

HOUSEHOLD BUDGETING TIPS FROM FINANCIAL PLANNERS

Financial planners regard a household budget as central to building wealth and creating a financially secure life. Here are a handful of tips that many CERTIFIED FINANCIAL PLANNER™ professionals use with their clients.

Don't call it a 'budget.' Planners often prefer alternative descriptions such as a "savings and spending plan" or "cash-flow management." This isn't merely semantics. A "budget" connotes a straitjacket, doing without, while a "savings and spending plan" focuses on being in control of your spending and making informed choices for directing dollars to where you most want them to go.

Budgeting is for everyone. Planners report putting even affluent clients on spending plans because they, too, frequently struggle to save adequately and control spending.

Spend less than you earn. Building wealth and financial security is based on a simple premise: spending less than you earn. That's difficult to do if you don't know what you're earning and where you're spending it. That's the role of a spending plan.

Develop a financial plan. Trying to create a useful budget without a comprehensive financial plan is like working a trapeze without a net. CFP® professionals find that clients are most motivated to stick to a budget after they develop a financial plan based on their life's financial goals and values. Then they establish a spending plan that supports those goals and values. If you need to save \$500 a month for a goal but have only \$200 in surplus cash flow, you'll more easily understand that you have to either adjust your goal or your spending.

Pick a method that fits you. Planners find that some clients work best with a detailed spending plan that tracks every penny. Other clients seem to do better with a "top-down" approach: they first set aside funds for their savings goals and major expenditures such as a home, insurance, and groceries, and let the little stuff fall where it may.

Pay priorities first. Regardless of what approach you take to budgeting, a key is to be sure priorities are paid first. That reduces what you can potentially fritter away on less consequential spending.

Track spending. Even if you prefer a more general "top down" approach to budgeting, it's often insightful to initially track all your spending closely for at least several months just to get a feel where your dollars are going. Many households don't have a clue where their money goes. The process can help identify funds you can afford to move to the top for additional savings.

Track the cash. Planners sometimes chuckle when the largest expense category in a client's budget is called "miscellaneous." That's why they recommend meticulously tracking cash expenditures for a month or two. You'll probably be surprised how much money disappears into that miscellaneous "black hole."

Practice with short-term goals. Some financial planners find that budgeting for a short-term modest-expense goal is good "practice" and can help motivate clients to work toward more expensive long-term goals. It's like losing a pound a week on a diet – signs of progress motivate you to continue.

Spend from sub-accounts. Planners often find it effective for clients to establish savings sub-accounts such as the vacation account, the car account, the education account, the retirement account. With a single large account, it's far easier to blow money.

Automate. Another trick is to have as many of your fixed expenses, such as mortgage and car loans, paid automatically from your checking account.

Cheat. It's OK to *occasionally* "cheat" by overspending in a category without ruining your budget or feeling like a failure.

Look for signs. Regardless of how detailed or broad you are with your spending plan, there's a simple way to gauge whether it's working: are you increasing savings and decreasing debt at a good pace – or are you dipping into savings and investment accounts to meet cash-flow needs? In short, are you building net worth (assets minus liabilities)?

Check in now and then. Like all aspects of your financial life, you need to check in with your spending plan now and then to see if it's still accomplishing what you need for your circumstances. Perhaps you've experienced major changes in your life that require refining or revamping your spending plan.

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