

Isthmus Pathways - Budgeting

By: Joe McNeil, CFP®

It's the start of a new year and with that, thoughts of personal improvement are in the forefront of mind. "This year I commit to better exercise, better diet, better finances, better..." are phrases that are often boasted around our house. While the year usually starts off strong, by the time my birthday rolls around in late January, my attempt at completing our annual "Whole 30" is usually kaput. Whole 30 is a food plan that involves eating whole, unprocessed foods and minimizing refined sugars and additives. "Whole 30" is our way of trying to start the year off by eating better, if only for a month. While I am very committed to my exercise regime, my diet is a little less disciplined. In years past, I have had great success with Whole 30. So much so that I must repeat it each year! It sounds simple enough. Then again, so does flossing and committing to a budget.

One of my favorite recording artists is Peter Gabriel. The former lead singer for Genesis has been a successful solo performer (i.e., Sledgehammer, Games Without Frontiers, etc.) for nearly 50 years. I've seen him in concert many times and my first show in 1982 still ranks as my all-time favorite concert. He recently toured the US, and we were able to see him in Milwaukee promoting his latest album "I/O". I/O or (Input/Output) is the information processing system which is designed to send and receive data from computers, a device, or a network. If there is a break in the flow of information, the code is unsuccessful, and the output is corrupt.

I/O is true with most things in life. You get out, what you put in. It's true in behavioral sciences and for that matter, behavioral finance. To understand how to have a successful output, one must understand the inputs that are factoring into the equation. While genes and heredity are important, the inputs of good dietary and exercise habits are vital to produce better health outputs in the form of lower cholesterol and better lipid panels. However, all the discipline of exercise and proper diet can easily be disrupted by a hot fudge sundae and thus affect the output. The same can be said for building good budgeting habits. I/O is not rocket science. Although one could argue it might be harder because it deals with the human condition.

Understanding what you ate, and the categories associated with your diet can help you to make better choices moving forward. The same can be true for understanding where your money goes each month. This can be very simple and straightforward, or very detailed. Let's start with simple. The 50/30/20 System is a great way to understand (in broad strokes) where your money goes. This is the proverbial "forest". The system recommends that, of your monthly income, 50% should be spent on necessities, 30% towards wants and 20% on savings and paying down debt.

Here's an expense example for a monthly net income of \$5,000:

50% or \$2,500 to Necessities (Housing, Food, Utilities):

- o \$1,500 rent
- o \$750 food
- o \$250 cable, gas, electric, phone

30% or \$1,500 to Wants (Food (take out, restaurant), Shelter (nicer apt), Transportation (fly vs drive), Services (gym), Clothing (designer):

- o \$500 restaurants
- o \$300 travel
- o \$200 gym membership

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20% or \$1,000 to Savings and Debt Repayment (Savings, 401(k), Student Loan, Car Loan)

- o \$500 restaurants
- o \$300 travel
- o \$200 gym membership

How does your 50/30/20 compare? Are you in range, or are there areas that you could improve upon? The only way to find out is to re-examine your inputs. Review your bank and credit card statements for the past month, or better yet, the last quarter. Your bank's online app likely can help you pull this data and may even help categorize it for you. Take advantage of the technology if you can. It can save you a lot of time.

Once you've been able to aggregate this information and understand your own 50/30/20, take this exercise a bit deeper and start to look at the "trees" within your "forest". Outlined below are ten major categories and recommended expense percentages. Your actual numbers may be similar or a bit different.

Breakdown of Monthly Expenses and Percentages

1. Housing (25-35%)
2. Transportation (10-15%)
3. Food (10-15%)
4. Utilities (5-15%)
5. Insurance (10-25%)
6. Medical / Healthcare (5-10%)
7. Savings, Investing and Debt Payments (10-20%)
8. Personal Spending (5-10%)
9. Recreation & Entertainment (5-10%)
10. Miscellaneous (5-10%)

Reviewing your spending history will create better understanding of your "I" and then adjusting can improve your "O". You may or may not line up right away. Don't worry, just start the process, and see how the numbers compare. Knowing where you have been and adjusting in the future will lead you on to a better pathway for future financial success. Let's start 2024 by taking a first step. Good luck!