

Managing Your Income Reference Sheet

Essential strategies for effective income management and budgeting

The 50/30/20 Budget Rule

50%

NEEDS

Housing, utilities, food, transportation, insurance, minimum debt payments

30%

WANTS

Entertainment, dining out, hobbies, subscriptions, shopping, travel

20%

SAVINGS/DEBT

Emergency fund, retirement, investments, extra debt payments

Budgeting Method	How It Works	Best For	Pros/Cons
50/30/20	Divide income into three categories by percentage	Beginners, steady income	+ Simple - Less detailed
Zero-Based	Every dollar assigned a job; income - expenses = 0	Detail-oriented, variable income	+ Complete control - Time-consuming
Envelope System	Cash in physical/digital envelopes for each category	Overspenders, visual learners	+ Prevents overspending - Less flexible
Pay Yourself First	Save fixed amount immediately, spend remainder	Savings-focused individuals	+ Prioritizes savings - May ignore debt

Understanding Your Paycheck

Mandatory Deductions

- **Federal Income Tax:** Based on W-4 and income
- **State Income Tax:** Varies by state (0-13%)
- **Social Security:** 6.2% up to \$168,600
- **Medicare:** 1.45% (no limit)

Voluntary Deductions

- **401(k)/403(b):** Pre-tax retirement savings
- **Health Insurance:** Often pre-tax
- **HSA/FSA:** Pre-tax health savings
- **Life/Disability Insurance:** Optional coverage

Gross vs. Net Income

- **Gross Income:** Total earnings before any deductions
- **Net Income:** Take-home pay after all deductions
- **Typical difference:** 25-35% less than gross
- **Always budget from net income**

Example: \$50,000 gross \approx \$38,000 net = \$3,167/month take-home

Emergency Fund Priorities

- **Starter:** \$500-\$1,000 (immediate goal)
- **Basic:** 1 month expenses
- **Standard:** 3 months expenses
- **Full:** 6 months expenses
- **Keep in:** High-yield savings account

Automation Strategies ("Pay Yourself First")

- **Direct deposit split:** Automatically divide paycheck into multiple accounts
- **Automatic transfers:** Set up recurring transfers on payday to savings
- **401(k) contributions:** Pre-tax automatic deductions
- **Bill autopay:** Never miss due dates, avoid late fees
- **Round-up savings:** Apps that round purchases and save the difference

Key Formulas & Benchmarks

Savings Rate: $(\text{Monthly Savings} \div \text{Gross Income}) \times 100$ | Target: 15-20%

Housing Cost: $\leq 28\%$ of gross income (or $\leq 30\%$ of net)

Debt-to-Income: $\text{Total debt payments} \div \text{gross income}$ | Target: $< 36\%$

Net Worth: Assets - Liabilities | Track monthly/quarterly

Rule of 72: $72 \div \text{interest rate} = \text{years to double money}$