Budgeting Basics

At the beginning of a new year, people have **goals and aspirations**, often to do with health and wellness. Saving money and budgeting are financial goals that also frequently top the list. You might think that they are one and the same – and they do often go together – but there are some subtle differences. Saving money involves just that, saving more money than one spends and putting it in a safe place to grow. Budgeting involves prioritizing and understanding where your money goes each month. It can help you save money, but also spend it more wisely. A budget is a plan that helps you save, spend, and share the money that comes into a household.

If you think that 2021 is a good year to give budgeting a shot, we have some tips for you.

Know How Much You Have to Spend

Track your expenses for a month or two before creating a budget so that you have a ballpark idea of how you spend your money. Compare those results with where you thought you were spending your money and review your habits to find out where you spend the most. Is it at the grocery store? Eating out? Your mortgage payment? Then look for what category of spending would be useful to bolster. Does your child need new clothes? Have you been struggling to pay the utility bills? With your goals in mind and your expenses known, you can decide how to allocate your funds and choose where to cut costs.

Most people have the same amount of income each month, so you know what your budget can support. Add up all sources of income, including your job, your spouse's job, and any BAH payments you may receive from the military. Remember to include periodic distributions, bonuses, or other sources of income such as retirement distributions or Social Security income. Once you add up all your income sources, you will know how much (and when) you can spend. You may have to reallocate funds to meet your budget plan. It will be a give and take. Cut the grocery bill to spend more on transportation. Stop the morning coffee run to put extra toward the mortgage. There is a balance to be made. Once you find it, write it down.

Put Needs Before Wants

Budget for your needs before your wants. Your needs are things that you cannot live without, that support your career, or that support a prudent financial plan. They include food, shelter, utilities, transportation, childcare, insurance, your emergency fund, and savings. Your wants are lower priority items such as fun outings, takeout from restaurants, and vacations. Be honest and be picky when determining your needs versus your wants. You *need* to pay for gas to get to work each day; you *want* to pay for a getaway in the mountains.

Your children may want the newest phones or latest gadgets when they come out, but life will get tougher for your family if you prioritize buying a luxury phone over paying a utility bill. Allocating your funds correctly is critical when it comes to your budget.

Be Flexible

Every month is different. You might celebrate your anniversary with a night out one month and then have to pay for your pet to visit the vet the next. Car insurance payments may be due every six months. You know these things are coming each year, but they are not a part of your monthly budget and may sneak up on you.

When it comes to one-off payments and occasions that call for an increase in spending, make sure that you prepare for those expenses in your budget ahead of time by cutting back somewhere else. Holidays and birthdays happen at the same time every year, so plan for them. A good budget will prevent you from being surprised by a routine event.

Prioritize Debt

Prioritize debt payments over vacations or new purchases. The longer that debt goes unpaid – particularly credit card and vehicle loan debt, which tend to have high interest rates – the more time it has to collect interest, which further increases the amount of money you must repay. It may seem impossible but putting just a bit of extra money aside for debt payments each month can make a significant difference to your future finances.

If your debt-to-income ratio is too high, you may find that it begins to negatively affect your credit score. This can make it harder for you to buy or rent a house, take out a loan, or initiate a cell phone contract. Paying down debt not only lowers your debt-to-income ratio, it can help increase your credit score – not to mention provide you with the sense of relief that comes when you no longer have debt concerns. If you can cut costs and push money toward debt payments while still fulfilling your family's needs, it is wise to do so.

Note: It is also recommended that you routinely verify your credit report – you can do this for free at **annualcreditreport.com**.

Pay Yourself

Often it is best to pay yourself first. This strategy has you build your spending plan around your savings goal(s) and retirement instead of focusing on your expenses. This prioritizes savings, but still allows for necessary payments like housing, utilities and insurance. Many times, if you wait until your wants and needs are meet, there is no money left over for savings.

Each family should have at least two savings funds: an emergency fund and a rainy-day fund. When it comes to these funds, you do not have to put money away forever. Each account should be capped and only replenished if you need to delve into it for any reason. If you do not have one when you need one, though, you may find yourself struggling financially. An important part of your budget should be ensuring that you have the ability to survive emergencies without having to go into debt.

- Emergency fund: An emergency fund typically holds three to six months of living expenses and is intended for use in a true emergency, like helping you afford your monthly bills should you or your spouse lose a job and need time to find another one.
- Rainy-day fund: A rainy-day fund is a smaller fund consisting of around $1,000, that is intended to pay for one-off events, like automobile deductibles from an accident or an emergency vet visit for your pet.

Consider the Future

One of the biggest assets you have is your ability to earn money, so it is important that you have a plan in place should you no longer be able to provide income for your family. Everyday bills will still need to be paid, food will still need to be provided, and most debt will continue to accrue interest. Having a life insurance plan in place will protect your family from having to deal with money troubles on top of the emotional trauma of your passing or incapacitation. Navy Mutual's **Flagship Whole Life** insurance product will pay out a death benefit upon your passing or diagnosis with a chronic or terminal illness. Our **Level II Plus** term life insurance product will pay out a death benefit should you pass during the term selected, and can be used to pay off debt, fund a child's education, cover final expenses, or replace your income. It is hard to think about, but the peace of mind that comes with knowing your family is safe and protected is worth it.

If you are interested in learning more about life insurance and want to know how to fit insurance into your family's budget, call **800-628-6011** or **schedule an appointment** with a representative.