

Steps to making a Budget

By Crown Financial Ministries

Most people feel overwhelmed when thinking of how to start on a budget, which is simply a spending plan. However, by using the following steps, a spending plan can be established and followed without a great deal of effort.

Step 1—List Monthly Expenditures in the Home. Make a list of everything you must pay for or buy each month. These will include Fixed Expenses, which are regular expenses that are the same each month, and Variable Expenses, which are regularly occurring expenses that will differ from month to month. It may be harder to list these expenses at first, so it is suggested that both husband and wife keep an expense diary for 30 days. Every expenditure, even small purchases, should be listed. This will give you a better idea of the variable expenses.

Fixed Expenses include your tithe; Federal and State incomes taxes and Social Security taxes (these are normally automatically deducted from your paycheck); and housing expenses, including mortgage or rent payment, taxes, and insurance. You can also include other insurance payments, such as life, health, and auto insurance. If you have a car payment, this is usually a fixed expense until the debt is paid off. And if you make regular contributions to your retirement fund, this is a fixed expense as well.

Variable Expenses include food (groceries); utilities, which vary from month to month; entertainment/recreation (including eating out and vacations); clothing; medical/dental bills; savings; other debt payments (such as loans and credit card bills); and the miscellaneous category, which includes anything that doesn't fit into one of the other categories.

Step 2—List Available Monthly Income. Once you have listed all of your expenses, write down your available income from every source, including salary, interest, dividends, etc. Also include any income you receive from income tax refunds, tips, commission, and bonuses. If you operate on a non-fixed monthly income, use a yearly average divided into 12 months. See the section on Variable Income Planning at the end of this article.

Step 3—Compare Income Versus Expenses. We encourage couples to establish a budget based on the husband's income only. We recommend the wife's income be applied to one-time purchases only—vacations, furniture, cars—or to savings or debt reduction. Too many times the wife's income is interrupted by illness, pregnancy, or a change in the husband's employment location.

If total income exceeds total expenses, you only have to implement a method of budget control in your home. However, if expenses exceed income (or more stringent controls in spending are desired), additional steps are necessary. In that case, to reduce expenses, an analysis of each budget area is called for. These areas are outlined below.

There are certain potential problem areas that can ruin a budget. Failure to control even one of these problem areas can result in financial disaster in the home. These areas are evaluated by typical budget percentages for a \$35,000 annual income (family of four).

Naturally these percentages are not absolutes and will vary with income and geographical location.

Housing (36 percent of net income) Typically, this is one of the largest home budget problems. Many families, motivated by peer pressure or some other pressure, buy homes they can't afford. It is not necessary for everyone to own a home. The decision to buy or rent should be based on needs and financial ability, rather than on internal or external pressure. The percent of net income for housing includes the mortgage payment (or rent), taxes, insurance, utilities, and maintenance, as well as any home owner's association fees.

One of the most important factors in home expenses is you. If you can perform routine maintenance and repairs, considerable expenses can be avoided. There are many good books that detail every area of home maintenance.

Food (12 percent of net income) This category is for groceries, not eating out, which is included in the entertainment category. It is very easy to overspend on the food budget, but with a little planning and smart shopping habits, this category can be brought under control.

Automobiles (12 percent of net income) The advertising media refers to us as "consumers," but that's not always the best description. P.T. Barnum had a more apt word—"suckers." Often we are unwise in our decision making when it comes to our machines—especially cars.

Many families will buy new cars they cannot afford and trade them long before their utility is depleted. Those who do buy a new car usually keep it for less than four years, and then trade it for a new model. They have wasted the maximum amount of money. Some people, such as salespeople who drive a lot, need new cars frequently; most of us do not. We swap cars because we want to—not because we have to. Many factors enter here, such as ego, esteem, and maturity.

Most of us think we will never be able to pay cash for an automobile. A good idea is to buy a reasonably priced used car, and once the debt is paid off, continue to put the payment amount into a savings account and drive the car for a few more years. Within 3-4 years, you will have saved enough to purchase your next car for cash and not have to pay interest on it.

The percentage for this category includes the car payment, taxes, tag fees, insurance, gasoline, and maintenance.

Life Insurance (5 percent of net income) It is unfortunate to see so many families misled in this area. Few people understand life insurance, either how much is needed or what kind is necessary. Who would be foolish enough to buy a Rolls Royce when he or she could afford only a Chevrolet? Yet many purchase high-cost insurance even though their needs dictate otherwise.

Life insurance should be used as supplementary provision for the family, not for protection or profit. An insurance plan is not designed for saving money or for retirement. Ask anyone who assumed it was; the ultimate result was disillusionment and disappointment.

In our society, insurance can be used as an inexpensive vehicle to provide future family income and thus release funds today for family use and the Lord's work. In excess, this same insurance can put a family in debt, steal the Lord's money, and transfer dependence to the world.

One of your best insurance assets is to have a trustworthy agent in charge of your program. A good insurance agent is usually one who can select from several different companies to provide you with the best possible buy and who will create a brief, uncomplicated plan to analyze your exact needs.

Debts (5 percent of net income) It would be great if most budgets included 5 percent debts or less. Unfortunately, the norm in American families is far in excess of this amount. Credit cards, bank loans, and installment credit have made it possible for families to go deeply into debt. What things can you do once this situation exists?

- Stop using your credit cards as a first step. Some suggest placing the card in a cup of water in your freezer. If you need the card, you can thaw it out, but this will cause you to take time to think carefully about your use of the card and not reach for it out of habit when you see something you want.
- Use the debt rollover system. Start applying any extra money to the debt with the largest interest rate. Once this debt is paid off, apply that amount to the next largest debt and so forth until all debts are paid. Or start with the smallest debt. Pay it off and apply that money to the next debt and so on.
- If you find that you cannot make even your minimum payments, contact all creditors, honestly relate your problems, and arrange an equitable repayment plan.
- Establish a payment schedule that includes all creditors.
- Buy on a cash basis, and sacrifice your wants and desires until you are current.

Entertainment/Recreation (6 percent of net income) We are a recreation-oriented country. That is not necessarily bad if put in the proper perspective. But those who are in debt cannot use their creditor's money to entertain themselves. The normal tendency is to escape problems, even if only for a short while—even if the problems then become more acute. Christians must resist this urge and control recreation and entertainment expenses while in debt.

What a terrible witness it is for a Christian who is already in financial bondage to indulge at the expense of others. God knows we need rest and relaxation, and once our attitude is correct He will often provide it from unexpected sources. Every believer, whether in debt or not, should seek to reduce entertainment expenses. This usually can be done without sacrificing quality family time.

Recreation Hints

- Plan vacations during "off seasons" if possible.
- Consider a camping vacation to avoid motel and food expenses. (Christian friends can pool the expenses of camping items.)
- Select vacation areas in your general locale.
- Use some family games in place of movies (like some of those unused games

received at Christmas).

- To reduce expenses and increase fellowship, consider taking vacation trips with two or more families.
- If flying, use the least expensive coach fare (i.e., late night or early morning usually saves 10 percent to 20 percent).

Plan ahead for your next vacation. Add up how much last year's vacation cost, divide that by 12, and start putting that money into a savings account each month. Then you will be able to plan your vacation based on the cash available and will not have to rely on credit cards to pay for your trip.

Clothing (5 percent of net income) Many families in debt sacrifice this area in their budget because of excesses in other areas. And yet with prudent planning and buying your family can be clothed neatly without great expense. This requires effort on your part in terms of:

- Saving enough money to buy without using credit.
- Educating family members on care of clothing.
- Applying discipline with children to enforce these habits.
- Developing skills in making and mending clothing.
- There are many ways to purchase clothing for less money. Shop at surplus stores and thrift stores. Check out garage sales for items still in good condition. The following are other good ideas for saving money on clothing:
 - Make a written list of clothing needs and purchase during the "off" season when possible.
 - Select outfits that can be mixed and used in multiple combinations rather than as a single set.
 - Frequent the discount outlets that carry unmarked name-brand goods.
 - Shop at authentic factory outlet stores for close-out values of top quality.
 - Select clothing made of home washable fabrics.
 - Use coin-operated dry cleaning machines instead of commercial cleaners.
 - Practice early repair for damaged clothing.

Savings (5 percent of net income) It is important that some savings be established in the budget. Otherwise, the use of credit becomes a lifelong necessity and debt a way of life. Your savings will allow you to purchase items for cash and shop for the best buys.

Savings Hints

- Use a company payroll withdrawal, if possible. This removes the money before you receive it.
- Use an automatic bank withdrawal from your checking account.
- Write your savings account a check just as if it were a creditor.
- When an existing debt is paid off, allocate any extra money toward the next largest debt. When all consumer debt is paid off, then reallocate that money to savings.

Medical/dental expenses (4 percent of net income) You must anticipate these expenses

in your budget and set aside funds regularly; failure to do so will wreck your plans and lead to indebtedness. Do not sacrifice family health due to lack of planning; but, at the same time, do not use doctors excessively. Proper prevention is much cheaper than correction.

You can avoid many dental bills by teaching children to eat the right foods and clean their teeth properly. Your dentist will supply all the information you need on this subject. Many doctor bills can be avoided in the same way. Take proper care of your body through diet, rest, and exercise.

Do not be hesitant to question doctors and dentists in advance about costs. Also, educate yourself enough to discern when you are getting good value for your money. Most ethical professionals will not take offense at your questions. If they do, that may be a hint to change services.

In the case of prescriptions, shop around. You will be amazed to discover the wide variance in prices from one store to the next. Ask about generic drugs. These are usually much less expensive and are just as effective.

Miscellaneous (variable expenses) (5 percent of net income) The miscellaneous category is one that can easily get out of control quickly. This category includes anything that doesn't fit into any of the other categories. This includes household cleaning items, toiletries, birthday and Christmas gifts, magazine and newspaper subscriptions, barber/beauty salon services, laundry/dry cleaning services, allowances, and telephone/cellular phone, cable or satellite television, and Internet services.

This category will also include repair and replacement of household appliances. Since these costs do not occur frequently, it is a good idea to put money aside in the savings account to cover these expenses when they do occur. If you have not accounted for maintenance and replacement, you can easily go into debt to pay for them.

School/Child Care (6 percent of net income) (NOTE: If this category is used, other categories must be adjusted downward a total of 6 percent.) An ever increasing segment of our population has expenses for private school and/or child care. This category must reflect those expenses. All other categories must be reduced to provide these funds. If you are enrolled in college or continuing education classes, this expense would fit here as well.

Investments (5 percent of net income) Individuals and families with surplus income in their budgets will have the opportunity to invest for retirement or other long-term goals. As debt-free status is achieved, more money can be diverted to this category.

Unallocated Surplus Income Income from unallocated sources (garage sales, gifts) can be kept in one's checking account and placed in this category. This category is also useful for recording income information for tax purposes.

Variable Income Planning Families with variable monthly incomes need budgets even more than families on fixed salaries. Many people with fluctuating incomes get trapped into debt because they borrow during lean months and spend what they make during high-income months, rather than repaying what they previously borrowed. Proverbs 27:12

says, “A prudent man sees evil and hides himself, the naive proceed and pay the penalty.”

Living on a fluctuating income can be very deceiving—and difficult. Months of high income can easily be construed as a windfall profit. To properly budget a variable income you must conservatively estimate what your annual income is likely to be, divide that by 12, and then develop your monthly budget based on that amount. You should put all your income into a savings account and withdraw your average monthly salary from that account each month.

This method will allow surplus funds from higher income months to accumulate in the savings account to cover budgeted expenses during months of lower income. This is not hoarding; it is planning according to Proverbs 6:6-8.