Guide to Living on a Budget

Learning to live on a budget is an essential part of saving money, paying off debt, attaining financial freedom, and dealing with emergency financial setbacks. The better able you are to create and stick to your budget, the more likely your financial success will be.

Why Budget?

While many people consider budgeting to be the result of a sudden need for extra cash from an unforeseen expense, the truth is effective budgeting should be a standard practice regardless of your financial situation.

Though it can take some getting used to, committing yourself to a budget can come with a host of benefits that aren't just money-based. According to the financial experts at The Balance, living on a budget can improve your life in a number of ways:

- **Acts as a roadmap.** A budget requires knowing where each and every dollar in your account goes. Once you have a good idea of where your money is being spent, you can make a conscious effort of what goals to aim for (e.g. $10,000 in savings, $3000 vacation fund, etc.).
- **Reveals waste.** One of the best things about a budget is that it helps you identify where you DON'T want your money to go. You'll realize that small, unnecessary purchases tend to add up pretty quickly.
- **Aligns priorities.** Having a mapped-out budget can make sure everyone in your household is on the same page. If you want to save for a remodeling job but your partner is more focused on retirement, creating a budget will help bring those differences to your attention.
- **Builds new habits.** For many, maintaining good spending habits is the hardest part of a budget, but it's also the most important. These habits can then be continued when money isn't as tight, leading to even more financial freedom down the road.
- **Reduces stress.** Following a proper budget lets you rest assured that you'll have enough money when it comes time to pay the bills. It can also give you the funds you need to eliminate monthly debt and build your credit at the same time.
- **Plans for the unknown.** A budget can help you build up your emergency funds.
These are just a few benefits of creating and committing to a well-made budget. For most people, the choice to start budgeting comes down to being able to pay the bills, saving more money, reducing or eliminating debt, and feeling less stressed financially.

Whatever your reason, taking the steps to start budgeting your hard-earned money is a choice you likely won’t regret.

**Budgeting Basics: Tracking Your Expenses**

The first step in creating any budget is finding out where you spend your money in a given time period. Most people craft their budget based on monthly spending due to the fact that many expenses (e.g. utilities, rent, subscriptions, etc.) tend to be billed at a monthly rate. This makes it easy to line up your monthly income with your monthly expenses.

Once you have a full list of your monthly expenses, organize them into categories like food, clothing, rent, utilities, insurance, and so on. Certain budgeting apps (listed below) can make this process a cinch. Now that you have all of your expenses grouped into categories, you can begin to figure out where you’d like to change your spending habits with your current income.

**Tips & Tricks**

- **Have a wide scope.** It’s worth taking into consideration that some regular expenses may occur less frequently. Federal and state taxes, for example, generally are only handled once a year but can be a troublesome expense depending on your situation. Take advantage of free online income tax calculators, like this one from H&R Block, to have a better idea of what to expect come tax time, so that you can have enough taxes withheld from your paycheck and avoid a large tax bill when you file your taxes. Other examples may be car repair or maintenance expenses (tires, brakes, etc.) and possible medical bills.

- **Be precise.** When figuring out your monthly spending, it is very important to be as accurate as possible rather than generalizing. If, for example, you buy your daily coffee for $2.42, don’t round that number down to $2. It might seem like such a small amount once but when you multiply that $0.42 by five days a week, fifty-two weeks a year, that adds up to over $100 dollars of unaccounted expenses a year!

- **Use technology.** While a simple pen and paper are really all you need to track your monthly spending, one of the best ways to do so is actually by using a budgeting app. These apps are great for a variety of reasons:
  
  o They let you categorize and keep track of your expenses down to the penny.
  o Most will give you a visual representation (pie charts, bar graphs, etc.) of where you put your money each month.
  o The majority can help keep you accountable with reminders.
Many will allow you to set savings goals and track your progress as well.

Many of these can be downloaded for free or for less than $5 and, when you consider the time and hassle they’ll save, are well worth it. See the bottom of this guide for a list of some of the best budgeting apps out there, along with links to both their Apple and Android store pages.

Budgeting Basics: Setting Limits

Once you have a handle on where you are spending your money each month you can start the process of deciding which areas need to change. It’s at this point in the budgeting process that many people realize that they are spending much more on unnecessary purchases than they thought they were. Cutting these costs is a great place to start, especially if you have a goal in mind such as getting out of debt, or increasing your savings.

Begin by going through each category and deciding which are essentials, wants, and can-do-withouts. Here are some examples to get you started:

- **Essentials:** Rent, utilities, transportation, food, etc.
- **Wants:** Internet and cable, streaming services (Netflix, Hulu, etc.), movies, eating out, etc.
- **Can-Do-Withouts:** Daily purchase of coffee drinks, alcohol and tobacco, gum, afternoon snacks, etc.

The point here is to figure out what you can reduce or eliminate from your monthly spending entirely. Most of the time the easiest expenses to get rid of are the daily snack and drink purchases. By making simple behavioral changes like bringing coffee from home or packing a snack rather than buying one from the cafeteria can save you more than you’d think.

Now that you’ve trimmed the fat a bit, it’s time to figure out if the amount you are spending on each category aligns with the suggestions of economists and financial experts.

**Dave Ramsey**, the widely-known “financial guru”, created a budget breakdown that will help you determine what amount of your monthly income should be going into each category.

- **Dave Ramsey’s Budget Breakdown (% of Monthly Income)**
  - Housing: 25-35%
  - Utilities: 5-10%
  - Transportation: 10-15%
  - Healthcare: 5-10%
  - Food: 5-15%
  - Investments/Savings: 5-10%
  - Debt Payments: 5-10%
  - Charitable Giving: 5-15%
Another common budgeting guideline for many financial experts is known as the 50/20/30 rule. This guideline is a bit more “rule-of-thumb” in that it provides a more generalized approach, grouping spending into only three categories. According to the financial planners at LearnVest, it goes like this:

- **50/20/30 Rule**
  - 50% of your take-home pay should be on **Fixed Costs** like rent, utilities, car payments as well as subscription services like Netflix.
  - 20% should be dedicated to your **Financial Goals** like paying off debt, saving for retirement, and building up an emergency fund.
  - 30% can go towards **Flexible Spending** including day-to-day expenses that tend to vary month over month (groceries, entertainment, hobbies, etc.)

Both of these guidelines are great places to start when creating your budget.

**Tips & Tricks**

- **Prioritize paying off debt.** This should be one of the main goals of your budgeting process. The sooner you pay off debt, the less interest you will pay, lowering your overall expenses in the end.

- **Plan for the unknown.** Be sure to leave a little padding for unknown expenses like trips to the doctor, school supplies, vet bills, and car and home repairs. Otherwise you may not have the funds you need when you least expect it.

- **Make it communal.** Make the creation of a budget something that everyone in your family can get involved in. By allowing it to be a group effort, you’ll be able to get an idea of what goals your family members have in mind so that you can start saving accordingly.

  Doing so will also give you the chance to communicate your expectations for sticking to the budget and make saving money more of a community goal rather than just the goal of one person.

- **Make it personal.** While both of the 50/20/30 rule and Dave Ramsey’s guidelines are great jumping off points in crafting your unique budget, it’s important to remember that they are simply guidelines. Instead of following one or the other, take time to think about what your personal goals are for your budget.

  Are you saving to pay off debt, to grow your retirement, or simply want some extra cash for fun activities? Then, change up the percentages above to cater to these goals.
Meeting Your Goals

While preparing a realistic, comprehensive budget is the foundation for getting your budgeting journey started, it’s really only half the battle. The main problem that many people run into is sticking to the guidelines that they created. There are a number of reasons why sticking to a budget is so hard, but two tend to stand out more than the rest: financial fatigue and a lack of flexibility.

Financial fatigue is a term used to describe the feeling when all the hard work you’ve put into crafting a budget, pinching pennies, and not giving into impulse buying doesn’t seem to be getting you to where you want to be fast enough. One of the main causes for financial fatigue is checking on your goals too often.

For example, if you start a diet and weigh yourself every single day, you’re likely to become disheartened at your progress because the weight loss is so small from day to day. In the same way, looking at your savings account too often can make it seem like you aren’t making any financial headway.

If, however, you still aren’t seeing much of a change in your bank account after a long time of budgeting, don’t be afraid to be flexible with your budget. Come back to it every now and then to re-examine what kinds of purchases you are making, where you think you could spend less, and whether your goals are still the same. Your budget should be constantly evolving.

Tips & Tricks

- **Shop smart.** When it comes to shopping be sure to take advantage of coupons, customer loyalty programs, buying in bulk, and seeking out low cost recipes. Also, be sure to eat at home as much as possible. Consumers spent $3008 on eating out in 2015 compared to $4,015 spent eating at home. So, eating out adds up fast and is something that can be reduced. When it comes to apparel shopping, put money into accessories so you can mix and match rather than purchasing completely new outfits.

- **Seek out free entertainment.** Exercise clubs, libraries (with books AND movies) podcasts, free events at your local community center or campus can all be great ways to cut back on costs. Look for festivals or local events happening in your area by searching online for “events in (your city) in (month)”. The results will provide you with websites with lists of things happening near you.

- **Use cash.** Instead of making all your purchases with a card, consider using cash instead. Having a physical form of currency can make it easier to see how much you’re spending as well as knowing how much you have left.
Finding More Information

Anyone looking to find more information on budgeting advice, financial goals, and investment strategies can use the online search terms “budgeting tips and advice”, “personal budget tips and advice”, and “personal finances tips and advice”.

You can also find a list of resources below that include a wealth of additional information.

Resources

Budgeting Apps:

- Mint Budgeting App
  - App Store (Apple)
  - Play Store (Android)
- PocketGuard Budget App
  - App Store (Apple)
  - Play Store (Android)
- You Need a Budget
  - App Store (Apple)
  - Play Store (Android)
- GoodBudget
  - App Store (Apple)
  - Play Store (Android)
- Mvelopes
  - App Store (Apple)
  - Play Store (Android)
- HomeBudget
  - App Store (Apple)
  - Play Store (Android)
- Wally
  - App Store (Apple)
  - Play Store (Android)
- Level Money
  - App Store (Apple)
  - Play Store (Android)
More Information:

Financial Tools and Education from Dave Ramsey
Financial Tools and Education from Money Management International
Financial Tools and Education from American Consumer Credit Counseling

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