

Why on Earth Would I Ever Want to Budget?

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You might be like most people – you are great at spending money, but have trouble saving it, and the word “budget” terrifies you. You may have started a budget, but had trouble sticking to it; or perhaps you have never thought of a budget because you simply do not understand its value. In fact, many people are afraid to know what their financial situation really looks like. When it comes to your finances, the result of a *laissez-faire* attitude is often financial ruin and unnecessary stress.

We all know that a budget is the intentional planning of your available financial resources while accounting for both anticipated and unanticipated expenditures. The goal of successful budgeting is to ensure that your income sufficiently meets and exceeds your expenses, while at the same time making sure that you are saving enough for the future.

Budgeting is very important. It not only helps you understand *how* you spend your money, it also ensures that you have enough savings set aside for financial emergencies, your retirement, or major household purchases. You will likely discover money you never thought you had!

Quite often, a budget will reveal specific areas in which you know you can easily reduce your *discretionary* spending. You may notice that you spend excessive amounts on take-out food. Could this money be better spent?

One thing to keep in mind is that your budget should be realistic. Make sure that you allow for nonrecurring items, such as car expenses, or your child’s hockey membership fee. A realistic budget allows you to still spend money, but it makes you mindful of the necessity of the purchase.

Commit to following these four steps:

The first step is to arrange your bank statements, credit card statements, household bills, and be sure to schedule some uninterrupted time away from all distractions. Now analyze the previous months figures to determine what you earned, and itemize what you spent. A spreadsheet set up on a computer can really help out and save time.

It is good practice to itemize your expenses into two categories – fixed and discretionary. Fixed expenses are recurring monthly amounts, such as mortgage payments and car insurance, while discretionary expenses encompass your lifestyle, such as entertainment and clothing. Now itemize your expenses as a percentage of income. Be as detailed as possible, as this will help you in the next step.

The second step requires you to analyze the findings and ask yourself some questions:

- Are these results representative of a typical month?
- Is my income sufficient to meet my lifestyle?
- What are my largest expenses?
- How can I increase my income?
- What are some expenses that can be reduced or eliminated (i.e. excessive restaurant spending, or frequent trips to the coffee shop)
- Am I paying off my credit card(s) each month?
- Am I saving anything for retirement? If not, why not?
- Am I getting ahead, or should I seek the advice of a Certified Financial Planner who can assist me in uncovering financial resources I never thought I had.

The third step is to diligently track your expenses for the following month. Carry a notepad and pencil with you for the next thirty days. Every dollar you spend, from haircuts to chewing gum, write it down along with the date. You will begin to think twice before indulging in frivolous spending.

The fourth step is, at the end of the month, to repeat steps one to four. By doing this exercise for a couple of months with brutal honesty, I guarantee that you will notice the once prominent discretionary expenses are no longer as evident as they once were. Ultimately, you will target and discard bad behaviour, and you will uncover resources to reward good behaviour.

Lifestyle is about balance, and your budget is no different. By using a realistic and manageable plan, you will be well on your way to achieving your financial goals.

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