FINANCIAL INSIGHTS BLOG

BUDGETING | SAVING & INVESTING | THE ECONOMY

Spend Less, Save More: 5 Steps to Creating a Personal Budget.

A budget is an estimate of income and expenses over a period of time. Track your income and expenses to understand your money habits and take control of your spending and saving.

April is Financial Literacy Month. Over the next couple of weeks, we will provide you with tips on ways to improve your financial fitness. Creating a budget is the first step to take control of your finances. Here is a list of steps to create a personal budget.

1. Make a list of your short-term and long-term goals.

Before creating your budget, ask yourself, “What are my financial goals?” These goals can be short term (less than three years) or long-term (more than three years). Once you have set your goals, you can make a plan to achieve these goals. The following are popular financial goals:

- Reduce debt.
- Create an emergency fund.
- Save for a downpayment on a home.
- Save for retirement.
- Save for my child’s college education.

2. Identify your monthly income and expenses.

Make a list of your monthly income and expenses. Gather your pay slips, bank and credit card statements over the past six months as a reference. Be sure to include all sources of income: salary, rental income, investment income, pensioners payments, disability cheques, etc. If you are self-employed, your income may be irregular. Add up your income from the past six months and determine the monthly average. Next list all of your

expenses (fixed and variable). Fixed expenses typically remain the same from month to month and can include mortgage or rent, utility bills, food, and transportation. Variable expenses fluctuate from month to month such as entertainment, travel, shopping, and any other luxury spending.

3. Look for ways to minimize expenses.

Ideally, your income should be greater than your expenses. Minimizing your expenses increases your financial flexibility and reduces the stress of living paycheck to paycheck. This also increases your ability to save and invest. Here are some easy ways to minimize your expenses:

- Make meals at home rather than ordering take out or going out to eat.
- Change your utility bill packages.
- Reduce enjoyment/ luxury purchases such as entertainment, shopping, travel.
- Shop around for better rates on insurance, loans, etc.
- Use coupons or identify sales while shopping.

A major part of minimizing your expenses includes reducing your debt. If a large portion of your income is allocated to loan payments, your ability to save will be reduced. A good debt-to-income ratio is 35% or less. Consumer loans and credit cards carry high rates of interest (15 – 20%). By reducing your debt, you can minimize the amount you pay to the bank in interest and allocate funds towards an income generating investment.

4. Create your budget.

Now is the time to create your plan for how you will spend your money while keeping your short-term and long-term goals in mind. Input your income and expenses into a budgeting worksheet or budgeting app. CFAL has a budget planning worksheet which we can provide if needed. The below is our recommended budget guideline:

Category	%
BILLS (rent/ mortgage, food, school fees, car payment, clothes, insurance)	60%
Pension/ Retirement Savings	5%
Regular Savings/ Emergency Fund	10%
Charity/ Church	10%
Enjoyment/ Luxuries	15%

When developing your budget, make sure it is a livable one. Set realistic estimates of what you need for monthly living expenses. Savings is an important part of your budget, and this includes pension and retirement savings, investments and an emergency fund. Only 30% of companies in The Bahamas provide a company sponsored pension plan. If you are one of those lucky individuals, try to save a minimum of 5% of your salary. Typically, as a benefit of employment, your employer will match your contributions to assist with your retirement saving goals. If your company does not offer a company sponsored pension plan, enroll in an Individual Retirement Account like the CFAL Blue Marlin Retirement Plan. Creating an emergency fund is another important aspect of saving. The COVID-19 pandemic and Hurricane Dorian taught us the importance of having an emergency fund. Your emergency fund should cover at minimum 3 - 6 months of living expenses in the event of a natural disaster, job loss or medical emergency. The pandemic taught us that saving a year's worth of living expenses may be ideal. Your emergency fund should be in an easily accessible savings account or a short-term

investment account such as a money market or mutual fund. The ultimate goal is to save as much as possible, get out of debt and build wealth.

5. Track your progress.

Periodically monitor your budget by comparing actual spending to budgeted spending. Make adjustments as needed.

CFAL is here to help.

If you need additional help, feel free to reach out to us for a Financial Planning Session. Our Certified Financial Planners are here to assist you with your budgeting, saving and investing needs.

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