

PENNY-WISE, POUND-WISER

Preparing a budget, and then keeping track of it, is essential to a family's financial well-being



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In the month between Valentine's Day and mid-March, many in India go through what I call Budgetitis: a condition in which much of our discourse, public as well as private, is dominated by the Union budget.

The Union budget is an important document as it tends to be a good indicator of the country's financial health and of how the government will spend its resources to better citizens' lives. It could also bring about changes in tax laws and prices of some products and services. Not surprising then that there is such interest in the budget.

Individuals as well as families however, can get the full import of, and benefit from, the national budget only if they have made their own budget first. For a household budget is not just a statement of income and expense, it's a measurement tool as well as an enabling tool. Here are some of its advantages:

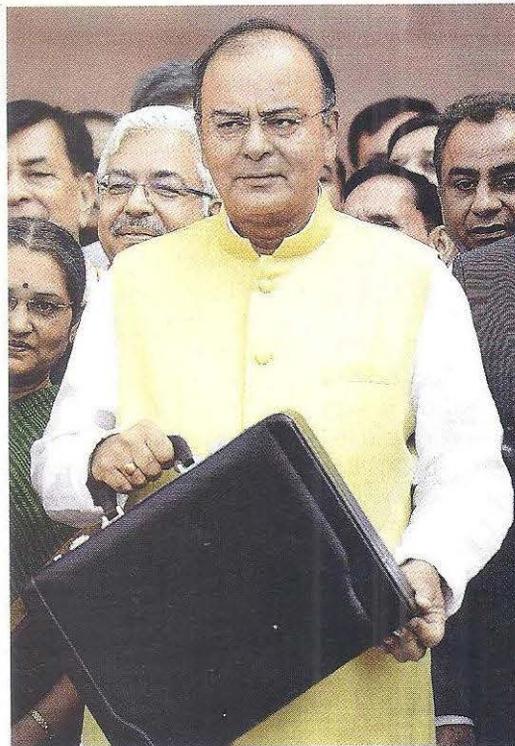
Helps track benefits You rejoice when a change in tax slabs puts extra cash in your wallet. You might spend it on evenings out with your family or use it to enhance retirement investment. Both could be equally important but do you actually know where this benefit went? You sure would if you have a family budget.

Enables prioritisation Most people want many things in

life that come for money. A budget allows you to prioritise these things. For example, if you are able to save entertainment expenses by Rs 10,000 a month, you would get yourself two extra weekend breaks in the year or upgrade your TV to an LED one, or put aside more money for your child's education.

Brings balance Often we come across or hear about people who live poor but are certain to die rich. They are those who have enough wealth but, for one

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reason or the other, uncomfortable spending it. So they end up hoarding money. Here, a family budget can help one understand why spending too little when one's financial goals have been taken care of can also be a negative.

Instills discipline For a large number of professionals and businesses that receive a portion of their income in cash, the lack of a budget could result in overspending as cash inflows and outflows are easily missed.

Creates bonding Social pressures can result in spending on things with little or no utility. So when families sit down to discuss what they can and cannot afford, every member understands why something is being purchased or not. This helps prevent purchase of things that are not really needed.

Helps educate Involving children in the family's budgeting process can teach them the value of being prudent with money and fiscal discipline.

Prevents financial infidelity Many people separately save a portion of their income believing their spouse spends too much. So when a couple sit together and discuss income and expenses, it reduces the chances of financial infidelity. Ultimately, any infidelity in a marriage is unhealthy.

Builds patterns It's not uncommon to treat certain expenses as one-offs and thus non-recurring. However, families with budgets could discover that these expenses are incurred every month in different ways. This could help them manage their expenses better.

Reduces behavioural biases As a result of mental accounting, people often treat money differently depending on how it was earned. Bonuses, for example, are usually spent differently than say, salaries. But families that track all income inflows through their budgets tend to treat all money the same way and thus spend it more wisely.

It is evident from this discussion that a household budget is critical and should, therefore, be part of a family's financial life. Budgetitis, especially the family kind, is a good thing indeed. ■