

Learn To Budget Money A New Way

Contributed by Steve Gillman
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People usually want to learn to budget money only once they're in financial trouble. Their debts have piled up, their income doesn't seem to cover their bills and habits, and they are stressed out as a result. Does this sound familiar? If so, you probably need to learn the usual budgeting techniques - but don't skip the second part of this article.

Learn To Budget - Four Steps

1. Track every expenditure for two months, no matter how small. Create tracking categories that make sense (entertainment, utilities, etc). If you've never done this, you'll be surprised at how much money is spent in some areas. You might also find that as you watch the money going out on paper, you begin to change your habits. That tally for convenience store purchases motivates you to skip a soda or two, just so you don't have to write it down on your tracking form. That habit-changing effect makes this a good exercise to repeat every year or so.

2. Find ways to reduce each expenditure. I think this should come before you start making the actual budget. The idea is to get spending under control. Usually there is a way to cut the cost of most things and activities. Reduce the hot water heater temperature, combine trips to save gas, bring a lunch to work more often instead of eating out. Look for all the relatively painless ways first - like spending an hour to find a cheaper insurance policy. You may not need more drastic changes.

3. Based on your income and your expenditure tracking exercise, create a monthly budget. You might decide you need \$200 per month for groceries, \$200 per month for paying down credit cards, \$100 for the retirement account, and so on. Be sure that the totals add up to a bit less than your income, just to be safe. Large and unpredictable items need to be accounted for too. For example, you don't know when a car repair will be necessary, but you do know such things happen. Carefully add up the amount you spent on your car over the last two years and divide by twenty-four to get a monthly figure.

4. Set up systems for following your budget and tracking expenditures. For expenditures that are hard to track, like convenience store stops, put the allocated money in an envelope at the beginning of the month and when it is gone, you are done until the next month. For car expenses (repairs, insurance, payments, registration, etc), it may be best to set the money aside in a separate bank account, so it can accumulate until needed. Do the same for medical expenses, and have an account or envelope for "completely unexpected" things.

Value Based Budgeting

It is good to learn to budget money to stay out of trouble. But there is another approach that begins with asking why you are making money. Of course you need it to survive, and you can still do all of the above to help with that, but the idea here is that you don't manage your money just for survival. Money is a powerful tool that can serve you in your pursuit of what is important and valuable.

This approach starts with identifying your values, and setting reasonable goals based on them. If you value travel, for example, you might make it a goal to take a major trip around the world every three years. If you value self-development and peace of mind, you might plan to buy good books and courses several times per year. Whatever you truly value, set

a goal for it and put a price on it. Determine how much you'll need to set aside each month to accomplish these goals.

Start setting that money aside this week - before you do the two-month tracking exercise and before you create a budget. The rest of the budget will then be worked around these important goals - one way or another. If you start by figuring how much you need for the "necessities" of life, it is very possible that there will be no money left over for what is truly important to you.

What if the rest of the budget doesn't seem to work after you set aside this "goal" money? Find ways to cut expenses and/or make more money. Just consider how much less money some people live on, and if these things are truly important to you, live that way for a while. Learn to budget money for what matters most, and if it truly is valuable, you'll find a way to make the rest of the budget work.

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