

# Savings Advice:

## The 50/30/20 Budgeting Method

With rising costs continuing for UK households, the importance of budgeting and creating a spending plan is becoming increasingly more essential. If you haven't got one in place already, it can be daunting knowing where to start. Here we explore a useful budgeting method that is continuing to be popular: the 50/30/20 rule.

### What is the 50/30/20 rule?

It's a budgeting method that can help you effectively manage your money on a monthly basis. Saving up for something special? Or just want to have better control of your money? This helpful technique is easy to use, so why not give it a go and see what difference it can make to your finances.

### The 50/30/20 budget rule is as follows:

- Spend 50% of your income (after tax) on essential 'needs'.
- Spend 30% on 'wants'.
- Put the remaining 20% towards 'savings'.

It's a good idea to regularly check your income and outgoings. That way, you know exactly what your situation is, have more control over your finances, and can avoid unexpected surprises.



## 50/30/20 rule example

As an example, if your monthly income is £2,000 after-tax, following the 50/30/20 rule that would break down into:

Needs	Wants	Savings
£1,000	£600	£400



### 50% on 'Needs'

Needs are classed as outgoings that you need to pay each month. These payments are usually the largest. Needs can vary; however, some typical examples may include:

- Mortgage or rent payments
- Utility bills
- Childcare
- Food shop
- Insurance
- Minimum borrowing repayments
- Transport

Whilst you may think it is difficult to reduce spending on your needs, there are ways you may be able to achieve this. For example, by comparing prices across various utility providers, you could get a cheaper rate elsewhere.

### Useful comparison sites include:



Compare the Market:



Go Compare:



MoneySuperMarket:

### Other ways to try save money on your needs include:

- Shopping at different supermarkets for better deals.
- Meal planning.
- Switching to a cheaper phone contract.
- Switching your car insurance.
- Be more efficient with your energy use at home.



## 30% on 'Wants'

'Wants' can be classified as non-essential expenses. These are things or areas you would like to spend your money on, but can go without if needed.

Wants do vary from person to person, but may include things such as:

- **Trips or holidays**
- **Eating out, ordering takeaways or coffee shop purchases**
- **Subscriptions**  
(for example Spotify, Netflix, Amazon Prime etc.)
- **Memberships**
- **Sports events**
- **Non-essential clothes**

Delving deeper into your outgoings can help you avoid impulse buying or stop you paying for services you don't use or need. If you find you are spending more than 30% on wants in a month, try to ask yourself "Do I really need this?" or "Could I get this cheaper if I shopped around?"

Many of us spend money on areas we think we need, but in reality, use very little. Subscriptions are a prime example of this. The average Brit spends £696 a year, or £58 a month, on subscription services, including streaming\*. Whereas, according to Citizens Advice, consumers spent £688 million on unused subscriptions in the last year\*\*.

Sources:

\*finder.com - Subscription service statistics

\*\*Citizens Advice - Consumers spend £688 million on unused subscriptions

## 20% on 'Savings'

After organising your needs and wants, you should be left with 20% to put into savings. What you save for is up to you. Having a particular savings target or goal can be a great motivator and help you stay on track. Whether it be towards a holiday, some designer clothes, or setting aside for your dream home, every little helps.

Having a rainy day or emergency fund is also just as important. Unfortunately, unexpected circumstances can happen. In a time of need, you will be thankful for having a financial buffer to fall back on. As a rule, it is suggested having enough money in an emergency fund to cover your expenses for at least three months.

Unforeseen issues can include:

- **Medical emergencies**
- **Urgent home repairs**
- **Car issues**
- **Job loss**

Or, if more suitable, these savings set aside could be used to pay off any outstanding debts or repayments. Putting away a certain percentage of your monthly income every month will certainly start to add up in the long run.

When it comes to saving, having an appropriate savings account which befits your needs is key. Do you have long term savings goals? A fixed term savings account may be best for you. Whereas, if you are saving towards an emergency fund, an instant access account would be more suitable. Having the wrong access to your account when you need it most can cause unnecessary stress. Be sure to do your research.



This budgeting method is just one way to manage your money and save. Ultimately, everyone is different, and you may have circumstances where this approach isn't suitable. If you feel like the percentages are too big, slightly adjust them to cater for you. If this isn't right for you, there are other budgeting methods in place to help you get the most out of your money.