



Create a Budget



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- The content herein was developed from sources believed to be providing accurate information.
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Course Pre-Requisite

We encourage completion of the Eustace Advisors Financial Education offering listed below before completing this Course.

1. How to Create a Balance Sheet and Income Statement

Introduction

Budgets, in conjunctions with Balance Sheets and Income Statements, are key tools to assess your current financial situation.

I always recommend the establishment of up-to-date Budgets, Balance Sheets and Income Statements as early steps when building a Financial Plan.

Many people view a budget as a “report card”; I encourage clients to view a budget as an enabling tool that can help you understand the impacts of changes to income and expenses on your overall plan. Such impacts may be related to a job change, relocation, significant purchase, retirement, etc..

Discussion Topics

1. Terms and Definitions
2. Purposes of a Budget
3. Interesting Facts
4. Getting Started
5. Simple Budget Example
6. Integrated Budget vs. Actuals Example
7. Ongoing Budget Management
8. What if my Budget is in Deficit Mode?
9. Budgeting Apps
10. Resources
11. Questions / Discussion

Terms and Definitions

1. Budget: a spending plan defining projected income and expenses. Similar in structure to an Income Statement, a budget is based on projections of FUTURE income and expenses and the resultant FUTURE cash flow. A budget is a key tool in building a Financial Plan.
2. Income: money received for labor or as a return on an investment. We tend to use three general categories of income, aligned with taxation factors:
 - A. Earned income: salary, wages, tips, commission, bonuses.
 - B. Portfolio income: dividends and capital gains earned on invested assets.
 - C. Passive income: interest income, royalties, rent and certain types of owner's equity.
3. Expenses: services and products that you pay for. Examples include rent, utilities, daycare, insurance, monthly mortgage payments, monthly car payments, food and entertainment, clothing, taxes, transportation (gas, maintenance, parking, tolls), travel and recreation, subscriptions, gifts, etc.
4. Cash Flow: this is calculated by subtracting expenses for a given period from income for that same period.

A positive cash flow denotes a surplus of money exists at the end of the measured period of time; a negative cash flow indicates that more money is being spent than is being earned during the measured period of time.

A positive cash flow can be used to INCREASE net worth; a negative cash flow will DECREASE net worth.

The Purposes of a Budget

Establishing a budget, and checking it periodically for accuracy, is a fundamental financial planning task for everyone, regardless of their financial situation. A budget helps create financial stability and puts you on stronger financial footing for both the day-to-day and long-term financial timeframe.

A budget is used to:

1. Understand and manage monthly expenses. With the increased use of credit cards, monthly subscription-based expenses, and direct ACH payment options, spending has become easier and not as closely monitored.
2. Assess your financial ability to fund additional expenses and purchases.
3. Prepare for life's unpredictable events via the establishment of an emergency savings account.
4. Allocate savings for investing.
5. Assess the implications of life events (job loss/gain, home purchase, childcare, retirement, marriage, etc.).

Interesting Facts

1. 32% of American adults have a budget.
2. 28% of Americans are financially healthy, meaning they can cover their expenses, invest in their retirement plans, and contribute to their savings.
3. Less than 25% of millennials have a basic understanding of finances and the need to save and budget.
4. 44% of Americans cite money matters as their #1 source of stress, ahead of personal relationships or work.
5. 60% of American households live paycheck to paycheck.
6. 65% of Americans don't know how much they spent last month.
7. 20-30% of Americans don't save any part of their income. This value varies across cited sources.
8. <5% of disposable income is saved by the average American (Goal = 20-25%). This is <1/2 the average during the period between 1950 and 2000.
9. Women save less than men, on average, and have less accumulated savings than men. 50% of men save on a monthly basis; 30% of women save on a monthly basis.
10. 10.5% of income in America is spent on food; 26% is spent on housing costs.
11. The cost of owning a home and one new car consumes ~45% of the typical American household budget.
12. Credit card debt in the U.S. is at its highest level ever (Jul'23), recently crossing the \$1 trillion mark.
13. 84% of Americans underestimate their monthly subscription costs.

How Do I Start?

1. Create a Balance Sheet and Income Statement.
2. Select a simple budget template or app, to start, that is easy to complete and maintain. The income and expenses categories of your budget template should match, or be very similar to, the categories of your Income Statement.
3. Use the same time period to budget income and expenses (monthly or quarterly).
4. Define all sources of projected income.
 - A. Don't include investment income (dividends and capital gain distributions) that is re-invested. This will be included in your projected investment returns over time.
 - B. If your income fluctuates month-to-month due to bonuses or commissions, or an irregular payroll schedule, estimate over a 6-month or 12-month period, then normalize to a monthly average.
5. Define all projected expenses.
 - A. Your income statement will define recent expenses. Update the budget to reflect expected changes.
 - B. Don't forget expenses that may be paid quarterly or annually (taxes, insurance, memberships).
6. Subtract your projected expenses from your projected income to define your projected cash flow. Positive cash flow allows the surplus to be saved/invested.

Budget Example

Monthly Budget - <Client Name>		
Date Completed		
	Monthly Amount	Description
GROSS INCOME		
Salary, Bonuses and Commissions		Pre-tax amounts
Investment income (interest, dividends, capital gain distributions)		Only include if NOT re-invested.
Social Security		
Retirement Plan Distributions		
Pension		
Annuity		
Alimony / Child Support		
Business and Rental income		
Other (tips, royalties, etc.)		
Total Gross Income	\$0	
	Monthly Amount	Description
WITHHOLDING		
Withholding - Retirement Plan		
Withholding - Health, Dental, Vision Insurance		
Withholding - Life/Disability Insurance		
Withholding - FSA/HSA		
Withholding - Income Taxes		
Withholding - Other		
Total Withholding	\$0	
Net Take Home Pay	\$0	

Resources to leverage: Income Statement, then adjust to reflect changes for the upcoming budget period.

EXPENSES	Monthly Amount	Description
Alimony / Child Support		
Charitable contributions / Gifts		
Clothing		
Entertainment		
Food (groceries and dining out)		
Gifts		
Gym and other memberships (streaming services, etc)		
Household supplies and maintenance		
Insurance - Auto		
Insurance - Health and LTC		
Insurance - Homeowner's / Renter's		
Insurance - Life / Disability		
Insurance - other		
Loan - Auto		
Loan - Other		
Loan - Student		
Medical / Dental / Vision out-of-pocket		
Mortgage		
Rent		
Taxes (property)		
Transportation (fuel, parking, maintenance, etc.)		
Travel		
Utilities (electric, water, cable, internet)		
Other		
Total Expenses	\$0	
Monthly Projected Cash Flow - SURPLUS / (DEFICIT)	\$0	
Notes		
1) All values are MONTHLY, unless otherwise noted.		
2) All income is PRE-TAX.		

Ongoing Budget Management

1. Once a Budget is established, monitor and adjust it on a regular basis.
 - A. Track actual income and expenses vs. the budget on a monthly basis, to start.
 - Eustace Advisors offers a template that automatically calculates budget vs. actual differences.
 - B. Adjust your budget as appropriate to reflect improved estimates.
 - C. Continue the monthly updates until actuals correlate to projections.
2. Once your budget is stable:
 - A. Review and update every six months or when a pending life change is imminent.
 - B. If expenditures are higher than projected, scrutinize your spending and try to reduce expenses to establish or increase your budget surplus.
 - C. If you have a surplus, allocate the surplus amount every month towards your emergency fund, long-term savings goals, or a planned significant purchase (home, car, etc.). This is sometimes referred to as “paying yourself first” – i.e., prioritizing saving a portion of your income before paying for other expenses.

If your Budget is in Deficit Mode...

1. Seek additional income
 - A. Work overtime, get a 2nd job, sublet a spare room, etc.
2. Reduce expenses
 - A. Start by assessing discretionary expenses, which are typically easier to reduce or eliminate.
 - A. Set goals to reduce dining out and entertainment expenses.
 - B. Scrutinize automatic monthly payments (streaming, gyms, other memberships).
 - B. Then focus on the largest expense categories (loans, insurance, food/entertainment).
 - A. Assess loans for interest reduction opportunities.
 - B. Scrutinize credit card usage and avoid paying interest on balances.
 - C. Shop around for lower-cost insurance.
 - C. There is much literature written on managing expenses – review online resources or consult with a financial advisor for help.
3. If necessary (i.e., #1 and #2 aren't sufficient), reduce retirement and discretionary savings allocations, TEMPORARILY.
4. Consider using budgeting apps or spreadsheets to simplify the process.

Budgeting Apps – Our Recommendation

There are many tools available to create and manage a budget.

We suggest that you start with one of these, keep things simple to start, and always take advantage of a free trial if the app has a fee to see if you like it before making a commitment.

1. Excel template. There are many free Excel Budget templates, including ours.

- A. Advantages: Cost (free), easy to use and customize, can be updated on desktop or mobile devices.
- B. Disadvantages: Requires manual data entry, use on mobile devices isn't easy, no pizzazz (reminders, etc.).

2. Nerdwallet *. <https://www.nerdwallet.com/article/finance/nerdwallet-budget-calculator>

- A. Advantages: Free; you can start with their simple budgeting template or create an account to access their budget app; part of the extensive NerdWallet ecosystem with a lot of resources (blogs, etc.).
- B. Disadvantages: Lots of ads and partner offers (typical for a free app).

3. YNAB – You Need A Budget *. <https://www.ynab.com/>

- A. Advantages: Includes financial education features and a lot of resources (blogs, etc.).
- B. Disadvantages: \$99/year. Steep learning curve and time required for maintenance vs. options 1 and 2 above.

Budgeting Apps – Other Options

There are many other Budgeting tools available – here are a few we think are worth a look:

1. Monarch – emerging as the replacement of choice for former Mint users.
2. Simplifi – requires account synching; best for detailed cash flow analysis.
3. EveryDollar (part of Ramsey Solutions) – aligns with Ramsey’s Financial Peace University.
4. Fudget and Goodbudget – limited Free versions; easy to use.
5. Honeydue – best solution for couples with both separate and integrated accounts.
6. Personal Capital – more of a wealth building application; better for investors.
7. Pocketguard – requires account synching; makes budget recommendations. Often recommended for Overspenders.
8. Wally – customizable; only available on iPhones. Liked by data-driven, advanced users.

Resources

1. Eustace Advisors has several Budget templates available for client use. Contact us for access and training.
2. www.investopedia.com – this is a great resource for financial, tax and estate related topics.
3. www.nerdwallet.com - this resource is very helpful for assessing “best of” subjects such as credit cards, insurance, loans, banks.
4. www.thebalancemoney.com – similar to Nerdwallet, this resource has a wide range of calculators, “best of” articles and useful posts on a range of personal finance topics.
5. <https://bettermoneyhabits.bankofamerica.com/en/saving-budgeting/creating-a-budget>.
6. <https://tickertape.tdameritrade.com/personal-finance/monthly-budget-checklist-17451>

Questions?