WITH COMPASS PLANNING

ON COURSE

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SPENDING AND SAVING

ARE YOU A SPENDER OR A SAVER?

For many of us, that's a hard question to answer. We have to do an internal review of our operating definitions for both words and make some fine distinctions about our behavior with a few rationalizations thrown in…

*"Well, I have to live somewhere, pay my bills, drive to work, eat, and have some fun in my life – so maybe I'm a **spender**. But I also save some money for my children's education and my own retirement – so maybe I'm a **saver**."*

LAUREN GADKOWSKI

If we had to place ourselves in one category or another, which would you choose?

- Do you save money on a monthly basis?
- Or do you spend whatever is left after paying your bills?
- Do you wonder where it all goes?

CHANGING TRENDS

An article in the February 2005 issue of *Bloomberg Wealth* gave some interesting figures that explain some of the money challenges and pressures we currently experience. In "The Balancing Act" Neal Cutler explains that our wealth span (or time for accumulating wealth) has dramatically changed from 1930 to 2000.

In 1930 people saved for a long period of time for a relatively short span of retirement. Typically, wealth accumulation began at age 20 and continued until age 70. The retirement phase of life was from age 70 to age 90.

Contrast this with Cutler's statistics gathered in 2000 which show that wealth accumulation begins at age 30 and continues until age 60. The retirement phase of life is from age 60 to 100.

FEELING THE PINCH?

In 1930, people accumulated wealth for 50 years to fund a 20-year retirement.

In 2000, people accumulate wealth for 30 years to fund a 40-year retirement.

FORMING THE HABIT OF SAVING

It's understandable to hope and wish that our income will grow, but the reality is that our propensity to prioritize and save money is more important than our total income figure. Your own balancing act is dependent upon your commitment to setting aside money on a monthly basis.

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COMPASS PLANNING ASSOCIATES

JENNIFER LANE

WHAT ARE WE SPENDING? WHAT ARE WE SAVING?

Track your expenses

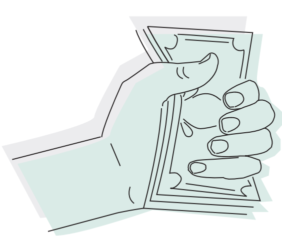
One of the most powerful exercises you can do to find ways to save is to track your expenses. Once you become more aware of how, when, and where you spend you can take steps to reduce these variable expenses. Most often, variable expenses are things we can do without.

Pay yourself first

Use automatic investment plans that deduct money from your paycheck or checking account at the beginning of the month. You can use automatic plans to fund your retirement, to designate funds for your money market account, and to pay your bills. It's easy and fast and can be discontinued at anytime.

Save calories and cash

Eating lunch out every day will cost you about $200 per month. By making your own lunch and bringing it to work, you can divert that $200 each month into a retirement account or other financial goal.



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CAFFEINE FIX

A young couple about to have a new baby wanted to save for its college education. We reviewed their monthly expenses and identified that their daily stop for Dunkin' Donuts coffee was costing them $150 per month. We came up with a compromise – they would scale back to one visit a week on Sunday, and make their own coffee at home during the week. They now set aside $120 per month in an education fund.

The amount you set aside is based on your high priority goals for yourself. Discipline will help you to achieve those goals. We may have very different savings goals from our friends and families, but there are some savings priorities that belong on everyone's list:

- Save money to reduce or eliminate debt
- Save money to build up an emergency fund
- Save money for retirement

REDUCE OR ELIMINATE DEBT

The statistics on credit card debt are staggering – 60% of U.S. citizens have credit card debt and their average debt is $12,000. Most people carry 10 (yes, 10) credit cards in their wallets with an interest rate that ranges from 6% to 28%.

- Pay with cash, not a credit card. Studies have shown that we spend 33% less when we hand over cash instead of plastic.
- Pay off your credit card each month and avoid interest payments. The minimum payment is calculated so that credit card companies make the most they can off your debt.
- Downsize the number of credit cards you have to one or two. (Caution: Be sure this doesn't affect your utilization ratio which may lower your credit score. Give us a call for further information.)

BUILD UP AN EMERGENCY FUND

Be ready for that unexpected home or car repair, medical expense, disability, or job loss.

- Determine what you need for living expenses for three to six months and designate it as your emergency fund.
- Put your emergency fund in a money market account. Money market rates can be found on www.bankrate.com.

SAVE FOR RETIREMENT

Your retirement phase may span 40 years.

- Designate at least 10% of your pretax income as retirement savings
- Use 401K plans and IRA's to save on taxes

FINDING MONEY TO FUND A GOAL

Getting married? Having a baby? These life changes create new savings priorities and can challenge us to identify WHERE our disposable income is going and HOW we can divert it to a savings plan. Major changes will always reshuffle our thinking about money and how we use it.

You can find the money to fund your goals. It's not about your income, it's about your propensity to save. It is important to think of yourself as a saver, identify yourself as a saver, and BECOME a saver who prioritizes savings goals and sets aside money to reach those goals. Once you've successfully mastered the saver category, you're able to gradually move into the next phase: investor.

BECOME AN INVESTOR

The investor is able to set money aside for additional investments, such as real estate. These additional investments enhance a successful financial plan, but are not essential to it. Becoming an investor is not for everyone, but it is a situation that holds expanded opportunities for building wealth.

IN CLOSING

Let's return to our original question: Are you a **spender** or a **saver**? We hope we have persuaded you that the best answer to that question is **"I'm a saver!"**

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