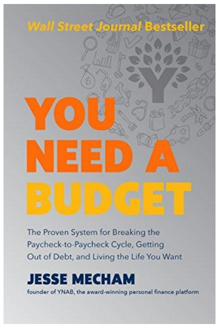

YOUR KINDLE NOTES FOR:

You Need a Budget: The Proven System for Breaking the Paycheck-to-Paycheck Cycle, Getting Out of Debt, and Living the Life You Want

by Jesse Mecham

Free Kindle instant preview: http://a.co/bWA5uNa

36 Highlights | 1 Note

Highlight (Yellow) | Location 213

> What do I want my money to do for me? works like a gut check that helps us see whether our priorities are driving our money decisions. When we know what we want our money to do for us, the options become a lot less daunting, and confidence quickly replaces the stress.

Highlight (Yellow) | Location 222

> What do I want my money to do for me? is about nothing less than deciding what kind of life you want to live, and then making a plan so your money can help you get there.

Highlight (Yellow) | Location 239

> I mentioned earlier that many of us struggle with money choices because we don't have a system for making decisions. Your budget is that system. It's a tool for designing your life around what you want. Without a budget you have no way to prioritize your spending. You often don't even know where your money is truly going. You may stress about not being able to afford what's important to you while you simultaneously spend on things you'd willingly nix if you could see the trade-offs. That's the beauty of a (good) budget: it lets you see exactly how your spending affects the rest of your life.

Highlight (Yellow) | Location 261

> Rule One: Give Every Dollar a Job, is all about being proactive, so life doesn't simply claim your money. Instead, you'll decide on priorities first, then assign dollars (only the ones you have right now—we'll talk a lot about this!) to those priorities before they walk off. Because your money is going toward your highest priorities, your spending has to clear a higher bar. Rule Two: Embrace Your True Expenses, combines the power of thinking ahead with taking action here and now. Whether expenses happen like clockwork (rent), feel impossible to predict (car repairs), or are just far-off dreams (cash for a wedding), they are all part of your true expenses. The key is to prepare a bit at a time by treating them all like monthly expenses. Rule Three: Roll with the Punches, helps you adapt so you can handle whatever comes your way. Your budget is a plan—but plans change, and your budget should, too. Spend more than you expected on dinner out with friends? Life throw you a curveball? No need for stress. Just pull some money from lower-priority categories and carry on. You haven't failed at budgeting, you've adapted with the best of them. This flexibility isn't how most people imagine a

budget, but it may be the key to making it work. Rule Four: Age Your Money, gets you working toward spending money you earned at least thirty days ago. When you increase the time that passes between receiving your money and spending it, you're more secure, more flexible. You're breathing easier. If you're implementing the first three rules, you'll be aging your money before you know it, and you can officially say good riddance to the paycheck-to-paycheck cycle. (Don't let the door hit you on the way out!)

Highlight (Yellow) | Location 279

I started You Need a Budget (YNAB) in 2004 because my wife, Julie, and I were desperate. We were twenty-two-year-old newlyweds living in the 300-square-foot basement of a sixty-year-old house. We were both students "living on love." But love doesn't pay for your college tuition, books, or bus pass. (Did I mention we didn't own a car?) I was three years away from finishing my master's degree in accounting, so earning an actual salary was not in my near future. Julie was wrapping up her bachelor's degree in social work, and began working for—wait for it—$10.50 an hour. On top of that, we were planning for our first child and there was no way we could afford to live our dream of having Julie become a stay-at-home mom. I was feeling desperate, but as a numbers nerd, I knew I'd find the answer in an Excel spreadsheet (where all of life's magic happens). So I began developing a system to help us track our expenses.

Highlight (Yellow) | Location 373

The difference between forecasting and budgeting is a lot like the difference between dreaming and doing. It's fun to forecast and dream of the life you want if you can someday get those numbers to work. But how about looking at the money you have right now and creating a spending plan based on what's most important to you? That's what YNAB is all about. When you view your money through this lens—prioritizing the money you have right now—the whole picture changes. Now you're not just guessing and hoping—you're being intentional with your dollars. You're letting your priorities drive how you spend the money you have on hand. And you're forgetting about any promise of future money. Hear me out: I'm not saying you shouldn't think about the future. Your budget is all about thinking ahead. Just make sure you don't forecast future money. That cash will be great when it hits your account, but you're only concerned with making sure the money you have today gets you closer to your goals. This shift is a big deal. It's the difference between dreaming about a better life and actually creating one. The moment you let your priorities lead, you'll find that many of your anxieties around money—and the jitters you thought weren't about money at all—quickly disappear. The fog clears and you can see exactly where you're going.

Highlight (Yellow) | Location 408

Don't worry, and don't quit budgeting—this feeling of scarcity is a good thing. It means you're seeing your money for what it truly is: a finite resource—and this is a huge part of that mindset shift I talked about. It doesn't actually matter how much money we have or don't have. Scarcity is simply that feeling of wishing there were more. This is an important moment. The feeling of scarcity might tempt us to quit, but when we step back and embrace scarcity, we make good decisions. When we recognize our dollars are finite, we're more intentional about how we spend them. Scarcity pushes us to be very concrete about our priorities, and those that matter to us the most make themselves known in these moments. And that will help make significant changes for the better with your finances.

Highlight (Yellow) | Location 453

YNAB's Rule Two: Embrace Your True Expenses, is all about anticipating future expenses, and this is especially important for people with a fluctuating income.

Highlight (Yellow) and Note | Location 503

If guilt haunts you it's usually because: 1. You know in your gut that a bigger priority needs more of your attention; or 2. You're letting other people's expectations of how you should live your life color your choices.

Yeah, this is huge.

Highlight (Yellow) | Location 512

A funny thing happens when you start to follow YNAB's Four Rules. Every dollar you possess is accompanied by a little power jolt. You feel totally in control of your money, and your life. A latte is no longer just a latte. It's financial freedom (stay with me here—it really is). When you spend on a budget, that latte is a purchase you've decided to make because you want to, and because you can, guilt-free. If you're saving (or, rather, refraining from buying), you're doing it with conviction, not just because "lattes are so expensive." Guilt-free there, too. When you ask, What do I want my money to do for me? you're deciding how you'll use your money to get closer to the life you want. If going out for coffee brings a certain joy to your day that you don't want to lose, build a coffee category into your budget and don't feel bad when you buy one! Just make sure the coffee is actually helping to bring you closer to your goals. Maybe it is if you've decided that the few minutes of social time with your coworkers is important to you. Or if it means a lot for you to take fifteen minutes out of a hectic day to enjoy something you love. Once your goals are in place, they back up every one of your spending moves. If you've decided it would bring you peace of mind to have a $20,000 emergency fund and you want to save $1,000 a month until you hit your goal, you'll happily adjust your spending behavior to make it happen. Maybe part of your saving strategy will be no more lattes, but it doesn't have to be if you love lattes.

Highlight (Yellow) | Location 555

YOUR NEW MONEY MINDSET IN ONE SENTENCE: Forget future money; use today's money to write your future.

Highlight (Yellow) | Location 629

Before you can set aside money for other priorities, it's important to freeze some funds for longer-term obligations. Think of the car insurance bill that has a way of showing up every six months, or the water bill that slithers into your mailbox every three months—always out of the blue, always when you just thought you were getting ahead. Rule Two prompts you to break those bigger expenses into monthly installments so you're prepared to pay them when they hit. When you do this, big expenses don't feel so big, and you're never blindsided. Because let's face it: you know when your car insurance bill is due; you just don't think about it until it's in front of you. And it always lands at a bad time. We call these your "true expenses" because they capture every expense involved in keeping your life running. When coming up with this list, think beyond scheduled bills to include expenses like car and home maintenance, or doctor visits. These are usually the expenses that convince people budgeting won't work for them. They think, "How can I budget for something when I don't know how much it will cost, or when it will happen?!" True, you won't know the particulars, but you do know that these costs will come up—and you know they'll cost more than zero. Save more than zero each month and they won't feel like a crisis when they hit. So when your four-year-old falls and splits open his lip on a Sunday night, the $300 urgent care visit won't cut into money you'd set aside for your fall foliage trip. And—shudder—you won't have to throw it on a credit card with a promise to figure it out later. You've set aside money for medical bills as a core essential, even if they aren't a steady monthly expense. You're prepared.

Highlight (Yellow) | Location 787

Credit cards are not the problem—it's how we use them. You're fine to use credit cards as long as you use them to spend the money that's already in your bank account. Money you've already budgeted. But hold on: this is not the same as having the money to pay your bill when it's due. Paying your bill is a great start, but if you only have enough to pay the statement balance when it's due there's a chance you're still spending more than you actually have. At YNAB we talk a lot about what we call the Credit Card Float. If you're riding "the float" it means you're relying on next month's income to fund this month's spending. It can be hard to detect the float because most people who are trapped in this cycle are those who take pride in paying their credit card balance in full, every month, on time. They never pay interest and reap whatever rewards their credit card offers, whether it's miles, cash back, or a free pony. If you're one of these people, you're in better financial shape than most. But let's take a close look at how this setup usually works. Let's say you charge a bunch of stuff on your credit card in October. The month's billing period closes on October 30 and the payment is due on November 30. Meanwhile, you continue charging stuff throughout November. The bill for that November spending won't be due until December. Here's the test: When payment for your October spending is due on November 30, can you pay your card down to $0? In other words, can you pay for October's spending and whatever you spent in November? Or would you have to wait until you get paid in December to cover the difference? If you don't have enough in the bank to pay your card down to $0, you're riding the Credit Card Float—and this isn't a fun amusement park kind of ride. This diagram helps explain it: The Credit Card Float usually hovers without harm because you get your paycheck, pay the statement balance, and move on. But what if that next paycheck didn't come, for whatever reason? Or a major expense came up that ate into your check? Could you still pay your bill with the money you have on hand? Whether you're riding the float or buried in credit card debt, YNAB's strategy for using credit cards will keep you from spending money you don't have. The approach is simple: only charge something if that money is already in the bank and it's budgeted toward that expense. When you do this, you're using your credit card only because you want to (yay, points!), not because you have to (I can pay this bill as soon as my next check arrives!). You're essentially using it like a debit card. The only difference is that the cash stays in your checking account until you pay the bill. And you can pay the bill any day of the month, because the money is always there.

Highlight (Yellow) | Location 827

Question everything. Once a year (I like to do this in January), question every one of your expenses. Question the "givens" like housing, transportation, and insurance. Question the vacations you always take, the gifts you always buy, and the food you always eat. Every single item should be on the table. Following the tactic of asking why six or seven times as it relates to any one of your line items will help you peel back the layers of that priority and really see it for what it is.

Highlight (Yellow) | Location 877

> I introduced the idea of your “true expenses” in the last chapter—the idea that it isn’t just the regular, monthly expenses that you need to keep your life running. When I talk about Rule Two, I’m specifically focusing on the infrequent expenses that tend to sneak up on us, but to be clear, your true expenses are ALL of your expenses—the daily, the monthly, and the irregular ones that we often forget. The concept of “true expenses” helps us see that what we usually think of as our expenses don’t capture the full picture. Most of your dealings with Rule Two will involve your infrequent expenses, and they generally fall into two camps: Predictable, and Unpredictable but Inevitable.

Highlight (Yellow) | Location 899

> Your unpredictable but inevitable expenses, on the other hand, are the things you know you’ll need to spend money on at some point—you just don’t know when or exactly how much. These are a little more of a wild card compared to your predictable expenses, but they’re not as erratic as we tend to believe. Think back to any time you’ve looked at your credit card statement and decided that your huge balance was just because of “an especially crazy month.” Maybe your surprise charges looked something like this: A gift for the wedding you attended, that GoFundMe donation for your coworker’s daughter, a new tire after you drove too close to the curb to avoid that pothole (both came out of nowhere!), and—gah!—a last-minute suit for that wedding because your old one is two sizes too big (the only downside to hitting your weight loss goal). None of your spending was unreasonable or irresponsible. Some of it was even generous and kind! So you brush it off as an unusual month and promise next month will be better. Next credit card statement: supplies for a science fair project, a copay for an x-ray after you tripped barefoot over a bike in the garage (don’t go barefoot in the garage), printer ink so expensive it should be illegal, surprise surgery for the family cat. Another crazy month, but that’s okay. Really and truly, next month will be better. Next month will be regular. You know how this ends. It never gets better, because it’s not an “especially crazy month.” It’s just life. Those surprise expenses are what stop most people from budgeting. They feel it’s impossible to plan for the unplanned, so why bother? Here’s the thing: many of your surprise expenses aren’t surprises at all. Look at your life from a broader view. You know tires don’t last forever (set something aside each month for auto maintenance). You know your fifteen-year-old cat is bound to have medical problems (fund your vet category when she’s healthy, too). You know you’re a softie for any fund-raising campaign in your Facebook feed that involves kids (treat yourself to a “giving” category). These charges aren’t flare-ups in your spending. Yes, they’re unexpected in the moment they hit, but they’re inevitable, which means you know they’ll surface at some point. They’re true expenses—and you can plan for them. Predictable or not, you can get a pretty strong hold on your true expenses just by looking at some past credit card statements. Maybe this will be painful for you, but it will be worth even a quick skim to pick up on important patterns like the frequency of your vet visits, charitable giving, or infrequent bills. It’s also a great chance to reinforce your priorities. If you cringe with every pizza order you see, use that frustration as ammunition to align your spending with your goals moving forward. This isn’t about dwelling on the past—you’re just peering at it long enough to fully understand where your money is really going (and where you might want it to go instead).

Highlight (Yellow) | Location 974

> Put simply, Rule Two takes over your brain. Don’t worry—this is a good thing. The biggest change is in your spending behavior. When your long-term goals are on your radar, your bank account balance is no longer the deciding factor in whether or not to buy something.

Highlight (Yellow) | Location 1011

Rule Two Nirvana: No More Emergency Funds I'll say it again: there are so many beautiful things about Rule Two. One of my favorites is the fact that, once you're really rolling with it, the idea of an "emergency fund" becomes obsolete. I know that nearly every financial guru tells us we need to have a certain number of months' worth of expenses stashed away in a big untouchable lump. But the money you set aside for Rule Two is your emergency fund. Only better, it's more targeted, more proactive, and likely to have you better prepared than that vague bubble of money sitting in the bank without a specific purpose. Put another way, when you implement Rule Two, fewer things feel like "emergencies" because you've already planned for them (at least financially). Don't get me wrong—there will always be a place for the "I lost my job" emergency fund. It's smart to be prepared if your income stream suddenly dries up. But even in that case, we don't recommend having the money just sit there in a generic pile labeled "emergency." Instead, assign the cash you have to future expenses. If you have eight months' worth of "emergency fund" on hand, budget out your true expenses for the next eight months (remember, true expenses are all your expenses—the daily, the monthly, and the infrequent). If you're working toward building those reserves, assign your cash to jobs in future months as it comes in. Or, if you're just worried about income loss and have saved money to cover that, call it what it is. Think of it as an income replacement fund and then you'll never touch it for an impulse splurge. The really important job you gave that money—different from a generic emergency fund—protects your original intention. Technically your bank account will look the same as if that money were a generic emergency fund—it will just sit there as one big sum. But your budget will tell the full story: you'll know exactly what each dollar will cover, and for how long.

Highlight (Yellow) | Location 1046

The other, often hidden, risk when your income is variable is that it's easier to trick yourself into feeling rich on the months when a big payment lands. Those are the times you exhale and think, "Things are great. What was I ever worried about?" It's tempting to avoid important money decisions and blow your chance at stabilizing your cash flow on the high-income months, when you feel everything is going so well that you've earned yourself a new pair of boots. This is all normal—life on a variable income is usually lived in one extreme or another: panic in low-income months, euphoria in high-income months. It's a wild seesaw ride (which you've chosen because it happens to come with what you're passionate about in your career) that rarely gives you time to look at your finances with clarity. That's why a budget is so important. It's a tool that helps you to be consistent with your money when your income is anything but.

Highlight (Yellow) | Location 1301

Repeat after me: Changing my budget is not failing. Changing my budget is not failing. If you spend more than you'd planned, or a surprise expense hits that you weren't saving for, don't worry. Your budget is meant to reflect real life. When did anything in your life ever go exactly as planned? Just roll with the punches and keep going. And remember: even if you don't hit all of your goals as you'd hoped, you'll probably see that your budget still reflects your values. So even if that $100 Little League registration was not on your radar, you'll pull it from other spending targets, like clothing or restaurants, because you value outdoor fun for your family. You're not failing—you're just budgeting in real life.

Highlight (Yellow) | Location 1323

Rule Four: Age Your Money gets you to that point where you don't need your next paycheck. In fact, if YNAB helps put an end to financial stress, Rule Four is where you really start to feel that the relief will last. It helps you literally stockpile cash so you have enough of a reserve to cover your bills and spending for a long time. How long? That's totally up to you. But the older your money, the further away that money stress will be. Age your money long enough, and the stress won't even be in your line of sight.

Highlight (Yellow) | Location 1356

Also keep in mind that if you're spending money that you just earned yesterday, or even this week, you're living paycheck to paycheck. That's certainly better than being in debt, but just like eating the grain that was harvested today, it gives you little room for dealing with the unexpected. When you're spending money as soon as it comes in, you're mostly just putting out the fires in front of you. The goal is to slow down the cycle of money in and money out to give yourself breathing room between when you earn your money and when you need to use it.

Highlight (Yellow) | Location 1369

We spend our energy and our sanity trying to time bills to paychecks. We even trick ourselves into thinking that this kind of strategic juggling means we're being smart with our money because we're staying on top of our bills. But if you can build up your money to be at least thirty days old, that valueless game goes away because the month's money is already sitting there, waiting to be spent. Put another way: Without Rule Four, you've got a stack of bills waiting for money. With Rule Four, you've got a stack of money waiting for bills.

Highlight (Yellow) | Location 1475

If child care doesn't make it practical to work out of the house, look for a work-from-home job. Then work while your kids sleep. WeWorkRemotely.com is a great site for finding reputable telecommuting jobs.

Highlight (Yellow) | Location 1553

If you plan to spend the rest of your life with someone, you're going to have to talk about money at some point. And it won't be a single Band-Aid–ripping chat. You'll keep learning about each other's money quirks—your habits, your ideas about money, your impulses and dreams—over the course of your life together. You'll talk about money again and again and again, so it's worth getting comfortable with the topic.

Highlight (Yellow) | Location 1656

Rule Zero is the process of deciding what's most important to you. This is fundamental to budgeting. You can't get far into Rule One without having a good idea about what you value. You can use your first budget date to explore Rule Zero in three ways: what's most important to you as an individual, what's important to your partner, and what you value together as a couple. These will evolve into your budget priorities, because when you're budgeting as a couple, your budget will have three sets of priorities: yours, mine, and ours.

Highlight (Yellow) | Location 1727

> Technicalities aside, joint accounts also keep you from worrying about who earned what money. You've committed to being partners for life. It doesn't matter who earned what. It's one shared pool of money that is funding your shared life together. Embrace that and support one another on the journey.

Highlight (Yellow) | Location 1765

> Think about it: a pilot and air traffic controller may agree on certain decisions while on the tarmac, but they also need to stay in communication while the flight is en route so they can adjust the plan as needed. Likewise, you can't expect your budget to work if you talk about it only once a month. You need to communicate as your spending decisions unfold.

Highlight (Yellow) | Location 2055

> But before we get to the Four Rules, each kid needs cash. I'm a big advocate of giving kids an allowance so they can start learning how to manage money early. Keep the amounts small and you won't need to worry about spoiling them with handouts. At least, my experience proves that the reverse will happen. Giving your kids a modest allowance will help them immediately see that money is a finite resource. If they want to buy something, especially something big, they'll need to make smart choices with their money.

Highlight (Yellow) | Location 2070

> They have to: • Set aside 10% for giving • Put 50% of what's left after giving into savings They can do whatever they want with the rest. I have to stress how important it is to give kids this freedom, because it's the only way they'll truly learn accountability. Yes, at times your kids' entire allowance will go to Swedish Fish, but they should get the chance to make that choice. Just as we adults eventually realize limitless takeout will keep us from our goals, they'll see the same is true for candy sprees. Let them waste it. This is hard to do if you're not a wasteful person, but remember, there's just as much learning in a Swedish Fish splurge as there is in saving or giving. And isn't it better that they learn on Swedish Fish instead of something higher stakes (and more expensive)? Just try to let it go. If you're only giving them a few dollars a week, the spending will be worth the long-term learning.

Highlight (Yellow) | Location 2114

> Ron Lieber's advice on allowances was a breakthrough for Julie and me. When we chatted on the YNAB podcast, Ron shared his idea that allowance should not be a wage kids receive in exchange for a task accomplished. Chores are separate. They're something we do around the house because we love one another, and because we want our homes to be well functioning. We do chores as a duty and as an act of joy, love, and commitment to the people with whom we live. I completely agree with this. Julie and I have always seen allowances as a tool for learning, but my conversation with Ron pushed our thinking on this to the next level. He pointed out that we want kids to practice with money in the same way we want them to practice their musical instruments, or practice with their art supplies. We want them to get good at money just as we want them to get good at those other things. So yanking the money if they don't do their chores doesn't make sense, in the same way it wouldn't make sense to yank their books or their violins in that situation.

Highlight (Yellow) | Location 2129

> When I tell people I start my kids on a budget at eight years old, I tend to get funny looks. I know the expressions well by now. They're saying: What can an eight-year-old possibly understand about expenses and priorities? Poor Mecham kids, they have to deal with their crazy YNAB drill sergeant dad. Crazy YNAB dad aside, we need to give all kids more credit. It's just too easy to underestimate how quickly they get it. If we do get stuck thinking kids can't handle money or budgeting, it's often for three reasons: We start teaching them too late. We try teaching too much at once. We try teaching lessons that aren't relevant to our kids' lives. It's important to flip these roadblocks: Start early. Go slowly. Stay within our kids' reality. A middle school kid won't care about learning to prioritize bills, because she doesn't have any. But what if she's dying for an iPod Touch in February? That's way too long to wait until Christmas. Suddenly the idea of prioritizing savings will be very interesting to her. Don't panic if you're just starting to talk to your older kids about money. The fact that you're doing this while they're still under your roof means you're doing it early! According to a U.S. Bank study, only 18% of high school seniors and undergraduate students feel their parents taught them how to manage money.* If you start now, whatever your kids' age, you're setting them up for success.

Highlight (Yellow) | Location 2265

> When you start your older kids on a budget, it's good to be clear up front about what they're expected to pay for. This can get tricky if they've gotten used to you paying for things. You don't want them to feel they're being punished if their cash supply is suddenly being cut off. This is meant to be fun. Plus, you're still giving them money—only now, they can do whatever they want with it. They don't even need to ask you. I suggest having a budget meeting with your kids, just like you would a spouse or partner, to decide what things are their responsibility and what you will continue to provide. You can also decide to share expenses. The parameters are totally up to you and they can evolve as your kids grow. Todd and Jessica talk with their kids about how much they need to budget for savings, gifts, and for giving. Other than that, just like our kids, the category choices are theirs. Todd and Jessica are willing to help the kids pay for experiences, like rock climbing with friends, but not stuff.

Highlight (Yellow) | Location 2290

> Remember that the overarching goal is to teach our kids how to handle money well. Don't get too hung up on drawing a line between who pays for what. It's good to have a clear system in place, but the bigger picture is way more important.

Highlight (Yellow) | Location 2401

> Perhaps you've realized you spend $800 a month on groceries. Good! You're now working with real numbers. But trouble brews if you swear you'll only spend $300 starting today. It's a great goal but you can't expect to change your behavior overnight—especially by such a huge degree. The same goes for your partner if you're not budgeting solo. We often expect the other person to change rapidly, but they won't. Even if you do hit your new goal once or twice, meaningful change takes time. Be kind to yourself (and to your partner). Set realistic goals and work your way toward them slowly.

Highlight (Yellow) | Location 2421

A subset of budgeting OCD is trying to be too granular. If you’ve never in your life tracked your spending and suddenly want to track each tube of toothpaste, your budget won’t be sustainable. Sure, break your spending into categories like groceries, utilities, etc., but don’t get lost in the weeds with every little item. Unless one transaction very clearly straddles two spending targets (like when one Costco receipt covers food and skis and pajama pants), send it to one category and be at peace.

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