

As a college student, you likely have expenses you may not have had before. Budgeting can keep your finances and spending on track.

## Creating a Budget

There are many approaches to creating a budget. Below is one step-by-step process if you need help getting started.<sup>1</sup>

### Step 1: Track your spending

- Track your spending for at least a week but ideally for a month by using a journal, an app, or a spreadsheet.
- Categorize your purchases. For example, categories might include eating out, groceries, personal care products, utilities, and housing.
- Take note of:
  - » Fixed versus variable expenses
    - » Fixed expenses remain steady from month to month and are unlikely to change
    - » Variable expenses are unexpected or optional purchases, and these expenses are where you can make changes to your spending<sup>2</sup>
  - » Needs versus wants<sup>3</sup>
  - » Where you spend the most

### Step 2: Identify and compare your monthly income and expenses

- Identify your income.
  - » Examples of income can include on-campus work, off-campus work, money from family, and financial aid refunds.
  - » If you have taxable earnings, income refers to your pay after taxes.
  - » If your income fluctuates from month to month, you can use average monthly income.

- Identify your expenses.
  - » Use what you learned in step 1 to estimate your monthly expenses.
  - » Record your spending moving forward to help keep you on track.
- Compare your monthly income and expenses.
  - » Income should exceed expenses.
  - » If expenses exceed income, return to step 1 to determine how to reduce your expenses, or consider adding another source of income (within reason).<sup>4</sup>
  - » Excess income should be saved.

### Step 3: Set budgeting targets

- General guidelines (for after college) suggest that you allocate your income after taxes as follows:
  - » 10% savings
  - » 30% housing
  - » 20% meals
  - » 5% utilities
  - » 10% transportation
  - » 5% phone/electronics/internet
  - » 20% flexible<sup>5</sup>
- Think about how you might adjust these budgeting targets as a college student.
- Remember that fixed expenses exist every month and are unlikely to change.<sup>6</sup>
- Give yourself an allowance to spend on variable expense categories.
- Aim to save about 10% of income to establish or continue building an emergency fund.

Once you set a budget, record your expenses to ensure that you stay on track. You may want to revisit this process occasionally to check that your budget is still appropriate.<sup>7</sup>

1. "Evaluating Your Finances," Practical Money Skills, accessed June 13, 2022, <https://www.practicalmoneyskills.com/en/learn/budgeting/evaluating-your-finances.html>.

2. "Budgeting Basics," Practical Money Skills, accessed June 13, 2022, <https://www.practicalmoneyskills.com/en/learn/budgeting/budgeting-basics.html>.

3. "Chapter 3: Track Money Coming In," MoneyCounts: A Penn State Financial Literacy Series, accessed June 13, 2022, <https://psu.instructure.com/courses/1806581/pages/chapter-3-track-money-coming-in>.

4. "Evaluating Your Finances," Practical Money Skills; "Chapter 5: Review Cash Flow and Set up a Budget," MoneyCounts: A Penn State Financial Literacy Series, accessed June 13, 2022, <https://psu.instructure.com/courses/1806581/pages/chapter-5-review-cash-flow-and-set-up-a-budget>.

5. "Chapter 5," Money Counts: A Penn State Financial Literacy Series.

6. "Budgeting Basics," Practical Money Skills.

7. "Creating a Budget," Practical Money Skills, accessed June 13, 2022, <https://www.practicalmoneyskills.com/en/learn/budgeting/creating-a-budget.html>.

## Why Budgeting is Important

Creating and sticking to a budget can help you identify where you might be overspending, learn to spend within your means, and set and achieve financial goals.<sup>8</sup> Setting financial goals creates a sense of purpose for saving, which can be more motivating than simply saving money for a rainy day.

## Ideas for Cutting Costs as a Student

### Personal Expenses

- Once you have a sense of fixed and variable personal expenses, set spending goals to help you stick to your budget.
- Weigh the value and the quality of various brands before purchasing a product.
- Consider purchasing larger quantities to save money over time.

### Transportation

- Prices can fluctuate. Use an app or website to track prices for flight, bus, or train tickets.
- Purchase round-trip tickets well in advance.

## Set Financial Goals

Setting short-, medium-, and long-term goals helps to keep you on track and have a purpose in saving money. These timeframes are defined below.

- Short term: One month or less
- Medium term: More than one month and less than one year
- Long term: More than one year<sup>9</sup>

Set SMART goals that meet the following characteristics:

- Specific
- Measurable
- Attainable
- Realistic
- Timely<sup>10</sup>

8. "Budgeting Basics."

9. "Lessons: College," Practical Money Skills, accessed January 30, 2024, [https://www.practicalmoneyskills.com/en/teach/lesson\\_plans/college.html](https://www.practicalmoneyskills.com/en/teach/lesson_plans/college.html).

10. "Chapter 1: Set Up SMART Goals," MoneyCounts: A Penn State Financial Literacy Series, accessed June 13, 2022, <https://psu.instructure.com/courses/1806581/pages/chapter-1-set-up-smart-goals>.