

Overspending can be hard habit to break

Make a detailed list of expenses and rank what's most important

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By PAMELA YIP / The Dallas Morning News

Christmas is over, and you'll soon be getting the bill. Perhaps it's more than you can pay.

Conveniently, these post-holiday feelings of despair can be pushed aside with some firm New Year's resolutions.

This time, you'll resolve to do something you can control: drastically cut your spending.

There's just one thing. It's going to take more work than you think.

If you're truly going to cut your spending for the long term, you'll have to change your entire mindset.

"People don't understand the risks of overspending," says Lynn Lawrance, a certified financial planner at Financial Network Investment Corp. in Dallas. "I frequently see people jeopardize their family's financial welfare by overspending on stuff."

Like an alcoholic who's taking steps toward recovery, overspenders must hit rock bottom.

"It takes a lot of discipline," says Michael David Schulman, a personal financial specialist at the American Institute of Certified Public Accountants.

"Sometimes it takes a shock to the system – the inability to make payments, the realization that your child is two years away from college and you've saved nothing, sometimes the birth of a child."

"I really think you have to get the point where your new goal now means more to you than the other immediate-gratification stuff you were buying with your money before," says Bryan Clintsman, a certified financial planner at Clintsman Financial Planning in Southlake.

"People who overspend have developed a habit, and the only way to change a habit is to go through the traditional steps – identify the problem, come to the conclusion it is worth fixing, and then have a plan to change these habits over a set period."

It isn't that consumers dismiss the need to downsize. They know they have to do it.

Forty percent of consumers surveyed by Yahoo Finance cited personal spending as the primary reason they didn't keep past financial resolutions.

"It's incredibly difficult to reduce the cash outflow for your style of living," says Michael David Schulman, a certified public accountant and personal financial specialist with the American Institute of Certified Public Accountants. "It's a consumptive-oriented society. It's not a saver-oriented society."

But it is possible to cut back. The first step is figuring out what made you overspend in the first place.

HOW TO DOWNSIZE

1. List your monthly spending;

There are many different labels, reasons why people say that they can't afford, go where they can't afford, pick up tabs they can't afford," says Lynn Lawrance, a certified financial planner at Financial Network Investment Corp. in Dallas.

Some reasons include:

- To raise self-esteem.
- To be accepted by others.
- To reduce guilt.
- To fulfill some other emotional need.

Some people may need professional counseling to deal with these issues.

The next step is to understand what emotions you'll go through if you do downsize and decide that you can deal with those feelings.

"Many times the biggest line item that needs to be downsized is a house, and this is a very painful, expensive and time-consuming thing to downsize," says Bryan Clintsman, a certified financial planner and head of Clintsman Financial Planning in Southlake.

"Downsizing is viewed to others around you as a step backward. Many people feel that if they downsize, they may not make it back to that wealth level again."

But downsizing is not a negative if it puts you on a firm financial footing, keeps you out of bankruptcy and reduces your stress level.

There are some surprises when it comes to how men and women view cutting back.

Women were more likely than men to say they could cut clothing expenses to save more money for retirement, according to a survey by Allstate Corp. Men were more likely than women to say they could reduce spending on cars.

Once you believe that you realistically can cut back, it's time to come up with a plan.

Where is it going?

The first thing you need to do is to find out where your money goes.

"The first and most important thing they can do is to pull up the last six months of bank statements and write it down," Mr. Schulman says. "The only way you can control what you're spending is to see what you're spending it on."

Then put yourself on a spending plan.

"Immediately begin a 30-day detailed tracking of all outflow – everything from house payments to haircuts," Mr. Clintsman says. "Rank all these expenses by category, in descending order. Now look at that list and ask yourself if the top of the list represents your highest priorities in life."

Then remove items from the list that make your total expenses exceed your take-home pay.

"As an alternative, if you are having trouble making the choice of what to cut from the list, then start with a blank piece of paper instead," Mr. Clintsman says.

2. Compare it to your pay and your goals.

3. Realize that you may have to move to a cheaper house.

4. Come to grips with the feelings you'll have in cutting back.

5. Adjust your lifestyle to spend less than you earn.

SOURCE: Certified financial planners

Take back items to your blank paper list, one by one from your expense list, that are your highest priorities. When your new list has reached the same dollar amount as your take-home, you are done."

Don't forget to include categories for house or auto repairs and additional contributions to your emergency saving and charitable contributions, if your current contributions aren't equal to your priorities on that matter.

Room to breathe

Make sure your budget is realistic. Don't make it so tight that you don't have room enjoy life.

"I inform clients that as financial planners, our goal is not to put a family on a strict budget, but to illustrate how a disciplined spending strategy could help them reach financial independence sooner rather than later," says Chanc Woods, a certified financial planner at Allstate Financial Services in Dallas.

"No one wants to give up their Mercedes or Corvette for a lesser car, but once they see where the money's going, reality sets in."

He also recommends reviewing the automatic deductions that come out of your checking account.

For example, if you have a gym membership and you haven't set foot in the gym for three months, do you really need it?

"Identify and align your goals and priorities with your wallet," Ms. Lawrance says. "Put these expenditures on autopilot so they are taken care of first before your other bills. If left to the end of the month, your priorities will likely be hijacked by anything that comes along."

Even if you bring home good money, you can stand to cut back.

"Just because you have money doesn't mean you have to spend it," Ms. Lawrance says. "If you're barely making it now, what will you do when your paychecks stop forever?"

"If you say no to things you don't really want, you may be able to say yes more frequently to things you really want."

Try to use cash only and use credit cards only for true emergencies. The pain of seeing real cash leave your hands will make you more vigilant about spending.

Finally, be patient with yourself as you undergo this change. As Paul Richard, executive director of the Institute of Consumer Financial Education in San Diego, puts it:

"They didn't develop this overnight, and they shouldn't expect instant solutions."

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