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Word Count 1,053 including sidebar
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"Budgeting for Your Family's Future"

How to Create an Accurate Budget and Make it Work for You

By Kimberly Blaker

According to a pamphlet offered by the Federal Consumer Information Center, millions of Americans, especially middle-income families, are in financial distress because of their debts and spending habits. Even savvy parents often find that raising a family is an endless financial struggle.

However, financial problems are also often the result of an inaccurate budget or the lack of one.

Creating and using a budget is important both in preventing financial difficulties and to gaining financial security; and can mean the difference between putting away money for your family vacation, your child's college fund, or retirement.

Budgeting consists of determining your income and expenses, making necessary adjustments to your cost of living, and following through.

The first step in creating a budget is to determine your monthly income and expenses.

One of the greatest problems with budgeting, besides failing to follow it, is the failure to include all expenses. This is easy to do with costs for which you don't receive

a bill and that are sporadic such as vacations, gifts, auto maintenance, clothing, and extracurricular activities.

Bills that are infrequent, such as life and homeowners insurance or property taxes, are often omitted as well.

Another budgeting error is the temptation, with bills that fluctuate from month to month such as long distance and electricity, to budget for the best-case scenario. This is sometimes done with the intention of reducing the bill. The problem is that if it isn't well thought out and planned, the reduction doesn't always happen.

Finally, there are expenses that are frequent but because they're dished out in relatively small amounts at a time, they're overlooked. These expenses might include allowances, eating out, newspaper subscription, auto fuel, school lunches, pet expense, entertainment, and other miscellaneous expenses that are too small or too infrequent to categorize, such as replacing an iron or washing machine or pit stops at the candy store.

Once you've brainstormed and listed all your expense categories, determine your monthly expenditures for bills that fluctuate from month to month by adding up the previous year's bills, adding 5% for inflation, and then dividing by 12 to get a monthly average.

For categories such as gifts or clothing, be sure to calculate what you spend in a full year. This figure, when totaled for the whole family, is often an eye opener. Under this category, don't forget to include back-to-school shopping, outerwear, footwear, underwear and socks, sportswear, summer clothing, work wardrobe, and casual wear. Add up the total expense for the year, and then divide by 12 to get your average monthly expense.

Next, determine your monthly income. This is simple if you work the same number of hours each week and are paid an hourly wage or salary. Multiply your weekly take home pay times 4.3 weeks, since there are just over 4 weeks in a month.

If your income varies because of commissions, overtime, or self-employment, calculate your minimum or typical weekly pay then multiply by 4.3.

For income that’s beyond your minimum pay, create a separate budget worksheet for tracking *it* and the expenses you’ll cover with the additional income. Nonessentials that are dependent on this income should be listed on this worksheet such as entertainment, eating out, vacations, and the like. You’ll then enjoy these treats according to your additional income.

Next, determine the difference between your monthly income and expenses. Add up both columns, and then subtract your total expenses from your total income.

Hopefully, you’ll have a positive difference, which means you can create a savings plan for your child’s college fund, make additional deposits to your IRA, or increase your emergency savings.

If, like many families, you have a negative difference, you’ll need to cut costs and adjust your cost of living.

First, place a check by all items that can’t be reduced. This might include mortgage, loan payments, electricity, and other fixed or fairly fixed necessities.

Next, determine which expenses are least necessary and begin cutting or reducing. Your cable connection might be a good place to start. The vast number of channels offered by cable companies often keep kids glued to the TV. The benefits of not having cable might help you to justify cutting the cost.

Other places to reduce include dining out, entertainment, vacations, and gifts or in necessity categories in which overspending is common such as clothing, grocery, and miscellaneous expenses. Determine how much you *need* to spend to have your needs met, and continue cutting and reducing until your budget at least balances, preferably until it has a positive balance to cover emergencies and miscalculations.

Keep in mind when making your reductions that you need to come up with a realistic, detailed plan that you'll be able to stick to. You might try setting up a plan to reduce several costs rather than to eliminate a couple, thereby avoiding the temptation to break the budget. This, of course, depends on how much you need to cut.

The final step in budgeting is to stick to it! This is where it's easy to go astray.

To remain within your budget, certain expenses should be tracked such as vacations, entertainment, clothing, gifts, and miscellaneous. Purchase a ledger and label a separate page for each category. When you dine out, log the expense to ensure you don't go over your allotment.

Also, realize that it's very tempting when extra cash is floating around to assume that it can be spent. However, your budget is based on averages. This means the extra \$100 or \$1000 sitting in your bank account must be available to cover an expense down the road such as property taxes or back to school shopping, and if you spend it, you'll be short when the time arrives.

Attaining financial security requires the self-discipline to live within your means. By setting up an accurate budget and sticking to it, you'll not only avoid debt and financial hardship but the stress that follow suit.

This will not only protect your family’s financial future, and hopefully allow you to build your savings whether for a new home, to put your kids through college, or for a comfortable retirement, but will also teach your kids important lessons about spending and budgeting—and will make for a happier family all the way around by avoiding financial related stress that can affect parents and children alike.

The End

SIDEBAR:

BUDGET WORKSHEET

<u>Average Monthly Expenses</u>		<u>Average Monthly Income</u>	
Rent/Mortgage	600	Mary’s net pay	1700.00
Homeowners Ins.	25	John’s net pay	1700.00
Property taxes	150	Child support	<u>200.00</u>
Gas (heat)	50		3600.00
Electricity	70		
Water	20		
Cable	30		
Telephone/cell phone	60		
Newspaper	10		
Auto loan	200		
Auto fuel	60		
Auto insurance	100		
Auto maintenance	40		
Medical/Dental	50		

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“Budgeting”

Life insurance	20		
Credit card payment	25		
Groceries	400		
School lunches	40		
Daycare	350		
Household misc.	50		
Clothing	250		
Pet expense	25		
Gifts	100		
Sports/classes	50		
Eating out	50		
Entertainment	75		
Vacation	150		
Allowances	20		
Misc.	50	Total Income	3600.00
Savings/IRA	<u>100</u>	Total Expense	<u>3220.00</u>
	3,220	Balance	380.00

PULL QUOTE: One of the greatest problems with budgeting, besides failing to follow it, is the failure to include all expenses.

PULL QUOTE: Keep in mind when making your reductions that you need to come up with a realistic, detailed plan that you'll be able to stick to.

SIDEBAR IDEAS OR WAYS TO LOCALIZE: Include quotes from a local financial advisor or a list of area resources for financial planning and budgeting assistance.

Kimberly Blaker of Michigan is an author and syndicated writer. Her parenting and women's articles have appeared in more than magazines and publications.

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