

Budgeting 101

A GUIDE TO BUDGETING



What is a Budget?

A budget is a written plan that helps you keep track of how much you earn (your income) and how much you spend (your expenses). It's perhaps the single most important tool for understanding how to manage your money, because it clarifies exactly where your money is going. You can also use your budget to figure out how much you can save and invest.

It's important to take the time to set up your budget accurately, so you can effectively track your spending.

Here are the key steps to take when planning your budget.

Step 1: Plan

Planning a budget involves identifying your income and figuring out spending priorities and trade-offs. Essentially, you're establishing a cash flow plan that lets you know how much you can spend each month—and how much you can save.

FIRST, DIVIDE YOUR EXPENSES INTO TWO CATEGORIES.

A simple but effective way to look at your expenses is to divide them into non-discretionary (your needs) and discretionary (your wants) categories.

1. **Non-discretionary expenses** are the mandatory expenses, such as your mortgage or rent, groceries, transportation, insurance premiums and taxes. Be sure to include debt payments such as credit cards and auto loans. You may find it helpful to include your savings and investing goals as line items in your non-discretionary category (e.g., retirement savings, education expenses or medical care costs).
2. **Discretionary expenses** are your "wants" rather than "needs", such as restaurants, entertainment, travel, and even clothing.

Don't forget to set aside money for upcoming big-ticket items that come once or twice a year, such as insurance premiums and real estate taxes.

NEXT, LIST YOUR SOURCES OF INCOME.

Your regular wages are most likely your primary source of income. However, you may have other sources such as bonuses, gig work, gifts, income from rental property, interest or investment income, and government benefits, for example.

Step 2: Create

Now, it's time to start inputting the numbers into your plan. Add up your discretionary and non-discretionary expenses and deduct them from your monthly income after taxes.

If you are left with a negative number, you will need to prioritize your expenses in order to reach your goals. Think about if you can cut back on entertainment expenses or make small adjustments like taking public transportation instead of driving in order to be back in the positive range. These are all slight adjustments you can make to your routine to help you save money.

Step 3: Keep Track

Keeping your budget up to date and sticking to it are often the hardest parts of budgeting, but they're also the keys to success. Therefore, you want to make sure you are monitoring it regularly.

If you're having trouble sticking to your plan, try using a spending tracker to record your purchases each day for a week. This can show you exactly where your money is going and help you spot areas where you might want to adjust.

ESSENTIAL EXPENSES

50%

Some expenses simply aren't optional. Consider allocating no more than 50% of take-home pay to "must-have" expenses, such as housing, food, health care, transportation, childcare, debt payments, and other obligations. Just because some expenses are essential doesn't mean they're not flexible. Small changes can add up. Take a look at which essential expenses are most important, and which ones you may be able to cut back on.

RETIREMENT SAVINGS

15%

It's important to save for retirement no matter how young or old you are. Social Security most likely won't provide enough income. In fact, it is generally recommended to plan for your retirement savings to replace between 55% and 80% of your pre-tax, pre-retirement income to maintain your lifestyle.¹ That's why it is suggested to save 15% of pre-tax household income for retirement. That includes your contributions and any matching or profit sharing contributions from an employer. Because interest compounds over time, starting early, saving consistently, and investing through tax-advantaged accounts like a 401(k), 403(b), or IRA can make a meaningful difference.

SHORT-TERM SAVINGS

5%

Everyone should prioritize creating an emergency fund. An emergency, like an illness or job loss, is bad enough, but not being prepared financially can only make matters worse. A good rule of thumb is to have enough money set aside in savings to cover 3 to 6 months of essential expenses. Think of emergency fund contributions as a regular bill every month until there is enough built up in the account.

While emergency funds are meant for more significant life events, it is recommended that you save a percentage of your pay to cover smaller unplanned expenses. Setting aside 5% of monthly take-home pay can help with these “one-off” expenses. It’s good practice to have some money set aside for the random expenses so you won’t be tempted to tap into your emergency fund or tempted to pay for one of these things by adding to an existing credit card balance. Over time, these balances can be hard to pay off. However, if you pay the entire credit card balance every month, and get points or cash back for purchases, using a credit card for one-off expenses may make sense.

These guidelines are intended to serve as a starting point. It is important to evaluate your situation and adjust as necessary. Analyzing current spending and saving based on these categories can give you control and confidence in your finances.

Everyone’s financial situation will change over time. A new job, marriage, children, and other life events may alter cash flow, so it’s a good idea to revisit spending and saving regularly.

UNDERSTAND CHECKING AND SAVINGS ACCOUNTS

You can open up a basic checking and savings account at a bank or credit union to manage day-to-day expenses and short-term savings.

Checking accounts are used to store money in the short term until it is needed—like for gas, or groceries, or to pay bills. You can easily deposit or withdraw money through checks and/or debit cards.

Savings accounts are used to set money aside for use in the future—like for an emergency or a vacation—and enable the money to collect interest. While you can contribute money at any time to a savings account, unlike checking accounts there are limits on how often you can withdraw money.

Take the time to compare different financial institutions and find services and features that are right for you. Directly depositing your paycheck and linking your savings and checking accounts can help you better manage your finances and may make it easier for you to save.

WHAT TO LOOK FOR:

- A checking account that pays interest
- No-or low minimum balance requirements
- Unlimited free checking
- Free ATM withdrawals
- Good customer service

WHAT TO AVOID:

- Monthly account servicing fees
- High fees for insufficient funds
- High account minimums

Bank apps and online tools are especially useful for visual learners, as they help you see where your money is going at a glance and receive real-time alerts when you're at risk of going over your budget.

ESTABLISHING GOALS

As part of creating a budget, you want to think about what goals you want to eventually reach. Maybe, it's a down payment on a house, a new car, or to live comfortably in retirement. These goals vary from person to person, so take time to think about what's most important to you and what you want your money to achieve.

Once you've determined your goals, write them down. Think of them as a road map, with you taking one step at a time toward your destination.

HERE'S A SIMPLE TWO-STEP APPROACH:

1. Divide your goals into three categories: short term (less than one year), medium term (one to five years), and long term (more than five years).
2. Attach a dollar amount to each goal. For instance, a short-term goal for you might be a summer vacation. Think about how much will it cost. The more specific you are about your goals, the more motivated you'll be to work toward them.

Decide how much you can put toward each goal per month. Then use your budget to help you estimate how long it will take to reach each goal. Be sure to track your progress regularly to help you watch your savings build toward a goal.



Budget Worksheet

Below is a list of all the possible expenses you might encounter. All may not apply, but this can give you a good framework to determine “must-haves” vs. things to cut.

HOUSING EXPENSES

Category	Current (monthly)
Mortgage	
Home Insurance	
Property Taxes	
Repairs	
Rent	
Renters Insurance	
Lawn Care and Services	
Total Housing Expenses	

FINANCIAL

Category	Current (monthly)
Bank Fees	
Check Printing Fees	
Safety Deposit Fees	
Spending Cash	
Bank Loan #1	
Bank Loan #2	
Student Loans	
Auto Loans	
Credit Card #1	
Credit Card #2	
Credit Card #3	
Credit Card #4	
Other	
Total Financial Expenses	

UTILITIES

Category	Current (monthly)
Gas	
Electric	
Phone	
Cable	
Water/Trash	
Sewer	
Internet	
Cell Phone	
Storage Fees	
Total Utility Expenses	

CHILDREN

Category	Current (monthly)
School Tuition	
School Lunches	
School Supplies/Tutoring	
Team Fees	
School Photos	
Allowances	
Camps	
Recreation	
Sports Fees	
Babysitting	
Daycare	
Diapers	
Formula	
Child Support	
Total Children Expenses	

TRANSPORTATION EXPENSES

Category	Current (monthly)
License Renewal	
Gasoline	
Auto Insurance	
Tires	
Maintenance/Oil Changes	
Tolls	
Taxi	
Bus Fare	
Total Transportation Expenses	

HOUSEHOLD/PET EXPENSES

Category	Current (monthly)
Groceries	
Cleaning Goods	
Pet Care	
Pet Boarding	
Vaccinations	
Supplies	
Total Household/Pet Expenses	

HEALTH

Category	Current (monthly)
Doctor	
Dental	
Eye Care	
Annual Physical	
Prescriptions	
Glasses	
Health Insurance	
Life Insurance	
Total Health Expenses	

GIFT EXPENSES

Category	Current (monthly)
Holidays	
Birthdays	
Weddings	
Graduations	
General Cards	
Christmas Cards	
Wrapping Supplies	
Shipping	
Total Gift Expenses	

PERSONAL

Category	Current (monthly)
Eating Out	
Clothing	
Haircuts	
Nails	
Salon	
Charities	
Club Dues	
Entertainment	
Movies	
Hobbies	
Magazines	
Newspapers	
Dues/Memberships	
Other	
Total Personal Expenses	



FOOTNOTES

¹ *What will my savings cover in retirement?* (2025, August 28). Fidelity. <https://www.fidelity.com/viewpoints/retirement/retirement-income-sources>



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