

Budgeting Without Tears

If you hear the word “budget” and wince, you’re not alone. Even financial planners don’t always like the term, even though it’s a basic part of what they do. Putting a pre-determined limit on your outlays does have a negative side. It means you have to watch what you’re spending and exercise some control. Arguments over budgeting also can strain marriages. If a couple doesn’t share the same priorities and savings goals, these differences come quickly to light when they try to agree on a spending plan.

But budgeting, cash-flow management or whatever else you might want to call it also is a form of empowerment. If you create a reasonable plan and follow it, you’re truly in charge of your money. Your spending now follows your long-term priorities, not short-term habits or whims. Far from depriving yourself of what you want most, budgeting makes it easier for you to have those things without the guilty sense that you’re spending too much.

Think about that big vacation you’d love to take but can’t afford now. In two years you might be able to afford it if, in the meantime, you figure out a way to trim spending on other things that are lower on your priority list. If you can trim \$3 a day by taking your lunch to work rather than eating out, for instance, you can save something close to one round-trip air fare from Los Angeles to Hawaii.

A lifelong habit

When should you start budgeting? As early as possible. When do you need to stop? Never, as long as you want to avoid having to worry about money. If you’re just starting out in a career and haven’t already budgeted expenses in college, it is crucial to start tracking your cash flow now, with the goal of saving some money with every paycheck. Not only will this bring you closer to near-term goals such as a new car or, somewhat later on, a new condo or starter home, but it will help you learn a lifelong habit of organizing your spending so that you live comfortably below your means. Also, a dollar saved when you’re 25, invested for the long-term, will be worth a lot when it’s time to retire (for example, at 7 percent interest a year, it grows to nearly \$15).

Later on, new expenses arise as you raise children, pay for your children’s college education and build up assets for a secure retirement. You will need to make room in your budget for life and disability insurance—critical needs when you have dependents. College saving, in addition to saving for retirement, will probably enter the picture as you move into your 30s and 40s. Incomes also tend to rise during this time, but so do costs, and uncontrolled spending can easily wipe out the gains you may be making through raises and promotions at work.

As retirement approaches, budgeting serves a dual purpose of controlling spending, as before, and also helping you plan for retirement by giving you a clear picture of what you will need to spend to maintain your desired lifestyle. By knowing how much you currently pay for work-related costs—commuting, work clothes, meals and so forth—you

will know how much of a “raise” you will get when you no longer need to pay for these items. The same goes for your retirement saving plan. Whatever you’re putting aside now, that amount will no longer be in your budget when you actually retire and are living off your savings. On the other hand, getting a handle on the costs of your travel and leisure activities will give you a clue of what you might end up spending when you have more time for such things.

Once you retire, budgeting is important to keep your spending comfortably within your income, which is now largely fixed. It is important to continue tracking your outlays to adjust to changes, such as rising health-related costs.

Pause for planning

Aimee McCrory, a financial planner in Houston, Texas, says getting on a budget is a crucial early step toward taking control of your financial future. “Your finances are constantly in motion, so you have to stop for a moment to set spending goals and make sure you’re meeting them.”

First, you have to know just how much you are spending and on what. This is easy to do with the bills you pay monthly or less frequently, such as your rent or mortgage, gas and electric bills, property taxes, insurance and the like. But some of these, such as taxes and rent or house payments, are largely fixed.

The more variable expenses, those you can easily change, are ones you might not have been tracking, like groceries and gasoline. You might want to look especially hard at the cash you take out of the bank. This part of your spending leaves no paper trail of checks or credit-card statements. But it can come to thousands of dollars a year. You could be nickel-and-diming yourself to debt.

Track the small stuff

Keep a log of everything, including the cash you lay down for lattes. Then do some organizing. Sort your spending into categories (such as groceries, clothing, toys, restaurant meals) to get a clearer picture of your cash-flow patterns.

Once you know where your money is going, you can start redirecting it to fit your priorities. You might find it a good tradeoff to save several hundred dollars a year (for that big vacation?) by carpooling to work. Where to begin? McCrory suggests you start with the short-term spending, the items you can track weekly. Then work on the monthly, quarterly and less frequent expenses. Continue to track your spending to see if you’re meeting your budget targets.

And don’t forget to budget for savings right off the top, as your highest-priority “spending” item. “Ideally,” says McCrory, “I take the first 10 percent of my paycheck and just put it away. It’s like the piggy bank thing.”

Resources

If you have a computer at home, you can save a lot of effort by using Quicken or Microsoft Money home-finance programs. Buy the cheapest, “basic” versions. These make it easy to assign your spending to categories, which can then be used to build a budget.

Before buying any books on budgeting, find out how much you’ve been spending on books. Then consider how you might get the same benefit for less by using the local library more. On the subject of living within one’s means, a popular title is *Your Money or Your Life: Transforming Your Relationship With Money and Achieving Financial Independence* by Joe Dominguez and Vicki Robin. Penguin, 1999.

By Tom Gray

© 2001 LifescapeSolutions