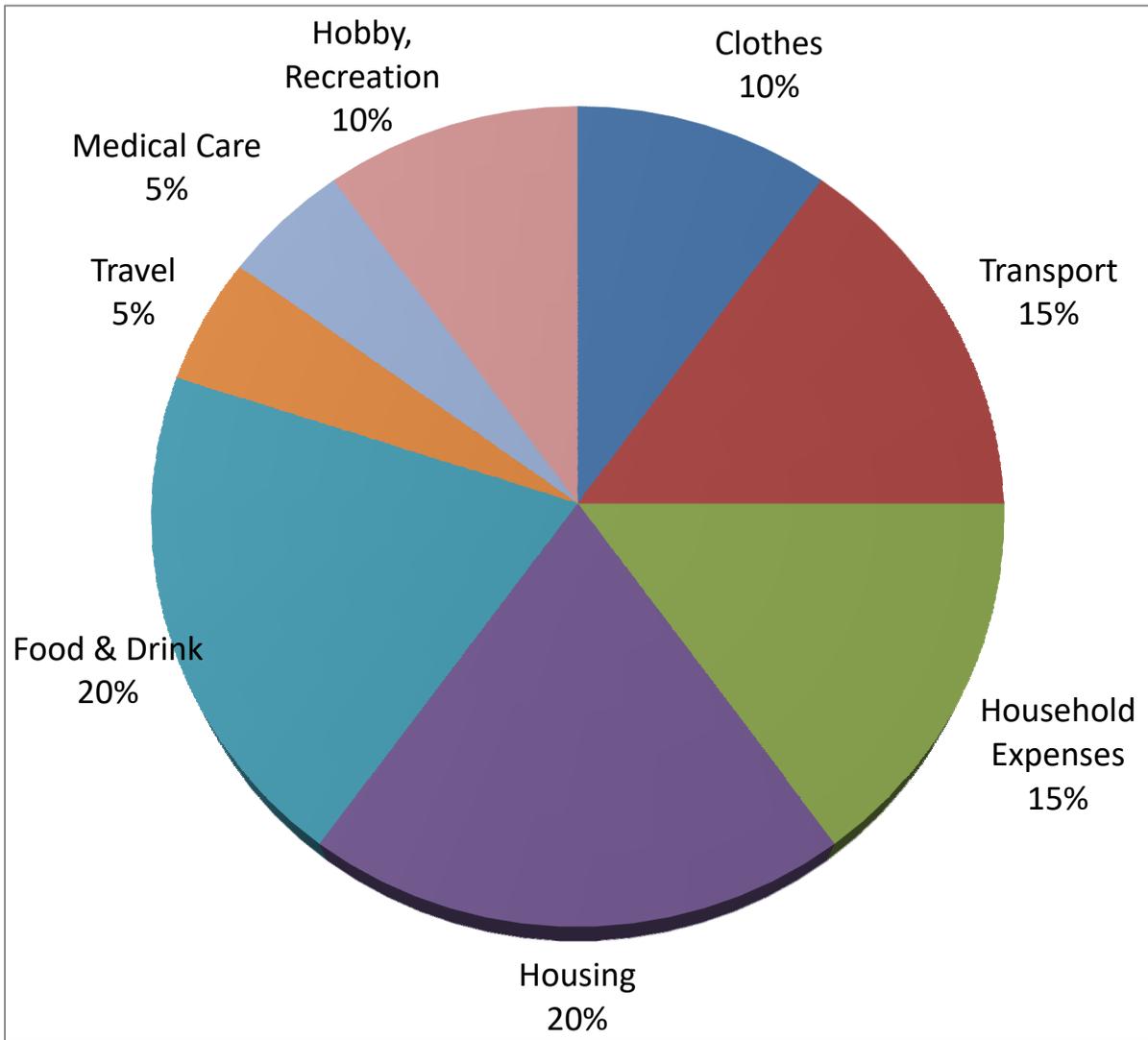
that will cover from three to six months of living expenses.

Once you've reached this goal, keep adding a small amount of money to the emergency fund regularly. Keep your emergency fund in a savings account or a different account. Don't mix this money with the money you use for living expenses. After you have money set aside for emergencies, you can begin saving for retirement.

A budget is also beneficial because it shows you where you're going wrong. If you are spending a lot of money on cable channels you don't watch, for example, or buying expensive clothing, you may want to reconsider these expenses.

Can you cut back on dinners out, or daily coffee stops? You might decide to rethink your entertainment budget and shift some of that money into savings instead, or even spend less on going out to the movies if you have a variety of cable channels at your disposal.





Making a budget can help you see how you spend your money.





How to Make a Budget

The first step in making a budget is to consider how much you earn. You might be paid weekly, or biweekly, or on some other schedule, but a good number to focus on is a monthly amount. If your hours vary, look at the last six to twelve months and calculate your average monthly wages. Also consider any other income you have, such as tips, commissions, or infrequent work, interest earned on investments, as well as funds you receive from other sources such as family.

Then figure out where your money goes. Track all of your daily expenses for a month—every cup of coffee and bus ticket. Write down what you spend each day and what it is for. Use a spreadsheet. Account for every penny. Your expenses will fall into three categories:

1. Fixed needs
2. Variable needs
3. Wants

Fixed needs are necessary and usually the same from month to month. They include expenses such as rent, phone bill, car payment, student loan payment, credit card payment, and electric bill.

Variable needs are also necessities but they are not the same from month to month. They include expenses such as gas, food, pet supplies, and necessary clothing.

Wants, on the other hand, are unessential expenses. They might include meals at restaurants, movies, electronics, gifts, and unnecessary clothing.

Add the total amount of money you spend in a month on fixed needs, variable needs, and wants. Then subtract your monthly expenses from your monthly earnings. If you have a surplus—money left over after your expenses—you are in good shape.

However, you still may be able to cut back on unnecessary expenses and save money. If you are in the red—your expenses are greater than your earnings each month—you need to reduce expenses, increase your earnings, or both.



Sample Budget	
<i>Monthly Income:</i>	
Household net wages	\$2,880
Other (babysitting)	\$120
Total	\$3,000
<i>Monthly Expenses:</i>	
Rent/mortgage	\$800
Car loan	\$260
Student loan	\$220
Car insurance	\$160
Cell phone	\$80
Internet	\$50
Cable	\$120
Utilities	\$270
Food	\$360
Clothing	\$190
Entertainment	\$400
Other (gifts, etc.)	\$80
Total:	\$2,990
Monthly income (\$3,000) minus expenses (\$2,990) = \$10	

This sample budget cuts expenses very close to income, with just \$10 left over every month to put into savings or pay off debt. Changes need to be made to this budget to free up money for savings. Use the following work sheet to calculate your own budget.



BUDGET WORKSHEET

Month/Year: _____

Monthly Income

Wages _____

Tips _____

Other Income _____

TOTAL MONTHLY INCOME _____

Monthly Expenses

HOUSING

Mortgage/Rent _____

Utilities (Electricity/Water) _____

Credit Cards _____

Insurance (Homeowner's, Renters, etc.) _____

Loan Payments _____

Other Housing Expenses (Cable, Internet, etc.) _____

FOOD

Groceries/Household Supplies _____

Restaurant and Other Food _____

TRANSPORTATION

Public Transportation _____

Vehicle Loan _____

Gas for Personal Vehicle _____

Parking, Tolls, etc. _____

Maintenance & Supplies (oil, etc.) _____

Vehicle Insurance _____

HEALTH

Health Insurance _____

Medicine/Prescriptions _____

Other (Dental, Vision, Copays) _____

PERSONAL

Childcare or Support _____

Other Family Support _____

Laundry _____

Clothing, Shoes, etc. _____

Charitable Gifts, Donations, etc. _____

Entertainment (Movies, etc.) _____

Other (Haircuts, etc.) _____

DEBT & FINANCE

Debt (Credit Cards, etc.) _____

Student Loans or Other Debts _____

Fees (Bank, Credit Card, Debit) _____

Prepaid Cards, Phone Cards, etc. _____

MISCELLANEOUS EXPENSES

Supplies (School, etc) _____

Pet Care _____

Other _____

TOTAL MONTHLY EXPENSES _____

TOTAL MONTHLY INCOME _____

- **TOTAL MONTHLY EXPENSES** _____

= _____



MONTHLY EXPENSES
template

INCOME +
- SALARY
- EXTRA INCOME

EXPENSES -

	ELECTRIC ✓		AUTO MAINTENANCE
	WATER ✓		OIL ✓
	FOOD ✓		PHONE ✓
	CREDIT CARD		INTERNET
	HOUSE ✓		MEDICAL
			TRANSPORTATION

SAVINGS ↓

