

BFAS Money Line

Where Does the Money Go?

While much of financial planning involves investments and insurance, one of the most important elements of a financial plan is finding out where your money goes now. This can be threatening to some people. They fear this will open them up to criticism for their spending on a hobby or shopping or whatever.

You notice, I purposefully have not used the "B" word. Yes, "Budgeting" has all the negative connotations of sacrifice and rigid spending constraints. Rather, I prefer developing a "Spending Plan." A spending plan will show where the money goes now. With this basic information you can start to make value judgments about the "correctness" of the spending amounts.

How do you develop a spending plan? You can start a ledger or preferably use a computer program such as Quicken. Quicken for Windows is very user friendly and flexible. Those who want to track every penny can do so, or you can just track the large expenditures.

Does it take a lot of time? After spending ten to twenty hours setting everything up, I normally spend about an hour a week tracking expenditures. I recommend starting on January 1st because it is easier to track expenditures from year to year, but starting anytime is better than not having a spending plan at all.

Where do I get the information to put into Quicken? Keep receipts. Have a box or drawer where you stash all those receipts you get every day. Credit card receipts, receipts for cash items and your checkbook(s) will cover most of your expenditures.

How do I keep him/her from being defensive about the spending plan? Once you have developed a spending plan by tracking your expenditures over some time, print out the information and study it together. Develop a mutual understanding of how much is going where. Knowing the interest rate and total cost of the loan payments on your car may



SPENDING PLANS

influence your next purchase when the need arises. Knowing the utilities cost \$400 per month may cause you to buy a higher efficiency replacement unit. I realized I was paying 16% interest on an old loan. A quick re-finance saved \$1,400.

What do you consider normal in a spending plan? Normal varies greatly from family to family. What I prefer to do is to show how much is being set aside for their goals (typically college, a vacation home or retirement) and how much will be available for that goal based on what you are doing now. Faced with the consequences of continuing your current spending plan, you have the tools, the goals and the ability to make the value judgments necessary for changing the spending plan.

What if we are over spending in one category or another? I find that almost no category (even the cable bill!) stays exactly the same over a year. I try to figure out a rough monthly figure for each category, then track it for six to twelve months to readjust. For example, utility bills swing all over the place between the seasons. If your bill one month exceeds your spending plan, do you cut off the thermostats? I don't think so. On the other hand, if you set aside \$200 per month for utilities in your spending plan and the actual bills add up to \$400 per month, this can affect your \$200 per month savings plan. Some people cut off restaurant eating when the spending plan money has been spent. But that month could include more house guests than normal or maybe the spouse who normally cooks was ill. This could explain higher than normal restaurant costs. I tend to watch the trends more than the hard monthly numbers.

How can I save for my goal when I need all my money just to cover my monthly expenses? I find that paying yourself first makes all the difference in the world. If you set up an automatic payment plan from your checking account, you tend to adjust automatically to the reduced money available for spending. If you try to wait until the end of the month to see how much you have left to contribute to your goal, you will find you seldom have any left. It is just too easy to find other things to buy.

So in the overused words of the Nike commercials, Just Do It!

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