

January 2022

The 50-30-20 Rule

"At this point last January, I was determined to change my relationship with money forever," says Daniel. This is a New Year's resolution he shared with 69% of Canadians last year¹. However, unlike most others, Daniel has been able to stick with his promise to get control of his financial life. "I'd say 100% of my success comes down to working with a financial advisor who offered me a powerful way to get started and keep going."

Daniel was wise to begin his journey under the expert guidance of a financial advisor who took the time to understand his long and short-term goals. "Without that guidance," says Daniel, "I would have given up in the first 90 days. Instead, I'm living within my means for the first time."

To get him started, Daniel's financial advisor suggested the "50-30-20 Budgeting Rule", a simple approach whose basic rule of thumb is to divide monthly after-tax income into three spending categories:

50% for needs.

30% for wants.

20% for savings or paying off debt.

Since Daniel's fixed expenses exceeded 50% of his after-tax income, he had some tough decisions to make, including moving to a smaller apartment and trading in his new car. With these expenses reduced, he could cover his needs (housing, utilities, insurance, gas and groceries, etc.) with 50% of his funds.

"Understanding this was simple: I had a specific amount for my must-haves. It made sense to me."

The next 30% of his after-tax income was allocated for extras, such as entertainment subscriptions, dining out, gym memberships, gifts and personal shopping. Daniel didn't need these to survive, but he did enjoy them. Identifying and quantifying his wants helped him understand why he'd always been short on funds. "I'd buy coffee every day on my way to work. I never considered that five-dollars a day, multiplied by five days a week and four weeks per month was taking at least \$100 out of my 'wants' budget. Once I understood that, I started bringing coffee from home."

The remaining 20% of his after-tax income went to paying off his credit cards and a little bit for savings. Once Daniel had paid off his debt, he started putting the entire 20% into a diversified savings plan that his financial advisor had set up for him. By the end of the year, he was debt-free and on his way to building his savings.

Saving isn't easy, but it's not impossible when you follow a simple plan that makes sense to you. While the 50-30-20 rule may not be ideal for everyone, it worked well for Daniel. "I would never have known about 50-30-20 if not for a financial advisor who took the time to align me with an approach that would work for my life, income and mindset. Without her, I'd be right back where I was last year, wishing I could end my struggle with money."

**Fictional characters for illustrative purposes only.*

¹ *The Globe and Mail: Set a New Year's resolution. When every day feels the same, having a goal to work towards will make a difference*

Like some guidance with budgeting? We can help you out!



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