



Household Budget Tips

Learn how to create and maintain a personal or family budget and use spending guidelines to help you find the perfect plan for your family.

Ok here it is. The infamous and dreaded B-word. **Budget.** Most people view a household budget as a sort of a prison for your money which constrains and limits your ability to spend it. But in reality, it's really just a **spending plan** where you spend your money on paper before the month even starts.

Why is it so hard to follow a budget? With easy access to credit through plastic and home equity loans, most people don't see any value in restraining their spending habits. The ease of acquiring personal credit, coupled with an increasingly materialistic society has led a large portion of the public to believe that they can afford anything without thinking about the consequences. It's no wonder that [personal bankruptcies](#) are reaching new records every year.

I know it's a pretty worn-out phrase, but it's so true....

"Failing to plan is planning to fail"

Benefits of using a budget

A realistic budget actually brings freedom and peace of mind when it is planned with realistic goals. Most people who stick with a budget find that they can stretch their money further and are not worried about paying bills and meeting their financial needs later in the month or year.

You must have a "roadmap" to follow or you will be subject to every whim and desire (yes, your own!) to spend money on something that you will probably look back on and wish you hadn't.

A couple days after getting \$40 out of the ATM, do you look into your wallet and see only \$6? I can't tell you how many times this has happened to me! By not keeping track of your spending, you are much more likely to make "worthless purchases."

With a budget in mind, you are likely to make much wiser choices and think twice before spending. With \$75 left in your grocery budget this month, you are probably less likely to take your better half out for a \$30 dinner.

After [creating your budget](#), you get a great "birds-eye" view of where your money is going and how much you can really afford to spend in each category. Want that new 46" HDTV Plasma set? Well now you know how much you can afford to put towards it every month. If it were up to me in my pre-budget days, I'd be whipping out the plastic. Bad idea.

A budget evens out the bumps throughout the month and over the long run, it can help you actually meet your savings goals for retirement. Yes, you will get old and have to stop working. At that point, you will need an income, and where will it come from? You can't rely on anyone else to keep you going in your golden years, so you must budget for it now.

Tips for creating a workable household budget

I know that the major reason I fell into credit card debt very early was my failure to create a household budget. Without a guideline for my spending, I never really knew I was overspending until it was too late.

Let's look at some major ingredients that make up a budget:

- your household income
- mandatory payments (utilities/mortgage, etc)
- discretionary spending (most all other categories)
- savings for retirement
- savings for emergency fund
- payments to existing debt

Obviously **the goal of a budget is to guide your spending** to follow the golden budget rule: "Spend less than you make." All of your spending and savings must add up to be less than your total household income.

For the most accurate budget, use only your actual take-home pay, not your gross. Take-home pay usually has already had your taxes and insurance taken out, so those items are not required in your budget. For self-employed people, use your after-tax income for your income on your budget.

First, prioritize your expenses.

The order of things that I present here is widely debatable, but it's the order that I've learned along the way and seems the most reasonable.

Food and shelter are number one and two, no question about it. After you've planned amounts for groceries and mortgage/rent, then pay your utilities and transportation costs. After that, payments to outstanding debt, then start saving. Some folks adamantly say that you should pay yourself first (saving), but what good is money in a savings account if you can't pay your mortgage? My suggestion is to continually try to increase your savings as your budget allows.

Do I need an Emergency Fund?

It's a generally-held notion that you should save up \$1000 for your emergency fund as soon as you can. After you pay off your outstanding unsecured debt using the [debt snowball method](#), you should build it up to 3-6 months worth of living expenses, in case of some serious unfortunate event occurring.

Guidelines for Category Percentages

Who much should I spend on each category? Each family is different, and percentages vary depending on your stage of life. A good way to get an accurate assessment of your budgetary needs is to track your expenses for a whole month (or more!) before you create your budget.

Now, if after tracking you're spending for a while, you find that you're already spending more that you bring in, and then you will have to work hard to tighten the belt and find the right spending levels for each category.

Consider the following amounts as a general guideline. These figures are from the Department of Labor Consumer Expenditure Survey. It's the average amounts that people from all walks of life spent.

Item	Amount (%)
Food	13.1
Food at home	7.7
Food away from home	5.4
Alcoholic beverages	1.0
Housing	32.9
Apparel and services	4.0
Transportation	19.1
Vehicles	9.1
Gasoline and motor oil	3.3
Other transportation	6.7
Healthcare	5.9
Entertainment	5.0
Personal care products and services	1.3
Reading	.3
Education	1.9
Tobacco products and smoking supplies	.7
Miscellaneous	1.5
Cash contributions	3.4
Personal insurance and pensions	9.9
Life and other personal insurance	1.0
Pensions and Social Security	9.0

You can be as broad or as granular as you like in setting up your categories. For example, I consider items like toiletries, cleaning supplies and smaller household items to be part of our grocery category.

The budget is yours, so customize it to your needs. But remember the golden budget rule: **"Always spend less than you make"**

Also, remember that the other objective here is to never pay more than you have to for products or services, so saving money in every area of your budget is important.

Here are a few other good pointers that I've learned along the way:

- Your budget will not be perfect the first time you do it. Give it at least 3 months to start working.
- Be generous in your groceries category. I found that we consistently under-funded it in the beginning.
- Loosen up and be flexible with your budget. If something isn't quite working, look for ways to make it work, by either changing your budget or your behavior.

Tips for budgeting with a Spouse

If you are doing this with a spouse, it's important to keep communicating about the budget and your financial goals. Gently and lovingly remind each other in moments of weakness what your goals are. How about something like, "**Honey, I really think we should wait on that, it might delay getting that (insert goal here) we want in the spring.**"

It's so easy to get into a disagreement about a particular expenditure or "unbudgeted spending spree" that someone may have committed. Don't let it hinder your progress.

Offer alternatives. Keep Talking!