friend or skipping the beverage and dessert. You shouldn't ever have to cut something entirely out of your budget—especially if it is important to you. Just reign it in a little bit.

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When you're keeping track of your money closely, you should know what you can and can't afford in a given month. Let's say you fall in love with a pair of $150 shoes, but you only have $50 left in the bank. Instead of putting them on your credit card, wait a month or two to see if they go on sale. Even once the store stops carrying them, you can often find deals online for the exact same shoes for a lot less. Simply resisting the temptation to buy in the moment will ensure you're not falling into the bad habit of impulse shopping.

Splurging Should Be Occasional

Splurging every once in a while is OK, but beware of splurging on top of splurging. You decide to surprise your kids with a big vacation to Disney World for Christmas. If this is already a financial stretch for you, resist the temptation to also buy everyone a new wardrobe for the trip. You don't really need Mickey Mouse pajamas, hats, shirts, jackets and underwear in order to have a fun time. Also, plan ahead and spread out those big expenses. Buy your plane tickets in August; book your hotels in September.

BUDGETING 101
Tips to Manage Your Financial Stress and Start Saving Now

Accumulating wealth literally means spending less than you make so you have some money left over for saving and investing. Accumulating wealth isn't necessarily tied to making a huge salary. Even millionaires, celebrities and professional sports figures have had to declare bankruptcy due to financial distress.

Living paycheck to paycheck can happen to anyone. If you don't have a budget, it is easy to spend more money than you make. You get paid and you're feeling good. But before you know it, you're checking your account is empty and you still have bills to pay and things you need to buy. This is called "living above your means." This behavior often leads to credit card debt, payday loans or having to borrow money from friends and family to pay your bills.

No doubt financial problems originate with divorce, major health issues, layoffs and other traumatic life events. But all too often, people are living in debt (or paycheck to paycheck) because they are simply living a lifestyle they cannot afford.

Living within your means is spending money only on things you can actually afford.

If you are deep in debt and financial crisis, you may need to make some significant spending cuts to get things under control. But for most people, living within your means doesn't have to be agonizing. And it doesn't necessarily have to mean cutting back significantly.

Moderation is Key

There are many smaller lifestyle changes you can make that will add up over time. If eating out at nice restaurants is one of your life's passions, that's great. You don't need to stop eating out altogether to live within your means. Determine how often you have been eating out (and how much money you have been spending at restaurants), and then eat out a little less frequently or at less expensive restaurants. Or considering ordering less by sharing a dish with a kids' expectations ahead of time about how many souvenirs and special treats you can afford so they won't be constantly asking for things. Make a reasonable budget for the trip and stick with it.

Identify Problem Areas

Identify areas of wasteful spending and areas where it's easy for you to overspend. If you know you can't resist buying the latest electronic gadget or accessory, create a monthly spending allowance and put that money into an envelope with cash or a separate account. Then limit yourself to spending only that money. Using cash for your expenses can be a great way to control your spending. The envelope system has been around for a while, and you can use this technique for all your expenses or just the areas causing you problems.

Know What You Can Afford

The most essential element of living within your means is knowing what kind of lifestyle you can and can not afford. In the next section, you will learn how to make a budget, which is the key to understanding your money and planning for the future.
Introduction

Whether you work at Walmart or on Wallstreet, saving money can be hard. In America's consumer-driven lifestyle, spending as much money as you make comes with the territory. Spending more than you make and racking up thousands of dollars in credit card debt is practically a rite of passage.

Debt pervades our society, while saving money remains an elusive dream for most people. The average American household lugs around $16,061 in credit card debt. A recent survey found about 63% of Americans don't have money in savings for major unexpected expenses. And when it comes to surviving a truly crippling financial hardship like job loss or disability, less than half of those surveyed said they had enough in the bank to cover 3 months of major expenses.

Saving money and getting ahead isn't easy, but it is possible. That's why you're here, reading this. You're tired of losing sleep wondering whether you can pay your bills. You're sick of having the same fight over and over with your partner about money. You want to have a financial cushion so you're not so stressed about life's “what ifs.” You are ready to take control of your money and your life. Congratulations. You've taken the first step.

In this Budgeting 101 Toolkit, we will explore various budgeting concepts and give you tools to actually create your first budget. Once you have a budget in place, you can begin saving money. Even if you start small with just the loose change in your pocket—the most important thing is that you start.
Living Within Your Means

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“Don't tell me what you value, show me your budget, and I'll tell you what you value.”

― Joe Biden

Former U.S. vice president
How to Make a Budget

The most important step in turning your personal finances around is creating a budget. A budget, also called a spending plan, is an itemized summary of estimated income and expenses for a given period of time. In this ebook, we'll be talking about creating a monthly budget, but you can also set up an annual budget, a 5-year budget or even a daily budget if you want to get detailed.

On the most basic level, a budget tracks money coming in (income) and money going out (expenses). A budget sets a cap on your spending based on your income for that month. To have a balanced budget, your expenses should be equal to your income. To have a surplus, you need to spend less than your income.

Your budget can be as fancy and high tech or simple as you like. Many people like to use an Excel or Google spreadsheet. Others enjoy using computer software like Mint or a smartphone app. A handwritten, itemized chart on a piece of paper will also do nicely.

In this section, we'll be covering how to:
1. Understand Types of Expenses
2. Track Your Expenses
3. Total Your Income
4. Set Realistic Goals & Stick to Them
5. Review and Revise as Needed
Understand Different Types of Expenses

Many budgeting experts talk about separating your “needs” versus your “wants.” However, distinguishing between the two is not always as easy as it sounds. For example, when asked if housing is a need or a want, most would say it is a need. It’s true—people need shelter. However, within your housing options, you could choose to rent a basic studio apartment at $450/month or a luxury studio apartment in a hip downtown neighborhood for $1500/month. Big difference.

Depending on your circumstances and priorities, many of your expenses could fall into multiple categories below. It isn’t totally necessary that you decide which item goes into which category. Rather, it is important for you to account for everything and determine what things you are willing to sacrifice or adjust and what is a truly a required expense.

Fixed Expenses

Fixed expenses are items you must pay each month, and they are typically the same amount every month. Your rent or mortgage is an example of a fixed expense. You do have control over these costs when you are making the initial decision or purchase, but once you have a contractual obligation to pay these bills, they must be paid. You should enter your fixed expenses into your budget spreadsheet first, as they are predictable amounts and required.

Flexible Expenses

Flexible expenses are costs that change month to month depending on your choices. For example, your electric bill could cost more or less depending on whether it is summer or winter. Your grocery bill might vary each month depending on the amount of groceries you buy and what meals you are cooking that month. Flexible expenses should be averaged over the year to come up with a consistent monthly spending allowance.

Annual Expenses

Don’t forget to include annual expenses in the monthly budget. Annual expenses might include things like insurance, annual doctor’s appointment or summer camps for children.

Expenses that are paid once a year can be divided by 12 to get a monthly amount. This way you are budgeting for the one-time expense over time even though you aren’t actually paying every month.

One-Time Expenses

Given the nature of one-time expenses, it is easy to forget to figure in these costs into your monthly budget. One-time expenses include large expenses like buying a new couch or small costs like buying a new litterbox for your cat Mittens. Whether they are big or small, you need to figure these into your budget.

Discretionary Expenses

This is the closest thing we have to a “wants” category. Discretionary expenses could be fixed (i.e. your Netflix subscription), flexible (i.e. dining out), or one-time (i.e. a gift for your sister's baby shower).

If you don’t know how much you should budget a month for these items, just take your best guess. Often discretionary spending categories are the last things you will add to the budget. You will adjust them based on what you can afford once you have paid for all your required bills and other more pressing items.

Savings & Retirement

Do you dream of someday owning a 3-bedroom home with a walk-in closet? Maybe you've been wanting to go back to college for a degree in computer science. Or perhaps you regularly fantasize about retiring on the unspoiled beaches of Costa Rica.

You might be wondering how a person in your position is ever going to afford something like that. The answer is: put it in the budget!

While “savings” and “retirement” aren’t exactly monthly expenses per se, make sure you figure some money for both into your monthly budget. If you can afford only $5 a month, start there.

There is a lot to know about saving for retirement
beyond the scope of this ebook. Many workplaces contribute to employees’ 401k retirement savings. If your work does this, check with your boss or human resources department to learn more about how you can maximize your own contributions. If you don’t have a retirement account, talking with a trusted friend or family member is a good place to start to learn more. Before you actually begin investing your retirement savings, talk to a professional financial advisor.

In the meantime, set up an automatic transfer from your checking account into your savings account every month to start socking away for your dreams.

Create a Spreadsheet

Now that you understand more about the type of expenses you have, it’s time to write it all down. Feel free to create your own chart on a lined piece of paper or use a smartphone budgeting app.

Or use the handy budget spreadsheet from SafetyNet™ that came with this download to get started. We’ve done a lot of the legwork to make this easier. Our spreadsheet will even do the math for you! Customize the spreadsheet as needed by deleting categories that don’t apply and adding in your own expense items or income sources.

Divide your expenses into categories such as “home” or “entertainment” so it is easy to find each item and understand where your money is going. Under these categories, write down each individual expense as a line item (i.e. rent, pet food, gas). This spreadsheet is just to give you ideas, but your budget can have as much or little detail as you want. You can have a category for gifts or you can break that down to birthday gifts, wedding gifts, shower gifts, etc.

Total Your Income

Figure out your monthly income or take-home pay. Your take-home pay is the amount on your paycheck that you get to keep after taxes and deductions (not your salary or a multiple of your hourly rate).

If you get weekly paychecks, you’ll want to add up all 4 paychecks to figure out your monthly income. If the

Talking to Your Partner about Money

Creating a budget can be a great way to start a conversation with your partner about money.

It’s important when creating a budget to exercise patience and compassion toward yourself and your partner. Having a calm, honest conversation is more productive than arguing. Resist blaming yourself or each other. Try to focus on the future, and don’t get mired down in the past. Having a budget will help everyone become more accountable with spending.

Together, you can identify your priorities, values and goals and determine how you should be spending your money. At first, it could be a bit stress-inducing to track your money. Sometimes you’ll be surprised to learn where your money is really going. You might find out you spent $78 last month on vending machine snacks at work. You might discover you having been paying for a gym membership you thought you canceled a year ago.

But this is why tracking your spending is so important. You may be able to eliminate wasteful spending or find more affordable alternatives. Once you get over the initial discomfort, having a budget is a much less stressful way to live. It allows you to pay your bills, predict your expenses and know how much money you’ll have in the bank at the end of the month. And best of all, you can start saving money and working toward your financial goals.
amount you make each month varies, figure the monthly average based on your last year’s income.

Remember, income isn’t limited to your paycheck or wages from your job. It also might include things such as:

• Child support or alimony;
• Dividends or interest from investments;
• Social Security payments;
• Gifts or trusts.

Track Your Expenses
The best way to know how much you will spend in the future is to look at how much you have spent in the past. Before making your budget, you will need to track and write down your past expenses.

Download your credit card statement. Print your bank transactions. Put together a list of all your spending. You can use the extra columns in the spreadsheet for this. If you use cash for a lot of your expenses, you may need to carry around a pad and paper with you or download an app to help you track expenses.

Look back through an entire year of statements to make sure you remember to include those one-time expenses and annual fees.

Total Your Expenses
Now based on what you discovered in your spending tracking exercise, allocate money in your spreadsheet for each individual expense. Start with the fixed expenses you have to pay. Those numbers don’t change and aren’t negotiable. Then add in your other expenses and total them up.

Balance the Budget
Subtract the total expenses from the total income to determine how much over or under budget you are. Adjust as needed until you have a balanced budget (or even a surplus!)

A negative number means you’re spending more than you make. You’ll need to cut some costs. Adjust your flexible and discretionary spending until the budget is balanced. Remember, the point of a budget is to help you live within your means. The budget isn’t going to
help if you make $2000/month and your budget shows you spending $2500/month. That would put your balance at -$500 (debt territory).

If you are struggling to make your expenses fit within your income, you might need to consider some more drastic measures.

To control costs of large expenses, consider the following adjustments:

- Move to a cheaper place;
- Get a roommate or rent your space out;
- Trade in your car for a more affordable option;
- Take public transportation or car pool;
- Buy off-brand groceries or switch to a cheaper grocery store.

Or you may consider one of the following to increase your income:

- Get a part-time or short-term job;
- Ask for a raise;
- Look for a higher paying job;
- Work more hours;
- Sell some of your belongings.

Set Realistic Goals & Stick to Them

Make a realistic budget so you can actually stick to it. The first time you create a budget, some of it will be guesswork. You may think you can live on $200 a month in groceries but discover that isn't realistic.

Your budget should be a living, breathing document that you adjust and tweak constantly. To start, put in your best guesses, and then actually track your expenses to see how close or far off your estimates are.

When you actually follow your budget closely or end the month with a surplus, treat yourself to a little something special and celebrate the progress you've made. You deserve it!

Review and Revise

As your life changes, you may need to dramatically rework your budget.

A few examples of life events that will change your budget are the following:

- new job or loss of income;
- other change in income like inheritance or retirement;
- marriage or divorce;
- major health problems;
- new child;
- new pet;
- new home or living situation;
- new vehicle.

Records & Security

Stay Organized

Keep your budgeting records organized and stored in a safe place. Create folders or files for each month or year of financial statements. These can be folders on your computer or physical folders in a drawer or cabinet. Label them by date so you can quickly find what you are looking for.

Save Important Documents

Saving past electric bills, phone bills, receipts, etc. for 1 year is a good idea in case you need to reference or dispute them. After 1 year, shred or otherwise destroy anything you don't want to save.

Save your tax records for at least 3 years14. This might be necessary if you get audited. Plus, having past records will help you estimate your taxes for future years.

Secure Your Accounts

Make sure any passwords to online bank accounts, credit cards and other financial accounts are secure. Don't use the same password for every account. Avoid any words or numbers that would be easy to guess (i.e. your dog's name or your birthday). For optimum security, change your account passwords frequently.
Conclusion

Sticking to your budget isn't always easy, but remember, you're not alone. Consider creating a savings club with a friend or having a monthly money meeting with your family members to help you stay on track. There are many online tools and resources to help you in your journey to financial freedom. Don't forget to seek help from professionals when you need it.

Once you have a budget, your work isn't done. You need to actively tweak your budget and manage your finances on a regular basis. But you can feel good knowing you have taken the most important step toward gaining control of your financial future. Congratulations, you've made it this far!

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SafetyNet™ is a simple and inexpensive insurance plan that helps you pay your bills if your income disappears due to a covered layoff or disability. With plans as low as $5/month, our mission is to improve the financial well-being of millions of hardworking Americans by developing innovative financial solutions that help individuals manage unexpected cash flow, bill payment and savings challenges. Visit our website for more information, and follow us on Facebook and Twitter.