

The 60% Budget Solution

By Gary Case

Budget: carefully tracking spending and adjusting budget targets up and down in each category, so that expenses never exceed income. Isn't there an easier, more effective way? The 60% solution might be a faster and easier way to structure your budget without having to account for every penny. Simply stated, spend no more than 60% of your income on committed expenses, including:

- **Basic food and clothing**
- **Essential household expenses**
- **Insurance premiums**
- **Charitable contributions**
- **All bills -- even TV service**
- **ALL taxes**

Are committed expenses more than 60% of your income? Little luxuries here and there don't cause much trouble. It's the large, irregular expenses, like vacations, major repairs and the holidays that do all the damage. Planning for those expenses can help. Understand that committed expenses vary with your stage in life. The key is keeping a lid on them.

Divide up the remaining 40% into four chunks of 10% each, listed here in order of priority:

- **Retirement savings**
- **Long-term savings**
- **Short-term savings for irregular expenses**
- **Fun money:** you can spend it on anything you like, so long as it doesn't exceed 10% of income.

Part of the difficulty in reducing committed expenses comes from big monthly credit card payments. If you're carrying a substantial amount of non-mortgage debt, use the 20% that would otherwise go to retirement and long-term saving to pay down debt -- but cut up those cards

Now, let's take the really hard case: if 60% seems like an impossible goal, the odds are that:

- **You have a more expensive home than you can afford**
- **You've committed to car or boat payments that are larger than you can afford**
- **Your children are in a private school that you can't really afford**
- **There's just a big, ugly gap between your income and your lifestyle**

If it's one of the first three, slowly unwind the commitments you've made and choose something less appealing but ultimately more appropriate. If the problem is having champagne tastes on a beer budget, take a long, hard look at where the money is going and why. The problem really isn't about money.

The real secret to building a budget that really works isn't tracking what you spend; any more than counting calories is the secret to losing weight. The key is creating a sustainable structure for your finances, one that balances spending and income and that leaves enough room to handle the unexpected.

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