

Put Savings (and Yourself) First With a Budget

Personal savings have reached record lows, yet saving is essential to ensure a comfortable future. Learn how to track monthly expenses with a budget and potentially free up cash for saving.

Put Savings First With a Budget

Where does that money go? America, it seems, is in the midst of a savings crisis. Personal savings rates have dropped in recent years and remain low by historical standards as many people continue to spend beyond their means.

If you're among those Americans who can't seem to save, it might be time to create a budget. A budget allows you to understand where the money goes and may help you free up cash for important savings goals, such as college and retirement.

Getting Started

Setting up a budget will require some work, but the benefits more than offset the time invested. How you create your budget is up to you. You may choose a piece of financial planning software, such as Microsoft Money or Quicken, or you may choose the paper and pencil route. The above worksheet is a simple yet inclusive budget that you can use to get started.

The first element of any budget is your income, or how much money you receive each month. This can include paychecks, legal settlements, alimony, royalties, fees, and dividends from investments that you do not reinvest. Once you know what your monthly income is, you can use a budget to make sure you don't spend more than you earn, thus helping to reduce debt and freeing up cash for savings.

Next, you need to know how you spend your money. Start by tracking your spending for a month. Gather bills and receipts, and don't forget to include newspapers from the corner store and trips to the soda machine. Don't assume any expense is too small to record.

Write down your expenses and break them into categories. Using the budget worksheet as an example, we find Fixed Committed Expenses — mortgage, loan, and insurance payments that stay the same from month to month; Other Committed Expenses — things you can't live without, like food, utilities, and clothing; and Discretionary Expenses — things you like but don't necessarily need.

Less Spending = More Savings

Once you know where the money goes, it's time to analyze your expenses. There probably isn't much you can do about Fixed Committed Expenses without moving or getting rid of the family car. However, if these expenses are greater than your monthly income, you are probably carrying too much debt to effectively save.

You may find some room to economize in Other Committed Expenses, but look at Discretionary Expenses first. This is typically the easiest place to reduce spending. Begin by canceling magazine subscriptions to titles you don't read. Eat fewer meals out, or choose less expensive restaurants. Across much of the country, you can rent two DVDs for the price of a single adult ticket to a movie and throw in some microwave popcorn for a dollar more.

Your Monthly Budget			
Income	Expected	Actual	Difference
Take-home pay (you and spouse)	\$ _____	\$ _____	\$ _____
Dividends, interest, capital gains	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____
Total income (A)	\$ _____	\$ _____	\$ _____
Fixed Committed Expenses	Expected	Actual	Difference
Savings	\$ _____	\$ _____	\$ _____
Children's education	\$ _____	\$ _____	\$ _____
Mortgage/rent	\$ _____	\$ _____	\$ _____
Property/taxes	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____
Auto loan/lease	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____
Other Committed Expenses	Expected	Actual	Difference
Groceries	\$ _____	\$ _____	\$ _____
Utilities	\$ _____	\$ _____	\$ _____
Repairs/upkeep	\$ _____	\$ _____	\$ _____
Telephone	\$ _____	\$ _____	\$ _____
Credit card/loan payments	\$ _____	\$ _____	\$ _____
Doctor/Dentist	\$ _____	\$ _____	\$ _____
Transportation	\$ _____	\$ _____	\$ _____
Clothes/laundry	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____
Discretionary Expenses	Expected	Actual	Difference
Entertainment	\$ _____	\$ _____	\$ _____
Sports/pastimes	\$ _____	\$ _____	\$ _____
Books/magazines	\$ _____	\$ _____	\$ _____
Charitable contributions	\$ _____	\$ _____	\$ _____
Birthday/holiday gifts	\$ _____	\$ _____	\$ _____
Vacation	\$ _____	\$ _____	\$ _____
Furniture	\$ _____	\$ _____	\$ _____
Pocket money	\$ _____	\$ _____	\$ _____
Miscellaneous	\$ _____	\$ _____	\$ _____
Total expenses (B)	\$ _____	\$ _____	\$ _____
Total extra cash that you can add to your savings (subtract B from A)	\$ _____	\$ _____	\$ _____

Digging Deeper

Once you've reduced discretionary spending, look at those Other Committed Expenses. Can you reduce the grocery bill with coupons or more economical meals? How about taking public transportation instead of cabs?

One area to closely examine is credit card debt. If a high balance is keeping you from saving, you need to find ways to trim those monthly payments. Call your credit card company and ask them for an interest-rate reduction, or shop around for a card with a lower rate. You can find a list of low-rate cards through CardWeb (1-301-631-9100 or online at www.cardweb.com). Beware of low introductory "teaser" rates that increase to much higher rates after six months.

You could also consider a home equity loan, which may offer a tax deduction, or a consolidation loan. Make sure that you'll be able to afford the monthly payments before you take the loan. Banks can foreclose on a home equity loan within 90 days if you miss payments.

If your savings are still being crushed under the weight of debt, or if you're having trouble making minimum monthly payments and covering necessary expenses, consider getting some help. The nonprofit National Federation for Credit Counseling (call 1-800-388-2227, or visit www.nfcc.org) can help you set up a budget and negotiate payment schedules with lenders for a modest fee. Once you start paying off your credit cards, the extra money can be used to build savings.

The Goal: More Savings

Once you've figured out where to economize, you can enter amounts in the Expected column of the budget. Notice that Savings and Children's Education appear under Fixed Committed Expenses. This is to encourage you to pay yourself first, a key rule of saving. By setting aside a certain amount each month for savings, you can build toward your goal without missing the money. You may be able to set up a payroll savings plan through your bank or credit union. Also look into any employer-sponsored retirement plans you may have at work, which potentially offer tax benefits along with savings for the future.

It might also help to set a savings goal, both for short- and long-term needs. Studies have revealed that families with savings goals tend to save more.

Remember that your budget is a living document. As your circumstances change, so will your goals and needs. Review your budget every few months to make sure it reflects your goals and to see if you are saving as much as you possibly can.

SUMMARY

- You can use computer software or a pencil and paper to create a budget.
- Analyze your spending for a month to see where your income goes. If your living expenses are greater than your income, you'll need to find ways to economize.
- Your spending can be broken down into three categories: Fixed Committed Expenses, Other Committed Expenses, and Discretionary Expenses.
- To free up cash for savings, begin by reducing Discretionary Expenses, then look at Other Committed Expenses.
- Pay down credit-card debt aggressively. Once the debt is paid off, direct the extra money to savings.
- Set aside some of each paycheck for savings goals. Ask your bank or credit union about payroll savings plans and investigate your employer-sponsored retirement plan.
- Review your budget periodically to make sure it is still in line with your needs and goals.

CHECKLIST

- Start carrying a pocket-sized notebook and pen or pencil to record purchases throughout the day.
- If you plan to use computer software to help create your budget, begin shopping around for the best deal.
- Set a new savings goal for the year ahead — such as saving 5% or 10% of income for retirement and other priorities.
- If you still don't know where to start, consider seeking advice from a trusted financial advisor.