Budgeting for Your Future

A budget is an organized list of your sources of income and the money you spend on essentials like housing and food, fun things like dinner and a movie, and what you need to save for the future. Just as using a map to make sure you reach your destination, budgeting is a tool that helps you realize your financial goals. It can help you navigate those moments when you experience financial difficulties. You can take charge of your finances by setting financial goals, planning a budget, and sticking to it.

Saving is important for many reasons, including for unexpected expenses such as car repairs, medical emergencies, and possible unemployment, and for planned needs such as a vacation, college tuition, or retirement. A budget can also help you reduce your debt.

Collecting as much information as you can about your spending will allow you to prepare and plan. Keep monthly records of your spending so you'll spot places where you can save money. Know how much you can reasonably spend — and be realistic about it. Being disciplined to save a smaller amount of money on a regular basis is generally better than saving more money sporadically. Finally, rewarding yourself by spending a reasonable portion of money you have saved with the help of a budget is a good incentive to stick with your budget.

Here are some guidelines to keep in mind:

- What is your current income? Be sure to include all sources of income but only the money you're sure you'll receive. Don't forget to subtract taxes and other deductions.
- What are your monthly credit obligations? The amount you owe on credit cards, monthly car
 payment, student loans and other monthly payments should not exceed 10 to 15 percent of your
 take-home pay.
- What are your monthly rent or mortgage expenses? If your rent is more than 30 percent of income, it may be hard to afford a down payment on a house. Keeping mortgage payments (and other expenses of owning a home) to under 30 percent is also a good idea.
- What are your monthly credit and mortgage expenses? Total rent or mortgage payments plus
 your credit obligations should not exceed 35 to 45 percent of monthly income. Keeping these
 under 30 percent is a good goal, with 20 percent to housing and 10 percent to other credit
 obligations.

© Copyright 2006 American Bankers Association, 1120 Connecticut Ave NW, Washington, DC 20036. All rights reserved.

