



How to Start Budgeting

Budgeting can seem like a daunting task. Nobody wants to see exactly how much they spent and then feel guilty about it at the end of every month, right? The purpose of a budget or spending plan is to decide how you're going to spend your income before you spend it. This is especially helpful for people who usually spend more than they make or people who want to save up for something.

Steps In Budgeting:

1. Estimate your expenses
2. Estimate your income
3. Compare income & expenses
4. Create a budget tailored for you
5. Track your spending & stick to your budget

1. Estimate Expenses

- ⇒ The first step is to **make a list** of expenses that you spend your money on. Go through your debit/credit card statements and write down what you have spent your money on for the past 2-3 months.
- ⇒ **Group** expenses into categories like fast food, clothes, toiletries, etc.
- ⇒ Next, **add up** your average expenses for a month to see what you spend each month.
- ⇒ For expenses that you don't pay for every month, such as oil changes, haircuts, car registration and insurance, and taxes, take the total expense cost divided by the number of months in between the expense to get the amount you should **save** for the expense per month.

For example,

if you get a haircut for \$45 every 3 months, it would be
 $\$45 / 3 = \15 per month
 If you save \$15 a month, every 3 months you will have enough to pay for a haircut.

- ⇒ Many people do not realize how much they actually spend until they write it all down. It is impossible to start a budget if you do not know what your expenses are.
- ⇒ By **making a list of expenses** you will find out where your money is going.

2. Estimate Income

- ⇒ Next, you need to know how much income you have to work with. Add together all sources of income including jobs, bonuses, student loans, money from parents, etc.
- ⇒ Try to estimate the average minimum income you have per month.
- ⇒ Many college students do not have regular monthly incomes. This can make it hard to budget when you do not have an even cash flow every month, but it is possible.

3. Compare Income & Expenses

- ⇒ The next step is to see if your income is greater than your expenses.
- ⇒ **If it is**, you have some extra money each month to be able to save for an emergency fund or a financial goal, or to start paying off loans, for example.
- ⇒ **If your income is less than your expenses**, you have two choices- you can either decrease expenses or increase income.
- ⇒ Even people whose income is greater than their expenses may want to think about whether they can decrease expenses or even increase income to pay off debt faster, or save for a money goal more quickly.

4. Create a Budget

- ⇒ Finally, you will need to **create** your budget by deciding how much to want to budget for each expense category. This may be more or less than you were spending before. The goal is to allocate all of your income to something- spending, saving, investing, paying off debt, etc.
- ⇒ When deciding how much to allocate to each budget category, think about your **wants** and your **needs**.

Needs are items such as rent/mortgage payment, utilities, food, and other items that are necessary and that you **MUST** pay for.

Wants are items that you don't need but that would be nice to have, like internet, cable, more clothes, a cell phone, and fast food.

- ⇒ You should always start with your income and then take out your needs. Emergency fund savings, financial goals savings, and debt repayments should be taken out next. Lastly, you should prioritize your wants according to their importance and how happy they make you.

For example, a cell phone and internet might be more important to you than cable or fast food. Once you know how much you have leftover for wants, you can cover your wants starting from the most important until you run out of money.

- ⇒ If you run out of income to allocate before you have covered all of your wants, you can try to decrease the cost of some of your wants to get all of them covered.
- ⇒ It may take several months of adjusting and re-adjusting before your plan works smoothly.

5. Track Your Spending & Stick to Your Budget

There are many ways to **track your spending**, including:

- ⇒ On paper (keep your receipts)
- ⇒ On a spreadsheet
- ⇒ Using a budgeting app
- ⇒ Using a budgeting website

Spreadsheets and suggestions for apps and websites can be found at

www.unl.edu/smmc/budgeting.shtml

You also need to **stick to the budget** you have made for yourself. Here are a couple suggestions to help you stick to your budget:

- ⇒ If you use a budgeting website or app, check how much you have left to spend in the category **BEFORE** you decide to make a purchase.
- ⇒ **Envelope method**- put the budgeted amount for a category in an envelope. This helps people who overspend with debit or credit cards. Get free envelopes in our office! (Nebraska Union 237)

Free Mentoring Sessions

You can also schedule a free, confidential appointment with a Money Mentor at the UNL Student Money Management Center to help you create a personalized budget or answer any other money questions you may have. Schedule your appointment at

<http://www.unl.edu/smmc>