The Millennial Minute

Revisiting Millennial Budgeting Tips: Creating a Realistic Budget
We continue revisiting June 2023's article – Navigating Inflation: Budgeting Tips for Millennials

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Oh, the economy here is frightful… and inflation has not been delightful…

The most expensive time of year is here, and many of us are feeling the stress of lighter wallets and heavy holiday expectations. As you are out shopping for those festive finds and planning your holiday get togethers, it's important to remember that after December 25th comes the financial repercussions of our Christmas actions – and **I've always felt that Boxing Day is the best day to start planning your spending for next year.**

We continue to navigate this financial landscape during periods of high inflation and stagnant wages. Current economic conditions demand a strategic and meticulous approach to budgeting. In such challenging times, where the cost of living steadily rises while income growth remains stagnant, managing your finances becomes a critical component of maintaining stability and securing your financial future.

The first step in crafting a realistic budget involves a thorough evaluation of your current financial standing. Take stock of your income sources, both fixed and variable, and meticulously analyze your expenses. Leave no stone unturned and no dollar unaccounted for! It's essential, in this step, to categorize your expenses into non-negotiables – like housing, utilities and groceries – and discretionary spending – like entertainment. You must distinguish your needs and your wants.

As I mentioned in the last two articles, understanding the impacts of inflation is crucial. Research and monitor inflation rates that affect various aspects of your life – such as GIC rates, loan rates, savings account rates, and so on – and **identify which expenses are more susceptible to inflation.** This knowledge helps in planning and allocating funds more effectively.

We must also acknowledge the very real issue of stagnant wages, and how important it is to factor this into our budgeting. Recognize the limitations of income growth and anticipate how this might affect your ability to cover increasing expenses. (Remember, sometimes the answer to a stagnant wage is finding another opportunity at a different company – new hires tend to be paid more than veteran employees as a way to attract new talent!)

Given the current economic circumstances, prioritizing your essential expenses has become paramount. **Ensure you allocate a significant portion of your monthly budget to your non-negotiable expenses.** Always round up on these expenses as well: if your power bill typically runs \$154/month, budget for \$160/month, if your rent is \$1675/month, budget for \$1700/month, and so on. This can help you to create that important nest egg for unexpected expenses.

You can also look for ways to reduce these non-negotiable costs by looking into energy efficient appliances, turning down the thermostat and throwing on your sweater and warm pants, look for cheaper food alternatives while trying to keep the quality.

Your non-essential spending needs to be scrutinized even harder. Unfortunately, non-essential spending should always be the first thing you cut down to nothing, if needed. Less evenings out and more evenings in with friends and family. Tone down a few of your subscription services and/or streaming services. Cook at home instead of eating out or ordering in. Look at free activities to take part in around your city or town. Explore and be a tourist in your own backyard!

Creating a realistic budget involves utilizing tools or apps to track your expenses regularly – and you must be diligent! Allow yourself a block of time in the day to really look into and review your daily, weekly and monthly expenses to see where you are sitting financially, and aim stick to your allocations as closely as possible, **even on those lucky months where you have extra cash at the end of the month, because you can do something even better with that money than spend it** – you can build an emergency fund!

Remember above when I mentioned rounding your expenses up? All of that effort towards a few extra dollars and cents can help you to build a healthy emergency fund – and these are crucial aspects to financial planning. Every small amount each month will build towards the greater goal of setting funds aside for unexpected emergencies and can prevent you from taking out high interest loans and credit. If you can open an extra account that is not linked to your debit card and has no fees, try to roll as much as you can every month into that account. I, myself, do this with every monthly payment I make. If my power bill comes to $193 – I pay the $193 and transfer $7 to my emergency fund account. Don't look at it for 6 months if you can avoid it, and you may be pleasantly surprised by what you can accumulate in extra cash!

You may also need to revisit your larger, long-term goals every so often to adjust your timelines. You may have made a goal in 2021 to pay off a $50,000 line of credit by 2025, however, inflation may have made you readjust your payments, and now that timeline could be extended to 2027 – and that's okay! **Don't beat yourself up because you've needed to adjust certain financial expectations** but do be realistic about what is financially viable for you as you review your budget.

When investing, be sure to speak with an advisor at your bank or investment firm. GICs sound great, however, you may not be able to lock your money up for a full term, or perhaps dividend paying stocks are better for taxation? If you don't have the knowhow when it comes to investments and taxation, reach out to those who do! There's no shame in the information game!

Finally, **be sure you're realistically reviewing your budget.** Track your expenses daily, do a light review every week or every pay day to ensure you're staying on track, and review every month to make your adjustments. Budgets become irrelevant very quickly when not constantly reviewed and maintained.

Crafting a realistic budget in times of high inflation and stagnant wages demands proactive and diligent financial management. By prioritizing essential expenses, trimming unnecessary spending, and exploring additional income sources, you can navigate these challenging economic times more effectively. Flexibility and adaptability are key as you continue to monitor, adjust, and strategize to maintain financial stability amidst changing economic conditions.
