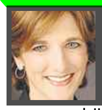
Making a budget's a means, not an end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A colleague recently asked me how he might be able to finally stick to a budget. For years, he had tried to create and adhere to a specific annual spending plan, only to blow a hole through it at some point during the year. "What's wrong with me?" He asked. "I know that I should do it, but there's always something that comes up."

Let me be the first to admit that I am not a fan of budgets. In the same way that I think most crash diets lead to failure, the majority of budgets or New Year's resolutions fall by the wayside within months of being made, as life interrupts our best intentions. Part of the reason is that we sometimes make the whole process more onerous than necessary.

Budgeting should not be an end but rather the means by which we can accomplish our financial goals. Of course, that fact means that you need to start by establishing those goals. If you can't come up with your own, try these (in order):

- Pay down consumer debt (credit card balances or auto loans) and student loans.
- Establish an emergency reserve fund of six to 12 months' worth of living expenses.
- Maximize retirement savings. The 2018 limit for 401(k), 403(b) and 457 plans is $18,500, or $24,500 if you are 50 or older; the limit for traditional or Roth IRAs is $5,500, $6,500 for those 50 or older.
- Fund a 529 education plan.
- Establish a general investment account to fund anything from a second home to an accelerated path to retirement.

You will notice that the second goal on the list specifically requires an important piece of information: knowing how much you spend each month. This is where the dreaded budget enters the conversation. That said, reaching most financial goals requires that you start with an idea of how much you spend today and an idea of what portion of that spending can be redirected toward saving and investing to fund the goals.

Instead of making yourself crazy populating a bunch of categories, it's far easier to start with what you are currently spending. With the advent of easy-to-use technology, this once horrible and time-consuming activity is a snap. Apps like Mint, You Need a Budget, Level Money or even your bank's own technology can help you with the process. Keep track for 90 days — that's it, just three months to pour the financial foundation necessary to construct your dream house.

Once you know how much you spend on a monthly basis for ongoing needs, you will have to add some of the one-time expenses that arise throughout the year, including vacations, money for kids' extra-curricular activities or camps, or the annual "homeowner's surprise," like the unanticipated appliance melt-down.

Congratulations! You have completed most of the hard work. The next step is to review where the money is going and determine how much you can redirect toward your goals. Again, technology will be your friend. Use it to create automatic drafts to avoid late payments and accelerate the pay-down of loans; to establish similar drafts with your bank or brokerage firm to beef up your emergency reserve fund; and to slowly increase your contribution levels to your retirement plan with auto-escalation features available at many financial institutions.

Psychologists note that change requires new thinking. Instead of hyper-focusing on the budget itself, remind yourself why you are doing what you are doing. Don't forget to celebrate the small wins, and if you fall off the wagon, re-focus your efforts, be mindful and get back on track.