URL: <https://srfs.upenn.edu/financial-wellness/browse-topics/budgeting>

Title: Budgeting

Author: None

Date Access: Jan 25, 2025, 2:00 PM EST

Whether you've recently become responsible for managing your finances or you've been doing it for years, you should consider using a budget as one way to track your financial health.

A budget is:

A plan for your income and expenses

A reflection of your priorities (within your current financial reality)

A pathway to financial freedom

While budgeting can seem intimidating for a variety of reasons, it doesn't have to be. Budgeting is not just about numbers or restricting your spending, but rather how you can change your behavior in order to reach your goals. When you focus on achieving your goals, the time you spend budgeting will feel worth your effort.

Why should you budget?

To achieve a financial goal

To cut costs and save money

To better understand your relationship with money

Take the time now to create healthy financial habits that can stick with you for life. Future you will be grateful.

Watch this short video from Federal Student Aid for more information

Youtube: <https://www.youtube.com/watch?v=6Ib-bdko5cE&t=102s>

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URL: <https://srfs.upenn.edu/financial-wellness/browse-topics/budgeting/essentials-budgeting>

Title: Essentials of Budgeting

Author: None

Date Access: Jan 25, 2025, 2:00 PM EST

Before you start a budget, it is important to understand some key budgeting concepts.

Setting Financial Goals

Identify what you'd like to accomplish financially and create a plan to make it happen.

We suggest setting SMART goals. SMART goals help you identify exactly what you want and how you plan to achieve it. SMART goals are Specific, Measurable, Achievable, Relevant, and Time-Based.

Specific: What do you want to accomplish?

Measurable: How will you know that you’ve achieved your goal?

Achievable: Is your goal realistic?

Relevant: Is your goal aligned with your personal identity and needs?

Time-based: By when do you hope to achieve your goal?

Income and Expense Tracking

Keep a log of your income and expenses to get a better sense of where your money comes from, where it goes, and your patterns in handling your finances. You can do this manually (in a spreadsheet or notebook) or automatically (using a budgeting app that tracks your transactions).

Be thorough when you track. For income, list not only your earned income, but also your student account refund (if you receive one), rewards, gifts, and interest. For expenses, list not only your debit and credit card transactions, but also your usage of cash and Venmo (or similar services).

Once you’ve created your budget, track your income and expenses to ensure you’re working toward your financial goals and staying within the bounds of your budget.

Needs vs. Wants

In order to decide how you should spend your money, consider how your expenses fall into the following two categories: needs and wants.

Needs are items you cannot live without. These may include rent, groceries, and health insurance.

Wants are items that are not necessary but may make life more pleasant. These may include dinners out, concert tickets, and clothes.

Needs and wants are not always dichotomous. Imagine the following example: all your socks have holes in them, so you need to buy new ones. While new clothes may typically be classified as a want, this example demonstrates that clothes can be a need instead.

You get to decide which expenses are needs and which are wants based on your personal and financial priorities. After you’ve fulfilled your needs, you should feel empowered to purchase your wants based on your priorities and financial abilities. If your priorities involve seeing a new movie you’re excited about, then you should allocate money for the ticket after you’ve paid your bills (and bought your new socks).

Fixed vs. Variable Expenses

Your expenses can be broken into two further categories: fixed and variable expenses.

Fixed expenses are expenses you incur on a regular basis and typically of a pre-determined amount. Some fixed expenses (like gas, electric, and credit card bills) may fluctuate from month to month based on your usage, but should be relatively predictable. Other fixed expenses (like rent, loan payments, and subscriptions) tend to be constant.

Variable expenses are expenses that fluctuate depending on your spending behavior. Some examples include groceries, clothing, and entertainment.

Understanding the difference between fixed and variable expenses is crucial for estimating your expenses for the month. In the case that you need to adjust your spending habits, it’s much easier to adjust variable expenses than fixed expenses.

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URL: <https://srfs.upenn.edu/financial-wellness/browse-topics/budgeting/building-your-monthly-budget>

Title: Building Your Monthly Budget

Author: None

Date Access: Jan 25, 2025, 2:00 PM EST

How to Get Started

It’s time to jump in and start your budget. Budgeting is an ongoing process, so follow the steps listed below to begin. As you move forward in your financial endeavors, you should re-visit these steps in order to make adjustments when necessary.

1

Identify Financial Goals

Before you begin thinking about the mechanics of budgeting, take a moment to identify why you want to budget and set a SMART financial goal. Setting a goal will give you a benchmark to work toward; something to help measure your progress.

Keep this goal in mind as you create your budget. You should frequently ask yourself if your financial habits and plans align with the goals you've set. If they don't, try to identify what changes you can make to better work toward your goal.

2

Track Your Income & Expenses

Track your income and expenses for about a month in order to identify your current financial habits. You could use an app or a spreadsheet to do this.

Compare your current habits with your financial goals. Identify what you're doing well and what could possibly change moving forward.

3

Select Budget Categories

Organize your expenses into categories in order to track and adjust your spending habits as needed. Here is a list of suggested categories:

Student Bill

Housing & Utilities

Food (Restaurants & Groceries)

Books & School Supplies

Local Transportation

Travel (Away from Penn)

Personal Care

Entertainment

Savings

Debt

4

Identify Income

Make a list of all the forms of income you receive, how much you receive, and how often you receive them. This may include earned income, family allowances, student account refunds, and interest or rewards you receive.

5

Identify Expenses

Make a list of your fixed expenses and variable expenses, how much they are, and how often they occur.

It's likely that you'll have a harder time identifying your variable expenses than your fixed ones. To identify how much your variable expenses are, you can estimate or review your expenses from your tracked month. Use those amounts as a starting point. You can always adjust later.

6

Set Limits (Or Don't)

By this step, you should have a better understanding of your financial habits. Are you comfortable with them?

If yes, great! Keep up the great work and re-assess your habits periodically to make sure you're still comfortable.

If no, consider setting limits and smaller goals in order to track your progress toward your main financial goal. Take time to identify maintainable ways to change your behaviors. Be patient and realistic with yourself. Don't expect a radical overnight change. You can surely reach your goals with a little bit of time and effort.

Maintain Your Budget

Track your income and expenses with the intent of spending less than you earn. If you’re spending more money than you have, you’re going to have to make some changes. Here are some options to consider:

Reduce variable expenses.

Adjust your spending habits in the categories that constantly fluctuate, whether classified as needs or wants. This may involve purchasing cheaper groceries or opting to take SEPTA instead of Uber for transportation. These numbers can always change depending on your choices.

Reduce fixed expenses.

If reducing your variable expenses doesn’t cut it, determine if you can eliminate any of your fixed expenses, whether classified as needs or wants. See if you can split your Netflix cost with a few friends or switch to a cheaper phone plan.

Increase income.

If you cannot adjust your expenses further, look for ways to increase your income. Start by talking with a counselor in Student Financial Services. They can help you understand your financial aid options, including small loans for your education expenses. Increasing your income might also involve picking up more hours at work or looking for a higher-paying job. It could also include signing up for Wharton Behavioral Labs or Experiments @ Penn.

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URL: <https://srfs.upenn.edu/financial-wellness/browse-topics/budgeting/popular-budgeting-strategies>

Title: Popular Budgeting Strategies

Author: None

Date Access: Jan 25, 2025, 2:00 PM EST

You might be wondering how much you should spend within each of your budget categories. Unfortunately, there is no right amount to spend in any category for every individual. It's up to you to decide what works for you. There are a variety of philosophies about the best way to budget.

Below are only a few possible strategies. These are some popular ones, but that does not mean they will work best for you. We encourage you to try them out if you like them, but remember that budgeting is an individualized process, so you should be prepared to identify when a change needs to be made.

The 50/20/30 Budget

In the 50/20/30 budget, 50% of your net income should go to your needs, 20% should go to savings, and 30% should go to your wants.

If you've read the Essentials of Budgeting, you're already familiar with the idea of wants and needs. This budget recommends a specific balance for your spending on wants and needs. It also emphasizes the importance of setting money aside for later.

Pay Yourself First

In the “Pay Yourself First” method, the first “bill” you pay every month is to your savings account. Transfer a pre-determined amount into savings at the beginning of the month. After you pay yourself, you should pay your bills, then use the rest however you please.

This method could easily be used in combination with some others listed on this page. However, this method can also be used to keep track of a very simple budget, where you pay for the things you have to, and don't worry about the rest.

Zero-Based Budget

In a zero-based budget, every single dollar of your income is assigned to a specific expense, leaving you with a balance of $0. This method requires you to anticipate all of your upcoming expenses so that you can allot your income to the appropriate expenses.

Be sure to include saving into your plan as well; if you don't plan to "spend" all of your income, you can assign what's left to a "savings expense." This method ensures that you have a plan for each dollar and won't make impulse purchases.

Envelope Budget

In the envelope budget, you put specific amounts of your money into envelopes (physically with cash, or electronically with an app or spreadsheet) representing different budget categories. Once you have exhausted the funds in an envelope, you can no longer spend within that budget category until the next month. If you have remaining funds at the end of the month, you have a few options:

Roll over the remaining funds into the same envelope the next month

Transfer the remaining funds for a different envelope

Put the remaining funds into savings for a later date