

The Secret to a BETTER STANDARD of Living

by Jack Long



The word *budget* as it appears in the dictionary seems harmless enough, but there are few other words in the English language that provoke more negative emotion and anxiety! Pick up a newspaper, turn on the television, or listen to the radio, and you're bombarded with news about budget cuts, budget deficits, and budget-related layoffs. It's no wonder the word *budget* inspires anxiety! For most of us, everything we know about budgeting was absorbed from what we see around us. Perhaps you were lucky enough to grow up in a family that managed a household budget and allowed children to participate. Otherwise, your perspective on budgeting has most likely been shaped by the budget politics in Washington, D.C. And we all know how well that works.

budget (buj it) n. **1a.** An itemized summary of probable expenditures and income for a given period. **b.** A systematic plan for meeting expenses in a given period. **c.** The total sum of money allocated for a particular purpose or time period. **-tr.v. -et~ed. -et~ing, -ets** **2.** To plan in advance the expenditure of (money, for example).

Chop, chop, chop

If there is one reason why most attempts to budget fail, it is the “you must cut expenses ‘til it hurts” mentality. When establishing a budget, it’s easy to look only superficially at expenses and start chopping away. Imagine a lumberjack marching into the woods and cutting down the biggest tree. Sure, that big tree was easy to spot, but was it the best choice? It’s possible that smaller, less obvious trees may be better wood and certainly easier to drag out of the woods.

For most households, the biggest or most obvious expenses are: mortgage or rent payments, utilities, food, transportation, clothing and entertainment. If you follow that “cut ‘til it hurts” mentality, you could:

- Move to a less expensive neighborhood or apartment
- Reduce home heating by keeping the thermostat at 62 degrees and wearing lots of sweaters
- Cut air conditioning expenses by cooling to only 80 degrees (removing the above-referenced sweaters!)
- Walk or ride a bike to work
- Avoid clothing purchases (except for sweaters)
- Eliminate unnecessary entertainment

Well. Adhering to such a budget would certainly amount to enormous savings. But look what it does to your quality of life! You need a budget that will help you guide your spending so that you can enjoy your life. Now, can you believe your eyes? The words *budget* and *enjoy* appeared in the same sentence! It really is too bad that there are so many negative perceptions of budgeting.

Because for most of us, a well-thought-out household budget is the single most powerful means of improving our standard of living. And believe it or not, unless you are in dire financial trouble, there is no reason for budgeting to be a painful experience. On the contrary, budgeting will improve your financial condition and may help you eliminate the possibility of financial difficulties in the future.

Fear of budgeting

When it comes to budgeting, getting started is often difficult due to fear. It’s the same fear some people experience before making an appointment to see a doctor. They know something is wrong, but they are afraid of what the doctor may find; so they ignore the symptoms and avoid the doctor. Unfortunately, ignoring the symptoms of a physical or financial problem leads to the same result: Crisis

It’s easy to look at expenses and start chopping away. Imagine a lumberjack marching into the woods and chopping down the biggest tree. Sure that big tree was easy to spot, but was it the best choice?





Taking the first step

One of the toughest aspects of budgeting is not *cutting* expenses — it's *identifying* expenses. And the best place to begin is to keep a detailed record of all income and expenses. This record should include all of your expenses right down to the change used for the parking meter. This identification process is the most painful part of budgeting. It's cumbersome and unnerving, as you really see where your money is going. But it can be an enlightening and positive experience! Once you see where your money is spent on a daily basis, a snapshot of your monthly expenditures comes into focus. And at this point, the hard work is done.



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Now what?

Once you have a picture of where your money is going, it's usually clear to see where changes can be made. You'll find that you don't have to make big changes that suck the enjoyment out of life. Simple, logical changes in your spending habits can have a meaningful impact on your lifestyle. Small sacrifices can add up to significant savings.

Perhaps you'll decide to discontinue the cable TV service, or at least get rid of ESPN 7 (which you never watched anyway). Maybe you'll bring your lunch to work more often and dine out one less time per month. You may cancel subscriptions to the magazines that are piling up, unread, on the coffee table.

See? These are small changes, but they could add up to meaningful savings over the course of a month or a year. You could use the savings to reduce outstanding debt, for a

down payment on a home, to beef up your retirement, or start a college tuition fund for your children.

Now, don't expect to turn your financial life around in a day or even a month. But TODAY is a great day to start! On the following pages, you'll find everything you need to start budgeting. You'll uncover your spending patterns, and discover places where you can save.

What is a budget?

A budget is simply a plan for spending and saving — a way for you to reach a particular goal. A budget is a written plan that shows your income and expenses as precisely as possible, letting you see exactly how much money you have left to save — and how you might need to change your spending habits in order to save more to meet your goals. A budget will show you exactly where you stand financially.

How to budget

Set realistic objectives, or goals. Objectives that are set too high may lead to frustrations that could cause you to abandon your plan.

Be flexible. Your plan will require adjustments to keep up with your changing lifestyle and financial situation. Do not make a budget that is so rigid that each new development requires an entirely new plan.

Be specific. State your objectives concisely. If goals are vague, objectives may never be met and you and other household members may have different ideas of what the end result should be.





The secret to a better standard of living... **A BUDGET!**

A good budget helps you:

- Know how your money is being spent
- Increase savings
- Prevent or reduce impulse spending
- Protect against the financial effects of unemployment, accidents, sickness, aging and death

A budget need not be complicated and it should not be rigid. However, preparing a budget takes planning. And following a budget takes determination.

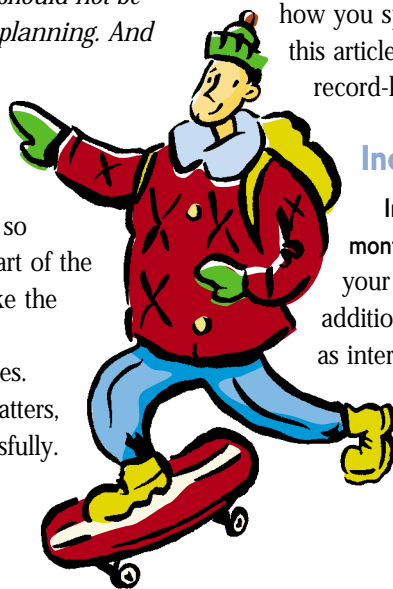
To budget successfully:

Talk with other members of your family. Consider each person's needs and wants so that all family members feel they are a part of the plan. Everyone may work harder to make the budget succeed and be less inclined to overspend if they realize the consequences. When families don't talk about money matters, it is unlikely that they will budget successfully.

Be prepared to compromise. If, for example, one person wants to pay cash for things and the other person prefers to buy on credit, they will need to discuss the pros and cons of both methods and decide on a middle ground each can accept. A plan cannot succeed unless there is a financial partnership.

Exercise willpower. Try not to indulge in unnecessary spending. Once your budget is made, opportunities to overspend will occur daily. Each member of the family needs to encourage the others to stick to the plan.

Develop a good record-keeping system. Record-keeping is very important and is especially important in the first year of a spending plan when you are trying to find a budget that works best for you. Remember, a good budget is flexible, requires little time and most important, works for you.



***Preparing a budget takes planning.
Following and balancing a budget
takes determination.***

You will need to keep a record of what you spend. This will show how well you are following the plan and will allow you to adjust your spending to meet your goals.

Getting it down on paper

A budget is based on income and expenses. A Daily Expense Sheet and Monthly Spending Planner are excellent tools for you to use to develop a budget. They show you how you spend your money now. (Sample forms follow this article. Make photocopies of each to use for your record-keeping.)

Income drives your budget

Income is the money you expect to receive every month. Remember this is "net" income, which is your take-home pay, not your "gross" income. In addition to wages, include all sources of income such as interest income, Social Security benefits, pension payments, alimony, child support, workers' compensation, unemployment and disability payments.

If your earnings are irregular, like salespeople who receive part or all of their income from commissions, it may be more difficult to estimate your income. If this is true for you, it is better to underestimate than overestimate your income when setting up a budget.

Enter this information in the Income section of your Monthly Spending Planner.

Expenses — where your money goes

To budget accurately, you will need to have a good idea of what your expenses are. There are two ways to determine your current expenses:

To use the **Reconstruction Method**, go through your checkbook, bills and receipts to determine what you have spent in the past. Receipts help you reconstruct your daily expenses. It's important to keep all receipts, even for small purchases, such as snacks.





With the **Actual Expense Method**, you start now and record every expense as it happens on your Daily Expense Sheet. If you record every expense faithfully, after a month or two you should have an accurate picture of your spending pattern and be able to develop a budget using the Monthly Spending Planner.

As you are reviewing your expenses, it helps to note that they usually fall into one of two categories: fixed or variable.

Fixed versus variable expenses

Fixed expenses remain the same from month to month. They also take up the largest share of the total expenditures and are not easily or quickly changed by the family. Fixed expenses include things like rent or mortgage payments, taxes and loan payments. Remember that not all bills come due monthly and every family experiences some seasonal expenses. Insurance premiums are often due once or twice a year, but they are fixed expenses and you should budget for them monthly.

Variable expenses are a major challenge to any spending plan. These expenses vary from one month to the next. They include money spent on food, clothing, utilities and transportation.

The Monthly Spending Planner and Daily Expense Sheet break down expenses like this:

Monthly Payments are fixed expenses. Rent/mortgage, alimony/child support and child care fall into this category.

Loans are also fixed expenses. Automobile loans, furniture and appliance loans as well as any payments you are making to finance companies or on any installment debts should be recorded here.

Credit cards, including department store charges, bank cards and any other credit card payments you make, belong in this section.

Utilities can be either fixed or variable expenses. Sometimes, families are on a “budget plan” for gas and electric service. If not, review old utility bills to determine what an average month would be. Water and sewer bills are often paid quarterly or annually. An appropriate amount should be budgeted monthly so that you will have the money available when the bill comes due.

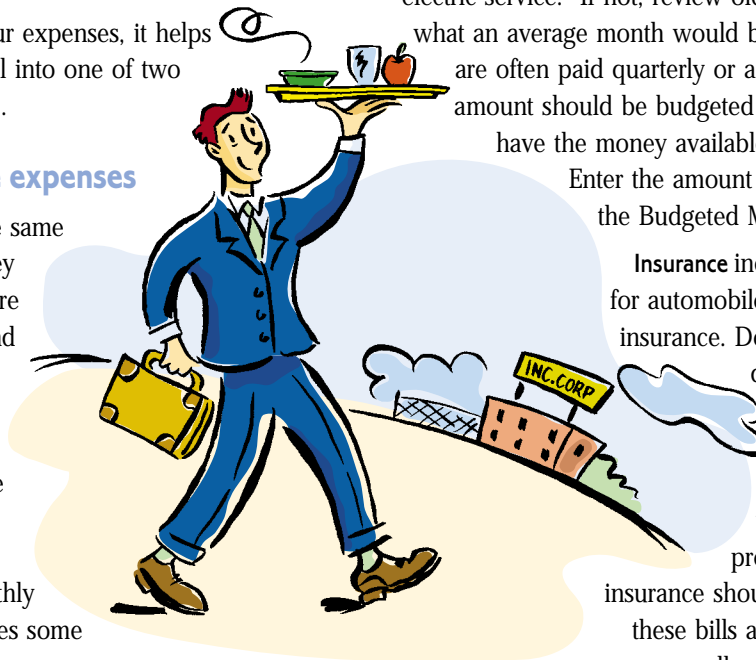
Enter the amount budgeted each month in the Budgeted Monthly Payment column.

Insurance includes any direct payments for automobile, health, life or dental insurance. Do not include any deductions from your paycheck for insurance coverage since we are using your “net” income or take-home pay to help prepare this budget. Renters insurance should also be entered here. If these bills are paid quarterly or annually, budget an appropriate amount each month.

Donations include any contributions to a religious or non-profit organization or charity.

Dues, such as union, youth group and professional organization dues, can often be overlooked or included with miscellaneous expenses, but they can add up and should be listed here.

Medical. Even though health and dental insurance premiums were listed above, there are often additional health-related expenses that are not covered by insurance, including deductibles and co-payment amounts. Doctor and dentist bills, drug charges, hospital payments, contact lenses and eyeglasses are just some of the items that fall into this category.



Simple, logical changes in your spending habits can have a meaningful impact on your lifestyle.



Transportation includes gasoline, oil changes and repairs, preventive maintenance and all of the other costs associated with maintaining a car. Parking costs and money spent on public transportation, buses, subways, taxis, etc., are also included.

Food expense falls into two major categories: groceries and school or work lunches. The tendency is to use the supermarket receipt totals as food costs, but many nonedibles are included in supermarket purchases. Try to take this into account when entering your costs for groceries. School or work lunches include meals as well as snacks and beverages consumed away from home.

Clothing and Personal Care includes new clothing purchases, uniforms, laundry, drycleaning, hair care, cosmetics and toiletries.

Household Operations and Maintenance, such as repairs, cleaning supplies, paper supplies, garbage pickup, paint — in short, anything that you would use to keep up your apartment or home — would be listed here. Often, 10% to 20% of the total spent at the supermarket is used for housekeeping and paper supplies.

Miscellaneous is not meant to be a catch-all. Enter as many items as possible in the other categories and use the Miscellaneous category only when necessary. Otherwise, it becomes too large and does not help you plan. Costs for sports, hobbies, entertainment, vacations and gifts are entered here. Entertainment can include movies, video rentals, concert tickets, dinners, etc.

Savings includes money saved through savings bonds, credit unions or bank accounts.

It all adds up

The **Daily Expense Sheet** that follows can be filled out every evening so you don't forget what you spent during the day. Some people keep a copy with them so they can write down an expense as soon as it occurs. Others make sure they keep every receipt and make short notes about the expenses if no receipt is available.

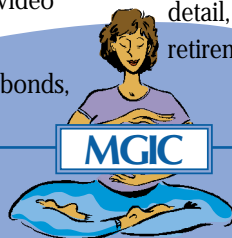
Once you have completed Daily Expense Sheets for a month, transfer the numbers to your Monthly Spending Planner.

Need help?

If you are having trouble preparing a budget, you may want to meet with a loan officer or counselor who can provide helpful information on starting and staying on a savings plan, or you can obtain additional budgeting information through:

- Universities and community colleges
- Publications on money management available at libraries and bookstores as well as local, state and federal government agencies
- Financial planners
- Community based organizations
- Credit and debt counseling services

With a little hard work, perseverance, and attention to detail, you'll be on your way to a new home, a comfortable retirement, or a tropical cruise!



This publication is proudly sponsored by **MGIC**, the nation's leading provider of private mortgage insurance

Since its inception, MGIC has helped over six million families achieve their goal of homeownership. We remain committed to helping potential home buyers to better understand the mortgage process and to overcome the single greatest hurdle in homeownership, the down payment. MGIC has recently lead the charge toward reducing down payments to an all time low — 0% down. When you are ready to buy a home, be sure to ask your lender how you can reduce or even eliminate the required down payment with mortgage insurance from MGIC.

DAILY EXPENSE Sheet

	DESCRIPTION	MON	TUES	WED	THURS	FRI	SAT	SUN
Monthly Payments	Rent/Mortgage							
	Alimony/Child Support							
	Child Care							
Loans	Automobile							
	Automobile							
	Furniture/Appliances							
	Finance Company							
	Installment							
Credit Cards	VISA							
	MASTERCARD							
Utilities	Electricity							
	Heating							
	Telephone							
	Water/Sewage							
Insurance	Automobile							
	Health							
	Life							
	Dental							
	Renters/Homeowners							
	Disability							
Donations/Dues	Church							
	Charity							
	Union							
	Organizations							
Medical (Not Covered by Insurance)	Doctor/Dentist							
	Drugs							
	Hospital							
Transportation	Gasoline							
	Maintenance							
	Parking							
	Public Transportation							
Food	Groceries							
	School or Work Lunches							
Clothing	New Clothes							
	Dry Cleaning/Laundry							
	Uniforms/Required Items							
Household Operations / Maintenance	Repairs							
	Supplies							
	Other							
Misc.	Clubs, Sports & Hobbies							
	Entertainment*							
	Vacations							
	Gifts							
	Pet Supplies							
	Other							
Savings	Savings Bond							
	Financial Institutions							
Other								
TOTAL								

* Includes eating out, movies, etc.

Weekly Expense

MONTHLY SPENDING *planner*

	DESCRIPTION	ACTUAL MONTHLY	PLANNED	
Income	Net Monthly Income (from all sources)			
TOTAL				
EXPENSES	DESCRIPTION	ACTUAL MONTHLY PAYMENT	BUDGETED MONTHLY PAYMENT	BALANCE DUE
Monthly Payments	Rent/Mortgage			
	Alimony/Child Support			
	Child Care			
Loans	Automobile			
	Automobile			
	Furniture/Appliances			
	Finance Company Installment			
Credit Cards	VISA			
	MASTERCARD			
Utilities	Electricity			
	Heating			
	Telephone			
	Water/Sewage			
Insurance	Automobile			
	Health			
	Life			
	Dental			
	Renters/Homeowners Disability			
Donations/Dues	Church			
	Charity			
	Union			
	Organizations			
Medical (Not Covered by Insurance)	Doctor/Dentist			
	Drugs			
	Hospital			
Transportation	Gasoline			
	Maintenance			
	Parking			
	Public Transportation			
Food	Groceries			
	School or Work Lunches			
Clothing	New Clothes			
	Dry Cleaning/Laundry			
	Uniforms/Required Items			
Household Operations / Maintenance	Repairs			
	Supplies			
	Other			
Misc.	Clubs, Sports & Hobbies			
	Entertainment*			
	Vacations			
	Gifts			
	Pet Supplies Other			
Savings	Savings Bond			
	Financial Institutions			
TOTAL				

* Includes eating out, movies, etc.