



Creating a Household Budget



Statistics tell us that the leading cause of household stress is money. Yet many people do not have a system for knowing where their money goes once it comes in the door.

Keeping track of spending – so you can understand your habits and spend more wisely – is an important reason for creating a household budget.

This info sheet can be a starting place for those creating a household budget for the first time and is intended to provide helpful hints. It is based on the same principles as many popular personal finance programs. Following these guidelines should be a complement to any interactive budgeting program you may want to use.

Budgeting basics

- Know what you earn
- Know where you spend it
- Separate essential from nonessential expenses
- Calculate the difference between what you earn and what you spend
- Get your spending in line with your earnings

After you collect the information suggested here, you may use a ledger, spreadsheet or personal finance program to create your budget.

Know what you earn

List your take-home income. Any income that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, pensions, royalties and child support payments. Gifts or bonuses may be included, but only if you are certain you will receive them in the coming year.

For More Ideas

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Budget planning

- Retirement accounts may be a good place to consider putting any surplus income.
- It is a good idea to review your budget once a year to see if you need to make any significant changes.

KEY POINTS

- Most financial experts recommend that you set aside an emergency fund with enough money to cover six months of expenses in case you become disabled or lose your job
- You don't have to create an emergency fund all at once, or panic if you don't have one in place. However, you could designate an account that will serve as an emergency fund and begin to put money into it. Even if you only add \$10 per month, it's a good way to start.



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Make sure you deduct all applicable taxes and prepay check contributions so your income total represents money you actually have to spend.

Know where you spend it

Create a monthly list of your expenses. Start with your essentials – shelter, food, clothing – and then move on to nonessential expenses.

Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards regularly.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statement, so it's easy to keep track of. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.

If you buy groceries at Food Mart, beauty supplies at Beauty Mart and visit Wholesale Mart once a month for items that you buy in bulk, these can all be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by 12 or spread quarterly payments out over a year. The following list is a suggested starting point for categorizing your expenses.

Items to include in a household budget

Housing

- Mortgage payment
- Rent payment
- Line of credit payments
- Other home loan payments
- Home or rental insurance
- Real estate taxes
(if paid separately from your mortgage)
- Condo fees
- Home improvement expenses
- Landscaping expenses
- Other municipal fees or
expenses (landscaping, trash
removal, etc.)
- Home decorating expenses

Utilities

- Electricity
- Heating
- Water and sewer
- Telephone
- Cell phone
- Internet access
- Long-distance telephone
- Cable TV

Household consumables

- Groceries
- Takeout food
- Health products and medicines
- Cleaning products
- Beauty aids
- Dry cleaning

Transportation

- Car payments
- Car insurance
- Car maintenance
- Gas
- Rental cars
- Public transportation
- Commuting costs
- Predictable travel expenses
(for annual family trips, vacations, etc.)

Essentials

- Health care expenses
- Pension contributions
- Savings contributions
- Mutual fund account contributions
- Investment account contributions
- Emergency fund
(See first page for information on keeping an emergency
fund.)

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Entertainment

Dinners out
 Club memberships
 Movie and theater tickets
 Video rentals and streaming
 Tickets to sporting events
 Vacation expenses

Child care

Daycare
 Tuition
 Music lessons
 Babysitters
 Birthday party gifts
 Student loans
 School pictures
 School activity fees College
 savings accounts

Other

Charitable donations
 Gift expenses for

- birthdays
- holidays
- graduations
- showers, weddings, etc.

 Hair care Hobby
 expenses

Separate essential from nonessential expenses

Before you compare your income to your expenses, use a highlighter to mark the items you consider essential. This quick step will be helpful when you're looking for places to trim expenses.

Calculate the difference between what you earn and what you spend

Add up your monthly expenses and compare them to your monthly income.

Get your spending in line with your earnings

After you have added up your monthly expenses and compared them to your monthly income, you will be left with two possible courses of action, depending on the results.

If your expenses are greater than your income, it's time to get serious. Next to the column in which you recorded last year's expenses, make a new column for your current year's budget. The costs that can't be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you may want to take a serious look at those items that you have decided are nonessential to see where you can make cuts. The goal is to create a realistic idea of how you can get your expenses in line with your income.

If your expenses are less than your income, you may want to consider an emergency fund, investments, retirement accounts and education planning accounts as options. You may also want to look at nonessential items and cut where you can to provide for these other accounts. And you may want to build in an inflationary increase in certain items.



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