A Simple Plan to Take Charge of Your Money and Your Life

Time and money. Most of us never seem to have enough. This is why more than 90% of Americans never get ahead. Every year, they promise themselves the same thing…

"This year will be different."

Twelve months later, they're in the same place, making the same promise. If this sounds like your life, you're not alone. I've worked with over 2,000 people during my 30-year financial counseling career.

Most of them come to me with the same complaint. They want to get ahead, but they think they need more time and more money before they can start.

The good news is, nearly all these people have plenty of both. They simply need a plan for managing them.

This short guide walks you through the simplest money management plan I've worked with. I call it "The Four Bucket Spending Plan." Don't let this simple name fool you. Good financial planning isn't complicated. It can be just as simple as taking a shower every day.

This plan is so incredibly easy and effective, you'll wish you'd discovered it sooner. We'll start with the foundational "rule" that makes The Four Bucket Spending Plan possible…

The #1 Money Management Habit

If there's one habit that separates broke people from financially secure people, it can be summarized in this simple statement…

"Broke people pay bills first and hope to save or invest what's left. People who become financially secure do the opposite."

Please don't skip this section assuming that this statement is too simple or that it doesn't apply to you. This is absolutely the number one difference between people who get ahead in life and people who stay broke. I'll say it again before I explain what makes this rule so powerful…

"Broke people pay bills first and hope to save or invest what's left. People who become financially secure do the opposite."

Even if you're living paycheck to paycheck right now, I'm 99% certain that you have more money than you think you do. If you doubt this is true, all I ask is that you give me a chance to prove this point with a simple experiment.

Take a twenty dollar bill out of your bank account and ask a friend or family member to hold onto it for you. Make sure it’s someone you trust. See how long you can get by without your twenty dollars before you must ask for it back.

My guess is, you’ll never need it. Of course, you should ask for it back. But only so you can use it to get started on this simple financial plan.

The question is, what do you think would have happened if you’d kept your twenty dollars instead of asking your friend to hold it for you?

You probably would have spent it and assumed you did what you had to do to get by. But if you try it, I think you’ll be pleasantly surprised. Start with a small dollar amount and work your way up from there.

I’ve seen clients do this simple experiment, starting with as little as twenty dollars a month, and work their way up to saving fifty, a hundred dollars or even a thousand dollars every month, with no adverse impact on their financial life.

The hard part is getting them to try the experiment in the first place. Some people never do. Instead, they go on acting broke being broke. The good news for you is that I’ve never counseled anyone who tried this experiment and found out that they couldn’t afford to do it.

Again, it all boils down to whether they apply this simple rule of money management…

“Broke people pay bills first and hope to save or invest what’s left. People who become financially secure do the opposite.”

Again, don’t assume this won’t work for you or that it’s too simple. Instead, let’s talk about how you’ll use this simple rule to take charge of your money and your life.

The Four Bucket Spending Plan

Most money management plans are way too complicated. The Four Bucket Spending Plan is incredibly simple. Instead of creating a huge excel spreadsheet and line item for every expense, you simply split your spending into four categories, or
“buckets…”

1. Regular Expenses.
2. Recreational Spending.
3. Irregular Expenses.

4. Wealth Building.

The first bucket is your monthly expenses. This means, your power bill, car note, phone bill, groceries, gas etc.

The second bucket is for leisurely spending. This means, eating out, trips to the movies, buying books, music or other personal “rewards.” For most people, the money that doesn’t get spent on regular expenses gets spent on these things.

Bucket number three is your irregular expenses. This means, car repairs, car replacement, computer replacement, phone upgrades, school clothes and replacement of big appliances like your washer or dryer.

Finally, we have bucket number four. This is the most important bucket for achieving financial security. Most Americans never get to retire or live comfortably because they neglect long term wealth management.

The good news is, people who make this bucket a priority, almost always get to live the kind of life other people only dream of.

The primary goal of The Four Bucket Spending Plan is to put you in this second group of people. We’ll achieve this by simply applying our #1 rule of money management to the four buckets and reversing their order. So, instead of this…

1. Regular Expenses.
2. Recreational Spending.

3. Irregular Expenses.
4. Wealth Building.

Your spending plan will look like this…

1. Wealth Building.
2. Irregular Expenses.
3. Regular Expenses.
4. Recreational Spending.

Now, let's break these buckets down one at a time and show you how to work this plan…

#1: Start With Wealth Building

I absolutely cannot overstate how important it is that you START with your wealth planning bucket. It's the only way this plan will work. Of course, the fear is that you won't have enough left over for the other three buckets.

That's why you'll start by investing only five to ten percent of each paycheck into this bucket. This way, you have 90% to 95% of your money left over for the other three buckets.

If you follow the other steps in this guide, you'll have no problem making these numbers work.

To clarify this, let's assume you get a check for $800. If you're starting with ten percent, you'll take $80 from that check and put it into a long-term investment. If you're uncomfortable starting with ten percent, go for five percent and set $40 aside instead.

The most important thing is that you put this money in a *separate place* from your other money. For example, if you want to be conservative, you can open a money market account. Money market accounts pay low dividends, but they're safe and reasonably easy to access.

Once enough money is in your money market account, you can move it into other investments like mutual funds or real estate.

The most important part of this first step is to put your money in a place where it can grow AND to agree not to touch it until it's time to spend it. And don't make excuses to use this money for a non-emergency -- like a kitchen renovation.

To accomplish this, create a simple written statement for how you're going to access this money in the future. Here's a basic formula to follow…

"I will only touch this money after [SPECIFIC FUTURE DATE HERE] and when I do, I will only withdraw [SPECIFIC

DOLLAR AMOUNT HERE] every [SPECIFIC TIME INTERVAL HERE].”

So, let’s assume you put your money in a 401k until you turn 65. At that time, you agree to use the money as your retirement income. Your statement for spending this money might look like this…

“I will only touch this money after my 65th Birthday, and when I do, I will only withdraw $500 every month, to supplement my other retirement income.”

Notice that there are three objective and non-negotiable rules in the above spending statement…

1. A specific time to start spending.
2. A specific amount to be withdrawn.
3. A specific time period between withdrawals.
4. A specific thing to spend money on.

Notice that these rules are all very specific. You only have one 65th Birthday, and it comes on a specific date. There’s only one way to measure a $500 withdrawal. There’s only one way to measure a week on your calendar. Because these rules are specific, they can’t be tweaked or rationalized based on emotions or fleeting circumstances.

Once you create this statement, you simply pretend that you don’t have the money at all until your set spending date. That would be your 65th Birthday in this example.

Once you do start spending this money, pretend that you only have $500 a week to spend. Tell yourself that taking out more than $500 or doing it twice a week instead of once a week is simply not an option.

Believe me, if you didn't have the money, you'd find a way to get by without it. Likewise, if you had free access to the money, you'd spend it in no time and probably end up no better off because of it.

Human nature is to adapt to whatever

circumstances we've accepted as being real to us. The difference between broke people and successful people is that successful people define their own circumstances. A clearly written spending statement will help you do this.

So that's how you start your spending plan. Five to ten percent goes into a long-term investment, before you spend money on anything else. Do this with EVERY check you get, whether it's a paycheck, an unexpected inheritance, a gift or a tax return.

If you find a twenty-dollar bill on the side of the road, take two dollars of it and invest it into your long-term wealth building plan. This might sound extreme, but if you approach your spending plan with this kind of diligence, you're sure to succeed. Now, one final thought on this bucket.

I understand that five to ten percent of your income doesn't seem like a lot of money. You might be doing the math in your head and thinking…

"There's no way I can retire off that little bit of money. I might as well wait until I can put more away."

This is a dangerously subtle form of procrastination that will keep you from ever getting started. Remember, the journey of a thousand miles starts with one step. Likewise, the journey to long term financial independence starts with the first $1.

So, start small, and focus on forming the habit of spending your money wisely. This way, by the time you DO have more money to invest, you'll already be in the habit of investing it wisely. Now, let's talk about bucket number two…

#2: Saving for Irregular Expenses

It's vital that you take care of this bucket only after managing bucket one, and *before* spending anything on buckets three and four. Again, I suggest you spend five to ten percent of every check on managing this bucket.

This means, if we continue with the example of your $800 check, your spending plan for the first two buckets will look like this …

- **Wealth Building:** $80 into your money market account.
- **Irregular Expenses:** $80 into your savings account.

If you want to start small and invest only five percent into the first two buckets, you'll spend your $800 check like this…

- **Wealth Building:** $40 into your money market account.
- **Irregular Expenses:** $40 into your savings account.

Notice that, out of your $800, you'll have either $720, or $640 left for buckets three and four.

Don't let this scare you into thinking that you can't start with buckets one and two.

Remember the #1 rule of money management…

"Broke people pay bills first and hope to save or invest what's left.

People who become financially independent do the opposite."

Broke people do this for one reason: fear of not having enough. That's why they stay broke.

It takes courage to make buckets one and two your priority, but if you give this plan a chance, you'll be glad you did.

I suggest that you put your money for bucket two into its own separate savings account.

If you leave it in your checking account with the rest of your money, you'll be tempted to spend it. Just put it somewhere you can forget about it until it's time to use it.

As you did with bucket one, write yourself a simple spending plan for managing the money in your irregular expense account. For example, let's assume your irregular expenses over the next year look like this…

- Upgrade phone: $200.
- Replace laptop: $2,500.
- Bi-Yearly insurance: $500 x 2.
- Replace washer: $500.
- School clothes: $2,000.

Notice that your bi-yearly insurance payments will total $1,000 since you'll have two of them over a one-year period. It’s important that you don’t let this list intimidate or overwhelm you.

The total is going to be high, and it might shock you into procrastinating on your irregular expense planning until you “have the money to do it right.”

Therefore, you should start with what you have, allocate the money in your savings account as it builds up, and pay what you can *when* you can. For example, here are your long-term expense totals….

- Upgrade phone: $200.
- Replace laptop: $2,500.
- Bi-Yearly insurance: $1,000 ($500 x 2).
- Replace washer: $500.
- School clothes: $2,000.

That’s a total of $6,200. Let’s assume that, after three months, you only have $500 in your savings account for your irregular expenses. Instead of getting discouraged, simply assign that $500 to one (or more) of the expenses on your list, like this…

- Upgrade phone: $200 SAVED.
- Replace laptop: $300 of $2,500 SAVED.
- Bi-Yearly insurance: $1,000 ($500 x 2).
- Replace washer: $500.
- School clothes: $2,000.

Notice how you start with the first expense on your list.

You assign $200 of my $500 to that first expense. Now your next phone upgrade is paid for.

Next, you move to the second expense (replacing your laptop) and assign the remaining $300 of your $500 to that expense.

Then, you simply update your list every time you deposit money into this account. For example, let’s assume that a month later, you have $1,000 in your irregular expenses account. Your list might now look like this…

- Upgrade phone: $200 SAVED.
- Replace laptop: $800 of $2,500 SAVED.
- Bi-Yearly insurance: $1,000 ($500 x 2).
- Replace washer: $500.
- School clothes: $2,000.

Notice that we now have an objective spending plan for the money in your savings account.

Once an expense becomes due, you simply withdraw the money for that expense, pay the expense, and update your list.

For example, let's assume you've saved a total of $5,000 and it's time to upgrade your phone.

You simply withdraw the $200, upgrade your phone, and update your irregular expense list to look like this…

- Replace laptop: $2,500 SAVED.
- Bi-Yearly insurance: $1,000 SAVED.
- Replace washer: $500 SAVED.
- School clothes: $800 of $2,000 SAVED.
- Upgrade phone: $200.

Notice that I moved my next phone upgrade to the bottom of the list. This is because you just upgraded and won't need to upgrade it for another year or two. Notice also that since you've withdrawn $200 of your $5,000, you have $4,800 left in your account.

As you'll see, your $4,800 had already been assigned to the next four irregular expenses (laptop, insurance, washer and part of your school clothes expenses). Now, every dollar in your savings account has a "mission."

This makes it harder to rationalize taking that money away from your long-term expenses to use it for something else. If you do, you must face the fact that you're about to spend the money you WILL need for your next insurance payment.

Now, one final word on this bucket before we move on to buckets three and four.

If your long-term expenses are becoming due before you've saved enough money to take care of them, you simply pay what you *can* pay and keep working your plan.

For example, let's assume that your washer breaks down at the exact time your next insurance payment is due, and your list looks like this…

- Bi-Yearly insurance: $1,000 SAVED.
- Replace washer: $300 of $500 SAVED.
- School clothes: $2,000.
- Upgrade phone: $200.
- Replace laptop: $2,500.

Under the above circumstances might be tempted to take $500 out of your savings account and replace your washer. However, you should stick with your plan and pay your insurance first. Do your best to replace your washer for $300 instead of $500. If you can't do this, find a way to get by until you have enough money to replace your washer.

True, you might have to wash your clothes at a friend's house for a few weeks. That's okay. Remember that you’ve got $300 saved for replacing it. That’s $300 more than you would have had if you hadn’t followed this plan.

My point is that if you’ve already assigned the $1,000 towards making your insurance payment, pay your insurance before you replace your washer.

Sticking with your plan is more important than having your washer right away. You’re reinforcing the habit of disciplined spending and that will help you be more diligent with your spending in the future.

Now, let’s move on to bucket number three…

#3: Managing Regular Expenses

There are two secrets to managing bucket number three. First, make sure you take care of buckets one and two first. This means, if we continue with your $800 check example, and you’ve spent ten percent on buckets one and two, your spending plan will look like this…

- **Wealth Building:** $80 into your money market account.
- **Irregular Expenses**: $80 into your savings account.
- **Regular Expenses:** $640 into your checking account.

You might notice that we’re short $80. That’s because you’ll be using the remaining ten percent for bucket number four, giving you a total of $640 for your regular expenses. If you’re starting with five percent instead of ten, your spending plan for the $800 check will look like this…

- **Wealth Building:** $40 into your money market account.
- **Irregular Expenses:** $40 into your savings account.
- **Regular Expenses:** $680 into your checking account.

This is where your commitment will be tested. Once you see that you only have 70% to 85% of your money left for regular expenses, you'll be tempted to pay your regular expenses first.

Just take a deep breath and remember the #1 rule of money management….

"Broke people pay bills first and hope to save or invest what's left. People who become financially independent do the opposite."

Following this rule, is the first and most important secret to managing bucket three.

You can accomplish this by creating a simple written statement like the one you created for your irregular expenses. For example, let's assume these are your regular expenses for the month….

- Groceries: $600.

- Gas: $200.
- Mortgage: $1,200.
- Car note: $500.

That's a total of $2,500 in regular expenses. Believe me, I know you have a lot more regular expenses than this. And your mortgage might be twice that amount. I'm just keeping things simple to show you how this works.

As we did with your irregular expenses, you'll assign the money in your checking account to each of your regular expenses. So, if you're starting with $640, your list will look like this…

- Groceries: $600 IN CHECKING.
- Gas: $40 of $200 IN CHECKING.
- Mortgage: $1,200.
- Car note: $500.

Notice that you've given each dollar a mission, starting with your top two expenses. The order is important here. Even if you must be late paying the expenses at the bottom of your list, make the list according to your priorities, not someone else's.

For example, if you have a VISA payment due right away, but haven't put away any money for groceries, don't pay VISA before you've set aside your grocery money and the money for your other expenses like your gas money, your mortgage and your car note.

If you get three more checks that month, you'll have another $640 per check for regular expenses, giving you a total of $2,560. So, by the time you're ready to pay your monthly expenses, your list might look like this…

- Groceries: $600 IN CHECKING.
- Gas: $200 IN CHECKING.
- Mortgage: $1,200 IN CHECKING.
- Car note: $500 IN CHECKING.
- VISA BILL: $60 IN CHECKING.

Once you have this done, you pay each expense and reset your list for the next month. For example, take $600 out of your checking account and go buy groceries for the month.

If you can't buy all your groceries at once, consider using the $600 to buy a gift card that can only be used at the grocery store where you shop. This way, you're restricting yourself to only buying groceries with that money.

Do the same thing with your gas expenses. Fill up your tank, put the rest in an envelope labeled “gas money,” and only spend it on gas.

Next, you’ll pay your mortgage and EVERY other expense on the list until you’ve spent all the money in your checking account.

If you have money left over, don’t just leave it in your account without giving it a mission. Roll it over to next month’s expenses or put it into one of your other buckets by moving it to your savings account or your money market account.

I suggest that you pay all your regular expenses on the same day of the month, rather than waiting for each of them to become due. This puts you in control of when you pay your regular expenses.

If you have automated payments, set up a credit card for those and pay the balance off every month as a single expense on your list. This might seem counterintuitive. But the goal is to pay your expenses according to your plan and your timeline.

Believe me, you’ll be amazed at how much of your “mental bandwidth” you eat up thinking about what’s due, when it’s due and whether you have the money.

Paying everything on the same day of the month will dramatically reduce this anxiety. It will also keep you from managing your regular expenses in a state of urgency.

The SINGLE MOST IMPORTANT secret to managing this bucket is to follow your plan, no matter what, until it starts to work.

It’s very important to note that this might take a few months. You’re likely to hit some bumps in the road in the meantime. You’ll probably have unpaid expenses at the bottom of your list for the first few months.

You might be late on paying some things, and maybe that’s completely against your personal values.

But you must ask yourself whether it’s worth dealing with some temporary bumps so that you can eventually get into a groove and become more confident about how you’re spending your money.

If you ask me, it’s worth having to call VISA and tell them you’ll be a month late on your payment because you’re getting your finances in order. This will also help you have a lot more fun managing bucket number four…

#4: Guilt-Free Recreational Spending

Bucket four is how you reward yourself for staying committed to your plan. Let’s use your $800 paycheck example to finish this up…

- **Wealth Building:** $80 into your money market account.
- **Irregular Expenses:** $80 into your savings account.

- **Regular Expenses:** $640 into your checking account.
- **Recreational Spending:** $80 cash into your pocket.

If you're starting with the five percent spending plan, your plan for spending the full $800 will look like this…

- **Wealth Building:** $40 into your money market account.
- **Irregular Expenses:** $40 into your savings account.
- **Regular Expenses:** $680 into your checking account.
- **Recreational Spending:** $40 cash into your pocket.

I have two pieces of advice on managing this bucket. First, don't underestimate how important recreational spending is for making this entire plan work.

I've seen a lot of people try to muscle their way through this plan by divesting themselves of all recreational spending. This is a sure recipe for burnout.

Second, keep your recreational spending money separate from the money in the other buckets. We've talked about having a separate account (or investment) for your long-term wealth building, as well as a separate savings account for your long-term expense AND a separate checking account for your regular expenses. Do something similar with your recreational spending money.

Please don't leave your bucket four money in the same checking account as your money for paying regular expenses. Keep it on you, in the form of cash, or set up a separate checking account for recreational spending.

If you want to plan for long term recreations, like vacations or big-ticket purchases (boats, jet skis, guitars etc.), set up a second savings account and create a plan like the one you created for your irregular expenses. For example, let's assume you're planning the following long-term recreational expenses…

- Vacation: $2,000.
- New Guitar: $3,000.

Now, you can take the $80 you set aside from your $800 paycheck, keep $40 of it for pocket money and put the other $40 in your recreational savings account. If you do this four times a month, for a year, you'll have roughly $1,800 in your recreational savings account. Then, you simply assign a mission to each dollar, like this…

- Vacation: $1,800 of $2,000 SAVED.
- New Guitar: $3,000.

Again, don't get discouraged if you do this and discover you don't have enough money to do the things you really want to do.

Putting these recreational goals and their dollar amounts in front of you and looking at them every week will have a marvelous impact on your subconscious mind.

It will motivate you to come up with creative new ways to save or even earn more money so that you can achieve your dreams.

People who never write their goals down are afraid they won't like what they see, and usually never become motivated to come up with the money.

If you follow this plan, any recreational spending you do will be 100% guilt free. No more spending money and worrying about whether you just spent the money you'll need to buy school clothes for your children. Imagine how good that will feel.

So that's the Four Bucket Spending Plan for taking control of your money and your life. Let's wrap this up with a word about dealing with unexpected expenses….

A Final Word: Financial Emergencies

In conclusion, I want to add a word on dealing with financial emergencies. They're going to happen. When they do, you might be tempted to say things like…

"What's the point in planning when stuff like this can happen?"

"It's always something! Two steps forward, three steps back!"

"This plan will never work unless I can make more money!"

First, let me say that ALL these statements are examples of how most people think, and talk, about money. Considering that most people aren't getting ahead, it's a good idea not to think or to talk like they do.

Second, most financial emergencies aren't really emergencies. They're the net result of not having a plan. It will take you some time of working this plan before you can get ahead of this trend.

Chances are you've been living for a long time with no financial plan at all. This means, even after starting this plan, you might have more financial emergencies than you can handle.

Don't assume that this means your plan isn't working. It will take time for the circumstances of your life to catch up with your recent actions. So, don't give up.

Start today and stick with this plan until it starts working. Treat any financial emergencies as learning experiences and adjust your approach as you keep working. You'll be glad you did.