Budgeting

Presented by: MRW Financial, Inc.

Prepared for:

Develop and Stick to a Budget

A sound financial plan doesn't just invest money effectively...it helps you get the money to save and invest in the first place!

A budget is your spending plan, a way of tracking your cash flow, keeping track of what is coming in and what is going out. There are a wide variety of budgeting systems available, some of which are quite simple and others quite complex. Any budget, however, begins with tracking your income and expenses over several months.

Tracking income is generally quite easy… keep a record of your paychecks and any other types of income received.

Tracking expenses can be more challenging… generally you can use bill and credit card statements, your checkbook register/statement and cash receipts to track the majority of your expenses. Don't forget, however, to keep track of smaller expenditures, such as lunches, movies and money for kids' activities. Over the course of a month, those smaller expenditures can add up to a tidy sum. Expenses tend to fall into one of two categories:

- **Non-discretionary expenses**, such as rent or mortgage payments, food, utilities, insurance premiums and car payments. These are expenses that you have to pay every month, expenses over which you have little control. Following tip #1 - paying yourself first - a fixed amount for saving or investing should also be categorized as a non-discretionary expense.
- **Discretionary expenses** include items such as clothing, entertainment, travel, hobbies and other leisure activities. These are expenses over which you exercise more control. Once you understand your discretionary spending, you'll be better able to make lifestyle choices that can help you reduce your discretionary spending and pay yourself more by increasing the amount you put into savings and investments.

A basic way of budgeting is to establish and stick with a formula, such as 20% of income for saving/investing, 20% of income for discretionary expenses and 60% of income for non-discretionary living expenses.