

Making Sense of Your Dollars and Cents with Budgeting

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Confusing spreadsheets and penny-pinching are just a few things that come to mind when we hear the word *budget*. Indeed, budgeting can be a tedious task that we tend to do only when absolutely necessary. Yet the value it can provide in helping us continue to meet our financial goals cannot be discounted. And while budgeting is a detailed task, it doesn't have to be a painful one.

Why should I budget?

The economic downturn has forced many individuals, regardless of their net worth, to pay greater attention to their bottom line. Maybe you've experienced a life change and you've had to tighten your purse strings, or you need to save for a specific goal, or you simply want to know where your money goes each month—a budget can shed light on your financial situation.

How to create a budget

If you work with a financial professional, you may already have access to a budget template. If not, you can easily track your budget in the way that works best for you. The following guidelines will help you get started:

1. Determine how you will track your expenses. You can use a software program, a worksheet, a spreadsheet, or even a notebook. How you format your budget will vary depending on how detailed you choose to be, but the following example may be a good start. Being consistent in your recordkeeping can save you time later when you go back to analyze your expenses.

Date	Expense Name	Expense Amount	Essential? (Y/N)
2/1/2009	Coffee and muffin	\$3.19	
2/1/2009	Meter	\$1	
2/1/2009	Lunch out	\$12.50	
2/1/2009	Groceries	\$48.12	
2/2/2009	Car payment	\$419.35	
2/2/2009	Insurance premium	\$287.32	
2/2/2009	Movie tickets and treat	\$20.25	

2. Understand essential vs. nonessential spending. The example above allows you to indicate whether an expense is essential or nonessential, which makes it easier to analyze your spending. An essential expense is something that is a must-have, as opposed to a good-to-have. Examples are things like:

- Mortgage or lease payments
- Car payments
- Insurance premiums
- Utilities
- Groceries

Nonessentials include:

- Meals out at restaurants
- Entertainment expenses
- A new designer handbag
- Golf clubs

Whether an expense is essential or nonessential often depends on the individual. If you live in an urban area, for example, where you can access all you need via public transportation or on foot, a car payment may not be essential.

And when it comes to the nonessential items, this doesn't mean that you cannot spend money on entertainment or things you love; the goal is to help you take an objective view of which expenses are necessary and which ones could be considered luxuries. This will come in handy when you start to look for areas where you can potentially save money and allocate funds toward other goals.

3. Plan to track your expenses for two to four weeks. To gain a true picture of your spending and all of your fixed expenses, it makes sense to track your spending for a full month. Another, shorter method is to simply log all of your fixed expenses for the month and then keep a two-week inventory of other variable items. The choice is yours.

4. Everything counts. Don't forget about the quarters you put in the parking meter, or the soda you got from the vending machine. For your budget to be truly effective, you need to log even small incidental purchases. Also, if you know of quarterly expenses that you won't capture in your regular tracking period, be sure to account for them on a prorated basis. So, if your satellite radio subscription is \$45 every three months, allot \$15 to this charge in your monthly budget.

5. Analyze. Once you've logged your expenses for the period, categorize items as essential and nonessential. Still coming up short for a specific goal? See if you can cut down on some of those items you deem essentials. Is your morning store-bought coffee on your personal essentials list? Consider making coffee at home for a fraction of the cost. Same goes for dining out—can you eat one, two, or three more meals at home each month to shave spending?

6. Don't cut items that impact your future. It can be tough to do the right thing when trying to decide between splurging on that dream vacation or continuing to contribute to a retirement account or maintaining adequate insurance coverage. You may tell yourself that you'll make a larger contribution down the road when you have more money (which is harder than it sounds), but consider the impact on your future and the future of your loved ones. Maybe it makes more sense to continue saving and to cut out the nonessential expense, rather than sacrifice your long-term financial health.

Benefits of budgeting

- **Stress relief.** Knowing exactly what you spend—and that you have enough to meet your essential expenses—is liberating. You're less likely to toss and turn at night when you know your finances are in order.
- **More cash to put toward other goals.** By analyzing your spending habits, you may very well find additional cash to put toward other goals. It could be a vacation, a new wardrobe, or even more money for your investment accounts.

- **More financially savvy kids.** If you have children, one of the greatest gifts you can give them is a sense of financial responsibility. Many parents may dread having to refuse a child's request for a new pair of sneakers or an iPhone, but showing them that you track spending so you can ensure that all of their needs are addressed through a solid plan—before you make any unnecessary purchases—will teach a life lesson.

It's hard to say what personal and financial benefits you'll derive from budgeting, but it is definitely worth an attempt to find out. If your budget reveals that you need extra assistance in saving toward goals, or inspires you to consider your overall financial plan, you should contact a financial professional to assist you.

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