Article: Steps to Making a Budget

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Many people feel intimidated when they hear the word "budget." However, a budget is simply a plan for how to spend money.

Transfer Ownership

Creating a spending plan begins with following some simple steps. The first and most important step is to transfer ownership of possessions to God. He is the owner of all things, and we are merely stewards of what He has entrusted to us.

List Income and Outgo

The next step is to clearly see the income and outgo of resources. List all available income, including the following:

Salary
Interest
Dividends
Rents
Notes
Income tax refund
Other

NOTE: If you operate on a non-fixed monthly income, use a yearly average divided into 12 months. See the section on Variable Income Planning at the end of this article.

Then, make a list of the monthly expenditures in the home, starting with the fixed expenses.

Fixed Expenses
Tithe
Federal income taxes (if taxes are deducted, ignore this item)
State income taxes (if taxes are deducted, ignore this item)
Federal Social Security taxes (if taxes are deducted, ignore this item)
Housing expenses (mortgage payment or rent)
Residence taxes
Residence insurance
Other

Now list the variable expenses, items that vary from month to month but that you still have to pay out each month.

Variable Expenses
Food
Outstanding debts
Utilities
Insurance (life, health, auto)
Entertainment, recreation
Clothing allowance
Medical/dental
Savings
Miscellaneous

NOTE: In order to accurately determine variable expenses, it is suggested that both husband and wife keep an expense diary for 30 days. Every expenditure, even small purchases, should be listed.

Compare Income Versus Expenses

We encourage couples to establish a budget based on the husband's income only. We recommend the wife's income be applied to one-time purchases only—vacations, furniture, cars—or to savings or debt reduction. Too many times the wife's income is interrupted by illness, pregnancy, or a change in the husband's employment location.

If total income exceeds total expenses, you only have to implement a method of budget control in your home. However, if expenses exceed income (or more stringent controls in spending are desired), additional steps are necessary. In that case, to reduce expenses, an analysis of each budget area is called for. These areas are outlined below.

"Budget busters" are the large potential problem areas that can ruin a budget. Failure to control even one of these problems can result in financial disaster in the home. This area is evaluated by typical budget percentages for a $35,000 annual income (family of four).
Naturally these percentages are not absolutes and will vary with income and geographical location.

a. Housing (36 percent of net income)

Typically, this is one of the largest home budget problems. Many families, motivated by peer pressure or some other pressure, buy homes they can't afford. It is not necessary for everyone to own a home. The decision to buy or rent should be based on needs and financial ability, rather than on internal or external pressure.

b. Food (12 percent of net income)

Many families buy too much food. Others buy too little. Typically, the average American family buys the wrong type of food. The reduction of a family's food bill requires quantity and quality planning.

Hints for Grocery Shopping

- Always use a written list of needs.
- Try to conserve gas by buying food for a longer time period and in larger quantities.
- Avoid buying when hungry (especially if you're a "sugarholic").
- Use a calculator, if possible, to total purchases.
- Reduce or eliminate paper products—paper plates, cups, napkins (use cloth napkins).
- Evaluate where to purchase sundry items, such as shampoo, mouthwash. (These are normally somewhat cheaper at discount stores.)
- Avoid processed and sugar-coated cereals. (These are expensive and most of them have little nutritional value.)
- Avoid prepared foods, such as frozen dinners, pot pies, cakes. (You are paying for expensive labor that you can provide.)
- Determine good meat cuts that are available from roasts or shoulders, and have the butcher cut these for you. (Buying steaks by the package on sale is fairly inexpensive also.)
- Try store brand canned products. (These are normally cheaper and just as nutritious.)
- Avoid products in a seasonal price hike. Substitute or eliminate.

- Shop for advertised specials. (These are usually posted in the store window.)
- Use manufacturer's coupons (cents-off on an item or items) only if you were going to buy the item anyway and it is cheaper than another brand would be without the coupon.
- When possible, purchase food in bulk quantities from large discount stores; the per-item cost is cheaper. Do not buy from convenience stores except in case of emergency.
- Avoid buying non-grocery items in a grocery supermarket except on sale. (These are normally "high mark-up" items.)
- For baby foods, use normal foods processed in a blender.
- Leave the children at home to avoid unnecessary pressure.
- Check every item as it is being "rung up" at the store and again when you get home.
- Consider canning fresh vegetables whenever possible. Make bulk purchases with other families at farmers' markets and such. (NOTE: Secure canning supplies during off seasons.)

c. Automobiles (12 percent of net income)
The advertising media refers to us as "consumers," but that's not always the best description. P.T. Barnum had a more apt word—"suckers." Often we are unwise in our decision making when it comes to our machines—especially cars.

Many families will buy new cars they cannot afford and trade them long before their utility is depleted. Those who buy a new car, keep it for less than four years, and then trade it for a new model have wasted the maximum amount of money. Some people, such as salespeople who drive a great deal, need new cars frequently; most of us do not. We swap cars because we want to—not because we have to. Many factors enter here, such as ego, esteem, and maturity.

d. Insurance (5 percent of net income)
It is unfortunate to see so many families misled in this area. Few people understand insurance, either how much is needed or what kind is necessary. Who would be foolish enough to buy a Rolls Royce when he or she could afford only a Chevrolet? Yet many purchase high-cost insurance even though their needs dictate otherwise.

Insurance should be used as supplementary provision for the family, not for protection or profit. An insurance plan is not designed for saving money or for retirement. Ask anyone who assumed it was; the ultimate result was disillusionment and disappointment.

In our society, insurance can be used as an inexpensive vehicle to provide future family income and thus release funds today for family use and the Lord's work. In excess, this same insurance can put a family in debt, steal the Lord's money, and transfer dependence to the world.

One of your best insurance assets is to have a trustworthy agent in charge of your program. A good insurance agent is usually one who can select from several different companies to provide you with the best possible buy and who will create a brief, uncomplicated plan to analyze your exact needs.

e. Debts (5 percent of net income)
It would be great if most budgets included 5 percent debts or less. Unfortunately, the norm in American families is far in excess of this amount. As previously discussed, credit cards, bank loans, and installment credit have made it possible for families to go deeply into debt. What things can you do once this situation exists?

- Destroy all credit cards as a first step.
- Establish a payment schedule that includes all creditors.
- Contact all creditors, honestly relate your problems, and arrange an equitable repayment plan.
- Buy on a cash basis, and sacrifice your wants and desires until you are current.

f. Entertainment/Recreation (6 percent of net income)
We are a recreation-oriented country. That is not necessarily bad if put in the proper perspective. But those who are in debt cannot use their creditor's money to entertain themselves. The normal tendency is to escape problems, even if only for a short while—even if the problems then become more acute. Christians must resist this urge and control recreation and entertainment expenses while in debt.

What a terrible witness it is for a Christian who is already in financial bondage to indulge at the expense of others. God knows we need rest and relaxation, and once our attitude is correct He will often provide it from unexpected sources. Every believer, whether in debt or not, should seek to reduce entertainment expenses. This usually can be done without sacrificing quality family time.

Recreation Hints

- Plan vacations during "off seasons" if possible.
- Consider a camping vacation to avoid motel and food expenses. (Christian friends can pool the expenses of camping items.)
- Select vacation areas in your general locale.
- Use some family games in place of movies (like some of those unused games received at Christmas).
- To reduce expenses and increase fellowship, consider taking vacation trips with two or more families.
- If flying, use the least expensive coach fare (i.e., late night or early morning usually saves 10 percent to 20 percent).

g. Clothing (5 percent of net income)
Many families in debt sacrifice this area in their budget because of excesses in other areas. And yet with prudent planning and buying your family can be clothed neatly without great expense. This requires effort on your part in terms of:

1. Saving enough money to buy without using credit.
2. Educating family members on care of clothing.
3. Applying discipline with children to enforce these habits.
4. Developing skills in making and mending clothing.

Learn to be utilizers of resources rather than consumers. How many families have closets full of clothes they no longer wear because they are "out of style"?

Many families with large surplus incomes spend excessively in the area of clothes.
Assess whether it really matters that you have all of the latest styles. Do your purchases reflect

good utility rather than ego? Do you buy clothes to satisfy a need or a desire?

Budget Hints

- Make as many of the clothes as time will allow. (Average savings is 50 percent to 60 percent.)
- Make a written list of clothing needs and purchase during the “off” season when possible.
- Select outfits that can be mixed and used in multiple combinations rather than as a single set.
- Frequent the discount outlets that carry unmarked name-brand goods.
- Shop at authentic factory outlet stores for close-out values of top quality.
- Select clothing made of home washable fabrics.
- Use coin-operated dry cleaning machines instead of commercial cleaners.
- Practice early repair for damaged clothing.
- Learn to utilize all clothing fully (especially children’s wear).

h. Savings (5 percent of net income)
It is important that some savings be established in the budget. Otherwise, the use of credit becomes a lifelong necessity and debt a way of life. Your savings will allow you to purchase items for cash and shop for the best buys, irrespective of the store.

Savings Hints

- Use a company payroll withdrawal, if possible. This removes the money before you receive it.
- Use an automatic bank withdrawal from your checking account.
- Write your savings account a check just as if it were a creditor.
- When an existing debt is paid off, allocate any extra money toward the next largest debt. When all consumer debt is paid off, then reallocate that money to savings.

i. Medical/dental expenses (4 percent of net income)
You must anticipate these expenses in your budget and set aside funds regularly; failure to do so will wreck your plans and lead to indebtedness. Do not sacrifice family health due to lack of planning; but, at the same time, do not use doctors excessively. Proper prevention is much cheaper than correction.

You can avoid many dental bills by teaching children to eat the right foods and clean their teeth properly. Your dentist will supply all the information you need on this subject.

Many doctor bills can be avoided in the same way. Take proper care of your body through diet, rest, and exercise, and it will respond with good health. Abuse your body and you must ultimately pay through illnesses and malfunctions. This is not to say that all illnesses or problems are caused by neglect, but a great many are.

Do not be hesitant to question doctors and dentists in advance about costs. Also, educate yourself enough to discern when you are getting good value for your money. Most ethical professionals will not take offense at your questions. If they do, that may be a hint to change services.

In the case of prescriptions, shop around. You will be amazed to discover the wide variance in prices from one store to the next. Ask about generic drugs. These are usually much less expensive and are just as effective.

j. Miscellaneous (variable expenses) (5 percent of net income)
These can include a myriad of items. Some of the expenses occur monthly and others occur on an as-needed basis (such as appliances).

One of the most important factors in home expenses is you. If you can perform routine maintenance and repair, considerable expenses can be avoided. Many people rationalize not doing these things on the basis that time is too valuable. That is nonsense. If every hour of the day is tied up in the pursuit of money, as previously defined, then you're in bondage.

A part of care and maintenance around the home relates to family life, particularly the training of children. When they see mom and dad willing to do some physical labor to help around the home, they will learn good habits. But if you refuse to get involved, why should they? Where will they ever learn the skills of self-sufficiency?

Some men avoid working on home projects because they say they lack the necessary skills. Well, those skills are learned, not gifted. There are many good books that detail every area of home maintenance. As previously mentioned, at some point in the future many of these skills will be necessities rather than choices.

k. School/Child Care (6 percent of net income) (If this category is used, other categories must be adjusted downward a total of 6 percent.)
An ever increasing segment of our population has expenses for private school and/or child care. This category must reflect those expenses. All other categories must be reduced to provide these funds.

l. Investments (5 percent of net income)
Individuals and families with surplus income in their budgets will have the opportunity to invest for retirement or other long-term goals. As debt-free status is achieved, more money can be diverted to this category.

m. Unallocated Surplus Income
Income from unallocated sources (garage sales, gifts) can be kept in one's checking account and placed in this category. This category is also useful for recording income information for tax purposes.

Variable Income Planning
Families with variable monthly incomes need budgets even more than families on fixed salaries. Many people with fluctuating incomes get trapped into debt because they borrow during lean months and spend what they make during high-income months, rather than repaying what they previously borrowed. Proverbs 27:12 says, *"A prudent man sees evil and hides himself, the naive proceed and pay the penalty."*

Living on a fluctuating income can be very deceiving—and difficult. Months of high income can easily be construed as a windfall profit. To properly budget a variable income you must conservatively estimate what your annual income is likely to be, divide that by 12, and then develop your monthly budget based on that amount. You should put all your income into a savings account and withdraw your average monthly salary from that account each month.

This method will allow surplus funds from higher income months to accumulate in the savings account to cover budgeted expenses during months of lower income. This is not hoarding; it is planning according to Proverbs 6:6-8.

This article was adapted from "A Guide to Family Budgeting" pamphlet by Larry Burkett.