

BUDGETING 101: HOW TO START A BUDGET AND STICK TO IT

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- Kellie Collier

Creating and sticking to a budget is one of the most important ways to reach your financial goals. And while [74% of Americans](#) are committed to creating and implementing a monthly budget, 83% of those polled say they routinely overspend and use credit cards to cover the costs. Overspending has clearly become all too common. In this blog, we'll provide you with a comprehensive guide on how to start a budget and stick to it.

UNDERSTANDING YOUR FINANCES

Before you can start building your budget, you need to first understand your finances. That means assessing your current income and expenses. Start by calculating your monthly income, including any regular commissions, bonuses, support payments, or secondary income. Next, pull together a list of your fixed expenses. This list should include payments like:

- Mortgage or rent
- Utility bills
- Car loans
- Support payments
- Credit card debt
- Cell phone
- Student loans
- Etc.

Categorizing Variable Expenses

For most Americans it's not the fixed expenses that erode a budget, but the variable.

For the next step of how to start a budget, it's time to review your account statements to track spend outside of your recurring monthly commitments. Look for transactions like grocery costs, dining out, gym memberships, personal grooming, etc. and track where and how much you spend each month.

Consider using [financial planning tools](#), like [YNAB](#) or [Nerdwallet](#), to categorize your variable spend. Separating these expenses into categories will highlight how much money you spend within each sector and allow you to make necessary adjustments to better balance your budget. This is a necessary step in building an attainable budget.

Setting SMART Financial Goals

Now that you have a clear picture of your income and expenses, it's time to set financial goals. Identify both short-term and long-term objectives based on your own personal situation. Short-term goals may include paying off debt or saving for a vacation, while long-term goals could involve retirement planning or buying a home. Setting specific, measurable, achievable, relevant and time-bound (SMART) goals will help you stay motivated and on track.

If you're focusing too much on short-term goals, but struggling to identify long-term goals, consider these [financial milestones](#) and how you can get ahead at every age.

CREATING A BUDGET

If you're wondering how to start a budget, we have you covered. Once you've identified your financial goals, assessed your monthly income, and tracked your expenses, you have all the necessary pieces of information for creating a customized budget.

Budgeting Methods

There is no one size fits all budgeting method. Instead, there are a number of techniques budgeters use to track and categorize spend and reduce the risk of overspend.

50/30/20 Rule: This method allocates your income based on a ratio – 50% to needs, like mortgage and car payments, 30% to wants, like dining out or new apparel, and 20% to savings. This technique is less rigid, because it gives the budgeter flexibility to spend at their discretion so long as the balance remains at 50/30/20.

Envelope System: The envelope system is a more traditional and straightforward way of budgeting. Here the budgeter uses physical envelopes to allocate and manage cash for different spending categories. This system, while somewhat antiquated in today's tech-driven world, is for the individuals who prefer a tangible, visual representation of their budget and wants to control discretionary spending as much as possible.

Zero-Based Budgeting: This is a budgeting technique where every dollar of income is allocated to specific categories of expenses, resulting in a balance to zero at the end of the budgeting period. With this method, you must list all possible expenses, both fixed and variable, that you anticipate for the budgeting period. Next, allocate a specific amount of money to each expense category based on the priority or need.

Zero-based budgeting is flexible and adaptable to changing financial circumstances and encourages budgeters to examine each and every expense.

Whichever technique you choose, remember to allocate a portion of your income to savings – ideally 20%. This can be in the forms of a retirement account, savings account, certificate of deposit (CD), or money market account.

Working with a Financial Advisor

If these methods feel outside of your comfort zone or if you've attempted to implement these methods to no avail, consider reaching out to a [financial advisor experienced with financial planning](#). An experienced financial advisor will help find a method that works best for you, taking into consideration retirement goals, education planning, debt elimination, and more.

TIPS FOR STICKING TO A BUDGET

Just because you've created a budget, doesn't mean you will seamlessly adhere to it. To stay within your budget, you must first develop smart spending habits.

Prioritizing Needs Over Wants

Before making a purchase, ask yourself whether it aligns with your financial goals. Differentiate between essential and non-essential expenses, making sure to prioritize needs over wants – often the most challenging piece of budgeting.

Tracking Expenses Regularly

To stick to a budget, it's essential to track your expenses regularly. Keep record of every transaction, whether cash, credit card, or online payments. Review your expenses periodically and compare them to your budget. This practice will help you identify any areas where you may be overspending or prioritizing needs over wants.

Review and Adjust Regularly

Creating a budget is not a one-time task, it requires regular review and revision. As your financial situation changes, whether for better or worse, revisit your budget to ensure it remains relevant and impactful to your financial goals. Make modifications when necessary, such as a raise, experience a change in expenses, or achieve a financial goal. This ongoing process will help you stay on track and adapt to new circumstances.

Negotiating

Not all expenses are hard and fast. If a certain expense isn't fitting within your budget, consider reaching out to the service provider to negotiate. You can negotiate for certain services like cell phone plans, internet service, insurance or other recurring bills. Before you attempt negotiations, be sure to research and prepare by comparing rates and standards for similar services in your area.

If the service provider isn't willing to compromise, consider other options for similar services that offer lower costs or expanded scope of services.

BUDGETING TO FINANCIAL SUCCESS

Creating a budget is a fundamental step toward achieving financial stability and reaching your goals. By assessing your income and expenses, setting financial objectives, and tracking your spend, you can gain control over your finances and feel more confident in your financial situation.

Remember, sticking to a budget requires discipline and commitment, but the rewards are well worth it.