Budget Quick-Start Guide

Welcome to the *Budget Quick-Start Guide*, five simple pages to get you going with the single most powerful, practical tool for wise money management.

Using a budget – or, as I prefer, a Cash Flow Plan – involves four key activities:

1. Estimating current income and expenses
2. Planning future income and expenses
3. Tracking actual income and expenses
4. Reviewing actual versus planned income and expenses.

Let's take a look at each one.

1. Estimating Current Income and Expenses

To get started with the estimating phase, fill out the "Now" columns of the *Monthly Cash Flow Plan* (you can download this form from the same page where you found this *Budget Quick-Start Guide*)*.* Start by entering your household's monthly gross income—the amount before deductions, such as taxes, health insurance premiums, or retirement plan contributions. Next, enter your current monthly giving, saving, debt payments, and investing. Then fill in the rest of the "Now" figures as well as you can*.* You may have no idea how much you're spending on a certain category. That's okay. For now, just take an educated guess. Note that the first line in each section is for the total of the section.

Be sure to fill in the last three lines: your total monthly income, total monthly outgo, and the difference between the two.

2. Planning Future Income and Expenses

Once you're done with the "Now" columns of the *Monthly Cash Flow Plan*, fill in the "Goal" columns.

- *Monthly Income***.** In most cases, your income goal will be the same as your current income. That is, unless you anticipate a change in the near future.
- *Giving.* Aim for giving at least 10 percent of your monthly gross income.
- *Saving/investing*. Save at least 10 percent of your monthly gross income. Build an emergency fund until it has six months' worth of essential living expenses; then move on to other saving or investing goals. The only exception is if you have credit card or other types of non-mortgage debt. In that case, build an emergency fund of one month's worth of essential living expenses, then accelerate your debt payments, and then, once you're out of debt, build your emergency fund to six months' worth of essential living expenses.
- *Debts*. If you have credit card balances that you do not pay in full each month or other types of non-mortgage debt, commit today to going no further into debt and then, at very least, "fix" your payments. That means continuing to pay the amount that's due this month each and every month even if your minimum required payment declines. In the goal column, enter those fixed payment amounts for each of your debts except the one with the lowest balance. For that one, set a goal of paying more than the minimum. Enter the fixed minimum plus $10 or $25 or $100 – as much as you can come up with to get out of debt as soon as possible.

- *Investing*. Once you have paid off all of your non-mortgage debts, and you have six months' worth of essential living expenses in an emergency fund, you're ready to invest. Take the 10 percent of monthly gross income you were using to build savings and now use it for investing.

Set goals in the rest of the spending categories in a way that leaves you with a balanced *Monthly Cash Flow Plan*. All of your income should be allocated; the last line, "Income minus Outgo," should be zero. For help figuring out how much you can afford to spend on entertainment, vacations, and all the rest, take a look at the *Recommended Spending Guidelines* you'll find on the same page where you found this *Budget Quick-Start Guide*.

Now transfer your spending goals from the *Monthly Cash Flow* ***Plan*** to the "Goals" row at the top of the *Monthly Cash Flow* ***Tracker***.

3. Tracking Actual Income and Expenses

As you spend money, keep your receipts or jot down how much you spent. At the end of each day, enter your expenditures in the *Monthly Cash Flow Tracker*.

Keep your *Tracker* in a place where you'll see it every day—on your kitchen table or nightstand. That'll help you remember to record each day's expenses. At the bottom of the form are the numbers 1 through 31, representing the days of the month. After entering your spending for the day, put a line through the date. That'll be an indicator that you recorded the day's spending.

4. Reviewing Actual Versus Planned Income and Expenses

At the end of each month, total each category and see how it compares to your plan. If you've spent more than planned in a category, maybe your planned amount wasn't realistic and needs to be adjusted. Of course, allocating more to one category means you'll have to allocate less to another. Or, you could decide that you *can* hit the targeted amount next month; you just need to come up with more creative ways to manage that category.

Choose the System You Prefer

There are several different budget systems available. You could use **a paper & pencil system**, where you print copies of the *Cash Flow Plan* and *Cash Flow Tracker* and then fill them out manually. If you've never used a budget before, this is a great way to get started.

You could also use **an Excel spreadsheet**, which can make it easier and quicker to total up your spending in the various categories. We have Excel versions of the *Cash Flow Plan* and *Cash Flow Tracker* available for free online.

You could use **the envelope system** where you fill envelopes each month with cash in the amounts that you have budgeted for each category. For example, if you have $400 budgeted for groceries, you would fill an envelope with $400 in cash at the start of the month. You would then take that envelope with you when you go to the store, pay the bill out of that cash, and put the change back in that envelope. It's a very hands-on way of seeing how you're doing in each category throughout the month. You wouldn't use an envelope for your mortgage money, but it can be a great system for groceries, entertainment, clothing, and other discretionary categories.

Lastly, you could use **software** like Quicken or **an online tool** like Mint.com. We don't recommend starting with such tools, but after you've used a paper & pencil system for 6-12 months, you might consider switching to one of these tools.

Cash Flow Plans are not about *less*. They're about *more* – having more knowledge about where your money is going, so you can spend money more effectively, so you have more for what really matters. Stick with it. As you get accustomed to using a Cash Flow Plan, you'll find yourself living with more margin, accomplishing more of your goals, and enjoying a lot more peace of mind.