



Budgeting Basics: Finding Room to Save

Finding money to save can be a challenge. A budget is one tool for addressing it. By understanding what comes in and what goes out each month, you can make deliberate choices about your spending and plan for savings goals such as an emergency fund, paying down debt, or contributing to your retirement plan.

There is no single right way to budget. The steps below outline one general framework you can use as a starting point.

1. Know Where Your Money Goes

Start by listing all sources of monthly income, using your take-home pay (the amount deposited after taxes and other deductions). Then track your spending for one to two months. Bank and credit card statements, budgeting apps, or a simple spreadsheet can all work.

As you review your spending, it can help to group expenses into two categories:

- **Fixed expenses:** costs that stay about the same each month, such as rent or mortgage payments, insurance premiums, and loan payments
- **Variable expenses:** costs that change from month to month, such as groceries, dining out, fuel, and entertainment

The goal at this stage is to get a clear picture of your spending, not to judge it.

2. Consider a Simple Framework: The 50/30/20 Approach

One guideline, known as the 50/30/20 approach, divides take-home pay into three broad categories:

- **50% for Needs:** essential expenses such as housing, utilities, groceries, transportation, insurance, and minimum debt payments
- **30% for Wants:** discretionary spending such as dining out, travel, hobbies, and subscriptions
- **20% for Savings and Debt Repayment:** emergency savings, retirement contributions, and payments above the minimum on debt

For example, someone with \$4,000 in monthly take-home pay would aim for about \$2,000 toward needs, \$1,200 toward wants, and \$800 toward savings and extra debt payments.

These percentages are a guide, not a rule. Housing costs, family circumstances, and debt levels vary widely, so your own breakdown may look different. If you already contribute to your workplace retirement plan through payroll, those contributions count toward your savings even though they come out before your paycheck is deposited.

3. Pay Yourself First

Rather than saving whatever is left at the end of the month, “paying yourself first” means setting money aside for savings before spending on anything else. Automating this step removes the need to remember to save each month.

Payroll contributions to your workplace retirement plan follow this approach: contributions come out of your paycheck before it is deposited. Some other ways to pay yourself first include:

- Setting up an automatic transfer to a savings account on payday
- Increasing your retirement plan contribution rate when you receive a raise
- Using an automatic increase feature, if your plan offers one, to raise your contribution rate gradually over time

4. Look for Room in Your Spending

Once you know where your money goes, you can look for areas to adjust. A few places to start:

- Review recurring subscriptions and memberships, and cancel the ones you no longer use
- Compare rates on insurance, phone, and internet services from time to time
- Set a monthly limit for categories that tend to run over, such as dining out
- Plan meals and shop with a list to help manage grocery costs

For example, redirecting \$100 a month totals \$1,200 over a year that can go toward savings or debt goals.

5. Plan for Irregular Expenses

Some expenses do not show up every month, but they are predictable: holiday gifts, annual insurance premiums, car maintenance, or back-to-school costs. Setting aside a small amount each month for these items spreads the cost across the year rather than absorbing it in a single month.

6. Revisit Your Budget Regularly

Your budget can change as your life does. Consider reviewing yours every few months and after major events such as a new job, a raise, a move, or a change in family circumstances. As debts are paid off or income grows, you may be able to direct more toward your savings goals.

Final Thoughts

A budget is not meant to eliminate spending on things you enjoy. It is a way to decide in advance how your income is divided among needs, wants, and savings. This article covered tracking your spending, the 50/30/20 framework, paying yourself first, finding room in your spending, planning for irregular expenses, and reviewing your budget over time.

This information is general in nature and may not apply to all situations. Consider reviewing your specific circumstances or consulting a qualified financial professional for personalized guidance.

Questions?

If you have questions about budgeting, saving, or your workplace retirement plan, please do not hesitate to contact us. We are here to help you make the most of your retirement benefits.

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