



How This Budget Breaks Down 20%: Savings

Finally, try to allocate 20% of your net income to savings and investments. This includes adding money to an emergency fund in a bank savings account, making IRA contributions to a mutual fund account, and investing in the stock market. You should have at least three months of emergency savings on hand in case you lose your job or an unforeseen event occurs. After that, focus on retirement and meeting other financial goals down the road.

Important: If emergency funds are ever used, the first allocation of additional income should be to replenish the emergency fund account.

Savings can also include debt repayment. While minimum payments are part of the "needs" category, any extra payments reduce the principal and future interest owed, so they are savings.

