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# Budgeting

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# Establishing a Budget

Do you ever wonder where your money goes each month? Does it seem like you're never able to get ahead? If so, you may want to establish a budget to help you keep track of how you spend your money and help you reach your financial goals.

## Examine your financial goals

Before you establish a budget, you should examine your financial goals. Start by making a list of your short-term goals (e.g., new car, vacation) and your long-term goals (e.g., your child's college education, retirement). Next, ask yourself: How important is it for me to achieve this goal? How much will I need to save? Armed with a clear picture of your goals, you can work toward establishing a budget that can help you reach them.

## Identify your current monthly income and expenses

To develop a budget that is appropriate for your lifestyle, you'll need to identify your current monthly income and expenses. You can jot the information down with a pen and paper, or you can use one of the many software programs available that are designed specifically for this purpose.

Start by adding up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as dividends, interest, and child support. Next, add up all of your expenses. To see where you have a choice in your spending, it helps to divide them into two categories: fixed expenses (e.g., housing, food, clothing, transportation) and discretionary expenses (e.g., entertainment, vacations, hobbies). You'll also want to make sure that you have identified any out-of-pattern expenses, such as holiday gifts, car maintenance, home repair, and so on. To make sure that you're not forgetting anything, it may help to look through canceled checks, credit card bills, and other receipts from the past year. Finally, as you list your expenses, it is important to remember your financial goals. Whenever possible, treat your goals as expenses and contribute toward them regularly.

## Evaluate your budget

Once you've added up all of your income and expenses, compare the two totals. To get ahead, you should be spending less than you earn. If this is the case, you're on the right track, and you need to look at how well you use your extra income. If you find yourself spending more than you earn, you'll need to make some adjustments. Look at your expenses closely and cut down on your discretionary spending. And remember, if you do find yourself coming up short, don't worry! All it will take is some determination and a little self-discipline, and you'll eventually get it right.

## Monitor your budget

You'll need to monitor your budget periodically and make changes when necessary. But keep in mind that you don't have to keep track of every penny that you spend. In fact, the less record keeping you have to do, the easier it will be to stick to your budget. Above all, be flexible. Any budget that is too rigid is likely to fail. So be prepared for the unexpected (e.g., leaky roof, failed car transmission).

## Tips to help you stay on track

- Involve the entire family: Agree on a budget up front and meet regularly to check your progress
- Stay disciplined: Try to make budgeting a part of your daily routine
- Start your new budget at a time when it will be easy to follow and stick with the plan (e.g., the beginning of the year, as opposed to right before the holidays)
- Find a budgeting system that fits your needs (e.g., budgeting software)
- Distinguish between expenses that are "wants" (e.g., designer shoes) and expenses that are "needs" (e.g., groceries)
- Build rewards into your budget (e.g., eat out every other week)
- Avoid using credit cards to pay for everyday expenses: It may seem like you're spending less, but your credit card debt will continue to increase

## Starting Out Checklist

| General information  | Yes                      | No                       | N/A                      |
|--|--------------------------|--------------------------|--------------------------|
| 1. Has relevant personal information been gathered?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has financial situation been assessed?<br><ul style="list-style-type: none"> <li>• Income</li> <li>• Expenses</li> <li>• Assets</li> <li>• Liabilities</li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Notes:   |                          |                          |                          |
| Savings and cash management  | Yes                      | No                       | N/A                      |
| 1. Have financial goals been discussed and prioritized?<br><ul style="list-style-type: none"> <li>• Cash reserve for emergencies</li> <li>• Saving for down payment on home</li> <li>• Saving for other major expense (e.g., car, travel)</li> <li>• Saving for retirement</li> </ul>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have saving and investment vehicles been established?<br><ul style="list-style-type: none"> <li>• Savings account</li> <li>• Checking account</li> <li>• Money market account</li> <li>• Certificates of deposit</li> <li>• Mutual funds</li> <li>• Stocks</li> <li>• Bonds</li> <li>• Annuities</li> <li>• IRA</li> <li>• 401(k) or other retirement plan</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has making appropriate investment decisions been discussed?<br><ul style="list-style-type: none"> <li>• Risk tolerance</li> <li>• Liquidity needs</li> <li>• Time horizon</li> <li>• Types of investments (e.g., income, growth)</li> <li>• Diversification</li> <li>• Tax consequences</li> <li>• Dollar cost averaging</li> </ul>                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Has a budget been prepared?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Is an appropriate financial record-keeping system being used?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Notes:

| <b>Credit management</b>  | <b>Yes</b>               | <b>No</b>                | <b>N/A</b>               |
|---|--------------------------|--------------------------|--------------------------|
| 1. Has good credit history been established?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have ways to maintain a good credit history been discussed?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Has outstanding consumer debt (including interest rates) been listed? <ul style="list-style-type: none"><li>• Credit cards</li><li>• Auto loans</li><li>• Student loans</li><li>• Mortgages</li><li>• Other secured or unsecured loans or lines of credit</li></ul>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Have ways to reduce consumer debt been discussed? <ul style="list-style-type: none"><li>• Paying cash vs. using credit</li><li>• Lowering interest rates on loans and credit cards</li><li>• Consolidation of student loans</li><li>• Debt consolidation loans</li><li>• Use of home equity loan</li></ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Notes:

| <b>Insurance planning</b>  | <b>Yes</b>               | <b>No</b>                | <b>N/A</b>               |
|--|--------------------------|--------------------------|--------------------------|
| 1. Have insurance needs been reviewed? <ul style="list-style-type: none"><li>• Health</li><li>• Life</li><li>• Disability</li><li>• Auto</li><li>• Homeowners/renters</li><li>• Liability</li></ul>                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is group coverage available from employer or other source? <ul style="list-style-type: none"><li>• Health</li><li>• Life</li><li>• Disability</li><li>• Auto</li><li>• Homeowners/renters</li><li>• Liability</li></ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| 3. Does insurance need to be purchased or upgraded?<br><ul style="list-style-type: none"> <li>• Health (including short-term coverage)</li> <li>• Life</li> <li>• Disability</li> <li>• Auto</li> <li>• Homeowners/renters</li> <li>• Liability</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|

Notes:

| Retirement planning | Yes | No | N/A |
|---------------------|-----|----|-----|
|---------------------|-----|----|-----|

|  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| 1. Have retirement income needs been evaluated?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have retirement income sources been discussed?<br><ul style="list-style-type: none"> <li>• Social Security</li> <li>• Pension</li> <li>• 401(k)s and other retirement plans</li> <li>• Personal savings (including IRAs)</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Notes:

| Estate planning | Yes | No | N/A |
|-----------------|-----|----|-----|
|-----------------|-----|----|-----|

|   |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|
| 1. Is there a will?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. If so, was it drafted recently (i.e., within the last five years)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Have durable powers of attorney been executed?                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Have health-care directives been executed?                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Notes:

| Tax planning | Yes | No | N/A |
|--------------|-----|----|-----|
|--------------|-----|----|-----|

|  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| 1. Has appropriate income tax filing status been chosen?     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Has proper income tax withholding amount been calculated? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Will estimated income tax payments need to be made?       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|   |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|
| 4. Is self-employment income a consideration?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Has personal deduction planning been explained?<br><ul style="list-style-type: none"> <li>• Taking standard deduction vs. itemizing deduction</li> <li>• Timing of deductions</li> <li>• Limits on deductions</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have relevant deductions and credits been reviewed?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Notes:  |                          |                          |                          |

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# Budgeting

## What is budgeting?

Budgeting is a process for tracking, planning, and controlling the inflow and outflow of income. It is a process that we all begin soon after we get our first spending money. Relying on our overloaded minds to manage such a complex process has many shortcomings. The solution is to analyze your current situation, determine your goals, and develop a written plan against which you'll measure your progress.

## How does the budgeting process work?

The budgeting process begins with gathering the data that makes up your financial history. Next, you use this information to do a cash flow analysis. You will calculate your net cash flow, which tells you whether cash is coming in faster than it's going out, or vice versa. Then you will determine your net worth. Simply stated, this is the sum of everything you currently own less the sum of everything you currently owe. Having a snapshot of your present financial situation, you'll then define your financial objectives and create a spending plan to achieve them. Finally, you will periodically check your progress against the plan and make adjustments as needed.

## Analyzing cash flow is little more than adding and subtracting

Add up your income, then your expenses, and subtract the latter from the former. The result is your net cash flow. If it is positive (hopefully), you're earning more than you're spending. If not, then budgeting is not really an optional process. You must do it to avoid losing more ground financially. To the extent that you can make cash flow strongly positive, you will be able to save for upcoming needs and investments.

## Is net worth growing or declining?

Your net worth shouldn't be a mystery. To determine what it is, you simply add up the current value of your assets (the things you currently own), and then subtract the total of your liabilities (what you currently owe). The idea, if you haven't guessed it, is that your net worth should grow from year to year, barring unforeseen setbacks.

## Know where you stand, turn to the future, and set your goals

You might have one or more major savings needs goals in mind, but now is the time to look at all your anticipated financial needs, including your cash reserve, and determine your goals. Knowing what all of your goals are enables you to create the best plan to achieve those objectives over the long term. While you may not be able to achieve all of your goals simultaneously, having a plan in place will help as you work toward your future goals.

## Create a spending plan that fits your resources and objectives

Once you know where you stand financially and the goals you hope to achieve, you are in a position to design a plan that will move you expeditiously in that direction. You will know how aggressive you need to be in order to achieve the objectives you set, and therefore you can design a plan that fits both your resources and objectives.

Just as with a plan that falls short of delivering on your goals, a plan that is overly aggressive relative to your resources is likely to lead to budget frustration. Keeping goals aligned with objectives is a critical part of the process and essential to budgeting successfully.

## Remember that it is a plan and that plans change as needed

Flexibility is always an important ingredient in the planning process. As life's circumstances change, as they inevitably will, you will need to adjust your spending plan accordingly. The important point is that the budgeting process keeps you abreast of how these changes are occurring and allows you to make changes as you find them appropriate to your needs and resources.

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## Budgeting can be a temporary or a permanent habit

It may be that your present financial situation calls for the short-term control that budgeting can provide. Alternatively, you may find that budgeting gives you a level of control over your finances that you'd prefer to maintain over the long term. If the latter is true, you should make it a lifelong habit.

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# How much money should I keep in a savings account for emergencies?

## Question:

How much money should I keep in a savings account for emergencies?

## Answer:

Many financial professionals suggest that you put away three to six months' worth of living expenses for emergencies. If you lose your job, or become disabled and don't have adequate disability insurance, you'll need that money to pay your regular monthly expenses, such as mortgage payments, insurance premiums, groceries, and car payments, until you can find another job. Without such an emergency fund, a period of unemployment could put your assets at risk. Similarly, if your car breaks down or your spouse has a medical emergency, you'll want to have the necessary cash to pay the bills. You don't want to be faced with an immediate need for cash, only to discover that you don't have any.

You may have already set up an emergency fund. Did you put the cash in a five-year certificate of deposit (CD) or other long-term investment? In an emergency, you will need to get at those funds immediately. You can certainly pull your money out of the CD early, but you'll pay a penalty. It's better to keep some funds more liquid, in a traditional savings account, a money market deposit account, or a six-month CD, for example. That way, the cash will be readily available when you need it.

Finally, keep your emergency fund separate from your everyday accounts. You might even want to use a different bank. Unless you are extremely disciplined, you'll be tempted to spend those extra funds if you keep them in your checking account. Remember, if you can put off an expense until next week, it is probably not an emergency.

## IMPORTANT DISCLOSURES

Investment Advisory Services are offered through SENSUS Wealth Management Group LLC, a registered investment advisor. Sensus Wealth does not provide tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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