

Budgeting

The Importance of Budgeting

Budgeting is the foundation for achieving financial independence. Budgeting helps you use your money in a way that reflects your values and priorities. Ideally you prioritize your resources according to your values or what is important to you. If your finances are in a state of disarray due to unforeseen circumstances then I would suggest that “Survival Priorities” are needed to organize your financial priorities.

The Importance of Your Priorities

Whether you know it or not, you are always setting your financial priorities. Some may decide that a new stereo system is more important than this month's electric bill. This may be a little off the wall, but it is still setting your priorities.

Anyone wanting to better manage their money would be wise to determine what their financial priorities are and stick to them. Of course, if you see that these priorities will not put food on the table and pay your bills, then you will have to rethink your priorities.

Setting your priorities is simple. You just determine the most important aspect of your finances and put that item on top. However, if you decide on that stereo over your electric bill, you may find yourself in the dark with no need for a stereo.

There are basic priorities that pertain to everyone. These are simply a matter of survival. Here is a list of the basics:

Water
Food
Shelter

That was a tough one.

What does it take to ensure that our basic needs are met? The main ingredient is a source of income to pay the rent or house payment, pay the utilities, and buy the groceries. This is where you start setting your priorities.

Before you can spend another penny, you have to take care of what you need to survive. Don't put off the rent or house payment, utilities, and don't skimp on your groceries and necessary health items. If you do, you will start experiencing money problems much sooner than you would if you had delayed paying other bills instead.

What's next? If your source of income happens to come from a job, then I would say your transportation. You have to get back and forth to work so you can afford all of the other stuff. This would include your vehicle payment, gas, insurance and maintenance. If your source of income is not a job, then go to the next step.

And Now? Naturally, this would be your other bills. You can even split this category a little further.

First, you have your bills that are secured by property. You should always pay these bills first.

Secondly, your unsecured bills which are probably credit cards.

The reason you should always pay your secured bills first is that it is much more likely that they can take the secured property and probably will unless payment is made. While credit cards companies are notorious for their threats, they very seldom follow through. I'm not saying not to pay them, I am saying they aren't as high a priority as your secured bills.

Next would be your savings. I really to hate to list savings as your last priority because having a savings can prevent the use of those dreaded credit cards and help in so many ways. If you have the money to cover all of your other priorities, then you should always put savings at the top of the list. However, if you don't have enough money to cover your bills and expenses, then your savings will have to be the first to go.

Your Survival Priorities

The below list is an example of what your financial priorities should look like during a crisis situation:

1. Groceries and Necessary Health Items
2. Housing (Rent or House Payment)
3. Utilities
4. Transportation
5. Secured Bills
6. Unsecured Bills
7. Savings

Let's hope that you never get in the position to have to decide which of the above list will have to wait. But if you do, following the above priorities is absolutely necessary to ensure your survival.

Gathering Your Information

Before you can prepare a budget, you should adopt a systematic approach to tracking your spending. Ideally you would gather receipts and log all spending for a period of thirty days.

Helpful information to gather would be your monthly checking account statements, monthly utility bills, credit card statements and receipts for all cash expenditures such as gas, groceries, lunches and other incidental expenses. Carry a small planner or note book to log any other miscellaneous expenses.

Preparing Your Budget

The next step is to categorize your current spending. You then enter the totals in the corresponding category under current expense. After you have completed this step you may be surprised at how much you are spending on things that are not important to you. This is a golden opportunity to align your expenses with your priorities and trim the line item in your proposed budget. On the next page you will find a sample budget form.

3 Keys to Living With a Budget

Recording Income and Expenses

Record keeping is perhaps the most unpleasant aspect of budgeting, but it is necessary. Our concern should be primarily with how to do it most efficiently, since most people resent doing extensive bookkeeping every evening or weekend. Here are some tips.

- Avoid Cash
- Code Income and Expenses
- See If Your Bank Can Help
- Use a PC

Updating Your Income and Expense Plan

After all income and expense items have been accounted for, the next step is to update your monthly income and expense plan by recording actual amounts and then comparing them with the budget. This is usually done monthly, and it is done best with an income and expense plan update.

If the actual amount for a line item differs from the budgeted figure, it is called a variance. Variances can then be either favorable—meaning they assisted in the saving effort—or unfavorable—meaning they detracted from it.

The following are examples of variance:

- An income variance is favorable whenever it exceeds the budgeted amount; it is unfavorable when the reverse is true.
- An expense variance is favorable whenever it is less than the budgeted amount, and it is unfavorable in the reverse case.
- The cumulative variance figure results from adding the current month's variance to variances of previous months.

Evaluating and Modifying Activities

To stay within your budget, you have to continuously adjust your expenses during the year. Evaluating and controlling your activities really makes your budget work; an elaborate recording system will do little good if you choose to ignore the information it provides.

In addition to monitoring activities and calculating cumulative variances on a monthly basis, a year-end review can be helpful. It helps in making budget estimates for the next year. It also provides an opportunity to prepare the current year's income statement.

Budget Consultation

No matter what type of goals or plans you have in life a budget can lead to success. If you aren't experienced with a budget don't hesitate to ask your Financial Alliance Partner to set up a budget consultation for you. Today is the first day of the rest of your life. Make sure you are on the right path!



Budget Worksheet

Monthly Budget

Annual Total

	Current Budget	New Budget Estimate	Difference	Desired Budget	Actual Budget	Difference
Total Monthly Income (after tax)						
Home						
Current vs proposed						
Association Fees/PMI						
Telephone						
Heat						
Electric						
Gas						
Water/Sewer						
Cable / Satellite TV						
Home Maintenance						
HOME INSURANCE						
Total						
Autos						
Insurance payments						
Gas						
Auto Maintenance						
Other						
Total						
Living						
Daycare						
Food						
Entertainment						
Dining Out						
Clothing						
Life Insurance						
Disability Insurance						
Travel						
Medical						
Health Club						
Education						
Other						
Total						
Other Obligations						
Alimony						
Child Support						
Gifts						
Charity						
Other						
Total						
Credit Obligations						
Total of Other Mortgages						
Total Installment						
Total Revolving						
Total						
Grand Total Expenses						
Percent Total Annual						
Total Surplus / Deficit						

66 Ways to Save Money

For most kinds of purchases, you can get valuable advice and comparisons on the Internet. Ask a librarian or friends which Internet sites they think are helpful, or you can use a search engine like Google or Yahoo. Be aware that information you find is often biased. At many websites, the only products or sellers listed are ones that pay to advertise. Before buying anything on the Internet, check several websites and make sure you deal with reputable dealers.



Transportation

Airline Fares

Compare low-cost carriers with major carriers that fly to your destination. Remember, the best fares may not be out of the airport closest to you.

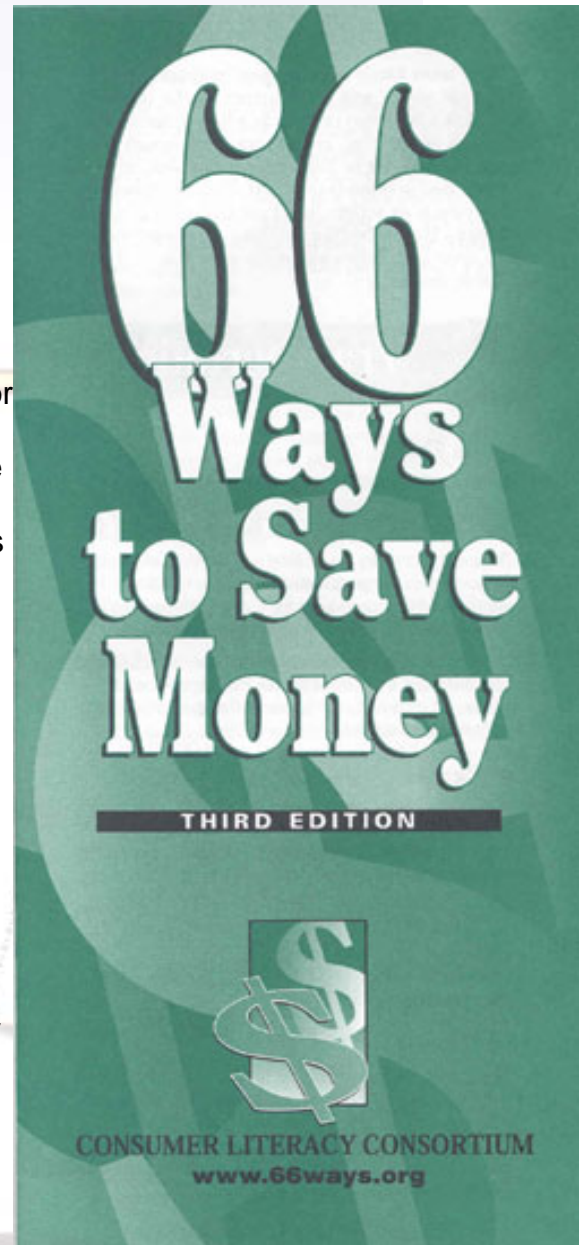
You may save by including a Saturday evening stay-over or by purchasing the ticket at least 14 days in advance. Ask which days of the week and times of the day have the lowest fare.

Even if you are using a travel agent, check airline and Internet travel sites, and look for special deals. If you call, always ask for the lowest fare to your destination.

Car Rental

Since car rental rates can vary greatly, compare total price (including taxes and surcharge) and take advantage of any special offers and membership discounts.

Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.



New Cars

You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low depreciation, financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information.

Having selected a model and options you are interested in, you can save hundreds of dollars by comparison shopping. Get price quotes from several dealers (over the phone or Internet) and let each know you are contacting the others.

8. Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

Used Cars

Before buying any used car:

Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices which can be found at many libraries, banks, and credit unions.

Have a mechanic you trust check the car, especially if the car is sold "as is."

Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.

Auto Leasing

Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments are lower because you don't actually own the car.

Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of-lease), and the cost of buying the car at the end of the lease. A valuable source of information about auto leasing can be found in *Keys to Vehicle Leasing: A Consumer Guide*, which is published by the Federal Reserve Board and Federal Trade Commission.

Gasoline

You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual.

You can save up to \$100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

Car Repairs

Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:

is certified and well established;

has done good work for someone you know; and

communicates well about repair options and costs.



Insurance

Auto Insurance

You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage.

Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverage to at least \$500 or, if you have an old car, dropping this coverage altogether. This can save you hundreds of dollars on insurance premiums.

Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance

You can save several hundred dollars a year on homeowner insurance and up to \$50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes.

Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition.

Make certain your new policy is in effect before dropping your old one.

Life Insurance

If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy.

If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs.

Check the National Association of Insurance Commissioners website (www.naic.org/cis) or your local library for information on the financial soundness of insurance companies.



Checking Accounts and Debit Cards

You can save more than \$100 a year in fees by selecting a free checking account or one with no minimum balance requirement. Request a complete list of fees that are charged on these accounts, including ATM and debit card fees.

See if you can get free or lower cost checking through direct deposit or agreeing to ATM only use. Be aware of charges for using an ATM not associated with your financial institution.

Savings Products

Before opening a savings account, find out whether the account is insured by the federal government (FDIC for banks or NCUA for credit unions). Financial institutions offer a number of products, such as mutual funds and annuities, which are not insured.

Once you select a type of savings account, use the telephone, newspaper, and Internet to compare rates and fees offered by different financial institutions-including those outside your city. These rates can vary a lot and, over time, can significantly affect interest earnings.

To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) or U.S. Savings Bonds (Series I or EE).

Credit Cards

To avoid late payment fees and possible interest rate increases on your credit cards, make sure you send in your payment a week to ten days before the statement due date. Late payments on one card can increase fees and interest rates on other cards.

You can avoid interest charges, which may be considerable, by paying off your entire bill each month. If you are unable to pay off a large balance, pay as much as you can. Try to shift the remaining balance

to a credit card with a lower annual percentage rate (APR). You can find listings of credit card plans, rates, and terms on the Internet, in personal finance magazines, and in newspapers.

Be aware that credit cards with rebates, cash back, travel awards, or other perks may carry higher rates or fees.

Auto Loans

To save as much as several thousand dollars in finance charges, pay for the car in cash or make a large down payment. Always get the shortest term loan possible as this will lower your interest rate.

Make certain to get a rate quote (or pre-approved loan) from your bank or credit union before seeking dealer financing. You can save as much as \$1000 in finance charges by shopping for the cheapest loan.

Make certain to consider the dollar difference between low-rate financing and a lower sale price. Remember that getting zero or low-rate financing from a dealer may prevent you from getting the rebate.

First Mortgage Loans

Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. For each \$100,000 you borrow at a 7% annual percentage rate (APR), for example, you will pay over \$75,000 less in interest on a 15-year fixed rate mortgage than you would on a 30-year fixed rate mortgage.

You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year \$100,000 fixed-rate mortgage, just lowering the APR from 7% to 6.5% can save you more than \$5,000 in interest charges over the life of the loan, and paying two points instead of three would save you an additional \$1,000.

Check the Internet or your local newspaper for mortgage rate surveys, then call several lenders for information about their rates (APRs), points, and fees. If you choose a mortgage broker, make certain to compare their offers with those of direct lenders.

Be aware that the interest rate on most adjustable rate mortgages (ARMs) can vary a great deal over the lifetime of the loan. An increase of several percentage points might raise payments by hundreds of dollars a month, so ask the lender what the highest possible monthly payment might be.

Mortgage Refinancing

Consider refinancing your mortgage if you can get a rate that is lower than your existing mortgage rate and plan to keep the new mortgage for at least several years. Calculate precisely how much your new mortgage (including points, fees and closing costs) will cost and whether, in the long run, it will cost less than your current mortgage.

Home Equity Loans

Be cautious in taking out home equity loans. The loans reduce or may even eliminate the equity that you have built up in your home. (Equity is the cash you would have if you sold your house and paid off your mortgage loans.) If you are unable to make payments on home equity loans, you could lose your home.

Compare home equity loans offered by at least four reputable lending institutions. Consider the interest rate on the loan and the annual percentage rate (APR), which includes other costs, such as origination fees, discount points, mortgage insurance, and other fees. Ask if the rate changes, and if so, how it is calculated and how frequently, as this will affect the amount of your monthly payments.



Home Purchase

You can often negotiate a lower sale price by employing a buyer broker who works for you, not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed.

Do not purchase any house until it has been examined by a home inspector that you selected.

Renting a Place to Live

Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.

Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

Home Improvement

Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well established, licensed contractors who have submitted written, fixed-price bids for the work.

Do not sign any contract that requires full payment before satisfactory completion of the work.

Major Appliances

Consult Consumer Reports, available in most public libraries, for information about specific appliance brands and models and how to evaluate them, including energy use. There are often great price and quality differences. Look for the yellow Energy Guide label on products, and especially for products that have earned the government's ENERGY STAR, which can save up to 50% in energy use.

Once you've selected a specific brand and model, check the Internet or yellow pages to learn what stores carry the brand. Call at least four of these stores to compare prices and ask if that's the lowest price they can offer you. This comparison shopping can save you as much as \$100 or more.



Utilities

Electricity

To save as much as hundreds of dollars a year on electricity, make certain that any new appliances you purchase, especially air conditioners and furnaces, are energy-efficient. Information on the energy efficiency of major appliances is found on Energy Guide Labels required by federal law.

Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to \$100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Heating and Cooling

A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they audit homes for free or for a reasonable charge. If they do not, ask them to refer you to a qualified professional.

Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to \$100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Telephone Service

Once a year, review your phone bills for the previous three months to see what local, local toll, long distance, and international calls you normally make. Call several phone companies which provide service in your area (including wireless and cable), to find the cheapest calling plan that meets your needs. Consider a bundled package that offers local, local toll and long distance, and possibly other services, if you heavily use all the services in the bundle.

Check your phone bill to see if you have optional calling features or additional services, such as inside wire maintenance, that you don't need. Each option you drop could save you \$40 or more each year.

If you make very few toll or long distance calls, avoid calling plans with monthly fees or minimums. Or consider disconnecting the service altogether and use dial around services such as 10-10 numbers or prepaid phone cards for your calls. When shopping for dial around service, look for fees, call minimum, and per minute rates. Treat prepaid cards as cash and find out if there is an expiration date.

If you use a cell phone, make sure your calling plan matches the pattern of calls you typically make. Understand peak calling periods, area coverage, roaming, and termination charges. Contracts offered by most carriers will provide you with a trial period of 14 days or more. Use that time to make sure the service provides coverage in all the places you will be using the phone (home, work etc.). Prepaid wireless plans tend to have higher per minute rates and fees but may be a better option if you use the phone only occasionally.

Before making calls when away from home, compare per minute rates and surcharges for cell phones, prepaid phone cards, and calling card plans to find how to save the most money.

Dial your long distance calls directly. Using an operator to place the call can cost you up to \$10 extra. To save money on information calls, look the number up on the Internet, or in the directory.



Food Purchased at Markets

You can save hundreds of dollars a year by shopping at lower-priced food stores. Convenience stores often charge the highest price.

You will spend less on food if you shop with a list, take advantage of sales, and purchase basic ingredients, rather than pre-packaged components or ready-made items.

You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

Prescription Drugs

Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist if a less expensive generic or an over the counter alternative is available.

Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

Funeral Arrangements

Plan ahead, making your wishes known about your funeral, memorial, or burial arrangements in writing to save your family or estate unnecessary expense.

For information about the least costly options, which may save you several thousand dollars, contact a local Funeral Consumer Alliance or memorial society, which are usually listed in the Yellow Pages under funeral services.

Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law.

The Consumer Literacy Consortium is a working group of representatives from federal and state government agencies, consumer groups, business organizations, and educational institutions that seek to develop and publicize money-saving consumer tips. Membership in the Consumer Literacy Consortium does not imply endorsement of all its messages or the products and services of other members.

American Association of Retired Persons
American Council on Consumer Interests
American Council of Life Insurers
American Express
American Financial Services Association Education Foundation
AT&T
Center for the Study of Services - Checkbook Magazine
Consumer Action
Consumer Federation of America
Credit Union National Association
Fannie Mae

Federal Citizen Information Center
Federal Reserve Board
Federal Trade Commission
MasterCard International
MCI Communications Corporation
National Association of Consumer Agency Administrators
National Foundation for Credit Counseling
Sprint
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Single copies of this brochure are available for \$.50 each from Save Money, Pueblo, CO 81009. Make your check or money order payable to Superintendent of Documents.

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