

A budget should be more relatable to a lifestyle choice than a diet.

It is not:

temporary
just to achieve one goal
just to point out bad habits
about the total money in the bank

It is:

a way of achieving goals
a lifelong journey
to implement good habits
about daily choices

This means the first step in budgeting is setting goals. That is why we worked on smart goals before considering budgeting.

A budget is **telling** your money
where to go instead of **wondering**
where it went.

-Dave Ramsey

Budget: estimation of incomes and expenses over a specified period

-evaluated periodically

Examples: Individual, family, business, country, etc.

*In this course we will be focusing on personal/household budgets.

What will a budget do for you?

-Help with short term costs (paying phone bill)

-Help with long term costs (preparing to buy/build a house)

-Prevent financial catastrophe (having accessible money in an emergency fund for unexpected costs)

-Help us have money in the bank (rather than living paycheck to paycheck)

-Financial Freedom (and ultimately retiring with funds to do what you want to do)

Lesson 5-Budgeting

3 Parts of a Budget: **Income**, Expenses, Savings

1. Income

Money coming in

a) **Earned Income**: earned through labor/services
wages, salaries, commission, bonuses

b) **Investment Income**: results from investment
dividends

c) **Passive Income**: income received with little effort to maintain. Direct involvement is not required to earn this income.

gift, lottery, rental properties, some business income

Income can be regular or irregular.

Regular Income: predictable (ex: from employment)

Irregular: unpredictable (ex: contract work, gifts, bonuses, dividends)

Disposable vs Discretionary:

Disposable: The amount you have left after taxes are taken off. (The amount that gets deposited into your bank account.)

Discretionary: Disposable - Required
(Your spending money after expenses are taken care of)

3 Parts of a Budget: Income, Expenses, Savings

2. Expenses

Money being spent

a) Fixed vs. Variable

Fixed Expense: consistent, same amount (ex: rent)

Variable Expense: inconsistent (ex: groceries)

b) Required vs. Discretionary/Flexible

Required: must pay (ex: food, rent, phone, Internet)

-needs are usually required, but some wants are as well in order to keep the service.

Discretionary/Flexible: optional, if not paid, will not cause negative effects.

c) Recurring vs. Non-Recurring

Recurring: occurs for more than one period in the budget (ex: phone bill)

Non-recurring: occurs in one period but doesn't recur (ex: vehicle maintenance)

3 Parts of a Budget: Income, Expenses, Savings

3. Savings

Set aside to use at a future time

Remember that a budget is a way of achieving a goal, so in order to budget, we need to set personal and financial goals. Then, we need to identify and track our income and expenses, to see what changes we need to make to reach those goals.

If I told you to track the last year, you would have to go through bank accounts, receipts, credit card statements, bills, pay stubs, etc.

It is easier to do this from the beginning rather than have to look back later.

Take some time to study the terms above to prepare yourself for a quiz!

What are some reasons we may fail to follow a budget?

What are some reasons we may fail to follow a budget?

- too restrictive
- never changes with life circumstances
- didn't consider emotional math
- budgeted just you and now the whole household
- forgot about emergencies

When making our budgets, we need to keep the factors above in mind.



“A budget
tells us
what we
can't afford,
but it doesn't
keep us
from buying
it.”

William Feather

Budgeting Strategies:

1. Envelope Strategy

*This strategy isn't practical long term, however it is good for initially changing habits.

After a paycheck is deposited, withdraw cash for how much you are allowed to spend and spend the cash wisely. No transactions can be made once the cash is spent.

2. 50/30/20 Rule

This rule refers to percentages of after-tax income (what goes into your bank account)

50% to needs (including bills and mortgage)

30% to wants

20% to savings

3. Zero-Based Budget

Assign every dollar to a category (starred categories are mandatory and others are optional) and if you have some left over, it goes into savings.

4. Pay Yourself First

From your deposited paycheck, immediately pay a certain amount into savings. The rest can be spent on expenses, wants, etc.

Let's explore Strategies 2,3,and 4.

Your question sheet will only be filled out when prompted.

*Starred categories are mandatory, regardless of the method.
Other categories are optional unless stated otherwise.

50/30/20

Of your 20 pieces:

50% (10) in needs (boxes with star)

30% (6) in wants

20% (4) in savings

Zero Based

Make all choices, except savings.

Whatever you have left (if any) after your choices are made,
put in savings box.

Put Yourself First

Make savings choice first.

Whatever is left, put elsewhere.

*Answer Question 1

Choose the method you prefer and budget your 20 pieces for yourself as an individual, not as a family.

*Answer Question 2.

Oh no! You were ice fishing and your car slid into another.

Check your Auto Insurance:

If you don't have any: pay three pieces

If you have liability coverage only, pay 1 piece to afford the extra costs.

If you have complete coverage, pay nothing.

Oh no! You accidentally put gorilla glue in your hair and need the hairdresser to fix it.

Check your Personal Care:

If you only have the basic products, that will not help. Pay 2 pieces.

If you have occasional or regular haircuts/styling, you do not need to pay anything.

Oh no! There was a wind storm that knocked over a tree branch and it came through your roof.

Check your renters insurance:

If you don't have any, pay 1 piece.

If you already budgeted for it, you don't have to pay anything.

Oh no! You forgot to pay a bill and the banks are closed! You need to do this online.

Check your communications budget for high speed Internet:

If you don't have high speed Internet, pay two piece.
If you have high speed Internet, you don't have to pay anything.

How many pieces do you have left?

Budgets need to be changed and adapted based on your life, unexpected expenses, etc.

With what you have left, re budget yourself.

Budgets also need to be changed and adapted as your lifestyle changes!

For example, my grocery budget in university was less than \$100/week (\$400 per month). It is now \$650/month with extra mouths to feed occasionally. It will go even higher as my time feeding extra people increases.

You are now married with children. Congratulations!

With two incomes, you now have 30 pieces to budget. Remember, this is joint money so your budgeting decisions must be made together, keeping in mind what is best for your whole family!

Choose the method you prefer and budget your 30 pieces for your family.

*Answer Question 3.

Oh no! Your child fell off the monkey bars and broke their arm!

Check your Health and Disability Insurance:

If you don't have any: pay two pieces

If you have fringe benefits of the job, it will cover the doctor's appointment but not the cast, so pay one piece.

If you have basic coverage, pay nothing.

Oh no! With all the children's laundry, you can no longer do laundry at your parents or a laundromat.

Check your Clothing and Laundry:

If you were initially doing laundry at your parents, pay 2 pieces.

If you were doing laundry at the laundromat, pay 1 piece.

If you already budgeted for our own washer and dryer, pay nothing.

Oh no! One of your children has hockey practice twice a week and the other has riding lessons twice a week. These are days that you are unable to cook at home.

Check your Food budget:

If you budgeted to cook at home and only eat out once a week, pay one piece. If you budgeted for frequent or all meals out, pay nothing.

Oh no! Your child got invited to a birthday party and you need a gift!

Check your Gifts budget:

If you have none, pay 2 piece.

If you only budgeted to make your own, pay 1 piece.

If you budgeted for occasional or frequent gifts, pay nothing.

Oh no! One of the earning family members lost their job.

Remove half the pieces left from your budget.

How many pieces do you have left?

With what you have left, re budget yourself.

Answer question 4.

It is important to be realistic with your budget and to adapt/change it periodically.

It is also important to know that there are opportunity costs associated with budgeting. When you had to re-budget your money, you had to take away from one area to reallocate it to another area. When we spend money, there is an opportunity cost of our second choice to spend it on.

Let's look at Tatum's story and examine her budget.

Fill in the budget sheet with her budgeted spending, actual spending, and the difference. Then you can answer the questions to help Tatum's budget improve and match her goals.


Consequences of Not Following a Budget Worksheet

In the worksheet, you could see the opportunity cost of your budgeting decisions.

These are small decisions and may not seem like a big deal, but they add up over time.

For example, when budgeting, are you going to make room for cable or streaming services or both? Do you want just Netflix, or do you want Disney Plus as well?

Instead of spending money on streaming services should we invest that money? Let's take a look!

 True Cost of Streaming Calculator.xlsx

Cultural Differences in Budgeting

Different cultures have different perspectives on budgeting.

In some cultures, avoiding extravagance is important so money is spent in moderation. In some cultures, earning interest is not allowed.

In Canada, we are familiar with the concept of allowance, in which parents give money to their children each month. This concept is not universally known.

In the Zakat Islamic practice, Muslims are required to donate 2.5% to charity each year. Similarly in the Tithe culture of the Christian and Jewish practice, 10% was to be donated to church or charity.

In the Tongan culture, sharing and community is valued. Therefore, after money is spent on needs, any left is often given to those in need.

In many Chinese cultures, saving is prioritized and on children's birthdays they are not given material objects but rather money in a red envelope to be saved for the future.

Let's create a budget for Chuck and Vera Young!

In this example, we were given a nice list of information, however realistically, we would have to go through receipts, pay stubs, invoices, bank statements, credit card statements, etc.

*On the class website, under budgeting, see if you can open the Excel Spreadsheet: **Budgeting Template Blank**

 Budget Template Blank.xlsx

Using this template, try to enter all the given information in the appropriate spots.

Attachments

True Cost of Streaming Calculator.xlsx

Budget Template Blank.xlsx