

Sahireny:

[Speaking in Spanish “Hey Everyone”], Sahireny here, with PNC's Financial Academy Spotlight series, where today we're going to talk about budgeting.

I know, I know, I just said the B word. The one thing that no one wants to talk about, because it's restrictive, it's depressing, and it feels like a complete waste of time. Time that we could be doing something else, like spending money or having fun. In reality, budgeting has gotten such a bad rep. It's actually empowering. It helps us build our financial confidence and save for the things that we really care about. That's why in this video, I'm not just going to talk to you guys about budgeting [Speaking in Spanish “Because it's too boring.”] Instead, I want to change the way that we think about the B word. Instead of looking at it as a burden, better yet, look at it as the beginning of our financial journey.

So let's start with mine. After graduating college with a degree in finance with the focus on financial planning, I don't know about anybody else, but I was ready to hit the ground running. Apparently, my friends and family were too, because right when they saw me, the first question they asked me without a doubt was what should I invest in? They wanted to buy houses, to retire early, build businesses, and they had so many dreams of what they wanted their life to look like. As someone who was in the financial planning space, I felt like I could help. So I set up time with each one of them to help them build a financial plan.

When it comes to financial planning, what a lot of people don't know is that the first step to helping you accomplish all of your large financial goals is a budget. It's there to help us clearly understand where your money's going. Unfortunately, it's almost impossible to get people to sit down and want to do it. So whenever someone comes up to me and ask me, what should I invest in, oh, I ask them a question right back. Have you invested in your budget yet? You should see their faces. [Speaking in Spanish “Whaaaat?”]. Priceless.

I get it. As a society, talking about money is awkward, and growing up my family never talked to us about budgeting. [Speaking in Spanish “Of course”] was not a Spanish word that I learned at home. It wasn't until college that I started really learning about what a budget is, how to do it and what it's actually for. Looking back, that's probably the fundamental mistake that I did with my friends and family. It was assuming that they had a budget, that they knew what it was. So let's break down what a budget is, how to do it, and what it's actually for.

In personal finances, a budget is simply a way to take control of your finances by creating a plan for your money. Now in the beginning, your plan might feel a little unrealistic and that's okay. The main thing that you want to do is just jot something down and consider this like a rough draft. You're going to have a ton, a ton, of micro adjustments along the way, until you start getting comfortable with your numbers. Keyword here, your numbers, not Google's. Your budget is actually very unique to you, your income, your expenses, and your goals. As you go through life to be, be honest with you, you're going to take on a lot more responsibilities, you're going to make more money, you're going to change as a person, and you're going to value different things. So your budget, it needs to grow with you.

All right. So let's just jump into creating a simple budget. The first thing that you want to do is you want to track your income and expenses for the month, and you can easily do this on Excel or with a pen and paper. From my personal experience, the most effective way to just start is by using a pen and paper. Eventually, you can transition into using Excel or even a budgeting app. When listing out your income, if you're a salary employee, this is going to be a lot easier for you to figure out. If you're an hourly employee or an entrepreneur, trust me, I know, your income may vary from month to month. So just do your best to try to project out what you think your income will look like for the upcoming month.

Next, when it comes to listing your expenses, a small tip that really helped me was to separate my bills from my lifestyle expenses. This is a simple way to identify your needs versus your wants. When it comes to your bills, do not focus on if it's technically a bill. Focus on if it's an essential, like housing, transportation, utilities, minimum debt payments, healthcare, groceries, et cetera, et cetera. Now, like I said, I know that groceries aren't technically a bill, but eating is an essential part of life. Eating out, now that's a lifestyle choice and you can do both, but you need to make sure that you're budgeting for them separately.

When it comes to your lifestyle expenses, this is the fun part of your budget, all the things that you want to do on a monthly basis. Some of these categories may include personal care, entertainment, eating out, shopping, hobbies, et cetera, et cetera, but I want to make it very crystal clear here. It is okay to have a lifestyle and to give yourself some money to enjoy your life. Now, I do want to recommend that you give yourself a realistic budget when it comes to your lifestyle expenses, but put a cap on it, so that you are not limiting your success in the other areas of your finances.

Now let's do a quick example of what your budget will look like when you separate your bills from your lifestyle and what you can learn from this strategy. Under your bills category, let's say that your rent is \$1,500. Your utilities is \$250. Your cell phone is a \$100, internet \$100, groceries \$500, your auto loan, \$325, and your minimum payment on your credit card is \$35, totaling \$2,810. Now under your lifestyle category, your gym membership is going to be \$45, Netflix \$13, nails \$60, eating out \$100, play money \$50, totaling \$268.

When you break down your budget like this, you're going to learn a few things about your finances. One, you're going to know what your minimum cost of living is, which a lot of people do not know, and now you do. It's actually the total of your bills within your budget. Two, you know exactly how much you need for your starter emergency fund. Now, for those that don't know what emergency fund is, let me pull back. This is just money set aside for any unexpected expenses or financial emergencies that you did not see coming, like if you get hospitalized, if you lose your job, or if your car breaks down. Now, I recommend that everyone has at least one month of their minimum cost of living as their first starter emergency fund. Three, it creates clarity and understanding if you're actually living above your means, below your means, or paycheck to paycheck. When you're separating your bills from your lifestyle, this means a lot of people inside that they're not necessarily living paycheck to paycheck. They're just allocating too much money towards their lifestyle. With a few tweaks, you'll be able to really strictly see your financial future a lot clearer.

Now that you created a plan for your money, let's see how this plays out in real life, by tracking your actual income and expenses to your proposed budget. Again, it is not meant to be perfect. It is a rough draft. I actually recommend to track your expenses on a weekly basis. This way you can catch any overspending early on, and you can decide sooner what to do with your finances and how you want to handle your financial goals.

Now before I let you guys go, I wanted to share that throughout my journey of learning about budgeting and managing my finances, I never considered that it wasn't a coincidence that my family was able to pay off over \$99,000 of debt, cash for our wedding, build up our emergency funds, start two businesses, and raise our family in California. It's because we had a system that promoted us to manage our finances with purpose, and that all started with the B word.

[Speaking in Spanish "Well"] on that note. I hope that you guys enjoyed this video about how to create a budget and that you use some of the tips that I share, because trust me, if you don't make a plan for your money, the world will. Well, until next time, bye.