7 steps to learn how to budget

Learn how tracking your expenses can help you reach your money goals.

Fidelity Smart Money

Key takeaways

> A budget helps you understand your spending habits and moves you closer to your money goals.
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> To get the most out of budgeting, track your expenses and income consistently and completely.
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> Setting reasonable expectations about your spending and savings will help you stick to your budget over time.

Budgeting might seem daunting, but that's because it needs some better PR. A budget is simply a spending plan, based on your income and expenses. Having a budget helps you understand where your money's going so that you can adjust it if you want to hit a goal. Here's how to budget for the first time—and then keep going every month.

1. Find your "why"

If a budget can help you reach your money goals, then step one to starting a budget is defining a goal (or two or three). Whether it's booking a dream vacation, buying a home, being debt-free, or just being able to afford more nights out with friends every month, setting goals you care about can help motivate you to stick to a budget. Research says having a photo of your goal visible near where you do budgeting tasks can encourage you even more.

Don't have a concrete goal yet? Taking control of your money is a good reason to start budgeting. When you think of something you want to accomplish later, you'll already be on the right track.

2. Pick the right tool

You could create your own budgeting tracker by entering your monthly income and spending categories, such as housing, transportation, health care, food, debt, gifts, entertainment, personal care, and more. Or you could download many of the budgeting worksheets or apps available for free online. Remember: No tool is perfect. For example, you might have certain spending categories that a particular worksheet doesn't prompt you to list.

3. Note your monthly income

If you have a predictable income, this next step is easy. Add up your paychecks over the month and plug that into your budget. If your income can vary from month to month, use the lower range of past monthly income. For instance, if your monthly take-home pay (post-tax and other deductions) ranges from $2,500 to $5,000, then create your budget as though you can only expect $2,500 each month. If you end up with more cash than you expect, you can save it.

And don't forget about taxes. If you're a W-2 employee, what hits your bank account will likely be your take-home pay, as income tax is already deducted. But, if you're a contractor or self-employed, what hits your bank account may be gross income, meaning untaxed. Make sure to set aside some of that gross income, as you will likely have to pay taxes on those dollars in the future.

4. List your monthly expenses

A budget is only helpful if it's accurate. Make sure to account for all your expenses—even ones you think only amount to a few dollars. Forgetting a bunch of smaller expenses makes it harder to understand where your money went at the end of the month.

If you use cash, keep your receipts—at least until you have a few monthly budgets under your belt. Same goes for paper checks. Make copies or jot down how much you spent and where. For credit and debit purchases, comb through your statements. Include both one-off purchases and recurring charges, such as for streaming services and fitness apps. Examining your recurring charges in comparison to your other spending could help show you where your dollars are going. And don't forget to account for transactions on peer-to-peer payment platforms too.

5. Aim for the right allocation

Once you've listed out your expenses, group them into high-level categories: essential expenses, retirement savings, and short-term savings. Fidelity's recommendation is to use the 50/15/5 guideline.

- **50% for essential expenses.** Consider allocating no more than 50% of take-home pay to must-haves, such as your mortgage or rent, utilities, groceries, and monthly debt payments.
- **15% for retirement savings.** Try to save 15% of pre-tax income (including any employer contributions) for "Retired You."
- **5% for short-term savings.** Stash 5% of take-home pay in a savings account you can tap any time for emergencies, such as medical bills or car or home repairs.
- Use what's left over however you'd like.

It might not be possible to adhere to 50/15/5 right away, especially if you have a lot of debt, are out of work, or don't have an employer match to help you save for retirement. (Here's how to balance debt, saving, and investing when money is tight.) It could also be tough to meet the 50/15/5 guideline if you're going through a big life moment that comes with extra expenses, such as planning a wedding or expanding your family. That's okay. In the meantime, it can still pay to look for ways to cut back to get as close as you can to the guideline. Fidelity research shows that sticking to the 50/15/5 budget can help you maintain financial stability now—and down the road.

6. Cut yourself some slack

A budget is supposed to make you aware of your spending habits—not make you miserable. Avoid shooting for unrealistic spending limits or monthly savings goals. Aiming for the unachievable could make you want to stop budgeting because it can feel useless.

You're more likely to be successful with subtle nudges toward better spending habits than a radical shove in a new direction. So each month, tweak your estimated spending in a category or 2 to save more, or direct that money toward more pressing needs.

For example, say you want to cut down on your dining-out expenses from $1,000 a month to $500 a month. Instead of immediately halving that spending, try reducing it by $100 a month for the next 5 months. This could help you feel less stressed about the change and up the chances that you'll hit the goal. Repeat for another category once you feel good about the progress you've made.

7. Keep at it

Budgeting works best if you input your spending consistently. That's why when you're first figuring out how to budget, you may want to track your expenses as often as weekly. Longer term, consider setting a “money date” with yourself at the same time and day each week or month. Having an appointment may help you commit to getting the job done.

To make budgeting less of a chore, pair it with something you enjoy, such as eating ice cream or having a favorite TV show on in the background. This gives you an immediate reward for your effort. If you allow yourself to eat ice cream and watch that show only when you're budgeting, you may be even more inclined to do the work.

And don't forget to celebrate yourself. Whenever you hit a milestone, give yourself an extra-special treat, which can encourage you to keep going. Just make sure you budget for it.

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