BUDGET FOR FINANCIAL WELLBEING

Do you know where your money goes each month? Less than 8% of South Africans have a monthly budget. A budget can empower you financially and guide you to better spending and saving patterns. A budget can also alert you to problem areas in your finances that need to be addressed.

What is a budget?

A budget is a physical list of what you earn on a monthly basis and a breakdown of how you spend that money. A budget gives you a good insight into your financial situation. If you want a new car or a pair of expensive leather boots, your budget will tell you whether you can afford them or not.

'Living above your means' is a term used to describe those people with lifestyles that cost more than they earn. They fund the 'excess' with credit – sometimes with devastating consequences. A budget allows you to save for the things you want and more importantly, to put money away for a rainy day.

Many people have good intentions when writing up a budget, but like many a weight loss programme, they don't last. Commit to a monthly budget and continue to update it with your income and expenses so that you can accurately track and improve your financial wellbeing. Empower yourself to know exactly where your money goes.

Your monthly budget

Step 1

If you are single, you are responsible for recording your monthly expenditure. If you live with a partner or are married, decide who will be responsible for these records. You can also agree to do it together – just set aside time when you are both available to look at how things are progressing through the month.

Step 2

Decide on how the budget should work. Will you do a joint income budget or will both partners have their own budget and be responsible for certain payments? How much do you have, either singly or jointly, to spend each month?

Step 3

Finances can cause tension between couples. To avoid fights over money and in the case of a combined budget, each partner can set aside private spending money – a 'no strings attached' amount - for them to buy whatever they want. This can be an equal amount for both or related to how much each earns.

Step 4

Start an emergency fund. This should be money that you put away every month to fund unforeseen emergencies. Open a separate savings account and pay in the allocated amount every month. Aim to put away 5% of your income. This is over and above planned savings for retirement or savings for other items.

Step 5

Work out your spending patterns. You can use a pen and paper, a spreadsheet programme on your computer or visit your employee wellbeing programme website to access the free budget planner tool. The information you record is private and confidential. Include everything you pay on a monthly basis – don't forget travel costs, security, school fees, insurance policies and the spending amount mentioned in step 3.

Step 6
If expenses exceed your income you will need to find ways to trim your spending. Can you reduce a monthly food bill or drop expenses related to 'wants' rather than 'needs'?

Step 7
Consider your situation in terms of the 35-25-35 budget principal.

- **Debt repayments should comprise about 35%** of your monthly income. Payments include bond, rent, car payments, clothing accounts, furniture accounts, personal loans or other debt that you are repaying.

  Tip: Do your debt repayments exceed 40% of your monthly income? Debt repayments of between 40% and 50% of your monthly income are considered a 'red zone' and you should consider reducing debt. Find extra money in your budget and pay off the smallest account first. Aim to close that account as soon as it is paid off.

- **Financial services should comprise about 25%** of your monthly income. Payments include life cover, short-term insurance policies, pension policies and planned monthly savings where possible.

  Tip: Try to use the full 25% in the financial category to ensure that you are properly covered and are saving for retirement.

- **Household expenditure should comprise about 35%** of your monthly income. Payments include food, travel costs, entertainment, domestic wages, education, water and electricity, rates, security, cell phone bills, landline costs and other general expenses.

  Tip: You can exceed or use less of the percentage in this category. If you exceed the percentage, the 'excess' should be balanced by a reduced percentage in the debt category and not the financial category. If your debt percentage exceeds 35%, the excess should be made up from the household category.

- **Your emergency fund** payment makes up the final 5%.

Step 8
Plan for yearly expenses. Set up a separate savings account for those expenses you will need to cover once or twice annually. These include birthday and anniversary gifts, stationery and school uniforms, if you have children, and an annual holiday or timeshare management fees.

Financial wellbeing

Contact your employee wellbeing programme for free, confidential telephonic advice and support for any financial wellbeing-related matter.

Resources
Paul Slot, financial advisor, Octogen