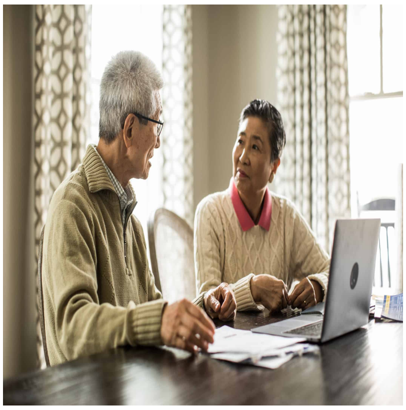

How to Create a Budget You'll Actually Keep

Description

Financial gurus and personal finance books will all tell you the same old advice: if you want to take control of your money, a budget will give you the reins that you need.

But let's be real — budgeting is easier said than done. And, truthfully, it's easier done than *practiced*. Contrary to what most of us think, creating a budget isn't a marathon, something you do as quickly as you can, then hopefully never again. It's not even a sprint. It's a daily habit, like a workout routine or a morning walk, an exercise that helps you hit your goals more effectively.

So, from the outset, let's set the record straight: through the steps below, we'll help you create a budget. But remember that this budget will be a work in progress, not a finalized work of art. Whether you're a money nerd who likes to crunch numbers, or an overspender who needs some restraint (we've all been there!), here are seven steps to create a budget you'll actually follow.

Step 1: Set a savings goal for your budget

Budgets that endure are budgets that help you achieve a larger savings purpose. If you just track your spending for the month, with no other ultimate purpose, you'll get bored. *Fast.* But when tracking your spending helps you not only meet, but crush, your financial goals, you'll feel more motivated to stick with the budget.

First off, ask yourself: what do you want your budget to do for you? Maybe you have a short-term goal, like paying off debt or saving for a big purchase. Or maybe you have long-range goals, like saving for retirement or buying a house. Whatever your savings goal, make the monthly savings amount as *specific* as possible. For instance, instead of writing “save for a car,” write “save $500 each month for a car.”

Common savings goals include:

- Saving for retirement
- Building an emergency fund
- Saving for university for your children
- Saving for a holiday or necessary trip
- Paying off debt or loans
- Saving for a down payment for a house

Don't skip this step! Setting up a savings goal at the beginning forces you to think deeply about how you can trim expenses and save more. If you want to save for a down payment, for instance, but your savings progress wouldn't even permit you to buy a dollhouse, your budget can help you cut spending in one category and save more for your future home.

Step 2: List out fixed monthly expenses

Once you decide your budget's savings purpose, it's time to calculate how much money you spend a month. Yes, this can be tough, especially when unforeseen expenses can easily derail a picture-perfect budget. But the trick here is to break your spending into three categories: fixed, variable, and irregular expenses.

Let's start with fixed expenses. These are payments that you know you'll make every month, with a dollar amount that stays relatively unchanged. Fixed expenses in Canada typically include (in no particular order):

- Mortgage or rent payments
- Gas, water, electricity, cable, telephone, and internet bills
- Minimum debt payments, such as credit cards, student loans, car loans, and personal loans
- Gym memberships
- Subscriptions to apps, video streaming, or music
- Child card costs
- Insurance payments
- Savings

To get a good idea of your fixed expenses, look at bank and credit card statements from the last 60 to 90 days. See which expenses always come up. Then, list them with their respective costs in your budget.

Step 3: Identify variable monthly expenses

Alright, here's where it starts to get more difficult. Now that you know your fixed expenses, let's figure out how much you spend on *variable* expenses, or expenditures that vary from month to month. Unlike fixed expenses, variable expenses won't have pretty "cookbook" numbers that you can easily spot in your bank statements. Instead, you'll have to review statements from the last three to six months (possibly a year) to get an average for each one. This can seem like a hassle (yep–it is), but once you get an average, you'll have a reliable number to start with.

Variable expenses often include:

- Groceries
- Dining out
- Entertainment, such as concerts, movies, sporting events, and festivals
- Charitable donations and gifts
- Personal care, such as haircuts, makeup, toiletries
- Clothing and shoes
- Transportation costs
- Pets costs

Remember when we said a budget was a work in progress? Well, here is where it really applies. You probably won't guess your variable expenses right on the first go. And that's alright — just adjust your monthly budget as you learn how much you spend in each category. Eventually, you'll get a good sense of how much you really spend, and the variable expenses will start to be as predictable as the fixed ones.

Lastly, keep in mind that these expenses are typically within your control. If you need to make room in your budget for your savings goal, look to these expenses first. Unlike fixed expenses, you can adjust variable purchases without cutting them completely from your budget.

Step 4: Don't forget about irregular expenses

Finally, we've arrived at everyone's least favourite expense: the irregular, or pop-up, expense (cue the *bum bum bummm*). These expenses often catch us by surprise, forcing us to use debt to cover their costs instead of budgeting for them properly. While some surprise expenses are impossible to predict, such as car repairs, others can be built into the budget, including:

- Annual car registrations
- Property taxes
- Yearly medical checkups
- Birthday and holiday gifts

- Veterinary checkups
- Home maintenance and repairs
- Holidays and trips

What can you do about those irregular expenses you can't possibly predict? Well, for those, you may need to use your emergency savings, if the expense is an emergency, that is. If it's not an emergency, like if it's a birthday present, you'll have to shuffle expenses in your budget.

Step 5: Add up all sources of income

Now that you've confronted the reality of your spending, let's look at how much you earn per month. For those who are employed, this should be fairly straightforward: simply write down your take-home pay (not the gross pay), including any income from side gigs, investments (like stock dividends), and alimony.

For the self-employed — or anyone with a variable income — this can be more complicated. One method is to create a budget around money you earned the month before, rather than money you expect to earn. For example, let's say it's June 1, and you're creating a budget for the month of June. In this case, you'll use money that you earned in May to set your June budget, and everything you earn in June will go toward your July budget.

Step 6: Consider using a popular budgeting method

Once you've listed your expenses and income, you have everything you need to create a budget. Before you put pencil to paper, however, you'll want to consider what *type* of budget you'll use (yep, there are many different approaches!). Two of the most popular budgets for beginners include:

- **50/30/20 Budget:** With this method, you dedicate 50% of your spending to necessary expenses, 30% to nonessentials (such as holidays and entertainments), and 20% to your savings goal and/or debt payments. The 50/30/20 budget is good for beginners, as it doesn't require you to closely track expenses, though the disproportionate amount going toward savings may not be ideal for everyone. But, truthfully, you don't have to stick your 50/30/20: you can customize the numbers to fit your needs.
- **Zero-Based Budget:** Zero-based budgets assign a purpose to every dollar you earn. The idea is that your income minus your expenses and savings equals zero every month. A zero-based budget can help you reduce overspending, allowing you to put more toward savings and debt, though its rigid structure doesn't allow much flexibility for irregular expenses.

Of course, you don't have to use these budgeting methods: you can customize your budget any way you want. But, if you're looking for a place to start, both of these options can help you get your feet wet in budgeting.

Step 7: Put your plan into action (and revise it)

At this point, you've done the hard work. You dug into your expenses. You averaged the variable costs, planned for those pesky irregulars, put down your take home pay and fixed expenses. Now comes the moment you've been waiting for: it's time to organize this raw data in a way that helps you stay on track.

Yes, it's time to actually *create* your budget.

You can use a spreadsheet, a budgeting app, or good ol' pencil and paper. Whatever your medium, start your budget by listing out your spending categories and savings goal. Don't overthink this! Your budget's categories will be based on your research into your expenditures, and the savings goal is the one you set at the beginning.

As you start putting numbers on paper, you may realize you have to adjust your spending in order to hit your savings goal. That's fine (laudable even), so long as your adjustments are realistic. If you spend $1,000 on groceries, for instance, then maybe buying food at a value store and not, like, Whole Foods, could help you trim your groceries to, say, $750. But if you expect to cut your groceries to $450, you're only setting yourself up to fail.

Finally, use your budgeting method to guide you. For Canadians who want to zero-base budget, keep subtracting expenses until you hit zero. For the 50-30-20ers out there, spread your expenses across the three buckets until you have the right ratios.

Make budgeting a habit

Again, budgeting is a work in progress. As every month passes, you'll learn more about your spending habits, and you'll make necessary adjustments. Budgets start out messy, then steadily get cleaner and cleaner, until they represent your expenses fairly well. Only when you make budgeting a habit will you begin to live out your budget. And that can help you take control of your spending and hit your savings goals faster.

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sporrello