

Creating a Budget

from the American Bankers Association

The key to a good budget is including as much information as you can, so that you can adequately prepare and plan. It's important to keep accurate records of your spending so you'll spot places where you can save money and know how much you can reasonably spend.

What is your current income? The first step in creating a budget is to total all of your income, or money coming. We recommend you do this on a monthly basis. Include only your take home pay (this is your salary minus taxes and deductions). Your income may also include tips, child support, investment income, etc.

What are your monthly expenses? Next, you'll need to track your expenses, or money going out. Some of your bills will vary from month-to-month, so use a monthly average. For example, if your cell phone is \$45 one month and \$55 the next, estimate \$50 per month. For annual bills, divide the yearly cost by 12 for a monthly figure.

How much of your income should be spent? Rent or mortgage payments plus your credit obligations – should not exceed 35 to 40 percent of gross monthly income. The amount you owe on credit cards, monthly car payment, student loans and other monthly payments should not exceed 10 to 15 percent of your take-home pay.

Put it in writing. Document and categorize your expenses. Tally up everything you spend money on. Don't forget your daily coffee or snacks. Those can add up quickly!

Do the math. The last step in creating your budget is to total all of your expenses and subtract them from your total income.

How'd You Do?

Did you have money left over at the end of the month – or too much month left at the end of the money?

- If your income and expenses are EQUAL ...
 - You might be living paycheck to paycheck. Cut expenses and develop a savings plan in case of emergencies or unexpected expenses.
 - If your income and expenses equal each other, but only because you're using credit to survive and paying only minimums each month, you may

need to talk to a debt counseling service to help you get back on the track to live within your means.

- If you have MONEY LEFTOVER at the end of the month ...

You're doing a good job of managing your expenses. Here are some suggestions for the leftover money:

- Open a savings account at a bank.
- If you already have a savings account, consider setting up automatic transfers to your savings account or, if you have direct deposit, ask your employer to put a portion of your paycheck in your savings account automatically.
- Also investigate whether your employer offers a 401(k) or other employee matching savings plan. The contribution you make to this type of account is taken out of your paycheck before taxes.

- If your total was negative and you DON'T HAVE ENOUGH MONEY ...

- You need to make adjustments immediately. Keep in mind that it's usually easier to cut back on expenses than to increase your income. Analyze your budget to see where you can cut expenses – especially from the Looking Good and Just for Fun categories. Often those are the easiest things to cut from your budget.
- Call your utility, phone, cable, cell phone providers. There may be ways to cut those bills that just take a phone call.
- Consider increasing your income by getting a second part-time job or by working overtime.

You can take charge of your finances and your life by setting financial goals, planning a budget and sticking to it.