

Budgeting Your Way to a Better Tomorrow

Money makes the world go round, and budgeting can get you further around that world. To be a successful money manager you must know how to budget. Here at Texas Partners Federal Credit Union, we believe you should have a plan for your money. Here's why:

- So your basic needs are covered.
- So you can get what you want (if you can afford it).
- So you don't overspend.
- So you don't have to get all stressed out or feel guilty about what you spend.

Budgeting includes 4 steps:

1. Thinking your financial plan through to set *smart* goals.
2. Tracking the ins and outs of your cash flow.
3. Planning.
4. Making financially sound decisions on where your money would best be spent.



Fig. 1. Four Steps to Financial Planning. Adapted from "Financial Planning" by Texas Partners Credit Union. ©2012 Texas Partners Federal Credit Union. All rights reserved.



As quoted by Napoleon Hill, the great American author of *Think and Grow Rich* (1937), "A goal is a dream with a deadline." Goal setting helps you figure out what's most important in your life and prioritize what you want to spend your money on. S.M.A.R.T. goals are goals that are: specific, measurable, attainable, relevant, and time-bound. If your goal has these qualities it becomes easier to make happen. Ask yourself the S.M.A.R.T. goal questions seen in *figure 1* to determine if your goal really is a smart goal. An example of a S.M.A.R.T. goal would be, "I want to save \$250 in 2 months to see One Direction on tour in Austin. I'll need money for tickets, gas, snacks, dinner, and a concert souvenir."

S
M
A
R
T

Specific

What? Who? Where?
Which? Why?

Measurable

How much?

Attainable

How can I do it?

Relevant

Is it worth it?

Time-bound

How long will it take me to save?
When do I need the money by?
What's my deadline?

Fig. 2. S.M.A.R.T. Goal Questions. Adapted from "How to Get What You Want & Deserve! A Guide to Setting S.M.A.R.T. Goals," by Kristy Danuz. ©2012 Texas Partners Federal Credit Union. All rights reserved.



The goal of budgeting is to make the right financial choices. So, step 2 in the process is to figure out where your money is coming from and where it is going. By following the flow of dollars going into your pocket and tracking its movement out of your pocket, you are able to see where you are spending your money. Knowing how much money you spend on certain things or activities might cause you to change your spending habits and give you a little extra money in your pocket tomorrow. But, before you can begin analyzing your spending patterns you have to start your tracking system:

Steps to trackin' it:

1. Get 2 file folders – one for income, one for expenses.
2. For 1 month, when you get paid, file the “paystub” in the income folder.
3. During the same month, when you spend, file the receipt in the expense folder.
4. At the end of the month, create a spread sheet showing your income and spending.

Look at your spread sheet and analyze your spending patterns.

Analyzing your current spending habits will help you see how that morning coffee stop before work each day adds up. Answer the following questions:

- Are you spending more than you thought on certain things?
- Do you see expenses that you might want to cut back on?
- Do you think that money would be better spent somewhere else, or not spent at all and put into your savings account?
- What other opportunities are you missing out on by spending \$50 a month on coffee?

While analyzing you'll want to consider how often you spend your money on the same expenses. There are three different types of expenses: fixed, flexible, and periodic. Fixed expenses are expenses you must pay like your rent or monthly car bill. They are the same amount every month so you know what to expect. Flexible expenses change month to month like your electricity bill or the amount of gas money you need. Lastly periodic expenses are not paid regularly. Periodic expenses include haircuts and oil changes.

Whether you use a mobile app, a file folder, or even an old shoebox make a commitment to track everything for a full month!

If you prefer to go high tech in tracking where your money is being spent there are several mobile apps available for your cell phone. Your cell phone goes everywhere you go, why not let it help you budget your money too. Free apps like *Pocket Expense Personal Finance – Account Tracker, Budget Planner & Bills* for iPhones, *Budgets* for Android-based phones and *Budget Buddy* for Windows phones make it easy to record all of your incoming and outgoing monetary transactions.



Fig. 2.
Pocket Expense Personal Finance – Account Tracker, Budget Planner & Bills for iPhones. Adapted from <https://itunes.apple.com/us/app/pocket-expense-personal-finance/id424575621?mt=8>.



You have a goal; you have the facts; you've thought about it; now you need the plan. When it comes to financial planning that plan is called a budget. You can be on a budget, have a budget, or use it as a verb and budget for something. Budget, budget, budget, budget. What exactly is a budget? Is it something you do or something you have? In its noun form the National Endowment for Financial Education explains it as “a spending plan for managing money during a given period of time.” Used as a verb, to budget is “to calculate how much money you must earn or save during a particular period of time, and plan how you will spend it,” courtesy of the Cambridge Business English Dictionary. Simply put, your budget helps you keep track and manage your money.

Now that you have tracked your money and know where it is going, it's time for you to start making some tough choices to prioritize where it should be going. Making tough choices does not necessarily mean you must sacrifice fun. As NEFE states in their *NEFE High School Financial Planning Program: Student Guide*, “It's not about depriving yourself of your favorite things” a budget is about helping “you find more money for the important things—often just by skipping little purchases you don't care that much about.” Make a list and prioritize your expenses.

My Priorities!

1. Pay Yourself First

Paying yourself first should always be at the top of your list and a portion of your income should go into your savings plan. Paying yourself first helps you help yourself. Following this principle, in an emergency you will have money when you need it most.

2. Obligations

The second priority on your list should be meeting your obligations. These obligations can include rent, auto insurance, a cell phone bill, credit card debt(s), and any other debts and/or bills.

3. Daily Living Expenses

The third priority is your daily living expense. Expenses such as gas for your car, money for lunch, deodorant, flip-flops, and even toothpicks will fall into this category.

4. Add extra \$ to smart goal account

The fourth priority is to put extra money into a savings account set up to reach your smart goal.



Now that you have your priorities in order, you can use the information gathered from your tracking system to estimate your monthly income and expenses. You can use an excel sheet, make your own budgeting log, or use a budgeting template. Below are two examples of budgets that could be used during different stages of life.

Budget for While You Live at Home

Income (after taxes)		
Part-time Job		\$ ____
Allowance		\$ ____
Extra Cash Inflow		\$ ____
	Total Income	\$ ____
Savings & Spending		
Savings	Pay Yourself First/Emergency money	\$ ____
	Saving for your smart goal	\$ ____
	Total Savings	\$ ____
Fixed Expenses	Lunch money or meal plan	\$ ____
	Loan payment	\$ ____
	Phone bill	\$ ____
	Total Fixed Expenses	\$ ____
Flexible Expenses	Gas money or bus pass	\$ ____
	Going out to eat or snacks	\$ ____
	Clothing	\$ ____
	Fun	\$ ____
	Total Flexible Expenses	\$ ____
Totals		
	Income	\$ ____
	Pay Yourself First	-\$ ____
	Fixed Expenses	-\$ ____
	Flexible Expenses	-\$ ____
	Balance	\$ ____



Budget for When You Live on Your Own

Income (after taxes)		
Job		\$ ____
Extra Cash Inflow		\$ ____
	Total Income	\$ ____
Savings & Spending		
Savings	Pay Yourself First/Emergency money	\$ ____
	Saving for your smart goal	\$ ____
	Total Savings	\$ ____
Fixed Expenses	Rent or mortgage payments	\$ ____
	Electric bill	\$ ____
	Water bill	\$ ____
	Gas bill	\$ ____
	Credit card debt	\$ ____
	Auto Loan payment	\$ ____
	Student Loan Payment	\$ ____
	Other Loan Payments	\$ ____
	Phone bill	\$ ____
	Cable bill	\$ ____
	Internet bill	\$ ____
	Garbage collection bill	\$ ____
	Total Fixed Expenses	\$ ____
Flexible Expenses	Gas money or bus pass	\$ ____
	Groceries	\$ ____
	Going out to eat	\$ ____
	Clothing	\$ ____
	Fun	\$ ____
	Total Flexible Expenses	\$ ____
Totals		
	Income	\$ ____
	Pay Yourself First	-\$ ____
	Fixed Expenses	-\$ ____
	Flexible Expenses	-\$ ____
	Balance	\$ ____



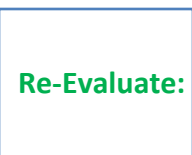
After you have all of your income and expenses organized into a budget, subtract your expenses (including your “Pay Yourself First” contributions) from your income to find your balance.

Texas Partners balance guidelines:

- If you have a **positive** balance: You’re doing a great job. Take that extra money and put it towards your PYF or one of your SMART goals.
- If your balance is **zero**: You’re in the clear, but be careful. You might look at your money and see where you can cut back a little—just not your PYF—in case something comes up.
- If you came up with a **negative** balance: look for places you can cut spending. If you can’t, then you need to find a way to get more income, like asking for more hours at work or getting a second job.



You’ve thought it, tracked it, planned it, and now it’s time to do it. Every day you will need to make the decision to stick to your plan and to not overspend. It is entirely in your hands to make your budget work. The best way to stay on track is to continue to use your tracking system from step 2. Keeping up with tracking your income and spending and comparing it to your budget is the key to being a successful money manager.



Things change, people change, and your budget should change and grow along with you. What’s important to you today might not mean as much six months from now. It is important to re-evaluate your goals and priorities, and to re-track your expenses and daily spending every so often so that your budget can keep up with the changes in your life. Life can be uncertain at times, but financial planning can help you take away some of that uncertainty. One final piece of advice from NEFE, “Don’t let money control you. Always remember that it is just a means to an end, not the end itself.”

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