

Your Money

by Cheryl Hanson Simpson



Budget Blues

All the financial advice I read says that setting a budget is important. Every month I try to make a realistic budget, but it just doesn't work. The figures never seem to match what I end up spending. I'm frustrated with budgeting and ready to give up. Am I doing something wrong?-Busted

Relax- you're not alone in your budget blues. Most people start budgeting with lots of promise, but within two weeks their plans get dumped like yesterday's newspaper. As month-end approaches, they desperately await the next paycheck, sadly resolving once again to set their finances right. Then they get paid and the cycle continues.

Why bother with budgeting? Why not just spend as you go and hope for the best? Who really wants to have their lives dictated by the figures on a piece of paper, anyway? This thinking is fine if you're only living for today, but if you've ever dreamed about financial security and freedom from worrying about money, then a proper budget is the key that will open that door for you.

Many people hate to budget because it brings images of 'tightening your belt' and other depressing restrictions. Not so! A budget gives you control over what you spend your money on, lets you choose how much money you get to keep for yourself, and tells you exactly how much you need to earn to live the life you've always dreamt of.

Let's take the mystery out of budgeting and show you how to make a workable spending plan:

1. Record all the unavoidable expenses that occur every month
 - Rent or mortgage, utilities, food, transportation, life and/or health insurance, loan payments
2. Estimate all the expenses that are inevitable, but don't happen every month
 - School fees & supplies, car insurance, car servicing, property tax
3. Set reasonable spending limits on expenses that can vary
 - Clothing, personal care, gifts, entertainment
4. Make allowances for eventualities that may occur
 - Medical bills, home repairs
5. List the things you would like to do but may not be able to afford now
 - Retirement investments, children's college savings, annual vacation, charitable contributions
6. Break down all the expenses from (2) to (5) into average monthly amounts
 - for example if your car insurance is \$24,000 for the year, divide by 12 to get the average monthly figure; if you pay school fees three times a year, total the figures and divide by 12

When you add up all these figures, you will get a good idea of what it takes for you to live for a year, broken down into a monthly amount. It is the failure to account for **all** of your expenses that usually leads to a budget that doesn't work.

After listing your expenses, the next step is to look at the income side. For persons on commission or with variable income, estimate your lowest take home pay. Subtract the total monthly expense figure and the difference will be your budget surplus or shortage.

Hopefully your balance is positive. That amount should be invested or you might end up wasting this money. However, if you have a shortage, don't despair. This figure tells you how much extra you need to earn monthly, or how much to reduce spending by so that you don't have to worry about busting your budget. Control is in your hands, the choice is yours: look at options to increase your income, and/or cut out some expenses that may not be necessities.

Now that you've learnt how to design a proper budget, next week I'll show you how to stick to it and succeed!

(Originally published in THE DAILY OBSERVER, Thursday, March 2, 2006)