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Back to Basics: Budgeting—Part 1

By: Elizabeth Zemak, EA

Does reading the word “budget” make you want to stop and run in the other direction? I get it—we’ve been conditioned to feel that this word is synonymous with restrictions, cutting back, and generally having less fun. As we walk through the basics of budgeting, however, I’m hoping to reduce your aversion to the word and change the way you feel about creating and maintaining a budget. A well-thought-out budget should give you a sense of freedom and empowerment! In order to do that, let’s start with the first step in establishing a meaningful budget: *setting goals*.

Step 1: Goals

The purpose of a budget should be to help you get where you want to go. This means the first step is determining your desired destination; this destination is your goal. Examples of a good budget goal could be buying a car, saving for college, saving for retirement, establishing an emergency fund, saving for a vacation, buying a house, or any other aspirational but attainable objective. You can have multiple goals, each with different timelines (short-term and/or long-term) and use your budget as a tool to guide you toward your success.

Step 2: Identify What You’re Working With

Once you have determined your goals, it’s time to figure out what you have to work with. This is your income. How much income do you make through wages, trust distributions, in-

vestments, etc.? Once you establish that figure, you then determine what your regular expenses are. How much do you need each month to live? Common expenses typically include things like rent or mortgage, food, utilities, insurance, car payments and maintenance, healthcare, and entertainment. Every dollar of income has a role and is allocated somewhere, either toward a recurring, common expense, or into savings. This is referred to as a zero-dollar budget, meaning you give an assignment to every dollar you bring in.

Helpful Tip: Be sure to be honest with yourself, and accurately reflect both your income and expenses. To determine your monthly expenses, it is best to go back through 2-3 months of bank and credit card statements to see what exactly you’ve spent your money on over time. It is easy to think you only spend \$500 on food each month when in reality, you spend \$700. To set yourself up for success, it is important to use actual data and analyze your current spending patterns.

With your income and expense information, you can begin to map out what you are currently spending for your budget. Look this over and determine if this is really getting you where you want to go—are you allocating enough to savings or toward your goal? If not, what adjustments can you make? To help you know where to begin, there are general guidelines by percentage to help you evaluate your expenses (See figure below). Are your current expenses falling in line with these

Recommended Spending by Percentage of Income

Home Expenses (Mortgage/Rent, Tax, Insurance)	25%
Personal and Family Expenses (Child Care, Clothing, Dues, Entertainment, Healthcare, Pets, Vacation, Hobbies, etc.)	15%
Vehicle Expenses (Loan, Gas, Repairs/Maintenance)	10%
Personal Insurance Expenses (Disability, Life, Medical, Liability)	10%
Food (Groceries and Dining Out)	10%
Savings (Retirement and Savings Account)	10%
Giving	10%
Utilities (Electric, Gas, Cable, Internet, TV, Maintenance)	5%
Miscellaneous (items that fall outside the above categories or forgot to budget for)	5%

amounts? Are you allocating enough to savings or toward your goals? If not, what could you adjust? As author and advisor Darren Hardy said, *“The slightest adjustments to your daily routines can dramatically alter the outcomes in your life.”*

Step 3: Making Adjustments

Going through this exercise will help you better understand your financial picture and help you make informed decisions to get you closer to achieving your goals. By comparing where you are currently with the recommended percentages, it is easier to pinpoint where you can make those slight, but impactful, adjustments.

If you are finding it difficult to identify areas where you can adjust your expenses, it might be time to look at how you can increase income. Is there another job that you could take? Are there assets that would make sense to sell, or, can you change investment allocations? Your Relationship Manager can help you navigate these questions and review options with you to keep you on track.

Step 4: Sticking to the Plan

A well-constructed budget will give you freedom to work toward your goals at a pace you set for yourself. Creating, maintaining, and adjusting your budget will help keep your goals in focus and empower you with the necessary tools to assist you in making informed decisions. While sticking to a budget may not always be easy, you'll likely stand a better chance of success if you know why your budget is important to you, what's personally at stake, and what you're aiming to achieve. Again, we'd be happy to work with you to discuss your goals and help you through this process; contact us at any time! ■

Stay tuned for *Back to Basics: Budgeting—Part 2* where we'll share some helpful tips and tricks to building and maintaining your budget over the long-term.

About the Author ...



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Elizabeth (Liz) joined Market Street Trust Company in 2017. As a Relationship Manager, Liz delivers exceptional client experiences by utilizing a team of professionals to provide comprehensive wealth management, including financial planning, estate planning, trust services and investment management. She has 15 years of experience in banking, financial services and relationship management, and brings a high level of integrity in her pursuit to understand what's important to her clients.

Liz earned her B.A. from the State University of New York at Binghamton. She actively holds her Enrolled Agent License and has completed the Financial Planner coursework through the College for Financial Planning. She actively serves on several non-profit Boards of Directors and enjoys volunteering in her community. She resides in Savona, NY with her husband and new daughter.

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