VOICES: Celeste Mirassou, On the Importance of Budgeting

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Celeste Mirassou runs a Mill Valley, Calif.-based firm called Financial Planning Focus. She told WSJ Financial Adviser why she thinks financial planners need to emphasize good budgeting practices with their clients.

Celete Mirassou

Availability of credit is down, credit-card interest rates are climbing like crazy, peoples' careers are slowing and they can't rely on that big bonus each year to cover their over-budget expenses. It's all coming to a head, and more people are suddenly finding themselves in dire need of a detailed, accurate budget.

When it comes to debt, financial planners tend to look at a client's current debt and see how they can help reduce interest rates. It's a very here-and-now approach to dealing with it. It's also treating the symptom and not the cause. When someone comes to me with debt, my first response is to figure out how the client accumulated it in the first place, and see if I can help him or her avoid bad spending habits in the future.

Sometimes debt can't be avoided -- if a family's income earner gets sick for a few months and doesn't have insurance, for example. If you can trace all the debt back to that single event then it's obviously not debt caused by bad spending habits. But in many cases, debt comes from infrequent, large expenses that people don't budget for. These types of expenses -- for kids' summer camps or sports teams, for example --are especially common in middle- to high-income families with young kids. The wealthier a client is the more likely he or she will spend a lot of money without too much thought.

My clients earn from $130,000 to $300,000 a year. Some of them thought they were living on $12,000 a month when they've really been spending twice that.

That's why you've got to sit down with clients and come up with an accurate, realistic budget. I advocate cash flow-based financial planning software, like Money Tree, rather than goal-based software. Goal-based planning is too imprecise and makes an inaccurate assumption that taxes are going to be stable over a long period of time. Cash flow-based planning takes what you actually earn and what you actually spend -- based on payroll stubs and bank records -- and calculates whether you need to change your habits. Once you subtract taxes, Social Security, expenses and monthly savings out of a client's paycheck, are they going into debt? If so, how can they adjust their budget so they can reverse course and still save enough?

Still, budgeting isn't all about the numbers. When it comes to cutting back, there are important personal choices that need to be made. For example, a couple might have to take their kids out of private school in order to afford sending them to a good college a few years down the road. Budgeting is about doing the research, and also about re-evaluating your lifestyle and spending choices. It's the foundation for the rest of the financial planning process.