MGIC

Get Ready Series #1

Budgeting

Tracking your spending and creating a budget can help you use credit wisely and meet your financial goals, such as saving up for a down payment or being able to make a monthly mortgage payment.

What's a budget?

A budget is a plan that lays out your income and expenses as precisely as possible. It can help you uncover spending patterns, discover places where you can save, and help you reach your down payment goal faster.

A good budget doesn't have to hurt

When creating a budget, it's easy to look at your expenses and start slashing. That may sound good in theory for building savings more quickly, but would you stick to it? A workable budget helps guide your spending so you can build savings while still enjoying your life.

A good budget helps you:

- Understand how and where you spend your money
- Increase your savings
- Prevent or reduce impulse spending
- Protect against the financial effects of the unexpected, like unemployment, accidents, sickness, aging and death

Budget for a rainy day

In addition to reducing or eliminating items from your budget, experts recommend you add one: an emergency fund. A good rule of thumb is to save at least 3 months of expenses – enough to pay for your needs until you get back on your feet. Doing this is important because not having enough money to cover expenses, loans or credit card payments can negatively affect your credit score and could make it harder to achieve your goal of owning a home.

Budget to maintain a home, not just buy it

Saving for a down payment may be your #1 priority, but remember – it costs money to maintain your home as well. It's important to budget for day-to-day maintenance, as well as for major improvements and emergency maintenance issues.

Tips for successful budgeting

Be collaborative. Make sure everyone in your household is part of the plan. If everyone understands the rewards, they'll be less inclined to overspend and will work harder to make the budget succeed.

Be specific. If your goals are vague, you may never meet your objectives. If you have a partner, talk about your goals. You may have different ideas of what the end result should be.

Be prepared to compromise. If you want to pay cash for things and you have a partner who prefers credit, you'll need to discuss the pros and cons of both methods and decide on a middle ground. A financial plan is also a financial partnership!

Be realistic. If you set goals and objectives that are too hard to meet, you'll be more likely to abandon your plan when frustration sets in.

Be flexible. Your lifestyle and financial situation will evolve. Don't make a budget that is so rigid that each new development requires an entirely new plan.

Keep good records. You can't just "set and forget" a budget. Continue tracking what you spend so you can see how well you're following the plan and whether you need to make adjustments.

71-42850 3/23

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Where to start: Identify your income and expenses

A budget starts with knowing how much money is coming in and going out. Keep a detailed record of all income and expenses.

Calculate your income

If you have a fixed income (in other words, draw a regular salary), it's easy to figure out how much money you bring in monthly. But many people have variable income (either alone or in addition to fixed income) that changes due to commissions, bonuses, shift differentials or even a side gig. Make sure to include any variable income in your monthly calculation if you have it. One way to calculate your average monthly variable income is to add up all your variable income from one year and divide it by 12.

Identify your expenses

Do you know how much you spend each month and how much of that total goes towards "wants" versus "needs"? Start by adding up your fixed expenses: those that are the same amount each month. Examples of fixed expenses include:

- Rent
- Car loans
- Utilities
- Credit cards
- Phone bills
- Childcare
- Insurance

Variable expenses can change monthly and often, but not always, involve "wants." Gassing up the car and paying for repairs is a "need" for most people, but you may not be able to predict the timing and amounts of those expenses. Just like with variable income, tracking your variable expenses over time will help you break them down into monthly estimates in your budget.

Typically, variable expenses that may be considered "wants" are paid with discretionary income, i.e., money left over after paying your necessities; examples include:

- Entertainment
- Restaurants
- Travel
- Gifts
- Miscellaneous

Small expenses add up

Miscellaneous or incidental expenses, such as pet costumes, happy hours or fancy water bottles, can make a big dent in your budget if you're not careful. Once you see where you spend money daily, you get a much clearer picture of your overall monthly expenses. Use a budget app or worksheet to help you get started.

Make simple, logical changes

You don't have to make major spending changes. Small sacrifices can add up to significant savings, such as making coffee at home, bringing your lunch to work, or subscribing to fewer streaming services.

Find a downloadable budget worksheet with a 6-month expense tracker at readynest.com/worksheets.