

Swatantra Kumar Explains: The 50-20-30 rule

An American businessman once said, "A budget is telling your money where to go instead of wondering where it went." Here's a budgeting thumb rule that can help you take control of your finances.

The 50-20-30 rule

Step 1:

Calculate your after-Tax or take-home salary



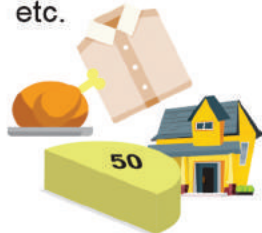
Step 2:

Divide it in a 50-20-30 ratio



Step 3:

Keep aside 50% for your necessities or needs. These include food, clothing, shelter, etc.



Step 4:

Allocate 20% to savings, investments and debt-reduction payments (if any).



Step 5:

The remaining 30% can be used for your wants. These include outings, vacations, spending on latest phones, etc.



With the 50-20-30 rule, you can ensure a balance between your needs, wants and achieve financial security through savings and investments.

Note:

The 50-20-30 rule gives a starting point and direction to budgeting. You can alter the proportion as per your situation.

For example, although the rule encourages saving 20% of your income, the more you save, the better it is for your financial future. You can, thus, save more if your financial situation permits.

