

The 50 / 30 / 20 Rule

(and how it can help you during challenging times)



The current global pandemic has affected many people financially, expats included, who may now have been laid off or are working on a reduced income, far from what they have been used to for many years until early 2020.

This has put many people into a position where they need to start budgeting carefully - something they probably haven't had to do too much until now. Unless you're the chairman of a global tech company or a recent lottery winner, you could well be living on a lower income now and for the short-to-medium term future.



Now I accept that budgeting isn't particularly fun.

However, by setting up a framework and then sticking to it, you really will benefit in the long term, and it will keep you focused on the importance of your long term saving and investment goals.

The "50/30/20" budgeting framework will help you to do this.

Originally created by 2020 Democratic presidential candidate and Massachusetts senator Elizabeth Warren, the concept is that you should spend 50% of your (after tax) income on essential needs, 30% on wants, and 20% on savings.

Here's a Bit More Detail About 50/30/20...

1). 50% Needs



To begin following this framework, set aside no more than half of your income for the absolute necessities in your life.

This might seem like a high percentage (and, at 50%, it is), but once you consider everything that falls into this category it begins to make a bit more sense.

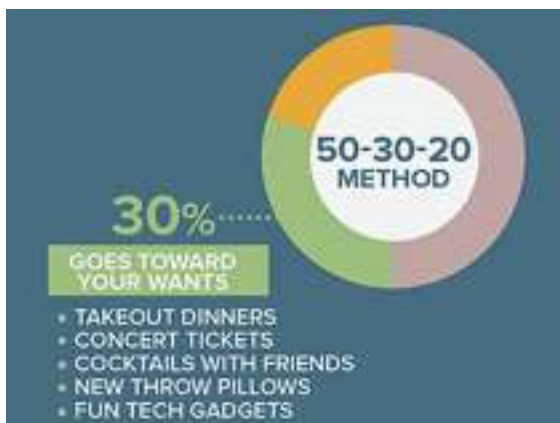
Your essential expenses are those you would almost certainly have to pay, regardless of where you live, where you work, or what your future plans happen to include.

In general, these expenses are nearly the same for everyone and include:

- Housing
- Food
- Utilities
- Health insurance
- Transportation
- Loan minimum payments
- Child care
- Expenses related to finding or retaining a job

The percentage lets you adjust, while still maintaining a sound, balanced budget. And remember, it's more about the total sum than individual costs.

2). 30% Wants



The second category, and the one that can make the most difference in your budget, is unnecessary expenses that enhance your lifestyle.

Some financial experts (but not me - life can't be all work and no play - Or no craft beer in my case!) consider this category completely discretionary, but in the modern world, many of these so-called luxuries have taken on more of a mandatory status. It all depends on what you want out of life and what you're willing to sacrifice.

Setting aside a specified portion of your income on things like gym memberships, weekend breaks and dining out with your friends can help reduce spending-related guilt. It will also help you make sure you don't overspend, causing you to have to go without necessities.

The main thing is that the fewer costs you have in this category, the more progress you'll make reducing any debt and improving your financial future.

3). 20% Savings



Saving money for the future - and having some set aside for emergencies makes this a vital category.

However, savings should be considered after your essentials are already taken care of, but before you even think about anything in the '30% Wants' category.

Of course, how you save money will vary based on your own, personal financial situation.

Number 1 priority is to build a modest emergency fund that you can access should you encounter an unexpected expense.

A typical recommendation is to have an emergency fund equal to three to six months of your living expenses.

If you have debt, like credit cards or a loan, dedicate a portion of your savings to making additional payments to reduce your balances. This will get you out of debt more quickly, freeing up space in your budget in the future. It also helps you save money on interest payments.

Hopefully you are also saving for retirement. And if you are, now is definitely NOT the time to stop making those regular pension payments. Keep this in your budgeting, especially at times when the stock markets are depressed, because that regular monthly contribution is currently buying you more than normal and you will benefit from it hugely when the markets recover.

There will be more on this subject next month - Look out for it!

Think of this as your “get ahead” category.

Is the 50/30/20 rule budget right for you?



The 50/30/20 rule is a great rule of thumb for many people. It reduces the need to create a detailed budget with precise spending amounts and a dozen or more line items, while also providing a framework you can use to make sound financial choices for both now and the future.

But please consider it as just a framework and some food for thought that can help you, as everyone's life is different.

You might prefer an alternative take on the 50/30/20 rule, where 50% goes toward needs, 20% wants, 10% retirement, 10% savings, and 10% fun. If you can reduce needs to 40 percent, even better! - Add the additional 10% into the savings sector.

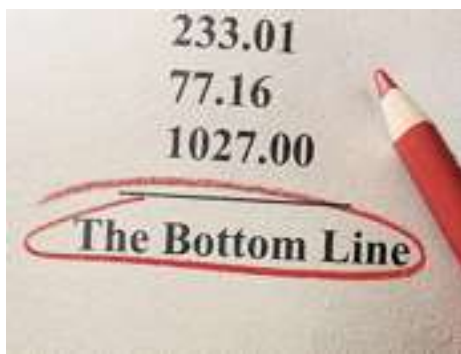
Breaking down your savings by dividing it between retirement and non-retirement savings is also a good way to save for the future while building that essential emergency fund for a rainy day.

The main thing is to use this suggestion as a template or goal, and not something set in stone.

If you are living in high-cost area of the world, you may have to spend more on needs, at least initially, and cut back elsewhere.

But for most people, the 50/30/20 rule is a good guideline to follow, as you don't have to follow it perfectly for it to be effective. If you do your best to stick to a 50/30/20 budget, you'll be able to build up your savings and still have some money left to spend on fun things.

The Bottom Line



The 50/30/20 budgeting rule is a great way to put yourself on solid financial footing, both now and for the future.

While it isn't perfect in every situation, the 50/30/20 rule can provide a framework to follow when making sound financial decisions, and can help you build up savings and reduce debts over time. It's particularly useful at times when you have to be more careful counting the pennies.

It can serve as a great tool to help you improve your current financial situation, reach your investment and savings goals, and foster overall better long term financial health.