Honey, we got no money!

Traditional budgets worked when all of our expenses were paid in cash. Today, families need a different approach to controlling their spending.

BY DAN BORTOLOTTI

Are you sick of budgets and spreadsheets? Tired of acting as if you start each month with a bucket of cash you'll gradually spend until it's gone? You know, $1,500 for the mortgage, $100 for the hydro bill, $500 for groceries and so on. Whatever's left, you tell yourself, will go toward savings or paying down debt.

It's just not that simple anymore. "Building budgets around a month of cash is a joke for most people," says Trevor Van Nest of York Region Money Coaches in Newmarket, Ont. "There is no bucket that gets emptied over the course of the month."

That sort of top-down budget may have worked when families paid all of their expenses in cash. Before credit cards and lines of credit, you really did start the month with a fixed amount of money, and when the bucket was empty, you stopped spending. Today, families have a faucet of credit they can turn on when they need cash flow. The line is so grey that it can be confusing – it's easy to spend money on credit.

HOW TO GET ON TRACK?

Try taking a bottom-up approach. Van Nest recommends laying the foundation with an emergency fund to cover the surprises you can't build into a traditional budget, such as a busted water pipe or a broken transmission. Many experts suggest keeping three to six months' living expenses in a savings account, but that isn't realistic for most families, especially those carrying debt. Take a look at your situation. "The amount should depend on your lifestyle and what an emergency means to you," says Van Nest. "For some people, it's $3,000. If they're living under their parents' roof and don't have a car, it might be only $500. If they have a yacht and a cottage, it might be $20,000."

The other component of a bottom-up budget is long-term savings. Your RRSP contribution should be a regular expense, not something you'll make if there's money left at the end of the month. However, you can delay saving for retirement if you have debt that you can eliminate in a short period of time, such as three to six months.

If debt elimination will take several years, Van Nest encourages us to include retirement savings in our budgets; otherwise, it may never get started. "It's a way to feel good not just about having debt come down every month but also about looking after long-term requirements."

LOOK AT THE PATTERNS

Van Nest also suggests we record our transactions for about two months. "This is not budgeting: It's just tracking. It's understanding exactly where every penny is going," he says. This helps reveal better ways to spend money and highlights where our spending isn't aligned with our personal values or medium- to long-term goals.

Van Nest then asks clients questions to help them see how they can spend differently. "For example, what if you spent a little less in restaurants and a little more on your kids' education savings? What would that extra $350 be worth in 10 years if you put it in an RESP?"

The best part? When a couple becomes aligned with their financial goals and spending limits, it takes some emotional stress out of the relationship, he says. And that's always a bonus. ■

SAVING GRACES

- Set up preauthorized contributions to your savings and investment accounts. You can't spend it if you never see it.
- Slash your fast-food spending by stocking the freezer with your favourite meals that can be prepared quickly.
- Look for ways to save without sacrifice: Renegotiate cellphone and cable bills, and streamline your bank accounts to reduce fees.

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