

Three Tips to Create Your 2021 Budget

With the end of the year and holidays fast approaching, many of us are starting to think about our budgets. Budgeting, just like financial planning, really comes down to balancing the many competing priorities in our lives. Housing, education, savings and retirement tend to be top of mind, and a well-structured budget can help keep us on track with our goals while giving us peace of mind. Here are a few tips to help...

- **Budget Breakdown.** Keep it simple and create a few buckets that you can track. How much cash do you have going in and out? What expenses are optional versus required? And then, one step further, what expenses are fixed every month, like a mortgage, and what are variable and can be controlled, like entertainment? When creating the specific categories, it's important to do a deep inventory into your expenses as the smallest things tend to be the ones that we overlook and can really add up.
- **Budget Rules.** Everyone's situation is different. Do what's best for you when it comes to a budget ratio. That's why I prefer to give ranges for some of the top categories and then work from there. For example, we often hear to allocate no more than 25% of our budget to housing, though this might not work for many in areas with higher costs of living. I'm comfortable with a range of 25 to 35% here to account for this. We also hear of paying ourselves first, and I highly suggest budgeting for at least 10 to 15% of your income into savings and investment vehicles. This might not be possible when first starting out, but make it a priority to reach this target. Many retirement plans are making this easier for you by offering auto-escalation features, where your deferral rate will be increased 1% per year automatically.
- **Budget Tracking.** There are many apps out there that make it very easy to create a budget and track your activity, though I personally am a bit more old-school and use Excel. It allows me full control over all changes, categories, and reports/output.

Budgeting might seem like a daunting task but dedicate the time to create a detailed one early on and you will find it much more manageable over the long-run. Review the activity at least once a month and what you find may surprise you!