

## 30-Day Mocha Money Challenge: Day 9 Article

A budget is a plan for every dollar you have. It's not magic, but it represents more financial freedom and a life with much less stress.

### Try a simple budgeting plan

We recommend the popular 50/30/20 budget. In it, you spend roughly 50% of your after-tax dollars on necessities, no more than 30% on wants, and at least 20% on savings and debt repayment.

We like the simplicity of this plan. Over the long term, someone who follows these guidelines will have manageable debt, room to indulge occasionally, and savings to pay irregular or unexpected expenses and retire comfortably.

### Allow up to 50% of your income for needs

Your needs — about 50% of your after-tax income — should include:

- Groceries.
- Housing.
- Basic utilities.
- Transportation.
- Insurance.
- Minimum loan payments. Anything beyond the minimum goes into the savings and debt repayment category.
- Child care or other expenses you need so you can work.

If your absolute essentials overshoot the 50% mark, you may need to dip into the “wants” portion of your budget for a while. It's not the end of the world, but you'll have to adjust your spending.

Even if your necessities fall under the 50% cap, revisiting these fixed expenses occasionally is smart. You may find a [better cell phone plan](#), an opportunity to [refinance your mortgage](#) or [less expensive car insurance](#). That leaves you more to work with elsewhere.

### Leave 30% of your income for wants

[Separating wants from needs](#) can be difficult. In general, though, needs are essential for you to live and work. Typical wants include dinners out, gifts, travel and entertainment.

It's not always easy to decide. Is a gym membership a want or a need? How about organic groceries? Decisions vary from person to person.

If you're eager to get out of debt as fast as you can, you may decide your wants can wait until you have some savings or your debts are under control. But your budget shouldn't be so austere that you can never buy anything just for fun.

Every **budget** needs both wiggle room — maybe you forgot about an expense or one was bigger than you anticipated — and some money you're entitled to spend as you wish.

Your budget is a tool to help you, not a straitjacket to keep you from enjoying life, ever. If there's no money for fun, you'll be less likely to stick with your budget — and a good budget is one you'll stick with.

## **Commit 20% of your income to savings and debt repayment**

Use 20% of your after-tax income to put something away for the unexpected, save for the future and pay off debt. Make sure you think of the bigger financial picture; that may mean two-stepping between savings and debt repayment to accomplish your most pressing goals.