

Setting Up A Budget

By Kathryn Greiner

Do you sometimes feel like no matter how much you earn there's never enough? If you dread the thought of setting up a budget, take heart. Those who have succeeded in organizing their finances will tell you that working with a flexible budget actually reduces the stress of feeling like you never have enough.

To get a handle on your finances, start by getting your income and expenses down on paper. Use the following directions and two forms provided and you'll have a clearer picture of your money situation. (Note: you may want to copy these forms first, or use a pencil so you can make changes easily.)



Step 1 is finding out where your money goes. A budget, like a roadmap, helps you get where you want to go. However, you can't plan the best route to your destination until you figure out exactly where you are now. Using the budget analysis form provided, fill in each line by **averaging** out your basic monthly living expenses. You can use this form as a planning tool when considering what life will be like in the next 12 months. Your **Total Monthly Expenses** gives you a picture of what it typically costs to live.

Next, write down the amount of your take home pay plus any other predictable sources of income.

Subtract the total of your average monthly living expenses from your monthly take home pay to see the **Amount Available for Debt** and other goals.

Now go to the next section of this form and make a list of all debts (i.e. home equity loans, car loans, credit cards, medical bills etc.) by creditor name, balance owed and required monthly payment. Tally up the balances and the monthly payments. Subtract the total of your **Monthly Debt Payments** from the **Amount Available for Debt**. The answer is your own "bottom line". If you end up with a negative number, you will clearly see why there is "never enough".

Now that you have defined what is "enough", you can decide how to solve the shortage. Start by looking at your basic monthly living expenses to see where you can spend less, and then find ways to earn the difference. Some ways to cut costs:

- Reduce phone expenses with fewer services
- Plan weekly menus, to buy what you need, and reduce meals out
- Barter to exchange something you can do for a service someone else provides
- Use clothes, furniture and toys from second-hand sources. (Recycling is good for the planet too!)
- Find inexpensive ways to enjoy holidays and have fun
- Treasured gifts from the heart:
 - Write down a few fond memories; the words to a shared favorite song; or pictures from the past
 - Offer to help with a chore
 - Offer free babysitting for an evening
 - Take a class together or make a date for a walk in the park
- Consider cheaper housing and/or transportation
- Magazines, books and websites offer articles on ways to spend less

Step 1 – Budget Analysis or Where the Money Goes

Average Monthly Expenses

Housing:

Rent/Mortgage	\$
Heat (Average)*	\$
Electric	\$
Water	\$
Phone/Internet	\$
Property Taxes	\$
Household Expenses/Furnishings	\$
Repair/Improvements*	\$
Home Insurance	\$

Food:

Groceries	\$
Paper/Cleaning Supplies	\$
Mid-week Shopping	\$
Meals Out	\$

Transport:

Gas/Fares	\$
Maintenance	\$
Parking	\$
Car Insurance	\$

Personal:

Clothing	\$
Medical/Dental/Vision	\$
Education*	\$
Life Insurance	\$
Gifts	\$
Donations	\$
Entertainment**	\$
Child Care	\$
Vacations*	\$
Grooming Supplies	\$
Haircuts/Laundry	\$
Pets*	\$
Cable/Satellite TV	\$
Other	\$
Other	\$

Expense Subtotal:	\$
Savings:	\$
Emergency Fund	\$
Other	\$
Monthly Living Expenses:	\$

Average Monthly Income

Monthly Take Home Pay	\$
Partner's Take Home Pay	\$
Other Income	\$

(include roommate, second job, child support, alimony, Social Security)

Total Monthly Income: \$

Monthly Income:	\$
less Monthly Expenses:	- \$

Amount Available for Debt: = \$

Debt: (i.e. credit cards, home equity loan, car payments, student loans, medical bills)

Creditors	Balance	Payment
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$

Total Debt Owed: \$ _____

Total Monthly Debt Payments:	\$
Subtract from Amount Available for Debt (see above)	- \$ _____

This is your Bottom Line! = \$

*Take year's estimated total and divide by 12 for the average monthly expenses. **Entertainment includes: Reading, Videos, Music, Hobbies, Going Out, and Sports.

Now that you've taken a look at where the money goes, you're ready for **Step 2: A Monthly Plan for Spending, Bill Paying & Saving.**

Using the form provided, list what bills (creditors) must be paid this month. Add these up to get your bill-paying total. Next, fill in the amount you want to save for long term goals, precautionary savings and short term goals. It is always easier to save when you have something concrete in mind. Start by setting up three savings accounts:

Retirement: open a Roth IRA of your own. What you are saving through your job and the social security income you anticipate may not be enough.



Emergency: Establish a fund for times when your income stops, perhaps because of injury, illness or job loss. Aim for one month's rent, and then expand that to one month's take home pay, putting away a little each month. This fund tides you over until you can get disability pay, unemployment benefits, another job, etc.

Set Aside: Begin a separate account for basic living expenses that don't hit every month, like car and house repairs, furnishings, holidays, travel, annual insurance premiums, etc. (For example, if you estimate the yearly cost of your car repairs to be \$600, set aside \$50 each month to be used anytime you need to fix your car.)

Hints: If it seems overwhelming to think about saving anything, start by putting aside

small amounts (so small that you would never tap into it – even your loose change can add up). Once you get going, it's easier to manage the three different funds if you establish three different accounts. Start now and start small. Remember, it's difficult to get out of a rut if you don't plan ahead. As you get more financially stable you can increase your savings as you decrease your debt.

Finally, to finish your monthly plan, add what you want to save to the bills that must be paid (your creditors), and subtract this sum from your take home pay for the month. What is left is what is available for spending. Divide that number by 4 to determine your weekly spending allowance for food, gas, haircuts, laundry, donations, entertainment, gifts and clothes.

Congratulations! You have now developed a bill-paying and saving plan that allows you to relax and enjoy your spending allowance!



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