Completing Your
Budget Income Forms

Congratulations on taking the first step to building a sound financial plan: creating your budget. If you attended the Debt-Free Living seminar, this process will be familiar to you. If you haven't attended, we suggest you try to before you complete this budget exercise since it is designed to be a comprehensive project. A budget is truly the key to debt-free living, so we've made this process robust and all-inclusive for your financial benefit. Be ready to devote about an hour to complete your comprehensive budget.

Important Points:

- **Unexpected expenses vs future anticipated expenses.** While the phrase "unexpected expense" is used quite frequently, it is the reason many budgets fail. By viewing many of the purchases that find their way on credit as "unexpected" such as: car repairs, home maintenance, vacations, gifts, etc. many fail to plan and allocate adequate cash for them within their budgets—before they occur. Many people have grown accustomed to using credit to "bridge" such gaps within their budgets—that process produces debt. The phrase "unexpected expense" tends to propagate an incorrect view that such things are beyond our ability to manage and control—excusing one to use credit to cover them. Such expenses can be anticipated so we will call these "future anticipated expenses" instead.
- The goal of this exercise is to balance your take-home wages with fixed, discretionary expenses, and savings for future anticipated expenses. You have not completed your budget until your final balance reads $0. All monies taken in should be allocated to pay bills, discretionary spending and savings for future anticipated expenses, retirement, college, etc…
- Be sure to create a budget BEFORE you commit to large financial obligations such as homes and automobiles because your budget help you determine how much car and home you can afford.
- Be sure your budget addresses any future goals you might have that will greatly influence cash flow, such as children, college or caring for adult parents, BEFORE you commit to large financial obligations such as homes and automobiles.

Let's Get Started:

You may choose to develop two budgets: One that includes all income (overtime, second incomes and expiring income such as child support) and a second budget that would be implemented if you find yourself without that overtime, second income or expiring income. Because we can't predict the future, it's dangerous to develop a budget that assumes additional income will be there for extended periods of time.

Over time, it's wise to **slowly** develop a lifestyle that prepares you for *lower levels of income.* Many people buy houses based upon two incomes only to realize **later** they want children. Will that second income continue after children? If that's not likely, *base your budget and home purchase on just one income.* Instead, use that potentially ending second income to temporarily build a margin of safety into your budget (i.e. A savings for unexpected expenses, a child's college or your own retirement.)

This document will guide you through completing your excel budget sheets. The following information in orange, corresponds to the lines on your excel budget sheets. **Excel Column C** (Light Grey with **bold numbering**).

1-3 NET INCOME: All sources of income should be direct-deposited into your primary checking account. It is suggested that you do not have Check-Card Access to this account since it is for bill payments only. Or keep the Check-Card inaccessible.

Use your monthly take-home pay (net pay). If you're currently on overtime, try to develop a budget based upon straight-time. Save the difference.

Note: If taxes were owed last year, you may need to decrease your claimed exemptions. Check with your tax advisor. "Take-home pay" truly needs to be **net** take-home pay.

If you're self-employed and your take-home pay is not received on a set schedule, use your last two or three-year net income average. To determine that, add together the number of years you are using, divided by the number of months in those years (i.e., two year's total take-home pay divided by 24 months.) ***Note:*** *Those who are self-employed receiving income amounts that change or vary from week to week, may need direct assistance. Contact Charles Hoff Member Financial Educational Counselor for details at 313.322.8476*. Don't forget to include all your income: child support, a second job, etc. Any other source of income **if regularly received** may be added to the total.

4. TAKE-HOME PAY PER MONTH: This amount pre-fills; it totals items 1-3.

5. LESS PER MONTH Line 5 is the sum of lines 6-23 **<u>and monthly payments on the debts in column 2 (below line 24)</u>**

All line items associated with expenses should be broken down into monthly amounts. For example, if you pay a separate life insurance policy twice a year, add them together and divide by 12 months. Use that figure for your budgeted amount per month.

Now Let's List Your Monthly Obligations:

6. MORTGAGE/RENT: Your mortgage or rent payment goes here. The total owed on your Mortgage goes to the right on the line listed: BALANCE.

If your mortgage payment already includes your taxes and/or homeowners insurance, then you do not need to list these separately on lines 9 and 11. Be sure to include any Association dues or Condo fees if they apply, list (or combine) on line 9.

Tip: Before you plan on moving and increasing this fixed amount, take *the difference* in what you are *now paying* for rent or a mortgage payment and *what you expect you can afford and write a check to yourself—saving the difference.* You're assuming you can afford the bigger payment so you should not really miss the money. Allow six months, if you find you are having difficulty in managing your finances by saving this difference, then reconsider your intentions to increase your rent or mortgage obligation. You probably can't afford the larger payment.

7-8 GAS AND ELECTRIC: Gas and electric tend to fluctuate during the year. You may want to contact your utility company to find out what your monthly average is or simply add up your last 12 months total paid to each utility company and then divide by 12 months to get your average. If your utility bills are paid up to date, now is a good time to enroll in their "budget programs." They will let you know the amount you'll be billed each month. List those amounts on line 7. Always round up.

9. PROPERTY TAXES: When moving to a new home, many people fail to anticipate a possible increase in property taxes. Before you decide to move, be certain that you can afford an increased property tax bill.

10. WATER BILL: Take your last 12 months average and place that amount on line 9. Round up. Many are surprised to know they can set up auto-payment for their water bill as well as other utilities.

11. HOME/AUTO INSURANCE: If your homeowners insurance is not escrowed into your mortgage, add that amount divided by 12 months and add to your monthly auto insurance cost. If you have auto insurance through a DFCU Financial partner, you already know how much is needed in your Bill Account each month. If you have insurance through another institution, you may be paying every other month or once or twice a year. Determine how much you must set aside each month and list this on line 10 combined with your homeowners insurance if not escrowed.

12 CABLE/INTERNET/LAND LINE: Many people combine these services today. If yours are billed separately, add them together and determine the rounded-up average. Place that figure here on line 12. If your phone bill varies significantly from month-to-month, use a high bill amount and allow the difference to compensate for increases in utilities.

13. LICENSE TABS FOR AUTOS: This covers your yearly vehicle registrations for your automobiles. When the bill arrives, the money will be sitting in this Bill Account for you. **Consider other Professional Expenses/Licenses as well.** Perhaps your profession requires you to maintain a license. Will you need to cover these expenses? You might wish to combine similar expenses together and divide by 12 months placing that figure on line 12.

14. CHILD CARE: The cost associated with child care, day care, latchkey, etc., goes on line 13. This category is not to be confused with expenses associated with having a child. This line item is reserved strictly for fixed child-care expenses.

15. SECURITY SYSTEM: Some choose to maintain an in-home security system such as ADT. Any expenses associated with that would be placed on line 14.

16. CELL PHONES: As mentioned above under Cable/Net/Land Line, this amount may fluctuate so use a high bill and round up toallow for increases.

17. GYM/HEALTH CLUB OR Other Memberships: Do you belong to any clubs that charge a monthly or annual fee? Divide one-time annual fees by 12 to get the monthly cost.

18. DONATIONS: Any donations you make electronically or by check should be placed here. If you make cash donations on a weekly basis, for example, at church, then that allotted cash should be logged on line 47. See line 45 for details.

19. KIDS' COLLEGE: If you've met with a DFCU Financial Retirement Counselor, then you probably already have money deducted from your Bill Account to fund college. The amount deducted monthly goes on line 18.

OTHER?: Do you have a lawn service or a safe deposit yearly fee? Pumping out the septic tank? Recreational vehicle storage fees? **If you need more room then delete line items you're not using**. If the expense is paid out just once a year, divide the amount by 12 and place that amount on the suggested lines.

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20. AFTER NET PAY EXPENSES: This line defines the expenses on lines 21, 22 or 23.

Include monthly expenses on the following lines: 21, 22 or 23 ONLY if they are paid by you AFTER YOU RECEIVE YOUR NET TAKE-HOME PAY. If line items 21, 22 or 23 are paid before you receive your take-home pay and are deducted by your employer skip lines 21, 22 and 23 and proceed to LINE 24, "Fill Balances Below"

21. CHILD SUPPORT: If child support is deducted from your pay before you receive it, leave this blank.

22. MEDICAL INSURANCE: If you are self-employed and pay for your own coverage, include that expense here.

23. LIFE INSURANCE: If you have a policy outside of work, that yearly expense would be added and divided by 12. That monthly amount would go on line 23.

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24. Fill Balances below (2nd COLUMN) Here you have a place to list all your debts. Your second mortgage, auto payments, credit cards, personal loans, loans owed to family -- all are logged here. If you have a lot of credit cards and you run out of room, merge like cards (for example: all Discover cards or all Home Depot cards together) and their minimum payments together. **Your monthly payments should be placed to the left in the Brown column and your balances in the spaces marked "Balance."** **Balance** **Balance**

25. HOME MAINTENANCE: Home maintenance/furnishings are things inside the home like paint, carpeting, a new front door, furniture, rugs, towels, sheets, a new mattress, cooking utensils, a new washer or dryer. Outside the home, this would include lawn equipment, flowers in the spring, hoses, fertilizer, new windows a furnace, roof, etc. Though you may not have an immediate need for these items, eventually you will, which is why this is a future anticipated expense.

Please Remember: *The amount budgeted here won't be spent each month.* It's a *cash reserve* so that when the need does arrive, funds will be available and you won't have to use a credit card.

A rock bottom figure to save each month for **home maintenance should be 2% of the value of your home annually (value x 2% divided by 12 months = monthly amount that should be saved). Due to current lower home values use the amount that you paid for the home.** Apartment dwellers should begin saving $50 a month and adjust as appropriate. Keep in mind that this category should include everything it takes to run a home or apartment.

26. HOME IMPROVEMENTS: Home improvements are another category included on the Budget Income Form in case you wish to accelerate a savings program for a *specific* home improvement project. To save for a project that must be completed by a certain date, divide the total cost of the project by the months left until that project must be completed. The amount that must be saved each month goes on **line 26.**

27. AUTO MAINTENANCE--SAVING FOR NEXT AUTO: Aside from Home Maintenance, this will probably be one of your most expensive budgeted categories. Based on the mileage of your vehicle and type, plan to set aside **at least** the following rock bottom amounts:

- A new auto up to 50,000 miles, save $25 a month (or $300 a year).
- After 50,000 miles, save $50 a month (or $600 a year).
- Once your auto has 90,000 miles on it, auto repairs become more frequent. You should save a minimum of $75 a month (or $900 a year).

Remember: You won't spend this money each month. This is your cash reserve for this future anticipated expense.

What about the down payment for your next auto? (**SAVINGS NEXT AUTO**) Whether you will lease or buy your next vehicle, plan to set aside extra funds for the down payment. To do this, divide how much you typically spend on the up-front cost of a vehicle by the number of months left until you plan to get your next vehicle. Recreational vehicle expenses should also be listed here.

28. BIRTHDAYS, ANNIVERSARIES, MOTHER'S DAY, FATHER'S DAY, SHOWERS, GRADUATIONS, CHRISTMAS, VALENTINE'S DAY, HALLOWEEN COSTUMES AND GIFTS, etc…: Consider any family or friends for whom you buy gifts (mom, dad, in-laws, brothers, sisters, children and friends.) What about your children and their friend's birthday parties? Save for all occasions for which you might send flowers or gifts. Be realistic, add up what you're likely to spend, and then divide by 12 months. Many tend to underestimate what they spend in this category. Some find it helpful to go through the months of the year. Don't forget to allow for cards and wrapping paper.

29. EMERGENCY SAVINGS: Traditionally financial planners have recommended that we put aside three month's salary for a two-income family or six month's salary for a one-income family. Currently, advisors now suggest 6 to 8 months worth of bills. Doing this can greatly reduce stress in an emergency, such as the loss of a job.

30. CASH LEFT PER MONTH: Total amount left after subtracting lines 5, 25, 26, 27, 28, 29, from line 4.

(Flip to page 2 of the Excel "Income Form Page 2")

31. CARRYOVER CASH LEFT PER MONTH: Amount left from line 30 on page 1 "Income Form Page 1"

32. LESS PER MONTH: This is **the total of lines 33-47** and those in column 2 if used.

NOTE: THE FOLLOWING 33-47 WILL BE REPEATED ON INCOME FORM PAGE 3. Reason: If you have a two-person household, while one person may be primarily responsible for a particular expenditure, groceries for example—the other person may at times *also* stop at the grocery store to pick up bread and milk to help out. Be sure to allow for these overlapping expenditures.

33. GAS FOR CAR: Each of you, within your own individual "Spending Checking Accounts" will need to allow for fuel. Be sure to allow for increases at the pump.

34. GROCERIES: Who is responsible for grocery shopping? That person gets an allowance for grocery expenses. Sometimes the other partner will pick up dog food or milk at the request of the grocery shopper. If that occurs in your family, be sure to allow for those shared requests. Assign some cash in the other partners "Spending Checking Account."

35. LAUNDRY: Are you an apartment dweller? You might not have access to a washer or dryer so who will be responsible for money for the Laundromat?

36. DRY CLEANING: Who picks up the dry cleaning? One or both of you? Be sure to split the allotted cash between you. Maybe the husband picks up his own shirts. Make sure he has the cash in his spending envelope.

37. DINNERS/LUNCHES OUT: Here each of you will need some cash allowance, especially for the times when you eat out alone or with friends away from your partner.What about when you're together? Who usually picks up the bill? That person will need to manage that expense within their own personal Spending Checking Account and let the other partner know, "We've spent enough this week or month, I'm running low on cash in my checking envelope."

38. MONTHLY PRESCRIPTIONS: Do one or both of you pick up monthly prescriptions at the pharmacy? Be sure that person has the money allotted within their account.

39. MONTHLY HAIRCUTS: If you get your hair cut every six weeks, that is frequent enough to put the amount in your regular personal Spending Checking Account. (Allow for every 4 weeks.) Hair treatments that occur every several months (color, highlights) are considered "hair events" and should be saved for. Consider saving that cash in Special Savings #2 under topic "Hair events" on line 47.

40. KIDS' ALLOWANCE/SCHOOL LUNCHES: Who will be responsible for any money—allowance or school lunches--given to children on a weekly basis? That person should have that money designated for their personal Spending Checking Account.

41. CAR WASHES: Should you allow for a wash a week?

42. MONTHLY PET EXPENSES: Who will be responsible for dog food or cat litter on a monthly basis? That person should be given the cash allowance. Infrequent events such as Vet expenses or grooming should be saved for. Consider saving that cash in Special Savings #2 under "Pet Events" on line 48.

43. HEALTH AND BEAUTY AIDS: Toiletries**,** cosmetics, facial treatment supplies and hair cleansers can really add up.

44. ENTERTAINMENT: Each will need to consider this category individually and together.
Who usually pays for the kids and their fun?
Does one of you like to buy magazines or books? What about a newspaper subscription?
If it is **billed regularly, the expenses should have been placed within the Bill Account.** Consider placing newspaper subscription expenses on line 19. What about music CD's? Do one or both of you like to spend money on that? Going out to the movies? Concerts?

45. PARKING OR BUS FEES

46. CASH: Some people within their budgets like to allow for a "margin of safety" so they build in some additional cash just to be sure there will be enough. Others don't like to break down the items (lines 33-47) individually so they ballpark an amount they will allow for themselves and just call it **CASH**. That might work—just be sure you've balanced at the end. **Don't worry if you find after living with your designated cash within the Spending Checking Account for one or both of you that it's not enough. Just revisit and revise your budget.**

47: OTHER: As mentioned above on line 17, if donations are paid in cash then that amount needs to be placed in this section. Other expenses can be listed here as well.

48. MEDICAL EVENTS, DENTAL EVENTS, VISION EVENTS, GLASSES or CONTACTS: Do you have access to a flexible spending account through work? When you are reimbursed, be sure to put the reimbursementin this savings envelope to allow for increases in medical cost. Don't forget co-pays. How often do you or a family member go to the doctor in a year? What about mail-order prescriptions? (Your personal Spending Checking Account already allowed for the *monthly prescriptions*.)

Be sure to include the estimated cost for *each member* of the family for these events. Do you anticipate any dental work beyond what your insurance covers? Do you wear glasses or contacts? (Remember that people usually need a new vision prescription every two years. If this applies to you, divide the cost for vision by 24 months and use that number each month.) Add all of these up and divide by 12 to see how much needs to be set aside for Medical, Dental, Vision**. Remember:** There are limits to flexible spending accounts. Be sure to make up the cost for medical expenditures here.

49-50. HAIR/GROOMING EVENTS: What will you spend within a year for hair and nails? This expense should be placed within your own personal Spending Checking Account if you are having this done at least once a month.

49-50. PET EVENTS: Any special expenses for your pets, aside from food? What about the vet? Grooming? Boarding?

51. CLOTHING: (Some like their own individual separate savings envelope.) As you think about next year's clothing expenses for your children, spouse or yourself, think of what you'll need to spend each season and be realistic. Sometimes when we budget we tend to underestimate this area of spending and list less than we are, in fact, spending.

52. IRA FOR _____________ Today, each person is responsible for their own retirement. Defined benefit pensions are being eliminated and many companies are no longer offering matching contributions to help fund our retirement. Choose IRA's for the most flexibility. You can see a DFCU Financial Retirement Counselor to help you invest wisely by way of an IRA. Be sure to ask them what would be best for you -- a Regular IRA or a Roth IRA.

53. CASH LEFT PER MONTH: Total left after subtracting lines 32 (=sum total of lines 33-47), 48, 49, 50, 51, 52, from line 31.

(Flip to page 3 "Income Form Page 3")

54. CARRYOVER CASH LEFT PER MONTH: Amount left from line 53 on page 2 "Income Form Page 2"

55. LESS PER MONTH: This is **the sum total of lines 33-47 (Income Form Page 3) (Partner #2)**

33-47. REPEAT EXERCISE IF YOU HAVE A PARTNER. The other partner fills out their portion here on "Income Form Page 3." **If you don't have a partner, skip repeating lines 33-47. Go directly to lines 56 through 58** on Income Form Page 3.

56. VACATIONS: If you regularly plan one or two trips a year, or even just long weekends away from home, be sure to add all the associated expenses, such as flights, gas, auto rentals, lodging, spending money and divide by 12 months. That is the amount you need to save within your "trip fund" savings account titled Regular Savings #3.

57. SPORTS, LESSONS and KIDS EXTRACURRICULAR ACTIVITIES: Today many parents have to pay for their kids to play in school sports. What about lessons? If this is paid out once a year, it needs to be saved in an envelope. If it is paid out monthly, then you need to put it in your monthly Bill Account. Include the cost of equipment.

58. EDUCATIONAL EXPENSES: Do you plan on taking any classes within the next 12 months? 24 months? Why not set aside an amount each month so you won't be forced to lean on credit? What about books? If you were wondering about funding your children's college at some point that should be deducted from your bill account. (See line 18.) If you're ready for that now, see a DFCU Financial Advisor.

59. IRA FOR _____________ The other partner fills out their portion here.

60. CASH LEFT PER MONTH: Any left? ☺ If you have any debt on "Income Form Page 1" don't be surprised if you're running negative on cash by line 60.

Congratulations! You've completed your Budget Forms!

What to do if your income ***does not cover*** your expenses:

Begin by saving a copy of your budget to your hard drive. Title it: ORIGINAL BUDGET INCOME FORMS. (You will want a copy of your original to recall where you started.) Then make another copy of it and begin to make adjustments.

At this point, you must seriously consider where your hard-earned money is going. Try to remain open minded when exploring areas to cut back. Keep in mind your long-term goal is to get out of debt and to *eventually position yourself to be able to live on less cash per month while not feeling strapped*. To accomplish that, you may have to sacrifice what *your income dictates to be luxuries at this time.* Remember, such sacrifices don't have to be permanent. At some point in the future, you may be able to once again enjoy some of the things **you are choosing** to sacrifice today in order to obtain a less stressful financial situation.

Start by making adjustments in more flexible areas of discretionary spending such as: Gifts, Entertainment, Dinners or Lunches out. Ask yourself questions such as: "Could I reduce my phone expenses? Do I really need that comprehensivecell phone plan? Could I skip a few vacations until my debt has been reduced--freeing up cash to pay some debts off?" Maybe the only adjustments you have to make are less expensive or shorter vacations.

For other expense reduction suggestions, please refer to **"Tips on How to Save Cash within My Budget."** This is located on our Web site, www.dfcufinancial.com and regularly updated. It's important to stay open minded and consider adjustments that could help you reduce expenses.

What to do if the shortfalls are quite large:

Often, by the time we realize that the only way to avoid debt is to anticipate future expenses, debt is already a part of our life. The first challenge many complain of when they are buried in debt is that they have little or no money to save. How does a person dig themselves out?
To begin, look over "Income Form Page 1." You'll need to prioritize your expenses. These should be the least flexible of all expenses but you can still try the following:

- Call your phone company to see if you can obtain cheaper service.
- Enroll in the Budget Programs your utility companies offer.
- Do you really need all those cable channels? Most cable companies offer a "stripped down" version of cable that provides fewer channels. They usually don't advertise the package so you'll have to ask for the one that "is just for TV reception."
- Cell Phones? Does the whole family really need them? Maybe there is not enough cash-flow to save for college for the kids at this time. Sometimes the best that can be done for the kids is to provide them with a debt-free parent that can help them out with school loans when they are

ready to go to school. Remember: Kids can always borrow for school, you can't borrow for retirement—be sure you have your priorities straight.

- Consider having adult children pay room and board at home to plug financial gaps.
- Do you have a room you could rent? You'd be surprised how many families are renting out rooms during these economically challenging times. Be sure to check out the web site www.mrlandlord.com/. for guidance. It beats losing your home.
- What about getting a second job? Could you share expenses with a roommate? Or temporarily move to less expensive housing with a friend or family member?

Please remember that your Bill Account is already committed. It is money already spent no matter how you look at it. ***Once it has been determined there is no further flexibility within the Bill Account, never consider taping into this account for emergencies***. We recommend no Check-Card access to this account—this account should never have within it cash available for spending on anything discretionary. This primary checking "Bill Account" has assigned within it all your serious expenses.

As a counselor, I'm encouraged **if your household income (Line 4) covers the totals of Lines 5, 32, and 55** that say's you have enough to cover your bills and your weekly expenditures. If your income covered these lines (5, 32, and 55) *before you began to cut* the fat from your budget there should be room to save for future anticipated expenses.

If all attempts to reduce expenses have still left you short, take several of the savings envelopes to $0 (Start with Lines 26, 28, 51, 56 57) If you do that, are you balanced? If not, (reduce lines 25 and 27 try to reduce 49, 50.)

If you now balance – wonderful ! You can now begin implementing your budget (see page 10).

So now that you're balanced, you wonder:
"What about the savings envelopes or accounts?" "How am I going to avoid the creation of new debt if I have nothing to save for car repairs, gifts, home maintenance or clothing?" "Will I ever get to go on a vacation?"

You can use tax returns, bonuses, or income from second jobs to **fund these accounts once a year-** ***be sure to make that money last for 12 months.*** That is the best solution until you pay down debt, which will allow for a larger cash flow to fund those savings envelopes in the future.

For example: you might take on a second job at the mall just to pay for Christmas and quit the job after February. **Your goal is to not create any new debt while you're paying down your existing debt.** Or, maybe that second job will pay for a vacation. If at all possible, use second jobs to fund "fun stuff." Hopefully you were able to balance your income from your primary job to pay your bills, save for future expenses and fund your retirement.

WHAT TO DO IF YOU HAVE MONEY LEFT OVER IN YOUR BUDGET:

If you have money left over, you are living below your income, which is good news. You have the greatest flexibility to make sound decisions regarding your future financial well-being. However, you'll need to put that money somewhere. Here are some options for you to consider with the extra money:

- Increase your contribution toward your self-funded retirement accounts
- Pay down your principle on your home, thereby preparing yourself for potential future financially challenging situations, such as: higher taxes, lower wages, and inflation
- Set up an auto-deduction from your checking for your kids college account or into a Roth IRA account. You can contact a DFCU Financial Retirement Counselor for help with this
- Open up your own IRA

Tip: Anticipate Changes
Right now your budget may balance—only to fall apart once life changes take place. Why? Often it can be traced to the fact that many people fail to anticipate financial drains <u>well enough in advance</u> to prepare. **For example:** Someone may purchase a home based upon two incomes, they maintain a balanced budget until that child comes along. They failed to anticipate day care expenses. They soon learn that day care can cost $240 a week or $960 a month. They are now forced to come to terms that it makes more financial sense for one spouse to stay home with the child because the second income doesn't justify having that child care expense. <u>That reduced income and extra expenditure associated with that child, now force a leaning on credit to extend purchasing power</u> all resulting in debt and a failed budget. All being traced back to the fact they failed to anticipate future goals well enough in advance to prepare financially for them.

Implementing Your Budget in Four Easy Steps:

Step 1: Begin by saving a copy of your budget to your hard drive. Title it: ORIGINAL BUDGET INCOME FORMS." (You will want a copy of your original to recall where you started.) Then make another copy of it and begin to make adjustments within if needed.

Step 2: Contact all your creditors and ask them to mail you their "auto payment form" so you can set up auto payments on all your bills ***<u>from your primary checking account</u>***. (If you're already using On-Line Bill Pay, that works.) It will no longer matter when the bills are due because the money is always left available in your Bill Account. Your lack of check-card access on this account keeps you from using already committed money.

Tip: If you're accustomed to paying a charge in full each month it's suggested you still set up auto-payment for *at least the minimum payment due*. Doing so will help protect you from a possible late charge. How? What if your payment is lost in the mail or you go on vacation and forget to make the payment or it's misplaced on your desk at home? The minimum payment due will only activate if you forget to make your own payment. By having all credit cards and bills automated, you secure yourself from potential risk to your credit score. (For more information on how a late payment affects your credit score, attend DFCU's Financial Management Seminar Series: Debt-Free Living – Personal Money & Credit Management Seminar.)

Step 3:   If you have extra income, ***<u>allow four weeks</u>*** to go by to <u>test the amount allocated within your "spending accounts".</u> The amounts per month that you have designated for yourself may be too little. People tend to underestimate what they spend for dinner and lunches out, the amount of cash they're giving the children, even groceries.

VERIFYING YOUR BUDGET:

To verify your budget, each partner will need a blank check book register to track their expenditures over the next ***four weeks***. Important: **ONLY THE EXPENDITURES LISTED IN YOUR OWN PERSONAL SPENDING CHECKING ACCOUNT (lines 33 to 47)** are to be tracked and recorded within your checkbook ledger.

After four weeks, **each partner needs to look for their designated total** (Line 32 for Partner 1 and Line 55 for Partner 2). This is the amount you claim to spend per month for the expenses listed on lines 33 to 47 for each of you.

You will notice the amounts on Line 32 and 55 have already been divided by 4 weeks per month. That amount has pre-filled for you on *EXCEL LINE 75 AND 124.* FOUND ALONG EXCEL'S LEFT MARGIN. That is what you claim you spend each week on average.

Example: let's say you wish to begin your tracking on a Friday. You figure you spend a total of $700 per month (Line 32). That figure has been divided and on average it's estimated that you spend approximately $175 a week for such things as groceries, dinners out, etc. Let's say you go to Costco once a month and spend $200, you'll need to *carry over $50 a week to allow for* that expense once a month. In other words, you will need to manage your own personal Spending Checking Account. Many, instead of transferring weekly prefer a transfer twice a month. (1st and 15th of each month into their own personal spending account.

So how did you do after four weeks? Do you have any money left? If yes, great! Allocate it to savings. If you don't have any money left, how far off were you? You'll need to make the necessary adjustments perhaps allowing for more within your personal Spending Checking Account to keep yourself balanced or perhaps you'll need to do better at cutting discretionary expenses. You don't want to overdraft your personal Spending Checking Account.

Step 4: Meet with a DFCU Financial Member Relations Representative to open one (if single) or two (if you have a partner) different Spending Checking Accounts with check cards.

Once you receive those cards, let the representative know how much you wish to have transferred into each of the personal Spending Checking Accounts. Some people choose to have the transfer take place each Friday (others twice a month.) They then record the amount they know has been transferred into a checkbook ledger and begin their week (or 15 day period.)

How Will Your Personal Spending Checking Account and Other Special Savings Accounts (Nicknamed Accounts) be Funded?

Instead of having to regularly transfer specific amounts to specific accounts, the credit union can electronically have the amounts you predetermine transferred to those specific accounts-which can be nicknamed by you-so you won't have to remember the account numbers of each account. These nicknames will be listed on your statement or when you log into your member number.

Your DFCU Financial representative can assign the ***transfers to occur the end of the 2nd month after you've begun the budgeting program.*** (See **NOTE:** in box below.) Most people set up auto transfers for future anticipated expenses (savings) to transfer from the Bill Account at the end of each month.

NOTE: Auto transfers into Savings accounts for future anticipated expenses should be delayed by one or two months. This allows for a “cash buffer” to build within the bill account. All expenses have been broken down to monthly amounts but the payment of some of them may occur sooner then 12 months. (Example: a life insurance policy $1200 a year saving $100 a month yet payment is due in three months yet only $300 saved by the time the payment is due. Solution? A cash buffer allows for such events.

Currently you may live well below your income and see no reason to set up all these individual accounts. If so, why not challenge yourself to locate or isolate an area of spending that you tend to waste money on and establish an “electronic envelope” or savings just for that one expense? Many people find it helpful to save for such things as clothing or gifts and designate a savings envelope just for that.

YOU’RE DONE! CONGRATULATIONS ON TAKING THE FIRST MAJOR STEP TO LIVING A DEBT-FREE LIFE!

If you would like to have a phone consultation to clarify the budgeting process, please contact me:

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