

The Basics of Budgeting

Six Steps for Creating a Realistic Budget

Step 1: Start With Your Goals

Take the time to think about your financial goals and actually write them down. Make sure the goals are measurable, so include the actual dollar amounts and time frames for reaching the goals. Here are two examples of measurable financial goals:

“Have a \$1,000 emergency fund set up by April 1.”

“Pay off \$5,000 credit card debt in 18 months.”

If your goal is to build up a \$1,000 emergency fund in 6 months, your monthly goal is \$1,000 divided by 6, which equals a \$167 monthly contribution to the fund.

Step 2: Know Your Income

Before you can establish a budget, you have to know exactly how much money you have coming in every month from your employer and other sources. Make sure to include only the money you actually receive (for example, the exact amount of your net paycheck, not your gross pay before taxes and other deductions).

Step 3: Total Your Monthly Expenses

You can't budget until you know how much money you're spending each month. When figuring out your monthly expense number, be sure to include the following:

- Groceries
- Credit card payments
- Rent or mortgage
- Cell phone service
- Car loan payment
- Student loan payment
- Cable/streaming provider payment
- Entertainment/eating out

Also remember to include occasional expenses such as doctor and dentist visits as well as car and other insurance payments.

Step 4: Create a Realistic Budget

Add your monthly expenses from Step 3 to the monthly goals you calculated in Step 1. Then, subtract that total from your monthly income calculated in Step 2. If the balance is positive, you've created a budget that works for your current lifestyle. Here's an example:

Monthly income (from Step 2)	\$3,000
Monthly living expenses (from Step 3)	-\$2,100
Monthly financial goals (from Step 1)	-\$750
Total left over	\$150

If the balance is negative, you have some more work to do. That leads us to Step 5.

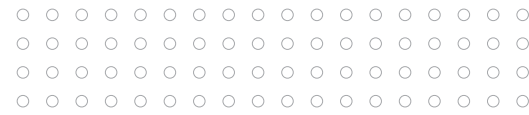
Step 5: Revisit Your Goals and Expenses

Revisit expenses and decide which ones are top priority and need to stay in your budget and which you can do without. You can also consider changing the amount of time needed to meet your financial goals.



Step 6: Stay Connected

To help you move forward in your budgeting process, check out www.americasaves.org. The site features lots of money-saving ideas, as well as other tips on setting financial goals and making a plan to achieve them.



Use Your Net Worth to Benchmark Your Progress

As you get better with your budgeting, you'll find you have more money for investing and paying off debts. But just how much better are you getting with your budgeting?

Calculating your net worth is a good way to gauge your current financial health and your progress over time. It is simply taking the value of what you currently own (your assets) and subtracting what you currently owe (your debts). Just think of it as a snapshot that shows where you are financially at a given point in time.

Here's an example:

ASSETS (everything you own):		LIABILITIES (everything you owe):	
Savings and investments.....	\$15,000	Mortgage.....	\$256,000
House.....	\$325,000	Student loans.....	\$33,000
Retirement funds.....	\$35,000	Car loan.....	\$7,500
Car.....	\$15,000	Credit card debt.....	\$10,000
TOTAL ASSETS	\$390,000	TOTAL LIABILITIES	\$306,500

Total Assets (\$390,000) – Total Liabilities (\$306,500) = \$83,500 (Your Current Net Worth)

To help gauge the current value of your home, you can check out online resources such as Zillow, Redfin or Realtor.com. For your car, you can try Consumer Reports, Edmunds or Kelley Blue Book.

If you took a picture of your finances a year ago, today and a year in the future, you could probably see a trend. Assuming you are doing all the right things, your net worth should grow year by year. As you save and invest money, that money has the potential to grow (in a good year) and you continue to pay down your debts, including your home mortgage.



Your advisor at HUB Retirement & Private Wealth can be very valuable in helping you calculate your net worth and offer advice on how to build it up over time. In addition, there are several online net worth calculators that you can access for free, on sites such as NerdWallet, Simple Dollar, or Kiplinger.

This content is based on generally accepted personal finance principles and concepts, such as those expressed on the websites www.360financialliteracy.org and www.practicalmoneyskills.com, among others. Please consult with a financial advisor regarding your personal situation.

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RPW-184-0125 (Exp. 01/27)

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