Identifying & Reducing Your Expenses

This topic covers the three types of expenses – fixed, periodic, and variable – and offers some options for lowering the monthly amounts you pay. Various strategies for evaluating and assessing your options, and then taking action steps to reduce expenses, are discussed.

Time Investment
1.5 hours
Lecture

One of the most important aspects of budgeting is to understand your expenses. When you look in detail at where your money goes, this first thing you will notice is that not all expenses are equal, but rather fall into different categories.

Expenses can be categorized into three types: Fixed, Periodic, and Variable.

### Expense Types

#### Fixed
- Same Payment Amount Every Month

#### Periodic
- Scheduled Payments Outside Monthly Payment Routine

#### Variable
- Routine Expenses that are Different Each Time You Pay

Understanding the differences between the three types of expenses will help you gain control over them. Once you have identified what your expenses are, and how they are distributed across the three expense types, you can get to work exploring ways to reduce them!
Fixed Expenses

Fixed expenses are defined as those expenses for which the payment remains the same from period to period.

These types of expenses include fixed-rate payments such as car loans, rent or mortgage payments, insurance premiums, monthly gym memberships, or any other monthly bills that don’t vary from month to month.

Fixed expenses are easy to track and simple to include in your monthly budget, because the amounts rarely change.

Periodic Expenses

Periodic expenses are defined as expenses that fall outside the routine monthly billing cycle, but rather are payable at various times throughout the year. Car registration is an example of a periodic expense, because your car registration is paid annually. You should plan for periodic expenses in your budget by saving a little each month to put toward that bill. To calculate how much you need to save each month, simply divide the total periodic payment by the number of months until your next periodic bill is due. The figure you get is the amount you should save each month toward that bill. For example, if you pay a quarterly bill of $300 for a certain expense, you should allocate $100 per month into savings so you can meet that bill when it falls due.
Variable Expenses

Variable expenses are defined as those expenses that you routinely incur, but where the amount you are required to pay varies. The amount you spend on these expenses typically falls under your control. Variable expenses include groceries, dining out, entertainment, and personal care items.

Most of us see cash vanishing each month into the black hole that is coffee and takeaway meals. This area is one on which you should really get a firm grip. Try creating a separate checking account with a predefined amount that you are allowed to spend on variable expenses each week or month.

When you're looking to trim expenses from a household budget, it's usually easier to start with variable spending, as these expenses are much easier to “shave” than your fixed expenses. However, there are options that can help you reduce your fixed payments as well.
Evaluating Expenses & Assessing Your Options

Consideration. Do I really need this expense?

If the answer is an emphatic “No,” then: Stop, Sell, or Cancel. Review termination terms in any service contract before you cancel to make sure you are not violating a contract or incurring additional cancellation fees.

If the answer is “Yes,” then: Reduce, Negotiate, Transfer, Manage. Your goal in applying each of these expense reduction strategies is to lower your expenses.

Reduce: How often do I incur these expenses?

Look at how often you are incurring regular expenses. If eating out or takeaway meals are major expenses, check how frequently you buy pre-prepared food. Try taking your lunch to work and cooking your meals at home, and look at the difference that makes to your monthly budget. If such expenses are a huge part of your lifestyle (for example, you eat all your meals out), start with small steps: try eating out only three times a week rather than seven. You’ll have a higher probability of being able to maintain small changes than hard “shock” changes over time.

Negotiate: Can I get a better deal?

If you are happy with the expense and the company you are using, then try negotiating for lower prices or a better rate.

Transfer: Can I lower my expenses by changing service providers?

Change service providers by selecting those that offer sharper pricing or better terms. Such changes may range from refinancing existing loans, to switching cable companies, internet service, or electric or gas utilities.

Manage: How effectively am I really managing my expenses?

Some changes are obvious, like paying your bills on time to avoid late penalties or ensuring that your account is never overdrawn to avoid overdraft fees. Other choices may be more subtle, such as unplugging your appliances at night or swapping all your light bulbs out for more energy-efficient versions.
Rent Expenses

Rents rise and fall according to the availability of rental properties in your area and local demand. However, you have a few options when it comes to lowering your rent. If you like your place, negotiate with the landlord to lower your rent.

- Do your research: Are rental rates going up or down in your area?
- Being an excellent tenant helps. “No-hassle” tenants are desirable to landlords.
- If financially possible, offer to pay multiple months’ rent up front in exchange for a reduced overall cost negotiation.
- Determine if you can opt out of certain shared amenities.
- Be cordial, but clear that you may be ready to move out at a moment’s notice. An empty rental is lost money to a landlord. Be sure to check your rental terms; some rentals are month-to-month, while others have one year+ lease terms.
- The primary thing to remember when negotiating is that you are asking your landlord for something. Therefore, you should expect to provide something in return to make the deal “fair” and attractive to the landlord.
- Lastly, set appropriate expectations. Asking for 20% off your rent will likely get you laughed out of the office. Shoot for a realistic reduction.
Home Ownership Expenses

**Mortgage**

Look into options for refinancing your loan. Factor in how long you plan to live in your property, the costs and fees associated with refinancing, and your monthly savings before you lock in a new loan.

**Property Taxes**

You are taxed on the appraised value of your home at the local property tax rate. If you suspect you are being taxed on a value higher than your home is worth, look into obtaining an updated property appraisal. If your property is appraised at a lower amount than the one on which you’re being taxed, look into making a property tax appeal.

**Maintenance**

As homes age, their maintenance costs inevitably rise. Weigh the cost of preventive maintenance against your likely future repair costs. Take preventive measures in areas that will generate the best returns. Spending $20 to waterproof your deck and outdoor furniture each year, to prevent wood rot damage that might cost you thousands, is an example of a good preventive maintenance decision.
Utilities

**Electric, Gas, Water**

Look to reduce your utility consumption: some obvious solutions are to turn off lights that are not in use, do larger loads of laundry, adjust your thermostat a few degrees higher or lower (depending on the season), and install energy-and water-efficient fixtures. Use less; pay less. But you also can explore utility discount programs offered in your area. One common program is a “reliability” charge that typically applies to electricity. This charge is what you pay the utility company to obtain top priority in the event there is a lack of supply for the utility. Opting out of the program reduces your bill, but it also deprioritizes your home. For example, if you don’t pay a reliability charge to your electric company, in the event of a “brownout” – in which the demand for electricity reaches maximum supply – your home would be “turned off” to reduce the total load on the electrical system.

**Cell Phone**

People tend to buy new smartphones every two years or less – as soon as their contracts expire. But do you really need that fancy upgrade? Think about buying less expensive phones, or gently-used refurbished models.

Getting locked into a two-year contract with a huge cancellation fee for switching is another place where you can potentially cut back. Try using a prepaid or no-contract option.

Check your cell phone bill to uncover things you don’t really need. For example, if you’re paying for
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Budgeting

phone insurance, ask yourself, “Did I buy a phone I can’t actually afford?” Instead of paying $13 a month for insurance, set a little aside each month to replace your phone if you need to. Are you paying for premium voicemail or 411 service? Cut out the services you don’t really use.

Most cell providers offer payment plans with zero interest. Paying off your device balance will reduce your monthly payment, but doesn’t really save you in interest. You’re just paying in bulk to get the monthly payment off your back.

Landline Telephone

If you’re one of the remaining few people who still have a landline, negotiate with your phone company for a better package at a lower rate. Phone companies know landlines are “on the way out” and try diligently to bundle landlines with other services, such as Internet. Mention that you’re considering canceling your landline account to gain leverage.

Internet & Cable Service

There are three ways to cut the cost of your cable or Internet charges:

1) If you’re happy with your current provider, call to negotiate the rates. If you never ask, you’ll never receive.

2) Consider bundling services such as television with Internet to lower your overall costs.

3) Switch to a provider that offers better pricing. Watch out for short-term introductory offers that expire and lock you into a significantly higher monthly charge thereafter.
Transportation Expenses

Vehicle Loans
You have a few options to lower your car loan payment:

1. Look into refinancing options.
2. Consider selling your car and buying a used car with a lower monthly payment (if you’re not paying cash).
3. If the interest rate on your car loan is high and you can’t refinance your loan at a lower interest rate, consider using some of your savings in lower-return accounts to pay down the debt. If the interest rate you pay on loans is higher than the interest rates you earn through investments or savings accounts, it is typically better to reduce the debt.

Vehicle Leases
For most consumers, leasing is not the best long-term financial option for vehicles. You effectively pay up-front for the depreciation of the vehicle over a few years. However, for small business owners or individuals in unique financial positions where leasing is the better option, consider:

1. Choosing a car with a high residual value, in which case purchasing the vehicle post-lease may be attractive.
2. Look out for car leasing special offers and contract hire deals.
3. Lower your contract mileage allowance.

Registration
Be sure to always pay your registration on time. The late fees stack up quickly. Unfortunately, auto registration is typically a flat rate based on the value of your vehicle. So outside of moving to a different state or buying a car of lesser value, there is little you can do to reduce this expense.

Fuel
Fuel is a commodity that is heavily regulated and standardized. Fuel from one station will be the same as fuel from another. Along your route to errands or work, keep an eye out for the best price. Don’t bother going too far out of your way; the extra fuel you use can outweigh your savings.
Also make sure that your tires are inflated to the recommended PSI for the seasonal weather conditions you expect. Underinflated tires are less fuel efficient.

Lastly, practice defensive driving habits. Not only is defensive driving safer for you and everyone else on the road, but fast acceleration and stop-and-go driving caused by following other vehicles too closely wastes fuel.

**Maintenance**

Like your home, the older your car gets, the more dollars it consumes. Stick to the regular service schedule to avoid unpleasant surprises later on.

**Public Transport**

If you regularly use trains, buses, or ferry services, buying a weekly, monthly, or annual ticket can save you big bucks. Check out the available public transport options to help reign in your transportation costs.
Insurance

The advent of comparison price websites has changed the way we buy insurance forever. Get online and compare value and prices. Look for price breaks attached to bundling and unbundling different insurance products. Bundling options may be available for:

- Vehicle
- Home / Rental
- Health Insurance
- Life Insurance
- Disability
- Umbrella / Accident
Loan & Debt Expenses

The smartest way to lower your loan and debt expenses is not to incur them in the first place! However, if that ship has already sailed, you can explore your options for consolidating credit cards and smaller loans into a single new loan. Check to be sure that the fees and charges attached to taking out a fresh loan don’t exceed your target savings. Prioritize paying down the loan or debt with the highest interest rate first, which usually means targeting your credit cards.

A good rule of thumb is never to go into debt to pay for your living expenses. Similarly, always avoid retail store cards – the discounts they offer rarely exceed their much higher interest rates.

Remember, once you have taken out a credit card, take your time closing it. Canceling a credit card account can affect your available credit ratio, and thus may damage your credit score. Avoid opening and closing accounts too quickly or too frequently.

Set up a schedule to contact your creditors regularly to learn whether any interest rate reduction is available for your account. As with most services: if you don’t ask, you won’t receive.

Fees & Charges

Account Fees

Financial Institutions are far more flexible than they once were. If you have held your account for a while or are opening a new account, ask your bank to waive your account fees. Alternatively, change financial institutions; they often offer incentives to acquire new customers.

Credit Card Fees & Interest

When it comes to reducing your credit card interest rate, waiving fees or raising your credit limit, there is usually room to negotiate with your credit card provider. Make sure you pay on time to avoid late fees and don’t exceed your credit limit.

Late Fees

Set up an autopay system to avoid late fees altogether.

Overdraft

Explore overdraft protection. Monitor your account regularly and set up a monthly budget to track where your money is going.
Variable Personal Expenses

Groceries

Look for weekly specials and coupons: plan your meals around these specials. Also explore the savings of buying in bulk.

Vitamins & Supplements

Look for generic brands that come at a lower shelf price. Check out the labels. Most times the exact same active ingredients are present at the same dosage levels in the off-brand products compared to the brand name labels. You are literally paying more for the name in most cases.

Subscriptions

If you have fallen in love with a magazine, software package, or monthly delivery service, taking out a multi-year subscription can save you a lot.

Personal Care

Clothing: Wait for the regular main sales, or look for end-of-year or end-of-financial-year clearance sales.

Personal Grooming: Having your hair and nails done by an apprentice can save you up to 80% of the cost of a professional cut.

Education

Educational Expenses: Look for scholarships. Many employers subsidize employee education.

Professional Development Courses: Check whether your preferred course offers reduced prices for certain memberships.

Books: Time to hit the second-hand market, shop online, or contact students from the previous semester and buy their used books. Always check the difference between book editions before buying the newest. Sometimes the update represents just a few added activities or grammatical corrections, even though it’s released as a new “edition.”

Health & Fitness

Gym Membership: Gyms often offer introductory packages, waive the initiation fee, or reduce the price for their annual packages.

Prescriptions: Just as with vitamins, sometimes you pay more for the brand name. Many
pharmacists offer both brand-name pharmaceuticals and generic versions. Always consult with your doctor and pharmacist before making a final decision.

Eye Care: If you can wait for those new frames and lenses, buy them when they go on sale.

**Kids & Caregiving**

Children’s Activities: Coupons, kids’ club memberships, and special deals are ways to access affordable activities for your kids. Not every weekend trip needs to be to the expensive local amusement park.

Caregivers and Daycare: Coordinate care with family members, trusted friends, and neighbors. You may be able to arrange a mutually beneficial agreement by networking.

**Pets**

Pet Supplies: Buy in bulk to cut down on your per-meal costs. Clip coupons.

Veterinarian: Most people have a preferred vet. However, for routine services such as vaccinations, price check different veterinarians in your local area to see whether savings are available. Some vets offer free clinics, and local government agencies sometimes run vaccination or general pet health programs as well.
A budget is a key component of a sound financial plan, and expenses are an important piece of a budget. This topic has covered the three types of expenses – fixed, periodic, and variable – to help you categorize and identify where your money goes each month. Once you’ve identified your expenses, you can look for areas where you can trim away excess spending. Cutting back on something even as small as one drink at a coffee shop every day can add up to substantial savings over a year’s time. Making the effort to review all your expenses and plan to lower them can make a big difference in how soon you reach your goals.