

# LifeSolutions® Corner

## Creating your first budget



**BUDGETING IS ONE OF THE FIRST GREAT LESSONS OF PERSONAL FINANCE, YET RELATIVELY FEW PEOPLE ARE TAUGHT THE BASICS OF CREATING A BUDGET. OR IF THEY'RE TAUGHT, THEY FORGET. THE INABILITY TO MEASURE HOW MUCH MONEY IS COMING IN AND HOW MUCH IS GOING OUT IS A PRIMARY REASON FOR FINANCIAL ILLITERACY IN THIS COUNTRY.**

So, it's a good idea to go over the basics. The Webster's definition for budget is simple: "A plan for the coordination of resources and expenditures." A budget is both a noun and a verb—a plan and a process. So it makes sense to go over the basic process of budgeting—learning exactly what money is coming into your life, what's going out, and how effectively you're using the difference.

### **The Income Column: Measuring what's coming in**

For most people, this is the easy part. Income is largely made up of wages, bonuses, investment income, alimony, or part-time income.

Budgeting is easiest if it's done monthly. It's easy to measure the inflow and outflow of money at this time, and it allows you to see which months tend to be better for income or spending over the course of a year.

How should you record these amounts? Save all pay stubs and other proof of income. Photocopy checks before you deposit them and either build a physical file or start keeping track of income using computer software or online resources like Mint.com.

### **The Expense Column: Measuring what's going out**

Why are expenses tougher? Because tracking every cent you spend can be tough when you've never done it before. This process forces you to save receipts, credit card statements, or to physically write down cash amounts in the absence of receipts. Recording and analyzing expenses are generally the most work-intensive parts of budgeting, but there's a silver lining—less spending means less recording time!

What are the primary expense categories? Food, shelter, and clothing.

What's beyond that? All your monthly bills. Retirement investments. College savings for your kids. Insurance costs. And everyone's favorite: taxes.

And beyond that? Entertainment expenses: Movies, plays, vacations, sports, and of course, one of the biggest money drains most people can't stand to give up, cable TV.

How should you record these amounts? The same way you did in the income column.

### **The upshot**

If your expenses match your income, congratulations. Relatively few people can say that, though the recent economic downturn has forced more people to cut debt and boost savings.

But if your expenses are still outpacing your income, you now know you must start trimming and finding more money for savings, investments, or debt reduction.

What should your target be? There are a variety of theories, but you will often hear the term "60-percent solution." This means aiming for a total spending figure equal to the first 60 percent of your income.

How do you get there? Start by identifying the expenses you can live without—designer coffee, restaurant meals, and carryout might be a start. Then start finding ways to whittle down monthly bills—paying more than the minimums on credit card bills, consolidating other debt with lower-rate offers if you can find them. If you can refinance your mortgage affordably, that's another good way to attack the spending side of your budget.

And what do you do with that extra money? First, make sure you have an emergency fund that contains three to six months of money to cover living expenses. Then start putting money away for retirement. After that, money for the kids' college fund. Beyond that, extras like vacations, entertainment, and other treats.

If this approach seems a bit Spartan, it's a good starting point—indeed, every individual defines the term “financial essentials” a bit differently. But it's important to start prioritizing financial issues correctly. For help, it makes sense to consult a professional like a qualified financial planner and a tax expert to identify ways to save and tip more money into a solid financial future.

For a look at budgeting tools that won't cost you money, go to [Mint.com](https://www.mint.com).

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### Featured Webinar: **Budgeting Basics**

This interactive session will teach you to master the emotional side of money and regain your financial dignity. We will discuss why traditional budgets fail and what you need instead; the two key things you need to do BEFORE planning; how to have productive money discussions with your significant other; the keys to outsmart emotional spending before it happens; and how to create a personalized plan that works for you. This session is designed to help you become and stay financially healthy.

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