

How To Spend Less – And Get More Joy From It!!!

Judging by the blast of e-mails that greeted my last column, many people are thinking about the U.S. savings rate. Some agree that Americans are overleveraged and saving too little. Others argue vociferously that the government's calculation is outdated and inadequate, and the savings rate is actually higher than it appears.

Whatever the exact level of debt, most Americans will likely benefit from stashing away more cash. How can you maximize your savings?

The only effective way is to know exactly how much money is coming in and going out. Not only can this key piece of information help you save more, it can also reveal whether you're shelling out for things that aren't very meaningful to you. If so, you can spend smarter by using your money for things that will give you more happiness.

Fixed Expenses vs. Fun Money

Start by writing down your monthly take-home pay, after tax, plus any other income, and tracking your expenses for 30 days. Note down all your expenditures -- see the more comprehensive instructions for recording your expenses at the end of this article. At the end of the month, separate each expense into one of the spending categories listed on the next page.

Now total the amount you spent on each category. Then, separate the categories into two groups: Fixed Expenses or Fun Money. Fixed expenses are necessities such as housing, food, heat, and transportation. These can be tweaked -- you can get a roommate to share the rent, wear your coat indoors to cut the power bill, skateboard to work instead of driving. But you have to spend something on your fixed expenses. Fun money is everything else.

Add up your fixed costs and calculate what percentage of your spending is going to life's necessities (instructions on how to do so below). Now look for ways to close these spending sinkholes:

Improve planning: Late fees and fast food bought on the run can be budget killers. Move to paying your bills online to eliminate late fees; consider joining a grocery delivery service such as Peapod to reduce fast-food buys. Cut back on fixed expenses such as gasoline by visiting GasPriceWatch.com or GasBuddy.com before you fill up.

Address fixed-expenses creep: At least once a year, shop around for a better deal on phone service, auto insurance, and homeowners insurance. Check out sites such as LowerMyBills.com for competitive offers.

Keep on top of maintenance: I bought my first car for \$300 in college and blew out the engine two weeks later because I didn't realize when the "oil" light went on, you really have to pour a little Pennzoil in there, pronto! Keep your car engine tuned and tires inflated to the proper pressure and save up to \$100 a year on gasoline.

Was the Spending Worth It?

Next, look at the Fun Money pile for patterns across categories. Maybe you drop a large chunk of cash on vitamins, church apparel, charitable donations, and working with a life coach on how to vaporize your rivals with kindness. Those kinds of activities indicate that perhaps spiritual growth is a strong value.

Or maybe your biggest expenses are theater tickets, foreign movies, fine restaurants, and historical biographies. Entertainment and culture are clearly important to you, so highlight those in a different color. Total up the spending for each category where you see a pattern, and divide by your total monthly outlay.

What does your spending say about your priorities? Did you truly want or need everything you bought? *Was it worth it?* Divide your weekly after-tax earnings by the number of hours you worked and think about what you earn each hour.

Let's say you take home \$14 an hour after taxes (the rough equivalent of a \$40,000 a year job). You spend \$140 on something -- shoes or electronics or sports tickets -- whatever it may be. You had to work 10 hours to pay for your stuff. Was it worth the energy and the time you invested?

If not, are there spending categories you can reduce and shift the money into more meaningful expenditures? For instance, psychologists say spending time with friends creates more happiness than buying material goods. Instead of dropping \$140 on shoes, spend \$50 on snacks and drinks and host a memorable poker night. Instead of \$60 a month for the gym, start running with a friend.

Bottom line: Before you buy anything, ask: Do I truly value this? By making value-driven decisions, saving will become a regular part of your life.

The Nuts and Bolts of Tracking Expenses

Start by noting down your monthly take-home pay, after taxes. This is a little trickier if you work on commission, freelance, or get a big yearend bonus. (Do your best to ballpark monthly income based on your previous tax return.) Include any other regular monthly income you receive -- alimony, disability check, interest on investments, and so on.

Then track your expenses for 30 days. Keep a small spiral notepad, a pen, and an envelope handy at all times. Use one page of the notebook per day. Every time you pull out your cash, debit card, credit card, or checkbook to pay for anything, grab your notebook and write down what you spent, to the penny, and what it was for. Save receipts that cover multiple categories of spending in the envelope, because you'll need to separate those purchases into different categories later.

Just start on the first of the month and stop on the last. Don't say, "Well, I pay for everything with my debit/credit card, so I'll just look at my statement at the end of the month." The idea is to feel the visceral reality of the spending, to acknowledge the dollars floating away, and the stuff you need or desire coming into your life.

Be sure to note anything automatically deducted from your checking account (a student loan payment, for example) or regularly billed to your credit card (e.g. a gym membership). For annual or quarterly expenses that don't show up in your 30-day survey, look through your records, find the payment, and break it out monthly. (If you pay \$600 a year for auto insurance, add it into your budget as \$50 a month.)

At the end of the month, put each expense into one of the spending categories listed below. Get an 8"x10" notepad and write one category at the top of each page, listing all the expenses underneath. Most categories will have multiple expenditures listed, so use a page for each category.

Spending Categories	
Rent or mortgage	Utilities:
Food	<ul style="list-style-type: none"> • Heat/electric • Cable
Household supplies/toiletries	<ul style="list-style-type: none"> • Internet connection
Car loan/lease payment	<ul style="list-style-type: none"> • Phone • Cell phone
Credit-card payments	<ul style="list-style-type: none"> • Water • Garbage pickup
Gas	
Auto maintenance	
Public transportation	Professional services (accountant, lawyer, cleaning person)
Tolls/parking	Home furnishings/yard expenses
Cabs	Student loans
Insurance (Home/renter's, auto, health, life)	Other education costs

Other medical costs (co-pays, prescriptions)	Day care
Exercise/health (gym, etc.)	Clothing/shoes
Entertainment	Dry cleaning
Newspapers/magazines/books/subscriptions	Personal services (hair, nails, etc.)
Gifts	Charitable donations
Savings	Vacations, travel
Postage	Miscellaneous

Now, total the amount you spent on each category. Then, rip out the pages from your notepad and put each page in one of two piles: Fixed Expenses or Fun Money.

Add up your fixed costs, divide by your total expenses for the month, and multiply by 100. That's the percentage of your spending going to life's necessities. Example:

Total monthly spending = \$3,400
 Total fixed costs = \$1,530
 $\$1,530 \text{ divided by } \$3,400 = 0.45, \text{ or } 45 \text{ percent}$

A clear and accurate picture of your spending will help you spot the money leaks, make a clear-eyed evaluation of the value of your buying, and make changes to get more happiness from your expenditure.

Credit – Laura Rowley