

Things to Keep in Mind for Your Budget in the New Year

Every New Year most individuals, businesses and families sit and review their budgets. Effective budgeting conversations center around defining financial objectives, assessing current financials, and using this information for financial planning purposes. Once discussed it becomes easier to determine the type of budget that will be best for the current situation. Some common budgets are a spending budget, savings budget, the 50/30/20 budget and spending ceiling budget. In any budget no matter how sophisticated or simple it is, constantly review, make changes when necessary and do not become discouraged if you don't get it right the first time.

When creating or revising a budget one of the most important questions to reflect upon is “how much do you think you spend?” The one question will help you think about your spending habits, consider what is a necessity and what is not as well as have discussions about where some places reign in spending. Typically when looking at spending habits most are surprised and then try to rework their budget. More than likely this is not the budgeting practice that will set you up for success. When breaking down spending be sure to also keep in mind your savings and earnings as well to get a better idea of exactly where you stand in that moment. There are ways to accomplish setting up a budget that are both effective and proactive.

Budgeting and goal setting go hand in hand. In order to set an effective budget you need to define what your objectives are. They can be as simple as saving for vacation, reducing debt or saving for a down payment for a house. By setting your goals you are then able to determine whether you need to adjust your long term or short term budget. When setting a short term or monthly budget be sure to think of all your monthly expenses and try to categorize them as specifically as you can. This will help you be able to make effective cuts in spending without cutting areas that are necessary spending. Some effective categories for budgeting buckets can be, groceries, utilities, loans, credit card payments, alcohol & other recreational substances and entertainment. What you will notice is the items on your short term budget will be more specific than your long term budget. Your long term or annual budget will focus more on retirement savings, housing and some insurances. Essentially the goal of the short term or monthly budget is to help you reach the overall goal set in your long term or annual budget. Although budgeting can be an effective tool to increase savings and plan out financial goals, life does happen and there are ways to help you from going over your budget.

You cannot spell life without “if” and at one point or another the “if” will pop up. Not all the “if’s” of life are negative, however they can be very difficult or impossible to

predict. This is why when budgeting, setting up an emergency fund may be a good idea. This account should be completely separate from your day to day savings account and inaccessible unless you absolutely need it. By separating this out from your savings it allows the fund to stand alone and will not look tempting. I recommend keeping at least 3 months of fixed costs or your salary in this account. This will provide peace of mind that if you lose your job, have unexpected severe home repairs, take a leave, need a new vehicle or suffer an injury you will have a fallback. To help you figure out how much you should have in your emergency account you will need to assess essential spending and non-essential spending.

When assessing your essential vs non-essential spending the easiest way to break it down is what do I need on a daily basis and what don't I need. This is where some disagreements can arise and definitions can change. Typically the mandatory items that are always essential are food, shelter, utilities, internet, cell phone bills and car/ transportation expenses. However, since every situation is different that list could be longer. The items that are almost always non-essential spending are entertainment, going out to eat, and items along those lines. The key here is understanding that you may need to be flexible on some of these items. It is ok to label streaming as a necessity if you have young children or your gym membership. Just don't go overboard with these items. In assessing these items it also helps to consider your fixed versus your variable expenses.

We tend to know our fixed expenses and what they will be on a monthly, quarterly or yearly basis. These are easy and you already know how much they cost. Where budgeting can get a little tricky is in the variable expenses. Since they vary from month to month variable expenses can be very hard to predict and quantify. They tend to be non-essential items that can be more or less depending on the month. The most common variable expenses are groceries, gas, credit card payments, entertainment and birthday or holiday gifts. Although these expenses fluctuate, you can make an educated guess as to a range of where they fall. What will help you with what that range can be is keeping good record keeping of these expenses.

In keeping any budget the key is to ensure you are tracking that budget. This can be done through a spreadsheet, mobile app, or even by pen and paper. Online platforms like Google Sheets and Microsoft have calculators that can help with budgeting and are very helpful if you are new to budgeting. Since all the formulas are already inputted all you have to do is insert the numbers and it will calculate the monthly expense for you. There is no one way that is best to keep track of a budget. You will need to figure out what is best and easiest for you to keep track and hold yourself accountable.

The key to a good budget is being accountable for your savings and spending. Although every month will differ, be sure to celebrate your successes and make adjustments where necessary. If you have questions on your budget, reach out to a financial advisor. They can help you with structuring your budget and sharing best practices with you. It is part of their job to help you pursue your financial goals. Just be sure to keep in mind that in any budget no matter how sophisticated or simple you will need to constantly review, make changes when necessary and do not become discouraged if you don't get it right the first time.