**What is Budgeting?**

The three main steps in creating a budget are:  
1. Calculate your total expected income. (*What amount of money do you recieve?)*  
2. Calculate your total expected expenses. (*What do you spend your money on?)*  
3. Determine the balance. (*What is the difference left over from your spending?)*

You will want to create your budget for a fixed period of time and plan to regularly review it. The following information will help you complete your worksheet.

**1. Calculate Your Monthly Income**  
Use check stubs to calculate your monthly “Net Take Home Income”.  
Add any other income or secondary income to determine your total net monthly income.

**2. Calculate Your Monthly Expenses**

You need to collect basic information, such as copies of your bills. If you will be moving, you will need to research the new area to estimate your total monthly expenses. The worksheet will provide you with a good list of expenses to plan for and to find out about.

As you calculate your expenses for the worksheet, try to identify them as “fixed” or “variable.” Fixed expenses are those that routinely occur each month and are usually for the same amount. Examples of fixed items is your rent. Fixed expenses are unlikely to change. You can control variable expenses such as utility bills, groceries, and entertainment. Thinking about your expenses in this way will help you identify the expenses you can change if you want to or need to.

Remember that not all your expenses — fi xed or variable — will occur every month. For example, you may need to repair a personal item such as a Television. You can account for the expense in your budget as a “savings” item each month so you will be prepared to pay the bill when it arrives.

**Housing:** You should expect to spend 50 percent or more of your monthly net income on housing.

**Utilities:** You will also need to budget for utilities, such as gas and electricity. Budget two to 10 percent of your net income for utilities.

**Transportation:** This includes routine travel, such as commuting , but you may also need to budget for pleasure or other long-distance travel. Transportation could include bus or train fare, or maintenance on your car and the cost of gas. In general, you can expect to spend two to five percent of your net income on transportation.

**Food and Personal:** Personal items and food costs include clothing, groceries, entertainment, dining out, dry cleaning, and haircuts. You can estimate that you will spend 10 to 15 percent of your net income for food and two to 10 percent for personal expenses, for a total of 12 to 25 percent of your net income.

**Debt Obligations:** To avoid excessive debt expense, you should try to spend no more than five to 15 percent of your net income for monthly payments on any loans you might acquire, this includes money you borrowed from someone.

**Insurance:** Your health insurance payments are usually fixed amounts, but they might not be paid on a monthly basis. You should budget two to five percent of your monthly net income for these expenses. (If you have Medicare or Medicaid, you might have a supplemental insurance policy.)

**Savings:** It is very important to build up your savings. Plan to put five to 10 percent of your net earnings into a savings account. This money can be set aside for unexpected expenses, or emergencies.

**Miscellaneous:** Because you cannot predict every monthly expense, you should set aside one to two percent of your monthly net income for miscellaneous expenses. These could include out-of-pocket expenses, convenience items, magazines, newspapers, and other small purchases.

**3. Determine the Balance**  
The balance represents the difference between your available resources and your expenses. If your balance is negative--your expenses are greater than your income--you need to reduce your expenses or increase your income. Adjusting your expenses or income will help you find a way to make sure there is room in your budget.