STRESS-FREE BUDGETING:

Your First Step to Financial Wellness

GreenPath®
debt solutions

SPENDING TO LIVE, Not Living To Spend

Before we get into the nitty gritty of budgeting, it is important to talk about spending. Without understanding why you spend, your spending habits, and ways to control your spending, you'll never be able to budget effectively.

America is a nation of spenders. Our spending habits are ingrained in us from an early age and stick with us throughout our entire lives. Believe it or not, the average person spends $1.33 for every $1 they earn.* Americans also have one of the lowest savings rates among industrialized nations.

AMERICA BY THE NUMBERS

- *15,000,000: The number of "shopaholics" in the United States.*
- *146 hours: The average time per year an American spends searching for things to buy.*
- *40,000: The number of commercials children watch in a year.*
- *18 months: The age at which children start to recognize product logos.*
- *$2 Trillion: The total amount of credit card debt racked up by Americans each year.*

GreenPath Budgeting Tip #1

Make sure to pay your bills on time. Otherwise, you can expect to pay higher interest rates, suffer a lower credit score, and even run the risk of being sued. Paying bills now will save you from a lot of problems in the future.

*http://www.forbes.com/2009/02/05/why-we-overspend-lifestyle_0205_overspend.html

WHAT INFLUENCES YOU?

External factors also play a role in consumer purchasing behavior. Even the U.S. government encourages consumers to spend money during a recession to help boost the economy.

Advertising

Advertising has grown increasingly more prominent and precise. The advent of online advertising has created media that can be specifically targeted towards an individual. The data available to online advertisers allows them to target the exact audience they wish down to gender, age, spending habits, and interests. This is combined with a bombardment of TV, radio, print, and outdoor advertising to influence how you spend your money.

Shopping Experience

The experience of shopping often creates an outing for friends and families. Most purchases are not intended or planned, but they happen frequently. Marketers and stores know that shopping has become an enjoyable experience, and plan the layout of the store with this in mind. It has been expertly crafted to create the best shopping experience that will elicit the most purchases.

Media and Society

The media and television portray a lot of unrealistic expectations for life. We see how celebrities and millionaires live, and then attempt to translate that lifestyle into our own. We measure our success by the cars we drive, the size of the house we own, and all of the luxuries we can afford. Sadly, you are more likely to receive a compliment on your sweater than your volunteer work.

Proliferation of Consumer Goods

America is bountiful in consumer goods options. For every item you are about to purchase, there is a plethora of other varieties of it. The freedom to choose exactly what you want is a beautiful, yet dangerous thing. Every item is seen as a “staple” or “essential” for living.

Friends and Family

Our loved ones have expectations when it comes to the use of our money. For example, you may be expected to buy birthday gifts for your siblings, nieces, or nephews. Some form of monetary transaction usually takes place on holidays, such as a gift or a meal out. These are external factors that are almost impossible to avoid.

Easy Credit

Credit cards are almost as prolific as the goods they are used to buy. It seems that every department store has its own store branded credit card. Each credit card company also has a handful of cards falling into different tiers based on their “exclusivity” and rewards. It won’t take you very long to fill your wallet with different credit cards. It will, however, take you a long time to pay that credit card debt back if you let it get out of control.

SPEND ON SAVING

Many Americans do not consider saving as a high priority. Money is saved infrequently and at fairly low amounts. Tax returns, raises, and bonuses are all typically used as spending money for luxuries.

Even if a person receives a salary increase, that additional money is often not used for savings. The logic of this is fairly illogical. If you were living at an annual salary of $40,000, then you should still be able to live at that income if you make $50,000. However, the salary bump is seen as a go-ahead to increase the amount the individual needs to live on.

Begin incorporating savings into your life by trying the following three tips to get the most out of your paychecks:

- *Live below your means. Only spend what you need and save the surplus.*
- *Deduct the difference between your net income and your living expenses. Have the difference automatically deposited into your savings account.*
- *Make savings an expense. Too many view it as an afterthought. Include this as a line item in your budget along with rent/mortgage, groceries, gas, etc.*

GreenPath Budgeting Tip #2

Build an emergency savings account that contains at least 3 months of household spending. If saving that amount is not realistic now, save what you can and work toward that goal.

CONTROLLING YOUR SPENDING

In order to control your spending, you need to set up a budget and stick to it. Random, miscellaneous purchases are budget-busters. With a little self-control, discipline, and the following tips, you'll be able to control your spending.

- *Steer clear of stores where you know you spend more than you can afford.*
- *Take a time out. After each purchase, create a timeframe, such as two weeks, in which you can't purchase another non-necessity.*
- *Shop with a list. Going into a grocery store without a plan of attack is a surefire way to walk out with too many groceries. Impulse spending can ruin your budget.*
- *Don't grocery shop on an empty stomach. Your eyes are, in fact, bigger than your stomach.*
- *Track your money and use cash for purchases. It is much easier for you to swipe a credit card than part with a crisp fifty dollar bill.*
- *If you feel the urge to spend big, call a friend and have them talk you out of it. Even just distracting your attention can help you avoid making the purchase.*

GreenPath Budgeting Tip #3

Track your expenses for at least one full month. This will provide an accurate picture of monthly household spending.

BUDGETING

SEVEN STEPS TO A SUCCESSFUL BUDGET

Budgeting can be a simple and straightforward process. It can also be a rewarding experience for all family members, but it takes desire and commitment. Here are seven steps to help you create a successful budget.

Step 1: Discuss Values
Determine what is most important to the people involved in your budget, or spending plan. By understanding these values, you can make decisions that will provide you with the most satisfaction. For example, a family member's fitness may be a strong value for them, so they may place more importance on things such as organic foods or a gym membership. It is important to acknowledge these values so that everyone feels that the budget includes their priorities.

Step 2: Set Goals
Begin setting goals by discussing with family members what they may want to do with their money. An example of a goal might be to save for a child's education. Have each member list the goal and a deadline. Work on the most important goals first. Put money aside in your budget for your priority goal. Remember, to achieve your target goal, you must treat the money as a bill to be paid to you.

Step 3: Determine Income
Figure out your net pay, or the money that is left over after deductions. The money that makes up your income can come from sources such as salary, allowances, social security or child support. Do not include overtime pay.

Step 4: Determine Expenses
What are the expenses in your budget? Consider fixed, variable and periodic expenses. Fixed expenses consistently stay the same every month, variable expenses change from month to month and periodic expenses are not due every month. Your mortgage or rent is an example of a fixed expense that is the same amount each month. However, the amount you pay for gas or groceries can differ each month, so these are considered variable expenses. Clothing is an example of a periodic expense that is not a standard amount, and is not purchased every month.

Step 5: Create a Plan
Design a spending plan to ensure that your income will allow you and your family to have what you want and need. If you find that your income does not cover your expenses, re-evaluate your plan and decide what adjustments can be made.

Step 6: Keep Track of Expenses
Keep a record of expenses to see where your money is being spent. By comparing your estimated expenses with what you are actually spending, you can evaluate whether your plan is working.

Step 7: Evaluate Your Plan
Periodically evaluate your spending plan. Is the plan still helping you meet your needs and achieve your goals?

Remember that budgeting is the cornerstone of your family's financial plan and a tool to help you achieve your goals.

BUDGETING BASICS

Creating a budget is a fairly simple and straightforward process. It usually involves three major categories: income, expenses, and savings.

However, some budgets are far more complex and include weighted percentages and multiple incomes. Some budgets are "his and hers" or others can be "his, hers and ours." The complexity of your budget should be equal to how comfortable you are managing it. If you attempt to create a budget that is too complex, it can be frustrating for all parties involved.

GreenPath Budgeting Tip #4

Savings is the one item that should be on everyone's budget sheet. If you have a budget surplus, increase your savings amount accordingly.

Monthly Income	Net Amount
Paycheck	$3,000
Spouse's Paycheck	$2,000
Total Income	***$5,000***
Monthly Expenses	**Monthly Amount**
Rent	$1,500
Groceries	$400
Gas	$300
Insurance	$150
Entertainment	$200
Savings	$1,000
Total Expenses	***$3,500***
MONTHLY SURPLUS (DEFICIT)	**$1,500**

Sample Monthly Budget
This quick sample budget does not include a full list of expenses. It is merely to illustrate a quick breakdown of how a budget looks.

RECOMMENDED MONTHLY EXPENDITURES

So how do you know if your budget is a good one? Truthfully, budgets are not one-size-fits-all. Every person's situation, needs, and preferences will vary. Some families spend more on their home, while others may spend more on entertainment.

However, financial experts have created general guidelines to follow when it comes to your overall monthly expenditures relative to your income. After you've completed building your own budget, see how it stacks up against the recommendations of experts.

Category	Percentage of Monthly Take-Home Pay
Mortgage/Rent	25-35%
Food	18-23%
Consumer Debt	10-20%
Savings	7-10%

Before you panic, remember that these are guidelines. Everyone's situation is different. These are simply recommendations to show that you shouldn't be spending 80 percent of your income on food. If that is the case, you may want to cut back on dining out.

MANAGING YOUR BUDGET

Budgeting is not a one-time activity. It requires some routine maintenance on your part. You should be managing your budget on a continual basis.

Weekly
Managing your weekly budget is as simple as tracking your recurring expenses such as gas and groceries. By keeping track of these smaller, yet frequent purchases, you'll be able to monitor your progress throughout the month.

Monthly
Your monthly budget takes into account all of those tracked recurring expenses, along with monthly expenses such as internet, utilities, and mortgage or rent. Looking at your expenses over this timeframe gives you a better perspective on how close you are to your overall financial goals.

Your goal is to stay within the monthly budget as consistently as possible. If you go over one month, you can compensate by adjusting a non-essential category the next month. For example, you may reduce the amount in your "entertainment" spending if you went over the previous month.

Annually
The annual budget is something that can involve the entire family. Set aside time to construct this essential plan once a year. It is the perfect opportunity to address the financial needs of each family member. You'll also be able to determine family goals and share new ideas.

PERIODIC EXPENSES

Now it's time for a budgeting curveball known as periodic expenses. These shifty expenses don't occur on a regular weekly or monthly basis. A great example of a periodic expense is clothing, car repairs, or a vacation.

When planning your budget, you'll need to keep these periodic expenses in mind. In order to incorporate them into the budget, estimate how much you'll need to set aside for each category. To help you do so, we've put together some questions to ask yourself.

House Repairs and Maintenance

- *Do we have a yard to maintain?*
- *Do we pay for landscaping or mowing? Or should I maintain the yard myself?*
- *How much do we spend on mulch, flowers, fertilizer, vegetables, tools, etc. for the yard each year?*
- *Is painting needed?*
- *What major items will need repair (hot water heater, washer/dryer, oven, dishwasher, windows, roof, siding, gutters, etc.) in the upcoming year or in subsequent years?*
- *How much money will be needed to replace the major items?*

Vacation

- *Do we take vacations?*
- *How many vacations do we take each year?*
- *How much did we spend on vacations last year?*
- *Are there less expensive vacation spots we can go to?*
- *Is there a special occasion coming next year that will require travel?*

Clothing

- *How much did we spend last year on clothes?*
- *Where do we shop for clothing?*
- *Can we find better deals on clothing?*
- *What hand-me-down opportunities do we have from cousins, friends or neighbors?*
- *Will anyone be getting a new job that will require a new wardrobe?*

Car Repairs and Maintenance

- *How many miles do I drive each year?*
- *How often do I have the oil changed?*
- *How old is my car?*
- *What maintenance is expected next year (30,000 mile service, new tires, etc.)?*
- *Will I be driving more or fewer miles next year?*
- *How much does each service item cost?*

Insurance

- *How often do we pay car insurance, life insurance, homeowners insurance, renters insurance, etc?*
- *How much do we pay for each?*
- *Will we be buying more insurance in the upcoming year?*
- *Will there be a new driver in the household?*
- *Will there be a new child in the household next year?*

Entertainment

- *How much do we spend on sports activities, music lessons, and school activities for our children?*
- *How often do we go out to eat?*
- *Can we find cheaper restaurants or cut back on how often we do this?*
- *What sports, hobbies, etc. do family members enjoy?*
- *What is the cost of each of these activities?*

BUDGETING STEPS

Step 1: Net Income

Your net income is also known as your "take-home" pay. It is the money you receive after taxes are taken out.

Step 2: The Expenses

Here is where you need to list all of your monthly expenses. If you have a weekly expense, multiply it by four and use that total. For any of your periodic expenses, estimate what you would spend in a year and divide that by twelve.

Step 3: Fill In Your Budget Sheet

Fill in each section of the budget sheet to determine if you have a surplus or deficit. If you have a surplus, pat yourself on the back and then promptly increase your "savings" allocation. If you have a deficit, try to determine some areas where you can reduce spending.

It is important to keep track of your expenses as they occur and balance your budget sheet as often as possible. At the end of each month, if your sheet has been maintained consistently, you'll be able to see if you were able to stick to your budget.

GreenPath Budgeting Tip #5

Do not include bonuses or overtime pay when determining your budget. You can't count on always receiving bonuses or overtime, so treat that income as a windfall to bolster savings.

Click here to download the GreenPath Budgeting Worksheet to make managing your budget easy.

IMPULSE SPENDING: THE BUDGET BUSTER

If your budget is Superman, then impulse spending is kryptonite. You probably already know that a new TV here or a new purse there will bust your budget immediately, but even small, miscellaneous purchases tend to add up over the course of a year. Believe it or not, a daily habit of purchasing coffee at the local coffee shop averages $1,092 per year.*

There's an old sports adage that states the best offense is a good defense. Here is your defensive playbook when it comes to impulse spending. Find out which play calls work best for you.

GreenPath Budgeting Tip #6

Pay off your credit card balances in full each month. Otherwise, you will have to pay interest on the unpaid balance. That means you'll owe even more than you initially spent!

Leave the Credit Cards at Home	**Go On Fewer Shopping Trips**
Paying with a credit card is too simple and convenient. It's also a great way to rack up debt if you can't pay off the entire balance.	Common sense would tell you that the less you go shopping, the less you'll spend. Common sense is right.
Keep Money in Savings	**Stop and Think**
If your money is in a savings account, it is much harder to access with the swipe of a debit or credit card.	Stop and think of what this purchase might be making you give up. Is it worth it?
Sleep On It	**Make a List**
Believe it or not, the item you are about to buy will be there tomorrow. There's no need to rush a major purchase.	We've said it before; making a list will greatly help reduce the amount of impulse purchases you make. Of course, you need to stick to that list.
Create Diversions	**Ask For Support**
If you're feeling the need to go shopping, figure out a distraction. Go for a run, watch TV, or balance your budget!	There's no shame in asking someone to help you with your impulse habits. Let them help with your self-control.
How Many Hours Does This Cost?	**Plan Before Purchasing**
Let's say you make $15 an hour. If the item is $120, then that means you'll need to work 8 hours to pay for it. Is it worth a full day's work?	If you have the impulse to buy an item such as a TV, stop for a moment and plan. Plan for how you can pay that bill.
Use Cash	**Don't Remove the Tags**
The swiping of a credit card is much easier than parting with cold hard cash. Paying with cash may make you think twice.	If you don't use the item within two weeks of buying it, return it. Clearly you didn't need it that bad.

*http://www.huffingtonpost.com/2012/01/20/american-workers-coffee-spending_n_1219579.html

LARGE PURCHASES And The Unknown

Now that you've come this far in this budgeting guide, you're a pro right? But what happens when there is a major life event, such as buying your first home, changing a job, or coping with being laid off. How do you plan for these events in your budget?

The truth is that you can't fully prepare for the unknown. But you can do your best to plan ahead and save diligently to ensure that you have money when you need it. Following are some tips for three major financial considerations: purchasing a home, coping with a job loss, and saving for retirement.

HOME IS WHERE THE HEART IS

Buying a home is probably the largest, most important purchase you will ever make. And budgeting for a home is more than simply saving for a down payment and allocating enough income for the mortgage. There are a lot of costs associated with a home that may come as a shock to first-time home buyers. These include expenses for appraisal, home inspection, legal fees, closing costs, home insurance, mortgage insurance, property taxes, post-purchase reserve funds, association fees and utilities. All of these applicable other expenses must be included in your budget.

Down Payment
The down payment is the amount the buyer pays up front, which reduces the amount financed. Check into non-traditional financing programs from FHA, USDA and Veterans Affairs. Also, look into financing requirements of different lenders.

Appraisal
An appraisal is required prior to closing to determine the market value of your home.

Home Inspection
It is a good idea to have the home inspected by a licensed professional, especially if it is not new construction. The inspector can tell you if there are any major issues with the home that you should know before buying it.

Legal Fees
Purchasing a home involves legal, contractual documents. Some people feel more comfortable asking an attorney to review the documents before signing them.

Closing Costs
Closing costs are required to transfer ownership of a home. They can include title insurance, loan origination fees, title search fees, etc.

GreenPath Budgeting Tip #7

Plan ahead and save for large purchases such as a house, home appliances or home repairs.

Home Insurance
Homeowner's insurance protects your home against damages, as well as personal injury and property damage.

Mortgage Insurance
If you put less than 20 percent down, you will be required to purchase private mortgage insurance (PMI), which protects the lender in case you can no longer make payments on the home.

Property Taxes
This is a critical expense. Each state, county and community has drastically different property tax structures. Be sure you know your specific property tax amount to determine your total monthly payment amount.

Post-Purchase Reserve Funds
The lender may want to ensure that you have reserve funds to pay for unforeseen repairs or protect against potential cash flow issues after the purchase. Even if the lender does not require reserve funds, it is a good idea to have 2-3 months of mortgage payments in reserve to give you peace of mind.

Homeowner's Association Fees
Homeowner's Association Fees (HOA) are not always required. HOA fees go toward things such as snow removal, trash pickup, clubhouse costs, and property maintenance.

Utilities
Utilities vary drastically based on your usage and the size of the home. Bills include things such as gas, electric, water and sewage.

NEW JOB OR LOSS OF JOB

Whether you are leaving your current job to pursue other opportunities or have just become a victim of job loss, preemptive planning is the best way to make the transition less stressful.

This is the “rainy day fund” that your parents probably preached to you about when you were growing up. If you haven’t already heeded their advice, it is time to do so. If that rainy day does strike, you won’t be caught outside without an umbrella.

Plan for this type of life event by creating an emergency savings fund that covers three months of expenses. And if you have been keeping a budget, you will know how much this is. Regardless of having this emergency fund or not, the following strategy will help you navigate your way through a job loss.

Review the Budget
Reviewing the budget is more than just taking a quick pass through it. You need to look at each individual line item and really analyze its importance.

There are a handful of bills that must be paid, such as mortgage/rent, utilities, and groceries. Separating the needs from the wants is the first step in breaking down your budget.

There are often plenty of items that can be either eliminated or reduced. For example, if your family dines out frequently, this may need to be cut back or eliminated completely. If you are not locked into a contract, consider cancelling your cable until you’ve established a new job.

> **GreenPath Budgeting Tip #8**
>
> Review your budget periodically. Life happens, and your financial situation can change quickly. So make sure your plan is current and accurate.

There are always areas where spending can be decreased. You just have to be willing to part with the non-essentials until your situation improves.

Review Your Finances
Without a steady paycheck coming in, it is important to identify all sources of potential income. Some sources of non-traditional income might include:

Unemployment Compensation: Apply for unemployment benefits immediately after losing your job. These benefits aren’t immediate. So the sooner you apply, the sooner you’ll receive them. They won’t fully supplement your lost income, but they will help to cover some expenses.

Savings: Even if you don’t have three months of expenses saved up, you can use the savings you have to supplement your income.

Severance: Many jobs offer some form of severance pay. This will vary from company to company and often depends on how long you were with that company.

Part Time Job/Freelance Work: Consider working a part-time job as you seek future full-time employment.

Spouse: If your spouse works or can get a job, this will help alleviate some of the financial burden.

Raising Cash: A job loss is the perfect opportunity to clean out your closets. Go through your old things and have a garage sale or sell your items online through eBay or Craigslist. You can also sell off any surplus assets, such as a second car, motorcycle, boat, etc.

Family Members: In times of trouble, families will often come to the aid of one another. Maybe you even have other family members living in your household that can help contribute to the household income.

Marketable Skills: Skills are often transferable to other jobs. You could potentially freelance or provide services to your network of individuals. For example, a graphic artist might design logos and artwork for local businesses.

Rent a Room: If you have an extra room in your house, renting out that room can provide added income.

Benefits: Apply for additional aid for which you may be eligible, such as Aid to Families with Dependent Children (AFDC).

Tax Refunds: Check with your tax advisor for any suggestions for increasing your take-home pay or tax refund.

Identifying all potential sources of income will benefit your budget in a big way. It may help you to entirely substitute your original budget, or at least cover your decreased expenses.

PLANNING FOR RETIREMENT

Retirement is not the end of your financial concerns. In fact, it may require you to cut back even more on spending.

So where will your fixed retirement income come from? How much will you be able to spend? That entirely depends on you.

Budgeting for retirement is often a difficult process. While it may sound grim, you don't know how many years of retirement you'll be able to enjoy. It is simply an unknown for which you need to plan.

GreenPath Budgeting Tip #9

The most important key to accumulating wealth over time is to spend less than you earn.

The best strategy is to start saving early. Thanks to compound interest, your savings fund will be exponentially larger the earlier you begin.

There are a number of ways to save for retirement. Regardless of which account types you choose, the most important thing is to budget and save money each month to go toward your retirement.

401k and 403b

These types of retirement accounts are simple, convenient, and offer tax savings that provide great value over time. They enable you to withdraw a non-taxed portion of your pay and put it toward retirement. The money is only taxed when it is withdrawn. These types of accounts are typically offered by employers.

Individual Retirement Account (IRA)

Similarly, traditional IRAs are tax deductible. Your earnings aren't taxed until they are withdrawn. The maximum amount you can place in an IRA each year is much less than a 401k or 403b account.

Roth IRA
Contributions to a Roth IRA are not tax deductible, but earnings and withdrawals are generally tax-free.

Annuities
Under an annuity contract, you make an up-front payment (or series of payments) in return for a guaranteed stream of income in the future.

There are many investment options for you to explore. Stocks, bonds, mutual funds and exchange mutual funds (ETFs) all offer a wide range of options and strategies depending on your personal preferences and risk tolerance. Conduct research online. Learn the pros and cons of each option. Your company may even offer resources. You may want to seek assistance from a professional advisor.

Here's An Example
We've already stated that the earlier you start, the more you'll end up with. This may seem like common sense, but let's look at an example to show just how much more it pays to start early.

Grace	Drew
• 65 years old	• 65 years old
• Began saving at age 40	• Began saving at age 25
• Saved $100 per month for 25 years	• Saved $100 per month for 40 years
• Saved $30,000	• Saved $48,000
• Grew to $90,906 *	• Grew to $322,129 *

*Totals assume $1,000 is deposited at the beginning of each year, earning annual interest of 8%.

THE END (BUT NOT FOR YOUR BUDGET)

Budgeting takes time and effort. The more dedicated you are to your budget, the more you'll see your savings rise and debt shrink. It is never too late to start a budget.

For some, the debt may seem insurmountable and a budget just doesn't seem feasible. In these situations, there are resources available to help you manage your debt and get your life financially back on track.

One of these resources is non-profit credit counseling. A good credit counseling company will be there to help you free of charge, regardless of your debt amount, and will not pass any personal judgments.

If you would like assistance in managing your expenses or getting out of debt, contact **GreenPath Debt Solutions at *800-550-1961.***

TAKE THE FIRST STEP