BUDGETING OVERVIEW

Review basic terms using the transparency Budgeting Terms.

A budget is a plan for managing income and expenses. It does not require complicated math, nor does it force you to become a penny pincher; it helps you see where your money is spent. Budgets serve as a record and can be a great help to you when computing your taxes. Budgeting strengthens family communication. Budgeting increases sharing, both in setting a plan and evaluating spending patterns; it is beneficial because financial matters may be a real source of conflict and divorce in a marriage.

1. The first step in budgeting is to evaluate your present and future goals.
   What do you need and want now, in the next year, or the next ten years?
   If you are married, you may find that your priorities differ from those of your spouse. You may have to make some compromises.

   Experts recommend that people budget their money as follows:

Food	15-20%
Housing	25-35%
Transportation	10%
Clothing	10%
Savings	10%
Miscellaneous	15-20%

2. Determine your monthly net income or take-home pay. Gross income is your salary before federal taxes, state taxes, social security, and Medicare are deducted.

3. Decide how to handle your money. There are several methods.

   A. JOINT BANK ACCOUNT: Money is available to either the husband or wife. Both are free to make deposits and withdrawals at will. The main problem with this method is trying to keep an accurate balance, because it must be coordinated between two people.

   B. SEPARATE ACCOUNTS: The two may each have his/her own account. In this method, the couple divides the expenses. One person may take care of household expenses, food, and utilities; the other may pay the mortgage, transportation payments, etc. This method works well unless one of the partners feels the division is unfair.

   C. ONE SPOUSE MAY CONTROL ALL SPENDING: One spouse gives the other money, as it is needed. This method sometimes leads to conflict if money is equated with power.

   D. ENVELOPE METHOD: In this method several envelopes represent the budget categories. Each month a certain amount of money is placed in the assigned envelope. One problem is that one tends to borrow from other envelopes if they run out of money in one envelope. Since cash is kept in the envelopes, this could create an unsafe situation. This method may have to be used by persons who cannot control the amount of checks they write.

4. Determine your expenses. Expenses may be either fixed or flexible. Fixed expenses ar those expenses that usually do not vary in amount and must be paid on a regular basis;

mortgage or rent payments are examples of fixed expenses. Flexible expenses vary from week to week or month to month; an example of flexible expenses include clothing and food costs.

5. If your expenses are greater than your income, you may need to make some adjustments in your priorities. Another alternative is for a person to increase his/her income. Some expenses may need to be eliminated.

6. A budget is not useful if you do not use it. Once you have balanced your budget on paper, you can use the figures as guidelines for your spending. Budgeting is an ongoing process that must be revised and updated often.

BUDGETING TERMS

BUDGET: a plan for managing income and expenses

GROSS INCOME: the total amount of income earned before deductions are made.

NET INCOME: amount of income left after deductions are taken.

FIXED EXPENSES: expenses which usually do not vary in amount and must be paid on a regular basis (mortgage, car payments, etc.)

VARIABLE EXPENSES: expenses which vary from week to week or month to month (clothing, food, etc.)