What Is the 50/30/20 Rule?

The popular budgeting method is a good way to manage your spending and ensure you're saving enough for the future

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By Kevin J. Ryan Wall Street Journal

Creating a budget for the first time can be intimidating, but it doesn't have to be. In fact, there are a number of fairly simple **budgeting strategies** that can give you a solid framework to get started.

Perhaps the most popular method is the 50/30/20 rule, which is a simple and effective way to take control of your money. The rule is designed to help you be sure you're covering your needs, **saving for the future**—and leaving enough left over to spend on the things you want.

The 50/30/20 budget rule was popularized by Sen. Elizabeth Warren—then a Harvard Law professor—and her daughter, Amelia Warren Tyagi, in their 2006 book "**All Your Worth: The Ultimate Lifetime Money Plan**." They called it a "good rule of thumb" for getting your budget in order.

"It's really good for people who are new to budgeting and just want a simple way to get started," says Akeiva Ellis, a financial planner and co-founder of financial education company The Bemused.

Here's what you need to know about the tried-and-true budget formula.

What is the 50/30/20 rule?

The rule goes like this, each month, your after-tax paycheck is broken down into three buckets:

- 50% for needs
- 30% for wants
- 20% for savings

The budget's primary advantage is its simplicity. "It's really effective for those who are new to budgeting and those who don't want to get lost in every single dollar," says Greg Giardino, a Tarrytown, N.Y.-based certified financial planner. "It's very easy to make adjustments."

He notes that the 50/30/20 budget's broad categories make it easy to cut expenses and make room for others, thereby creating flexibility. For instance, let's say you pay for **half a dozen streaming** services and an expensive gym membership and are bumping up against the 30% max in your wants category. If you also want to budget for a weekend getaway, you can cancel a few streaming services and switch to home workouts for a bit to stay within budget.

Example of 50/30/30 budget

Let's use the U.S. median household income of roughly $70,000 as an example. The exact amount will vary by state, but that will leave you with about $54,000 after taxes, or $4,500 per month. Using the 50/30/20 rule, that breaks down to:

- $2,250 each month for needs (50%)
- $1,350 for wants (30%)
- $900 for savings (20%)

50% needs

The needs category covers the essentials: housing, utilities, car payments, gas, insurance, groceries and so on. "These are the absolute must-haves," says Giardino. "You've got to have your insurances. You've got to eat."

In most cases, the **largest expense in your budget will be housing**, be it rent or a mortgage. Experts advise not spending more than 25% to 30% of your after-tax income on housing—though that might be challenging for those in more expensive markets. For someone earning around $70,000, this would mean a monthly rent or mortgage payment of between $1,125 and $1,350.

“If I live in San Francisco or New York or even Austin at this point, is 50% accurate? It’s hard to say,” says Jordan Benold, a Frisco, Texas-based financial planner. “The point is to set a budget that works for you and stick with it so you can save as much as you’re able to.”

Also included in this category are student loan and other minimum debt payments. “If you don’t pay those minimums, it will adversely impact your financial position, so that’s considered essential,” says Giardino.

30% wants

Anything nonessential falls into the wants category. So while groceries are essential, dining out at fancy restaurants or springing for rib-eyes for dinner are luxuries and therefore would probably fall into the wants bucket. Entertainment (streaming services, movies, sporting events), hobbies and vacations also fall into this category.

Be honest with yourself: While basic clothing and your cellphone bill go into the needs category, **high-end fashion** and gaming apps would probably be considered wants.

20% savings

Savings includes money set aside for the future, including an emergency fund, retirement savings—be it through an employer-sponsored 401(k) or an independent retirement account—and savings toward long-term goals like homeownership. The savings category can also include debt payments above the minimum required, since this will help you avoid interest payments and mean more money in your pocket later.

Experts advise having an **emergency fund** with enough money to cover three to six months of living expenses. If you do have to dip into your fund, replacing that cash should take priority over your wants and other savings until you replenish it.

When it comes to **saving for retirement**, some financial planners advise putting away the equivalent of your annual salary by age 30 and 10 times your salary by age 67. If you’re **saving for a down payment** on a house, 20% of your target home price is a good goal, but it’s not necessary. In fact, in 2021 the average down payment for first-time buyers was 7%.

Alternatives to the 50/30/20 budget method

Of course, no one budgeting method is for everyone. Perhaps 50/30/20 won’t help you achieve your savings goals fast enough, or maybe you need a more disciplined method that controls spending on a more granular level. Fortunately, there are other **budgeting methods** you can try.

For example, like the 50/30/20 rule, the 70/20/10 rule also divides your after-tax income into three categories but differently: 70% for monthly spending (including necessities), 20% for savings and for 10% donations and debt repayment above the minimums.

There’s also the pay-yourself-first method, under which you’ll route a percentage of your income toward a savings account, then take care of your monthly bills and essentials. Whatever is left over is yours to spend freely. The zero-based budget requires you to allocate your income to certain categories (savings, travel, food, etc.) at the beginning of each month, then subtract from each pot as you spend—tracking every dollar in and out.

If using spreadsheets or pen and paper to track spending doesn’t sound like your idea of fun—or, more importantly, like a habit that will stick—there are a number of **budgeting apps** you can use regardless of what method you choose. Many of them sync to your accounts and automatically categorize your transactions.

The key, especially for first-time budgeters, will be to try a few different methods until you find the one that’s right for you. As many financial planners will tell you, the best method is the one that stick.

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I’m a Financial Planner Who Has Never Followed a Budget. For Me, This Strategy Works Better

My method flips budgeting on its head and gives priority to savings

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I don’t follow a budget. That might seem like an unremarkable confession—until I tell you that I’m a certified financial planner. I’m supposed to *love* budgets.

I’ll concede that everyone should be intimately familiar with their own spending patterns, myself included. Avoidance is a sure path to disaster. But I think budgets can be too detailed, too rigid.

In the traditional sense, a **budget** is a set of parameters on how much someone should spend every month on groceries, entertainment and other categories so that they don’t exceed their income and can save what is left. For people prone to impulse spending or who have a lifestyle that’s bigger than their paycheck, this framework is vital. In fact, a traditional budget is a great starting point for anyone learning to manage money.

Sometime in my mid-20s, budgeting became an extraneous step. At the time I was beginning to see the importance of saving for retirement, however far off it may be, and I was finding myself with more disposable income as I climbed my way beyond an entry-level salary. I decided then that my biggest financial goals are to build wealth and live well in the meantime—no easy feat while residing in the heart of Los Angeles, one of the **most expensive cities** in the world.

To build wealth I need to save or invest a portion of my income. It doesn't matter how much I specifically spend on eating out at restaurants or buying books or traveling—what matters is that I'm consistently spending a lot less than I earn.

So rather than setting spending limits on specific categories such as food delivery (takeout Thai just makes life so much easier!), I flip budgeting on its head and **give priority to savings**. That's right—I care more about the money I'm *not* spending than the money I am spending.

In 2016, I read "**The Automatic Millionaire**," the bestseller from financial writer David Bach. He swears by the so-called pay yourself first plan: You don't need to do anything more to achieve financial stability, he says, than automatically transfer money off the top of your paycheck into accounts that fund high-priority goals, such as **retirement**, *before* you pay bills and buy things.

As much as Bach's approach made obvious sense, it felt revolutionary too. *Could it really be that simple?* After roughly seven years of paying myself first, I've found it's more effective than any other budgeting strategy.

My savings rate isn't based on the cash I have left at the end of the month; I choose it up front and adapt my lifestyle accordingly. Basically I do the math to figure out **how much I should save** monthly to meet my target number for a particular goal, such as my emergency fund or a ski vacation. I'm usually funding several goals, so I add those numbers and subtract the total, along with my fixed expenses—namely, rent and insurance—from my monthly income. The remainder can be spent freely.

How, and how much, I "pay" myself has shifted over years. Right now it looks like an automatic monthly transfer from my checking account into a **high-yield savings account** where I keep my emergency fund as well as money I'm saving for a **down payment** on a house and **estimated tax payments**. Another automatic transfer goes into a Roth **IRA** where I invest for retirement.

I love this strategy in part because I start every month off with a financial win when my automatic transfers go through. And it might seem counterintuitive, but I feel more mindful, more in tune with my spending patterns and what purchases make me feel good (or not) than if I had specific limits and tracking mechanisms in place.

My system runs mostly on autopilot, but I still do routine maintenance. About every other month, I check in to ensure two things: that my income as a freelancer hasn't shifted too much from my original projections and that I'm maximizing my cash. If I see that I didn't spend a large chunk of my "spending" money for a given month, I'll consider upping my savings rate, or putting the cash toward a big purchase that I hadn't previously planned for (a new iPhone, perhaps?)

And if my income does come in low one month, I'll dip into my emergency fund and/or pause the automatic transfers to free up some cash, and then reassess. That's part of the beauty of paying yourself first—there's a built-in buffer.

Almost two years ago I quit my full-time job without another one lined up. I hoped to build a freelance writing career but figured it would take time to replace my previous income. Meanwhile, I was able to rely on a savings cushion that only existed because I decided to start paying myself years earlier. There's no way I would have left that job—and entered a prosperous and fulfilling new chapter of my career—without it.