

## Uncommon Sense Climb out of your financial black hole



MP Dunleavey

To print article, click **Print** on your browser's **File** menu.

[Go back](#)

It's not the splurges that do you in -- it's the easy monthly payments. Here's how to determine if you're overcommitted, and what to do about it.

By [MP Dunleavey](#)

*Editor's note: Columnist MP Dunleavey and six other women have come together online to strip away the myths surrounding money, lay bare their assets and liberate themselves from debt. Follow the quest for financial fabulousness of these "Women in Red" every second Monday in Dunleavey's column on MSN Money.*

"Sex and the City" may have thrown more women into debt than any show in history, yet nobody I know went broke buying Manolo Blahniks.

The financial tipping point for most people occurs when they take on certain fixed expenses that not only do a number on their bottom line but send the rest of their financial life spinning out of control, too.

That's what happened to Brice, 37, when her roommate moved out over a year ago and she decided that she would try to swing the rent for her Greenwich Village apartment on her own. Unfortunately, the rent was \$2,370 a month. And last year Brice earned about \$40,000. Which means that \$28,440 of her income -- about 65% -- went toward rent alone.

That's called being overcommitted.

### Biting off more than you can pay for

You don't have to be young and single or live in a big, expensive city to suddenly find yourself sucked into financial quicksand. Here are some of the most common holes people fall into:

- Buying a more expensive house than you can afford.
- Car payments that you can't quite manage.
- Sending the kids to private school.
- Stretching to make a major "lifestyle investment," like a boat or a vacation home, that requires way more upkeep than you had anticipated.
- Signing up for services -- yard cleaning, house cleaning, full-time child care, fancy-shmancy club memberships, overpriced cable-Internet-satellite surveillance packages.

Unlike a vacation or a new dress, these are bills that keep on coming -- and are never paid off. Once they become part of your lifestyle, it can be hard to remember that you really can't afford them.

### Living too close to the edge

Don't let retirement sneak up on you.  
[Create a perfect plan.](#)

**Decision Center**  
**Learn to budget**

[more on this topic](#)

**Debt Evaluation Calculator**

[Debt Consolidator](#)  
[60% Solution Calculator](#)


[Savvy Spending Quiz](#)

[Credit Reporter](#)  
[Do your taxes online](#)

[Shop for personal finance resources](#)

**Find It!**

[Article Index](#)  
[Fast Answers](#)  
[Tools Index](#)  
[Site Map](#)



#### Recent articles by MP Dunleavey:

- [7 women get naked, financially](#), 5/16/2004
- [It's time for taxes that feel good](#), 4/18/2004
- [Nothing quick about getting rich with real estate](#), 3/28/2004  
[More...](#)

It took almost a year for Brice to realize she was seriously overcommitted because the problem was masked by big swings in her free-lance income. Up to \$5,000 one month, down to zilch the next.

## Related Articles

---

[7 women get naked, financially](#)

[Don't bite off too much house](#)

[Keep your old clunker or buy a new car?](#)

[A simpler way to save: the 60% solution](#)

Being self-employed increases your risk of being overcommitted. The checks come in with a delicious *whoosh!* of sudden wealth -- and you feel like you can afford A WHOLE NEW LIFESTYLE! But ya cant.

In reality, most people (free-lance or not) succumb to the temptation to spend every dime they have, and that sets the stage for nasty financial surprises to leap out of the dark and knock them silly.

## Unwinding your big expenses

There are really only two ways to deal with being overcommitted, and neither one is easy. One is to earn more money. The other is to unwind those unaffordable commitments.

[Are you a savvy spender?](#)

[Evaluate your debt](#)

In a consultation with Karen Keatley, a financial planner with the fee-only [Garrett Planning Network](#). Brice had to face the fact that her overhead was waaaaay over her head.

## Related Sites

---

[Garrett Planning Network](#)

[Kochis Fitz Wealth Management](#)

[The Money Club](#)

Keatley pointed out that if Brice gives up her pricey apartment and moves to one that costs, say, \$1,200 a month, her yearly expenses still would be \$36,972. And that doesn't include federal, state or city taxes.

It pains me to say this, said Keatley, but with a projected income of \$40,000, thats a problem.

Understandably, there was a shocked silence while Brice took in this new information. She had already made plans to move to a less expensive place but hadn't yet realized that halving her rent wouldn't solve her problem.

## Know thy cash flow

Sandi Bragar, a financial planner with [Kochis Fitz Wealth Management](#) in San Francisco, said Brices first task should be to nail down how much she has coming in - - and going out -- in order to adjust her expenses and live within her means. She needs to make a cash-flow projection for herself, says Bragar.

Luckily, Brice was familiar enough with Excel to make a spreadsheet that tracked both her fixed and discretionary expenses -- as well as the checks she knows she has coming in, and the months where there are some holes.

I was a little bit shocked, Brice admitted after she took this first big step toward financial sanity and saw in the cold, clear light of Excel that her discretionary expenses alone were almost \$1,100 a month. It was depressing to see how much

higher my personal expenses are than I thought.

I dont even think Im spending that much money, Brice said. Im just not bringing in enough.

### **Lifestyle choices and changes**

Keatley agreed that Brice could easily bring in more income. (The silver lining of self-employment is that you do have some control over your earnings.) In fact, she would have earned \$60,000 last year but for the Big Disaster. She had four assignments, worth about \$20,000, suddenly evaporate last fall when the magazine underwent an editorial coup.

Keatley also recommended that Brice take her upcoming windfall of paychecks -- she has about \$16,000 due her this summer -- and start setting aside \$500 a month in an emergency fund and an extra \$100 a month toward her \$4,000 credit card debt.

I want you to pay back your debt, but you need some stability, Keatley said.

### **Ways to tighten the belt**

Keatley, who used to live in New York City herself, was sympathetic to Brices plight, agreeing that the city doesnt lend itself to a modest lifestyle. Still, to achieve her goals, she advised Brice to tighten her belt and live on less.

Keatley suggested that Brice leave her credit card and ATM cards at home and carry only as much cash in her wallet as she needed for basic expenses each week.

Ginita Wall, a financial planner and founder of a money site for women, [The Money Club](#), said that Brice could also benefit from greater financial self-awareness. People always underestimate what they spend, says Wall. Its just human nature. To really get a grip on her spending, Brice should review about six months worth of credit card and bank statements and see where her money is going.

I threw in my two cents and championed [the 60% solution](#) budget that helped me to turn my financial life around. The key to that approach is to keep your committed expenses to a manageable level, ideally not more than 60% of your gross income.

### **Brices reaction**

After her financial tune-up, Brice was a little depressed, but undaunted. I feel encouraged and discouraged at the same time, she said. Im not as far along the road as I want to be, but at the same time, looking at those numbers -- instead of having them floating in my head -- is useful. It helps just to see where all your money is going.

I thought I could throw a chunk of (the \$16,000 she's owed) at my debt -- but now I realize I cant. I have to cover my living expenses for the fall and set up my

emergency fund.

The consultation with Keatley also helped Brice to face some other issues shed been putting on the back burner: How can she build her free-lance business? Would it be better to get a full-time job? How much should she try to save for retirement?

But, as Brice is learning, you cant do everything at once. You start slowly, and try to live with the fact that having a financial life will always be a work in progress. She admits that shes not at all thrilled to be in belt-tightening mode. At the same time, she says, Im excited to start tracking my expenses, to see where Im spending frivolously.

#### More Resources

advertisement

- [E-mail us your comments on this article](#)
- [Post on the Your Money message board](#)
- [Get a daily dose of market news](#)

---

#### Sponsored Links

MSN Money's editorial goal is to provide a forum for personal finance and investment ideas. Our articles, columns, message board posts and other features should not be construed as investment advice, nor does their appearance imply an endorsement by Microsoft of any specific security or trading strategy. An investor's best course of action must be based on individual circumstances.