Steps to Wi$ing Up - Step 3-1. Building a Realistic Budget

**Step 1 - Estimate your income.** First determine what time period your plan will cover. The planning period may be a month, a year, or any length of time you choose. We will focus on a monthly budget. In figuring income from your earnings, include only your take-home pay or net income. This is different from your gross earnings. Your net income is what you have left after income taxes, Social Security, Medicare, insurance (health, life, disability, etc.), flexible spending plan contributions, retirement savings, and other items have been deducted. Net income is what you have left to spend. You may have other sources of monthly income, too. These may include spouse’s earnings, income from self-employment or a second job, interest or dividend income, child support payments, or other sources of income.

Whether you are paid weekly or every two weeks, your monthly income will need to be calculated from the actual amount of your take-home pay, regardless of how frequently you are paid.

**Step 2 - Estimate your expenses.** People who have not tracked their spending find that estimating their expenses is the most difficult aspect of setting up a budget. In a previous chapter, you tracked your spending for two to three months. This gave you a fairly good idea of how you spent your money. If you completed a Statement of Income and Expenses for the previous year, you also have an additional source of information to use in estimating your future monthly expenses. You may need to consult your records, such as your check register or your receipts, for more detail. Expenses may be classified as either fixed expenses or flexible expenses. Fixed expenses, like rent or mortgage payments and loan repayments, are the same each month, while flexible expenses differ each month. You should consider your special financial goals to be fixed expenses. When you do this, you are more likely to fund your future financial goals. This is the idea behind the concept—*pay yourself first*. Use My Monthly Budget Estimates to help you estimate your expenses and balance your income and expenses.

**Step 3 - Make adjustments to balance your budget.** In a perfect world, your budget would balance perfectly on the first try. But this is the real world, so do not worry if your outgo exceeds your income on the first go-around. That’s why you are undertaking this exercise—to see how you can bring it into balance.

Is it realistic for you to increase your income? How? Get another job? Get a raise? Holding a garage sale? Check to see if you are over-withholding your federal income taxes and, if so, you may be able to increase your take-home pay by adjusting your exemptions.

If you cannot increase your income, your other choice is to reduce your expenses to bring your budget into balance. Check over each expense category. Are you sure that you are getting the most for your money? Or are you over-paying for things that you could obtain for less? For examples: 1) are you sure that your cell phone plan is the best one for the money, or could you find a better plan for less money or 2) are you paying for a communications package that offers more internet, cable, and telephone feature than you really need or use?
Sharpening your consumer skills will make you a better shopper and will save money in the long run. *Consumer Reports* ([www.consumerreports.org](http://www.consumerreports.org)) is an excellent source to consult before making consumer purchases. You may also want to check out the publication, *66 Ways to Save Money* ([http://www.pueblo.gsa.gov/cic_text/money/66ways/t_66ways.htm](http://www.pueblo.gsa.gov/cic_text/money/66ways/t_66ways.htm)) for more cost-cutting ideas. Another website you may want to check out, which has a page full of topics for consumers, is the Federal Trade Commission at [http://www.ftc.gov/ftc/consumer.htm](http://www.ftc.gov/ftc/consumer.htm).

Make changes to your budget to bring it into balance so that your expenses do not exceed your income.

**Step 4 - Try living within your budget.** Until you try to live by your budget, that is, “living within your means,” you have no real idea whether it “works” for you or not. Right now, it is only a tool on paper. Living within your budget is the main challenge of modern living! Here is where self-discipline is required. During this “test” period, it is important to track your spending so that you can compare it to what you had budgeted. Record keeping during this phase is vitally important. If you cannot or do not compare what you spent (reality) with what you budgeted (what you thought you would spend), there is no point in budgeting whatsoever. Women like you with important life goals will see budgeting as a critical tool to achieve financial success. Getting control of money through effective budgeting is a critically important step in overall financial planning. *Live within your budget for a month or two to see if it works.*

**Step 5 - Develop and use a financial record-keeping system that works for you.** The other critical tool in the budgeting process is record keeping. You won’t know if your budget “works” until you analyze your real-life spending. In Chapter 2, you learned one method to track your spending. You can continue with this method if it works for you. Summarize your monthly expenses, and compare them to what you budgeted for each expense category you established. There are many ways to keep financial records, but they all require you to summarize your monthly expenses so you can draw conclusions from the experience and know whether your budget really works.

The **receipt method** is a simple method for tracking spending. Just make sure you obtain a receipt for every transaction you make, whether it is made by cash, debit card, credit card, or check. Mark each receipt with the name of the budget expense category. Each week or at the end of the month, sort your receipts by budget category, and tally up your results.

The **checkbook method** works well for people who make most transactions by check or debit card. The checkbook register is the primary data-entry tool. Code each transaction for the budget expense category to which it belongs. Each week or at the end of the month, tally up the results by budget category.

**Recordbook methods** work well for people who like to record all of their financial transactions on a daily or weekly basis. Many types of household recordbooks are sold commercially at office supply stores. The income and expense categories may or may not match the categories you use. You can also make your own recordbook by duplicating the My Monthly Income and Expense Record form. Just label the top row with the names of your income and expense categories. Use as many pages as you need. Sum the totals for each category at month’s end. Reserve one page to use as an annual summary. At the end of the year, you will have a complete summary of income and expense. Then you can easily construct a new Statement of Income and Expenses, as you learned in Chapter 2.
Computerized financial record-keeping systems have grown in popularity. People who use these systems are able to tailor their income and expense categories to meet their needs and can effortlessly produce summary reports. Some people prefer the commercial software packages; others who know how to use electronic spreadsheets create their own financial record-keeping systems.

Step 6 - Adjust your budget to reflect your real life experience with it. After following your budget for a couple of months, you should be in a position to know if it “works” for you. Fine-tune your budget categories, and reallocate your income to meet your needs. A budget is a very flexible tool if you will make the necessary adjustments. A budget is not a strait jacket. If it doesn’t work, fix it; don’t abandon it!