

# 50/30/20 Rule - The Guideline to Budgeting

**Dawn Leong**

Lead, Content & Communications



## What is it?

The 50/30/20 rule was coined by Elizabeth Warren (ex US senator) and explained in her book “All Your Worth: The Ultimate Lifetime Money Plan”. It is a simple way to budget, and a guideline for how to allocate your after-tax income into three key buckets: 50% to “needs”, 30% to “wants” and 20 to “savings”.

### 50% to Needs

This includes all of your essentials, i.e. your must-haves and must-dos. For example, this category covers all of your bills (utilities and phone), groceries, rent or mortgage payments, insurance premiums, and transportation. If your needs account for over 50% of your monthly income, then you may need to consider re-evaluating your lifestyle in order to meet your long-term financial goals.

### 30% to Wants

This includes your desires, but not necessarily items that you cannot live without. For example, this category covers discretionary spending such as dining out, vacations, extra-curricular hobbies such as wakeboarding or gym memberships.

### 20% to Savings

Savings are money that you set aside for future use. First, we save for an emergency fund. In other words, we save “for a rainy day”. It is inevitable that at some point in our lives, we will be faced with emergencies or crises in some way, shape or form. Conventional wisdom suggests that an emergency fund should be around 6 months of your basic spending on food, rent and utilities. Second, we save to invest. The type of investments that you choose will depend on factors such as your risk appetite, targeted return as well as time horizon. Third, we save for retirement. The sooner we start saving for retirement, the sooner we can life proof our financial wellness. While retiring before 40 is but a pipedream for most, proper planning can enable us to plan for a more comfortable retirement when we are old and grey.



## Conclusion

Ultimately, this is but a guideline to allocating your money to achieve your financial goals. Of course, the percentages can vary depending on factors such as where you are based (cost of living) and how much you are earning every month; one can modify this to suit your individualized needs and personal circumstances. “Needs” and “wants” can also be very subjective as well. With that said, having an intuitive number in mind can help you stay on track and evaluate your spending and saving. There are many financial tools and apps out there that can help you calculate the numbers; having a simple rule such as the 50/30/20 is also easily done on an excel spreadsheet. Once you have everything set up, do not hesitate and get started today!

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