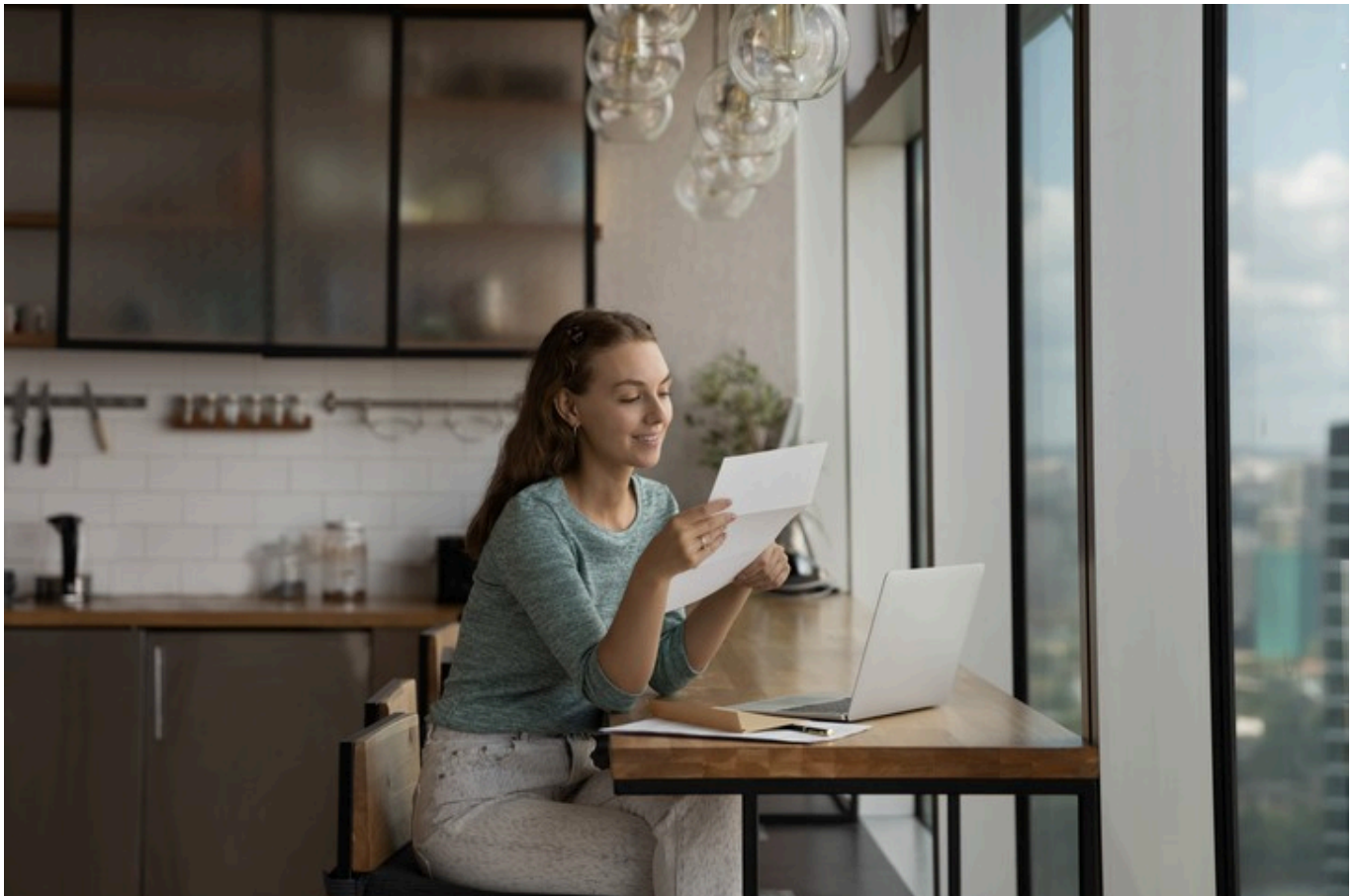




## Deciding What to Spend vs Save



Saving money from each paycheck can help prepare you for life's most expensive curveballs. Experts typically recommend setting aside around 20% of each paycheck for savings. However, the exact amount you save will vary based on your income, monthly expenses, and personal goals.

These strategies from Equifax can help you prioritize your savings and determine how much to set aside from each paycheck.

### **Saving with the 50/30/20 rule and other methods**

Many budgets begin with the 50/30/20 rule. With this method, you'll set aside 50% of your monthly income to cover essential expenses (your needs), 30% for nonessential expenses (your

wants) and 20% for savings. This strategy divides your income between necessities (such as rent, debt payments and utilities) and unnecessary expenses (such as retail shopping and entertainment), all while making room for regular savings.

Although 50/30/20 budgeting is a great starting point, it may not be the best fit for everyone. Alternatives include:

- **80/20 method.** You can simplify the 50/30/20 rule by still dedicating 20% of your paycheck to savings and leaving the other 80% to cover your combined wants and needs.
- **70/20/10 method.** The 70/20/10 approach splits each paycheck into three parts: 70% will go to essential and discretionary spending, 20% to savings and 10% to debt payments. You might consider this strategy if you're struggling to manage and pay off debt, especially if it's from credit cards or other high-interest sources.
- **Zero-based method.** Zero-based budgeting assigns a purpose to each dollar of your take-home pay. You'll divide up your paycheck between your essential spending, discretionary spending, debt payments and savings until all your money is allotted. This method allows you to rebuild your budget from the ground up each month and adapt to new expenses and other changing circumstances. Although this system requires continuous planning, it can also help you better understand where your money is going each month.

## How to divide your savings

No matter which budgeting rule you follow, you'll need to divide your savings from each paycheck across multiple goals: your emergency fund, retirement savings, and long-term savings.

- **Emergency fund.** First, be sure that you can meet unexpected financial challenges head-on by building an emergency savings fund equal to between three and six months' worth of expenses. Estimate the size of your fund by calculating your monthly mandatory expenses — essential costs like rent or mortgage payments, utility bills and groceries. Then, set a goal to save between three and six times that amount. You can dip into this fund for unexpected bills, medical emergencies and job or other income loss. Just remember to start replenishing your emergency fund after you tap into it.
- **Retirement.** It's also vital to set aside money from each paycheck to put toward retirement savings. Many experts recommend saving between 10% and 15% of your income each year for retirement. However, the exact amount you save depends on your income and retirement goals. You can plan to spend about 80% of your income for each year of retirement. Although some of this amount will be covered by federal benefits like Social Security and Medicare, you'll need to make up the rest through your own savings and investments.
- **Long-term savings.** A portion of your paycheck should also go toward a dedicated long-term savings fund, which will cover significant expenses you'll encounter throughout your life. This is the place to save for a home down payment, renovations, tuition bills, family planning, travel and more.

## How to save money while living paycheck to paycheck

Even if you don't have much money to spare, you can still make regular saving a part of your financial life. Here's how to set aside money each payday, even if you're living paycheck to

paycheck:

- **Cut down on spending where possible.** Reduce or eliminate any expenses your household can do without, such as eating out, subscription services and retail shopping.
- **Manage your debt.** Dedicate as much money as your budget allows to paying off your debt, focusing initially on credit cards and other high-interest debt.
- **Enroll in automatic savings.** Setting aside a fixed portion of your income before you have a chance to spend it is a simple way to bolster your savings. Take advantage of any direct deposit or automatic payroll deductions offered by your retirement, savings and investment accounts.
- **Improve your financial knowledge.** Understanding how to manage your finances can help you better understand how you spend your money each month.

Remember: When it comes to savings, every bit counts. Making room in your budget to save money each month is a key first step toward reaching your financial goals.

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