



'Budget' is a Four-Letter Word - Create a Spending Plan You Can Live With

'Budget' is a four-letter word when it comes to your personal finances, but face it--if you don't decide ahead of time what's most important to you, it's easier than pie to slip into that nearly-impossible-to-break habit of living bigger than your paycheck. Use these tips to get started on creating a roadmap toward your financial success!

Before you can set a budget, or spending plan, that you can live with, you need to look at where you're starting. Are you already out in the real world living on your own, or are you still living at home or on campus? If you're already living on your own, you have a head start in the sense that you know what the costs for a variety of things are. On the other hand, if you realize that you're already living in a way that will sabotage your financial future, it's going to be rough getting things back on track. But it can be done.

Before you start develop-

ing your spending plan, you'll need to track your current spending patterns. For an entire month it's a long time, but well worth it to carry a small notebook with you and record every penny you spend (yes, every penny!). Write down what you spent money on, how you paid for it (cash, credit card, check), and assign it to a category.

Each person's spending categories will vary a bit, but include things like home (rent, electricity, water, renter's insurance), auto (loan payment, gas, insurance, maintenance, personal property tax), food (for at home, plus another category for eating out), grocery items, clothing, entertainment (movies, magazine subscriptions), health (doctor bills or copays, prescriptions, insurance premiums, contact lens supplies), and miscellaneous (haircuts, impulse buys). If you're not

out on your own yet, you won't have as many categories as someone who is, but it's still an extremely valuable exercise.

At the end of the month, you will probably be astonished at what you spent your hard-earned money on. Most people are. Those little purchases, usually made with spare change, add up to much more than you could ever have imagined. How many times did you stop at Starbucks? In my opinion, the two most dangerous words in finances are just and only. It only cost two-fifty. It's just four bucks. Add a bunch of those together over the course of a month, or year, and they add up to a big bite out of your budget.

After you pick your jaw up off the floor,



youâ€™ll be ready to move on to the next step and begin developing a reasonable spending plan that will move you toward your financial goals.

Youâ€™re Readyâ€”Develop Your Spending Plan

-- Get out some paper, or use a spreadsheet, and label three columns: Knowns, Needs, and Wants.

-- In the Knowns column, record all expenses you know you will be incurring and which have a set dollar amount each month, such as rent, car and student loan payments, insurance, basic phone charges (just the cost of having the line, not any long distance calls you might make), Internet access (like AOL or a DSL line), etc. Enter an amount equal to 10% of your takehome pay under Savingsâ€”this should not be an optional item, but a required one.

-- In the Needs column, record all the things you need but which donâ€™t have predetermined dollar amounts: food, groceries, utilities, basic business wardrobe items, long distance phone calls, commuting expenses (gasoline and car maintenance, train fare, car pool fees), basic furniture and household items (remember: basic, not luxury), and so on.

-- Guess what each item might cost per month. If youâ€™re not very accurate with your estimating, guess on the high side so you wonâ€™t end up with an unpleasant surprise after the very first month on your budget. If youâ€™ve never lived on your own and canâ€™t even make an educated guess, ask friends or your parents what a reasonable figure would be.

-- In the Wants column, enter things you would like to have: going to the movies once a week or buying DVDs; non-business

(â€”playâ€™) clothes; vacations; cigarettes (nope, theyâ€™re not needs!); a new stereo or tv; tennis lessons; a downpayment on a condo or house of your own some dayâ€™; whatever they may be.

-- Add up each of the three columns. Then check all your expense numbers, make sure every item is in the proper column, and do the math again.

-- If your Knowns are more than your monthly take-home payâ€™;gulpâ€™;youâ€™ve got some major league lifestyle changes to make. Double-check your amounts and be sure each item is in the proper column. Once youâ€™re satisfied that your numbers are right, start at the top of the column and figure out where you can start cutting back. Home expenses usually make up the biggest category. Maybe taking in a roommate or even moving back home will do the trick. Is your car payment outrageous? Itâ€™ll hurt, but consider getting rid of that shiny new car (and the loan that goes with it) and take the bus or get a smaller, basic, used car, or even a motorcycle. Itâ€™s better to take a loss on the new car now than let it drag you down for years to come, keeping you from your dreams. Dipping into, or eliminating, Savings is not an option!

-- If your take-home pay covers your Knowns but not quite all of your Needs, youâ€™ll need to take a closer look at those items you listed as needs. Do you really need call waiting on your home phone? Do you really need a home phone at all? Maybe just a cell phone will cover you. Are you spending more than about \$50 a week on food and groceries? Is DSL a requirement, or can you deal with a dial-up connection, or (even cheaper) can you stop at the library after work to do your

surfing? Rememberâ€™;keep your fingers out of that Savings account!

-- If youâ€™ve got your Knowns and Needs well covered and have some money left over, you can take another look at your Wants list and prioritize it. Rearrange the list with the most desirable item at the top and those least important to you at the bottom. Then you can start spending that extra money on the items at the top of the list and work your way down until it runs out. Do I need to say it again? Savings stay put! Donâ€™t end up like most people, with no clue why they have no money left over at the end of the month and no idea how to get ahead. With your spending plan as your road map, you can travel through your financial life with confidence and no regrets along the way.

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