

Creating a household budget

Statistics tell us that the biggest reason for divorce and the leading cause of household stress is money. Yet most people don't have a system for knowing where their money goes once it comes in the door.

Keeping track of spending — so you can understand your habits and spend more wisely — is the most important reason why you should create a household budget.

This infosheet is a starting place for those creating a household budget for the first time. It is based on the same principles of many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting you may want to consider.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Identify the difference between what you earn and what you spend.

- Create a budget to
 - get your spending in line with your earnings
 - change your spending habits to reflect your goals

Five steps to personal financial knowledge

After you collect the information suggested here, you may use a ledger, a spreadsheet, or a personal finance program to create your budget.

Know what you earn. List your take-home income. Any income you received in the past year that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, Social Security payments, pensions, royalties, child support payments, or any other regular predictable income. Gifts or bonuses may be included, but only if you are certain that they will be paid in the coming year.

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Key point

Emergency fund. Most financial experts recommend that you have six months of expenses set aside in case you are disabled or laid off.

You don't need to create an emergency fund all at once or panic if you don't have one in place. But you should designate an account that

will serve as an emergency fund and begin to put money in it. Even if you only budget \$10 per month, it's a good way to start.

By the numbers

- **6 months** is the number of months' expenses an emergency fund should cover.
- Your **401(k)** is a good place to put surplus income.
- **Once** a year is when you should review your budget to see if you need to make any significant changes.

Make sure you deduct all applicable taxes and pre-paycheck contributions so your income total represents money you actually have to spend.

Know where you spend it. Create a monthly list of your expenses. Start with your essentials — shelter, food, clothing — and then move on to those expenses over which you have the most discretion.

Hint: Credit card bills and bank statements are great places to start creat-

ing a budget, especially if you use these cards predictably.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it's easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.

If you buy groceries at Food Mart, beauty supplies at Beauty Mart, and

visit Wholesale Mart once per month for items that you buy in bulk, these can all be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by twelve, or spread quarterly payments out over a year. The following list is a suggested starting point for collecting your expenses.

Housing

- Mortgage payment
- Rent payment
- Line of credit payments
- Other home loan payments
- Home/rental insurance
- Real estate taxes (if paid separately from your mortgage)
- Condo fees
- Home improvement expenses
- Landscaping expenses
- Other municipal fees or expenses (landscaping, trash removal, etc.)
- Home decorating expenses

Utilities

- Electricity
- Heating
- Water/sewer
- Telephone
- Cell phone
- Internet access
- Long distance telephone
- Cable TV

Household consumables

- Groceries
- Take-out food
- Health products and medicines
- Cleaning products
- Beauty aids
- Dry cleaning
- Transportation**
- Car payments
- Car insurance
- Car maintenance
- Gas
- Rental cars
- Public transportation
- Commuting costs
- Predictable travel expenses (for annual family trips, vacations, etc.)

Essentials

- Medical plan fees and/or expenses
- Dental plan fees and/or expenses
- Vision plan fees and/or expenses
- Hair care
- Pension contributions
- Savings contributions
- Mutual fund account contributions
- Investment account contributions
- Emergency fund (See first page for special information on keeping an emergency fund.)
- Entertainment**
- Dinners out
- Club memberships
- Movie and theatre tickets
- Video rentals
- Tickets to sporting events
- Vacation expenses

Child care

- Daycare
- Tuition
- Music lessons
- Babysitters
- Birthday party gifts
- Student loans
- School pictures
- School activity fees
- 529 savings plan contributions

Other

- Charitable donations
- Gift expenses for:
 - Birthdays
 - Holidays
 - Graduations
 - Showers, weddings, etc.
- Hobby expenses

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Separate essential from nonessential expenses. Before you compare your income with your expenses, use a highlighter and quickly separate your list into items you consider essential and those you consider to be nonessential. This quick step will be helpful when you are looking for places to trim expenses.

Identify the difference between what you earn and what you spend. Add up your monthly expenses and compare it to your monthly income.

If your expenses are greater than your income, it's time to get serious. Next to the line where you recorded last year's expense, make a new column for your current year budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you should take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of where you can get expenses in line with your income.

If your expenses are below your income, you will want to make sure that your emergency fund, investments, IRAs, 401(k)/retirement accounts, and 529 accounts are properly funded before you plan a party. You should also look at nonessential items and cut where you can to provide for these other accounts. You may also want to build in an inflationary increase in certain items.

Resources

Personal finance programs such as Quicken® and Microsoft® Money® have personal budget modules available. There are also many personal budget planners available online.

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