

# BUDGET TOOLKIT

### WHAT'S MY STARTING POINT?

I've got some good news...and some bad news. The good news? It's not that difficult to build a budget. The bad news? You have to do a bit of work to find your starting point. If you don't like budgets, your first job is to switch your frame of thinking. Budgets are often referred to as "spending plans." But here in the Early Exit Academy, we think of budgets as SAVINGS PLANS. Budgets are your Super Power!

### WHAT KIND OF BUDGETER AM I?

Terrific job on creating (or updating) a budget! But now what? How do you track your income and expenses and stick to the plan? Budgets can be a real snooze or might just be fun when you get the hang of it. And there's no right answer here...because a good budget is a budget that you USE. There's not a single method that fits every personality. So what kind of a budgeter are you?

#### SPENDER

*I may be addicted to credit cards.*

**Opt for the envelope system**

#### SEEKER

*What's the best tool for the job?*

*I'll give software a whirl.*

**Try You Need a Budget (YNAB) for free**

#### OBJECTOR

*I detest the entire budgeting process...must I?*

**Use the "Save until it Hurts" budget**

#### GEEK

*I love spreadsheets. Nothing beats entering data and graphing it.*

**Use Excel or Google spreadsheets**

#### APP QUEEN

*If there's not an app for it, forget about it.*

**Give Mint or ClarityMoney a whirl**

## HOW DO I FIND THE BEST METHOD FOR ME?

How easy do you want to make the budgeting process? There are advantages and disadvantages to every budget style. The “hands-on” approach in which you track your expenses on a spreadsheet will make you hypervigilant on controlling your expenses, but not everyone is into spreadsheets and data entry. The “hands-off” approach is easy to implement, but you remove a level of involvement that might make it more difficult to stay disciplined over time. The biggest danger? You become overwhelmed with the multitude of choices so you sit on the sidelines, letting valuable time slip away as your spending sails out of control.

Yes, there are tons of budgeting choices out there. And you might have a favorite that you currently use. Go right on using it. And a lot of the software is free or offer free trial periods to let you experiment. I’ll walk you through the budget methods and recommend one or two to try. If one doesn’t work, no problem. Try something else. My approach is to start with the simplest methods, and move up to more sophisticated options. And you might design your own method.

### **SPENDER: If you misuse credit cards...use the Envelope system.**

Dave Ramsey made the ‘Envelope system’ part of mainstream culture. It’s about as simple as it gets. Here’s what it involves.

- Set up a budget. Identify your “weakness” categories. These are the categories in which you tend to mindlessly whip out your credit card.
- Use envelopes to tuck cash away for each category of your budget. For instance, if your grocery budget is \$400 per month and you get paid twice a month, stow \$200 from each paycheck into the grocery envelope.
- Purchase everything with cash. When the cash is out for each category, you’re done buying. You can’t borrow from another envelope.
- If you have cash left over, you can reward yourself with a small treat and put extra money toward paying off debt or into savings.

The envelope system is not very convenient - especially as stores move to self-checkout. However, paying with cash makes it impossible to blow your budget.

If you’d like to try the envelope system, there’s a variation that offers some middle ground. If you buy most of your items from the same stores, you can use cash or your credit card to buy yourself store gift cards. For instance, I am a Trader Joe’s shopper, so if my grocery budget is \$400, I buy Trader Joe’s gift cards and use them to pay for my groceries for the month. It’s easier to pay electronically with the gift cards, but you’ll have to pay attention to the balance before you swipe that last gift card.

The envelope system works well for discretionary items in which you have some flexibility – groceries, dining out, movies, clothing. But for basic living expenses, like rent, insurance, and utilities, automated electronic fund transfers (EFT’s) from your checking account are the way to go.

**OBJECTOR: If you really don't want to budget, use the "Save until it Hurts" method.**

A simple approach to budgeting is to use a rule based on percentages. For example, Elizabeth Warren and Amelia Warren Tyagi promote a popular 50/20/30 rule in their book, *All Your Worth*. They recommend that 50% of your take-home pay be used toward essential expenses (housing, transportation, utilities, groceries), 20% to financial priorities (debt, retirement, savings) and 30% for lifestyle choices (entertainment, dining out, phone plans, gym fees). But here's the thing - this formula is NOT going to lead you to the promised land. By saving 20% of your income, you'll be working in that cubicle for 36.7 years!

The 50/20/30 rule is easy to execute - something that appeals to objectors. But we can do better - and we have to do better to avoid being tied to our paychecks into our 60s and 70s. Save as much as you possibly can. It doesn't matter how you spend the rest (no categories necessary). If you can get to a 50/50 rule - where half of your income goes into savings - you'll cut that cubicle time down to 17 years.

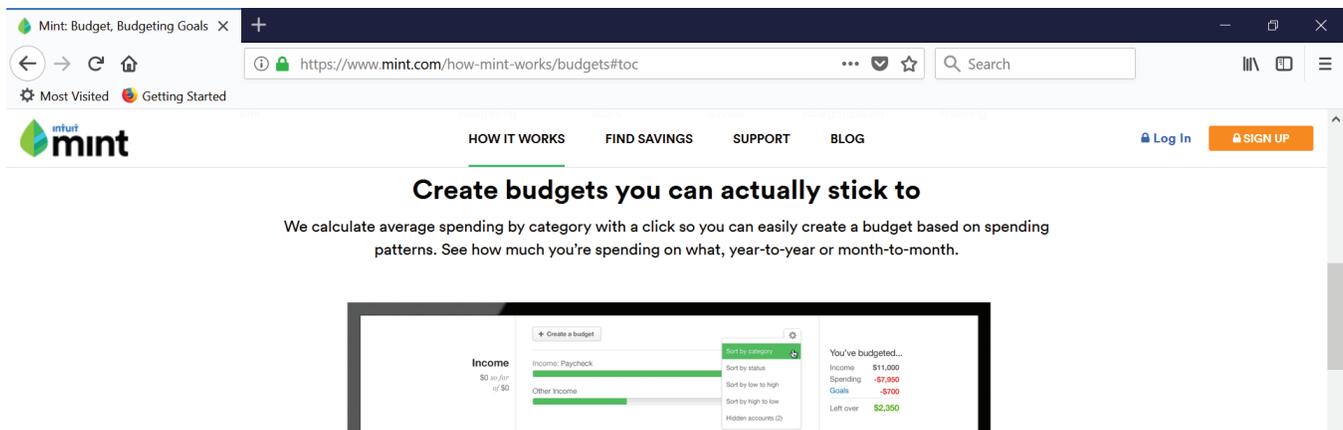
If you are reeling under a lot of debt, the percentage you save/invest is going to be low. But once the debt is paid, ratchet up your savings and live off of the rest. Each month, try to save a bit more until you feel like you've reached your maximum savings point. Don't worry too much if your savings rate feels low right now - we'll talk about growing the gap (cutting expenses, growing income) in Unit 4.

**WRITE DOWN YOUR SAVINGS GOALS:**

How much can you save?     \$

**APP QUEEN: If you want to do all your tracking and budgeting from an app.**

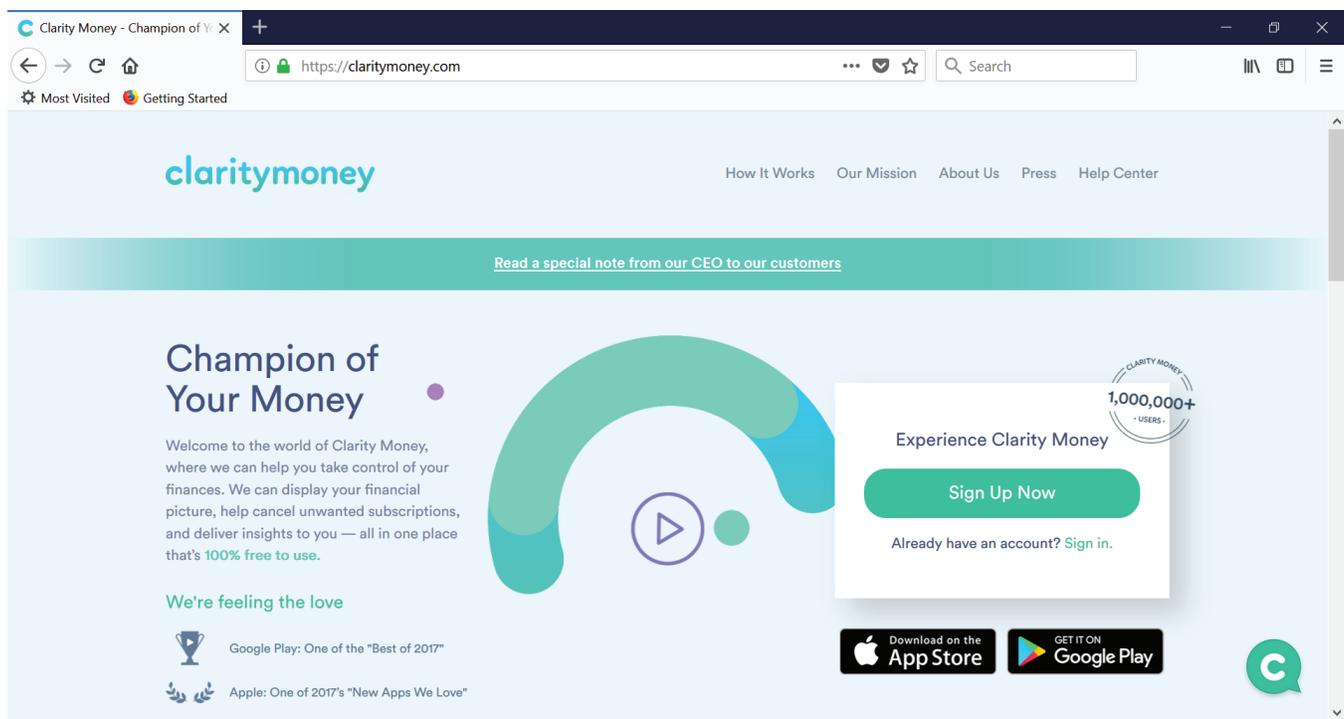
There are plenty of online budgeting tools, but the granddaddy of them all is Mint (mint.com). It's a free service that allows you to sync your bank account and credit cards so that Mint can automatically give you budget reports. They have an app so that you can easily monitor your budget from your mobile device.



I like Mint, but there are some limitations. For one thing, Mint only supports accounts in the United States and Canada. And some accounts may not sync at all. For example, I had funds in a credit union that would not sync with Mint. And sometimes the budget category used by Mint is inaccurate – you can change it yourself. But it’s a convenient tool that can make budgeting a whole lot easier.

There’s a new kid on the block that is giving Mint a run for its money. It’s called [ClarityMoney](#). Here’s what’s really neat about this new app. Once you sync your accounts, Clarity analyzes all the data and makes suggestions on how you can save money. But rather than just telling or showing you what to do, you have the ability to take action directly in the app. So you can move “excess” money into an account.

*Clarity was recently purchased by Goldman Sachs, which may restrict your ability to move money into your own savings account.*

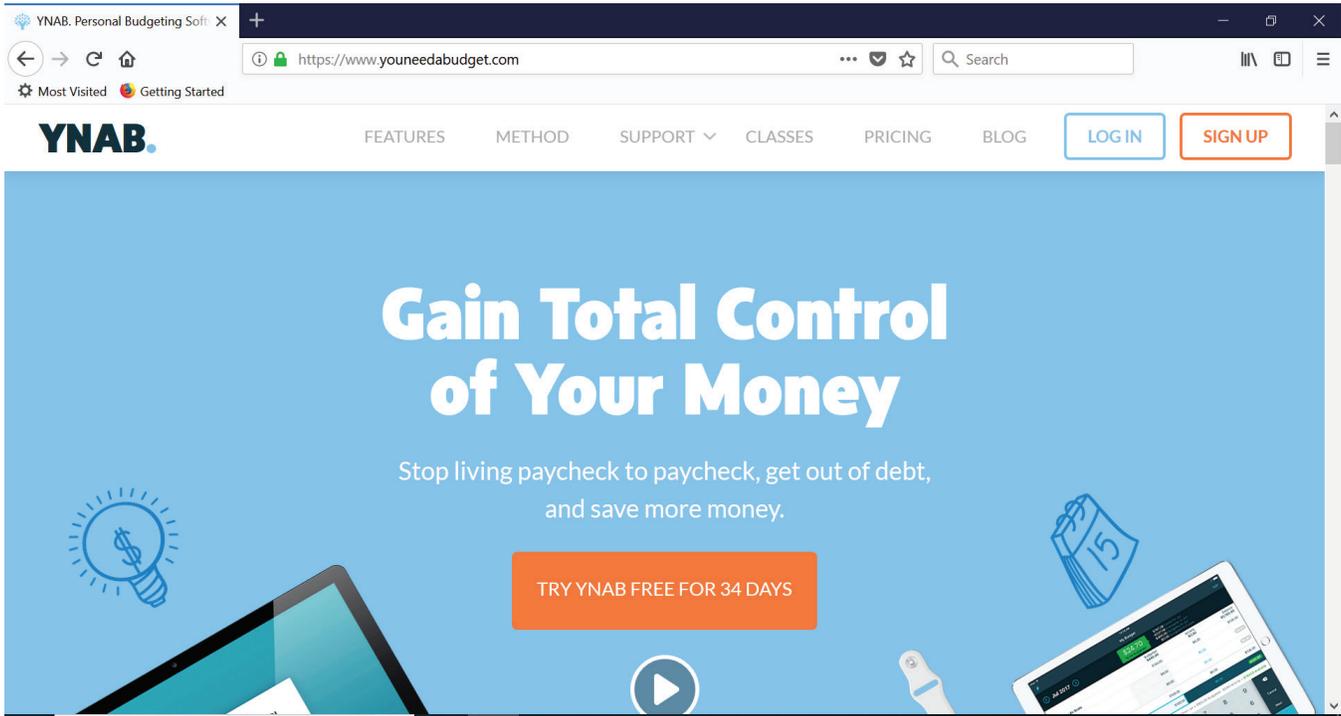


Clarity has a lot of potential, but similar to Mint, you’ll run into issues of not being able to connect to all of your accounts (especially the little guys), being limited to the United States, and occasional “bugs” that are just part of all apps.

**SEEKER: If you’d like to try out a powerful tool and don’t mind learning some new software.**

[You Need a Budget/YNAB](#) is a popular and effective budgeting tool that is based on a zero-sum budget method. In this method, every dollar gets assigned a job (income – expenses = 0). Over time, you will learn how to live off of last month’s income. YNAB has a free trial period and then charges \$6.99 a month. YNAB has an app that allows you to track your progress on your mobile device. Check out their free [20-minute workshops](#).

**Early Exit Academy students receive an extended 60-day free trial to YNAB! [Just go to this link!](#)**



YNAB will sync your accounts and help you set up a budget. The YNAB method is based on four rules:

Rule 1: Give Every Dollar a Job. When you earn money, you prioritize how you'll use it, and then simply follow your plan.

Rule 2: Embrace your True Expenses. Large less-frequent expenses, like Christmas gifts or vacation, are broken into manageable "monthly" bills.

Rule 3: Roll with the Punches. Be flexible and address overspending as it happens.

Rule 4: Age your Money. The goal is to be spending money that is at least 30 days old. You spend money that you earned last month.

**GEEK: If you are a spreadsheet master.**

It's no coincidence that engineers and computer experts make up a surprisingly large proportion of people who leave the traditional workforce early. Not only do they benefit from higher than average salaries, but they like to track numbers and work with spreadsheets. There's a lot to be said about working with spreadsheets as it gives you a greater feeling of control with your budget and you can manipulate it week to week.

I used a variation of methods when I had a full-time career. My best tool was a basic electronic checkbook register. And over time, I saved and invested at least half of my income. I saved first, and then lived off of whatever was left.

## IT'S TIME TO BUDGET!

Talking about budgets is fine, but THE TIME TO ACT IS NOW. Make a budgeting goal!.

I will gather, categorize, and enter last month's income and expenses into a budget by this date:

I will create a realistic budget that emphasizes savings and debt repayment by this date:

The budgeting method(s) that appeal to me the most are: (you can check more than one)

- Envelope system
- Simple percentage method (Save until it Hurts)
- Mint, Clarity or similar tracker/budget app
- YNAB
- Spreadsheets

I will begin using this budgeting method on this date:

## HOW DO I STAY MOTIVATED?

It can be hard to stay motivated, especially when you are seeking a long-term goal, like escaping the traditional 9 to 5 job. And budgets can be a bit like diets – you have a really bad day or week and pretty soon the entire budgeting effort comes crashing down. Don't let this happen to you! Remember, budgets need to be flexible because life is unpredictable. Here are two tricks that will keep you motivated.

### **Trick #1: Set up single mission (tunnel vision) mini-goals.**

Think about some specific goals you can set up that you can accomplish within 3 to 6 months. Consider things like paying off a credit card debt, saving \$3,000, or increasing your bi-weekly retirement contributions by \$100. Limit yourself to just one goal at a time. If savings is your goal, it can help to open up a separate account so that you can easily see the results of your effort.

### **Trick #2: Build in some rewards.**

Life has to be more than sacrifices, and it's okay to treat yourself every now and then. So how about playing a little game with yourself? If you reach the end of the month and still have money left in the budget, go ahead and treat yourself. Take a little day trip to the mountains or beach. Enjoy a meal from your favorite restaurant. Get a pedicure. The key is to turn these events into special occasions in which you recognize your terrific efforts on the budget front.