

# Where Does Your Money Go?

## *Solve the Mystery with a Budget*

Where does all your money go? The truth is not that mysterious. It just requires a little discipline on your part—along with a budget. Much of what we do with our money is often done in small increments without our realizing how it all adds up. By helping you track your income and spending, a budget can help you gain control of your personal finances.

### **Make It a Family Affair**

A budget should be a *joint* family effort. All adult family members should be familiar with the budget. Since children affect and are affected by the budget, they should also be as fully involved as possible. Seeing that money is not unlimited can help them understand why everything they want is not always theirs for the asking.

Each family requires a *personalized* budget tailored to its own particular needs. Here are some of the basic steps to follow:

1. **Track Income and Spending.** To start, tally all sources of income and track spending for a few weeks or months. Keep a record of all expenditures over \$1.00. Refer to credit card statements, receipts, and check stubs.
2. **Categorize Expenses.** Then set up different categories for your expenditures. Two basic types of expenses are: 1) **fixed**—over which you have no control, such as mortgage or rent, insurance, and utilities; and 2) **discretionary**—which you can control, such as clothes, movies, sports events, and dining out.
3. **Set Priorities.** Now that you see how much money is coming in and how much is going out, it is time to set priorities. Do you wish to buy a house or a new car? Or, to save for your child's college education or your retirement? Perhaps your immediate objective is just to get out of debt.
4. **Prepare the Budget.** You are now ready to prepare your budget. Remember, keep it simple. The less complicated, the more likely you are to maintain it. To estimate expenses such as for tax bills or insurance premiums, calculate the annual expense and divide by 12. The budget process should give you a better sense of where you need to cut spending. It may take several passes before you whittle your expenses down to put them in line with your income.

5. **Stick to It.** Get in the habit of reviewing your budget at least weekly. A budget must be consistently maintained in order to work.
  
6. **Conduct an Annual Review.** Review your budget at the end of each year. By adding up what you spent and comparing it to what you had budgeted, you'll see areas to work on for next year.

### Additional Reminders

Once you have prepared a budget, there are still two important things to remember: 1) Don't forget to set aside emergency savings in case of an unforeseen problem, such as a job loss, or an unexpected major expense. The general rule of thumb is that an emergency savings fund should cover three to six months worth of living expenses. To work best, savings should be set aside on a regular weekly or monthly basis. And, 2) Watch your credit card spending. Don't let your credit cards run away with you. Due to the ease of using a credit card, many people end up buying things they could do without and which may end up costing more in finance charges if they don't pay the bill on time.

By making a budget a part of your family's personal finance routine, you will be well on your way to solving the all too familiar "Case of the Missing Money."

PFBDGETJ-X