

Hands on Banking[®] Experience

Budgeting Tips

Income and expenses

When you think about your “income” there’s a difference between your gross pay—the total amount you earn—and your take-home pay. Take-home pay is what you have after taxes, insurance, and other costs have been subtracted. Base your spending plan on your take-home pay.

You may also want to track your spending. There are lots of ways to do this, from keeping track on paper, to looking at all your transactions online.

There are three types of expenses: fixed, flexible, and discretionary.

- Fixed expenses are things that cost the same every month or year, like car payments, rent, and insurance.
- Flexible expenses happen regularly, but the amounts change, like groceries or electric bills.
- Discretionary expenses are what you choose to spend money on, like clothes, movies, or going out to eat.
- Be realistic and flexible with your budget

After writing your spending plan, you may find that there’s not enough money to go around. Since it may be difficult to change fixed expenses, look to lower discretionary expenses or increase your income.

You may also need to make trade-offs like giving up things you can live without, or buying a less-expensive version of something that still meets your needs. Perhaps you can host a potluck with your friends on Saturday night instead of going out to dinner. The trick is to live within your income so that you can pay your expenses but still have some money left-over for your own flexibility. Review your plan every month. Adjust it as your income and expenses change.

Deciding what to pay first

To make your monthly income last, pay for things in this order:

Pay your monthly bills. There are many potential penalties if you pay late, such as late fees, losing possession of things you’ve bought on credit, or being evicted from an apartment.

Set aside the money you’ll need for your weekly and day-to-day expenses, like groceries and bus fare.

Put money into savings. Try to build two months of take-home pay for an unexpected financial emergency. Did you know that if you get paid every other week, there are two months each year when you get three paychecks instead of two? Those months are a good time to put money into savings.

Set aside money for larger expenses, such as car repairs or appliances.

Set aside money for your major future goals whether it’s a home, college for your children, a new car, or travel.

Remember: Paying bills late can seriously damage your future ability to borrow. If you begin to earn more, increase the amount you save as much as you can.