

Absolute Financial Control

Knowing where all your money comes from.
Full knowledge and control of where it goes.

Absolute Financial Control

An Guerilla Tactics Guide To Household Financial Management By Glenn Roberts

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The What and Why We Did All This

This book is about how my wife and I gained absolute financial control of our household expenses. As we became more financially secure we realized that our process worked for us when our income was significant, as well as when our income was modest or below modest. It worked through market down turns, including 2008 and it works for us in retirement.

When, in the 1970s, my wife and I decided to take control of our finances we didn't just want to spend less or save more. We wanted to know where every dollar went. We wanted impulse spending to be tightly monitored. WE WANTED ABSOLUTE CONTROL OF OUR FINANCES.

This entire book is about what we did and how we did it.

Back in the 1970s, my wife and I had a financial awakening. We were absolutely convinced that we were financially responsible and practical. One day, however, something strange dawned on us. Despite our self approved wise and careful spending habits, the big DUH smacked us in the face: There was never any money left over at the end of the month.

To disprove our own disbelief, we sat down one evening and wrote down all our expenses. It seemed that although our monthly take home pay was about \$500 more than our expenses, that \$500 was missing. There was no money left at the end of the month. This was as frightening as it was intriguing. This is also what set us on the course of **no holds barred, absolute, financial control**.

Budgeting, sure. Cutting back on some things, okay. Putting money to save aside at the beginning of a pay cycle, a wise move. But really, much more than this. We wanted to know exactly what we were spending our money on from the smallest purchases to the monthly rent.

Once our plan was put into action, much of our anxiety decreased, simply by knowing where the money was going. Since we also decided to cut back in certain areas and work on ways to spend less on necessities like groceries, utilities and auto costs, our total spending decreased significantly. **It is interesting to note here, that the significant savings came from multiple small savings.** We were not able to save a huge amount on any single item.

One day, or maybe over an extended period of time, you may realize something really bothers you, such as:

Your financials are in shambles (and you may or may not know why).

Are you spending more than we are earning and putting a lot on our credit card, with an ever expanding monthly balance?

Or is it possibly as simple as too many bills for basics that you just do not have the money to pay?

You have enough money for everything, but it all gets spent and you are not sure where it goes.

At the end of the month, or pay period, you are not in debt, but you ARE out of money. There is no savings and you are not prepared for any type of emergency.

After extracting yourself from credit card debit or payday loan debt, you always find yourself back there.

I know people who go back into credit card debt repeatedly. The reason is simple. Paying off the debt has nothing to do with long term management of income.

You have tried saving money and budgeting techniques, but nothing seems to work.

We went through this process. To get our budget to really work we had to brutally identify and classify NEEDS and WANTS. We then had to *live by our budget decisions*.

Within certain guidelines it does not matter what your income is. How we manage money worked for us no matter how much we made. Sometimes we thought we barely had enough to almost get by, until we went through the exercise of really learning where our money went and how to better control expenses and spending. Alternatively, I know people who make exceptional amounts of money and have nary a dime in savings.

It is important to note, however, that the financial control tactics in this book will require exceptional self control. The more control and financial well being you want, the more you will need to manage your spending.

This is not, necessarily, an all or nothing solution, however.. We did it all, and it worked well for us. In hind sight while it was all useful, we are not sure it was all necessary.

Goals of Money Management can be any of these:

1. You want complete control of spending, budgeting and savings.
2. You just want to cut costs where it is possible.
3. You want to start saving money.
4. You want to get out of credit card debt and stay out.
5. You need to know how you are spending your money, but do not need to change.

To repeat, this is NOT an all or nothing approach. The tools may work under many combinations of usage.

- For example, if you currently are not in debt (except mortgage or car loan) and have money left over at the end of the month, you may want to skip the section on figuring out your expenses and start setting up a budget.
- You want total control and complete knowledge of all aspects of your household finances.
- You just want to be able to put some money aside for a rainy day or emergency.
- If you feel a strict budget is the only way you will get control of your spending, however, then this too, is a option.

Create a workable budget.

There are many sources of free and paid budget charts and spreadsheets on the web and in book stores. If you want to see how we did it, however, read the detail section on Budgets.

How did we get from here to there?

The only real way to know what we spent on things was go through the exercise of:

1. Writing down what is easy, like rent, mortgage, auto loan payments, insurance, internet and fixed rate phone bills, etc.
2. Investigating, then writing down expenses that are not complicated but not immediately certain, like utilities (if we are not on a plan), out of pocket medical bills over the last two to three years (then get a monthly average) and donations to charities.
3. Tracking highly variable expenses, for several months, then writing them down. This would include items like groceries, gasoline, clothing, dining out, entertainment, vacations and impulse purchases.

When we had this all figured as monthly expenses, we added it up and see how it compares to our take home, monthly, income.

Our Budget 1974 to 2010.

Initially, after we went through all the processes in this book, we decided to live on ONE salary only, because we could.

The budget was updated regularly for almost 10 years. When I lost my job during this time, because the budget was slated to one salary only, we made some minor adjustments on discretionary spending and put my unemployment insurance checks in the savings bank!

Later, when my wife stopped working to raise children and my income increased significantly, we re-did the budget to reflect about 20% more spending. The rest we saved.

At about year 10, I lost my job and my wife was not yet working. Because we had been sticking to the budget, even though I had been earning a lot more than when we first started, there was no panic. Yes, we did change to austerity budget mode (no dinners out, vacations became camping trips) and lived off savings for awhile. The budget had kept us from increasing our standard of living to match our income, so we had money in savings to carry us for a long time.

About this time we started our own company. The first year or two was pretty dismal and we

continued to live mostly off savings.

As the business grew, however, we took a combined salary that put us back into the regular budget. However, we never went back to manually tracking spending again (this was in 1986). The habits of 10 years were completely ingrained. From 1986 to 2008 we spent money as if we did have a written budget.

We have increased our 'take home' pay somewhat, but still a minor percentage of increased earnings.

We spent and spend discretionary monies on things we like:

- dinners out to be sure, but we are more concerned with the quality of the food than the price of the meal
- frequent travel all over the US and the world, but we shop the tours or stay in hotels below the very expensive
- new cars every ten years, but no really expensive cars
- lots of other things but most in some degree of moderation

From the spending habits of 34 years we comfortably retired in 2008. We had our own company for much of that time, so there were no retirement plans other than what we saved and invested.

We still spend like we are on a budget, but on a higher budget than we used to.

The DETAIL – How to accomplish each step. This is what we did

We made detailed monthly chart expenses. At first, we estimated or guessed on items, but did not accept those numbers as accurate until we verified them.

Why monthly? It was the easier than weekly and more accurate than a longer period. A shorter period requires more effort and time. A longer period makes it too easy to fall off the budget.

Knowing Our Exact Expenses

Before we could gain absolute control and manage spending, we need to really know what we are spending our money on.

For us this was a two step process.

The first (see 2. Income on spreadsheet) was to enter all our TAKE HOME PAY, by the month, to confirm our income.

Next, we created a list (see below and 3. Income Spending on spreadsheet). In hind sight I feel this step, while not necessary to set up a budget gave me a really good feeling of financial empowerment. It allowed me to better understand our current spending habits. This let us set up a better budget.

| | |
|--|--|
| Rent or Mortgage Payments | |
| Home owners insurance | |
| Theft insurance | |
| Real Estate Taxes (if applicable) <i>Go to our records to get exact numbers</i> | |
| All Utilities - Gas, Electric, Water, etc. <i>Contact our utility company(s) to find out what we paid annually for the last three years</i> | |
| Telephones, cell, land line or internet based <i>Once again, get actual, annual amounts from our various providers. Best to get a three year history and divide by 36.</i> | |
| Grocery food, take in for meals at home <i>Do not include any food eaten out</i> | |
| Car payments/loan | |

| | |
|--|--|
| Auto Insurance | |
| Gasoline <i>Look at our odometer. Take total miles and divide by the total months we have owned the car(s). This is our average miles per month (example 1,000 miles per month).</i> <i>Divide our average miles per month by the worst case miles per gallon for the car. This is the number of gallons of gasoline we use per month. (example 18 miles per gallon / 1000 = 55.55 gallons per month).</i> <i>Multiply the number of gallons per month x the CURRENT price per gallon of gas. This is our monthly gasoline expense</i> | |
| Tolls <i>If we have something like ezpass, it is simple to call them and get our costs.</i> | |
| Actual monthly auto maintenance other than gas or tolls. | |
| Medical Insurance | |
| Medical expenses not covered by insurance including pharmaceutical, vitamins & supplements | |
| Commutation fees for bus or train to get to work or school | |
| School tuition and other expenses | |
| Gym membership(s) <i>List specifics</i> | |
| Therapies of any kind <i>List specifics</i> | |
| Babysitting costs | |
| Other internet access services of all kinds including television access charges | |
| Dining out, fast food or restaurant, as a family, couple or with friends <i>This is going require some digging to really figure out. The only way is to go through credit card, debit card records, date books, etc. A guess is useless UNLESS we want, at this moment, to set a budget amount per month</i> | |
| Impulse Shopping <i>See below on how to understand what we spend here</i> | |
| Vacations & Long Weekends Away | |
| TOTAL MONTHLY EXPENSES | |

| | |
|---|--|
| Total Monthly Spending Income from ALL Sources <i>This could include a job, dividends, trusts, etc.</i> | |
| Net Gain Or Loss | |

As we can see from the list above, this can be extensive and not so easy to figure out.

Certain things like rent, mortgage, loan repayments, credit card debit pay down, etc. are easy. For most of us, however, we'd need to go back to our utility company for a true reading of our gas, oil or electric bills.

Our check book or credit card statements were also a good source of information.

Items like impulse shopping or lunches out, however, were really difficult to just jot down a number for. There are several ways to handle this.

The most accurate method for us was to carry a little pocket size notebook around for 30-90 days. On each page we enter items we normally buy and on one page we enter Miscellaneous.

Sample entries may look like this:

| Date | Amt | Item |
|------|----------|----------------------|
| 5/1 | \$2.00 | Newspaper |
| | \$12.52 | Lunch out |
| | \$145.00 | Monthly train ticket |
| 5/2 | \$1.00 | Coffee |
| 5/2 | \$4.50 | Magazine |
| | \$2.00 | Newspaper |
| 5/3 | \$56.89 | Gas for car |
| | \$40.00 | Dr co pay |

At the end of each day the above was put into a category of some sort, like Discretionary (possibly newspaper, lunch out, coffee, magazine), Auto (gas), Medical (co pay), Business (train ticket and maybe the newspaper and magazine).

This is an absolute method. One to three months later we knew exactly what we are spending, category by category, with a few exceptions that may pop up later.

A simpler method may still take three months, but all that requires is that we estimate or assign ourself a budget amount for the month. If we go over and can afford it we can raise the amount until it works properly.

An example of some item could be:

Rent (or Mortgage & taxes) = \$2,500 a month

Dinners out 8 per month at \$75 per = \$600 per month

Discretionary spending (impulse shopping, buy breakfast out, etc.) \$500 a month for each adult = \$1,000 a month.

WE STILL NEED TO TRACK WE SPENDING ON THE ABOVE. BUDGETTING ALONE DOES NOT CONTROL ANYTHING. Do not be upset or surprised if it takes an extended period of time to really know what you are spending ALL your money on.

Positive Flow: *If our income is significantly more that our spending, we should have money saved somewhere. That money should equal the difference between expenses and what our take home income is, multiplied by the number months this above has been true.*

For example, if our expenses are \$4,000 a month and total family take home pay is \$4,800 a month, there should be \$800 extra every month. If you are already at this point, you are in better shape than most.

Neutral Flow: *If your take home income and expenses are close to equal you have neutral flow.*

Negative Flow: *If your take home income is less than your expenses ypu need to cut back somewhere. Read on, for the how.*

What are some options if expenses are greater than income?

We need to see ways to cut back on spending. I cover some of our ideas in the detail section below. One quick thought is to do an internet search with the phrase **how to save money on xxx**. Where the xxx can be a word like groceries, appliances, dining out, household expenses, etc.

There is also the dread “**Doing Without**” the latest iAnything, Droid, Black/Blue/Straw Berry phone, the \$300 concert tickets, business class upgrade, the car that is 2000% more than you will ever use, etc. On a simpler level “**Doing Without**” could refer to the expensive restaurant meal, the \$99 software you will never need or use or more clothes or shoes.

Once my wife and I got a better handle on our expenses (see all sections on NEEDS vs. WANTS) it was time to start pruning spending.

Types of Expenses

To clarify, yet again: if we do not really know what we are paying out, for all our expenses, we are missing the point of the word “absolute” financial control. If we feel we can tackle this chore we will gain insight that will make everything else easier.

We could not do this quickly and in our head. There were too many items we really spend money on. Before any real management and possible savings is going to happen, **we needed to know where the money went.**

To do that we developed three parts to our expenses:

Real Expenses (also called **Needs**) are those that are required to live. As we proceeded we actually saw ways to decrease Real Expenses without decreasing our quality of life.

Quality Expenses (also called **Wants**) are those that we could live without but **do** contribute to our quality of life. Even more than with needs, wants almost always allow ways to effectively reduce expenses.

Unnecessary Expenses (another form of **Wants**) are those that we really could live a happy and healthy life without.

Money in the bank. The goal. As long as we were earning more than we are spending, we would be able to save.

Some Types Of Real Expenses (Needs) but not limited to:

- . • housing & utilities (rent, mortgage, utilities, basic phone service)
- . • taxes of any kind
- . • real debt that we are paying down
- . • food the we prepare and eat at home that is required to live
- . • access to get to work (private limo does not count as a need)
- . • day care services for working parents
- . • basic clothing
- . • any other absolutely necessary expenditure

Quality Expenses (Wants) include:

For most of us there are things we NEED/WANT to help remain relatively sane or happy. These may be important to our overall well being, but they are not required to live. For the moment consider them WANTS. Some examples:

- membership in a organization, like a gym or association that is a regular part of a life style that helps you feel good about your physical or mental health.
- physical or mental therapy under certain conditions (see option under Unnecessary Expenses)
- items that enrich your life in terms of learning or health

Unnecessary Expenses (also Wants, but a different kind) include:

- excessively expensive cars
- premium brands of anything you buy (details later)
- most spontaneous purchases
- mental or physical therapies that you probably could manage without
- anything you spend money on that really does not contribute to the first two expense types

Wants, be they Quality or Unnecessary Expenses, are not bad. What we can have from our list of wants really depends on what we can afford. What we can afford depends on our real expenses vs. our real take home pay vs. how much we want to save.

Some Absolute Rules we adopted for ourselves:

- With rare, oh so very rare exceptions, credit card expenditures should be treated like cash.*
 - We never created an expense that included an interest charge or a surcharge, like over drawing our account or not paying off our credit card balance.**
 - There is no such thing as a binge shopping experience, unless the binge money is specifically in the budget for that purpose.
 - A \$100 item on sale for \$75 is may be a \$25 savings off the original price. It is still a \$75 expense, however.
 - Most people cannot taste the difference between the premium brand anything, middle name brand anything and store brand anything. And, if we can, we CAN get used to the store brand if necessary.
 - Any debt with interest above the norm is not good (i.e. payday loans and credit card debt).
 - Any debt without a firm, monthly payment and a firm last payment date in no good.
 - Being a big spender, big tipper or spending on anything just to show off is only permitted if we can afford it.
 - If we are going to do all of this, do it right.
 - Any solicitation for a really great cause is only allowed if we have it in the budget.
- *An emergency would be something like an unexpected and major expense.. **Two exceptions would be mortgage and car loan.

The more we did, the more control we had:

For us, spending any money on anything that was not absolutely necessary was subject to review. This does not mean we shouldn't do it. But we absolutely need to control these expenses.

Assign Our Expenses To Categories. Once we understood the above, we went back over our Expenses chart and assigned each expense to a category: Real, Quality or Unnecessary. We were not cutting anything yet, just analyzing.

Revise our spending

This is the BIG section, where we needed to spend a lot of time. While we were not over spending, neither did we have any money for emergencies, vacations, new cars or savings.

In the spreadsheet 4. Budget Setup, there is a make believe comparison of what we were spending from section 3, compared to what we could afford to spend. The comments would be a note to ourselves as to why the two numbers were different.

The first level of expenses to cut or reduce are *Unnecessary Expenses*, followed by *Quality Wants* and last, *Real Expenses*

Some of our options were:

- Do without the item if we have identified it as an Unnecessary Expense
- Buy a less expensive version of the item such as
 - a non premium brand of food or drink
 - a lower cost premium brand
 - a different car
- Less of the item such as:
 - fewer dinners out or less expensive dinners out

There are thousands of ways to save money on everything on the internet. Use search engines with a phrase like "how to save money on (specific items)" or "how to cut spending".

Some expenses may be hard or impossible to calculate correctly. In those cases we entered an amount we felt was reasonable. Those amounts became the base amount for our eventual budget.

Sometimes, costs savings are found in one or two major areas. More often, however a real savings are actually from saving a little money in many areas.

Some little savings that build up over time:

- Switch from buying breakfast to eating at home or taking it from home. You save a couple of dollars a day. \$5 a day is over \$1,000 a year just counting work days.
 - If you switch from buying a magazine at the news stand to a subscription, you save.
 - If you cut out one fast food take home dinner a month, you save . . . or order the food, but supply drinks and sides from household groceries
 - If, every time you go to a mall you park and walk further, rather than drive in circles for 10 minutes to get a closer parking space. You save a on gas.
- ... You may save \$5 a month on our magazine/newspaper.
 ... Or save \$15 a month (\$180 a year) with one less fast food dinner for two.
 ... And, possibly, save \$10 a month on gas by parking further away and walking.

So, these ideas (there are many more) would save hundreds of dollars a year. The last three ideas alone equals \$360 a year more in our pocket or savings account. When we started, it required a bit of will power. However, after awhile it became almost (not quite) automatic.

Here are some more ways to cut back on costs:

Rent – If your rent is eating you alive, can you move to a less expensive apartment? – Really look into this if necessary.

Mortgage Payments - The most common solution is to see if you can renegotiate at a lower monthly rate. This may or may not be possible.

Heat and Air conditioning – Lower the heat thermostat by 1 degree at a time to find a comfort level. Raise the AC thermostat the same.

Telephone/Cell Phone - Do you really need the plan you have, at the cost you pay? Your phone company can actually review our history and let you know if a less expensive plan would work for you.

Lawn Care/Maids/Household help of any kind - You know the answer to this one. If you cannot afford it, you need to start doing it yourself.

Extended Warranties -It seems every time we buy something, from a refrigerator to an mp3 player to a pair of headphones, there is the option for a relatively inexpensive extended protection warranty.

However, if we add up all the money we spend on these warranties, they often cost more than the actual cost of all the repairs we would pay for should any of our appliances or electronics break.

For example, we do not get extended warranties on anything (except laptop pc's for college age children). Over the last decade, we have spent less than \$1,000 on actual repairs of items that would have been covered. Warranties on all these items, for the same time period, would have cost us over \$4,000.

Groceries - There is a tremendous amount we can do here. It depends on what we are willing to do to get our costs down.

Eating Out costs more than take in food.

Take in food costs more than buying prepared food in the supermarket.

Supermarket pre cooked/prepared food costs more than buying ingredients and cooking it yourself.

Get a cook book that meets our needs...i.e. one that deals with meals that take under 30 minutes to prepare, if we work or are raising children.

- Use coupons.
- Buy store brands or less expensive brands of branded food. Even if we prefer the high test beer, it does mean the less expensive beer is bad. Apply this to everything we buy. The supermarket does NOT manufacture its own store brands. The same companies that make the branded items make the supermarket brands.
- *This alone can easily save \$20-\$50 a month. Let's assume the ½ minimum for \$500 a year.*
- Look for sales and specials.
- Make our own salad dressing, sometimes instead of getting bottled all the time.
- Make soup from left over turkey carcasses or chickens.
- Buy a simple cook book.
- Change grocery stores if ours is pricey.

- Go to specific stores for staples, fruits and vegetables and other items if we get the same quality but spend less money.

Dining Out

- Eat at less expensive restaurants.
- Stop being a "big tipper". Be reasonable and fair, but do not over tip.
- Limit alcohol consumption at the restaurant.
- Eat dessert at home.
- Eat out less often.
- If we cannot finish the meal, DO take it home and eat it at a later time.

Vacations

- When taking tours, shop prices.
- Stay in 3 and 4 star hotels instead of 5 star.
- Eat a "picnic" style breakfast and lunch if it is not included in the trip.
- Plan trips in the U.S. when the dollar is weak, over seas when the dollar is strong.
- Try simpler vacations. Much of this just a matter of sitting down to think about what we spend money on. If we need to cut spending, it often hurts less to cut a little from many places than a single large chunk.
- Set a firm spending budget for gifts before we go.

Gyms and Clubs - What does the expensive club we go to have that the less expensive club does not? Can we afford the expensive club? If not, can we live with the less expensive club/gym?

The New Car - Not a single friend or relative who really gives a hoot about we will care if our new car costs \$15,000 or \$80,000. Once again, if we need to get our finances under control, we will live with a more modest car.

The Rest of Our Expenses - Examine each one and brutally assess whether it is a Need or a Want at the level we wish to have. If it's a Want and we cannot afford it, we should not do it.

We eventually found ourselves saving several thousand dollars a year and not even utilizing all the suggestions.

It would not be possible to list every way to save money, spend less or spend money more wisely. It is really up to each of us to think things through, get additional help if we need and learn by trial and error.

To actually set up the **BUDGET**, we had to decide what expenses needed pruning or removal. We could not afford it all.

Unless we move or make a major change in our life, our spending reductions are going to come in little pieces, not big chunks. Most people cut expenses by shaving a few dollars in many places. In this example chart Blue are areas where a cut was possible. Explanations at end. Section 4 of the spreadsheet has more examples.

| SAMPLE Real Expenses - Needs | Original Monthly | Revised Budget |
|---|-------------------------|-----------------------|
| Home | | |
| Rent or Mortgage Payments | \$2,200.00 | \$2,200.00 |
| Real Estate Taxes (if applicable) | \$0.00 | \$0.00 |
| All Utilities - Gas, Electric, Water, etc. | \$200.00 | \$200.00 |
| Home Telephones, land line or internet based | \$75.00 | \$40.00* |
| Cell phones and beepers | \$55.00 | \$55.00 |
| Internet Access (but NOT cable or dsl TV service) | \$50.00 | \$50.00 |
| | \$0.00 | \$0.00 |
| Food | | |
| Groceries | \$550.00 | \$500.00* |
| Take In Food and Meals | \$200.00 | \$100.00* |
| Automobile | | |
| Car Payments (if applicable) | \$330.00 | \$330.00 |
| Car Insurance | \$200.00 | \$200.00 |
| Gasoline (monthly miles x current price per gallon) | \$175.00 | \$175.00 |
| Routine Maintenance | \$200.00 | \$200.00 |
| Medical | | |
| Medical Insurance | \$50.00 | \$50.00 |
| Routine Co-payments & Costs | \$25.00 | \$25.00 |

| | | | |
|--|---|-------------------|-------------------|
| | Drugs and Medicines | \$15.00 | \$15.00 |
| | Vitamins and Supplements | \$15.00 | \$15.00 |
| Credit Card | | | |
| | Paying Credit Card Debt | \$250.00 | \$250.00 |
| Taxes | | | |
| | Quarterly Payments for Income Tax | \$0.00 | \$0.00 |
| | Any other withholding taxes from take home income | \$0.00 | \$0.00 |
| Work | | | |
| | Commutation | \$0.00 | \$0.00 |
| | Miscellaneous required expenses | \$15.00 | \$15.00 |
| School | | | |
| | Tuition and Fees | \$0.00 | \$0.00 |
| Emergency expenses (explained below) | | \$100.00 | \$100.00 |
| | Total Real Expenses Per Month | \$4,705.00 | \$4,520.00 |
| * Switch from land line phone to internet phone; use coupons and shop specials; fewer take-in meals or take in part of meal and prepare some at home. Savings \$185 per month. | | | |
| SAMPLE - Optional Expenses - Wants | | | |
| | Gardner | \$75.00 | \$75.00 |
| | Maid or Servants | \$200.00 | \$100.00 |
| | Babysitting/au pair | \$0.00 | \$0.00 |
| | Dinner's out at a restaurant or other fast food | \$600.00 | \$400.00* |
| | Entertainment - movies, theater, skiing, anything | \$500.00 | \$400.00* |
| | Impulse buying person 1 | \$500.00 | \$250.00* |
| | Impulse buying person 2 | \$500.00 | \$250.00* |
| | Cable or DSL TV - Tivo - etc. | \$72.00 | \$72.00 |
| | Travel | \$333.00 | \$333.00 |
| | Total Optional Expenses Per Month | \$2,780.00 | \$1,880.00 |
| | Total Expenses Per Month | \$7,485.00 | \$6,400.00 |

| | | |
|----------------------------|---|------------|
| Take Home Income Per Month | \$7,000.00 | \$7,000.00 |
| Difference | -\$485.00 | \$600.00 |

* Make the decision to spend less in these areas. Savings \$800 per month.

Change a net loss of \$485 a month to a savings of \$600 a month with a few small changes. Let's take that out to one year = \$7,200.00 (without any interest) or \$7,300 at 2.5% interest.

THIS IS THE ONLY WAY WE KNEW WHAT WE REALLY SPENT EACH MONTH! Beyond that, my wife and I had to agree on everything, or it would never work.

*If the difference between take home and required costs is a negative number (i.e. our costs are greater than our take home pay), then there is a real problem. Read the next section extra carefully.

Yet again. We could not get a handle on our finances without taking all the time we needed to put it all down on paper, or in a computer and seeing the actual numbers. When we tried to do this in our head it just wouldn't work.

Emergency expenses are unexpected or unplanned expenses. Some examples might be:

- a wedding gift for someone
- home appliance repair
- an unexpected auto expense like a tire blowout and replacement
- unexpected tax bill
- you paid our credit card bill 40 seconds late and owe a \$75 interest and penalty fee

We made our budget/expense list as short as possible, but as long as necessary, as it makes budgeting a nightmare. We group things together as much as possible.

Actual income is really only a factor if you are in dire straights. After we completed the exercise below, we found that we really did have a lot more money than we thought. We were just not managing it.

The sample below is based on a smaller income than the one above.

Let's look at a more modest Original and Revised Budget, so we see that it works on many levels:

| Real Expenses - Needs (Change Titles To Suit) | Original Expense | Budget Amount |
|---|-------------------------|----------------------|
| Home | | |
| Rent or Mortgage Payments | \$1,500.00 | \$1,500.00 |
| Real Estate Taxes (if applicable) | \$0.00 | \$0.00 |
| All Utilities - Gas, Electric, Water, etc. | \$200.00 | \$175.00 |
| Use energy savings tips to try to save | | |
| Home Telephones, land line or internet based | \$0.00 | \$0.00 |
| Cell phones and beepers | \$75.00 | \$75.00 |
| Internet Access (but NOT cable or dsl TV service) | \$55.00 | \$55.00 |
| Household repair and maintenance | \$0.00 | \$0.00 |
| Food | | |
| Groceries | \$450.00 | \$400.00 |
| Use coupons, specials, buy store brands | | |
| Take In Food and Meals | \$100.00 | \$75.00 |
| With take in food, do not order drinks, only one salad | | |
| Other | \$0.00 | \$0.00 |
| Automobile | | |
| Car Payments (if applicable) | \$300.00 | \$300.00 |
| Car Insurance | \$200.00 | \$200.00 |
| Gasoline (monthly miles x current price per gallon) | \$100.00 | \$100.00 |
| Routine Maintenance | \$0.00 | \$0.00 |
| Other | \$0.00 | \$0.00 |
| Medical | | |
| Medical Insurance | \$75.00 | \$75.00 |
| Routine Co-payments & Costs | \$0.00 | \$0.00 |
| Drugs and Medicines | \$15.00 | \$15.00 |
| Vitamins and Supplements | \$15.00 | \$15.00 |
| Other | \$0.00 | \$0.00 |
| Credit Card | | |
| Paying Credit Card Debt | \$150.00 | \$150.00 |
| Taxes | | |
| Quarterly Payments for Income Tax | \$0.00 | \$0.00 |
| Any other withholding taxes from take home | \$0.00 | \$0.00 |

| | | | |
|---|---------------------------------|-------------------|-------------------|
| | income | | |
| | Other | \$0.00 | \$0.00 |
| Work | | | |
| | Commutation | \$0.00 | \$0.00 |
| | Miscellaneous required expenses | \$0.00 | \$0.00 |
| | Other | \$0.00 | \$0.00 |
| School | | | |
| | Tuition and Fees | \$0.00 | \$0.00 |
| Emergency expenses (emergency account) | | \$100.00 | \$100.00 |
| Total Real Expenses Per Month | | \$3,335.00 | \$3,235.00 |

Optional Expenses - Wants

| | | | |
|--|--|-------------------|-------------------|
| | Gardner | \$0.00 | \$0.00 |
| | Maid or Servants | \$0.00 | \$0.00 |
| | Babysitting/au pair | \$0.00 | \$0.00 |
| | Dinner's out at a restaurant or other fast food | \$200.00 | \$175.00 |
| | Entertainment - movies, theater, skiing, anything | \$200.00 | \$175.00 |
| | Impulse buying person 1 | \$400.00 | \$325.00 |
| | Small savings on three items goes a long way. | | |
| | Impulse buying person 2 | \$0.00 | \$0.00 |
| | Cable or DSL TV - Tivo - etc. | \$0.00 | \$0.00 |
| | Travel | \$0.00 | \$0.00 |
| | Other | \$0.00 | \$0.00 |
| | Total Optional Expenses Per Month | \$800.00 | \$675.00 |
| | Total Expenses Per Month | \$4,135.00 | \$3,910.00 |
| | Take Home Income Per Month | \$4,166.00 | \$4,166.00 |
| | Money That Goes Into Savings Each Month | \$31.00 | \$256.00 |

\$256 a month is a little over \$3,000 a year!

Our Budget

Using the information above, we are now ready to create our budget.

This all assumes a steady flow of income. Should a wage earner lose his or her job, we need to redo the 'we are all working' budget into a 'minimum needed to survive'

If our physical NEEDS cost more than our total take home income, however, then our budget will always run a deficit and we must address our Needs and Wants first.

The ideal budget is one that IS 'set in stone'. That is, we STICK to the budget. This may not work immediately, but as key accounts get funded, it should fall into place.

While I do give some budget layout ideas, I intensely dislike preset formulas for how to set up a working budget work sheet. Everyone thinks differently . . . and . . . frankly, how we lay it out doesn't really matter, as long as it works.

It works like this:

- We open a bank checking account for the budget.
- All the dollar amounts we plugged into our real and optional expense charts are put into a weekly or monthly chart.
- Any money not used in the budget is added to the budget for those same items next month. When we allowed \$400 for groceries in January and spent \$380, the February amount became \$420. Over time some budget items were adjusted because they were always over or under.

We could also run our budget on Monthly Index Cards

| | |
|--|-------------------|
| April 2008 Home Items | |
| Rent - \$1750 paid in full on ___/___ (when dated filled in, it is paid) | |
| Utilities - \$225 | |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| Telephones - \$145.00 | |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ | |
| April 2008 Groceries and Take In Meals - \$450 | |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |
| paid \$_____ on ___/___ for _____ | remaining \$_____ |

Or in Notebook using pages as we would index cards

For the monthly budget some items are grouped together – like **all internet services or dining out; take in food and entertainment**. This makes it easier to make entries.

So Many Funds – How To Manage Them All

Every time we spent money we entered it and updated the remaining. If keeping this all on paper is too hard you could:

- have individual debit cards, which we fund each month for impulse spending and entertainment
- put grocery money into a envelope with the correct amount for the month
- remember that many bills are not cash, they are checks or credit/debit card, so it is just a single paper entry in the budget

Examples from above:

Groceries – Budget amount for month : \$375.00

04/02, spent \$125.00, remaining amount \$250.00

04/13, spent \$150.00, remaining amount \$100.00

04/24, spent \$125.00, **we are over budget by \$25.00**

Options:

- 1) spend less next month
- 2) review budget to see if we can save more on groceries
- 3) increase grocery budget and take from savings or another budgeted item. For example we could increase groceries to \$425.00 and reduce each impulse shopping account to \$225.00 per month.

Medical Co Payments

If we did not spend it all the remainder got added to Co Payments for next month. Eventually, we may adjust this amount downward if the amount in the budget gets large.

Car Insurance

Some people pay this quarterly or semi annually. If we do just put 1/3 or 1/6 of the amount into the budget each month.

We may want to put vacation money, if we have that item, into a separate bank account.

Going slightly over budget in one month, just reduces the amount we have the next month.

Do NOT be fooled by no expenses for an item...such as Household Repair. We could get hit with a \$250 repair several months down the road. We want to have that budget amount funded.

Make as many columns as we need to record all expenses

**** Charge Card** – Example: We put \$4750.00 into our checking account at the beginning of the month. We only spend according to the budget allowances. Therefore, at the end of the month anything on the charge card is still in the checking account to pay the charge bill IN FULL.

**** Debit Card** – Example: We put \$4750.00 into our checking account at the beginning of the month. We only spend according to the budget allowances. Therefore, at the end of the month the money we put on the debit card came from the original \$4750.00 we started with.

Monthly Budget Next Month may be larger than \$4,750.00 due to unspent monies. Leave it in the budgeted accounts short term.

SUMMARY

Credit Cards

We decided, that for us, there was only one option for intelligent use of a credit card. Use it for the advantage it gives us, but treat it personally as debit card.

***WE NEVER USE A CREDIT CARD IF WE CANNOT PAY IT IN FULL EACH MONTH!
IF YOU DO NOT HAVE THAT KIND OF CONTROL, USE A DEBIT CARD.***

The only exceptions the above were the extreme and unusual NEEDs (not WANTs) expenses:

- medical emergency not covered by insurance or our emergency fund
- emergency repair (car, refrigerator, etc.) not covered by budget
- adult child stuck in Tibet

NOT extreme and unusual:

- need a gift for some occasion
- friends or work buddies invited us out to dinner and our budget for this was \$0
- any type of repair that can wait

If we do need to use our credit card for an extreme and unusual expense, we also need to modify our budget.

If we can pull the money from any of our budget categories and do with less or without, we do that. For example, if we must charge something unusual for \$300, we will try to pull that from Emergency Expenses or Entertainment.

If we have nowhere to pull from, this charge becomes a new REAL expense on our budget, including any interest charges. *There is no free lunch here.*

If we are using a budget, then every credit card expense goes against the budget.

For example, if we go out to dinner and pay by credit card, we decrease the amount of money we have left for the rest of the month for dinner out. That way, we will be able to pay the full bill when it comes in.

Savings

Few jobs and few incomes are locked in stone. Saving is not only for a nest egg, but also to carry us through the hard times.

There was a point in my life that I was out of work and my wife was home raising the children. Because we had been on our budget for years and saved more money as my income went up, we had enough money to live on a restricted budget for an extended period of time, without having to worry.

This, at the moment, is not about investing. This is about having a growing pool of money, in some sort of savings account, at the end of every month.

- To get started, all our savings were in a separate account at a bank or online bank, certificate of deposit or any 100% safe savings plan.
- We looked for reasonable interest, but were not concerned with making the very best interest rate possible.
- We needed this money to be **untouchable except for a life or death situation**. Losing one job in a two worker family is NOT life or death. It means redo the budget with more restrictions.
- *The savings account part of our budget gets added to when we receive each paycheck. That means at the beginning of the pay period, not the end.*
- We want to keep the equivalent of six months take home pay in easy to access money, should everyone be out work.

After that, we can think about investing the overage.

However, just for an example or two:

If we save \$200 a month for 2 years at 0% interest, that returns \$4,800. If we then invest that money differently and earn 2% over the next 10 years . . . AND continue to contribute \$200 a month, we now have over \$40,000. We have put \$28,800 of our own money into this total

We Get A Raise

Much depends, at this point, on what our budget was like before the raise.

If we are already on a comfortable budget, we may decide to save more.

If we were living on the edge, we may want to add some or all of the raise to the budget.

Regardless, there should be a point where, **the more we earn the more we save**.

We never raised our standard of living to match our income, just because we could.

There is nothing bad about wanting and having more things as we can afford them. There is something tragic, however, about losing sight of our goals and becoming financially irresponsible.

If you lost our job today, how long could we stay out of work AND stay out of debt?

If you have a two income family could you survive on one income or one and a half incomes?

Could you live comfortably on less than one income? For how long?

Conclusion

Whether we use everything in this book or just certain things, the main goals were the same:

1. Know what we are really spending our money on.
2. Make adjustments as necessary or as we see fit.
3. With or without a formal budget manage our spending.

It took time, effort and diligence. But it was SO worthwhile.

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