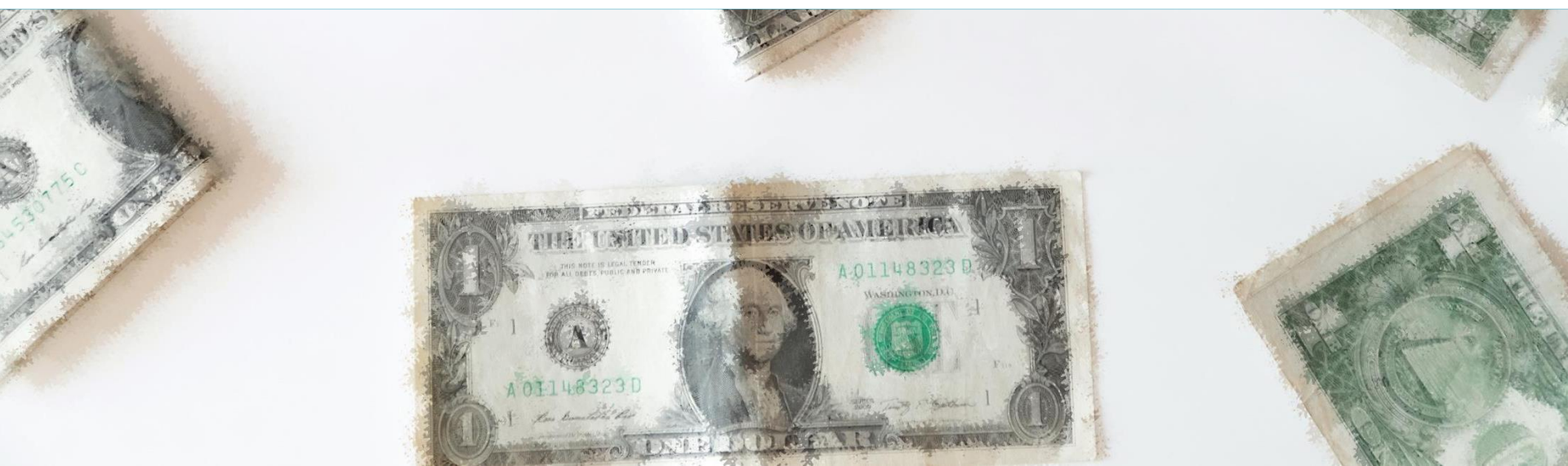




Budgeting for Beginners:

Building a Basic Budget



Building a Budget in 8 Easy Steps:

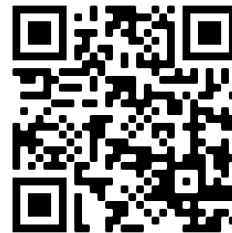
- ▶ Gather Your Information
- ▶ Your Income
- ▶ Your Fixed Costs
- ▶ Optional Obligated Costs
- ▶ Variable Costs
- ▶ Your Financial Goals and Wishes
- ▶ Prioritize Your Goals
- ▶ Add Back in Extra Income

Gather Your Information

- ▶ Before you start, you'll want to get together all the tools you'll need to make your budget. That way you won't waste time stopping to look for something halfway through the project.
- ▶ What you will need:
 - Bank and credit card statements
 - At least the previous month, but more is better. Three to six months is suggested
 - Your most recent pay stubs
 - At least two months worth if you have a fluctuating income.
 - And a copy of your Tax return
 - If you are working the same job

Gather Your Information

- ▶ Next, get a budgeting tool such as a worksheet to help you organize the information.
- ▶ Purposeful Finance has a free budgeting worksheet specifically designed to help you follow the rest of this presentation.
 - Get the worksheet emailed to you by going to www.purposefulfinance.org and signing up for the Budget Challenge
- ▶ There are also many free budgeting apps or you can purchase workbooks from stores that offer office supplies.



Your Income

- The first step in building your budget is to list your basic income. Your pay stubs and checking account statements should provide your take-home pay, but not all your pay is basic income. Your basic income does not include overtime, bonuses, or other incentive pay.
- If you have a job where your income varies, such as food service, retail, or sales, put the income of your lowest-earning month.
- Basing your budget on the worst income scenario possible makes it easier to stick to it.
 - Basing your budget on the best income scenario (overtime, more hours, bonuses) means that you can't follow it in pay periods where you didn't get them.
- Don't worry, later we'll add back in overtime, bonuses, and high income months. It's more fun to figure out what to spend extra money on rather than trying to figure out what to cut.

Your Fixed Costs

- The next step is to list off the fixed costs in your life. Fixed costs are monthly expenses you have to pay on in order to maintain your life.
 - “Maintain your life” means not paying these expense can negatively impact your health, your job (or other income), put you on the street, or force to you to break the law.
- Fixed costs examples:
 - Rent or Mortgage
 - Utility Bills
 - Grocery Bills (not dining out)
 - Car Payments
 - Insurance (health, car, etc.)
- Review your credit card and checking statements to find all the expenses you can categorize as a fixed cost. As you list them on the budget, cross them off on your statements.

Your Fixed Costs

- Make sure to skim through old account statements and identify expenses which don't show up monthly.
 - Car insurance premiums
 - Buying eyeglasses
 - Replacing Tires
- These are all fixed costs which aren't paid each month. Identify items like these and add them to your list.
- Once you've listed all of your fixed costs, add up the total and deduct it from your income. This will provide you with your discretionary income!

$\text{Income} - \text{Fixed Costs} = \text{Discretionary Income!}$

Optional Obligated Costs

- ▶ Your Optional Obligated Costs are those costs you have to pay every month, only because you've chosen to 'sign up' for them. Examples are:
 - Gym Membership
 - Cable Bill
 - Streaming Services
 - Cell Phone Bill
 - Internet Bill
- ▶ There is nothing wrong with having these expenses, but if you wish to accomplish other goals these expenses are the best places to free up money in your budget.
 - Cutting your monthly cable bill could free up enough money for two round-trip tickets to a Mexican resort.

Optional Obligated Costs

- ▶ Optional Obligated Costs will also include your minimum payments on your credit cards or loans. List any loan payments not already listed in Fixed Costs.
 - Although you can't 'cancel' loan payments without bankruptcy, you can accelerate paying them off, which would remove the cost from your budget.
- ▶ Again, review your account statements and cross off expenses as you record them in your budget. Also review older statements and identify any Optional Obligated Costs which don't get charged monthly, such as annual membership dues or subscriptions.
- ▶ Add up your optional obligated costs and deduct them from your discretionary income.

Discretionary Income – Optional Obligated Costs =
Left Over Discretionary Income!

Variable Costs

- ▶ The last step involving your statements is to list your variable expenses. These are costs which either vary month by month or which you don't pay every month. Variable Costs will likely include:
 - Dining Out
 - Entertainment (Nightlife, Movies, etc.)
 - Clothing
 - Other expenses which haven't been crossed off yet
- ▶ You should also add any other expenses you can think of which are not present on the account statements. Examples are:
 - Vacations
 - New Clothes
 - Gifts during the holidays.
- ▶ If you spend \$600 per year on holiday gifts, break that down to \$50 per month.

Variable Costs

- ▶ List the expenses in the budget as you cross them off on your statements. At this point all of your credit card charges and checking account payments should be crossed off on your statements. If you missed anything add it to the most appropriate category.
- ▶ As you record Variable Costs, estimate how much you spend each month and then add 10%. Unfortunately, these expenses are not consistent, so you cannot count on your monthly statement or memory to get an accurate cost. It is better to overestimate than underestimate.
- ▶ Add up the Variable Costs and deduct the total from your Left Over Discretionary Income.
- ▶ If you have a negative number, that's okay! You'll fix it later when you build your budget. You have just identified you may be overspending and why you might be going into debt.

Your Financial Goals & Wishes

- Finally, add the financial goals you want to accomplish into your financial plan, such as investing for retirement, taking a vacation, or saving to buy a home.
- As you list the goals, enter the amount you want to save each year toward the goal, and a monthly amount you would need to 'spend' in order to accomplish each goal. If you don't know how much you would need to spend, you can learn how to calculate the cost of your financial goals.
- Example:
 - You want to save \$2,000 this year for a down payment on a car. Divide 2,000 by the number of months in a year (12). The number you get is the amount of money you will need to spend each month to save to \$2,000. For our example it would be \$167 per month (round up to the dollar amount).
- Add up the cost of your goals and enter the total under the Goals section. You now have the amount of money you have to free up from your Fixed, Optional Obligated, and Variable Costs in order to accomplish your goals!

Prioritize Your Goals

- Before the next step make sure you have all your goals written down, even things that you feel are out of your reach. Focus on what's really important for your future-self.
 - Buying a home
 - Getting out of debt
 - Saving for retirement
 - Getting your car fixed
 - Trip to Japan you dream about
- Once you've listed all of your expenses and goals, re-build your budget based on your priorities. That is, make your budget reflect how you want to spend your money rather than how you currently spend money.
- Don't ignore going through necessities like rent and food!
- Fixed costs are difficult to change but they can be reduced. Examples:
 - Downsizing your home/apartment to reduce your housing expense
 - Reduce your grocery bill by cutting out ice-cream and processed food
 - Sell a car and buy a cheaper one with better gas mileage/insurance rates
- If you do find ways to reduce any fixed costs, enter the new expense and recalculate your discretionary income.

Prioritize Your Goals

- Next, you will need to go through your Optional Obligated Costs, Variable Costs and Financial Goals.
- Don't simply go down the list of your expenses and goals in the order you wrote them. Review everything on the list and choose the one which is most important to you. Write that item and the cost on a piece of paper. Then identify the next most important expense or goal and write it under your first item.
- You will discover that some things you couldn't afford are really important to you, while other things you have been spending money on are not important to you.
- Enter each item according to your priorities and deduct the cost from your discretionary income. If the item is an expense evaluate what makes it important to you. See if you can trim it down or put a cap on it.
- Example:
 - You love cable TV, but you don't really watch all of the 150 channels you pay for. You decide to downgrade to a smaller package.
 - You love going out to eat at restaurants, but you mostly buy fast food instead. You decide that you will only spend \$25 a month on fast food.

Finishing Your Budget

- Keep adding the next priority to your budget until you run out of money or expenses/goals.
- If there is expenses or goals left over they will be eliminated from your spending. This is not because the expense is irresponsible, but because you have other priorities you care about more.
- If there is money left over. Consider adding that money to your goals or putting it into an emergency fund.
- Congratulations! You have finished your budget! Now you just have to stick to it.
- If you get tips/bonuses/have flexible hours/commission the next slide will help you figure out what to do with that extra income money.

Add Back in Extra Income

- ▶ If you had some low priorities get wiped from your budget, there is good news! Remember, your income number was based on your lowest income. You still have the opportunity to fund some of the expenses you 'cut' when you get overtime, extra hours, or a bonus.
- ▶ If you have very stable income still follow these steps! You never know when someone will give you money or when a side hustle opportunity will appear.
- ▶ Create a list of extra things that you would like to put money towards.
 - Treat yourself to a fancy dinner because you cut those out.
 - A retirement plan or pay down credit card debt.
 - An international trip you can't afford.
 - Add money to a family vacation fund to take a longer vacation or take it sooner.
- ▶ Every month that you have extra money come in choose something on the list spend the money on!

Sticking to your Budget

- ▶ If your income is primarily cash based there is the **Envelope Method**. This method is a beginner plan that works best with very simple budgets without a lot of expenses. It can help you get out of your circumstances and living better. It takes some time to set up.
 - ▶ **Step One:** Take an expense from your finished budget and divide its monthly cost by the amount of times you get paid in a month (round up). Write the number you got and the name of the expense on an envelope. Do this with all of your other expenses.
 - ▶ **Step Two:** Take one envelope and write “Goals” on it. Add up the monthly cost of all of your goals and then divided it by amount of times you get paid a month (round down). Write that number on the envelope.
 - ▶ **Step Three:** If possible contact a bank to set up a checking or savings account if you don't already have one.
 - ▶ **Step Four:** When you get paid divided the cash between the envelopes by the amounts written on them. Take the “Goals” envelope to the bank and deposit the money.
 - ▶ **Step Five:** Only use the money in the envelope for the expense listed on it.
- ▶ **Special Note*** Only use this method if you live alone, have a safe place to store the money, or trust who you live with. **Remember:** A bank or credit union is the safest place to keep your money and gives it the opportunity to grow.

Sticking to your Budget

Food Tips:

Plan your meals before going to the store

Cook large meals and eat leftovers the next day

Make your own breakfast sandwiches or burritos and freeze them for the week

A YouTube channel called *Struggle Kitchen* goes over how to save money while buying groceries and create cheap but tasty meals

Pasta Dishes



SCAN ME

Desserts



SCAN ME

Keeping a budget is tough, the temptation to buy things that aren't accounted for can be exhausting. Have someone keep you accountable, a friend or a loved one.

Setting up automatic payments can be helpful as well. This relieves a lot of the pressure of remembering when bills are due and eliminates the possibility of missing payments. Have a money buffer in the account that is being drawn from and check your account frequently (most banks have apps)

Sleep on big purchases (always walk out of a store and return later)

Turn off lights and electronics when not home. Unplug electronics that are used rarely.

The End!

But Wait! There's More!
Test Your New Knowledge and
Sign Up for More Free Finance Help!

Click the Link Below

<https://www.surveymonkey.com/r/RW38JMV>

