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The Basics of Setting a Budget (Video)

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A budget isn't about cutting out every expense or following rigid rules—it's about clarity and control. When you understand what's coming in, what's going out, and what your priorities are, you can make confident financial decisions that align with your goals. In this video, Grimes & Company financial advisor Eleanor Kreitler breaks down the fundamentals of budgeting, from tracking income and expenses to organizing your money in a way that works for your life. Whether you're brand new to budgeting or looking to refine your approach, this is a great place to start.

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VIDEO TRANSCRIPTION:

If you've ever wondered where your money goes each month, you are not alone. Creating a budget when you haven't previously had one can be intimidating and overwhelming, It's actually much simpler than most people think, and it is necessary for taking control of your finances.

We are not going to look at your budget and tell you everything you need to cut out in order to achieve your financial goals. But what a budget does tell us is where the money is going and what we can change in order to achieve those goals.

First we need to figure out our numbers. What is coming in and what's going out? To figure out what's going in, you'll need to include all streams of your income, salary, bonuses, side gigs.

A great way to see how much money actually hits your bank account is to take a look at your pay stub. Your pay stub is going to tell you how much is taken out for taxes, how much is taken out for employer sponsored retirement plans, if you contribute to that, an HSA if you contribute to that, as well as how much you're paying for your health insurance. You can use that information to determine some of your expenses as well, which is your next step.

Once you figure out your expenses, might be helpful to break it into two categories, essential and discretionary. Essential expenses are those expenses that must be paid each month, your rent or your mortgage, your grocery bill, your electric bill, for example. Discretionary expenses are where your extra money goes. You can think of this as fun money. Travel, dining out, hobbies.

A great way to find out your expenses is to take a typical spending month and mark each expense with an E or a D. When you're finished with that, add them up.

The next step is to set your priorities. Your first priority should be making sure that those essential expenses are covered. From there, you can figure out what is most important to you, whether it's paying off your debt, creating an emergency fund, saving for your child's education. A helpful exercise is to write down every financial goal that you have and rank them. Remember that this is your budget and should reflect what matters the most to you.

So now that you have your numbers and your list of priorities, our next step is to organize and allocate to different goal buckets. There are a few methods for this. We'll talk about two very briefly. The first is the 50-30-20 rule. This is an idea that 50 % of your after-tax income is to go to essential expenses, 30 % goes to discretionary, and 20 % goes to savings or debt payoff.

This is not a hard and fast rule and should be used as a guide.
Once you decide how much money you want to allocate to each spending category, means setting up automatic transfers to different accounts. For example, if you decide you want to save $100 a month to your IRA, $200 a month to your discretionary expenses and the rest are going to go to your essential bills Then what you can do is on the day that your paycheck hits you can have an automatic transfer going out to your IRA for $100 $200 transfer going out to a different bank account and the rest of your paycheck stays in your account and that's what you use to pay bills out of.

This method forces you to save, but also ensures that you're not overspending on those discretionary expenses.

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Your first month implementing your budget is going to feel little clunky. It may help to have a one month trial run with the intention to review at the end of the month and adjust where you need to. Reviewing and adjusting are part of the budgeting process. Your budget is going to evolve as your life and your goals evolve.

Actually sticking to your budget is half the battle. Try to make it easier on yourself by finding tools that can help.

There are many budgeting apps that make it easy to track. You can automate your savings so you don't even have to think about it.

Just like everything else, budgeting takes time and practice. It will get easier and more intuitive the more you do it. I really encourage you to start small and take it month by month, adjusting where you need to. Budgeting and financial planning go hand in hand. So if you'd like help building out a plan that's tailored for you, feel free to reach out.

My name is Eleanor Kreitler and if you'd like any more information, feel free to go grimesco.com.

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