

Let's talk budgets

Making the most of your income

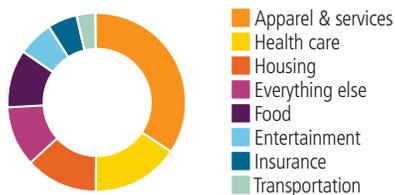
“Start saving for retirement,” “Design your retirement strategy today,” “What does your future hold for you?” Sound familiar? It should – we’ve been inundated with messages about preparing for the future. It makes sense; preparing for the future is an excellent idea as long as you have the means to accomplish that. Simply put, do you have money to work with? The best way to find out is to start budgeting.

Why budget?

A budget lets you get the most out of your income. It can help you prioritize your spending, help save a reserve for emergencies, and save for something you'd really like. And a budget can also help you determine how much you can afford to start putting away for retirement!

Where does the money go?

According to the Bureau of Labor Statistics Consumer Expenditures 2012 report, the breakdown of essential expenses for the average American looks like this:



With an annual salary of \$65,596 before taxes, the average annual expenditures are \$51,442 or 78%. How close are the U.S. Department of Labor's percentages to your own? In order to answer that question you'd have to sit down and work out a budget. A large percentage of Americans don't know what their budget is – they simply pay as they go – and although they may be keeping on top of their bills, it's a difficult way to get a sense as to how much money you have to work with.

How do I start a budget?

Organize about three months of your billing information. Try to categorize where your money is going and see if there's a pattern. Is your spending pretty predictable or are you inconsistent? If it's inconsistent, look at six months instead of just three. The idea is to get a real sense of where your money is going and once you have a clear picture, then you can start to think about the long-term. Do you have a big purchase coming up like a new house, vacation or new car? Maybe there's college tuition in the not too distant future or maybe you'd like to retire early. Having a budget might make any of these objectives a little easier to achieve.

How does your savings strategy stack up?

The Employee Benefit Research Institute (EBRI) conducts an annual survey to gauge American retirement preparedness called the **Retirement Confidence Survey**. For the 2014 survey, 38% of Americans polled said they have less than \$25,000 saved; barely enough to get one child through an average year in college let alone live on in retirement.

Can't I just borrow more money?

As you start looking at your future monetary needs, you might be tempted to borrow more instead of cutting back or saving. There are times when borrowing money from a lender can be a positive choice, just be sure you know all the implications before you take that step. An interest-only refinance package may seem to put more money in your pocket but down the road, you may be facing a giant balloon payment. If you're fortunate enough to have equity into your home, it can be very enticing to open a large line of credit. Again, keep your eye on the long-term affect of repaying that loan.

It's also very important to be diligent when looking at credit cards that offer low introductory rates. Many times these low rates are only for the first year and then they can increase dramatically. Many credit card companies have a

universal default clause which allows them to raise their interest rates if you fall behind on any payment, including your mortgage or a medical bill.

It's not all bad news!

Even if up until this very moment you've never worked on a budget, you can start today and see some positive changes quickly. Carpooling with co-workers can help reduce the amount of money you spend on gas. If your style is to hit up the cafeteria at work for lunch (and even breakfast) try brown-bagging. It doesn't have to be a drastic change, start with one or two days each week or maybe just purchase breakfast but bring your lunch. Love to read? Look for used book stores or the library. You'll be amazed how little changes like this can start helping you save and help you reallocate that money for future events. Looking for more ways to painlessly save some money?

Check out The American Association of Retired Persons (AARP) website at **AARP.org**. They offer a checklist for cutting some monthly expenses that can save you anywhere from \$250-\$560 a month! (Please note: the AARP's illustration is based on a set of assumptions and national averages but your actual expenses can certainly vary).

You don't have to do this alone!

A simple search on your favorite search engine can bring you lots of information on how to start or refine your personal budget. There's a world of information out there along with online tools that you can download, many of them for free. In the beginning, setting up a budget can take a little time and for the first few months may require a bit more discipline. But in time, it can become as common as paying your bills and in the end, can really be worth the effort.