Basic Budgeting – Part 1 – Spending Plan

For some reason humans do not like restrictive words like “regimen”, “diet”, or “budget”. There’s nothing more tempting than a pair of shoes you can’t have or a plate full of brownies you’re not allowed to eat. These words only tempt us to rebel against our goals!

Let’s alter any negative thinking we have of creating a budget by, instead, calling it a “spending plan”.

A spending plan is like a road map that helps you guide your finances in the right direction. A good spending plan will help you make informed choices about where your money is going and will indicate whether or not you’re living within your means.

It is most effective when written down and the more detailed the better. Many people don’t take time to write down their plan for how they’re going to spend their income. With no plan, expenses often seem to rise and get out of hand.

To create a spending plan, begin by listing all your income sources. Be realistic and conservative on non-guaranteed income such as bonuses, incentives and overtime pay. Next, list all of your expenses. If you don’t keep good records, you may have to estimate how much you spend in each category. Estimate expenses on the high side, and income on the low side – until you set up a tracking system that gives you a more accurate picture.

Expenses are not always constant so it’s helpful to divide them into three categories – Fixed, Variable or periodic. Fixed expenses are regular, non-changing monthly payments like a mortgage or car payment. Variable expenses are still, typically, paid monthly but the amount fluctuates. Periodic expenses are less frequent, like taxes, insurance, title and registration fees. Once you’ve categorized your expenses you can determine whether they’re necessary or discretionary.

If you choose to list gross wages (income before taxes and deductions are taken out), then you need to list all your withholdings on your expense statement including Social Security, Federal and State income taxes, insurance payments, retirement contributions, etc.

If you choose to list your net income (take home pay), you don’t need to list items withheld from your paycheck on the expense side. Itemizing out your gross pay with the withholdings on the expense side is more complex but will give you a much clearer picture of your income vs. expenses.
A spending plan can help you, meet your savings goals, and prepare for emergencies. Without this road map for managing your money, you may lose control, have more stress about finances and are less likely to achieve financial success.

As you begin your new savings and spending plan, be flexible. Make adjustments as you go along. It could take several attempts to determine the categories and amounts that work for your particular situation. Make sure you take a good look at your discretionary expenses to see what you can cut out.

For more helpful tips and advice, be sure to visit www.macu.com/moneymoment