

## Successful Budgeting and Financial Planning

Financial literacy is a valuable life skill that helps us make smart financial decisions. The better we understand the complexities of the financial world, the more empowered we are to take control of our finances and avoid financial scams and fraud. Budgeting is a solid first step in building financial stability.

### Why Budget?

Budgeting is a critical skill that builds healthy financial behaviors and habits. Establishing financial goals that are important to you and writing them down sparks a commitment to achieving those goals. Beginning to achieve small or short-term budgeting goals builds momentum for sticking with a plan and working toward longer-term goals. Follow these tips to get started with budgeting and financial planning.

### Determining Your Goals

Think of budgeting as simply goal setting. Establish both short-term and long-term financial goals important to you. When starting out, set a few financial goals that are doable, like buying a car or saving for a vacation. Then, use your budget as a spending or savings plan to achieve those goals. Make sure to reward yourself for small successful milestones.

### Choose a Method

Choose a budget technique that works for you and be able to be flexible should your financial situation change. There are many free online budgeting tools available to help you, like the [Federal Trade Commission's Budget Worksheet](#). Some popular budgeting strategies include:

#### **50/30/20 Method:**

- 50 percent of your income covers essential needs like rent/mortgage, utilities, insurance, car payments, gas, groceries, and basic household necessities.
- 30 percent is for discretionary spending on wants and non-essential expenses like entertainment, gifts, hobbies, vacations, etc.
- 20 percent for savings, retirement, and debt repayment.

#### **Envelope Method:**

A hands-on, low-tech approach to budgeting that involves using physical envelopes to divide and manage your spending for various categories.

- Identify and categorize your expenses, such as rent, groceries, transportation, entertainment, etc.
- Decide how much money you want to allocate for each spending category per month.

- Create an envelope for each spending category. Write the category name on the envelope and add the budgeted amount on the envelope.
- As you make purchases, use the cash from the correct envelope. When the envelope is empty, you've reached your spending limit for that category for the month.
- Record each expense on the envelope or in a separate tracking system. This helps you stay aware of your remaining budget.
- If you run out of cash in a particular envelope before the end of the month, you can either add funds from another envelope or wait until the next month to spend in that category.

#### **Pay-Yourself-First Method:**

- Prioritizes saving before using money for other expenses. Make your savings goals as firm expenses, like bills, and allocate a portion of your income to them first before you spend on discretionary items.
- After putting money in your savings accounts, allocate the remaining funds to cover your essential expenses such as rent, utilities, groceries, transportation, etc.

#### **Take It Slow and Steady**

The most common reasons people stop budgeting are that they tried to reach their financial goals too fast, saved too hard, or are unrealistic. Often results in giving up on your budget altogether. Make sure to check your budget periodically, and update it every month. Each month is different, so be ready to be flexible should your financial situation change, such as losing your job or a rent increase, or unexpected expenses arise, such as a medical emergency or expensive car repair.

#### **Budgeting Pro Tips**

- If you share finances, [create a budget together](#). Make sure your partner is onboard with your family's budgeting goals.
- If you can't develop good spending habits on your own or find it too easy to spend money with credit cards, digital payments, or buy-now-pay-later, create barriers to stop spending with these types of financial services. If you are not using a certain credit card, it is best to stop using it instead of closing the account, which can lower your credit score.