



**Financial Literacy by SYFI**

# BUDGETING



# What is budgeting?

- Budgeting is the process of planning and managing finances by allocating income to various categories, setting spending limits, and prioritizing financial goals to achieve a balance between income and expenses.
- Examples of **Budgeting Inclusions**:
  - Income Sources: Identifying all sources of income, such as salaries, wages, and investment dividends.
  - Fixed Expenses: Accounting for stable recurring expenses like rent, insurance premiums, and loan repayments.
  - Variable Expenses: Allotting funds for fluctuating expenses such as groceries, utilities, and entertainment.
  - Savings Goals: Setting aside money for emergencies, retirement, education, or large purchases.
  - Debt Repayment: Allocating funds to pay off debts, including credit cards and loans.
  - Investments: Planning contributions to investment accounts for long-term wealth-building.

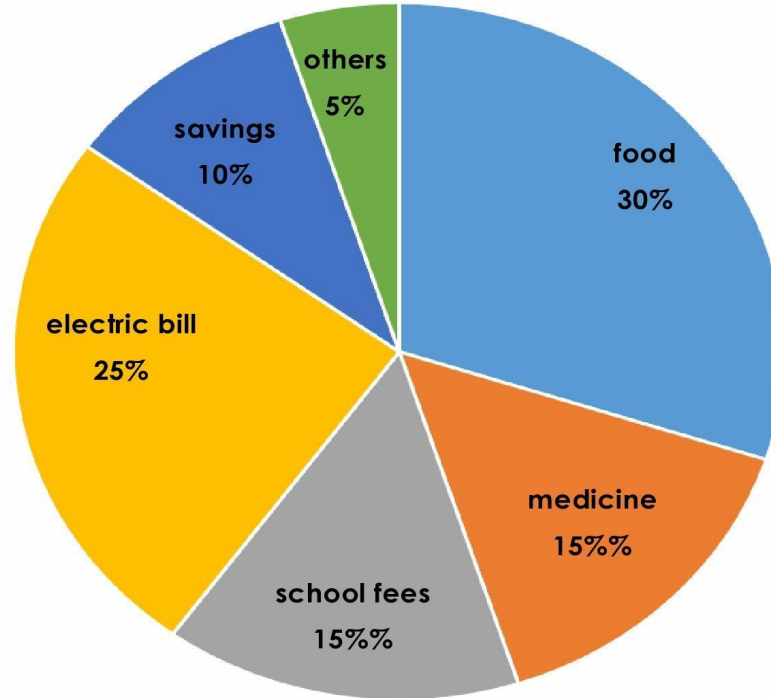


# How to budget

- **Calculate Income:** Determine total monthly income from all sources, including salaries, wages, freelancing, and investments.
- **List Expenses:** Identify and categorize all expenses, including fixed costs like rent/mortgage, utilities, groceries, transportation, and variable expenses such as entertainment and dining out.
- **Set Financial Goals:** Establish short-term and long-term financial goals, such as building an emergency fund, paying off debt, saving for a vacation, or investing for retirement.
- **Allocate Funds:** Assign specific amounts of income to each expense category based on priorities and financial goals, ensuring that essential expenses are covered first before allocating funds to discretionary spending.
- **Track and Adjust:** Regularly monitor actual spending against the budgeted amounts, making adjustments as needed to stay within budget and align with financial objectives.



# Example of a budget





# Needs

- **Food:** Prioritize allocating funds for nutritious and essential food items to maintain health and well-being.
- **Housing:** Ensure sufficient funds are allocated for rent or mortgage payments, prioritizing secure and adequate housing.
- **Utilities:** Allocate funds for essential utilities such as electricity, water, and heating/cooling to maintain a comfortable living environment.
- **Healthcare:** Budget for medical expenses, including insurance premiums, co-payments, and prescriptions, to ensure access to necessary healthcare services.
- **Transportation:** Allocate funds for transportation expenses, including public transit fares, fuel, maintenance, and insurance, to facilitate mobility and access to work, school, and essential services.



# Wants

- **Luxury Items:** Consider reducing spending on non-essential luxury items such as designer clothing, high-end accessories like shoes and watches, and luxury electronics.
- **Dining Out:** Cut back on dining out at restaurants and prioritize home-cooked meals to save on food expenses.
- **Entertainment:** Limit spending on entertainment such as movies, concerts, and recreational activities, opting for free or low-cost alternatives like streaming services or outdoor activities.
- **Expensive Transportation:** Reduce spending on luxury vehicles or expensive modes of transportation, opting for more cost-effective options such as public transit, biking, or carpooling.
- **Subscription Services:** Evaluate and cancel unnecessary subscription services such as streaming platforms, magazine subscriptions, or gym memberships to save on recurring expenses.



# What makes a good budget

- **Comprehensive Financial Plan:** A good budget starts with creating a detailed financial plan that outlines income sources, expenses, savings goals, and debt repayment strategies.
- **Spending Discipline:** Effective budgeting involves avoiding overspending by adhering to spending limits and distinguishing between needs and wants.
- **Emergency and Retirement Savings:** Prioritize saving a percentage of income for emergencies and retirement to build financial security and resilience against unforeseen events.
- **Financial Flexibility:** A good budget allows for flexibility to accommodate unexpected expenses or changes in financial circumstances without derailing long-term financial goals.
- **Debt Management:** Minimize high-interest debt and loans by prioritizing debt repayment within the budget, reducing financial strain and improving overall financial health.





# What makes a bad budget

- **Lack of Financial Plan:** A bad budget typically lacks a comprehensive financial plan, leading to disorganized spending and saving habits without clear goals or direction.
- **Financial Strain:** Stretching oneself too thin financially by committing to high expenses such as exorbitant rent or loan payments can result in difficulty meeting financial obligations and increased stress.
- **Overspending:** A bad budget often involves consistently overspending beyond one's means, leading to accumulating debt, depleted savings, and financial instability.
- **Minimal Savings:** Failing to prioritize savings for emergencies, retirement, or other financial goals leaves individuals vulnerable to unexpected expenses and limits future financial security.
- **Limited Freedom:** Having expensive commitments and fixed expenses can restrict financial freedom and flexibility, making it challenging to adapt to changes in income or unexpected expenses.



# Income vs Expenses

- **Income Assessment:** Start by thoroughly evaluating all sources of income, including wages, salaries, bonuses, freelance earnings, and investment dividends.
- **Expense Evaluation:** Carefully categorize and analyze all expenses, ensuring that essential costs like housing, utilities, groceries, and transportation are adequately accounted for.
- **Budgeting Principle:** Adhere to a fundamental budgeting principle where expenses consistently remain below income levels, allowing for surplus funds to be allocated towards savings, debt repayment, and investments.
- **Emergency Fund:** Prioritize the establishment of an emergency fund to cover unforeseen expenses such as medical emergencies, unexpected job loss, or major repairs, aiming to accumulate at least three to six months' worth of living expenses.
- **Financial Balance:** Strive for a balanced financial equation where income consistently exceeds expenses, providing a financial buffer for emergencies and facilitating progress towards long-term financial goals.



# Tracking Expenses

- **Utilize Financial Apps:** Take advantage of budgeting and expense tracking apps that automate the process of recording transactions and categorizing expenses, providing real-time insights into spending habits.
- **Review Credit/Debit Card History:** Regularly review credit/debit card statements to identify and categorize expenditures, ensuring accuracy and completeness in tracking financial transactions.
- **Keep Detailed Records:** Maintain a habit of noting down all expenses, whether through digital apps, spreadsheets, or handwritten logs, to create a comprehensive record of spending patterns.
- **Categorize Spending:** Classify expenditures into distinct categories such as groceries, utilities, transportation, entertainment, and dining out, allowing for a clearer understanding of where money is being allocated.
- **Establish Spending Plan:** Use insights gained from tracking expenses to create a budgeting plan that specifies how much should be allocated to each spending category per month, helping to prioritize financial goals and control spending.



# Identifying & cutting expenses

- **Prioritize Essential Spending:** Focus on essential expenses such as housing, utilities, groceries, and transportation, and evaluate non-essential expenditures for potential reduction or elimination.
- **Limit Dining Out:** Reduce spending on expensive restaurant dining by cooking meals at home more frequently, opting for homemade lunches and dinners to save money.
- **Opt for Public Transport:** Choose cost-effective transportation options like public transit over private taxi services or ridesharing apps to minimize commuting expenses.
- **Analyze Spending Categories:** Split expenses into categories and review them regularly to identify areas where spending is excessive or unnecessary, allowing for adjustments to be made accordingly.
- **Adjust Spending Habits:** Once identified, take proactive steps to cut out unnecessary expenses, whether by reducing frequency, finding cheaper alternatives, or altogether eliminating non-essential purchases to align with financial goals.

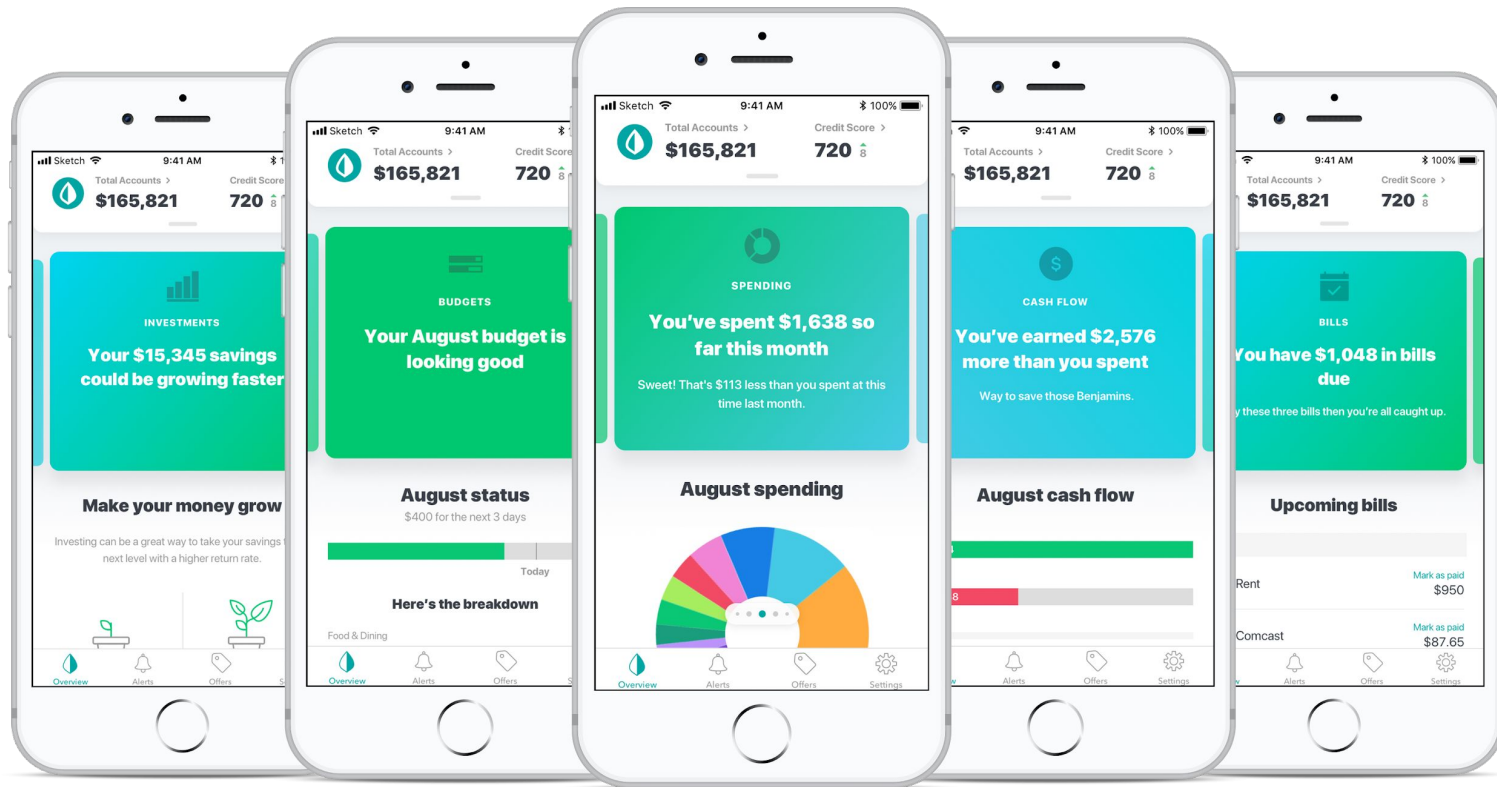


# Using budgeting tools & apps

- **Mint:** An all-in-one budgeting app that allows users to track expenses, create budgets, set financial goals, and monitor investments, offering insights into spending habits and personalized financial advice.
- **YNAB (You Need a Budget):** Focuses on zero-based budgeting, where every dollar is allocated to a specific category, helping users prioritize spending and save for future expenses.
- **PocketGuard:** Automatically syncs financial accounts to track spending, categorize expenses, and monitor bills, providing personalized insights and recommendations to optimize finances.
- **Personal Capital:** Offers comprehensive financial tracking and planning tools, including budgeting, investment management, retirement planning, and net worth tracking, tailored for long-term financial success.
- **Explore Free Budgeting Apps:** Conduct a simple online search for "free budgeting apps" to discover a wide range of options available across various platforms, allowing users to find the app that best suits their needs and preferences.



# Mint budgeting mobile





# YNAB Tracking (video)





# Specific App Example

Goodbudget:

- Envelope System: Allocates funds into virtual envelopes for different spending categories.
- Expense Monitoring: Tracks expenses and shows the remaining balance in each envelope.
- Multi-Device Syncing: Allows data synchronization across various devices for easy access.
- Financial Goal Setting: Aids in setting and achieving financial goals with detailed reports and planning tools.





# Good Budget Example

Monthly Income: \$3,500

Expenses:

- Housing: \$1,200 (Rent)
- Utilities: \$200 (Electricity, Water, Internet)
- Groceries: \$400
- Transportation: \$150 (Public Transit, Fuel)
- Insurance: \$200 (Health, Car)
- Savings: \$500 (Emergency Fund, Retirement)
- Debt Repayment: \$300 (Student Loans, Credit Cards)
- Entertainment: \$150 (Movies, Dining Out)
- Miscellaneous: \$100 (Clothing, Gifts)
- Total Expenses: \$3,200
- Remaining: \$300 (Allocated towards future investments or savings goals)

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# Emergency Funds

- When putting your money into savings accounts or bonds, it's important to structure your budget in a way that you have some emergency funds that are easily accessible where you won't incur losses when taking them out of the account
  - If you buy bonds, they tend to have maturity dates (when you get interest + principal amount back) of 1-30 years. If you need to get your money back earlier, you often incur heavy losses by having to sell your bond earlier
  - Therefore it's important to have some money easily accessible such as in a bank account



# Budget Review and Adjustment

- It's important to review and adjust your budget every couple of months, depending on changes to your incomes or expenses.
- Unexpected events may occur and therefore it's very important to be able to adjust to changing situations and then help



# Zero-Based Budgeting

- This is a very good budgeting tool that makes sure that every dollar is accounted for
- This way you'll never lose track of your money and know exactly how much to spend on what
- This will also make it easier for you to oversee your finances



# Budgeting games and simulations

- <https://playspent.org/html/>
- <https://mycreditunion.gov/financial-resources/hit-road-financial-adventure>
- <https://www.playmoneymagic.com/>
- <https://iq.ft.com/uber-game/>
- <https://buildyourstax.com/>
- <https://www.umsl.edu/~wpockets/Clubhouse/library.htm>
- <https://www.financialfootball.com/play/>
- <https://payoff.practicalmoneyskills.com/>
- <https://www.practicalmoneyskills.com/en/play/payoff.html>
- <https://shadysam.com/> (debt → next lesson)