How Much Is Enough?

◆ Issue #28 ◆ Douglas E. Reese

Addressing the "B" Word (Budget) Head On: Part I

This month I will begin a series that I hope will guide you to a better understanding of your own answer to the basic question of financial planning…"How much is enough?" Until you are able to answer this question to your own personal satisfaction, and I mean really understand your answer, your financial planning efforts will likely be little more than a time consuming and frustrating exercise in futility.

Why am I so adamant about getting you to answer this question of "How much is enough?" Because, it is my belief that until you know this answer, you do not have a clear picture of what you are trying to accomplish with your money matters. And, more importantly, you will not be clear on the "why" answer to your actions.

Frequently people ask questions like, "Why do I need a budget?" or "Why do I need to track my spending?" or "Why do I need to guess what my lifestyle will be in 10 years?" These are all valid questions. They are also questions which lead me to believe I have not fulfilled my opportunity to help these people understand the "big picture of stewardship." My hope in upcoming issues is to help you understand this "big picture of stewardship."

Let me try and concisely present to you my basic model of money management. We'll begin with the basic elements of money management, and I'll end this month's message with what I believe to be the key to success in your money management.

There are 3 basic elements of money management. When you have money at your disposal, you can choose to 1) spend it, 2) save it, or 3) give it away. That's all.

Let me repeat this since it will become the foundation for our work in coming issues. You use money three ways: 1) you spend it, or 2) you save it or 3) you give it away. That's it. A budget is no more than a reflection of these three choices in your own lifestyle. A budget quantifies how much you spend, how much you save, and how much you give. It also totals up this amount and lets you see if your income can support your combined spending, saving, and giving.

So there it is…Money Management 101. It's no more complicated than adding up your spending, saving, and giving, measuring the total against your income, and discovering if you're in a surplus or shortage lifestyle. A "surplus lifestyle" says there is money left over in the end. A "shortage lifestyle" says you spend more than you take in. Do you know which lifestyle you are currently living? I suggest strongly that you do the work to find out this answer.

Let me introduce another concept. I believe you choose one of three methods of money management (whether you realize it or not.) Method A: your budget defines your lifestyle.

Method B: your lifestyle defines your budget. Method C: your lifestyle defines your lifestyle (forget the budget!)

Method A where "your budget defines your lifestyle" is the most commonly chosen method of those who attempt money management. Here's how it works. You figure out your income then create a budget based on that number. This uses the thinking of "it is what it is." You define what level of lifestyle you can live based on your current income. You decide what you can have and what you can't have. I believe this method, although valid, promotes a process of limited thinking and "we can't afford that" mentality. For some, however, it's the only way to responsibly manage their resources, especially those on limited or fixed incomes.

Method B where "your lifestyle defines your budget" is the method I most prefer. It requires of you to dream of "the best it can be" and then put those dreams on paper, quantifying these according to spending, savings, and giving. The sum total of these dreams will give you the lifestyle you desire, quantified into the amount of money it will take to pay for this lifestyle. It promotes the process of dreaming and possibility thinking (the "what if" approach.) Unfortunately for most, this method is unrealistic, unreasonable, and unavailable to them. The typical response is, "Why should I dream it if I know I can't afford it?" or "Now who's going to pay for all of this?" This is the question I hope to help you answer in the next few issues.

Finally, Method C when the "lifestyle defines the lifestyle (forget the budget)" is the most common method used. It lacks direction. It lacks control. And, it lacks responsibility. My greatest hope in these messages to come will be to try and help you understand the long-term destructive nature of Method C, which is where 95% of all Americans choose to live.

Let me close with these thoughts…

- Stewardship (as defined by Steven Covey) is "a job with a trust." When we are entrusted with money, we become stewards of our future and others' futures. Spending, savings, giving…this is a job with a trust.

What kind of steward are you?

- Discipline (as defined by Scott Peck) is the "tool we use to solve life's problems." There are four ways we implement (or neglect) the tool of discipline in our decisions: 1) we accept (or deny) responsibility; 2) we are dedicated to the truth (or we choose to selectively acknowledge truth to meet our personal needs); 3) we are willing to accept delayed reward (or we choose immediate gratification); and 4) we maintain balance in our lives and in our efforts (or we accept the stresses of imbalance.)

  How disciplined (or undisciplined) are you in your money management?

It's about much more than spending, saving and giving. It's about accepting the responsibility of stewardship, and the rightful use of money. I hope to help you better define "rightful use" in your own life.