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Establishing A **Budget**



**Do you ever wonder
where your money
goes each month?**

If so, you may want to establish a budget to help you keep track of how you spend your money and help you reach your financial goals.

Establishing A
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Before you establish a budget, you should examine your short-term goals. Start by making a list of your short-term goals (e.g. new car, vacation) and your long-term goals (e.g. your child's college education, retirement). Next, ask yourself: How important is it for me to achieve this goal? How much will I need to save.

Armed with a clear picture of your goals, you can work toward establishing a budget that can help you reach them.

Identify current monthly income and expenses.

To develop a budget that is appropriate for your lifestyle, you'll need to identify your current monthly income and expenses. You can jot the information down with a pen and paper, or you can use one of the many software programs available that are designed specifically for this purpose.





Add up all of your income

In addition to your regular salary and wages, be sure to include other types of income, such as dividends, interest, and child support. Next, add up all of your expenses. To see where you have a choice in your spending, it helps to divide them into two categories: fixed expenses (e.g., housing, food, clothing, transportation) and discretionary expenses (e.g., entertainment, vacations, hobbies).

Review out-of-pattern expenses

You'll also want to make sure that you have identified any out-of-pattern expenses, such as holiday gifts, car maintenance, home repair, and so on. To make sure that you're not forgetting anything, it may help to look through canceled checks, credit card bills, and other receipts from the past year.





Treat goals as expenses

Finally, as you list your expenses, it is important to remember your financial goals. Whenever possible, treat your goals as expenses and contribute toward them regularly.

If income is greater than expenses, you're on the right track, and you need to look at how well you use your extra income.

Evaluate your budget

Once you've added up all of your income and expenses, compare the two totals. To get ahead, you should be spending less than you earn.





Off the tracks

If you find yourself spending more than you earn, you'll need to make some adjustments. Look at your expenses closely and cut down on your discretionary spending. And remember, if you do find yourself coming up short, don't worry! All it will take is some determination and a little self-discipline, and you'll eventually get it right.

Monitor your budget

You'll need to monitor your budget periodically and make changes when necessary. But keep in mind that you don't have to keep track of every penny.



Monthly Housework			
Monthly Income		Expected	Actual
Paycheck #1		\$ 4,200.00	\$ 4,200.00
Paycheck #2		\$ 4,400.00	\$ 4,500.00
Dividends		\$ 400.00	\$ 400.00
Other Income		\$ 150.00	\$ 200.00
Total			
Monthly Expenses			
		Projected cost	Actual
Savings		\$ 350.00	\$ 350.00
Mortgage/Rent		\$ 780.00	\$ 780.00
Utilities		\$ 291.00	\$ 291.00
Insurance		\$ 100.00	\$ 100.00
Loans		\$ 100.00	\$ 100.00
Gas		\$ 100.00	\$ 100.00

Be flexible

In fact, the less record keeping you have to do, the easier it will be to stick to your budget. Above all, be flexible. Any budget that is too rigid is likely to fail. So be prepared for the unexpected (e.g., leaky roof, failed car transmission).



Tips to help you stay on track

- Involve the entire family: Agree on a budget up front and meet regularly to check your progress
- Stay disciplined: Try to make budgeting a part of your daily routine
- Start your new budget at a time when it will be easy to follow and stick with the plan (e.g., the beginning of the year, as opposed to right before the holidays)
- Find a budgeting system that fits your needs (e.g., budgeting software)
- Distinguish between expenses that are “wants” (e.g., designer shoes) and expenses that are “needs” (e.g., groceries)
- Build rewards into your budget (e.g., eat out every other week)
- Avoid using credit cards to pay for everyday expenses: It may seem like you’re spending less, but your credit card debt will continue to increase

Final Thoughts

Budgeting is one of the most important financial habits you can adopt. Between helping you achieve your financial goals, keeping you from getting financially overwhelmed, and even helping you avoid or get out of debt, there are so many reasons to live on a budget. The real question is, why wouldn't you?



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