Sibly Developing a Budget

Purpose

Created by Elizabeth Warren, the 50/30/20 rule allows you to analyze your finances, decipher where to allot a percentage of your money, and help with building savings or paying off debt. By following this method, you can begin to understand your income and spending habits, approach your financial goals, and set a foundation for mastering financial freedom.

Tips for Developing a Budget

Establish your Total Income & Debt

Start with money that you have in your bank accounts, including what is in your savings accounts. Add the amount from these accounts to anything you own that has significant value, such as a vehicle.

After you have a final number, you will then calculate any debts that you owe, such as credit cards.

Calculate Your Starting Point

After subtracting the amount of debt from your total income, including assets, you will have your starting point. An example of this being: In a checking and savings account, you have $3,000.00. Your assets brought in an extra $500.00. In total debt, you have $1,000.00. Your starting point would then be $2,500.00.

Establish Your Monthly Income & Output

Take your monthly income after taxes and add any other sources of income as well. If you make more or less during different seasons, try to figure out the average number. Once you have your monthly income, calculate your monthly spending in a way that is most comfortable for you. Make sure to include all bills that you pay each month.

Use The 50/30/20 Rule

The 50/30/20 budget rule is a budgeting tool that helps with spending your money based on your needs, wants, and debt or savings.

Needs

When looking at your income, fifty percent of your monthly income should be spent on needs. Your needs would include things like rent, mortgage, food, utilities, and transportation.

Wants

While looking at your income, thirty percent of your monthly income would be spent on wants. Your wants would include things like entertainment or non-essentials.

Debt and Savings

Lastly, you would use twenty percent of your income to pay off any debt or put money away into a savings account.

Disclaimer

It may not always be possible to stick to this exactly, depending on your circumstances. You can adjust the numbers based on your finances or whatever makes the most sense for you. However, these are well-balanced numbers to use as a guide when creating a budget for yourself.

Source:

Warren, E., & Tyagi, A. W. (2006). All your worth: the ultimate lifetime money plan. New York: Free Press.