

LEARNING MADE EASY



Budgeting

for
dummies[®]
A Wiley Brand



Break the paycheck
to paycheck cycle

Create a budgeting system
that works for you

Set yourself on the path
towards financial freedom

Athena Valentine Lent

Money Smart Latina

Personal finance columnist

Budgeting

for
dummies[®]
A Wiley Brand



Budgeting

1st Edition

Athena Valentine Lent

**for
dummies[®]**
A Wiley Brand

Budgeting For Dummies®

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Introduction

For most people, personal finance wasn't offered in high school until recently. Even now, it's usually not a required course to graduate. Millions of people are in debt, behind in retirement, or don't have any space in their finances to cover a minor emergency, such as a needed car repair. Many live paycheck to paycheck and don't see a clear way out. If you're one of the many who are overwhelmed by financial stress, a key strategy to help you finally gain control of your finances is to adopt a budgeting method that works for you.



TIP

One way to think of your finances is like a house, with budgeting as the foundation. You need a solid foundation before you place your walls (financial goals) and roof (your overall financially healthy self).

But budgeting itself can feel overwhelming or pointless for various reasons. A fluctuating income makes planning harder and raises inflation costs. Random emergencies, including changes in life circumstances, pop up when you least expect them. People are managing work lives, running households, and attending to their relationships and even personal goals. No wonder they can have difficulty sticking to a budget!

Traditional financial advice doesn't stress the importance of a budget enough. A budget can help you make your money work for you by showing you how much you have coming in and going out at all times. After you're fully aware of your income and expenses, you can plan for your future while living in the present.

To get started, you need a budgeting method that works for you. Along with tracking your income and spending, finding out what your pain point is so that you can make your budget stick is important. That's where *Budgeting For Dummies* comes in. The information in this book can help you figure all that out, as well as pay off debt, save for a rainy day, prepare for a change in life circumstances, and live life on your terms so no matter what life throws your way, you'll be ready without blinking an eye.

About This Book

Here are some things you can expect to find in this book and not necessarily others:

- » The budgeting method that some are surprised to find out is one.
- » Why you automatically spend less when using cash envelopes.
- » The importance of fun money and how it actually helps when saving for the future.
- » How to invest on a budget. You read that right: You can invest on a budget because investing shouldn't be a pipe dream. I also share ways that you can make money from saving your money.
- » Budgeting apps for teens, college students, singles, couples, and more. I'm talking budgeting in the 21st century, baby!
- » How a budget can help you save over \$100,000 when purchasing a house.

Other experts may be hesitant to share their financial bloopers, but I put my financial mistakes in print for you and all the world to see. I share my experiences with you, even if they're embarrassing, because I hope you can get something from them the same way I did.

As a nationally certified trauma support specialist, I also know that money can be emotional. Everyone has their own hang-ups, which can prevent them from using a budget correctly. That's why I feel sharing all the resources I can is essential. Throughout this book, I recommend financial tools and budgeting methods, share financial resources, and provide strategies to talk to bill collectors when times are tough. I prioritized ensuring the websites and apps I recommend are unbiased so you can make your money work for you.

The number one thing I loved about writing a *For Dummies* book was knowing that you don't have to read it from front to back to get something out of it. Each chapter explains concepts in depth and lets you know where you can find out additional information in other chapters. I also loved the ability to bring you real-life examples throughout the book to help show how the information may pertain to you.

Foolish Assumptions

I'm not going to lie. My cat and I made some assumptions about who may read this book. We assumed the following:

- » You appreciate humor and feel absorbing information is easier when you can relate to an expert.
- » You've never made a budget before, or you have but didn't follow through or it just didn't work out.
- » You love your money so much you want to take care of it.
- » You know you should budget but don't know how.
- » You're budgeting for the first time on your own, as a single parent, or as a couple.
- » You have financial goals.
- » You want a shame-free space to figure out budgeting at your own pace.

Money is personal, which includes your budget. I want you to know that I acknowledge this fact and do my best to help you feel comfortable along the way.

Icons Used in This Book

I sprinkle the following icons throughout this book to help you find the information you may need in your budgeting journey.



TIP

This icon shares tidbits that can help you succeed at budgeting.



REMEMBER

Consider this icon as my gentle reminder for you to file away certain important aspects of budgeting.



WARNING

Make sure you pay attention to these icons to avoid budgeting blunders.



TECHNICAL
STUFF

This icon designates info that's interesting but ultimately not crucial to understanding the topic. If you're short on time, you can skip these paragraphs.

Beyond the Book

In addition to the information in this book, you also have access to other free resources. I created a budgeting Cheat Sheet to help you put together a successful budget. You can find it, along with other personal finance–related information, by going to www.dummies.com and entering “Budgeting For Dummies Cheat Sheet” in the search bar.

Where to Go from Here

You don’t have to read *For Dummies* books from start to finish, so feel free to look through the book in any order to read about different topics related to budgeting. I suggest starting with the budgeting methods in Part 2. If you’re interested in a particular type of budget, you can also flip to the Index or Table of Contents to find the corresponding page numbers. I also recommend making sure you know the importance of saving for an emergency by reading Chapter 8.

Have fun!

1

All about Budgeting

IN THIS PART . . .

Review what a budget is, figure out why you can't seem to make one work, and assess your overall financial picture.

Examine the parts of a budget to successfully align your spending with your income.

- » Breaking down the benefits of budgeting
- » Checking out common budget pitfalls
- » Getting a quick snapshot of your financial situation

Chapter **1**

Beginning with Budgeting Basics

Raise your hand if you know where your money went last month. According to a survey published by Mint.com on December 11, 2020, 65 percent of Americans have no clue where they spent their money in the previous month. Basically, millions of people are saying that their money disappeared without their knowing its whereabouts. No wonder money is considered the number one stressor in today's society! (It's also one of the leading reasons people cite when filing for a divorce.)

I've been in the personal finance industry for over ten years, starting with blogs like Money Smart Latina and now as a contributor on *Slate* magazine and BuzzFeed. I've seen and heard many people talk about money. But one thing I don't hear enough of is how accepting financial responsibility has helped them reach their personal goals.

If assuming responsibility isn't an issue, or even if it is, you're not alone. Millions of people are in debt, behind in retirement, or just don't have any space in their finances to cover a minor emergency, such as a needed car repair. Many live paycheck to paycheck and don't see a clear way out.

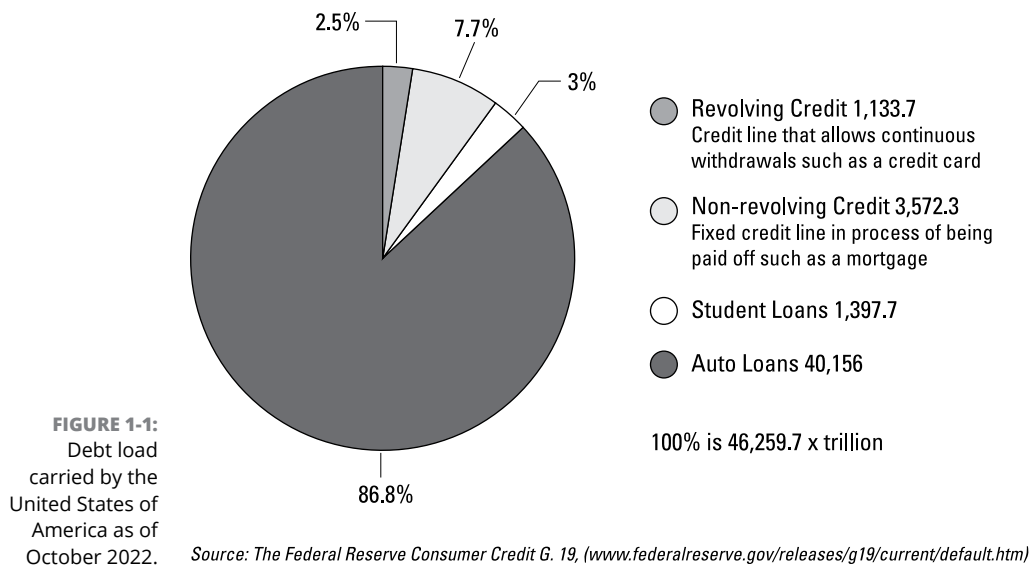
Because you've picked up this book, I'm going to assume you don't want to be one of those people. One of the key strategies to your newfound success? Finding a

budgeting system that works for you. Budgeting is a basic financial concept that doesn't get enough credit for being one of the major parts of financial success.

Having a successful budget helps you accomplish whatever financial goals you may have, whether that's saving money, paying off debt, or something else. You can see in Figure 1-1 how much debt is costing people just like you. Knowing where your money goes and how much you have coming in is key to getting you where you need to be.



Budgeting tells your money where to go and not the other way around. By properly utilizing a budget, you aren't clueless and wondering where your money goes every month like everyone else.



Knowing What a Budget Is and Why You Should Use One

A *budget* is a plan that tracks where you'll spend your money. Think of your budget as a monthly money to-do list. A budget helps you make sure your finances are in order so you can save for a rainy day (an emergency fund), spend your money on things that matter, and make sure all your bills are taken care of. Budgeting helps you take charge of your finances to ensure your current and future financial needs are met.

MY PATH TO BUDGETING

I didn't have the best financial role models growing up. My earliest memories of money involve my parents bouncing checks and frequenting the local pawnshop. Though I earned an allowance, I spent it as fast as I could, usually on a CD (remember those?) or a book. I lacked so much financial common sense that I got turned into Chex Systems when I was 18 years old.

Chex Systems is a national database that financial institutions report to with information about any checking or savings account you may have open, along with a history of your activity with these accounts. Based on this history, financial institutions can also check to see whether you're a risky customer since this database also stores any negative account history that resulted in closing one of your accounts due to abuse. Abuse can look like using your account to purchase items or goods you don't have money for, leaving your account in the red.

Since I didn't understand how a checking account worked, it was constantly negative. I always assumed I could just pay it back like a credit card without any consequences. I quickly learned this was not how a debit card worked when my account was closed and no other bank would allow me to open a new one.

Living in a small town right after high school was frustrating enough, but what made matters even worse was that I no longer had access to a traditional checking account or a debit card. So it was strictly cash spending only for me, baby. As much as I go on in Chapter 5 about cash envelopes, it's different when you don't have a say in the matter. I was able to squeak by because online pay wasn't a thing yet, but it was tough.

When I turned 22 and had a second chance at having a bank account, I realized more than ever that I needed help managing my money. I was only working part-time while going to school and needed to ensure I had enough funds to cover everything. I'd be remiss if I got turned over to Chex Systems again. Fool me once, shame on you; fool me twice, shame on my finances.

One thing I used to find terrifying was creating a personal budget — never mind the basic idea of sticking to one. I started reading everything the Internet offered about personal finance. Some concepts at the time were way over my head, and others didn't apply to me or my situation. But one thing a lot of the articles I read had in common was advocating for the importance of a budget.

Budgeting can be challenging, but it can also impact your life more than you realize. Here are several reasons why you should be budgeting:

- » **You can control your spending.** When you have more cash going out than coming in, you find yourself in a *deficit*. A deficit means you end up short on money for your bills. You can have a deficit if you don't have enough income to cover your general expenses. This scenario is one of the main ways people find themselves in credit card debt. If you know where your money is going, you can manage your spending and keep your account with a positive balance.
- » **You're less likely to waste time and money.** It's okay to be disorganized sometimes. You live a busy life and, in the words of the living meme Kimberly "Sweet Brown" Wilkins, "Ain't nobody got time for that." But disorganized finances can hurt you in the long run. You lose time looking for bills. You lose money by paying an occasional (or frequent) late fee because you forget when your bills are due. Utilizing a budget helps get you back on track to ensure your bills are in order so you're making payments on time. Time and money are two of the most powerful resources you don't want to waste.

Another way you can fritter away time and money is unnecessary shopping. Getting sucked into reading a list of items you need to buy from a major retailer while you're just trying to browse your social media is so easy. One minute you're buying cool pillowcases from Amazon, and the next, you receive an insufficient funds text from your bank. When you know exactly how much cash you can spend in a particular area, you're less likely to spend time scrolling for items to buy.

- » **It helps you make progress on your short- and long-term goals.** I'm going to assume that you have goals (if not, make some!). A budget helps free up money for accomplishing them. Budgets can also help you track your progress to see whether you're moving that needle closer to the finish line.

If you're like me, you've had times when you could've benefited from having extra cash. When you practice budgeting, you become more aware of when your money is coming in and where it's going, making you think about your finances differently. This knowledge will likely lead you to putting more money toward any savings goals you may have or allow you to pay off your debt faster. The faster you pay off your debt, the less money you pay toward interest and finance charges.

- » **It helps you flex your "be resourceful" muscle.** When people first start budgeting, they often realize that they may not have enough money to cover all their wants and needs and still have some to stash away for a rainy day.

When trying to make your money stretch further, you may find yourself trying to be more resourceful than usual. For example, instead of buying new shorts last year, I made a pair of jeans into cutoffs. They looked cute, and I was able to put that \$25 away for my friend's wedding.

- » **It can save your physical, emotional, and mental health.** In 2016, the Mayo Clinic published a study saying that stress is one the number one causes of insomnia. Stress comes in all shapes and forms, but money problems definitely have a habit of keeping you up at night. Budgeting can keep you from wondering where your money is and how you'll pay your bills.
- » **Gaining financial stability is a game-changer.** Utilizing a budget that works for you is key to financial stability, which is a huge part of financial wellness. Besides feeling a sense of pride, you have the comfort of knowing your life is financially covered no matter what. When you're financially stable, you can leave toxic employer situations and unsafe relationships or cover emergency expenses, all on your own.

One of the ways a budget can help you gain financial stability is by allowing you to save for emergencies adequately. An emergency fund (which I discuss more in the later section "You don't have an emergency fund" and in Chapter 8) is a type of savings account that helps you when unexpected expenses crop up from time to time. It can keep these issues from turning into bigger ones because you're able to cover them without thinking twice.

- » **It helps you think about retirement before it's too late.** Setting aside money for a rainy day isn't the only reason you should be budgeting. Your retirement is also essential and can be an overlooked category. Many employers match retirement contributions, but when money doesn't flow like wine, taking them up on the offer can be hard. To start saving as early as possible to take advantage of compound interest (as shown in Figure 1-2) is important, but it can also be more complicated when your cash flow is strapped.



REMEMBER

Compound interest is commonly referred to as "interest earned on interest." When you save or invest, your money has the opportunity to make money grow, which is usually referred to as a dividend or gain. So say you saved \$200 and earned 10 percent on it annually. This leaves you with a new total of \$220. So now, you'll earn 10 percent on \$220, not just the additional \$200 you originally saved. This is how you earn interest on interest. With compound investing, you can invest any amount and still earn money without having to invest another cent.

Compound Interest at 8% Annually

Value of Portfolio	Time (Years)	Interest Earned
\$1,000 (initial deposit)	0	\$0
\$1,469.33	5	\$469.33
\$2,158.92	10	\$1,158.92
\$3,172.17	15	\$2,172.17
\$4,660.96	20	\$3,660.96
\$6,848.48	25	\$5,848.48

FIGURE 1-2:
An example of
how compound
interest works.

Living a happy and fulfilled life is hard to do when your cash flow isn't meeting your needs. I believe everyone has the right to live a life they love. You should get up every day and have something to look forward to. Money can't buy happiness, but it can help you accomplish your life's dreams. It can help you travel to that country you've always wanted to visit but have never been able to make time for. It can also help you treat your loved ones or help someone you care about out of a bind. It can even buy you a delicious coffee at the store while you smell the nice candles.

Understanding Why People Think Budgets Fail

Budgets get a bad rap, and many people hate them. They can feel too restrictive; isn't life supposed to be enjoyed? Maybe you've tried a budget and it just didn't work, or tracking down all your bills was too stressful.

I may lose my personal finance street cred, but I've agreed with these statements. A budget can be time-consuming, frustrating, and exhausting for a few reasons, as I explain in the following sections.

You forget to adjust it

One of the first steps of creating a budget is figuring out the different expense categories and then assigning an amount of money to each one. As time goes on, however, and your life and needs change, those original assignments may not work anymore. That's why adjusting your categories is essential to utilizing a budget after you create one. You can learn more about the different types of categories in Part 2.

For example, one of the categories in my budget is for my pet expenses. When I first adopted my cat from a foster family in 2015, he was relatively low maintenance. He was content living in his new digs except for litter and food. After a year of coexisting, he randomly became severely ill, which led to a diagnosis of FIV (feline immunodeficiency virus). After saving up an emergency fund for any future vet visits, I went back to putting aside \$25 a month for his other expenses.

My budget remained untouched until 2019, when he had a bladder blockage that was so severe his only chance was to undergo an experimental procedure. It was successful, and to this day, I'm incredibly grateful. But one thing I hadn't planned for was the havoc it would wreak on my ability to manage my budget.

I now had to account for so many expenses I hadn't before, like medications and prescription cat food. After one month of these new expenses, I found myself scrambling to pay my rent. I reran my numbers, and that's when I realized I was still acting like I had a healthy cat. I'd forgotten to allocate additional funds to that category and kept spending as I had been.

You may find allocating a certain amount of money to a category, only to overspend, frustrating. This situation is one-way budgeting can make you feel bad. It can also have you feeling hopeless if you keep overspending and don't see a way out. But doing the work and adjusting your allocations to bring them in line with your current reality can help eliminate this stress.



REMEMBER

When starting your new budgeting situation, you may realize you have emotions tied to your money that you weren't aware of before. If you're feeling stressed, take a ten-minute break and then come back. Going for a walk, doing some quick yoga, taking deep breaths for a few minutes, or drinking a glass of water can all be ways to refocus your mind before returning to the task at hand.

You don't have an emergency fund

An *emergency fund* is money you set aside for unexpected expenses or emergencies; car repairs, medical bills, trips to take your furry friend to the veterinarian, catching a flight to see a sick family member, or dealing with a burst water heater

are all excellent examples. If you're lucky, these types of costs aren't the kind that happen every day. But if you aren't lucky, one emergency can be enough to derail your finances.

When unexpected calamities happen, you want a stack of cash sitting nice and neat for you, whether in a high-yield savings account or a cookie tin that's usually reserved for the sewing supplies.

However, if you don't have that stack of cash, something has to give. Sure, you have categories set up to pay for your gas and clothing, but you may not have a few hundred dollars put aside to take your car to the mechanic because it's making a funny noise. Because the money has to come from somewhere, you most likely have to take it from another category (or multiple categories), which is why your budget may not be working.



REMEMBER

Every time you're ill-equipped for an emergency, you'll most likely take on debt to cover it. Even when you have some cash to go toward an emergency, you may still need to look at alternative payment options, like putting it on a credit card or getting a personal loan. You're not a bad person for taking on debt, but when you do so, you also take on interest fees and finance charges. This arrangement means you're paying more money in the long run. Interest fees can add up to hundreds and sometimes thousands of dollars you're paying that could go elsewhere.

Even if you're not going into debt to cover an emergency, you're still ruining your budget. Budgeting helps you plan where your money is supposed to go in order to help you meet your goals. When you're too busy covering other expenses you didn't plan for, you don't accomplish your budgeting goals, and you eventually get frustrated because your budget isn't working.



WARNING

You have to be able to determine what is and isn't an emergency. Car repairs and vet bills are great examples of things you need to deal with immediately to prevent further problems. Getting a new phone because the latest version came out or tagging along on your friend's last-minute vacation? Not so much.

Your budget exceeds your income

The reason you can't seem to budget may be that your budget exceeds your income. This situation crops up in a couple of ways: spending excesses and living expenses, which I cover in the following sections.

Spending excesses exceed your income

If you're like me in my shopaholic days, your paycheck is spent the minute it hits your checking account. You don't even have to have a yen for shopping to have a