

## Interview with Stefanie O'Connell-How To Budget For Inconsistent Income

Speaker 1: Hi everyone, I'm here today with our special guest Stefanie O'Connell. She runs a great personal finance blog [stefanieoconnell.com](http://stefanieoconnell.com) and she has authored a book called *The Broke and Beautiful Life*. She's a financial expert and today she's going to be sharing some of her wisdom with us. Thanks for being here Stefanie.

Stefanie: Thank you for having me.

Speaker 1: Stefanie, you kind of have an interesting background, and today she's going to be sharing some of her strategies and tips for budgeting for inconsistent income, which is something that I know a lot of our readers have, with freelance and commerce, self-employed and you're kind of an expert in that topic, right?

Stefanie: I'm totally an expert in that topic. I'm 30 years old and I've never known how much I'm going to make in a given year. I've never had a steady salary. I've never had consistent predictable income. I feel your pain, listeners. That said, I became interested in personal finance because of that. I didn't like that feeling of being a victim of my circumstances and feeling like I had no control over my life because I didn't know what my income was going to be. I found tools and strategies using personal finance and money, money savvy to really get empowered about the choices I was making in my life. Money is really cool because it's tangible, it's measurable, right? Once you have a system for dealing with it you can really start to build your life and career on your own terms.

Speaker 1: That's fantastic. I know you have a lot of experience with never knowing how much you're going to make and how you budget for that, but could you tell me just a little bit about your personal background and what kind of got you started in personal finance aside from never having control over what you were making in a year?

Stefanie: This is where it gets really interesting. I majored in drama and I was a professional musical theater actress at the height of the financial crisis. That was a really interesting combination of circumstances, and while I did succeed as an actress for many years it was a challenge. It was always hard to manage the inconsistencies of the income, to manage the unpredictability, to manage income that was largely insufficient for covering my expenses and cobbling together a slew of other side hustles to make ends meet.

For me, it wasn't really a sustainable way of living, I had to not only give up the kind of security you get from financial savvy and making enough money, but I also had to give up spending time with friends and family. You had to be ruthlessly committed to your career, as opposed to having a more holistic lifestyle that really considers everything that's important to you, not just one singular thing that's important to you, which for me at the time was ... I started cultivating an interest in money so that I could have more flexibility in my life, to not stress about a friend getting married because I could actually afford to go to the wedding or not stress about paying my rent because I could afford to pay it.

That's a pretty massive spectrum of financial stress and I was experiencing all of it. I think a lot of us with unpredictable income have been there at one point.

I turned to personal finance literature books, blogs, magazines, videos, anything I could get my hands on, to really start empowering myself with the information. I needed to start implementing new habits and finding a framework that could work for my very untraditional lifestyle and income. In that process I found myself stumbling upon this entirely new career that I love, writing about my experience and my financial journey as somebody not coming from a traditional finance background and saying, "Hey, I'm a regular person and I can do this just as much as anybody else can."

I think that's really empowering to know that no matter what your income is, no matter what your background is, no matter what your experience is right now, if you implement the systems that work for you, you can achieve that kind of financial freedom that enables you to both, meet your rent and go to your friend's wedding, and take a vacation and have the money to do it without the stress.

Speaker 1: Right, and I think that's the most incredible thing about managing your money and learning to take control of your finances. It's just having that freedom back over your life and figuring out how you can have that flexibility when you're also doing what you love to do without stressing out about every single thing that you need to purchase.

Stefanie: That's the end goal, right?

Speaker 1: Right.

Stefanie: You just got to ... You get like the personal and the career on your terms and that comes through financial responsibility.

Speaker 1: What has taking control over managing your money meant for you and your lifestyle? How has that changed things for you?

Stefanie: Well, I can basically do whatever I want now, which is I guess really the end goal. Also, because I do own my own business and I manage my money well, and I make enough money, I can go to any place in the world and I can work from anywhere in the world. I can work on my own hours. I have my own flexibility, while still taking care of my future self and my present self. If that's what a lifestyle you love looks like to you, that's great. If a lifestyle you love looks like something else then it doesn't matter ... It doesn't matter what it looks like if you create a financial foundation and a financial framework that works, you can make it be anything you want it to be.

Speaker 1: Again, that's the beauty of achieving your own brand of financial independence, is being able to be self-employed and also do what you want to do yourself. I think having that financial foundation, like you were mentioning is so important and we all know, anyone who follows personal finance or who is delving into personal finance, managing your money is so important and having that financial foundation. But I think that's where some people who have inconsistent income, whether if you're a freelancer, self-employed or side hustle or whatever it is, blogging, I think it gets a little hazier there. You don't have that consistent monthly income coming in. What steps does someone need to take in order to establish and maintain a budget for that inconsistent income?

Stefanie: You have to, have to, have to get grounded in the numbers. You have to know what's coming in and you have to know what's going out. I don't mean like some hazy guess of what you think you're earning and what you think you're spending, I mean down to the dollar, what is coming in and what is going out each and every month. The simplest way to do that is write it down, it is the simplest, simplest thing you can do to transform your financial life. It sounds so simple that people often don't do it because they think, "Oh, that's too simple, that won't change anything," but by far and away, it's the most transformative thing I've had anyone do. That's the feedback I always get like writing down my numbers, getting grounded in the numbers is step one.

Once you have the numbers in front of you, you can start to make conscious mindful choices, you can start seeing where you're out of alignment. If you do have inconsistent income, the great thing about the numbers is you can use whatever your income was the previous month as your framework for your budget this following month. You're not guessing how much you're going to make, you already know what the parameters are, you just have to work within those parameters.

That's why you have to write down everything that you're making so that you're aware of, "Okay, this is what I'm working with." If you've already tracked all your spending for several months you know generally what your cost of living is. If those two things aren't in alignment ... Excuse me, I'm a little sick, I have a cough. If those two things aren't in alignment that's your instant call to action to say, "Okay, I either need to cut down my expenses or I need to make more money." I can get more granular in this about like how I go about actually structuring the budget if you like.

Speaker 1: I think that would be great, is kind of going into the specifics and I know we have a few questions later down the line that are in those details, but we'd love the most specific as possible.

Stefanie:

I'm going to go into those questions because I think they're really important if we're answering this question. I like to use something I call the Make or Break Number and this is, I think a really great tool for anybody, whether you have consistent income or not, but if you don't have consistent income I think you must, must know this number. This is how it's calculated, it's the monthly minimum, no frills cost of running your life, everything you need to live and work well.

I use three things to calculate it, one is your bare bones budget total. That's the monthly cost of your necessities, food, housing, insurance, anything that is really critical and essential to your monthly functioning of working and living normally. What would not be included would be things like entertainment, would be things like beauty treatments, would be things like social gatherings. Remember as you're calculating this total, to include any irregular expenses too. There are things that you pay quarterly, there are a few things that you pay annually, you want to determine the monthly cost of those things and incorporate those into your bare bones budget total, so that you have a true monthly reflection of your cost of the bare bones necessities.

Then once you've got that, you want to add on part two, which is a budget buffer, because things are just always more expensive than we anticipate they're going to be. I would say add at least 10% to 20% to your bare bones total. Then the third element to add on to your make or break numbers is a monthly financial goal target. It's really important to account for your financial goals as much as you account for your necessities. You never want to be making the choice between paying down debt or paying down your rent, and that means making a commitment to your financial goals that's as much as a commitment as you make to your necessities, your housing, your food, etc. This is why I include monthly financial goal targets in the Make or Break Number.

This is going to be different from person to person, having a number that you want to save, having a number that you want to invest, having a number that you want to put towards debt each month, whatever that cumulative total cost is of your monthly financial goals, incorporate that into your Make or Break Number so that they become as essential as your other essential expenses.

Once you've got these three elements, your bare bones budget, your buffer, and your monthly financial goal target, you add those all together and you get your Make or Break Number. Again, that's the benchmark for the financial viability of your life, that is the number you have to commit to making at a minimum each and every month. It keeps you committed not only to the present and staying financially viable in the present, but also to your longer term financial goal, so that you're not saying goodbye to your future self and your future dreams at the expense of whatever is in the here and now.

Once you have identified your Make or Break Number, you can subtract it from whatever your previous month's income was. When you figure out what that leftover number is that's the money you have to split between two things, discretionary spending, entertainment, investments in yourself, social expenses, and then the other part is you could put it towards more financial goals. If you want to really like, if you were saving for a home downpayment for example, and you really want to supercharge that savings goal, that's another thing you could do with your discretionary allowance.

It's really about recognizing what the Make or Break Number is, tracking everything that you're making and then figuring out what the spread is in between and delegating the rest of those expenses in a way that best serves your goals and your values.

Speaker 1: Right, that was a fantastic answer and that's so in-depth with giving us legitimate numbers.

Stefanie: I hope it was clear. It's a lot, I know.

Speaker 1: No, but it's important when you're not making consistent income to be able to find some sort of concrete numbers that you can use as your reference point.

Stefanie: Exactly.

Speaker 1: Because otherwise how do you do it? It's inconsistent income.

Stefanie: That's why, I know it can sound a little bit tedious, but I just consider it a part of my job just like anything else. If I'm not being financially viable then I'm not a good business person. Businesses have to take responsibility for their finances and we as individuals, are on businesses, we should have that same kind of mindset when approaching our own finances. There are things like apps, like Mint and Level Money, that can help you do some of this automatically, so that if you're really intimidated by spreadsheets or you can't get it together with a pen and paper, just use any kind of software that will aggregate those numbers for you. You just have to be conscious of what the numbers are, otherwise you really are flying blind and that's not sustainable.

Speaker 1: Right. I have a question in regards to your Make or Break Number and looking at your previous income for each month. We all know it's important to have an emergency fund, but should that emergency fund be part of your financial goals? Because if you, let's say you make less in one month than you did in your previous month, but you would account this number based on that previous month, does your emergency fund come into play there to kind of pushing that or is that

where your buffer zone comes in? How do you deal with making less the next month than you had accounted for in your previous month as your reference point?

Stefanie: The reason we have emergency funds and that's why they should be included in your financial goal target is for those reasons. If there is an emergency and you literally cannot meet your expenses, that is your short-term solution. Building an emergency fund is the number one financial goal target I recommend for people once they've just written everything down. It's the next step, like even more than high-interest debt, even more than investing. If you don't have a buffer in place you are vulnerable to taking on more debt, you are vulnerable to not being able to make ends meet and that's just not a place you want to be. I'm always an advocate of really prioritizing emergency savings as one of your bigger financial goal targets, first and foremost, and then moving on to paying off debt and investing and saving, etc.

What I would say about the emergency fund contingency and that you're dipping into it because you didn't make enough the previous month, that is a one-month strategy. If you get to that point you have to make a really big assessment about, "Okay, something is not in balance on my Make or Break Number and my income," and I have two choices, for this month I'm dipping into my emergency fund, but that's not a sustainable cycle to do again and again and again. My two choices are, one, I reduce my necessities, the cost of my monthly necessities and I can do that by going for big wins. Something like housing. This is something I did, it was very extreme, but that's because I was an actress and I was broke a lot of the time and I subrented my apartment and I crashed with friends. That was a way to free up a thousand dollars in my budget for a month. That was a huge, huge win.

Another thing you can do is get a roommate or AirBnB your place on weekends, like things like that. You want to target things that are really going to free up a lot of money and help you rebuild those emergency savings that you just dipped into for this temporary contingency plan. The other thing you can do is look at the income side of your equation. I know we all want to make money the way we want to make money, but if we're not just even reaching viability then sometimes we have to do things that we don't want to do because we need the money. We don't have the luxury of doing things on our own terms until we're viable. I say, "It's not that you can't build a foundation for making money the way you want to, while you're doing things that pay the bills, you can, but you have to be viable first." Making enough money to survive has to be a priority. We don't get the luxury to do the fun stuff until we get that first foundational element in place.

Speaker 1: That's great. That's really good advice. I want to talk a little bit about types of budgets, budgets that fit with lifestyles, because not every budget style works for

every person, but is your budget cash-based or is it something else? Do you think it's advantageous for people with inconsistent incomes to use a cash-based budget?

Stefanie: I don't use cash because I know that I will not accumulate debt, I never have. I know myself to be okay not to use cash and because I like the system of automation that credit affords you. When you sync of to something like a Mint or a Level Money or an app like that, it takes all your transactions that you make electronically and on your cards, and it aggregates them all in one place for you. I really like having that record, even though I use a spreadsheet to cross-reference with my own record. I think the app for me, as a matter of convenience is great, plus I love cash back and rewards and all that stuff.

That said, if you know yourself to be an over spender, it has been proven that people tend to spend more when they use cards than when they use cash. If you've racked up credit card debt in the past, if you know these things about yourself, self-awareness is going to be your best tool. You have to use a system that works for you. If you know that ... If you set a \$300 budget for food and keep spending \$500 every month, then maybe that's the time to say, "Okay, I'm going to take out \$300 from an ATM at the beginning of the month and I'm going to put it in an envelope and that's all I'm going to allow myself to use for the month, and if I get to the end of the envelope before the end of the month then I have some tough choices to make, because I'm dealing in something tangible, as opposed to something where I can't actually physically see the cash in front of me."

Again, it's about having that awareness with yourself and creating systems that work for you. Remember this is personal finance and personal is a really big part of the equation. I can offer frameworks and ideas about how to make it work, you have to customize it to your needs.

Speaker 1: Right, exactly, if you're an over spender maybe, start with cash-based just until you figured out those reference points for you and your Make or Break Number, you're recording for a little bit what you're spending and you know what you need to spend in a month.

Stefanie: Exactly.

### **Zero Sum Budgeting**

Speaker 1: In talking about that and about making that personal finance decision customized for yourself, are there any strategies or different types of budgets that, style of budgets that will fit in with different lifestyles? How can readers identify a budget that will fit in with their lifestyles? Is it trial and error? Is there research involved? How do they find something that works for their lifestyle?

Stefanie: Well, there's always going to be trial and error, and I think one of the big problems is we fail, I mean we all fail at the first time, right? It's like, "Oh what ... Then we kind of like give up and we think it's something inherently wrong with us like, "I didn't stick to my budget, and so like, this just doesn't work for me." Instead of tweaking and finding something that does work, we abandon it and that would be the biggest failure of all. We want to keep tweaking, it takes a couple of months to figure out how this is all going to work for us.

Now there are two kinds of framework I like to use for budgeting or I like to recommend depending on your personality type. For me, I like a little bit more flexibility so I keep it very open with my budget. I know my Make or Break Number, I know my previous month's income, I simply subtract and then split the rest between discretionary expenses and financial goals. That's a very good framework for me because it allows me to be flexible.

Other people like a little bit more structure, and if you like more structure then I recommend a zero-sum budget. What a zero-sum budget is it uses that same principle of using your previous month's income to plan for this month's expenses, but it delegates a place and a purpose for every single dollar. Taking the guess work out of, "Well, how much can I spend on entertainment, and how much can I spend on this financial goal," and saying, "Okay, here is how much I made, here is my Make or Break Number, here is how much I have leftover, and here are the categories that I want to split it between." Then mapping out a destination for each and every dollar until you get back down to zero, with every dollar accounted for.

In that way you're not having any guess work of saying, "Oh, can I really afford to do this?" You know immediately, because you've already planned for it. You said, "Well, I have a \$100 for this occasion and here is how I'm going to make it work within that \$100 framework," rather than saying, "Oh, I'm going to go to this thing and see how it goes. Oh my gosh, the bill was \$200. I wasn't really anticipating that, and now I don't really have ... don't know how I'm going to balance the rest of these financial demands for the rest of the month." It's really about creating a structure versus having a little bit more flexibility and seeing which way works best for you.

Speaker 1: Right, right, having those different ... I think some people definitely need more structure, especially when you have an inconsistent income, it's a win to have that control over something that's out of your control.

Stefanie: Yes.

Speaker 1: I think that's very helpful.



Stefanie: I think that's the thing, what you're saying about control, for me was one of the reasons I fell in love with personal finance against all odds. Even though I'm a creative person, even though I'm a very independent person who likes to be entrepreneurial, the idea of financial tracking and budgeting and stuff, giving my life structure was very empowering. Having that kind of control over one aspect of your life really allows you to see tangible, measurable results and that is really, really exciting. That's the thing, if you can take away anything, I hope that's what people take away, because it is empowering and it is thrilling. It is all about bringing you closer to that, whatever your vision of financial freedom is and whatever a life on your terms is. It's not really about the numbers, it's about what those numbers afford you.

Speaker 1: Right. I think that's the point. You're talking about how you're a creative person and I think it's all the more important, when you have those other creative pursuits outside of just like a regular job. I think a lot of people, even with consistent income have other things that they're interested in, and having that financial freedom is what allows you to pursue those and also live within your lifestyle, live within your means.

Stefanie: A 100%, you always read those stories about people who say like, "I quit my six-figure job to go travel the world," and it's like, "Yeah, but they had a six-figure job to begin with." They put the financial foundation in place and that's the thing nobody talks about. It's like they didn't just go do that, there was a structure there that enabled them to do that, and that's where you need to step back and see and celebrate.

Speaker 1: Right, absolutely. I want to talk a little bit about, I know you briefly went over side hustles when we're talking about what if you're spending kind of exceeds, it didn't account for making less than what you did the previous month. What are some of your favorite side hustles? Because I think there are some steps readers can take to maximize savings or an emergency fund when you're living with an inconsistent income, and maybe that comes in the form of having another income stream.

Stefanie: I am really passionate about diversifying your income. Even if you have a regular job I think there is no necessarily job security anymore, having as many income stream as possible is probably one of the best things you can do to protect yourself financially. The key to finding ways to make extra income is really the key to any business, any money-making endeavour, and that's to fulfill a need. You have to see what do people need and then you have to ask, "What am I good at?" Then find the intersection of those two things, and it's not only, "What am I good at?" but, "What do I have to offer?" Like what I was saying about AirBnB-ing or subrenting my apartment. I live in New York City, it's a hugely in-demand housing

market. I can make a ton of money because there's so much demand for this particular need, which is a place to crash in New York City.

It could be anything like that, it could be renting out your apartment, renting out your car, renting out your services. I can't tell you, I guess, how many things I've been trying to outsource recently as an entrepreneur. It's just amazing to me how much of a gap there is in terms of the market and the people available to supply the needs that I have. I have virtual assistants. I have people I need to manage social media. I have people I need to manage newsletters. Right now, in the online world you can provide a service from anywhere at basically anytime, if you want you can find the fit. Take it upon yourself to get really deep into your unique knowledge, skills, and experience and figure out how that's going to meet somebody else's need.

Speaker 1: Absolutely. I know we mentioned, you mentioned a lot about tracking your budget and talking about writing it down, but do you use any tools or apps to track your budget and stay on track with those budgeting goals? I think you mentioned Mint briefly.

Stefanie: Mint is a good one. Personal Capital is one I personally use, it's very similar to Mint, in that it not only shows you your checking and savings balances but it also incorporates your investment accounts and credit card balances. You get all your assets and all your debts listed out, you get a full picture of not only your cash flow, but your net worth. I think that's an important distinction too, because at the end of the day it's not just about monthly in and out cash flow, it's about a broader financial picture. To consider that bigger picture we have to think about our assets, like investments and savings account and things like that.

Personal Capital, Mint, and Level Money is a great one because it not only tells you what's coming in, what's going out, it also gives you a safe to spend number. It analyzes your bills and everything to say, "Okay, well you might have a \$1000 in your bank account, but you have a \$500 payment coming up on your credit card next week, so that's not really safe to spend, but this amount is safe to spend within your bank account." That can be a really great tool for somebody dealing with inconsistent income, and again that's Level Money.

Speaker 1: It takes some guess work out of it. It just tells you, maybe [crosstalk 00:28:07].

Stefanie: Exactly. Exactly.

Speaker 1: I think I just have a couple more questions. You've been very thorough and I think it's really helpful in terms of figuring out how can you balance this inconsistency with budgeting, which is important for everybody to do when they're building a financial foundation. But I wonder, in your personal experience what have you

found to be really challenging about budgeting with inconsistent income? Is it super different than budgeting for consistent income? Do you think or do you have challenges and how do you handle those challenges budgeting for that inconsistent source?

Stefanie: It's absolutely challenging and I definitely think it's more challenging than budgeting with consistent income, especially if you're a freelancer or entrepreneur. People who have consistent income typically are at salary, they typically have an employer, 401k plan, they typically have health insurance. There's so many other elements of dealing with inconsistent income that play into the financial picture that go beyond just the simple in and out. It's really all the more important to be your own champion for your financial life bigger picture, not just the in and out of your monthly ... your day-to-day and then your monthly month-to-month.

It's definitely a challenge and I would say that also, for me personally, it's become maybe even more challenging as I've grown as a business and my income grows, because I deal in bigger projects, which means I have fewer paydays but they're bigger, which means they're more spread out. You have this sense that like, "Oh my gosh, I just got paid tens of thousands of dollars, but what if I don't get paid again for another three months?" I'm managing my own money and learning everyday, and at the end of the day none of us have it all figured out at any given time. It's important to realize that this system is going to be constantly evolving, because the way in which you're earning and the way in which you're spending, and the things that you value or prioritize are going to change every year.

I'm 30, I'm single, I live in New York City, my priorities today are very different from what they were when I was 20, what they will be in 10 years will be likely very different from what they are today. I think it's important that we're constantly not only tracking these numbers and keeping them in mind, but updating them to reflect our current value system and our current ways of spending, and our current ways of earning.

Speaker 1: Right, it's a lot about, I think what I'm taking from that is it's a lot about being mutable and being adaptable, while also planning to cover everything, just kind of being as flexible as possible.

Stefanie: You got to always be prepared for the worst case scenario, and again, it's going to be different depending on where you are in your life. It's like right now it's just me, so my worst case scenario is I go crash with friends and I go make ends meet like I used to when I was an actor who waited tables and babies. That's not terrible, but if I have kids and I have a household that would be different. Again, you got to stay updated on what all of these contingencies are, and then create

the financial framework to support whatever your lifestyle looks like or whatever you want it to look like.

Speaker 1: Right, absolutely. Stefanie, I just want to recap a little bit. We have kind of, we end on a recap of everything we need those steps to build your budget. What goes into your Make or Break Number, those are the necessities, those are your insurance, your rent, your food.

Stefanie: Yes.

Speaker 1: All of that, anything that's absolutely essential and isn't a personal entertainment purchase.

Stefanie: Exactly. Did you want me to recap those?

Speaker 1: If you could recap just those steps for the budgeting, that would be really helpful.

Stefanie: Great. Again, the Make or Break Number is a three-part number. What you were saying your monthly necessities, housing, food, insurance, transit, etc., everything you need to live and work normally. Add part two which is a bare bones budget buffer, because it's always going to be more expensive than you anticipate, add another 10% to 20% on top of that number. Then part three, add monthly financial goal targets, this don't have to be all your financial goals rolled into one number, but whatever is a priority. You want to make your prioritized financial goals as nonnegotiable as housing, as food, as transit, etc. Once you have those three things added together you have your Make or Break Number, you subtract that from your previous month's income and then you have a number that tells you how much you have left to spend on discretionary expenses, the fun stuff, the social stuff, the entertainment, reinvestments in yourself, and your financial goals that you want to super charge.

You have two options for how to deal with this. You can keep it flexible and open or you can use a zero-sum budget and take that number of your Make or Break Number, subtract it from your previous month's income and delegate a purpose for every single dollar with a zero-sum budget so that you provide more structure to your financial life. You can track all of these on pen and paper, with spreadsheets, using an app like Level, like Mint, like Personal Capital, whatever works for you.

Remember, be patient, it takes time, you're going to readjust and it's going to be different for everybody. We all have our own ways of implementing. We all have our own ways of structuring. We all have our own ways of adjusting. Just be patient with yourself and celebrate every step you make in the right direction, because it really is setting yourself up to live life on your own terms and that's

what the goal is. No matter what it looks like for you, that's what the goal is for everyone.

Speaker 1: That's fantastic. Thank you so much for recapping that. Thank you so much for being here and sharing those strategies and those tips. It's nice to have an expert come in who's been living with inconsistent income and give some concrete strategies for kind of dealing with that, because budgeting is important for everybody, regardless of where your income stream comes from. Thank you so much for being here and everybody who's listening just check out Stefanie's blog, [stefanieoconnell.com](http://stefanieoconnell.com), check out her book, *The Broke and Beautiful Life*, and if you have any questions you can feel free to e-mail.

Stefanie: Feel free to shout-out at Stefanie O'Connell. Thank you so much for having me.

Speaker 1: Thanks so much, Stefanie.

How did we do?



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