

Joanna and Johnny are the budget gurus and duo behind [ourfreakingbudget.com](http://ourfreakingbudget.com), a personal finance blog dedicated to, you guessed it, budgets. Although the blog is aptly named for its focus on budgeting, it also has a wealth of other personal finance tips and musings. Since budgeting, they've paid off \$20,000 of debt, saved up an emergency fund, and even investing in starting a small business. Joanna and Johnny are the first to admit that budgets are the least sexy part of personal finance, but they also swear by them? Why? Because budgets are the cornerstone to achieving all of your financial goals, which are the sexy part of personal finance.

Want to get out of debt? Want to save up for a house? Want to save for early retirement? It all starts with a budget. After all, in order to save you have to know how much money is coming in and how much is going out. Snag Johnny and Joanna's best tips for building a budget you don't hate.

## 1. Choose Your Motivation

Budgeting is hard. Really hard. It can feel restrictive, so being able to identify why you have a budget is the key to staying motivated. "It's a lot like starting an exercise plan or a diet. When times get tough and it's raining outside and you don't want to workout and there's an opportunity to eat some food that you shouldn't. What are you going to lean back on when times get tough? That's really the motivation. You got to have a motivation so that, again, when you fail and you can get back on the horse"

Find the goal that underlies starting a budget: getting out of debt, saving for a house, saving for retirement, having control over your money, etc.

You also want to **prioritize** your motivations. For example, if you have high interest debt, that should be your first priority before you save for a house. Build up your emergency fund as well, so that you're covered when life throws you an unexpected curveball. Fund your financial foundation before you tackle bigger investments.

Keep track of short term goals and long term goals. \$300 a month might not feel like much if you're saving to pay of debt or for anything else, so calculate how much you'll have saved in a year, and let that long term savings number motivate you.

## 2. Be Flexible

That first month, you're not really going to have concrete numbers for everything you'll spend on. This is trial and error. You'll have to make educated guesses and then adjust for the

following month. Be aware of this so that you will be ready to make adjustments for a future accurate budget. Your budget is an evolving thing. Life changes and so will your budget. Be open to adjusting and anticipating changes.

### **3. Find Out What's Coming In & What's Going Out**

You have to have these numbers in order to start budgeting for necessities and discretionary spending. Look through your bank account, or use Mint, to find out how much you're spending and what you're spending on.

### **4. Categorize Your Spending with Backwards Budgeting**

Now that you see what you're bringing in, you can start you allocate your spending and build your budget! There are different types of expenses: non discretionary vs. discretionary and fixed vs. variable.

A fixed expense is something that you know you'll be charged the same amount each month like rent, utilities, insurance, internet etc. A variable expense is something that changes monthly based on your choices like grocery spending, clothes, entertainment, personal spending, etc.

Further, break it down into non-discretionary vs discretionary. Non-discretionary are items that you cannot make it through the month without. These are necessities to your lifestyle in a way: rent, gas, internet, insurance (this is subjective- so figure out what is essential for your lifestyle) Discretionary items are things that you may enjoy and like, but aren't essential to the basic, happy functioning of your life like entertainment, eating out, personal spending, beauty, etc.

- Start with how much you can invest in your financial goals: getting out of debt, savings, etc
  - Example: You want to put \$400 towards debt that month
- Take what's left and divide among fixed & non-discretionary spending: allocate amounts needed for all of that.
- Take what is left and figure outTake what is left of that and allocate to your discretionary categories

What if you want to invest more in financial goals, or you're coming up short? When you're looking to start cutting expenses, start with discretionary spending.

### **5. Have an "Everything Else" Category**

If the thought of assigning every single dollar to a specific item makes you panic, try having an everything else category. This is great for variable expenses that make it difficult to accurately

estimate for on a monthly basis. An everything else category can include medical expenses, gifts, pet supplies, personal items, or really anything that is super variable in the month. Assign an overall amount to that category. Then it doesn't matter how much you spend on specific items as long as you don't exceed the overall category allotment. For Johnny & Joanna, their allotment is about \$300 per month. An Everything Else category can make you feel like you have a little more freedom and breathability within the budget so you don't get frustrated or stifled. It also simplifies things so you don't have too many categories and get overwhelmed. You still estimate how much you'll spend in each of those to get the overall total. It just provides more flexibility for the comprising categories.

Try and have a little money for yourself that you can just spend on whatever you want. In the beginning this was \$20 each for Johnny and Joanna that they didn't have to account for. It was mad money and it helps keep you sane.

## **6. Try a Cash Based Budget**

For the first month or two, use a cash based budget to help you really stick to your spending plan. It helps make the spending plan feel more real.

## **7. Check In Daily & Monthly**

Track your spending daily. It's too easy for things to slip your mind, so add in all your daily expenses at the end of the day. Use a manual budgeting app like Home Budget or something like Mint (although Joanna and Johnny are not huge fans because it makes it too easy because you can choose to only look at it monthly. Manual budgeting forces daily check ins which help keep you on track.

Also have monthly budget meetings to review goals and new adjustments.

## **8. Be Realistic**

Set realistic goals for your lifestyle. If you want to achieve your financial goal, whatever it may be, with an aggressive savings plan, by all means, curate your budget to achieve that. However, if an aggressive savings plan will make you stressed or you know it just won't work don't try that. Instead, make realistic spending cuts and allocations based on your needs.

Being realistic will help you stay consistent, which is the key to successful long term budgeting.