Personal Responsibility Key to Getting in Financial Shape

The growing number of overweight Americans has been well documented. But getting in shape financially might be an even greater challenge for many of us than losing weight. Or, as Addison Wiggin, co-author of I.O.U.S.A: One Nation Under Stress. In Debt put it, “It’s obvious to everyone that we’ve lived beyond our means for too long.”

This article presents suggestions for improving personal finances.

Use Credit Wisely, Track Expenses
With credit so convenient and widely available, it’s easy to get in over your head. Credit cards get thousands of people into financial trouble each year. Putting together a realistic spending plan will help determine how much credit you can afford – and will safeguard against using credit to supplement income.

One of the most important steps in establishing a money-management plan is to gain an accurate understanding of where your money goes each month. Ever wonder how $40 in debit card cash disappeared so quickly? Develop a budget that takes into account every purchase – bearing in mind that an accurate budget means being more aware of each and every item you’re buying.

However, when you start this process, just try to spend as you normally would. You can make adjustments based on your discoveries later. Tracking ideas include:

- **Keep receipts** – Hang on to your receipts from each purchase you make, and add them up at the end of the day. You might be amazed how much you’re spending on things like lunch or coffee.
- **Use expense-tracking software** – In this day and age, computer programs can be particularly useful, as they allow you to have preset categories individualized for your lifestyle. You’re probably using a smart phone each day anyway – why not put it to good use?

Make sure you include ALL of your expenses! Many a well-intentioned plan is tripped up by not accounting for “unexpected” expenses like car repairs or veterinary bills. A workable budget allows for additional bills that are bound to crop up. Of course, there are some unexpected expenses that simply cannot be planned. This is why emergency funds should be included in your budget.

Setting Up a Budget
Write down specific budget categories that fit your family. No two families are alike. The following is a sample list, but obviously you’ll want to use the areas that apply:

- **Housing** – mortgage (or rent), insurance (homeowners’ or renters’), taxes, electricity, water, sanitation, gas, cell phone, cable TV/Internet, repairs/maintenance, furnishings (appliances, furniture), cleaning and other supplies (toilet paper, kitchen items, etc), and groceries.
- **Automobile(s)** – payments (loans/leases), gas and oil, insurance, maintenance/repair, other.
- **Insurance** – car, life, medical, other.
- **Debts** – credit cards, loans (not mortgages), other.
- **Entertainment and recreation** – eating out, baby-sitters, hobbies, vacations, club memberships, other.
- **Medical expenses** (out of pocket) – prescriptions, dentists, doctors, other.
- **Personal care & clothing** – everyday clothing, work-related attire, toiletries, beauty shop, barber shop, other.
- **Miscellaneous** – laundry, postage, subscriptions, pets, pocket money and allowances, other.
- **Education** – tuition, lunches, field trips, books, school supplies, other.
- **Gifts** – birthday, Christmas, donations, other.

This section is set up to provide a ready-made Brown Bag Session for you to use with employees and/or managers. Use as is, or adapt this information for a general employee group. You may reproduce as many copies as needed.
Next, make an initial estimate of current monthly expenses. Some are harder to calculate than others because they vary from month to month. For instance, you may spend more on gas in the summer because of vacations. Other expenses, however, do not change like mortgage or rent. As stated, make it a habit to hang on to receipts to get a better handle on where your money goes. Be realistic, too. Don’t allocate extravagant sums in a given category, but don’t seriously “underfund” areas either.

Adjust and Analyze

Add up your expenses. Chances are you’ll find you’ve allocated more money for spending than you actually have in income. If so – especially if you’re in debt – you should have an idea how you got into a financial jam.

Let’s get more specific. If your first budget attempt contains $300 more in expenses than income, you obviously have to cut some spending – but where? Look at “wants” versus “needs” first. You need a roof over your head, food to eat, gas to get to work, etc. But do you “need” a new car? In reality, you “want” it. You may need a newer car, but that’s not the same thing! Ask yourself these questions before buying something – especially a major purchase:

- Do I want it or do I need it?
- Do I need it now?
- What would happen if I didn’t have it?

Armed with this mindset, do you “need” to spend $200 a month on clothes? Could you realistically get by on $100 – by either buying fewer outfits or shopping at less expensive stores? Or, if you’re spending more than you can realistically afford on groceries, could you save $20 monthly by shopping smarter at the grocery store – taking better advantage of sales, using coupons, and comparing brands?

Yet another possibility would be to run short in the miscellaneous category each month. As a result, you may need to allot some additional money for that area – but remember, if you’re serious about budgeting you’ll have to spend less somewhere else.

A lot of small adjustments can add up to a lot of changes that’ll slowly bring your budget into line. If you’re fortunate, your budget might only need some tinkering. Don’t be afraid to do this from time to time to reflect changes in income or new expenses.

Sticking to a Budget

Creating a budget will help you see where you’re spending too much. Sticking with one will help you stay out of future financial trouble. The following are some suggestions:

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 Resist impulse shopping – This is difficult for many people, but consider this: A new tool or outfit may seem irresistible when you first see it, but it often seems unnecessary if you think about it first for 24 to 48 hours. If you can learn to resist those first impulsive spending urges and pull back to get some perspective, you’ll find yourself living with less and enjoying it more. Keep in mind the aforementioned “wants” versus “needs” questions.

 Avoid temptation – The best way for an alcoholic to keep from “falling off the wagon” is to
steer clear of places that serve alcohol. The same is true for people who tend to overspend. Don’t put yourself in situations where your purchasing juices will get stirred up. While this is sound advice any time of year, it can be particularly helpful during the summer months and holiday shopping season when many people are especially vulnerable to overspending.

- **Cut up your credit cards, or at the very least, stash them where you can’t get to them easily** – For many people, the leading cause of overspending and debt is too much “plastic.” Unless you’re a penny-pincher with an iron will, carrying credit cards can be extremely dangerous. Certainly, it’s convenient to pull out a Visa or MasterCard and make a “small” purchase. However, those $10 and $25 acquisitions have a way of adding up. The pain, anguish, and debt will come when you get your statement.

  Every financial counselor worth his salt will tell you to cut up your credit cards, unless you pay the account balance in full every month. And even if you don’t carry a balance, studies prove that when we pay cash for things, we tend to spend less. The rule of thumb is this: use credit cards only for emergencies and other unexpected things. Never use them to pay for things you can’t afford. Put another way, does it make sense to buy, let’s say, a boat for $15,000 and take six years to pay it off at a final cost of $27,000? That’s nearly double the original cost of the boat!

- **Be willing to adjust your lifestyle** – If you are spending more than you are earning and want this trend to stop, you only have two choices: either stop spending so much, or start earning more. Many people, unwilling to put the brakes on spending practices, choose the second option. But this is easier said than done, and it isn’t always the best course of action even if you are able to boost your income.

  Consider, when both parents work outside the home, or if one parent is moonlighting, the disadvantages often outweigh the advantages of additional income. Working too much creates stress and often requires hidden, unexpected expenses. What good is an extra $1,000 a month if you’re constantly exhausted, spending more on childcare, or if you rarely have any time to spend with your children?

  Learn how to make do with less and still have fun. It’s been wisely stated that entertainment is expensive, but fun is cheap. For example, you don’t have to buy a $20,000 boat to enjoy fishing. Or consider trading that pricey vacation to a tourist trap for less expensive trips closer to home.

- **Consider making major lifestyle changes** – If you’re still running behind even after all this tinkering, you may have to make some serious adjustments to your lifestyle. Perhaps you’ve taken on too large a mortgage. Go against the flow and downsize. Will it be difficult to move to a smaller, less expensive home? Sure. Will it be easy to do? No way! But will a family willing to do so be in better financial shape than before? Absolutely!

  Maybe owning a new car has been a bigger financial pitfall. Do you really need two new automobiles and the high payments that come with them? Could you get by with one new car and find a good used car at half the price of the other vehicle? The point is, if you’re serious about taking control of your finances – rather than letting them control you – you’ll need to look hard at every category in your budget.

**Summary**

Remember the primary rule of budgeting: expenses should ALWAYS fit within earnings. That’s called a balanced budget. It’s a plan that’ll allow you to live within your means. That may not be fun, but the result – fewer money concerns and less stress both at work and at home – will be worth it.

Many people make an honest attempt to devise and stick to a budget, but they quickly become discouraged and give up before making any financial gains. Consider the leading causes of budget failure as you create your plan. Awareness of these budget busters is crucial to improving your personal financial situation.

Budget Buster #1 – Negative attitude:
If you think of budgeting in negative terms – such as financial “diet”, penny-pinching, sacrifices, etc. – you’re sure to fail. However, a positive attitude involves thinking of a budget as a means to an end – a way to achieve your dreams and goals – and that postponing the instant gratification of spending all the money you earn is worth the rewards you’ll gain in the long run. If you’re thinking about starting a budget, check your attitude first.

Budget Buster #2 – Lack of motivation:
What’s your motivation for budgeting? Pleasing a nagging spouse? Complying with the terms of a consumer credit counseling agency? These are not bad motivations, but they’re external pressures and will probably not be easy to maintain over time. The best motivations are internal, such as: do you believe budgeting can help meet your financial goals?

Budget Buster #3 – Unrealistic expectations:
In today’s instant-gratification society, the cold hard fact is that budgeting is an endurance event – those who stick with it through thick and thin will come out ahead financially. Don’t expect miracles. What you WILL see if you stick with it is steady, measurable progress toward the goals that matter most to you. Start with a positive attitude, internal motivation, and realistic expectations – and you’re ready to begin moving toward better financial health.