

# The Basics of Budgeting



Being smart about your finances puts you in control, and it starts by having a good understanding of how and where you spend your money. By taking a close look at your spending choices, you can make more-informed decisions about how to spend and save properly. A budget can be a powerful financial tool to help you analyze your spending because it provides a plan for every dollar that goes in and out of your wallet. A budget is a plan (typically on paper or in spreadsheet software) that shows how you will spend and save your money. It includes a list of money you earn (i.e., your income) and money you spend (i.e., expenses) and save. Here's how to get started with some basic budgeting.

## 1. Track Your Spending

Identify your regular, everyday expenses. This includes the coffee you buy every morning or the cell phone bill you pay every month. Now, organize them into two lists – one for what you *have* to spend your money on and one for what you *want* to spend your money on.

- Your “haves” list should include things like gas, car insurance, rent and utilities, groceries and any other things that you can't live without. You should also include any bills you owe (cell phone, credit cards or loan payments) as well as money to set aside for savings as part of this list. Make sure to write down the dollar amount associated with each one.
- Your “wants” list should include things such as entertainment expenses, new clothes, eating out, gym memberships and other things that you enjoy but you don't need to survive.

More On The Reverse Side →

## BUDGET FOR THE FUTURE: THE IMPORTANCE OF SAVINGS

It's important to save some of your money from each paycheck, or at least a certain amount each month. Unexpected things, like car trouble or medical issues, are bound to happen. On the other hand, maybe you have significant purchases you'd like to make, like a trip overseas or paying for your college tuition. If you budget some of your money for savings, paying for these expenses can be a lot less stressful.

You can build up your savings in a number of ways. For example, put aside some money into a savings account. You can also make automatic contributions to a 401(k) or IRA retirement account (depending on your age and if you have a job). Try to put away 5 or 6 percent of what you earn each month. This will help you with unexpected expenses and may even help you to live a more comfortable lifestyle when you retire.

## 2. Do The Math

Take your income and subtract the dollar amounts of the items on the “haves” list that are fixed amounts – bills and expenses that are the same amount each month, such as your car payment. Then take out the dollar amount that you’ve designated for savings. Finally, factor in the dollar amounts for the items on the “haves” list that are variable – expenses in which the amount can fluctuate from month to month depending on your needs, such as groceries, gas, etc. Try your best to identify an average value that you spend. Once you have subtracted all of the expenses from your “haves” list, the remaining balance is what you can afford to spend on the items on your “wants” list.

## 3. Make A Change, Then Repeat

If you’re budgeting for the first time, don’t get discouraged if you find out that there is no money left over for your “wants” list or if you come to realize that you’re spending more than you thought. You’ll want to consider making some changes that either allow you to spend less or find a way for you to make more money. A budget can be extremely flexible and can be adjusted as your needs change or new plans come into play. Work with your expenses, removing those that you can, and your income, adding to it if you’re able, until you reach an equilibrium that you’re comfortable with.

## 4. Stick To It

Once you have a budget in place, the key is to follow it. This will help you to manage the pressure of buying impulsively. If an unexpected event happens and presents you with a new expense, rework your budget accordingly.



## TAKE CARE WITH CREDIT CARDS

Credit cards can be a helpful tool to make purchases as long as you don’t abuse them. With a credit card, you are borrowing money from the credit card company that you have to pay back each month. If you don’t pay the full amount, you have to pay what you owe plus a high amount of interest. Interest is like a renter’s fee for borrowing you money. The only way to avoid interest is to pay your entire credit card bill on time every single month.

Opening and using a credit card is a simple way to build credit history – something that banks and other financial organizations look at when deciding whether or not to provide you with a loan. But if you have trouble paying bills on time or saying no to purchases you can’t afford, a credit card may not be a good idea just yet.



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