

BETTER

Budgeting

BY THEODORA GULIADIS

In This Economy, A Financial Plan Can Make All The Difference

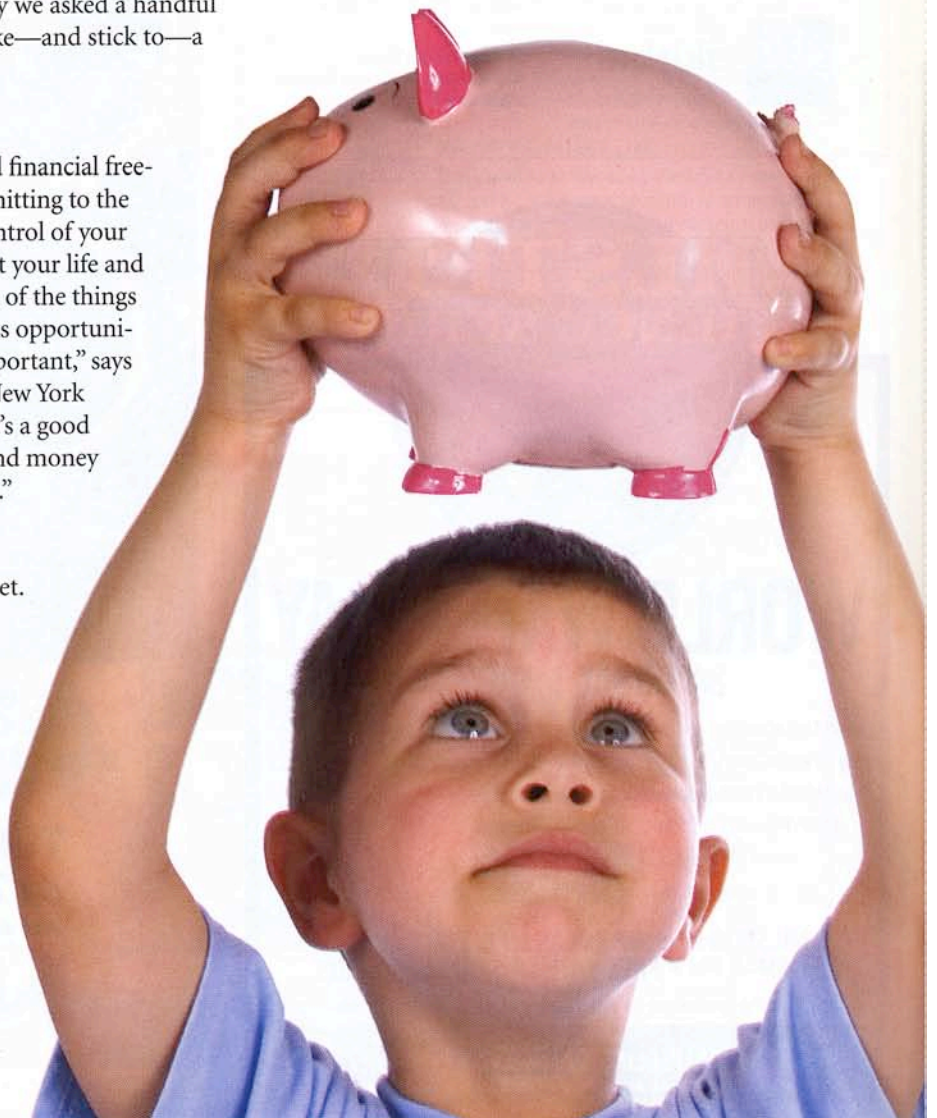
If there's a perfect time to create a family budget, it's now. But the task can seem daunting enough to keep many parents procrastinating all year long. That's why we asked a handful of money experts for advice on how to make—and stick to—a budget. Here's what they had to say.

THINK POSITIVE

First, think of budgeting as a step toward financial freedom rather than a burden. After all, by submitting to the constraints of your budget, you're taking control of your family's financial life. "Take a positive look at your life and the things around you and say, 'These are all of the things that are really important to me; I can use this opportunity to get rid of the things that aren't that important,'" says Greg Braca, president of TD Bank's metro New York branch. "When we go through hard times, it's a good chance to take stock of all the things we spend money on and put things back in balance a little bit."

GET ORGANIZED

Set aside time to create a monthly budget. Assemble paycheck stubs, at least two months' worth of bank statements, and two months of credit card payments. Don't forget pen and paper and Microsoft Excel sheets. Many families find that enlisting the help of a financial planner turns out to be worth the expense. "Even if they need just a nudge in the right direction, a redirection, or a focus on two or three things, it probably is worth the bucks to get a professional review," Braca says. An online budgeting tool, such as the free, seven-week money management e-course at moneytracker.com, can be helpful as well.



OUTLINE MONTHLY EXPENSES

Judy Lawrence, personal finance counselor and author of the books “The Money Tracker” and “The Budget Kit,” suggests both parents collaborate to create the budget. “You start to see that the kids’ school costs this, the pets cost that, transportation costs this, and suddenly it’s not about ‘You spend this’ and ‘I spend that,’” she says. “It’s about, ‘Wow, our lifestyle costs a lot; what can we do as a team to make some adjustments?’”

Lawrence recommends organizing expenses into four categories: fixed expenses (anything you pay on a monthly basis—things like rent, mortgage, car insurance); fixed variable expenses (monthly expenses that vary in terms of price—phone bills, grocery bills, utility bills); discretionary expenses (little costs that add up—a new cosmetics product, a Starbucks run, a new book or DVD); and non-recurring expenses (periodic expenses like oil changes or a weekend getaway trip). Remember to remain optimistic yet realistic about your family’s budget. During the first month of budgeting, you’ll become more aware of your family’s spending habits, and by the third month, things will begin to fall into place.

RECORD EACH PURCHASE

Lawrence also recommends keeping track of spending by writing down each purchase. “When people begin tracking their money, they start spending less and saving more, yet their lifestyle doesn’t change at all,” she says.

Bill Galvin of Capital Management Group and AXA Advisors suggests tracking spending using a debit card instead of cash; that way, parents get a monthly bank statement—plus an easy-to-access online statement—listing each purchase.

SAVE SENSIBLY

When it comes to saving, “you don’t wait until the end of the month to see if you have any money left,” says Lawrence. Instead, put a certain amount of money into savings each

month, and consider this a fixed expense. Parents should put in as much as they can honestly commit to on a monthly basis. Make it a goal to store up what Lawrence calls “real emergency money”—i.e., enough to cover 6-8 months of expenses.

Galvin recommends parents save at least 10 percent of their income, and explains that a good savings plan is divided into three categories: emergency reserve, short-term goals, and long-term goals. As for where to keep savings, Galvin recommends savings accounts, CDs, and money market accounts, as they feature zero risk (anything over zero risk is considered an investment).

Clifford Michaels, president of the Financial Planning Association of New York, warns against the mistake of under-saving. “People frequently think that because they are budgeting, they cannot afford to put money away. That’s exactly the reason they cannot afford not to,” Michaels says. Plus, he adds, saving has short-term benefits, too: “If someone has a paycheck for \$1,000 and puts \$50 away in his 401(k), his paycheck does not get reduced by \$50,” he says. “The contribution is what we call an ‘above-the-line’ deduction, meaning that it is before taxes are taken out, so this person’s paycheck will be reduced by some portion of the \$50 [determined by the tax rate]. This is what we call ‘paying yourself first!’”

MAKE A (REALISTIC) PLAN

Focus on the present, work on steadily erasing any debt, and be realistic. “If the budget doesn’t allow for college savings, don’t feel bad that you’re not funding your child’s education at the moment—you just can’t do it,” Lawrence says. But, she says, sometimes parents can find ways to cut back. “Would you rather fund those birthday parties, or would you rather be putting \$100 into a college fund?” she says.

Braca agrees, adding that financial

priorities change with each season in a family’s life. “People say, ‘No matter what, you’ve got to put money away for retirement,’ but if you’re a family with young children, that’s probably 20 or 30 years out,” he says. “If you’re looking at a choice between paying for health benefits and putting money away in your 401(k), I think it’s better to pay for the health needs of today—we’ve got to live to fight another day, right?”

LOOK FOR SMALL WAYS TO CUT COSTS

Make a concerted effort to stop

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spending mindlessly. Small purchases like eating lunch out, magazines off the rack, and daily lattes can lead to considerable monthly charges. Practicing restraint and learning to say no is crucial. Lawrence recommends that parents ask the following questions: Can I postpone it? Can I eliminate it? Can I cut back on it? How can I be creative about meeting my needs? Be on the lookout for bargains, and be resourceful. Borrow books and DVDs from the library, pay bills online to avoid stamp costs, clip coupons, and find places that sell necessary items like school supplies and clothes below retail value.

MAKE IT A FAMILY AFFAIR

“This is the time to have the family board meeting about how life has changed right now,” Lawrence says. Involve your children in small daily efforts, like dropping loose change into a household piggy bank. “It’s important that they are aware, so they are not always saying, ‘Gimme money’ for something,” she says. “It’s not about doom or gloom; it’s about how we’re all going to pitch in and create wonderful ways to make this work.”