

## A Budget You Can Live With

Some simple tips toward getting your expenses under control.

For many people, their first real brush with financial planning comes with their first household budget. This is your attempt to assess your income and your spending and try to figure out a way to make the former greater than the latter. But a bad budgeting process can make you think it's pointless or even impossible to try to stick to a budget, and turn you off to the entire exercise. But budgeting is not a solution in itself – it's a tool to help you naturally spend less than you earn. Here are some practical tips that can help you create a workable budget – then keep it.

### **HAVE A SPECIFIC LONG-TERM GOAL IN MIND**

Whether it's getting yourself free of debt or saving a specific amount for college,

having a financial target in mind is useful in both a practical and an aspirational sense. A budget is essentially a tool for making choices. It will be easier for you to eliminate a vacation when there's an ultimate purpose behind it, rather than simply "getting my budget under control."

### **KNOW HOW MUCH YOU REALLY BRING HOME**

You should be basing your budget on your take-home pay per month, rather than your raw salary. Your income taxes and Social Security are non-optional deductions, so it doesn't make sense to include the money going toward them in a discretionary budget. It's more realistic to work with the number you're actually bringing home in every paycheck. ►

## *A Budget You Can Live With* continued

### **START WITH SOME SHORT-TERM GOALS**

Give yourself a little reward if you are able to stay within your budget for a short period of time. Vow to bring your lunch to work for two weeks rather than eating out – and reward yourself with a meal out if you succeed. Those simple motivations can be very powerful, not to mention fun.

### **GO FURTHER THAN MONTH TO MONTH**

When you start, you'll want to look at your recurring bills and receipts for the previous few months to determine what you're actually spending. Don't just look at the past month because some things, like car insurance and school tuition, are significant expenditures that don't pop up monthly. One of the purposes of budgeting is to prepare you for those types of irregular expenses.

### **PAY DOWN YOUR DEBTS**

Debt payments slowly drain your bank account while bringing you nothing in immediate rewards, especially when you account for the interest you're paying. The radio talk show host Dave Ramsey has popularized the "debt snowball method," where you pay off the smallest debts first, making minimum payments on the larger ones, then repeat until each debt is paid in full.

### **CANCEL AUTOMATIC PAYMENTS**

There's a reason that services like to offer memberships with automatic renewal - and automatic monthly fees. They're banking on you forgetting about them. Look carefully at your credit card and debit card statements and eliminate any recurring payments that you don't use or need.

### **BE SMART ABOUT UNEXPECTED INCOME**

When you get a windfall, like a bonus from work or a tax refund, it's tempting to consider it found money and use it to splurge on something. But if you use it for something

boring but practical – like paying off a credit card – you'll be that much closer to financial freedom.

### **BE REALISTIC**

Every year, we make New Year's resolutions that are forgotten before the Super Bowl comes around because they're just not realistic. Let's face it, you're not going to go to the gym every day!

Keep that in mind when you're budgeting: Don't think it's going to be easy to cut off all your spending on entertainment or whatever brings fun into your life. And if you find yourself unable to stay within the unrealistic budget you've set, you're more likely to forgo the budget than you are to forgo Netflix.

*Want to set a realistic, practical budget that can help move you toward your financial goals? Your Baird financial advisor will be more than happy to help.*

*Please reach out if you or anyone you know would benefit from discussing this topic further.*