

A QUICK-START GUIDE

Budget By Paycheck Method

STEP #1: Discover Your WHY

Emotion drives motivation. It's essential to identify that emotional connection to the reason behind wanting to improve your financial life. Once you complete this step, you will have discovered something so important that giving up is not an option. It will light a fire in you that is impossible to put out.

- Is your WHY specific?
- How does your WHY make you feel? Identify the emotional connection.
- Is your WHY bigger than just you? How does it affect the people most important to you?

STEP #2: Track & Categorize Your Spending

Tracking your spending isn't just about writing down your transactions. This step is all about awareness. It's not enough to know where your dollars are going, but to understand what that spending is telling you.

- Track where every dollar is going in your life.
Use highlighters to identify possible budgeting categories. For example, all food transactions can be highlighted blue. Try to use different highlighter colors for each category.
- Identify problem areas (leaks) in your spending.

STEP #3: Identify Regular Bills

Identifying your fixed expenses is essential, but it's also crucial to keep these costs manageable. Your financial obligations from month-to-month do not have to be a permanent part of your budget.

- Make a list of the fixed expenses you are paying month-to-month.
- From your list, identify what fixed expenses bring value to your life, and which ones don't. Make a decision to keep, decrease, or cut each expense.

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STEP #4: Cash Envelopes & Variable Spending

I like to call variable spending the "silent killer" of your budget. Variable costs fluctuate and change throughout the month and over time. It's important to assign spending limits for these expense categories.

- List out your variable expenses. Use the budget categories created in step #2 to create 3-4 cash envelopes. Start by creating cash envelopes around the problem areas in your spending.
- When you are spending your cash, ask, "If I spend the money now, what am I giving up in the future?"

STEP #5: The Budget Calendar

The budget calendar is an organizational process to help you figure out what bills you want to pay with each paycheck you receive. Organization plays a huge role, but this step is all about incorporating REAL LIFE into your budget.

- Create your budget calendar at least a month in advance.
Write down all of your paydays & fixed expenses. If it helps, you can write down the amount for income and expenses next to each item. Use different
- highlighters for each payday and decide what expenses you will pay with each paycheck.
- Write down any holidays, occasions, or events happening throughout the month. If you plan on spending money in your life, it should be written down on your calendar.
- Use your budget calendar as a reminder and reference guide when creating each paycheck budget.



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STEP #6: Prioritize Savings Goals

Writing your savings goals down is important, but it's even more important to identify their importance in your life. This will give you guidance on where to throw your money to make the most significant impact in your life.

- Make a list of your savings goals. Number that list in order of importance & priority.
- Which savings goals need a sinking fund and which ones can you cash flow?
 - Cash Flow = Funding that expense with your current paycheck at that time.
 - Sinking Fund = Saving a little bit each paycheck for a future goal or event.

STEP #7: Create A Plan of Attack For Debt

This step is not about paying off debt but rather creating a plan to pay it off. It's important to not only look at your full debt picture but to learn the money management skills to stay out of debt.

- Create a list of all of your debts. Include creditor, minimum payment, interest rate, minimum payment due date, and total debt balance.
- Looking at your debt list, write down any emotions that you feel. Is it anger, sadness, guilt, etc.?
- What spending habits or circumstances put you into debt in the first place? Identify and address the underlying story behind your debt.
- Determine what method you are going to use to pay off your debt.
 - Snowball = Paying off debt with the smallest balances first. You will see signs of progress earlier on in your debt payoff journey.
 - Avalanche = Paying off debt with the highest interest first. By using this method, you will save the most money on interest payments over the life of your debt.
- Based on the method you choose, list your debt in order of priority.
- Work your plan of attack to pay off debt. Make minimum payments on all of your debt and throw any extra income to your number one priority debt.

A QUICK-START GUIDE

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STEP #8: Create Your Budget Roadmap

Creating a budget is very different than creating a realistic budget. A budget should be based on what you are actually spending, not what you WANT to spend. Your goal should not be simplicity. It should be efficiency and effectiveness.

- Budget your income every time you receive a paycheck. Try to create your paycheck budget at least 4 days in advance.
- List out your income. Your income should be an estimate of the worst case scenario, or the least amount you expect to receive.
- List out your fixed expenses and the amount due for each one. Fixed expenses should include minimum debt payments.
- Using the money left over after subtracting your fixed expenses from your income, write down your variable spending categories and the limit for each category.
- Using the money left over after subtracting your fixed expenses and variable expenses from your income, decide what's most important to you, and throw it to debt, saving, or investing.
- Use a zero-based budget and give every dollar a plan. At the end of your roadmap, income minus expenses equal zero.

STEP #9: Tweak & Perfect

Tweaking and perfecting your budget isn't just about making changes in the future but also making sure every budget reflects your real life. Each budget you create should be different because your life isn't always the same.

- After each budget, determine what worked and what didn't. If something didn't work, it doesn't make you a failure, it means your process failed you.
- Evaluate your spending and make changes in small, digestible, and achievable increments.