

How to Make and Manage a Budget

I. INTRODUCTION:

Outside of earnings, there are at least two pieces to the puzzle that is financial health: investment and management. This document and tool help with the latter, not the former. The Budgetizer tool is not a solution to managing your finances, but is a tool to help with the discipline of managing your money. Managing your money still requires discrimination in spending and faithfully tracking your expenditures.

If you have not really 'budgeted' before, you will soon learn that a managed budget can help you control spending in a very useful way, and offers many advantages:

- Defer spending money needed for upcoming bills ('Know Your Needs');
- Accumulate funds for semi-annual or annual expenses (such as car insurance, etc.);
- Set aside money needed to pay off credit cards (avoid interest payments!);
- Answer the question: 'what can I afford?' -- before taking on new expenses: e.g. buying a car, making an investment for your home or apartment (e.g. new furniture, etc.)
- Have a recovery plan if you need to spend more than currently allocated ('deficit spending')
- Be confident about your financial situation, and be in control!!

The initial steps will take a little bit of your time, but are only required once. Managing the budget generally requires only a few minutes every so often. Other than the last item in this document ('Maintaining The Budget'), the following steps are only required once to set up the budget.

II. GATHER REGULAR EXPENSES:

The first step in setting up a budget is to gather up all of your expected monthly, semi-annual and annual bills and expected expenses. You may use the following list as a starting point, then insert/change/delete items as needed. Examples of bills and expected expenses (monthly or otherwise) may include:

- Mortgage/rent
- Groceries
- Utilities: Electric, Gas, Garbage Collection
- Auto: Insurance, Maintenance, Gas
- Medical Insurance
- Medical/Dental/Vision Bills
- Veterinary Expenses
- Personal Items (Haircuts, shaving needs, vitamins, etc.)
- Internet/TV
- Cellular bills
- Clothing
- Home/Apartment Maintenance or Improvements
- Appliance Repairs
- Christmas/Holiday

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- Travel Expenses
- Entertainment (Dinner out, etc.)
- Gifts (Birthdays, etc.)
- Charities
- Hobbies
- Tithe
- Subscriptions, Membership Dues (eg. NetFlix, Magazines, AAA, Costco, Class fees, etc.)
- Cash ('allowance' for personal spending as you wish)
- Computer fees and supplies (e.g. printer ink, paper, anti-virus software, etc.)

It can seem daunting when you sit down and see how much you need to take care of! But you've already been doing it, so this simply identifies where your money already goes. And when that insurance bill shows up, you'll now find that you were regularly accumulating funds for it, and won't need to dip into savings or some other source, leaving you short and puzzled as to why. For each item you identify, write down the monthly, semi-annual or annual fees associated with it (an item will be now referred to as an 'account' in your budget).

III. CONVERT TO MONTHLY EXPENSES

This step is simple: take each account and determine the expected amount needed every month (whether monthly, semi-annual, or annual payments). For example, a semi-annual car insurance bill of \$600 requires setting aside \$100/month. So, the budget for the Car Insurance account will be \$100.

IV. MATCH EXPENSES TO INCOME

This is where the 'negotiation' process takes place, and where you gain full control over your spending. Add the budget amounts for all the accounts you have identified. This represents how much money you would need each month to happily go forward without overspending and take care of everything you expect coming - and it will probably surprise you. At first blush, it may well exceed your expected monthly income. So, it's decision time. If your budget needs exceed your income, examine each account and determine which are inflexible, and which are discretionary. For example, mortgage or rent amounts are generally inflexible. Magazine subscriptions are discretionary. It may be time to drop the subscription. Maybe you can allocate less for personal items, as you won't need to re-stock them every month. Do you need to reduce gifting or holiday expenses? What about charities - can you identify an appropriate amount for these without overspending? What about hobbies, dinners out, travel? You get the idea. If you want control of your finances, you will need to adjust the total budget amount to meet your income. This is where some people get discouraged and throw up their hands, but the better alternative is to control spending, avoid credit card interest charges and reduce or eliminate dipping into other funds, such as savings, CD's, etc.

V. SETUP AND MAINTAIN YOUR BUDGET

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You now have everything you need to set up a formal budget. The Budgetizer program is of course designed to assist you and provide a simple means of moving forward. You could also use a spreadsheet, such as Excel to manage your budget, but the same tools will not be available to you for maintaining it. The Budgetizer tools are available on the budget home page in the panel at the top. Most will be self-explanatory, but some further explanation is provided below.

The Budgetizer program provides you with a list of accounts, budget amounts, and a rolling three-month view of your spending and budget activity. What it also does is keep track of your credit/debit card charges in a way that will allow you to never (or rarely) pay interest on your card(s) again!

- *Credit Cards:* when you purchase an item, you may well use a credit card to pay for the expense. In the Budgetizer program, you will also pay the expense via credit card, but now, the amount will be deducted from the appropriate account and placed into your outstanding card charges. This does two things: 1) it allows you to see how much is left in an account to spend; 2) it sets aside funds for the time the credit card statement arrives. The money will already be there for you to pay, and you can pay in full without incurring interest fees! This is a true savings.
- *Debit Cards:* when you use a debit card (or even ATM card, which is a debit card), the money is deducted immediately from your bank account. The Budgetizer program allows you to record the expense which reduces the 'Checkbook Total' immediately to reflect the true balance of your bank account. The 'Checkbook Total' is always up to date and reflects your actual status.

The Budgetizer allows you to see outstanding charges, and also paid expenses for the last 30 days (e.g. checks and debits). If you mistakenly 'pay expense' with the wrong card, the Budgetizer allows you a means to correct that online. Please review the Help documentation for more detail on how to use these tools.

Note that the Budgetizer will provide you with two additional categories in your budget: 'Undistributed Funds' and 'Temporary Accounts'. They will be used as follows:

- *Undistributed Funds:* Sometimes you will receive funds not associated with your regular income. For example, someone may reimburse you for an item, you may receive a gift ('birthday money', etc.). With the Budgetizer, you can distribute all or portions of that money to any of your accounts, as you see fit. The 'one-time deposit' will be placed in the 'Undistributed Funds' account immediately, and from there, you can use the 'transfer funds' tool to place monies into one or more other accounts.
- *Temporary Accounts:* You may find that you need to fund a 'one-time' or infrequent item, such as new tires for your car. The temporary accounts allow you to set up an account (use the 'rename account' tool) temporarily until your item is funded. The accounts are established when you first set up the budget in the Budgetizer, and cannot be moved or deleted. They can be renamed to fit your

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objective. Also note that Temporary Accounts will not receive distributions of regular monthly income (next).

When you 'deposit' regular income into the budget (use the 'deposit monthly income' tool), the money will be distributed to each account as follows: starting with the first account, the budgeted amount will be added to that account's current balance. After that, the next account will be funded, and so on, until: 1) the income has all been 'spent', or 2) there is money left over, which will be accumulated in the 'Undistributed Funds' account. If you have more than one source of regular monthly income, the subsequent deposits will continue where the previous one left off - with the last incompletely funded account, and proceed from there. If that account was partially covered by a previous deposit, the remainder (only) will then be funded from the new deposit. Hence, the order of the accounts in the budget can be important. For example, if your rent/mortgage occurs *early* in the month, it is important to list that early in your budget, so that it is funded when you need to make the payment (or when the payment is automatically made).

Automatic Payments. Often times, you will have bills which are automatically paid either directly from your bank account, or by credit card. You can set up a prompt in the Budgetizer program ('Autopay->Schedule Autopay') which will remind you on the day (or after) that an autopayment has occurred. The prompt will occur only when the bill has occurred and has not yet been recorded by you in the budget. The prompt specifies the account (budget item) being charged and the method of payment. You simply fill out the exact amount of the payment and select the 'Pay This' button. For example, perhaps you automatically charge your credit card when it's time to pay the cellular bill. You may budget \$100 for this but only need \$97.78. When you pay the bill, the excess funds will remain in the cellular account. You can move that money or accumulate it: eventually, you might have sufficient funds for a 'free' month's payment of the bill!

Reconciling Credit Card Statements: When that monthly credit card statement arrives, you will already have the money in your account to pay all of it, thus avoiding ridiculous interest fees. When you select the 'Reconcile Credit Card' tool, it will ask you to select the card of interest (even if you only have one). When you do, you will proceed to a page which lists all of the outstanding charges. Simply check the items that appear on your card's statement, and then 'reconcile' the credit card. When you pay the credit card balance from your bank account (eg. write a check, or other method), it will now match your 'Checkbook Balance' – and none of your current account balances are affected!

Deficit Spending: there will probably always be a time when you need to spend more than you have available in the current budget account balance. Assuming you have a sufficiently adequate bank balance, you can still make the payment from the account using the Budgetizer program. The balance will appear in red as a negative number. This is not an issue, as you have already allocated the funds monthly, and in the following month(s), the account will again be 'in the black'.

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Other Budgetizer tools help manage your account: e.g. add/move/rename/delete accounts, add/remove credit cards, modify previously recorded expenses, etc. These tools are available on the home page of the budget in the panel at the top of the page.

This covers the basics! Enjoy your financial control.