FINFLASH

YOUR BUDGET
YOUR ROADMAP FOR FINANCIAL WELL-BEING

A budget is in essence a road map to help you get from A (receiving your income) to B (spending that income in the best possible way). It shows you what is possible with the income you have available and how to allocate that income as best you can.

If you feel you are always scrambling to find money to cover urgent expenses, learn how to budget and take charge! A budget will not miraculously increase the funds you have available to spend on a monthly basis, but it will help you manage those funds and avoid panicking when you can't cover urgent expenses such as taking care of a car repair or doctor's bill.

What does a budget do?

A budget carefully takes note of what you earn and how you spend those earnings. It forces you to understand exactly how much disposable income you actually have. It helps you just to spend what you have available and not more!

It doesn't make much sense to think of your income in terms of the total amount you earn, since this amount is not available for you to spend. If your employer deducts tax (PAYE) and other levies on a monthly basis and you have no further additional income, the resultant take home pay is yours to dispose of as you see fit. However, these days many young adults earn a pay-check without additional benefits or deductions. If you do not take into account all your financial responsibilities, for instance how much you owe SARS, your annual tax liability could come as a nasty surprise and result in a personal financial crisis.

A monthly budget which takes all your ongoing monthly expenses into account and makes provision for unforeseen expenses, your annual holiday and regular savings, will put you in charge and lead to financial well-being over time.

As with most things financial—the sooner you start the better!

If you feel that you would like help with how to spend your money wisely, how to set up a budget and sort out what types of expenses you need to prioritize and especially if you are worried about obligations such as tax, debt, your children's education or retirement provision, talk to your financial adviser.

If you over-spend your income in one month you will have to under-spend in coming months to even-out the discrepancy and erase the loan required (or the accumulated amounts on your credit card) to bridge the finance gap your over-spending created. If you budget how to spend your income and if you stick to your budget, you avoid the over-spending pitfall completely. In addition, you get to spend your income how you decide.

Like most things, setting up a budget and sticking to it, is not complicated. You just have to start! It is probably also better to start with a simple list detailing your actual monthly expenses, including all those quick take-away coffees on the way to work! With your total monthly expenses in mind, you can set up a simple budget with clear spending limits in specific categories, to help you get started. Here it is very important to be aware of the difference between a need (an essential monthly expense such as paying for the roof over your head) and a want (that take-away coffee). A budget that is too detailed or too complicated to keep track of, may also not offer the best incentive for sticking to your money plan.

What should a Budget include?

A budget should address your main expenses. Traditional wisdom divides monthly expenditure into three main categories with roughly the following percentages allocated to each:

- living expenses (necessities) (50% - 60%)
- savings and (25% - 30%)
- discretionary spending (10% - 20%)

It is crucial to take note that savings precedes discretionary spending in any budget aimed to keep you in charge of your financial well-being. If you are serious about making your financial plan work, you could adjust the percentage allocated to living expenses vs. discretionary spending but not about how much should be allocated to savings.

Living expenses (necessities for living)

Most people identify a core group of items that they consider as essential:

- The roof over your head, including your bond repayment or rent and utilities (water & electricity) as well as the rates & taxes levied by your local municipality which you have to pay
- Transport to get to and from work
- Caretaking for your children, school fees, school uniforms and extra mural activities
- Medical aid contribution and chronic medicine payments
- Food Budget for the essential food needed every month (entertaining friends is discretionary)
- Other expenses such as telephone and tv license, your annual car license; essential clothing

Savings

If this category does not get its rightful share, you are asking for trouble. You have to budget for savings. This is your safety net without which the advantages of having a money-plan and a budget in the first place can be completely erased. This category represents how well you manage your current financial situation and how efficiently you are preparing for your future financial well-being.

Savings will cover allocations to:

- An emergency fund - to cover unforeseen expenses
- Insurance – both short and long term
- Adequate retirement provision
- Discretionary savings

Depending on the level and types of insurance you need, at least 25% or more of your take home-pay should be allocated to savings. This category represents the financial health of your money plan. If you make adequate provision here (including for retirement) you can be certain that you are getting ahead financially. More importantly, the savings category of your budget also includes insurance of assets and insuring yourself. Your ability to work is probably your most valuable asset, especially if you are still young and have not had time to accumulate other assets on which you can fall back in an emergency situation. In addition, insuring yourself involves making sure you have adequate medical aid cover.

If your salary increases dramatically because of promotion or a regular bonus, the percentage of your monthly income allocated to savings should be increased. If you get used to different life style expenses this will impact on your retirement requirements for which you will not have made provision when you were earning less.

These two categories (essential living expenses and savings) represent fixed percentages of your budget. They do not normally offer much lee-way for adjustments. And even though the savings category is not required spending because of external pressure or obligations (apart from your decision to take savings seriously) this is your safety net. The risk associated with destroying or undermining your safety net cannot be over-estimated.

Discretionary spending

This is the area of the budget where you do have lee-way to manoeuvre, which makes it a tricky category to manage. Discretionary spending funds (traditionally at the most 20% of your income) are available for wants as opposed to needs.

These wants may be very satisfactory to have. They could include expenses for a new cell phone, tickets to a special concert, non-essential clothing, annual holiday, expenses concerning hobbies, books and magazines, gym membership, hair and body treatments, entertainment like eating out, going to clubs and movies, buying art or music. Expenses on these 'wants' should not impact on what you spend on essentials or on the amount available for savings, though.

Saving for a want (such as a special vacation) is not part of 'required saving' (category 2) which is required to maintain your financial plan. The more you can manage to limit expenses in the discretionary spending category, the more progress you'll make to towards becoming or remaining debt free and towards enjoying a secure financial future.

If you are debt-free (excluding the long-term debt covered by your home bond repayment) your budget will differ substantially from the budget of someone who is trying to get rid of short-term debt at the same time as needing disposable income to live on.

Unfortunately, short term debt repayments will have to come from the discretionary spending category on your budget. In effect this means that you will have very little to spend on anything else—nearly all your spending will thus be 'pre-allocated' which can be very disheartening. It is much better to set up an emergency fund long before you need one and avoid short term debt at all cost, or to be more realistic about what you actually can afford.

From the above it must be clear that setting up a budget depends very much on personal circumstances – not only on your age, your situation, what you have available or how you may be inclined to spend your income. It therefore makes good sense to talk to your financial adviser for help with figuring out how best to deploy your income in your own interest and to your own advantage. If you want to know how

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