

Dave Ramsey's

**Guide TO
Budgeting**

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Introduction

Congratulations! You've already started.

Started? You may be thinking. *What do you mean?*

We mean that by reading this guide, you've taken the most important step toward giving yourself a solid financial future. You are already making progress. You've started.

When you make a budget, you take the first step toward getting control of your money so you can build wealth. Without a budget, it's a lot harder to get through Dave Ramsey's seven Baby Steps:

BABY STEP 1	\$1,000 starter emergency fund in the bank
BABY STEP 2	Pay off all debts smallest to largest with the debt snowball
BABY STEP 3	Fully funded emergency fund of three to six months of expenses
BABY STEP 4	Invest 15% of pretax income into retirement savings
BABY STEP 5	Invest for kids' college savings
BABY STEP 6	Pay off the house
BABY STEP 7	Build wealth and give a bunch away

Now let's get ahold of your money and tell it what to do.

What Is Most Important?

Your biggest wealth-building tool is your income, and the best way to harness the power of your income is the monthly budget. Not investing or saving for college (though those things are important). It's the budget, because from the budget flows everything else. If you want to invest money in a mutual fund, you make room for that \$100 or \$500 in the monthly budget. Want to get out of debt? List your debts in your spending plan. You get the idea.



The sad thing is that lots of people rank a budget only slightly higher than the Black Plague. Budgets to them mean no fun, bread and water for every meal, and custom-fitted straitjackets. What they don't realize is that a spending plan is the fastest way to wherever you want to go, from simply taking control of your money to getting out of debt.

Many people don't make a budget because they are *afraid* of what they will find. If someone has overspent to the point that they now face a mountain of debt and little or no savings, they might be shamed into stopping right there. **Don't fall into that trap.**

A Lesson From Hollywood

In the 1996 movie *Ransom*, Mel Gibson's character's son has been kidnapped (imagine *that* kind of emotional turmoil). Before he goes out to negotiate his son's release with a bag of money, an FBI agent gives him some helpful advice. "This here's a business transaction," the FBI agent tells him. "You're a businessman; he's a businessman. This is business." He's trying to get Gibson to take emotion out of the situation so he can think clearly and do what needs to be done. Give money. Get son. Simple.

We are not denying the emotion that you may be feeling. Whether it's fear, anger, shame or something else, that feeling is very real. The right time to apply that emotional energy is when you have a plan in place. Put your fear or anger aside long enough to get the numbers on paper—a business transaction. Once that's done, bring your emotion back and apply that passion and energy to the plan you've made.

How to Make a Budget

You can make a budget any way that works for you. It might be just a yellow pad and pen, or maybe it's a spreadsheet. You might choose Dave's **awesome budget forms** or our super helpful **Gazelle Budget tool**. Pick your favorite.

You must make a new budget for each month. Every time that calendar flips, there are new birthdays, holidays, insurance bills, tax refunds (we'll talk about that later), gas bills, proms and so on. There is no such thing as a "perfect" budget that works the same way every month.

If you want to win with money, you've got to do the details. Every month. So let's get started.

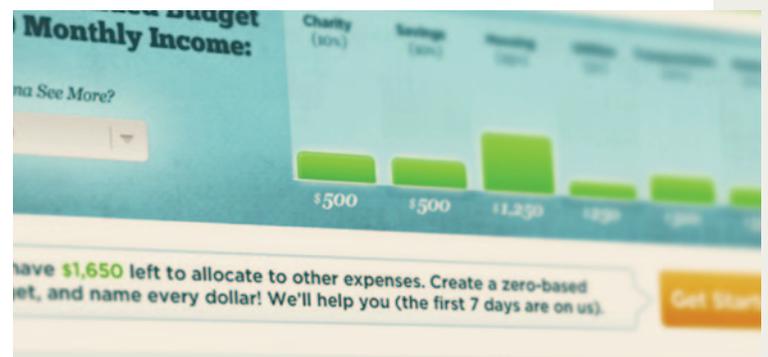
Income

On one side of the page, list all your income sources for the month. That includes:

- Paychecks
- Income from a small business
- Side jobs
- Freelance work
- Residual income
- Child support

There may be other nooks and crannies there that we didn't cover, but the overarching rule is this: If you receive money during the month, write it in your income category. There's really no such thing as "found money." If you take it in, you should write it down.

If you are married, do not separate your incomes. The preacher said, "And now you are one." That includes your income! You are working together toward a goal that benefits both of you, so it doesn't matter if one of you nets \$1,000 a month and the other brings home \$10,000. You are now an \$11,000 household.



If you are married, then both of you sit down when it is time to make the monthly budget and have a Budget Committee Meeting. Both of you have input and an equal say. The person who is more detail-oriented (the nerd) can take the lead and write down the numbers, but the more laid-back person (the free spirit) also has a vote and must contribute. None of this, "Whatever you want to do, honey," stuff.

Once the budget is agreed upon, pinky-swear and spit-shake that you'll stick to it. By making the spending plan together, you put your word to doing what's on the paper. If you don't, it's breaking your word, so don't stray from the plan.



Tax Refunds

If you get a big check from Uncle Sam at tax time, that's actually a bad thing. Why? Because it's just money that you've overpaid, and now Washington is giving it back to you. It's not a gift. It never belonged to the government in the first place.

Let's say you went to the grocery store with \$20 and purchased a \$5 item. You didn't notice the cashier giving you back two \$5 bills instead of a 10 and a 5. Thus, you overpaid five bucks. The next day, the store manager calls you. They realized the error and will send the money to you.

At this point, have you made a free five bucks? Of course not! You are just getting back what is yours. Overpaying on taxes works the same way. It's letting the government use your money interest free for one year.

Instead of a \$3,000 tax refund, change your withholdings at work so you get that money in your paycheck. That's \$250 each month that you can use to attack your debt or accomplish your goals.

Outgo

Now let's do a breakdown of the flip side of your budget. Most people get a little scared when they get to this part because they know in the back of their minds that they spend a lot more than they earn each month. It can be painful and scary, but if you look at your outgo and then take steps to correct any overspending, it works every single time.

Write down every single expense you have each month. Rent, food, cable, phones and everything in between. Your expenses vary from one month to the next, which is why you make a new spending plan each month. A gift budget might be high in December and low in April. The car budget might spike in the months where you have to renew the tags and pay insurance. Focus on one month at a time.

Start Early

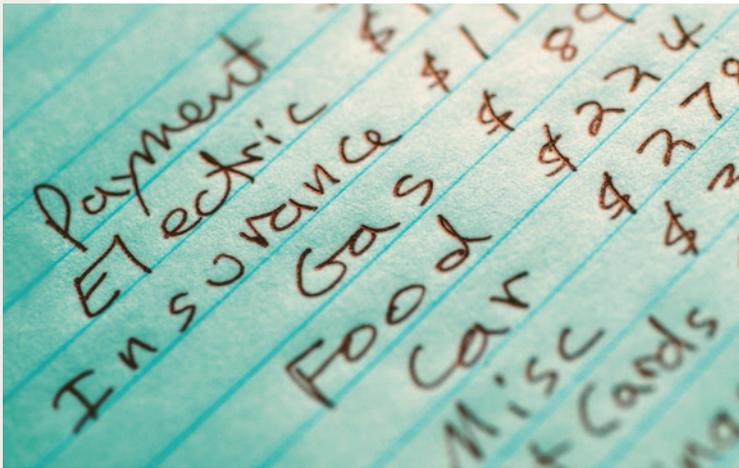
Make your budget a couple of days before the month begins. That gives you the feeling of control. You don't have that feeling of control if it's July 7 and no July budget has been made. Instead, have your July spending plan finished by June 29. Don't let the month sneak up on you.

When you make a purchase, write it down in your budget form that day. It only takes 60 seconds, and you can do it right when you get home. A quick way to make a budget into a mess is to open your wallet or purse and find a week's worth of receipts in there.

As far as reconciling your checking account goes, internet banking is the way most people handle it nowadays. The convenience of banking any time of day or night is a good thing, but be careful to not view your money as just digits on a screen. You must keep emotionally connected to your money so that you don't overspend. Spending cash hurts, so you spend less. If you are detached from your money and just see numbers on a screen going up or down, you become less sensitive to it, which is not good.

The Goal Is Zero

The point of a zero-based budget is to make income minus the outgo equal zero. If you cover all your expenses during the month and have \$500 left over, you aren't done with the budget yet. You must tell that 500 bucks where to go. If you don't, you lose the chance to make it work for you in the areas of



getting out of debt, saving for an emergency, investing, paying off the house, or growing wealth. **Tell every dollar where to go.**

Doing so makes a huge difference. According to surveys we've conducted in *Financial Peace University* classes, people who do a zero-based budget (versus those who don't) pay off 19% more debt and save 18% more money! Just from having a plan! The sooner you make a zero-based budget part of your money-handling strategy, the sooner you'll start to see your debt go down and your savings go up.

Five Money Gotchas

And as you probably figured, if you are spending more than you make each month, you have to start cutting stuff. Use coupons, sell items that you don't need or have

payments on, and stop going out to eat. Here are some common areas that eat your money up:

- **Eating out.** Start eating leftovers. Staying away from restaurants can literally save you a couple hundred dollars a month.
- **Car payments.** You can buy a quality car for \$2,000, and it will get you around town just fine. And you won't miss that \$500 payment.
- **Groceries.** Clipping coupons, waiting for sales, and buying generic brands are huge difference makers in your spending plan.
- **Utilities.** Shut the lights off when you leave the room. Entertain yourself with a book instead of the TV. Those are just a couple of ways to save, but they are big.
- **Clothing.** We don't need new clothes as often as we think we do, and buying from garage sales and consignment stores can save you enough to make your jaw drop.

Cash Flowing Emergencies

As you get better at budgeting and paying off debt, you'll become better and more capable of adjusting to cover emergencies.

When you have your \$1,000 emergency fund in place (Baby Step 1), you can cover minor emergencies with the stroke of a pen. But you can also look at small emergencies (maybe \$50 or \$100) and adjust your budget to cover them. As your money position gets stronger, you can cash flow more.

Here's a good rule of thumb for determining if you can cash flow an emergency or if you need to dip into your rainy day fund: **If you can cut up to 10% off items in your budget to pay for something** that comes up, then cash flow it. Otherwise, go for the savings.

Here's an example. Let's say you have some expense for \$100 pop up on the 10th of the month. Within your spending plan for that month, see if you can cut 10% from the other line items in your budget to come up with the money. If you have \$500 allocated for groceries, see if you can slice that down to \$450. That will put you halfway toward the goal. If gas will cost you \$200 that month and you can trim 20 bucks off by catching a carpool to work, now you're up to \$70. Look at your other budget items to cut out a total of \$30 more in order to cover the emergency.

But if the expense is \$300 and you can't reach that amount without cutting more than 10% off all of your line items, then head to the emergency fund.

It's a good idea to have a little padding in your checking account in case someone makes a math error in the register. You don't want to overdraw your account, so keeping a safety net of \$50 or \$100 in there is a smart idea (although you still need to do a zero-based budget and watch your money closely).

Practice Makes Perfect

Budgeting is a process. Imagine a parent teaching their son or daughter how to catch a baseball. In the first few days, there are going to be a lot of drops because the child is just learning. They're bound to be frustrated and want to quit, but if they want to get better at it (and they will), they just keep practicing.

Likewise, you must get a feel for how your household numbers work before you become a budgeting expert. It will happen. The first month, you will probably feel lost and the budget may seem like it doesn't work. Don't give up.

The second month it will work better, but there will still be hiccups. Again, give yourself time to learn the process and don't be discouraged. You are further along than you were before, so focus on how much you've learned—because quite frankly, you don't have much further to go before you'll have this budgeting thing down pat.



By the third month, you should have a pretty firm grasp on the process. Small tweaks may need to happen here and there, but nothing like when you first started. You know where the money is going. Feel that sense of power yet?

Using the Envelope System

One Extra Step

You don't have to save up any money to start using the envelope system. Here's how you do it. Let's say you have budgeted \$500 a month for groceries. When you receive your paycheck, write yourself a check for \$250, cash it, and put the cash in an envelope. On that envelope, write "groceries." No money—and we mean NO MONEY—comes out of that envelope except to pay for food at the store. If you go food shopping and leave the envelope at home by mistake, turn the car around and go back to the house to get it.

Make sure to take enough money to cover your groceries for that trip. If you take \$150 and you tally up a bill for \$160, take some things out of the cart. Bring any change back and put it in the envelope. When you get paid again, write another \$250 check. That's your \$500 for the month for food. If you want to go to the store but don't have enough money, then raid the fridge for leftovers.

Getting a Reward

If you have money left over in an envelope at the end of the month, congratulations! You came in under budget for that item that month. So for that, it's all right to celebrate (within reason). Reward yourself if you'd like by going out to dinner or rolling the money over to the next month so you have an extra big food budget.

Getting that reward is important because it keeps your spirits up. It's tough to live on a beans-and-rice lifestyle. But you're making it work! Great job!



Use the envelope system for items that tend to bust your budget.

Common examples include:

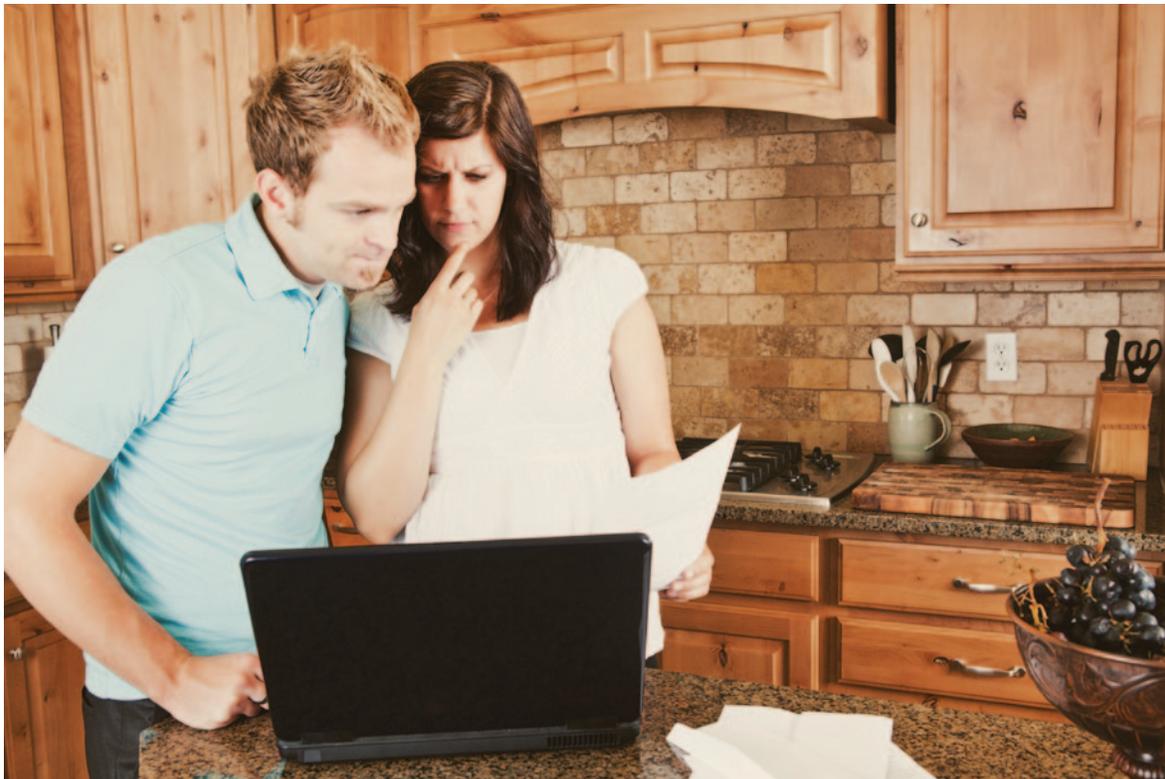
- Food (grocery store)
- Restaurants
- Entertainment
- Gasoline
- Clothing

Don't Cheat on Your Envelopes

Be careful not to borrow from other envelopes. When it comes to the envelope system, it can be very tempting to borrow cash from one envelope to fund some other activity. For example, if you use up all your “eating out” money, don’t be surprised if some inner voice tells you to reach behind that envelope for the one that’s marked “clothing.”

C'mon ... just a little ... it won't hurt you.

You must remember that the very purpose of the envelope system is to curb your spending and teach you discipline. When you run out of grocery money, you eat leftovers instead of going food shopping. If you see your gas money is slipping away faster than the remaining days of the month, then limit your trips or even carpool. If you have a crisis come up in the middle of the month or something happens and you absolutely have no other choice but to shift envelope funds around, then call an emergency budget committee meeting with your spouse. Talk to each other and figure out the best course of action, adjust the budget, and be in agreement on it. Both of you must be involved; it's a committee decision.



Paycheck Frequency

For someone who gets paid on the same two days each month, this isn't such a big deal. But what if you get paid every two weeks and have those "magic months" twice a year that contain three paychecks? What if you have an irregular income? How about a household where you both are paid differently? We've got all that covered.



We'll identify the different types of paydays here as well as how to work them on a month-to-month basis. If you are a two-income family and your spouse is paid differently than you are, then each of you choose your section and figure out how to work your particular payment schedule, then combine your paycheck with your husband or wife and work it from there.

Monthly

This is the easiest one of all. One paycheck equals one month's expenses. Whenever your check comes in, use it to budget for the next month. For example, if you get paid on the first of April, then your mortgage, food and all other expenses for that month are covered by that paycheck.

If you get paid on the 10th and your mortgage is taken out on the first, then work your budget until the next paycheck. For example, money received on April 10 will cover all expenses for the next 30 days (such as your May 1 mortgage payment, food and all other expenses) until May 10. At that point, your May paycheck will take care of everything until June 10, and so on.

Bimonthly

This one is perhaps the most common form. You get paid on or around the same two days each month, such as the 15th and 30th. The best way to work this is to treat the paycheck on the 30th as the first paycheck for the following month. That's because it can be confusing to make a budget at the first of the month when you don't get paid until the 15th.

For example, if you receive paychecks on August 15 and 31, then the 31st paycheck counts as the first money for September. So to work your entire September budget, you'll use the August 31 paycheck and the one from September 15. The paycheck on September 30 counts as the first money toward October, and the October 15th is the second paycheck for it.

By doing it this way, you already have a paycheck in place by the time you turn the calendar. You can attack the bills in the first half of the next month without wondering which paycheck is supposed to cover what.

Weekly

This kind of paycheck is just what the name implies. You get paid once a week on the same day. Just like with the “biweekly” pay structure (next entry), there will be some months where you get an extra check. In this case, five paychecks instead of four.

Each paycheck you get, save a quarter of your house payment out of it. If your mortgage note is \$1,000 a month, then save \$250 from each check. For the months with five checks, put that extra \$250 toward your current Baby Step. Then work your month’s budget with each subsequent paycheck.



Biweekly

This type of pay schedule can be especially frustrating because sometimes the checks will come on the 1st and 16th. Other times it will be the 10th and 24th, and you aren’t sure what money is supposed to cover what bills in what month. Still other times, it will give you three paychecks in a month. It’s more to work with, but finding what to do with all the cash can be a head-scratcher.

First off, remember that you’ll have at least two paychecks in any given month. If you are paid on the 9th and 23rd, don’t panic that the checks arrive too late for some bills and too early for others. There are at least two checks per month. That will keep you grounded.

The key to having enough money when the pay cycle is weird is to look at the two-week period in front of you. If March 25 is payday and your mortgage is due on April 1, then that March 25 paycheck covers your remaining expenses for March plus the April house payment and any expenses until your next check. Therefore, look at how much money you need for the next five or six days and subtract that from your paycheck amount. Whatever is left is money that you’ll use for the next month.

Here’s an example. You get paid on Friday, March 25, and the paycheck is \$2,300. You estimate that it will take \$400 to get you through the rest of March (covering food, gas, bills, etc.). You also have a house payment of \$1,100 due at the beginning of April. That means you need \$400 for March, so put that into March’s budget. Then take \$1,100 to cover the April house payment, and the remaining \$800 of the \$2,300 paycheck covers your bills until the April 8 paycheck comes in.

If you get three paychecks, the formula is similar. Let’s say you get paid on Friday, September 2, as well as the 16th and 30th. By the time you get that last check, September’s budget is done and you are on to October.

When that happens, look at your budget for the first couple of weeks in October and determine what bills will be due, how much you’ll need for food, gas, etc. Once you have that number, subtract it from that third September paycheck, and whatever is left over is the extra money that you can put toward debt, savings or something else.

Irregular Income

This type of paycheck usually applies to people who work on commission or are

small-business owners. Some months may be outstanding and others are anything but. The strategy here works a little differently.

When you sit down to make your budget, you make what's called a prioritized spending plan. You list expenses in order of priority. The cable bill is not as important as eating, for example, so it goes further down the list than food.

Setting Priorities With Irregular Income

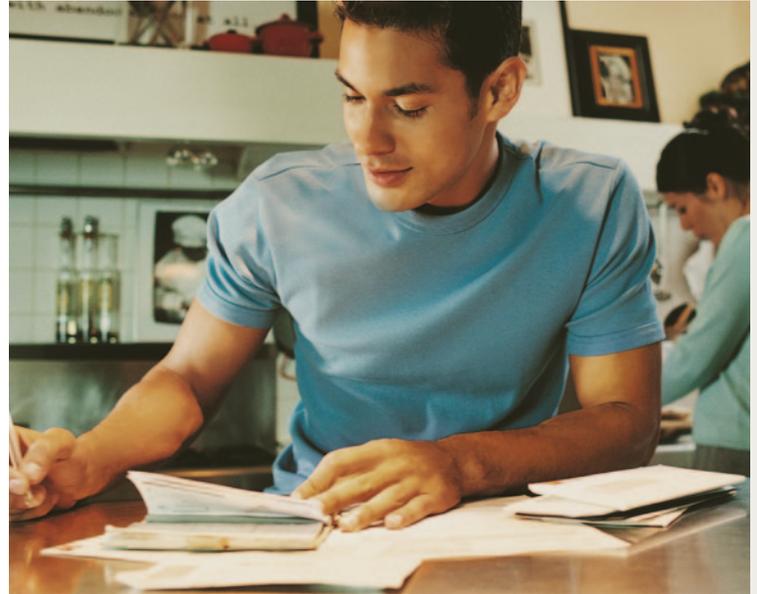
Dave talks about maintaining the Four Walls before anything else. When you have an irregular income budget, the first budget items you should cover are:

1. Food
2. Shelter and utilities (mortgage, electric bill, etc.)
3. Clothing (within reason)
4. Transportation (gas for the car)

Here's how you make a prioritized spending plan. List all your budget items for the month, just like when you make a regular budget. When they are all listed, look them over and number them according to their importance. Following the Four Walls, you'd place a "1" beside "Food." By doing this, you are saying that if you only have enough money to pay for one item on the list, it will be food. Keep moving down the list until everything is numbered. Then rewrite the list in order by number. Now you've got a prioritized spending plan.

Here's the second step. Beside each line item, write the amount of money you realistically want to spend on that item. Spend down the list (on paper) until your money runs out for that month.

Now, step number three. When you get paid, start at the top of your list and work your way down.



Draw a Line

Once you have spent all your income for the month, draw a line at the place where the money ran out. Everything below the line doesn't get paid because the money has run out. If you cover everything and have money left over, use that extra cash to walk yourself up the Baby Steps.

Over the Hill, Through the Valley

It is also a good idea during those good months to set up a hill-and-valley fund. A hill-and-valley fund is a savings account where you put aside extra money to get you through the lean times. It's one step down from an emergency fund. With an emergency fund, you only use it when the transmission goes out or a roof starts leaking. The hill-and-valley fund is there to help you meet monthly expenses when you run short.

If you are a straight-commission salesperson with a \$5,000 household budget and you earn \$7,500 one month, put that extra \$2,500 into the bank. That way, when a month comes along where you only earn \$3,000, you have reserve savings at hand to cover expenses.

Families and Budgets

And Now You Are One

If you are about to get married, it's important to remember to not—we repeat, NOT—combine your money until you are married. You'll have plenty of time to learn how to budget together once you are wed. But until the vows have been exchanged and the legality of the marriage is binding, don't mix the money.

The reason is because if something goes wrong, you've got a mess. Maybe one of you gets cold feet and wants out. Don't think it can't happen, because it's happened many times before. Perhaps you discover debt that your fiancé has been hiding from you, and trust issues suddenly come up. If your paychecks are going into a joint account and the other person closes the account and takes your money, you end up with lots of anger and no recourse.

Get yourselves into some good premarital counseling before tying the knot, and don't intertwine your money. It's also a good idea to attend *Financial Peace University* and learn how to properly bring your finances together after you are wed.

Leave No One Behind

Once you are hitched, remember that having your spouse there can help keep you honest about how you spend. If you took a road trip, you would not leave your husband or wife behind. In that same vein, think of how they would feel if you made a budget,

then spent money how you wanted and left them behind. Somebody in your household would be pretty upset about that. When you made the budget, you signed a pact with the other person to not spend any money except what's on that piece of paper. If you do otherwise, you have broken your word, and it will hurt your spouse.

A Little Bundle of Joy

If you are expecting a baby and one of you wants to stay home (presuming you are both working outside the home), you should start preparing now. Believe it or not, you can get a good idea of the money situation while the



bun is still in the oven. Simply live off the income of whoever will continue earning the paycheck while saving 100% of the other person's income for as long as you get it.

Let's look at Mike and Amanda. Mike earns \$50,000 a year and Amanda makes \$35,000. If they are expecting a child, then they should spend the months beforehand

living on Mike's income and depositing all of Amanda's paychecks into savings (not investing, but just a simple savings account at their bank).

If Mike and Amanda have debt, then it's all right to stop paying extra on their debt snowball (see below) while they pile up some cash for the little one's arrival. Once everyone comes home from the hospital healthy and happy, then they can take that gigantic pile of saved cash and throw it at the debt. If anything happens that requires a longer hospital stay, they'll have the money waiting there.

There are multiple benefits to living on one income like this before the baby arrives. We already mentioned the savings. It will also give you an idea of whether or not you can make it on one salary and how much you'll need to scale back on lifestyle. It can help you identify sore spots in your budget that should be eliminated. If you can pay a car off in a year and a half on two salaries but not on one, then this could be a cue to sell the car and accelerate your snowball.

If you are going back to work after the child is born, be ready to factor childcare into the budget. Unless you have a nearby relative who is willing to watch your child for free, you'll have to pay.

Single Parent

One word: tough.

That can just as easily describe a single parent as it does their situation. When you are responsible for raising one or more kids, working, running the household, paying the bills, helping with the homework, and all things in between, it can wear on you. You have no choice but to be tough.

Prioritizing Right

If you are a single parent, realize how vital it is for you to prioritize. Your main concerns are feeding the kids, keeping the lights on and gas in the car, and making sure there's a roof overhead. Focus on survival and living within your means because overspending to keep up a lifestyle will only sink you deeper into the mud each month. And it's a lot easier to get in than to get out.

More than likely, money is tight when you are the only parent. There are plenty of coupon websites and other places online where you can get a deal on food or needed items around the house. Never buy anything without first putting it through your "deal" filter. The more you look for deals, the better you'll get at it, and the less time and energy it will take. And the more money you'll have.



Likewise, come up with inexpensive and creative ways to have fun with your kids. You don't need to take them on expensive vacations or buy the latest toys for Christmas in order for them to have a happy childhood.



Sinking funds

A sinking fund happens when you systematically save for an expense that doesn't occur every month. For example, let's say you plan to spend \$1,000 on Christmas and it's the beginning of March. You have 10 months to save, so if you put aside \$100 a month to be able to pay for Christmas with cash, then that is your Christmas sinking fund. If you save \$90 monthly for the car insurance bill that is due in six months, then that's your car insurance sinking fund. It's your choice where to put the actual money as you build a sinking fund. It can be a simple savings account at your bank or cash in a cookie jar. The important thing is to make sure that you separate it from your other money so that it doesn't get spent on something else.

As you make your budget, look a few months out and see what expenses are coming that need a sinking fund, then build those into your monthly budget so they don't sneak up on you.

Four Walls

Concentrate on maintaining the Four Walls (food, shelter/utilities, clothing and transportation). From there, focus on walking up the Baby Steps.

Many times, after a divorce, parents make the grave mistake of trying to keep a house they can't afford. The rationale, they say, is that the kids have been through so much that they don't want to move them to a new neighborhood and turn their world even more upside down. That thinking is certainly understandable, but it can do a lot of harm long term.

If you and your ex were living in a house that you could only afford together, then you need to move. That's not pleasant news, but if the loss of income means you'll be paying half of your take-home pay to a mortgage payment, you won't be able to survive. Even worse, you might borrow money to sustain a certain lifestyle and make things even worse in the years to come.

An Inconvenient Truth

Child support can be a touchy subject because everyone has a different opinion of how it should be used. One person says it's for college savings, another says it's for child-specific items or activities, and so on.

Just remember that every time you put gas into your car so you can drive the kids to school, you are supporting them. If you use it to get out of debt so you can free up more money, you are supporting them. The point is to have the family's best interest in mind when you spend.

Put child support money into your regular monthly income on your budget, but only when you receive it. If your spouse is supposed to send you \$1,000 a month, wait until the money is in hand before you spend it on paper. That way you won't create a spending plan that can't be fulfilled. If your ex decides to not send you any cash, you won't be counting on it. But you do need to make sure they are legally fulfilling their obligation.

You Make It All Work

When it comes down to it, sticking to the budget is ultimately up to you. It's you getting up each day, going to work, coming home, and not spending money that you haven't budgeted. There is no magic formula to making this work. Each day, you make your choices. The budget works when you do. If you make a spending plan that includes paying off debt, saving for emergencies and investing (when the time is right), and paying off the house, and then stick to it month after month after month, your situation will get better in every sense of the word.

It's just like if you have a map showing you the way to buried treasure. If you follow the map, it will show you the most direct route to the riches as well as the places to avoid. The budget is your treasure map. The treasure is waiting.

SO GO GET IT.

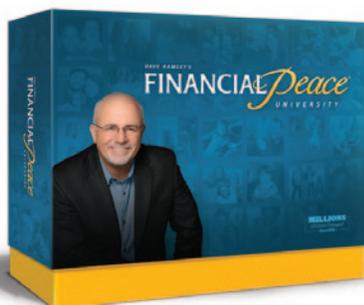
2 Ways to Dig Deeper



Dave's Online Budget Tools

Get Dave's online Gazelle Budget, Debt Snowball tool and support from 55,000 real people working Dave's plan.

Visit daveramsey.com/budget for more about Dave's online budget tool.



Financial Peace University

We all need a plan for our money. *Financial Peace University* (FPU) is that plan! Through video teaching, class discussions and interactive small group activities, FPU presents the practical steps to get from where you are to where you've dreamed you could be. This plan will show you how to get rid of debt, manage your money, spend and save wisely, and much more!

Go to daveramsey.com/fpu to get started!