

Opportunity Finance Project

Seminar 1: Budgeting 101

Welcome!

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Research and Teaching Interests: Financial Literacy, Consumer Education, Business Ethics, Career Readiness

Personal Interest: Self-financed my college education (\$50k+ in loans), made poor financial decisions in my 20s (\$10k+ in personal debt) - have subsequently paid off all debts and learned important lessons I believe should be taught to everyone

What is Budgeting?

- **Definition:**

- A budget is a **plan** for how you will use your income to cover your expenses and achieve your financial goals.
- Think of it as a roadmap for your money.

- **Important Premises:**

- *The difference between what you earn and what you spend is your wealth* (income does NOT equal wealth)
- Most people save what is left after spending - Wise budgeters *spend what is left after saving*

Example:

Person 1: \$800 Income - \$750 Expenses = **\$50 Savings**

Person 2: \$300 Income - **\$100 Savings** = \$200 Expenses



Why Budgeting is Important #1

Financial Clarity:

- Understand exactly where your money is going each month.
- Avoid surprises like overdraft fees or missed bills.



Importance #2

Reducing Stress:

- Gain confidence and control over your finances.
- Avoid living paycheck to paycheck by planning ahead.



Importance #3

Achieving Goals:

- Save for meaningful goals, like an emergency fund, a vacation, or education.
- Prevent debt by living within your means.



Steps to Create a Budget

Step 1: Identify Your Income

Key Question: How much money do you have coming in every month?

Examples of Sources of Income:

- Salary or wages (after taxes).
- Side hustles, freelance work, or tips.
- Government benefits or financial aid.



Step 2: Track Your Expenses

Key Question: **Where is your money going?**

Types of Expenses:

- **Fixed expenses**: rent, car payment, insurance
- **Variable expenses**: groceries, utilities
- **Discretionary costs**: subscriptions, gifts, entertainment

How to Track:

Online Applications, spreadsheets, or pen and paper.



Step 3: Categorize Expenses (Needs vs. Wants)

Key Question: **Are your expenses essential or simple wants?**

- Needs (Essentials):
Rent, utilities, groceries, transportation.
- Wants (Non-Essentials):
Dining out, Netflix, new clothes.



Step 4: Set Spending Limits and Savings Goals

Key Question: **How much should you allocate to each category?**

Use the 50/30/20 rule:

- 50% needs
- 30% wants
- 20% savings/debt repayment or investments

Savings Goals:

Short-term: Emergency fund.

Long-term: Down payment or retirement.



Activity: Complete the Budget Worksheet

Practical Tips

Start Small and Adjust as Needed

Key Point: You don't need to have a perfect budget right away. Start simple and improve over time. Budgeting is about behavior.

Tip:

- Focus on tracking just 2-3 categories initially, such as rent, groceries, and entertainment.
- Evaluate after one month and adjust where necessary.

Example:

If groceries are consistently over budget, consider meal planning or increasing allocation.

Start small,
But **START.**



Use Tools like Apps or Spreadsheets

Key Point: **Leverage technology or simple systems to stay organized.**

Popular Apps:

- Mint: Automatically tracks and categorizes expenses.
- EveryDollar: Focuses on zero-based budgeting.
- YNAB (You Need A Budget): Helps allocate every dollar to a purpose.

Spreadsheets:

Use Google Sheets or Excel to manually input income and expenses.

Paper and Pen:

Use a paper and a pen to write down and analyze **EVERYTHING**.

Cash Envelope Method:

Keep your budget categories in assigned envelopes funded with the appropriate amount of cash. Take cash from the envelope as needed toward that category, record the transaction. When you 'run out' - you no longer spend in that category that month or you borrow from another



Avoid Common Pitfalls

Key Point: **Small mistakes can derail a budget. Stay mindful of these:**

Ignoring small expenses:

Daily coffees or small online purchases can add up.

Example: \$5 coffee every day = \$150 a month.

Being too rigid:

Leave room for unexpected expenses or treat-yourself moments.

Forgetting irregular expenses:

Plan for annual subscriptions, holiday gifts, or car maintenance. **PLAN AHEAD**



Building healthy financial practices

Budgeting is a habit, not a one-time task. The more they practice, the easier it gets.



Pay Attention to Your Habits

Budgeting and money habits require behavior changes. The most effective ways to promote good habits:

- Make it obvious/visible (create visible cues, share your plan, review your accounts regularly)
- Make it easy (reduce friction, automate, create a commitment device)
- Make it attractive to save (find an accountability partner/group, identify what was unattractive about your prior habits)
- Make it satisfying (create rewards for yourself, track progress, look for small victories)

THE 4 LAWS FOR BUILDING / BREAKING HABITS



Building Good Habits	Breaking Bad Habits
1. Make it obvious	1. Make it invisible
2. Make it attractive	2. Make it unattractive
3. Make it easy	3. Make it hard
4. Make it satisfying	4. Make it unsatisfying

Savings

Money set aside for future goals and emergencies.

- Emergency Fund: Saving for unexpected expenses
- Retirement Savings: Contributions to retirement accounts (401(k), IRA,ect)
- Investments: Stocks, bonds, mutual funds
- Education Savings: College savings plans



Goals (Short-Term and Long-term Savings)

Expenses related to achieving specific financial objectives.

- Vacation Fund: Saving for future trips
- Home Purchase: Saving for a down payment
- Major Purchases: Saving for big-ticket items (e.g., new car, electronics)
- Debt Reduction: Extra payments toward credit card or loan principal to reduce debt faster

Building Systems

Reviewing and Adjusting Your Budget Regularly

What it is:

Your financial situation changes, so your budget should too.

Why it works:

By regularly reviewing your budget (e.g., monthly or quarterly), you can make adjustments for new goals, unexpected income, or expenses.

Tip:

At the end of each month, compare actual spending with your budget to see where you succeeded or went over. This helps make smarter adjustments for the next month.



The 50/30/20 Rule

What it is:

A simple budgeting framework that divides your income into three broad categories:

- 50% Needs: Essentials like rent, utilities, food.
- 30% Wants: Non-essential items like entertainment, dining out.
- 20% Savings/Debt Repayment: Emergency fund, retirement, debt repayment.

Why it works:

It's an easy and balanced approach to managing money that can be adjusted based on individual priorities.



Zero-Based budgeting

What it is:

Every dollar you earn is assigned a specific role, whether it's for spending, saving, or investing, ensuring that your income minus expenses equals zero by the end of the month.

Why it works:

This method forces you to account for every dollar, helping to eliminate wasteful spending and ensure that savings goals are prioritized.

Example:

If your monthly income is \$2,000, you would assign each dollar to a category (e.g., \$1,000 for needs, \$500 for wants, \$500 for savings).



The Importance of an Emergency Fund

What it is:

Setting aside money for unexpected events (e.g., medical emergencies, car repairs).

Why it works:

Having an emergency fund helps prevent going into debt when life throws you a curveball. Dave Ramsey suggest creating a \$1,000 emergency fund; and increasing to 3-6 months' worth of expenses after you've paid down high interest debts

Tip:

Start with small, achievable savings goals, like \$100 a month, and gradually increase the amount as you can.



The "No-Spend Challenge"

What it is:

A temporary period where you refrain from spending on non-essentials, such as dining out, shopping for clothes, or entertainment.

Why it works:

This can be a fun way to reset your financial habits, save money quickly, and identify unnecessary spending.

Tip:

Try a 1-week or 30-day challenge and see how much you can save by focusing on just the essentials.



Managing Debt

- 1) Get Organized - What do you owe and to who? What is the interest rate and what are the minimum payments?
- 2) Focus on getting high interest debt under control - refrain from adding to credit card debt
- 3) Create a short and long term debt payoff strategy

	Amount owing	Interest rate	Minimum payment
Credit Card 1	\$1,500	19.99%	\$35
Credit Card 2	\$4,000	21.99%	\$75
Car Loan	\$12,500	4.00%	\$280
Line of Credit (\$7,500 limit)	\$500	6.50%	\$10
Personal Loan	\$8,000	9.00%	\$365
		TOTAL	\$765
		Remaining	\$435

TWO METHODS FOR TACKLING DEBT

There are 2 common ways to approach tackling debt:



SNOWBALL

(focuses on total debt size as a priority)



Make minimum payments on each debt monthly



Make extra payments on the smallest loan



When paid off, move to the next highest loan debt



AVALANCHE

(focuses on highest interest as a priority)



Make minimum payments on each debt monthly



Make extra payments on the highest interest rate loan



When paid off, move to the next debt with the highest interest rate

Final Thoughts

Recap of Key Points:

What is a Budget?

A budget is simply a plan for how to manage your money—tracking income, expenses, and setting savings goals.

Why is Budgeting Important?

Budgeting provides financial clarity, reduces stress, and helps you achieve your goals, whether it's saving for an emergency fund, buying a home, or going on vacation.



Steps to Create a Budget

- 1-)Identify your income – Know how much money is coming in.
- 2-)Track your expenses – Understand where your money is going.
- 3-)Categorize your expenses – Separate needs from wants.
- 4-)Set limits and savings goals – Prioritize your spending and savings



Encouragement

Budgeting is a journey, not a one-time task. It's okay if your first budget isn't perfect. The important thing is starting and improving along the way.

By following these steps and tips, you can build a healthy financial future, avoid unnecessary stress, and stay on track to meet your goals.

Remember: It's not about restricting yourself; it's about taking control and making your money work for you.



Thank you