

Financial Literacy & Personal Finance Basics



How do you get started budgeting?
Simple: you plunge right in. You need to see exactly how you're spending your money and identify where your financial holes are.

Some steps:

1. Start tracking your monthly expenses

In a notebook or a mobile app, write in every time you spend money. Be diligent about this, because it's easy to forget. This is the foundation for your budget.

2. Identify fixed and variable expenses

Fixed expenses are ones that you have every month: rent, mortgage, car payment, electric, bill, water bill, student loan payment. Variable expenses are costs that go up and down each month and ones that come and go – groceries, pet supplies, haircuts, concert tickets, etc.

3. Add up the totals

After three months, calculate how much you are spending, on average, per month. And look at the categories.

4. Study your variable expenses

This is where most people tend to overspend. Decide what gives you the most pleasure from these monthly expenses that you feel these costs are worthwhile? And which ones can you really do without? Be honest, and start cutting. This is the beginning of the hard decisions.

5. Factor in savings

A key part of budgeting is that you should always pay yourself first. That is, you should take a portion of every paycheck and put it into savings. This one practice, if

you can make it a habit, will pay dividends (literally in many cases) throughout your life.

6. Now set your budget

Start making the necessary cuts in your fixed and variable expenses. Decide what you want to save every week or every two weeks. The leftover money is how much you have to live on.

Effective budgeting demands that you are honest with yourself and put together a plan that you can actually follow. The more time and effort you put into your budget today, the better you will be able to maintain a life-long savings habit.