

Budgeting Made Easy: 5-15-20-60 Rule

Budget

- A summary of estimated income and how it will be spent over a period of time

Difficulties in Budgeting

- Tedious to make and regularly update a list
- No rules are set on how much each expense should be
- Too many expense items
- Tricky to classify – daily, weekly, monthly, scheduled and emergency expenses
- **Lack of courage to face the truth**

Vince's Definition of Budget

- A summary of estimated income and how it will be **invested** and spent over a period of time

Workshop

- Tips on how to decrease expenses
- Tips on how to increase income
- Tips on how to say no to family members/friends asking for financial help
- Tips on how to reduce debt

5-15-20-60 Budgeting Rule

Budget Item	Percentage
Insurance premium	5%
Savings	15%
Borrowings OR Investments	20%
Expenses inclusive of tax	60%

- Percentage is based on monthly gross salary
- Focus on increasing income more and follow the budgeting rule



Why 5% premium payment?

- Protect your most valuable asset: **YOU**
- More relevant if you are sole breadwinner
- Purchase life (term) and medical insurance
- Avoid investment linked insurance products

15% for Savings

- Decent and workable amount to begin saving
- Open another bank account for emergency savings
- Goal: Accumulate emergency savings = 9 months of expenses or 6 months of income
- Emergency: Matter of life and death only
- Place in ultra safe accounts and readily accessible

20% for Loan Installments

- More than 20% loan installment per month is a sign of over indebtedness
 - Cut the bleeding and stop adding more debt
 - Negotiate your loan with lender
 - Perform lifestyle check
 - Address emotional baggage
- Use loans for productive purposes only

20% for Investments

- If you don't have debt
 - Spend this 20% active income if you are in financial freedom stage
 - Invest if you are not at financial freedom stage
- Research on safe investment vehicles that provide realistic but attractive passive income
- Passive income examples: rent, interest, dividend, capital gains and royalties
- Study risks involved carefully

60% Expenses

- Inclusive of Taxes
- Never allow expenses more than what is left after taxes
- Prioritize insurance and savings
- Do not delay investing too much
- Inform your family members of your financial plans and budget

What do we spend?

- Money
- Time
- Energy

How to save?

- Increase income
- Decrease expense
- Want less

Two Comparisons

Spender

- Will allot the following for expenses:
 - 15% gadgets
 - 20% remittance/help relatives
 - 20% loan payment
- Spend for lifestyle change
- Will plan for vacation
- **Priority: Enjoy life**

Investor

- Will allot the following for investment:
 - 15% savings
 - 20% investment
 - 20% invested “tax benefit”
- Will purchase insurance
- Will plan for retirement
- **Priority: Achieve financial freedom early**

Income Management

- Do not borrow money for non-productive purposes
- Your lifestyle should only be half of what you earn
- Focus on generating more active income
- Place active income to investments to generate passive income
- For OFWs: take advantage of zero taxation - invest tax benefit – allot about 20% of total income

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