

What's your daily disposable income?

The Wealth Watchers method makes it simple to track your budget each day and catch overspending quickly. It's like a diet program -- only for your wallet.

By Liz Pulliam Weston MSN Money

It took a brain injury for Alice Wood to create a budgeting system virtually anyone could use. Wood was an estate-planning attorney, comfortable with numbers and in charge of her finances, when she was injured during a flight. The plane lost cabin pressure, and the oxygen mask that dropped down in Wood's seat wasn't working.

The temporary lack of oxygen turned Wood from an organized, competent woman to one who was fatigued, befuddled and forgetful. She couldn't recognize clients she'd met just a few weeks earlier or handle the demands of her job. Her income plummeted while her spending skyrocketed. At one point, after losing her sunglasses, she couldn't decide on a replacement pair and so bought every single pair that was on display at a store.

After a lifetime of living within her means, she began to carry credit card debt. Depressed, she gained weight.

It was in a Weight Watchers meeting that she had the revelation that eventually led to her new budgeting system -- a system that was adapted by Visa International and used by McDonald's and other employers to teach financial literacy to their workers.

It's not about weight, it's about wealth

"I think it works because it's so simple," said Wood, who lives with her husband and children in Naperville, Ill., and whose book "Wealth Watchers" describes her approach. "This isn't just for rich people or poor people or college-educated people. Anyone can use this."

As Wood describes the system, it's basically Weight Watchers for money. In Weight Watchers, foods are assigned a point value, and you're given a certain number of points you can consume, or "spend," each day.

With Woods' Wealth Watchers program, participants deduct their monthly bills from their net income to determine their "daily disposable income," or DDI -- what's left to spend on the consumption over which they have the most control: groceries, gas, gifts, meals out, entertainment and everything else. Participants then track their actual spending against their DDI goals. Weekly, monthly and quarterly totals help them track their progress.

Bills include fixed payments for expenses like mortgage or rent, car payments, insurance and child care, as well as "semifixed" expenses that can vary month to month, including cable, phone and utility service. Wood recommends looking back over your bills for several months to come up with an average for those variable expenses.

Why it works

By not including food in the semifixed category, Wood acknowledges that what we spend on this category is hugely flexible -- and one of the first areas we can look at for savings.

Like the weight-loss program, Wealth Watchers gives users accountability along with some flexibility:

- They can see quickly when they're starting to overspend, so they can cut back.
- They can also save up for a splurge by trimming their spending in advance.
- They can see how every dollar counts and how little expenditures can add up over time.

The real power of the program, Wood said, comes in the simple act of writing down every single purchase in a journal.

"It's hard to keep track of how we spend because spending is so easy, with all the different ways to pay like auto pay, PayPal, credit cards, debit cards, checks," Wood said. "How do you know what you're spending?"

When you don't track, it's easy to fudge. You might dismiss the impact of a bite of something here, a taste of something there -- until you have to write it all down and realize you're consuming hundreds of extra calories a day.

Likewise, many people are unconscious of their spending until they're forced to write it down. Suddenly, the impact of the \$3 latte or late-afternoon snack run becomes clear.

"It's not just a few dollars. It's \$3 a day times 365 days a year," or more than \$1,000, Wood said. "It adds up."

Calculate your DDI

If you're going to use this budget, I'd recommend you be vigilant about identifying and saving for less-than-monthly expenses, such as property tax payments, household maintenance, big car repair bills, vacations and holidays. You should figure out how much you're likely to need on an annual basis, divide by the number of paychecks you get and set up automatic transfers into savings to make sure you're covered. (Also, you'll want to count those figures into your monthly expenses to come up with the right DDI.)

Here's how to calculate yours:

- Multiply your take-home pay by the number of pay periods you have in a year, then divide by 12. Example: biweekly \$1,500 take-home pay times 26 divided by 12 = \$3,250 monthly net income.
- List your monthly fixed expenses. Example: mortgage/rent, \$800; day care, \$350; savings, \$200; car/home insurance, \$169; car payment, \$150; life insurance, \$50; home maintenance, \$50; car repairs, \$25.
- List your monthly semifixed expenses. Example: cable/phone, \$100; heating bill, \$100; electric bill, \$50.
- Add your total fixed and semifixed expenses. Example: \$1,794 fixed plus \$250 semifixed equals \$2,044.
- Subtract your expenses from your monthly net income. Example: Monthly net income of \$3,250 minus expenses of \$2,044 equals monthly disposable income of \$1,206.
- Multiply your monthly disposable income by 12 and divide by 365 to get your daily disposable income. Example: \$1,206 multiplied by 12 and divided by 365 equals \$39.65.

Of course, the advice to track your spending is nothing new; it's standard personal-finance advice for those creating budgets. Wood's innovation is in giving people a target amount they can spend each day, based on their income and bills.

If your bills consume much or all of your income, you may find this program tough to follow. In that case, I'd recommend looking at ways to reduce your big expenses. Read "How much should you spend on . . ." for getting your overhead under control.

But if your basic expenses are manageable and you're looking for a way to get the rest of your spending under control, this simple approach is a good one to try.

*Liz Pulliam Weston is the Web's most-read personal-finance writer. She is the author of several books, most recently "Your Credit Score: Your Money & What's at Stake." Weston's award-winning columns appear every Monday and Thursday, exclusively on MSN Money. She also answers reader questions on the Your Money message board and helps middle-class families cope at Building a Brighter Future. **Published Jan. 27, 2010***