

# Getting Your Household Cash Flow Back Under Control

*Developing a better budgeting process may be the biggest step toward that goal.*

Provided by **JOSEPH A. GARAFANO, CFP®**

**Where does your money go?** If you find yourself asking that question from time to time, it may relate to cash flow within your household. Having a cash flow management system may be instrumental in restoring some financial control.

**It is harder for a middle-class household to maintain financial control these days.** If you find yourself too often living on margin (i.e., charging everything) and too infrequently with adequate cash in hand, you aren't the only household feeling that way. Some major economic trends really have made it more challenging for households with mid-five-figure incomes.

By many economic standards, today's middle class has it harder than the middle class of generations past. Some telling statistics point to this...

\*In 81% of U.S. counties, the median income is *lower* today than it was in 1999. Even though we are in a recovery, much of the job growth in the past few years has occurred within the service and retail sectors. (The average full-time U.S. retail worker earns less than \$25,000 annually.)

\*Between 1989 and 2014, the American economy grew by 83% (adjusting for inflation) with no real wage growth for middle-class households.

\*In the early 1960s, General Motors was America's largest employer. Its average full-time worker at that time earned the (inflation-adjusted) equivalent of \$50 an hour, plus benefits. Wal-Mart now has America's largest workforce; it pays its average sales associate less than \$10 per hour, sometimes without benefits.<sup>1,2</sup>

Essentially, the middle class must manage to do more with less – less inflation-adjusted income, that is. The need for budgeting is as essential as ever.

Much has been written about the growing “wealth gap” in the U.S., and that gap is very real. Less covered, but just as real, is an Achilles-heel financial habit injuring middle-class stability: a growing reliance on expensive money. As Money-Zine.com noted not long ago, U.S. consumer debt amounted to 7.3% of average household income in 1980 but 13.4% of average household income in 2013.<sup>3</sup>

**So how can you make life more affordable?** Budgeting is an important step. It promotes reliance on cash instead of plastic. It defines expenses, underlining where your money goes (and where it shouldn't be going). It clears up what is hazy about your finances. It demonstrates that you can be in command of your money, rather than letting your money command you.

**Budget for that vacation.** Save up for it by spending much less on the “optionals”: coffee, cable, eating out, memberships, movies, outfits.

**Buy the right kind of car & do your cash flow a favor.** Many middle-class families yearn to buy a new car (a depreciating asset) or lease a new car (because they want to be seen driving a better car than they can actually afford). The better option is to buy a lightly used car and drive it for several years, maybe even a decade. Unglamorous? Maybe, but it should leave you less indebted. It may be a factor that can help you to ...

**Plan to set some cash aside for an emergency fund.** According to a recent Bankrate survey, about a quarter of U.S. households lack one. Imagine how much better you would feel knowing you have the equivalent of a few months of salary in reserve in case of a crisis. Again, you can budget to build it – a little at a time, if necessary. The key is to recognize that a crisis will come someday; none of us are fully shielded from the whims of fate.<sup>3</sup>

**Don't risk living without medical & dental coverage.** You probably have both, but some middle-class households don't. According to the Department of Health & Human Services, 108 million Americans lack dental insurance. Workers for even the largest firms may find premiums, out-of-pocket costs and coinsurance excessive. This isn't something you can go without. If your employer gives you the option of buying your own insurance, it could be a cheaper solution. At any rate, some serious household financial changes may need to occur so that you are adequately insured.<sup>3</sup>

**Budgeting for the future is also important.** A recent Gallup poll found that about 20% of Americans have no retirement savings. You have to wonder: how many of these people might have accumulated a nest egg over the years by steadily directing just \$50 or \$100 a month into a retirement plan? Budgeting just a little at a time toward that very important priority could promote profound growth of retirement savings thanks to investment yields and tax deferral.<sup>3</sup>

**Equity investing has helped many middle-class Americans attain wealth.** Increasingly, it looks like the long-term difference between being consigned to the middle class and escaping it. Doing it knowledgeably is vital.

Turning to the financial professional you know and trust for input may help you to develop a better budgeting process – and beyond the present, the saving and investing you do today and tomorrow may help you to one day become the (multi-)millionaire next door.

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#### **Citations.**

1 - [washingtonpost.com/sf/business/2014/12/12/why-americas-middle-class-is-lost/](http://washingtonpost.com/sf/business/2014/12/12/why-americas-middle-class-is-lost/) [12/12/14]

2 - [tinyurl.com/kr3e78](http://tinyurl.com/kr3e78) [11/27/12]

3 - [wallstcheatsheet.com/personal-finance/7-things-the-middle-class-cant-afford-anymore.html/?a=viewall](http://wallstcheatsheet.com/personal-finance/7-things-the-middle-class-cant-afford-anymore.html/?a=viewall) [12/15/14]