

BUDGET YOUR WAY TO FINANCIAL SECURITY

If you are unemployed, on welfare or bankrupt, you have to make every dollar count. You don't want your expenses to get out of hand. The best way to prevent overspending is by sitting down and planning a budget.

A budget is a saving and spending plan that can help you reach your financial goals. If you have a computer and a personal finance software package, you can make the task easier and enhance your ability to analyze the results. But you can successfully create a simple budget plan with just a pencil and a sheet of paper.

IDENTIFY INCOME AND EXPENSES

Whether you go the automated route or stick with paper, the act of creating a budget is basically the same. You start by listing all sources of monthly income. If you are out of work, of course, you don't have a weekly paycheck, but you may have dividends, rental income and, at least temporarily, unemployment insurance income. You also could be due bonuses and commissions from a previous job that you have yet to receive.

Next, identify your major expense categories. Consider fixed monthly expenses such as mortgage or rent, insurance premiums, child care and utilities, as well as more flexible or intermittent expenses like food, clothing, dental bills, gifts and car repairs. Be sure to account for bills like property taxes that may come every six months or once annually. And what about those holiday expenses?

Allocate your expenses to the different categories you created. You likely will discover that some spending is hard to reconstruct. Many budget builders find that their records reflect only a portion of their spending and, for some people, it's a relatively small portion. What happens is that all those cash outlays for video rentals and magazines seem to fall between the cracks.

CUT UNNECESSARY EXPENSES

After you've gathered all the necessary information and have properly categorized it, take a hard look at your expenses. What can you really live without until you land a job or have gotten yourself out of bankruptcy? Do you really need a daily latte from the corner java bar or the latest rap CD? Can you cut down or eliminate eating at restaurants, including fast-food establishments, and make low-cost meals at home instead? If you are a smoker, can you quit so that you can spend cigarette money on more important things?

Can you forego vacations and costly social functions? Look at all aspects of your expenses to see what you can do without or replace with less expensive alternatives.

CONSOLIDATE DEBT

If you owe money to several credit card companies, you may be able to transfer all the debt to one carrier that has the lowest interest rate. You still will need to pay off the balance owed to retain a decent credit rating, but you will have lowered the amount of interest you must pay on the total.

Whether you consolidate your debt or not, strive to pay more than the minimum monthly required amount. No matter how low the interest rate, you should avoid using credit cards for long-term financing. If you make the minimum monthly payment on a \$1,000 balance at 8.5 percent interest, it would take you six years to pay off the debt and the total interests charges would be about \$300.

If feasible, never use a credit card for future purchases of everyday items. Use cash, instead. If you must use a credit card, only use it for emergencies or to purchase items for which you can pay the total amount due when you receive the monthly statement.

GET A LOAN

If you own a house, you may be able to renegotiate your loan to get a lower interest rate with a lower monthly payment. If you have decent equity (the difference between what you owe on the house and its current market value), you could get a second mortgage at a rate much lower than credit card interest. In some situations, you can borrow up to 80 percent of your home's equity.

You should shop around for the best mortgage rates. Your bank, credit union or mortgage lender also will want to have assurance that you can make regular monthly payments before they loan you money. Therefore, if you know that you are going to be laid off in a month or so, consider applying for a loan while your paychecks are still coming in.

If you have expensive jewelry, cameras, watches or other high-end items, you could pawn them. A reputable pawn shop owner will lend you money for such items at a mandated state interest rate. You will need to make periodic payments, however, to ensure that you eventually can retrieve your items. If you don't, the pawn shop may sell them.

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SELL UNNEEDED ITEMS

Most of us have unneeded but still useful items that others may be willing to buy. So clean out the attic, closets and basement and have a garage sale. To get top dollar, make sure your unwanted clothing, appliances, toys and books are in good condition. If feasible, coordinate your garage sale with others in your neighborhood. You'll get more potential buyers that way.

If you have several cars, consider selling one or more. Especially get rid of the oldest ones with high mileage. They are more likely to break down and cost more to repair than newer automobiles.

EXAMINE YOUR INSURANCE POLICIES

Review your automobile and homeowner insurance policies to see if you can reduce their premiums. Check with several carriers to find the best rates and switch insurance companies if you can get a better deal. You also can lower your insurance rates by increasing your deductibles.

PAY YOURSELF FIRST

A key strategy for meeting your financial goals is to get in the habit of paying yourself first. Whatever income you receive from investments or from employment, put a set amount—perhaps 10 percent—aside in a savings account every time the money comes in. Use the account to pay bills that don't come monthly or for emergencies.

It is important that you monitor your budget on regularly. Once a month, or more frequently if you prefer, record and categorize the current month's income and expenses. Then take a look at how you have done. Here is where the power of a computer can come into play. Personal finance programs can depict your budget graphically. Budget charts and graphs vary from program to program, but all allow you to compare the budgeted amounts in each category to your family's actual expenses and income. And you also can choose how you want to view the data. When you compare your income and expenses, if you find that your spending is outpacing your income, you may need to rework the numbers. Try to squeeze a little out of several categories rather than taking a bigger chunk out of one.

It may take several months or more before you arrive at a budget you can live with. But the sooner you start, the more quickly you will be able to live within your means. 🔄

