

## INTRODUCTION TO BUDGETING

Before you can achieve any type of financial success, you must first learn how to be disciplined with your money. That's right, you must master the word people hate most - BUDGETING. If you're like most people, you think that means you won't be able to buy the things you want anymore. Contrary to popular belief, budgeting actually allows you to be able to spend money MORE freely. In fact, it takes the edge off because you've already budgeted to spend the money. Instead of spending randomly, you are now intentional with your spending.

### *WHY BUDGET?*

Why budget you ask? Before we answer that question, here are the facts:

- 90% of Americans are financially illiterate.
- 70% of Americans live paycheck to paycheck.
- 68% of Americans do not budget.
- Money issues are the leading cause of divorce in America.

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### *DIFFERENT FORMS OF BUDGETING*

Now that you know why to budget, let's start by deciding which method and tools to use that will make budgeting a success.

This article will go over a variety of budgeting methods as well as the pros and cons of each one. This info should help you with your decision.

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Before we go over what does work, there's one way that is widely used, but DOES NOT WORK! It's the Mental Budget. You may be smart enough to keep all of that information in your head, but in actuality, smarts have nothing to do with it. Many things go on during the day that grab our mental attention, and adding a list of all of the transactions you've made for the day, the week, and the month – WHEW – it would be a struggle to keep it all together! So it's a good idea to keep your budget physically available.

## ENVELOPE SYSTEM

The most physical way to budget is to use the envelope system. Throughout the month, you will cash all sources of income, and feel and see the money spent. Here are the pros and cons: Pro: The envelope system is very easy to start and works exactly as it sounds: grab a handful of envelopes, mark each one with the name and the amount of the expense you have planned for the month and fill each envelope with the specified amount of cash from your paycheck. Easy peasy! Pro #2: It makes budgeting real and teaches you control. You see the money going from your envelope to the cashier and you feel the envelope getting smaller. Once you spend the money, that's it. So you begin to find ways to hold on to your cash instead of spending it. Now for the cons, and these are obvious because you're dealing with cash. An envelope full of cash can easily be dropped, left at home, or stolen. So you have to be very careful and pay special attention to your envelopes. If you are the type of person that leaves things behind or misplaces them easily, this may not be the budgeting tool for you.

## HANDWRITTEN SYSTEM

A handwritten budget is not as tangible as placing cash in an envelope and carrying it around, but you still are writing the numbers and budget items. This makes the budget realer than just thinking about numbers.



The image shows a handwritten budget notebook page. The page is divided into two main sections. The left section is titled 'Amount' and lists various expenses with their corresponding amounts. The right section is titled 'Income' and lists due dates and payment amounts.

Amount	Date	Income
\$250	Jan 15 check	
\$70	Bills & Expenses	
\$100	Student Loans	
\$100	Geico	
\$50	BOA Card	
\$100	Gas	
\$50	Groceries	
\$100	CASH	
\$50	Retirement	
\$110?	FL Blue	
	Citi Card	
		Paycheck 16

**Pros:** This method is a great way for those who aren't the best at technology, and you can budget and categorize your expenses any way you want. It's easy to start: Grab some paper (preferably a notebook) and pen or pencil, list all the income you expect, then the expenses, and record actual spending as you go while also updating the remaining balance.

**Cons:** Sometimes writing things down gets lost in translation. Let's say you are rushing to update your budget and write a 1 but in your haste, you kind of make it look like a 7. When you go back to it, you don't remember what the amount was. There's quite a difference between 1 & 7 or 100 & 700. Having a handwritten budget may require a calculator. When \$195.00 is budgeted for groceries, and you spend \$87.36, you definitely want it with you. However, carrying a notebook and a calculator may be inconvenient, so be aware of that. Let's say you leave your budget at home and hold all the receipts of the day to update when you get home. This is a good idea as well, but you must be sure to grab the receipt for every little thing. Even for the \$1.87 candy bar you ran to the store to get. That's a lot of paper to go through, so be careful when sorting through all of it.

If you would like a template to use, [click here](#).



**Pros:** There are countless forms of budgeting available in the electronic form. On your computer or laptop, Microsoft Excel has budget templates to choose from, and you just fill in the information. Your banker may provide online budgeting sources (if you bank with Regions, they offer "My GreenInsights" which allows you to set a budget and saving goals.); and of course there are plenty of smartphone apps to choose from. Some apps are also accessible on the computer too. The math is done for you. As long as you have your phone, you can have your budget.

**Cons:** Some cons to electronic budgeting depend on the device you choose. Computers can be difficult to carry around and if you leave it off, there's the chance that you will forget about the budget altogether. Apps are made to work one way, so you would have to budget the way the app tells you, which may not be the way you wanted. Luckily, there are so many apps, you're sure to find one that fits your budgeting style. If you would like to see a list of budgeting apps, [click here](#).

Pick one of these methods and see how you like it. If the one that you choose doesn't seem to fit your style, it's OK! You have plenty to choose from. **JUST DON'T QUIT!** Once you have decided on your ideal method, it's time to learn how to Prioritize your Budget.

## ***PRIORITIZING YOUR BUDGET***

Now that you know what form of budgeting you'd like to use, a good start is identifying your needs. Needs are considered things that you can't live without. Some examples are: rent/mortgage, food, transportation, and utilities. These are common non-negotiables. The next step is identifying your wants. Wants are considered things that you can live without, however, living with them probably makes your life a little better. Some examples are: new cell phone, dining out, expensive cars, and sporting events. You can definitely live without these things, so they are considered luxuries. Some people consider cable a need, while others consider cable a want. Everyone's lifestyle is different, so your budget needs to reflect your lifestyle.

We have identified our needs and our wants, now it's time to think about those special events that will come every year. Some examples are: birthdays, anniversaries, Black Friday sales, and Christmas. How many times have we failed to properly allocate funds for these events? How many times have we purchased items for these special events and regretted buying them? Some people regret they didn't plan early enough to get that special item for that special someone and some of us regret we overspent during the holiday season. The only way to lessen/get rid of those feelings is to plan early. When Christmas is over, you have another 12 months to plan for the next one.

Next, we're going to briefly outline three essential accounts that you should consider implementing into your budget: an Emergency Fund, a Sustainable Savings Account, and Retirement Account(s).

### **EMERGENCY FUND**

The Emergency Fund is the starting point for most people who want to take control of their finances. This account should be strictly for unforeseen circumstances such as flat tires, minor home repairs, and broken appliances. A new purse or a new watch is not considered emergencies and this account should not be used to fund them. If you want them, they should be properly budgeted. This account is great to have when/if you begin to tackle your debt head-on. It gives you a nice cushion, just in case an emergency arises while you're on your debt-free journey. The amount of your emergency fund should solely

depend on your lifestyle, but it's recommended to start with a goal of at least \$500 (preferably \$1,000). In order to build this fund quickly, take a look at your list of wants and identify some of the things you are willing to sacrifice in order to establish this account.



## SUSTAINABLE SAVINGS ACCOUNT

Another important account to have is a Sustainable Savings Account. This account is primarily for unexpected job losses or medical emergencies. No one really expects to lose their job or come to a point where they are unable to work, but it's a great idea to plan for those things because they are possible. This account provides "breathing room" and gives you a sense of peace. The amount of this account is solely dependent on your lifestyle. Calculate the amount of money you would need in order to survive for three to six months without any income; that amount should be your goal.



## RETIREMENT ACCOUNT



If you are relying on Social Security payouts to sustain you when you're retired, you will most likely be disappointed. Check with your employer to ensure that they offer a retirement plan and that you are contributing to it, such as a 401K. If you don't have access to a 401K, there are many other options out to save for retirement. Individual Retirement Accounts (IRAs) are great for saving for retirement on your own. It's amazing how many

people work their entire lives without having the knowledge of how they will fund their retirement. When it's time to retire, you should be able to choose to continue working because you simply want to or just retire. You shouldn't be forced to retire and continue working to survive. After retiring from a job, the only work you should have to do is the work that you want to do. For more information on retirement accounts [click here](#).