

Understanding the 50/30/20 Budgeting Rule

A simple framework for managing your income

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Looking for a way to feel more in control of your money without getting lost in complicated spreadsheets? One refreshingly straightforward approach is the 50/30/20 rule. This popular budgeting method divides your income into three broad categories to help you manage your finances effectively.

What is the 50/30/20 Rule?

The 50/30/20 rule is a budgeting method where you divide up your income into three categories:

50% goes towards needs: These are your essential expenses – the things you absolutely must pay for. Like your rent or mortgage, bills, groceries and travel costs (like petrol or train fares).

30% goes towards wants: The line between needs and wants can be a bit blurry at times, but basically this category covers any 'non-essential' spending – the things you'd like to have, but could technically live without. This might include your morning coffee and croissant, eating out at restaurants and going on holiday.

20% goes to savings and debt repayment: This portion is dedicated to building your financial security. It includes contributions to savings accounts, emergency funds, investments, and paying off debts like credit cards or loans.

How to Use the 50/30/20 Rule

The best thing about this budgeting method is it's super simple to do. You take your monthly income after tax and deductions (your take home pay), and divide it into the three categories.

For example, if your take-home pay is £2,000 a month: £1,000 (50%) would go to needs, £600 (30%) would go to wants, and £400 (20%) would go to savings and debt repayment.

Remember that these percentages are just guidelines – you can adjust them based on your personal circumstances. For instance, if you live in an area with a high cost of living, like London, you may find that your 'needs' category requires a bigger chunk of your income. So you could try splitting it up another way, like 75/15/10.

Benefits of the 50/30/20 Rule

It's a good starting point: If you're new to budgeting, it's a simple way to start without feeling overwhelmed.

Encourages saving and debt repayment: By allocating a specific portion of your income to savings and debt repayment, it helps you prioritise what's important as soon as you get paid.

Flexibility: The rule provides structure while allowing you to adjust the percentages to fit your unique financial situation.

Using Monzo for 50/30/20 Budgeting

You can use Monzo Pots to implement this budgeting method. Create separate Pots for each budget category and divide your money into them right at the start of the month. Then only spend what's in each one. This visual separation helps you stay on track and makes budgeting feel less abstract.

The 50/30/20 rule is a great starting point for anyone looking to gain more control over their money without getting bogged down by overly complicated budgeting methods. Remember, as life changes, your budget should too. Take a moment now and then to review your three categories and make tweaks as often as you need.