

# BUDGET YOUR WAY TO FINANCIAL SECURITY



**W**hether you are employed or unemployed, on welfare or bankrupt, you can stretch your dollars with a budget. A budget is simply a saving-and-spending plan. You can draw up a budget with just a pencil and a sheet of paper. Or you can use a computer and a personal finance software program, which can make the task easier and enhance your ability to analyze the results. However you do it, a budget can help you reach your financial goals.

## IDENTIFY INCOME AND EXPENSES

Creating a budget starts with the listing of all sources of monthly income (after taxes and other deductions). These include wages and salary, bonuses and commissions, interest, dividends and rental income. If you are out of work, 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, childcare 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? (If you are using a software program, you can scroll through the list of default categories.) Then, grab your checkbook register and credit card statements and allocate your expenses to the different categories you created. Don't forget bills that are paid through automated or electronic bill paying services.

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. What happens is that all those cash outlays for gourmet coffees, DVD rentals and magazines seem to fall between the cracks.

If you can't account for a large chunk of your income, carry around a small notebook for a few months and record every dime you spend. While spending \$5 a day on incidentals may seem trivial, the \$1,825 you could have at the

end of the year if you did not spend it certainly is not.

## CUT UNNECESSARY EXPENSES

After you've gathered all the necessary information and have properly categorized it, take a hard look at your expenses. If you are employed and find your expenses exceeding your income, you may soon find yourself deeply in debt. If you are unemployed, you want to ensure that you'll have enough money to sustain yourself until you land another job. Regardless, you'll also want to find ways to save money that you can put toward long-term goals such as retirement and education for your children.

So study your expenses and look for items that you can either eliminate or replace with less expensive alternatives. 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?

## 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. The best time to get a loan is when you have a steady income, as lenders ask for pay records. 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.

Another way to obtain a loan is through pawning. A reputable pawn shop owner will lend you money for expensive jewelry, cameras, watches or other high-end items. Loans are made 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.

### 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 regularly. At least once a month, record and categorize the current month's income and expenses. Then examine how you have done. Here is where the power of a computer comes into play. Personal finance programs can depict your budget graphically, allowing you to compare the budgeted amounts in each category to your family's actual expenses and income. You can also use such software as a planning tool. For example, if you hope to take a cruise to celebrate a major anniversary, you can enter the date of the cruise and an estimated cost into your software program. The program then will show you how much you need to save each month for the trip.

When you compare your income and expenses, you may need to rework the numbers if you find that your spending is outpacing your income. It is usually easier to squeeze a little out of several categories than to take a large 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. 📌

