

The 50/30/20 budget

A guide for allocating your dollars using the 50/30/20 rule

Allow up to 50% of your income for needs

Your needs — about 50% of your after-tax income — should include:

- Groceries
- Housing
- Basic utilities
- Transportation
- Insurance
- Minimum loan payments. Anything beyond the minimum goes into the savings and debt repayment category
- Child care or other expenses you need so you can work

If your absolute essentials overshoot the 50% mark, you may need to dip into the “wants” portion of your budget to adjust your spending.

Even if your necessities fall under the 50% cap, revisiting these fixed expenses occasionally is smart. You may find a better cell phone plan, an opportunity to refinance your mortgage or less expensive car insurance. That leaves you more to work with elsewhere.

Leave 30% of your income for wants

Separating wants from needs can be difficult. In general, though, needs are essential for you to live and work. Typical wants include dinners out, gifts, travel and entertainment. It’s not always easy to decide. Is a gym membership a want or a need? How about organic groceries? Decisions vary from person to person.

If you’re eager to get out of debt as fast as you can, you may decide your wants can wait until you have some savings, or your debts are under control. But your budget shouldn’t be so austere that you can never buy anything just for fun.

Budgets need both wiggle room and some money to spend as you wish

Every budget needs both wiggle room — maybe you forgot about an expense or one was bigger than you anticipated — and some money you’re entitled to spend as you wish.

Your budget is a tool to help you, not a straitjacket to keep you from enjoying life, ever. If there’s no money for fun, you’ll be less likely to stick with your budget — and a good budget is one you’ll stick with.

Commit 20% of your income to savings and debt repayment

Use 20% of your after-tax income to put something away for the unexpected, save for the future and pay off debt. Make sure you think of the bigger financial picture; that may mean two-stepping between savings and debt repayment to accomplish your most pressing goals.