



Budgeting for Lazy People

Description

In matters of budgeting, there are two clear camps of consumers: them, and the rest of us.

They are the people you ask to calculate what everyone owes when there are more than two of you dining out. *They* know exactly how much they spent on ATM fees last week, last month, and last quarter. *They* balance their chequing accounts down to the penny. Daily.

The rest of us? Well, we swear that *tomorrow*, we really are going to sit down and make a budget. It's not that we don't mean it — it's just that we have issues with following through.

The secret to setting up a budget you'll actually follow

If nothing else, remember this one simple budgeting rule: Spend less money than you make. These are the six most important words in budgeting — memorize them!

With these words firmly engrained, let's fine-tune that advice. Procrastinators, you can rejoice: There is such a thing as a budget that you can stick to. What's the secret? Take every shortcut possible.

Since money advice is our full-time jobs, we've been through the budgeting process enough to spot the corners that can be cut and the steps that can be skipped. The Fool's Lazy Budget still requires some prep work (hey, we aren't miracle workers), but we've streamlined the process so that you can start seeing results right away. After all, we don't want you to set up a budget, only to abandon it a few weeks later.

The purpose of this budget is to come up with a system to govern everyday spending. We're leaving out housing, insurance, and the all-important savings categories for now.

So let's start corralling your cash flow.

Step 1: Take a snapshot of your spending

Every budget starts with sniffing out your spending habits and determining exactly where your money goes on a day-to-day basis. Don't skip this step: After all, if you don't know how much you're spending and on what right now, you can't decide where you want to spend and on what from now on.

You can do this the hard way — tracking your spending for three months, inputting every expenditure in a 218-category spreadsheet, then spending nights poring over the data — or you can do it the one-step way.

For those who do most of your spending on one [credit card](#) (paid off in full each month, right?) or with a debit card, review the raw data your bank provides on your monthly statement, and come up with general categories for spending areas in which the amounts you shell out make you shudder. It's even better if your financial institution provides a year-end spending summary, with your weak spots fully graphed in four-color bar charts.

If most of your spending is done with old-fashioned cash, go about your business as usual for one week — just write down all of your expenditures. Then project the results over four weeks. Now you have a rough idea of where your dough goes. As stated above, pinpoint the big categories where your overspending occurs.

Step 2: Plan your next shopping spree

After you get over the horror of your daily spending, the next step is to go on a virtual shopping spree. Sorry, this trip doesn't involve a pit stop at the food court; it's more like a cerebral trip to the mall of your future.

- Grab a piece of paper, a pencil, and a snack.
- Make a list of what you need to buy or do over the next three to six months. These could be physical purchases (like new tires for the car, airfare for the family vacation) or financial plans (such as paying off a credit card, maxing out this year's RRSP or adding to your emergency fund).
- Do the same for planned long-term (one to five years) purchases.

Voila! You have a "spending plan" (so much nicer than the word "budget," don't you think?). Meaning every time you whip out your wallet, you have a tangible list of money goals to help drive your spending decisions and propel you financially forward. Bonus points to those who make a laminated wallet-sized version of the list for everyone in the family.

Extra credit: If you've got time, repeat the same exercise, only focus on the emotional uses of your money: List five uses of your money that will positively affect your life in the near-term and the long-term. Then, list five uses of your money that will add little to your quality of life in a decade or more. This touchy-feely step may seem odd, but thinking about what you really *want* to do with your money can greatly affect your plans for spending and saving it.

Step 3: Do some simple division

With your money goals in hand, pencil in how much each item on your “wish list” is going to run you on a monthly basis. Simply divide the total amount for those new tires by the number of months until you need them. Magic, no?

Step 4: Set up a no-brainer savings system

With your targeted spending plan in place, it's time to direct your money towards your goals. If, in the past, you've been derailed by daily expenditures or surprise “can't-live-without” purchases (ahem), here's an instant fix: Hide your money from yourself.

That's right: The best way to save your money is to keep your cash out of spending reach by diverting it to a separate savings account — one different from the chequing account you use for everyday expenditures.

You've already figured out the monthly amounts you need to sock away, but, don't worry — there's no need to bother remembering to move your money from your chequing to your savings account month after month. Tell your bank to do the work for you.

Set up automatic recurring cash transfers from your main chequing account into your separate savings account. (Though you can set it and forget it, we do recommend checking in to make things are kosher every once in a while.)

With your savings on autopilot, all that's left to do is stay out of your own way. Ah, but that can be much easier said than done, which means going into spending triage mode...

Step 5: Stop mindless overspending

Life is full of temptations. You can stay strong, grasshopper, with nothing more than a few envelopes and a ball-point pen.

The “envelope” method of budgeting will instantly structure your everyday spending. It's simple:

- Come up with a reasonable weekly amount you'll allow yourself to spend in your biggest categories. (Those are typically “food” (or, depending on your lifestyle, get more specific such as “lunch,” “family dinners out”), “entertainment” (e.g. happy hours, movies, tabloids to pass the time), “transportation” (gas, parking, taxis, public transportation), “apparel/services” (dry cleaning, haircut, hats with clapping hands attached.) For guidance, consider that the four biggest budget categories for typical American household are housing (34%), transportation (18%), food (13%) and entertainment (4%). Of course we encourage all Fools to be better than average, so if you can spend less of your budget on these big categories, congrats!
- Create envelopes for each of those categories.
- Put the allotted amount of cash to cover a week's worth of expenses into each envelope. (You don't have to carry the entire wad with you every day, but do make sure you don't cheat with

extra visits to the ATM.)

- Once the cash is gone, so is your weekly stipend.

As with all of our lazy budget shortcuts, feel free to add or subtract layers of complexity, depending on how much detail you can stand. But don't tax yourself too much: Remember that in dollars-and-cents (and sanity) terms, sweating the big stuff before all else will save you the most coin. Plus, it will leave you plenty of time to procrastinate about stuff besides your finances.

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