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## achieving financial goals

budgeting and goal-setting basics

# Budgeting and Goal-Setting Basics

With so many demands on a paycheck today, how does anyone other than a CEO manage to buy a home and/or save for retirement? The secret is in the personal goals you set, and work toward: they have to be realistic, concrete, time-sensitive and attainable.

Setting financial goals is the first step in taking charge of your money and your fiscal health. A working budget provides the foundation for meeting those goals. If you don't already have a spending plan, first things first—you need to create a budget, based on how you're paid. For example, if your paycheck is biweekly, your budget should cover two weeks. (For large monthly expenses like rent, you can put aside half the rent from each paycheck. If you worry that you'll spend it, you can pay the landlord twice a month. Or pay your rent in full from just one check, using the next to cover other expenses.)

## 1. Building a Budget.

For starters, get a small notebook and an envelope that will fit into your bag; you'll be carrying them around for a while. Then write down all expenditures, no matter how small—75 cents for a candy bar, or a \$1 tip for a street musician. Use the envelope to stash sales

receipts on any purchases you make. All together, those numbers will help you develop your budget.

After a month of receiving paychecks and recording expenses, take a sheet of paper or a spreadsheet and list all categories where you spend money—food, phone, clothing, transportation, housing, savings, donations, debt payments, etc. Add up the numbers for each category, and then total these sums. Subtract that number from your take-home pay. If all's well, the remainder will be a positive number. If it's negative, you're spending more than you earn and you'll need to trim your expenses. That often starts with paying down high-interest debt and using cash, not cards, for purchases.

## 2. Finding the money.

The expenditures you recorded may reveal some surprises—where you're spending more than you realized—and provide clues about where you can cut back. Impulse buys are a big budget offender, taking you off track. Don't treat shopping as a sport, a hobby or

entertainment; shop only with a list of things you need, and cancel catalogues and junk mail that encourage spending on a whim. Budget a little "fun cash" as an occasional reward for yourself—as long as you don't put those rewards on a credit card.

Create a working budget based on your spending categories. "Must-pay" expenses for necessities like rent, groceries and insurance will probably account for 60 percent to 70 percent of your paychecks. Dedicate discretionary money to paying off bad debt first and then saving for your financial goals. Continue tracking your expenses in coming months to be sure they conform to your working budget.

If your bank imposes monthly fees, transfer your checking account to another bank that doesn't charge such fees and that pays interest on your balance.

### Sample Bimonthly Budget

- |                  |                                       |
|------------------|---------------------------------------|
| ■ Rent           | ■ Entertainment (includes eating out) |
| ■ Food           | ■ Phone, Cable, Internet              |
| ■ Transportation | ■ Utilities                           |
| ■ Insurance      | ■ Debt Payments                       |
| ■ Clothing       | ■ Savings                             |
| ■ Health Care    | ■ Donations                           |
| ■ Personal Care  | ■ Other                               |

(One-time annual expenses, like Renter's Insurance, should be divided by number of paychecks, and that amount entered on the budget)

## 3. Setting solid goals.

As you continue tracking your spending, decide on your most important financial goals. Separate them into categories of short-term (1-12 months), medium-term (1-3 years) and long-term (beyond 3 years) goals.

It's not enough, for example, to say, "I want to buy a home." You must be specific regarding the time frame and the amount: "I want to save \$1,800 towards a down payment on a home by June 1, 2010." In that case, you'd add a new category to your budget—"down payment"—and indicate the specific amount. You would need to save \$150 per month until you reach \$1,800. (That \$150 per month is a short-term goal.) Make this a commitment to yourself by putting it in writing. (See chart on back.)

## 4. Supporting your goals.

Were you surprised at what you spent on coffee and donuts every morning, or lunches at the salad bar? If you just take breakfast and lunch from home three times a week, you'll be able to save \$37.50—and in four weeks you'll have the \$150 you've committed to save for your down payment on a home.

Look for other ways to come up with cash. Shop craigslist.org for less expensive household items before visiting a department store and paying full price. Buy staples in quantity at deep discount and split the purchase with a relative. Balance your checkbook monthly to catch mistakes. Get creative, and you'll find funds in unexpected places.

It's important to separate the money for meeting your goals from other funds. Set up a new, interest-bearing savings account at a bank that doesn't charge fees, or a credit union, and dedicate it exclusively to your "new home fund."

Establish an automatic transfer of \$75 from each biweekly paycheck (or \$38 if your paycheck is on a weekly cycle) into your new savings account. Pack your breakfast and lunch to take to work and enjoy watching your "new home fund" grow. You'll see progress immediately as your balance begins to accumulate interest, bringing closer the day that you'll become a homeowner.

## 5. What does it take?

In short, discipline and commitment. Keep the Goal Sheet that you created handy—it's your written commitment to your financial goals—for frequent review and inspiration, and don't lose faith as you move toward meeting those goals. Some women find it helps to have

a mentor who will check on their progress, and who can offer perspective and encouragement if they fall short somewhere along the way.

## balancing a checkbook

A checking account is a basic tool in budgeting. Especially as banks add or raise fees for bounced checks, transfers, etc., it's important to keep an eye on your monthly bank statement. Examining the statement each month can prevent losses due to math mistakes. Here's how:

1. Enter every deposit you make, check you write and ATM or debit transaction, including the date and amount.
2. Compare your monthly bank statement against entries you've written in your checkbook register. Put a check mark next to each transaction in your checkbook registry that is also reflected on your statement. (If your number is different, double-check it and consult your bank manager if necessary.)
3. Find the account ending balance on your bank statement.
4. Add any deposits you made after the statement's cut-off date to the ending balance.
5. From this new total, subtract any recent withdrawals, checks or debits in your register that you didn't check off on the statement. Also subtract any other deductions, such as outstanding checks from previous months that have not cleared yet.
6. The remaining total should match your checkbook ending balance. If not, repeat this procedure to uncover any math errors until your checkbook balance equals your total.

# Setting Specific Goals, and Steps to Reach Them

Use this worksheet to develop three specific goals for the year ahead:

## Goal 1:

Step 1:

Step 2:

Step 3:

## Goal 2:

Step 1:

Step 2:

Step 3:

## Goal 3:

Step 1:

Step 2:

Step 3:

## Sample Goals:

### Short Term:

"to fund my 401(k) account with \$100 per month, starting now"

### Medium Term:

"to save \$4,000 for tuition in courses that will advance my career, by Dec. 31, 2010"

### Long Term:

"to save and invest \$12,000 for a down payment, by Sept. 1, 2015."

For more information about Bottomless Closet programs, call 212-563-2499 or visit [www.bottomlessclosetnyc.org](http://www.bottomlessclosetnyc.org).

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