

How To Prepare An Expense Budget

All of us look to the future and hope for the best, but not everyone makes the effort to collect the data needed to answer the question: "Will I Have Enough?" Indeed, most people just roll the dice and trust that an optimistic attitude will be sufficient. Yet the reality is that in most cases the future may not be the most comfortable of times.

A proper budget and financial plan requires input on four key categories: what you earn, what you spend, what you own, and what you owe. The information needed for three of the four categories is relatively easy to find. It's the spending that's trickier, sometimes a lot trickier.

Plan for Changes

The hitch with spending is that it needs to be viewed from four different perspectives. What most of us focus on is current spending. But then we get into the retirement years and the what-ifs. The time of retirement is generally predictable. What is not predictable is the early demise of a spouse (often the key wage earner) and the impact on expenses before and during the retirement years.

So a sensible expense budget encompasses the outgoing cash flows as they are today, as we expect they will be during retirement, and how they would be adjusted if only one spouse makes it into the late 80s or 90s. Although there's no guarantee, a sharper focus on these alternatives will increase the likelihood of a good night's sleep.

The key items in an expense budget include the following, which are largely fixed for extended periods:

- Monthly mortgage or rent payment for residence
- Food and household incidentals
- Utilities (gas, electric, water)
- Telephone and internet
- Property taxes
- Life insurance premiums
- Health insurance premiums
- Home insurance premiums

Then there are fixed items for shorter periods, such as:

- Alimony, child support
- Auto loan payments
- Other loan payments

Next, the unpredictable:

- Health care expenses

- Legal costs

And finally, discretionary items that may be reduced as needed:

- Clothing and personal items
- Property maintenance and upkeep
- Domestic help
- Babysitting, child care
- Entertainment and vacations
- Books, papers, subscriptions
- Home furnishings
- Gifts, birthdays
- Credit card payments
- Charitable contributions

These are just the "normal" kinds of expenses one would need to include. In addition, there are huge variables such as funding for children's education and outlays for major purchases such as those for a larger or second home.

Education Costs Can Be Enormous

School expenses will be among the biggest nuts to crack. A child born today will probably cost \$750,000 for four years of tuition and related college expenses. That's a daunting prospect that will require either hefty savings from Day One, the good fortune of a scholarship or a combination of the two.

The what-if scenarios must be addressed as well. Downsizing is often worth considering as a means to reduce expenses. And, of course, several of the fixed items will drop simply because there would be only one person involved.

Once this is done, the process of looking ahead requires an extrapolation of where things are today and the understanding that this is a dynamic process with periodic adjustments to stay on course. It can be a challenging task for individuals and is perhaps best handled with the assistance of a qualified financial professional.