The 50/30/20 Rule
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If you're like millions of Americans, you often live from paycheck to paycheck, working to just "get by" without the opportunity to develop significant wealth or long-term savings. And unless you're the chairman of a Fortune 500 company or a recent lottery winner, chances are you live on a tight budget to make sure ends meet. Developing a budget to manage monthly finances is a great way to make sure that your bills are paid on-time and you don't get overextended. However, many people forget to include paying themselves as part of their budget, and again forego the opportunity to build wealth over time. Fortunately, the "50/30/20" budget plan allows you to do so.

The 50/30/20 rule works for individuals and families at all income levels. It's a simple program that can help you take control of your finances. The program works like this: your after-tax monthly income is broken down into three categories: Fixed expenses, discretionary spending and savings:

- **Fixed expenses**: These are the expenses that you know you will have every month. Examples include:
  - Rent/mortgage
  - Car payment
  - Utilities
  - Car payments
  - Child care
  - Food

  The goal of the budget is to limit these expenses to no more than 50 percent of your after-tax monthly income, allowing for the other 50 percent of your money to be used in other areas.

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- **Discretionary spending**: Think of this category as "nice to have," not "have to have." These are the items that you are not contractually obligated to pay every month, which should be kept to 30 percent of your monthly budget. Here are some examples:
  - Restaurants
  - Entertainment
  - Vacations
  - Clothing
  - Gifts

- **Savings**: In order to accumulate wealth, it is important to make sure and pay yourself every month. The savings portion of your monthly budget should be 20 percent of your after-tax salary. This category includes general savings, retirement savings, college funds, etc.

Let's say that a family of four has a monthly after-tax income of $6,000. Their breakdown may look like this:

Fixed expenses:

- Mortgage: $1,200
- Car payments: $ 700

- Utilities: $ 500
- Phone: $ 200
- Child care: $ 400

Discretionary spending:

- Restaurants: $ 600
- Clothing: $ 350
- Entertainment: $ 450
- Gifts: $ 200

Savings

- General savings: $ 600
- College fund $ 200
- Retirement: $ 400

The family above has kept their fixed expenses to $3,000 or 50 percent of their after-tax income. As a result, they are able to use 30 percent of their income for discretionary spending, and more importantly, have $1,200 per month to put towards college funds and savings. That's more than $14,000 per year the family is able to save.

Using the 50-30-20 budget is a great way to put yourself on solid financial footing, both now and in the future. It allows those who use the program to budget to take care of necessary items, have funds available to have some fun during the month, while still building savings in a responsible manner. The 50/30/20 rule also gives users the flexibility to deal with unexpected events while still maintaining necessary expenses, and helps individuals and families figure out what they can and can't afford, reducing the number of extraneous or "impulse" purchases.

So if you're having difficulty setting and maintaining a budget, and are interested in developing long-term savings, the 50-30-20 approach may work for you.