

## **FINANCE MAMA**

No More Budgets: Spend with Intention!

by Kristin Harad, CFP®

When parents contact me, they often wearily confess, “We have never had to worry about our money before, but I think we need a Budget now.” Couple the addition of child care expenses or the lost income of one spouse staying home with the added pressure of education funding and desires for a larger home and you have a recipe for anxiety around daily spending decisions. Hence, a monthly “Budget” rises to the top of many new parents’ priority list.

First things first----I do not like the word Budget. It conjures up revisions upon revisions of corporate spreadsheets and words like “cutbacks” and “tightening.” Talk about negative energy! I prefer to call the process of managing your monthly outflow of money Intentional Spending. This positive outlook puts *you* back in control, and *you* are the decision-maker. A much more powerful position to be in!

### **How does Intentional Spending work?**

With Intentional Spending, you consciously choose where your money goes each month. And, yes, sometimes this means you choose to pay for a new water heater or car repairs, but that is all part of the plan.

1. Know where you are now.

Assessing your current state of affairs may be the most time-consuming part of this process. Whether you analyze past statements or track your spending diligently for a month, knowing how much you usually spend and invest monthly is the first step. From here, you can break that amount down into the specific spending categories if you choose. Many online banking and credit card accounts have features to categorize your expenses for you. Or, you can use a pencil and paper or your PDA to track daily spending and/or tally your receipts in Quicken or a spreadsheet.

2. Create what you want.

Now that you have a starting place, create your plan! Sit down with your spouse/partner and make intentional spending and investing decisions. Intention Spending encompasses knowing and planning for three areas:

- *Goal funding amounts:* What amount and to which account(s) are you contributing each month to realize your goals? If these contributions are after thoughts, they will not happen. Pay yourself first through direct deposits. You’re probably used to it for your 401k, so try it for other goals too.
- *Fixed Spending:* These are committed expenses such as the mortgage or health insurance. In your initial review, if you see a line item that feels out of alignment for you (such as a ridiculous car payment), consider making a

change: refinance, pay off the balance, or trade in for a car that fits better with your values.

- *Variable Spending*: Since they are always changing, these expenses such as groceries or lunches are harder to track. You do not have to plan your spending for each expense line item, especially in this category.

For example, if saying “We have \$20/week for coffee and \$65/week for clothing purchases” is too stifling then set your spending plan at a higher level. Maybe you decide that you’ll allow for \$4,000/month in variable spending and you don’t need to know specifically where that money goes.

*Tips for Variable Spending:*

- Allow for whimsical purchases without judgment so you do not feel trapped. Either set up a different account or give yourselves a monthly amount that is for “whatever you want!”
- Make sure you do allow room for paying the plumber or the mechanic. This will eliminate the stress of these unexpected events.

### 3. Determine your family’s system.

The goal with Intentional Spending is to create a system that works for you so you achieve success in reaching your goals and feel the calmness of being in control of your money.

Alternatives ways of keeping a pulse on your spending include:

- Tracking the monthly outflow of cash at a high level: Know the total cash spent, total credit card bills paid, and total checks written. All of these items are backed up by statements from the bank or issuer.
- Tracking monthly outflow of cash (as above) and subtract out the named fixed/periodic expenses as they occur so you can see the everyday expenses.
- Keeping track of everything you spend in Quicken or Quickbooks, or just a simple excel spreadsheet or word document.
- Hiring a bookkeeper and having that person track your expenses (you provide receipts and/or just statements). For a small monthly investment, you can have the bookkeeper report to you how you spend your money and keep you on top of your cash flow.

Remember, if you have your own business, track your business expenses separately from your personal expenses.

### 4. Check-in and revise as needed.

No decisions are set in stone. Set a quarterly check-in meeting with your spouse to see if your system is working and you are comfortable with the parameters you have selected. Make any adjustments that will fit your family better.

While intentional spending takes some upfront effort, you will reap the benefits of feeling relief, knowing where your money flows, and successfully fulfilling those important family goals.

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