



Inside Money: Managing income and debt

What can a good budget tell you about your future?
How to get there

SPENDING WITHIN YOUR MEANS: A TIAA FINANCIAL ESSENTIALS WORKSHOP





It's your budget—take control

Everyone has a budget, right? Kind of. Many people think a budget just means “making things work at the end of the month.” A real budget is something you create that helps you do more than break even. A real budget helps you make your goals a reality.

Income versus spending

In the most simple terms, a budget is a plan you make for your income in order to ensure you don't spend too much. That's complicated by the fact that most people have some sort of debt, which is why we combined them into one workshop. The skills you use to budget are the same ones that help you manage debt.

A few facts to consider:

As of November 2018, the average U.S. personal saving rate was 6%, according to the Bureau of Economic Analysis.¹ In May of 2009, it was 8.20%.²

Americans' consumer debt grew 16% to nearly \$4 trillion since 2015.³

The Cash flow worksheet

The first step to creating a budget is knowing what exactly you have to work with—your income. The next step is to write down what you're spending—your expenses. Whatever's left over, positive or negative, will tell you what you need to address in your budget.

The Budget worksheet

Contrary to what you may think, the Cash flow worksheet is not a budget. It's a snapshot of your finances as they stand right now.

A budget is a plan—a look into the possible future. Where the Cash flow worksheet is concerned only with what IS, the Budget worksheet is concerned with what WILL BE.

Check the pie chart on the right panel for guidelines around average amounts of your budget to put toward certain expenses. Your needs may vary, so don't worry if your budget strays from the percentages. It should, however, give you an idea if you're spending too much in one area. If you are, plan to spend less and find a way to trim the expense. That gives you more money to spend elsewhere, pay down debt or save for a long-term goal!

Tools to help you budget and more

Budgeting is something everyone should do, and it pays to do it well. If you'd like some help budgeting, visit [TIAA.org/tools](https://www.tiaa.org/tools). You'll find a number of free online tools and calculators that can help you get a clear view of what you're doing, keep track of the numbers and do the math.

And when you're comfortable budgeting, you can use tools to help you save, invest and put your money to work!

¹U.S. Department of Commerce. Bureau of Economic Analysis, December 2018.

²U.S. Department of Commerce. Bureau of Economic Analysis, April 2012.

³Federal Reserve, “Consumer Credit, G.19 report,” January 2019.

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Cash flow worksheet

To begin building a budget, analyze cash flow

Monthly income: What comes in		Monthly expenses: What goes out	
Gross salary(ies)	\$	Mortgage/Rent	\$
Income from:		Home/Renters insurance	\$
Self-employment	\$	Property taxes	\$
Part-time employment	\$	Maintenance	\$
Alimony/Child support	\$	Utilities <i>(gas, oil, water, electric)</i>	\$
Dividends/Interest	\$	Cable/Satellite TV	\$
Royalties	\$	Telephone <i>(home, mobile)</i>	\$
Real estate	\$	Food <i>(groceries, meals)</i>	\$
Tax refund	\$	Child care	\$
Bonuses	\$	Car payment(s)	\$
Extraordinary income:		Auto insurance	\$
Grants/Prizes	\$	Entertainment <i>(Netflix, nights out, etc.)</i>	\$
Inheritance	\$	College savings	\$
Security benefits:		Clothing	\$
Disability benefits	\$	Vacation	\$
Retirement benefits	\$	Credit card payment(s)	\$
Survivor benefits	\$	Other debt <i>(student loans, etc.)</i>	\$
Other:		Medical/Dental	\$
	\$	Health insurance	\$
	\$	Life insurance	\$
	\$	Long-term care insurance	\$
	\$	Disability insurance	\$
	\$	Savings/Investments	\$
	\$	Your contribution to employer's retirement plan <i>403(b)/457(b)/401(k)</i>	\$
	\$	Your contribution to employer's retirement plan <i>403(b)/457(b)/401(k)</i>	\$
	\$	Taxes <i>(federal, state, local, Social Security)</i>	\$
	\$	IRAs, after-tax annuities	\$
	\$	Pension contribution	\$
	\$	Alimony/Child support	\$
	\$	Other	\$
Total monthly income	\$	Total monthly expenses	\$
Total monthly income - Total monthly expenses = Funds available:			\$

Budget worksheet

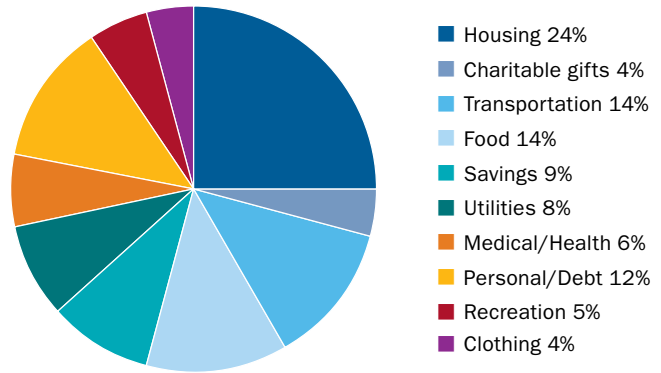
Crafting a personal budget

The Cash flow worksheet calls for a lot of numbers to plug into this exercise—including take-home (net) income—to determine a monthly budget. The expenses may not be ideal. That’s the first revelation of a budget.

Next, what personal goals do you want to budget for? Are you saving for a vacation or other short-term purchases? Are you putting away money for a child’s college tuition or a house down payment?

You can compare your expenses to the recommended percentages and decide whether you need to make changes—either to your budget or perhaps the expense itself.

Budget allocations by percentage of net income



leavedebtbehind.com, “10 Recommended Category Percentages for Your Family Budget,” accessed online, January 2019.

Monthly take-home income = \$ _____

Current expense		Percentage	Budget goal		Percentage
Housing	\$	%	\$		%
Utilities	\$	%	\$		%
Transportation	\$	%	\$		%
Food	\$	%	\$		%
Entertainment	\$	%	\$		%
Debt	\$	%	\$		%
Savings	\$	%	\$		%
Retirement	\$	%	\$		%
Child Care	\$	%	\$		%
Medical/Health	\$	%	\$		%
Student Loan	\$	%	\$		%
Emergency Fund	\$	%	\$		%
Gifts/Donations	\$	%	\$		%
Vacations	\$	%	\$		%
Household products	\$	%	\$		%
Clothing	\$	%	\$		%
Miscellaneous	\$	%	\$		%
	\$	%	\$		%
	\$	%	\$		%
	\$	%	\$		%
Total	\$	%	\$		%

10 steps to building a budget

Here's a quick list of the steps you can follow to help you take control of your money and create a budget that works for you. Some steps can be done in any order, but the cash flow analysis can help you get started.

- 1 **Determine your income.** You have a gross income—what you make before taxes and benefits come out. What you're left with is called net income—the money you take home. You can sometimes alter your benefit and tax withholdings to alter your net income, but for now, let's work with your current net income per month.
- 2 **Do a cash flow analysis.** Knowing exactly what you're spending and where is important. It gives you a look at what your money is doing when you aren't in complete control of your finances.
- 3 **Determine your non-negotiables.** Some things you have to spend money on, like rent and utilities. Some things you choose to spend money on, like entertainment. Decide what you have to have and what you can change or eliminate.
- 4 **Manage your debt.** Generally speaking, it's important to pay debt off as quickly as possible—starting with the highest interest rate first—because it's money that you owe that will cost you even more money in the long run. Some debt is necessary, and can help you pay for things you need in the short term without damaging long-term plans. But debt can also eat into those long-term plans—so consider it carefully.
- 5 **Evaluate potential new debt.** Carefully consider taking on any new debt, even if you qualify for it. Assess whether it would compromise your ability to save for retirement, maintain an emergency fund and pursue other life goals.
- 6 **Set your goals.** This is what makes your budget unique to you. Remember that you should consider how you could be saving for retirement—long-term goals. Add any short-term goals you may have as well, so you can plan to save for them.
- 7 **Add it all up.** You may find that your income doesn't cover all of the things you need or want to include in your budget. The steps below can help.
- 8 **Find savings.** With your list of non-negotiables in hand, look through your expenses and think about ways you can reduce them. Can you trim discretionary spending? Raise the deductibles on your car insurance? Step down your cable or satellite package? Perhaps you can negotiate a lower interest rate with your credit card companies? Anything you save can help you pursue your goals.
- 9 **Track and control your spending.** Keep tabs on yourself and your spending. If you need some help controlling your impulses, find ways to limit yourself. Here are a few to get you started:
 - Only carry one credit card—with a low limit—and leave the rest at home or in a secure place.
 - Use rechargeable cards. For instance, if you budget \$30 a month for coffee, get a gift card for yourself at the beginning of the month. Once that card is empty, you've reached your monthly limit.
 - Negotiate your rates. We've said it before but it bears repeating. If you're struggling with credit card debt, call the credit card companies and ask for a lower rate to help you pay them off.
 - Keep a record of what you spend to see if you have any habits you need to break. You may even find opportunities to cut one expense to fund something you want more.
- 10 **Review often.** Budgets are living things in a way. As life and needs change, so should your budget. Remember: A budget is a tool that you use to manage your money, and helps you get the most from it. So revisit it often and make sure it still suits the life you're living!

TIAA is here to help

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