

Budgeting 101

Making a Budget that works for you and your family can be done—but it takes planning.

By Jennifer G. Williams

Budgeting your money can be a daunting task in the best of times. But the recent economic downturn, coupled with recent and anticipated small annual pay increases, has many families struggling to do more with less.

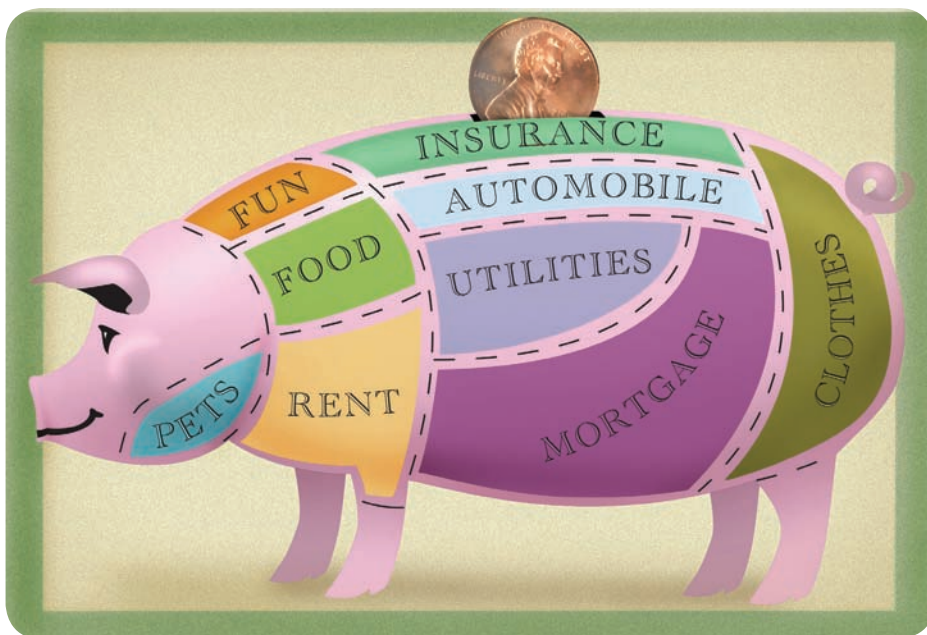
And a service member who requires a security clearance for his or her career has to watch their finances even closer than civilian counterparts, as debt levels are considered in clearance applications. Too much debt has been a problem for some military personnel in the past, and experts say it is becoming an increasingly more widespread problem.

AmeriForce spoke with USAA Certified Financial Planner June Walbert to see how military families can better budget in today's economy, and stay on the right financial track. "Usually, I advocate saving half of your annual pay increase," she says. "But this year, I've revised my advice."

Record, Review, Budget

"Budgeting is the cornerstone of financial success," says Walbert, "no matter if you make \$50,000 a year or \$150,000. You need to know how much you are spending and on what before you can make a feasible budget."

people can actually commit to do that for that long. So, track your spending for one month, and figure out where your money goes every day. Add up your expenses, then compare those expenses with your take-home pay. Does your net pay cover your monthly expenses? Do you have more month than money?"



Your first step should be to make a spending record, says Walbert. Before you do anything, she says, "you have to know what your daily expenses are. I typically advise tracking your expenses for three months, but I know in reality, a very small number of

Walbert advises individuals and families to track every penny spent—not just the big-ticket items. "Be sure to include that muffin you grab for breakfast on your way to work and that lunch you have with friends," she says. "From that, you can develop a

written budget.”

And it’s important to actually write it down, Walbert says. “This way, you have a concrete reference. If you can see it, you are more likely to commit to it and you are much more likely to stick to it. Pen and paper is my preferred method, but you can also use various spreadsheets and budgeting programs. Some banks even can break down your spending habits into categories, making it easier to track where your money is being spent.”

Again, she adds, be sure to consider everything. “I

have two dogs, and they are an actual line item on my personal budget. Some people may have golf fees, bunco — whatever activities you do that cost money, include those. Groceries, dining out, communications expenses — cell phone, Internet service, cable TV — write them down.”

Walbert says it can be an eye-opening experience to have your expenses written in one place to review. “It can be surprising to see how much you are spending on certain things,” she says. “Honestly, I do not buy coffee out — I just cannot justify spending \$3 on a cup of coffee. Things like that coffee a day really add up, but that’s not where you will see your biggest savings — it’s more of the big-ticket items where you can save. Is it worth giving up your financial security to watch HBO?

How much Showtime do you actually watch? Does it justify how much you are paying for it? Analyze both small and big things. Look at eating out for lunch while at work. If you get a coffee in the morning, then eat out for lunch, that’s easily \$10 a day, which turns into \$50 a week and upwards of \$200 a month. It’s not just an eye-opening experience, but an eye-popping one.”

Now, add all the items and

compare the total with your take-home pay. “Some people will see a positive net, some will see a negative one,” she says. “You can also identify the areas where you need to cut back your spending.”



Save or Pay Off Debt?

Some experts advise consumers to save an emergency fund before doing anything else. Instead, Walbert says, you first should pay off any debt you have. “The average percentage rate for credit cards is roughly 14.5 percent,” she says. “You just cannot find a comparable rate for savings. Even if you have a zero percent rate on a card you are using, it is an intro rate, and that rate will skyrocket when your intro period is over, so you want to pay off that balance before the interest rate goes up.

Use Cash

Walbert says she is an advocate of using cash to make purchases, whether you choose to use envelopes or take out a set amount of cash at each payday. “Some people just cannot manage their money well,” she says. “Forcing them to use cash makes each purchase more real to them. There is a much different psychological process when using cash — you feel

the pain, so to speak.”

This method is “especially good for overspenders and those who deficit-spend as a habit. These are the ones for whom using cash is a definite advantage in getting control over their spending habits,” explains Walbert.

“I do believe in using credit,” she adds, “but doing so wisely.” Paying off balances each month is key in keeping credit purchases under control — and under budget. If you do have credit card balances, financial experts advise tackling the balance with the highest interest rate first, and paying as much as you can on it each month while continuing to pay the minimum on any other credit balances.

New Year, Fresh Start

The beginning of a new year is the perfect time to take stock of your expenses and what you are spending. “It’s also the ideal time to pour through your accounts — from your bank accounts to your brokerage accounts to your lawn service — look at what you’re being charged,” says

Walbert. “Are you being charged ATM fees? Custodial fees for your IRA? Figure out what makes sense and what doesn’t. There are banks and companies out there that do not charge such fees. Find one of those and make the switch.”

Think about it, she says. “If you are getting \$10 out of the ATM each week and are being charged \$2-3 a pop in fees, why not take out \$100 for the month and get charged the fee just once? If you decide to take out \$100 in cash of each paycheck, it will give you cash for those everyday incidentals and will also help you see how quickly \$100 is spent. It does help you watch your incidental spending. It can really be a learning experience and can help you to become a better money manager.”

Secret of the Budget Ninja

Walbert shares her “budget ninja” secret to a success budgeting plan: fun. “You’ve got to build some fun into your budget — if you don’t, it will be almost impossible to stick to it.” Think of it like a diet, she says. “If you don’t allow yourself some wiggle room, it will be so much harder to stick long-term to a strict plan. If I was told I couldn’t have even one piece of chocolate for the next two years, I’d go crazy. Budgets are the same way — you have to allow some money in your budget for fun—we all need some entertainment. It does not have to be super-

expensive or extravagant, but you simply cannot sustain a long-term budget that does not have any allowances for fun. It is a real key in making your budget work. Be practical, though. If you are on a tight budget, don’t plan that trip to the Caribbean.” ●

