

# How to create a budget that works for you

Budgeting is like a giant Rubik's Cube for many people: you know there's a method to getting everything to line up the way that it should, but try as you might, you just can't seem to make it work. All the approaches you've tried only result in ending up back at square one with a jumbled mess you're trying to make sense of. So how do you solve it?

Thankfully budgeting is not *actually* as difficult as solving a Rubik's Cube. But there are definitely some tried and true methods, as well as a few hard and fast rules that will help you to be successful.

If you've struggled to create a budget in the past, here's a step-by-step guide to making one that works for you. Here's what you need to do:

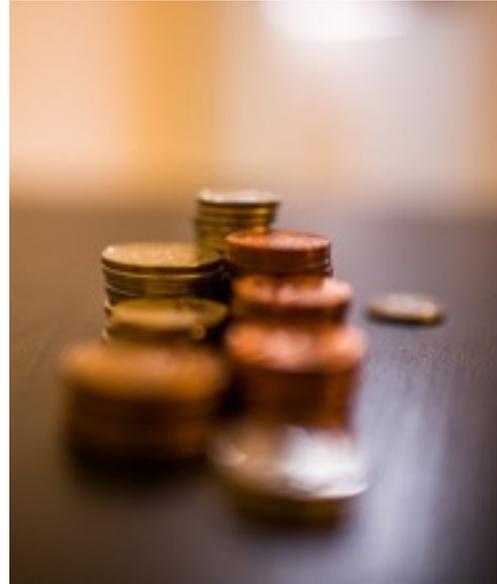
1. First, figure out exactly how much net income (after taxes) your household brings in each month. If it varies from month to month, go with the minimum amount you figure you will bring in.
2. Once you know your monthly income, you're ready to start dividing it up and allocating it to all of your monthly expenses (including your savings!)

Now, there are several ways to approach this. I'm going to share 3 options with you so you can decide the best way for you:

## Option 1

Make three categories for your expenses titled "Fixed," "Flexible" and "Discretionary." Then record all of your expenses, assigning each one to one of these categories.

- **Fixed expenses** are the same every month (ie. rent, insurance, some bills, car payments, etc.).
- **Flexible expenses** are necessary expenses that you have every month, but the amount you spend on them changes and/or can be controlled (ie. groceries, gas, utilities, etc.)
- **Discretionary expenses** are not absolutely necessary, but help us to enjoy life (ie. entertainment, shopping for non-necessities, eating out, etc.)



## Option 2

Make an umbrella category for each one of your major expenses (ie. house, transportation, food, entertainment, etc. and list all the expenses associated with that category underneath it. It should look something like this:

House	Transportation	Food	Entertainment
Mortgage (or rent)	Gas	Groceries	Monthly Date Night
\$1,000	\$400	\$500	\$100
Insurance	Insurance	Eating Out	Shopping (clothes, gifts, etc.)
\$100	\$100	\$100	\$60
Maintenance & Repairs	Maintenance & Repairs		Recreational Activities
\$50	\$50		\$150
Utilities			
\$50			
Total	Total	Total	Total
\$1350	\$550	\$600	\$310

## Option 3

a) Follow the 50/30/20 rule:

- **50%** to your NEEDS (bills, food, transportation and everything else you need to get by each month),
- **30%** to your WANTS (shopping, entertainment, gym membership, alcohol, magazine subscriptions, etc.)
- **20%** to SAVINGS (retirement, long-term savings, emergency fund, etc.)

The benefit of budgeting according to 50/30/20 rule is that you allocate 20% of your income to savings right away, so you know you will be keeping some of your hard earned money. I call this “paying yourself first,” and if you can afford to do it this way, I recommend trying it.

3. Then add up all your expenses to get the total, and compare that number to your monthly income.

If you have extra money left over, that should go into long-term savings or an emergency account.

If your expenses are higher than your income, you will need to cut back somewhere. Look at your flexible expenses (food, entertainment, etc.) and see if you can reduce your expenses anywhere so that you don't spend more than you earn.

4. Once you have completed your budget and all of your expenses are accounted for and fit within your monthly income, you should figure out how you are going to track your spending.

In order to stick to budget, you need to keep track of your spending somehow. Here again, there are different approaches you can take. Here are two that I've used successfully:

- a) **The Envelope Method:** (<https://www.daveramsey.com/blog/envelope-system-explained>) Using this method, you figure out how much cash you need to cover all of your monthly expenses and divide it up into envelopes (or jars) according to your budget and ONLY spend the cash you have in each envelope on what it is intended for.

So this means, if you have an envelope for transportation, you can only spend the cash in that envelope on transportation costs. You can't take cash out of another envelope (like groceries) and put it toward transportation. You need to stick to spending only what you've got to spend.

Keep a notepad by your envelopes and write down every time you spend money and what you spend it on. Or keep your receipts and put them in the envelopes to be tallied up at the end of each month.

- b) **Spend only on plastic:** While it may sound counter-intuitive for me to be telling you to use your debit and credit cards for all of your expenses, I have found that this way actually works best in our household. By only spending on our cards, we are better able to keep track of our expenses because they are all automatically recorded on our bank and credit card statements.

Also, because my husband and I share a bank account, we are better able to track each other's spending to keep each other accountable and to know exactly how much we each have left to spend.

5. Stick to your budget! It won't always be easy, and you will more than likely slip up more than once. That's okay though! You're human. It happens and it's not the end of the world. Just get back on track and stick to your budget as best you can. You are guaranteed to see positive results at the end of each month if you do!

6. Review your budget at the end of each month. How did you do? What worked? What didn't? What would you change next month? What would you keep?

Then it's time to create next month's budget. It's important to do this *before* the first of the month in order to stay on track and start the month off right.

I recommend holding a budget meeting on the last day of the month to review the last month's budget and create one for the following month. I also recommend involving every family member who is old enough to partake in a budget meeting.

You should *at least* be talking with your spouse about your budget if you have one, but if you can, involve your kids too. It's a super way to teach them about money and set them up for financial success later in life!

## **A simple formula to remember:**

There you have it! It's really not as complicated as we make it out to be if we follow tried and true procedures. Budgeting is a little bit like dieting that way. We spend all our time trying to figure out the magic formula for losing weight when really it's simple math: calories in = weight gain, calories out = weight loss. Same with budgeting: money in = more money in the bank, money out = less money in the bank.

Sure, when it comes to dieting there are "good calories" and "bad calories" and all sorts of other things to consider. Same with budgeting. There are good investments and there are expenditures that are a waste of money. But the basic formulas remain the same: calories in = weight gain, calories out = weight loss. **Money in = more money in the bank, money out = less money in the bank.**

In dieting terms, when the "calories in" are greater than the "calories out," you will gain weight. Likewise, when it comes to budgeting, if your "money out" is greater than your "money in," you will go into debt.

However, the opposite is also true. If the "calories out" are greater than the "calories in," you will lose weight. If your "money in" is greater than your "money out," you will start saving money. If you can remember this simple formula, you will do just fine with a budget!

## **Deciding which approach is best for you**

While there are various ways to approach your budget, my advice is to start with one that appeals to you and then review it. If you don't end up liking it or it doesn't work for you, try a different way. Do this until it feels right and works for you and your family.

Regardless of which approach you take, at the end of the day, all budgets follow a few key rules:

- You need to know (or at least have a fairly accurate idea) how much you earn each month.
- You need to divide that income into your expense categories.
- If your expenses are higher than your income, you need to cut expenses somewhere to make it affordable.
- And of course, **YOU NEED TO STICK TO YOUR BUDGET!**

## **Don't give up!**

Above all else, don't give up on your budget if it seems hard for at first or if you slip up and overspend. You're only human, and all you can do is your best.

If you blow your budget one month, dust yourself off and try to do better next month. That's the beauty of life: Every day, week and month is a chance to try again and do things better than before!