Wi$e Up Teleconference Call
May 30, 2008
Money Matters: Budgeting to Stretch Your Dollars
Speaker 2, Rebecca Schreiber

Jane Walstedt: So Jessica, are you with us?

Jessica Brown: I am.

Jane Walstedt: Okay. Well I’d now like to ask Jessica Brown, who’s a Program Analyst in the Women’s Bureau Philadelphia Regional Office, to introduce our second speaker, who happens to be in the room with us here. Jessica--

Jessica Brown: Throughout her career Rebecca Schreiber has leveraged her financial skills to enhance the prosperity of individuals and companies alike. After several years of building stable, customer-centric systems in small companies, Rebecca expanded her career with a multi-million dollar online retailer, where she created and managed a $90 million financial management and fraud detection program.

After helping several small business owners and investors become wealthy, she turned her attention to the individual. Intent on clearing a path to wealth for busy professionals, Rebecca passed the Certified Financial Planner exam in 2005 and opened her own fee-only financial planning practice. Rebecca expects to receive CFP certification in March 2009. Rebecca currently serves a local and international clientele from her office in Silver Spring, Maryland.

Rebecca Schreiber: Thank you, Jessica, and thank you, Erika, just for setting an excellent foundation for the purpose and the logic behind budgeting.

Erika Safran: Thank you.
Rebecca Schreiber: And thank you for having me here today. I’m glad to be here. And I’d like to present budgeting as a way of making a positive change in your life -- being proactive in taking control of your spending. And just attacking it just from a personal perspective and giving [you] the tools that you need -- the real life every day tools that will help you stay on track.

So as we know, most people avoid budgeting, not because they think it won’t work, but because they fear change. And a large portion of that is people will…people are afraid that their friends will think less of them because they’re spending less. So the first step to budgeting is figuring out what it means to you and how you want this to change your life.

Budgeting proves that we are all capable of improving our lives. The difficult part is staying on track. And as you get involved in budgeting, you’ll learn that it works as a constant reminder of the things that matter in your life -- your community, your family, your career. Budgeting will keep your choices and your priorities front and center when you’re making your spending decisions.

Well if budgeting were easy, everyone would do it, but it does take effort and discipline. So when you think of that term “Old habits die hard,” making a permanent change in your lifestyle can take 6 to 12 months. So be a bit patient with yourself and a bit patient to let your new habits stick. Try not to be discouraged by short-term setbacks. Things happen. Life throws you curveballs, but you’re on the right track and remembering your goals, whether it’s a certain dollar amount or something that you’d like to spend on, or just a general sense of well being, keeping that in mind when those setbacks do happen.

Old habits can be changed from different angles. So finding the one that works for you and focusing on that might help you make more progress.
Those different angles are language, behavior, and tools. The language, in terms of using words to save face when you’re saving money; behaviors, such as learning and applying honesty and discipline to your spending habits; and tools, the particular web-based behavioral tools you can use to reinforce your efforts, particularly automating your bill pay just to let the machines, let the computers do the remembering for you.

So how can language change your life? Changing your language changes the way you think. The right language will help you clarify your financial decisions. For example when you think about a spending decision you’re about to make, using the word “or” instead of “and,” which, as Erika mentioned, requires you to prioritize your spending.

Something that helps a lot of people—even though they haven’t really thought about it in advance—is having a snappy response when someone invites you to spend. Like for example, if someone asks you to lunch, say “Thanks, but I brought my lunch today,” which actually helps if you really did bring your lunch that day. So try to think about it in advance.

And if someone asks you to just spend the afternoon shopping, you can say, you know, “Thanks, I can’t, but would you like to get some coffee later?” Trying to find…take that opportunity to socialize but do it in a less costly way.

Another language tool is starting conversations about money, whether it’s just starting it with a sentence, “Did you see a website, did you see this blog?” and starting the conversation, because a lot of people have the same questions, and they simply don’t know how to start talking about it. You could really be helping out a friend without even realizing it.
Okay now let’s start about…let’s talk about behaviors -- actually changing habits, making this work from Day 1. The first step to creating a successful budget is being honest about what you need and honest about your strengths and weaknesses. One of the main reasons that budgets get derailed is that people have undervalued the little luxuries that they need every day…that …what…I like to refer to them as essential luxuries. We all need to reward ourselves in little ways. The key is to reward ourselves in ways that mean something to us instead of just spending because we can.

So that’s the first step, and that’s actually the hardest step. And then having your goal, whether it’s simply to make ends meet, to have three to six months of debt payments, which is just an interim step between having nothing and having three to six months of living expenses. Having three to six months of debt payments will keep your credit score on track, even if you go through a period of unemployment.

Three to six months, especially when you’re starting out, can be a lot of money to save for an emergency fund, but having those three to six months of debt payments, even if you, you know, have a short-term setback, you can still make your student loan payments, make your credit cards payments, so that your credit score stays high, so that you can use it to borrow the money you need to borrow.

And the…also the first step after that is education -- learning where your money is going so that you can make deliberate decisions as to where you want your money to go. And that’s where it all starts. It all starts with the education. So looking over the last three to six months of expenses, if you look at the statement which captures the bulk of your expenditures, whether it’s a credit card statement, a debit card statement, if you’ve got ATM slips. Sometimes it pays to write what you spent that cash on.
But start there. Start with the statements that you have going back three to six months. And yes, include your holiday expenses. And we’ll just figure out an average, because those do happen. And there are always gifts and things that come up, so not to underappreciate sort of these miscellaneous expenses that pop up in our lives.

And if even the idea of going back three to six months makes your head swim, consider starting with what I call budgeting light, which is starting with the variable expenses. Start with the entertainment, the eating out, the impulse buying. What a lot of people find is that it really is the little things that add up. And it’s the little things that we forgot that we spent money on.

So just by tracking those, those are the areas that we have the most control over every day. Our utility bill is a utility bill, and some condo fees are condo fees, and a lot of our expenses we can’t change. But we can change our variable expenses.

Also you can start with the expenses that save you money, like taxes. For example, if you have regular medical expenses, if you take regular prescriptions and there are co-pays; you wear, you know, you buy contact lenses every year; or seeing the doctor, medical exams; sort of predictable things, add those up, and that’s the amount you should be putting in your medical flexible spending account, because that’s money you know you’re going to spend, so why not save taxes on it? So that’s budgeting light. And as you start there and you move forward, then you get a much better sense of where your money’s going.

All right, so now you’ve created your budget and you know where you want your money to go, you need the tools to be successful. And here are some strategies. The first is to divide your budget between fixed expenses and variable expenses, as we mentioned before. The fixed expenses are the ones
that don’t change from month to month. So you also get a sense of it because fixed expenses come with bills every month, that you’ll probably get a bill, open it up, looks about right. Those are your fixed expenses.

The variable expenses are the ones that usually end up on your credit card -- the travel, the entertainment, the miscellaneous expenses, the impulse buying. Those are the variable expenses.

Now what you do is you take the money for your variable expenses and put it in a separate checking account. Your direct deposit’s going to go straight into the account that has your fixed expense money in it, and automatic bill pay is going to get your bills paid. The debit card that you walk around with that you use is for your variable expenses. This offers two benefits.

The first is that as you’re spending your money, enjoying it, that’s what it’s there for. There…it’s controlled. You can’t spend the money that you need for your bills. Another just side benefit is identity protection. If that information, that card, is stolen, they can only get to the money that you’re going to spend on your variable expenses. They can’t clean out your rent money, because it’s in a separate account.

This also comes in very handy when you’re traveling, because if your information is stolen while you’re traveling, whether domestically or internationally, again, it’s just one account that has been identified as extra play money, and they can’t get to all of your other accounts. It’s also much easier to explain if you are the victim of identity theft, because only one account will have gone awry instead of all of the accounts.

Another solid benefit to having a budget is to put it down on paper and keep it out in the open. Make it real. Make it something that you look at all the time. Looking at it all the time will help you remember it. So whether you’re
putting it on your refrigerator or it’s in your wallet, or it’s something that you just check in with all the time, not even to change it but just to remind yourself what those spending targets are, that’s very helpful to staying on track.

That’s also very helping in teaching children about money, because you are showing them that it’s finite and that your decisions are thought out in advance, hopefully. Another example, for example, is never pay another late fee [by] using the online bill pay to pay your fixed expenses and a regular monthly payment to your credit card, hopefully enough to capture all of those regular monthly expenses that you have automatically sent to your credit card.

Schedule all of your payments to be received three business days in advance, just so that everything has time to clear, especially for a long weekend like the one that we just had. The credit card payment’s due on Monday. Trust me, if it doesn’t get there by Friday, they’re not going to give it ‘til Tuesday to make it up.

Also paying your bills on a regular basis, paying them right after you get paid, maybe two or three days after you get paid, will keep you feeling so flush that you go out and spend all your money after payday. So that’s another option.

And here are a few more budgeting tools. If you work a lot during the week and you really spend the bulk of your money on the weekends, use your budget to determine how much you have to spend every week. Take that amount out in cash at the beginning of the weekend and keep your credit cards at home.

If you come across something you absolutely must have, put it on hold and come back with the credit card the next day. This way you’ve taken the cash out, you’ve anticipated how much you want to spend. You’ve taken out that
cash, and you’re free to spend this over the weekend. And this way you really are keeping things in check. And if you find that you really need to return something later, you can just do it in cash. It’s a much easier transaction.

Another way to keep in mind your spending target is use your budget to determine how much you want to spend at a certain store. Let’s say your max is $3 at a coffee shop or, you know, $35 at a particular clothing store or $100 at the grocery store, whatever it is. But this way you only have to remember one number. And that’s your spending target every time you go into that store.

And once your new budget is underway, you only need to track a few accounts to determine if you’re still on track. Checking your checking account to make sure there’s enough cash in there for the next month; your credit card balances, to make sure that they are…that you haven’t spent more than you had anticipated over the course of the month; and also your savings and retirement accounts just to make sure that your automatic savings is going in there.

And as we mentioned before, in terms of honesty and diligence, that’s really what makes budgets work over time. And part of that honesty is going with your strengths. For example, automatic investing works for a lot of people. If a 401(k) works for you because your money is taken out before you ever see it, then apply that tool to other areas of your life.

A lot of people don’t realize that their employers will break up their paychecks and directly deposit them into different accounts. So you can have HR split your paychecks between a checking account and a savings account or perhaps, as we mentioned, that fixed expenses account and a variable expenses account.
Most employers will do this for two or three accounts. You just need to ask. Also automating your transfers from checking to savings. Your budget will determine how much you can save without having to go back to your credit card by the end of the month.

And also, as you build on your strengths, remember to respect your weaknesses. Spending, for example, spending opportunities that you can’t refuse or friends [who] like to spend freely. When you start to cut back on certain expenses, it will alienate some people who relate to you in only a spending way, or tend to relate to people only in a spending way. And you might have to come to terms with that. If you’ve got a friend or, you know, a loved one who just loves to go shopping with you and doesn’t really want to do anything else, well, that’s going to affect the changes that you’re trying to make in your life.

Also pressures from, you know, family, to spend on travel to come home, see everybody. And whether you are ready to confront these spending triggers or not, at least work them into your budget. And like I said, this is where the honesty kicks in again. If you don’t have the strength to change it at this time, then at least be prepared for it.

And also creating interim goals, whether that’s 10%, 20%, just a way to find and take pride in the progress you have made so that you can feel good about it. And then when you do reach those goals, you know, take a little bit of money, you know, maybe 5 to 10% on top of what you’ve saved, save it, and then the next 5 to 10%, just use that and blow off some steam. Everyone has to. And in terms of blowing off steam, even people who are diligent budgeters have their weaknesses. So sometimes you just need to spend.

So how do you do that without blowing yourself off course? Well, one way to do that is to buy a ticket to an all day event or a package where it’s pre-paid in
advance and you know that your costs are going to be limited. And another thing is just, you know, when I just absolutely have to spend money -- it just happens -- I throw myself at the closest dollar store. I have a young son, and I stock up on coloring books and stickers, and I get my fix, and he’s happy, and I’ve spent maybe $20. So there are ways to find these outlets when they come, and just being honest with yourself about what works for you.

Well, thank you very much. It’s been a pleasure, and let me know if you have any questions.

Jane Walstedt: Thank you so much, Rebecca. I like particularly what you said about people that learn to value the little luxuries.