



# A Financial Plan for Life

Successfully Constructing and Living within a Budget

Presented By:

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# What is a Budget?

- The Great American Cost Accountant Charles Horngren Defined a Budget Using Two Words: It is “A Quantified Expression of A Plan”.
- Specifically, it is a plan that seeks to describe your income and expenses over time
- Your Budget Will:
  - Project Income;
  - Estimate Essential and Discretionary Expenses; and,
  - Provide for Some Savings.

# The Objective of a Budget

- A budget is intended to:
  - Give You a Context to Evaluate Your Income and Expenses;
  - Help You Manage Spending;
  - Help Assure You Save;
  - Help You Avoid Credit Card Debt;
  - Help Assist in Extinguishing Debt; and,
  - Contribute to Your Financial Wellness

# The Key Elements of a Budget

- Income:

- Salary
- Bonus
- Commission
- Investment Return

- Expenses

- Monthly Bills
- Spending
- Saving
- Debt Repayment
- Philanthropy

- You don't need special tools to help with creating a budget. Lined paper will do.
- Your budget objective is to plan expenses that do not exceed your income.
- It's even better to plan expenses that are less than your income – greater flexibility

# Various Sources Propose Different Spending Allocations

70 % Monthly Bills & Spending  
20% Savings  
10% Debt Reduction or Giving

60% Living Expenses  
20% Financial Goals  
10% Savings  
10% Discretionary

50% Needs  
30% Wants  
20% Savings

- You Choose an Allocation that Works for You
- Be Sure to Allocate Some Form of Savings

# The Steps of Creating a Budget

1. Decide if You Will Budget on a Monthly or Annual Basis
2. Establish Your Expected Income
3. Define Your Living Expenses and Amounts
4. Define Your Optional Expenses and Amounts
5. Define How You Will Save and the Amounts
6. Assure that Your Expenses Do Not Exceed Your Expected Income.
7. Adjust if Necessary.

**Let's Look at Each Element**

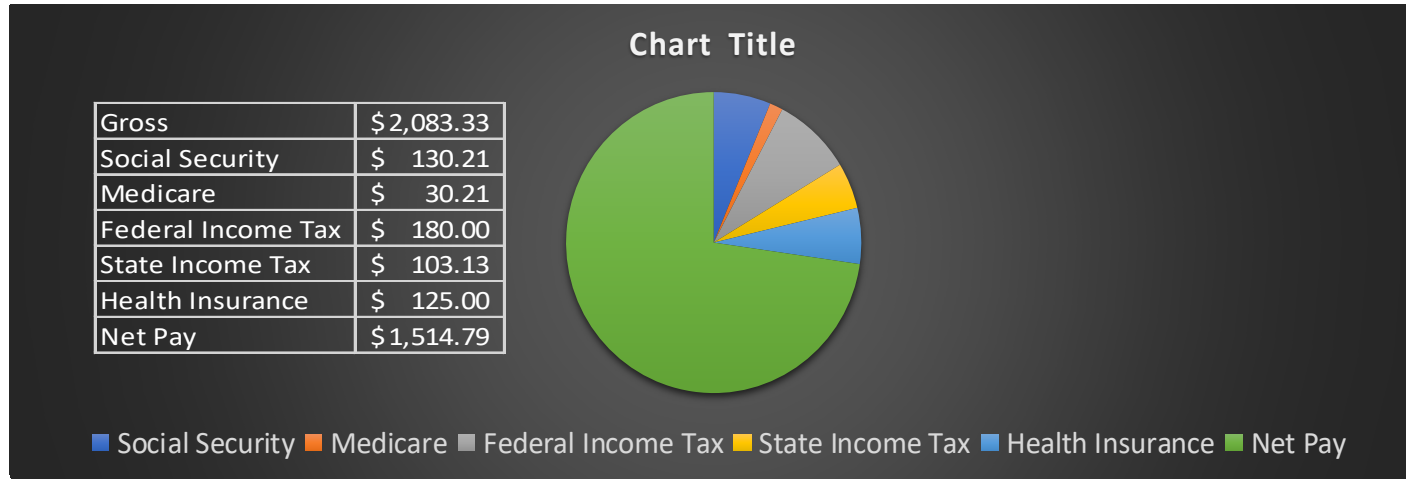
# Your Expected Income

- Probably Not As Much Pay As You Think
- Likely Deductions for:
  - Social Security
  - Medicare
  - Federal and State Income Tax
  - Retirement / 401(k) Savings
  - Health Insurance
- Initially, You Won't Have Much Investment Income. In Future Years That Will Change

An Example Follows

# How Much of that Pay Will You Actually Receive?

- Assume a \$50,000 Salary Paid 2X per Month



- You keep \$1,515 per pay period or \$3,030 per month. You must make your spending fit.



# Next, You Should List Your Essential Expenses

Include Such Expenses As:

Rent	Food & Grocery	Daily Incidentals	Household Maintenance
Work Wardrobe & Upkeep	Subscriptions	Guests	Travel Expenses
Memberships	Prescriptions	Pet Care	Bank Fees
Parking	Car Registration	Entertainment	Birthdays
Holiday Gifts	Charitable Contributions	Car Payments	Car Repairs

Apply a Value to Each Applicable Category. They May Not Be the Same Each Month.

# Now, List Your Wants

- Might Include Such Things as:
  - Home Décor
  - Technology
  - Sports Equipment
  - Jewelry
  - Spa Day

Apply a Value to Each Applicable Category. They May Not Be the Same Each Month.

# Last, List Your Planned Savings

- Might Include:
  - Emergency Fund Savings
  - Targeted Savings (e.g., home down-payment, wedding)
  - Retirement Savings
  - Tax Deposits

# Put Everything Together

## Example

1. Add all Sources of Income
2. Subtract all planned expenses
3. Evaluate Result for Balance
4. Make Adjustments as Needed

Monthly Personal Budget				
Income:				
	Salary	\$	3,030	
	Investment Income	\$	-	
	Bonus	\$	-	
	Commission	\$	-	
	Tax Refund	\$	1,000	
				\$ 4,030
Total Income				
Essential Expenses				
	Rent	\$	1,000	
	Food	\$	300	
	Clothing	\$	150	
	Daily Incidentals	\$	250	
	Car Payment	\$	250	
	Household Maintenance	\$	100	
				\$ 2,050
Total Essential Expenses				
"Want" Expenses				
	Spa Day	\$	150	
	Home Décor	\$	100	
	Technology	\$	300	
				\$ 550
Total "Want" Expenses				
Saving Expenses				
	Debt Reduction	\$	750	
	Emergency Fund	\$	500	
				\$ 1,250
Less:	Total Expenses			\$ 3,850
	Unspent (Overspent)			\$ 180

# The Longer Term

- It's Useful to Look at Your Budget Performance Over the Long Term
- Trends Tell You a Great Deal About Your Financial Behavior
- You Should Think About Building an Excel Spreadsheet With One Tab For Each Month and a 13<sup>th</sup> Tab that Gives you Year To Date Results. Such a Practice Will Highlight Continuing Problems, Spending and Income Trends, and Savings Opportunities
- Adjust your Budget Based on Your Observation of Trends and Your Values

# Tips To Aid Living on A Budget

- Save Before Spending
- Pay Down Debt
- Pay with Cash or Debit
- Plan Large Purchases to Avoid Impulse Spending
- Wait for Sales
- Ask for a Lower Price
- Leave Room in Your Budget for Fun
- Make Sure You Have Enough Income
- It's Not About Deprivation, but Moderation

# Now I Know the Mechanics And Tips For Achieving a Budget. What's Next?

- It's Not Enough to Have a Budget. You Must Use It:
  - Each Month Compare Your Actual Income and Expenses to Plan
  - Be Certain You Understand Why There Were Variances
    - If Necessary, Adjust Your Budget
    - But Be Sure To Maintain the Savings Portion of Your Budget
    - One Way to Assure You Save is to Pay Yourself First
  - Don't Let Negative Variances Get You Down
  - Simply Adjust Your Behaviors to Assure You Execute the Plan in the Next Month

# First Big Reason People Don't Meet the Plan

- Difficulty Differentiating Between Needs and Wants
  - Sometimes Called “Living Beyond Your Means”
    - We all need clothes. But there’s clearly a big difference between buying basic clothes and expensive, designer clothing. The former would be considered a need while the latter would be considered a want.
    - Cars are another example. You probably need some kind of vehicle. A basic, dependable car could be considered a need, while a luxury car could be considered a want.
    - Do not let your perception of social expectations cloud your judgment!



# Second Big Reason People Don't Meet the Plan

- Lifestyle Creep
  - As Your Income Increases, Expenditures Increase Even More.
  - Very Common Phenomenon
  - Warren Buffet Offers an Example
- A Better Plan:
  - Increase Your Expenses By Less Than The Income Increase.
  - Use The Remainder of the Increase to Grow Savings

# Third Big Reason People Don't Meet the Plan

- Caring Too Much About What Other People Think
  - (AKA Keeping Up With the Joneses)
- Remember That This is Your Plan
- Don't Care What Others Think
- Live Your Plan on Your Terms – But Remember to Save!

# Wrap Up: It's Up to You

- Budgets are for Everyone.
- Real Financial Success Requires Planning, Thoughtful Use of Funds and Plenty of Savings.
- Preparing a Budget and Using it to Manage your Funds is the First Step in Building a Sound Financial Future
- Try to Build a Budget that Provides Significant Opportunities for Saving so You Can Build Lifetime Wealth
- Remember to Balance Needs and Wants
- Don't Use the Budget to Deprive Yourself

**If you Prepare and Commit to a Budget You Will Be Well On Your Way to Financial Freedom**

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