

CREATING A HOUSEHOLD BUDGET

Most people don't have a system for knowing where their money goes once it comes in the door. Keeping track of spending - so you can understand your habits and spend more wisely - is the most important reason why you should create a household budget. This infosheet is a starting place for those creating a household budget for the first time. It is based on the same principles of many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting you may want to consider.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Identify the difference between what you earn and what you spend.
- Create a budget to
 - get your spending in line with your earnings
 - change your spending habits to reflect your goals

Five steps to personal financial knowledge

After you collect the information suggested here, you may use a ledger, a spreadsheet, or a personal finance program to create your budget.

Know what you earn. List your take-home income. Any income you received in the past year that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, Social Security payments, pensions, royalties, child support payments, or any other regular predictable income. Gifts or bonuses may be included, but only if you are certain that they will be paid in the coming year. Make sure you deduct all applicable taxes and pre-paycheck contributions so your income total represents money you actually have to spend.

Know where you spend it. Create a monthly list of your expenses. Start with your essentials - shelter, food, clothing - and then move on to those expenses over which you have the most discretion.

Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards predictably.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it's easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way. If you buy groceries at Food Mart, beauty supplies at Beauty Mart, and visit Wholesale Mart once per month for items that you buy in bulk, these can be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by twelve, or spread quarterly payments out over a year. The following list is a suggested starting point for collecting your expenses.

Don't forget your emergency fund

Most financial experts recommend that you have six months of expenses set aside in case you are disabled or laid off. You don't need to create an emergency fund all at once or panic if you don't have one in place. But you should designate an account that will serve as an emergency fund and begin to put money in it. Even if you only budget \$10 per month, it's a way to start.

Expense Categories

Housing	Internet Access	Essentials	Vacation expenses
Mortgage payment	Long distance telephone	Medical plan fees and/or expenses	Child Care
Rent payment	Cable TV	Dental plan fees and/or expenses	Daycare
Line of credit payments	Household Consumables	Vision plan fees and/or expenses	Tuition
Other home loan payments	Groceries	Hair care	Music lessons
Home/rental insurance	Take-out food	Pension contributions	Babysitters
Real estate taxes (if paid separately from your mortgage)	Health products and medicines	Savings contributions	Birthday party gifts
Condo fees	Cleaning products	Mutual fund account contributions	Student loans
Home improvement expenses	Beauty aids	Investment account contributions	School pictures
Landscaping expenses	Dry cleaning	Emergency fund (See first page for special information on keeping an emergency fund.)	School activity fees
Other municipal fees or expenses (landscaping, trash removal, etc.)	Transportation	Entertainment	529 savings plan contributions
Home decorating expenses	Car payments	Dinners out	Other
Utilities	Car insurance	Club memberships	Charitable donations
Electricity	Car maintenance	Movie and theatre tickets	Gift expenses for:
Heating	Gas	Video rentals	- Birthdays
Water/sewer	Rental cars	Tickets to sporting events	- Holidays
Telephone	Public transportation		- Graduations
Cell phone	Commuting costs		- Showers, weddings, etc.
	Predictable travel expenses (for annual family trips, vacations, etc.)		Hobby expenses

Separate essential from nonessential expenses. Before you compare your income with your expenses, use a highlighter and quickly separate your list into items you consider essential and those you consider to be nonessential. This quick step will be helpful when you are looking for places to trim expenses.

Identify the difference between what you earn and what you spend. Add up your monthly expenses and compare it to your monthly income.

If your expenses are greater than your income, it's time to get serious. Next to the line where you recorded last year's expense, make a new column for your current year budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of where you can get expenses in line with your income.

If your expenses are below your income, you will want to make sure that your emergency fund, investments, IRAs, 401(k)/retirement accounts, and 529 accounts are properly funded before you plan a party. You should also look at nonessential items and cut where you can to provide for these other accounts. You may also want to build in an inflationary increase in certain items.