

A Complete Guide to Budgeting



Success Starts Here.



First State
Community Bank

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Introduction

You've got financial goals you want to achieve: a new car, a home of your own, a dream family vacation, or becoming debt-free.

No matter what you hope to achieve, it all starts with paying attention to your finances and making small changes that will help you build great financial habits. The fastest way to reach your goals is to create a budget that will help you stay on track for success.

Everyone has unique financial challenges and needs, which is why it's best to personalize your budget based on your life, your income, and your financial goals. The more comfortable you become with paying close attention to your finances, the more aware you will be of your spending habits, and the more motivated you will be to stick to your plan and set aside money for the long run.

But how, exactly, do you go about making a personal budget? Great question. In this guide, we'll show you exactly how to create a budget that will help you manage your money with confidence and achieve your financial goals. Read on for the complete guide to making—and sticking to—a financial budget.

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Starting with the Right Mindset

When it comes to setting a budget, keep in mind that the more you invest yourself in this process, the more your finances will benefit in the long run.

Budgeting is all about learning money mindfulness, goal-setting, and patience. You aren't just making a list of rules to follow when spending your money; you're also trying to become a smarter spender, reinforcing habits that will deliver benefits throughout your life.

If budgeting feels overwhelming, don't worry! Building a budget may require some careful planning and decision-making, but this guide will walk you through each step.

If your finances are tight at the moment, taking this time to look at the whole picture and make a plan can give you more clarity and help you determine the best next step for your finances. We know that when you're living paycheck to paycheck, it can be tempting to ignore your bank account instead of [tracking every dollar](#).



If anxiety about your finances is holding you back, remember that the long-term benefits of setting a budget will put more money in your pocket than playing the avoidance game. And if you're afraid of what you'll find when you start digging through your finances, remind yourself to approach budgeting with a non-judgmental attitude.

Don't worry about the [spending decisions you've made in the past](#)—you can't change them anyway. Instead, focus on identifying opportunities to save. Remember: Even if your budget doesn't leave a lot of room for long-term savings, there's still value in improving your spending habits and carving out a small amount to save every month. It may feel insignificant right now, but it can add up to a lot over time!

Looking for a super simple template to get you started? Consider using the 50/30/20 rule to structure your budget. This budgeting approach suggests allocating 50 percent of your after-tax income for necessary expenses such as rent and groceries, 30 percent for luxuries such as shopping and eating out, and 20 percent for savings.

Plug your income into our [50/30/20 calculator](#) to see what this budget might look like for you.

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Creating a Budget

As you set out to create a budget for yourself, don't think of a budget as constraints that make life more stressful. A budget shouldn't force you into rigid spending limits that create new pressures on your day-to-day life. The goal of a budget is to lay out a blueprint for monthly spending that is sustainable over time. If you set spending limits that are achievable, you'll be more likely to stick to them.

Assuming your budget is realistic, you might actually find that spending decisions become less stressful over time because you won't get stuck worrying over the consequences of each decision. Instead, you can reference your monthly spending versus your available budget and let those numbers determine your spending decisions for you.

First Step: Examining Your Income and Expenses

Budgets are a balance of [income and expenses](#), so this is an important place to start. Figure out how much after-tax income you make in a given month—this is the absolute ceiling for your budget.

Then, add up your spending from the previous month (or look at averages of the last few months) to get a sense of your spending habits. How much are you spending? How does that amount compare to your monthly income?

Break down your spending by category, such as groceries, rent/mortgage, gas/travel, clothing, and so on, and evaluate your spending levels. Are there any spending categories that surprise you? Any categories where you think you could easily trim your spending next month?





If you have a spouse or partner, this is a great opportunity to sit down and have some larger conversations about your spending habits relative to your income. For example, would it help your financial situation to add a second source of income through a side gig or second job, and how would that work?

Approach budgeting with a problem-solving outlook. Don't be discouraged if you're struggling to cut costs. Practice patience and explore your options to widen the gap between your spending and your take-home pay.

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Second Step: Tailor Your Budget to Your Specific Circumstances

With those spending habits in mind, it's time to create a budget based on your past expenses and where you believe you can improve in the future.

Enter these conversations with an open mind, and brainstorm possibilities together. For example, are there categories in which you can help each other reduce your monthly spending? It's hard to trim costs such as rent unless you move into a cheaper place. But maybe you can cut \$100 from your restaurants budget in the following month, or maybe you want to try spending a little less on movie tickets, concerts, and other forms of entertainment.

However you approach setting a budget, make sure that all types of spending are accounted for so you end up with a budget that works for you. [Try out our budget calculator](#) for an easy, eye-catching tool that visualizes this spending and does the math for you.



Building Savings

No matter what percentage of your paycheck you are able to save each month, it's important to have a plan in place to put those savings to use. There are three general categories of savings to account for when building a budget and thinking about long-term savings goals.



Building an Emergency Fund

Life is unpredictable. In the event that you have to deal with unexpected living costs, high medical bills, a loss of income, or any other unforeseen circumstances, you'll be grateful to have an [emergency fund](#) that can absorb these costs.

In an ideal world, your emergency fund includes enough money to cover 4-6 months of your living expenses. If you can't put that much away right now, commit to adding to your emergency fund every month.

When those unexpected costs arise down the road, you'll be grateful you started putting money away today.

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Saving for Large Purchases or Expenses

For most people, the biggest financial decisions in life require advanced planning and saving. Whether you're buying a home, planning a wedding, or saving for your child's college tuition, it's important to account for these savings needs—and their timelines—when building your budget.

If you're saving for multiple large expenses at once, prioritize those that falls into the “needs” category ahead of those that are merely “wants.” If you need a car for your work commute, for example, that goal needs to be met before you spring for a fun vacation. Curious to see just how quickly your savings can add up when you tuck away money every month? Check out our [online savings calculator](#) to see how your savings can grow at different interest rates.



Planning for Retirement

It's never too early to start saving for retirement—even if you're in your early 20s! Early contributions to your retirement fund will have huge returns when given 30-40 years to build interest.

Check with your employer to see if they offer retirement savings options that can be deducted automatically from your paycheck. This is an easy way to ensure retirement contributions are made at regular intervals.

Want to know how much you need to be saving for retirement? Our [retirement calculator](#) can help you explore different scenarios and financial factors that will affect your financial needs in retirement.

Managing and Paying Down Debt

No matter who you are, where you went to school, or how much you earn, almost everyone has at least one form of debt they're working to pay off. [Managing debt and reducing what you owe](#) is an important part of the journey to financial freedom, and the good news is that you have options for how you can approach this process.

If you're juggling multiple types of debt, you're probably trying to figure out how to prioritize your debt payments in the most efficient way. In general, there are two approaches to repaying debt that you'll want to consider based on your financial situation:

- **Start with the highest-interest debt:** If you want to pay the least amount of interest, prioritize your debts according to the interest rate, starting with high-interest debts such as credit card balances and working your way down to debts that generate the lowest monthly interest.
- **Start with the smallest debt:** If you're struggling to keep up with the minimum payments on your debts, try to pay off one of the smaller balances owed to alleviate the monthly burden on your budget. Once the balance is paid, you can reallocate some or all of that money to a different debt—ideally one with a high interest rate.

Managing debt and reducing what you owe is an important part of the journey to financial freedom.





To ease the burden of paying off multiple debts, you may want to consider debt consolidation. This combines all of your debts—and your monthly payments—into a single bill. In doing so, you might be able to reduce the total amount of your monthly debt payment and even secure a lower interest rate that saves you money over the long run.

Curious how much you'll spend on interest with different timelines for paying off debt? Our [debt payoff calculator](#) lets you experiment with different scenarios and find a repayment strategy that works for your situation.

As you use your budget to carve out more monthly savings from your spending, consider allocating some of that money to debt repayment efforts. Doing so will speed up the repayment process and clear a path to increased savings and retirement contributions.

Conclusion

Creating a budget is one of the most beneficial actions you can take to secure a brighter financial future. Budgeting gives you greater awareness of your money, smarter spending habits, and the peace of mind that comes with having a plan for your financial future.

Remember: Budgeting isn't a pass/fail process. It's a practice that yields benefits gradually over time. By remaining diligent in creating and sticking to budgets, you can learn from your past spending decisions and make [adjustments to your money management](#) habits that will serve you for your entire life.

As your budget teaches you about your financial habits, you'll be able to make future money decisions with full confidence in yourself and the financial plan you've created.

Eager to learn more about budgeting and money management? Connect with the FSCB team to see how you can get started today.

Get in Touch



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About First State Community Bank

Since 1954, First State Community Bank has been a leading financial resource for residents and businesses across the state of Missouri. First State Community Bank has built its reputation on an unyielding commitment to delivering the best possible service to customers and partners, from the Junior Savers who open an account with \$1 to those applying for multimillion-dollar commercial loans. Our mission is to help our customers achieve financial success on their terms, whether that means buying a new home, starting a business, or planning for retirement. We are here to help you reach your financial goals today and into the future.

Ready to start fresh with a better bank?

Connect with the FSCB team to find out how to make the switch.

[Get in Touch](#)

