BUDGETING AND BEYOND

We go beyond budgeting basics and share four tips that can help you save more today and live better tomorrow.

The term "living on a budget" gets thrown around a lot, and is generally used when someone is down on their luck, living paycheck-to-paycheck, or struggling to make ends meet. The reality is that everyone, regardless of income or wealth, should be "living on a budget."

By creating a budget, you will be confident that your basic needs are accounted for, your spending is managed, and that you are putting money each month into savings. We've learned a lot about what goes into cash flow management during our many years supporting clients, and in this article, you'll find four of our "key tips" to keep in mind as you get started.

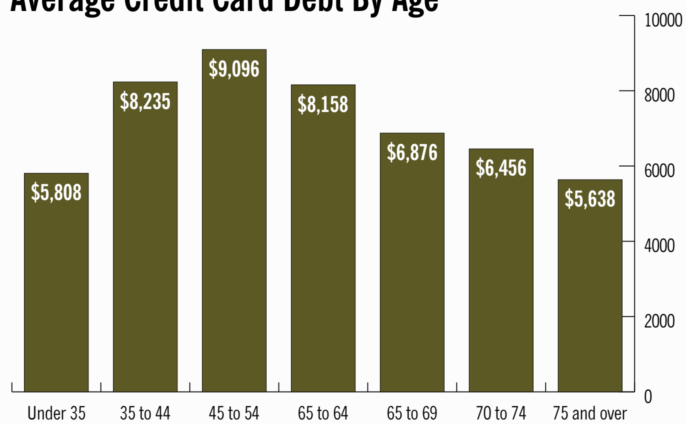
#1 GET A HANDLE ON CASH FLOW, STARTING TODAY

While creating a budget and monitoring cash flow should start at a young age, you are never too old to begin this process or refine your approach. And like most things in life, being a skilled budgeter requires time, dedication, and practice.

If you are a Baby Boomer or Gen Xer feeling a bit behind the curve, keep in mind that many Americans get serious about budgeting when they are in, or approaching, their peak earning years. Generally, between the ages of 40 and 60, this is a time when income levels and living expenses are at their highest. As a result, Americans carry the most credit card debt during this time period as well[1]. For these reasons, the need for solid cash flow management ramps up at these ages, leading many Americans to sit down and really consider their monthly budget.

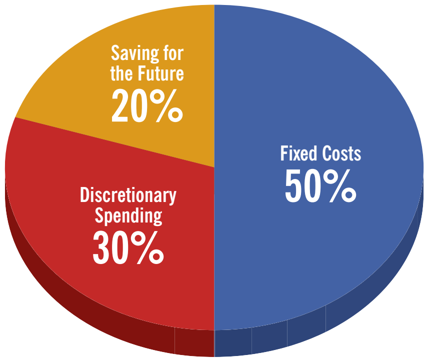
If you want to kickstart this process, reach out to CTS Financial Group for a free copy of our cash flow analysis worksheet.

Average Credit Card Debt By Age



1 ValuePenguin, Average Credit Card Debt in America: February 2019

The 50/30/20 Rule



#2 THINK IN TERMS OF "BUCKETS"

When budgeting, a natural starting point is to think in terms of dollars: "I want to save $2,000 each month" or "I have $10,000 to spend on vacations this year." To be most effective, we recommend first thinking about budgeting in terms of income "buckets."

A good starting point is to use the 50/30/20 rule. This rule states that 50% of your income should go toward fixed expenses, 30% should go toward discretionary spending, and the remaining 20% should be saved for the future.

FIXED EXPENSES

These are predictable expenses that are the same amount each month. The most common fixed expenses are home mortgages, car payments, utility bills, student loan payments, and cell phone plans. Fixed expenses can also be thought of as your basic living expenses.

DISCRETIONARY SPENDING

This bucket includes things like dining out, going to the movies, upgrading your smartphone, or buying clothing that you'd like to have but don't need to have. Discretionary spending also covers things like travel and vacations.

SAVING FOR THE FUTURE

The 50/30/20 rule states that the remaining 20% of your income should be saved for the future. This could be in an emergency fund, health savings account, 401(k) plan, or self-managed investment account. Again, this is just a general rule of thumb, and we encourage you to reach out to our team if you'd like a custom analysis.

#3 FIND THE DEVIL IN THE DETAILS

While the description for fixed costs sounds straight forward, there can be gray areas when it comes to what monthly costs should be included in this category. Asking simple need/want questions is the best way to recognize which bucket an expense should fall in.

- Do I need a Netflix account or do I want a Netflix account?
- Do I need a gym pass or do I want a gym pass?
- Do I need Blackhawks season tickets or do I want Blackhawks season tickets?

In each of these cases, the cost associated is fixed on a monthly or annual basis, so one could also argue that these items should be considered fixed expenses. But one could also argue that since these are not basic needs (except for maybe the Blackhawks tickets), they should be considered discretionary spending. In reality, each of these should probably be considered discretionary spending… but it highlights the need to carefully review your expenses and determine which items go where.

#4 MAKE BUDGETING A PART OF THE BIG PICTURE

Finally, it's important to understand that budgeting and financial planning are closely related but fundamentally two different things. When you build a budget, you are simply looking at cash flows coming in, cash flows going out, and how much goes into savings each month. Once that is established, it's just a matter of sticking to the plan you have developed and tracking your progress over time. What you do with your savings is not part of the budgeting process.

On the other hand, financial planning takes a big picture view of your life. You first think about where you want to be financially in 20, 30, or 40 years and then build strategies that can help make that vision a reality. Sticking to a budget is a key part of this process, but budgeting alone doesn't account for longer-term goals, challenges, and wants.

If you want help establishing a budget, analyzing your cash flow, or seeing how both of these items fit into a larger financial plan, connect with our team at info@ctsfinancialgroup.com.