



If your money has ever run out before your next paycheck, you know how stressful and frustrating it can be. Creating a budget can help you glean useful insights from your finances so you can better understand and manage them—and gradually make running out of money a thing of the past.

In this article, you'll learn the fundamentals about income, needs, wants, expenses, and budgeting pitfalls, empowering you to create a budget that keeps your money in check and unlocks your financial potential.

Budgeting Is for the Best

Budgeting is a crucial step toward financial empowerment, offering you clarity and control over your finances. Here's how a well-planned budget can transform your financial life:

- Identify wasteful spending. Uncover and address your budget busters—those small, frequent expenses that quietly drain your wallet.
- Make savvy money moves. Gain a comprehensive view of your financial landscape, helping you set spending priorities and make informed decisions.
- Align your finances and goals. Learn how to use your money strategically, aligning your spending with what truly matters to you.
- Break bad habits. Become more mindful of your spending habits by staying focused on your financial priorities, which can lead to healthier money choices and help break the cycle of unnecessary or impulsive spending.

Understanding Your Income

The foundation of an effective budget is having a clear grasp of your income, as well as understanding the different types of income and how you should consider them in your financial planning. There are three income categories:

- *Gross income (total earnings)*: This is your income in its entirety, before any taxes or deductions like health insurance. It represents your total earning potential. To calculate gross income, account for all sources of income, including wages, salaries, and bonuses; investment and rental income; and child support and alimony.
- *Net income (budgeting basis)*: Commonly known as your take-home pay, your net income is the amount you receive after any applicable taxes or deductions. This is the amount you actually have available for your budget.
- *Discretionary income (flexible funds)*: The amount of money you have left after paying all your bills and meeting other financial obligations is known as discretionary income—funds that you can use at your own discretion. This money can be put toward savings, paying down debts, or other financial goals.

Spending Smarter

To truly master your finances, you should also understand the difference between a need and a want, as well as what living within your means really means for you. Distinguishing between needs and wants can help you identify places where you can cut costs if money is tight. Meanwhile, living within your means helps preserve your financial stability and avoid frivolous debt.

Tracking Your Expenses

Keeping track of what you spend your money on—and to what extent—is an essential component of effectively balancing your needs, wants, and financial capabilities. It also helps you allocate resources appropriately and stay on top of your financial goals. There are many approaches to tracking your spending habits.

Choosing a Budgeting Strategy

If you aren't sure what your budget should look like, several different rules exist to help guide how you allocate your income. One of the most popular is the 60-20-20 rule, which suggests you divide your monthly net income as follows:

- *60% for living expenses.* Housing, transportation, food, and other essentials are considered living expenses—the costs associated with basic daily living and health. Remember to factor in necessary expenses that you may only pay quarterly or annually, like insurance, as well as any outstanding debt you need to pay off.
- *20% for savings.* This category includes money that you set aside to create an emergency fund, invest, or save for future purchases, like a home or car.
- *20% for fun.* These are things you enjoy but can live without, such as frequenting restaurants, attending concerts or shows, buying new jewelry, and going on extravagant dates.

Staying the Course

Even the smallest financial habits can quietly chip away at your budget's foundation and your progress, making it easy to get discouraged. The following tips can help you create and stick to a healthier budget.

- *Revisit your budget.* Review your budget at least every few months and each time your financial situation changes, like if you get married or promoted, to ensure your budget continues to work for you. This habit can also help you stay on top of subtle changes or trends in your finances, catching and adjusting for them before they throw off your budget.

Broaden Your Budgeting Boundaries

Having a budget means no longer guessing where all your money went, giving you control and peace of mind over your finances while helping you reach your short- and long-term goals. It's a process that's never really over, either: A great budget is an ever-evolving financial plan that guides you toward your goals and serves as the key to financial freedom.

Working with the right financial institution can elevate your budgeting experience by giving you access to powerful tools, insights, and products for every financial need. Connect with us today to see how we can help your money work for you and your budget.

Make It a Family Thing

Model healthy financial habits for your children by letting them be part of your budgeting process, giving insight into how you've allocated your money and why. If your child receives an allowance or has a part-time job, you can open a youth account for them and practice budgeting together, keeping each other accountable, motivated, and on track. ✓