

Courtesy of: Royalty Owner Help Desk

Financial basics

By the numbers

- Your **401(k)** may be good place to consider putting any surplus income.
- It is a good idea to review your budget **once a year** and see if you need to make any significant changes.

Creating a household budget

Statistics tell us that one of the biggest reasons for divorce and the leading cause of household stress is money. Yet many people do not have a system for knowing where their money goes once it comes in the door.

Keeping track of spending — so you can understand your habits and spend more wisely — is an important reason for creating a household budget.

This infosheet can be a starting place for those creating a household budget for the first time and is intended to provide helpful hints. It is based on the same principles of many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting program you may want to use.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.

- Identify the difference between what you earn and what you spend.
- Get your spending in line with your earnings.
- Change your spending habits to reflect your goals.

Five steps to help with personal financial knowledge

After you collect the information suggested here, you may use a ledger, spreadsheet, or personal finance program to create your budget.

Know what you earn. List your take-home income. Any income that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, Social Security payments, pensions, royalties, and child support payments. Gifts or bonuses may be included,

(continued on page 2)

Key points

- Most financial experts recommend that you set aside an emergency fund with enough money to cover six months of expenses in case you are disabled or laid off.
- You may want to consider creating an emergency fund. You do not have to create it all at once or panic if you do not have one in place. But you could designate an account that will serve as an emergency fund and begin to put money in it. For example, even if you only add \$10 per month, it is a good way to start.



Courtesy of: Royalty Owner Help Desk

(continued from page 1)

<p>but only if you are certain you will receive them in the coming year.</p> <p>Make sure you deduct all applicable taxes and pre-paycheck contributions so your income total represents money you actually have to spend.</p> <p>Know where you spend it. Create a monthly list of your expenses. Start with your essentials — shelter, food, clothing — and then move on to nonessential expenses.</p> <p>Hint: Credit card bills and bank statements are great places to start</p>	<p>creating a budget, especially if you use these cards predictably.</p> <p>For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it is easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.</p>	<p>If you buy groceries at Food Mart, beauty supplies at Beauty Mart, and visit Wholesale Mart once per month for items that you buy in bulk, these can all be line items on your budget.</p> <p>Hint: Record all of your expenses as a monthly amount.</p> <p>You may need to divide annual expenses (such as property taxes) by 12, or spread quarterly payments out over a year. The following list is a suggested starting point for categorizing your expenses.</p>
---	--	---

This list offers you a way to organize an overall household budget

<p>Housing</p> <ul style="list-style-type: none"> Mortgage payment Rent payment Line of credit payments Other home loan payments Home/rental insurance Real estate taxes (if paid separately from your mortgage) Condo fees Home improvement expenses Landscaping expenses Other municipal fees or expenses (landscaping, trash removal, etc.) Home decorating expenses <p>Utilities</p> <ul style="list-style-type: none"> Electricity Heating Water/sewer Telephone Cell phone 	<ul style="list-style-type: none"> Internet access Long distance telephone Cable TV <p>Household consumables</p> <ul style="list-style-type: none"> Groceries Take-out food Health products and medicines Cleaning products Beauty aids Dry cleaning <p>Transportation</p> <ul style="list-style-type: none"> Car payments Car insurance Car maintenance Gas Rental cars Public transportation Commuting costs Predictable travel expenses (for annual family trips, vacations, etc.) 	<p>Essentials</p> <ul style="list-style-type: none"> Medical plan fees and/or expenses Dental plan fees and/or expenses Vision plan fees and/or expenses Hair care Pension contributions Savings contributions Mutual fund account contributions Investment account contributions Emergency fund (See first page for special information on keeping an emergency fund.) <p>Entertainment</p> <ul style="list-style-type: none"> Dinners out Club memberships Movie and theatre tickets Video rentals Tickets to sporting events Vacation expenses 	<p>Child care</p> <ul style="list-style-type: none"> Daycare Tuition Music lessons Babysitters Birthday party gifts Student loans School pictures School activity fees 529 savings plan contributions <p>Other</p> <ul style="list-style-type: none"> Charitable donations Gift expenses for <ul style="list-style-type: none"> – birthdays – holidays – graduations – showers, weddings, etc. Hobby expenses
--	--	--	--

Note: The list above may not have included all expense items a person may incur.

Courtesy of: Royalty Owner Help Desk

(continued from page 2)

Separate essential from nonessential expenses

Before you compare your income with your expenses, use a highlighter and quickly separate your list into items you consider essential and those you consider to be nonessential. This quick step will be helpful when you are looking for places to trim expenses.

Identify the difference between what you earn and what you spend.

Add up your monthly expenses and compare it with your monthly income.

If your expenses are greater than your income, it's time to get serious.

Next to the column where you recorded last year's expenses, make a new column for your current year budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you may want to take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of how you can get expenses in line with your income.

If your expenses are below your income, you may want to consider as options, an emergency fund, investments, IRAs, 401(k) retirement accounts, and 529 accounts. You may want to look at nonessential items and cut where you can to provide for these other accounts. You may also want to build in an inflationary increase in certain items.

This material should be used as helpful hints only. Each person's situation is different and you should consider your financial goals and needs before making any decisions.

You should consult with your financial advisor regarding your personal situation prior to making any investment decisions.

Contact your financial advisor for more information, or visit mfs.com.

MFS does not provide legal, tax, or accounting advice. Any statement contained in this communication (including any attachments) concerning U.S. tax matters was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.