

# New Year's Funds

How to create a budget for 2009 and maintain healthy finances all year long



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**E**very year, people make New Year resolutions about eating healthier and exercising more. But what about spending less? Every penny counts, especially in a depressed economy. January offers a fresh opportunity to kick bad spending habits and introduce a new pattern of saving into your financial regimen. *DRN* came up with a plan to help you organize your funds now for a prosperous 2009.

## YOUR CURRENT STATUS

In order to create a realistic budget, the first question to answer is: Where does your money go? Many people are surprised to learn how much they spend on items such as miscellaneous social activities. The easiest way to track your cash flow is to set up a spreadsheet that shows all your earnings and expenditures. (See “Spreadsheets Made Simple” on page 35.)

Maintain this for at least one month, or a full billing cycle, to gain an accurate picture of your present status. Be precise. This information will determine your new financial strategy.

Next, sit down with your spreadsheet and look at where your funds are going. Zero in on nonessential expenses that you can easily trim or cut out completely, if necessary. If your spouse or a partner is involved, try creating individual budgets, then switch to understand their perspective.

Now, establish your goals. Do you want to save more? Pay off debt? Or just maintain your current state? Look at each entry and decide if it's worth the cost. If not, allocate a lesser amount or cut it out altogether. Start with the most important bills and then add each additional item until you reach your limit. But remember: Priorities change over time; your plan should be flexible.

## SAVING FOR EMERGENCIES

A large unexpected expense, such as car repairs or replacing an appliance, can easily put you into debt. Maintaining an additional savings account can help prevent this.

As a general rule of thumb, you should set aside enough to cover approximately three to four months' worth of expenses. (Financial advisors recommend six to eight months during an economic recession.) Do you have direct deposit or does your bank automatically transfer money from one account to another? Take advantage of this and pay yourself first. A reserve cash flow will help you stay afloat when times get tough.

A savings account can also help you reach specific goals. Set up a separate account dedicated to travel or to invest in a new car or college tuition. Then, if you decide to splurge and make a big purchase, you will not have to dip into your emergency reserve or accumulate debt.

Habits can **change**, so look at this as an **opportunity** to replace once-loved routines with **newfound interests**.

## CUTTING BACK

Now that you've established where your funds are most needed, have a look at your discretionary spending. Do you buy a latté every morning or dine out a couple times a week? Consider trimming your spending habits on clothing and gadgets, daily treats like coffee and snacks, and social outings, including dinner, drinks and movies. It's not necessary to entirely cut these treats out of your routine—but this will only cause frustration and resentment—but instead, limit their frequency. For instance, if you love buying café coffee in the morning, treat yourself to it once or twice a week instead of every day.

As for shopping, do some research before you leave

# Spreadsheets Made Simple

Here are some tips on how to create a basic spreadsheet to easily organize your funds and maintain your budget.

**INCOME:** Separate each pay period and every source, to easily evaluate the time between your earnings and expenditures.

**MONTHLY BILLS:** Account for all your recurring costs first: rent or mortgage payments, car or public transportation expenses, insurance, membership fees and cell phone, cable and internet service.

**CREDIT CARDS AND LOANS:** List each credit card you own, even if it doesn't currently have a balance, as well as any student or bank loans. Note the due date for each item to prevent late charges.

**SAVINGS AND IRREGULAR COSTS:** Don't forget about the money you put aside for savings, whether it's automatically deducted or manually transferred.

In addition, if you spend a significant amount on a gift or vacation, track that and note what it was for.

**CALCULATE IT:** The benefit of using a spreadsheet is that you can automatically total your expenses. Deduct them from your net income to calculate your disposable income. Now, you're ready to budget, save and spend.

home. Look for discounts on the web—sites such as CouponCabin.com and PCHCoupons.com offer deals for products, both in-store and online. You could also join a wholesale shopping club, such as Costco or Sam's Club, that offers a range of bulk or discounted products—food, technology, travel, auto services, to name a few.

A good experiment is to exclude all indulgences for an entire month, then consider what you missed least and cut those out. If you really struggled without something, include it in limited quantities. Habits and hobbies can change, so look at this exercise as an opportunity to replace once-loved routines with newfound interests.

## MAKE SAVING FUN

If your spouse or family members don't go along with your saving strategy, suggest a compromise: They contribute to the savings and you dedicate a portion of the money to a shared goal.

For the kids, turn it into a game. Decide as a family how to spend the money, such as taking a vacation or installing a swimming pool in the backyard. Get a large jar, cut a money slit in the lid and place it somewhere easily accessible in the house. Agree that everyone will deposit his or her spare change at the end of day. After a set amount of time, apply it toward your agreed-upon purchase.

If your family likes a bit of competition, have everyone track how much they put in each time. Then, when the money is finally counted, tally up everyone's contributions. The person who put in the most will be rewarded with a prize or privilege.

Once you settle on your budget plan, the challenge will be to abide by it. Set aside at least 15 to 30 minutes each week for recording and analyzing your expenses, so you can stay on top of your bills—and celebrate your financial success. 📊

