Saving for Life: The Importance of the 50/30/20 Budgeting Rule

00:06 Megan:

Financial wellness is the ability to manage money in a way that gives you peace of mind and empowerment to make your own choices. At Golden 1, we're here to help with unbiased financial guidance. As a not-for-profit, member-owned credit union, our main goal is to help you achieve financial well-being. Join us as we discuss why financial knowledge matters and how to apply it to your financial journey. Together we can be golden!

Hello! I'm Megan with the Golden 1's Financial Education team and I would like to welcome you to our Golden 1 Financial Wellness Podcast. Joining us today we have Amber Lassner a registered representative with LPL Financial and a Financial Advisor with Golden 1 Investment Services. Thank you so much for joining us today, Amber.

00:59 Amber:

Thank you for having me. I am happy to be here!

01:02 Megan:

When it comes to personal finance, I think we can all agree it's important to save. One reoccurring question most people have- is what should I be saving for right now? The answer is- it depends! We all have different savings goals and timelines. When I think about my goals, I think of them in terms of the decades of my life. Having financial saving milestones in each of these decades helps set me up for future financial success. For example, my goals in my 20's were different than the goals I now have in my 30's. And I am busy setting new targets for my 40's and 50's. In general, I have always practiced the 50/30/20 budgeting rule to ensure I'm setting enough money aside as my life priorities change. This rule states that 50% of your take home pay goes towards needs.

02:02 Amber:

Let's be clear here. Needs are those bills that we absolutely must pay. For me that includes rent, my car payment, groceries, insurance, and health care.

02:14 Megan:

For me I would have to add daycare in the mix and in my case, I have a mortgage that comes with a list of other bills tied to owning a home. These must haves don't include things like Netflix, Starbucks, and my eating out budget. These things fall into the want category. This would be roughly 30% of my take home pay. This also includes any debt we need to pay back and all those little extras that we spend money on that make life more enjoyable.

02:45 Amber:

And that leaves the other 20%- for savings! Now 20% is just the minimum here. It's always a good idea to save more because our focus and goals change during different stages of our lives. Our 20's, for example, is an exciting time in our lives when we are exiting student life and stepping out into the real world. Most of us start working full time and now have an income that we can start applying to the 50/30/20 budgeting rule.

With so many working years ahead, this is the time to start saving for retirement. I know it sounds early, but the sooner you start saving, the longer your money will have time to grow due to the power of compound interest.

03:32 Megan:

You know, the best piece of advice I received during my 20's was to take advantage of my employer's retirement plan. Contribute at least the amount that your employer matches so that you don't leave any free money from your employer on the table. If you don't have access to an employer-sponsored retirement fund, start a Roth IRA, which allows tax-free withdrawals later in life when you hit 59 ½. All the money that grows in these accounts grow tax free. Financial institutions, including Golden 1, can help you set up an IRA and automate this savings practice for you.

04:09 Amber:

If you are adhering to the 20% savings guideline and your employer matches 3% or 5% this means that you still have 15-17% that you can apply towards other savings goals like establishing and maintaining an emergency saving plan. In fact, make three emergency saving plans!

04:31 Megan:

Three?

04:32 Amber:

Yes, three! The first is for your “need today”. We recommend keeping these funds in a regular saving account that is easy to access. For example, if our car breaks down, we’ll need funds right away to get us going again. If our insurance deductible is $500 then we should have these funds set aside for if and when this type of emergency happens.

04:58 Megan:

We could apply this same principle to medical emergencies and deductibles too- like an emergency room visit for ourselves and any dependents we may have. Having dedicated funds for these common emergency occurrences can help alleviate some of the stress that arises during these difficult times and helps us avoid going into debt when these emergencies do happen.

05:21 Amber:

The second type of emergency savings plan is what we call the “needs for the month”. So, if you say- lose your job, this account would have all of the funds you would need to sustain yourself while you’re waiting for things like unemployment to kick in. You’ll want to keep these funds accessible too. I like to keep these funds separate from my “need right now” emergency savings so I established an additional savings account to help keep me organized.

05:48 Megan:

I like this plan! This means that your third emergency savings account would be for longer termed- reserve savings. Ideally this would be three months' worth of savings for individuals and 6 months for those that are providing for others. A savings account that earns a higher rate of return, like Golden 1's Money Market Account, could help us earn some dividends for a larger balance, but still be accessible enough that we could access the funds quickly should the need arise.

06:19 Amber:

Now you understand why we need three savings accounts!

06:22 Megan:

I sure do! Now, let's look back at our 50/30/20 budgeting guideline. If my take home pay is $5000 a month, this would mean that I have $2500 a month going towards needs, $1500 a month towards wants, and $1000 towards savings.

06:43 Amber:

And that's a lot of savings!

06:44 Megan:

This is why it is so important to put these dollars to work and have a plan for your savings! If we look at our example this would mean that we would have 4% of our savings allocation or $200 going towards an employer matched retirement plan and 6% or $300 going towards emergencies. Now that we know how important three emergency saving accounts are, we can break this down further. Let's have 1% or $50 going towards the needs right now account, 2% or $100 going towards the needs for the month, and 3% or $150 going towards the reserve savings.

I know this sounds like a lot of savings, but if we are following the 50/30/20 budgeting guideline- we've only created a plan for half of our savings allocation! We still have 10% or $500 a month to go towards other goals or to start saving for things that we want to achieve in our 30's. and other life milestones!

07:52 Amber:

When we transition from our 20's to our 30's we see a shift in our priorities. Many are thinking about getting married, starting families, growing in their careers, or investing in their first home. All of these come with a price tag, and we often find ourselves having to re-arrange our budgets to make room for these expenses. Having 10% of our savings budget go towards these life milestones can really help us stay on track with our financial goals and avoid going into debt.

Thankfully, in our 30's we may encounter a lot of career growth which hopefully means promotions and pay raises. It's tempting to work these funds into our spending plan to cover the growing financial costs of our periodic and day to day expenses, but it's equally as important that we share this increased income with our savings - particularly our retirement plan. One of the ways we can do this is by increasing our contributions every time we get a raise. For example, if you receive a 4% raise- commit to dedicating 2% of it to your retirement. By allocating the funds to increasing retirement contributions we are giving our raise a purpose!

09:03 Megan:

We should really give all of our money a purpose. As we fund our goals, and we free up some of our saving budget make sure to apply that money towards new goals. This way we're constantly practicing the 50/30/20 budgeting rule, and not working these savings funds back into our everyday spending. For example, I had 6% of my income or $300 going towards emergency savings. Once I reached my target, I was able to redirect that money towards new goals like my annual vacation and some home improvement projects. If an emergency happens and I must use the funds, I will make sure to replenish my saving accounts before taking my vacation or embarking on a new home project.

09:48 Amber:

Making a habit of saving and applying this budgeting rule in our 20's and 30's can give us a solid foundation to tackle more goals in our 40's. There may be a lot of competing priorities, but this is the time to buckle down and not neglect your retirement savings. It's recommended that you have saved 5 times your annual salary by your mid 40's. Talk with a financial advisor so they can review your financial plan and confirm if you're on the right path. It's the perfect time to adjust your savings and investments because there are still 20 years or more to get caught up or get back on track.

10:25 Megan:

As we transition into our 50's it's still important to keep the 50/30/20 budgeting rule in mind. Our 50's can bring on entirely different set of saving goals. Maybe we are helping our children pay for college or their first homes.

10:41 Amber:

As we get closer to retirement, we become more driven to get there so we shift some of or 30% want budget into our savings budget. It is recommended that you save 7 times your salary by your mid 50's. Playing catch up on retirement goals by increasing our retirement contributions may be more of a want then that cup of coffee or Netflix subscription. Consult with your financial advisor to see if maximizing your retirement contribution and reallocating funds to less aggressive investments is right for you. Start testing your retirement budget and make the tweaks you need.

11:20 Megan:

These age milestones can serve as a guide for you to see where your saving goals stand and where you should adjust. Just remember that no matter what decade of life you're in you can always make strides to get to where you need to be.

If you haven't already done so, subscribe to the Golden 1 Financial Wellness podcast on Apple, Google and Spotify to get more financial tips and insights. Plus, go to the Financial Wellness tab at **golden 1.com** to find a ton of other resources like videos, interactive modules and webcasts. You don't even have to be a member to use them!

Thank you so much for joining us today. This has been Megan.

12:03 Amber:
And Amber. Wishing you financial health and happiness — and, as always, reminding you to …

12:08 Amber and Megan:
stay golden!

12:11 Amber:

Securities and advisory services are offered through LPL Financial, a registered Investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. Golden 1 Credit Union and Golden 1 Investment Services are not registered as broker-dealer or Investment advisor. Registered representatives of LPL offer products and services using Golden 1 Investment Services and may also be employees of Golden 1 Credit Union. These products and services are being offered through LPL or its affiliates, which are separate entities from, and not affiliates of Golden 1 Credit Union or Golden 1 Investment Services. Securities and Insurance offered through LPL or its affiliates are:

Not Insured by NCUA or Any Other Government Agency

Not Credit Union Guaranteed

Not Credit Union Deposits or Obligations

May Lose Value

Your Credit Union provides referrals to financial professionals of LPL Financial LLC pursuant to an agreement that allows LPL to pay the Financial Institution for these referrals. This creates an incentive for the Financial Institution to make these referrals, resulting in a conflict of interest. The Financial Institution is not a current client of LPL for advisory services.

Please visit: lpl.com/disclosures/is-lpl-relationship-disclosure.html

By selecting the link, you will enter a website that Golden 1 does not control. We have provided this link for your convenience, but we're not responsible for the content, links or the privacy or security policies of this website.

13:32 Megan:
Golden 1 Credit Union is insured by NCUA