



Finding the Right Balance in Your Finances

...Continued

A popular theory that addresses this idea is the 50-20-30 rule. It helps you build a budget using three spending categories—necessities, savings and wants. While there isn't a one-size-fits-all approach to budgeting, these guidelines can be helpful to people in many different stages of life. If you're considering using the 50-20-30 rule and want to learn more about it, the tips below can help determine if this is the right approach for you.

Let's Take a Closer Look

To be successful at implementing the 50-20-30 rule, one must have a good understanding of what these categories mean. 'Necessities' can also be looked at as fixed costs and include rent or mortgage, public transportation or car payment, utilities, groceries and other living expenses. This category is pretty self-explanatory. These expenses are top priority and once they're paid, you move on to 'savings.'

'Savings' can be looked at as financial goals and include emergency fund savings, investments, paying off debt such as credit cards or school loans, etc. You should make these contributions and payments after you pay your essential expenses, but before you do any other spending. It's important to note this doesn't include 401(k) or other retirement savings that are already taken out of your take-home paycheck. That's a good thing because it'll help boost your savings. Experts advise to take advantage of employer-offered retirement programs, especially if they match funds, because you don't miss money you never see.

'Wants' can be looked at as personal or flexible spending, and include the broadest range of expenses. This category is paid for solely with discretionary income and is the lowest priority on the budget totem pole. It is for things you want

but don't necessarily need, such as eating out, movies, travel, cable, cell phone, internet, charitable or religious giving, gym membership and anything else that isn't 100 percent necessary for survival. Personal spending includes the most items because many things, such as internet or your cell phone, you can live without even if you don't want to so they're not technically 'necessities.' Keep in mind that if 'wants' are acquired using a credit card, the full balance should be paid each month. The fewer costs you have in this category, the more that can go to 'savings' at the end of the month and help you get ahead over time.

How to Start

To start applying the 50-20-30 rule, you need a thorough and accurate understanding of your monthly finances. Start by looking at your pay stub to know exactly what you bring home each month. Next, break down 50 percent, 20 percent and 30 percent to determine your total for each category. Track every cent you spend for an entire month, then divide it into the three categories. See where you stand on the 50-20-30 split and realize that you will probably need to do some adjusting. Be patient and give yourself a few months to get everything where it should be, but don't give up.

Why It Works

The 50-20-30 approach is simple yet offers flexibility. You can bend the percentages each month to adjust your budget and make it work the best for you at any point in time. It's extremely helpful because it outlines the order you should be spending your money. It's key to remember that while *no more* than 50 percent of your take-home pay should go to 'essentials' and *no more* than 30 percent should go to 'wants,' *no less* than 20 percent should go to 'savings.' Any extra money you have each month can—and should—be used to boost your savings.

The simplicity of this rule means that more people will stick with it over time, which will lead them to reaching their financial goals. It allows room for everything—you will pay your bills, add to your savings and still have money left over for fun. If you're having trouble sticking with your budget, this could be a good approach to try.

© Independent Bankers Association of Texas, Austin, Texas, 2016. All rights reserved.

The above is provided by the Independent Bankers Association of Texas as a public service. This information is provided with the understanding that the association is not engaged in rendering specific legal, accounting or other professional services. If specific expert assistance is required, the services of a competent profession should be sought.

Contact: Lindsey Gehrig, Independent Bankers Association of Texas (IBAT), 512.474.6889