

How to Figure Out Budget Percentages for Money Goals

Making a budget is more than just adding up your expenses and subtracting them from your income. Determining budget percentages for how much you'll spend on different expenses is essential, especially if you've got big money goals, such as paying off debt, building an emergency savings fund or saving for retirement.

It's possible to set budget percentages even if you're not a numbers person. It begins with understanding your income, how much you're spending each month and what steps you need to follow to achieve your financial goals.

Why Use Budget Percentages?

There are some great reasons for focusing on percentages when making your budget, versus simply allocating a set dollar amount to each of your expenses. When you think in terms of budget percentages, you gain a holistic view of your how your income is spent each month. And that can make it easier to identify spending areas that may need to be adjusted in order to reach your goals.

For example, say you have a monthly net income of \$5,000. You allocate:

- \$1,000 for rent
- \$500 for groceries
- \$300 for utilities
- \$200 for internet and cell phone service
- \$300 for entertainment
- \$200 for debt repayment
- \$500 for savings

Altogether, that's \$3,000 that's going towards bills and savings combined each month. That represents 60 percent of your income. The question is, what are you doing with the other 40 percent?

Making a budget based on percentages ensures that you're giving every dollar of your income a job. That's important if you have small or large financial goals that you're working on and it feels as though you're not making progress towards them.

Another way to think of how helpful budget percentages can be is as a pie. Envision the pie, with different percentages representing different expenses. What's eating the largest share of the pie? And how big a slice are your goals being served? If saving or paying off your student loans only accounts for a small sliver, it may take you much longer to reach your goal destination.

How to Set Budget Percentages

There are a few basic rules to keep in mind when setting budget percentages and the first question you might have is: how much should things cost?

Here's a quick rundown of how your income should ideally be divided up:

- Housing: 25-35%
- Insurance (including health, medical, auto and life): 10-20%
- Food: 10-15%
- Transportation: 10-15%
- Utilities: 5-10%
- Savings: 10-15%
- Fun (entertainment and recreation): 5-10%
- Clothing: 5%
- Personal: 5-10%



These are the most basic categories your budget likely covers, but there are some other expenses you may need to account for that can alter your individual budget percentages. For example, you may need to budget for things such as:

- Charitable giving
- Debt repayment
- Spousal or child support payments
- Out of pocket healthcare costs
- Pet care
- Daycare
- Other child-related expenses (such as diapers, extracurricular activities, school supplies)
- Travel
- Work-related expenses that you're reimbursed for later
- Saving for irregular expenses (such as biannual car insurance premiums or annual property taxes)

Factoring in these kinds of expenses can make your budget percentages look very different. That's why it's important to be thorough in accounting for everything you spend each month. A relatively easy way to do this is by linking your checking account or credit cards to a budgeting app; alternately, you could record your purchases in a spreadsheet or notebook.

If you're like most people, your largest budget percentage is likely to be housing. Ideally, you should aim to keep this at no more than 35 percent of your income. If you're spending more than that amount, that could put a strain on your budget. In that scenario, you may have to shrink your other percentages to accommodate higher housing costs, increase your income or look for less expensive housing.

Using Budget Percentages to Achieve Money Goals

The easiest way to use budget percentages to reach your financial goals is to break down your goal into monthly chunks and set a timeline for achieving them.

For example, assume you want to save \$20,000 for a down payment on a home and you have a two-year window to save. That breaks down to \$833 per month. Now, using that \$5,000 per month income example earlier, saving that amount would represent roughly 16.5 percent of your income. Based on the sample budget percentages offered earlier, that's not too far off the mark from the ideal.

Of course, it gets a little trickier to use budget percentages if you have multiple goals you're working towards. Say you also have a personal goal of saving 10 percent of your income for emergencies each month. If you combine that with your down payment goal, you're now dedicating 26.5 percent of your budget to savings, which may not be realistic.

A good way to approach budgeting percentages when you're trying to find the right combination for your money goals is to start with your fixed expenses first. That includes things like housing, utilities, insurance—bills that have to be paid every month.

Look at each of those expenses and see what percentage of your total budget they represent. Then, determine if you can reduce any of those expenses to bring that percentage down.

Next, move on to your variable expenses. This is what you spend on clothing, food, dining out, travel, entertainment, etc. Again, add up the total percentage of your budget these account for, then see what you can reduce or better yet, eliminate altogether.

Now take the two new percentages for fixed and variable spending and add those together. The remaining part of your budget at this point should be what you can commit towards your financial goals. For example, if your fixed spending is 40 percent of your budget and variable spending is 30 percent, you've got another 30 percent of your income you can allocate to those goals.

It may take some time to find the perfect percentage mix and you'll need to review your budget monthly. But over time, using budget percentages can add up to money goal success.

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