(UBS)

Building a starting budget in three simple steps

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Though many consider college "living on your own," I did not feel entirely independent until this summer—living in a NYC apartment and using the income from my internship to finance all my needs. My mom, being the self-proclaimed "budgeting wiz" that she is, offered to help me organize my finances and create my first budget. After creating an overly complicated Excel spreadsheet, multiple rounds of reflective thinking, and the scary recognition of just how high New York taxes are, I was hooked. Budgeting not only alleviated stress, but it helped me gain a sense of empowerment.

I am now inspired to help other Gen Zs with their newfound independence. Here are three easy steps to creating a budget.

Step 1: Identify needs and wants
This first step requires you to reflect on your current lifestyle and determine how you want it to evolve. First ask yourself, "What are my needs?" A need is something that is necessary for basic living. Examples include housing, food, utilities, and transportation. Next ask, "What do I want?" A want is something that makes life more comfortable or enjoyable, such as clothing, hobbies, eating out, gym memberships, and travel. Identifying your needs and wants helps you prioritize essential expenses while being mindful of the things that bring comfort and enjoyment.

Step 2: 50-30-20 rule
The 50-30-20 rule, advised by [UBS The Code,] is a guideline that advises you to spend 50% of your income on needs, 30% on wants, and 20% on savings. For example, let's say that I have $4,000 of monthly take-home income. In this situation, 50% of my income allows me $2,000 for my needs, helping me to identify which apartments are in my budget, and how much I can afford to spend on food depending on the apartment I choose (i.e., Is an extra 100 square feet

worth making dinner at home instead of eating out?). This 50-30-20 guide also allows me about $1,200 for "wants" and $800 for monthly savings.

You may want to consider modifying the 50-30-20 rule to fit your actual lifestyle. The line between a "want" and a "need" can be blurry (i.e., Can I really live without my Netflix subscription?). Last week, I allocated more to food using the money I saved from purchasing a cheaper gym membership. I could have stashed the extra cash in savings, but I deemed it a necessary compromise because it was to cover my basic food needs. Much of budgeting is about making judgment calls, and adjusting as your life evolves.

You also may be wondering if saving is necessary at this age. Saving as early as possible is always a good idea because of the power of compound interest. However, your priority is making sure you have enough money to meet your spending needs *today*. If these needs are met, make sure that you get the most out of your hard-earned savings by following the "Savings Waterfall" to allocate funds where they have the highest after-tax growth potential:

- First, pay off any outstanding debt payments (e.g., student loans)
- Next, set up an emergency fund that covers six months of spending
- Then, invest in your retirement by opening an IRA or enrolling in a company match 401(k), if offered by your employer

There are additional steps to the waterfall, but it's important to make incremental steps to start the process rather than thinking that you must accomplish it all in one go.

Although long-term saving is important, it is also important to balance this with shorter-term, joy-driven expenses. If you're looking to treat yourself to a vacation with your friends, go for it!

Rather than drawing from savings though, first look at your 50-30 categories and see where you can pull back. As long as these joy-driven expenses are reasonable and not too frequent (this is admittedly a judgment call), you should not feel guilty making them.

The 50-30-20 rule gives a flexible framework to balance needs, wants, and savings while still leaving room for personal decisions as your life evolves and your priorities shift.

Step 3: Budgeting tools
I enjoyed using Excel to create my budget, but there are many other helpful apps that are also worth exploring. I recommend Credit Karma and PocketGuard, which can be used to automatically track your spending and also include spending insights, credit score tracking, and budgeting tools. These apps can also highlight subscriptions and recurring expenses that often catch people by surprise.

For further assistance, visit The Code or speak with your financial advisor. If you don't have an advisor, connect with a UBS advisor here. Using budgeting tools and professional financial advice can simplify money management and help you stay on track with your financial goals.

Get started
While I'm grateful for my mom's guidance in helping me build a budget that supports the start of my career, how do I prepare for the next phases of my life? I might switch to a job with lower income, move to a new city, or start a family. The future is unknown, but I can find comfort knowing that I have support and resources along the way.

What I've learned as I enter the working world is that it's never too early to take control of your money. It may seem daunting, but planning for finances can be easy....you just have to get started.

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