



**COMPASS**  
PLANNING ASSOCIATES

Fee-Only Financial and Investment Planning

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## On Course

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Welcome! Read below to see how average Americans spend their paychecks. At different stages of your life, it's good to step back and make sure that spending more on your lifestyle as your pay increases doesn't prevent you from adding value to your overall wealth or hurt your longer term financial goals.

If you want help on creating a financial plan for now and the future, remember we're here to help you stay *On Course!*

*Jenfee*

-Jennifer Lane, CFP

## How much should you be spending? And how do you account for that in your financial plan?

**A financial plan will help pin point your savings goals but here are some thoughts on how to allocate your money to enjoy life while still making sure you'll have some good lifestyle choices down the road.**

### How Americans spend their paycheck

- Housing -- 27%
- Taxes -- 20%
- Transportation -- 14%
- Food -- 10% (60% at home and 40% away from home)
- Personal insurance and pensions -- 9%
- Healthcare -- 6%
- Everything else -- 14%

### 20s and 30s

- While it's never too late to start saving for retirement, you'll be way ahead if you begin early.
- If you start your budget with the two savings goals below, you'll be sure you can afford to pay yourself first!
- Divide your paycheck direct deposit between savings (5 percent of pay to build your emergency fund) and checking for expenses.

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Jennifer's Hint

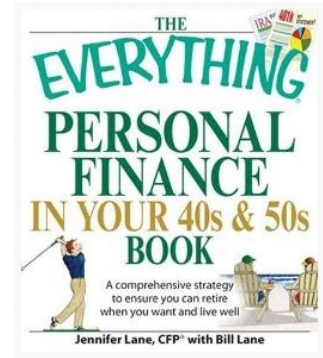
In terms of managing fixed expenses, some people even go the extra step of opening smaller checking accounts with individualized names to keep money for annual expenses such as real estate taxes and tuition separate from more frequently paid fixed expenses. Many banks will let you nickname your accounts so they are easy to keep track of.

**Get more tips in Jennifer's book**

- Adjust your housing and transportation costs so you can put the maximum allowed in a Roth IRA - \$5,500 in 2015.
- If your employer offers an employer match, contribute to the 401(k) at least to get the match.

### Growing families

- Child care expenses can put pressure on retirement savings when the kids are young. Don't feel bad if you need to reduce your 401(k) but try, at a minimum to get the employer match.
- As day care costs subside, reallocate part of those expenses into a college savings plan. Shoot for \$100-\$200 per month, which will give you a really good start on a college nest egg.

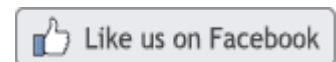


([click here for link](#) )

### Helpful Websites

[Americans and Spending](#)

[Spending US Paychecks](#)



### Peak earnings years

- An important part of this life phase is putting the maximum allowed into your work retirement plan (\$18,000 plus \$5,000 catch up if you're 50 or older) as well as topping off your Roth or traditional IRA.
- You may need to be saving between 20 and 25 percent of your pay at this point to meet your retirement goals. If you are not hitting 25 percent in your 401(k) or 403(b) plus your IRAs, then invest outside of your retirement plans. Even without a tax break, these funds can be a big help for cash flow and tax planning in retirement.

### Retired

- The balance of lifestyle, health care, and housing expenses changes in retirement.
- Many people whose lifestyle and hobbies center around home find that they spend more on hobbies and less on transportation.
- Others decide to reduce housing expenses for lifestyle decisions like travel or to make health care needs more affordable.
- While it's difficult to use a rule of thumb to guide retirement spending, most successful financial plans keep investment withdrawals at 4 percent or less of the portfolio.

## Q&A

**Q:** A friend suggested that we could give gifts of money to our children in the form of target date mutual funds. What do you think?

– **Harry, Concord**

**A:** Harry, target date funds make great gifts. Once the minimum initial deposit is met – check the fund prospectus for this amount – even small additional deposits are instantly diversified across all the investments in the fund. A target date fund would be a better gift for a child or student than an individual stock because of the diversification.

## What's New

- Financial Planning's recent article, *When to Use Stop-Loss Strategies*, includes comments from Jennifer. Click [here](#) to read the full article (registration required).
- Jennifer recently answered NECN viewer questions about *the difference between Roth IRAs and 401(k)*. Click [here](#) to watch the

segment on her blog.

- Follow us on Facebook! Visit [www.facebook.com/AskJennifer](http://www.facebook.com/AskJennifer) and like us!
- Jennifer appears on NECN every other Monday morning at 9:30 am in addition to her Tuesday 6:30 pm appearance.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for achieving financial goals and dreams.

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