SPENDING | Whether you use a PC or a pencil, tracking your expenses can lead to big rewards. By Jane Bennett Clark

BUDGETS that work (honest)

HERE’S OUR candidate for the New Year’s resolution that’s most frequently broken: Set up a budget. The b word can be so off-putting that financial professionals often prefer to use the more euphemistic “spending plan.” As for actually sitting down and setting one up . . . anyone for cleaning out the basement?

Yet figuring out where your money goes is the only way to get it under control. And the process doesn’t
Andrea Roane always keeps a notebook handy to record her expenses. "It's my way of staying organized," she says.
have to be difficult. To make sure that your resolve—and your budget—last beyond January 31, follow these basic rules:

**Keep it simple.** A successful budget needs to be compatible with lessons that you learned in kindergarten: Stay on task and take one step at a time.

**Make it personal.** Rely on sophisticated software if you wish, but paper and pencil work fine, too.

**Be positive.** Don’t think of a budget as a straitjacket that limits your spending and takes the joy out of life. Think of it as a way to control small expenses now so that you can buy bigger stuff—and have more fun—in the future.

To set up budgets that worked for them, the individuals profiled below marched to the beat of their own drum. But they all ended up just where they wanted to be, whether it was savoring the pleasures of a new home, sitting atop a comfortable savings cushion or taking an exotic vacation.

**SET A GOAL**

When he was just out of college and not making much money, Matt Lorano set a lofty goal for himself. “I wanted to buy a house,” says Lorano, 31, a claims processor in Cleveland. With his girlfriend, Jill Moran, he achieved that goal four years ago—and immediately set himself another: “Now I want to pay off the mortgage.”

To get organized, Lorano started with an Excel spreadsheet, dividing his income among fixed expenses, such as rent and utilities, and discretionary outlays, including groceries and clothing. He earmarked savings for a down payment and set aside another fund for emergencies.

With his budget set up, Lorano now uses Quicken to keep it running smoothly. The software helps him allocate paychecks, and it recalculates subtotals based on expenditures, which Lorano enters almost daily.

Budgets don’t have to be draconian. But to meet their goal of being mortgage-free within six years, Lorano and Moran say they are cutting back anywhere they can. They eat out sparingly, keep clothing costs to a minimum, and limit their grocery bills to about $100 a week, which allows them to almost double their monthly mortgage payment.

Once the mortgage is history, Lorano plans to shift the money toward other investments. “What really motivates people to curb spending is having a goal,” says Christopher Jones, of Keystone Financial Planning, in Easton, Pa. “Why cut back unless you have something more valuable to spend the money on?”

**GET OUTSIDE HELP**

As newlyweds in 1996, Curvie and Laneshia Hawkins started out $64,000 in debt. “We had a car payment and credit-card bills, and we both had student loans,” says Curvie, now director of planning for the Fort Worth Transportation Authority. Then, two days before their wedding, he suffered a bout of appendicitis and had no insurance coverage—“I was supposed to get it through my wife’s company once we were married.” He and Laneshia exchanged vows at his bedside, and their wedding gift was a $10,000 medical bill.

As budget busters go, debt is a sledgehammer, and it often breaks up relationships as well. Curvie and Laneshia sought outside help from the Consumer Credit Counseling Service of Dallas, a member of the nonprofit National Foundation for Credit Counseling (www.nfcc.org; 800-388-2227).

At the urging of their credit counselor, the couple decided they could allot $1,500 a month to paying off their debts. “That was the easy part,” says Curvie. “Then we had to figure out what to give up.”

They tore up credit cards and clipped coupons. When their car broke down, they asked friends to recommend a small repair shop that was less expensive than the dealership. They stopped going to movies.

The Hawkinses had already loaded all their financial information onto the computer so that Laneshia could check the balances in their accounts and Curvie could pay bills online. Meanwhile, the counseling service renegotiated the terms on some of their loans and set up a system in which the Hawkinses paid more than the minimum on the loans with the smallest balances. That arrangement allowed them to see progress right away. (They could also have started by paying off the loans with the highest rates.) As each debt was retired, the extra money went toward the next loan.

Within five years, the Hawkinses had met their $64,000 obligation and amassed enough in savings (by putting aside their pay raises) to afford a down payment on a house. In 2002, their 2-year-old son, Jadin, took command of his first backyard. Says Curvie: “Seeing him run through the yard and play on the swing set—that was awesome.”

**PULL OUT YOUR PENCIL**

Andrea Roane prides herself on the wedding present she gave her husband, Michael Skehan, several decades ago. Before their marriage, she set up a budget-tracking system that helped her retire a stack of credit-card bills. Every time she paid off a bill, she cut up a credit card. On their wedding day, she presented her husband with a handful of plastic shards. “It was my gift for our financial
Our reporter gets off on the RIGHT foot

When I began my first full-time job as a reporter with Kiplinger's a year ago, I applied for my first credit card. There was no doubt in my mind that I would pay it off in full every month.

But in my first year of earning for myself financially, I didn't live up to my good intentions. By the last week of each month, my checking account was empty. With no savings aside from the $800 I put every month into a 401(k) account, I used the credit card to get by until the next paycheck. One year later, my balance was $2,280.

I've never liked budgets, and the idea of balancing my checkbook induces an anxiety attack. Although I'm no shopaholic, I love a great pair of heels. And I can always justify hopping on a plane to visit friends.

But it was clear from my credit-card bill that I had to learn how to live within my means. At first, I couldn't even face working it out on paper. I simply set a goal of slashing my balance by $1,000 in two months, and limited my weekly spending to $25. But it soon became clear that the "cold turkey" approach was unreasonable. I was putting so much toward the credit card that my spending limit was too strict. I was coming up short—and resorting to the card again.

I finally decided to try Family Financial Network's Quick and Easy Budget Kit because it seemed manageable. It still took three painful hours to break down my expenses and track my spending by using my credit-card and debit-card statements. I found that in my worst month I had spent 30% more than my earnings. It was alarming to see how much I had paid for discretionary items—travel, dining out, gifts and clothing—but until I broke it out into those categories I could not see what the problem was.

I created a new spending plan that slashed my spending in each of those categories to a level that I hoped I could live with. I cut projected outlays for travel, clothing and personal-care items by nearly half. I resolved to save $100 a month on recreation and gifts.

I wrote down monthly limits for each category, then tracked my credit and debit spending online to monitor how close I was to each cap. By the third week, my dining-out allotment was depleted. When friends invited me to a restaurant, I offered to cook for them instead. My new fondness for home cooking helped lower my monthly food expenses from $415 to $295 ($110 for groceries and $185 for dining out).

I ended up spending $250 less than I had allotted, which went straight to the credit card (current balance: $1,900). It was the first time I'd ever saved any of my take-home pay, and it felt really good.

I haven't continued to track things as carefully, but I have the spending caps in my head. Now that I know I'm capable of doing it, I'm determined to pay off the credit card by saving at least $150 a month. —ELIZABETH KOUNTZE

future together," says Roane, a news anchor at WUSA-TV, in Washington, D.C.

Roane is still faithful to her budgeting system, which involves no special wizardry: She uses a pencil and a bookkeeping notebook to record expenses and target excesses. "I like the paper-and-pencil thing," says Roane, who always keeps a notebook handy. "It's my way of staying organized."

Roane and Skehan keep a joint checking account, as well as separate accounts to cover their personal expenses and those they've agreed to handle independently (she pays the cable bill, the mortgage and the car-insurance premium). Roane uses her notebooks to remind her when bills are due and to plan for occasional expenses. Starting in the fall, she sets aside money in gift cards for each person on her holiday gift list. "That's all done by Thanksgiving, so if I have to pay certain bills by the end of the year, my December paycheck isn't cluttered by Christmas obligations."

Roane has taken a fair share of ribbing from her family for her painstaking approach. But she is unfazed. "It's my check and my expenses," she says. "I organize me."

BUILD A BUFFER

A financial planner in Atlanta, Bryan Clontz adheres to the golden rule of budgeting: Pay yourself first. But that's not feasible unless you know where your money is going and how much you can set aside. So Bryan and his wife, Kim, set up a system with enough leeway to ensure that they can save on the first of the month without having to borrow the money on the 15th.

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