
The Personal Budget

The basic purpose of a personal budget is to plan how an individual's money will be spent. Given limited financial resources, a budget is a method of managing personal cash flow, to meet current needs and save for the future.

Reasons to Prepare a Personal Budget

- **A planning tool:** Correctly used, a personal budget can ensure that income and expenditures match, both in amount and timing. It can both spotlight potential cash-flow problems, and identify opportunities to make better use of current income.
- **A yardstick to measure progress:** By comparing the planned budget against actual results, an individual can see if progress is being made toward meeting specific goals. This measuring process will often highlight areas where changes should be made.

Preparing a Personal Budget

- **Past income and expenditures:** This initial step entails recording information on past cash flow, both income and spending. Ideally, a year's worth of data should be gathered, to even out the effect of seasonal variations. Paycheck stubs, check registers, cancelled checks, copies of paid bills and recent income tax returns are excellent sources of this information. An individual may also want to keep a daily spending diary for a short period of time.
- **Set goals:** Clear goals should be set, with both specific dollar amounts and a realistic time frame for accomplishing each goal. A goal can be as simple and immediate as making ends meet each month, or as complex and long term as planning for retirement.
- **Maintain records:** Perhaps the most difficult part of the budgeting process is consistently keeping adequate monthly records of income and expenditures.
- **Periodic review:** A periodic review, comparing the planned budget with actual results, provides a means of measuring progress toward an individual's goals. The review will usually indicate if changes should be made, either in income, expenditures or both.

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National Spending Patterns

How does your spending compare with these broad national budget averages?¹

| | National Spending |
|-----------------------|-------------------|
| Food | 12.9% |
| Clothing and Services | 2.7% |
| Housing | 33.6% |
| Personal ² | 25.8% |
| Medical | 8.1% |
| Transportation | 17.0% |
| Totals | 100.0% |

¹ Source: Bureau of Labor Statistics, Consumer Expenditures 2022, September 8, 2023.

² "Personal" includes personal insurance and pensions, personal care products and services, education, entertainment, cash contributions, reading, tobacco products, and miscellaneous.

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