



Budgeting and Saving

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VISA ASIA PACIFIC FINANCIAL EDUCATION SERIES

Did you know that ...
by skipping a \$1 cup of coffee each day, you could save over \$4,700 in 10 years?

It's true – if money was instead saved in an account paying five percent interest compounded daily.

Just think, if you saved a couple hundred dollars a month over that 10-year period. Now we're talking BIG MONEY! However, to achieve this and other goals, you need to PLAN NOW!

Planning Financial Goals

1. Assess Needs

Evaluate your current financial situation. You need to decide what you WANT and what you NEED.

2. Set Goals

The process of setting goals involves turning your NEEDS into goals. Achieving successful financial security starts with organized financial goals that are

SMART:

Specific

Measurable

Attainable

Relevant

Time-related

3. Make a Plan

It is important to begin to develop a plan for your life. Ask yourself: "Where do I want to be in five, 10 and 20 years from now?" Then imagine the actions you need to take to achieve those goals.

4. Take Action

The first step to accomplishing your goals is to take action. Many times goals are not reached because the first step was never taken. An important part of taking action is affirming your goals. Write them down. Say them loud. Share them with your trusted friends. Seeing them in writing helps them to become a reality.



“Each month I find I don’t have enough money; if the month were only 20 days long, budgeting would be easy.”

Daily spending and saving decisions are at the center of financial planning. A budget, or spending plan, is necessary for successful money management.

The main purposes of a budget are to help you:

- Live within your income
- Avoid debt
- Reach your financial goals
- Prepare for financial emergencies
- Develop wise money-management habits.

Four Practical Steps to Budgeting

Step One: Add Up Your Income

Step Two: Estimate Your Expenses

Your budget starts with creating spending categories. How much you budget for various items will depend on your current needs and future plans. A detailed record of your spending will help you determine how much to budget in those categories.

Here are some sample broad categories:

Housing
Utilities
Food
Personal
Family
Household
Transportation
Insurance
Recreation and Entertainment
Gifts/Contributions
Savings
Miscellaneous
Taxes

Step Three: Figure Out the Difference

Keep records of your actual income and expenses and understand if there are any “budget variances” - the difference between the amount you budgeted and what you actually spent for the month.





Step Four: Track, Trim and Target

As you track your monthly expenses, you may need to trim expenses. Cutting back is usually a better place to start than cutting out. Budgeting is an ongoing process. You will need to review, and perhaps, revise your spending plans on a regular basis.

Start Saving Early

Mary and Jim both save \$1,000 per year (\$83.33 per month or \$19.23 per week). The money each saves earns 10% interest per year.

Mary starts at age 22 and stops at age 30. Jim starts eight years later at age 30 and stops at age 65.

By the time they both retire at 65, Mary has already made net earnings of \$380,865 with the total investment of \$8,000, while Jim has invested a total of \$35,000 but receives \$294,035 only in return.

By starting saving late, Jim never caught up.

