Make a budget that works

By Lisa Hughes-Daniel

1. Set goals.
2. Find out where your money is going.
3. Carve out the dollars.
4. Create accountability.

Who among us is not trying to pare down the household budget these days? Just one problem—it can be tough to turn good intentions into dollars saved.

For instance, does this exercise sound familiar? Sit down with a pad of paper and list categories of expenses. Write down how much money you intend to spend per month in each category so that you'll have X amount left over, to save. Put paper in a safe place.

What happens next? If you're like most people, not much. Why do well-meaning spending plans fall flat? And what can you do to overcome those obstacles? Here are a few steps you can take to turn your monthly balance sheet around:

1. Set goals.

First things first: What are you hoping to accomplish by trimming your expenses? What steps would move you toward a healthier financial profile? Think both short-term and long-term. Then write down specific goals, such as "put $300 a month into the family emergency savings fund" or "pay an additional $200 a month on my credit card balance." The more concrete your goals, the greater your chances of success.

2. Find out where your money is going.

Most people aren't completely honest with themselves about how much money they're already spending—in fact, many underestimate these figures by 20 percent or more, says Laura Schumann, a financial advisor with NRECA. Before any plan you design will work, you need to get a clear picture of your current expenditures.

Here's how: Collect the past year's worth of statements for all your bank and credit card accounts. Group your expenses into categories and list every expenditure. Divide your total annual expenses by 12. This is your average monthly outflow of dollars. Divide the category totals by 12, too, to see how costs break down each month. (Your bank and credit card companies may allow you to download these figures online—check their web sites for details.)

It may sound like a daunting exercise, but a small investment of time can provide invaluable insights into your spending patterns.

3. Carve out the dollars.

Now, look at your expenses from the past year. It's time for some reflection and decision-making. What spending habits would need to change in order to meet your goals? Quantify these choices for yourself. For example, if you cut out two restaurant visits per month, how much extra could go into your 401(k)? You don't need to judge your past purchases—just decide which choices you can make, and live with, that will move you in the right direction financially.

4. Create accountability.

Finally, you need a system that discourages cheating. What happens if you go over budget and your new goals get shortchanged? Do credit card balances just go higher? Don't let that happen. Consider using a debit card, instead of a credit card, for all your purchases, so the money comes directly out of your checking account—and has finite limits.

Another way to keep your priorities straight: Set up automatic, regular payments to savings accounts and retirement accounts—and even credit card accounts, if you set a payment goal each month. Then keep the remainder of your income in one or more checking accounts from which you can pay other expenses.

After three months, then six, tally your average expenditures again. How are you doing? Pat yourself on the back if you're moving in the right direction. Make some additional adjustments if you need to, and keep working toward your goals.

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