

THE SIX EXPENSE TYPES

1. Weekly Expenses – Food, Fuel, Fun and Incidental Expenses (FFFI)

These are weekly living expenses and include food, fuel, fun and incidentals which occur every week.

It is irrelevant whether they are 'essential vs non-essential' or 'needs vs wants'.

As long as they are regular weekly expenses and come under the FFFI category, this is where they fit.

Where To Keep Money For These Expenses

It is recommended that you set up an 'FFFI' Account that has Debit Card and ATM access.

Using a separate account makes it easy to create predictability around expenses that might otherwise seem to be varied. You are putting a barrier in place to stop yourself from accidentally messing up your finances over the longer term.

How To Manage This Money

Set up an automated weekly deposit to your FFFI account and allow yourself to spend all this money each week.

If you spend up big on Food one week, then you will have less to spend on Fuel or Fun but you should commit to spending no more than your allocated total amount on these expenses each week.

If a minor incidental unplanned expense occurs, this is where it is financed from, so be careful not to spend all the money on the first day of the week!

You know this money will be there at the same time each week so it can be relied on and if you don't spend it all one week the surplus will add to next week's allowance.

2. Non-Weekly Repeating Predictable Expenses – (otherwise known as ‘Bills’!)

These fall into two groups:

Group ONE:

Rent, Electricity, Telephone, Rates, Insurance, Planned Gifts, Regular Donations, Vehicle Registration, Memberships, Children’s Lessons, Dentist and other similar expenses

Group TWO:

Mortgage(s) and / or Loan Repayments

These are payments or expenses you can reasonably predict into the future:

- You know how much they usually cost with reasonable accuracy, or, if you don’t know how much they usually cost, you can nominate an amount that will work for you
- You know how often they fall due within a yearly cycle
- You know when they will occur next

If you do not know these three facts about an expense it does not belong in this list.

Where To Keep This Money

It is recommended you set up or identify a Bills Account to store this money in. If you have a mortgage you should consider having it offset against the balance of your mortgage to save interest.

How To Manage This Money

Pay your planned bills from this Bills Account. From here, you can also distribute funds to other accounts according to your plan. For example, your Weekly Expenses money is transferred to your FFI account each week.

Your goal is to:

- Pay all planned expenses on time
- Always have funds available when these expenses fall due - this does wonders for the stress levels!
- Use as little of your **income** as possible in paying these expenses - you have better things to do with your income than pay bills!
- Never have more **savings** put aside for these expenses than is necessary

The biggest reason people have difficulty with these expenses is because they have no Spending Plan and no targets to aim for. You will do this in your Spending Plan.

3. Product Purchases

These fall into two groups.

Group ONE:

Items that Support Your Life. For example - White Goods, Motor Vehicles, Furniture

Group TWO:

Items or Experiences you desire. For example - Hobbies, Clothing, Travel, Recreational

Where To Keep This Money?

Because these expenses tend to be less frequent and less predictable, you could easily spend more than you can afford on these items if you have no plan. Therefore, you should have a separate account that is dedicated to these expenses. You might even consider having multiple accounts for different goals, hobbies or desires so that you can easily identify how much you have available for each one.

How To Manage This Money?

These are the purchases that you are highly motivated to make - either because you experience pain or difficulty without these items, or because you have a passion for them.

You would happily dedicate funds to these all day long but you know you have to take care of essential basic needs as well, so 'management' is handled by keeping this money separate from your Weekly Expenses and Bills Account.

One of the biggest reasons people have difficulty with money is because they don't have a system for controlling their spending on this group of expenses and they don't foresee or plan ahead for when they need items from Group One – items that support your life.

There is nothing worse than having financial needs with no money to fulfill those needs. This is a major reason why people fall into the debt trap, so planning ahead is critical if you want a happy financial life!

4. Repairing Items That Support Your Life

Sooner or later you will have to pay for repairs to something you rely on. For example - White Goods, Motor Vehicles, your body, etc.

Many people believe that the seemingly untimely need to repair something they rely on every day was an unfortunate unpredictable event.

However, everything breaks down sooner or later so it is important to put funds aside in anticipation of this.

Where To Keep This Money?

You could never accurately guess how much you should put aside for repairs for each item you rely on, so it makes sense to have a single 'bucket' of money for general repairs. This money can be kept in your Bills Account as long as you have a Spending Plan that distinguishes it from other 'Bills' money. Otherwise it makes a lot of sense to keep it separate so you know how much you have available at any point in time.

If you can keep it in a mortgage offset account that would also make a lot of sense. Or, if you have a redraw facility on your mortgage you may be able to add these savings to your mortgage payments and draw it back when needed.

It is important that you obtain financial advice before making decisions that impact any loans, mortgages or investments you might have.

How To Manage This Money?

You should deposit money each payday and the amount you dedicate to this will be partly determined by what you can afford and other factors such as the age of your possessions.

Once you build up a decent reserve you may be able to back off and funnel funds to other more exciting projects.

5. Replacing Items That Support Your Life

This group contains items you rely on in living your life. This would also include replacing items that you have just for fun if you can afford to include them. For example - White Goods, Motor Vehicles, Furniture, Computer

Where To Keep This Money

This money can be kept in your Bills Account as long as you have a Spending Plan that distinguishes it from other 'Bills' money so you always know the breakdown of funds.

For example, a balance of \$800 might be made up of \$500 for Regular Expense type bills and \$300 for Replacement of Items (Long Term Expenses).

Again, if you have a mortgage offset account it might be to your advantage to combine these funds and store in the offset account so you can save interest on your mortgage.

On the other hand, you may decide to separate this money into a high interest-bearing account to which you can regularly add funds. Withdrawals are minimal, so you should be able to earn interest. Again, it is important that you obtain financial advice before making decisions that impact any loans, mortgages or investments you might have.

How To Manage This Money

It is difficult to determine when items in this category break down or become unserviceable and need to be replaced so the best strategy is to nominate a date when you want to have funds available to replace each of them. If you reach this date and the item is still working, then you have options.

Maybe you could replace them with new items and still have something of value to sell to someone looking for an older but still functional item.

One thing that is important to understand about this type of expense is best demonstrated using a fridge as an example.

- If you plan to replace a \$1000 new fridge in 10 years, it will take \$2 a week to replace if you put the money aside from the day you purchase it
- If you wait until it is 5 years old before starting to put money aside, it will cost you \$4 a week
- If you wait until it is 9 years old it will require \$20 a week
- A year later it may cost you \$1,000 in one hit if it dies

The sooner you include this group of expenses into your plan, the less you will have to commit each week!

6. Major 'Once In A Lifetime' Occurrences

These also fall into two groups:

Group ONE:

Larger Life Goals: These are bigger events you want to make happen, and you have a time frame in mind. For example, retirement, an overseas holiday, big dreams and desires

Group TWO:

Unpredictable larger expenses: These are expenses that you don't really know when or even if they will occur, but you need to be prepared for them just in case. For example, a major car repair bill, a child's future university education, a medical emergency, a child's wedding, and similar.

Where To Keep This Money

Talk to a financial planner for investment/retirement advice. Your Spending Planner may be able to connect you with someone if you do not have one.

For other big goals that do not fall under the retirement or investment banner use your spending plan to plan and track this money by setting up separate accounts under your savings list. This will keep this money easily identifiable

How To Manage This Money

You should see a financial planner for investment / retirement advice.

For the other goals you are saving towards, when you reach your target, withdraw the money and have fun!

For unpredictable events that may never happen (but you want to have an emergency fund in place just in case), you will simply deposit an amount each pay to build up your chosen target slush fund.

There is no guarantee you will get this right but doing something is much better than doing nothing! If you are fortunate, this money could end up being surplus and once the sum you consider to be sufficient to cover most emergencies is reached, you could start channeling surplus into another 'money bucket' of your choice.

Check out Bodo Schafer's book and audio series 'The Road to Financial Freedom'.

Bodo recommends you save up 3 to 6 months' worth of income and keep it available at short notice. If you do this, no matter what happens, you will be safe whilst you come up with a solution to something bad happening to you (such as becoming unemployed or unable to work).