

# BALANCING the BUDGET

## Fitting It All In

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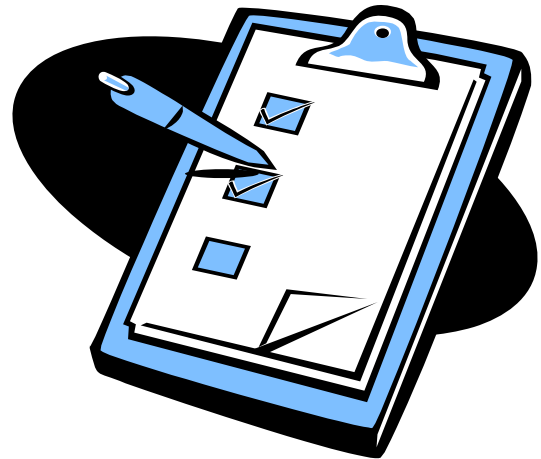
**Tips & techniques  
to help juggle  
income & expenses,  
and still meet  
financial goals**

Melanie D. Jewkes, M.S.  
Utah State University Extension Assistant Professor  
Family & Consumer Sciences



## The **BUDGETING** **PROCESS:** How It's Done

Budgeting is an easy-to-follow step-by-step process—once you learn the reasons budgets tend to fail, and why most people give up. Follow these steps, using the rest of the packet as a resource and guide, to fool-proof your budget.



**Step #1: List Financial Goals.** What is it that guides your spending? What do you and your family want to accomplish—how do finances fit into that? Here are some examples of financial goals:

- To “make it” each month & avoid late fees
- To get or stay out of debt
- Build an emergency fund
- Build retirement savings
- Buy a nicer car
- Buy a house
- Remodel/redecorate home
- Fund children/grandchildren’s education

To help accomplish these goals, it’s good to have more specific details on how the goals will be accomplished. **See page 5** of this packet. Some of the details may need to be left blank (such as amount to save monthly) until your monthly expenses are more pinned down (**see steps 3-5**).

**Step #2: List Monthly Income.** Where does your income come from? Remember to include such sources as:

- Income from wages & salary from all jobs
- Child support or alimony receiving
- Food Stamps, heat assistance

Most likely income varies month to month, so

this step, along with **step 3**, may need to be done every month. But once you make the original listing, it will be much easier.

**Step #3: List Monthly Expenses.** Where does your money go? For a list of expenses, **see page 6**. *Include money put into savings as an expense.*

Some expenses you will know off the top of your head, such as rent/mortgage. To make this more accurate, look at available records to see how much you usually spend. Consider these sources for figuring out how much was spent over the last few months:

- Bank or credit card statements
- Checkbook register
- Receipts

If these sources don’t provide enough details to fill in a complete budget, you may need to simply guess. For example, if you tend to go to the grocery store once a week and normally spend about \$75 per trip, list that you spend \$300 on groceries each month. If that isn’t helpful, hold off on monthly figures and go to **step 4 & 5**.

**Step #4: List Non-Monthly Expenses.** Also known as “special expenses,” these are expenses that you know are coming, and that you need to pay for, but do not pay every month. A few examples could include:

- Christmas gifts, travel for Christmas, Christmas food & décor
- Other holidays
- Car registration
- Bi-yearly or quarterly insurance premiums
- Birthdays
- School registration or tuition

See **page 7** for more examples and **page 8** to make a list for your own tracking purposes. Once you have made a good list of the coming year, add them all up for a yearly total. Then, divide by 12 months. For a great non-monthly expense calculator and calendar, visit: [www.savingyourfuture.org](http://www.savingyourfuture.org)

This will give you a monthly figure that you should include in your monthly budget. Pay this amount every month into a separate savings account. Withdraw from that account when those irregular expenses come. Think how nice it will be the next time your car registration comes and you have the money set aside. Or when Christmas comes, there is no stress as to how you will pay for all the gifts and events—you already have the money set aside.

**Step #5: Track Spending.** Tracking does many things for you. It:

- Shows where you actually spend money
- Enables you to have a more accurate and realistic budget
- Makes you aware of areas you may overspend
- Makes you aware of expenses you may have forgotten to include in your listing of both monthly and non-monthly expenses

*Remember—budgeting is telling your money where to go, instead of wondering where it went.*

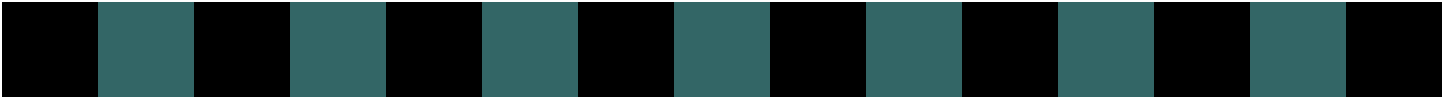
- Helps you realize exactly how much you spend—sometimes more, sometimes less than expected

Track for a whole month to begin with, and then just to make sure you are inline with the budget each month. To track, save receipts or consider carrying a little memo pad in your purse or pocket and jot down what, where, and how much you spent. At the end of 2 weeks or so, add expenses and categorize. Put these figures on a list of expenses (**see step 3**) to project your spending for the next month. Note: if you use debit/credit cards or online bill pay often, a lot of tracking is already recorded for you.

**Step #6: Add 'em up.** Now that you have a better idea of your regular and irregular expenses, total the expenses and subtract from total income. Where do you stand monthly? You will be in one of three situations:

- Expenses exceeded income (in the negative)
  - If this is the case, see **page 9** for ideas on cutting back on expenses
- Income exceeded expenses (have money leftover)
  - If this is the case, refer to your goals and decide where you want to put your extra money, and then include that amount routinely in your budget
    - See **step 7** for more financial management tips to protect you and enable you to succeed
- Came out exactly even

Ideally, you want to come out exactly even because your financial goals and savings were also included in your expenses (right?).



**Step #7: Fool-Proof.** In order to make your budget more or less the same from month to month, and therefore making the budget process more smooth, there are a few more things to do.

First, to protect your budget from unforeseen financial disasters in the future, **build an emergency reserve**. It's recommended to have 3-6 months of expenses in a high-yielding savings account. This should only be used for true emergencies.

Next, **include a miscellaneous category** in monthly spending for the unexpected (but not emergency) expenses, such as buying flowers for a coworker who retired, or for a small gift for your child's friend's birthday. These expenses aren't usually drastic, but having a "misc" fund can help solidify your budget and protect you from drawing from savings or going negative each month.

Finally, give you and everyone in your household **a personal allowance**. This will ease the "Mom/Dad, can I have money for..." questions, and will protect *you* from spending too much. It helps teach personal responsibility and prioritizing, and also makes budgeting not so bad when you get your own little sum of money to spend on whatever you'd like.

For example, one person told of how a \$1 a week saved his budget and his marriage. Before that allowance, he spent upwards of \$10 a week (\$520 per year) on vending machine drinks, chips and candy. Having just \$1 gave him the choice between buying the drink now or saving the money for later. He was still able to have a treat, and he saved \$468/year.

**Step #8: Keep Your Eye On The Ball.** Make sure that you follow-through with the last 7 steps, especially with your goals. Keeping your eye on the goals will help make budgeting easier.

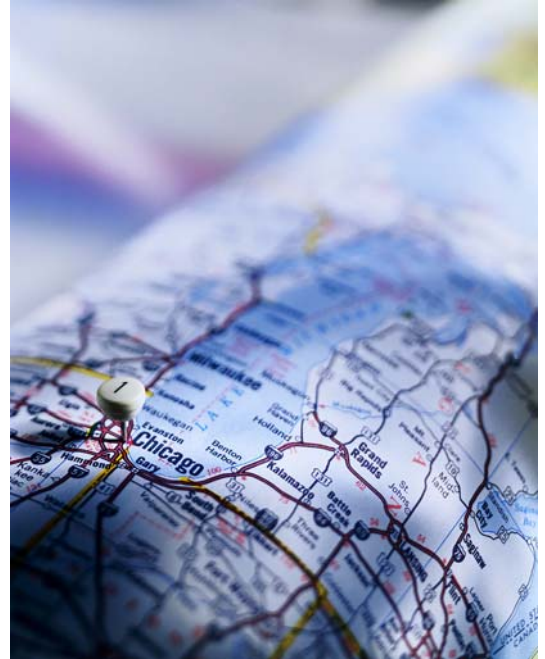
Also, keep your eye on the ball when it comes to spending. Now that you've made a list of your expenses, it's up to you to make sure that you stay within that limit. Consider the following ideas.

- **Envelope system:** place a set amount of cash in a labeled envelope. For example, you decide to spend \$30 a month on entertainment. Label an envelope "Entertainment" and place in it \$30 cash. When that cash is gone, you are done spending money on entertainment until the next budgeting period.
- **Checkbook method:** split your checkbook into columns for categories such as groceries, gas, spending money and carry the balance down that column. Be sure to keep a running down the far right column to make sure you don't spend more than what's in the bank. Visit this website: [www.montana.edu/wwwpb/pubs/mt8703.pdf](http://www.montana.edu/wwwpb/pubs/mt8703.pdf) for the Montana State University Extension guide and to order pre-made checkbook registers.
- **Computer:** Try formal programs like Quicken or Microsoft Money, or self-designed spreadsheets, whatever works best for you. It is also now possible to download statements from banks and credit card companies into your Quicken/Microsoft Money programs, so most of the work is done for you.
- **Combination:** Try using more than one of above methods or create your own.

## GOALS: Your **BUDGET MAP** To Guide Spending

A budget does not *take* time; it *saves* time. It doesn't *prevent* you from having what you want; it *allows you to achieve* those financial rewards you're seeking. If you're planning your own financial revolution, you need a map to guide you—your budget.

Goals can be split into three categories: Short term (to be accomplished within one year), Intermediate (1-5 years) and Long-term (more than 5 years)



### What are your financial goals?

Goal Title	Description (be specific—avoid words like “nice” “big” “about”)	Total \$ Needed	Target Date	Monthly \$ To Set Aside	Saving Strategies
Example of intermediate goal: Buy First Home	.25 acre lot, 3 bath, 4 bedrooms, no more than 30 miles from Salt Lake City	\$37,500 for down payment (15% of \$250,000)	May 2012	\$781.25	Put pay raise into savings, when done paying off student loans put that amount into savings, use coupons/ weekly ads when grocery shopping, get extra summer job (save that income)

# MONTHLY BUDGET: How Much Do You Earn and Spend?

Use this spreadsheet to get started as you list where your money is and isn't going. **NOTES:** If an item comes out of your paycheck (for example, health insurance), don't list it separately.

If an item is included in another payment (for example, homeowners insurance is often included in a mortgage payment), don't list it separately. Also, if an item is not paid monthly (for example, magazine subscriptions), list it on the non-monthly/irregular expenses reminder on [page 7 \(see step #4\)](#). Ideally, your budget will be the same each month of the year. It's a good idea to make and review your budget before each month starts.

SAMPLE MONTHLY SPENDING PLANNER								
CATEGORY	DESCRIPTION	PLANNED	ACTUAL	CATEGORY	DESCRIPTION	PLANNED	ACTUAL	
Net Monthly Income				Donations	Church/Charity			
				Medical	Doctor/Dentist			
					Prescriptions			
TOTAL					Hospital			
	Savings	Special/Irregular Expenses			Transportation	Gasoline		
		Emergency				Maintenance		
Retirement				Parking				
Monthly Payments	Rent/Mortgage			Food	Groceries			
	Alimony/Child Support				School/Work Lunches			
	Child Care				Eating Out			
Loans	Automobile			Clothing & Personal Care	New Clothes			
	Automobile				Laundry/Dry Cleaning			
	Furniture or Appliances				Personal Supplies/Hair Cuts			
	Finance Company			Child Care Items-Diapers & Formula				
	Installment			Household Maintenance	Supplies			
					Repairs			
Credit Cards				Miscellaneous	Entertainment			
					Gifts			
					Organizations, Sports, & Hobbies			
Utilities	Electricity/Water/Sewage				School Expenses			
	Heating				Subscriptions-Magazines & Newspapers			
	Cable/Internet				Vacations			
	Telephone				Pet Supplies			
	Cell Phone				Personal Allowance			
Insurance	Automobile				Cigarettes, Tobacco, & Alcohol			
	Health				Other			
	Life			<b>TOTAL</b>				
	Renters/Homeowners			<b>Difference in Income and Expenses</b>				
	Disability							



## NON-MONTHLY EXPENSES: Perfect Your Monthly Spending

Some expenses occur only once or twice a year. For example, car insurance premiums, property taxes, expenses related to holi-

days, special events, vacations, and expenses for seasonal activities (skiing and hunting). Use this form to remind you *when* these occur and *how much* they cost. This will help make your budget more exact month to month.

### SAMPLE OF "REMINDER of SPECIAL EXPENSES"

January  Oil changes 2 @ \$25 Magazine subscription \$30  Total \$ <u>80</u>	February      Total \$ _____	March  Bob's B-day \$25   Total \$ <u>25</u>
April  Car registration \$150 Oil changes 2 @ \$25 Medical co-pay \$15  Total \$ <u>215</u>	May  Jill's b-day \$25 Mother's Day \$20   Total \$ <u>45</u>	June  Father's Day \$20   Total \$ <u>20</u>
July  Camping trip \$100 Oil changes 2 @ \$25  Total \$ <u>150</u>	August  Mary's B-day \$25 School clothes \$150   Total \$ <u>175</u>	September  Medical co-pay \$15   Total \$ <u>15</u>
October  Oil changes 2 @ \$25 Jack's B-day \$25  Total \$ <u>50</u>	November  Thanksgiving Dinner \$100   Total \$ <u>100</u>	December  Car registration \$150 Christmas \$150  Total \$ <u>300</u>

Add the total \$ amount from each month to find out how much you spend on these special expenses each year. Then, divide this amount by 12. This is how much you should be putting away each month, so that when that expense comes around, you have the money waiting to be spent. This is one thing that will save your monthly budget!

Total amount spent during the year =  $1200 \div 12 = \mathbf{\$100}$  Amount to save each month

Some expenses occur only once or twice a year. For example, car insurance premium, property taxes, expenses related to holidays, special events, vacations, and expenses for seasonal activities (skiing and hunting). Use this form to remind you *when* these occur and *how much* they cost.

### REMINDER of SPECIAL EXPENSES

January	February	March
Total \$ _____	Total \$ _____	Total \$ _____
April	May	June
Total \$ _____	Total \$ _____	Total \$ _____
July	August	September
Total \$ _____	Total \$ _____	Total \$ _____
October	November	December
Total \$ _____	Total \$ _____	Total \$ _____

Add the total \$ amount from each month to find out how much you spend on these special expenses each year. Then, divide this amount by 12. This is how much you should be putting away each month, so that when that expense comes around, you have the money waiting to be spent. This is one thing that will save your monthly budget!

Total amount spent during the year = \_\_\_\_\_ ÷ 12 = \$ \_\_\_\_\_ **Amount to save each month**



## CUTTING BACK: What is your MONKEY TRAP?

In order to catch spider monkeys, hunters in South America simply walk through the jungle and drop heavy containers on the ground. These containers have a very narrow top and a wider bottom. Inside the containers the hunters drop a special kind of nut which is particularly attractive to the monkeys. Sometime later, the spider monkeys come down from the tops of the trees, smell the nut, but the tops of the containers are so narrow they have a tight squeeze to get their hands inside. Once they grab the nut at the bottom, their fist is too large to remove it through the opening. And the container is too heavy for them to carry.



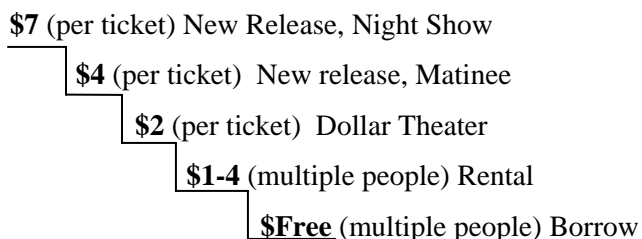
*What are you holding on to that may be inhibiting you from reaching your financial goals?*

So instead of letting go of the nut, the monkeys just sit there until the hunters come back, pick them up, and throw them in a bag. The spider monkeys are not prepared to let go of a small nut in order to gain their freedom.

For additional ideas on cutting back expenses and building savings, visit: <http://extension.usu.edu/saving/> and click on “Slashing Expenses Series”

**Cutting Expenses: The Step Down Principle** A simple, visual way to see your spending possibilities in many categories. The top step is the most expensive, the bottom step is the least expensive alternative.

### Example: Going to the Movies



Use this visual principle to help cut back in areas, if needed, to reach your financial goals. It can also be used with number of times something is purchased. Try it with any category—gifts, clothing, groceries, vacations, eating out, transportation. The great part of the step down principle is that you don’t have to completely take out a purchase or go to the very bottom step. Even stepping down one or two steps can make a significant impact on spending.

## REASONS BUDGETS FAIL: Fool Proofing Your Budget

### Budget Busters Why People Tend Not to Budget

- #1 Don't know why you need a budget.
- #2 Don't know how much to plan.
- #3 Too many irregular, unplanned & miscellaneous expenses.
- #4 Not enough money to cover expenses.
- #5 Don't know how to organize it.
- #6 No money for me to spend—no fun!

### Solutions to Budgeting Woes (No Excuses Now!)

- #1 Make descriptive financial goals.
- #2 Track your spending, and use bank or credit card statements to figure out how much you have been spending.
- #3 Use a non-monthly/irregular expenses reminder with a separate account. Have an adequate emergency fund and adequate insurance coverage. Include a miscellaneous expense fund in your monthly budget.
- #4 Utilize “Step Down Principle” and other money saving ideas. Also realize that we, as a whole, will probably never have enough. It's more about managing the money we have (no matter how little or large) and prioritizing.
- #5 Try different budgeting/tracking techniques, such as the envelope system, checkbook register, or computer programs. Experiment until you find the way that works best for you.
- #6 Give yourself (and all members of household) a personal spending allowance. This way, budgeting isn't just about paying the bills.

**MAKE IT PAINLESS.** Here are a few tips to make the above tips a little easier—so you don't even feel like you're budgeting.

- **PAY YOURSELF FIRST**—pay a pre-determined amount (even if it is only \$5) toward your goals before you pay for anything else. Have it come out of your paycheck via direct deposit or set up an automatic withdrawal from a checking account to a savings account.
- Make as many bills as possible **AUTOMATIC**. Most services provide the option of paying bills automatically, whether it be by charging a credit card, or pulling it out of a checking account.
- Use **CASH**. When the cash is out, there is no more spending.
- Treat **CREDIT CARDS LIKE DEBIT CARDS**—pay in full each month from your checking account and **DON'T** carry a balance. Set automatic payments as the day your statement comes out.



Source Used:

Johnson, A.C. 2008. The Financial Checkup, 3rd edition. Available through Watkins Printing, 110 West 1200 South, Logan, UT 84321. 435-752-5232 or 800-303-5235.

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