

Creating a Budget

SAFA Financial Literacy Lesson

What is a budget?

A budget is a financial plan that determines how you use your money every month.



Why should I make a budget?

— — —

Without restricting your spending, you may be stressing your economic situation, and you may use up your income before your next paycheck. By creating a budget, you will be able to save and invest more money, and this will help you achieve major financial goals.



Step 1: Evaluating your financial situation

While making a budget, it is important to evaluate the many factors that are part of your financial situation. Some things that should be noted is your income, debts, and saving goals. By evaluating how much you can spend month to month, you can make a more accurate budget.

Step 2: Making a budget

When making a budget, it is important to make it realistic. You can use already existing frameworks, like the 70% rule (70% of your income on monthly expenses, 20% savings unless there is debt, and 10% investments or major goals), to help structure how much you can spend. Another common rule that is used is the 50/20/30 rule, in which 50% of your income (after taxation) is used for needs, 20% is saved and used for debt repayment, and 30% is used for whatever you desire. For the monthly expenses, make sure to set aside a certain amount of money for fixed amounts like rent, and plan how much percent of your money you are using for other specific variable purposes, like groceries, shopping, etc.

Step 3: Tracking expenses

We already explained this in the last slideshow, but this is a crucial step in evaluating your budget. Use either an online app or a notebook to note your expenses, including the amount of money spent and the reason that you are spending the money.

MONTHLY BUDGET	
<u>Income</u>	<u>Expenses</u>
	Needs
Take-home-pay \$3,200	Rent \$1,000
Freelance income \$500	Car \$400
Investment income \$100	Utilities \$150
Aunt Sally \$10	Internet & Phone \$100
	Gas \$100
	Student loans & other debt \$300
	Groceries \$300
	Personal care \$100
	Wants
	Eating out \$200
	Entertainment \$200
	New clothing \$150
	Cable TV \$30

*Based on a \$65,000/year income, with taxes, health insurance and retirement savings deducted from 'Take-home-pay'

Step 4: Reflecting on your budget

— — —

See how close your expenses were to meeting your outlined budget. If they were far too much, then see which parts of your expenses can be reduced. If they were less than the budget, then adjust your budget accordingly and denominate more of your income to savings, investments, and major goals. Adjust some of the percentages you outlined in your budget if they do not work.

Videotime

