

## Budget Basics

Design a spending plan that promotes savings

Tomorrow. That's when a lot of people say they're going to get serious and really save for retirement. Their excuse is that they don't think they have the money to spare right now. What they may need is a spending plan that makes retirement savings a priority. With a spending plan, or budget, you decide how to carve up your income pie. A simple suggestion is to section it into three spending categories.

### **The great divide**

The first category is essential expenses. These are must-pay necessities such as taxes, housing, utilities, transportation, loan/debt payments, insurance and an adequate food allowance.

The next category is savings. One portion of this segment should be a short-term emergency savings account that's sizable enough to support your household for at least six months. A second portion should be for a retirement investment account. By investing more now, you're giving your money more time for potential growth through earnings and compounding (earnings on your earnings). Prioritize your other long-term goals, such as college tuition for the kids, and any short-term goals—remodeling the kitchen, a new car, a family vacation—and fund them accordingly.

The third category is optional purchases: such things as entertainment, gifts and personal indulgences. It's easy to go over-budget in this category, especially if you're buying on credit and not keeping an ongoing tally of your purchases. Know your limits and, if necessary, switch to cash to help you keep better track of this nonessential spending.

### **Whatever calendar works**

You may find that a yearly spending plan works better for you than a monthly version. Or try a hybrid: Plan out spending for the year to get the big picture of your finances, and also do month-by-month planning. This approach gives you more opportunities to find ways to boost the savings that will help finance your retirement.

© 2010 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

**CustomSolutions**  
FROM SMARTMONEY