The Magic Numbers of Money

A Simple Guide to the Time-Tested Thumb Rules of Personal Finance and Investing

By SubbuS, a Retired Banker | July 2026

1. Introduction: Why "Magic Numbers"?

Money management can feel complicated. Interest rates, asset classes, inflation, retirement planning — where does one even begin? Fortunately, over decades, the world of finance has distilled its wisdom into a handful of simple numbers and ratios — what many fondly call the **"magic numbers"** of investing. Numbers like **50:30:20, 72, 114, 144, 100-minus-age, 15-15-15** and the **4% rule** act as ready reckoners. They will not replace detailed financial planning, but they give you a quick, reliable starting point — much like a thermometer gives a quick reading of your health.

This article walks you through these magic numbers **one by one, in a logical sequence** — starting with how to split your income, moving on to how money grows, how to spread it across asset classes at different ages, how much to keep for emergencies, insurance and retirement, and finally how to build healthy money habits early in life. The language is deliberately simple; every rule is illustrated with everyday examples in Indian rupees.

> *"Do not save what is left after spending, but spend what is left after saving."* — **Warren Buffett**

2. Money Management Basics — The Foundation

Before any magic number can work, three basics must be in place:

- **Pay yourself first.** The moment your salary or income arrives, set aside your savings and investments **first**, and spend only what remains. Most people do the opposite — they spend first and try to save the leftover, which is usually nothing.
- **Know where your money goes.** Track your expenses for two or three months — a simple diary or a mobile app will do. You cannot manage what you do not measure.
- **Spend less than you earn — always.** This sounds obvious, but it is the single habit that separates the financially secure from the financially stressed. Debt taken for consumption (gadgets, holidays, dining) is the fastest way to reverse this equation.

Once these basics are in place, the first magic number tells you **how** to divide your income.

3. The 50:30:20 Rule — Dividing Your Income

Popularised by U.S. Senator Elizabeth Warren in her book *All Your Worth*, this is the most famous budgeting thumb rule in the world. It says: of your **take-home (post-tax) income**, allocate:

Share	Category	What it covers
50% — Needs	Non-discretionary	Expenses you cannot avoid
30% — Wants	Discretionary	Expenses you choose to incur
20% — Savings	Savings & investments	Your future self's salary

3.1 Non-Discretionary (Needs) — the unavoidable 50%

These are expenses you **must** incur to live and earn — you have little or no choice about them. Examples:

- **Housing:** house rent or home-loan EMI, property tax, society maintenance charges.
- **Food and groceries:** basic provisions, milk, vegetables, cooking gas.
- **Utilities:** electricity, water, mobile/internet (basic plans), fuel for commuting.
- **Health and education:** insurance premiums, medicines, doctor visits, children's school fees.
- **Obligations:** minimum loan repayments, support to dependent parents.

Example: if your take-home pay is **₹1,00,000 per month**, your needs should ideally stay within **₹50,000**.

3.2 Discretionary (Wants) — the optional 30%

These are expenses that improve your lifestyle but which you could reduce or postpone without real hardship. Examples:

- Dining out, food delivery, movies, OTT subscriptions beyond the basics.
- Vacations and weekend getaways; festival shopping beyond essentials.
- The latest smartphone or gadget upgrade when the old one works fine.
- Branded clothing, jewellery for fashion (not investment), gym/club memberships, hobbies.
- A bigger car than you need; frequent cab rides where public transport would do.

The honest test: *"If my income stopped for three months, would I still spend on this?"* If the answer is no, it is discretionary.

3.3 Savings — the non-negotiable 20%

At least **20% of take-home income** should go into savings and investments — emergency fund, provident fund contributions beyond the mandatory, mutual fund SIPs, PPF, NPS and so on. In the example above, that is **₹20,000 every month**. Young earners with low responsibilities should push this to **30–40%** — the extra 10–20% early in life compounds into a fortune, as we shall see with the Rule of 72.

Variants you may hear of: the stricter **60:20:20** (needs:wants:savings) for high-cost cities, and the aggressive **50:20:30** where 30% is saved. The exact split matters less than the discipline of a split.

4. The Number 6 — Your Emergency Fund

Before investing a single rupee in markets, build an emergency fund of **3 to 6 months' essential expenses** (6 is the safer number; self-employed people and single-income families should aim for **6 to 12 months**). This money is for job loss, medical emergencies or urgent family needs — not for shopping festivals.

Keep it **liquid and safe**: a sweep-in fixed deposit, a savings account, or a liquid mutual fund. Returns hardly matter here; **accessibility matters**. If your essential monthly expenses are ₹50,000, your emergency fund target is **₹3–6 lakh**.

5. The Rules of 72, 114 and 144 — How Money Multiplies

> *"Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."* **— attributed to Albert Einstein**

These three numbers answer the most common investor question: *"In how many years will my money grow?"* Simply divide the number by the annual rate of return:

- **Rule of 72 — Doubling:** Years to double = **72 ÷ rate of return**. At 8%, money doubles in 72 ÷ 8 = **9 years**.
- **Rule of 114 — Tripling:** Years to triple = **114 ÷ rate of return**. At 8%, money triples in about **14.25 years**.
- **Rule of 144 — Quadrupling:** Years to quadruple = **144 ÷ rate of return**. At 8%, money grows four-fold in **18 years**. (This is simply two doublings: 72 × 2 = 144.)

A ready reckoner at rates common in India today (PPF currently earns 7.1% and EPF 8.25% per annum; equity is assumed at an illustrative 12%):

Annual return	Doubles in (72)	Triples in (114)	Quadruples in (144)
6% (typical FD)	12 years	19 years	24 years
7.1% (PPF)	~10 years	~16 years	~20 years
8.25% (EPF)	~8.7 years	~14 years	~17.5 years
10%	7.2 years	11.4 years	14.4 years
12% (equity, illustrative)	6 years	9.5 years	12 years

Why does this matter? Because it shows, in seconds, the enormous difference a few percentage points make over time. ₹10 lakh at 6% becomes ₹20 lakh in 12 years; at 12% it becomes ₹40 lakh in the same 12 years — **double the rate, four times the wealth** over that period.

Two useful cousins of these rules: the **Rule of 70** (70 ÷ inflation rate = years for money's purchasing power to halve — more on this in Section 12), and the mathematically precise **Rule of 69.3** used for continuous compounding — 72 is preferred simply because it divides neatly by 2, 3, 4, 6, 8, 9 and 12. These rules are approximations; they work best for returns between roughly 5% and 15%.

6. The "100 Minus Age" Rule — Asset Allocation by Age

How much of your investment should be in equity (shares, equity mutual funds), and how much in safer assets? The classic thumb rule: **Equity % = 100 − your age**. A 30-year-old would hold 100 − 30 = **70% in equity**, and the balance 30% in debt and other stable assets. The logic is simple: the younger you are, the more time you have to ride out market ups and downs, so you

can afford more equity for higher long-term growth. As you age, you gradually shift towards income and capital preservation.

With rising life expectancy, many planners now use **110 − age** or even **120 − age** for those comfortable with risk, since retirement savings must now last 25–30 years after retirement.

6.1 Suggested allocation across asset classes at different ages

The table below is an **illustrative** allocation combining the 100-minus-age idea with common planner practice for gold/silver and real estate. It assumes a moderate risk profile.

Age band	Equity	Debt / Fixed income	Gold / Silver	Real estate (investment)*
20s	70–80%	10–20%	5–10%	0–5%
30s	60–70%	20–25%	5–10%	5–10%
40s	50–60%	25–35%	5–10%	10–15%
50s	35–50%	40–50%	5–10%	10–15%
60s & beyond	20–30%	55–70%	5–10%	As needed

**The house you live in is a consumption asset, not an investment, and is excluded from this table.*

- **Equity** (direct shares, equity mutual funds, index funds, ELSS): the growth engine; historically the best inflation-beater over 10+ year periods, but volatile in the short run.
- **Debt** (EPF, PPF, bank FDs, debt mutual funds, government bonds, senior citizen schemes): the stabiliser; predictable but modest returns.
- **Gold and silver** (gold ETFs, gold mutual funds, physical metal in moderation): a hedge against inflation and crisis; most planners cap it at **5–10%** of the portfolio.
- **Real estate**: can build wealth but is lumpy, illiquid and has high transaction costs; suitable once the core financial portfolio is in place.

Remember to rebalance once a year: if a great equity year pushes your 60% equity allocation to 70%, sell some equity and restore the balance. Rebalancing quietly forces you to "buy low, sell high".

7. The 10-5-3 Rule — Realistic Return Expectations

What returns should you reasonably expect over the long term? The classic answer: **10% from equity, 5% from debt/fixed deposits, 3% from savings accounts**. In the Indian context the absolute numbers run somewhat higher — long-term equity has delivered around 11–12%, quality debt 6–8%, and savings accounts 2.5–4% — but the **hierarchy** is the timeless lesson: equity

beats debt, debt beats idle cash, and anyone promising "assured" 20–30% returns deserves your deepest suspicion. If it sounds too good to be true, it is.

8. The 15-15-15 Rule — The SIP Crore-Maker

A favourite of mutual fund investors: invest **₹15,000 per month** through a SIP for **15 years** at an assumed **15% annual return**, and you accumulate approximately **₹1 crore** (total invested: only ₹27 lakh; the remaining ₹73 lakh is the magic of compounding).

Its dramatic extension, the **15-15-30 rule**: continue the same ₹15,000 SIP for **30 years** instead of 15, and the corpus grows to roughly **₹10 crore** — ten times the money for double the time. That asymmetry is the entire case for starting early. A note of realism: 15% is an optimistic assumption; even at a more conservative 12%, ₹15,000 a month for 30 years builds about ₹5.3 crore — life-changing money for a middle-class household.

9. The Rule of 25x and the 4% Rule — Retirement Numbers

How large should your retirement corpus be? The Rule of 25 says: **25 times your expected annual expenses at retirement**. If you will need ₹12 lakh a year, you need a corpus of about **₹3 crore**.

Its mirror image is the **4% withdrawal rule** (from the well-known American "Trinity Study"): withdraw **4% of your corpus in the first year of retirement**, increase the amount by inflation each year, and a balanced portfolio should last about 30 years. 4% of ₹3 crore = ₹12 lakh — the two rules are the same coin, viewed from both sides.

Indian planners often prefer a more conservative **30x corpus (about a 3.3% withdrawal)** because our inflation runs higher than in the West and lifespans are lengthening. Early retirees should also lean towards 30x–35x.

10. Insurance Numbers — 10x Income and More

- **Life cover = 10 to 15 times annual income.** A pure **term insurance** policy for 10–15× your annual income (plus outstanding loans) protects your family's future at a very small premium. Someone earning ₹12 lakh a year should hold roughly **₹1.2–1.8 crore** of term cover. Buy term insurance for protection; invest separately — avoid mixing the two in expensive endowment or money-back policies.
- **Health cover of at least 50% of annual income** is a common thumb rule — with a practical floor of **₹10–15 lakh family floater** in metro cities, given that medical inflation in India runs at an estimated 10–14% a year, far above general inflation.
- **Buy insurance young.** Premiums lock in at your entry age; a term plan bought at 25 can cost roughly half of one bought at 35.

11. Borrowing Numbers — 40%, 20/4/10 and 3–5x

- **The 40% EMI rule:** all your loan EMIs put together should not exceed **40% of take-home income** (banks themselves apply similar caps while sanctioning loans). Beyond this, one setback — a job loss, a medical bill — can topple the household budget.
- **The 20/4/10 car rule:** put at least **20% down**, borrow for no more than **4 years**, and keep total car expenses (EMI + fuel + insurance + maintenance) under **10% of income**. A car is a depreciating asset — the rule stops it from eating your wealth.
- **The 3–5x home rule:** the price of the house you buy should ideally not exceed **3 to 5 times your annual household income**, with the home-loan EMI within 30–35% of take-home pay and at least 20% paid as down payment.
- **Credit cards:** pay the **full** bill every month, always. Revolving credit at 36–42% a year is the Rule of 72 working **against** you — at 40%, your debt doubles in under two years. Keep credit utilisation below 30% of your limit and your credit score above **750**.

12. Inflation — The Silent Thief (and the Rule of 70)

> *"Inflation is taxation without legislation."* **— Milton Friedman**

Inflation is the slow, invisible rise in prices that erodes the purchasing power of money. India's retail (CPI) inflation was about **3.9% in May 2026**, and has averaged roughly **5–6% over the long run**. Education and healthcare costs typically inflate much faster — often **8–12% a year**.

The **Rule of 70** measures the damage: **70 ÷ inflation rate = years for your money's purchasing power to halve**. At 5% inflation, ₹1 lakh kept idle in a locker will buy only half as much in **70 ÷ 5 = 14 years**. At 7%, in just 10 years.

What matters to an investor is therefore the **real return** — return *after* inflation (and tax). A fixed deposit earning 6.5% against 5% inflation gives a real return of barely 1.5% — and less after tax. This is why "safe" instruments alone can quietly make you poorer.

How to navigate inflation

- **Hold growth assets.** Over long periods, equity has been the most reliable inflation-beater; that is why the 100-minus-age rule keeps young investors equity-heavy.
- **Don't let money idle.** Beyond the emergency fund, cash in a savings account is a guaranteed real loss.
- **Plan goals in future rupees.** An education that costs ₹20 lakh today will cost about ₹52 lakh in 10 years at 10% education inflation. Always inflate the goal before working out the SIP.
- **Use inflation-hedges sensibly.** Gold (5–10% of portfolio) and, where suitable, real estate provide partial protection.
- **Give yourself inflation "increments".** Step up your SIP by 5–10% every year as your income rises — a "step-up SIP" roughly keeps your savings rate honest against inflation.

13. Building Healthy Money Habits in Your 20s

> *"An investment in knowledge pays the best interest."* **— Benjamin Franklin**

Your 20s are the most valuable investing decade of your life — not because you earn the most, but because your money gets the **longest time to compound**. Consider: at 12% returns, a SIP of ₹10,000 per month started at **age 25** grows to about **₹6.5 crore by 60**; the same SIP started at **age 35** reaches only about **₹1.9 crore**. Those ten early years — just ₹12 lakh of extra contributions — make a difference of over ₹4.5 crore.

Habits worth building before 30:

- **Start a SIP with your first salary** — even ₹500. The amount matters far less than the habit.

- **Follow 50:30:20 from day one**, and push savings towards 30–40% while responsibilities are light.
- **Build the 6-month emergency fund first**, then buy term and health insurance, then invest for growth — in that order.
- **Never revolve credit-card debt**; keep your credit score above 750 — it decides your future home-loan rate.
- **Beware lifestyle inflation.** Each salary hike, raise your SIP before you raise your lifestyle.
- **Use the 30-day rule for big purchases:** wait 30 days before any large discretionary purchase; most temptations do not survive the wait.
- **Invest in your own skills** — the one asset class with unlimited returns — and learn the basics of every product before you put money into it.
- **Avoid tips, hot stocks, and "guaranteed doubling" schemes.** Boring, regular, diversified investing wins.

14. A Word of Caution — Rules of Thumb, Not Rules of Law

Every number in this article is a general indication, not a prescription. Personal finance is, above all, **personal**. The right allocation and savings rate for you depend on:

- **Your risk profile:** a 30-year-old who loses sleep over a 10% market fall should hold less equity than the 100-minus-age rule suggests; a 55-year-old with a solid pension may comfortably hold more.
- **Your goals and time horizons:** money needed within 3–5 years belongs in debt, whatever your age.
- **Your income stability and dependants:** a government employee with a pension and a freelancer with three dependants need very different cushions.
- **Your knowledge of, and passion for, an asset class:** someone who deeply understands real estate, or tracks equity markets as a serious pursuit, may justifiably overweight that asset class — provided the basics (emergency fund, insurance, diversification) are never sacrificed.
- **Taxation and liquidity needs**, which change with laws and life stages.

Treat the magic numbers as the **starting point of a conversation** — with yourself, and ideally with a SEBI-registered investment adviser — not the final word.

15. All the Magic Numbers at a Glance

Magic number	What it says	Use it for
50:30:20	Needs 50%, wants 30%, savings	Monthly budgeting

	20% of take-home pay	
3–6 (months)	Emergency fund of 3–6 months' expenses (6–12 if income is irregular)	Financial safety net
72	72 ÷ return = years to double money	Growth estimation
114	114 ÷ return = years to triple money	Growth estimation
144	144 ÷ return = years to quadruple money	Growth estimation
70	70 ÷ inflation = years for purchasing power to halve	Understanding inflation
100 − age	Percentage of portfolio in equity (110/120 − age for aggressive investors)	Asset allocation
10-5-3	Long-run return expectations: equity > debt > cash	Setting expectations
15-15-15	₹15,000/month at 15% for 15 years ≈ ₹1 crore (30 years ≈ ₹10 crore)	SIP goal-setting
25x / 4%	Retirement corpus = 25× annual expenses; withdraw ~4% a year (30x for conservatives)	Retirement planning
10–15x	Term life cover = 10–15 × annual income	Life insurance
40%	Total EMIs ≤ 40% of take-home income	Borrowing limits
20/4/10	Car: 20% down, ≤4-year loan, ≤10% of income on total car costs	Vehicle purchase
3–5x	House price ≤ 3–5 × annual household income	Home purchase
750	Minimum healthy credit score	Creditworthiness
30 (days)	Cooling-off period before large discretionary purchases	Impulse control

16. Conclusion

Wealth is rarely built by brilliance; it is built by **boring consistency** — spending by a plan (50:30:20), protecting the downside (6 months, 10–15x), letting compounding do the heavy lifting

(72, 114, 144, 15-15-15), allocating sensibly for one's age (100 − age), respecting inflation (70), and starting absurdly early. The numbers in this article have survived decades because they capture these truths in a form anyone can remember. Use them as your compass — and adjust the map to your own terrain.

> *"Someone's sitting in the shade today because someone planted a tree a long time ago."* **— Warren Buffett**

Disclaimer

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