

Creating a budget: empowerment over constraint

by Anne Marie E. Ashworth, CFP®

For many, budgeting has a lot of negative connotations. Tracking where money comes from and where it goes leaves some feeling frustrated and guilty. Creating a personal budget can result in peace of mind and self-confidence. Having a budget puts you in control of your financial life. It allows you to choose how your money is spent not wonder where it went.

If you are honest and realistic, this 5-step method will be a successful process for creating and conquering a budget.

step one: Separate fact from fiction.

Remind yourself what you spend and how you spend it. If you're so inspired, a terrific idea is to write down what you spend and where over a week or two. As simple as this exercise sounds, you will be surprised at the "found money" you will discover [you know, the cash you probably don't even realize you're spending].

step two: Separate fixed expenses and variable expenses.

The fixed category includes things like your mortgage, car payment, school costs, insurance, etc. The second category includes things like your morning coffee, how many groceries you buy, how often you shop for clothes, etc. The goal is a clear picture of the money that flows through your life - how it comes in and how it goes out.

step three: Separate how you live and how you want to live.

Once you have your expenses separated, review and create your guidelines for spending. A budget provides an opportunity to be proactive and intentional by serving as a blueprint to guide you towards your personal goals. The goal is to build a plan that puts you in control and supports the real priorities in your life. This is where you clarify the priorities in your life and settle on a plan that will support the direction you want to take.

To the right is a chart detailing general guidelines when creating a budget. Remember the general rule of thumb to allocate 50% for needs, 30% for wants and 20% for your future but that no two budgets are alike. If you live in a metropolitan area, chances are your housing budget is going to be much higher than if you were to live in the suburbs in the same way if you have a family with three children, your food budget is going to be much higher than a single person.

step four: Separate wanting to change and acting to change.

Once you establish your goals or spending choices and create a budget where your spending categories add up to 100%, the next step is to put your wishes and plan to action. Continue to track your expenses each month at first. Take 10 minutes to evaluate where you underspend, overspend and whether your spending matches your goal. After six months, consider adjusting your budget if you have consistent over/under spending.

step five: Putting it all together – resources to keep you on track:

Creating a budget was a lot of work so don't let it all go to waste by not maintaining it. There is an abundance of resources available to help you create, evaluate and maintain a budget so you don't have to work as hard. Below is a list of various resources for creating and maintaining a budget. We recommend exploring the resource list to find the best tool for your personal situation and needs.

- Microsoft excel has a few budgeting tools that may help people who prefer to track expenses in a spreadsheet
- Many major credit card apps include features to help consumers track expenses and create a budget
- AARP provides simplified budgeting forms to help you get everything easily organized on paper: www.aarp.org

The following are budget applications that allow you to track all expenses [mortgage, credit cards, bank accounts] in one place.

- Mint mint.com
- Simplifi by Quicken simplifimoney.com
- EveryDollar everydollar.com
- Clarity Money marcus.com/us/en/clarity-money
- AskZeta askzeta.com

Managing your money is an important skill to cultivate. In today's world, planning is necessary. Your financial health depends on knowing where your money comes from and where it is going, and everyone should feel empowered to make a budget work for them. Budgeting provides the means of telling your money what to do, instead of wondering where your money went.



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step three [chart]:

housing – 25-35 percent	personal – 5-10 percent
food – 10-15 percent	recreation – 5-10 percent
savings – 15-20 percent	utilities – 5-10 percent
transportation – 10-15 percent	medical \ health – 5-10 percent
giving – 10-15 percent	clothing – 2-5 percent

