

You Can't Have Your Money

By Phillips M. Bragg, CFP

“**a**m I leasing a lifestyle?” This is a question we all need to ask ourselves — and rarely do. If you live at or beyond your means, then you are “leasing.” If you lease, then you will find it impossible to continue with that lifestyle in retirement; you already are and will always be “poor.” “Owning” a lifestyle means saving enough along the way so you may continue to live in the same manner during retirement that you enjoyed during your working years. You are “wealthy” if you own a lifestyle, even a simple one, that is pleasing to you.

It may sound strange to describe as “poor” a newly retired professional whose investments generate \$75,000 per year. But if she is accustomed to a lifestyle that required 100 percent or more of her \$120,000 salary, she is now poor. She probably confused a big salary with wealth, and now she is learning that she has never been wealthy. She leased a lifestyle she no longer can afford, and her financial situation in retirement will be a disappointment.

Likewise, it may sound strange to say a retired teacher is “wealthy” when his investments generate only \$20,000 in yearly income. However, if this amount plus his Social Security income is enough to fund the lifestyle to which he is accustomed, he is indeed wealthy. This retiree owns his lifestyle, and retirement will be a thrilling reward, not a financial shock.

At our firm, we sit around the planning table with folks from all walks of life. Some have millions and are poor, while others, with only a fraction of that, are wealthy. The following seven suggestions are not always easy to deliver to clients, but readers of this article may be able to critically apply any number of these suggestions to their own lives.

1. Manage Your Vanity

Shower daily, brush your teeth, stay in shape, but don't lease a car. Leasing a car is the ultimate lifestyle lease. It is accompanied by two depressing sentiments: “I must and deserve to drive a new car,” and, “I am ok with having a car payment — forever!” As the few Americans who actually own their cars can attest, it is truly a joy to drive a paid-for vehicle. To take this a step further, managing your vanity dictates never buying a new car until such time as you have accumulated more than enough to own your lifestyle. Until then, save the 20-percent premium you would waste on a new car. Also, when buying clothes — or anything else, for that matter — think carefully about whether you want to project an image that you cannot afford. Can you justify spending \$40 each month on your fingernails and simultaneously declare that you “simply cannot afford” to participate in your retirement plan at work?



2. Forget the Joneses

Spending less than your neighbor is not a sound financial plan. You don't know how they financed their vacation. Nor do you know how they paid for their teen-ager's new car(s). They may have inherited a fortune, or they may be drowning in debt. Focus on what you can afford. Also, a man on the tube telling you that you “deserve” a cruise to Greece or a new luxury sedan wants your money, not your happiness. Think for yourself and ignore the standards set by your neighbors and the marketers.

3. Do the Math and Research, Then Wait

It is amazing how many people have no idea how much money they actually spend. Most people do not need a complex budget to make wise decisions. Instead, simply know what your net income is and plan how it is to be spent within rough categories. Especially take note of large expenditures (new tires,



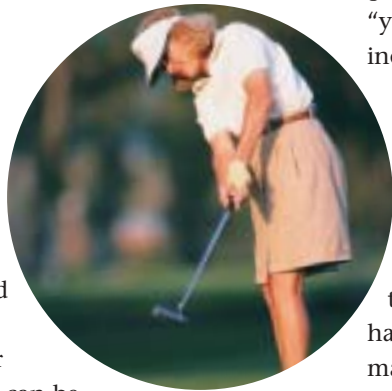
and Spend It, Too



new roof, tax bills, etc.), and plan for them. If you have to go into debt for a predictable expense, you are not paying attention. Also, plan the self-indulgent purchases, research them carefully, then wait, wait and wait for the sale. Waiting has a great result, often convincing the consumer the item may not be that important to own after all. Self-control and patience, the very attributes marketing companies are teaching us to forget, are extremely important. Finally, before making that self-indulgent purchase, ask yourself what other items you could purchase with those same dollars. Make a list and choose. This is a great exercise that breeds patience and thoughtfulness.

4. Choose Habits and Hobbies Carefully

If your hobby is shopping, you might consider a new hobby. Golf will eat up your budget not to mention your time; save that for retirement and you will have plenty of both. Travel can be amazingly cheap or absurdly expensive, and all types can be great fun. To comprehend the cost of bad habits, refer to the “Big Spending Bob versus Savvy Suzy” chart on page 48. Note how the most expensive category for Bob involves “bad daily decisions.” (If you are a smoker, forget lung disease, you might die of poverty.) Note: Managing your vanity, item 1, will have a huge impact on your success in this hobby/habit category.



5. Save Smart

Start early and invest heavily, especially in your retirement plan at work. Choosing not to save in your retirement plan is probably the greatest error of omission people commit. Why? First of all, a high percentage of plans offer a match from the employer. That is, if you put in a dollar, your employer will put in some amount, usually at least 50 cents. Do the math, and, voila, that is a 50-percent



return

GUARANTEED! Where else can you get that and how could you knowingly leave it on the table? Secondly, retirement plans give you the advantage of being able to save before taxes. For example, if you were to take a dollar of earnings home, after taxes you may only net 75 cents to add to savings. If you contribute the dollar to your retirement plan, the full dollar goes to work for you. Uncle Sam is going to eventually get his tax, but you will enjoy years of using his money to grow more money. Also, don't be another victim of the “you-spend-what-you-make” mentality. As you get pay increases, save, save, save in the retirement plan.

6. Invest Wisely

Investing is not gambling nor is it appropriate to say, “This is my play money!” when describing any of your savings. Forget getting rich quick and invest without emotion. For retirement savings, employ a long-term strategy that involves diversification and staying invested. You may have the time and interest to become a student of the stock market. Great! Just don't confuse the TV, your colleague who has a hot stock tip or an occasional periodical with good teaching sources. If you don't have the time or interest to invest on your own, use an adviser to educate you and help you keep your discipline. Be wary of an adviser who encourages concentrating your wealth in specific stocks or industries or one who recommends trading in and out of the market — “market-timing.” Also, expect your adviser to keep you informed about smart saving opportunities like Roth IRAs, education IRAs, 529 Plans, etc.

7. Insure Properly

As discussed above, owning your lifestyle means that you are on track to retire comfortably. But what happens if your savings years are interrupted? Disability and life insurance are the perfect and necessary hedges against the loss of your earning power during your working years. Your death or disability does not have to be a financial disaster.

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This article is not about having money for money's sake. Stripped of its emotional baggage, money is simply a tool that, if handled properly and leveraged well, will make us wealthy. Importantly, the type of wealth this article describes goes hand in hand with contentment, sound relationships and generosity. Being content with what you have and what you can afford is a great gift that begets wealth, and is a result of it, too. If money and pretension support your relationships, the money, the relationship or both will eventually run out. Finally, wealth creation and generosity are natural partners because modesty and sacrifice inform them both. Yet, as deeply philosophical as all of this information sounds, your success in this challenge is rooted in your small, day-to-day choices and the acknowledgement that we cannot have our money and spend it, too. Good luck! 🍀



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Big-Spending Bob versus Savvy Suzy



27 Years of Crucial Spending Decisions

All expenditures increase with inflation 3 percent per year. The numbers below reflect the amount that would have been accumulated with a 7-percent return if funds had been saved, rather than spent.

27 Years of Transportation Choices

Bob leases a new car all 27 years at \$350/month.

Suzy buys a used car every nine years, the first costing her \$14,000. (Residual/trade-in value ignored in illustration.)

Amount Spent		
Bob	Suzy	27-Year Difference
\$448,566	\$194,478	\$254,089

27 Years of Travel

Bob thinks you have to leave the country to have a good time — \$2,500/year.

Suzy finds wonderful vacations on smaller budget — \$1,200/year.

Amount Spent		
Bob	Suzy	27-Year Difference
\$639,745	\$324,284	\$315,461

27 Years of Going Out

Bob figures that if he goes out less than his neighbors do he is frugal — \$450/month.

Suzy eats out half as much — \$225/month.

Amount Spent		
Bob	Suzy	27-Year Difference
\$1,381,849	\$729,639	\$652,210

27 Years of “Minor” Bad Decisions

Bob gets lots of cable channels, equips his entire family with cell phones, buys a cappuccino every morning, eats lunch out daily ... you get the idea — \$400/month.

Suzy gets basic cable, carries an emergency phone, brews her own coffee, often packs a lunch — \$40/month.

Amount Spent		
Bob	Suzy	27-Year Difference
\$1,297,137	\$129,714	\$1,167,423

Expenditure Totals

Bob	Suzy	27-Year Difference
\$3,767,297	\$1,378,114	\$2,389,183