B is for budgeting. It's not a dirty word. It's a sensible way of getting a handle on your spending with a step-by-step approach!

Excerpt from an article by Michael Kane
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-Michael Kane, Vancouver Sun

For all those readers who plan to manage their money more sensibly in 2002 but don't know where to start, Sylvia Lim has some answers in her new book, The Simply Essential Budgeting Kit.

While many financial advisers shy away from the B word, preferring to talk about spending plans and goal-setting rather than budgeting, Lim believes we are all capable of getting a handle on our spending if we take a step-by-step approach.

Why bother to budget? When you have created a solid, realistic plan, Lim says you should be able to:

- Set realistic goals and trim your spending painlessly.

- Save and invest.

- Pay down your debt methodically.

- Develop a retirement savings strategy.

- Modify your lifestyle for a successful and stress-free future.

- First, sit down with your loved ones and identify the really important things you need to do, Lim says.

"Most people can do that," she says. "They can identify the key issues."

She says it is vital to work with your spouse or partner or you will end up with one budgeting and the other doing all of the spending.

Paying off credit card debt is a typical priority at this time of the year but it shouldn't deter you from thinking about longer-term goals.

"It is important for people to be realistic," Lim says. "If it took them quite a few years to build up to the debt level they have, they should expect to take probably as many years to get it back down again. But it can be done and you can get out of debt."

Lim advises clients to cut up all of their credit cards except for two -- there are times when one or the other may not be accepted by a vendor -- and literally put them on ice if their spending has been out of control.

"If you freeze the cards you have left, by the time you can use them again you may change your mind about buying something. However, a credit card is something for an emergency. You don't want to have no credit card."

She cautions about being sidetracked by loyalty rewards. It is better to forgo free air travel or other benefits than to run up a credit card balance that you can't pay off every month.

"Realism means not expecting to achieve your goals in a very short period of time," she says. "You have to take it one step at a time."

While straightforward number-crunching shows you will get your best return by paying down debt, Lim recognizes that people need positive rewards for trimming their spending.

In the simple language used throughout the book, she suggests you grade your goals in order of "very important," "important," "not so important" and "nice to have." Then assign manageable monthly payments to each with "not so important" and "nice to have" taking a few more years than the priority goals.

In one example, she shows how a couple might assign $292 each month to pay off an "important" credit card debt of $7,000 over two years while putting aside $208 each month for a "nice to have" extra $10,000 to pay down the mortgage in four years.

When you break down goals into monthly payments, they become more attainable.

Chapters on debt management and savings management help the reader to balance short-term and long-term goals. The savings chapter explains different types of investments and discusses the tradeoff between risk and reward.

"I am not saying you cannot spend at all, that you can't treat yourself, I am just saying be realistic about your spending," Lim says. "If you are buying something, think twice before you actually make the purchase."

Lim uses the example of a daily coffee and muffin, which adds up to about $1,000 a year that could be earmarked for something else.

"If you would really miss the coffee and muffin, cut back to two or three days. That could be pretty painless and you would still save hundreds of dollars over the year."

Lim's book includes a five-page appendix of tips on saving money covering such topics as personal care, home office, food, holidays, get-togethers, activities with kids, and vacations.

When you save money by eating out less often, going to matinees instead of evening movies, and choosing dinner or a movie rather than dinner and a movie, she suggests you put the savings in a jar where you can't see how much is inside. At the end of each month, put the money in a savings account.

"Over the course of three or four months you will be amazed by the amount of money you end up saving that you otherwise would have spent."

Throughout the book Lim emphasizes that changing habits and achieving goals takes time.

Her kit includes tear-out worksheets for setting goals; tracking spending daily, weekly and yearly; monitoring income sources; calculating net worth, and plotting revised spending. As things change, computer owners can print new copies of the worksheets from a disk included in the kit.

"The book is really a step-by-step approach to how savings can build up over time," Lim said in an interview at her home office in Vancouver's Yaletown.

"If you can put away just $2.75 a day, that works out to $83 a month or $1,000 a year. At eight per cent interest, in 40 years you end up with $280,000 in your RRSP.

"The key is just leaving the money alone -- keep putting it in and letting it build up -- and living below your means. If you consume less than you bring in, you will be fine."