

# Building a Budget

## Getting started with 50/30/20

50/30/20 is a proportional budgeting system, meaning you divide your monthly income into different categories based on percentage. It's simple and flexible, which makes it a great option for beginners.

## Calculate Your Income

Your monthly net income—that's your take-home pay after taxes and payroll deductions—is used to determine your spending limits

For example, if your monthly net income is \$3,000, you should be spending:

- 50%—\$1,500 on needs
- 30%—\$900 on wants
- 20%—\$600 on savings

Did you know... the 50/30/20 budget comes from *All Your Worth*, a book by Elizabeth Warren and Amelia Warren Tyagi

## Define Your Categories

The 50/30/20 budget divides your monthly spending into three categories: Needs, Wants and Savings

### Needs

Needs are your essential expenses—skipping them would lead to serious consequences like illness, job loss or legal trouble; examples include:

- Housing/rent
- Basic utilities
- Food
- Clothing
- Health care
- Transportation
- Taxes
- Minimum payments

*Budgeting tip:* Many expenses are a mix of needs and wants—if a bill falls under multiple categories, split its total between them

## **Wants**

You'll find that wants account for a lot of your spending—these are all the non-essential products and services you buy; examples include:

- Cable/Internet/phone
- Restaurants/takeout
- Entertainment
- Travel
- Fashion
- Electronics
- Subscription services

## **Savings**

Savings are any expenses related to debt repayment and savings plans; examples include:

- Emergency fund savings
- Student loans
- Credit card debt

- Retirement savings
- Down payments
- Personal savings goals

## Tracking Your Spending

Track your spending for at least two months using the method you're most comfortable with:

- Apps
- Online banking
- Spreadsheets

*Budgeting tip:* Don't forget to factor annual payments into your budget—divide the annual payment amount by 12 to get the monthly cost

Compare your monthly spending to your 50/30/20 totals:

Needs goal: \$1,500 / \$1,300

Wants goal: \$900 / \$1,500

Savings goal: \$600 / \$200

Don't worry if they don't match up at first—start shifting your spending habits to better align your totals with the 50/30/20 guidelines

## Make It Work

If your spending isn't matching up with the 50/30/20 guidelines, you have a few options:

*Reduce your spending:* In order to hit the 50/30/20 guideline, you may need to sacrifice some of your wants or find cheaper

alternatives for your regular monthly expenses

*Increase Your Income:* If you're consistently overspending and unwilling to compromise, the only solution is to make more money—look for side gigs to increase your income

*Modify Your Percentages:* Make sure your budget matches your financial goals—for example, if paying off debt is your top priority, a 30/10/60 budget will get you there faster

*Sources:* All Your Worth, TheSimpleDollar.com