

EVERYONE—EVEN THE AFFLUENT—NEEDS TO BUDGET

Budgets are often thought of as something necessary only for families of modest means or people trying to dig their way out of debt. Yet even affluent families can stand a healthy dose of budgeting.

Ask Elton John about the need to budget. The pop singer, earning \$25 million a year, was spending so much money, including hundreds of thousands of dollars a year on flowers alone, that he had to take out a \$40 million loan to pay off debts. Closer to home, there was the couple in Alaska who filed for bankruptcy after amassing \$461,000 in debt on 68 credit cards—despite earning a six-figure income.

Many CERTIFIED FINANCIAL PLANNERS™ say they routinely see new clients who overspend, often out of sheer “laziness,” and that there is much that families can do to eliminate waste. Start by tracking your spending over a couple of months to identify what you are spending in each major expense category such as housing, insurance, transportation, medical, groceries, clothing and entertainment. With a better handle on where your money is going, you can pinpoint where you might cut some waste, starting with the biggest expenses first. Here are some common areas of overspending:

Insurance. Many people don’t bother to comparison shop for car, property/casualty, long-term care, disability or life insurance. Yet savings in total insurance premiums could easily run hundreds, if not thousands, of dollars a year. That’s money that can be used to buy other things, invested or donated to charity. They also can save insurance dollars by buying the right type and right amount of insurance, not buying unnecessary insurance (such as credit-life or disease specific medical coverage), boosting deductibles or cutting rates by practicing safe habits such as installing smoke alarms in the home.

Home. Typically the biggest ticket item in a budget is the mortgage payments, yet many homeowners have not “bothered” to see if they can obtain lower mortgage rates. Cutting rates from 9.75 percent to 7.25 percent would save \$1,713 a year for every \$100,000 in mortgage costs. Making major home repairs or remodeling also is very expensive. Obtaining multiple cost estimates could save you thousands. Choosing the right home may save you the most

money. Do you really need that extra 1,000 square feet? Prices for comparable homes can vary widely within a city, let alone within a state or region.

Credit cards. As Elton John and the Alaska couple learned, excessive use of credit cards is the nemesis for many households. Carrying more cash and leaving the credit cards at home can help. Shopping for lower interest rate cards, or better yet, paying off the bill every month instead of incurring finance charges, also can significantly cut costs.

Automobiles. Beyond shopping for good insurance rates, think carefully about the cars you own or are buying. Do you have too many vehicles, or more vehicle than you need, such as an SUV you never drive off-road? How expensive are your vehicles to operate, especially in light of higher gas prices? Would you save money switching to a vehicle with a better repair record? Less expensive vehicles not only save purchase costs, but are typically less expensive to insure. The issue of buying versus leasing is a more complicated one. Sometimes leasing makes sense, sometime buying does. A lot depends on your driving habits and the financials of the lease contract. Which option is better generally turns on the income tax consequences.

Meals out. Americans love to eat out, and they pay for it. More meals at home, more brown-bagging lunches and less reliance on prepared foods can save hundreds of dollars or more a year. Careful grocery shopping habits (shop with a list, never shop hungry) also can cut costs.

Move. Jobs and other factors have a lot to say about where we live. But some people, such as the self-employed or retirees, have greater flexibility in choosing a location. One region can be significantly less expensive than another when it comes to the cost of food, transportation and housing. A move from a high tax state to a low tax state can save a lot of money. Moving is especially an important strategy for retirees on fixed incomes.

Once you've made some significant cuts, stick to them. Tracking expenses and using a budget on a regular basis helps. A computer program can make the process much easier and more consistent.