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Creating Your First Budget

Budgeting is one of the first great lessons of personal finance, yet relatively few people are taught the basics of creating one. Or if they're taught, they forget. The inability to measure how much money is coming in and how much is going out is a primary reason for financial illiteracy in this country.

So it's a good idea to go over those basics. The Webster's definition for budget is simple: "A plan for the coordination of resources and expenditures." A budget is both a noun and a verb – a plan and a process. So it makes sense to go over the basic process of budgeting – learning exactly what money is coming in to your life, what's going out and how effectively you're using the difference.



The Income Column: Measuring what's coming in

For most people, this is the easy part. Income is largely made up of the following categories – wages, bonuses, investment income, alimony or other part-time income.

Budgeting is easiest if done on a monthly basis. It's an easy time period with which to measure the inflow and outflow of money and it allows you to see over the course of a year which months tend to be better for income or spending.

How should you record these amounts? Save all pay stubs and other proof of income. Photocopy checks before you deposit them and either build a physical file or start keeping track of income using computer software or online resources like Mint.com.

The Expense Column: Measuring what's going out

Why are expenses tougher? Because tracking every cent you spend can be tough when you've never done it before. This process forces you to save receipts, credit card statements or to physically write down cash amounts in the absence of receipts. Recording and analyzing expenses are generally the most work-intensive part of budgeting, but there's a silver lining – less spending means less recording time!

What are the primary expense categories? Food, shelter and clothing.

What's beyond that? All of your monthly bills. Retirement investments. College savings for your kids. Insurance costs. And everyone's favorite, taxes.

And beyond that? Entertainment expenses – movies, plays, vacations, sports, and of course one of the biggest money drains most people can't stand to give up, cable TV.

How should you record these amounts? The same way you did in the income column.

The upshot

If your expenses match your income, congratulations. Relatively few people can say that, though the recent economic downturn has forced more people to cut debt and boost savings.

But if your expenses are still outrunning your income, you now know you have to start trimming and finding more money for savings, investment or debt reduction.

What should your target be? There are a variety of theories, but you will often hear the term “60 percent solution.” This means aiming for a total spending figure equal to the first 60 percent of your income.

How do you get there? Start by identifying the expenses you can live without – designer coffee, restaurant meals and carryout might be a start. Then start finding ways to whittle down monthly bills – paying more than the minimums on credit card bills, consolidating other debt with lower-rate offers if you can find them. If you can refinance your mortgage affordably, that’s another good way to attack the spending side of your budget.

And what do you do with that extra money? First, make sure you have an emergency fund that contains 3-6 months of money to cover living expenses. Then start putting money away for retirement. After that, money for the kids’ college fund. Beyond that, extras like vacations, entertainment and other treats.

If this approach seems a bit Spartan, it’s a good starting point – indeed, every individual defines the term “financial essentials” a bit differently. But it’s important to start prioritizing financial issues correctly. For help, it makes sense to consult a professional like a qualified financial planner and a tax expert to identify ways to save and tip more money into a solid financial future.

And for a look at budgeting tools that won’t cost you money, go to Mint.com.

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How to Be Thankful This Thanksgiving

It's 11 a.m., the turkey is still frozen, the in-laws are pulling into the driveway and you still haven't set the table. Is this what Thanksgiving is all about? If you're feeling the pressure to have everything just right, take a few minutes to read over the following tips that will (we hope) help put the "happy" back into the holidays.

Plan -- but not too much

"I think part of the problem with holiday stress is when the holidays are really blown out of proportion and people start preparing for them so far in advance," says Carol Goldberg, Ph.D., a clinical psychologist and president of Getting Ahead Programs, a New York-based corporation that conducts workshops on wellness and stress management. "Advance preparation is nice, but it shouldn't take over your whole life. You shouldn't be so focused that afterward you're going to feel somewhat let down because the celebration didn't match your expectations."

Put it in perspective

"I think it's important to put the holidays into perspective," says Dr. Goldberg. "Be realistic. I mentioned that preparation shouldn't be such that it takes over everything, but you should be prepared." She suggests making lists -- a different one for each event, celebrations and gifts. "That's another thing you can do so you won't feel overwhelmed, and that will reduce your level of stress," she says.

Share the work

If you have people coming over for dinner or a celebration and they offer to bring something, let them, recommends Dr. Goldberg. "You'll have less stress and people will feel that they're doing something worthwhile and useful," she says.

She adds that there's nothing wrong with buying some of the food, if you can afford it, or considering a caterer. "Today, lifestyles are much more pressured than they were years ago. We shouldn't try to replicate the kind of celebration we grew up with," says Dr. Goldberg.

Being the host or hostess during the holidays can be a stressful role. Dr. Goldberg suggests sharing preparation and cleanup with others. "Hiring help if you can afford it can make celebrations less stressful. Otherwise, if guests ask how they can help, see if a few could arrive earlier to help set the table or stay afterwards to help with the cleanup," she says. "It's very hard to get up the next day to a dirty kitchen with all kinds of food already caked on. Let them know in advance so they can set their schedule accordingly."

Start new traditions

"Ask the people coming to your celebration what they really want to do," says Dr. Goldberg. "It's very possible they don't want to come and get stuffed with lots of calories. They might not even want to have turkey -- they may want to have some ethnic food, like Chinese. There's nothing that says it has to be turkey."

Although Dr. Goldberg says there is something to be said for tradition, not everyone wants the same kind of celebration. "Some people might not want to stay home, they might want to go to a restaurant, and there's nothing wrong with that," she says. "They may not want to sit at home and watch football games, they may want to watch something else or do something else."

Travel wisely

Most everyone wants to go home for Thanksgiving, and most everyone chooses the same day to do it -- the day before the holiday. Dr. Goldberg suggests leaving on Tuesday and returning on Saturday to avoid the Wednesday through Sunday crowds. "You may even be able to save some money," she says.

All in the family

"Another thing which people today find very stressful, because there are so many divorces, is the reconstituted family structure," says Dr. Goldberg. "Holiday time tends to be family time, so people who are divorced have to face ex-in-laws and ex-spouses, and that can be very difficult." If you're divorced or separated, and your children are splitting the holiday between both parents' homes, make arrangements to pick up or drop them off at a neutral location, says Dr. Goldberg.

When it comes to conflicts with parents or siblings, Dr. Goldberg says to keep in mind it's only for a few days. "It'll be over soon," she says. "If you see the time as limited, it's easier to take."

Holidays can be difficult times when a close friend or family member has passed away. Setting aside some time to talk about the deceased person and share memories of them is one way of coping. "But move on," says Dr. Goldberg. "Spend maybe a half-hour discussing this person and then stop that conversation and go on to the rest of the celebration."

If you're alone

Holidays are also difficult for people who are alone. "If people are single or far from their families, they could celebrate with friends. Friends are often a substitute for family," says Dr. Goldberg. If you know several other people who are also alone, put together a group and share the holiday together.

"Another thing I think is nice is to volunteer for part of the day in a hospital or soup kitchen, because you're doing something worthwhile, and you're probably not going to feel as sorry for yourself when you see people who are worse off than you," she says.

Exercise away your stress

"Exercise is a physical outlet for emotional stress," says Richard Cotton, an exercise physiologist and former spokesman for the American Council on Exercise. "It's a form of release."

Although there isn't one type of exercise that's right for everyone, Mr. Cotton says that keeping your body in shape or keeping some level of conditioning can be beneficial when it comes to managing stress. "It's physical movement to help resolve the distresses that are building within," he says. "When we keep ourselves in shape, we're more tuned up and we feel better, and when we feel better, we're more able to cope with the stresses of the holidays."

As with other aspects of the holidays, planning is important with exercise, too. "Preparing the mind can help enormously," says Mr. Cotton. He warns, however, against making stress-relieving exercises a stress in themselves. "Figure out what's realistic, when you can and can't exercise, and do your best to stick with that," he says. "Avoid making the guilt of not exercising an additional stress. Plan and make realistic expectations of yourself. It can certainly make a huge difference."

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A Smoker's Guide to Kicking the Habit

If you're going to make the effort to stop smoking, you certainly want to succeed. While three out of four smokers say they want to quit, fewer than 5 percent of smokers who quit for at least a day are able to stay away from tobacco for three months to a year, according to the U.S. Department of Health and Human Services (HHS).

"Obviously, quitting smoking is not easy," says Craig Barr Taylor, M.D., director of the Laboratory for the Study of Behavioral Medicine at Stanford University in California. "We do know that light smokers who have fewer than 21 cigarettes a day are about twice as likely to succeed as heavy smokers. But people with many previous failures at quitting often succeed on their next try."

Preparing to quit

The most important step in stopping smoking is deciding that you want to quit. No matter who else is influencing you, the final decision has to be yours. Here are some things to do once you've decided to take the plunge:

- Write down, and frequently read, your reasons for giving up smoking.
- If your previous attempts to quit have failed, review the problems you had and think about ways to overcome them.
- Be realistic. Prepare yourself to cope with temporary withdrawal symptoms.
- Get other people involved. Find a friend or family member who also wants to quit. Tell people you're quitting, so they can offer support.

Treatment options

Here is a variety of ways you can try to stop smoking if you can't do it cold turkey. Different smoking-cessation methods and treatments include:

- *Stopping gradually.* Switch to a brand you find unpleasant. Smoke only half of each cigarette. Each day, reduce the number of cigarettes you smoke. Smoke only when you want a cigarette badly, and make smoking inconvenient.
- *Self-help methods.* Kits, books, pamphlets, video and audio programs.
- *Programs, clinics and groups.* Smoking-cessation programs are offered by the American Cancer Society, the American Lung Association, clinics, hospitals and private treatment centers.
- *Hypnosis.* In motivated people, this method of smoking cessation has had some success. Options include private sessions and programs that teach self-hypnosis.
- *Nicotine gum, patches, nasal spray and inhaler.* By acting as a replacement source of nicotine, these products can ease withdrawal symptoms. Oral prescription medications to help stop smoking are also available.

Self-help tips

No matter what methods you choose to quit smoking, you can apply these helpful tips to boost your morale:

- Develop a nonsmoking environment at home and work. Get rid of ashtrays, matches, lighters and, of course, cigarettes.
- Spend free time in places where smoking isn't allowed, such as museums, theaters and stores.
- Drink a lot of liquids.
- Avoid beverages you associate with smoking.
- Keep your hands busy so you won't miss holding a cigarette.
- Keep oral substitutes, such as healthful snack foods, handy.
- Associate with nonsmokers whenever possible.
- Learn relaxation techniques to combat anxiety.
- Start exercising to help reduce the possibility of weight gain.
- Eat healthful meals and get plenty of rest.
- Concentrate on the immediate and long-term benefits and rewards of living smoke-free.

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