

Personal Budget

Fete after Fete after Fete....that's all we Trinis have been doing over the last couple of months!!! Not to mention the two days of sheer bliss and entertainment in one of the world's largest street festivals!! Money was no dilemma, it did not matter at all, we just spent and spent to our heart's content- after all, these festivities come but once a year! The question is...did we budget for this? Or did we just follow the jumbie spirit where ever it went! Whatever our method, the end result was the same- we had a great time!! However, the Lenten Season is upon us and there is no better time to start planning ahead for the next Carnival and even stick to a few of those New Year Resolutions that got left behind somewhere!!

I have always believed that the key to success is organization! You need to be proactive rather than reactive, plan ahead for those goals and even for those unforeseen circumstances. How? Well, one such way could be a Personal Budget. Maybe if we had budgeted for Carnival this year we would not be looking to our credit cards and savings account for survival- maybe we would now be packing for our "planned" after Carnival break or holiday in an exotic resort on some exclusive island!

So, what is a personal budget? In its simplest terms, a personal budget is an itemized summary of probable expenses and income for a given period. It does not matter how much or how little you have to spend- a budget is a tool that will help you to prioritize and manage your expenses and maybe even put a little extra aside for savings.

There are various methods that you can use to set up your budget, some include: the envelope method, the "wish list" method and the "list in pocket" method. You can find information on these and many other methods on the internet and other information sources. However, in this article I will explain the general guidelines that should be followed when planning your budget to ensure that optimum results are achieved.

The first step would be to start with Expenses: where does your money go? Regardless of how much you earn or when you earn it, everybody has fixed expenses, such as the following: mortgage payments or rent, transportation costs e.g. car payments, gas or taxi fare, utility bills, food and grocery bills, insurance premiums, loan payments and so on. We also have variable expenses, which are expenses that vary from month to month and which can be eliminated if need be. Such variable expenses include: birthdays, holidays, gym membership, clothes, vacation and many more. It is important that we gather all the necessary information for this part of the process as it is very easy to forget some expenses. One way to ensure that you don't forget anything is to look back at old cheque books (if you kept track of expenses in this manner) or to look at bank statements and bills that you may have kept. Once you are sure that you have covered all possible expenses: both fixed and variable, make a note of these in the place you will keep track of your budget. It may be on your personal computer or even in a keepsake book that you have on you at all times.

Naturally, the next side of your budgeting equation is Income. Collecting information on this is much easier than Expenses as most of us receive one source of income-through our Salaries. However, for others, this is no easy task as salaries may be collected based on commissions or on hours on the job, etc. In such cases, you should use a forecast of Income based on how much you believe you will bring in on your worst possible month. This way you may be pleasantly surprised on good months and not too far off on bad months.

After you have determined your Expenses and your Income, the next step would be to minus these two and see what is left over! Ideally, your Income is larger than your Expenses and if so, then it is time to start saving or investing if you have not done so already. On the other hand, if you are spending more than you earn, then you need to take check of yourself and review your spending habits or find a way to increase your income, legally- of course!! Strategies to increase your income include getting a new job or maybe getting a second job. Strategies to cut your expenses include eliminating impulse buys, which are a major expense for most people and cutting out those planned but unnecessary expenses. It is really quite simple - if it's not within your budget, you don't buy it.

Another important item to include in your budget is what is known as an emergency fund. This is a fund that you put aside for emergencies and unforeseen circumstances, like if you have to do surgery or if you lose your job. It is a general rule of thumb, that you should set aside enough money to cover at least three months' worth of your expenses in case of an emergency. A three month cushion will allow you the time you need to get back on your feet without upsetting your standard of living. Therefore, before you start to save or invest, you should apportion a certain amount of what is left over to this fund and include it in your budget like every other recurring item, for one month at a time until you reach your goal. This way you don't need to rely on credit cards and other forms of debt should anything out of the ordinary occur.

The next important financial step you need to make is- Saving! If your income is more than your expenses then you can afford to save something for the future. This is not the same as the emergency fund as you will continuously add money to this pot! Generally, you should save at least 10 per cent of your salary or earnings and this should be taken out before all other miscellaneous items in your budget. This way you are guaranteed that you do not spend what could have been savings on unnecessary items. These savings can be placed in a savings account at a commercial bank or even in some sort of investment vehicle. Investing not only puts your money to work for you but is also integral to ensuring you meet your retirement goals. The sooner you start the easier it is to meet those goals. So contact your financial advisor today so you can start developing your portfolio!

Suffice to say, many people don't realize they're living far beyond their means until they're knee deep in debt. Don't allow this to happen to you! There are many advantages to be gained from setting up your personal budget- including being more prepared for Carnival! Your budget will show you exactly where your money goes and provide a spending plan that lets you save for the things that are important to you! A budget is the tool that will let you control your money instead of your money controlling you!!!

If you are interested in "**Strategies for Saving**"...look out for my next article, where I will discuss the ways in which you can make your money grow!!