Dollar $IGNS

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Budgeting Basics

The last article in our "Dollar Signs" series covered some basic financial-management principles as they apply to us. The bottom line is that it's our natural tendency to want to spend until the point of discomfort, and it takes active discipline to overcome this.

Next, let's talk about specific strategies to reduce spending, starting with creating a monthly budget. There is an important mindset to embrace—if you don't already have a budget, don't think of your first one as a ratchet strap that you are going to use to cinch down on your life. Rather, think of it as a measuring tape. Keep track of your expenses in broad categories, and after a few months use that data to understand your spending patterns. Later on, you'll be able to make reductions to your spending, armed with a few months of real data.

If you have free time and are looking for something to pass the hours, make a detailed budget with lots of specific categories (templates can be found here). Otherwise, keep the categories general. For example, you might start with residence, vehicles, food, work expenses, donations, savings, entertainment, and other. The "residence" category would contain mortgage, insurance, maintenance, utilities, etc. The specific categories will need to change for each individual, but the key is to keep enough categories to make your budget useful, but not so many that you get frustrated and quit. If you primarily use electronic payment methods, you might be able to go back in time with the help of your online banking records, or through free tools such as Intuit's "Mint" and see what you've been spending without the need to wait a few months. The goal at this stage is to establish some back-of-the-napkin-level math as a starting point, and the sooner you can start, the better.

This stage of planning is not the time for optimism. If you undershoot your spending within your categories, you'll further frustrate yourself. It is important to keep it simple enough to keep yourself engaged. Once you have established your categories and a tracked monthly expense for each one, use that data to create planned expenses for each category. Track yourself for a few months to see how you do. Some bills are not monthly, so it may take a few months to capture everything. If you can stick with it, you will be rewarded with an increasingly detailed understanding of exactly where your money is going.

With that understanding and a few months of good data, you can start to examine your spending patterns and decide where you might be able to reduce spending. It's never easy to reduce your cost of living, but many of us have lived through furloughs, downgrades, and bankruptcies that have forced us to do so. If you engage that proactive pilot mind of yours, and make the reductions today on your own terms, you'll be prepared for events that might happen to you in the future.

You can also look at your budget and ask yourself if it reflects how you'd like to be spending your money. There is age-old wisdom that says our financial expenditure indicates our true passion. Once you have an understanding of where your money is going, you can reflect on your own personal values. For example, you may want to have a living place of a certain standard. Considering that desire in the context of how much it costs to maintain that standard, is it worth it? If you spent less on housing, could you work less, and spend more time doing something else that you enjoy or value?

If you'd like to read much more about this topic, check out a copy of Dave Ramsey's Complete Guide to Money. This is just one of many great books covering the basics about using money smartly. A thorough study of the topic requires much more space than we have here.

It's easy to live with a budget in an ideal world, but what about the reality, where our pay fluctuates monthly? Our next issue will cover strategies for creating a more consistent income flow. Until then, we welcome your feedback and discussion. If you have any questions for your subject-matter experts, ideas for additional topics that we should cover, or just want to let us know what you think, please visit B6Alpa.com or contact us at JBUCommunications@alpa.org.

In unity.

FINANCIAL EXPERTS AGREE THAT YOU SHOULD HAVE AT LEAST SIX MONTHS OF YOUR BASIC EXPENSES IN SAVINGS FOR ANY FINANCIAL EMERGENCY THAT MIGHT COME YOUR WAY—THIS INCLUDES THE POSSIBILITY OF A LEGAL JOB ACTION SUCH AS A WORK STOPPAGE.

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