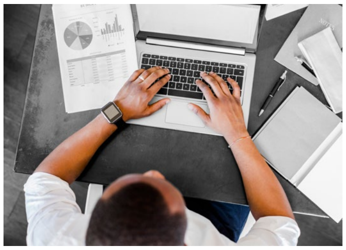


FIRST COMMAND EDUCATIONAL FOUNDATION℠
FINANCIAL READINESS FOR LIFE

BUDGET BASICS

WHAT IS A BUDGET (SPENDING PLAN) AND WHAT IS ITS PURPOSE?

If you're worried about money and your personal finances, you are not alone. Finances are a common source of stress for most persons. Financial stress can result from indebtedness, insufficient income, or even having a spouse or partner who is not very good with money.

The first and probably most important step in reducing financial stress is to make a budget. Very simply, a budget is a plan in which you assign future income to expenses, savings, and debt repayment. Past spending and personal debt are considered when creating a budget.

Developing a budget allows us to focus on our spending habits and identify those that prevent us from achieving our financial goals. Following a budget is itself a good habit.

Some people think of budgets as spending constraints, but budgets are better described as spending plans. If you budget correctly you will have money for things you enjoy without worrying about meeting other financial obligations, overdrawing your accounts, or going into credit card debt.

FINANCIAL INSTABILITY AND STRESS

Stress created by financial worries and concerns can cause physical and mental problems, especially if a person experiences high stress levels without emotional support or feels stress for an extended time. Children can also suffer physically and mentally from the family's financial stress. They may have difficulty expressing their feelings about their family's problems.

Learning to cope with financial stress and managing your financial situation more effectively can help you feel more in control of your life, reduce your stress, and build a more secure future.

Having a written budget or spending plan will give you confidence in your personal financial strategy, which can help you dramatically lower your financial stress level. A spending plan will help your efforts to achieve and maintain financial stability.

A significant step in developing a budget is to understand how you arrived at your current financial situation. Which financial decisions were good? Which ones were bad? Why do you keep making bad decisions about spending when you know better?

HOW YOUR ATTITUDE AND HABITS TOWARD MONEY AFFECT YOUR FINANCES

Your attitudes and habits determine how you react or behave when confronted with a stimulus. Similarly, your money attitudes and money habits determine your behavior and decisions regarding money. Recognizing your usual behavior about money will help you understand how your behavior influences your financial decisions about budgeting, as well as about saving, spending, managing debt, investing, etc.

Your money attitudes and habits determine how confidently and competently you manage your money. Many factors contribute to the development of your attitude and habits about money, i.e., your money behavior. These factors include your personality, family life, life experiences, friends, religious beliefs, the media, etc.: the many messages you received and experiences you had as you grew up.

The various money behaviors include *Security*, *Spontaneous, Status*, *Giving*, *Carefree,* and *Planning*.

This table provides information about each type of behavior, including how each feels about money, how you see yourself with this type of behavior, and how others may see you when you display a certain money behavior.

Money Behavior	How you feel about money	How you see yourself	How others may see you
Security	Helps you feel safe and secure	Thrifty, prepared	Suspicious, cheap
Spontaneous	Encourages you to enjoy the moment	Daring, fun loving, open minded	Impulsive, unconcerned with consequences
Status	Helps you create a positive image	Generous, impressive	Superficial, insensitive
Giving	Helps you feel good by giving to others	Thoughtful, charitable	Enabling, martyr
Carefree	Not a priority at this point in life	Easygoing, carefree	Immature, irresponsible
Planning	Used to achieve your goals	Responsible, accomplished	Driven, conservative

The next table indicates how each type of money behavior affects our budgeting and other financial decisions.

MONEY BEHAVIOR	SPENDING	SAVING	DEBT	INVESTING	GIVING
SECURITY	Does without/ avoids spending money	Saves as much as possible; does without	Does not tolerate debt	May not invest to keep money accessible	May not give to others or make donations
SPONTANEOUS	Tends to spend freely without thought	Not a priority	Very high risk for being in debt	Well-planned investing is not a priority	Tends to give freely without thought
STATUS	Spends more on appearance than value	Not a priority	More likely to be in debt	Influenced by people they aspire to impress	Gives or donates publicly for recognition
GIVING	Spending is practical and pragmatic	Only for pragmatic reasons	May go into debt due to generosity	Accumulating money is not a priority	Tends to be overly generous
CAREFREE	Spends to make life happier for others	Not a priority due to lack of commitment	Could have debt due to poor money mgt	Not a priority due to lack of commitment	Quick to share w/o considering consequences
PLANNING	Spends on items that reflect their value	Plans for routine, unexpected, discretionary	Only for long-term investments	Has diverse investments for balance	Plans on reasonable amts for donations

DEVELOP A BUDGET (SPENDING PLAN)

A spending plan allows you to know how much money you have coming in and provides confidence in knowing where it is going and how it is being spent, flexibility to address any financial mistake you may make, and the ability to stay out of debt.

Budgets are especially helpful during a major life or career change, such as the birth of a child, moving to a new home, or retiring. These situations can significantly affect our personal budgets. However, good budgeting practices can help you anticipate and plan for such events with your accumulated savings as well as with the flexibility afforded by your plan.

For military members, developing a budget or updating an existing one is especially valuable for life and career events such as Permanent Change of Station, deployment, promotion, retirement, etc.

A good spending plan should help us to decrease expenses, decrease indebtedness, and increase savings.

BUDGET PROCESS

Set financial goals

In many cases, people fail to consider their financial goals when developing a budget. This results in attempting to fund those goals with whatever money is left after paying other expenses. The idea of *paying yourself first* implies funding your financial goals before your discretionary expenses. To do this you will need to include specific line items in your budget for your financial goals. This requires determining how much money is needed to fund each goal and deducting this amount from your income. The balance of your income is then used to pay your other expenses. Therefore, before you start developing your budget, make a list of all the financial goals you want to accomplish.

Organize them into short-, intermediate-, and long-term goals. Short-term goals should take no longer than three years to achieve. An example would be to pay off a particular debt in six months. An intermediate-term goal is one you want to achieve in three to ten years, such as saving $10,000 in the next five years for a down payment on a home or being debt free in five years. Long-term goals are those you plan to achieve in ten years or more. Perhaps you'd like to save for your children's education, pay off your home mortgage, or establish a retirement fund. Short-term goals provide key input for the budget-making process. They may sometimes evolve from your intermediate- and long-term goals. For instance, if one of your intermediate-term goals is to be debt-free in five years, a short-term goal might be to pay off a particular debt, such as a credit card, car loan, etc., in the next six months.

Goal setting is not a matter of dreaming and wishful thinking. It requires a realistic look at your current circumstances, anticipated future income, and the amount needed to achieve your goals. You need to clearly define your goals. Instead of saying that "you want to buy a house," state your goal as "save $10,000 for a down payment on a home by (date)." Your goals should be written in the SMART format—Specific, Measurable, Achievable, Realistic, and Time-based. (A sample goal-setting form is provided on the next two pages.)

(You can access a free budget worksheet on the First Command Educational Foundation website. Go to the *Financial Tools and Calculators* page at https://www.fcef.com/education/financial-tools-and-calculators/, and click on the *Spending Plan Tool* (https://www.fcef.com/files/spending_plan.xls) to download the spreadsheet to your computer. Enter your information and view the results. The website collects no personal information.)

Goals don't have to be set in stone, but identifying your priorities before you start planning your budget will help. It can be easier to cut spending if you know your short-term goal is to reduce certain debts.

Sample Goal Setting Form

Ensure your goals are "SMART": Specific, Measurable, Achievable, Realistic, and Time-based. For example: "Save $20,000 for down payment for house by (date)."

PERSONAL FINANCIAL GOALS WORKSHEET

Name	Date

NON-MONETARY GOALS

Priority	Brief Description	Action(s) to Be Taken	Target Completion Date

SHORT-TERM GOALS (0-36 months)

Priority	Brief Description	Action(s) to Be Taken	Target Completion Date	Cost Estimate	Savings Needed Per Month

Sample Goal Setting Form (cont'd.)

INTERMEDIATE-TERM MONEY GOALS (3-10 years)

Priority	Brief Description	Action(s) to Be Taken	Target Completion Date	Cost Estimate	Savings Needed Per Month

LONG-TERM MONEY GOALS (10+ years)

Priority	Brief Description	Action(s) to Be Taken	Target Completion Date	Cost Estimate	Savings Needed Per Month

Determine your income

The next step in creating a budget is to determine your income, i.e., the amount of money you have coming in. Bear in mind that it is easy to overestimate your income if you consider your gross salary as what you can spend. Take-home pay or net pay is your gross pay minus your deductions such as income taxes, Social Security (FICA) payments, insurance, retirement savings, etc. This is the number you should use when creating a budget. If your pay varies from pay cycle to pay cycle you can use an average of several months of income. You can estimate your income based upon your experience but try to be conservative and go with a low estimate instead of a high one. When developing a budget it is always better to underestimate your income and overestimate your expenses.

You may have other sources of income such as a second job, bonuses, dividends, interest, etc., or in the case of a military member, you may have other pay or allowances to consider. However, don't rely on bonuses, overtime pay, allowances, etc., in your budget.

Create separate entries for each source and then a line for your total income. This total income will be the basis for your budget. Your total expenses for a budget period should not exceed your total income for that period.

Identify and estimate expenses

When evaluating the expenses to be included in your budget, you must first determine whether you want a weekly, monthly, or annual budget. The most common budget period used is monthly. The time frame you choose will determine how much information you need to collect and how detailed you should be. Start by tracking your expenses for the next few months, making sure that you consider expenses that come up less often than monthly, like car registration, property tax, etc.

When creating your budget the initial number for your expenses will be an estimate, but it should be as accurate as possible. Review your receipts, bank statements, credit card statements, and other account statements to get a good idea of your expenditures. By tracking your spending you can discover expenditures that might not be necessary and can be eliminated. Use a budget worksheet to record your income and all your expenses. (A sample monthly budget worksheet may be found on the next page.)

Sample Budget Worksheet

MONTHLY BUDGET WORKSHEET

CATEGORY	SUB-TOTAL	BUDGETED AMOUNT	COMMENTS
INCOME:			
Salary/wages			
Interest income			
Other:			
GROSS INCOME:			
DEDUCTIONS:			
Taxes			
Federal income tax			
State income tax			
FICA (Soc. Sec.) tax			
Other			
EXPENSES:			
Short-term/emergency savings			
Retirement savings/TSP			
Housing/rent/mortgage			
Utilities			
Food/groceries			
clothing			
transportation			
Car maintenance/repair			
Entertainment (movies, restaurants, etc.)			
Personal care (hair, nails, etc.)			
Debt payment:			
Vehicle(s)			
Credit Card(s)			
Loan(s)			
Other expenses:			
NET (INCOME–EXPENSES)			

Start by organizing your expenses into these categories:

- Fixed expenses: These are regular monthly bills you must pay and cannot modify such as home loans or rent, taxes, child education, insurance premiums, auto loans, etc. Knowing how much of your income they require is valuable information. You can closely estimate what your fixed expenses will be from month to month.
- Variable expenses: These change from one budget cycle to another and are based on your usage or consumption such as for groceries, utilities, fuel/transportation, phone calls, medical treatment, etc. Use your past spending habits to help you estimate what these will be.
- Discretionary expenses: These are based on personal wants and needs for things such as recreation, entertainment, vacations, gifts, etc.
- Periodic expenses: These expenses occur regularly but not on the same schedule as your fixed expenses. They often include property taxes, car registration, routine car or home maintenance, etc.

The sum of your fixed and variable expenses can give you a good idea of the minimum that your income must cover each month. Budgeting for variable and periodic expenses can be more challenging because you may not know how much they will be or exactly when they will occur. You can prepare for variable expenses by reviewing your expenses for the past few years. For periodic expenses that come up at least once a year set aside a little bit each month to cover them when they come due.

Tracking and estimating your monthly expenses may be more difficult if you usually pay in cash. While cash is a good way to control your spending, you must be meticulous about keeping receipts so you can track where your money goes. If you use credit or debit cards you will receive a statement of your monthly expenses that makes tracking your expenses easier. However, if credit card debt becomes a problem, stick to cash or debit cards.

Add up your estimated monthly expenses and subtract the sum from your monthly income. If expenses are lower than or equal to your income, then your budget is balanced and you are ready to implement it. However, if your expenses are higher than your income you are in debt or certainly will be soon. You will need to adjust your budget by either increasing your income or decreasing your expenses. Since it is usually easier to adjust expenses than to increase income, focus on your expenditures, especially your discretionary expenses.

Make adjustments

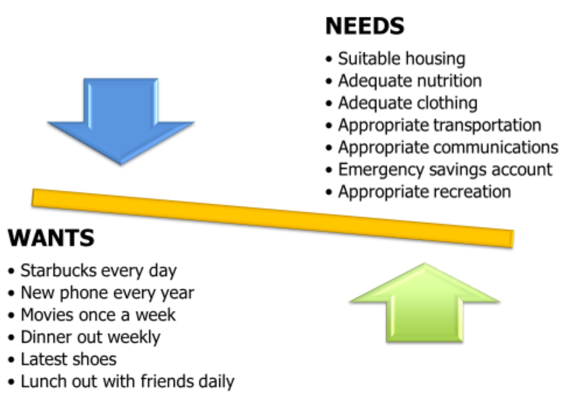
Expenses can be reduced either by elimination or replacement/modification. Completely eliminating expenses is the quickest way to a balanced budget, but replacing expenses creates longer-lasting positive effects. When deciding where to reduce your expenses, focus on your discretionary and variable expenses before you reduce your savings.

Eliminating expenses involves completely doing away with certain expenditures. Unfortunately, this option can require significant lifestyle changes that can discourage people and make them feel they are giving up too much, which can result in the budget failing.

With replacement or modification, the basic want is retained but at a lower cost. This involves more modest adjustments. An example is a person with an expensive smoking habit. The ideal solution would be to stop smoking, for both health and expense reasons. However, this may not be very popular. An alternative could be to reduce expenses by purchasing generic-brand cigarettes instead of more expensive brand-name ones.

Determining which expenses to keep or eliminate can be difficult. One way to approach this dilemma is to prioritize your bills and expenses and separate them into things absolutely necessary for your well-being and things that make life more pleasant and enjoyable, i.e., expenses that meet your "needs," and those that meet your "wants."

Needs vs. wants



Needs include groceries, housing, transportation, utilities, insurance, etc. They are "must haves" that you absolutely must pay for no matter how low your income is.

Wants include expenses for entertainment, designer clothing, travel, health club memberships, etc. Generally, your fixed expenses fall into the Needs category while your variable and discretionary expenses fall into the Wants category.

Sometimes distinguishing between a need or a want can be difficult. The difference may not be very clear. How and why you use something can help determine if it is a need or want. Spending to purchase a reasonable car for transportation to work would be a need. However, if you purchase a luxury car to make an impression, then it becomes a want.

Are savings a want or a need? Savings are vital because they provide funds for major life events like buying a home, education for the children, retirement, etc. Savings also provide funds for unplanned events such as medical expenses, car repairs, etc. Savings are definitely a need.

50-30-20 rule
One way to budget for needs and wants is the 50-30-20 budgeting rule:

- 50% (or less) goes to necessities such as housing, student loans, groceries, utilities, etc. These are expenses you must pay every month. (NEEDS)
- 30% (or less) goes to “nice-to-haves” such as entertainment, hobbies, travel, etc. (WANTS)
- 20% (or more, if possible) goes toward savings, investments, and paying down debt.

Once you have adjusted your income and expenses so that your expenses are lower than or equal to your income, you can spend and save according to your spending plan.

Implement your spending plan
As you implement your spending plan, it is important that you review it regularly to ensure you are staying on track and to evaluate how accurately you estimated your income and expenses. Take time each day to record your expenses. (A variety of online expense tracking worksheets, apps, and software is available, and a sample expense tracking worksheet is provided below.) If you have a partner, review and record what each of you has spent each day. This is also a good time to encourage good spending habits and support each other’s efforts.

Sample Expense Tracking Worksheet

EXPENSE TRACKING WORKSHEET

For dates ______________ to ________________

Page _____ of _____

Date	Description of Expenditure	Payment Made To	Payment Method	Amount

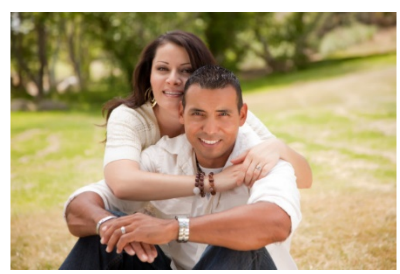
Tracking your expenses is not just about keeping your spending under control. It also helps you identify inadequate areas or harmful spending patterns. Also, very few components of your spending plan will remain constant. You may have a change in income, your expenses may increase, or you may attain one of your financial goals and want to plan for a new one.

Don't be surprised if your actual costs exceed your projected expenses in some categories, especially in the first few months. Don't get frustrated when this happens. Not all experiences with your budget will be satisfactory. Budgeting is not a "you're always right the first time," overnight process. It is an ongoing, long-term process that requires constant adjusting and updating of the numbers to succeed.

When tracking and recording expenses, include columns for actual expenses and projected or budgeted expenses, as well as a column for a running balance for each of your line items or expense categories. If an expense category uses up its budgeted amount you will need to stop spending in that category to stay within your budget. You may feel at first that your budget is too rigid or restrictive. However, you can temporarily transfer funds from one expense category to another if needed.

At the end of one month adjust expense category amounts for the following month so they are more realistic. You may want to roll any leftover money in certain categories to the same category for the following month, or you can put it in savings. For variable expenses like utilities you may want to roll any leftover funds to the following month. You may also be faced with either raising the projected expense amount for a particular line item in the next month to make it more realistic, which may mean reducing funds in another category, or cutting back on spending in that particular category so that you meet your projected number.

BUDGETING AS A COUPLE



Budgeting as a couple can be difficult. Different personalities, spending habits, personal or career priorities, etc., can significantly influence the budgeting process when two people are involved.

Before you sit down to plan out your budget with your partner, spend some time together to discuss each other's goals and perspectives on managing money. You may have different approaches to managing money. One of you may be a "saver" and the other one a "spender." Understand that different styles aren't "good" or "bad." This phase is really about getting to know each other and being honest and transparent. It provides a better basis for future success.

Development of a budget should not be solely about income and expenses. Couples need to budget to meet their financial goals. If you limit spending and saving without a goal in mind, it is easier to justify constant overspending. When you have specific mutual goals, following a budget becomes more agreeable. To start the goal discussion, begin with goals for paying off debt and increasing savings. Other goals to discuss include saving for a home, retirement, or funding your children's education.

Budget process as a couple

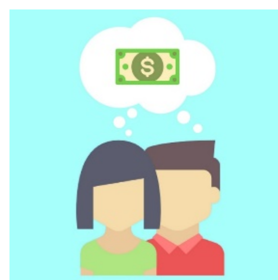
When you first start budgeting together, you might need to adjust your expectations so that you are both on the same page. One person may want to save more and live cheaply while the other may be more of a spender. Once you have a feel for each other's financial styles, start focusing on family needs, not wants. This includes expenses such as rent or mortgage payments, utility bills, groceries, car payments, etc.

After you have determined your household needs, start talking about individual needs and wants. Be ready to make accommodations since the needs and wants of each person will probably be different. Listen and learn to determine what is important for each other. You should each have money to spend on things that matter to you as individuals. As long as each partner is sticking to the overall budget there's no need to argue or fight about how your own money is spent. The important thing is to bring these issues into the open and to discuss them.

There are three common approaches to budgeting as a couple:

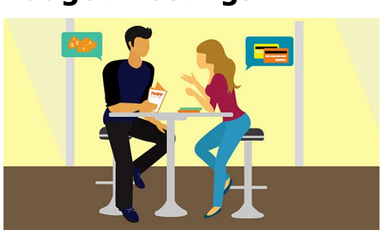
- Combining all finances: All income and expenses are shared, and each person has a small account for their personal spending.
- Separating all finances: Each person has their own account. Expenses are divided up with a 50/50 split or based on the person's income.
- Hybrid: There is a joint account for household expenses and shared goals. Each person contributes to the joint account but keeps their personal accounts separate. The contributions to the joint account will be divided equally or based on income.

Whether you have a joint checking account, separate accounts, or a mix, it's likely that one partner will be primary manager of the budget. However, all financial decisions do not have to be made by the same person as long as every money decision is covered. One idea may be to let the saver be the primary manager of household expenses. The saver can keep the spender in check and maintain a balanced budget. The spender can make suggestions for activities on which to splurge.



Which approach works best? It's your preference. The important thing is to discuss how to manage your finances before getting too far along in the shared budgeting process. Make sure you both feel the approach is equitable.

Budget meetings



Both partners need to participate in tracking and reviewing expenditures. A budget meeting often works for this. At first these may be required daily, but eventually, as you become more experienced and successful in following your budget, they can become shorter and more efficient and require you to meet only weekly or even monthly. Plan ahead and set aside time when you won't be distracted or interrupted.

During these meetings, discuss your progress on your individual and mutual goals. Also, discuss spending in view of the spending plan and any upcoming major expenses.

Remain calm when discussing your budget and expenses. If overspending occurred in a budget category, especially if it was caused by one partner, find a solution first, discuss the lessons learned, and move forward. It does not help to point fingers, find blame, dwell on mistakes, or become upset.

One idea for keeping budget meetings positive and upbeat is to consider "budget walks" or "budget dates." A leisurely walk is a great way to help you to discuss dreams, goals, and expenses. Or, discussing these subjects over some beverages and following up with a movie can do wonders for your personal and financial relationships. Both ideas can help you focus on the positive side of your finances versus the negative.