

Financial Wellbeing



The Budgeting Mistake That Can Derail Everything -- And How to Fix It

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Budgets are extremely helpful in managing your money, enabling you to account for your expenditures and putting limits on how much you spend and where.

The trouble is, they're only useful to the extent they're realistic. An unrealistic budget is like an unrealistic diet: You can tell yourself you'll only consume celery and carrot juice every day, but at some point you'll break because celery and carrot juice is just not a sustainable eating plan.

One area where people tend to go wrong with budgeting is forgetting about unforeseen expenses. With all your money allocated down to the penny, a major unexpected expense can wreak havoc and make you feel like a failure. Here's how to fix it.

Unforeseen expenses shouldn't be part of your savings account

Start by making the unexpected a separate line item in your budget. This is where all the random stuff will go: car repairs, unplanned doctor's appointments, and all the other little surprises in life that are hard to plan for with any kind of specificity.

Now, you might be tempted to just rely on your savings account, but don't give in—especially if you're just starting out. It is incredibly dispiriting to see your slowly budding savings account decimated by something like a root canal, and it can make it harder to start saving again.

Start putting money toward the unexpected.

Rather than subjecting your savings account to the vagaries of life, create a separate account just for random expenses. It might seem like a lot of extra work, but hear me out.

If you're like most people, just letting the money sit in your budget won't help you because it is bound to be used. It's just too complicated to keep track of money that is unaccounted for, and there is way too much temptation to consider it "free money."

Instead, put it in another savings account (high-interest savings accounts, as laughable a concept as that is these days, are a dime a dozen, so you might as well take advantage of one). Every month, as part of your automated budgeting, push money into the account. It will quietly collect there until you need it, and you'll have the pleasure of knowing your savings are safe and sound and your "normal" budget is intact.

Building this little cushion into your expenses will take a lot of the stress out of the unexpected, and make your budget more resilient to the ups and downs of everyday living.

How much do I save?

This, of course, is the tricky part. In the end, the most important thing is to save something—it might be \$5 or \$10 a week, or it might be a couple hundred dollars a month. Just see where you can put a little wedge into your expenses to create this breathing room. Then, once you're comfortable with it, see if you can make that wedge a little bigger.

Building slack into your daily expenses might seem hard at first, but it becomes easier over time. And if you just started out and find yourself needing a new windshield or an emergency home fumigation: don't despair. It's just the beginning, and even starting to address the issue is progress.

Give it some time and you'll have a tidy little "unexpected" allocation in your budget that you can use to handle those little annoying things in life—without breaking a sweat doing it.

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