

## Section II: Second Floor - Budgeting and Saving Actionable Steps

### 1. Tracking Expenses: Uncovering Your Spending Habits

- ☐ **Choose a Budgeting Tool:**
  - Select a budgeting app (like Mint, YNAB, or EveryDollar). Consider factors like:
    - **Automation:** Does it automatically import transactions?
    - **Cost:** Is there a free version, or is it subscription-based?
    - **User Interface:** Is it easy to navigate and understand?
    - **Mint:** Offers a broad overview of finances, tracks investments, and provides credit score monitoring.
    - **YNAB (You Need a Budget):** Emphasizes zero-based budgeting, giving every dollar a job.
    - **EveryDollar:** A Dave Ramsey tool that also uses zero-based budgeting.
  - If you prefer a spreadsheet, use Excel or Google Sheets. Set up the following columns:
    - **Date:** The date of the expense.
    - **Description:** A brief description of what you purchased.
    - **Category:** The category of the expense (see below).
    - **Amount:** The cost of the expense.
  - If using an app, download it from your device's app store and create an account. Follow the app's instructions to set up your profile.
  - If using a spreadsheet, open Excel or Google Sheets and create a new spreadsheet. Enter the column headers as described above.
- ☐ **Connect Your Accounts or Input Manually:**
  - If using an app:
    - Link your bank accounts, credit cards, and other financial accounts to the app. This will allow the app to automatically import your transactions. Follow the app's security prompts to connect your accounts.
    - Double-check that the app is importing transactions correctly.
  - If using a spreadsheet:
    - Manually enter each expense as it occurs. Make it a habit to record your spending daily or every few days.
    - Keep receipts or check your bank statements to ensure you're capturing all expenses.
- ☐ **Categorize Your Spending:**
  - Use the "Memory Jogger" categories to accurately classify each expense. This is crucial for understanding where your money is going.

- ☐ Housing (rent/mortgage payments, property taxes, homeowner's/renter's insurance, utilities - electricity, water, gas)
- ☐ Transportation (gasoline/fuel, public transportation fares, car payments, car insurance, vehicle maintenance and repairs, and parking fees)
- ☐ Food (groceries, dining out at restaurants, takeout, coffee shops)
- ☐ Entertainment (movies, concerts, sporting events, hobbies, streaming subscriptions, books, games)
- ☐ Utilities (internet service, mobile phone bill, cable/satellite TV, electricity, water, gas)
- ☐ Debt Payments (credit card payments, student loan payments, personal loan payments, other loan repayments)
- ☐ Miscellaneous (personal care products, clothing, gifts, donations, bank fees, ATM fees, postage, dry cleaning)
- Be consistent with your categorization. For example, always categorize your Netflix subscription under "Entertainment."
- If a purchase fits into multiple categories, choose the one that best represents the primary purpose of the expense.
- ☐ **Track for a Full Month:**
  - Monitor your expenses for at least one complete monthly cycle (e.g., from the 1st to the 30th/31st) to capture all regular and irregular spending.
  - Irregular expenses might include things like:
    - Quarterly insurance premiums
    - Annual subscriptions
    - Birthday gifts
    - Car maintenance
  - Tracking for a full month will give you a more accurate picture of your average monthly spending.

## 2. Building Your Budget: Creating a Financial Plan

- ☐ **Set Up Your Budget:**
  - Use your chosen app or spreadsheet to create a monthly budget. This is a plan for how you will allocate your income.
  - List all income sources and expected amounts:
    - Salary/wages (after taxes)

- Self-employment income
  - Investment income (dividends, interest)
  - Other income (alimony, child support, etc.)
- List all expense categories and estimated amounts. Use your expense-tracking data from Step 1 to help you estimate these amounts. Be realistic!
- Aim for a balanced budget, where your total income is equal to or greater than your total expenses. (Income  $\geq$  Expenses)
- ☐ **Compare Projected vs. Actual:**
  - Regularly (at least weekly) compare your budgeted amounts with your actual spending. Your budgeting tool should help you with this.
  - Identify areas where you are:
    - Overspending: Where you are spending more than you budgeted.
    - Underspending: Where you are spending less than you budgeted.
    - Within budget: Where you are spending as planned.
  - This comparison will help you identify areas where you need to adjust your spending habits or your budget.
- ☐ **Integrate Debt Repayment:**
  - If you have debt (credit cards, loans, etc.), include a debt repayment plan in your budget. This is essential for becoming debt-free.
  - Choose a debt repayment method:
    - Debt Snowball: Pay off the smallest debt first while making minimum payments on larger debts. This provides quick wins and motivation.
    - Debt Avalanche: Pay off the debt with the highest interest rate first while making minimum payments on other debts. This minimizes the total amount of interest you pay.
  - Allocate a specific amount of your budget each month to debt repayment in addition to the minimum payments.
- ☐ **Schedule Regular Reviews:**
  - Set aside time each week (e.g., 30 minutes) or month (e.g., 1 hour) to review and adjust your budget as needed.
  - Your budget is not static; it should adapt to changes in your income, expenses, and financial goals.
  - During your review, consider:
    - Have your income or expenses changed?
    - Are you on track to meet your savings goals?

- Do you need to adjust your spending in any categories?
- Are there any upcoming expenses you need to plan for?

### 3. Saving Importance: Building Your Financial Safety Net

- ☐ **Understand the Purpose of Saving:**
  - Recognize saving as a way to build a financial safety net to protect you from unexpected expenses (e.g., job loss, medical bills, car repairs) and to achieve future financial goals (e.g., down payment on a house, retirement).
- ☐ **Calculate Your Emergency Fund:**
  - Determine your essential monthly living expenses. These are the expenses you absolutely cannot cut, such as:
    - Rent/mortgage
    - Utilities
    - Groceries
    - Transportation
    - Minimum debt payments
  - Multiply that amount by 3-6 to calculate your target emergency fund.
    - 3 months is a good starting point.
    - 6 months is generally recommended for greater security.
  - Store your emergency fund in a safe, easily accessible account (e.g., a high-yield savings account).
- ☐ **Automate Your Savings:**
  - Set up automatic transfers from your checking account to a dedicated savings account each month.
  - Treat savings like a non-negotiable bill. Pay yourself first!
  - Start with a small amount if necessary, and gradually increase it over time. Even \$25 or \$50 per month can make a difference.
- ☐ **Consider a Roth IRA:**
  - \* Research Roth IRAs to understand their benefits, contribution limits, and withdrawal rules.
  - \* If eligible and it aligns with your long-term financial goals, consider contributing to a Roth IRA.
  - \* Automate contributions to your Roth IRA, similar to your regular savings.

### 4. SMART Goals (Savings Example): Setting Achievable Targets

- **Specific:** I will save \$5,000 for a down payment on a reliable used car.
  - Clearly define what you want to achieve. Instead of "save money," specify the exact purpose.
- **Measurable:** I will save \$416.67 per month to reach my \$5,000 goal.
  - Establish a way to track your progress. Use concrete numbers. ( $\$5000 / 12 \text{ months} = \$416.67$ )
- **Attainable:** I will reduce my dining out expenses by \$100 per month and allocate an additional \$316.67 from my paycheck to my savings.
  - Ensure your goal is realistic and achievable given your current income and expenses. Identify specific actions you can take.
- **Relevant:** Having a reliable car will reduce my transportation costs (compared to ride-sharing) and improve my daily commute, saving me time and money in the long run.
  - Explain why this goal is important to you and how it aligns with your overall financial and life goals.
- **Time-bound:** I will achieve this savings goal within 12 months.
  - Set a deadline for achieving your goal. This creates a sense of urgency and helps you stay on track.