



Budgeting: The 50/30/20 Method

Budgeting is probably the most unsexy, underrated skill in finance, but it's important if you want to manage your money well.

One popular approach is the 50/30/20 method.

This method allocates your income into three main categories: needs, wants, and savings.

Let's get into the detail for how you can apply this with your money.

What is the 50/30/20 method?

The 50/30/20 rule divides your net income (income after tax) into three categories:

- **50% for needs:** This is what you need to pay each month so you can live and work. This includes rent/mortgage, utilities, food, commuting, insurance, and minimum debt repayments. These are the costs you cannot avoid.
- **30% for wants:** This is your non-essential spending. Eating out, Deliveroo, cinema, hobbies, holidays, coffee, and other discretionary spending fall into this category. At Biograph Wealth Advisors, we advocate that money is a tool to fund the life we most want to live, but it's easy to overspend here if you're not careful.
- **20% for savings:** This portion of your income goes towards your future financial objectives. This could be saving for emergencies, a house deposit, or investing for your long-term future. Part of this could be over-paying on debt, whether that be a mortgage, loan, or credit card.

How can I implement the 50/30/20 method?

- **What is your net income:** This is the amount you must allocate according to the 50/30/20 method.
If you're employed, your net income will be what comes into your bank account each month from your employer.
- If you're self-employed this may need to be estimated*, or you can ask your accountant what figure you should work from, if you have one. (*Note that if you are estimating your income, then be cautious and seek advice if you're unsure.)
- **Track your spending:** For a month, track what you're spending to understand where your money is going. Most banks now have a budget tracking feature in their app so it's simple to do. Don't forget your credit card spending if you have one.

Then, at the end of the month, categorize your spending into needs, wants, and savings.

- **Make any necessary changes:** Based on what you've just learnt, adjust your spending to fit the 50/30/20 rule. This may need you to make some decisions on how you're allocating your money.
- **Monitor:** Regularly review your spending to ensure you're staying on track. Life changes, and so should your budget. Be flexible and adjust as needed.

Tips for success

- **Two current accounts:** Have two current accounts, one for **needs** and **savings**, and the second for your **wants**.
- **Automate:** Set up automatic transfers the day after you get paid. I would split your income like this:
 - Leave 70% of your income in one account; the one your income is paid into. From this account, set up automatic monthly payments for your **needs** (50% of income) and **savings** (20% of income).
 - Transfer 30% of your income to a second current account to spend as you wish (the **wants**).

An increased awareness of where you are spending your income can have huge benefits.

Mainly, understanding what you are spending your money on gives you the ability to make more intentional spending decisions. This can lead to an increase in happiness and decrease in money worries.

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A last point

The 50/30/20 method is a very good starting point, but personal finance is, well, personal...

Whilst this method is very popular for the general population, everyone's situation is unique.

As an example, for someone who has a high earning but short career, it may be sensible to adjust the percentages more in favour of their savings.

Equally, some may be at a stage in life where saving 20% of their income seems currently out of reach.

As I said, personal finance is unique to the individual, but as starting point the 50/30/20 method is a sound place to begin.

We create a bespoke financial structure, including cash flow planning, for each Biograph client. If you are interested in partnering with us to go beyond the 50/30/20, drop me a line at DaveLewis@biograph.co.uk.