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Make 2010 Different: 6 Budget Mistakes To Avoid

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NEW YORK (AP) — Do you keep track of your ATM withdrawals? Do you know what you spent on car repairs this year? Did you set aside cash for holiday spending?

If your answers are "no," "no," and "no," there's a good chance you didn't keep your 2009 New Year's resolution to stick to a budget.

Promising that next year will be different isn't enough. Even with the best intentions, common mistakes can lead to failure. Learning to avoid these pitfalls can make the difference for 2010.

1. You think "budget" means "no spending."

If you associate the word "budget" with "restrictions," changing your language can help.

"When I talk to clients, I try not to use 'budget,'" said Michael Eisenberg, a member of the American Institute of Certified Public Accountants' financial literacy commission.

Eisenberg likes "cash flow" because it's neutral. Calling it a spending plan, financial plan or a term that's meaningful only to you can also work. The important thing is to remember planning is a way to provide for your needs, not limit them.

Another way to view it: Budgeting helps you take control by encouraging you to make conscious decisions about spending, rather than mindlessly emptying your wallet.

It's also important to remember that you won't transform instantly. Expect mistakes, and give yourself three to six months to get used to your plan and see it working.

2. You don't track your spending.

It's not how much you earn, it's how much you spend that counts. "It's almost impossible to live within your means unless you know where your money is going," said June Walbert, a financial planner with USAA.

Advice is split on how much detail you should track. Some say estimates will do. Walbert is among those who advocate recording every dollar, at least to start. Realizing exactly how much you spend each day and on what can be eye opening, she said.

How you track spending should fit your money habits and personality. If you use mostly cash, a small notebook or even the back of ATM receipts may suffice. If you mostly use a debit card, your bank will do much of the tracking for you.

If you're tethered to your smartphone, there are more than a dozen apps for that. Among those getting positive user reviews are EveryNickel, iXpenseIt and SplashMoney.

3. Your plan isn't flexible.

"Most people think a budget is a static instrument," said Danielle Champagne, assistant director of the University of North Texas Student Money Management Center. Instead, she emphasizes a process: planning, tracking and reviewing.

Going through the receipts in your wallet, comparing the actual heating bill to what's budgeted and adjusting to reflect a smaller-than-expected paycheck are as important as developing the initial plan.

A good plan also has room for things like medical emergencies, flat tires and leaky pipes.

"What we know is that unexpected things happen," said **Thomas Petro, CEO of Fox Chase Bank** in Hatboro, Pa. Your plan should include reserves for likely categories so you're prepared.

A general emergency fund should also be built in. With layoffs still common and time out of work increasing, advisers say nine months of living expenses is a logical target.

4. You haven't set a series of goals.

"One of the keys to being able to stick with a plan is having a real clear idea of why you want to do this," said Petro. "What's the payoff?"

Large financial goals like funding your child's college education or buying a house can provide motivation. But don't overlook the importance of easily achievable short-term targets.

Overhauling your entire financial life at once won't work, so it might help to set mini goals to get started. Try saving \$20 per week. Reaching a series of smaller goals will provide a sense of accomplishment that can fuel your resolve for working toward the bigger targets.

Eisenberg, the accountant, has his clients set medium-term goals too. He suggests things that can be reached in two or three years, like saving for a new car or paying off credit card debt.

5. There's no fun built in.

A bare bones budget may seem virtuous, but it's unrealistic to expect not to spend a dime on entertainment. One key to success is to make a plan that reflects your lifestyle.

Skipping this step could derail your best intentions.

"A lot of parallels can be drawn between trying to lose weight and trying to stay on a budget," said Walbert of USAA. When no money for fun is included, one unplanned night at the movies can lead to the feeling that the whole budget is blown — the way one piece of cake might make dieters think they've failed.

6. Your spouse hasn't bought in.

When a budget fails, it's often because one member of a couple is gung ho and the other is not.

Both should be part of the process from the beginning. Start with working out an agreement on spending and saving priorities.

Petro, of Fox Chase Bank, suggests including a cash allowance for each person. That can help avoid guilt or accusations about incidental spending, as long as both agree that when their money is spent, they're done.

Members of a couple can also serve as a reality check for each other during the review process. Like the planning stage, regular reviews should be done together to make sure both are on the same page.

Keep these pitfalls in mind as you get started on your 2010 plan. You can take the first step by using tools available online.

There are a growing number of independent personal finance management sites like Mint.com, Greensherpa.com and Rudder.com that produce spending analyses and projected budgets. Some require you enter account data yourself. Others can import the information if you share user names and passwords to bank, credit card and investment accounts.

Banks are adding similar functions to their online services. You should check out what may already be available, especially if you are reluctant to share account passwords with another Web site. Beyond safety concerns, another advantage of using a bank site is the ability to set up automatic bill payment and savings, which can make it easier to avoid late fees and meet savings goals.