

Little Expenditures Can Have Big Cost

Do you know how you spend your money?

One of the things that never fails to surprise me is how many people truly don't realize how much money they spend. When asked what they spend in a month most people can list their big fixed expenditures like a mortgage or car payment but tend to be a little less clear after that.

Often when pressed to make a list people aren't able to account for a portion of their income. Sometimes that portion is relatively small, but in other cases it isn't.

Let me give you an example.

I recently sat down with a new client who is considering retirement and wants to make sure that he can comfortably do so. When doing a retirement income analysis there are two sides of the equation to consider – the potential inflows and the outflows. We were able to fairly quickly determine what the potential sources of inflows are, including social security, a pension and several investment accounts. But when he indicated that he only spends \$2500 a month I suspected he was missing some things as his current income is close to \$6000 a month.

It is common for people to think of their income in terms of what they take home each month so I'm used to having to account for things like income taxes, health insurance premiums and 401k contributions. Often paycheck deductions like these can account for most of the missing revenue.

It is also common to overlook what I call periodic expenditures – things that don't happen every month so aren't as easy to remember. Periodic expenditures often include things like property taxes, insurance premiums and vehicle maintenance. It is often these periodic expenditures – which tend to be larger amounts and/or unexpected – that result in people running a negative cash flow and turning to credit cards and other types of debt. But that is a topic for a different column.

After factoring in all of my client's payroll deductions and periodic expenses we still found that there was several hundred dollars a month that was not accounted for. He was quite sure that he included everything he spends money on so he couldn't understand why his numbers weren't adding up.

He is far from unusual. In fact, I find it fairly common to have to help people evaluate what their actual typical expenditures are. I do this by starting to ask a series of questions – questions that you can ask yourself and then do the same math.

In a typical day do you stop anywhere on your way to or from work or go anywhere during the day? In his case the answer was yes. Three to four times a week he stops for

coffee on his way to the office. And at least twice a week he spends \$10 going out for lunch. Between coffee and lunch he spends about \$32 a week, or over \$125 a month.

Do you often carry cash? What do you use it for? As he thought about it my client realized that he does generally carry cash as he prefers using it certain things. In a typical week he will buy \$10 of lottery tickets, pick up a couple of newspapers and go out for drinks with friends once or twice. On average this equates to around \$50 a week, which is over \$200 a month.

Do you participate in any planned activities like sports leagues or social clubs? If you do, don't forget to think about any ancillary costs that typically go along with them. For example, my client is in a bowling league every other week. The cost of the bowling is only \$12 a time but he generally spends at least \$25 more while he is there on food and drinks. Twice a month that adds up to about \$75.

Are you a smoker? This can be a big one. While I find that people know it is expensive, most haven't taken the time to figure out how much it really costs. Or they just don't want to know so try not to think about it. If a pack of cigarettes costs \$8 and you smoke a pack a day you could be spending nearly \$250 a month on tobacco.

By the time we finished our conversation we were able to account for almost all of my client's income. While he felt better knowing where his money is going, it was also quite eye opening for him to realize how much all of those little expenditures add up to. In his case he was spending around \$500 a month on little things that he didn't even think about.

While just a few dollars here and there may seem insignificant, over time it can add up to a lot of money, and therefore is a lifestyle choice. If you are discouraged because you don't feel like you can afford a vacation, newer car or to save enough for retirement perhaps you should take stock of your own spending habits.

You may be choosing to spend that money elsewhere without even knowing it.

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