Budgets

How do I make a budget when there is too much month at the end of the money?

Proverbs 6:6-8, Proverbs 10:4, Proverbs 21:5, Proverbs 22:3, Luke 14:28, 1 Timothy 5:8

Most people who come to me asking for help with their budget or how to get out of debt start with a wrong assumption. They assume they do not make enough money. They also wrongly assume that a budget is designed to tell them how much they should spend in each category. A budget does not tell you how much you should spend in each category. It tells you the MAXIMUM you CAN spend in each category.

Let’s start with a key point. No matter how much money you earn, someone nearby is making less and paying all their bills on time. It is also true that no matter how much money you earn, someone nearby is making more and still can’t get to the end of the month without running out of money.

The problem is not the income. The problem is the spending.

Things that are considered a necessity today that just 20 years ago were luxuries:

* Cable/Satellite TV - $100/month +
* Cell Phones / Smart Phones - $100/month +
* Internet - $75/month +
* Laptop / Tablet
* Two Cars
* Gym Membership - $10-50/month

The average American today spends as much money on these luxuries as families spent on their mortgage just 20 years ago. One study I read said that the average American will go without food rather than give up their cell phone. That attitude is the key to a budget problem.

Key areas of overspending in no particular order:

* Home
* Car
* Cars – that is not a typo. It might not be convenient to get by with one car, but it can be done.
* TV, Cell Phone, Internet
* Memberships
* Subscriptions
* Eating out
* Food purchased that spoils before you ever eat it
* Amazon – I use them to represent on-line shopping. It is too easy and so we purchase things we would never drive to the store to buy. We see and then covet things we never saw anywhere else and would have never purchased.

Here are some guidelines. Again – you can find people who promote other percentages. They are usually encouraging you to spend – not encouraging you to be biblically generous. I am using net income – the amount printed on your check. Many organizations use gross income numbers which will look larger.

Home – If your mortgage consumes more than 30% of your net income, you probably bought too much house. Your goal should be about 20%. It is possible that you are at 15% and still purchased too much house, but that is another issue. Your total housing costs (taxes, insurance, and utilities included) needs to be below 38% of your net income.

The more you make the less percentage of your net income you should be spending on your mortgage. This line item should not be scaling up at the same rate your income does or worse yet – faster. Purchasing a home should be a hedge against inflation and not an inflating expense.

Cars – not more than 8% of your net income should be spent on payments. Your goal should be none, but if that is not an option make your goal 6-7% of your net income. Keep your total car expenses (payment, insurance, taxes, fuel, and repairs) under 15% of your net income. If you must get a loan for more than 2 years to get it down to that level, buy a cheaper car. See the article on Debt.

Food – Key Concept: No food wasted. If you are throwing away spoiled food, you are purchasing too much. The lower your income the higher percentage of your net income you will need to spend on food. It could be as high as 15%. Regardless of how much money you make, do not buy food that eventually goes in the trash can. You cannot afford it.

Just these three items can use up 68% of your net income and we haven’t even touched clothing, charitable giving, lawn maintenance, medical expenses, vacation, Christmas, birthday, wedding gifts, savings, etc.

This article is not intended to give you a masterplan budget. Books have been written on that. I recommend Larry Burkett’s *The World’s Easiest Guide to Finances*. This article is trying to challenge you to study your spending.

An American on welfare has more spendable income than over 80% of the world population. Our problem is not income, it is the lust of the eyes and the pride of life.

Coming soon The Pace of Life…

Tom