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Budgeting 101: How to Budget Money

Divide your income among needs, wants, savings and debt repayment, using the 50/30/20 budget.



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Updated Jul 28, 2023

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If I have [take-home pay](#) of, say, \$3,000 a month, how can I pay for housing, food, insurance, health care, debt repayment and fun without running out of money? That's a lot to cover with a limited amount, and this is a zero-sum game.

The answer is to make a budget.

[What is a budget?](#) A budget is a plan for every dollar you have. It's not magic, but it represents more financial freedom and a life with much less stress. Here's how to set up and then manage your budget.

How to budget money

- Calculate your monthly income, pick a budgeting method and monitor your progress.
- Try the [50/30/20](#) rule as a simple budgeting framework.
- Allow up to 50% of your income for needs.
- Leave 30% of your income for wants.
- Commit 20% of your income to savings and debt repayment.
- Track and [manage your budget](#) through regular check-ins.

Understand the budgeting process

Figure out your after-tax income: If you get a regular paycheck, the amount you receive is probably it, but if you have automatic deductions for a 401(k), savings, and health and life insurance, add those back in to give yourself a true picture of your savings and expenditures. If you have other types of income — perhaps you make money from side gigs — subtract anything that reduces it, such as taxes and business expenses.

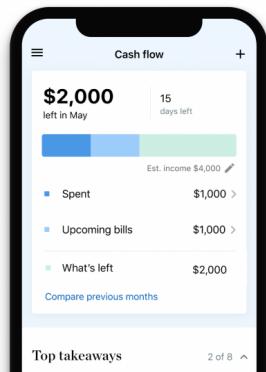
Choose a budgeting plan: Any budget must cover all of your needs, some of your wants and — this is key — savings for emergencies and the future. [Budgeting plan](#) examples include the envelope system and the zero-based budget.

Track your progress: Record your spending or use [online budgeting and savings tools](#).



Automate your savings: Automate as much as possible so the money you've allocated for a specific purpose gets there with minimal effort on your part. An accountability partner or online support group can help, so that you're held accountable for choices that blow the budget.

Practice budget management: Your [income, expenses and priorities](#) will change over time, so actively manage your budget by revisiting it regularly, perhaps once a quarter. If you're struggling to stick with your plan, try these [budgeting tips](#).



Before you build a budget

NerdWallet breaks down your spending and shows you ways to save.

SEE YOUR SPENDING

Frequently asked questions

How do you make a budget spreadsheet? ▼

How do you keep a budget? ▼

How do you figure out a budget? ▼

Try a simple budgeting plan

We recommend the popular 50/30/20 budget to [maximize your money](#). In it, you spend roughly 50% of your after-tax dollars on necessities, no more than 30% on wants, and at least 20% on savings and debt repayment.

We like the simplicity of this plan. Over the long term, someone who follows these guidelines will have manageable debt, room to indulge occasionally, and savings to pay irregular or unexpected expenses and retire comfortably.

The 50/30/20 budget

Find out how this budgeting approach applies to your money.

Monthly after-tax income ②

\$0

Your 50/30/20 numbers:

NECESSITIES

\$0

WANTS

\$0

SAVINGS AND DEBT REPAYMENT

\$0

Do you know your “want” categories?

Become a NerdWallet member to track your monthly spending trends, including how much you’re allocating to needs and wants.

GET STARTED

Allow up to 50% of your income for needs

Your needs — about 50% of your after-tax income — should include:

- Groceries.
- Housing.
- Basic utilities.
- Transportation.
- Insurance.
- Minimum loan payments. Anything beyond the minimum goes into the savings and debt repayment category.
- Child care or other expenses you need so you can work.

If your absolute essentials overshoot the 50% mark, you may need to dip into the “wants” portion of your budget for a while. It’s not the end of the world, but you’ll have to adjust your spending.

Even if your necessities fall under the 50% cap, revisiting these fixed expenses occasionally is smart. You may find a [better cell phone plan](#), an opportunity to [refinance your mortgage](#) or an opportunity for [less expensive car insurance](#). That leaves you more to work with elsewhere.

Leave 30% of your income for wants

[Separating wants from needs](#) can be difficult. In general, though, needs are essential for you to live and work. Typical wants include dinners out, gifts, travel and entertainment.

It’s not always easy to decide. Are restorative spa visits (including [tips for a massage](#)) a want or a need? How about organic groceries? Decisions vary from person to person.

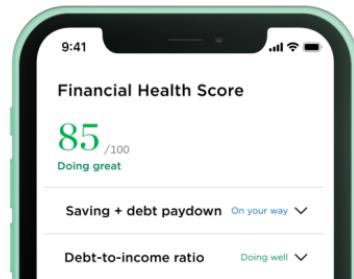
If you’re eager to get out of debt as fast as you can, you may decide your wants can wait until you have some savings or your debts are under control. But your budget shouldn’t

be so austere that you can never buy anything just for fun.

Every budget needs wiggle room — maybe you forgot about an expense or one was bigger than you anticipated — and some money to spend as you wish. If there's no money for fun, you'll be less likely to stick with your budget.

Commit 20% of your income to savings and debt repayment

Use 20% of your after-tax income to put something away for the unexpected, save for the future and pay off debt. Make sure you think of the bigger financial picture; that may mean two-stepping between savings and debt repayment to accomplish your most pressing goals.



A smart view of your financial health

Get a quick read on how you're set up to meet expenses and money goals.

GET MY SCORE

Priority No. 1 is a starter emergency fund. ▼

Priority No. 2 is getting the employer match on your 401(k). ▼

Priority No. 3 is toxic debt. ▼

Priority No. 4 is, again, saving for retirement. ▼

Priority No. 5 is, again, your emergency fund. ▼

Priority No. 6 is debt repayment. ▼

Priority No. 7 is you.**WATCH TO LEARN MORE ABOUT BUDGETING**

» **LEARN:** Tips for Canadians on [how to budget](#)

About the authors**Bev O'Shea**[FOLLOW](#)

Bev O'Shea is a freelance writer and a former NerdWallet staff member who specializes in consumer credit, scams and identity theft. Her work has appeared in The New York Times, The Washington Post, MarketWatch and elsewhere. [Read more](#)

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