

# Avoid a New Year debt hangover



It is all too tempting to overspend in the weeks running up to the end of the year. Many people have nasty surprises when the credit card bills arrive in January. With some form of a budget, you will be able to keep a firmer grip on your finances and enjoy a prosperous New Year.

The important part of any budget is to ensure that expenses do not exceed income. If you stick to this principle consistently, you can be assured that you are unlikely to end up with debts you struggle to pay. Begin by finding a book or a computer file where you can store and easily update your monthly budget. Keep this safe so you can easily make reference to it when considering making changes. This also allows easy comparison budgets from one month to the next and one year to the next.

## Income and expenses

Begin drawing up your budget by listing and prioritising your expenses. At the top of your list, place accommodation, your car and then all credit instalments, such as those relating to furniture, and monthly insurance premiums, including car and household insurance and any life insurance policies to which you may contribute.

These are all fixed amounts that may vary only slightly due to increasing or decreasing interest rates or to annual revisions of insurance premiums. It may be useful to increase these each to accommodate unexpected changes in interest rates. You should not be spending more than 30 per cent of your gross income (income before deductions) on accommodation, whether it is a bond or rent.

Your car should not be costing you in total more than six month's gross salary, which means that if you earn R4 000 per month, you should not buy a car for more than R24 000. When making provision for retirement, you should be spending 5 per cent of your gross income on annuities.

## Other necessary expenses

The next item on your list should be food and then expenses such as water, electricity and the telephone. With the price of food always increasing, it's better to budget for food after you've added up all your other expenses. Take all the money that's left for your food budget and do your best to come out with the money available. Only buy necessities and cut out luxuries you can make yourself, such as biscuits and cakes.

## Emergencies

It's very important to budget for emergencies such as medical care which is not covered by your medical aid fund, a geyser that bursts or a car that must be repaired. If you have money available for one of these emergencies, you won't have to cut on other items in your budget or end up not being able to pay your bond.

Make sure you save at least three month's salary in a special emergency account. You should also be able to withdraw this money on short notice. Invest the interest on this account and use it for luxuries.

## Saving your money

If you plan your budget in such a way that you have money left to save at the end of the day, your budget will stretch further into the future. The amount you save does not have to be fixed, but the more you save, the better.

When you save for a particular item such as your children's education or a luxury like a holiday, you must prioritise this as well to make it easier when you cut expenses. It is also easier to save for something specific.

## Luxuries

Leave the best for last. Entertainment, holidays and gifts must be at the bottom of your list.

## A few tips to remember:

- Do not spend more than you earn.
- Never put anything on a credit card you know you can't pay off at the end of the month. Emergencies do arise, but with proper planning these can be taken care of without going into debt.
- You should include in your budget that money needs to be set aside into your savings. You should have at least three months salary set aside for emergencies.
- Budget for entertainment. Put in your budget money for a night out, or dinner and a movie. Just make sure you stay within your means and don't get carried away. Also, look for less expensive alternatives.

## Conclusion

Don't see a budget as a form of slavery. See it as freedom. The more responsible you become with your spending, the more you will have to spend.