Budgets Are For Rookies

While driving home from a hockey game tonight, I was trying to distract myself from the injustice of the 10 minute misconduct penalty I had been given late in the third period (sure, it might have been checking from behind, but it was 2 seconds after the punk crosschecked me behind the ref) by listening to Dave Ramsey.

If you've listened to this show once, you've heard it a dozen times. It intersperses marketing for Dave's sponsors, live events, classes, and books with two main types of callers. The first type is usually a financial train wreck that you just can't look away from even though you see it coming.

Tonight's edition was a 68-year-old recently divorced man who had $53K to his name and was trying to buy a house so he could move out of a relative's house. Luckily for him, he was able to get adequate housing in his area for $75K and could actually pay the mortgage using SS and his pension.

Following that was the other type of caller, the "Debt-Free Screamers." These are pretty much all the same. While everyone gets into debt for a different reason, they all get out the same way. Not only do they quit spending more than they make, but they start living on MUCH LESS than they make, and use the difference to pay down their debt.

Tonight's edition featured a couple and their three teenage boys who had driven all the way from Salt Lake City to Nashville just to scream "We're debt-free!" after paying off their mortgage and other debts. I sure hope they were on their way to somewhere else when they decided to stop in the lobby of Financial Peace Plaza, but hey, if that's their idea of a great vacation, more power to them.

Dave always asks the callers, "How did you do it?" and the callers inevitably describe their saga which usually involves living on a budget, accounting for every dollar they made, and frequently, an increase in income. After hearing that tonight, this thought came across my mind:

> *BUDGETS ARE FOR ROOKIES!*

Don't get me wrong, I'm sure living on a budget was integral to this couple in reaching their impressive goal. But in my view, budgets are like training wheels.

What Is A Budget?

Before we go any further, let me define a budget for you. A budget is a spending plan. It helps you to make sure you're spending your money on exactly those things that you wish to,

i.e. spending your money in accordance with your values. It's a wonderful thing.
Technically, my wife and I have a budget. In fact, I have an Excel spreadsheet somewhere for every month of the last 16 years documenting where every dime of our money went. But I have a confession to make. It's really a spending record, and not a budget.

You see, a real budget is done a priori. Like a good double-blinded trial, you state up front what you're going to spend your money on and when the money runs out for that category, you quit spending until next month. If you're really hard-core, you have a cash and envelope budget. Each category gets an envelope. Then when you get paid you put cash in each envelope, and then take that envelope with you when you go to the store or gas station or out to eat. If you're spending more than you make, I highly recommend it. You will instantly stop.

Our "budgets," however, are done, at best, 15 days after the month ends. Frequently, it's 30, 60, or even 90 days after the month ends. Sometimes we do 2 or 3 months at once. I wouldn't be surprised if we quit looking at all soon. Maybe it's good, otherwise, we might miss a fraudulent charge or something (haven't found one in 16 years, but it could happen.)

Budget on Autopilot

You see, all of our "budgets" pretty much look the same and have for years. It can be kind of interesting for a month or two after a big income change or after moving to a new house. But then it's pretty much back on autopilot. My income now varies quite a bit month to month, and that can make it a little interesting at times, but not really since we've conditioned ourselves to live on the amount we get in our worst months, so it just changes how much we invest that month. Every budget fight worth happening probably takes place in the first 1, 2, or 3 months you start living on a budget. There just isn't anything left to discuss, much less fight over, in month 15.

The truth is that the big savings have already been done. It is done when you make the big decisions – what town you're going to live in, what job you're going to take, how expensive a house you're going to live in, what you're going to drive etc. We don't discuss any of that in our monthly budgeting session. If we discuss anything it's, "Hey, what did you buy for $23.99 at Amazon?" which has pretty much zero to do with our financial success.

Grow Your Income So You Don't Need A Budget

Biking the Alpe De Huez, without training wheels

In medical school, we had to budget pretty tightly, as the difference between our income and our spending was fairly small. It was a little bigger in residency, but our spending went up as we started a family and then our income went down as a PGYII when my wife became a stay at home mom.

After residency, we gave ourselves what felt like an awfully nice raise, and then proceeded to save 25-65% of our income. When I left the military, we gave ourselves an even bigger raise, while still saving a big chunk of that income, and essentially locked our lifestyle in to my "pre-partner" salary.

So when the "partner money" came along, and again when WCI actually started making real money, we splurged every now and then on a one-time expense, (you wouldn't believe how much crap I get on the internet for buying a boat, despite the fact that we paid cash for it) but the increase was mostly either saved or paid out in taxes.

My point is when you're "winning with money" i.e. increasing your income, limiting your spending, and investing the difference wisely, the gap between what you make and what you spend gets bigger and bigger, especially if you count the income from your ever-growing investments.

Suggesting I use an envelope system when I'm saving 30% (43% of the net) of the equivalent of a dual-physician salary is, to be frank, kind of insulting. "Where's your training wheels?!" they scream as I zoom past them on my way to the Alpe de Huez of personal financial management.

Now, lest you think this is some kind of "humble-brag" about our income, realize that it was the same game when we made $20K in med school, $40K in residency, $120K in the military, or $200K as an "average physician." We became millionaires 7 years out of residency on an average income of $180K over those 7 years, shortly after making partner and long before this website started making real money.

This "dual-physician income" is quite new to us and our financial habits and current spending level were set long before it showed up. While it is far easier to save 30% of your income on $300K than it is on $40K, it's important to realize that part of the process of financial success IS boosting your income, and that isn't a bad thing.

I'm convinced that almost anyone can boost their income in some way given adequate motivation to do so. It might be a new job, overtime/extra shifts/extra calls, a second job, an entrepreneurial pursuit, improving billing, sending an underemployed spouse to work, or something else, but chances are there is something available to you if you are willing to sacrifice for it.

Develop Post-Budget Financial Muscles

There are really three kinds of people in the world. Those who can't ride a bike, those who can ride one with training wheels on, and those who can ride a bike without training wheels. It is the same way with budgets.

People who have never lived on a budget have no idea where their money is going, probably make much less than they could, and are almost surely spending more than they make. Then they are introduced to a budget. If they really take "the bike" out and ride it around the neighborhood for a few months, they'll have it figured out and realize that most of the time, those training wheels aren't even on the ground.

At that point, they'll take off the training wheels, i.e. ditch the budget. They are "Post-Budget." Their "financial muscles" are so strong that the "exercise" of budgeting no longer makes them any stronger.

Going Back On A Budget?

Sometimes I wonder if maybe we should go back on a budget. We could decide a priori how much we're going to spend on restaurants, groceries, kids' activities, gasoline, and recreation, and then limit ourselves when we hit our limits for the month. But then I wonder, what's the point? So we can save 32% instead of 30% of our income? So I can retire 3 months sooner from two jobs I love? No thanks. I'll continue living my "Post-Budget" existence, maybe wasting a few dollars here and there.

I want WCI readers to "win with money." I want the difference between their income and their spending to be so great that it seems silly to actually implement a real budget. You can get to that point by increasing income, or by decreasing spending (or better yet, never fully growing into that attending salary.) Perhaps it is best to do both simultaneously. But however you do it, become "Post-Budget" and enjoy real financial freedom.

What do you think? Have you ever budgeted? Do you still have a real monthly budget that limits your spending? Do you consider yourself now "Post-Budget?" Am I wrong about being able to ditch a budget eventually? Why or why not? Comment below!