Budgeting and Financial Planning Tools Documentation

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Disclaimer: John Vandivier is not a licensed or certified financial planner, a broker, a financial agent of any kind, or a legal agent of any kind. The following financial plan and related budget toolset have been designed by John for his own use and it is shared with you for use at your own risk.

1 – Bill Schedule

The bill schedule is an enhancement to the traditional budget because it gives us an idea of the fluctuations of bills over time. This allows more flexible and dynamic saving and consumption over time, in contrast to the more traditional approach of setting aside relatively fixed portions of income each period.

The bill schedule approach in this toolset is also sensitive to the fact that there are different kinds of cyclical costs which occur over different time frames. To keep things clear, we use three separate bill schedules, which we will later address with three or more separate income treatments.

The recommended approach for this toolset is to look at incomes and expenditures over three time frames: weekly, monthly, and yearly.

The bill schedule is the groundwork for the flow and stock budgets, which in turn provide the groundwork for the rest of the financial planning process.

2 – Flow budget

The flow budget looks at income and expenditure over a particular timeframe. This is very much a traditional budget, except that the current level of debt or savings is ignored.

The key idea of the flow budget is that cash flow should be positive. The purpose of the flow budget is to ensure a stable, positive cash flow, but it is not to maximize cashflow.

The flow budget includes minimum, target, and stretch goal budgets values. Using a range of potential values allows the budget to better capture variable income and expenditure.

If you are able to work with statistical models then these three values can be replaced with an expected value along with an arbitrary confidence interval chosen to match your preferred risk or confidence level.

3 – Stock budget

The stock budget accounts for the current level of debt and savings.

4 – Savings and Investment Plan

The savings and investment plan is perhaps the most important part of the budgeting process. This plan takes in two input groups and produces one output. The first input group is the set of three previously completed plans. The second input group is the set of any investment opportunities an individual is interested in potentially executing.

The savings plan will allow a person to determine their possible levels of income at a variety of points in time by looking at the financial return of taking various actions. Such actions include paying off current debt, taking on new investment, or even taking out new loans to increase current wealth at the costs of cash flow and later wealth.

5 – Incentives Plan

The incentives plan has two purposes. First, the incentives plan includes plans for long-term goals which clarify the purpose and use of the savings and investment plan in real terms rather than strictly financial terms.

Secondly, the incentives plan includes budgeted rewards and punishments which encourage individuals to meet their own goals.

6 – Lifestyle Adjustment Plan

The lifestyle adjustment plan is an optional planning tool which is used for three purposes. First, it can be used to plan reductions to lifestyle costs, which are notoriously stubborn and difficult to reduce.

Secondly, the plan can be used to plan out lifestyle cost increases, such as the increase associated with the birth of a new child.

Finally, the plan includes an introspective analysis which may help an individual translate subjective or qualitative lifestyle information into cost-equivalent data which can then be roughly analyzed in the context of a cost-benefit analysis.

7 – Comments

I would like to make three comments regarding the toolset as a whole. First, using the toolset with hypothetical scenarios, in parallel to real use, is immensely helpful. Viewed this way, almost like a game, it can help to uncover the general principles in play.

Secondly, regarding the frequency of updating each plan, I think the weekly and monthly budget should be reviewed weekly, and the larger-scale planning tools should be briefly reviewed monthly and intensely reviewed about once each quarter.