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Budgeting- The "B" Word

AAGH, UGH, OH NO, NOT AGAIN...

by Ruth R. Petty

That's the awful sound of your bank account as you ask it to give you more than it has to give. You are torturing it and yourself, once again.

You slam your head onto the desk, utter a few words that your mother told you never to utter, and lapse into yet another financial crisis. Is it acute or chronic? Is this a scene that happens rarely or repeats over and over? Well, today is the day that the torture becomes history. Take up your pencil and prepare to "balance the budget." If the U.S. Congress can do it, so can you.

Budgeting 101

First, take all of your monthly bills and organize them into categories —food, housing, clothing, medical, transportation, personal, and other.

Using net pay as the guideline, subtract all of the expenses that you have noted. The result will, in an instant, tell you if you are spending more than you make or have a surplus. If you have a surplus, but in reality never have anything left, then look for the "cash dribble" from your pocket (more about that later).

On a more manageable basis, use just your net pay for each pay period. Against this, subtract the fixed expenses, such as housing, insurance, loans, etc. From that subtotal, subtract periodic expenses, such as commuting, personal care, food and clothing. These are expenses that you have some control over and can reduce if necessary. At this point, adjust your spending to create the all important "savings" category. Then, from that subtotal, subtract the strictly discretionary outgo. This is the first place where you can get a grip on your budget, which is critical to long-term planning, both for emergencies and supplemental retirement funds.

So, it looks like this: net pay minus fixed expenses minus periodic expenses minus savings minus discretionary expenses equals the state of your budget. These categories are in descending order of importance.

Reducing Big Expenses

Your largest expense is likely to be housing. The national average is 26.4 percent of income. Are you above or below that average? If above, ask yourself some questions. Should you live in a more affordable home or share your home with a roommate? Either will reduce your expenses. If living alone is an absolute requirement for your happiness, then consider ways to increase your income, or

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start reading the real estate page and prepare to move. How about your grocery bill? Does your grocery cart look like the snack vending machine at work? Do you send the message to all onlookers that you only have a microwave and that all food comes in a rectangular box? Prepared food is expensive. If your grocery bill "eats up" more than 16% of your income, it needs to shrink. If you do not know how to cook, learn. Spend some of those wasted dollars on cooking lessons at a community college or, even less expensive, find a friend who will teach you how to cook. It's great fun, healthier, and much more economical. Besides, what a way to impress your friends.

For some of you, medical expenses are a major financial drain. Nationally, almost 18 percent of income goes for medical care (and that figure is destined to go up). If you find yourself with heavy medical expenses, sign up for a health appraisal. You'll receive a profile of your health, as well as tips for creating a healthier lifestyle. Should you quit smoking? (That would help not only your health, but your budget.) Should you change your eating habits to include more nutritional (often less expensive) foods? If you have a chronic illness, look in your newspaper for opportunities to participate in a research study at a local teaching hospital. Subjects usually receive free medical treatment and "top of the line" care. Reevaluate the structure of your health plan. While you may insist on keeping your longtime gynecologist, joining the HMO plan offered through your employer could result in less expensive health care and more predictable and manageable out-of-pocket expenses.

Image Indulgences

Prepare yourself -- this section can be brutal. It's about your wardrobe. Do you have a designer closet? Can you afford that closet? Are you one of those people with doors one, two, and three? While nationally only 6.5 percent of income is spent on clothing, I'll bet you cringe at the mention of "the clothes budget." If you just have to have that Ellen Tracy, then wait until it goes on sale. Cruise your local discounters for silk blouses and designer labels. Part of stretching the clothes budget involves learning to mix and match. How many clothing items do you seldom wear because they only go with one outfit? Bad use of money, my friend. Find someone who understands the basics of fashion and is willing to scrutinize your closet. Clear out the "worn once" items, isolate the "maybe's" and call Goodwill! Yes, they will come with a big truck -- and you will get a tax deduction. Your fashion expenses will be fewer, your clothing will be worn more often, and you will look like a million dollars. You can live with a clothes budget!

Is your car costing you more than your rent or mortgage? Did you just buy the super sport model? Not only are your car payments outrageous -- what about your insurance? Add up the car payment, the auto insurance, the cost of gas and maintenance. Are you astounded at how much of your income goes to keep you on wheels? Several alternatives are available. One, a leased car may carry a lower monthly payment. (Be certain to read the fine print, though.) Two, a number of reasonably priced sporty cars are now on the market. Three, consider a pre-owned car. Let someone else suffer the depreciation of a brand new car, then you buy it at its "real price." In case you are doing the numbers, the national average spent for transportation is 11.3 percent of income. Where did you ring in?

Getting Personal

Two categories remain -- personal and other. If you hired a CPA to do your taxes or an attorney to handle a speeding ticket, those are personal. So are contributions to nonprofit organizations and to charity. Ditto a fee-based financial advisor. If your makeup has a French name, it's personal -- and expensive. Surprisingly, more is

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spent in this category than for clothing.

And, last, but certainly not least, the catch-all category called "other," which includes recreation, travel, eating out, and entertainment. "Wow," you say, "that's a big category." If you were feeling smug about your under-average food budget, you may find those expenses here, in the eating out slot. Fast food is a real money robber. If you enjoy eating out, dine with a friend in a nice restaurant. Share a meal and good company. Make dining out a treat, not a lifestyle. Do you like to travel? Then set a goal, scour the papers for bargains, and go. Charge the tickets and hotels only if you know the money is sitting in your savings account, earmarked for this particular vacation. The anticipation and planning will make the trip a great deal more enjoyable.

Your pet may be a major expense, both for food and veterinary care. This area has no restraints and is very subjective. Your pet may represent a hugely significant part of your life -- almost like a child. Here are some financial considerations: One, do not overfeed your pet. It can cause health problems for the pet and financial problems for you. (Yes, your dog can have a heart attack.) Two, BEFORE the medical crisis arrives, decide your limits for keeping a pet alive after a serious illness or injury. And if you do not currently own a pet, consider the financial and emotional impact before you get one.

One final exercise: If you do most of your purchases by check, read your check register. See where the money goes. Rate each expenditure "absolute necessity," "maybe necessary," or "absolutely frivolous." Use the same criteria if you do most of your buying with credit cards.

Shutting Off the Cash Dribble

If you use cash other than for the car payment and mortgage, you probably have no idea where the money goes. Rethink this method and quit carrying more than twenty dollars in your wallet. This will curb impulsive spending on the nickel and dime stuff. "Oh," you say, "I can always use my credit cards." If you have more than one or two, decide which ones to cut in half and return to the issuer. Keep the ones with the lowest annual and periodic finance charges. This is a temporary concern, because soon you'll have no worries about finance charges -- there won't be any. When considering a credit card purchase, ask yourself the same questions. Is it necessary? Or is it frivolous? If it falls in between, ask the clerk to hold the item for 24 hours. Then, see if you still want and can afford it. Set monthly limits on your credit card purchases and make certain that they can be paid in full each month. No carryover balances.

You have a finite sum of money. Stop trying to make it infinite. After you trim your spending habits, learn to rearrange your lifestyle and live within your budget. You will actually find that you have money left for your savings account. Keep enough in savings to cover at least three months of expenses, in case of emergency.

Remember, budgeting is like dieting. You'll hate it while you're doing it, but you'll feel FABULOUS when it's done.

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RUTH R. PETTY, CLU ChFC

Ruth Petty spent her first seventeen years in North Carolina. After graduating from Wheaton College in Wheaton, Illinois, Ruth left the South and did not return until 1987. Now a resident of Boston, she has lived on both coasts of the U.S. and in Germany. Ruth entered the Financial Planning and Advisory arena quite by accident -- responding to a blind ad in a newspaper. Finding it very enjoyable, she dug into school and obtained her second and third Masters Degrees -- in Financial Services and Management. Her first Masters was in Sociology. Ruth has one son who lives in San Diego.

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