Budgeting & cash flow

Personal finance guide

Step 1: To budget or not to budget?

How to make sticking to a budget easier

Think about budgeting as an opportunity to become more intentional about your spending choices, rather than as a form of restriction. Even if you have a surplus and your financial plan is "successful," doing a budgeting exercise on a regular basis can be a productive part of the financial planning process . Budgeting can raise your awareness and allow you to be more mindful about your cash flow.

Budgeting and tracking cash flow are a great way to be more mindful about your spending choices.

Be flexible. The best budgets and tracking systems allow for inevitable changes to your circumstances and the ability to move money in and out of categories in real-time. A budget that's too rigid and requires that you track every single item generally will not be sustainable.

To prevent overwhelm, start small. Focus on one or two areas to track and cut back on (e.g. subscription services) and re-direct the funds toward savings or investments. Small adjustments can have impacts over long periods of time.

Automate savings and essential payments, and commit to knowing your "essential expenses" number (see below).

Online tools can be a time-saver – log on to your bank or credit card and sort by category or vendor to raise awareness of your purchase and determine the areas to focus on. These tools can also help you determine your expenses.

Use "future you" exercises when assessing trade-offs in spending/savings and delaying gratification.

Step 2: Income & expenses

What does your current cash flow look like?

For a typical month, calculate your total take-home pay, your total spending, the amount of the spending that is "*essential*" vs. "*discretionary*," and the resulting surplus/deficit. Refer to the expenses worksheet provided separately, if needed.

If possible, break down your expenses between "*essential*" and "*discretionary*" spending.

Monthly Take-Home Income: ______________________________

Monthly Expenses: ______________________________

Essential: ______________ Discretionary: ______________

Estimated Monthly Surplus/Deficit: ______________________________

Step 3: Common ratios and rules of thumb

"Ratios" and "Rules of Thumb" may seem technical, but they are guidelines to help you gauge your overall financial well-being. They help ensure that your fixed costs are not a burden, that you have a healthy discretionary income to provide flexibility, that you have enough savings to act as a run-way in times of need, and to adequately fund long-term goals.

Here are some common ratios and rules of thumb when it comes to your cash flow:

What's considered acceptable?

Aim for saving at least 20% of your monthly take-home. This is called **"The 80/20 Rule."** You can also break this down further with the goal of 50% of your income or less going to "essential" expenses, 30 to "discretionary" and 20 to savings. This is called **"The 50/30/20 Rule."**

Aim for a **"back-end ratio"** below 36%. This number is the sum of your monthly debt payments (e.g., your mortgage, credit card bills, loans, child support and other debt requiring regular payments) divided by your gross monthly income. For example, if your total monthly debt payments are $1000 and your total monthly income is $5000, you have a ratio of 20%. Knowing this number is important as it is typically what determines whether you'll be able to obtain a qualified mortgage.

Aim for a **"front-end ratio"** of 28% or less. This number is the sum of your housing expenses (monthly mortgage payment, real estate taxes, home insurances, etc.) divided by your gross income.

What should I be prioritizing?

As a general rule of thumb, **surpluses** should be directed in the following order:

1. Toward additional payments to reduce high-interest debt
2. To fund your emergency savings
3. To fund your tax-advantaged retirement plans up to the company match, then to the maximum yearly contribution depending upon other goals and circumstances*
4. To fund other long-term goals

** Exception: It may make more sense to contribute to a employer-sponsored retirement plan that includes a company match, prior to building up your emergency savings or even, in some cases, paying down your debt. Please discuss with your wealth manager.*

For **emergency savings**, aim for setting aside 6-9 months of essential expenses.

1. Use our expenses worksheet to determine how much you need to set aside.
2. Keep your emergency fund in a separate, high-yield savings account that is covered by FDIC insurance.
3. Make sure the account is liquid and separate from your other accounts.
4. Compare rates and features, and conduct due diligence on fees, data protection. (i.e.: Ally Bank, American Express Savings, HSBC)

Cash flow worksheet

1. My current spending/savings ratio is approximately: ________
2. My current "**back-end ratio**" is ______________.
3. My current "**front-end ratio**" is ______________.
4. My current emergency savings is ____________.
5. My target emergency savings is _____________.
6. I currently contribute _______________ to my retirement plan/account. I have a company match of ________ %.
7. I currently have a surplus monthly savings of $_____________ which I will direct to the following:

   Paying down credit card/other debt: $______________

   Emergency savings $________________

   Retirement Plan/account $_________________

   Other financial goal $________________
8. The budgeting tool/tracker that I am using or will use is:
   - ◯ Spreadsheet (Excel or Numbers)
   - ◯ You Need a Budget (ynab.com)
   - ◯ Mint (mint.com)
   - ◯ Mvelopes (mvelopes.com)
   - ◯ Tiller (tillerhq.com)
   - ◯ Other: ___________________

For more information about managing your cash flow and budgeting, please contact us – **we're here to help**.