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Better Money Habits®

Your guide to creating a budget plan

Budgeting puts you in charge of your money. Follow these steps to get started.

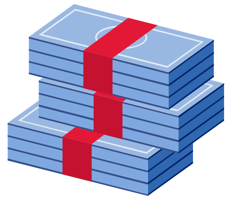
Read, 12 minutes

Most people need some way of seeing where their money is going each month. Budgeting can help you feel more in control of your finances and make it easier to save money for your goals. The trick is to figure out a way to track your finances that works for you. The following steps can help you create a budget plan.

Step 1: Calculate your net income

Building an effective budget often starts by assessing your net income or take-home pay. That's your total wages or salary after taking out taxes and employee benefits, such as 401(k) contributions and health insurance premiums. It's the amount that is deposited in your bank account every pay period.

Be careful not to focus on your total pay. You may end up overspending because you think you have more money available than you do. If you're a freelancer, gig worker, contractor or are self-employed and your income is irregular, make sure to keep detailed notes of your contracts and pay.



Gross income

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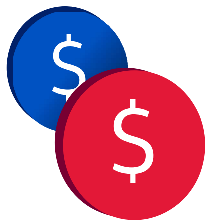

Taxes, insurance premiums and 401(k) contribution

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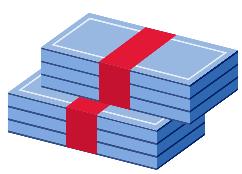

Take-home pay

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Step 2: Track your spending

Once you know how much money you have coming in, the next step is to figure out where it's going. Tracking and categorizing your expenses can help you determine what you are spending the most money on and where it might be easiest to save. The more detail you gather, the better. For several weeks, record all your daily spending. Use whatever's handy—an app on your smartphone, budgeting spreadsheet, online template, even pen and paper. Credit card and bank statements are a good place to start because they itemize your spending and often group transactions into broad categories, such as utilities and entertainment.

Then group your fixed expenses together. These are regular monthly bills such as rent or mortgage, utilities and car payments. Next list your variable expenses—those that may change from month to month, such as groceries, gas and entertainment. This is an area where you might find opportunities to cut back.

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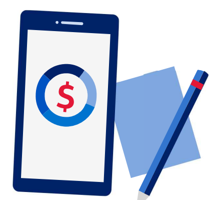
Bank of America clients can access the Spending & Budgeting tool in Online and Mobile Banking to automatically categorize transactions for easier budgeting.



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Step 3: Set realistic goals

Before you start sifting through the information you've tracked, make a list of your short- and long-term financial goals. Short-term goals should take one to three years to achieve and might include things like setting up an emergency fund or paying down credit card debt. Long-term goals, such as saving for retirement or your child's college education, may take decades to reach. Many people wonder if they should focus on paying down debt, saving or investing. Our interactive tool can help you find the right balance.

Be explicit about your goals and include them as line items in your budget. Ideally, you want to put money toward them each month, just as you earmark money for expenses. Goals will change over time, but identifying them can help motivate you to stick to your budget. For example, it may be easier to cut spending if you know you're saving for a vacation.

Step 4: Make a budget plan

This is where everything comes together: What you're actually spending vs. what you want to spend. Start with your take-home income. Organize your fixed and variable expenses based on your research. Then add line items for your savings goals.

The budget plan lets you see how your income and spending line up. Do you need to find places to cut to cover necessities or meet savings goals? You may want to consider setting specific—and realistic—spending limits for each category of expenses.

An individual's monthly budget plan might look like this:

Take-home pay	**$4,000**
Fixed expenses	
Rent or mortgage	$1,100
Utilities	$160
Car payment, insurance	$400
Cell phone	$80
Internet, cable, streaming	$200
Short- and long-term savings	$600
Total fixed	$2,540
Variable expenses	
Groceries	$400
Eating out	$200
Entertainment	$160
Transportation	$300
Healthcare	$100
Credit card payments	$200
Miscellaneous	$100
Total variable	$1,460
Total monthly expenses	**$4,000**

Step 5: Pick a budgeting method

There's more than one way to put your budget plan into practice. What's important is that you pick a method that works for you.

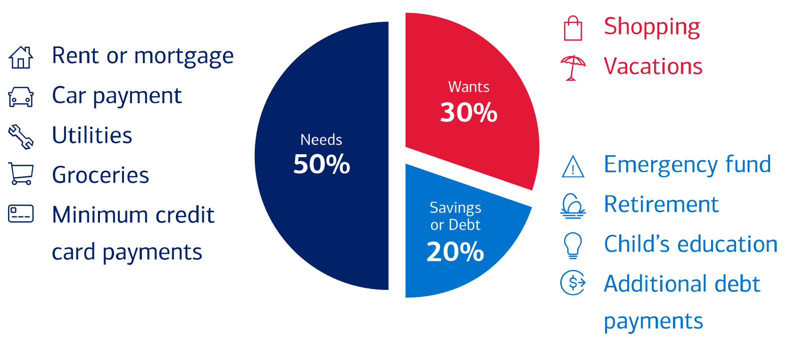
50/30/20 budget

Who it works for: Anyone. This is a good starting point for putting your plan into action.

How it works: First, break down your fixed and variable expenses into things you need to have and things you want to have. For instance, if you drive to work every day, gasoline counts as a need. A monthly music subscription, however, may count as a want. This difference becomes important when you're looking for ways to save money to reach your financial goals.

Then divide your take-home income into three spending categories—50% needs, 30% wants, and 20% savings or debt payments above the minimum. You can tweak the percentages to fit your circumstances. For example, if you live in an expensive city, your needs portion may have to be higher. Or if you're saving for a down payment on a house, you may choose to bump up the savings. Here's the breakdown and examples of expenses in each category:

What is a 50/30/20 budget?



Envelope budget

Who it works for: People who have trouble controlling their spending.

How it works: Assign an envelope to each of your expense categories. Every month, fill the envelopes with the amount of cash you've budgeted for that category. When an envelope is empty, stop spending in that category. Paying with cash often helps people control their spending. But if it's too cumbersome, you can set up separate checking accounts for the categories and pay with debit cards.

Zero-based budget

Who it works for: People who have a set monthly income and are comfortable with meticulous record keeping.

How it works: In this method, your expenses equal your income. Put another way, your income minus expenses equals zero. That doesn't mean you're broke at the end of the month. It just means that every dollar of income has a specific purpose and that you've accounted for every dollar you spent or saved.

Pay-yourself-first budget

Who it works for: People who want to save more, are confident they can cover their necessities and don't want to deal with detailed record keeping.

How it works: Every month, before you pay any bill or make any purchase, put a pre-determined amount into savings. Then pay the bills for your needs—rent or mortgage, groceries, utilities, debt payments. What's left can go to your wants.

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Step 6: Adjust your spending to stay on budget

Now that you've documented your income and spending, you can make any necessary adjustments so that you have money to put toward your goals and don't overspend. You can get ideas on where to save by seeing how your spending compares with everyone else's.

Look toward your wants as the first area for cuts. Are you paying for both cable and streaming services? Do you routinely eat out? If you've already adjusted your spending on wants, take a closer look at your spending on monthly payments. On close inspection a "need" may just be a "hard to part with."

If the numbers still aren't adding up, look at adjusting your fixed expenses. Could you, for instance, save more by shopping around for a better rate on auto or homeowners insurance? Such decisions come with big trade-offs, so make sure you carefully weigh your options.

Remember, even small savings can add up to a lot of money. You might be surprised at how much extra money you accumulate by making one minor adjustment at a time.

Step 7: Review your budget regularly

Once your budget is set, it's important to review it alongside your spending on a regular basis to be sure you are staying on track. Few elements of your budget are set in stone: You may get a raise, your expenses may change, or you may reach a goal and want to plan for a new one. Whatever the reason, get into the habit of regularly checking in with your budget following the steps above.

Budgeting FAQs

How do I budget as a couple or family?

How do I budget for unexpected events?

How do I prioritize saving and reducing debt in my budget?

What should I do if I overspend my budget?

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