

Out-of-control spending seems to be one of the most difficult financial problems that we have seen people have in our years of providing financial planning advice. Not only out-of-control personal spending, but also government spending at the city, state, and federal levels can cause severe financial consequences. Not only are individuals and governments spending more than they take in, they are borrowing more money, to satisfy their instant gratification desires. Obviously all debt - from credit cards up to US Treasury bonds - must come due some day, and must then be paid off, refinanced, or defaulted.

So how can people control their spending before or after it becomes a crisis? It comes down to that difficult word called discipline. Setting up a spending plan and sticking to it. Often we recommend that folks separate their non-discretionary spending from their discretionary spending. This process will require some honest and difficult decisions as to what is really a need and what is a luxury. If we honestly look at it, do we really need all of these luxuries? Is cable a need or a luxury? What worth should we put onto these spending items? I think that all would agree that food is a need, but grocery amount versus eating out?

Once you get these expenses separated out, then you can take your income and pay all of the really non-discretionary expenses first. Your investment target should be in that non-discretionary expense category, taken out of your paycheck preferably, so it is not tempting to spend it. Then cut up your credit cards and allocate the remaining money to your discretionary categories, ranking those as you prefer.

This strategy works well with individuals and also might be a good strategy for governments. The government situation is obviously very complex because it affects people and politics, which is another subject altogether.