PERSONAL BUDGETING KIT

Sylvia S. Lim, CFP, CGA

Self-Counsel Press
(a division of)
International Self-Counsel Press Ltd.
USA Canada

CONTENTS

TABLE

1

WHY BUDGET?

Do you find yourself living from paycheck to paycheck? Do you worry about how you can make your next credit card payments? Even worse, do you feel helpless when you try to think about how you'll ever manage to retire at 65 (let alone "freedom 55") or do you try not to think about it at all? Most important, do you feel overwhelmed at the idea of coming up with a personal budgeting plan?

If the answer is yes to any or all of these questions, this kit is for you. It's a step-by-step guide to getting yourself back on track financially for the rest of your life. Along with all the necessary forms, it contains tips and information to help you create a workable personal budget. It simplifies the budgeting process, making it easy for you to create a solid, realistic plan. You will learn how to —

- set realistic financial goals,
- trim your spending painlessly,
- pay down your debt methodically,
- save and invest,
- develop a retirement savings strategy,
- make up an estate plan, and
- make over your lifestyle for a successful and stress-free future.

Financial Budgeting

You may feel you already know how to budget, or perhaps don't need to know, but your lifestyle can tell a different story. You may have trouble paying your bills, have no savings, be behind on your taxes, and generally not be able to make ends meet. Getting out of this rut takes some effort, but the rewards for doing so are high.

Simply put, developing a financial budget allows you to take charge of your finances. It means that you put into print how much you earn, how much you can spend, how much you will need to pay down your debts, and how much you can devote to savings. A financial budget is a blueprint that provides you with a direction to follow for the next few years. It allows you to take control of your spending and your financial life!

In addition to gaining greater control over your money, you can also employ financial budgeting to help you save for the big-ticket items you'd like to purchase. You can successfully use this kit to help you put aside money for —

- a car,
- your daughter's wedding,
- your children's college education,
- an extended vacation,
- a new kitchen in your home, and (of course)
- your own retirement.

Whatever your reason for wanting to be in charge of your money, the rules are the same. You must know what you want, where you stand financially, and how you will achieve your goals. With a little patience and some determination, you will find that budgeting becomes simply a new habit you've taken on and applied daily. In time, it will become second nature to you.

You don't necessarily need a lot of money to live a rich and full life. Many pleasurable things in life cost little or no money at all. But having a fulfilling, comfortable, and financially secure life requires some work on your part. You must commit yourself to good planning and work toward success a little at a time. A small dose of thriftiness and some good old common sense also help. Anyone can do it.

Commit yourself to following the steps in this book. You'll be glad you did. You may not become a millionaire overnight, but you will come away from the experience knowing and believing that you *can* be financially savvy. You'll be on your way to a more secure and comfortable future.

The Stress Factor

Perhaps you've woken up in the middle of the night with money concerns on your mind. Or perhaps on some nights you can't fall asleep at all. Maybe you find yourself edgy and irritable with those closest to you because you can't seem to get your mind off your financial troubles, and find that more and more, stress is negatively affecting your ability to enjoy your life.

Wordsmyth Educational Dictionary – Thesaurus defines stress as *a condition characterized by physical, mental, or emotional tension* (<www.wordsmyth.net>). *Webster's Collegiate Dictionary* defines it as *a physical, mental, or emotional strain or tension, a specific response by the body to a stimulus, as fear or pain, that disturbs or interferes with the normal physiological equilibrium*. As human beings, we often experience stress when we feel we are not in control of a situation. If stress accumulates, we may become physically sick, have insomnia, or experience depression-like symptoms. This emotional or intellectual tension may actually shorten life and certainly works to decrease its quality while we're living it. A recent World Health Organization (WHO) study found that 75 to 90 percent of all adult visits to primary care physicians in the industrialized world are for stress-related problems.

If you believe that by decreasing stress you can bring about a better quality of life for yourself and those around you, you will understand the importance of managing or eliminating situations that cause you needless anxiety. One of the major stressors in many people's lives is money — or, more precisely, lack of money-management skills. In fact, it is not knowing where you stand with your finances that causes the stress. For instance, you may —

- not know how much money is in your bank account when there are many bills to pay,
- not know how to go about paying all the bills that have piled up in the kitchen drawer,

- not know how long your current job (and paychecks) will last,
- worry about your inability to save because you don't know where your money really goes,
- worry about your inability to cover unexpected expenses or emergencies, and/or
- worry about not having enough money on which to retire.

So how can you deal with money-related stress effectively? Since it's almost impossible to eliminate money from your life without becoming poor, it's best that you learn how to manage it. First, confront the issue; then, learn to take charge of your own finances. Preparing a personal budget is a good start. You need to know exactly where you're at with your money — how much you own, how much you owe, how much is coming in, and how much is going out. The truth will set you free!

Personal budgeting is a useful and necessary exercise. Once you've taken a financial inventory, you can start managing your money more efficiently. You will be in control and can decide how to go about improving your situation. You can make informed decisions about your money.

If you keep spending more than you earn, constant debt is inevitable and bankruptcy is a very real possibility. You will continue to be stressed and remain unhappy with your life, no matter how much money you make. Take control of your life. If money management is a problem, make a point of dealing with it. Reduce your spending; reduce your stress. Take the plunge by continuing to read and work with this kit. It will be worth the effort, both in terms of your health and your pocketbook.

Money is a big worry for most people. But once you've gained control of your finances and learned to manage them effectively, you'll notice a reduction in your stress level, and that, in turn, will change your quality of life for the better.

The Fear Factor

Fear is an emotion humans experience when they perceive themselves to be in danger. It is an intense, unpleasant, and sometimes

tip: Besides learning to manage your money, there are other things you can do to reduce your overall stress level:

- Quit smoking
- Exercise regularly
- Eat healthily; minimize your junk-food intake
- View problems as challenges rather than as threats
- Be proactive, not reactive
- Build self-confidence; work on eliminating low self-esteem
- Learn good time-management skills
- Have a sense of humor
- Smile

irrational feeling; one that can induce sensations of helplessness and paralysis, and in some cases, anger in those that experience it.

Some people find the thought of taking charge of their finances frightening. It is amazing how money can cause so much fear and anxiety in our society. Left unchecked, this fear can bring on not only insomnia and illnesses, but can also cause more damage to your happiness and life than you ever imagined.

Burying your head in the sand and ignoring your financial problems can have severe consequences. You may one day end up declaring bankruptcy and losing everything. A bankruptcy can leave you with a damaged credit rating and a ruined reputation, and can even destroy your relationships with the ones you love.

But you do have a choice. You can let your fear of money control you, or you can master it, and in doing so, do yourself one of the biggest favors ever.

Imagine this scenario. You've been having difficulty making ends meet for some time, and have been ignoring the bills that come in the mail because you don't have any money to pay them. The bills don't go away, though: they keep piling up. Some go overdue and start arriving with interest charges added to the amount you owe; some, such as the telephone and electricity bills, arrive accompanied by threats to terminate service. And other bills just keep coming. Many black marks begin to appear on your credit report, and you find it impossible to get loans or credit. If you allow your fear of confronting these bills to rule you, if you remain paralyzed, it won't be long before the bill collectors and bailiffs are knocking on your door, and maybe even on the door of your place of work. Because you can't pay, your creditors seize your assets. You now have no car, and maybe the TV is gone. The trouble and resulting stress affect your concentration, and you lose your job. Your family becomes pressured and stressed, and eventually breaks up. Your life spirals downward, and you lose all hope for the future. This may be a grim scenario, but it is a reality for many people. And all because they were frightened of dealing with their bills!

Now, look at another scenario. Let's say you decide *not* to ignore your unpaid bills. Instead, you start by setting limits on your spending. Next, you develop and follow a realistic financial budget. You now know how much money you can afford to devote to bill payments, so you contact your creditors to arrange a workable repayment plan with each of them, and maybe you even decide to consolidate your debts. You begin to simplify your lifestyle. After a period of time, you actually have your consumer debts — that is, your personal loans, household bills, and credit card balances — paid off. You begin saving for your future. Imagine, now, that it is three or four years later: you look back on your struggle for financial stability and feel a great sense of satisfaction in what you have accomplished. Your life looks bright, and you look forward to getting up every morning. You are physically and emotionally healthy, and have great hopes for the future.

That future — your future — is in your own hands. If you let fear consume you, it will make you inactive and control you. If you confront your fear, you are in control.

Train yourself to believe that you can take charge of your financial affairs. Have respect for money and for what it can do *for* you. Repeat to yourself every day that you are in control and can take action. Believe it. It's scary to realize that it's up to you, but you will feel better once you take the first step in realizing a more manageable financial future.

Defining Your Financial Goals

The first and most important step in the financial budgeting process is to decide what you want to gain from the task of mapping out a budget for yourself. You must decide on your financial goals; and more important, you must write these goals down. If you are serious about your goals, they are worth taking the time to ponder over and put down on paper. To make this exercise easier, a Financial Goals Worksheet is provided on the CD-ROM in both PDF and Word formats. Print the form and refer to a sample of the worksheet on page 10.

Listed below are examples of some common financial goals. You will notice that they include a dollar amount and a time period in which the goal can be reached. Each goal is realistic and measurable:

- Pay off credit card debt of $10,000 within four years.
- Pay off student loans of $7,000 within three years.
- Save $2,000 for a down payment on a first car within one year.
- Save $10,000 for a daughter's wedding within two years.
- Save $30,000 for children's college education within ten years.
- Save the equivalent of three months' wages ($9,000) for a family emergency fund in a year and a half.

Don't set yourself up for failure. Strive to make your goals as realistic as possible. It is fruitless to attempt to pay off your $10,000 credit card debt in one year if your take-home pay for that same year is only $25,000. You probably took a few years to accumulate such a debt. Allow yourself a few years to pay it off. The key to success in reaching your goals is a bit of patience and perseverance, but to begin with, the goals to which you commit yourself must be realistic. Take your time; you *will* make it. In the beginning, you may feel that it will take forever, but once you get into the habit of working toward your goals, they will become reality. In the meantime, this kit will give you advice and tips on making this endeavor as painless as possible.

tip: A realistic financial goal must —

- have a dollar amount,
- have a time period for achievement,
- be realistic, and
- be measurable.

For this exercise, print the Financial Goals Worksheet from the CD-ROM included with this book. You will also need —

- a calculator (or preferably an adding machine with a tape feature);
- a pencil and an eraser for your calculations and writing; and
- a quiet, well-lit work space.

Complete the worksheet by following these steps:

1. Identify all your goals and write them down on the worksheet.
2. Prioritize these goals. Assign the number one to those that are most important to you, the number two to those that are somewhat important, the number three to those that are not so important, and the number four to those goals that fall into the category of "nice to have" but not urgent or necessary.
3. Record the dollar amount required to achieve each goal.
4. Calculate the monthly equivalent dollar amount for each goal.
5. Add up the monthly amounts of all goals to which you've assigned the number one. Record the total on the bottom of the page in the blank space beside "Total monthly amount."

You may find that you have several goals to which you've assigned a number-one priority. That simply means you're attaching the same level of importance to each of these goals. You'll probably end up working toward all your number-one-priority goals at the same time.

If you are part of a couple, both you and your partner should agree on and prioritize goals together. Open up the communications channel and talk freely about how each of you sees your financial future. Where do you want to be in three years' time, five years' time, and even ten years' time? Are your goals in sync? If not, negotiate and reach a compromise. It's important that in the end, you both are in full agreement about and completely aware of the family's financial goals. You must participate jointly in achieving them.

Determine the monthly amounts these goals will cost you by dividing each goal's dollar amount by the number of months you think it will take you to achieve. For example, if your goal is to pay off a \$10,000 loan over four years (48 months), divide 10,000 by 48, which gives you a total of 208. You will need to set aside \$208 each month to achieve that goal.

Finally, you (or you and your partner) should sign off on your goals, which will add another level of commitment to sticking with the budgeting habit. Put the worksheet in a place where you can see it every day. This will further reinforce your determination to reach your goals. Having the worksheet visible will make the budgeting process much more real to you, encourage you to stay the course, and help you focus on the end results: your written goals and a solid financial future. Frame the sheet if you must to emphasize its importance to you.

Review your goals every year. Delete the ones that you have already achieved or which are not relevant anymore. Add new goals and re-prioritize existing ones. Again, calculate the monthly equivalent dollar amounts by priority. Add up the number-one goals, and your total will be the new amount you need to set aside each month for the coming year.

Sample 1 shows the financial goals for Jane and John Couple. Jane and John are a typical medium-income couple with a ten-year-old daughter, Suzie. They both work full time outside the home. During the last few years, they have accumulated a credit card debt of \$7,000, and paying it off is one of their number-one-priority goals, because they feel the interest rates on the cards — 18 percent and 16 percent respectively — are excessive. They also have another number-one-priority goal, that of saving an extra \$2,500 to have on hand for family emergencies.

SAMPLE 1: FINANCIAL GOALS WORKSHEET

FINANCIAL GOALS WORKSHEET

Name: Jane & John Couple

Date: April 24, 20--

	Description of Goal	$	How long will it take?	Priority (*)	Monthly Amounts
1)	Pay off credit debt	7,000	2 yrs	#1	292
2)	Pay off car loan	10,000	3 yrs	#2	278
3)	Save an extra $2,500 a year	2,500	1 yr	#1	208
4)	Pay down mortgage by extra $10,000	10,000	4 yrs	#4	208
5)					
6)					
7)					
8)					
9)					
10)					

Signature *Jane Couple*

Signature *John Couple*

(*) Assigning priority:
"#1" - very important (Total monthly amount $ 500)
"#2" - important
"#3" - not so important
"#4" - nice to have

Jane and John have one number-two-priority goal — to pay off the car loan of $10,000 as quickly as possible. Their car is a one-year-old Chevrolet, and its value today is about $12,000. They estimate that by the time the car loan is paid off, they will be due to trade in their car for a newer vehicle.

The couple have one number-four-priority goal — a goal that falls into the "nice to have" category. They bought their home three years ago, owe their bank a 25-year mortgage of about $100,000, and would like to pay down their mortgage by an extra $10,000 by the time the mortgage is due for renewal in four years' time.

With determination, careful budgeting, and some common-sense spending habits, Jane and John are confident they will achieve their goals. They are on their way to a more secure financial future. Already they're feeling great for having taken the first steps in managing their financial affairs.

Now it's your turn to sit down and do the same.

The next chapter deals, step by step, with putting your budget together.