Where'd the Money Go?

By Howard Dubin, Principle

For thirty years, I've been sitting across the desk from people seeking tax and financial planning guidance. I've heard it all.

"I want to deduct my vacation, but I don't want to get audited." "Same amount as last year." "I don't have any receipts."

These phrases ring in my ear like the tune you can't escape and the phrase that's most harrowing by far is *"I don't know where all the money went."*

Yes, that's right. They really don't know. They say this with a desperate expression as if it truly was a mystery, like it was embezzled or accidently burnt in the fireplace.

Reviewing the W2s, 1099's etc. reveals that their income was good, even better than they expected. Often a great deal more than the average family. What happened?

The money was spent. It's as simple as that. (Perhaps more taxes may have been paid than required, but that's an issue for another discussion.) The only puzzle to solve is not if it was spent, but how. One of the most satisfying aspects of my career is helping clients assemble those puzzles and graduate to the next level of financial planning.

Over the years, many clients have reached out for help hoping to create a "Financial Plan." Lots of times, they are in the "pre-financial planning period." They are just not ready for planning strategies. Simply put, financial planning can only occur when surplus monthly income exists.

Almost all financial planning objectives (retirement plans, educational funds, investments, emergency funds, etc.) are solved with discretionary income.

Income minus expenses = dollars available for saving and investing. If expenses exceed income there are no funds available for financial planning strategies. To make matters worse, the client's credit card debt is increasing month after month.

We are, even in this recession, an "I want it and I want it now" society. Believe me; I know what it's like to divert my monthly pension contribution to the purchase of a Nike driver. Once in a while is ok, all the time, not so good.

The fact is as long as we can service the debt, we turn away from the reality of our spending habits. Once the deficit spending becomes too apparent to ignore, usually occurring when paying our bills on time becomes impossible, the tools to cure aren't so handy. How do we get off this treadmill? Here's a process that works:

Come to terms with your spending habits.

1) Keep every receipt (every receipt) for 30 days (60 is even better). This includes internet purchases, cash purchases, credit & debit card purchases, charitable donations, golf range balls, candy bars, afternoon coffees……. get it, all receipts!
2) Dump your pockets, purse, and briefcase every night. A big goldfish bowl near the front door is a very good receptacle for these items. Review the receipts before placing them in the bowl. This has the same effect as the dieter writing down every item they eat. It permeates the psyche.
3) You saw this coming - Organize the receipts into categories.
4) Ask your Financial Advisor for an Income & Expense input sheet. Make copies of the form. Complete it. Don't edit before entries. This is actually how you have been spending money.

5) Make a list of unexpected expenses that occurred in the last six months, e.g. emergency home repairs, auto repairs, medical expenses, etc.
6) *Chew, swallow & digest. It is what it is. It is not irreversible*.

Budget – anyway you look, it's not a 4 letter word.

1) You will utilize the same Income & Expense input sheet as before, but start fresh. Remember this not an exercise that simply duplicates your spending habits. This is a total paradigm shift.
2) Begin by listing fixed expenses – housing payment – real estate taxes - auto payments – insurance premiums - tuitions and the like. Next, review previously unexplored options. This is where your planner can be very useful. Can any of these fixed expenses be lowered via refinancing, reduced premiums, etc.? In the meantime go with the existing amounts.
3) Next review your spending habits on variable expenses such as: clothing, grooming, groceries, gifts, vacations…everything. Some categories should stick out as being "indulgent." Those are the ones to attack first. Of course, husbands and wives do not always agree on what constitutes reasonable spending. One person's need is another person's want.
4) Sort out the needs from the wants. Keep this in mind - approximately 50% of a family's net income (after taxes) is spent on the 2 most basic needs – housing and food. That leaves 50% for everything else. Sometimes that 50% is more than ample, more often not. This cold water in the face stings. It also makes everyone reevaluate required expenses from desired spending. Having either partner become defensive or protective of past or future spending, must be avoided at all costs. Sometimes…
5) Third party assistance is very helpful. Your financial advisor can help provide unbiased advice.
6) Be assured your situation is not unique and that solutions exist. Almost always, a budget can be achieved that will accommodate everyone and will allow financial planning strategies to follow. You'll feel better almost immediately, but…

The Most Difficult Part – Implementation

The best laid plan not put into play is no better than not having a plan at all. Bad habits happen haphazardly, good habits must be built with consistent behavior. If you empty your pockets of receipts every night for 21 days, you won't have to think about doing it on the 22nd day. It will be a habit.

Take the bowl, leave the goldfish.